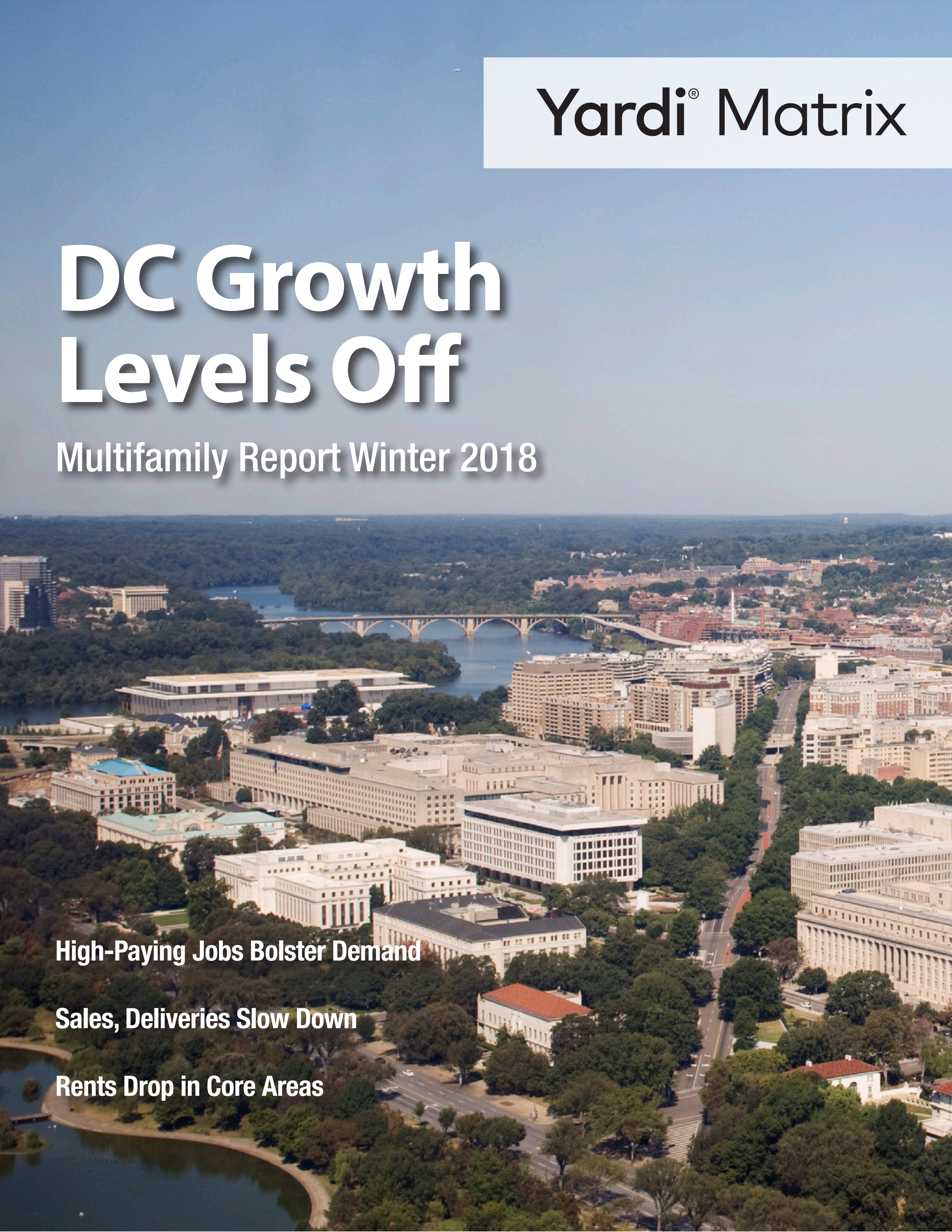
Yardi® Matrix

DC Growth Levels Off

Multifamily Report Winter 2018



High-Paying Jobs Bolster Demand

Sales, Deliveries Slow Down

Rents Drop in Core Areas

Market Analysis
Winter 2018

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Overbuilding Tempers Growth

More than 50,000 units came online in metro Washington, D.C., since 2014 and overbuilding is finally taking its toll on the District, with rents dropping across most core submarkets as of November. However, anchored by a still-stable public sector and having Northern Virginia and Suburban Maryland as counterweights for D.C., the metro remains one of the most stable U.S. multifamily markets.

