



YARDI[®] Matrix

Sturdy DC

Multifamily Report Spring 2017

**Diversified Economy
Sustains Job Growth**

**Overdevelopment
Concerns Loom**

**Sales Volume
Hits New High**

Market Analysis

Spring 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

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

Author

Adelina Osan

Associate Editor

Record-Breaking Year for Multifamily

Washington, D.C.'s multifamily market is experiencing strong fundamentals, including robust employment, healthy population gains and record-breaking rental rates, per-unit prices and median home values. The nation's capital remains a magnet for young professionals and recent graduates, as job availability in sectors like business services, health care and education diversifies the local economy.

Uncertainty about the election didn't scare investors from targeting Washington's stabilized properties. In 2016, the total transaction volume reached \$4 billion, a new record for the current cycle. Per-unit prices and median home prices also topped historical averages, surpassing the \$200,000 and \$400,000 marks, respectively. Investments such as the \$3 billion Purple Line infrastructure project, a light-rail public transit system that will extend from Bethesda in Montgomery County to New Carrollton in Prince George's County, will help connect workers commuting to the city and will drive prices up in inexpensive areas. The easy accessibility to Washington will help residents that have been priced out of the nation's capital.

Although the metro's occupancy rate was high at 95.6% as of February, the heavy amount of new supply (12,000 units) has kept rent growth moderate, at 1.9% year-over-year. We expect market fundamentals to stay strong, but as new construction comes online, the rent increase will remain steady at 1.9% in 2017.

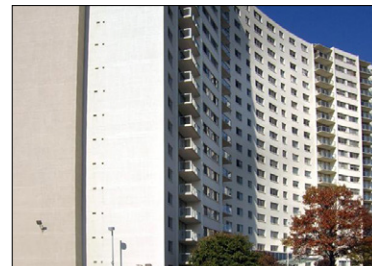
Recent Washington, D.C., Transactions

Riverside



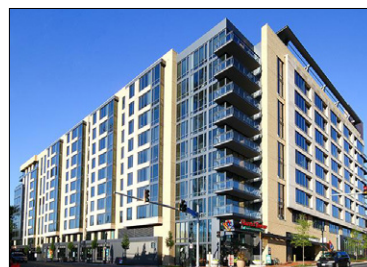
City: Alexandria, Va.
Buyer: Washington REIT
Purchase Price: \$245 MM
Price per Unit: \$200,286

The Enclave



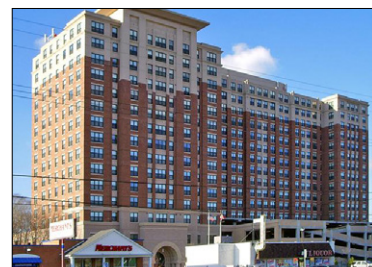
City: Silver Spring, Md.
Buyer: Hampshire Properties
Purchase Price: \$209 MM
Price per Unit: \$186,774

Flats at 8300



City: Bethesda, Md.
Buyer: Invesco Real Estate
Purchase Price: \$207 MM
Price per Unit: \$576,602

University View



City: College Park, Md.
Buyer: Rockpoint Group
Purchase Price: \$169 MM
Price per Unit: \$333,360

To Subscribe

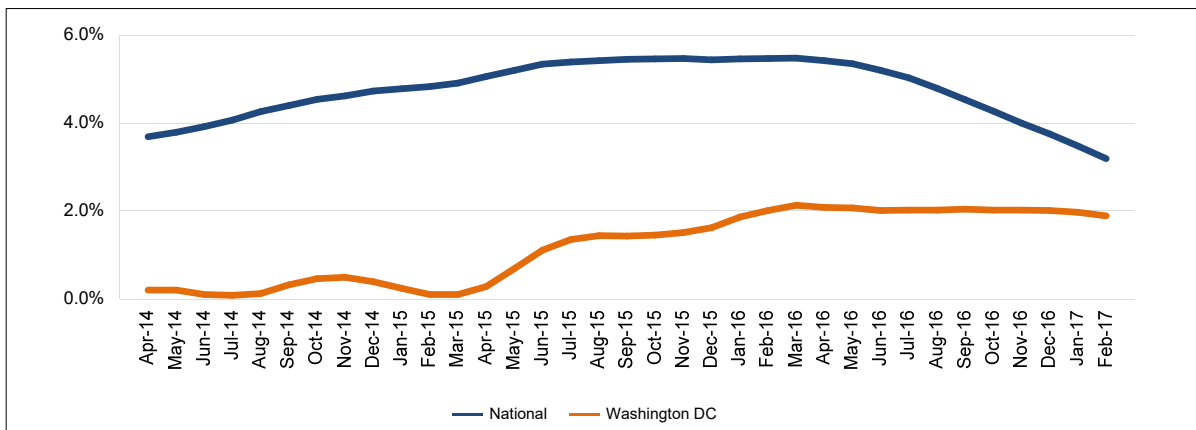
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

