Yardi® Matrix

MULTIFAMILY REPORT

DC Finds Its Footing

February 2022

Pipeline Remains Consistent

Transactions Keep Up the Pace

Rent Growth Feels Seasonal Pinch

WASHINGTON, D.C. MULTIFAMILY

Yardi Matrix

DC Wraps Up Solid Year

Even with rent expansion decelerating in the fourth quarter, Washington, D.C., multifamily had a banner year in 2021, in line with nationwide trends. Metro D.C. rents, although up only 0.2% in the last quarter, clocked in at 9.7% for the year. That was below the 13.5% national rate of growth, but still well above the area's performance during the past decade. Meanwhile, occupancy was up a healthy 150 basis points in the 12 months ending in November 2021, to 95.3%.

The city's economy is making significant strides, with the metro adding 124,900 positions in the 12 months ending in October 2021, led by leisure and hospitality (46,000 jobs gained) and professional and business services (32,800). Meanwhile, unemployment dropped to a tight 3.5% as of November, according to preliminary Bureau of Labor Statistics data. However, the Washington, D.C., economy hasn't yet recovered all jobs lost since March 2020, with many workers dropping out of the workforce, either temporarily or by way of retirement.

Developers remained busy and 11,922 units came online last year, in line with the city's five-year average. Meanwhile, an additional 38,594 units were under construction at the beginning of 2022. Likewise, transaction activity remained on track, with $5.7 billion in assets trading, most of which were in suburban submarkets.

Market Analysis | February 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Bogdan Odagescu
Senior Editor

On the cover: Photo by wingedwolf/iStockphoto.com

Recent Washington, D.C. Transactions

North Park

City: Chevy Chase, Md.
Buyer: AIR Communities
Purchase Price: $110 MM
Price per Unit: $354,839

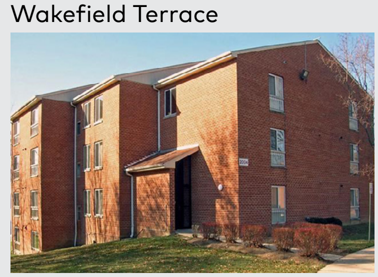
The Shelby

City: Alexandria, Va.
Buyer: 29th Street Capital
Purchase Price: $82 MM
Price per Unit: $341,667

Magnolia Falls

City: Fredericksburg, Va.
Buyer: Bonaventure Realty Group
Purchase Price: $52 MM
Price per Unit: $260,500

Wakefield Terrace



City: Waldorf, Md.
Buyer: R4 Capital
Purchase Price: $35 MM
Price per Unit: $171,569

RENT TRENDS

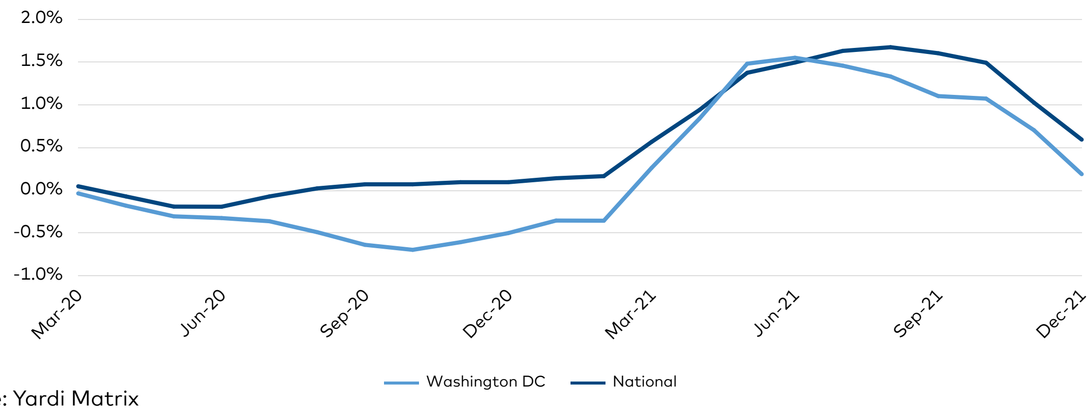
- Washington, D.C., rents were up only 0.2% on a trailing three-month (T3) basis as of December, trailing the 0.6% national rate of growth. The city's performance, however, is following nationwide trends, which marked a seasonal deceleration going into winter after three very strong quarters. The average rent in the District advanced 9.7% in 2021, to $1,958. Meanwhile, the U.S. average was up an unprecedented 13.5% year-over-year, to $1,594.

