Yardi® Matrix

Washington's Long Run

Multifamily Report Summer 2017

Core Submarkets Saturated

Investors Focus On Suburban Areas

Deliveries Maintain Tepid Rent Growth

Market Analysis
Summer 2017

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Strong Fundamentals Fuel Heavy Development

Although trailing U.S. employment growth, the expansion of Washington, D.C.'s multifamily market remains one of the most vigorous in the country. Young professionals are drawn to the city's well-paying jobs, pushing up demand for upscale communities in transit-oriented and live-work-play areas. However, with rents up just 1.1% year-over-year in July, the metro's robust construction pipeline—third largest in the country—is raising some concerns of overbuilding.

Two large infrastructure projects—the Silver Line metro expansion in Northern Virginia and the $6.5 billion Purple Line light-rail service in Suburban Maryland—are creating many opportunities for transit-oriented development. At the same time, several large mixed-use projects are in the works, most of them around the District's core. The list of multi-phase developments under construction includes The Wharf, PN Hoffman and Madison Marquette's $2.5 billion project, as well as the 2.2 million-square-foot Capitol Crossing, which is slated for completion in 2022.

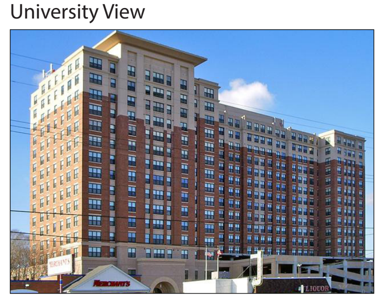
The metro has more than 31,000 units underway, roughly 11,500 of which are slated to come online by year-end. With developers delivering some 30,000 units since the beginning of 2015, the metro's occupancy rate in stabilized properties was 95.8% as of July, down 30 basis points year-over-year. With the large number of deliveries bound to keep growth tepid, Yardi Matrix expects rents to increase by 1.4% in 2017.

Recent Washington, D.C., Transactions

The Enclave

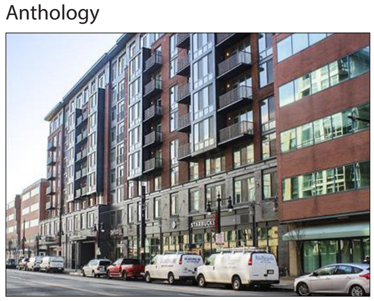
City: Silver Spring, Md.
Buyer: Hampshire Properties
Purchase Price: $209 MM
Price per Unit: $186,774

University View



City: College Park, Md.
Buyer: Rockpoint Group
Purchase Price: $167 MM
Price per Unit: $333,360

Anthology



City: Washington, D.C.
Buyer: Multi-Employer Property Trust
Purchase Price: $160 MM
Price per Unit: $521,173

The Ashborough

City: Ashburn, Va.
Buyer: CBRE Global Investors
Purchase Price: $119 MM
Price per Unit: $236,111

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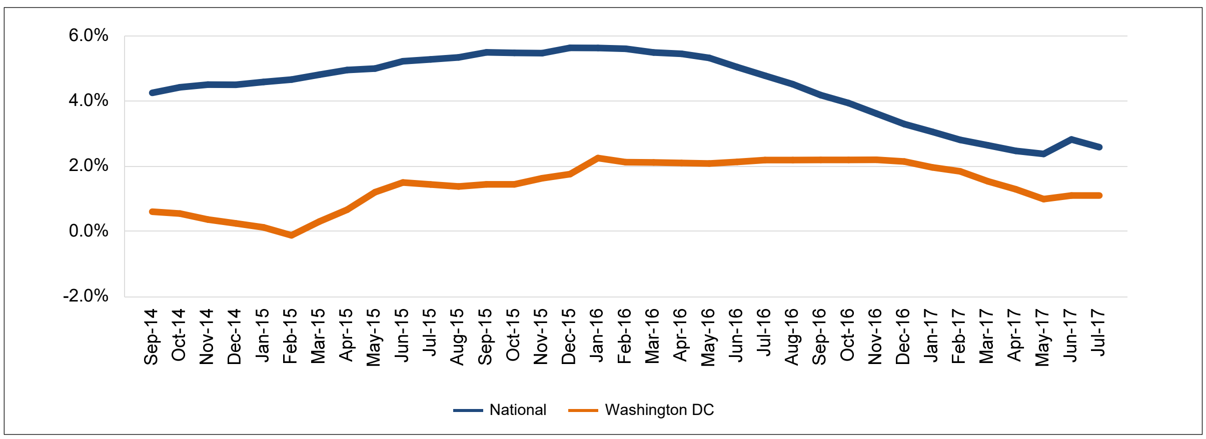
On the cover: Photo by rabbit75 ist/iStockphoto.com

