

Multifamily Metro Outlook:

Washington DC - Q1 2022

Overview:

- Washington's apartment market was facing a surge in new unit deliveries prior to the COVID outbreak, which was likely to soften conditions in the market. The economic shock of the outbreak may have lessened the size and timing of the surge, though the underlying economy supporting the metro's apartment market has also been dramatically slowed. However, Washington probably has the necessary economic engines to fully recover from the outbreak, once the national economy enters into a sustained expansion. Though there was a rebound in fundamental measures in 2021, the apartment market is likely facing a period of softness, with lackluster rent growth and slightly inflated vacancy rates, though it should be able to stabilize and grow once the engines fully re-start.
- The engines that support Washington's economy include the stabilizing government sector in the District, the large number of biotech companies in the Maryland suburbs, and the growing high-tech sector in the Virginia suburbs, headlined by the under-construction Amazon HQ2. While it will take several years before the Amazon investment stimulates the local economy, the existing infrastructure should return to being a source of growth. However, the market also has a sizable tourism and hospitality sector, which has not yet begun to meaningfully draw visitors, and the related job sectors remain smaller than they were in 2019.

Market Strengths:

- Despite the high levels of completions over the past several years, the apartment market has managed to maintain a generally stable equilibrium: absorption has been quite healthy, with the annual levels increasing steadily since 2016, which has also prevented a dramatic increase in vacancies.
- Over the past two decades, Washington's job markets have diversified. While the Government remains the primary engine of the area's economy, private employers have proved to be an equally important force in the local economy: in 2019, professional and business service jobs increased +3.1%, though COVID related job losses have temporarily paused this growth.

Market Weaknesses:

- Since the beginning of 2017, more than 71,000 rental units have been added to inventory in the metro, and another 41,500 units are currently underway. An additional 180,000 units are in the planning stages of development. While the metro's job and population growth has been solid, and likely will be near or above the national average going forward, this level of rental development represents an addition of almost 7% to existing rental inventory, which is a concern given the region's expected moderate economic growth rates.
- Several neighborhoods in downtown DC are seeing a significant amount of development in a short period: the three most active DC submarkets currently have 50 projects underway, with nearly 9,000 new units. In addition, most of the new inventory underway is both more luxurious and in denser urban submarkets, both of which have been struggling during the outbreak.
- Continued condo development is a concern: the volume of impending supply may cause some further deterioration of For-Sale pricing and will likely translate into unanticipated inventory in the For-Rent market.

Development:

- A large number of newly built and recently converted units are an area of concern for both the For-Sale and For-Rent markets in the metro. Since the start of 2006, around 76,300 condo units were completed and over 5,900 condo units are underway and due to be delivered by the end of 2023.

Outlook:

- A large volume of new apartments is a concern and the impact of robust new supply held back the rental market prior to the outbreak, though it remained healthy. The area saw a rebound in 2021, which has continued into early 2022, but it has been relatively muted compared to national averages. Steady job and population growth are expected once the area enters an all-industry wide recovery, but the apartment market will likely be softened by new supply and asking rents could see periods of negative growth. Nonetheless, the market saw remarkable resilience from 2016 through 2018, and once the supply wave subsides and the job market recovers, conditions in the metro should improve.
- While the apartment market is possibly in for near term volatility, the overall scale and stability of the metro's economy should allow the apartment market to eventually regain its previous health. Furthermore, over the next several years, Amazon should begin to contribute positively to the metro's overall growth prospects. Washington's steady base of federal government jobs should also continue to contribute to the metro's economic stability.

