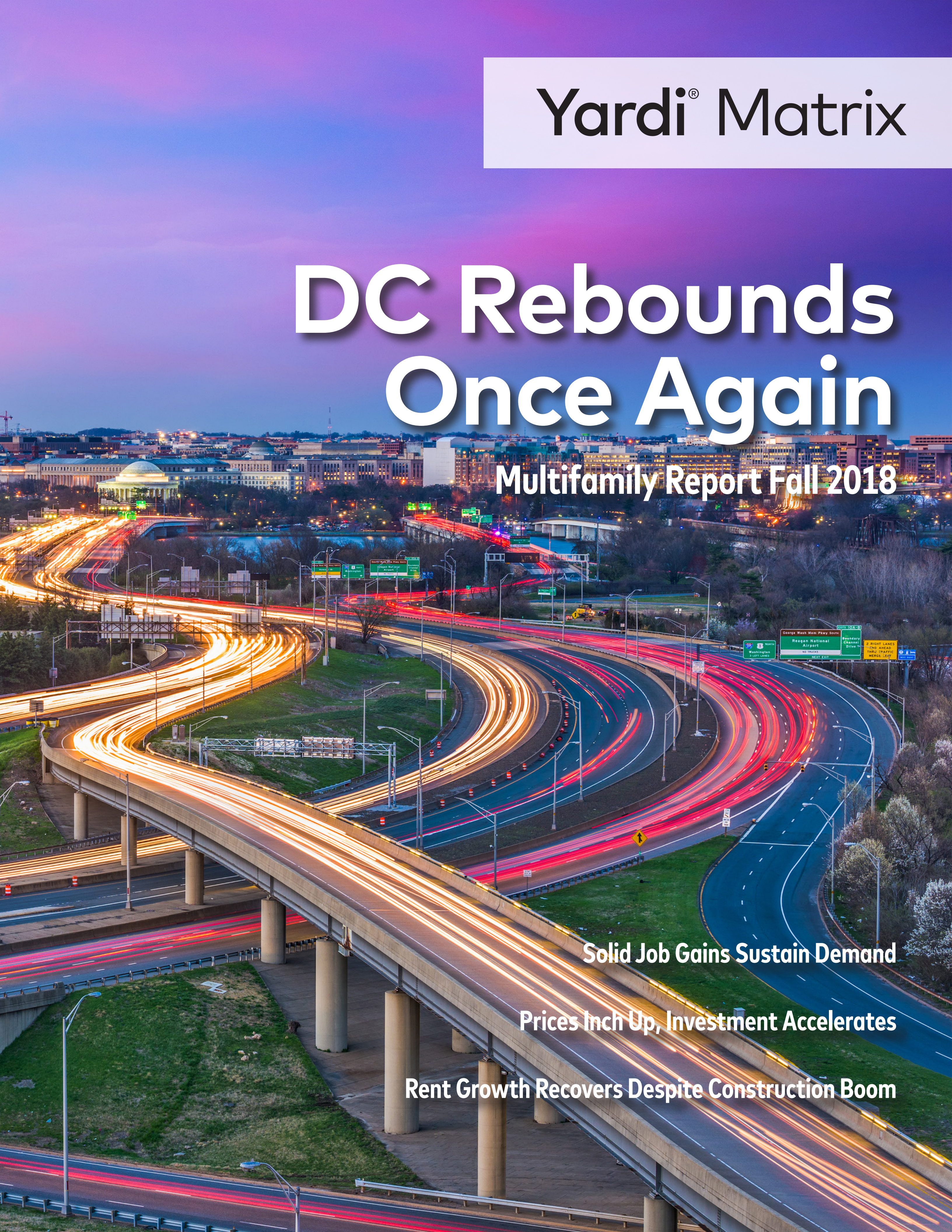
Yardi® Matrix

DC Rebounds Once Again

Multifamily Report Fall 2018



Solid Job Gains Sustain Demand

Prices Inch Up, Investment Accelerates

Rent Growth Recovers Despite Construction Boom

Market Analysis

Fall 2018

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Bogdan Odagescu
Senior Associate Editor

Demand, Supply Strike a Balance

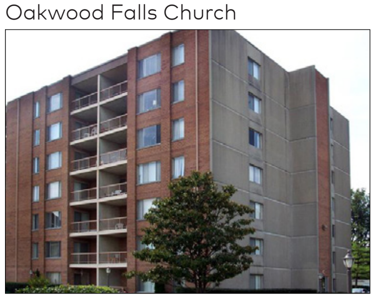
Backed by strong population growth and a steady economic expansion, Washington, D.C.'s multifamily market remained resilient, even as the construction boom endures. Rents rose 1.9% year-over-year through August, partially due to a strong rebound in higher-rated assets, as the city generated high-paying jobs at a good pace.

