Yardi® Matrix

DC Shows Its Resilience

Multifamily Report Spring 2019

Rent Growth Rebounds

Development Remains Elevated

Transaction Volume Hits Cycle Peak

Market Analysis

Spring 2019

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Transactions, Absorption Remain Strong

Mostly due to strong supply, Washington, D.C.'s multifamily market underperformed against U.S. averages for the better part of this cycle. However, the city's solid job gains during last year's second half have helped the metro's rent gains rebound to 2.8% year-over-year. Although development powered through, absorption has kept up pace and the occupancy rate in stabilized properties inched up 20 basis points over 12 months, to 95.3%.

The metro added 53,800 positions last year for a 1.9% expansion, with professional and business services (17,900 jobs) leading growth. Albeit incrementally, Amazon's commitment to create 25,000 jobs in its National Landing HQ2 campus over the next decade is expected to strengthen both the area's economy and real estate sector. Meanwhile, multibillion-dollar infrastructure developments such as the Silver Line expansion and the Purple Line light-rail project are moving forward.

A total of $6 billion in multifamily assets traded for a new cycle peak in metro D.C. in 2018, while 11,277 units came online, marking another active year for the gateway market. With 12,229 units expected to be delivered and employment gains slated to remain healthy, supply and demand are bound to stay in relative balance, leading to a 1.3% rent growth in 2019.

Recent Washington, D.C. Transactions

Finley at Fairfax Corner

City: Fairfax, Va.
Buyer: CBRE Global Investors
Purchase Price: $134 MM
Price per Unit: $290,217

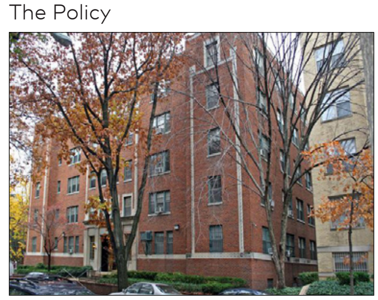
Montgomery White Oak

City: Silver Spring, Md.
Buyer: The Donaldson Group
Purchase Price: $87 MM
Price per Unit: $146,537

Oakwood Arlington

City: Arlington, Va.
Buyer: Mapletree US Management
Purchase Price: $70 MM
Price per Unit: $380,434

The Policy



City: Washington, D.C.
Buyer: UIP Property Management
Purchase Price: $22 MM
Price per Unit: $351,855

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

Rent Trends

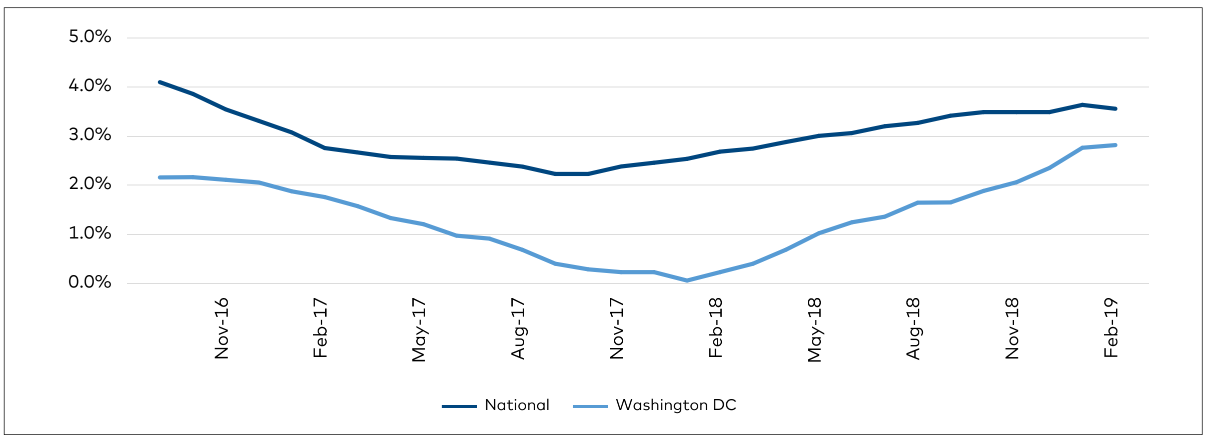
- Metro D.C. rents were up 2.8% year-over-year through February, trailing the 3.6% national average. Strong economic performance boosted leasing activity in the second half of 2018, pushing up housing demand and helping rent growth rebound from the tepid levels of the previous year and a half. The average overall rent was $1,788 as of February, significantly above the $1,426 U.S. figure.

