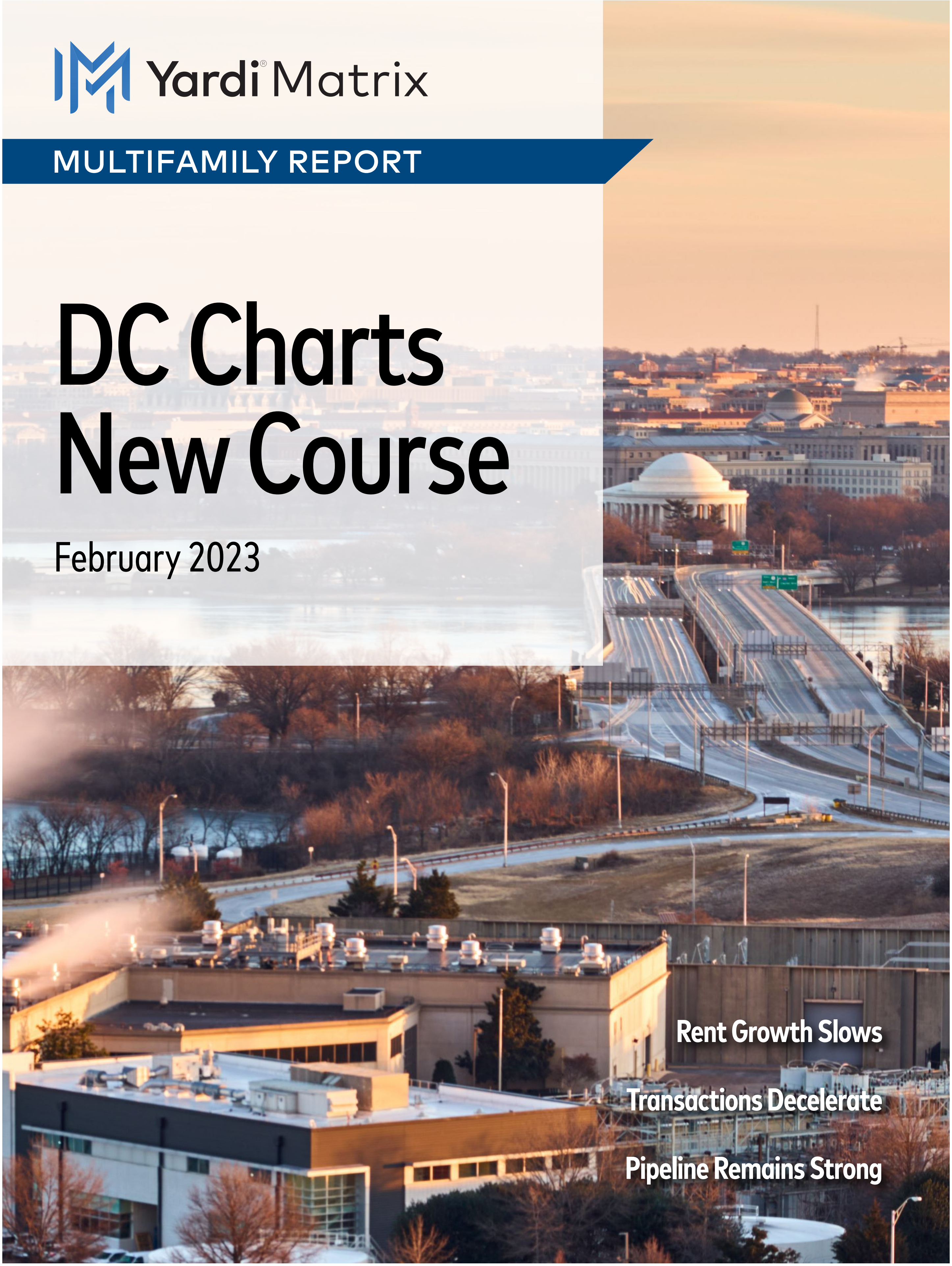
Yardi Matrix

MULTIFAMILY REPORT

DC Charts New Course

February 2023



Rent Growth Slows

Transactions Decelerate

Pipeline Remains Strong

WASHINGTON, D.C., MULTIFAMILY

Yardi Matrix

New Signs of Momentum In the District

Like most U.S. rental markets, Washington, D.C., is readjusting after the strongest period of rent growth ever recorded in the metro and the nation. Rates were down 0.4% in the fourth quarter of 2022, while the U.S. average contracted by 0.2%. Year-over-year, metro D.C. rents were up 4.2%. Meanwhile, occupancy held up relatively well, down just 20 basis points in 12 months.