- Boosted by unique circumstances stemming from the pandemic, upscale Lifestyle rents led growth during the first half of 2021, bucking a decade-long trend. Toward the end of the year, however, the gap between quality segments closed. On a T3 basis through December, both Lifestyle ($2,311) and working-class Renter-by-Necessity ($1,668) rates advanced 0.2%.

- Northern Virginia led rent growth last year, as many submarkets recorded solid gains. The list included Bull Run/Centreville/Chantilly (up 20.8% to $2,041), Ballston/East Falls Church/Seven Corners (18.6% to $2,545) and Crystal City (16.6% to $2,483). Even so, going into 2022, core D.C. submarkets remained the most expensive, led by Penn Quarter ($2,774), East Foggy Bottom ($2,761) and Capitol Hill ($2,696).

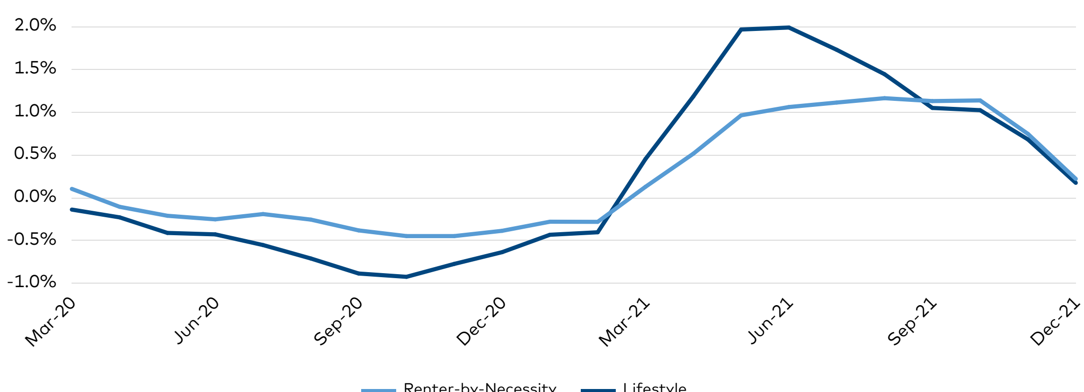
- Amid consistent deliveries, the metro continued to record healthy demand. Case in point, occupancy in stabilized assets was up 1.5% in the 12 months ending in November 2021, to 95.3%.

Washington, D.C. vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Washington, D.C. Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Metro D.C. gained 124,000 jobs in the 12 months ending in October 2021. That marked a 4.7% growth rate, slightly below the 5.3% national figure.

- After more than a year of steady improvement, the metro's unemployment rate reached a tight 3.5% as of November, according to preliminary BLS data. In fact, helped by its relatively stable government component, the District's unemployment rate has not reached double digits since pandemic-induced woes began—a rare feat among large coastal markets. Even so, the area's total employment figures are yet to hit pre-pandemic levels, partially due to those who have left the labor force, either temporarily or permanently.

- In line with nationwide trends, leisure and hospitality led job growth, adding 46,000 positions in the 12 months ending in October. The sector continues to play catch-up while navigating new waves of COVID-19 infections, but office-using sectors are also rapidly gaining ground in Washington, D.C., with professional and business services (32,800 jobs) recording solid gains.

- The only two sectors that contracted in the 12 months ending in October were information (-1,100) and financial activities (-900).

Washington, D.C. Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	282	8.6%
60	Professional and Business Services	804	24.4%
65	Education and Health Services	440	13.3%
90	Government	735	22.3%
40	Trade, Transportation and Utilities	397	12.0%
80	Other Services	193	5.9%
30	Manufacturing	56	1.7%
15	Mining, Logging and Construction	164	5.0%
55	Financial Activities	154	4.7%
50	Information	73	2.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro added 542,560 people over the past decade. That marked a 9.4% rise, above the 5.7% U.S. figure.