Five Year Metro Area Growth Forecast

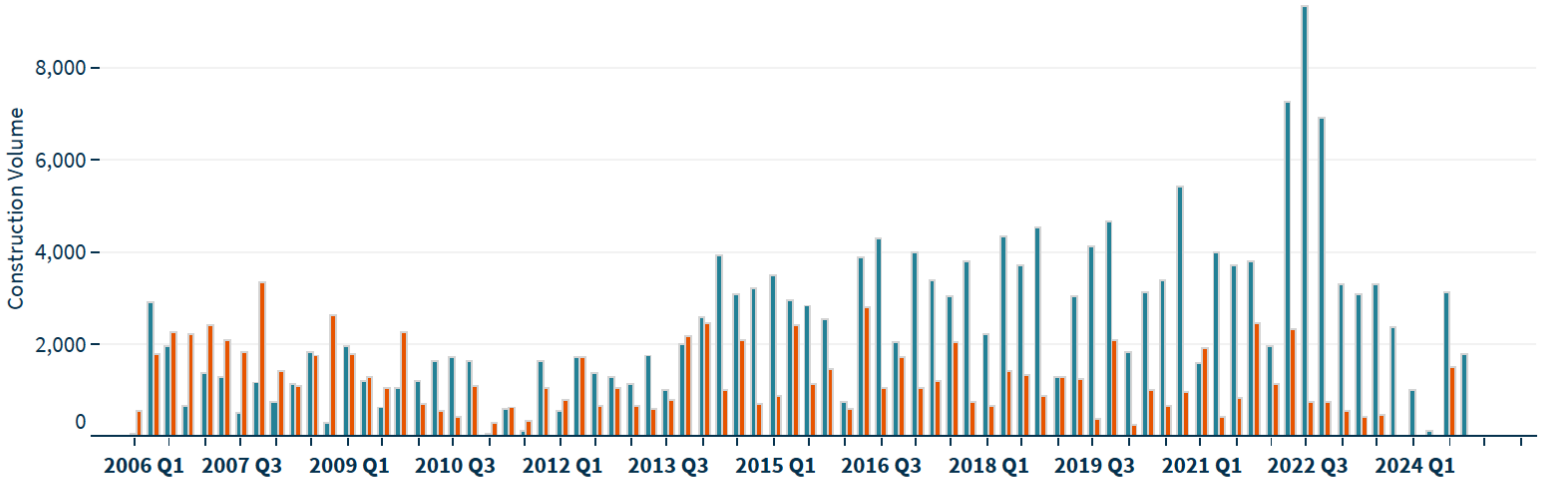
	Q4 2021	Q4 2026	Washington DC (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	6,358	6,568	0.65%	0.47%
Households (000s)	2,413	2,540	1.03%	0.90%
Renting Cohort (Ages 20-34) (000s)	1,339	1,318	-0.31%	-0.30%
Total Employment (000s)	3,268	3,471	1.21%	1.08%
Median Household Income	\$109,555	\$128,604	3.26%	3.30%
Median SF Home Price	\$558,103	\$597,216	1.36%	1.93%
Net Migration	5,286	1,352		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