The economy continued to show solid figures, with the metro gaining 64,400 jobs in a year and unemployment at a tight 3.1%. There is no shortage of large-scale projects, and the announcements keep coming. Already the country's No. 1 data center market, Northern Virginia will receive a significant boost from Amazon, which intends to invest a whopping $35 billion in facilities in the area, on top of its ongoing HQ2 project. Meanwhile, the Silver Line extension project was completed, providing a public transit connection between Dulles International and the District, with the opening of the development's last six stations.

A total of 11,917 units came online in 2022, a volume that is relatively in line with Washington, D.C.'s five-year average. The area continues to display a sizeable pipeline, with 32,872 apartments underway at the start of 2023. And while transaction activity decelerated toward the end of last year, the metro closed 2022 at almost $5.8 billion in multifamily sales. That was far from 2021's record $9.2 billion, but nonetheless, still a historically strong year.

Market Analysis | February 2023

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Recent Washington, D.C., Transactions

Benjamin at Landover Hills

City: Landover Hills, Md.
Buyer: Dantes Partners
Purchase Price: $139 MM
Price per Unit: $191,197

The Point at Ashburn

City: Ashburn, Va.
Buyer: TGM Associates
Purchase Price: $126 MM
Price per Unit: $305,085

Mode at Hyattsville

City: Hyattsville, Md.
Buyer: Carter Multifamily
Purchase Price: $104 MM
Price per Unit: $261,364

Midtown at Camp Springs

City: Camp Springs, Md.
Buyer: Croatan Investments
Purchase Price: $89 MM
Price per Unit: $304,983

RENT TRENDS

- Washington, D.C., rents were down 0.4% in the fourth quarter of 2022, while the national average contracted by 0.2%. Following outsize growth for roughly 18 months, rents are moderating to a more sustainable level. Year-over-year, metro D.C. rates were up 4.2% in 2022, reaching $2,068 and still reflecting the strong run of the first half of last year. Meanwhile, the U.S. figure rose 6.2%, to $1,715.

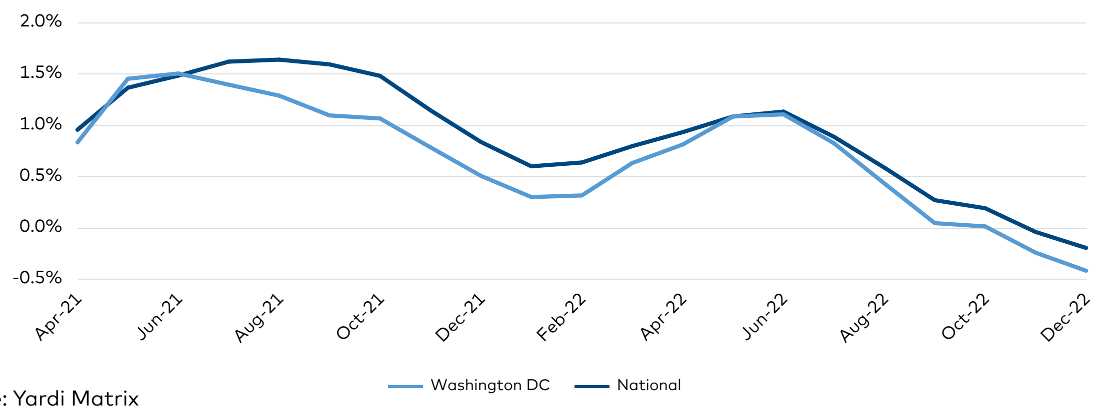
- Rent growth started decelerating last summer across the quality spectrum, reaching negative territory by the end of 2022. Working-class Renter-by-Necessity rates were down 30 basis points on a trailing three-month (T3) basis through December, to $1,772. During the same time frame, Lifestyle rents contracted by 50 basis points, to an average of $2,422.

- Suburban submarkets performed better in 2022, led by Takoma Park (12.5%, to $1,432) and North Reston (10.1%, to $1,986). Even so, core areas continued to sport the highest rates by far, including Penn Quarter (2.5%, to $2,869), Capitol Hill (2.0%, to $2,814), West Foggy Bottom (6.2%, to $2,702) and North Capitol (2.9%, to $2,689).

- D.C. remained a high-demand/high-supply market, indicated by the steadiness of both rents and occupancy in stabilized assets. Metro D.C. occupancy inched down just 20 basis points in the 12 months ending in November, to 95.3%.

