Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	20,823
UNITS DELIVERED (YTD)	3,771

MARKET FUNDAMENTALS

VACANCY RATE	4.8%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$2,199
YEAR-OVER-YEAR CHANGE	+3.5%

WASHINGTON, D.C. MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Stable vacancies and rising rents resulting in more transactions

HIGHLIGHTS

- The Washington, D.C., multifamily market posted a strong first half, with vacancies low and rents trending higher. Investment activity gained momentum in the second quarter after light sales velocity to start the year.
- Vacancy dipped 10 basis points in the second quarter, reaching 4.8 percent. The rate has inched up just 10 basis points during the past 12 months.
- Rents posted rapid increases during the second quarter, building on gains recorded at the beginning of the year. Rents rose 1.8 percent on average in the last three months, reaching $2,199 per month. The strongest gains have occurred in Northern Virginia.
- Transaction activity gained momentum in the second quarter, following light sales velocity in the first few months of the year. The median price in transactions that have closed year to date is $277,700 per unit, while cap rates have averaged 5.5 percent.

WASHINGTON, D.C. MULTIFAMILY MARKET OVERVIEW

The Washington, D.C., area is posting steady multifamily property performance through the first half of 2024. While many markets across the country are being impacted by rapid increases of new apartment supply, inventory growth in the Washington, D.C., area has closely tracked in line with increases in renter demand. The result has been a vacancy rate that has recorded minimal fluctuations over the past several quarters, and rents that have trended higher. The Northern Virginia segment of the region has generally outperformed, with tighter vacancies and annual rent growth that has topped 5 percent as of the second quarter. Developers are responding to the strong conditions by bringing new projects through the development pipeline in Northern Virginia. New deliveries have been concentrated in and around the National Landing submarket in Arlington.

Investors stepped up activity levels in the region during the second quarter, following a period of limited transactions at the beginning of the year. Some of the recent increase in sales velocity is attributable to a surge in transactions closing within the boundaries of the District, where transaction totals year to date have nearly matched the total number of deals that closed in all of 2023. These transactions have included a mix of affordable and market-rate properties, highlighted by a handful of assets built within the past decade that traded near the top of the price-per-unit range. In Northern Virginia, nearly all of the properties that have sold to date have been located in sought after submarkets in Arlington and Alexandria.

EMPLOYMENT

- The local labor market has continued to expand at a modest pace in recent quarters, although gains are increasingly concentrated in only a few industries. Year over year through the second quarter, employers added 38,000 jobs in the region, a growth rate of 1.1 percent.

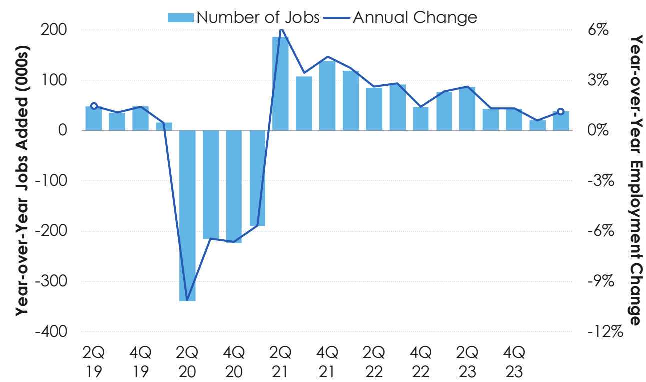
- The public sector is posting some of the fastest expansion in the region, although additions are primarily being recorded in state and local governments and not within the federal workforce. During the past 12 months, the government sector has expanded by 2.3 percent with the addition of more than 16,000 workers. Federal government employee counts are up just 0.7 percent.

- The healthcare and social assistance sector has added 1,500 net new jobs in the past year, a growth rate of 3 percent. In contrast, the region's large professional and business services sector has posted minimal gains, expanding by just 0.3 percent with the addition of fewer than 3,000 workers in the past year.

- **FORECAST**: Area employers are on pace to add approximately 50,000 jobs in the Washington, D.C., region in 2024, similar to the annual totals from each of the prior two years. The market is expected to post an employment growth of 1.5 percent in 2024, nearly identical to the region's long-term rate of expansion.

Year over year, employers added 38,000 jobs in the region.

EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Projects totaling nearly 3,800 units have come online through the first half of this year, up 22 percent from the same period in 2023. Approximately 2,400 units have been delivered in Northern Virginia, while only about 800 units have been delivered in the Maryland suburbs.

