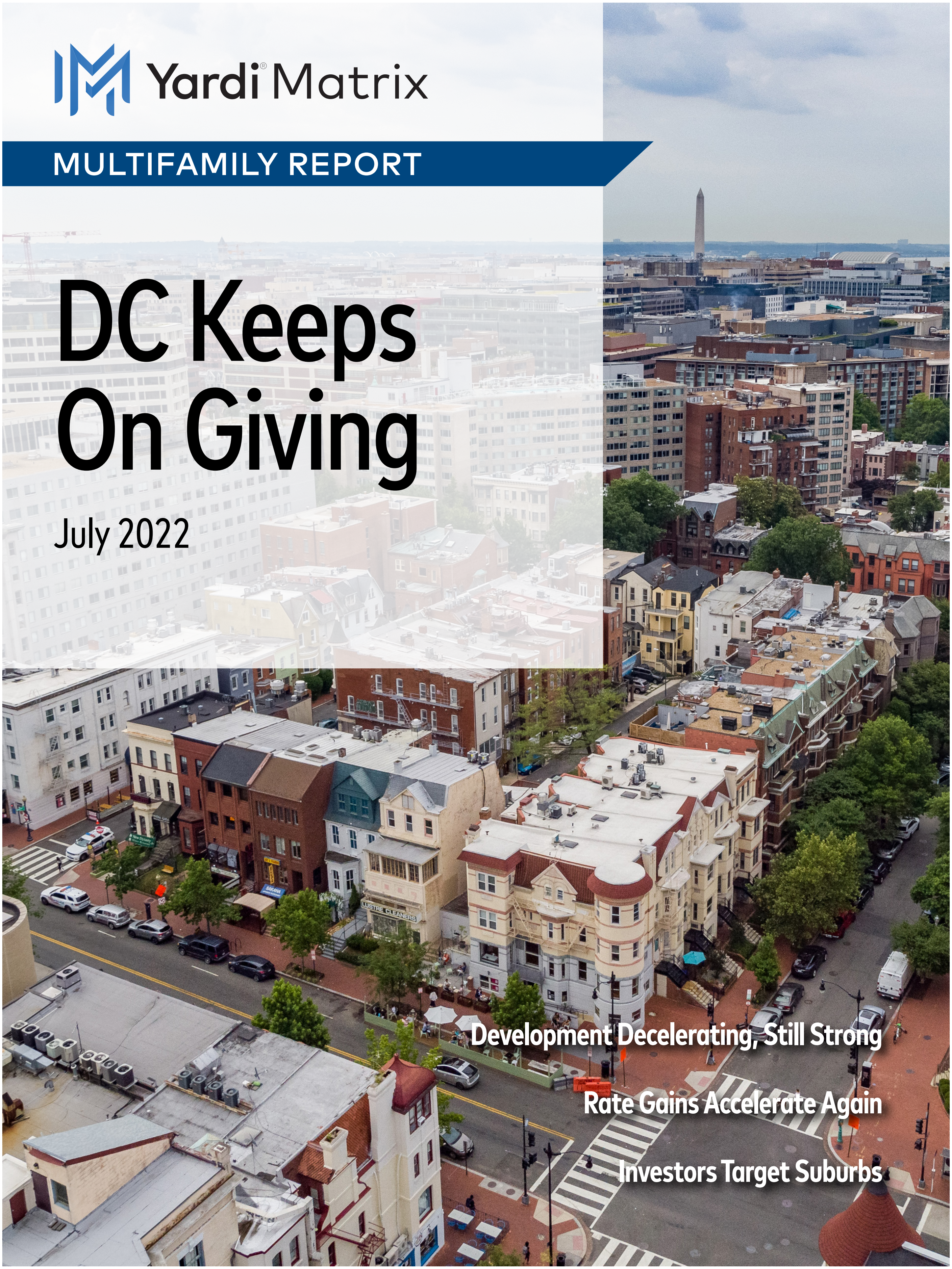
Yardi Matrix

MULTIFAMILY REPORT



# DC Keeps On Giving

July 2022

Development Decelerating, Still Strong

Rate Gains Accelerate Again

Investors Target Suburbs

WASHINGTON, D.C., MULTIFAMILY

Yardi Matrix

# Supply Forges Ahead, Occupancy Withstands

Coming off a hot 2021 for multifamily performance, Greater Washington, D.C., is once again picking up steam after a seasonal slowdown. Rent growth accelerated during the last quarter, with rates up 0.8% on a trailing three-month basis, just 20 basis points below the national figure. On a year-over-year basis, D.C. rates were up 10.0% as of May, putting the city in the lower third among major U.S. metros but still way ahead of pre-pandemic levels.

While lagging the national rate of economic recovery, metro D.C. still added 114,500 jobs in the 12 months ending in March, with only one sector—financial activities—losing positions (-3,200). The overall additions accounted for a 3.8% rise in employment in one year, trailing the U.S. figure by 90 basis points. Although unemployment was at a tight 3.0% as of April, the MSA still has 130,000 fewer people employed than it did at the beginning of 2020.

