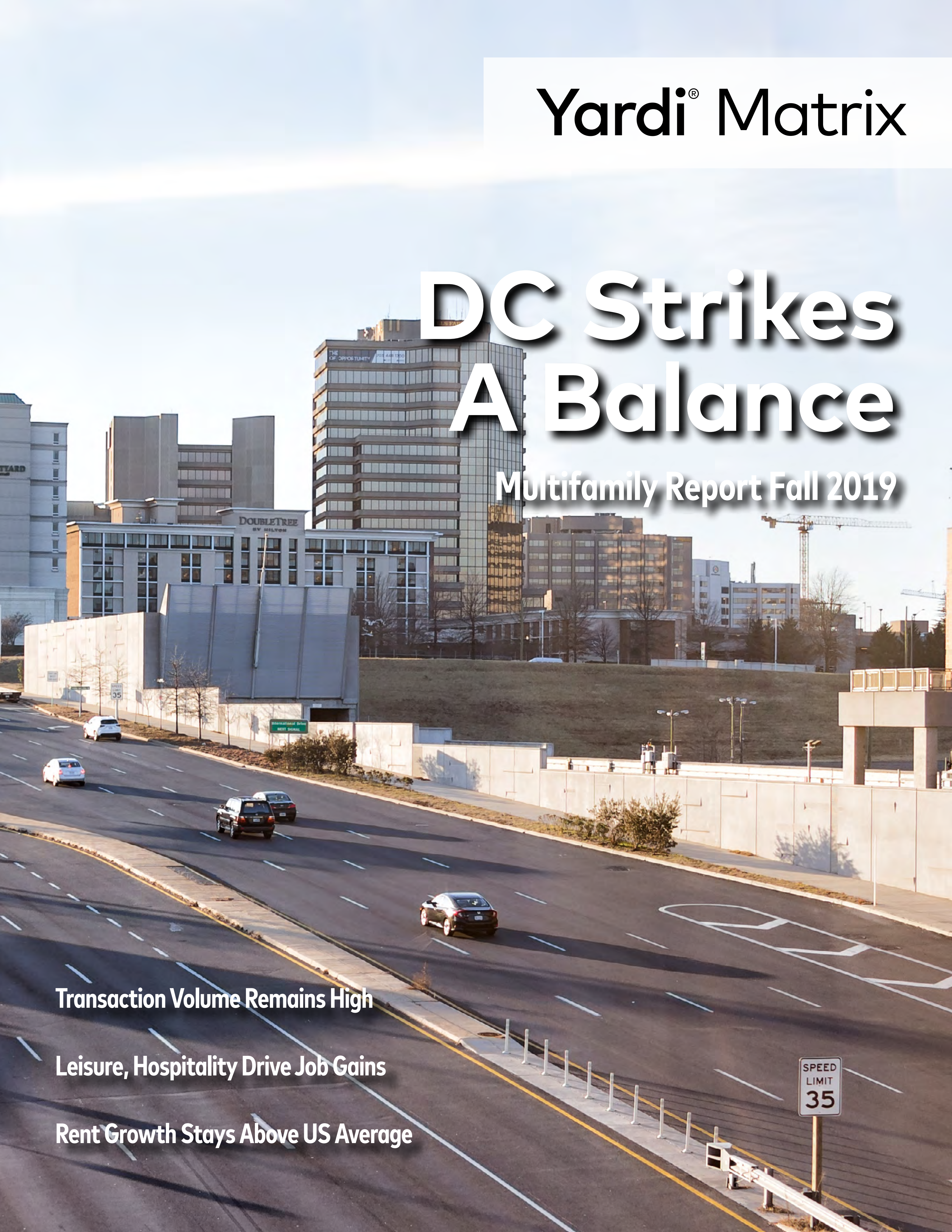
Yardi® Matrix

DC Strikes A Balance

Multifamily Report Fall 2019



Transaction Volume Remains High

Leisure, Hospitality Drive Job Gains

Rent Growth Stays Above US Average

Market Analysis

Fall 2019

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Supply Steady, Occupancy Close Behind

Multifamily rents in Washington, D.C., have picked up since June 2019, after several years of below-trend growth caused a supply surplus. Rents were up 3.5% year-over-year through October, 30 basis points above the national rate. Meanwhile, occupancy improved 10 basis points over 12 months, reaching 95.6% as of September. The rapid addition of high-paying jobs, coupled with strong population growth, is likely to support D.C.'s economic expansion and maintain its advantage in the Mid-Atlantic region.

Employment growth was led by leisure and hospitality, which gained 17,100 of the 38,800 jobs added in the 12 months ending in September. Roughly 24 million tourists visited the District in 2018, a record number for the ninth consecutive year. And with the city's population expanding, developers continue to build. Several large mixed-use projects are underway, including the $640 million redevelopment of the former Fannie Mae headquarters, Boston Properties' Reston Gateway, Hoffman-Madison Waterfront's multibillion-dollar The Wharf, and Brookfield Properties' $1.4 billion Halley Rise.

