Yardi® Matrix

DC Finds Its Footing

Multifamily Report Summer 2019

Rent Growth Rebounds

Upscale Demand Takes Center Stage

Transactions, Development Remain Strong

Market Analysis

Summer 2019

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Development Steady, Absorption Endures

Although the metro had the second-largest multifamily pipeline in the country after Dallas as of June, D.C. fundamentals are improving. After lagging the U.S. average throughout the cycle, rent growth in the metro steadily rebounded, reaching 3.5% year-over-year through June. Meanwhile, occupancy in stabilized assets was flat over 12 months, at 95.4% as of May.

Employment growth decelerated in the context of a tight labor market. Nonetheless, metro D.C. gained 25,000 positions in the 12 months ending in May, mainly boosted by tourism and strong appreciation in office-using industries. Large infrastructure projects and multibillion-dollar mixed-use developments are advancing, infusing further capital into the economy. Amazon's National Landing campus, slowly taking shape, is expected to generate 25,000 direct jobs over the next decade. Meanwhile, PN Hoffman and Madison Marquette kicked off Phase 2 of The Wharf, a $2.5 billion mixed-use project along the Potomac River.

D.C. remains a main target for institutional investors, as roughly $2.4 billion in assets traded in the first half of the year. With 32,147 units underway as of June, development remains elevated. Nevertheless, positive demographic trends and gains in high-paying sectors are slated to keep demand healthy. We expect the average metro D.C. rent to advance 2.6% in 2019.

Recent Washington, D.C. Transactions

Aura Pentagon City

City: Arlington, Va.
Buyer: Polinger Co.
Purchase Price: $228 MM
Price per Unit: $426,966

Hanover Shady Grove

City: Rockville, Md.
Buyer: Equity Residential
Purchase Price: $104 MM
Price per Unit: $282,787

Bell Arlington Ridge

City: Arlington, Va.
Buyer: Bell Partners
Purchase Price: $75 MM
Price per Unit: $344,378

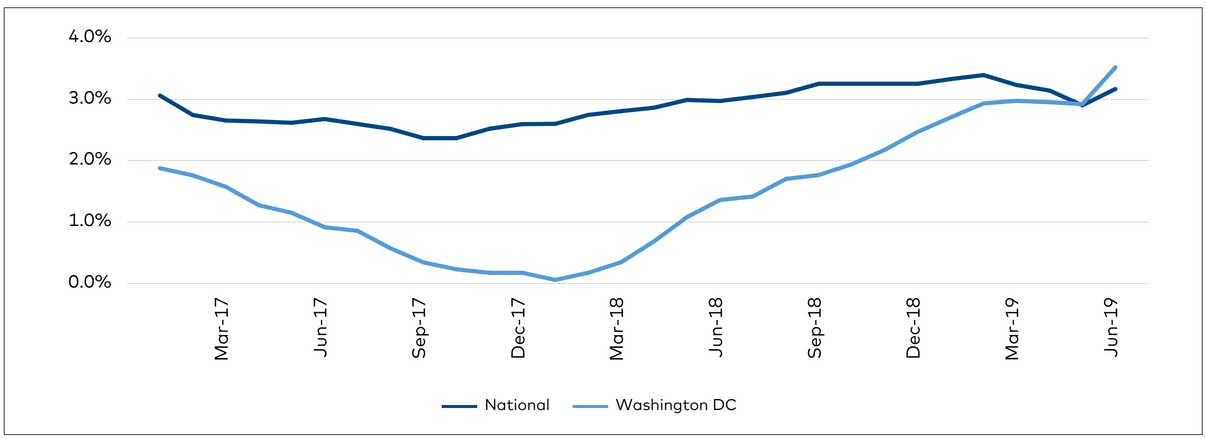
Wynfield Park

City: College Park, Md.
Buyer: Sage Ventures
Purchase Price: $62 MM
Price per Unit: $205,667

