Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	22,066
UNITS DELIVERED	6,735

MARKET FUNDAMENTALS

VACANCY RATE	4.7%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$2,151
YEAR-OVER-YEAR CHANGE	+2.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$264,900

Washington D.C. Region
Multifamily **3Q 2023**

MARKET INSIGHTS

Stable fundamentals supporting investment activity

HIGHLIGHTS

- Multifamily property performance in the Washington, D.C., region was healthy during the third quarter. Vacancies remained tight, rents rose, and investment transactions gained momentum.
- Vacancy ended the third quarter at 4.7 percent, matching the figure from midyear. Year over year, the rate has inched up 10 basis points, and area vacancies have generally remained within a tight band since 2021.
- Rents rose in the last three months, advancing 1.3 percent to $2,151 per month. During the past 12 months, rent growth has totaled 2 percent, with gains in the past two quarters offsetting earlier declines.
- After a very slow start to the year, transaction activity accelerated in recent months. Multifamily property sales in the third quarter rose 50 percent from totals posted in the second quarter. Year to date, the median price has reached $264,900 per unit, with cap rates ranging between 4.7 percent and 5.4 percent.

WASHINGTON D.C. MULTIFAMILY MARKET OVERVIEW

The Washington, D.C., region posted strengthening multifamily property performance during the third quarter. Rents trended higher for the second consecutive period, while vacancies held steady, maintaining a 4.7 percent figure. The Northern Virginia segment of the market is posting the tightest conditions and elevated rents, although healthy operational performance has been recorded throughout the region thus far in 2023. The development of new units is ongoing, with new construction projects concentrated in some of the region's highest-demand neighborhoods. New supply growth is closely tracking average long-term levels and has kept pace with renter demand growth. This equilibrium between supply and demand has kept vacancy within a very tight band for the past two years, after a short-term spike in 2020.

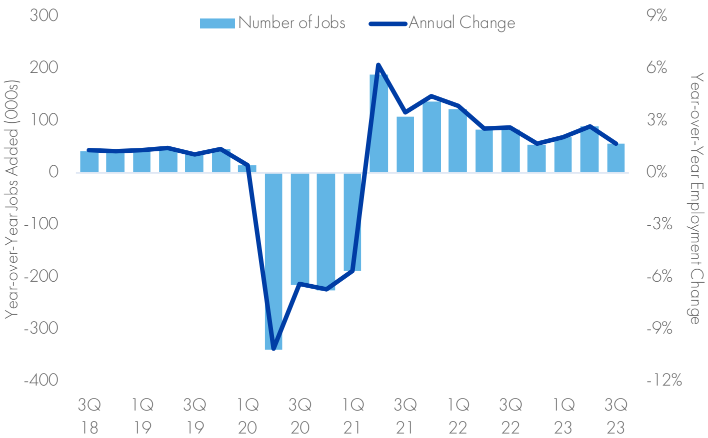
Area investment activity accelerated in recent months, but total transaction counts to this point in 2023 are down about 50 percent from levels that were recorded during the same time-frame in 2022. Transactions in the Maryland suburbs accounted for more than half of the transactions that closed in the third quarter, with several low-vacancy properties in Montgomery County continuing to trade throughout the year. In Northern Virginia, sales have been concentrated in Fairfax County, including a mix of newer Class A buildings and 1980s-vintage Class B properties. Within the District, sales were minimal during the third quarter, but properties that have transacted year to date have included a mix of new buildings in Northwest D.C., and older Class C properties.

EMPLOYMENT

- Employers continue to add workers in Washington, D.C., although the pace of growth has been mixed in recent periods. Year over year through the third quarter, total employment expanded by 1.7 percent, with a gain of more than 55,000 new jobs.
- The pace of growth has slowed in the region's large professional workforce in recent quarters, a trend that has dragged on gains in the local labor market. During the past 12 months, only about 5,000 professional jobs have been added in the region, a gain of 0.6 percent. Since 2015, annual growth in the sector has been more than twice as strong, averaging 1.6 percent.
- Trends in public-sector employment have been mixed. Total government employment has grown by 5,500 workers in the past year, a 0.8 percent gain. Total federal government employment in the region has contracted during that same period, however, inching lower by 1.2 percent with a net loss of 4,400 positions.
- **FORECAST:** While some of the top industries in Washington, D.C., are posting minimal gains, stronger additions have been recorded in sectors including education and health, supporting the local labor market. Employers are on pace to add 55,000 net new jobs in 2023, a 1.7 percent increase. Job growth this year is expected to closely track gains recorded in 2022.

Employers are on pace to add 55,000 net new jobs in 2023.