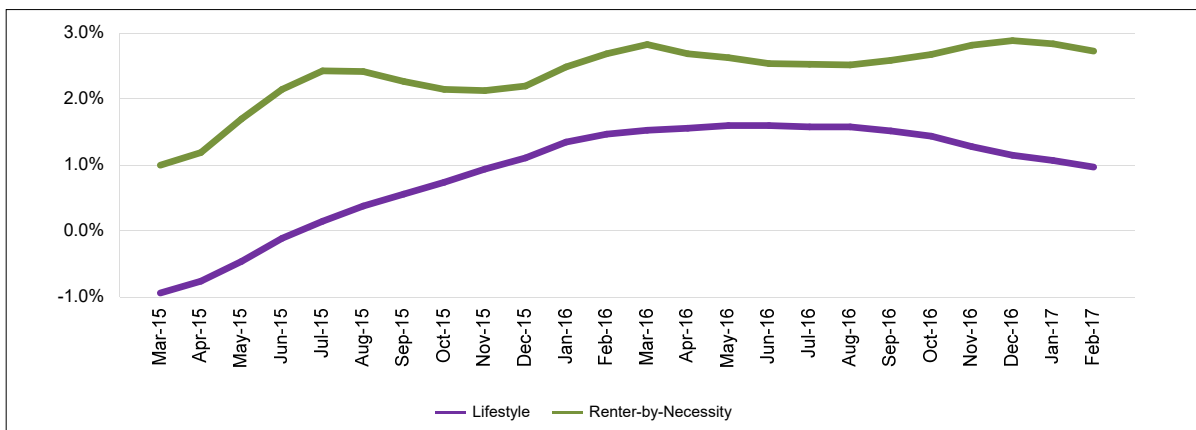
- Rents in Washington, D.C., rose 1.9% year-over-year as of February, trailing the national rate of 2.8%, according to the Yardi Matrix survey. At an average of \$1,706, the monthly rate was higher than the nation's \$1,306 average. The occupancy rate for stabilized properties decreased slightly in recent months to 95.6% as of January, due to the large amount of new supply hitting the market.
- Gains were led by the working-class Renter-by-Necessity segment, which saw a 2.8% increase through February to \$1,491. Rents for the higher-end Lifestyle segment grew only 1.0%, to \$2,046, during the same timeframe.
- Housing demand was broad-based, led by the Lexington Park (11.7%), Stafford/Warrenton (9%) and Ashburn/Dulles/Sterling (7.6%) submarkets. Capitol Hill (-4.3%), Columbia Heights West (-3.6%) and West Foggy Bottom (-2.6%) saw the largest rent decreases.
- The impact of the Trump regime is difficult to gauge at this point. The administration's budget envisioned major cuts to federal programs, but at least some of the cuts are likely to be restored by Congress during budget negotiations. We expect demand to remain robust as new residents move into the metro, while new supply will keep rent growth to a moderate level of 1.9% in 2017.