Rent Trends

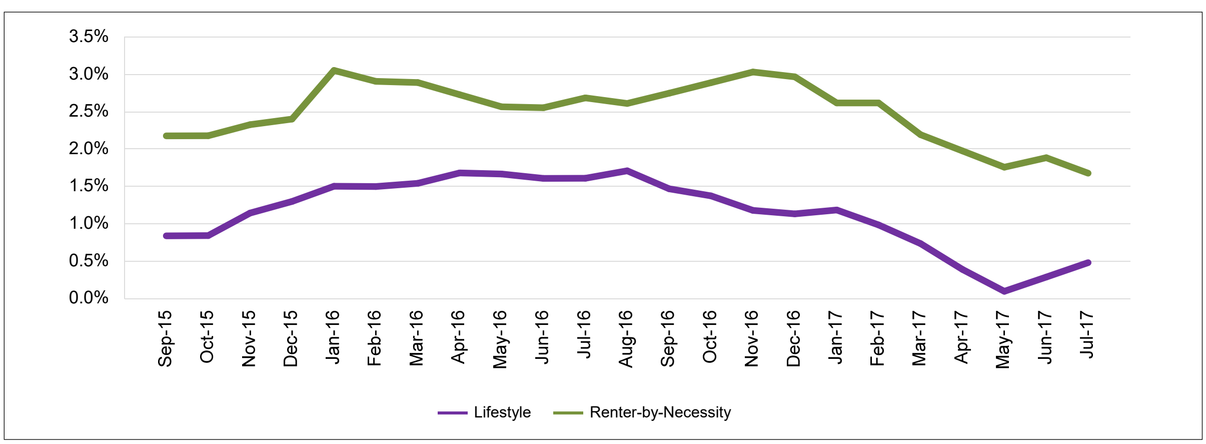
- Rents in Washington, D.C., were up 1.1% year-over-year through July, trailing the 2.6% national growth rate. The $1,746 average rent was well above the $1,350 U.S. average.
- The working-class Renter-by-Necessity segment continued to lead growth, with rents up 1.7%, to $1,517. At $2,095 as of July, Lifestyle rents were up only 0.5% year-over-year. With developers heavily catering to young professionals looking for highly amenitized, upscale communities in core or transit-oriented locations, there is little new stock for middle- and low-income renters. While this moderated upscale rents, the trend continues to push up demand for working-class housing, putting pressure on low- and middle-income residents.
- New supply is helping to dampen rent growth in many locales, with most central submarkets—including Penn Quarter (-3.9%), Capitol Hill (-3.4%) and West Foggy Bottom (-2.5%)—reporting decreases. Northern Virginia and Suburban Maryland are leading gains, most significantly in Lexington Park (6.6%), Seat Pleasant/Walker Mill (5.7%) and Alexandria West (5.3%).
- Although the city has been adding jobs across the board for a few years now, heavy development continues to temper rent growth, which Yardi Matrix expects to reach 1.4% 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)