Washington's economy is slowly diversifying, with professional and business services gaining 16,600 jobs through September. The addition of high-paying positions is driving the metro's economy, fueling demand for office space and upscale residential units, while at the same time generating jobs in lower-paying sectors. The second phase of the Silver Line expansion, set to link Ashburn to the city by 2020, continues to fuel transit-oriented developments, such as Soave Enterprises' proposed 3,700-unit mixed-use project along the line. Meanwhile, the $6.5 billion Purple Line light-rail project in Suburban Maryland broke ground, with completion expected for 2022. In addition, several large projects are moving forward, including the $2.5 billion The Wharf and The Boro in Tysons.

Development dampened, as only 7,600 units came online in 2017 through November. However, the metro has 25,128 units underway, making overbuilding a lingering issue. And as occupancy dropped by 50 basis points in 12 months to 95.4%, rent growth is likely to remain flat in the foreseeable future.

Recent Washington, D.C. Transactions

The Citizen at Shirlington Village

City: Arlington, Va.
Buyer: Waterton
Purchase Price: $144 MM
Price per Unit: $355,556

Fenestra

City: Rockville, Md.
Buyer: Morguard N. American Residential
Purchase Price: $129 MM
Price per Unit: $263,265

The Parker

City: Alexandria, Va.
Buyer: PASSCO Real Estate
Purchase Price: $116 MM
Price per Unit: $321,807

The Point Manassas

City: Manassas, Va.
Buyer: Pantzer Properties
Purchase Price: $115 MM
Price per Unit: $203,180

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On the cover: Photo by Hofmeester/iStockphoto.com

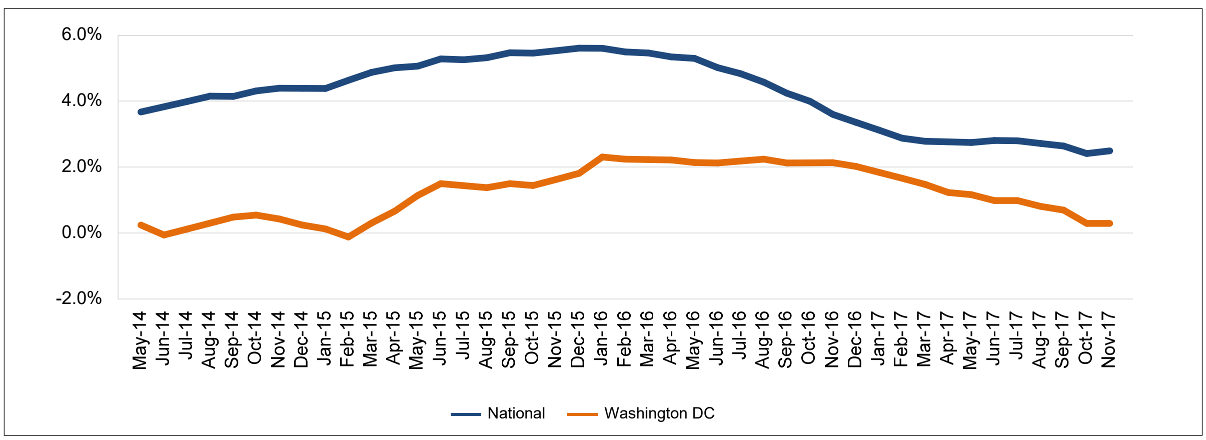
Rent Trends

- Rents in metro Washington, D.C., rose 30 basis points year-over-year through November 2017, underperforming against the 2.5% U.S. average. Rent growth remained tepid, as the metro's rate has continued to steadily decelerate amid the prolonged construction surge. Even so, the metro's average rent of $1,730 remains well above the $1,358 U.S. rate.