While the area is not immune to economic turbulence, Greater D.C. remains a high demand-high supply market. Case in point, the metro had 37,345 units under construction as of May, representing the country's fourth-largest pipeline, even as occupancy improved. Meanwhile, $1.9 billion in rental assets traded across the metro in the first five months of the year, for an average price per unit of $289,545. Per-unit prices have been on the rise for five consecutive years.

## Market Analysis | July 2022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### Recent Washington, D.C., Transactions

The Parker

City: Alexandria, Va.
Buyer: Brookfield Properties
Purchase Price: $136 MM
Price per Unit: $377,778

Haven Largo

City: Largo, Md.
Buyer: FCP
Purchase Price: $72 MM
Price per Unit: $328,311

The Horizons

City: Arlington, Va.
Buyer: Dweck Properties
Purchase Price: $69 MM
Price per Unit: $301,032

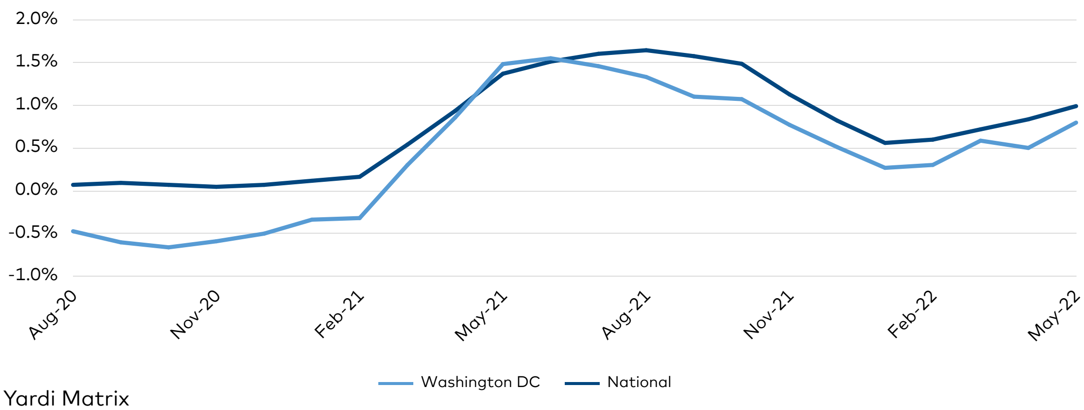
Sky Terrace

City: Stafford, Va.
Buyer: Starwood Capital Group
Purchase Price: $61 MM
Price per Unit: $325,031

