Yardi® Matrix

Washington's Solid Footing

Multifamily Report Spring 2018

Suburbs Lead Rent Growth

Employment, Population Gains Outpace Nation

Property Values Climb to Post-Recession High

Market Analysis
Spring 2018

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Supply Surge Tempers Rent Growth

The metro's renowned universities and steady influx of high-wage jobs continue to lure residents to Washington, D.C., supporting household formation and—in the context of a high barrier to homeownership—pushing up multifamily demand. The market's strong fundamentals have generated a supply surge, which began in 2014 and continued through 2017. Consequently, rents have remained relatively flat in recent months, while occupancy in stabilized properties declined to 94.8% as of February.

Employment growth was highest in education and health services, which added 17,100 jobs. This expansion will likely continue, with the opening of large new developments, including the Inova Center for Personalized Health, which is slated to rise at the former ExxonMobil headquarters campus in Merrifield, Va. Professional and business services gained 12,700 positions, followed by leisure and hospitality, which expanded by 7,700 jobs.

Facing rising capital costs, many buyers targeted suburban assets with lower entry expenses and higher first-year returns, while institutional investors remained focused on Class A properties in urban locations. Strong development activity is set to continue this year, with more than 11,200 units scheduled for delivery in 2018. Yardi Matrix expects demand to keep up, supporting rent growth of 1.3% in 2018.

Recent Washington, D.C. Transactions

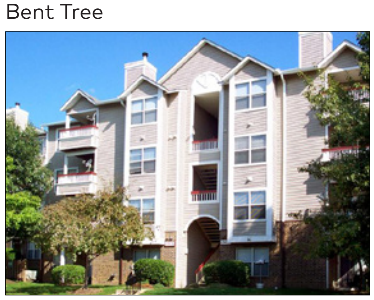
North Bethesda Market

City: North Bethesda, Md.
Buyer: CBRE Global Investors
Purchase Price: $195 MM
Price per Unit: $473,236

Terrapin Row

City: College Park, Md.
Buyer: Heitman
Purchase Price: $186 MM
Price per Unit: $446,077

Bent Tree



City: Centreville, Va.
Buyer: Aimco
Purchase Price: $160 MM
Price per Unit: $213,904

The Citizen at Shirlington Village

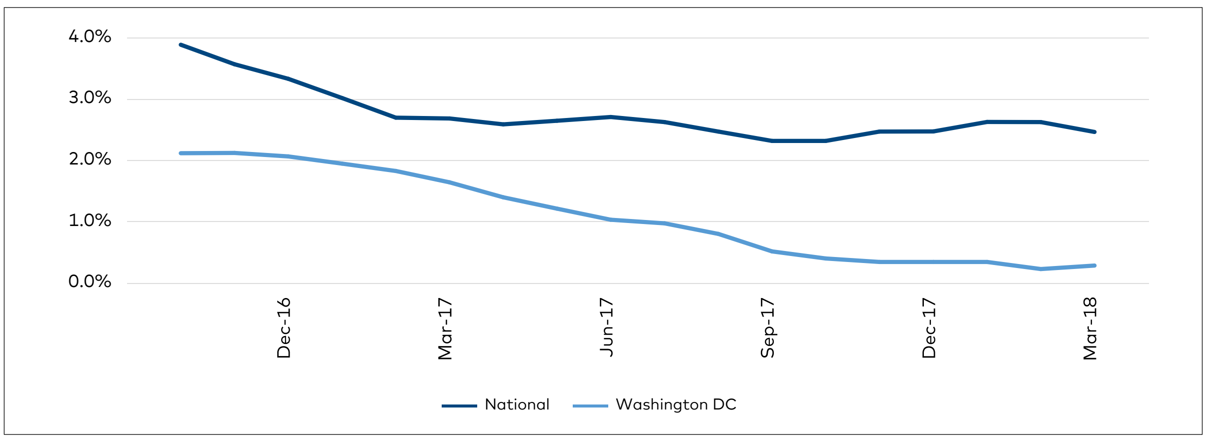
City: Arlington, Va.
Buyer: Waterton
Purchase Price: $144 MM
Price per Unit: $355,555