- Lifestyle rents contracted by 20 basis points, to $2,067, as the spate of Class A deliveries continued in core areas. Meanwhile, rents in the working-class Renter-by-Necessity segment were up 0.6%, at $1,506. The development boom has taken its toll on the urban core, where rents dropped, especially in the District: Penn Quarter (-3.9%; $2,796 average rent), West Foggy Bottom (-2.9%; $2,402), Capitol Hill (-2.1%; $2,357) and North Capitol (-1.5%; $2,428). Meanwhile, rents continued to rise in the less expensive submarkets located across Northern Virginia and Suburban Maryland, such as Ashburn/Dulles/Sterling (5.9%), Bull Run/Centreville/Chantilly (4.9%), Manassas (3.9%) and Bowie/Lake Arbor/Largo (3.3%).

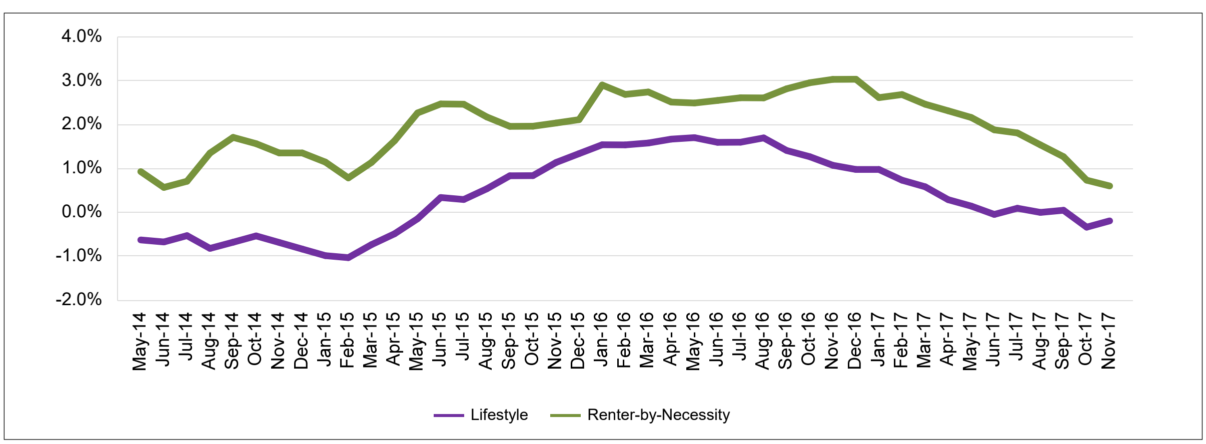
- Although steady population growth is pushing up demand, the metro's development surge is exerting pressure on the occupancy rate in stabilized properties, which dropped to 95.4% as of October, down 50 basis points in one year. During the same time, occupancy in Northern Virginia dropped 30 basis points, to 95.6%.