Washington, D.C. vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Washington, D.C., Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

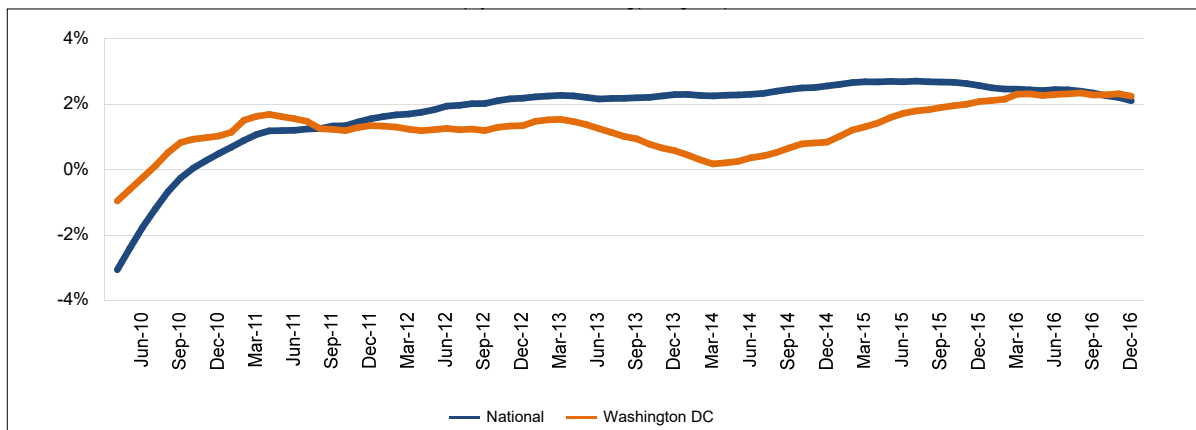


Source: YardiMatrix

Economic Snapshot

- The metro added nearly 67,000 new jobs in 2016, up 2.2% year-over-year and roughly in line with the 2.1% national average. Professional and business services, government, and health care and education encompassed more than 75% of the new hires. The federal government may diminish its role as a large employer, but jobs are being added in accounting, insurance, lobbying and other business segments.
- The professional and business services segment increased by nearly 24,000 jobs in 2016. A young, skilled workforce and recent university graduates are drawn by the metro's job availability in higher-paying sectors, which will eventually help boost demand for the copious amount of luxury housing underway. Washington's overbuilding issues are not limited to the multifamily arena, as office supply continues to outpace demand.
- Government remains a main pillar of the metro's economy, having added 14,400 hires in 2016. The Trump administration is seeking steep budget cuts for federal agencies, which may lead to a smaller workforce. Education and health services added 12,900 jobs in 2016. Hospitals such as Children's National and MedStar Georgetown are large employers, with a \$5.5 billion economic impact. Trade, transportation and utilities (8,400) and leisure and hospitality (8,200) also added a large number of jobs, while information (-2,800) and financial services (-1,900) struggled.

Washington, D.C. vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Washington, D.C., Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	754	22.8%	23,900	3.3%
90	Government	731	22.1%	14,400	2.0%
65	Education and Health Services	433	13.1%	12,900	3.1%
40	Trade, Transportation and Utilities	428	13.0%	8,400	2.0%
70	Leisure and Hospitality	320	9.7%	8,200	2.6%
80	Other Services	202	6.1%	2,000	1.0%
15	Mining, Logging and Construction	155	4.7%	900	0.6%
30	Manufacturing	54	1.6%	900	1.7%
55	Financial Activities	153	4.6%	-1,900	-1.2%
50	Information	73	2.2%	-2,800	-3.7%

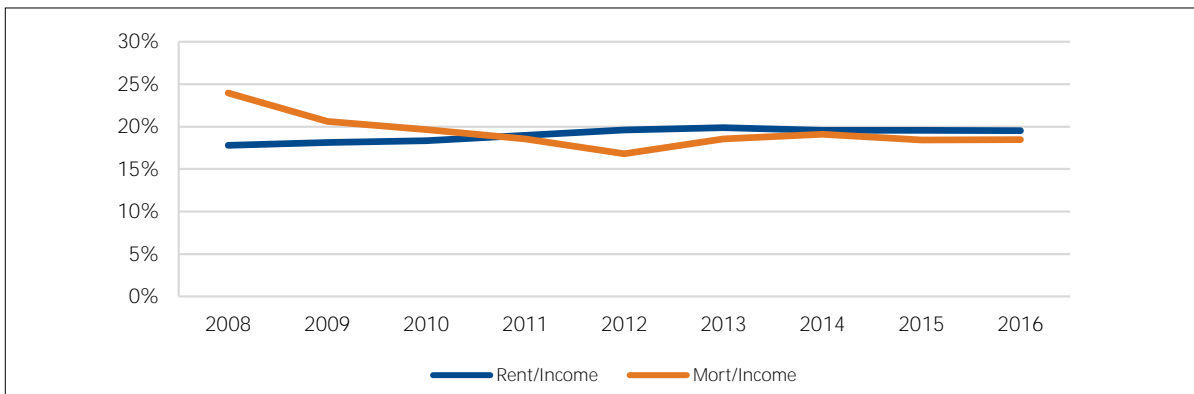
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

