Metro Housing Outlook:

Washington, DC – Q3 2024

Overview:

- Washington, D.C.'s apartment market has been managing a surge in new unit deliveries for more than seven years. The economic shock of the pandemic softened conditions in the market, though it also may have lessened the size of the supply surge. The underlying economy supporting the metro's apartment market has also slowed, but it has seen steady growth for the past three years. Washington likely has the necessary economic engines to enter a period of slightly higher economic growth, once the national economy enters a sustained expansion. However, the metro is large and diverse, and it is no longer likely to see expansions that are far above national averages.
- Though there was a rebound in fundamental multifamily measures in 2021 and 2022, the apartment market is likely facing a period of softness in late 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.

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 annual levels increasing steadily since 2016, which has also prevented a dramatic increase in vacancies.
- 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 have proved to be an equally important force in the local economy.

Market Weaknesses:

- Since the beginning of 2017, nearly 126,300 rental units have been added to inventory in the metro, and another 31,800 units are currently underway. An additional 248,000 units are in the planning stages of development. The metro's job and population growth have been solid, and likely will be near or above the national averages going forward. However, its 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 D.C. are seeing a significant amount of development in a short period: the four most active D.C. submarkets currently have more than 40 projects underway, with over 5,000 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.

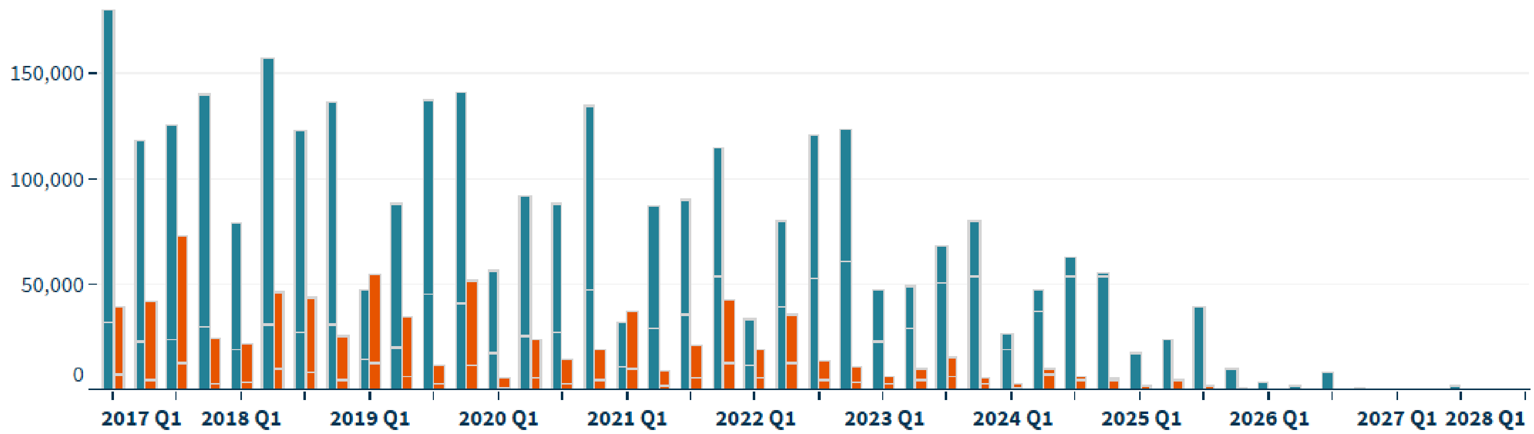
Outlook:

- 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 expansion, but the apartment market will likely be softened by new supply, and asking rents could see consecutive periods of negative growth, especially if national 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 noticeably improve.
- While the apartment market could potentially see 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 more significantly to the metro's overall economic 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