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

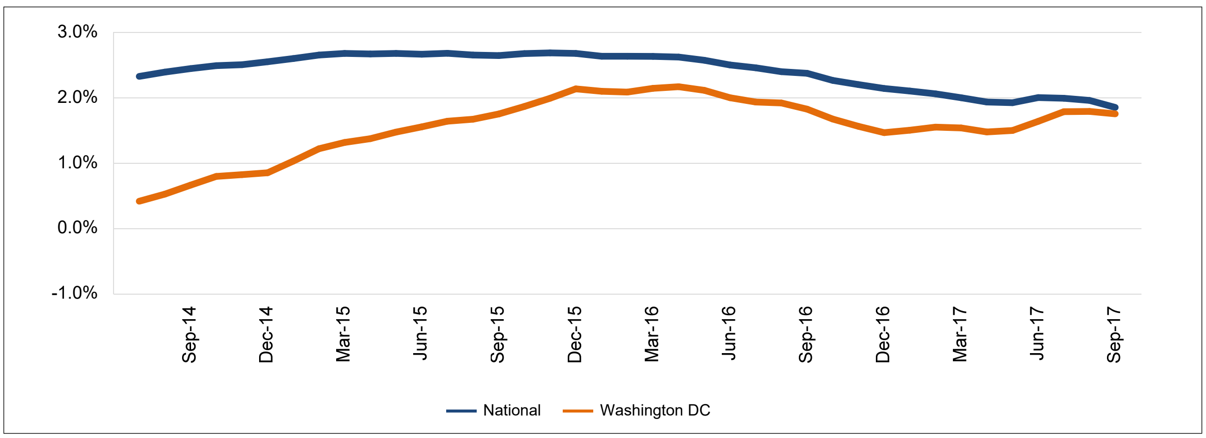
Economic Snapshot

- Metro D.C. added 44,700 jobs in the 12 months ending in September 2017. This marks a 1.8% expansion, just 10 basis points below the U.S. rate. Although anchored by government jobs and dependant on federal spending, the nation's capital continues to slowly but steadily diversify its economy by adding high-paying positions, with professional and business services (16,600 jobs) leading growth.

- The accelerating addition of high-paying jobs is also reflected by a robust office pipeline, especially in core areas. According to Yardi Matrix data, the metro had more than 8.7 million square feet of office space under construction as of December 2017, almost 75% of which is located within 3 miles of downtown D.C.

- Construction added 4,200 jobs, as many of the metro's major projects are moving forward. The $6.5 billion Purple Line light-rail project, which is slated to link Bethesda to New Carrollton by 2022, broke ground in August. The Silver Line expansion in Northern Virginia continues to attract investors, with Soave Enterprises recently proposing a 3,700-unit mixed-use community in Ashburn. The first phase of the $2.5 billion The Wharf opened in October, with phase two slated to break ground in mid-2018. The 4.2 million-square-foot The Boro in Tysons is also moving forward, with Skanska announcing the construction of a 20-story office and movie theater building. Meanwhile, the $1.3 billion Capitol Crossing project landed its first office tenant, American Petroleum Institute.

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	%
60	Professional and Business Services	756	22.9%	16,600	2.2%
70	Leisure and Hospitality	333	10.1%	9,500	2.9%
65	Education and Health Services	444	13.5%	6,100	1.4%
40	Trade, Transportation and Utilities	409	12.4%	5,800	1.4%
15	Mining, Logging and Construction	163	4.9%	4,200	2.6%
80	Other Services	198	6.0%	2,600	1.3%
90	Government	714	21.6%	2,500	0.4%
30	Manufacturing	54	1.6%	200	0.4%
55	Financial Activities	158	4.8%	-	0.0%
50	Information	71	2.2%	-2,800	-3.8%