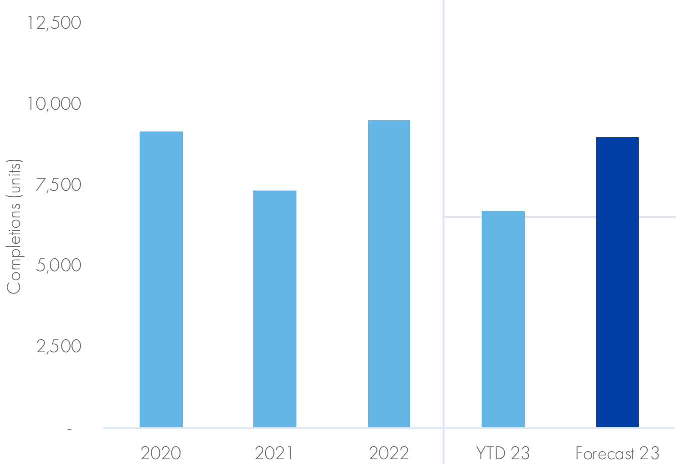
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Approximately 22,000 units are currently under construction.

DEVELOPMENT TRENDS



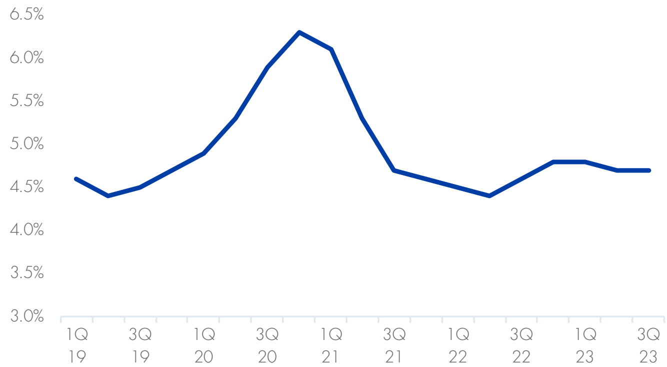
Sources: Northmarq, CoStar, Yardi

DEVELOPMENT & PERMITTING

- Projects totaling more than 6,700 units have been delivered through the first three quarters of 2023, a slightly slower pace of completions than was recorded through the same period last year. Projects totaling more than 2,800 units have been delivered in Northern Virginia, with Fairfax and Arlington the top locations for recent inventory growth.
- Approximately 22,000 units are currently under construction throughout the region. There are about 9,300 units under construction in Northern Virginia, with an additional 7,100 units in the Maryland suburbs, and more than 5,600 units within the District.
- Multifamily permitting peaked in 2022 and has returned to longer-term averages to this point in 2023. Year to date, developers have pulled permits for approximately 9,700 multifamily units, a 39 percent decline from year-earlier levels. The region is on pace to issue permits for about 13,000 multifamily units this year, nearly identical to the annual average level during the past decade.
- **FORECAST:** Approximately 9,000 apartment units will be delivered in 2023, similar to the number of completions from last year. Within the District, the NoMa submarket will be an active spot for new construction, while Prince George's County and Fairfax County will receive the most new units in Maryland and Virginia, respectively.

Vacancy ended the third quarter at 4.7 percent.

VACANCY TRENDS



Sources: Northmarq, Yardi

VACANCY

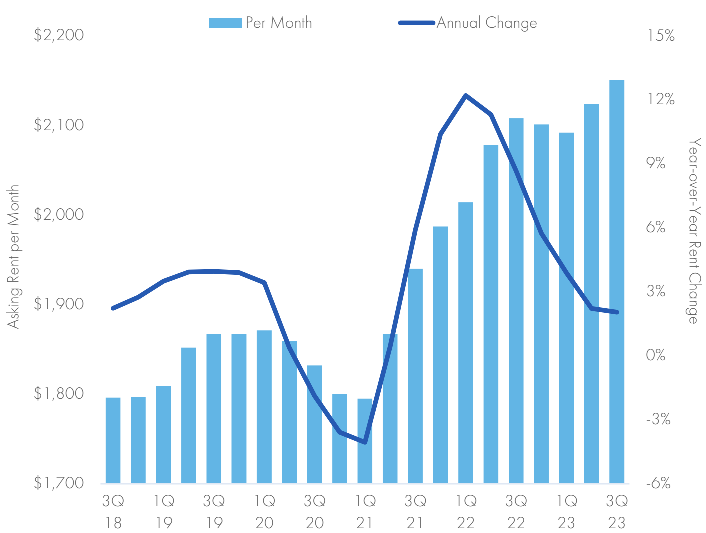
- Local vacancy has remained in a tight range during the past several quarters. Vacancy ended the third quarter at 4.7 percent, matching the rate from the midyear point. Area vacancy has remained between 4.4 percent and 4.9 percent since the third quarter 2021.
- Year over year, area vacancy has inched up just 10 basis points. In Northern Virginia, vacancy ended the third quarter at 4.1 percent, down 30 basis points from one year earlier. In the Maryland suburbs, vacancy has inched higher, rising 30 basis points in the last 12 months to 5.1 percent.
- Steady paces of new development and net absorption have kept Class A vacancy in the region stable for the past several quarters. Class A vacancy was 5.3 percent in the third quarter, matching the figure from one year earlier.
- **FORECAST:** Area vacancy is on pace to end 2023 at 4.8 percent, identical to the level at the beginning of the year. This follows a period where the rate ticked up 30 basis points in 2022.