On the cover: Photo by Sean Pavone Photo/iStockphoto.com

Rent Trends

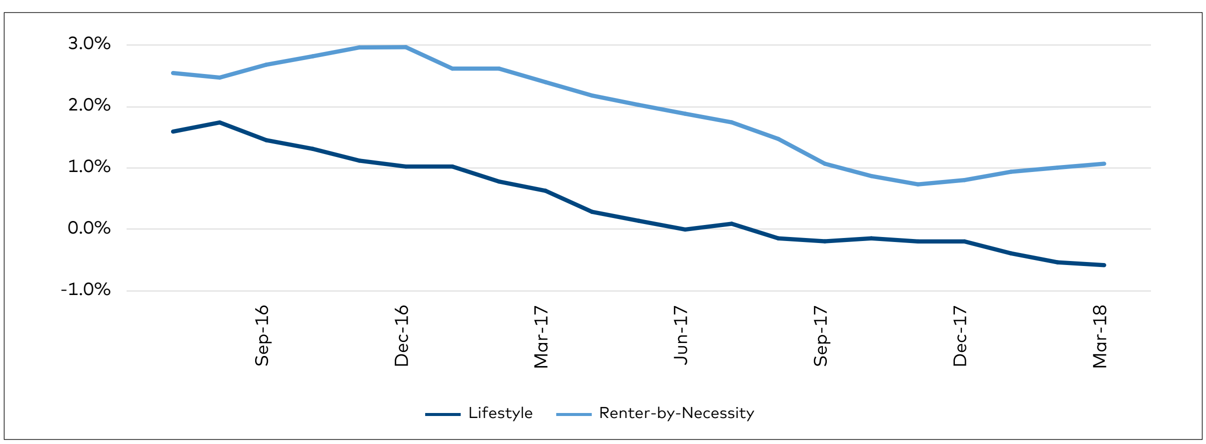
- Rents in metro Washington, D.C., remained relatively flat, rising just 0.3% year-over-year through March, well behind the 2.5% national rate. The average rent stood at $1,736, above the $1,371 U.S. figure. Meanwhile, occupancy in stabilized properties declined to 94.8% as of February, down 100 basis points over 12 months.
- Rents in the working-class Renter-by-Necessity segment rose 1.1% to $1,511, while Lifestyle rates were down 0.6%, to $2,064. Above-average employment growth and population gains, along with a high barrier to homeownership, sustain strong apartment demand across the metro. And while most developers focus on delivering high-end product, competition for workforce rentals intensifies.
- Deanwood, the metro's most affordable submarket, saw the highest year-over-year rent growth as of March (8.9%, from $1,020 to $1,111). Rent gains were also significant in other lower- or moderately priced areas such as West Silver Spring (5.7%), Fredericksburg (4.8%), Bailey's Crossing (4.6%), Forestville/Suitland (4.1%), Columbia Heights West (3.9%) and Prince George/South Manassas (3.8%).
- Since the bulk of the 11,200 units expected to come online this year will cater to Lifestyle renters—a nationwide trend—Yardi Matrix expects 1.3% rent growth in metro D.C. in 2018.

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)