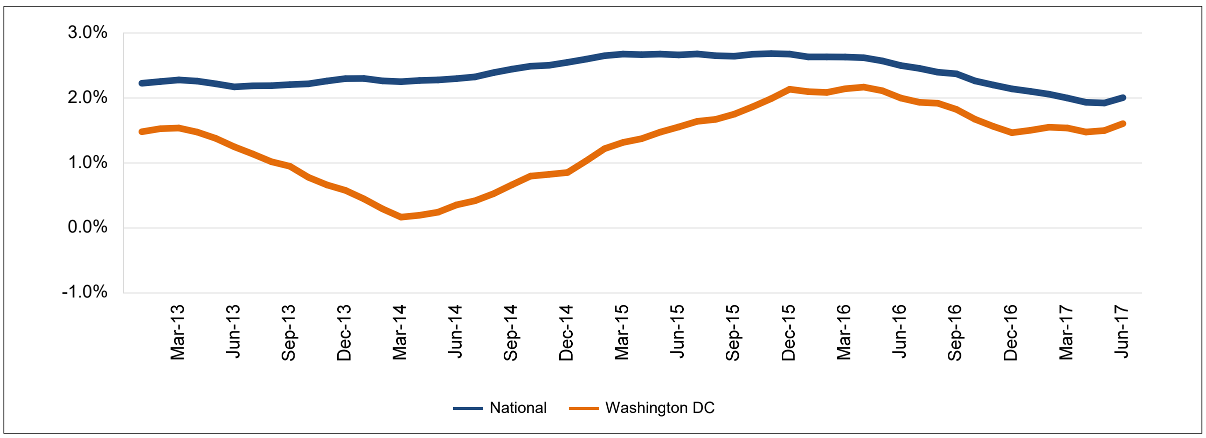


Source: YardiMatrix

Economic Snapshot

- Washington, D.C., added 59,500 jobs in the year ending in June, a 1.6% rise, 40 basis points behind the U.S. growth rate. Although significantly linked to federal policy and spending decisions, the metro's economy is diversifying, generating jobs across the board and drawing young, highly skilled workers.
- Education and health services and professional and business services added 32,500 positions, accounting for more than half of total job growth. The city's expansion of well-paying jobs is feeding demand for core and transit-oriented Class A communities, while also creating jobs in trade and retail.
- The steady addition of white-collar positions is impacting the office market, with developers betting on prolonged improvement. By mid-year, 6.5 million square feet of office space was under construction in the District and some 5.1 million square feet in Northern Virginia, according to Colliers International.
- The Silver Line metro extension in Northern Virginia is moving forward, boosting development between Reston and Ashburn. At the same time, the $6.5 billion Purple Line light-rail project in suburban Maryland, one of the largest public-private partnerships nationwide, is clearing legal hurdles after a one-year delay. Several large mixed-use projects are moving forward, including the 2.2 million-square-foot Capitol Crossing, PN Hoffman's 3.2 million-square-foot The Wharf and Meridian Group's 4.2 million-square-foot The Boro in Tysons.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	441	13.3%	17,400	4.1%
60	Professional and Business Services	757	22.8%	15,100	2.0%
70	Leisure and Hospitality	348	10.5%	14,600	4.4%
40	Trade, Transportation and Utilities	413	12.4%	7,600	1.9%
90	Government	719	21.7%	4,700	0.7%
80	Other Services	199	6.0%	2,900	1.5%
55	Financial Activities	159	4.8%	1,300	0.8%
30	Manufacturing	54	1.6%	200	0.4%
15	Mining, Logging and Construction	160	4.8%	0	0.0%
50	Information	71	2.1%	-4,300	-5.7%

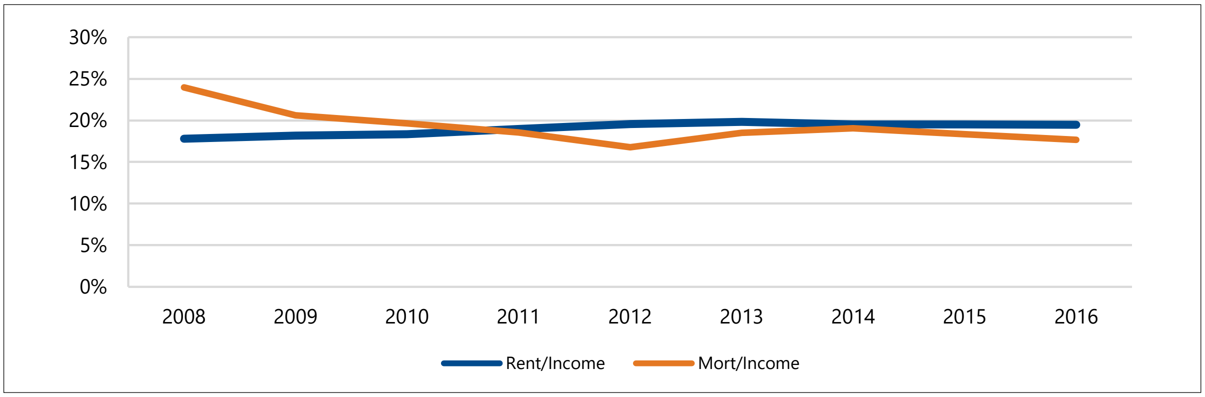
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