Metro D.C. added 51,600 positions in the 12 months ending in June, with just two sectors—education and health services and professional and business services—accounting for nearly two-thirds of gains. Washington's gateway market status and relative stability continue to draw capital and residents alike, with large-scale developments powering through toward completion. The list of high-profile projects includes mixed-use destinations such as PN Hoffman's $2.5 billion The Wharf, the ongoing $1.3 billion Capitol Crossing, as well as The Boro, a 4.2 million-square-foot development in Tysons Corner and Marriott's $600 million campus in Bethesda, Md.

Investor appetite remains high and Washington, D.C., transaction volumes are likely to come close to a new cycle high in 2018. With roughly 10,700 apartments expected to come online for the year and factoring in job growth, demand and supply are likely to keep rent growth tepid in the foreseeable future. We expect rents to advance 1.4% in 2018.

Recent Washington, D.C., Transactions

Oakwood Falls Church

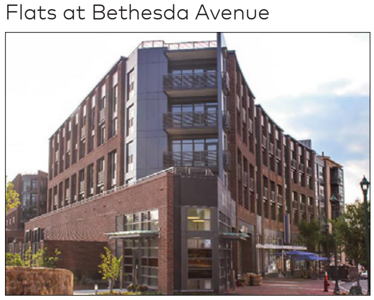


City: Falls Church, Va.
Buyer: Insight Property Group
Purchase Price: $132 MM
Price per Unit: $229,167

Milestone

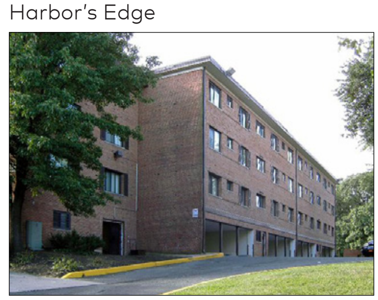
City: Germantown, Md.
Buyer: Hampshire Properties
Purchase Price: $118 MM
Price per Unit: $205,556

Flats at Bethesda Avenue



City: Bethesda, Md.
Buyer: BlackRock
Purchase Price: $97 MM
Price per Unit: $601,235