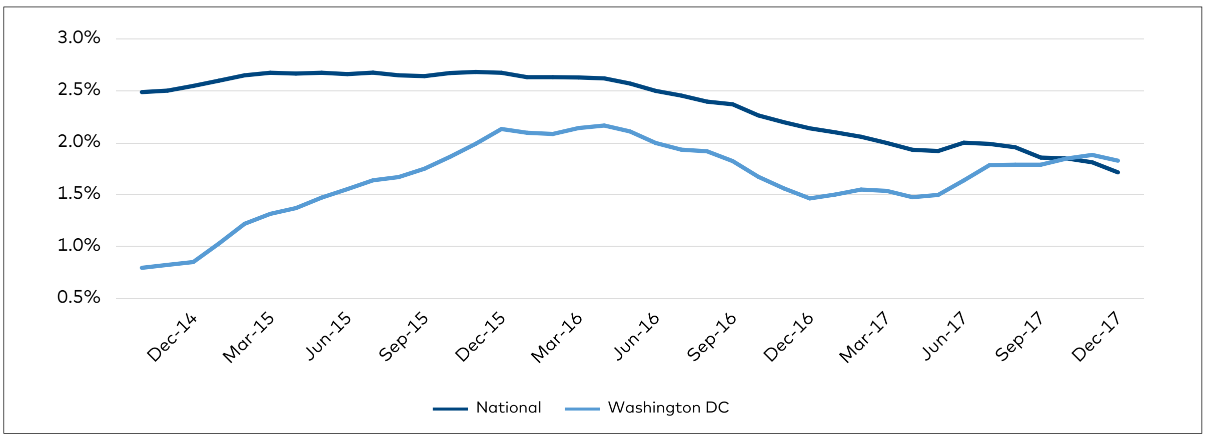


Source: YardiMatrix

Economic Snapshot

- Metro D.C. added 55,200 jobs in 2017, a 1.8% year-over-year increase, outpacing the 1.7% national average. The unemployment rate stood at 3.8% as of January, up from a 10-year low of 3.3 percent in December.
- Growth was strongest in education and health services, which added 17,100 jobs last year. This expansion will likely continue, with the opening of large new developments such as the Inova Center for Personalized Health, set to rise at the former ExxonMobil headquarters campus in Merrifield. Slated to open in 2019, the project will be devoted to the research, education and treatment of complex diseases.
- The professional and business services sector also expanded, with the addition of 12,700 jobs. Office-using employment continues to underpin demand for space across the metro, which saw the absorption of more than 2.1 million square feet of office product last year, according to Cushman & Wakefield.
- Leisure and hospitality gained 7,700 employees, boosted by new developments such as The Wharf, a massive waterfront project which brought new hotels, restaurants and shopping venues, as well as by record visitor numbers and the phenomenon of "protest tourism," which saw an uptick in 2017.

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	458	13.7%	17,100	3.9%
60	Professional and Business Services	758	22.7%	12,700	1.7%
70	Leisure and Hospitality	333	10.0%	7,700	2.4%
40	Trade, Transportation and Utilities	426	12.8%	5,600	1.3%
15	Mining, Logging and Construction	159	4.8%	5,300	3.5%
80	Other Services	201	6.0%	5,100	2.6%
55	Financial Activities	160	4.8%	4,100	2.6%
50	Information	72	2.2%	400	0.6%
30	Manufacturing	54	1.6%	100	0.2%
90	Government	719	21.5%	-2,900	-0.4%

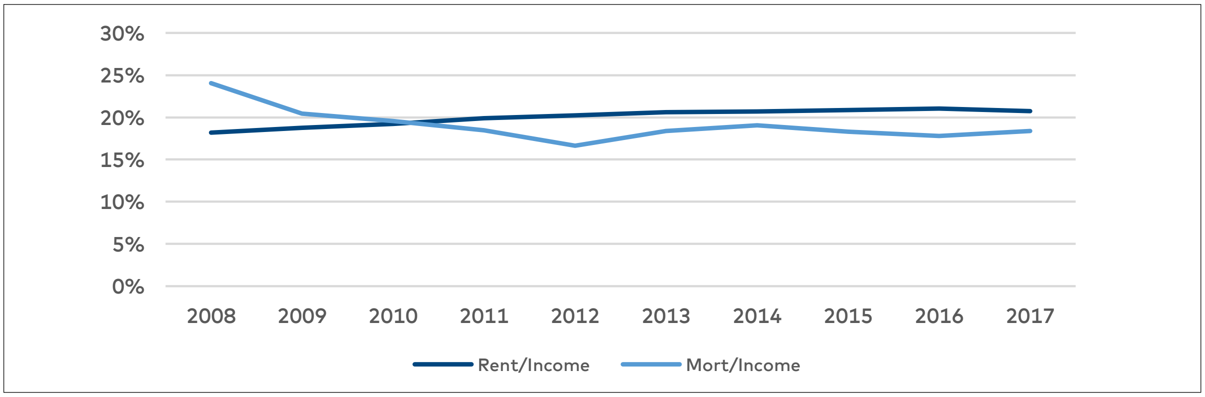
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