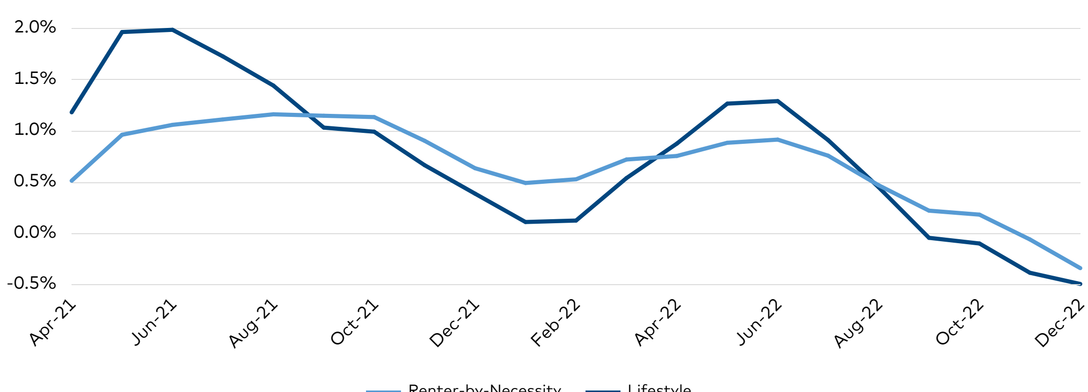
- Single-family rentals continued to showcase strong fundamentals in metro D.C., with the average rate up a solid 15.2% to an average of $3,584 going into 2023.

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

- The District's unemployment reached 4.6% as of November 2022, while the figure for the wider metro area clocked in at a tight 3.1%, according to preliminary data from the BLS. The area is one of the most stable large metros in the U.S. when it comes to employment. In fact, it was one of the few coastal areas where unemployment remained in single digits during the 2020 pandemic-induced downturn.
- The metro gained 64,400 jobs in the 12 months ending in October. That marked a 2.5% improvement, below the 4.1% national rate of growth. However, the difference in pace can partially be explained by the sturdiness of the area's economy.
- Though still recovering, leisure and hospitality (21,900 jobs), followed by education and health services (18,300), led growth. While the general direction is upward, not all sectors gained positions. Government, the area's main anchor, lost 5,400 jobs, while financial activities shed 8,300 positions, marking a 5.3% drop.
- Washington, D.C., has no shortage of large-scale projects. The Silver Line extension, a multibillion-dollar project extending rapid transit into Northern Virginia all the way to Ashburn, wrapped up in November 2022 with the opening of the last six stations, including Dulles International.

Washington, D.C., Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	306	9.1%
65	Education and Health Services	448	13.4%
40	Trade, Transportation and Utilities	409	12.2%
60	Professional and Business Services	807	24.1%
15	Mining, Logging and Construction	168	5.0%
80	Other Services	199	5.9%
50	Information	81	2.4%
30	Manufacturing	57	1.7%
90	Government	730	21.8%
55	Financial Activities	148	4.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- It came as no surprise that metro D.C.'s population shrank in 2021 after many years of healthy growth, a trend that became more than apparent across all major coastal cities that year. In the past decade, however, metro D.C. gained 474,298 people, for an 8.1% hike.

Washington, D.C. vs. National Population

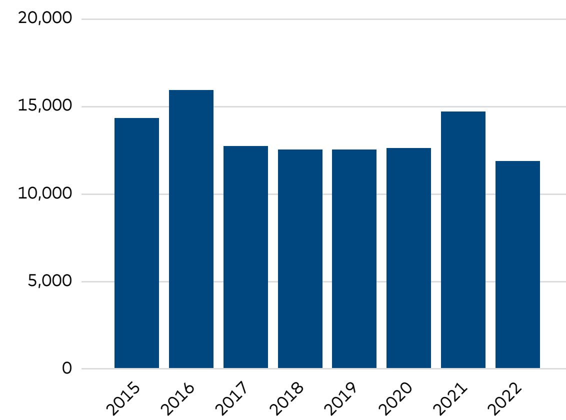
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Metro D.C.	6,243,114	6,284,241	6,371.877	6,342,492