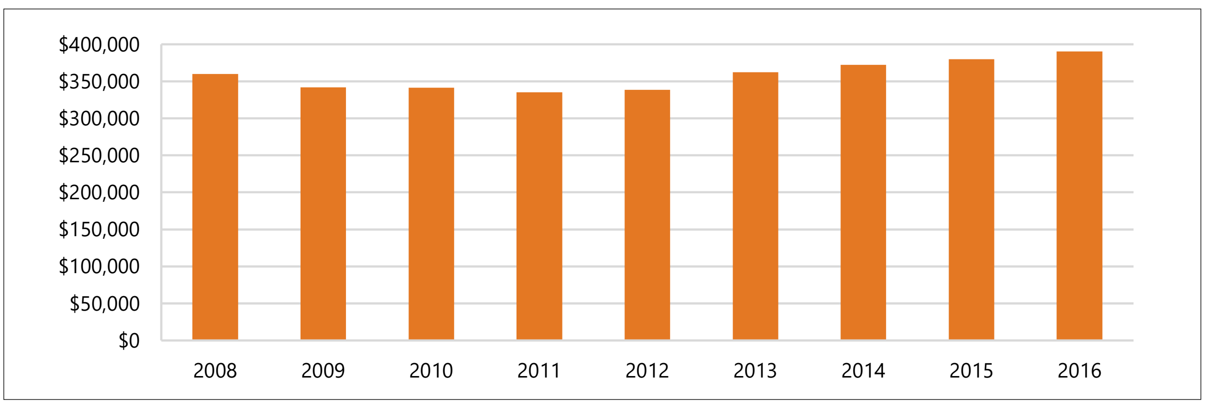
- Median home prices reached $390,143 in 2016 in the nation's capital, almost double the U.S. average and up 16% since 2011. The high barrier to entry for first-time buyers is putting pressure on lower-paid workers, at the same time boosting multifamily demand and favoring the creation of rental households. And as developers are heavily focusing on delivering upscale stock, the city is unlikely to become more affordable in the near future.
- There is little difference in affordability between renting and owning in Washington, D.C. The average mortgage payment takes up 18% of the metro's median income, while the average rent of $1,746 accounts for roughly 19%.

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

- The metro added 465,000 residents between 2010 and 2016. This accounts for an 8.2% increase, almost double the national growth rate.
- Washington, D.C., gained 53,500 residents in 2016 alone, a 0.9% expansion.