- Immigration and natural growth continued to boost gains, making up for the negative domestic migration recorded in recent years.

Washington, D.C. vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Metro D.C.	6,200,001	6,249,950	6,267,226	6,311,317

Sources: U.S. Census, Moody's Analytics

SUPPLY

- Washington, D.C., had 38,594 units under construction at the end of 2021. That put the metro on the national podium, trailing only Texas powerhouses Dallas (45,249 units) and Austin (38,695 units). At the start of 2022, metro D.C. had 220,000 units in the planning and permitting stages.

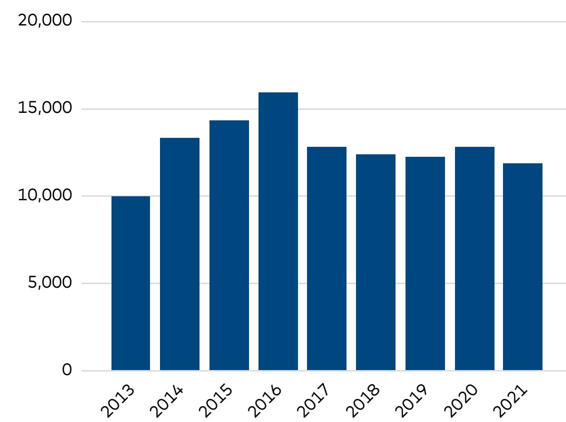
- Surpassing many of the challenges brought by the pandemic, Washington, D.C., remained a high-demand, high-supply market. A total of 11,922 units came online in 2021, close to the five-year average of 12,446 apartments. The District accounted for roughly half of all units completed last year, with Northern Virginia and suburban Maryland sharing the remaining half.

- Somewhat surprisingly, 2020—the first year of the pandemic—brought one of the District's strongest pipeline boosts in recent years. Developers started work on 17,826 units across the metro in 2020, followed by 12,106 units last year.

- While construction is spread across the map, several clusters continue to attract developers, with the first five submarkets accounting for 40% of the pipeline. Suburban Ashburn/Dulles/Sterling (4,561 units underway) led the way, followed by hotspots Brentwood/Trinidad/Woodridge (4,157 units) and Barry Farms/Saint Elizabeths (3,927 units).

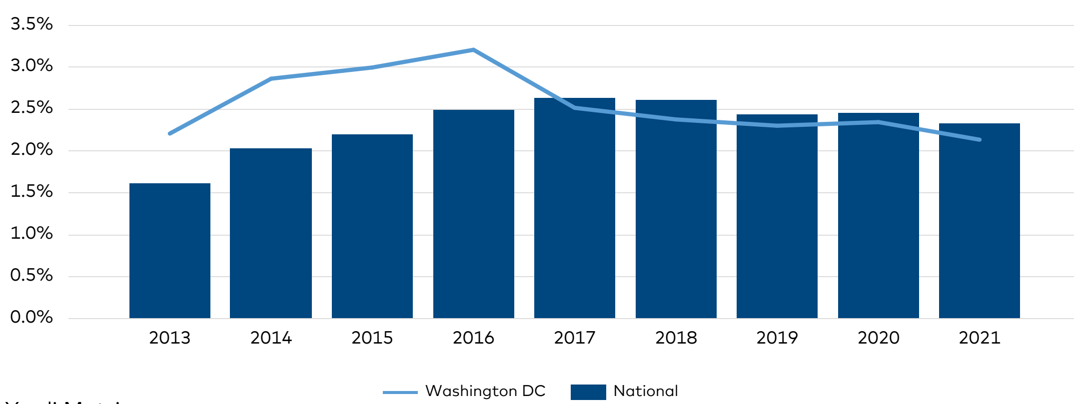
- The 480-unit Riverpoint in the District marked the metro's largest completion of 2021. Owned by a joint venture that includes Akridge Real Estate Services, the property came online with help from a $120 million loan held by the Mack Real Estate Group.