Rent Trends

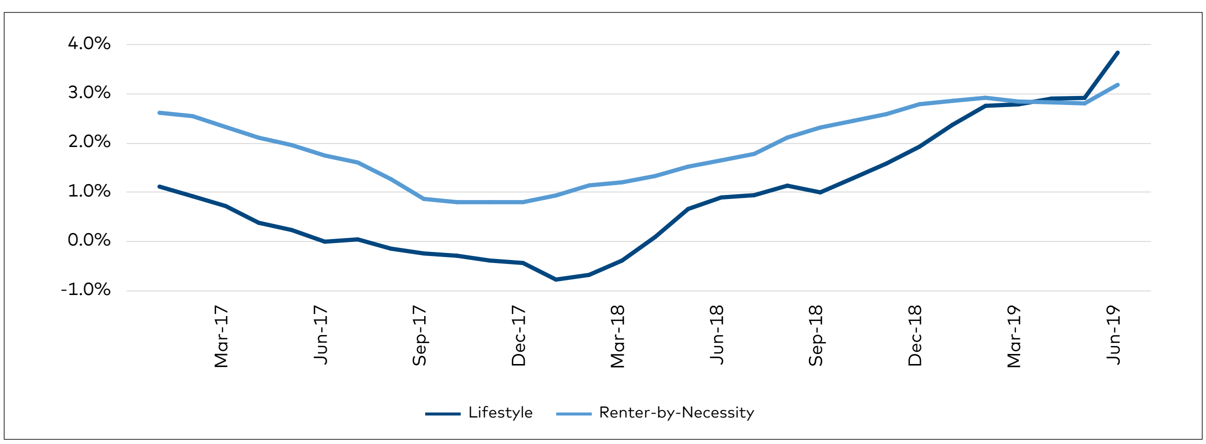
- Metro D.C. rents were up 3.5% year-over-year through June, 20 basis points above the U.S. average. In the context of sustained high levels of new supply, this is the first time since late 2011 that the metro's year-over-year rent growth rate outperformed the national figure. The average Washington, D.C., rent stood at $1,851 as of June, above the $1,465 national figure.
- Bucking historic trends, the average Lifestyle rent advanced 3.8% year-over-year through June to $2,217, while the average working-class Renter-by-Necessity rate was up 3.2%, reaching $1,586. This is another first for the metro in nearly a decade: Year-over-year rent growth in upscale assets last managed to outperform those in the working-class segment in 2010. Core D.C. submarkets—which command the highest rates and were recording rent contractions due to oversupply less than a year ago—are leading the surge, including Penn Quarter (4.1% to $2,869), Capitol Hill (2.4% to $2,776), North Capitol (5.5% to $2,646) and East Foggy Bottom (3.6% to $2,550).
- With D.C. adding high-paying jobs at a sustained pace, demand and supply remained in relative balance and absorption managed to keep up over the past four quarters. The metro's occupancy rate in stabilized assets was 95.4% as of May, flat over 12 months. Considering job growth deceleration and the city's solid pipeline, we expect the average rate in metro D.C. to advance 2.6% 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)