- Lifestyle rents rose 2.8% year-over-year, reaching an average of $2,122. Strong employment gains in office-using industries boosted demand for upscale rentals over the past two quarters, bringing rent evolution back to positive numbers after a temporary slump due to short-term oversupply across many core submarkets. Meanwhile, working-class Renter-by-Necessity rents were up 3.0%, to $1,547.

- Rents rose across most submarkets, including the most expensive ones: Penn Quarter (where the average rent grew 2.9%, to $2,753); Capitol Hill (up 2.9% to $2,644); North Capitol (up 3.7% to $2,495); and Logan Circle/West Mount Vernon (up 3.0% to $2,459).

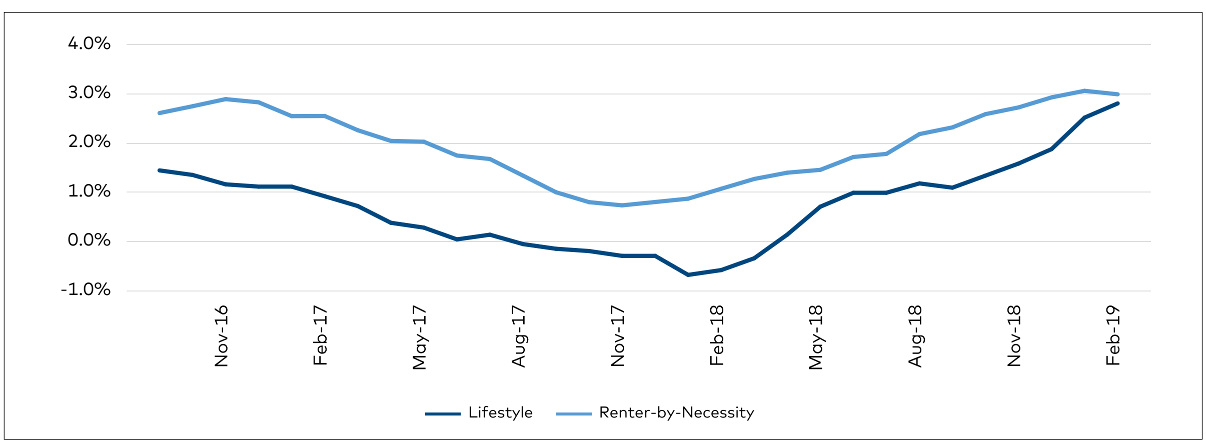
- Despite the prolonged construction surge, occupancy in stabilized metro D.C. assets actually inched up 20 basis points over 12 months, to 95.3% as of January. With supply and demand slated to remain in relative balance in the foreseeable future, we expect the average rent to rise 1.3% in 2019.

