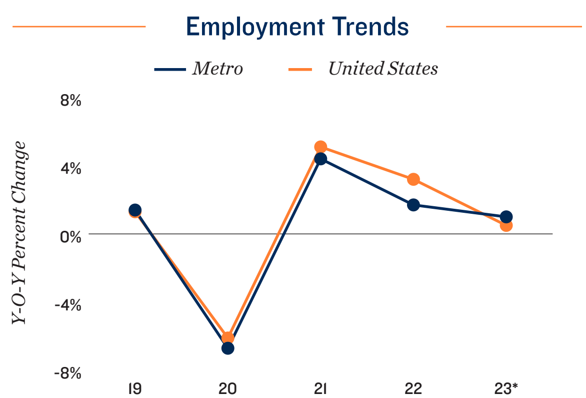
WASHINGTON, D.C. METRO AREA

Long-Term Rental Demand Drivers Instill Developer Confidence in Washington, D.C.'s Apartment Market

Recalibration period nearing an end. After vacancy fell to a 20-year low in March 2022, elevated inflation weakened the rate of household formation, resulting in rising availability over the past four quarters ending in March. However, the rate of increase has slowed as positive net absorption returned in the first quarter of 2023, indicating vacancy may soon hit an inflection point. Additionally, economic tailwinds are emerging, which may provide a boost to local apartment demand. United Airlines is planning a major expansion at Dulles International Airport, with the firm expected to create more than 1,000 new jobs in 2023. The FBI is also considering Greenbelt, Landover and Springfield as potential destinations for its new headquarters. The decision could provide a significant benefit to any of these suburban renter pools, as the Bureau intends to have 7,500 of its employees operating out of the new building.

Development soars to historic high. Despite elevated materials and borrowing costs, supply additions are expected to reach a two-decade high in 2023, as nearly 40,000 units were underway entering April. The metro's economic stability, highly-educated workforce and prohibitive costs of homeownership are major drivers of renter demand and continue to fuel developer confidence. Inside of the District, construction activity has been most prevalent in the Navy Yard-Capitol South and Northeast D.C. submarkets. Growing suburban nodes — like Bethesda-Chevy Chase, Arlington, Tysons Corner, Alexandria and Reston — have also been areas of focus as of late.



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

Multifamily 2023 Outlook

34,000 JOBS will be created

EMPLOYMENT:
Economic uncertainty will slow the pace of hiring, resulting in headcounts expanding by just 1 percent on net in 2023. Much of these gains may stem from the leisure and hospitality sector, as the segment is still recovering positions lost during the pandemic.

16,000 UNITS will be completed

CONSTRUCTION:
Apartment inventory will increase by 2.4 percent in 2023, with annual supply additions eclipsing last year's total by nearly 3,000 units. Entering the second quarter, more than 130 properties were underway with an average size of roughly 280 units each.

60 BASIS POINT increase in vacancy

VACANCY:
Net absorption returns to positive territory in 2023 and will eclipse the 11,000-unit mark. However, new supply places upward pressure on vacancy, with the rate expected to reach 5.5 percent by year-end.

3.6% INCREASE in effective rent

RENT:
Although rent growth moderates from the historic levels achieved in 2021 and 2022, the average effective rate will still increase and reach $2,108 per month. Also, this rate of increase outpaces the metro's trailing 20-year average of 3.1 percent.

1Q 2023 - 12-Month Period

CONSTRUCTION

13,733 units completed

- Over the past year ending in March, developers increased apartment stock by 2.1 percent. Recent deliveries were highlighted by Illume II, a 542-unit project that was completed in Navy Yard during the third quarter of 2022.
- The bulk of the current pipeline is slated for delivery inside the District, as more than 16,000 units were underway here entering the second quarter.

