

Metro Housing Outlook:

Washington DC - Q1 2024

Overview:

- Washington's apartment market has been managing a surge in new unit deliveries for more than seven years. The economic shock of the pandemic further softened conditions in the market, though it also may have lessened the size of the surge. The underlying economy supporting the metro's apartment market has also been slowed but has seen steady growth for the past three years. Washington probably has the necessary economic engines to enter a period of slightly higher economic growth, once the national economy enters into a sustained expansion, though the metro is large and diverse, and is no longer likely to see far above national average expansions.
- Though there was a rebound in fundamental multifamily measures in 2021 and 2022, the apartment market is likely facing a period of softness in 2024, with lackluster rent growth and slightly rising vacancy rates, though it should be able to stabilize and grow once the region's economic engines are able to participate in a national economic expansion.
- 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 Amazon HQ2. While it will still be several years before the Amazon investment stimulates the local economy, the existing infrastructure should return to being a source of growth.

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.

Market Weaknesses:

- Since the beginning of 2017, nearly 115,2200 rental units have been added to inventory in the metro, and another 38,500 units are currently underway. An additional 246,000 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 submarkets in DC are seeing a significant amount of development in a short period: the four most active DC submarkets currently have 48 projects underway, with over 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 somewhat slower to recover due to the increased competition.
- Continued condo development is a minor concern: the volume of impending supply may cause some modest deterioration of For-Sale pricing and will likely translate into unanticipated inventory in the For-Rent market.

Outlook:

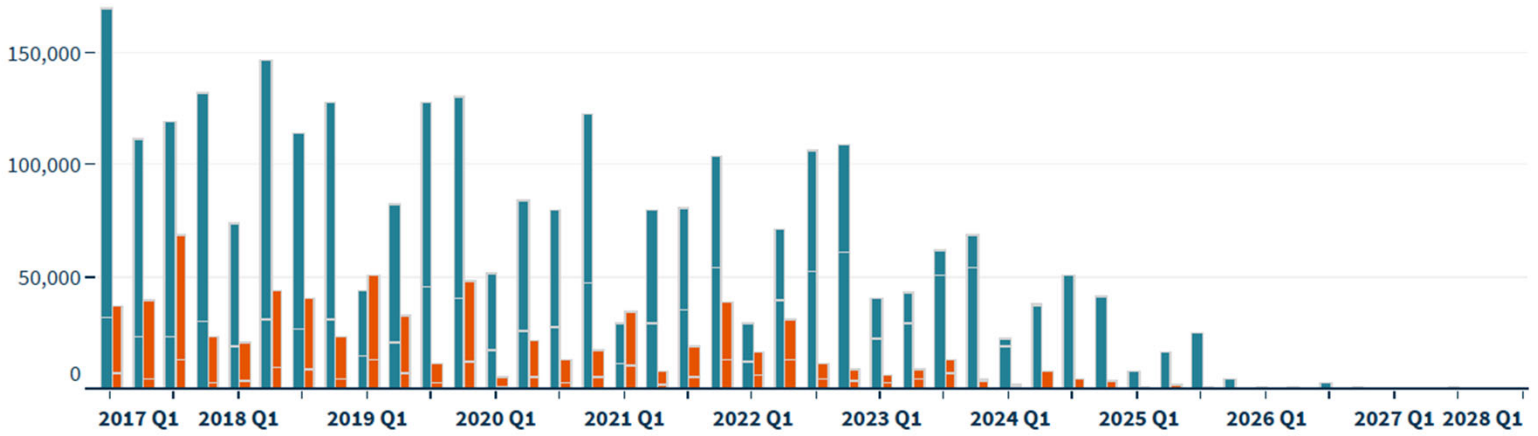
- A large volume of new apartments is a concern and the impact of robust new supply held back the rental market prior to 2020, though it remained healthy. The area saw a rebound in 2021, which continued into mid-2022, but it has been relatively muted compared to national averages and rent and vacancy measures began to soften late in the year, which continued into early 2024. Steady job and population growth are expected once the area enters an all-industry recovery, but the apartment market will likely be softened by new supply and asking rents could see consecutive periods of negative growth, especially if economic conditions remain lackluster. 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, which is among the more stable metro areas in the country.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