Investor interest tempered slightly, but it is still likely to surpass the $4.5 billion mark for all of 2019, making it the third-best year for transaction volume this cycle. Despite the metro's solid development pipeline, we expect rents to continue rising, albeit at a slower pace.

Recent Washington, D.C. Transactions

Atley on the Greenway

City: Ashburn, Va.
Buyer: Fairfield Residential
Purchase Price: $141 MM
Price per Unit: $284,274

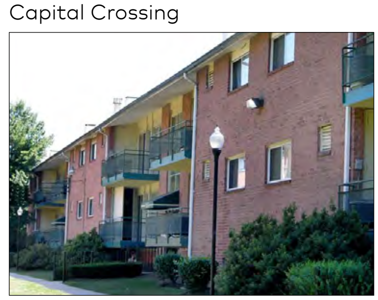
Loren

City: Falls Church, Va.
Buyer: Sachs Investing
Purchase Price: $70 MM
Price per Unit: $378,378

Hidden Creek

City: Gaithersburg, Md.
Buyer: JEM Holdings
Purchase Price: $67 MM
Price per Unit: $223,333

Capital Crossing

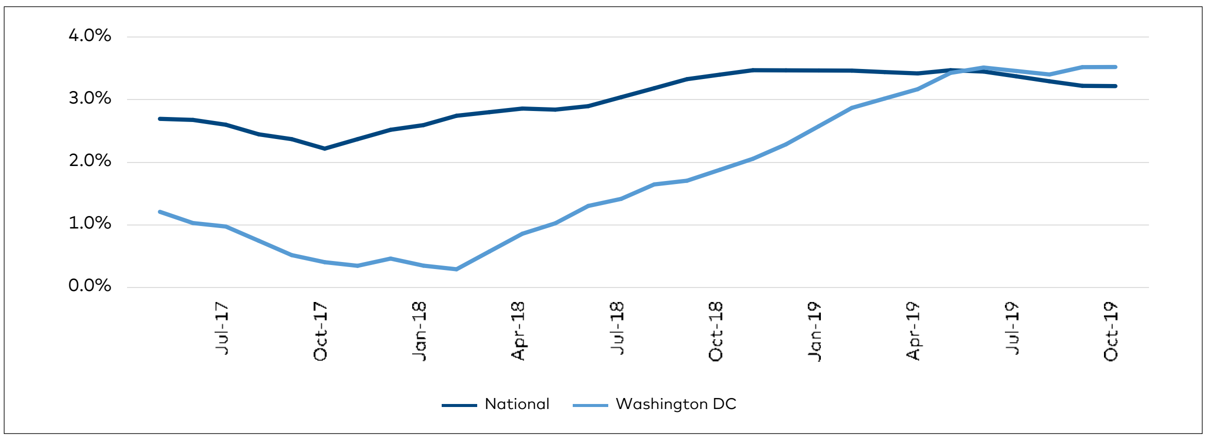


City: Suitland, Md.
Buyer: Castle Lanterra Properties
Purchase Price: $52 MM
Price per Unit: $144,847