RENTS

- Rents in the Washington, D.C., market rose 1.3 percent in the third quarter, building on a similar pace of increase from the prior period. Rents in the region had trended lower late last year and at the beginning of 2023 but have now posted two consecutive quarters of gains.
- Year over year, rents have increased 2 percent, ending the third quarter at $2,151 per month. In recent years, the pace of growth was much more rapid; annual gains averaged between 6 percent and 12 percent throughout much of 2021 and 2022.
- Rent growth in the Maryland portion of the region has gained traction at a somewhat faster pace. During the past 12 months, rents in the Maryland suburbs have increased 2.3 percent to $2,097 per month. In Northern Virginia, average rents are higher, ending the third quarter at $2,222 per month, up 1.7 percent year over year.
- **FORECAST:** After a few turbulent years, rent growth is expected to end 2023 in a more stable pattern of sustainable growth. Asking rents are forecasted to end this year at $2,165 per month, a 3 percent increase from the prior year.

Year over year, rents in the region have increased 2 percent.

RENT TRENDS



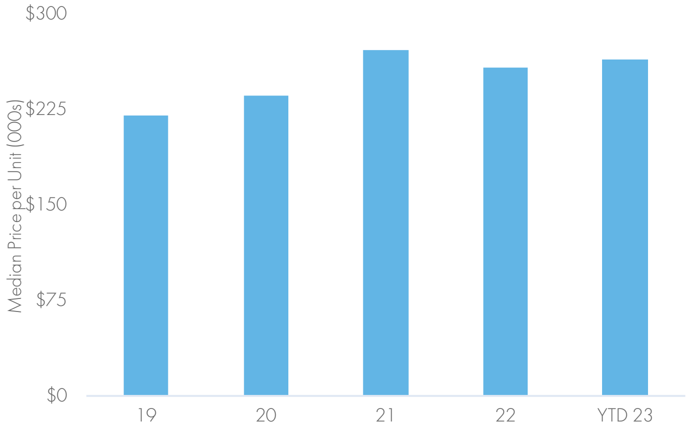
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Following a very slow first half, transaction activity gained momentum during the third quarter. The number of properties that sold in the past three months nearly doubled transaction activity from the second quarter. Despite the recent uptick, sales velocity year to date is down 50 percent from 2022 levels.
- In sales that have closed to this point in 2023, the median price is $264,900 per unit, about 3 percent higher than the 2022 median price. Current per-unit pricing figures are only slightly lower than the all-time highs recorded in 2021.
- During the third quarter, prices trended higher. The median price in sales that closed in the third quarter reached $284,200 per unit. Class A property sales accounted for approximately 35 percent of the total transaction activity in the quarter, with these properties changing hands at $390,000 per unit or higher.
- Prices are generally highest in the Northern Virginia submarkets, where the properties that have traded to this point in 2023 are newer on average. The median price in Northern Virginia year to date is $323,700 per unit. Median prices within the District and the Maryland Suburban submarkets are closer to $220,000 per unit.
- Cap rates in recent transactions have generally ranged between 4.7 percent and 5.4 percent, with an average of approximately 5 percent. One year ago, cap rates were closer to 4.25 percent.

Cap rates have ranged between 4.7 percent and 5.4 percent.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

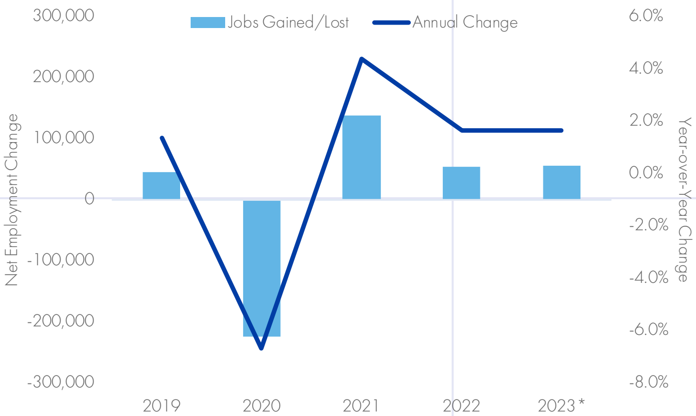
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Elm	4710 Elm St., Bethesda, MD	456	$250,000,000	$548,246
Huntington at King Farm	801 Elmcroft Blvd., Rockville, MD	402	$135,500,000	$337,065
Avalon Columbia Pike	1028 S Walter Reed Dr., Arlington, VA	269	$105,000,000	$390,335
Arbors at Fair Lakes	4408 Oak Creek Ct., Fairfax, VA	282	$85,600,000	$303,546

