

Metro Housing Outlook:

Washington DC – Q2 2023

Overview:

- Washington's apartment market was facing a surge in new unit deliveries prior to 2020, which was likely to soften conditions in the market. The economic shock of the outbreak may have lessened the size of the surge, though the underlying economy supporting the metro's apartment market has also been slowed. However, Washington probably has the necessary economic engines to fully recover, once the national economy enters into a sustained expansion. Though there was a rebound in fundamental multifamily measures in 2021 and 2022, the apartment market is likely facing a period of softness in 2023 and 2024, with lackluster rent growth and slightly rising 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 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 104,000 rental units have been added to inventory in the metro, and another 35,000 units are currently underway. An additional 260,000 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 four most active DC submarkets currently have 52 projects underway, with nearly 9,200 new units. In addition, most of the new inventory underway is both more luxurious and in denser urban submarkets, both of which have been struggled during the outbreak and have been somewhat slower to recover.
- 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.

New 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 80,000 condo units were completed and over 5,100 condo units are underway and due to be delivered by the end of 2023.

Outlook:

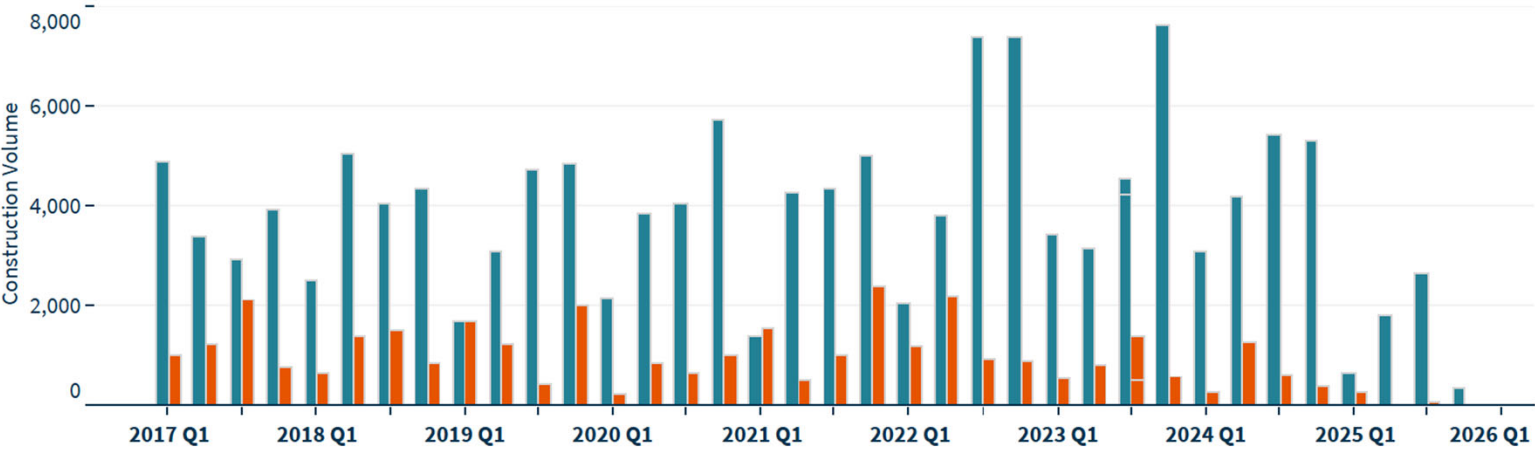
- A large volume of new apartments is a concern and the impact of robust new supply held back the rental market prior to 2020, though it remained healthy. The area saw a rebound in 2021, which continued into mid-2022, but it has been relatively muted compared to national averages and rent and vacancy measures began to soften late in the year, which has continued through 2023. 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 there is a national recession in later in 2024. 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.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