Rent Trends

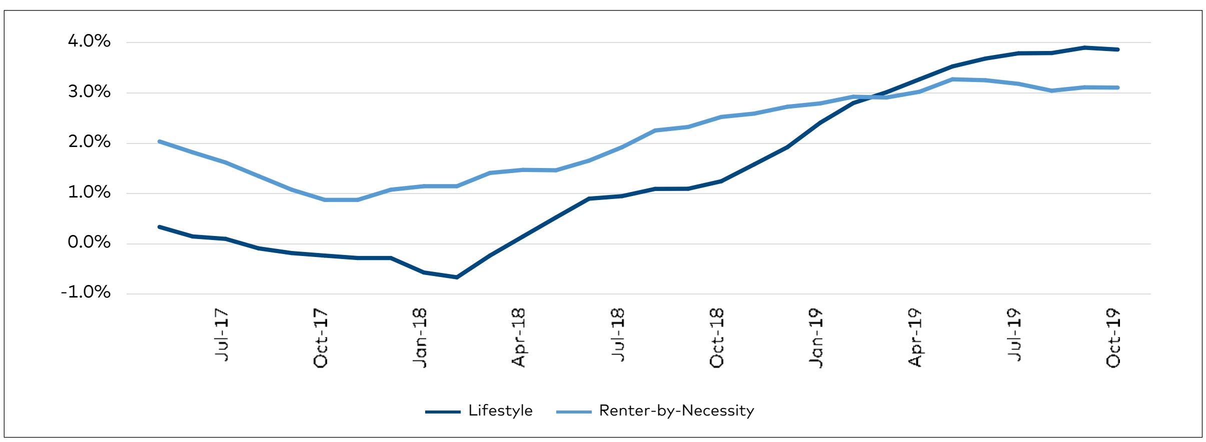
- Despite the ongoing supply boom, metro D.C. rents rose 3.5% year-over-year through October, 30 basis points above the U.S. average. After bottoming at 0.3% in February 2018, rent growth slowly picked up, surpassing the national rate in June 2019 for the first time in eight years. At $1,852 as of October, the average rent remained well above the $1,476 national figure.
- Although developers continued to focus heavily on upscale projects, the Lifestyle segment still led rent growth, with the average rent up 3.9% to $2,203 as of October. Meanwhile, working-class Renter-by-Necessity rates improved 3.1%, reaching $1,592. While workforce housing led growth for the better part of this cycle, the addition of high-paying jobs at a faster pace has helped the bucking of this trend.
- Rent growth was strong across most submarkets, with Northern Virginia's Gainesville/Leesburg leading the way at 7.7%, followed by East Gaithersburg/Redland (7.1%). Urban core submarkets such as Penn Quarter ($2,844), Capitol Hill ($2,759) and East Foggy Bottom ($2,625) remained the most expensive.
- The metro's occupancy rate in stabilized assets was 95.6% as of September, 50 basis points above the national rate and up 10 basis points over 12 months. Although the metro's solid development pipeline lingers, we expect rents to continue increasing, but likely at a slower pace.

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

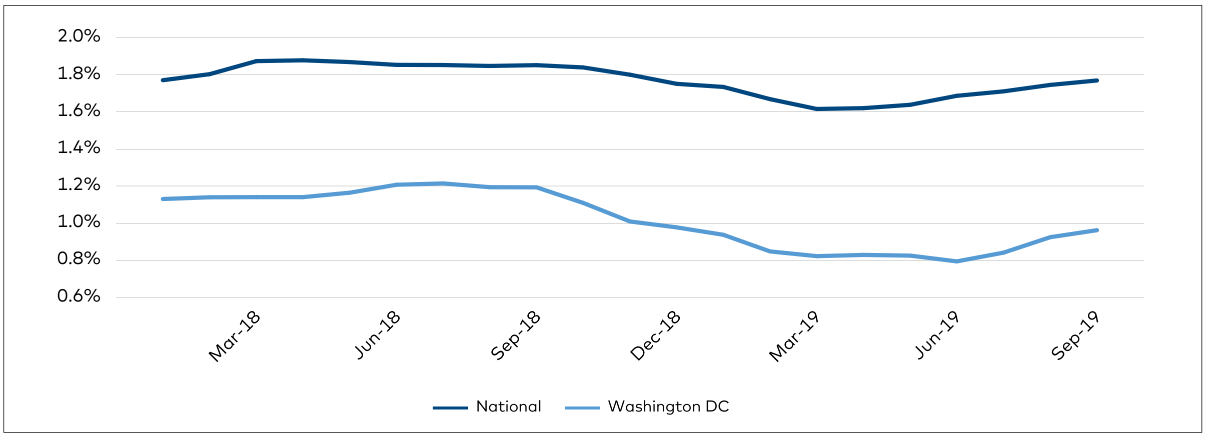
Economic Snapshot

- Metro D.C. gained 38,800 jobs year-over-year through September, marking a 1.0% expansion and trailing the 1.8% national rate. Despite the slow yet steady job growth deceleration, the metro's 3.2% unemployment rate as of September was still 30 basis points below the national rate.

- The leisure and hospitality sector led job growth with 17,100 positions, a 5.1% expansion. A record of almost 24 million tourists visited the District last year, up 4.4% from 2017, according to the city's official marketing organization. The increasing number of tourists, coupled with steady population growth, has intensified traffic congestion issues across the metro. Apart from the Interstate 270 expansion, authorities also announced plans to rebuild and widen the American Legion Bridge. The billion-dollar project is a cooperation between Maryland and Virginia.

- According to Washington D.C. Economic Partnership's latest development report, the vast majority of cranes on the capital's skyline are building residential projects. JBG Smith has submitted plans for the redevelopment of approximately 2.6 million square feet across five multifamily buildings and one office property in Northern Virginia's National Landing, within half a mile of Amazon's $2.5 billion new headquarters. The tech giant's campus is expected to generate 25,000 direct jobs over the next decade, with housing demand in the area anticipated to grow rapidly.