Sources: YardiMatrix, Bureau of Labor Statistics

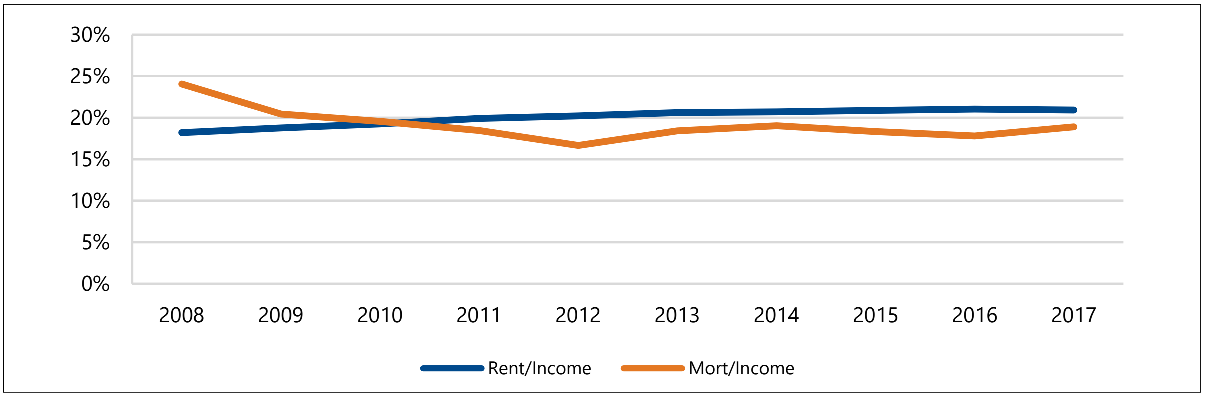
Demographics

Affordability

- Home values continue to rise in the metro, pushing the median price above the $400,000 threshold in 2017. That's a 3.4% uptick from 2016 and a 20% rise since 2011, when the market bottomed out. The high barrier to ownership continues to be an issue for first-time buyers, which in turn favors the creation of rental households.

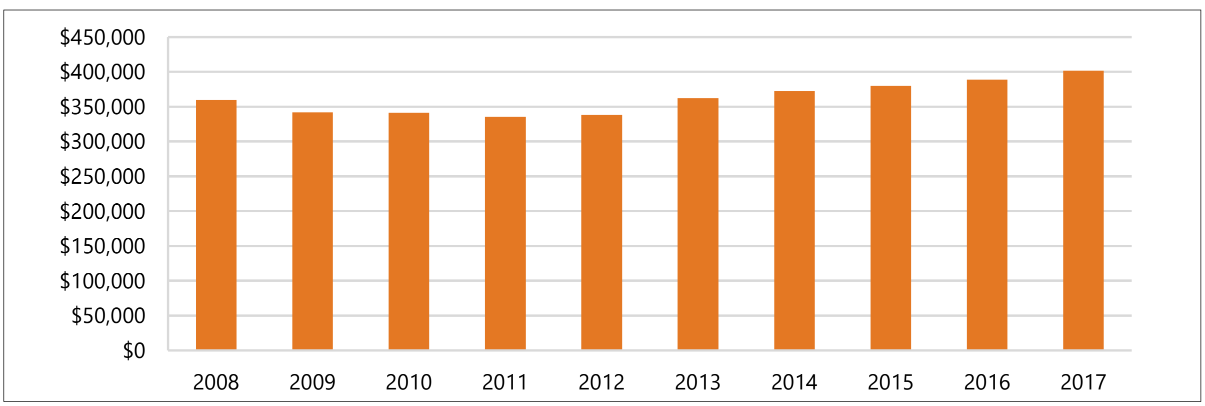
- The average mortgage payment in Washington, D.C., accounted for roughly 19% of the median income, while the average rent of $1,730 equated to 21%. With workers being priced out of core D.C. areas, transit-oriented developments, including options in Suburban Maryland and the Baltimore-Washington corridor, are becoming increasingly popular.

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

- Metro D.C. grew by 53,500 residents in 2016, a 0.9% uptick.

- The metro added more than 260,000 residents between 2012 and 2016, marking a 4.5% expansion, 160 basis points above the U.S. average.

