MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Washington, D.C. Metro Area

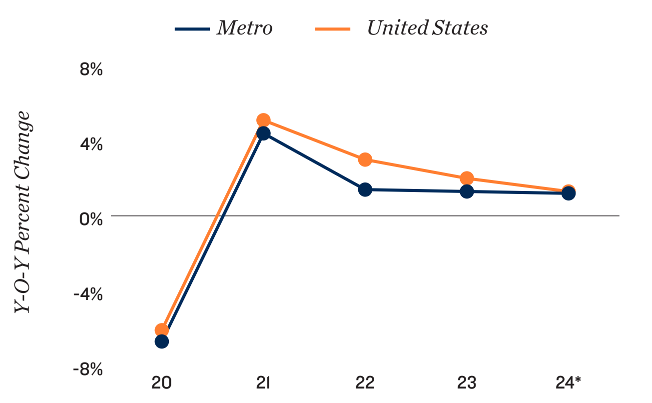
2Q/24

Demand Trends Indicate D.C. is Well-Positioned to Navigate Another Year of Record Supply

Core demand stands out nationally. The CBD posted net absorption of 6,100 rentals over the year ending in March, the highest total among major metros in the span. Demand was widespread, with four urban submarkets — North Arlington, Navy Yard-Capitol South, Northeast and Central D.C. — noting local paces over 1,000 units. The core's absorption trends are mitigating the impact of new supply on property metrics. At 5.3 percent in March, CBD vacancy was 300 basis points lower than the level from three years ago, despite the delivery of over 17,000 units in that time. Strategic concessions have aided leasing; however, discounts are being rolled back amid improving demand and tapering new supply. Occupied stock grew 4.2 percent in the CBD over the last year, double the marketwide pace, while local deliveries in 2024 are slated to near a six-year low.

Vacancies in job growth hubs will tighten further. Hagerstown, Maryland is slated to receive at least five new industrial expansions in 2024, creating over 2,000 jobs. These move-ins will elevate needs for mid-tier rentals at a time when Class B vacancy in neighboring Frederick already fell by almost 300 basis points year-over-year. Central D.C. is also expected to host at least seven new large-scale office move-ins this year, lifting demand for nearby Class A apartments. The area contained a higher-tier vacancy rate in March that was 330 basis points lower than the level from three years ago, despite local stock growing by almost 5 percent during that time.

Employment Trends



** Forecast*

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

Multifamily 2024 Outlook

39,000
JOBS
will be created

EMPLOYMENT:

At 1.2 percent, overall job growth slows relative to last year, despite office-using fields beginning to regain momentum. Companies from these sectors are expected to add 2,000 jobs on net after losing 9,600 in 2023.

13,500
UNITS
will be completed

CONSTRUCTION:

Stock growth will equate to 2023's pace, at 2.0 percent. The District itself and Northern Virginia are each slated to account for roughly 5,000 new units, while Southwestern Maryland is expected to host 3,500 completions.

20
BASIS POINT
increase in vacancy

VACANCY:

Improving population growth pushes net absorption up, facilitating a smaller lift to marketwide vacancy compared to last year. At 5.3 percent, the rate will remain 30 basis points lower than the cyclical peak from March 2021.

2.9%
INCREASE
in effective rent

RENT:

Limited vacancy movement enables the metro to retain rent growth momentum. The local pace will tie for the third strongest among major U.S. markets, lifting the metric to $2,172 per month at year-end.

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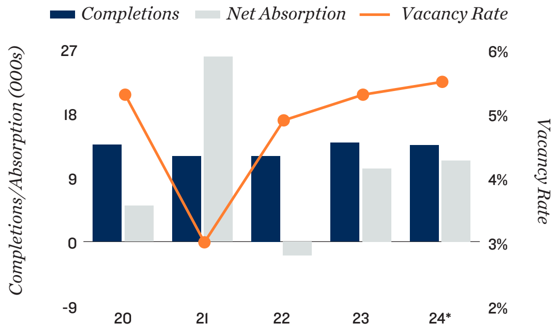
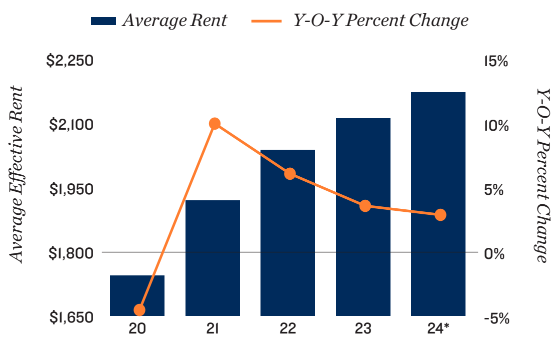
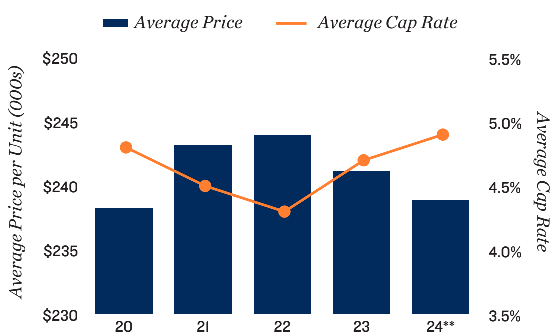
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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1Q 2024 - 12-Month Period

CONSTRUCTION

13,215 units completed

- Over 6,900 units were completed across the District, fueling much of the overall market's 1.9 percent stock growth during the year ended in March.
- Northeast and Central D.C. led the metro with more than 1,500 deliveries. Bethesda-Chevy Chase and North Arlington, meanwhile, were at the forefront of suburban development with over 2,300 new rentals combined.

VACANCY

10 basis point increase in vacancy Y-O-Y

- While vacancy jumped by at least 50 basis points in two of the largest submarkets, almost half of the metro's 36 localities recorded year-over-year drops. This translated to a modest overall vacancy shift to 5.3 percent.
- Two Northern Virginia submarkets — Fredericksburg-Stafford and South Fairfax County — recorded local vacancy declines of over 100 basis points.

RENT

4.1% increase in the average effective rent Y-O-Y

- All of Washington, D.C.'s 36 submarkets recorded rent growth over the last year, pushing the marketwide average effective rate to $2,128 per month.
- Crystal City-Pentagon City, West Fairfax County and East Alexandria noted mean effective rent gains over 6.5 percent. These local rises led Northern Virginia's pace to exceed the District and Southwestern Maryland's.

Investment Highlights

- Mostly due to its low cost basis and central location, the Southeast D.C. area has seen the most apartment trades in the metro since the start of 2023. Per-unit prices here have averaged $125,000 since that time, nearly 50 percent lower than the marketwide mean over the year ended in March, enabling buyers to minimize overall borrowing expenses. While the area's low prices have partially been due to a high portion of Class C units trading here, the trend is homogeneous across the metro. Almost 70 percent of all trades marketwide since 2023 have been for lower-tier assets.
- Several neighborhoods on the District's north side are also seeing notable trading for Class C assets. This includes Adams Morgan, D.C.'s Columbia Heights, and Fort Totten. Here, prices for lower-tier apartments are generally higher than in Southeast D.C., averaging at $206,000 per unit since the start of 2023, due to higher-quality public schools and infrastructure here.
- More investors may look to South Fairfax County in the near-term. A net of 700 units were absorbed here over the year ending in March, an all-time high. This demand compressed vacancy by 170 basis points, the largest drop among major U.S. submarkets with at least 20,000 units of local stock.

Price: $250