MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Washington, D.C. Metro Area

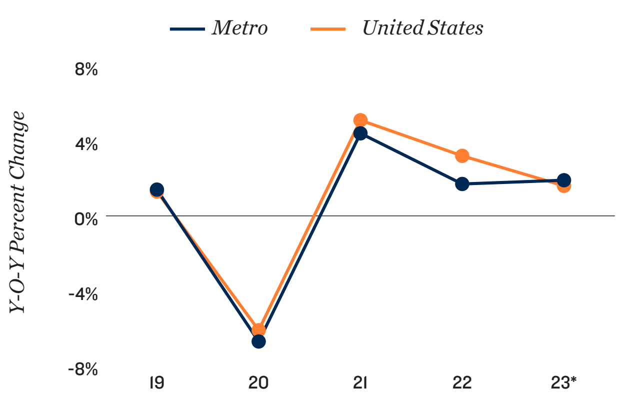
3Q/23

Renter Demand Rebounds in the Nation's Capital, But Still Overshadowed by a Historic Supply Wave

Vacancy contracts in second quarter. After falling to a more than two-decade low in early 2022, renter demand has improved significantly through the first half of this year. Nearly 5,000 units were taken off the market on a net basis during the first six months of 2023, which helped bring annual net absorption back to positive territory. Metro vacancy also experienced a quarter-over-quarter decline from April to June; however, the rate was still 100 basis points above the 2019 level. Although leasing activity is recovering, the robust construction pipeline remains a headwind to rental availability. As of August, there were more than 37,000 units underway, accounting for 5.5 percent of total inventory. Areas facing heavy supply pressure include Bethesda-Chevy Chase, Central D.C., Navy Yard-Capitol South, North Arlington and Northeast D.C., as each of these submarkets are slated to gain over 2,500 units in the next two years.

Return-to-office mandates could help drive move-ins. In May, Amazon's policy for workers to be present in offices at least three days a week went into effect. The company has asked some corporate employees who previously worked remote to relocate as part of this mandate. Also, President Biden has urged his cabinet to aggressively execute plans for federal employees to return to in-person work. If successful, these initiatives could help bring renters back to submarkets like Central D.C. and Crystal City-Pentagon City, where local vacancy rates remain above their respective pre-pandemic levels.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

62,000
JOBS
will be created

EMPLOYMENT:

Washington, D.C. will rank third among all major U.S. markets in job gains, as firms increase staff counts by 1.9 percent in 2023. Employment growth through the first half was driven by the government sector.

15,500
UNITS
will be completed

CONSTRUCTION:

Annual deliveries exceed 15,000 units for the first time since 2014, as developers increase local inventory by 2.3 percent. Nearly 60 percent of this year's new supply is expected to be completed in the second half.

60
BASIS POINT
increase in vacancy

VACANCY:

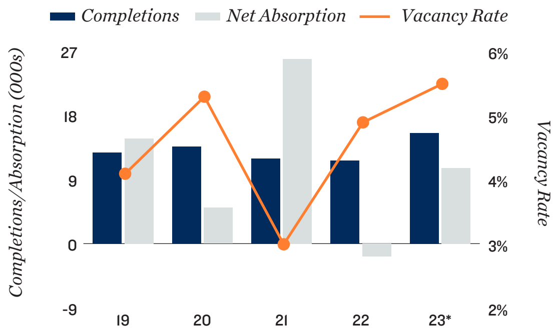
Elevated supply pressure lifts metrowide vacancy for the second straight year, following a 190-basis-point increase in 2022. Still, at 5.5 percent, the rate will remain 20 basis points below the national average.

3.6%
INCREASE
in effective rent

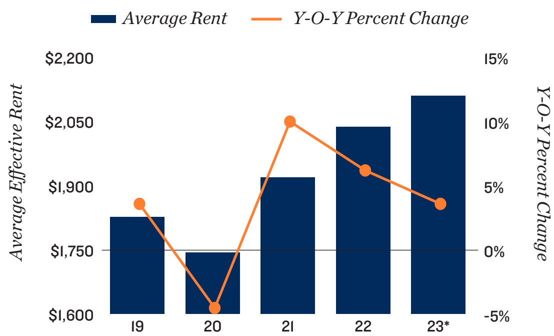
RENT:

Despite a rising vacancy rate, rent growth is projected to outpace the metro's long-term average of 3.2 percent. The mean effective rent will reach $2,109 per month by year-end, marking a new all-time high.

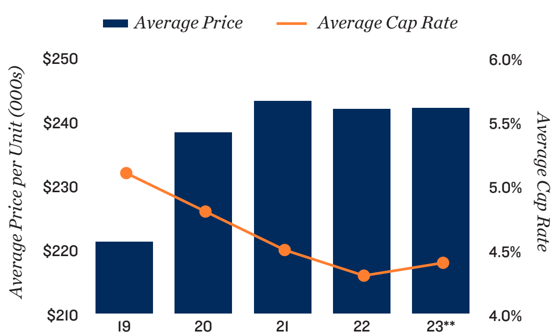
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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2Q 2023 - 12-Month Period

CONSTRUCTION

12,953 units completed

- Developers increased apartment inventory across the Washington, D.C. metro by 1.9 percent during the past year ending in June, with most deliveries occurring inside of the District.
- Suburban Maryland and Northern Virginia recorded completion totals of 2,250 and 4,300 units, respectively, during this span.

VACANCY

170 basis point increase in vacancy Y-O-Y

- Supply additions outpaced net absorption by more than 12,000 units in the trailing 12 months ending in June, lifting metro vacancy to 5.1 percent.
- Local vacancy was lowest in Northern Virgina at 4.7 percent. Meanwhile, the rates in Suburban Maryland and the D.C. District registered at 5.5 and 5.0 percent, respectively.

RENT

4.0% increase in the average effective rent Y-O-Y

- The metro's average effective rate reached $2,078 per month in June, driven by the 4.6 percent annual rent growth in the District.
- Southeast D.C., Bethesda-Chevy Chase, North Arlington, Loudoun County and Northwest D.C. each recorded local rent gains of at least 6 percent during the past four quarters ending in June.

Investment Highlights

- Elevated fixed and floating rate debt, along with other costs like insurance, have hindered Washington, D.C.'s investment market. Through the first half of this year, transaction velocity fell to a decade-low as many buyers opted to remain on the sidelines. However, pricing has remained relatively stable around $242,000 per unit on average, with cap rates trending in the mid-4 percent range over the past year.
- Inside of the District, buyers have been targeting assets in Northwest D.C., particularly in the Adams Morgan-Columbia Heights area. Here, local vacancy registering 100 basis points below the metro average as of June and annual rent growth of 6 percent have driven buyer interest. Entry costs and first-year returns in this submarket closely align with the metro mean.
- In Northern Virginia, growing local populations in Woodbridge, Reston, Herndon and Fairfax helped facilitate local transactions. Meanwhile in Suburban Maryland, investors have been targeting properties in cities like Gaithersburg and Hyattsville, where local vacancy rates were at or below the metro average. Bethesda could also see an uptick in deals moving forward as the area is emerging as a popular live-work-play environment.