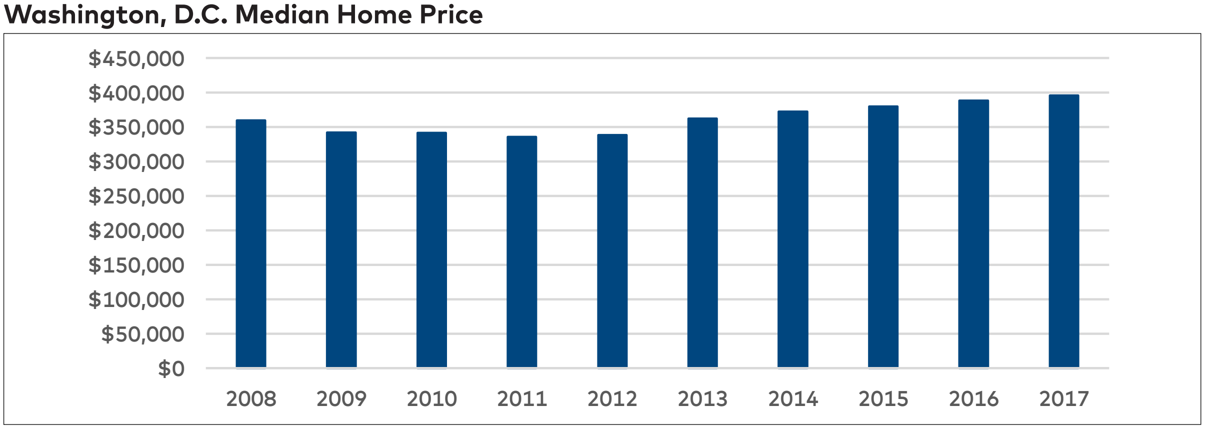
- The median home price rose to $395,676 last year, marking a post-recession high. The average rent accounted for 21% of the area's median income, while the average mortgage payment comprised 18%.
- Because of high housing costs in the region's most accessible neighborhoods, many low- and middle-income households following the "drive 'til you qualify" philosophy face challenges in affording housing and transportation. In response, the D.C. Department of Housing and Community Development established a $10 million public-private fund to preserve affordable housing, a boost to the $100 million in taxpayer money dedicated to the District's Housing Production Trust Fund.

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. gained 65,908 residents in 2017, a 1.1% expansion, outpacing the 0.7% national average.
- The metro added 253,983 residents between 2013 and 2017, a 4.3% increase, higher than the 3.0% U.S. figure.

Washington, D.C. vs. National Population

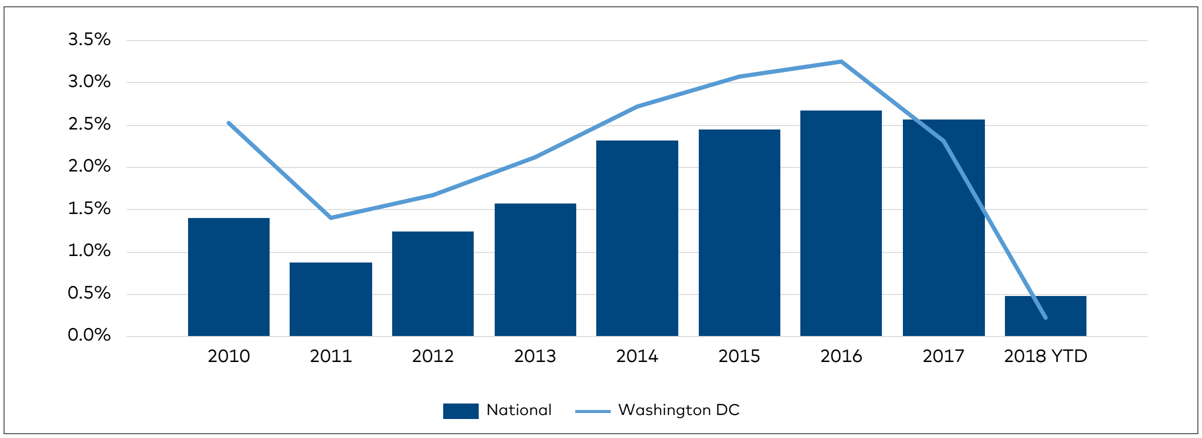
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Washington, D.C. Metro	5,962,606	6,029,537	6,091,560	6,150,681	6,216,589