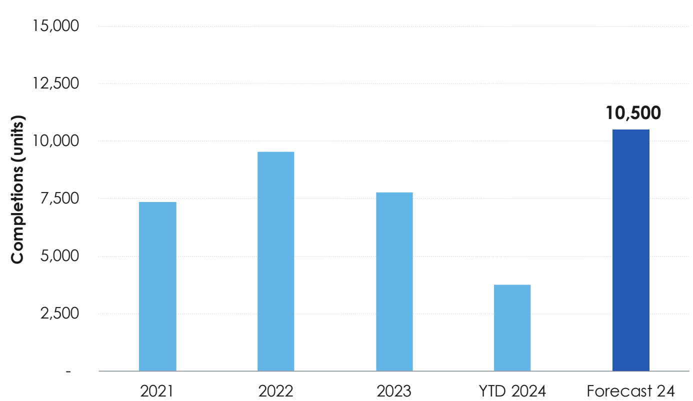
- Fewer than 21,000 units are currently under construction throughout the Washington, D.C., region, down 6 percent from one year ago. More than 8,000 units are under construction within the Northern Virginia area, with an additional 7,000 units under way within the District. Projects totaling approximately 5,500 units are under construction in Maryland.

- Multifamily permitting has returned to historical levels after peaking in 2022. During the first half, developers pulled permits for 5,200 multifamily units, down 10 percent from the same period in 2023.

- **FORECAST**: After deliveries slowed in 2023, completions are on pace to accelerate this year. Developers are on pace to complete projects totaling approximately 10,500 new units this year, about 25 percent higher than the region's long-term average.

Fewer than 21,000 units are currently under construction.

DEVELOPMENT TRENDS



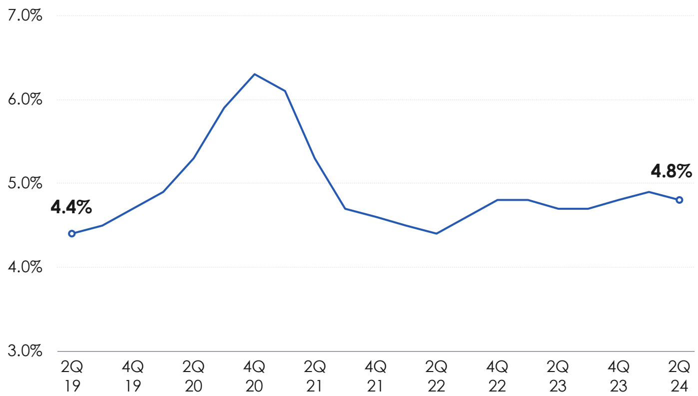
Sources: Northmarq, CoStar, Yardi

VACANCY

Vacancy in the region ended the second quarter at 4.8 percent.

- Average vacancy in the region ended the second quarter at 4.8 percent, 10 basis points lower than one year ago. Vacancy has remained within a tight range between 4.5 percent and 4.9 percent since the second half of 2021.
- Northern Virginia is posting the tightest vacancy conditions, with the rate improving 50 basis points in the past year to 3.7 percent. This marked the lowest vacancy rate in Northern Virginia in more than five years.
- In the Maryland suburbs, vacancy ended the quarter at 5.6 percent, 50 basis points higher than one year ago. Vacancy in the Maryland suburbs has been 5 percent or higher in each of the past five quarters.
- **FORECAST**: Vacancy is forecasted to end 2024 at 5 percent, 20 basis points higher than the year-end totals for 2022 and 2023. Vacancy has averaged 4.9 percent since 2017.

VACANCY TRENDS



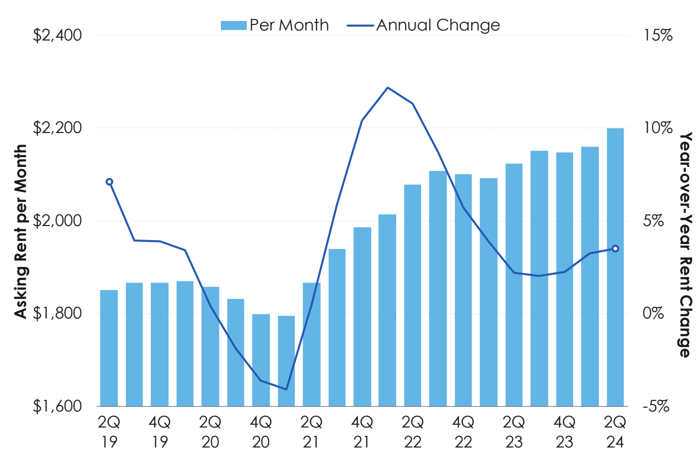
Sources: Northmarq, Yardi

RENTS

- With vacancy rates holding steady, rents in the Washington, D.C., market have pushed higher in each of the first two quarters of this year. Asking rents rose 1.8 percent in the second quarter, reaching $2,199 per month. Year to date, rents are up 2.4 percent.
- Current rents in the region are 3.5 percent higher than one year ago, one of the fastest rates of growth in the country. Rent growth is being supported by a steady pace of renter demand.
- Rent growth has been strongest in Northern Virginia, where rents spiked 5.4 percent in the past year to $2,316 per month. In the Maryland portion of the region, rents rose just 1.9 percent year over year, topping $2,100 per month.
- **FORECAST**: Rents are forecasted to continue to trend higher in the second half, although the pace of the gains should level off somewhat. Rents are expected to rise 3.4 percent in 2024, ending the year at $2,220 per month.