Washington, D.C. Completions (as of December 2021)



Source: Yardi Matrix

Washington, D.C. vs. National Completions as a Percentage of Total Stock (as of December 2021)

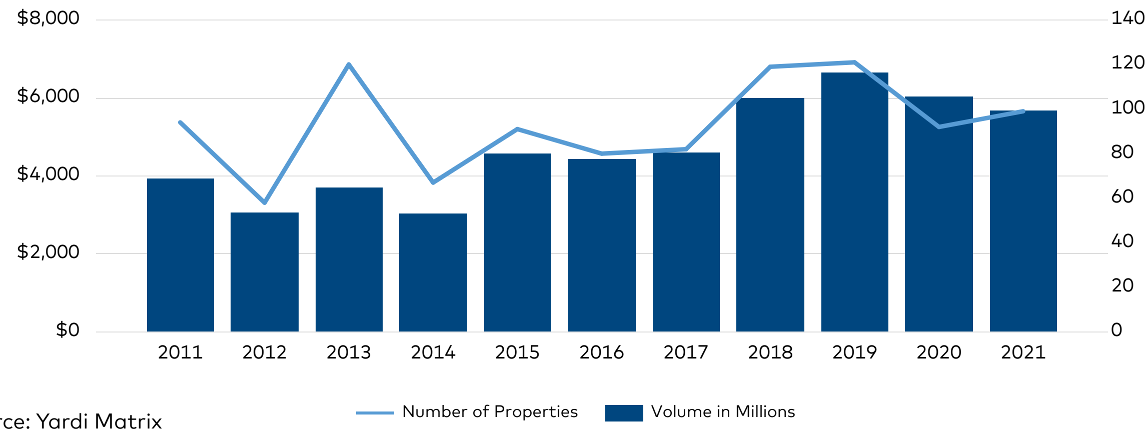


Source: Yardi Matrix

TRANSACTIONS

- Nearly $5.7 billion in assets traded across Washington, D.C., last year, in line with the metro's $5.8 billion five-year average. With deal composition balanced between Lifestyle and Renter-by-Necessity assets, the price per unit clocked in at $247,413, above the $188,338 U.S. average, but virtually unchanged from 2020.
- Of last year's volume, only two properties totaling $37 million traded within the District. Meanwhile, $2.6 billion in communities changed hands across Northern Virginia and roughly $3 billion in suburban Maryland.
- Starwood Capital Group was one of the metro's top buyers in 2021, thanks to its acquisition of a 15,460-unit, 10-state portfolio from Strata Equity Group in November. The list included 11 District-area assets totaling 1,731 units, all located in suburban Waldorf, Md. Starwood also acquired three Northern Virginia properties adding up to 379 units in May.

Washington, D.C. Sales Volume and Number of Properties Sold (as of December 2021)



Source: Yardi Matrix

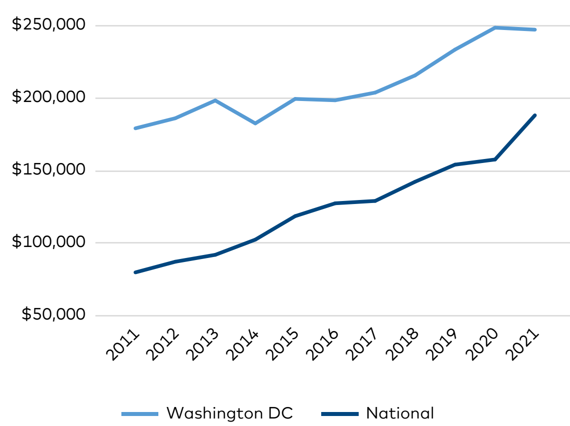
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Forestville/Suitland	384
Crystal City	377
Germantown/Montgomery Village	316
Beltsville/Laurel/South Laurel	248
East Rockville	234
Ashburn/Dulles/Sterling	230
West Silver Spring	219

Source: Yardi Matrix

[1] From January 2021 to December 2021

Washington, D.C. vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 10 Multifamily Markets by Units Delivered in 2021