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

Supply

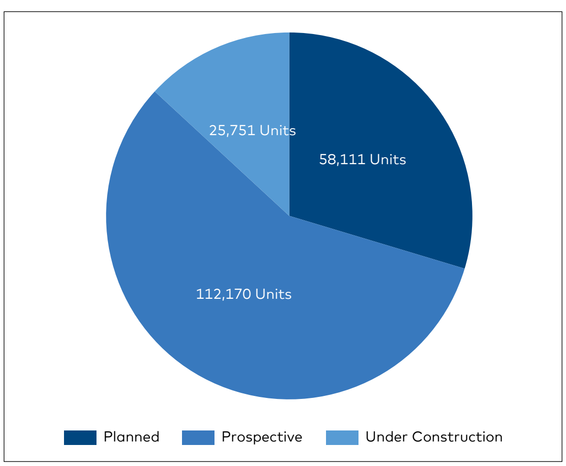
- More than 1,100 multifamily units came online in metro D.C. in the first quarter of 2018, following the 11,748 units delivered in 2017. In line with the nationwide trend, most of the new stock caters to Lifestyle renters.
- More than 25,000 units were under construction as of March, while 170,000 more were in the planning and permitting stages. Yardi Matrix estimates the completion of 11,249 units for the whole of 2018, representing 2.2% of stock. Demand is expected to keep up, fueled by job creation and in-migration.
- The submarkets with the most units underway were Barry Farm/Saint Elizabeths (4,090 units), Brentwood/Trinidad/Woodridge (2,709) and Ballston/East Falls Church/Seven Corners (1,573).
- The initial 835-unit rental housing component of The Boro, a $485 million mixed-use development in Tysons, ranked as the metro's largest multifamily project underway as of March. Upon completion, The Boro is set to include 2,305 residential units, 1.3 million square feet of office space, 250,000 square feet of hotel space, 316,000 square feet of retail and entertainment, seven parks and a public library.

Washington, D.C. vs. National Completions as a Percentage of Total Stock (as of March 2018)



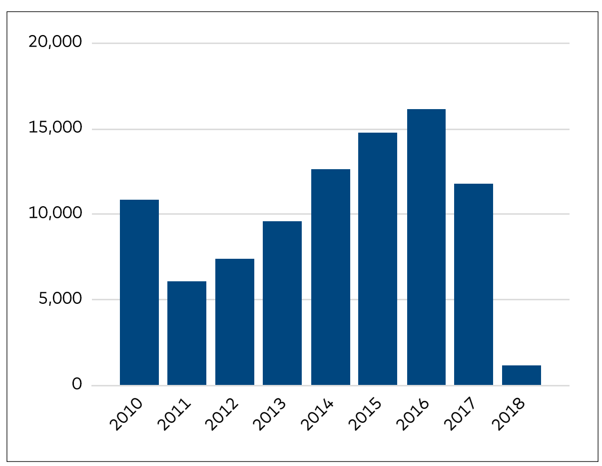
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Washington, D.C. Completions (as of March 2018)