Harbor's Edge

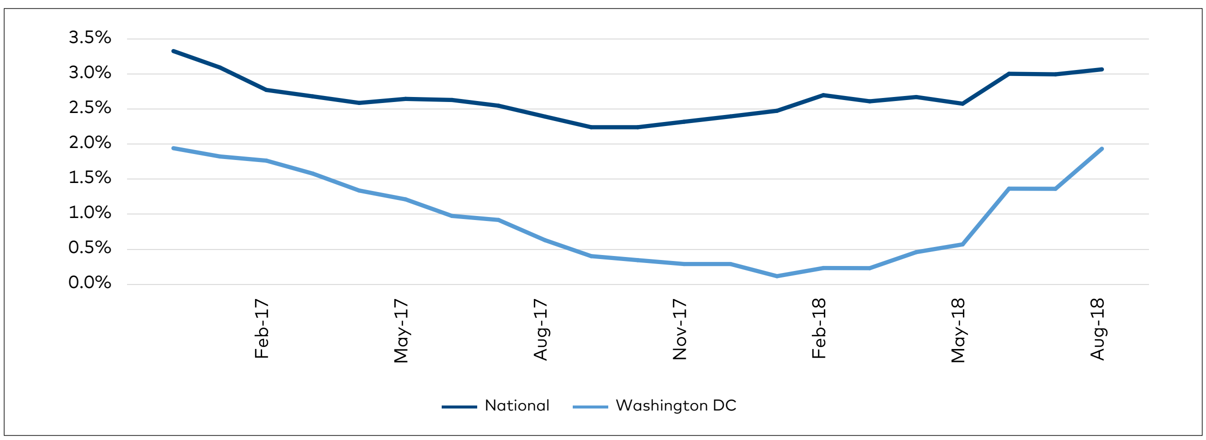


City: Oxon Hill, Md.
Buyer: BDMG
Purchase Price: $52 MM
Price per Unit: $85,961

Rent Trends

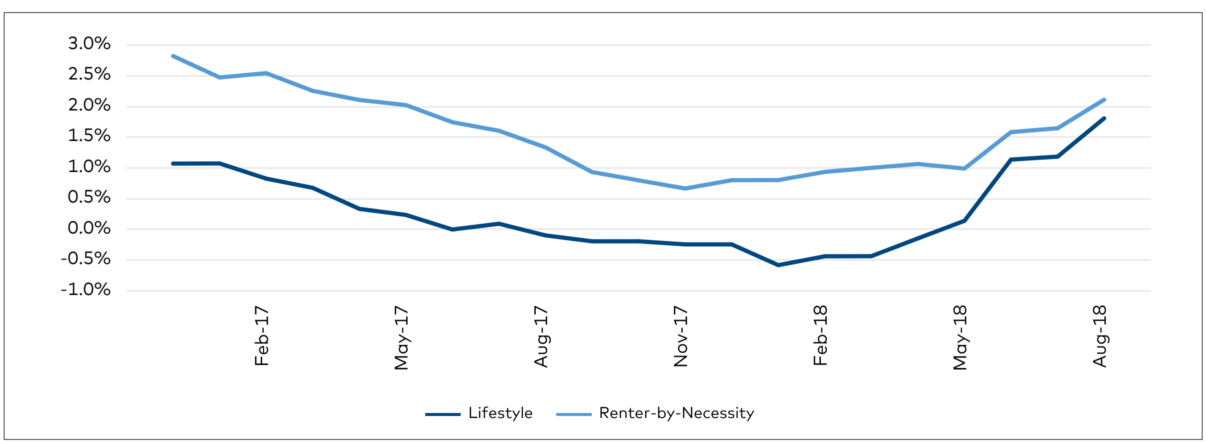
- Metro D.C. rents rose 1.9% year-over-year through August, trailing the 3.1% U.S. figure. Although still behind the national rate, growth in the metro is on the rebound, on the back of the strongest uptick since late 2016. At $1,792, the average rent remains well above the $1,412 U.S. level.
- Working-class Renter-by-Necessity rents were up 2.1%, to $1,548. Due to strong employment gains in office-using sectors, upscale rents are improving once again after three quarters of losses: Lifestyle rents were up 1.8% year-over-year through August, reaching $2,140.
- Most of metro D.C. registered rent growth, with suburban and working-class submarkets such as Deanwood (6.9%), Bailey's Crossing (5.3%), Forestville/Suitland (5.2%) and West Silver Spring (5.1%) topping the list. Rents contracted or remained virtually flat across several core submarkets, including East Foggy Bottom (-3.1%), Adams Morgan/North Dupont Circle (-0.6%), Pentagon City/Penrose (0.0%) and Penn Quarter (0.2%).
- The metro is in the middle of a lasting development surge, but occupancy in stabilized assets was down only 20 basis points year-over-year through July, to 95.4%. With fast-paced development responding to rapid employment growth-driven demand, we expect rent growth to remain tepid until year's end.

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)