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	352	10.5%	17,100	5.1%
60	Professional and Business Services	776	23.1%	14,000	1.8%
65	Education and Health Services	453	13.5%	10,300	2.3%
15	Mining, Logging and Construction	166	4.9%	2,700	1.7%
90	Government	716	21.3%	2,400	0.3%
80	Other Services	208	6.2%	300	0.1%
50	Information	73	2.2%	-500	-0.7%
30	Manufacturing	55	1.6%	-500	-0.9%
55	Financial Activities	157	4.7%	-2,500	-1.6%
40	Trade, Transportation and Utilities	400	11.9%	-4,500	-1.1%

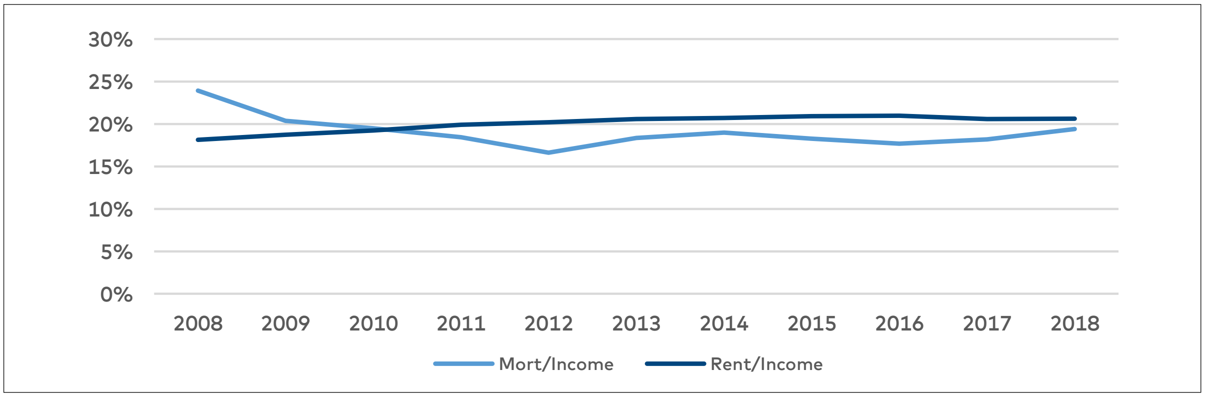
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

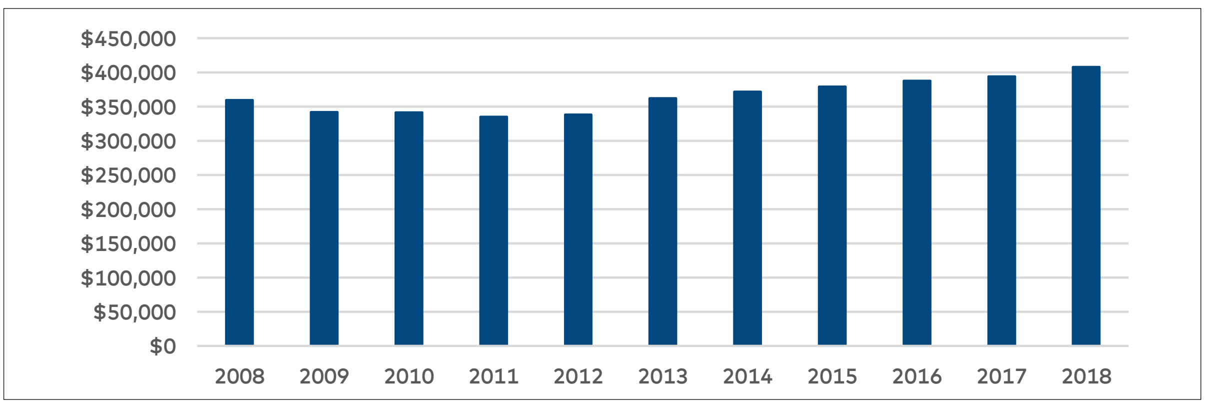
- The median home price in metro D.C. surpassed the $400,000 mark last year, reaching a new cycle high. The average rent accounted for 21% of the area median income, while the average mortgage payment encompassed 19%.
- Large projects such as Amazon's second headquarters could intensify housing affordability challenges, particularly for moderate- and middle-income residents. According to the Metropolitan Washington Council of Governments, the region needs at least 235,000 units by 2025 to keep up pace with expected job growth.

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 almost 50,000 residents in 2018 for a 0.8% expansion, 20 basis points above the national rate.
- The District's rate of population growth has slowed, but demographic expansion remained positive.