Year to date, rents are up 2.4 percent.

RENTS TRENDS



Sources: Northmarq, Yardi

MULTIFAMILY SALES

- After a slow start to the year, sales activity in the Washington, D.C., market gained momentum in the second quarter. The number of properties that sold rose by more than 60 percent from the first quarter to the second quarter. Through the first half of this year, transaction counts are up 14 percent when compared to the same period in 2023.

- In sales that have closed year to date, the median price has reached $277,700 per unit. In properties that sold in the second quarter, the median price spiked to more than $335,000 per unit. Newer properties accounted for an outsized share of recent sales. Approximately half of the transactions that closed in the second quarter were properties that had been built since 2010.

- In the Northern Virginia submarkets, the median price through the first half of the year was $326,100 per unit, compared to $302,500 per unit in 2023. The Arlington area has accounted for approximately half of the total transactions in Northern Virginia to this point in 2024.

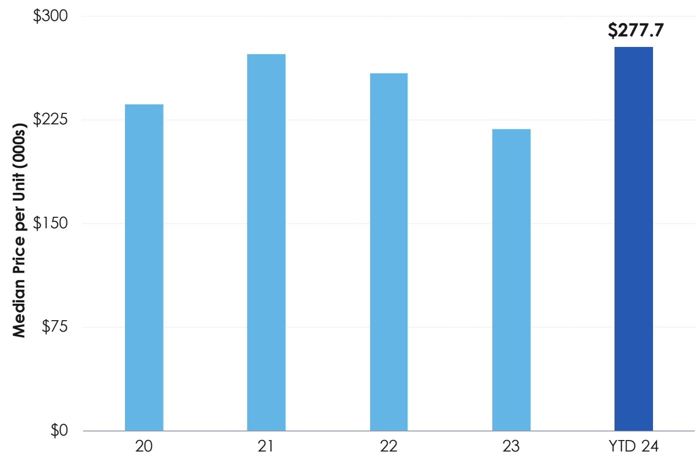
- A handful of newer Class A properties have sold in the District at the high-end of the market's price range. Newer assets within the District sold for more than $500,000 per unit, while some Class B units sold for about $350,000 per unit.

- In the Maryland suburbs, the median price year to date is $257,800 per unit, although there is a wide range in pricing. Properties in Montgomery County have traded at more than $400,000 per unit in 2024, while prices in Prince George's County and Howard County were closer to $250,000 per unit.

- Cap rates in properties across the Washington, D.C., metro area that have sold year to date have averaged approximately 5.5 percent, about 50 basis points higher than at the end of last year.

Year to date, the median price has reached $277,700 per unit.

INVESTMENT TRENDS



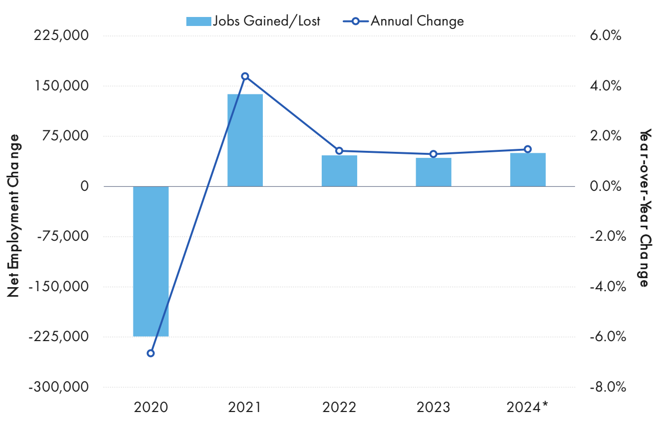
Sources: Northmarq, CoStar

LOOKING AHEAD

Washington, D.C., will likely be one of the top performing multifamily markets in the country through the remainder of 2024. Vacancy in the region has been steady for the past several quarters, averaging less than 5 percent. Conditions have been particularly strong in Northern Virginia, even as projects totaling more than 9,000 units have been delivered in Arlington, Fairfax, and Alexandria Counties since 2021. These parts of the region are expected to continue to receive new additions to inventory throughout the remainder of this year and into 2025. The pace of economic growth in the region is forecasted to maintain its recent trajectory. In Maryland, new construction will be concentrated in luxury developments in Montgomery County and mid-rise properties near transportation infrastructure in Prince George's County.