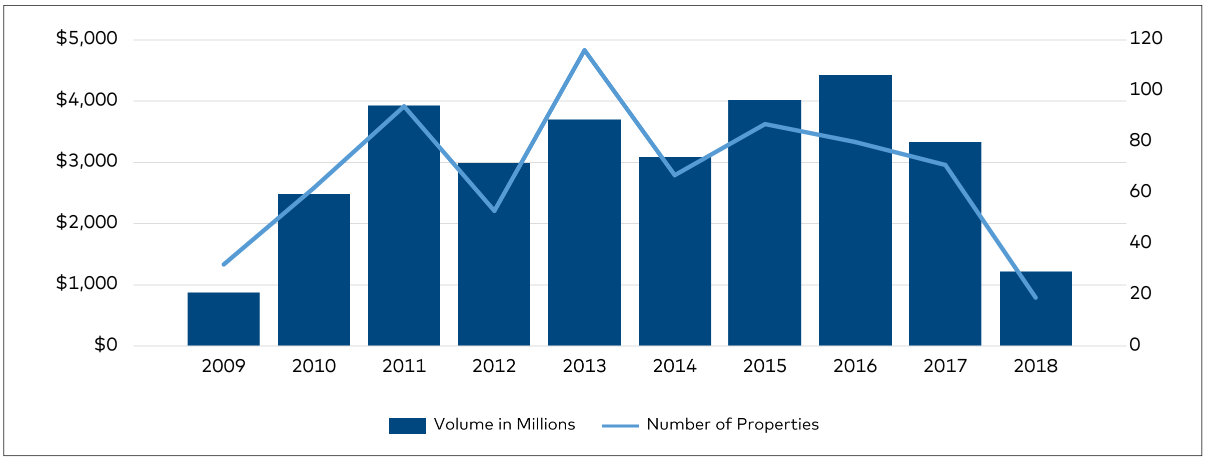


Source: YardiMatrix

Transactions

- More than $1.2 billion in metro D.C. assets traded in the first quarter of 2018. The average per-unit price was $265,934, marking a post-recession high well above the $148,294 U.S. figure. In 2017, sales topped $3.3 billion, at an average per-unit price of $205,686, higher than the $139,003 national figure.
- Amid rising interest rates, competition for multifamily assets offering higher acquisition yields intensified. Buyers mostly targeted value-add communities in Northern Virginia and suburban Maryland, for which first-year returns can go as high as 6.25% for Class B and 7.50% for Class C.
- CBRE Global Investors' $195 million acquisition of North Bethesda Market, a mixed-use property in North Bethesda with 200,000 square feet of retail, 411 apartments and a 1,205-space parking garage, ranked as the metro's largest multifamily transaction of the 12 months ending in March.

Washington, D.C. Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

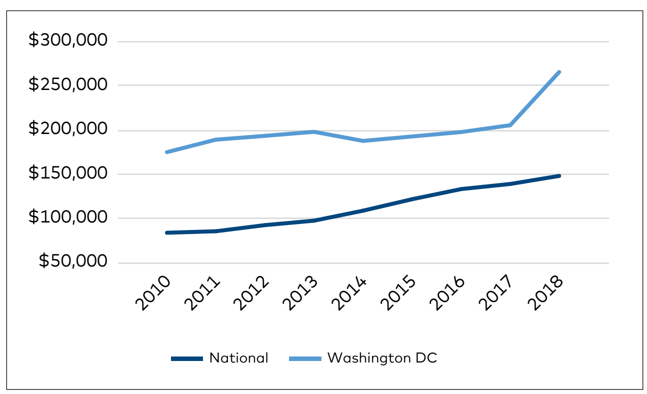
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Fairlington/Seminary Hill/ West Potomac	399
College Park	345
Chevy Chase/Potomac	258
Huntington/Beacon Hill	227
Burke/Falls Church/Jefferson	225
Ashburn/Dulles/Sterling	214