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

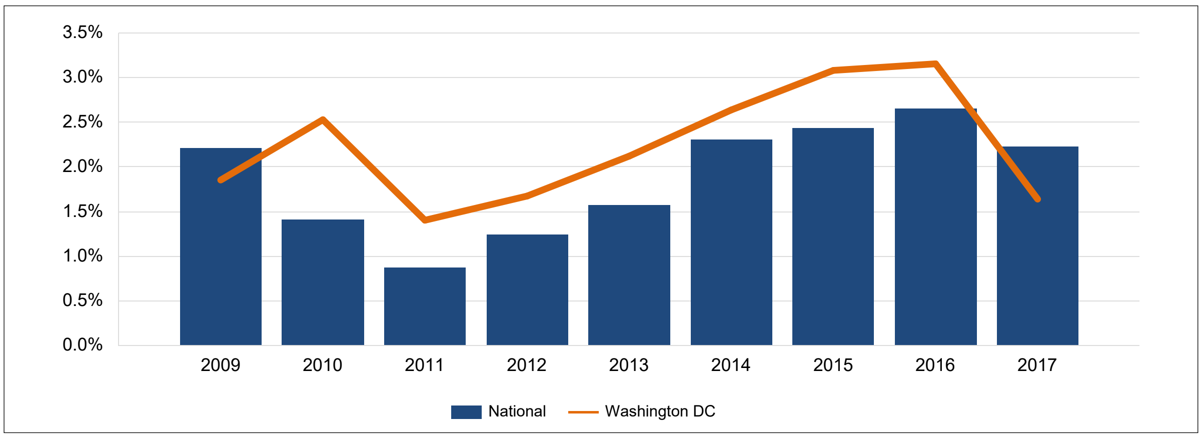
Supply

- Roughly 7,600 units came online in 2017 through November, which marked a slowdown after several years of intense construction activity. Responding to the metro's expansion, more than 50,000 units were delivered since the beginning of 2014.

- Construction permits are somewhat slowing down, but Washington, D.C.'s pipeline continues to be substantial. The metro had 25,128 units under construction as of November and an additional 163,000 units in the planning and permitting phases. However, as overbuilding is likely to become a pressing issue sooner rather than later, many of these upcoming projects are bound to be delayed or axed.

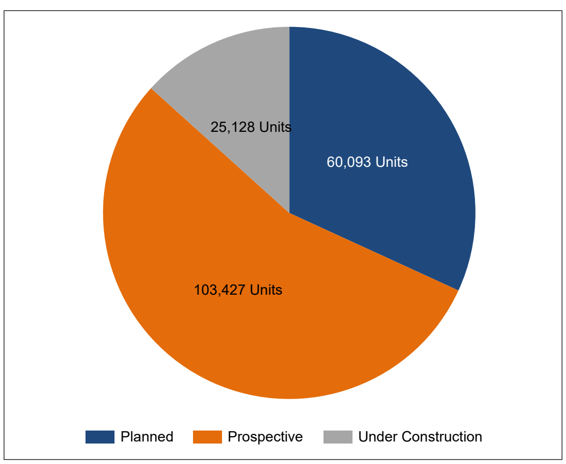
- With developers still confident in the area's fundamentals, the two largest communities under construction across the metro are slated for delivery beyond the end of this year. The residential component of Meridian Group's The Boro, the metro's largest multifamily project under construction, is scheduled to bring 845 upscale units to Tysons by December 2019. Toll Brothers' 525-unit Union Place, the largest development within District limits, is scheduled for completion by March 2020.

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



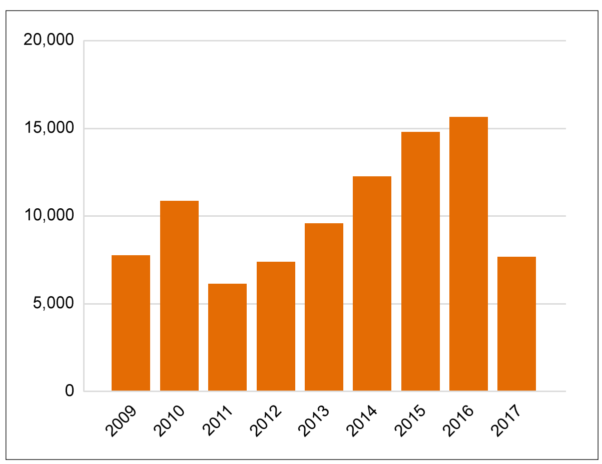
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