Washington, D.C. vs. National Population

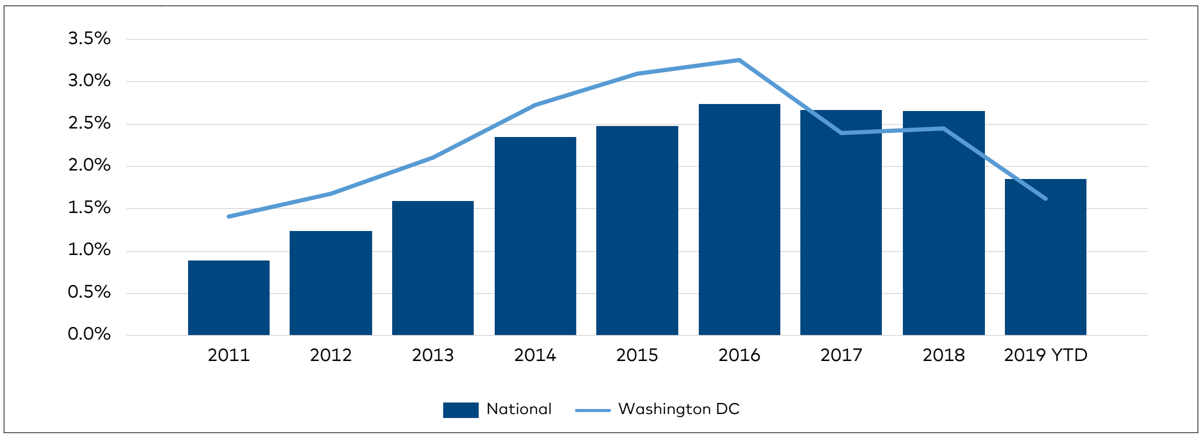
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Washington, D.C. Metro	6,020,449	6,082,465	6,139,035	6,200,001	6,249,950

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

Supply

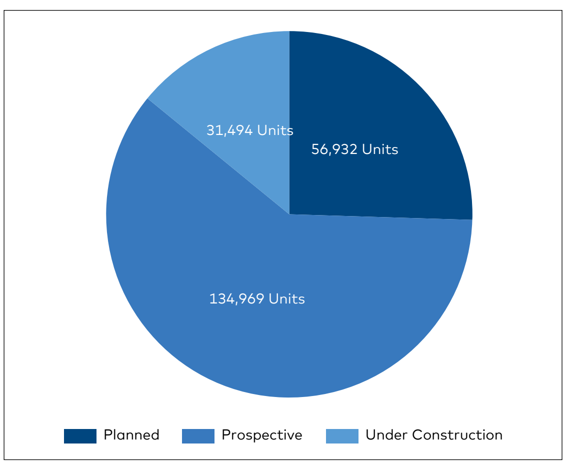
- Developers had 31,494 units underway across the metro as of October, with almost three-quarters of those geared toward high-income residents. Despite the fact that multifamily development has slowly decelerated after peaking at 16,126 units in 2016, demand remained high, particularly in areas offering quick access to the district and areas near Northern Virginia's National Landing.
- The metro's inventory increased by 8,552 units in the first 10 months of 2019 with most of the communities completed in the District and suburban Maryland. Although the pipeline is slated to remain relatively strong, the tight labor market and increasing construction costs are likely to further delay some projects.
- With more than 5,500 units under construction, Barry Farms/Saint Elizabeths led the development pipeline, followed by Brentwood/Trinidad/Woodridge (2,813 units). The largest project underway is the $400 million Town Square at Suitland Federal Center, a multiphase mixed-use project in Suitland, Md. The Maryland submarket located southeast of core D.C. is a dynamic real estate destination, with transaction activity also among the highest in the metro over the past four quarters.

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



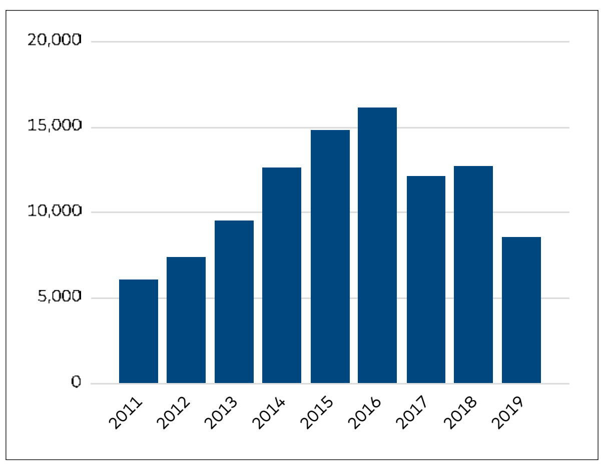
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