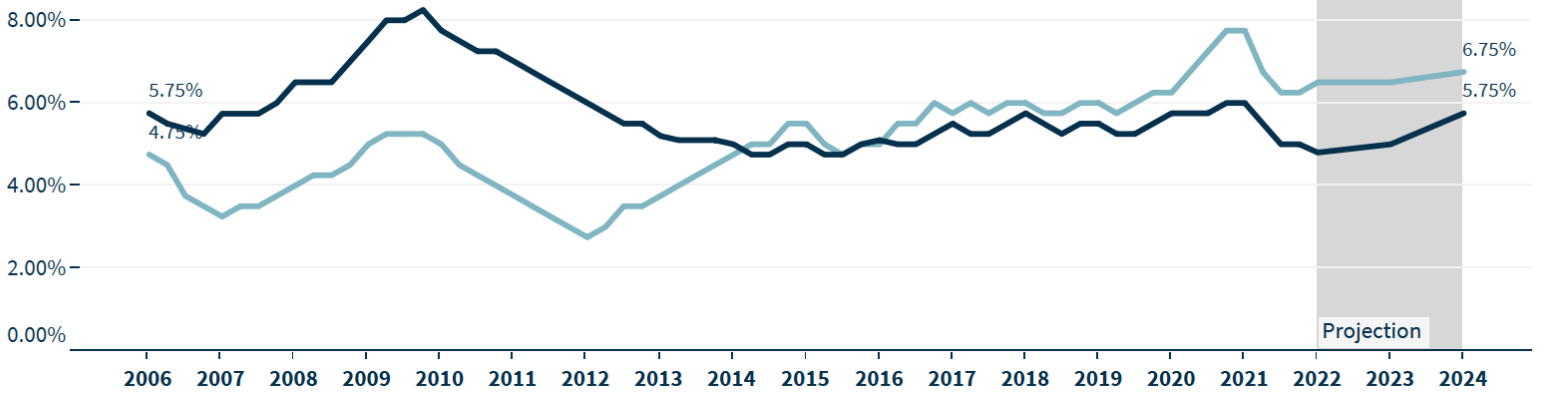
Vacancy & Rent Composite Estimates

Vacancy Rates

DC | National

Q1 2022 Vacancy Rate:

6.50%

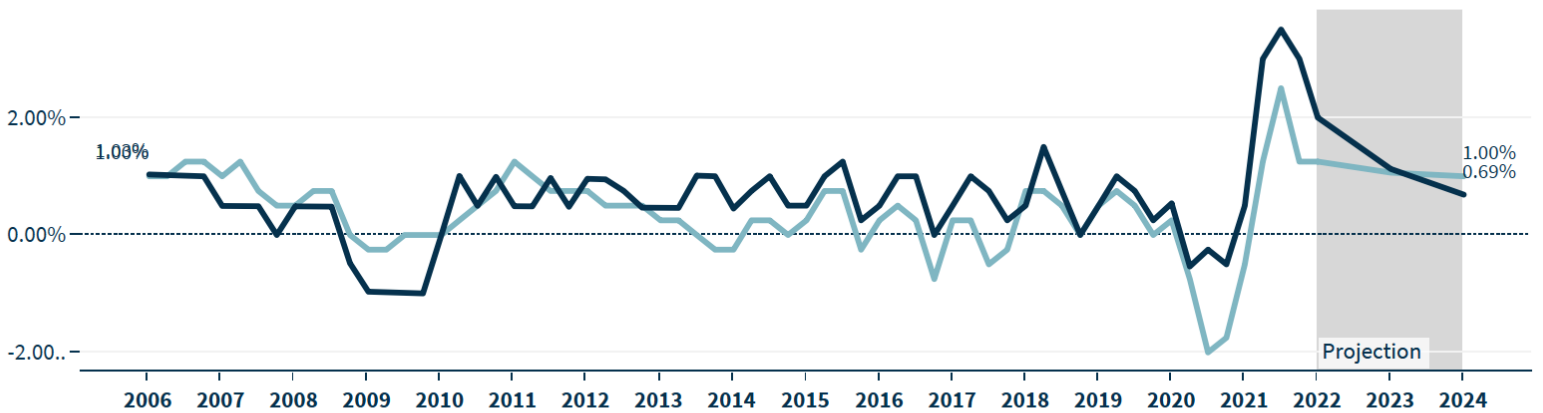


Asking Rent Growth

DC | National

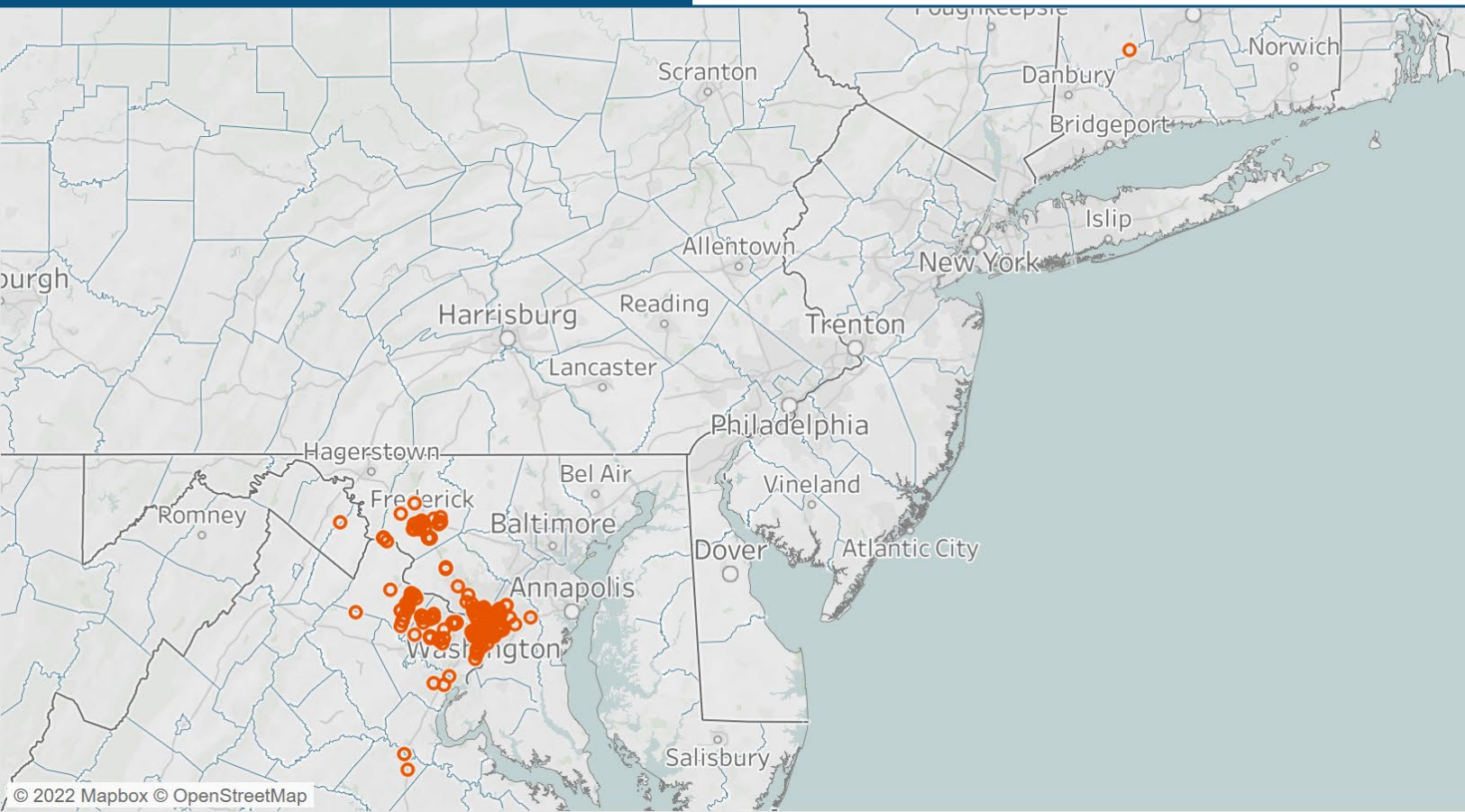
Q1 2022 Asking Rent:

\$1,800



Source: Multifamily Economics and Research

Construction: Bidding & Underway



TWR Submarket Name	Apartments	Building U..	Building Ar..
Bethesda/Chevy Chase	7	1,869	2.01M
Central DC	17	3,377	3.58M
College Park/Greenbelt	8	1,924	2.15M
Columbia Pike	2	327	0.35M
Crystal City/Pentagon City	7	2,633	2.89M
Downtown Silver Spring	2	763	0.91M
East Alexandria	4	2,060	1.80M
Frederick	56	847	0.98M
Fredericksburg/Stafford	2	329	0.36M
Germantown	2	567	0.67M
Hyattsville/Riverdale	1	285	0.32M
Landover/Bowie	4	977	1.10M
Loudoun County	27	2,310	1.16M
Manassas/Far Southwest Suburbs	1	3	0.00M
n/a	1	3	0.00M
Navy Yard/Capitol South	9	3,075	3.02M
North Arlington	7	2,387	2.18M
North Central DC	7	593	0.75M
Northeast DC	18	4,312	4.11M
Northwest DC	3	377	0.36M
Reston/Herndon	15	3,589	4.25M
Rockville/North Bethesda	2	728	1.23M
South Fairfax County	5	1,695	1.69M
Southeast DC	14	1,245	1.38M
Tysons Corner/Falls Church/Merrifield	9	2,959	3.21M
West Fairfax County	9	1,782	2.24M
Woodbridge/Dale City	4	502	0.56M
Grand Total	243	41,518	43.27M

Multifamily: ESR Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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