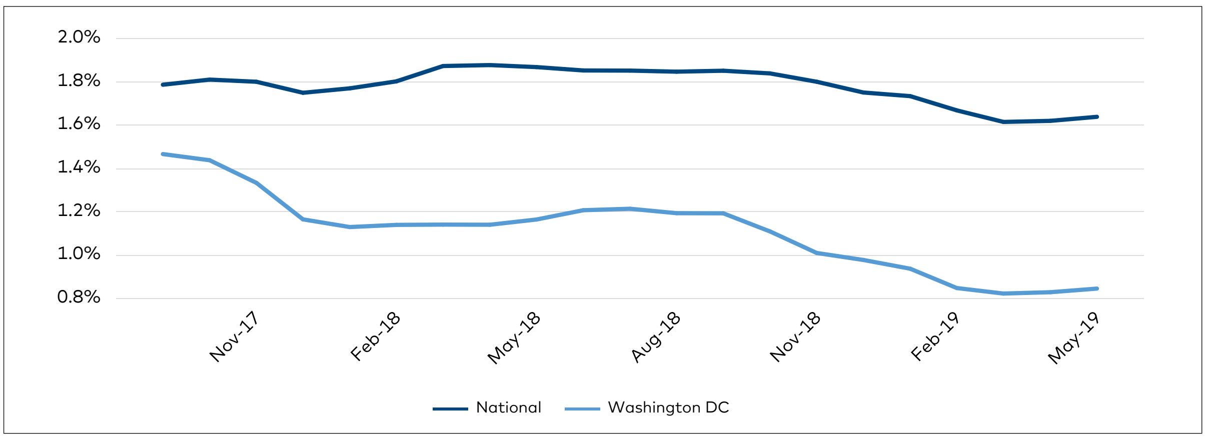


Source: YardiMatrix

Economic Snapshot

- Metro D.C. gained 25,000 jobs in the 12 months ending in May for a 0.8% expansion, only half the 1.6% U.S. rate. Following nationwide trends, Washington's job growth rate has been slowly but steadily decelerating in the context of a tight labor market. The metro's unemployment rate stood at just 2.9% as of April, 70 basis points below the national figure.
- With tourism numbers continuing to rise, the leisure and hospitality sector led job growth, adding 12,200 positions for a 3.6% rate of growth. According to Destination DC, the District recorded 21.9 million domestic visitors in 2018, 1.1 million more than the previous year and marking nearly a decade of continued growth.
- The steady influx of high-paying positions in sectors such as professional and business services—up 11,000 jobs—and education and health services (7,400 jobs) continued to generate upscale housing demand, keeping rental absorption healthy while developers added Class A units at a strong rate. Continued growth in high-paying employment sectors is also mirrored by the office pipeline: According to Yardi Matrix data, the metro had 9.4 million square feet of office space underway as of mid-July—nearly half is located within or very close to downtown D.C., with additional development pockets in Bethesda and Reston.

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	%
70	Leisure and Hospitality	353	10.5%	12,200	3.6%
60	Professional and Business Services	771	23.0%	11,000	1.4%
65	Education and Health Services	448	13.4%	7,400	1.7%
90	Government	726	21.6%	1,400	0.2%
15	Mining, Logging and Construction	161	4.8%	500	0.3%
80	Other Services	209	6.2%	100	0.0%
30	Manufacturing	55	1.6%	-	0.0%
50	Information	73	2.2%	-1,800	-2.4%
40	Trade, Transportation and Utilities	403	12.0%	-2,200	-0.5%
55	Financial Activities	156	4.6%	-3,600	-2.3%

Sources: YardiMatrix, Bureau of Labor Statistics

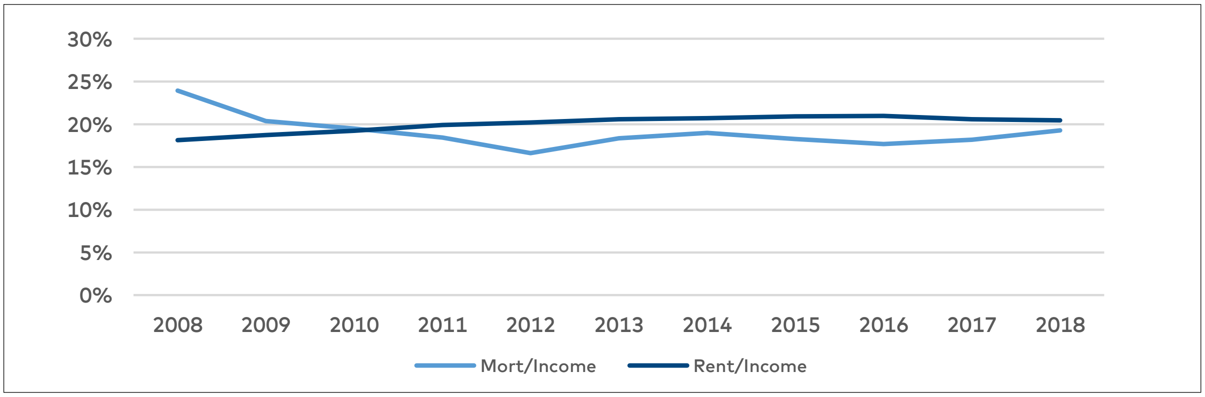
Demographics

Affordability

- Metro D.C.'s median home price climbed to $407,900 last year for a new cycle high, improving 14% over a decade. Although D.C. continues to have a workforce housing shortage, it remains relatively affordable when compared to East Coast gateway cities such as Boston and New York.