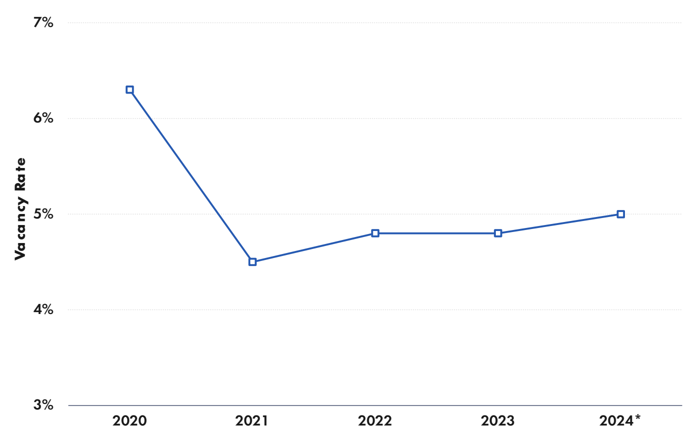
Strong operational performance appears to be bringing investors back to the region after a decline in transaction activity in recent periods. The Washington, D.C., area features the stable market fundamentals and rising rents that investors are seeking, as well as a mix of new inventory in many of the higher-income submarkets of the region. Investment trends may be impacted by uncertainty surrounding the election, and the Washington, D.C., region is particularly sensitive to the political climate. During the past 20 years, transaction counts in presidential election years have generally been lower than in the year preceding them, followed by an average activity increase of 20 percent in the years following the election.

EMPLOYMENT FORECAST



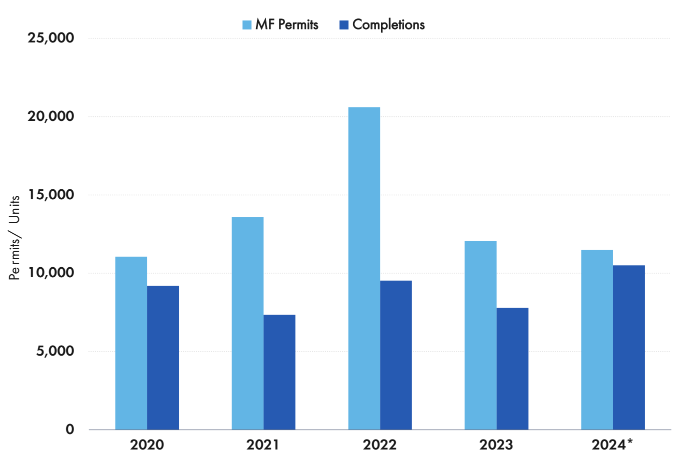
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



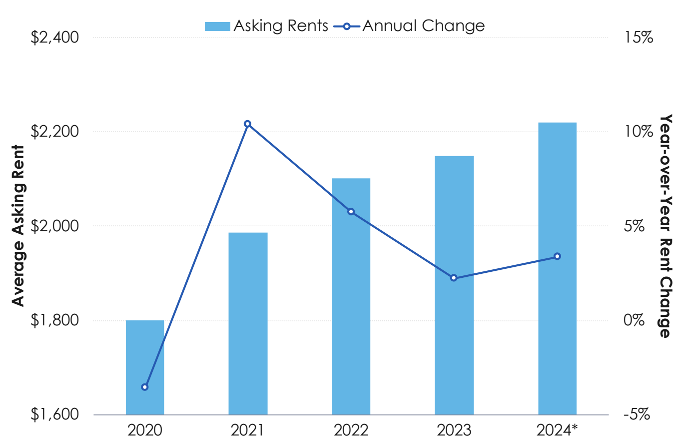
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Yardi

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Yardi

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FOR MORE INFORMATION, **PLEASE CONTACT**

CHRIS DOERR
Regional Managing Director, Investment Sales
202.486.0229
cdoerr@northmarq.com

WILL HARVEY
Senior Vice President, Investment Sales
703.477.0710
wharvey@northmarq.com

SHACK STANWICK
Associate, Investment Sales
443.794.5111
sstanwick@northmarq.com

JUSTIN GLASGOW
Managing Director
Nat. Director of Student Housing
202.316.1804
jglasgow@northmarq.com

JASON SMITH
Managing Director, Debt + Equity
301.785.7801
jsmith@northmarq.com

EVAN MANNIS
Vice President, Debt + Equity
240.520.3305
emannis@northmarq.com

KEVIN GENTZEL
Vice President, Debt + Equity
301.461.3986
kggentzel@northmarq.com

XANDER DICKSON
Analyst, Debt + Equity
203.962.3266
adickson@northmarq.com

PETE O'NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com

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