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

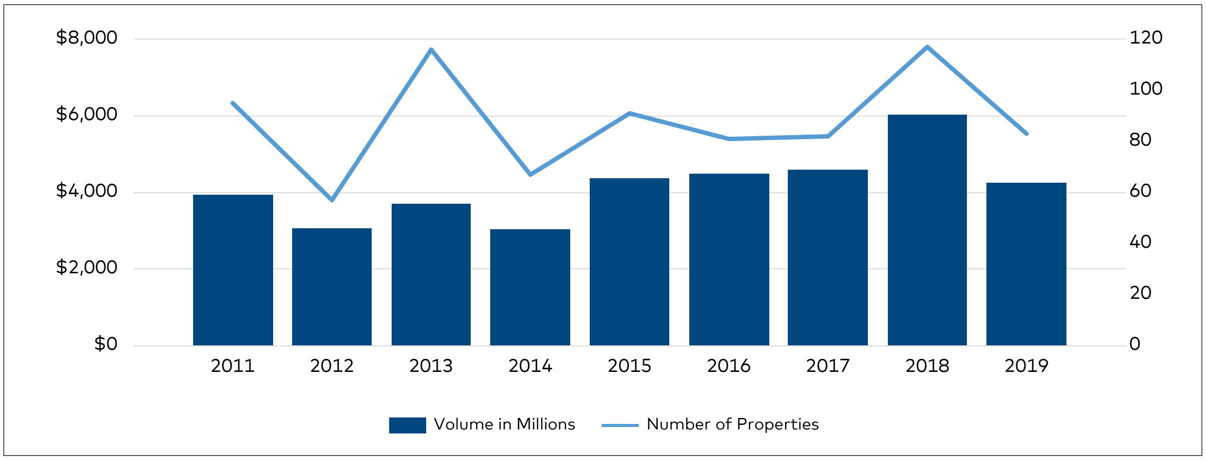


Source: YardiMatrix

Transactions

- After peaking at $6 billion in 2018, metro D.C.'s transaction activity decelerated slightly, with $4.3 billion in multifamily assets trading during the first 10 months of 2019. However, with a diverse employment base, steady demographic growth and a robust economy, Washington, D.C., remains highly appealing to both value-add and institutional investors. Acquisition yields for Class A properties in urban locations hover around 4.0% and can go as high as 8.0% for Class C assets. In 2019 through October, the average per-unit price reached a new high ($220,625), topping the national figure by $57,736.
- In the 12 months ending in October, the $5 billion transaction volume was almost evenly split between the District and suburban Maryland on one hand and Northern Virginia on the other. WashREIT was the most active buyer, having purchased eight properties across the metro for a combined $529 million. Seven of the assets were part of a two-tranche, $461 million portfolio deal.

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



Source: YardiMatrix

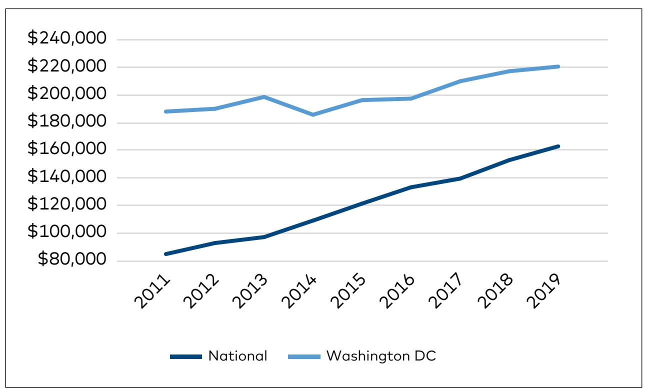
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pentagon City/Penrose	345
Beltsville/Laurel/South Laurel	303
Fair Oaks	294
South Herndon	242
Forestville/Suitland	238
Fairland	237
Dale City/Lorton/Woodbridge	193
Merrifield/Tyson's Corner/Vienna	186

Source: YardiMatrix

[1] From November 2018 to October 2019

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



Source: YardiMatrix

An Insider's View on DC's Affordable Housing Market

By Laura Calugar

Supported by the rapid addition of high-paying jobs and strong population growth, Washington, D.C., is a magnet for white-collar workers. This, in return, has generated strong demand for Class A rentals throughout the metro and put more pressure on low- and middle-income households.

MidCity, a family-owned company, became the first developer to be awarded Opportunity Zone funding in the District. MidCity Vice President & General Counsel Madi Ford shared her insights on the current state of the affordable housing market in the metro and the impact of Opportunity Zones in the area.

How would you describe the affordable housing market in the D.C. area?

Affordability is really at the forefront of conversations about housing in D.C. and across the region. A recent Metropolitan Council of Governments report found that, due to strong economic growth, by 2030 the D.C. region could experience a housing shortage of 75,000 available units—exacerbating an already challenging affordability situation.

What are the main factors that led to D.C.'s current situation?

Housing is a complex issue, but one of the major factors in D.C. over the past several years has been our strong economic growth that encourages people to relocate here for greater opportunities for themselves and their families. The Metropolitan Council of Governments expects our region to add approximately 425,000 new jobs between 2020 and 2030, but only 245,000 new housing units. That shortage affects affordability long term.