Source: YardiMatrix

[1] From March 2017 to February 2018

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



Source: YardiMatrix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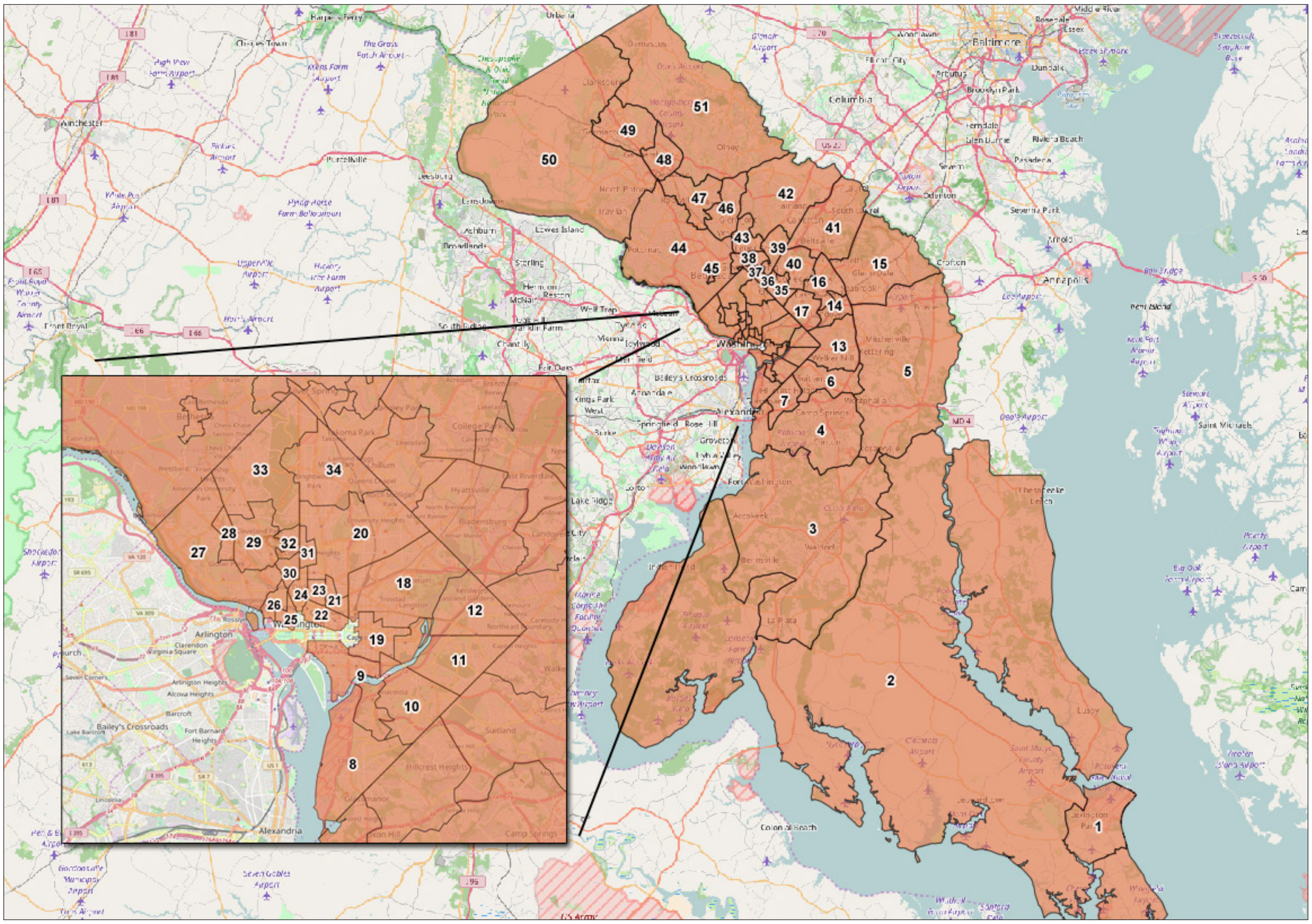
Washington, D.C. Submarkets



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 Farm/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
18	Brentwood/Trinidad/Woodridge

Area #	Submarket
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/ Glover Park South
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

Area #	Submarket
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.