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

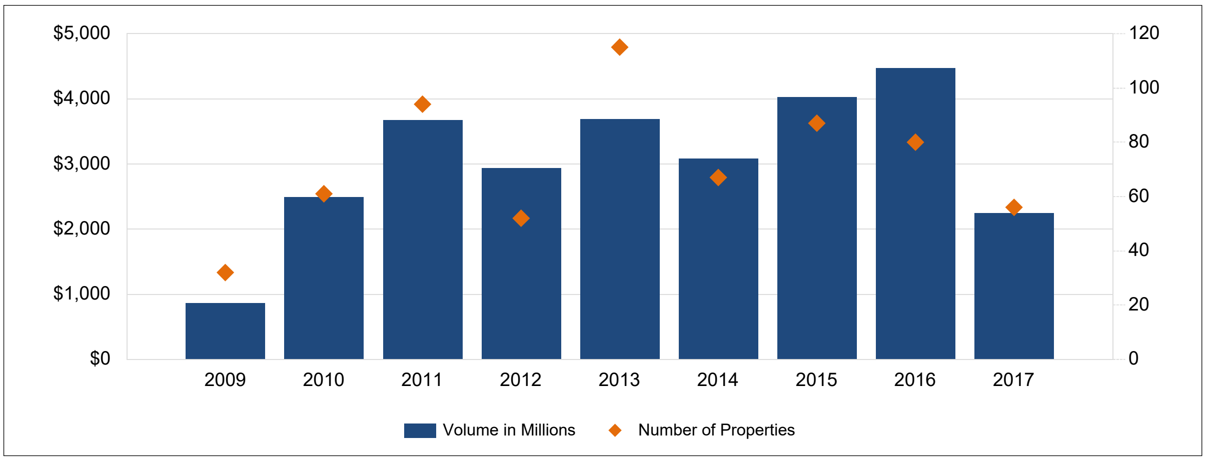


Source: YardiMatrix

Transactions

- Roughly $2.2 billion in multifamily assets changed hands in 2017 through November, marking a slowdown after several years of heightened activity. More than $18.2 billion traded between 2012 and 2016, putting the yearly average over that interval at about $3.6 billion.
- Prices remained flat in 2017, with the average unit trading at a little under $200,000. Although sticking between $190,000 and $200,000 for the past seven years, while U.S. values rose by almost 60%, per-unit prices in Washington, D.C., remain well above the $136,100 national average.
- The suburbs and Northern Virginia submarkets close to the city core dominated the market in the 12 months ending in October. During this time, only 15 assets traded within the District, for approximately $270 million, or roughly $156,000 per unit. The vast majority of these properties are aging Class B and C buildings.

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



Source: YardiMatrix

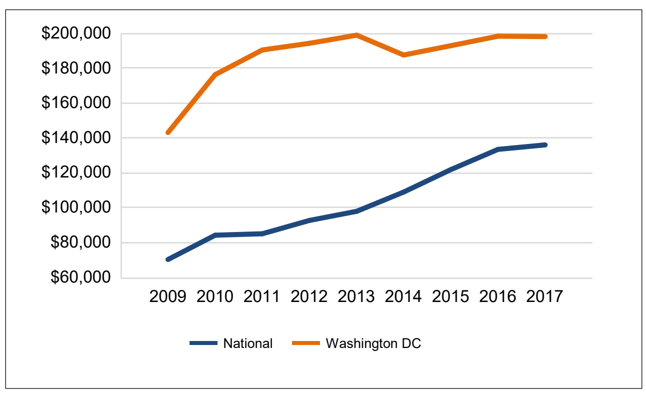
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Ashburn/Dulles/Sterling	271
Fairlington/Seminary Hill/West Potomac	253
East Rockville	190
Dale City/Lorton/Woodbridge	180
Falmouth/Spotsylvania	174
Beltsville/Laurel/South Laurel	145
Ballston/East Falls Church/Seven Corners	143
College Park	125