Washington, D.C. vs. National Population

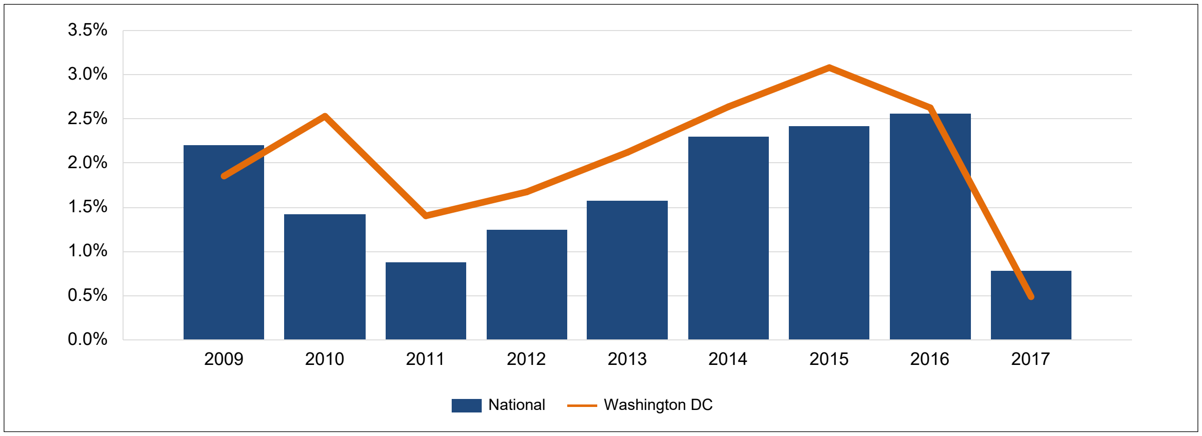
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Washington, D.C., Metro	5,870,500	5,957,037	6,020,777	6,078,469	6,131,977

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

Supply

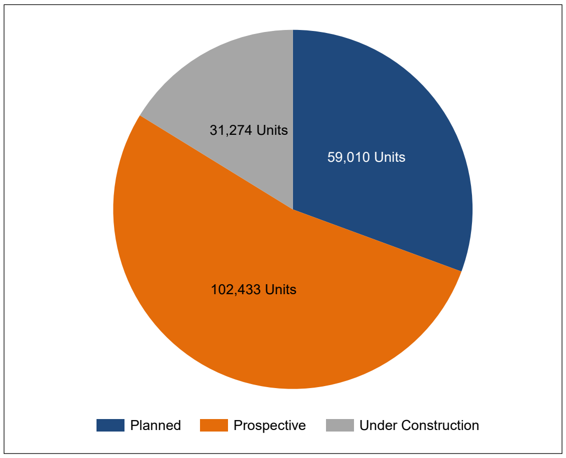
- Although only 1,848 units were completed in 2017 through July, some additional 11,500 units are slated for delivery by year-end. With the metro adding residents at almost double the U.S. growth rate over the past seven years, development in the District, Suburban Maryland and Northern Virginia continues at high levels. More than 40,000 units have come online since 2014, roughly 85% of which are in the upscale segment.
- With 31,274 units under construction as of July, the metro has the third-largest pipeline in the U.S., trailing only Dallas and New York City. When taking into account planned and prospective projects, Washington, D.C.—with 160,000 units underway—tops the nation.
- Development is spread out across the map, but areas closest to the center of the city dominate the pipeline. There are 50 communties under construction within 3 miles of downtown D.C., adding up to 11,500 units, the majority of which are high-end. Among submarkets with the most units under construction, Barry Farms/Saint Elizabeths (4,527 units) leads the pack, followed by Brentwood/Trinidad/Woodridge (3,090), Lee Highway Corridor/McLean/Sugarland Run (2,005) and Pentagon City/Penrose (1,592). With rents already dropping in many primary submarkets, some parts of the District are risking overbuilding.

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



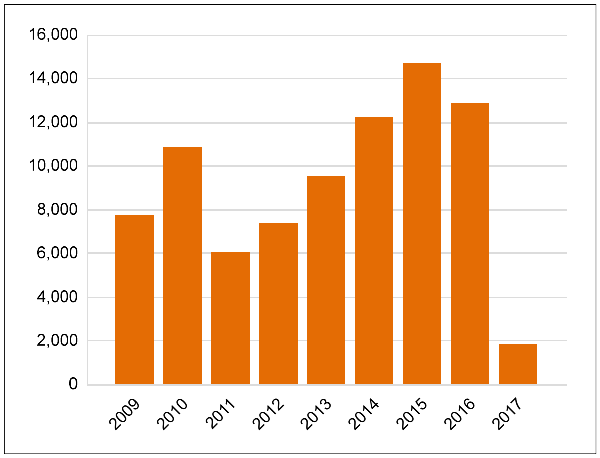
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