Additionally, restrictions on density, especially near mass transit, NIMBY-ism, the cottage industry of planned-unit development appeals, uncertainty regarding timing in the permitting process and skyrocketing development costs all constrict supply in the District. The housing shortage is clear evidence of artificial constraints on supply negatively impacting those who are most housing vulnerable.

Tell us about MidCity's largest affordable housing project currently underway.

Our largest affordable housing project is the redevelopment of the Brookland Manor Apartments and Brentwood Village Shopping Center sites into a new, mixed-income community called RIA. We've owned Brookland Manor for over 40 years and our vision for this 20-acre site is to have 1,760 households on site in new apartments, townhomes and a senior living facility, as well as a revitalized town center, new retailers and restaurants, including a grocer and lush public spaces.

What's the impact of Opportunity Zones in the metro?

Both our RIA project and another adjacent project at 1400 Montana Ave., N.E., are leveraging opportunity funds to support the development. The 1400 Montana Ave. project has 108 units, including 11 affordable units; will deliver in the summer of 2021; and is likely to be one of the first projects to deliver under the Opportunity Zone program in D.C.

(Read the complete interview on multihousingnews.com.)

News in the Metro

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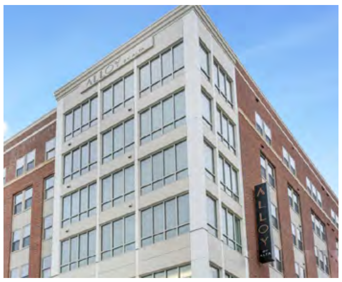


Hines-Sponsored REIT Expands In Maryland

The trust acquired a 275-unit luxury student community. Wood Partners delivered the seven-story building in the first quarter of the year.

Hamilton Zanze Expands Portfolio

The investment company purchased the 244-unit Oasis at Montclair Apartments in Dumfries, Va. for $64.3 million.

Harbor Group Pays $59M for Luxury Community

JLL provided nearly $46 million in acquisition financing for the buyer of the 243-unit, Class A multifamily asset.

Capital Square Scores $225M Financing

Walker & Dunlop assembled the debt package for five apartment communities totaling 1,621 units.