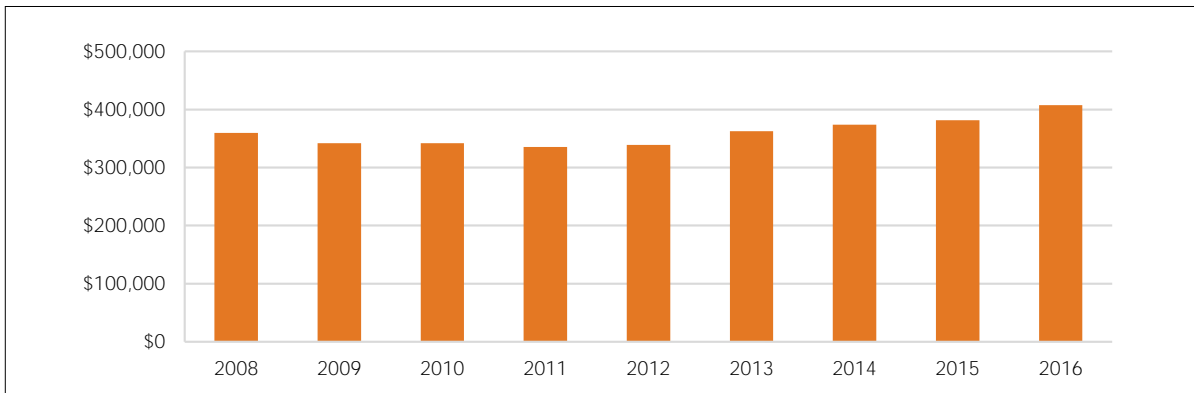
- The median home price surpassed the \$400,000 mark in 2016, setting a new record. The metro's strong population growth and stable job creation fuel demand for housing and drive prices up.
- The new wave of construction is expected to put a damper on the steadily increasing home values and rental rates. Affordability remains a hot topic for D.C. residents, as last year's average rent accounted for 20% of the area's median income. Owning remains a slightly more affordable option, with the average mortgage payment representing 18% of the metro's median income.

Washington, D.C., Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Washington, D.C., Median Home Price



Source: Moody's Analytics

Population

- Washington, D.C., added 63,793 residents in 2015, up 1.0% and slightly above the 0.8% national rate.
- The metro's population increased by 320,000, up 5.5%, over the last five years.

Washington, D.C. vs. National Population

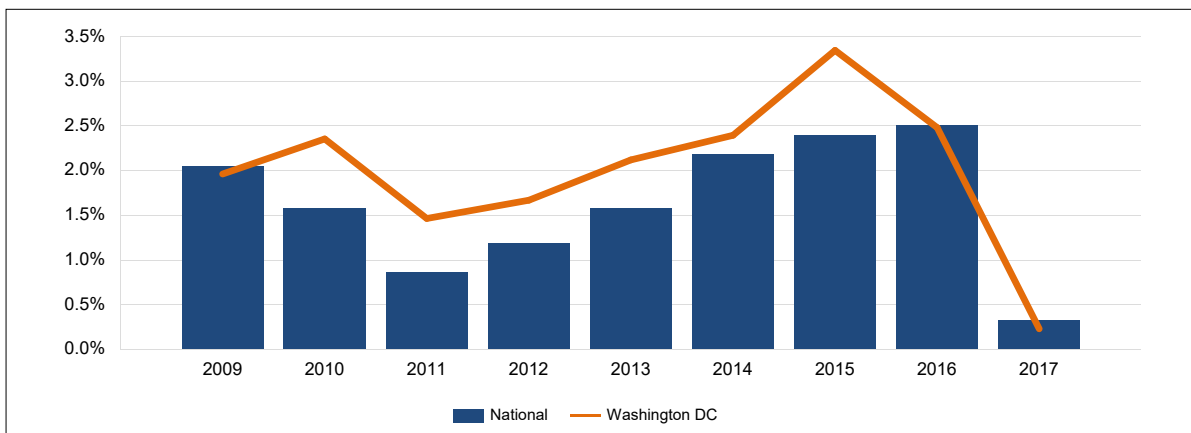
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Washington, D.C.-Arlington-Alexandria Metropolitan Statistical Area	5,778,317	5,872,677	5,964,439	6,033,891	6,097,684