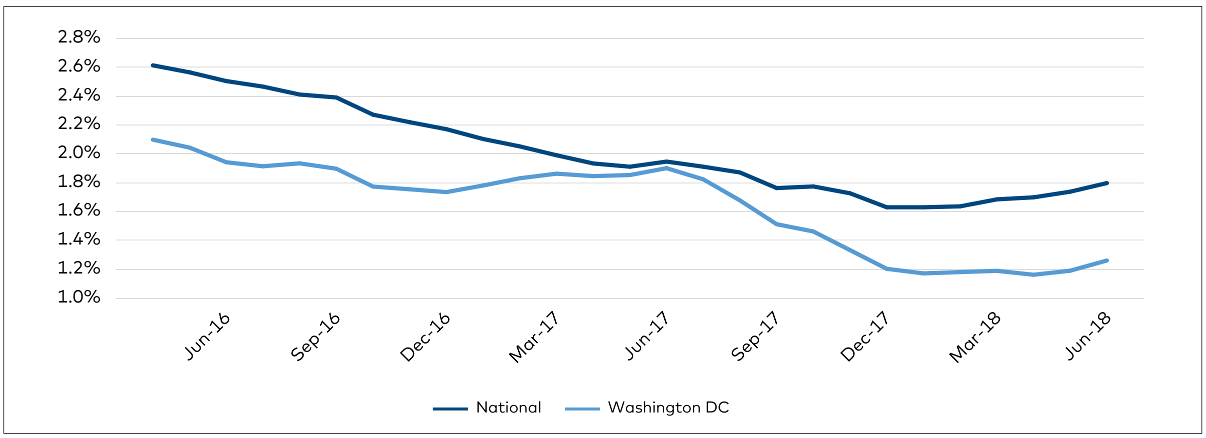


Source: YardiMatrix

Economic Snapshot

- Metro D.C. added 51,600 positions in the 12 months ending in June, up 1.3% year-over-year, roughly 50 basis points below the U.S. figure. Although dependent on the government sector, which lost 2,600 positions, the area's economy continues to diversify, generating high-paying jobs at a strong rate.
- Education and health services and professional and business services together added 30,600 positions, leading growth. Although overall job gains decelerated over the past four quarters, the fast-paced addition of high-paying positions continues to fuel demand for both office space and upscale housing.
- With many large-scale developments underway, construction gained 4,400 jobs for a 2.7% expansion, becoming the second-fastest-growing sector. On top of ongoing infrastructure projects such as the Silver Line extension into Northern Virginia and the $2.4 billion Purple Line light-rail project in suburban Maryland, the metro has no shortage of high-profile mixed-use developments. The list includes the second phase of The Wharf, a $2.5 billion project slated for completion in 2022; the ongoing $1.3 billion Capitol Crossing; The Boro, a 4.2 million-square-foot development in Tysons Corner; and Marriott's $600 million headquarters campus in Bethesda, which broke ground earlier this year.

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	443	13.2%	15,500	3.6%
60	Professional and Business Services	770	22.9%	15,100	2.0%
70	Leisure and Hospitality	349	10.4%	6,600	1.9%
40	Trade, Transportation and Utilities	413	12.3%	5,100	1.2%
15	Mining, Logging and Construction	167	5.0%	4,400	2.7%
55	Financial Activities	162	4.8%	2,600	1.6%
80	Other Services	212	6.3%	2,600	1.2%
50	Information	76	2.3%	1,200	1.6%
30	Manufacturing	56	1.7%	1,100	2.0%
90	Government	718	21.3%	-2,600	-0.4%

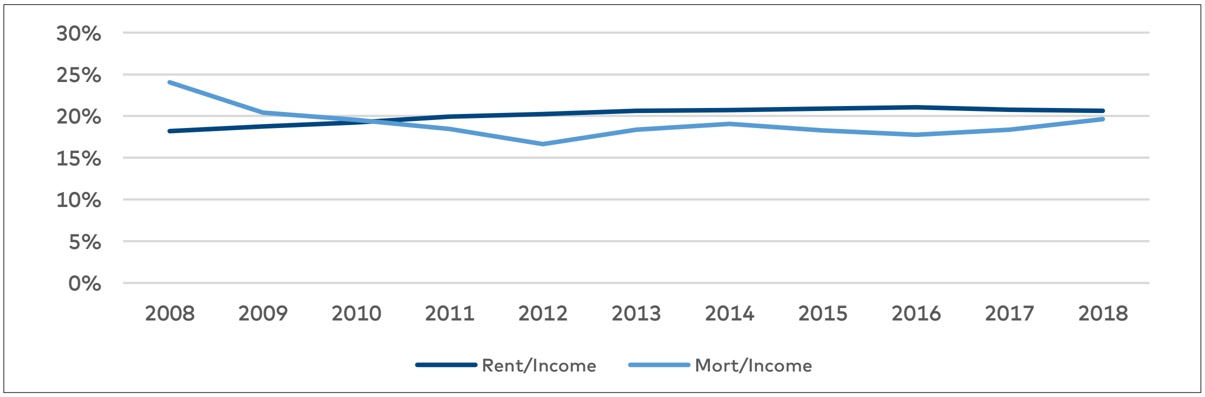
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