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

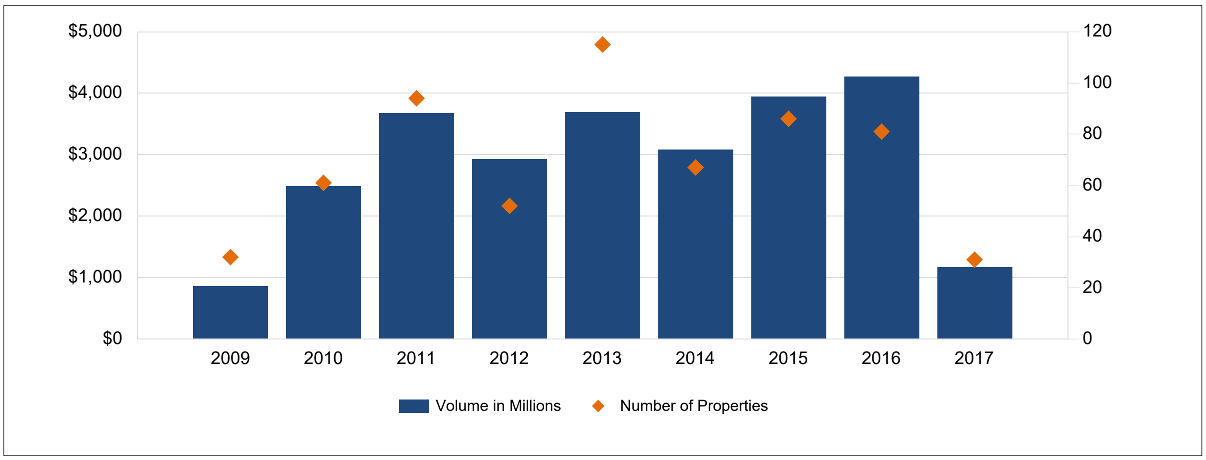


Source: YardiMatrix

Transactions

- Roughly $1.2 billion in multifamily communities traded this year through July, marking a slight slowdown after several years of bullish activity, reflecting a national decline in sales as investors start to worry about the market peaking. Almost $18 billion in assets changed hands between 2012 and 2016.
- After several frothy years, per-unit prices are moderating as well, down 10% as compared to 2016, to roughly $180,000 as of July. At an average $205,524 in the first two quarters, Northern Virginia units are more expensive than the ones in D.C. and suburban Maryland, which averaged just $151,995.
- With rents in many core areas either flat or contracting, investors are zeroing in on relatively safe suburban value-add plans. According to CBRE, Washington, D.C., Class C value-add assets can offer acquisition yields as high as 8%, while Class A stabilized properties fall in the 4-5% range.

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



Source: YardiMatrix

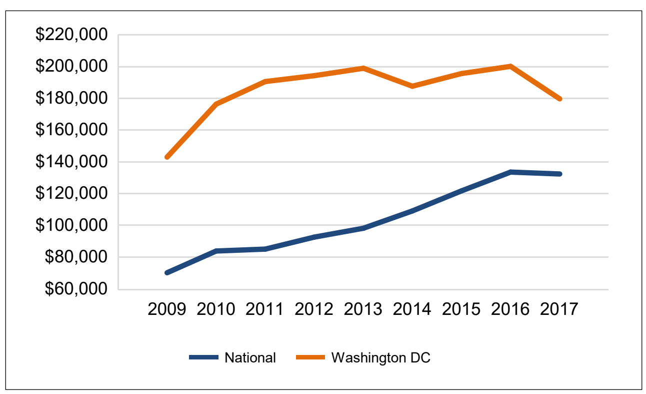
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Ashburn/Dulles/Sterling	271
East Silver Spring/White Oak	209
College Park	204
West Gaithersburg	187
Dale City/Lorton/Woodbridge	185
Douglas Park/Nauck	165
Capitol Hill	160
Beltsville/Laurel/South Laurel	145