By Anca Gagiuc

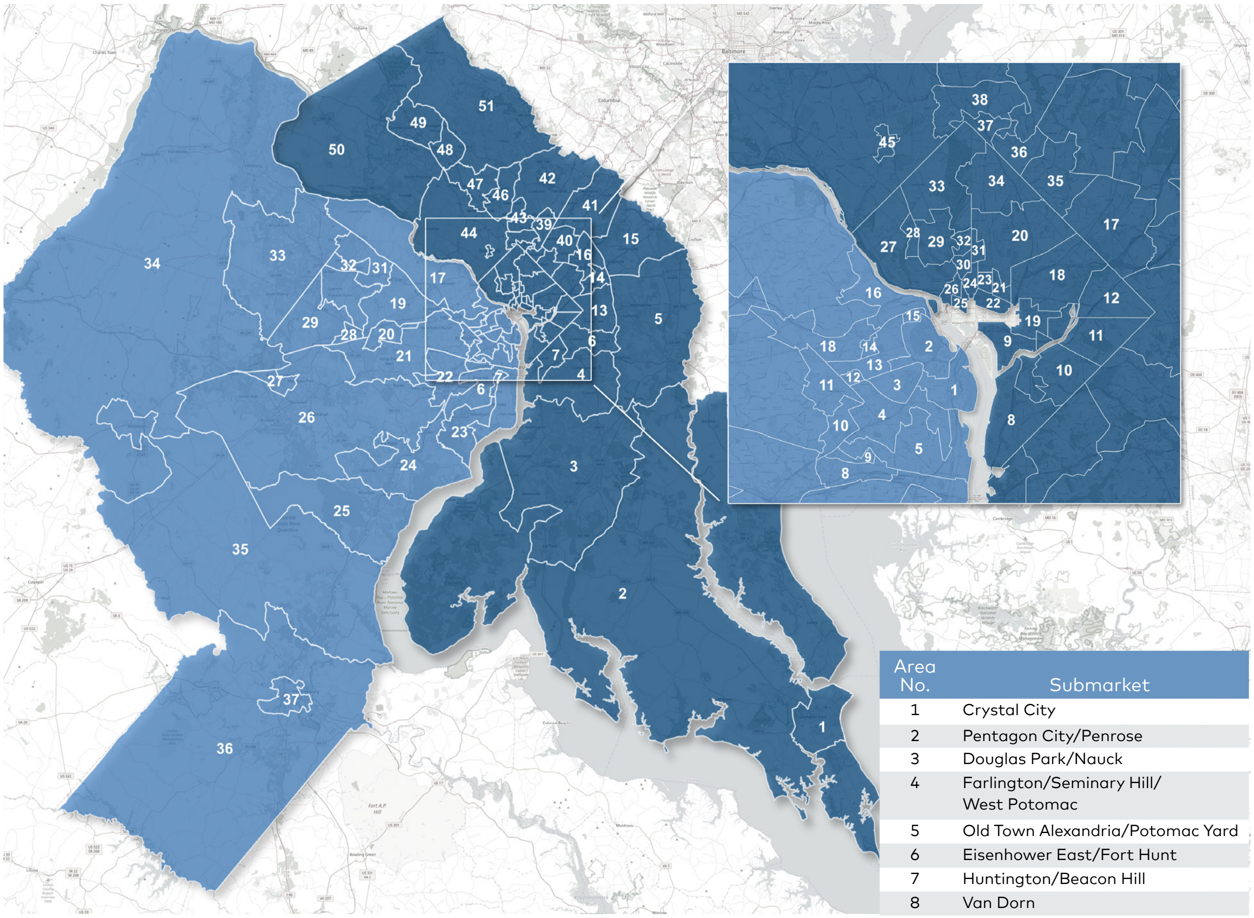
Multifamily development had an exceptional year in 2021, with more than 350,000 units delivered nationally. The volume was boosted in part by the projects initially slated to come online in 2020 and delayed by the onset of the pandemic, but mainly by mobility and job-recovery-induced demand. Lingering concerns about overbuilding have largely dissipated thanks to this significant increase in demand; although deliveries have been consistent over the past few years, the average occupancy rate rose to near all-time highs.

Rank	Metro	Units Delivered 2021	Percentage of Stock 2021	Units Delivered 2020	Percentage of Stock 2020
10	Phoenix	10,058	2.9	9,143	2.7
9	Charlotte	10,692	5.5	6,151	3.3
8	Los Angeles	10,883	2.4	11,369	2.6
7	Orlando	12,948	5.0	6,864	2.8
6	Washington D.C.	13,148	2.3	12,822	2.3
5	Atlanta	13,653	2.9	10,540	2.3
4	Austin	14,367	5.3	13,363	5.2
3	Miami Metro	16,221	4.7	11,132	3.4
2	Houston	19,878	2.9	14,403	2.2
1	Dallas	24,635	3.0	26,734	3.4

Washington, D.C.