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)

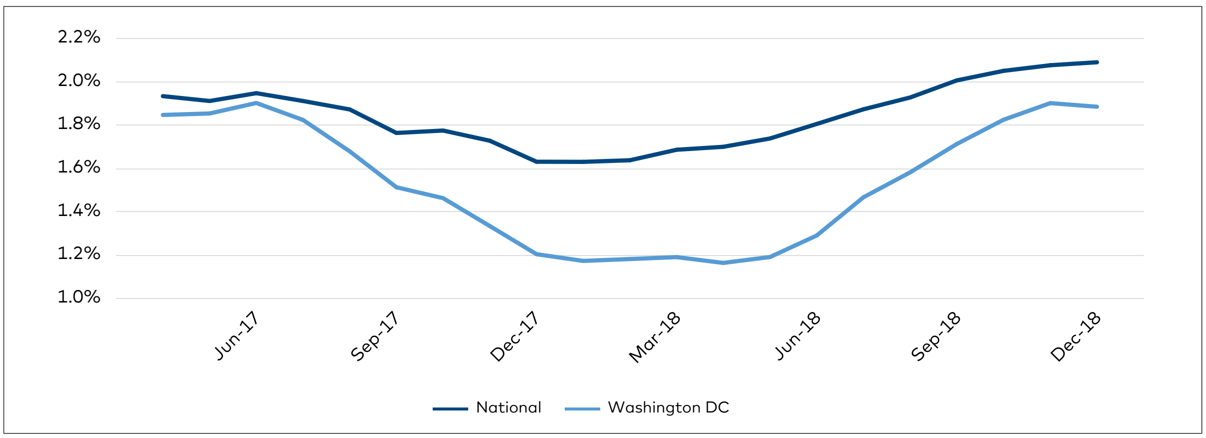


Source: YardiMatrix

Economic Snapshot

- Washington, D.C., added 53,800 positions in 2018 for a 1.9% expansion, almost on par with the 2.1% U.S. figure. After a slower start to the year, job gains picked up over the last two quarters, in line with nationwide trends.
- Professional and business services added 17,900 jobs, boosting upscale housing demand and contributing to the rent growth rebound. Meanwhile, the construction sector generated 7,300 positions for a 4.6% expansion, the metro's sharpest improvement. Apart from major ongoing infrastructure projects such as the Silver Line metro extension in Northern Virginia and the Purple Line light-rail project in suburban Maryland, the metro's pipeline also includes several multibillion-dollar mixed-use developments and a total of nearly 10 million square feet of office space underway.
- Amazon's decision to add 25,000 positions over the next decade in National Landing as part of the company's HQ2 expansion remains the area's top headline. While the effects on the housing market and overall economy are expected to be incremental, single-family values in the immediate area have already skyrocketed due to the announcement. The project is expected to slowly but steadily push up demand across asset classes, boosting occupancy, rents and values for both office and multifamily, while sending ripples across good portions of the District and Northern Virginia.

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	766	22.7%	17,900	2.4%
70	Leisure and Hospitality	338	10.0%	11,900	3.7%
15	Mining, Logging and Construction	167	4.9%	7,300	4.6%
40	Trade, Transportation and Utilities	428	12.7%	6,900	1.6%
90	Government	728	21.6%	6,700	0.9%
65	Education and Health Services	453	13.4%	3,400	0.8%
30	Manufacturing	57	1.7%	2,000	3.7%
50	Information	75	2.2%	500	0.7%
55	Financial Activities	158	4.7%	-900	-0.6%
80	Other Services	209	6.2%	-1,900	-0.9%

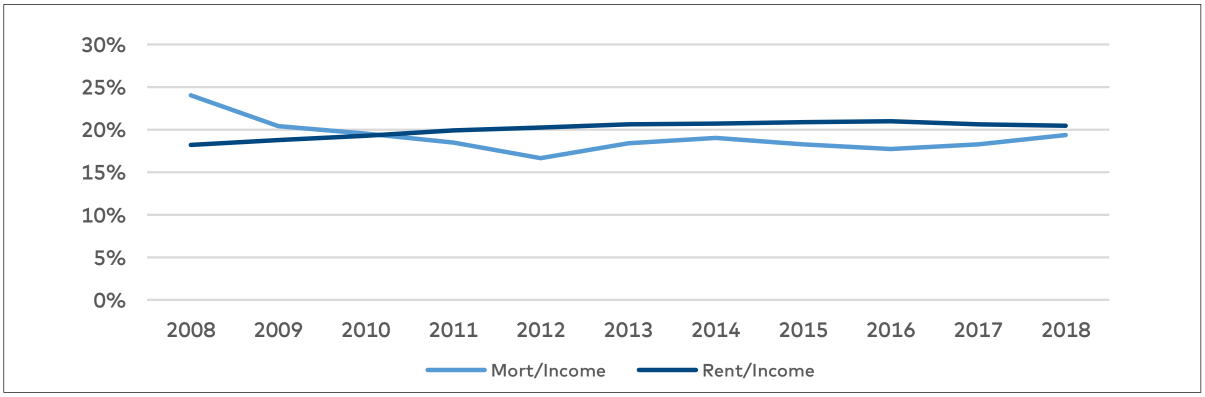
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

