

Metro Housing Outlook:

Washington DC - Q4 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 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 113,000 rental units have been added to inventory in the metro, and another 36,083 units are currently underway. An additional 251,000 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 three most active DC submarkets currently have 41 projects underway, with over 7,000 new units. In addition, most of the new inventory underway is both more luxurious and in denser urban submarkets, both of which have been 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.

Outlook:

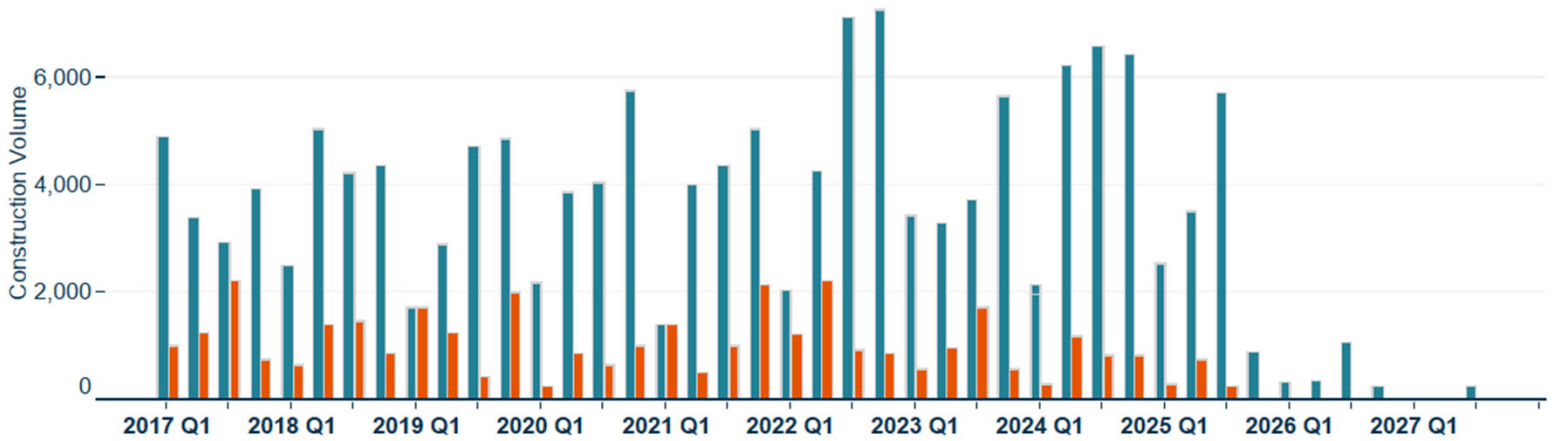
- A large volume of new apartments is a concern and the impact of robust new supply held back the rental market prior to 2020, though it remained healthy. The area saw a rebound in 2021, which continued into mid-2022, but it has been relatively muted compared to national averages and rent and vacancy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

