



Multifamily Metro Outlook: Washington DC Summer 2018

Overview

Over the next few years, Washington, DC housing development is expected to be unusually active. CoStar estimates over 12,600 rentable completions in 2017, with another 12,900 in 2018 and 16,400 in 2019. This new supply, coupled with federal government hiring remaining muted, has moved Washington from being a leading apartment market to one where there are some concerns. Still, solid population and moderate economic growth is expected, and there remains a general shortage of affordable housing in the metro.

Job growth in the metro has moved from being lackluster to generally healthy: In the year ending Q1 2018, the metro added 39,000 jobs, an increase of 1.4 percent, near the national average of 1.3 percent. Additionally, over the past two decades, Washington's job market has diversified. While the government remains the primary engine of the area's economy, private employers are proving an equally important force in the local economy.

Despite the high levels of completions over the past several years, the apartment market managed to maintain a generally stable equilibrium. While absorption in 2016 was down compared to the prior year, it recovered in 2017 and prevented a dramatic increase in vacancies.

Development

Since the beginning of 2013, 66,200 rental units have been added to inventory in the metro, and another 30,800 units are currently underway. An additional 125,000 units are in the planning stages of development. Coupled with housing boom condo conversion and recent development, the metro may be somewhat saturated in the for-rent sector. While the metro's job and population growth has been solid, and likely will be near the national average going forward, this level of rental development represents an addition of more than 5 percent to existing rental inventory, which is a concern given the region's expected moderate economic growth rates. In particular, several neighborhoods in downtown DC are seeing a significant amount of development in a short period: the three most active DC submarkets currently have 49 projects underway, with 11,100 new units.

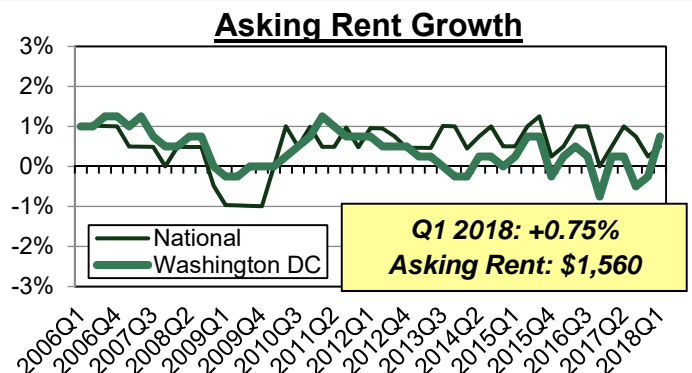
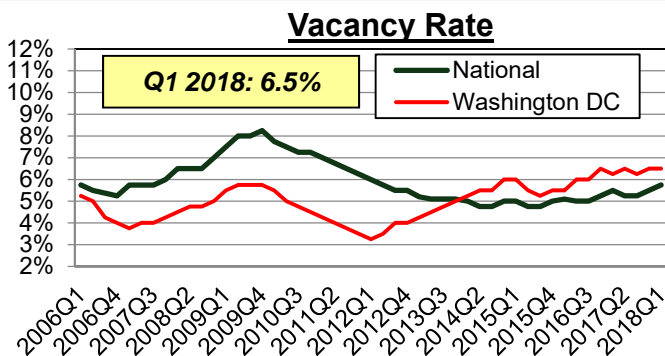
A large number of newly built and recently converted units are an area of concern for both the for-sale and for-rent markets in the metro. Since the start of 2006, 69,400 condo units were completed and 6,400 condo units are underway and due to be delivered by the end of 2019.