## RENT TRENDS

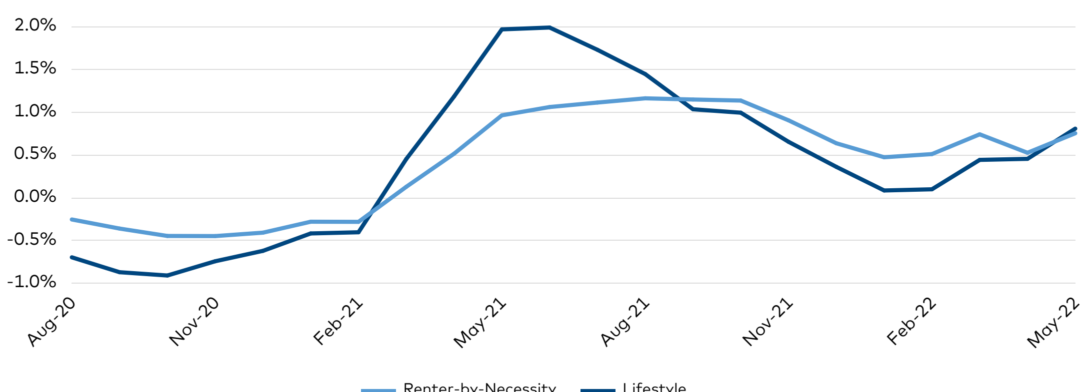
- Metro D.C. rents were up 0.8% on a trailing three-month (T3) basis through May, reaching $2,038. This marked an acceleration following the winter seasonal slowdown, bringing the year-over-year improvement rate to 10.0%. Meanwhile, on a T3 basis, the national average grew by 1.0%, to an all-time high of $1,680.
- There was little difference across quality segments as of May, with rates in both Lifestyle and working-class Renter-by-Necessity assets up 0.8%, to $2,386 and $1,750, respectively. Occupancy, however, performed slightly better in the RBN segment, up 110 basis points to 95.5% over 12 months, while Lifestyle occupancy improved 70 basis points, to 95.2%. Overall occupancy in stabilized assets grew by 90 basis points, to 95.4%.
- Bailey's Crossing, not far from Amazon's upcoming HQ2 development, recorded the largest jump in the 12 months ending in May, with the average rent up 16.4%, to $1,871. Several suburban submarkets followed, including Landmark/Foxchase (16.2%) and California/ Leonardtown/Prince Frederick (15.9% to $1.653). Several core submarkets also registered considerable gains, such as East Foggy Bottom (15.5% to $2,944) and Crystal City (12.2% to $2,561), with the latter influenced by Amazon's growing presence just across the Potomac River.
- While fundamentals should remain generally sound, the long streak of strong rent development across the U.S. is starting to show signs of tapering. Yardi Matrix expects the average D.C. rate to advance 4.0% in 2022.

**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.'s unemployment rate stayed in the 3% to 4% band since the beginning of the year, clocking in at 3.3% as of May, according to preliminary Bureau of Labor Statistics data. That's slightly below the 3.6% national rate, which remained unchanged for four consecutive months.
- Even so, the metro's total employment remains well below pre-pandemic levels. Total employment clocked in at 2,599,468 as of May 2022, which was 140,000 fewer positions than in February 2020, the last month unaffected by the COVID-19 crunch.
- Despite a tight employment market, metro D.C. still added 114,500 positions in the 12 months ending in March. That marked a 3.8% improvement, below the 4.7% national figure. More than half of D.C.'s gains were recorded in the leisure and hospitality sector (60,900 jobs), a common occurrence for U.S. markets considering the heavy hit the sector took in 2020 and the prolonged recovery marked by the ebbs and flows of restrictions.
- Professional and business services (19,700 jobs), trade, transportation and utilities (12,600) and government (10,500) also recorded significant gains. Financial activities (-3,200) was the only sector that registered losses.