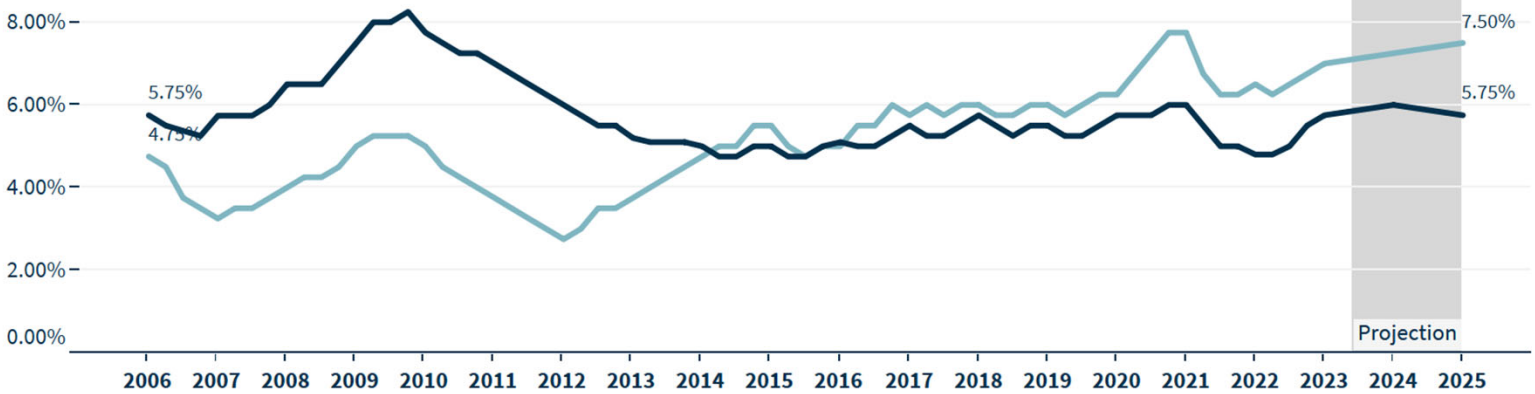
Multifamily Vacancy & Rent Estimates

Vacancy Rates

DC | National

Q2 2023 Vacancy Rate:

6.75%



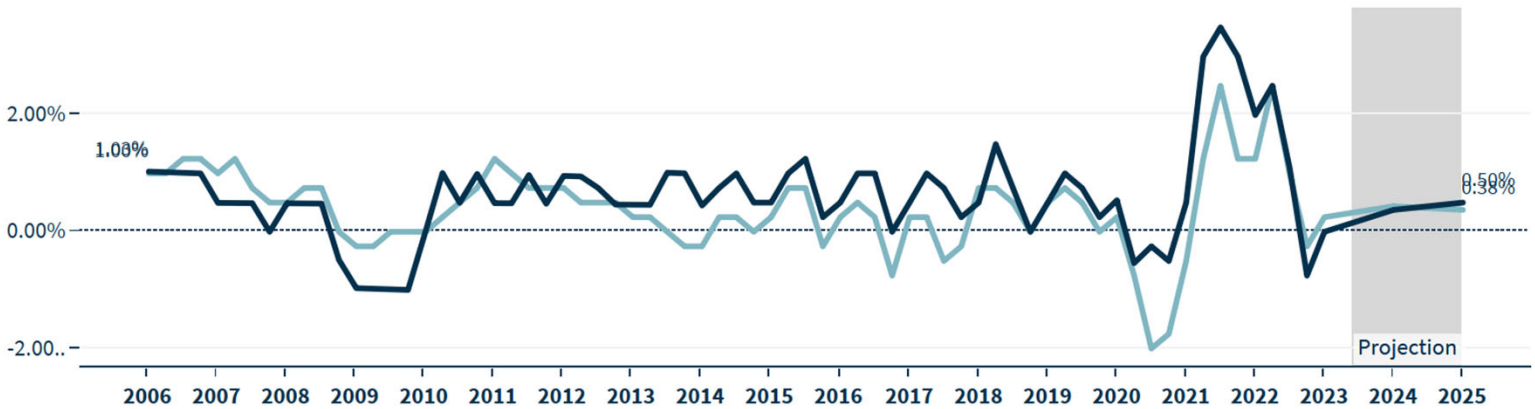
Projection

Asking Rent Growth

DC | National

Q2 2023 Asking Rent:

\$1,880

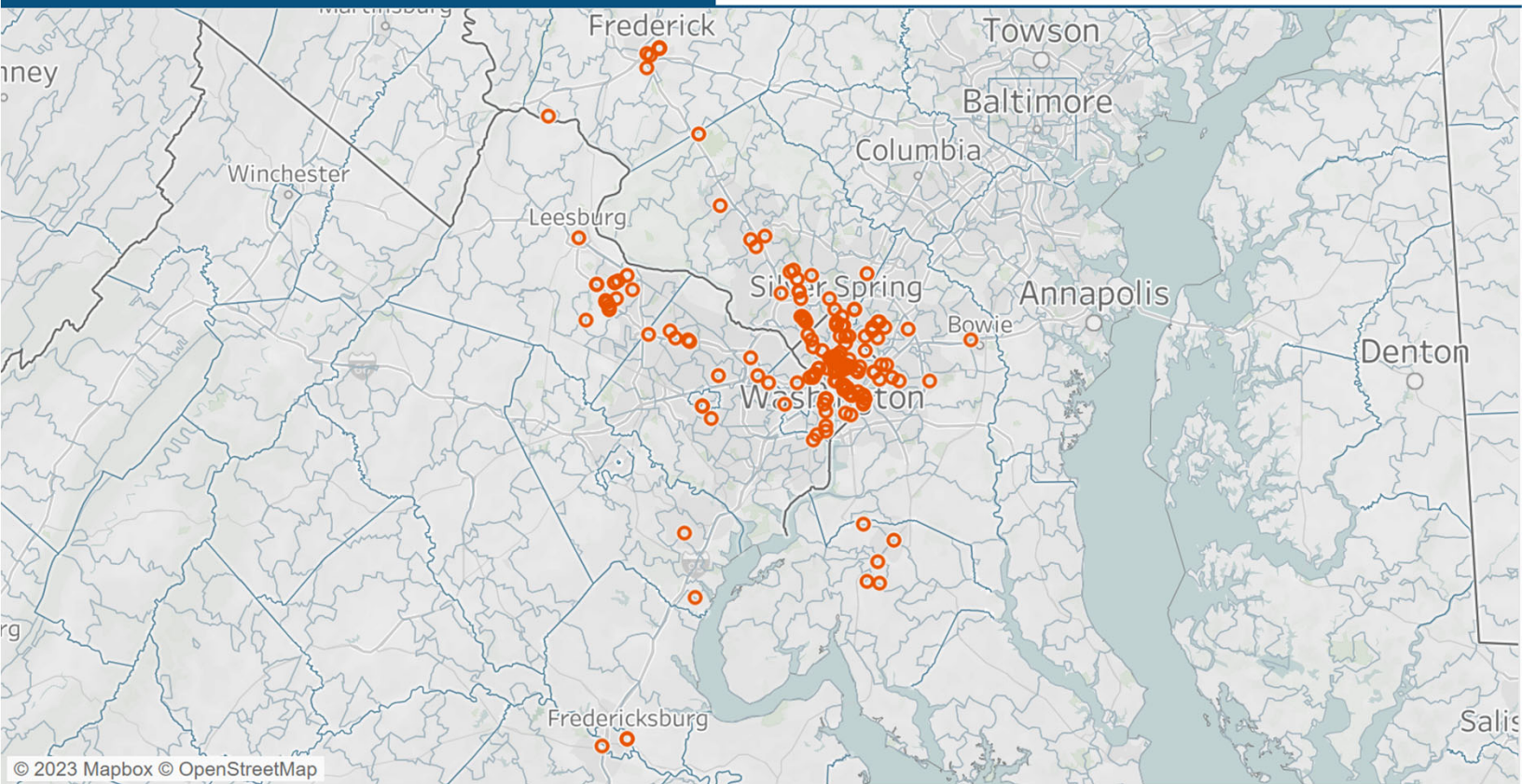


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bethesda/Chevy Chase	7	2,259
Central DC	14	2,000
College Park/Greenbelt	3	894
Crystal City/Pentagon City	5	2,074
Downtown Silver Spring	2	462
East Alexandria	4	1,098
East Silver Spring/Takoma Park/Adelphi	2	152
Frederick	8	764
Fredericksburg/Stafford	3	540
Gaithersburg	2	362
Germantown	2	612
Hyattsville/Riverdale	4	1,225
Landover/Bowie	4	1,385
Loudoun County	16	421
Navy Yard/Capitol South	8	3,219
North Arlington	5	1,881
North Central DC	10	1,553
Northeast DC	12	2,231
Northeast Montgomery County	1	387
Northwest DC	6	1,491
Reston/Herndon	5	1,574
Rockville/North Bethesda	6	1,632
Seven Corners/Baileys Crossroads/Annandale	1	361
South Fairfax County	1	366
South Prince George's County/St. Charles	7	253
Southeast DC	16	3,249
Suitland/District Heights/Capitol Heights	2	364
Tysons Corner/Falls Church/Merrifield	4	1,299
West Fairfax County	3	722
Wheaton/Aspen Hill	2	381
Woodbridge/Dale City	2	190
Grand Total	167	35,401

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
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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