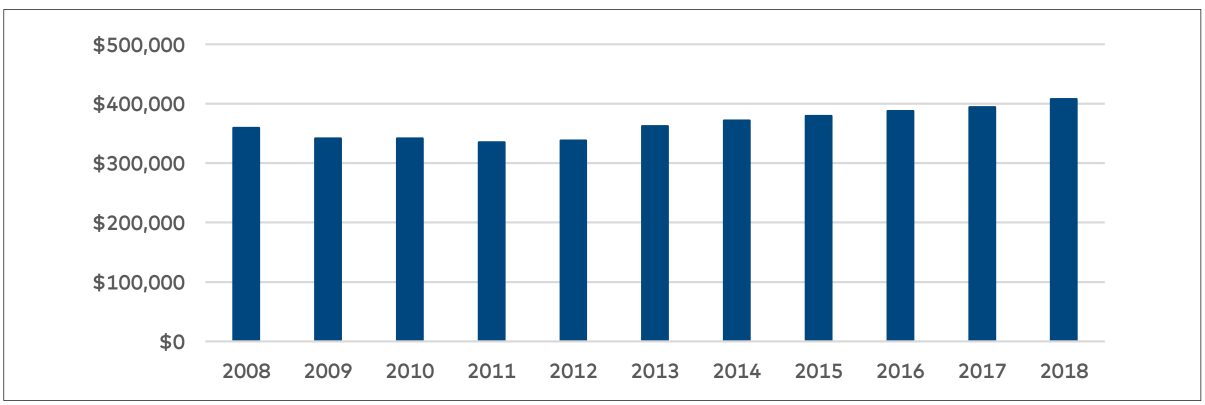
- In 2018, the metro's average rent accounted for 20% of the area median income, while the average mortgage payment equated to 19%. Although these rates recorded little change over the past decade, the percentage of multifamily rental units that are affordable to very low-income households in metro D.C. dropped 31.3% between 2010 and 2017, according to Freddie Mac research.

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 more than 550,000 people between 2010 and 2017. That marked a 9.7% increase, nearly double the U.S. figure.
- The metro gained 65,000 residents in 2017 alone for a 1.1% expansion.

Washington, D.C. vs. National Population

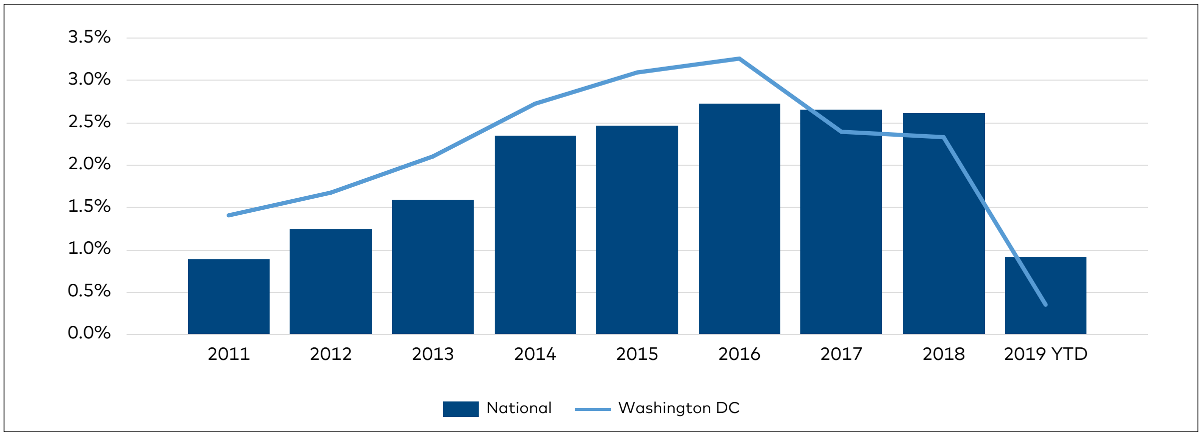
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Washington, D.C. Metro	5,962,606	6,029,537	6,091,560	6,150,681	6,216,589

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

Supply

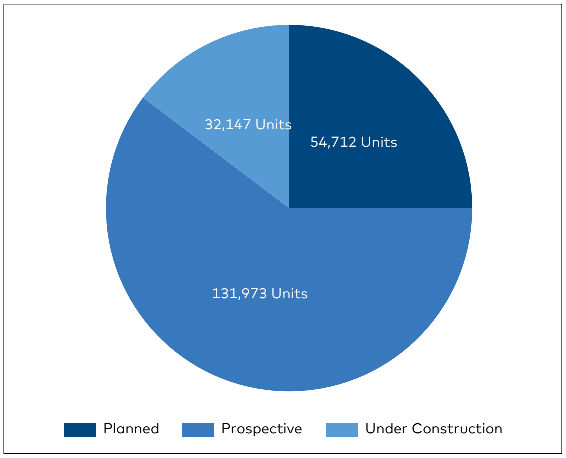
- Although only 1,838 units came online in the first half of 2019, Washington, D.C., remains a high-supply market. The metro's pipeline had up to 32,147 units underway as of June, with the vast majority in upscale projects. The metro added nearly 70,000 units since the beginning of 2014—more than 30,000 are located in Northern Virginia, about 21,000 within the District and roughly 19,000 in suburban Maryland.
- Barry Farms/Saint Elizabeths had 6,384 units underway across 19 projects as of June, leading the metro's pipeline by far. Most of the submarket's upcoming supply is located north of the Anacostia River, close to Interstate 695 and Capitol Hill. Brentwood/Trinidad/Woodridge (2,779 units) and Ballston/East Falls Church/Seven Corners (1,785 units) rounded up the metro's development podium.
- Developers are betting on the metro in the longer run and some of the largest communities underway are slated for completion in 2021. The list includes Tishman Speyer's 818-unit Square 696, located in the District, Penzance Cos.' 561-unit The Highlands in Arlington, and W.J. Vakos & Co.'s 550 apartments at Southpoint Landing in Fredericksburg.