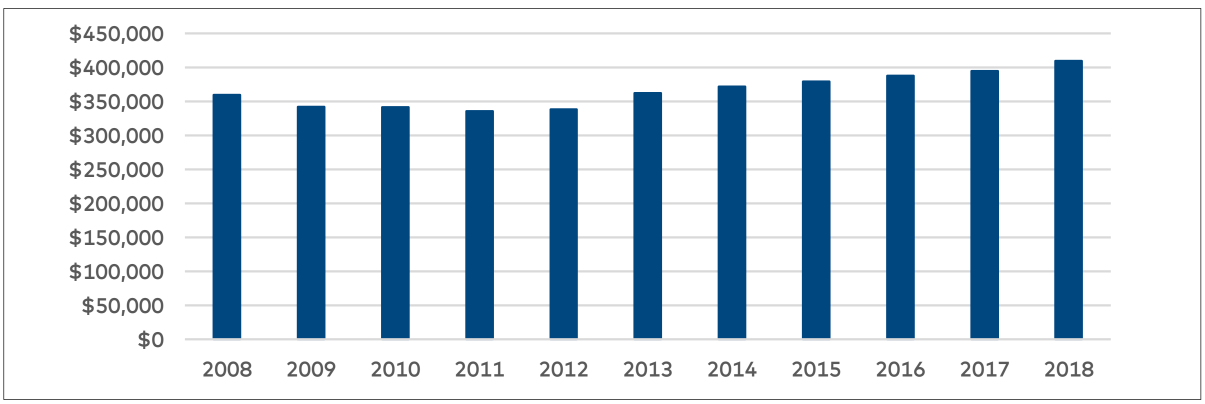
- D.C.-area home prices continue to rise, with the median value reaching $409,707 in 2018. That marks a 4% uptick since the previous year and a 22% hike since 2011. Last year, the average rent accounted for 20% of the area median income, while the average mortgage encompassed 19%.
- Mounting housing costs continue to be a burden for lower-income residents, which are being increasingly priced out of the District. According to Yardi Matrix data, the metro had 13 fully affordable communities underway as of March, adding as many as 1,853 units, as well as more than 1,000 affordable units across partially affordable projects.

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 Washington, D.C, added 550,771 residents between 2010 and 2017 for a 9.7% expansion, nearly double the U.S. rate of growth.
- The metro added 65,908 people in 2017 alone, a 1.1% uptick.