**Washington, D.C. Employment Share by Sector**

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 70 | Leisure and Hospitality | 286 | 8.7% |
| 60 | Professional and Business Services | 792 | 24.1% |
| 40 | Trade, Transportation and Utilities | 399 | 12.2% |
| 90 | Government | 731 | 22.3% |
| 15 | Mining, Logging and Construction | 163 | 5.0% |
| 80 | Other Services | 195 | 5.9% |
| 65 | Education and Health Services | 430 | 13.1% |
| 50 | Information | 78 | 2.4% |
| 30 | Manufacturing | 55 | 1.7% |
| 55 | Financial Activities | 153 | 4.7% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Last year saw big population shifts, especially for large coastal markets, which registered losses. Washington, D.C., was no exception. After many years of growth, metro D.C. lost nearly 30,000 people in 2021, for a 0.5% downtick, but still fared better than most primary markets.

**Washington, D.C. vs. National Population**

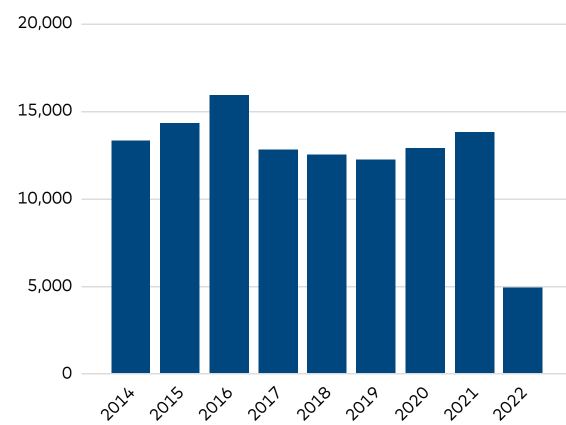
| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| National | 326,838,199 | 328,329,953 | 331,501,080 | 331,893,745 |
| Metro DC | 6,243,114 | 6,284,241 | 6,371,877 | 6,342,492 |

Source: U.S. Census

## SUPPLY

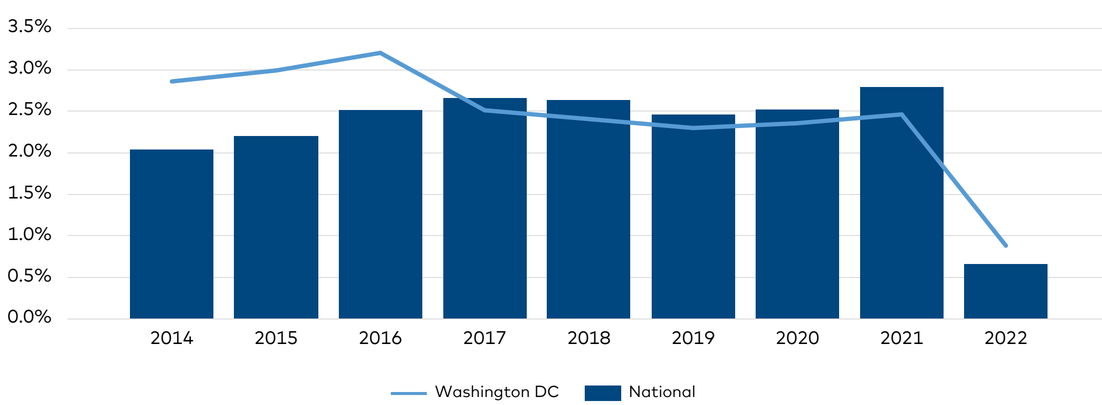
- Washington, D.C., had 37,345 multifamily units under construction as of May 2022, just shy of the national top three, only trailing Dallas-Fort Worth (46,511), Austin (42,118) and Phoenix (37,817). Metro D.C. is, in fact, one of the few cities at the top of the list not located in the Sun Belt.
- Despite significant socioeconomic oscillation of late, Washington, D.C., multifamily development has remained consistent. Some 13,500 apartments came online each year in the past eight years, with little spread between the delivery peak and valley: 15,926 units in 2016 and 12,290 in 2019.
- Year-to-date through May, a total of 4,984 apartments were delivered across metro D.C., with the vast majority of them in upscale Lifestyle properties. Yardi Matrix expects 12,096 units to reach completion throughout the metro in 2022, a decade low but not by much.
- Suburbs around Dulles International, other transit-oriented hubs along the Silver Line and a couple of core submarkets dominated the pipeline going into the second half of 2022. The diverse development map includes areas such as Brentwood/Trinidad/Woodridge (4,164 apartments under construction), Barry Farms/Saint Elizabeths (3,114), South Herndon (2,332) and Lee Highway Corridor/McClean/Sugarland Run (1,623).
- While development deceleration could be on the way, Washington, D.C., remains a high demand-high supply area—at least in the short term—with its solid pipeline responding to a sustained need for housing in a tight market.