Source: YardiMatrix

[1] From August 2016 to July 2017

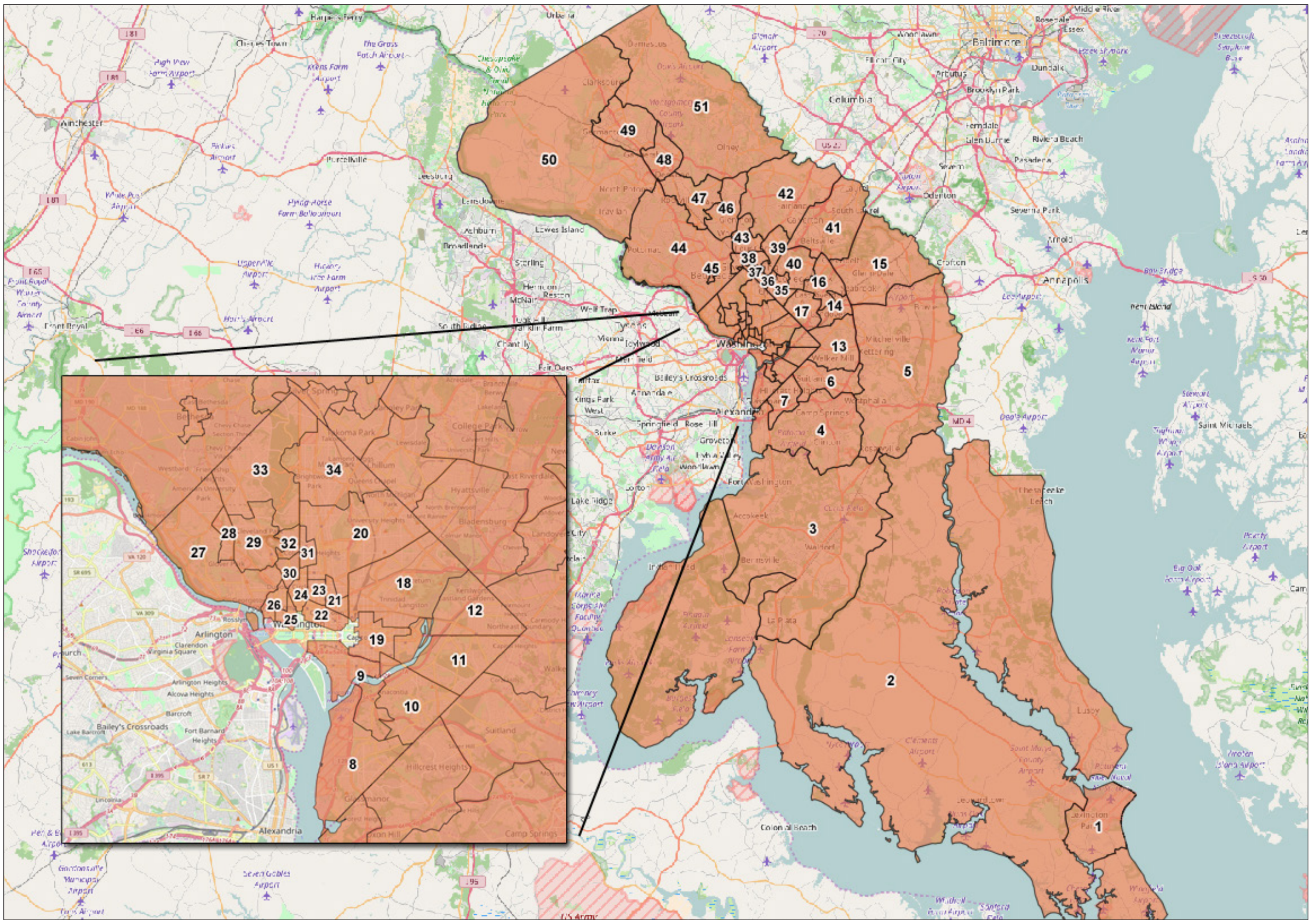
Washington, D.C. vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Pgiam/iStockphoto.com