Washington, D.C. vs. National Population

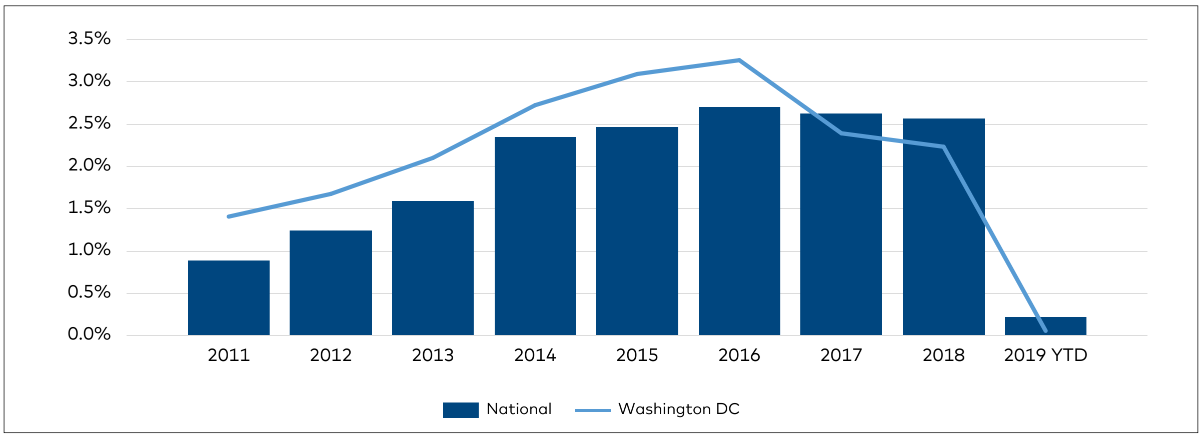
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Washington, D.C. Metro	5,962,606	6,029,537	6,091,560	6,150,681	6,216,589

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

Supply

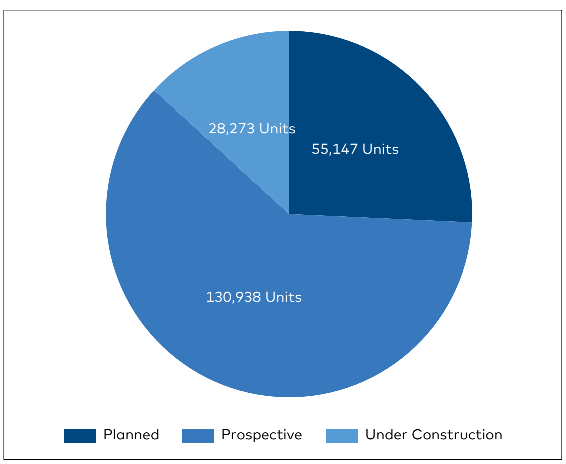
- A total of 11,277 units were completed in metro D.C. last year. Responding to strong demographic expansion, developers delivered more than 67,000 apartments since the beginning of 2014, more than 50% of which are located within five miles of downtown Washington, D.C.
- Metro D.C. had 28,273 apartments under construction as of February, 12,229 of which were located within the District, 11,749 in Northern Virginia and 4,295 in suburban Maryland. The metro also had more than 180,000 units in the planning and permitting phases. Overall, we expect the metro to add 12,270 apartments to its stock in 2019.
- With 5,317 units underway, Barry Farms/Saint Elizabeths led the construction pipeline, followed by Brentwood/Trinidad/Woodridge (2,668 units), Ballston/East Falls Church/Seven Corners (1,463) and Lee Highway Corridor/McClean/Sugarland Run (1,223).
- Meridian Group's 835-unit multifamily section of the 4.2 million-square-foot The Boro in Tysons, Va., is the metro's largest community slated to come online this year.

Washington, D.C. vs. National Completions as a Percentage of Total Stock (as of February 2019)



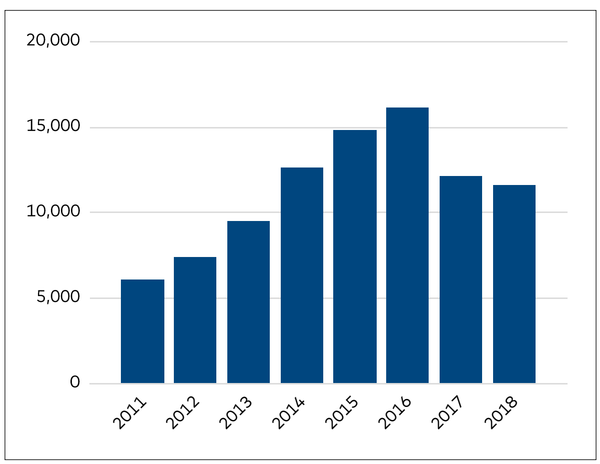
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Washington, D.C. Completions (as of February 2019)