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



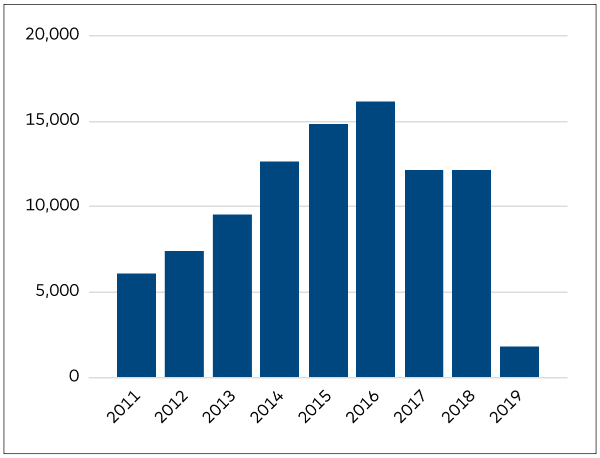
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

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

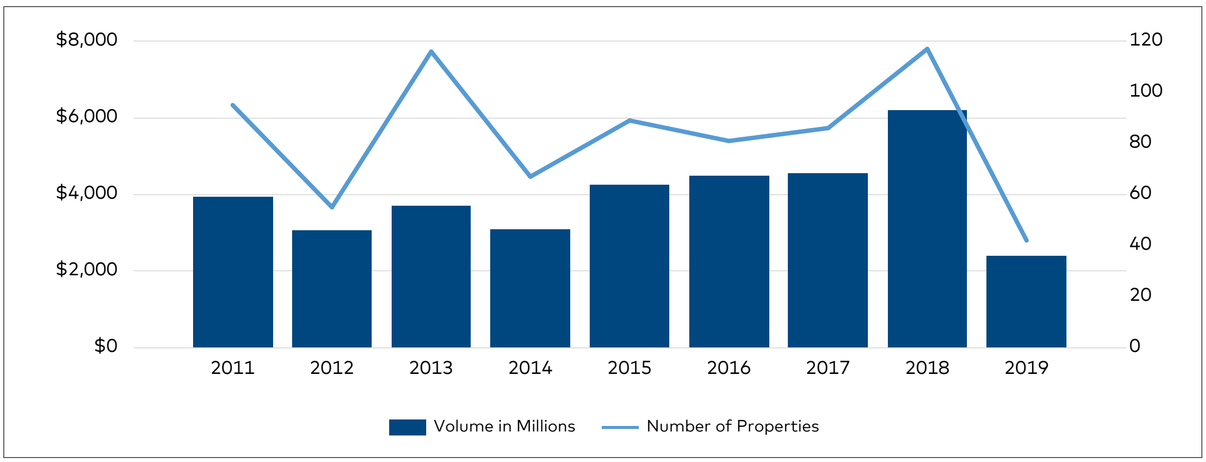


Source: YardiMatrix

Transactions

- Roughly $2.4 billion in communities traded in metro D.C. during the first half of 2019, coming on the heels of last year's $6.2 billion cycle high. Although the city has risked multifamily oversupply a few times during the current cycle, D.C. remains a gateway market and one of the country's most stable multifamily hotspots for both institutional and cross-border investors.
- At $217,142, the metro's average per-unit price remained relatively flat in the past two quarters when compared to last year but continued to outperform the $157,028 national figure.
- Northern Virginia dominates the multifamily market. It attracted nearly two-thirds of the $5.2 billion invested in the metro in the 12 months ending in June. By comparison, the District and suburban Maryland transactions totaled only $2 billion during that time.

