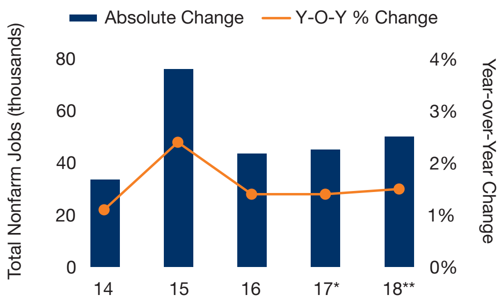
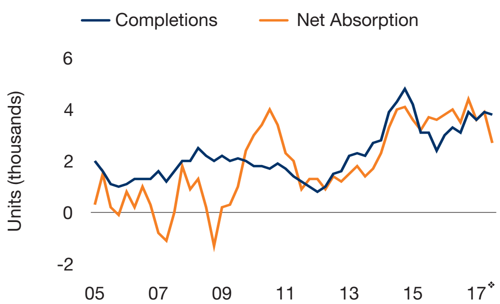
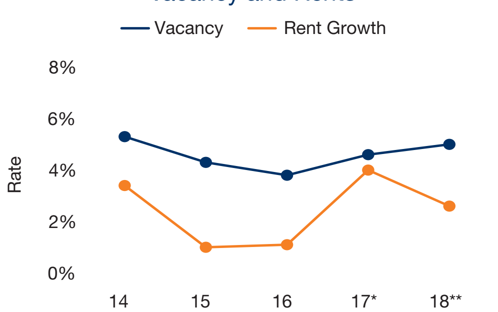
Employment Trends



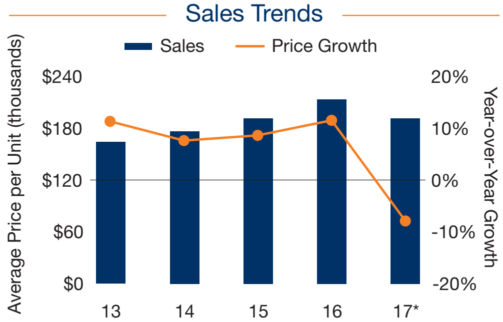
Quarterly Completions vs. Absorption⌘



Vacancy and Rents



Sales Trends



* Estimate; ** Forecast; ❖ Through 3Q; ⌘ Trailing 12-month average
Sources: CoStar Group, Inc.; MPF Research; Real Capital Analytics

Active Investment Landscape Bolstered by Strong Economic Fundamentals

Construction in and around the Beltway raises vacancy despite continued job and rent ascension. A surge in the number of individuals working for educational institutions contributed to another year of solid employment growth for the nation's capital. Workforce expansion in conjunction with an unemployment rate below 4 percent contribute to a rising level of median income. More households are forming in the metro, and with the cost of homeownership over one and a half times the U.S. median home price, renting remains an attractive residency option. Because of these factors, net absorption will stay positive in 2018. As with demand, supply will also be up. Completions in the Greater Washington, D.C., area are increasing in 2018 to the second highest level in a decade. The large number of incoming developments will outpace demand and inflate the vacancy rate for the second year in a row. Despite the change in vacancy, strong overall economic indicators will prompt average effective monthly rent to climb in value for the 16th consecutive year.

Cap rates stay consistent as investors choose from varied stock. The robust economy of Washington, D.C., with established growth trends in jobs and rent, grants investors a variety of appealing multifamily options. Class C properties trade frequently, while a plentiful stock of new buildings now exist for purchase. Cap rates on average have stayed flat through 2017 and do not vary widely across classification. Most transactions fall in a low-5 to low-6 percent range. Some Class A complexes trade at a low- to mid-4 percent cap rate, while first-year returns on certain older or more suburban properties will extend above 6 percent. The Adams Morgan neighborhood in northwest D.C. maintains its popularity; it witnessed the highest number of transactions in 2017. As the capital's economy continues to thrive, local investors will find additional attractive opportunities that offer higher first-year returns, premium rents or other qualities.

2018 Market Forecast

NMI Rank 32, no change — Washington, D.C., remains in the same position in the NMI that it held last year as its vacancy equals the U.S. rate.

Employment up 1.5% — Employers will add 50,000 jobs in 2018, up from 45,000 jobs last year.

Construction 16,800 units — Deliveries will expand by 14 percent this year, making 2018 the most active year for completions since 2014. Last year 14,700 units were brought online.

Vacancy up 40 bps — Net absorption will not offset prolific construction, contributing to further vacancy pressure. Following an 80-basis-point rise in 2017, the vacancy rate will advance by half as much to 5 percent this year.

Rent up 2.6% — The average effective rent will climb to $1,725 per month in 2018, a more modest rise over the 4 percent gain from last year.

Investment — Cap rates remain stable as capital flows into the highly traded D.C. neighborhoods of Anacostia and Fort Totten, in addition to Arlington County.