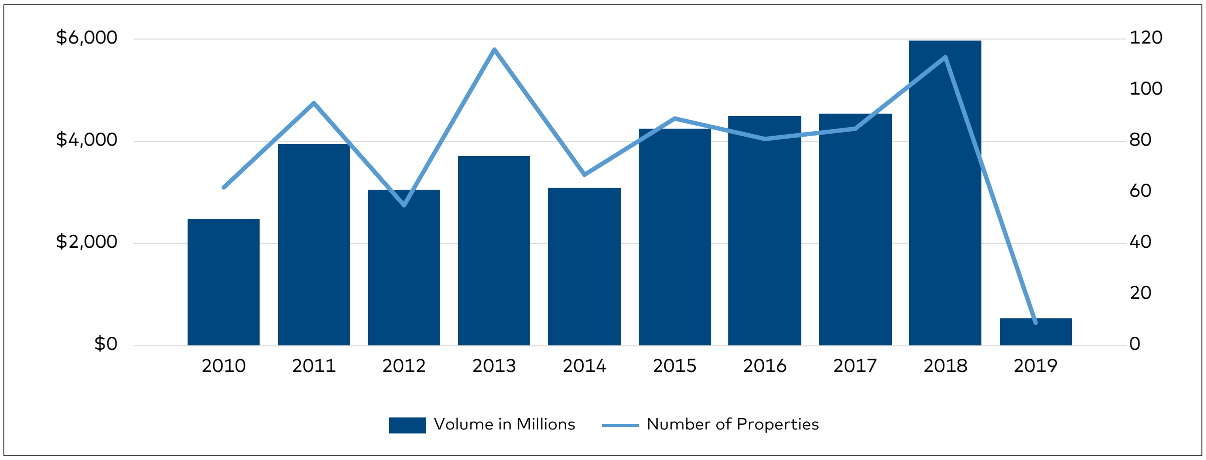
Source: YardiMatrix

Transactions

- Following last year's $6 billion cycle high, nine properties worth $525 million traded in the first two months of 2019. Although metro D.C. fundamentals lagged behind most major U.S. cities for the better part of the cycle—mainly due to high supply—Washington remains a large and attractive multifamily market. With acquisition yields starting in the 4.0% band for core assets and going up to the 7.0% to 8.0% range for Class C communities, the area is a magnet for both institutional players looking to deploy large amounts of capital and smaller value-add investors.

- Per-unit values also hit a cycle peak last year, with the average reaching $217,943 for a 3.8% uptick over 2017, remaining well above the $154,305 national figure. Submarkets located outside the city core, along major thoroughfares, attracted the most capital in the 12 months ending in February, with Germantown/Montgomery Village ($554 million) leading the list.

Washington, D.C. Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

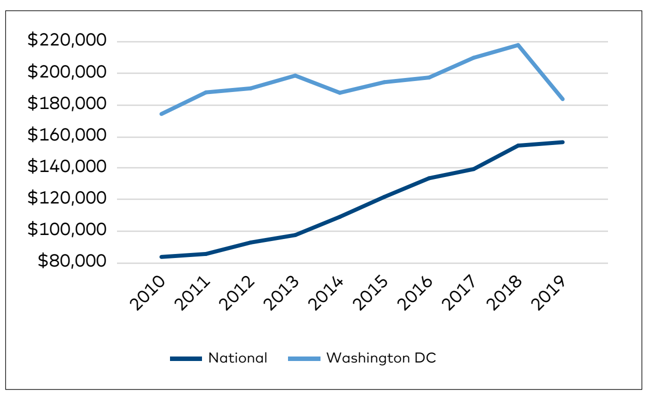
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Germantown/Montgomery Village	554
Ballston/East Falls Church/ Seven Corners	391
St. Charles/Waldorf	358
Herndon/Reston	335
Fairland	318
Fair Oaks	294
Eisenhower East/Fort Hunt/ Franconia	292
College Park	233

