MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Washington, D.C., Metro Area

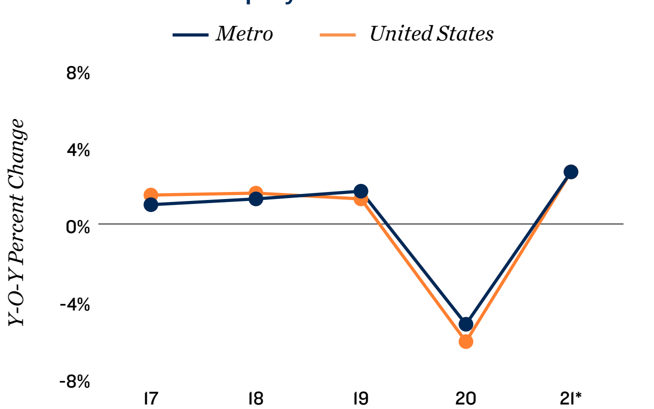
1Q/21

Apartments Outside the District Better Positioned For Gains in the Near Term Amid Supply Pressure

Core D.C. neighborhoods face longer road to recovery. The closure of many offices, entertainment venues and other non-essential businesses drastically altered the lifestyles of District residents last year. Vacancy softened across all apartment classes inside D.C. by at least 350 basis points. Availability climbed the most in the District's higher-cost residential areas as renters, out of either necessity or choice, looked for more affordable or less densely packed living spaces. While the ongoing vaccine roll-out should bring more employees back to offices, restoring one advantage of urban living, upcoming supply growth will pose a near-term challenge in some neighborhoods. A combined 6,000 doors will open in the Navy Yard/Capitol South and Northeast D.C. submarkets this year, a 15 percent increase to local inventory.

Virginia and Maryland suburbs began 2021 in strong positions. The metro's northern Virginia and suburban Maryland submarkets were less impaired by the pandemic in 2020. While vacancy rose in some neighborhoods, it fell in others, encouraging rent growth. Areas with lower population density and living costs, as well as few planned arrivals, are best positioned for strong property performance this year. Larger residential/office hubs, such as Tysons Corner, will also start to recover as health precautions become less restrictive. Certain submarkets will face new supply pressure, however, as over 1,000 units are slated to open in both Reston/Herndon and Bethesda/Chevy Chase this year.

Employment Trends



** Forecast*

Sources: BLS; RealPage, Inc.; CoStar Group, Inc.

Multifamily 2021 Outlook

87,500 JOBS *will be created*

EMPLOYMENT:

Following the net loss of 175,000 positions in 2020, more common vaccinations and testing should facilitate wider business reopenings this year, aiding job growth. Total employment is expected to climb within 3 percent of the market's pre-pandemic level.

14,500 UNITS *will be completed*

CONSTRUCTION:

Numerous projects started before the health crisis will open this year, adding the most apartments within a 12-month span since 2014 when over 15,000 rentals were completed. Deliveries will be heaviest within the District of Columbia.

20 BASIS POINT *increase in vacancy*

VACANCY:

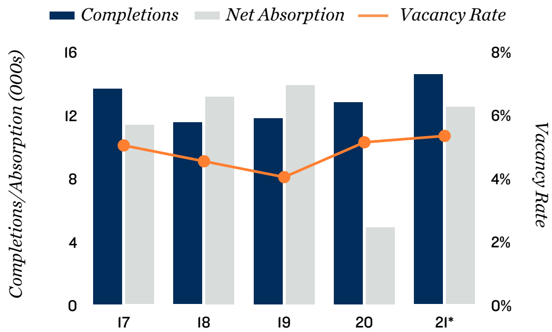
Although it may not occur until later in the year, widespread office reopenings will fuel new renter demand in the District and other employment hubs, lessening new supply's impact on vacancy. The market rate will inch up to 5.3 percent, an eight-year high.

0.4% DECREASE *in effective rent*

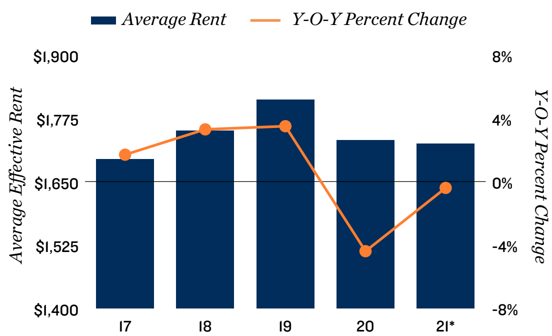
RENT:

Effective rents will stabilize this year following the pandemic-induced shock suffered in 2020. The market's average rate will tick down to $1,725 per month, equivalent to rates offered in mid-2018.

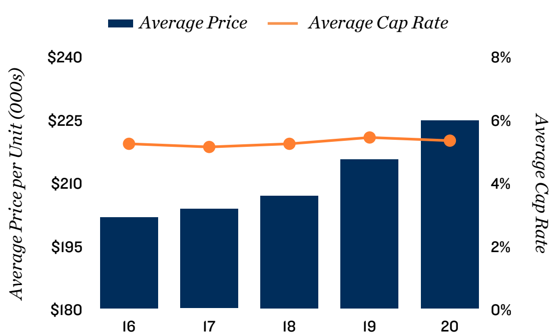
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

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Price: $250

2020

CONSTRUCTION

12,742 units completed

- Despite new health concerns, apartment deliveries reached a two-year high in 2020 as more than 7,600 rentals opened just within the District.
- Of the approximately 3,600 units finalized in northern Virginia, most are in submarkets closer to Amazon's National Landing campus. Completions among suburban Maryland submarkets were led by Frederick.

VACANCY

110 basis point increase in vacancy Y-O-Y

- Leasing velocity slowed in the second half of last year, lifting the metro vacancy rate 80 basis points between June and January to 5.1 percent.
- The largest vacancy jump last year was in Central D.C. at 530 basis points. New supply paired with renters relocating to more open spaces pushed the submarket's rate up to 9.3 percent, the highest in the metro.

RENT

4.4% decrease in the average effective rent Y-O-Y

- The average effective rent decreased to $1,732 per month last year as concession use roughly doubled, erasing a 3.5 percent gain from 2019.
- Downward pressure on rents was most apparent in the central business district, where the average payment fell 12.2 percent to $2,164 per month. The average suburban rate dropped by a less severe 2.3 percent.

Investment Highlights

- Challenges fostered by the health crisis reduced transaction velocity by 30 percent in 2020. Despite this disruption, the average sale price still increased by 4 percent, on par with the gain from 2019, to a new high of $224,600 per unit. The mean cap rate, meanwhile, dipped 10 basis points year over year to 5.3 percent. These shifts reflect a flight to quality undertaken by the moderately smaller buyer pool.
- Institutional-grade and private investors demonstrated equal but opposite interests in 2020. The vast majority of trades priced above $20 million were in Virginia and Maryland, for properties ranging in size from 75 units to over 800 across all three property classes. A nearly identical number of transactions occurred in the $1 million to $10 million bracket, but most of those were for Class C buildings in the District, and Anacostia in particular.
- Out-of-market investment was again led by buyers from California and New York last year, although in both cases deal volumes were lower than in 2019. Institutions hailing from both states pursued assets mostly outside the District with first-year yields under 5 percent.