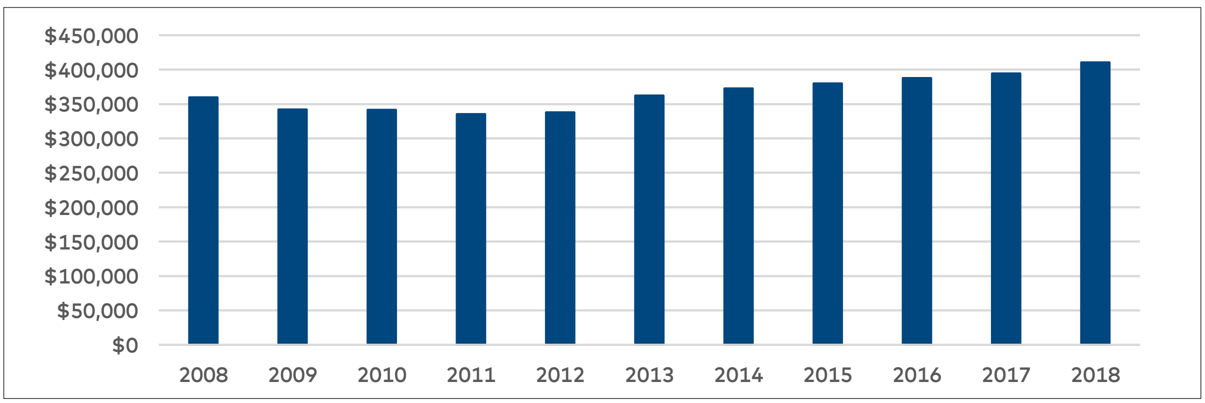
- The Washington, D.C., median home value reached $410,448 during the year's first half, a 4% uptick over 2017 and up roughly 22% compared to the 2011 level. There's little difference in affordability between owning and renting in the metro: The average rent accounts for 21% of the median income, while the average mortgage payment encompasses roughly 20%.
- Mounting costs are pushing workforce renters and potential home buyers farther away from D.C. and into suburban Maryland, including the Baltimore-Washington corridor. As developers continue to focus on upscale projects, more residents are trading longer commutes for lower housing costs.

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. added almost 96,000 residents in 2017, a 1.1% uptick and 40 basis points above the U.S. rate.
- The metro gained more than 550,000 people between 2011 and 2017, marking a 9.7% demographic growth.

Washington, D.C. vs. National Population

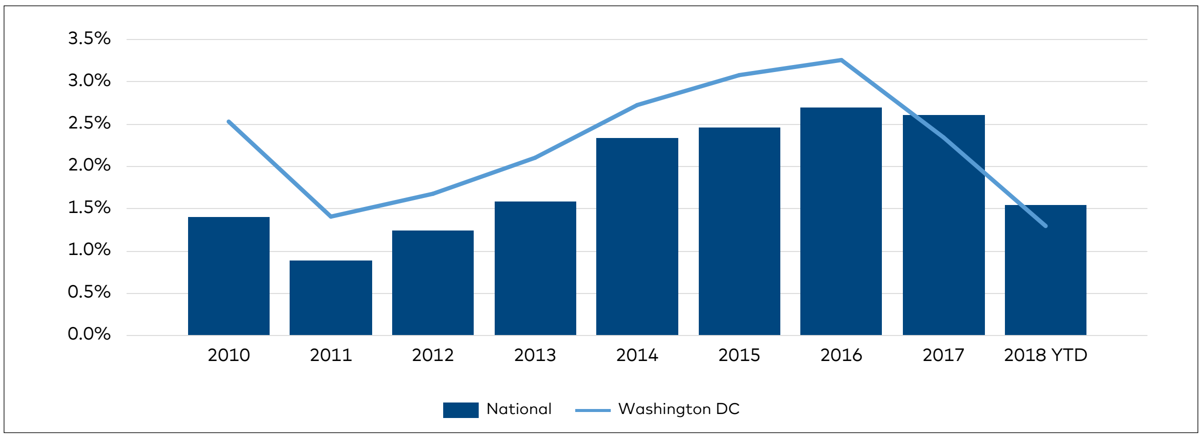
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Washington, D.C. Metro	5,962,606	6,029,537	6,091,560	6,150,681	6,216,589