LOOKING AHEAD

The steady operating conditions that have remained in place throughout much of 2023 should extend through the remainder of this year and into 2024. Construction in the area is somewhat elevated, but forecast deliveries for this year are only about 5 percent higher than annual averages recorded in the region since 2014. Developers are bringing new units to the market in response to consistently tight vacancy conditions and resumed rent growth, trends that are expected to persist over the next several periods. While the pace of future supply growth is fairly predictable, there is some uncertainty surrounding renter demand in the near term. The pace of employment growth has slowed in recent quarters, particularly in the region's core white-collar industries. While total employment gains in 2023 should closely track prior-year levels, there could be a more modest pace of growth beginning in 2024.

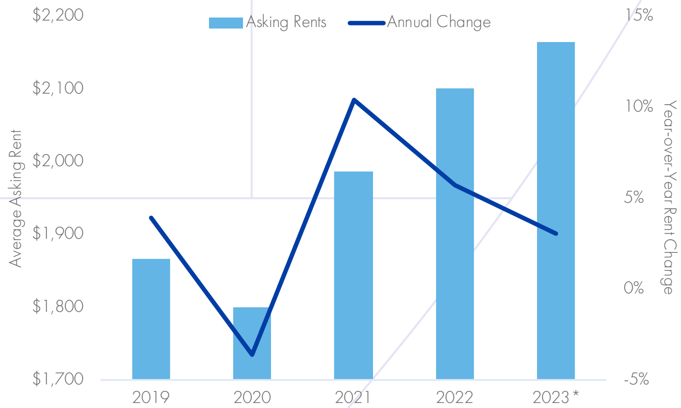
An increase in transactions in the third quarter has set the stage for continued sales activity to close the year. To this point in the cycle, local cap rates have trended higher, but appear to have leveled off between 5 percent and 5.4 percent for most transactions. While financing costs may push higher, the expectations gap between buyers and sellers is showing signs of narrowing in recent quarters, supporting transaction activity. Another factor that will ultimately attract investment capital is the region's consistently low vacancy rates. With supply-side pressures threatening operating performance in many high-growth markets, investors may seek to acquire assets in more supply constrained regions of the country.

EMPLOYMENT FORECAST



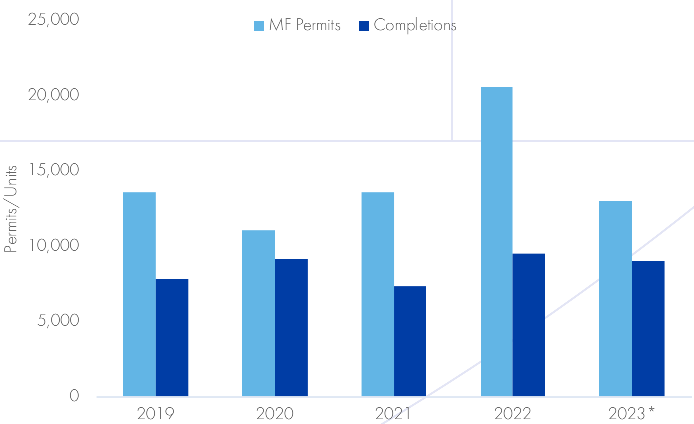
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



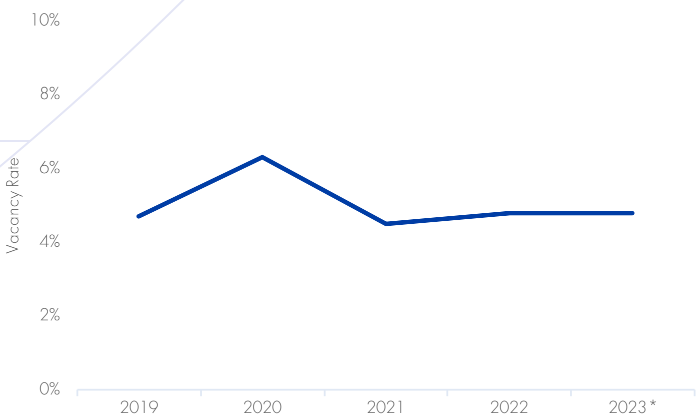
* *Year End Forecast*
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



* *Year End Forecast*
Sources: Northmarq, Census Bureau, CoStar, Yardi

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, Yardi

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