**Washington, D.C. Completions** (as of May 2022)




Source: Yardi Matrix

**Washington, D.C. vs. National Completions as a Percentage of Total Stock** (as of May 2022)

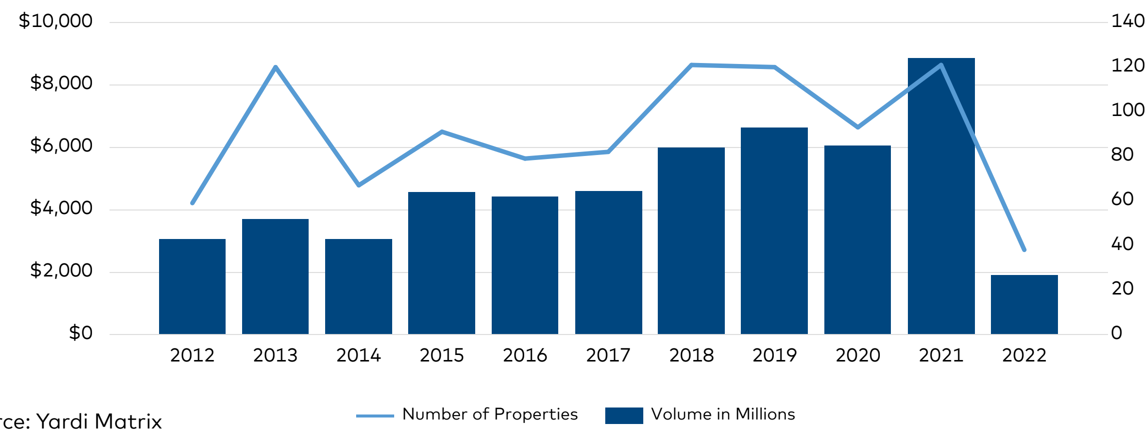



Source: Yardi Matrix

## TRANSACTIONS

- A total of $1.9 billion in multifamily assets traded in metro D.C. through the first five months of 2022, at an average per-unit price of $289,546, well above the $213,724 U.S. figure. This marked a slowdown from 2021, when some $2.5 billion in communities had traded through May. Last year, however, was the metro's best overall, with the total nearing $8.9 billion.
- Investors targeted both upscale assets and value-add plays this year through May, with the number of communities transacted close between Lifestyle (17 properties) and Renter-by-Necessity (21 properties).
- Geographically, however, investors continued to heavily target suburban assets across both Maryland and Northern Virginia. In the 12 months ending in May, only nine properties traded within the District, for a collective $565 million. In the same time frame, Northern Virginia transactions reached $3.6 billion, while suburban Maryland sales totaled $4.1 billion.

**Washington, D.C. Sales Volume and Number of Properties Sold** (as of May 2022)




Source: Yardi Matrix

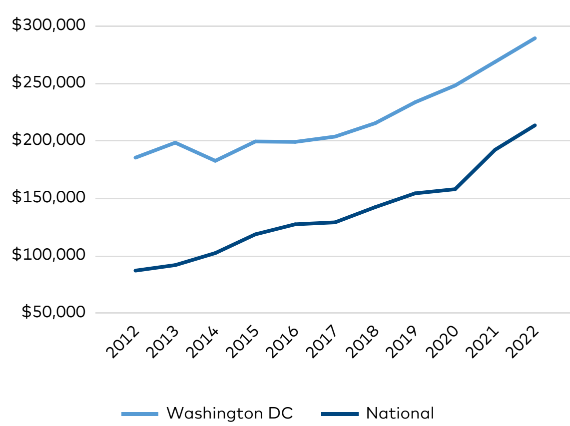
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| East Rockville | 616 |
| Douglas Park/Nauck | 517 |
| St. Charles/Waldorf | 512 |
| West Gaithersburg | 510 |
| Huntington/Beacon Hill | 500 |
| Germantown/Montgomery Village | 466 |
| Brentwood/Trinidad/Woodridge | 371 |