Source: YardiMatrix

[1] From November 2016 to October 2017

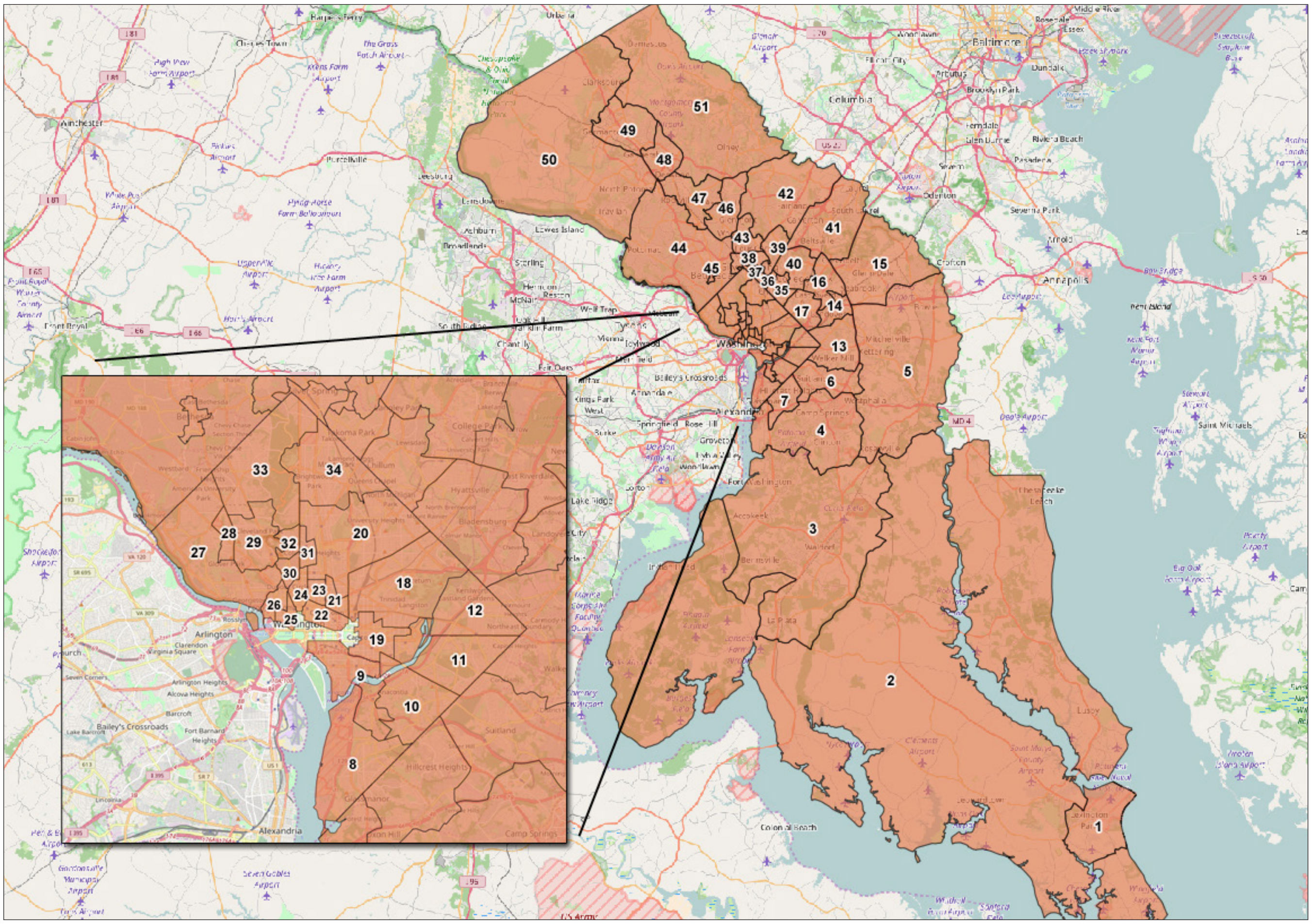
Washington, D.C. vs. National Sales Price per Unit



Source: YardiMatrix

Photo by uschools/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	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 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.