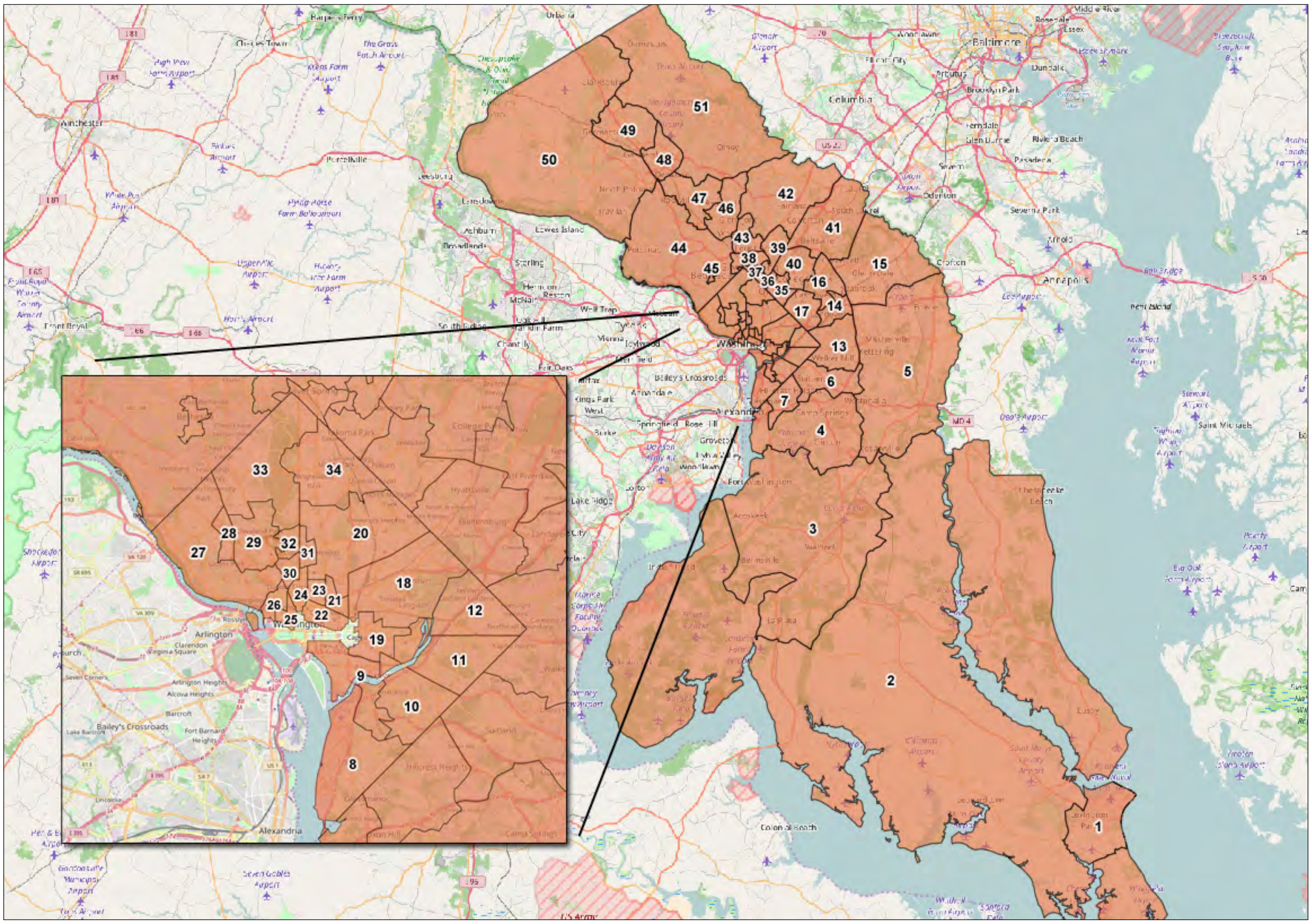
NRP Group Breaks Ground on 500 Units

In partnership with Willton Investment Group, the developer has started construction on two communities in Austin, Texas, and a suburb of Washington, D.C.

DC Project Goes Old School

The transformation of the 132-year-old Grimke School will feature residences, office space, retail and a new home for the African-American Civil War Museum.

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/Saint Elizabeths
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/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
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/Montgomery 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.

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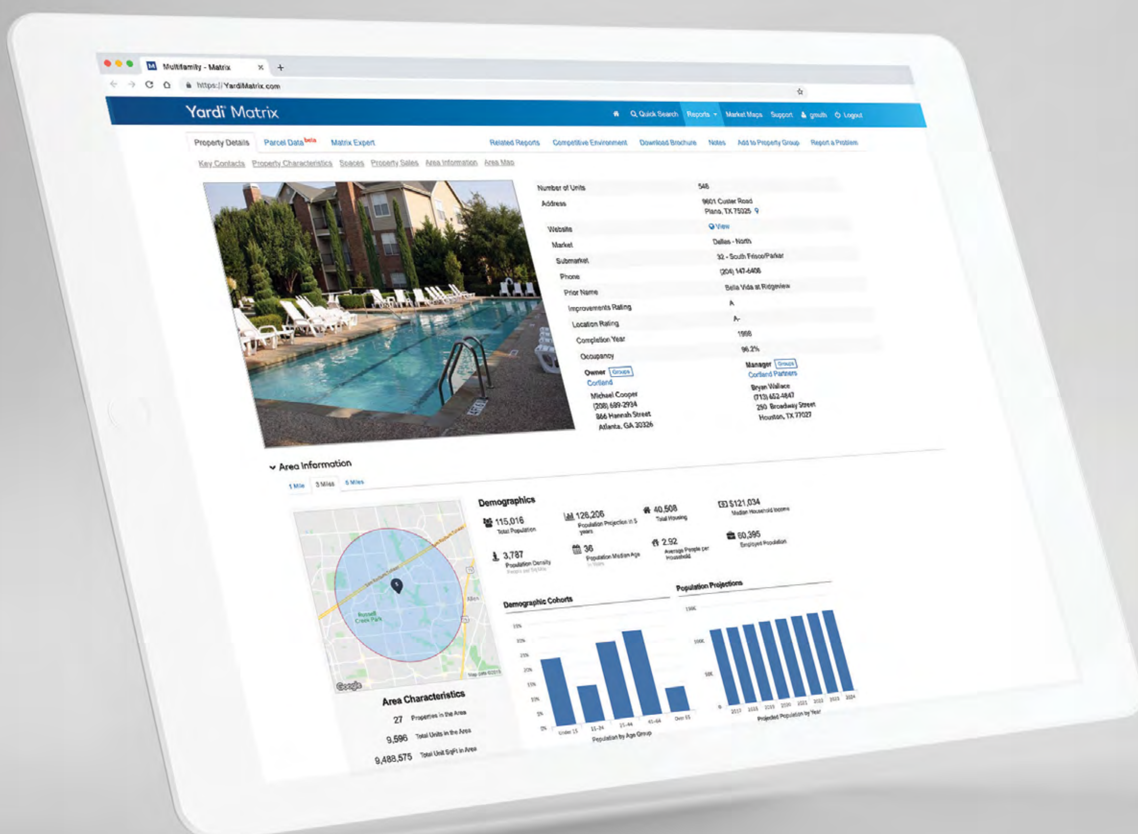

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