Washington, D.C., Submarkets

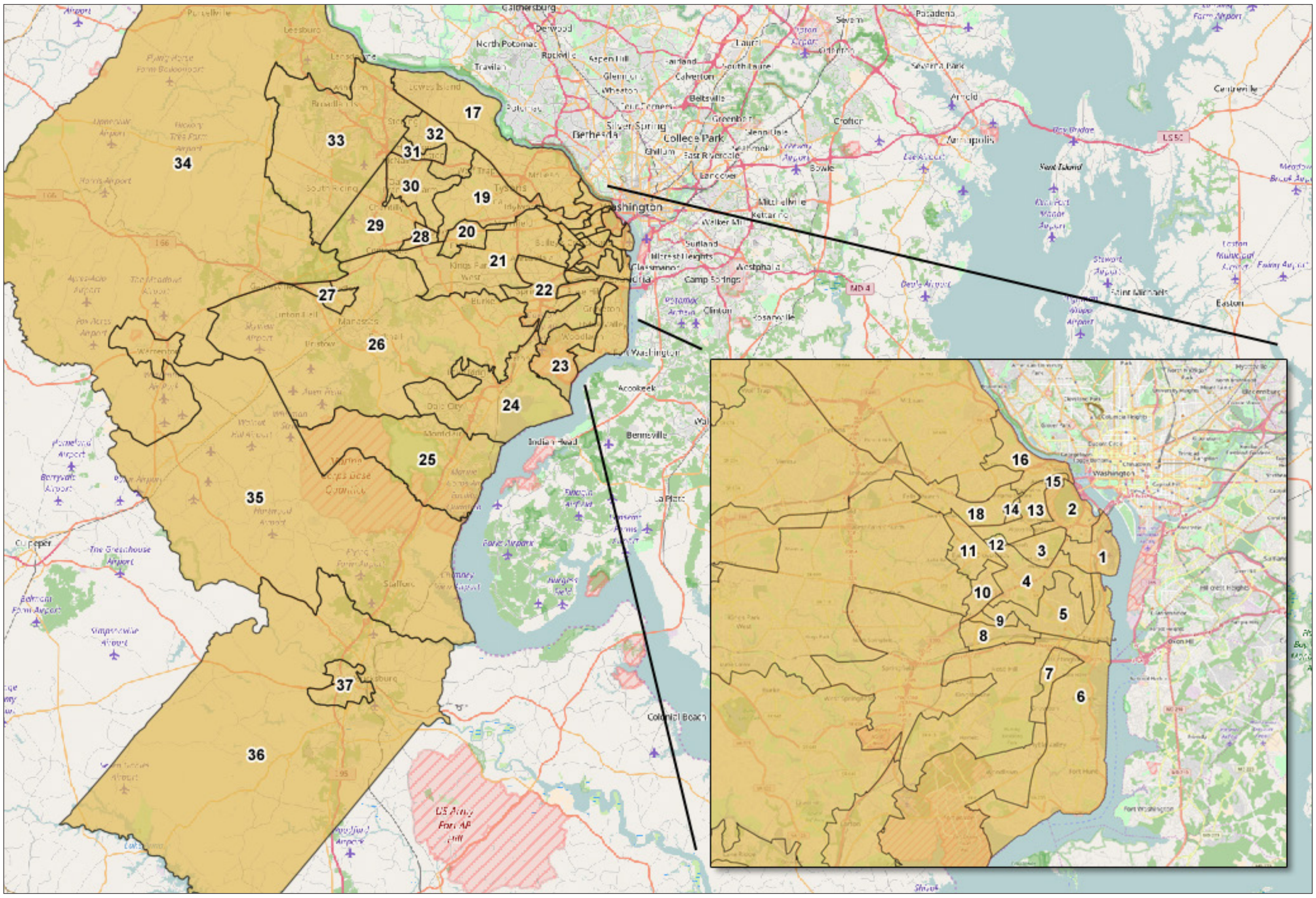


Area #	Submarket
1	Lexington Park
2	California/Leonardtown/Prince Frederick
3	St. Charles/Waldorf
4	Camp Springs/Fort Washington
5	Bowie/Lake Arbor/Largo
6	Forestville/Suitland
7	Hillcrest Heights/Marlow Heights
8	Congress Heights/Congress Park
9	Barry Farms/St. Elizabeth
10	Anacostia/Garfield Heights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



Area #	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

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.