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

Supply

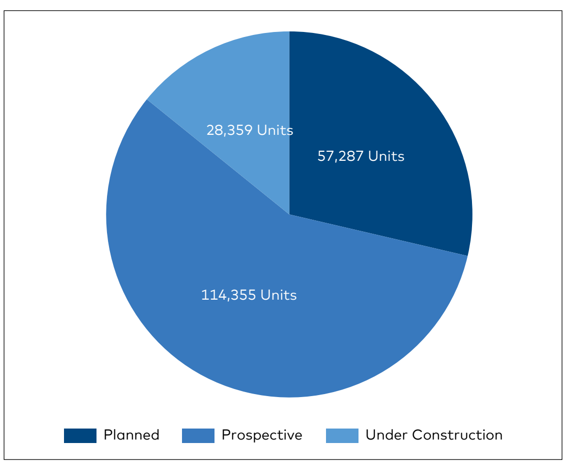
- Roughly 6,700 multifamily units were delivered in the metro this year through August, fewer than 15% of them rated as affordable, with the vast majority of new completions being in upscale assets. Even though multifamily development in Washington has been decelerating to a certain extent, it remains at high levels, boosted by steady employment and population gains. Nearly 60,000 rental units have been delivered across the metro since the beginning of 2014.
- Washington, D.C., had more than 28,000 units under construction as of August. Of those, roughly 4,000 are expected to come online by year's end, bringing total deliveries in 2018 to 10,700 units. Metro D.C. had an additional 171,000 units in the planning and permitting stages.
- With 15 properties underway totaling roughly 4,200 units, Barry Farms/Saint Elizabeths dominated construction activity as of August. Brentwood/Trinidad/Woodridge (2,586 units underway), another central D.C. submarket, came in second. Multifamily development across the metro is mostly concentrated in District areas that are closely linked to downtown, as well as along Northern Virginia's major commuting corridors.

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



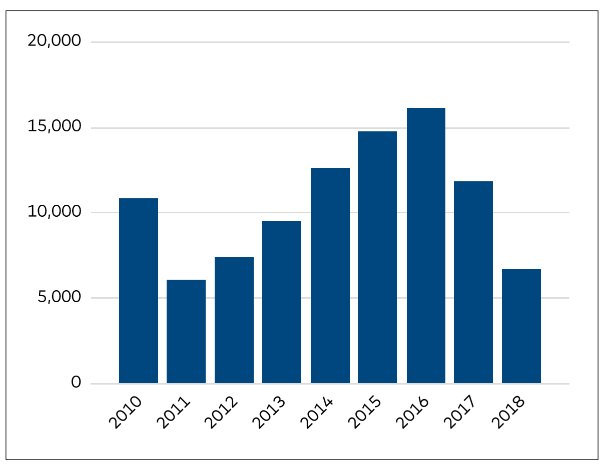
Source: YardiMatrix

Development Pipeline (as of August 2018)



Source: YardiMatrix

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

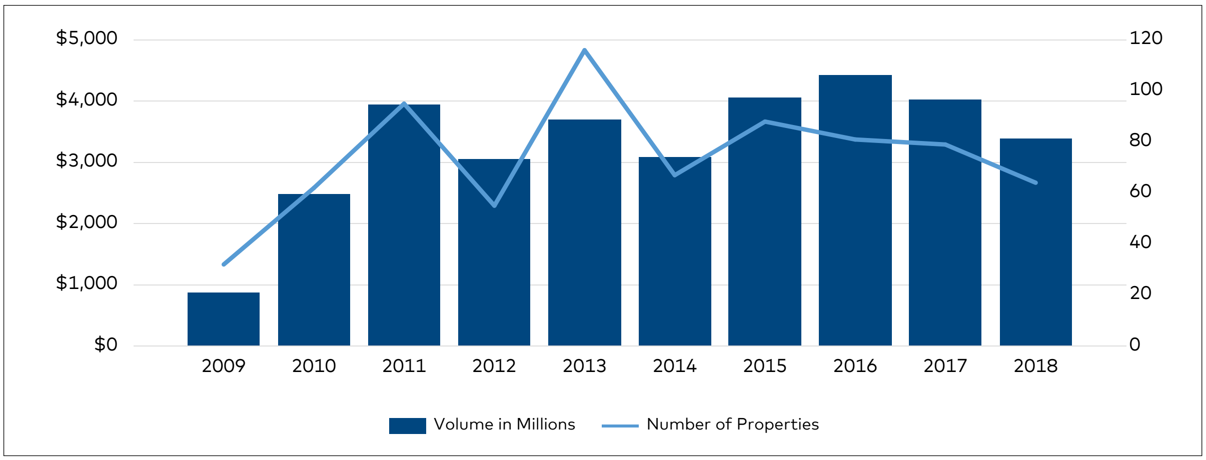


Source: YardiMatrix

Transactions

- Washington, D.C., remains an investment hotspot, with almost $3.4 billion in assets trading this year through July. That puts the metro well on track to surpass last year's sales total of $4 billion. The average per-unit price reached $217,118 in the first seven months of the year on roughly similar deal distribution, rising by approximately 5% above the 2017 average. The price also stayed well above the national average of $147,630.
- Portfolio acquisitions by out-of-state investors marked two of the strongest moves in the metro year-to-date. L3C Capital Partners bought six Northern Virginia assets encompassing 1,428 units from Bainbridge Cos. for roughly $320 million, or about $225,000 per unit. Meanwhile, Strata Equity entered the Mid-Atlantic region through the $302 million acquisition of an 11-asset, 1,729-unit suburban Maryland portfolio from Federal Capital Partners, at an average per-unit price of $174,667.