Outlook

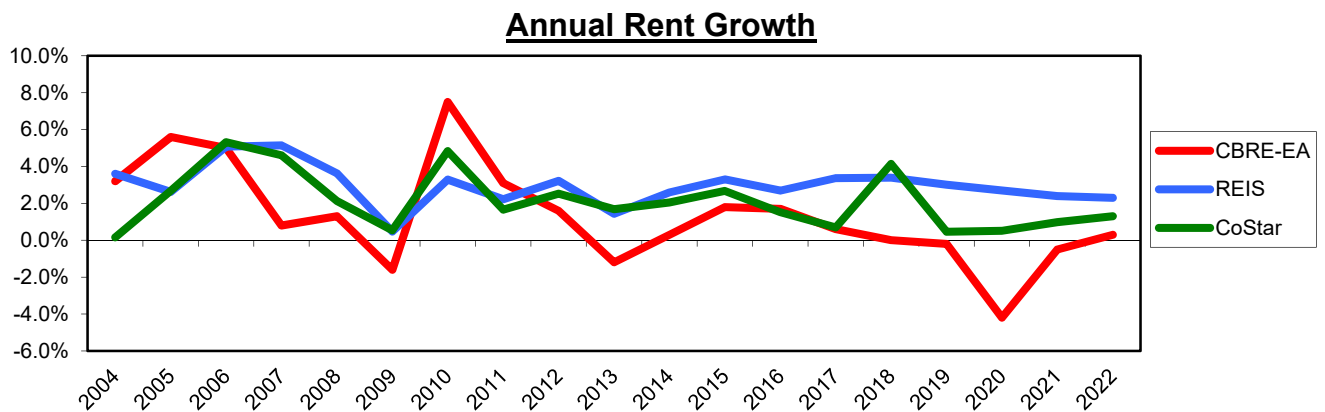
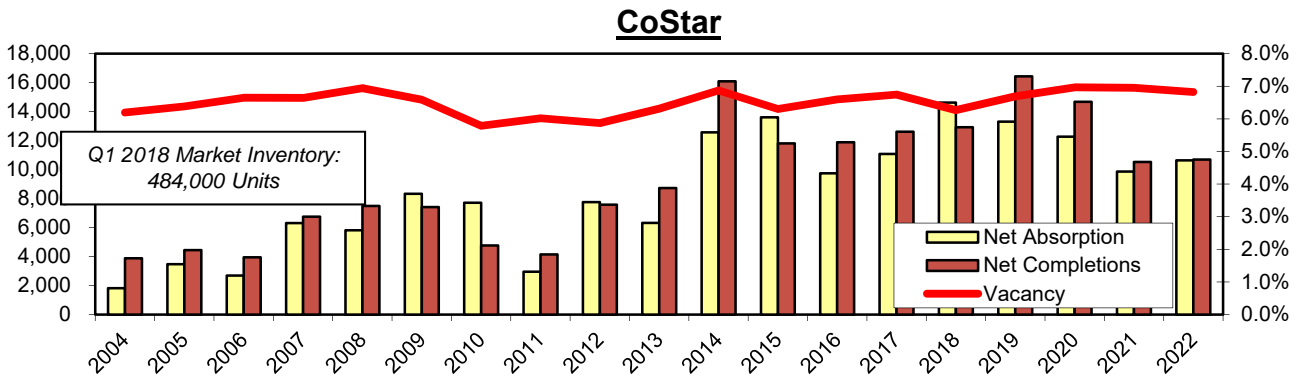
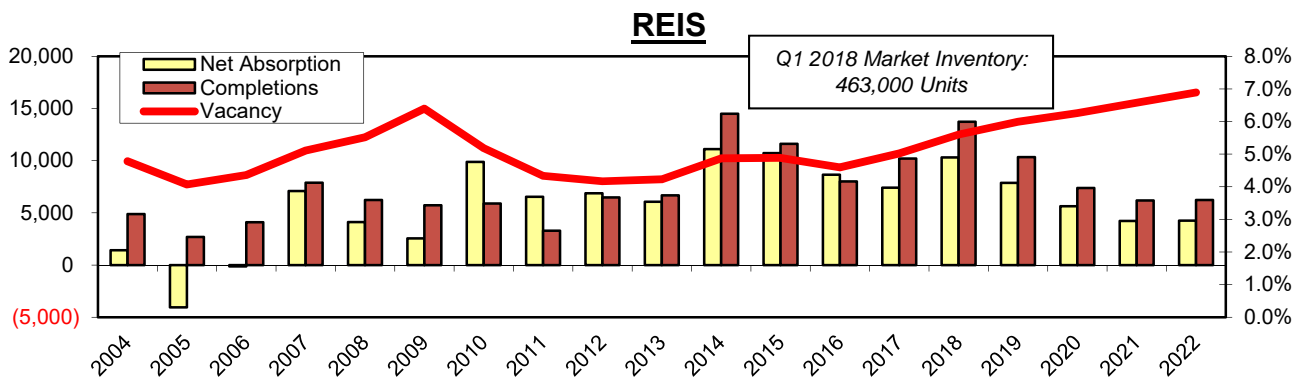
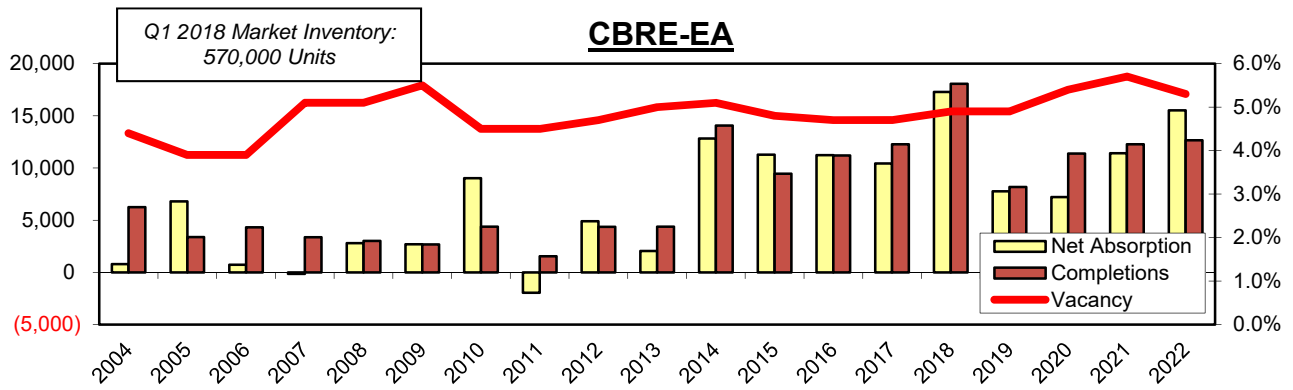
The large volume of new apartments is a major concern, and the impact of robust new supply has probably held back the rental market. Steady job and population growth are expected, but the market will likely be restrained by robust supply, and asking rents could see periods of negative growth. The apartment market saw remarkable resilience in 2016 and 2017, and once the supply wave subsides, conditions in the metro should improve.