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



Source: YardiMatrix

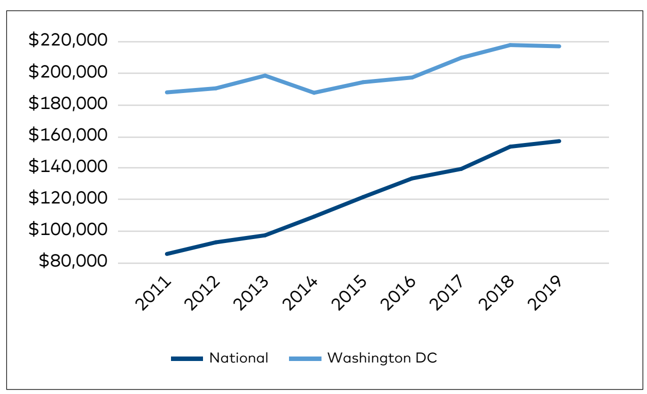
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
South Herndon	392
Ballston/East Falls Church/ Seven Corners	354
Herndon/Reston	335
Fair Oaks	294
College Park	285
Fairlington/Seminary Hill/ West Potomac	279
Pentagon City/Penrose	228

Source: YardiMatrix

[1] From July 2018 to June 2019

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



Source: YardiMatrix

News in the Metro

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WashREIT Wraps Up $461M Portfolio Buy

The REIT has closed on the $82 million purchase of two communities in the suburbs of Washington, D.C., totaling 428 units. The deal is the second tranche of a larger seven-property transaction.

Resource Real Estate Purchases NoVa Community

Located in Alexandria, The Summit sits close to some of the area's largest employers and the upcoming AmazonHQ2 in Crystal City.

Skanska Sells DC Project To Northwestern Mutual

The firm sold RESA, a 326-unit luxury residential community and part of a mixed-use development, for approximately $141 million.

Washington Property Co. Delivers MD Project

The 20-story community is about half leased. The transit-oriented development marks another milestone for the city's evolving Ripley District.

EJF Capital Backs $95M DC Development

The alternative investment manager has teamed up with Donatelli Development and Blue Skye Development on the 262-unit community within an Opportunity Zone.

JV Closes on $228M Community Near Amazon HQ2

Polinger Development Co. and an institutional investor acquired Meridian at Pentagon City, a 534-unit property in Arlington, from Paradigm Cos. and a fund advised by UBS.

Executive Insight

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Affordable Housing Services 2.0: Health & Wellness Programs

By Laura Calugar

Avanath Capital Management's Alicia Bramble and Ada Arevalo talked with *Multi-Housing News* about the impact of the shift toward lifestyle services and away from physical amenities on the affordable housing market in the Washington, D.C., area. Arevalo, vice president of fund management & impact investing committee chair, and Bramble, senior asset manager & impact investing committee vice chair, offered their views on how lifestyle programs can contribute to better resident retention.

The Washington, D.C., multifamily market has largely underperformed against U.S. averages for the better part of this cycle. What are your views on the market, and on the affordable housing market in particular?

Arevalo: Washington, D.C., has continued to be a very strong market overall, especially in the affordable housing category. The demand for affordable housing, especially with rising rents and a widening wage gap, is unmet in most markets across the nation, and therefore, this asset class is often unaffected by varying business cycles and performs in times of economic growth and uncertainty.

Tell us more about the latest lifestyle and health services that attract and retain tenants and how the Washington, D.C., market has adapted to this trend.

Bramble: It is no secret that there has been an amenities race throughout the multifamily industry over the last several years. Many of these amenities are now shifting toward

Ada Arevalo *(left)* and Alicia Bramble *(right)*

programs and services. Historically, in all of our assets, we've incorporated a variety of social programs that enhance resident life, whether it is coffee hours, gardening clubs and bingo nights in our senior communities, after-school programs and tutoring for kids in our family communities or financial literacy programs for adults.

Arevalo: By 2030, all of the Baby Boomer generation will be older than 65. This will have a significant impact on the multifamily industry and the affordable housing industry. This is the first generation to work longer, and it's extremely important to them to be active longer. Aging in place is a huge tagline for us, and it's one of the motivators of this program.