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



Source: YardiMatrix

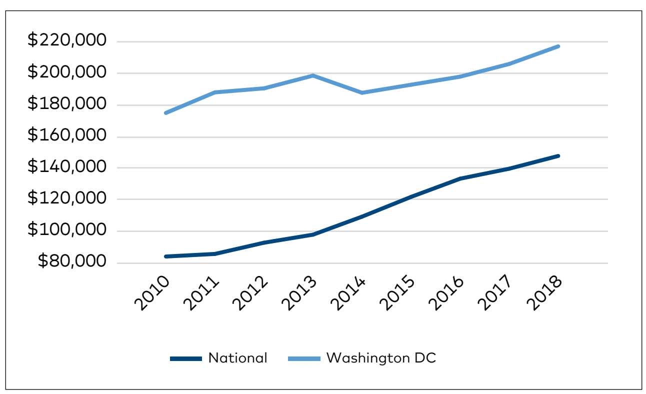
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Alexandria West	463
Germantown/Montgomery Village	381
Fairlington/Seminary Hill/ West Potomac	354
College Park	345
Burke/Falls Church/ Jefferson	316
St. Charles/Waldorf	302
Huntington/Beacon Hill	227
Chevy Chase/Potomac	215

Source: YardiMatrix

[1] From August 2017 to July 2018

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



Source: YardiMatrix

News in The Metro

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MHN MULTI-HOUSING NEWS

FCP, Level 2 Sell DC-Area Luxury Community

Takoma Central was completed in 2015 and represented the first ground-up development to be added to the historic Takoma neighborhood in four years.

Geller Associates Sells in the DC Area

Greysteel represented the company in the disposition of Regency Court, a 115-unit property in Suitland, Md., located about 10 miles from downtown D.C.

VA Property Trades for $51M

Hasta Capital acquired The Residences at City Center, a 291-unit transit-oriented apartment community in Manassas Park. HFF's investment advisory team represented the seller.

Greystone Arranges $69M for MD Community

Brokers Dan Sacks and Eric Rosenstock of the company's New York CIty office originated the Fannie Mae DUS loan for the purchase of a 486-unit asset in Lanham.

Sage Management Adds 687 Units in MD

The company paid $113 million for two properties in the D.C. and Baltimore metros. The communities will be owner-managed and will receive amenity improvements and various renovations.

Novare, Mulberry Development Kicks Off NoVa Community

The 302-unit, transit-oriented Cameron Park will be located in the West End of Alexandria, near the Van Dorn Metro Station.

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Top 10 Largest Metro DC Multifamily Developments

By Jeff Hamann

data by

With more than 50,000 jobs added to the D.C. economy since June 2017, population growth has continued to soar. As the population expands, multifamily projects have taken off—about 60,000 units were delivered in the market since 2014.

While the overwhelming majority of recent deliveries have been in the upscale segment, a growing number of affordable units are making their way into the pipeline—of the approximately 100 communities underway, more than one-third have an affordable component, per Yardi Matrix data.