VACANCY

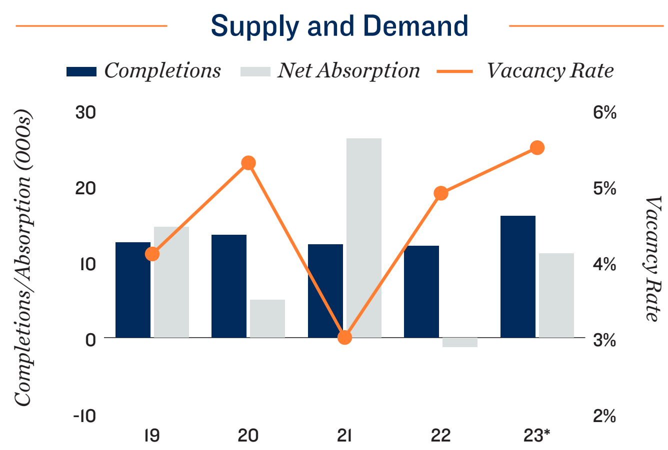
250 basis point increase in vacancy Y-O-Y

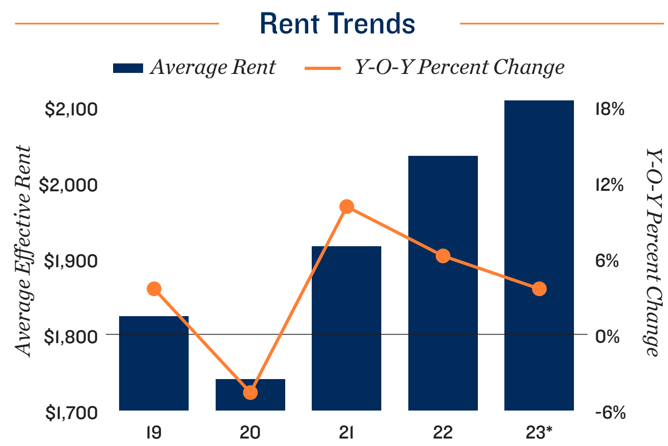
- The D.C. metro recorded a net relinquishment of roughly 3,600 units over the trailing 12-month period ended in March, resulting in the local vacancy rate rising to 5.1 percent during this span.
- Availability inside of the District was at 5.0 percent entering April, roughly 30 basis points below Suburban Maryland and tied with Northern Virginia.

RENT

4.9% increase in the average effective rent Y-O-Y

- Although the pace of growth has moderated from the unprecedented levels seen in recent quarters, the average effective rent continued its upward climb, reaching $2,040 per month in March 2023.
- Gaithersburg led all Washington, D.C. metro submarkets in rent growth year-over-year ending in March, recording gains of 8.2 percent.





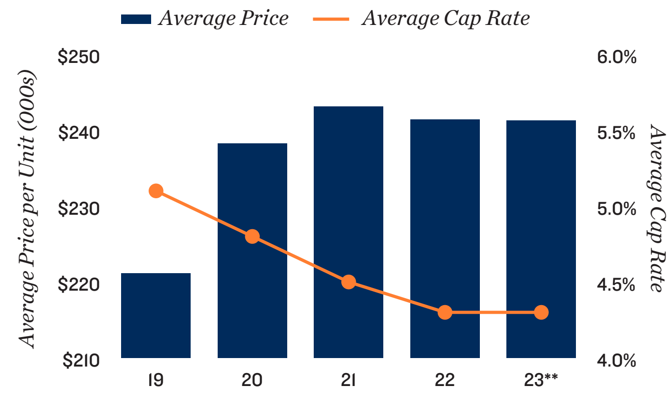
*Forecast ** Through 1Q

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

Investment Highlights

- Despite headwinds, including rising interest rates and economic uncertainty, transaction velocity remained strong throughout 2022 and reached a new all-time high. While macroeconomic conditions may slow deal making over the first half of this year, regional buyers will likely still place an emphasis on assets in Washington, D.C., due to the area's long-term rental demand drivers. The presence of the federal government, as well as a plethora of Fortune 500 companies, continues to pique investor interest.
- The average price for trades completed in the past year was $241,000 per unit, down 0.6 percent from the previous yearlong span. The mean cap rate for the same period was down 10 basis points to 4.3 percent. Nevertheless, uncertainty in financial markets may potentially place upward pressure on yields in 2023, should investment volumes decline near-term.
- Recent deal flow has been heavily pronounced inside of the District, particularly in Anacostia-Southeast. This submarket is home to the lowest average rents in the metro, which is a considerable driver for renter demand. Meanwhile, buyers seeking higher quality assets inside of D.C. proper often target apartments in Adams Morgan-Columbia Heights, as the area attracts renters with its proximity to numerous nightlife and dining options.

Sales Trends



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