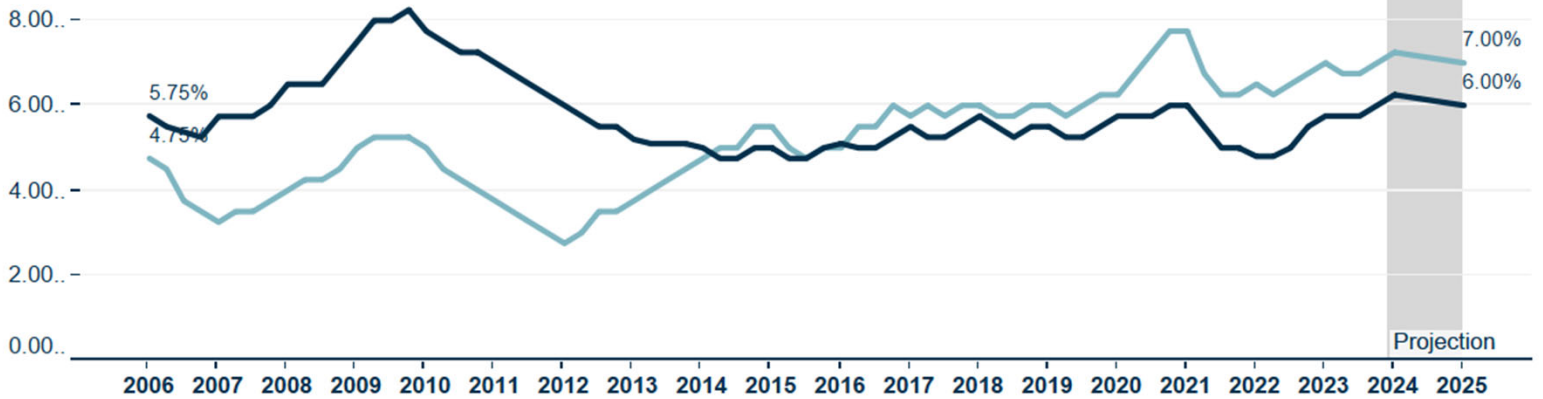
Multifamily Vacancy & Rent Estimates

Vacancy Rates

DC | National

Q4 2023 Vacancy Rate:

7.00%



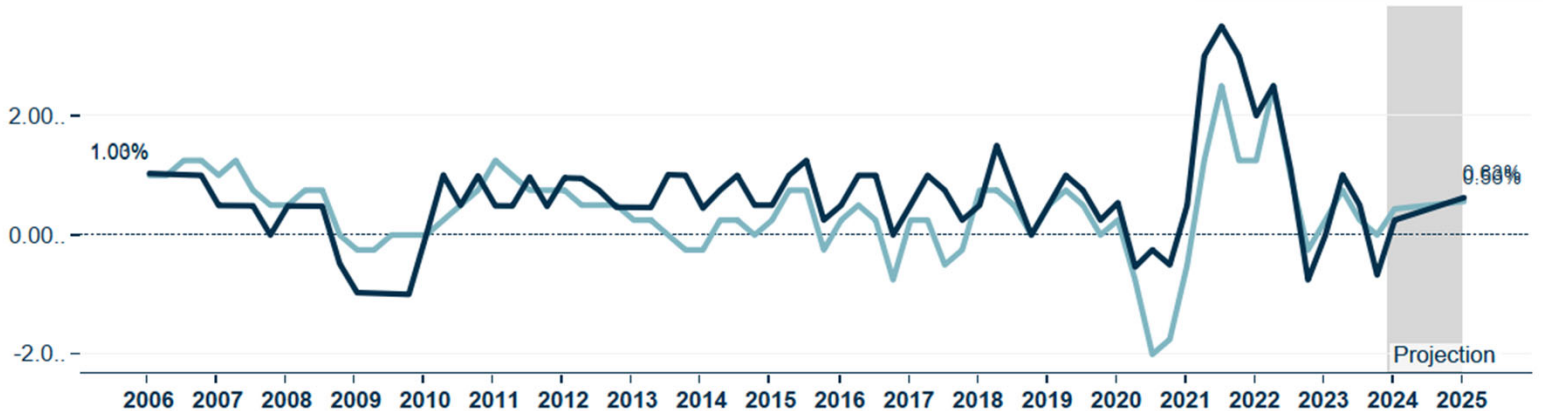
Projection

Asking Rent Growth

DC | National

Q4 2023 Asking Rent:

\$1,890

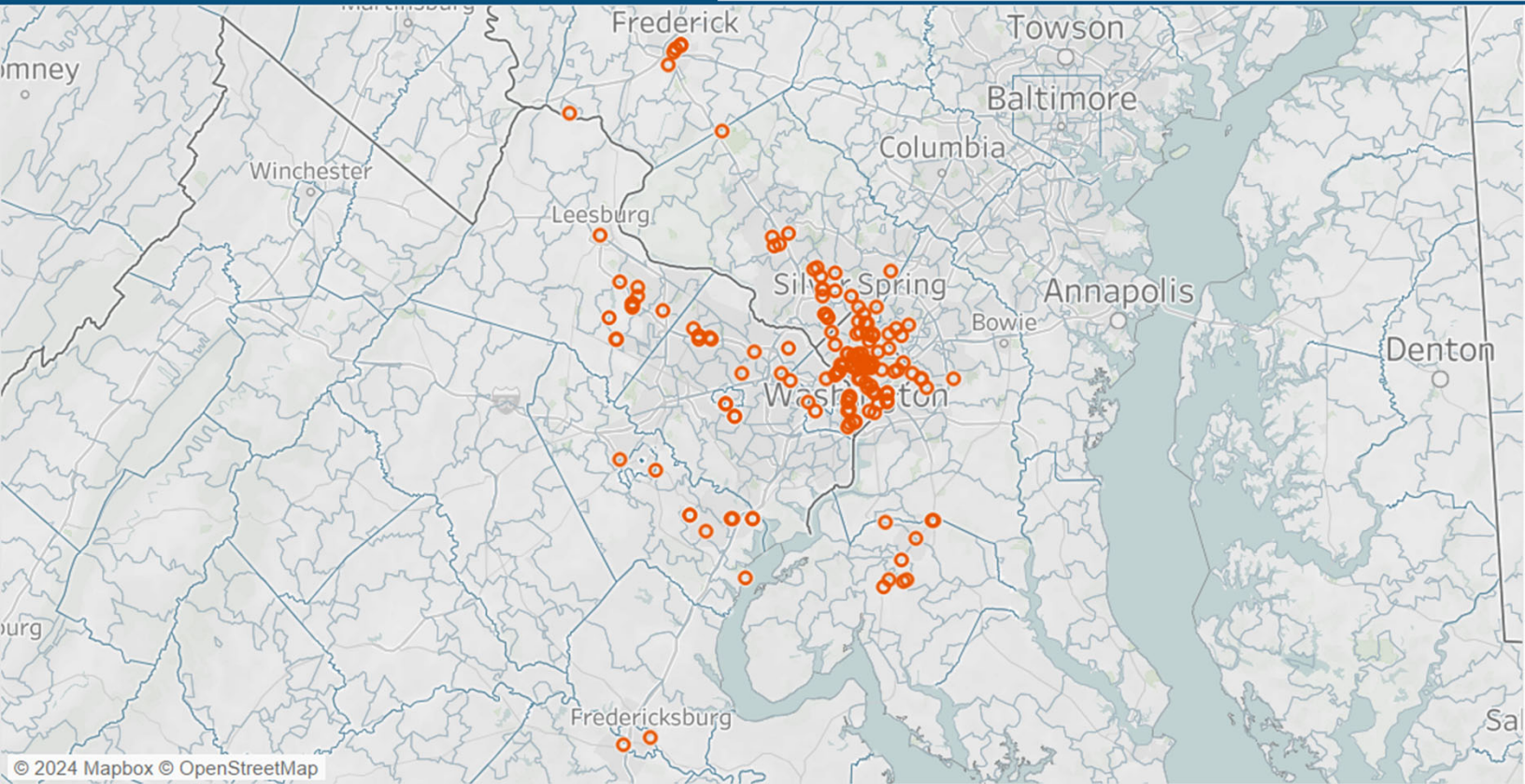


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bethesda/Chevy Chase	5	1,828
Central DC	16	1,983
College Park/Greenbelt	1	451
Crystal City/Pentagon City	6	3,159
Downtown Silver Spring	2	458
East Alexandria	7	1,575
East Silver Spring/Takoma Park/Adelphi	1	76
Frederick	8	668
Fredericksburg/Stafford	2	340
Gaithersburg	2	362
Germantown	1	321
Hyattsville/Riverdale	3	894
Landover/Bowie	1	379
Loudoun County	12	270
Manassas/Far Southwest Suburbs	2	710
Navy Yard/Capitol South	5	2,341
North Arlington	6	2,398
North Central DC	10	1,975
Northeast DC	8	1,510
Northeast Montgomery County	1	387
Northwest DC	7	2,228
Reston/Herndon	5	1,698
Rockville/North Bethesda	7	1,930
Seven Corners/Baileys Crossroads/Annandale	1	361
South Prince George's County/St. Charles	10	723
Southeast DC	15	3,018
Suitland/District Heights/Capitol Heights	3	561
Tysons Corner/Falls Church/Merrifield	5	1,191
West Alexandria	1	116
West Fairfax County	4	812
Wheaton/Aspen Hill	3	465
Woodbridge/Dale City	8	895
Grand Total	168	36,083

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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