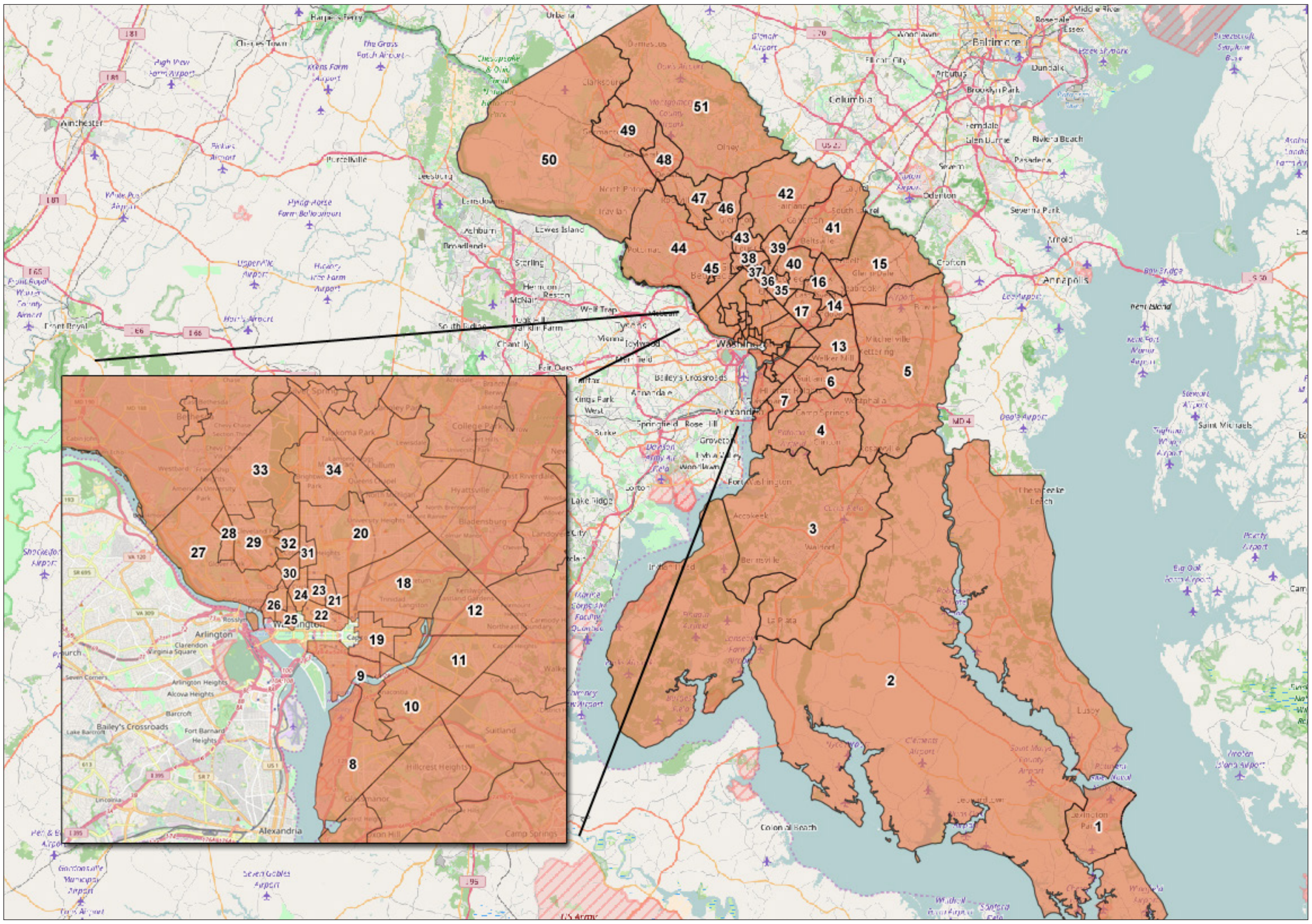
Property Name	City	Address	Property Quality	Unit Count	Anticipated Completion
The Boro	Tysons	Greensboro Drive & Westpark Drive	A	835	December 2019
Union Place	Washington	200 K St., N.E.	A-	525	March 2019
730 - 750 North Glebe	Arlington	750 N. Glebe Road	A	483	November 2020
The Altaire	Arlington	400 Army Navy Drive	A-	451	January 2019
Pentagon Center Building A	Arlington	12th Street South & South Hayes Street	A	440	December 2019
1250	Washington	1250 Half St., S.E.	B+	440	September 2019
The Wren	Washington	965 Florida Ave., N.W.	B	433	January 2020
The Shapiro Residences	Washington	1270 4th St., N.E.	A-	432	January 2020
Avec on H Street	Washington	901 H St., N.E.	A-	420	May 2019
Ballston Quarter	Arlington	4238 Wilson Blvd.	A+	406	November 2018

THE ALTAIRE IN ARLINGTON, VA

The Altaire, LCOR's 451-unit partially affordable development at 400 Army Navy Drive in Arlington, is rising at the former site of the Paperclip Building, an office mid-rise built in 1967 and demolished two years ago. Construction of the two 20-story buildings—slated to open in early 2019—was funded by Wells Fargo in 2016.

The community will contain a mix of studio, one-, two- and three-bedroom apartments, with floorplans between 522 and 3,028 square feet. The structures are designed to achieve LEED Gold certification, and planned on-site amenities include a penthouse lounge, complimentary Wi-Fi, a fitness center and a sky lounge.

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.