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

Supply

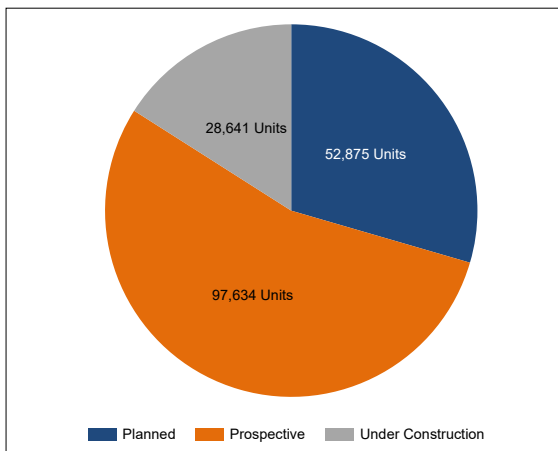
- Washington's 18-hour appeal attracts young professionals and retains university graduates, which fuels a significant demand for apartments. Some 12,000 units came online in 2016, marking an inventory increase of 2.5%, in line with the national average.
- The metro is experiencing a construction boom, with nearly 29,000 units under development and 53,000 units in the planning stages as of February. That points toward a continued robust pace of new development. Occupancy for stabilized properties was at 95.6%, which may come under pressure as new units come online, although rental demand is expected to remain high.
- Supply growth is spread across the metro, but Barry Farms/Saint Elizabeths led the list with 4,500 units. Brentwood/Trinidad/Woodridge (3,071 units), Pentagon City/Penrose (1,790 units), Lee Highway Corridor/McClean/Sugarland Run (1,170 units) and Herndon/Reston (929 units) round out the top five. Development is concentrated in submarkets with transit centers, which help connect workers to city jobs. That's especially important for young professionals without cars. The Bartlett (699 units) in the Pentagon City/Penrose submarket ranked as the largest project under construction as of February.

Washington, D.C. vs. National Completions as a Percentage of Total Stock (as of February 2017)



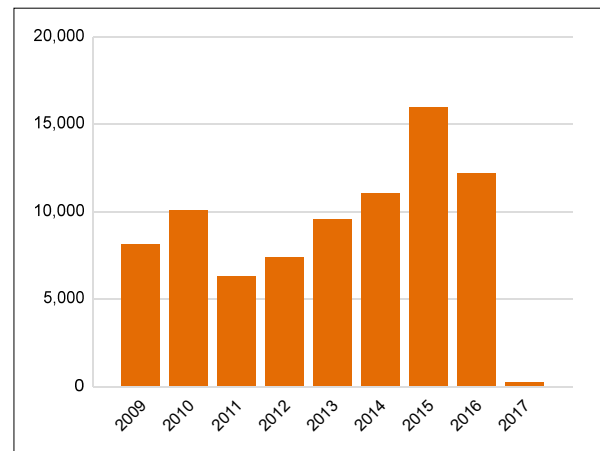
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Washington, D.C., Completions (as of Feb. 2017)