Source: U.S. Census

SUPPLY

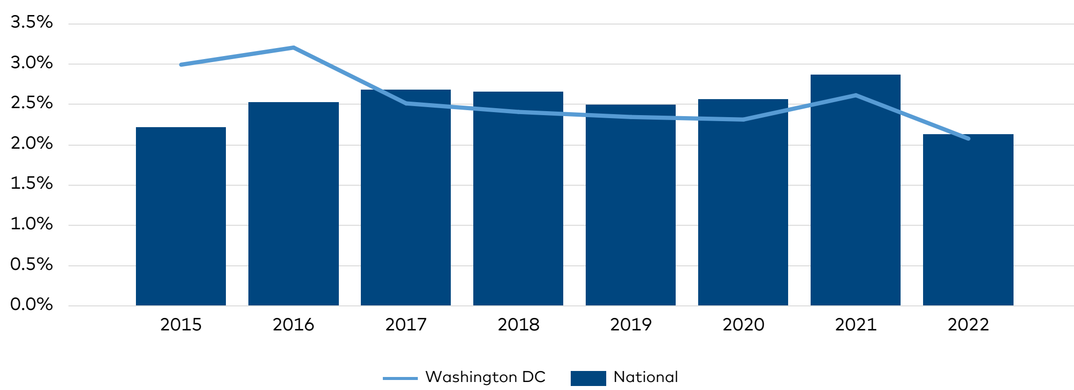
- Despite many economic headwinds, metro D.C. had a sizeable pipeline leading into 2023, with 32,872 apartments under construction. That was the country's seventh-largest pipeline as of December, with Austin, Dallas and Miami taking the first three spots. In addition, Washington, D.C., had 215,000 units in the planning and permitting stages; however, some of these projects could very well face delays or even be axed, considering the national market's current climate.
- A total of 11,917 units came online across the metro last year. While market disruptions stemming from the COVID-19 pandemic affected many cities in the past couple of years, development in D.C. continued mostly unaffected—the five-year average for completions stood at 12,876 units a year.
- Ten submarkets had more than 1,000 units each under construction going into 2023, with Brentwood/Trinidad/Woodridge (4,189 apartments), Barry Farms/Saint Elizabeths (2,944) and Eisenhower East/Fort Hunt/Franconia (1,780) taking the top three spots.
- Four projects of more than 500 units each came online in 2022 in metro D.C., all of them either within or close to the District. The list includes Tishman Speyer's Crossing DC (818 units) and Greystar's Illume (756 units), both in the Barry Farms/Saint Elizabeths submarket, as well as Carmel Partners' Platform (628 units) in Alexandria and Kettler's The Gantry (551 units) in the Brentwood/Trinidad/Woodridge submarket.

Washington, D.C., Completions
(as of December 2022)



Source: Yardi Matrix

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

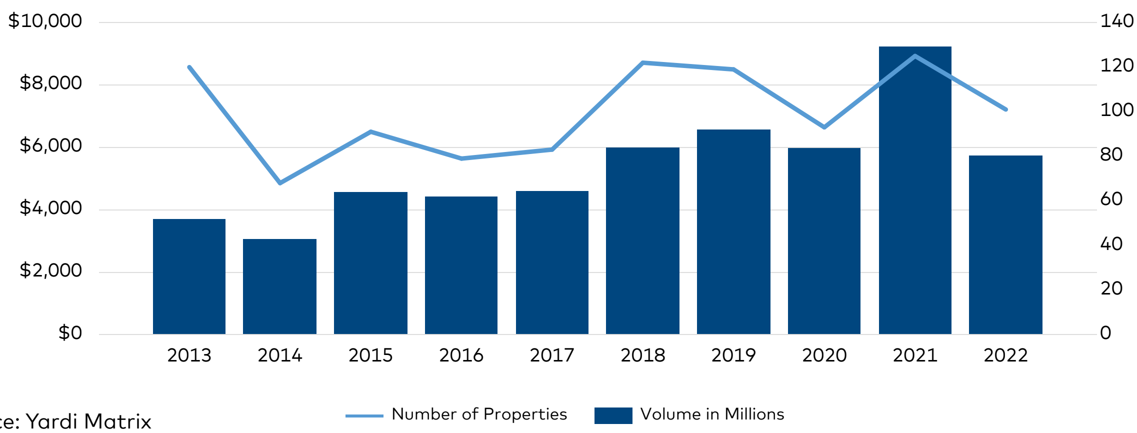


Source: Yardi Matrix

TRANSACTIONS

- Almost $5.8 billion in multifamily assets traded in metro D.C. last year. As expected, activity decelerated after a record 2021, when the transaction volume hit $9.2 billion. This was more evident toward the end of 2022, with just $1.1 billion in assets trading in the last quarter, only 19% of the year's total.
- The suburbs continued to take the lion's share when it came to investment. Last year, some $2.8 billion in assets traded in Northern Virginia, $2.4 billion in suburban Maryland and only roughly $500 million within the District.
- The price per unit saw a small uptick in 2022, rising 1.8% to $274,762. Meanwhile, the national figure went up 12.2%, to $215,719.
- The Milestone Group was one of metro D.C.'s biggest investors in 2022. The company bought three Northern Virginia assets totaling 870 units for $300 million, or an average of nearly $350,000 per unit.