Source: Yardi Matrix

[1] From June 2021 to May 2022

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




Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

## Top 10 Multifamily Markets by Sales Volume in 2021

By Anca Gagiuc

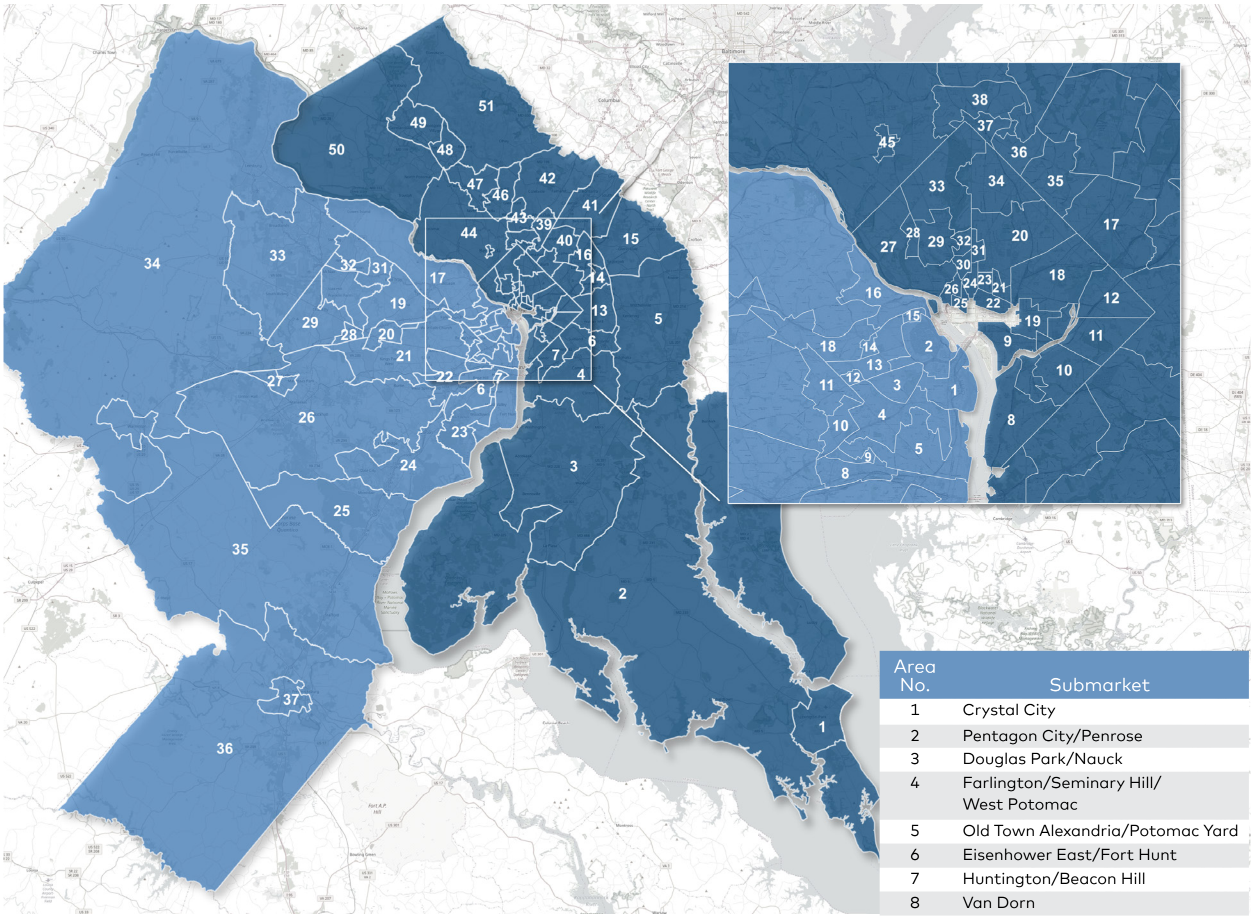
The multifamily market had an exceptional year in 2021, exhibiting healthy fundamentals across the board. Behind the market's unpredicted expansion was demand, with the pandemic highlighting not just the essential feature of the multifamily market but also its resilient nature. Although in 2021 the retail, office and hospitality industries showed some signs of recovery, they still struggled, leading to a shift in investment toward multifamily.