Source: YardiMatrix

[1] From March 2018 to February 2019

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



Source: YardiMatrix

News in the Metro

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MULTI-HOUSING NEWS

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JV Acquires MD Community for $43M

The Donaldson Group, Declaration Capital and Angelo, Gordon & Co. purchased the 288-unit property in Hyattsville. The new owners intend to implement a capital improvement plan.

Mitsui Fudosan, ZOM Living Break Ground In Bethesda

The joint venture has launched construction of a 229-unit transit-oriented development located seven miles from downtown Washington, D.C.

Mill Creek Residential Kicks Off NoVa Mixed-Use

The lifestyle center taking shape in Falls Church will include 394 apartments and 90,000 square feet of retail space, slated for completion in the summer of 2021.

Capital Square 1031 Buys VA Asset For $70M

Walker & Dunlop arranged $45.3 million in financing for the purchase of Bellemeade Farms, a 316-unit community in Leesburg.

Howard University Expands Partnership With Corvias

The public-private partnership has already completed the $71M renovation of two residence halls housing more than 2,000 students and staff in Washington, D.C.

Urban Investment Partners Re-Acquires DC Asset

The firm purchased The Policy, a 62-unit community in the city's historic Kalorama neighborhood. UIP had previously owned the building from 2008 to 2014.

Executive Insight

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MULTI-HOUSING NEWS

Multifamily Investment in 2019: Finding Opportunities in DC

By Jeff Hamann

KETTLER is one of the largest owners, developers and managers of multifamily properties in the D.C. metro, where it has acquired, developed or renovated some 20,000 units. While the company is looking to expand in Georgia, Florida, Ohio and Texas, the bulk of its portfolio is in or near the nation's capital, where it has been active throughout the past four decades.

Bob Kettler, owner & CEO of KETTLER, discusses the opportunities across D.C. and how the firm has used its knowledge of the market in conjunction with like-minded technology solutions to find success.

Considering the large number of multifamily projects underway across the D.C. metro, where can the best development opportunities be found?

We see the best opportunities with projects that have unique factors, that support our financial metrics or have complex design or entitlement requirements. Based on our extensive regional presence in the Washington, D.C., area, we have seen certain submarkets show impressive rent growth in the past year, even with one of the country's highest supply pipelines.

Through these insights, we have identified areas in northeast Washington, D.C., and Northern Virginia, along the silver and orange metro rail lines, that still have metrics favorable for new development.

How are multifamily investors and developers addressing the significant demand for affordable housing in the area?

Developers are seeking more acquisition/rehab opportunities to

upgrade existing, older apartment communities. The properties are generally well located and offer an opportunity to provide quality housing at a lower rental rate.

With new development, we provide the percentage of affordable housing that is required by code with each jurisdiction. In cases where community benefits are offered for increased zoning, affordable housing is usually increased in order to provide more affordable units for the market.