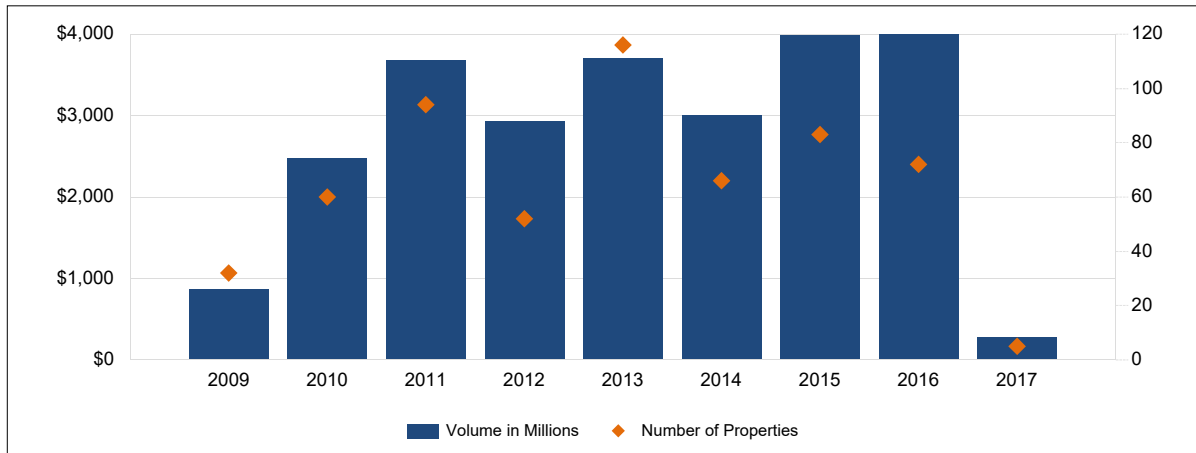


Source: YardiMatrix

Transactions

- As a primary market and the nation's capital, Washington continues to attract institutional and foreign investors interested in stabilized assets. Some \$4 billion worth of properties changed hands in 2016, reaching a new cyclical high.
- Per-unit prices in the metro went above the \$200,000 mark in 2016, setting another post-bubble record. With interest rates rising and rent growth moderating, price appreciation could slow this year.
- Investor appetite over the last year was focused on submarkets such as Huntington/Beacon Hill (\$423 million), Ashburn/Dulles/Sterling (\$311 million) and East Silver Spring/White Oak (\$259 million). Washington Real Estate Investment Trust's \$244.8 million acquisition of the 1,222-unit Riverside Apartments in Alexandria, Va., was the largest sale in 2016. The high-rise property was built in 1971.

Washington, D.C., Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

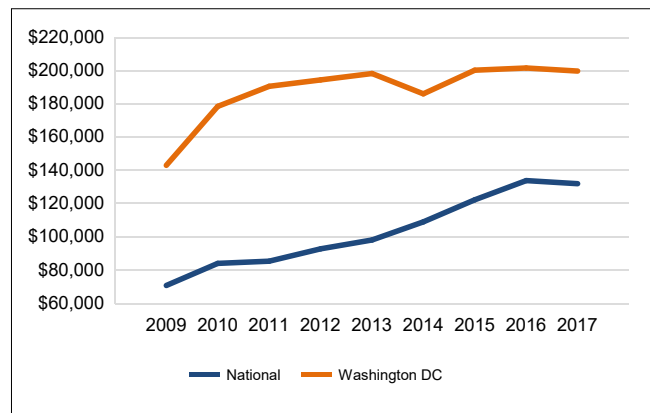
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Huntington/Beacon Hill	423
Ashburn/Dulles/Sterling	311
East Silver Spring/White Oak	259
Downtown Bethesda	207
Dale City/Lorton/Woodbridge	184
College Park	168
Douglas Park/Nauck	165
Capitol Hill	160

Source: YardiMatrix

¹ From March 2016 to February 2017

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



Source: YardiMatrix

Read All About It!