The District's inventory expansion has maintained a steady upward trend during the past three years, reaching 13,148 units in 2021, 2.3 percent of total stock, slightly above the 12,822 units delivered in 2020 and the 12,286 units of 2019. Still, it remained below the nearly 16,000 units delivered in 2016. Demographic expansion posted an 11.4 percent increase during the past decade, spurring demand for rentals. Housing the federal government has helped the metro maintain a strong economic performance throughout the health crisis. Moreover, roughly 90 percent of last year's deliveries targeted the high-income renter.

WASHINGTON, D.C. SUBMARKETS



Area No.	Submarket
1	Lexington Park
2	California/Leonardtown/ Prince Frederick
3	St. Charles/Waldorf
4	Camp Springs/Fort Washington
5	Bowie/Lake Arbor/Largo
6	Forestville/Suitland
7	Hillcrest Heights/Marlow Heights
8	Congress Heights/Congress Park
9	Barry Farms/St. Elizabeths
10	Anacostia/Garfield Heights
11	Fort Dupont Park/Marshall Heights
12	Deanwood
13	Seat Pleasant/Walker Mill
14	Cheverly/Glenarden/Landover Hills
15	Goddard/Glenn Dale
16	West Greenbelt/East Riverdale
17	Bladensburg/Riverdale Park
18	Brentwood/Trinidad/Woodridge
19	Capitol Hill
20	Brookland/South Petworth
21	North Capitol
22	Penn Quarter
23	Logan Circle/West Mount Vernon
24	South 16th Street/Scott Circle Corridor
25	East Foggy Bottom
26	West Foggy Bottom

Area No.	Submarket
27	Georgetown/Wesley Heights/ South Glover Park
28	West Cleveland Park/Wisconsin Avenue
29	East Cleveland Park/Woodley Park
30	Adams Morgan/North Dupont Circle
31	Columbia Heights
32	Mount Pleasant
33	North Connecticut Ave. Corridor
34	Brightwood/16th Street Heights
35	Chillum/Queens Chapel
36	Takoma Park
37	Downtown Silver Spring
38	West Silver Spring
39	East Silver Oak/White Oak
40	College Park
41	Beltsville/Laurel/South Laurel
42	Fairland
43	Wheaton
44	Chevy Chase/Potomac
45	Downtown Bethesda
46	Aspen Hill/Rossmoor
47	East Rockville
48	East Gaithersburg/Redland
49	Germantown/Montgomery Village
50	West Gaithersburg
51	Olney

Area No.	Submarket
1	Crystal City
2	Pentagon City/Penrose
3	Douglas Park/Nauck
4	Farlington/Seminary Hill/ West Potomac
5	Old Town Alexandria/Potomac Yard
6	Eisenhower East/Fort Hunt
7	Huntington/Beacon Hill
8	Van Dorn
9	Landmark/Foxchase
10	Alexandria West
11	Bailey's Crossing
12	Columbia Heights West
13	Arlington Heights/Clarendon
14	Ashton Heights/Buckingham
15	Fort Myers Heights/Radnor
16	Colonial Village/ North Highlands/Roslyn
17	Lee Highway/McLean
18	Ballston/East Falls Church
19	Merrifield/Tyson's Corner/Vienna
20	Fairfax
21	Burke/Falls Church/Jefferson
22	Annandale/Franconia/Springfield
23	Mount Vernon
24	Dale City/Lorton/Woodbridge
25	Dumfries/Triangle
26	Prince George/Manassas
27	Manassas
28	Fair Oaks
29	Bull Run/Centreville/Chantilly
30	South Herndon
31	North Reston
32	Herndon/Reston
33	Ashburn/Dulles/Sterling
34	Gainesville/Leesburg
35	Stafford/Warrenton
36	Falmouth/Spotsylvania
37	Fredericksburg

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also December span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which December barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, December extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.