

INVESTMENT FORECAST

Marcus & Millichap

MULTIFAMILY

Washington, D.C. Metro Area






2020

Multifamily Development Nudges Higher As Vacancy Reaches Cycle Low

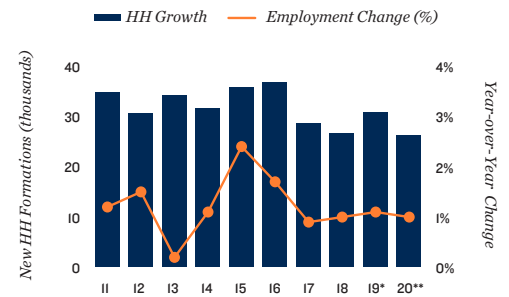
Elevated renter demand in Navy Yard filling newly delivered apartments. After two years of declines, Washington, D.C.'s development pipeline will expand in 2020. The focal point of construction is in the Navy Yard and along the Capital South Waterfront, where more than 4,000 apartments will be completed by year end. New entertainment options, including the opening of Audi Field in 2018, have bolstered renter demand in the area. Deliveries will also rise in multiple Arlington submarkets, encouraged by the establishment in National Landing of Amazon's second headquarters. Housing needs are expected to increase in surrounding areas moving forward, as hiring at the e-commerce giant's new offices ramps up this year. The number of upcoming arrivals, particularly in the Navy Yard, will weigh on local vacancy in the short term, but fewer apartment additions in other parts of the market, such as Central D.C. and Downtown Silver Spring, will support an overall drop in availability in 2020. Tighter vacancy is in turn sustaining rent growth, particularly among Class B units.

Investment activity expands outside the District. More multifamily properties changed hands in 2019 than during any other year so far this business cycle. Transaction velocity advanced in Northern Virginia and Suburban Maryland but moderated within the District. New corporate investment into the Pentagon/Crystal City and Potomac Yards areas likely prompted greater sales activity in nearby Arlington County and Alexandria. Investors seeking higher returns at lower entry costs found opportunities in Hyattsville and Frederick County, Maryland, among other locations. Within the District of Columbia, buyers with less than \$10 million in available capital continued to target potential value-add opportunities in Anacostia, where revitalization efforts are underway. Competition for listings is expected to bolster the average per unit sale price further while the year begins with cap rates in the low-5 percent zone.

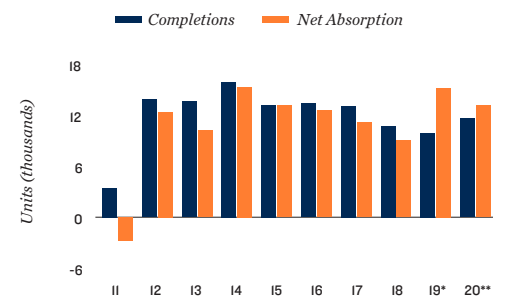
2020 Market Forecast

- Employment up 1.0%**  Employers will create 35,000 jobs this year, led by law, accounting, engineering, and administrative firms.
- Construction 11,600 units**  Deliveries will reach a three-year high in 2020 as construction expands in key submarkets across the market. Arrivals are picking up substantially in multiple Northern Virginia submarkets.
- Vacancy down 30 bps**  Despite elevated construction activity, the metrowide vacancy rate will dip to 3.3 percent, its lowest value since 2005.
- Rent up 2.9%**  The average effective rent will advance to \$1,850 per month following a 3.4 percent growth rate in 2019.
- Investment**  Ongoing public transit development, including an extension to the Silver Line and the planned Purple Line, may direct more investment to areas along those paths as population growth pushes residents beyond the metro core.

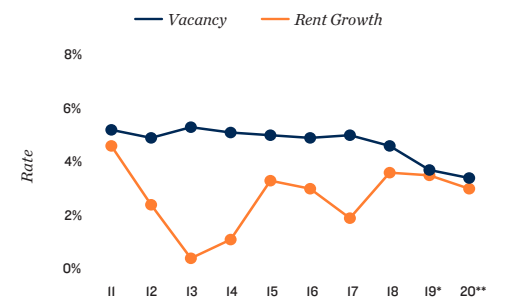
Economic Trends



Completions vs. Absorption



Vacancy and Rents



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics

Washington, D.C., Office:

Bryn Merrey Senior Vice President/Division Manager
 7200 Wisconsin Avenue, Suite 1101
 Bethesda, MD 20814
 (202) 536-3700 | bryn.merrey@marcusmillichap.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2019. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.