AvalonBay Sells \$117M
Community in DC Area



Washington REIT to Buy
Watergate Building



Marcus & Millichap Lends
A Hand in Washington, DC

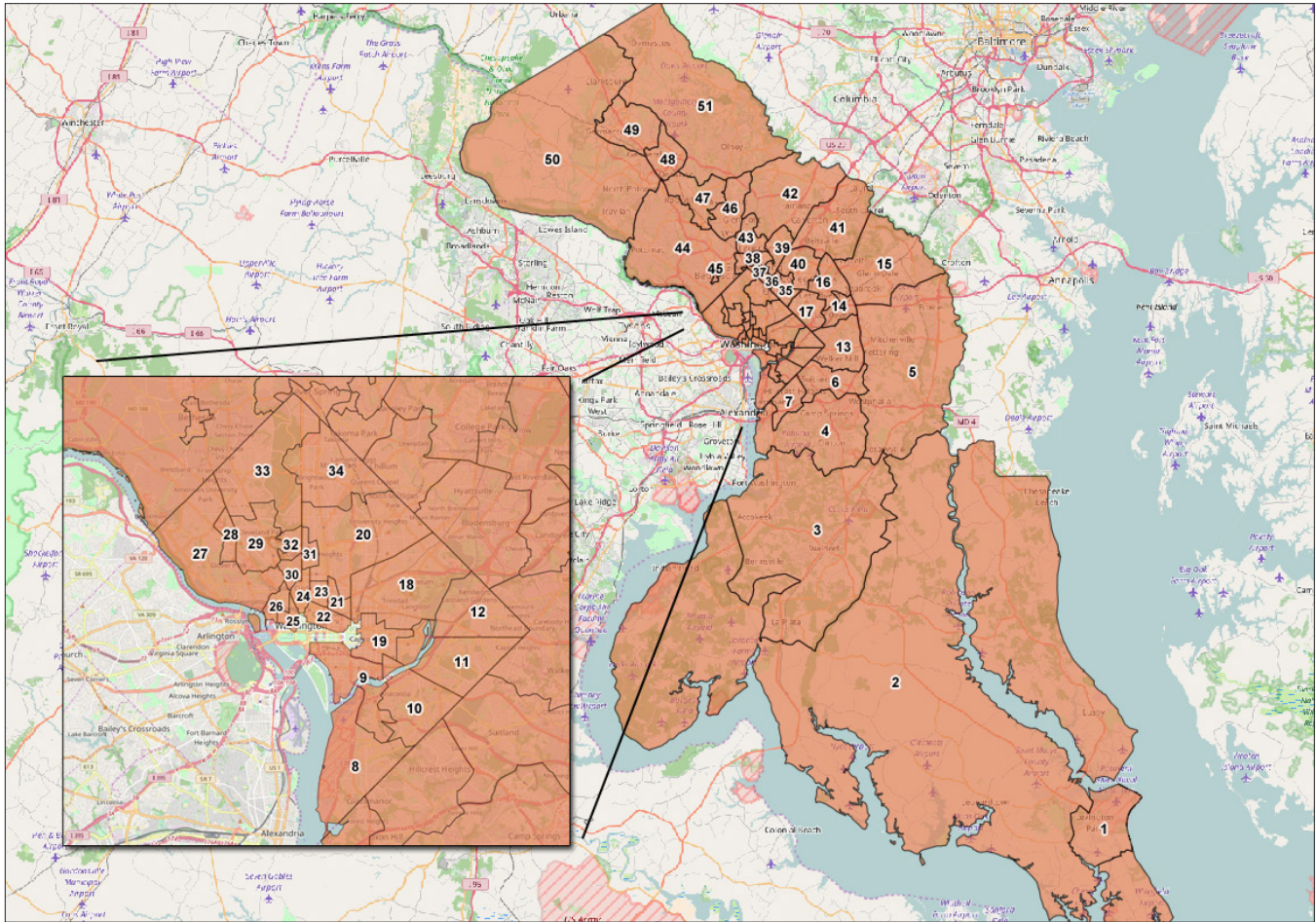


Savills Studley
Continues DC Expansion
With New Hires

Get the latest Washington, D.C.,
real estate news at



Washington, D.C., Submarket Map

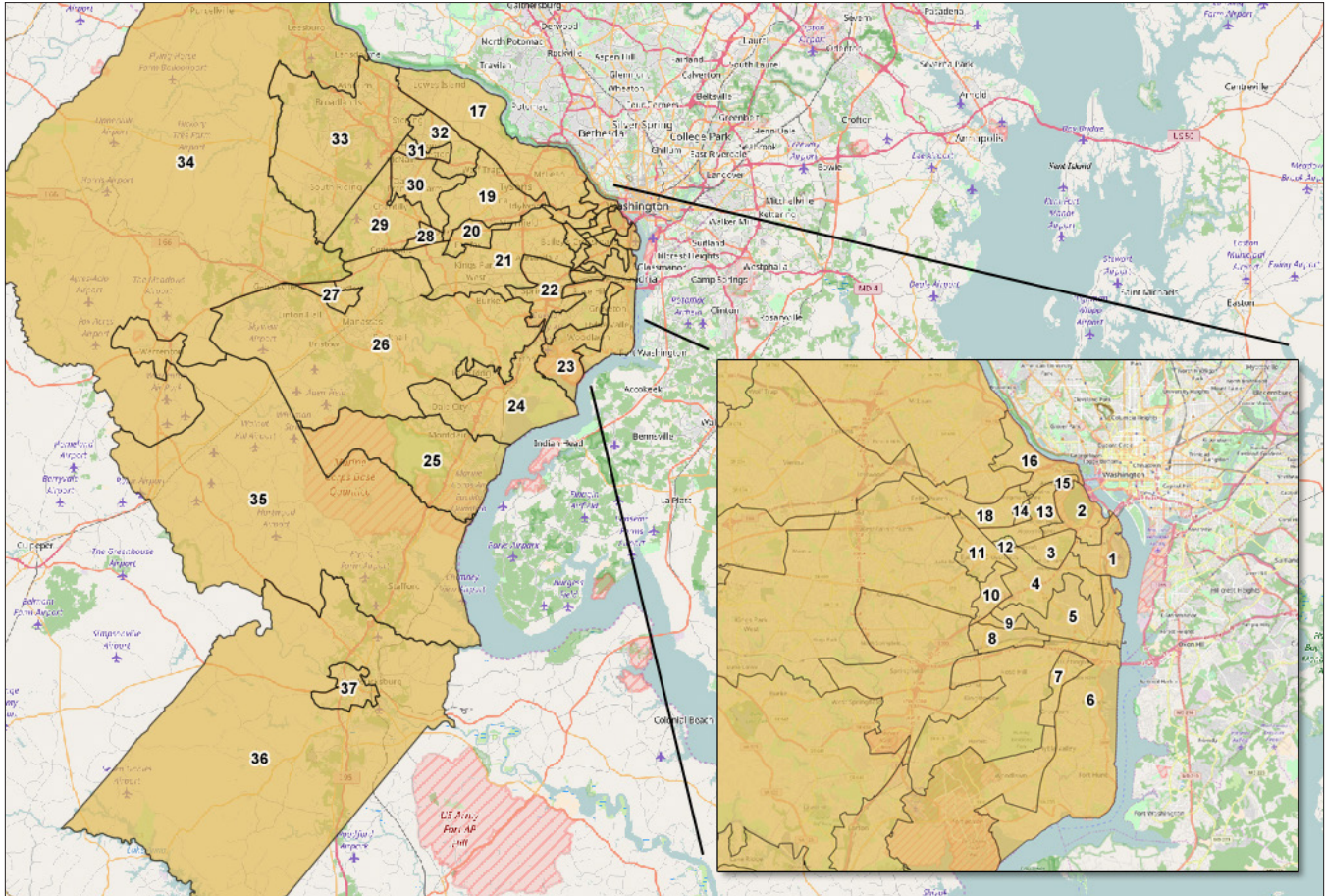


Area #	Submarket
1	Lexington Park
2	California/Leonardtown/Prince Frederick
3	St. Charles/Waldorf
4	Camp Springs/Fort Washington
5	Bowie/Lake Arbor/Largo
6	Forestville/Suitland
7	Hillcrest Heights/Marlow Heights
8	Congress Heights/Congress Park
9	Barry Farms/St. Elizabeth
10	Anacostia/Garfield Heights
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

Area #	Submarket
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
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

Area #	Submarket
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/Woodbridge Village
50	Olney/West Gaithersburg

Suburban Virginia Submarket Map



Area #	Submarket
1	Crystal City
2	Pentagon City/Penrose
3	Douglas Park/Nauck
4	Farmington/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

Area #	Submarket
14	Ashton Heights/Buckingham
15	Fort Myers Heights/Radnor
16	Colonial Village/North Highlands/Rosslyn
17	Lee Highway/McLean
18	Ballston/East Falls Church
19	Merrifield/Tysons 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

Area #	Submarket
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 may 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 may 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, may 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.

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.