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



Source: Yardi Matrix

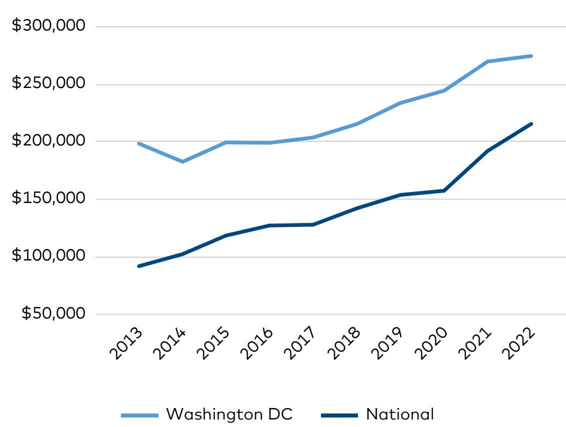
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pentagon City/Penrose	506
East Rockville	311
Fair Oaks	293
Annandale/Lincolnia/Springfield	276
Chevy Chase/Potomac	271
Hillcrest Heights/Marlow Heights	244
Ashburn/Dulles/Sterling	232

Source: Yardi Matrix

[1] From January 2022 to December 2022

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



Source: Yardi Matrix

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MULTI-HOUSING NEWS

What Makes Workforce Housing Such a Resilient Investment?

By Anda Rosu

Workforce housing properties tend to be more resilient across market cycles, with lower default rates, more stable cash flows and less cap rate volatility when compared to other sectors, according to OneWall Communities CIO & Partner Nate Kline. He discussed the challenges and opportunities in this sector across the Mid-Atlantic and the Northeast, in light of the current lending environment.

How much have the Northeast and Mid-Atlantic workforce housing markets changed lately?

The biggest changes in these markets, and other housing markets around the country, are how COVID-19 changed demand patterns, driving people to the suburbs and different locations, and how COVID-19 policies and spending artificially inflated asset prices and rents at an even greater multiple of income growth than had been occurring prior to that.

Now, with the sustained inflation and dramatic interest rate rising to combat it, spending power is eroding at the same time as financing costs are making inflated home prices even less affordable, either driving more people to rent or rent for longer.

What markets in the Northeast and Mid-Atlantic regions stand out in terms of workforce housing investment potential?

We like to be in or near densely populated employment centers with diverse economies and

high-cost housing. Places such as Washington, D.C., and Philadelphia have always fit the bill as they have large percentages of government, medical and education employment, along with growing science and technology sectors.

How does OneWall Communities plot new deals in this high interest rate environment?

We continue to rigorously underwrite as we always have and we are looking for sellers who have a need or a catalyst to sell and then require discounted pricing, financing contingencies and/or extra time to identify equity investors. We are also attracted to loan assumptions in this environment so that we can secure certain financing costs and bet on refinancing at normalized interest rates down the road.