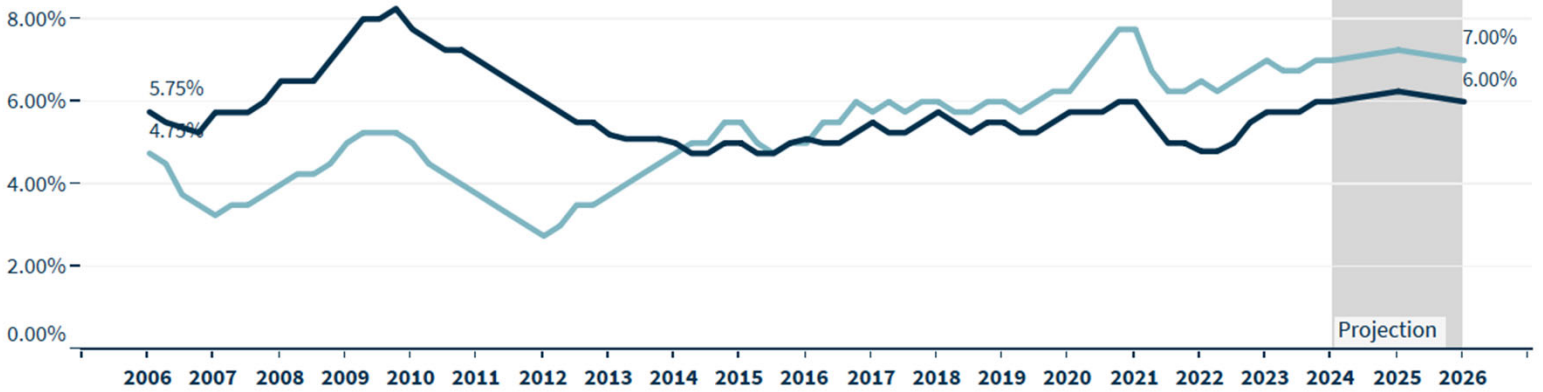
Multifamily Vacancy & Rent Estimates

Vacancy Rates

DC | National

Q1 2024 Vacancy Rate:

7.00%

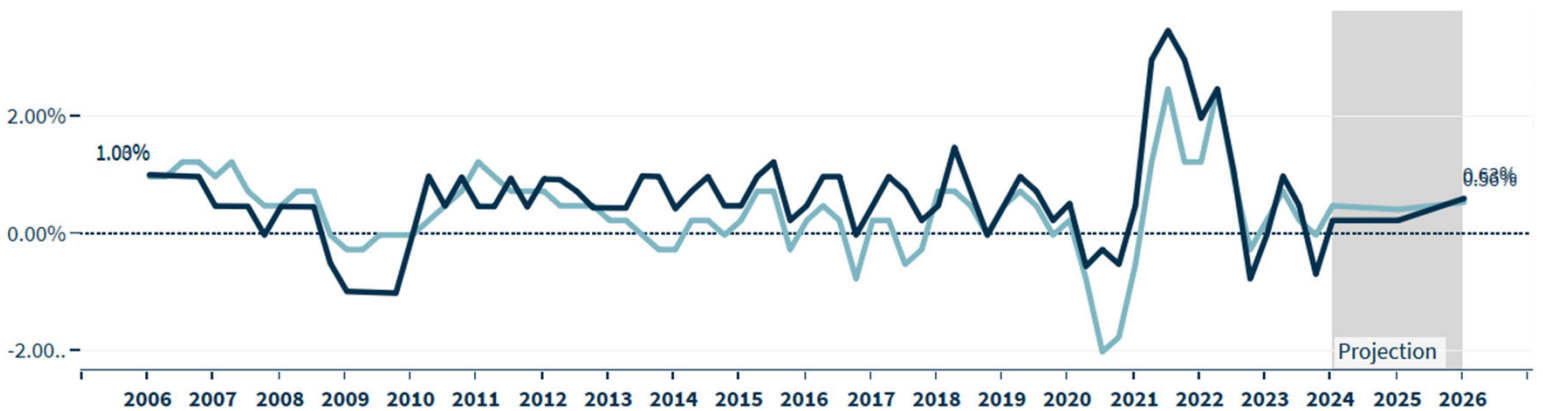


Asking Rent Growth

DC | National

Q1 2024 Asking Rent:

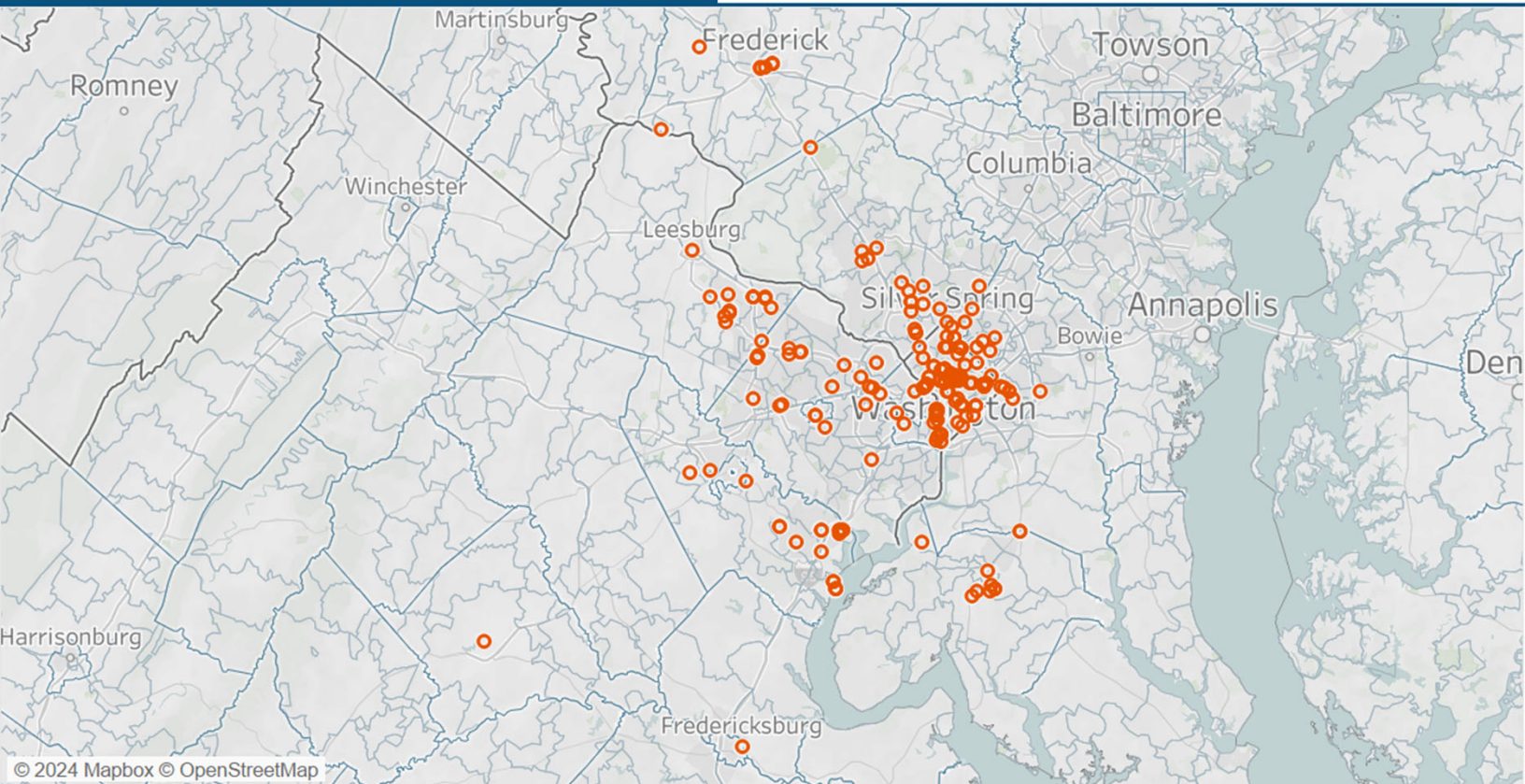
\$1,900



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bethesda/Chevy Chase	4	1,518
Central DC	14	1,773
College Park/Greenbelt	1	451
Crystal City/Pentagon City	7	3,021
Downtown Silver Spring	2	458
East Alexandria	9	1,667
East Silver Spring/Takoma Park/Adelphi	2	694
Frederick	9	877
Fredericksburg/Stafford	1	69
Gaithersburg	2	362
Germantown	1	321
Hyattsville/Riverdale	3	894
Landover/Bowie	1	379
Loudoun County	17	740
Manassas/Far Southwest Suburbs	4	759
Navy Yard/Capitol South	4	1,885
North Arlington	7	2,719
North Central DC	9	1,925
Northeast DC	9	1,835
Northeast Montgomery County	1	387
Northwest DC	6	1,938
Reston/Herndon	7	1,877
Rockville/North Bethesda	6	1,727
Seven Corners/Baileys Crossroads/Annandale	1	361
South Fairfax County	1	460
South Prince George's County/St. Charles	11	794
Southeast DC	16	3,502
Suitland/District Heights/Capitol Heights	4	732
Tysons Corner/Falls Church/Merrifield	8	1,822
West Alexandria	1	116
West Fairfax County	6	570
Wheaton/Aspen Hill	3	465
Woodbridge/Dale City	16	1,391
Grand Total	193	38,489

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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