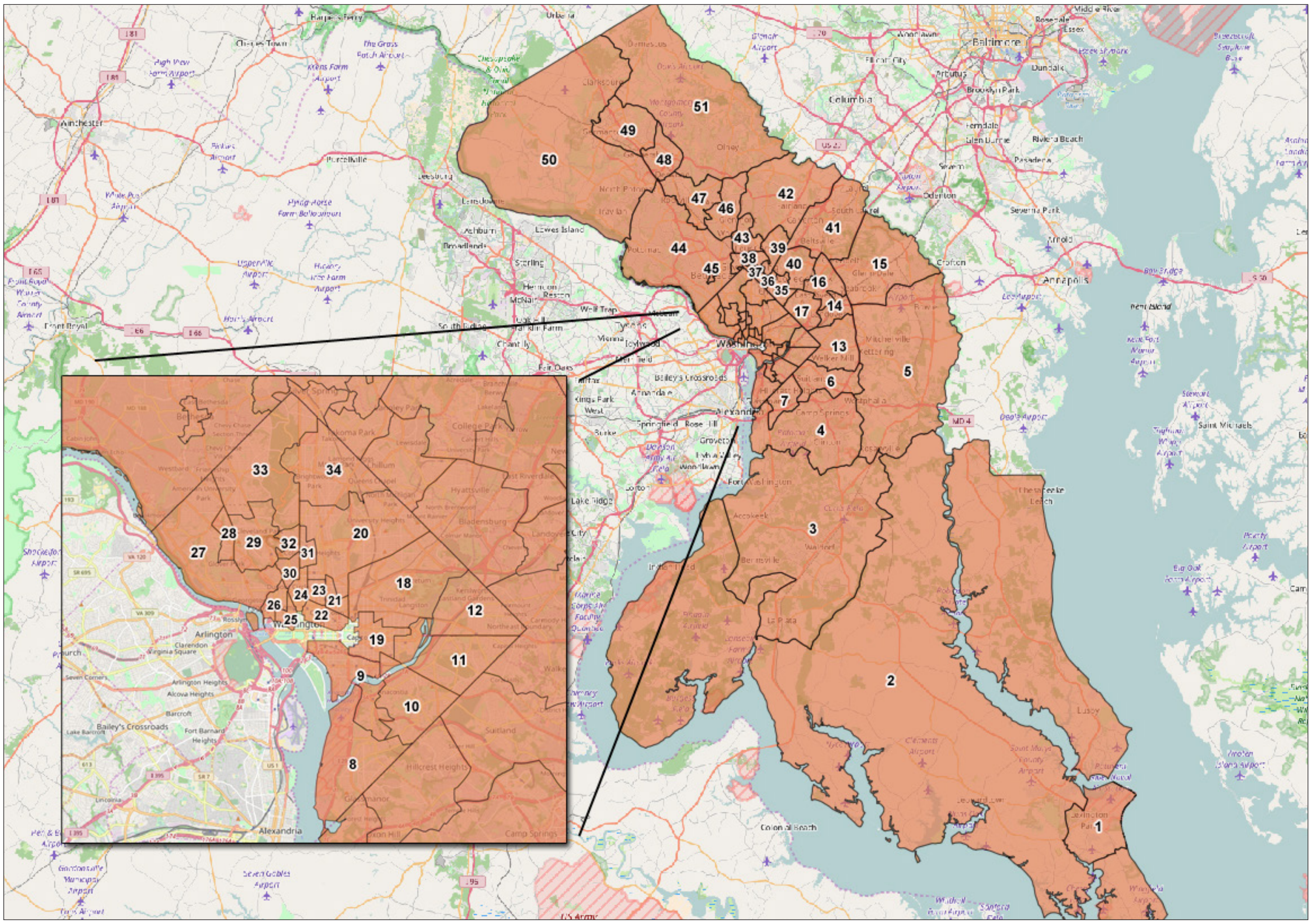
How do you see these types of programs unfolding in the next few years in the Washington, D.C., area?

Bramble: This type of program will unfold not only in the D.C. area but also nationwide in the multifamily space. Owners/operators will see what a huge impact these services have on the residents, the community and the extended amount of time seniors stay in independent living before moving on to assisted living.

Arevalo: Residents are not looking for just a place to live. They're looking for a true residence, one that addresses health, education, the environment, etc. We are at the forefront of the senior wave with Activate, but we hope to continue to see a lot more owners/operators incorporating programs like these into their investments.

(Go to multihousingnews.com to read the complete interview.)

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.