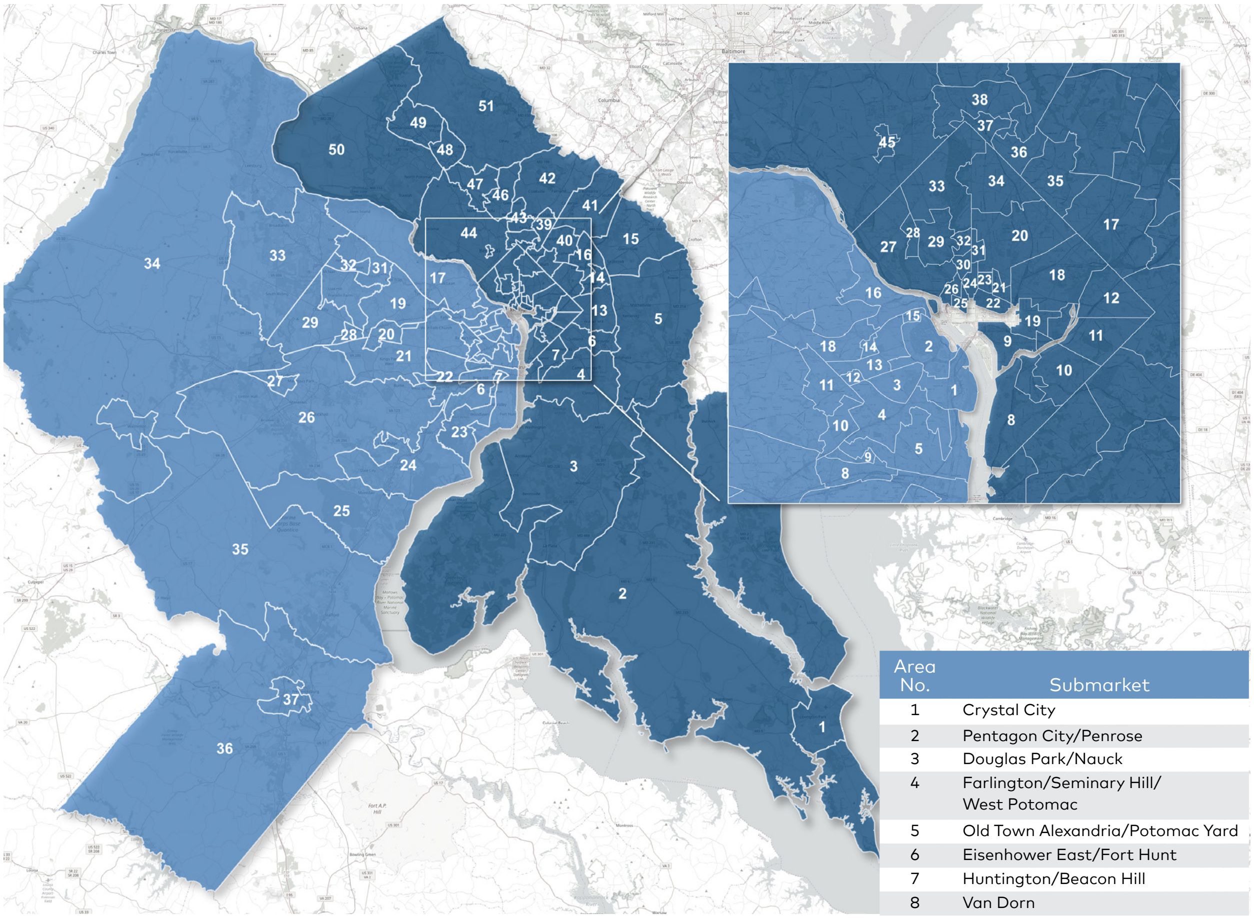
What makes workforce housing a solid investment in the long run?

Outside of very low-income housing, it has the largest supply-demand imbalance, and we are consistently able to acquire assets for well below replacement cost. As a result, we enjoy sustainable rent growth, consistently high occupancy, ongoing upside from value-added renovations, significant mark-to-market rent cushion relative to newer or newly constructed apartments, limited competition and substantial downside protection.

In addition, growing asset values and institutional interest in the sector have increased liquidity and buyer pools upon sale.

(Read the complete interview on multihousingnews.com.)

WASHINGTON, D.C. SUBMARKETS



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

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

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.

Yardi Matrix

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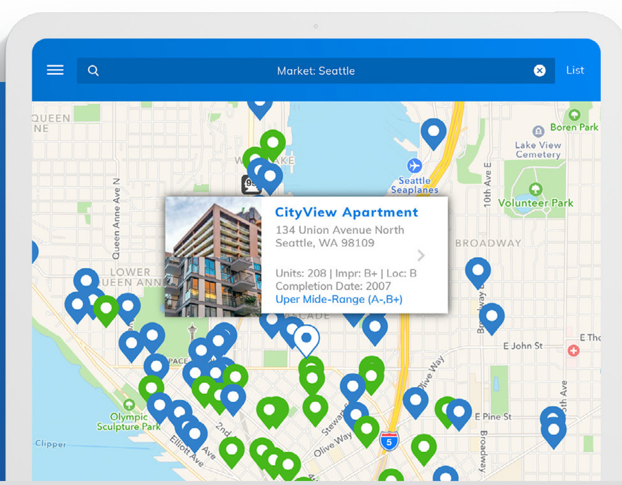
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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