| Metro | Sales Volume 2021 | Properties Sold 2021 | Units Sold 2021 | Average Sale Price Per Unit 2021 |
|---|---|---|---|---|
| Dallas–Fort Worth | $14,638,381,314 | 551 | 140,640 | $171,005.13 |
| Atlanta | $14,462,137,683 | 325 | 83,765 | $192,369.38 |
| Phoenix | $14,412,674,811 | 270 | 56,789 | $258,166.74 |
| Houston | $11,059,042,386 | 426 | 115,011 | $146,827.43 |
| Denver | $9,771,559,229 | 143 | 32,630 | $322,238.47 |
| Miami | $9,310,892,009 | 201 | 45,806 | $254,904.37 |
| Washington, D.C. | $7,283,430,008 | 111 | 33,241 | $267,832.24 |
| Orlando | $5,736,315,365 | 128 | 33,434 | $215,675.28 |
| Tampa | $5,397,235,455 | 139 | 31,320 | $197,556.20 |
| Raleigh | $5,143,848,320 | 99 | 24,845 | $215,070.80 |

### Washington, D.C.

Washington, D.C., also posted increased activity on the investment front, with nearly $7.3 billion in multifamily assets trading in 2021, above the volumes recorded in 2020 ($6.1 billion) and 2019 ($6.6 billion). Last year, 111 properties (33,241 units) changed hands, more than the 93 properties (30,036 units) that sold in 2020, but fewer than the 120 properties (32,433 units) that changed ownership in 2019.

## 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 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 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, 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.

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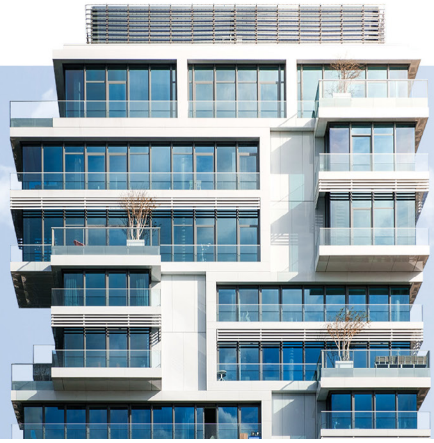

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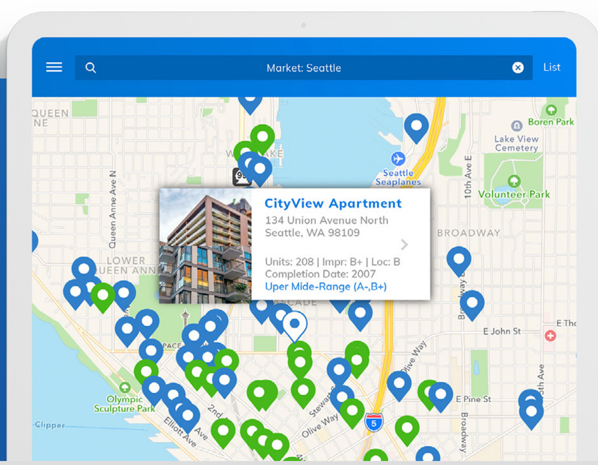


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