While the market is likely in for near-term softness, the overall scale and stability of the metro's economy should allow the apartment market to eventually regain its previous health. While it has a large supply of recently built condos, the health of the metro's for-sale market likely mitigates significant worries. The area is unlikely to be a permanent growth market for multifamily rentals in the long term, but we expect that it will eventually return to being a rather healthy one.

Vacancy and Rent Composite Estimates



Source: Fannie Mae Multifamily and Economics Research



Construction Bidding/Underway
(147 projects/33,100 Units/42.9 M Sq. Feet)

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Anacostia/Northeast DC	21	4638	4577
Bethesda/Chevy Chase	4	1465	1221
Brookland/Ft. Totten	1	15	12
Capitol Hill/Southwest	17	4928	4834
College Park/Greenbelt	1	350	275
Columbia Pike/Shirlington	6	1328	1193
District Heights	1	1106	750
Down town/Logan Circle	3	435	399
Dupont Circle/Adams Morgan	3	238	140
Foggy Bottom	1	120	197
Forest Heights/Oxon Hill	3	1106	819
Frederick County	3	688	398
Gaithersburg/Germantown	4	675	550
Howard U./Mt. Pleasant/Brightwood	11	2050	1642
Hyattsville	5	1603	1392
Landover	3	1904	1705
Loudoun County	15	721	532
Montgomery County/Other	2	118	84
NE Alexandria/Glebe Road	1	54	49
Old Town	5	2599	1992
Pentagon City/Crystal City	1	435	440
Prince George's County	1	532	301
Prince William County	5	774	691
Rockville	2	655	626
Rosslyn/Ballston	11	3384	2982
Seminary Road/Landmark	2	5035	425
Silver Spring	3	1450	1024
Spotsylvania County	3	729	804
Tysons Corner/Fairfax City	4	2146	1775
Western Fairfax County	4	1307	1043
Woodley Pk./Cleveland Pk./Van Ness	1	278	226



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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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