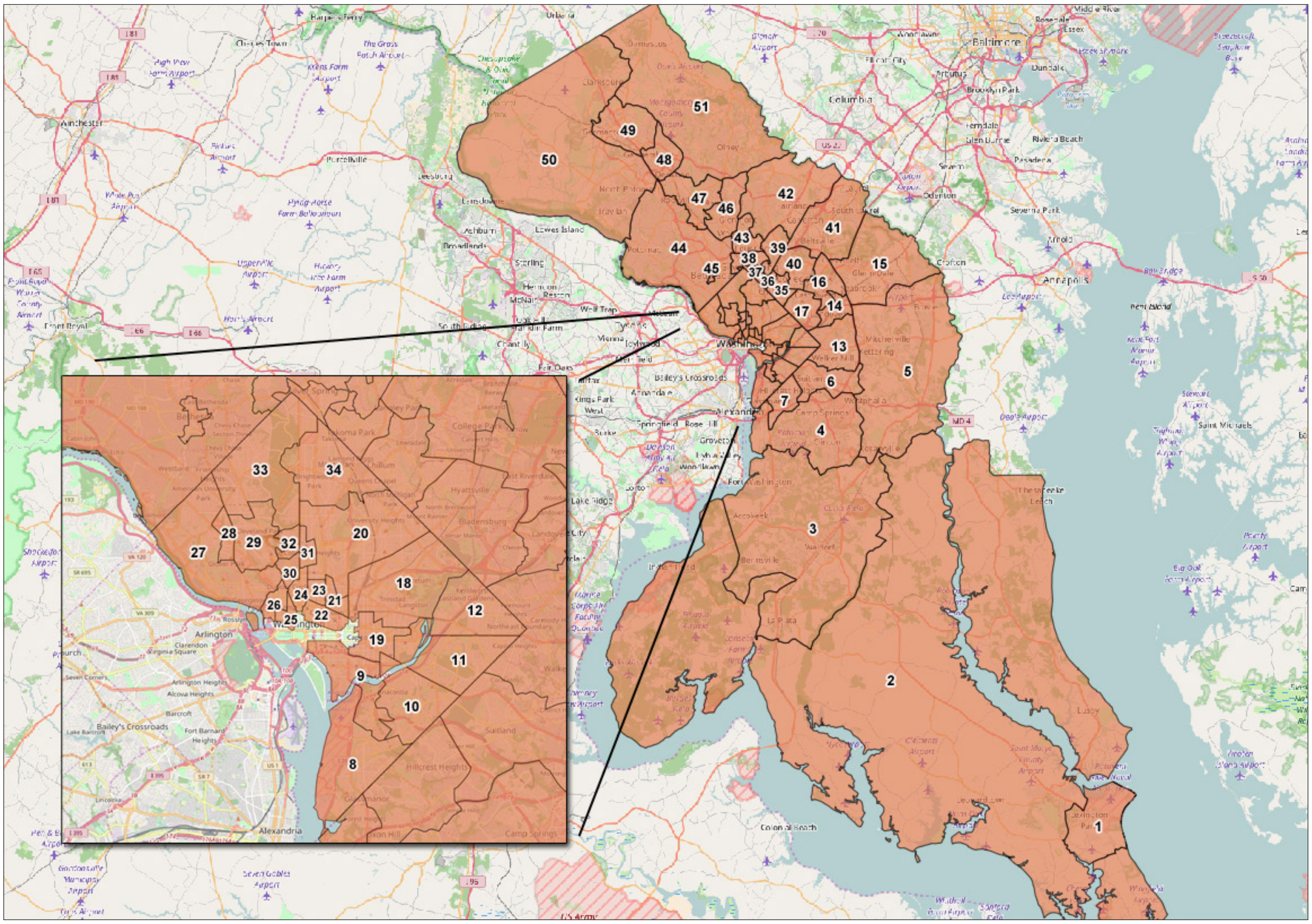
How has technology affected the multifamily management business?

Technology has created competitive opportunities for us to better serve our consumers, while creating efficiencies within our operations. The key to this execution is to develop strategic partnerships with third-party solution providers. The marketplace is crowded with strategic solutions. However, we methodically partner with resources that share our philosophy and have unique capabilities in executing our differentiated strategies.

In what ways did the federal government shutdown earlier this year impact the multifamily sector, particularly in the D.C. area?

The greatest impact we saw was in operational preparedness. Meaning we spent a great deal of time trying to ensure that we had policies in place to support our residents. Our residents are very important to us, and ensuring that they know we care and are here to support them in time of crisis was our priority.

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.