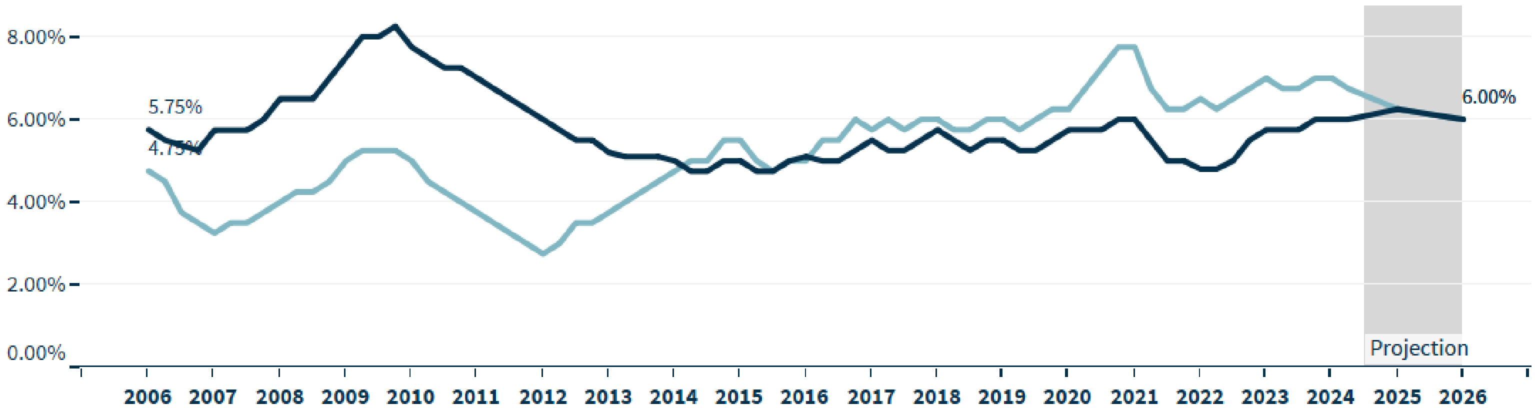
Multifamily Vacancy & Rent Estimates

Vacancy Rates

DC | *National*

Q3 2024 Vacancy Rate:

6.50%

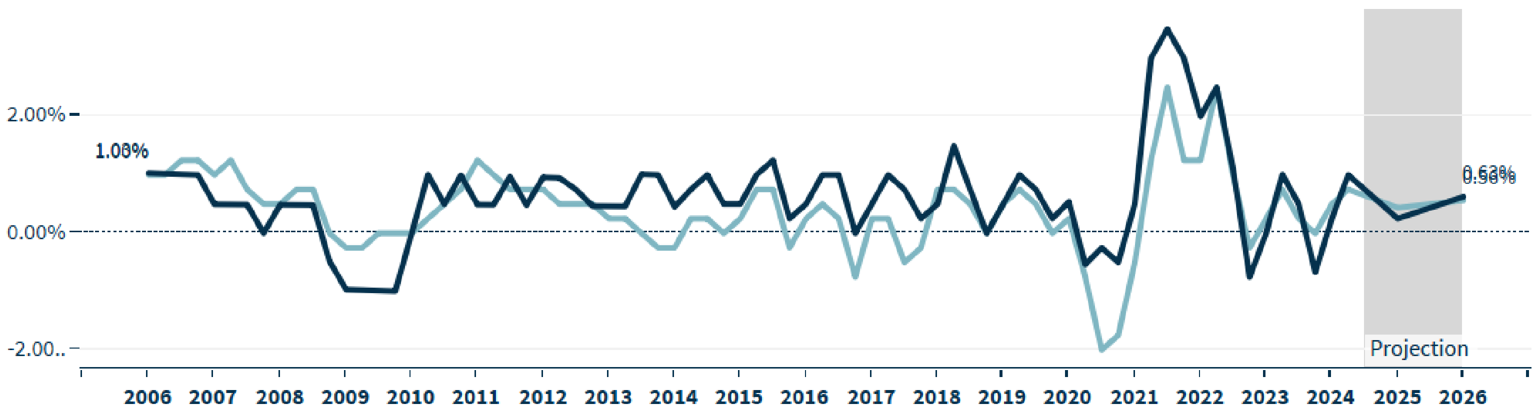


Asking Rent Growth

DC | *National*

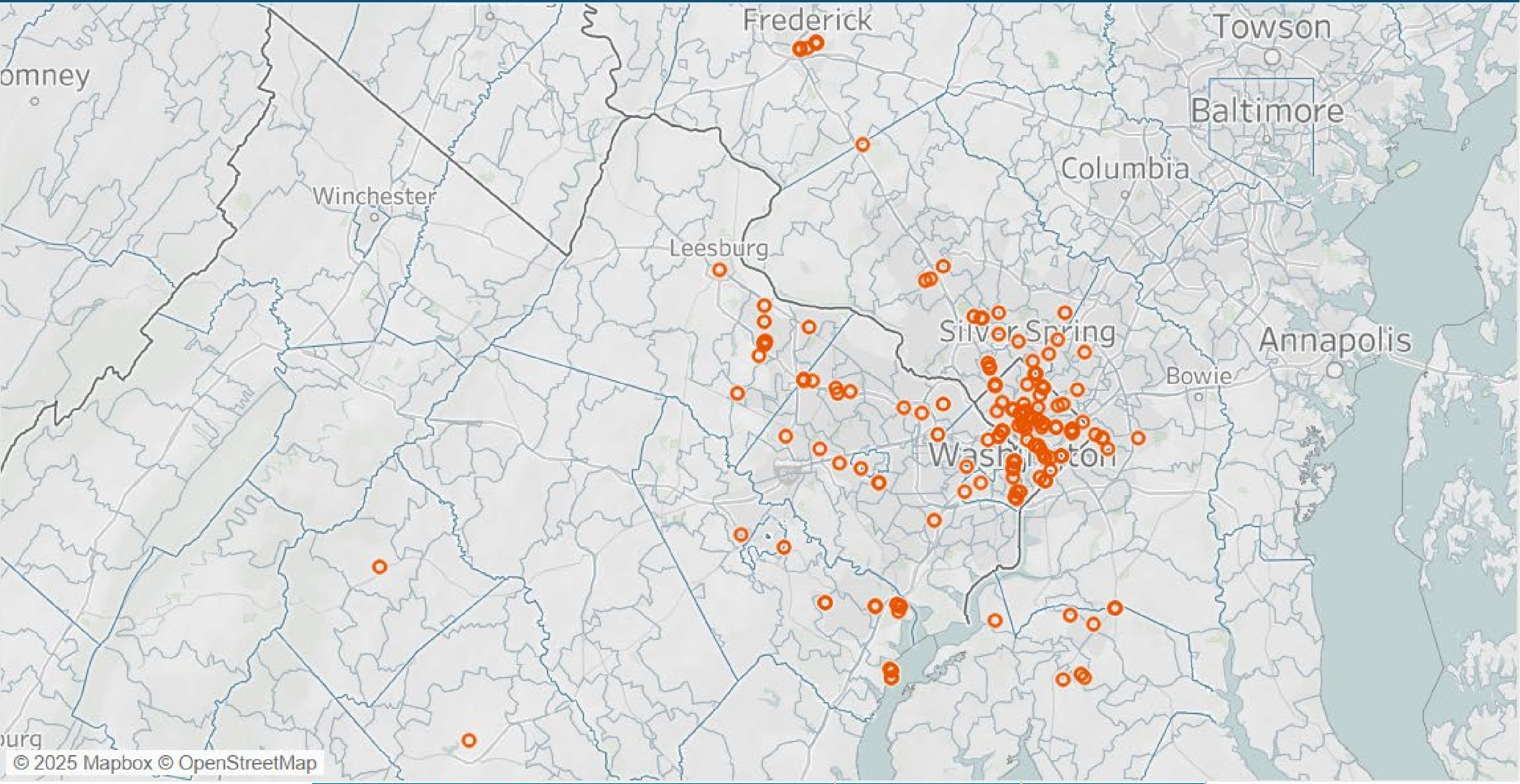
Q3 2024 Asking Rent:

$1,920



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bethesda/Chevy Chase	3	956
Central Alexandria	2	239
Central DC	13	1,530
College Park/Greenbelt	1	317
Crystal City/Pentagon City	5	1,695
Downtown Silver Spring	1	98
East Alexandria	5	1,010
East Silver Spring/Takoma Park/Adelphi	2	694
Frederick	7	831
Gaithersburg	1	118
Germantown	1	321
Hyattsville/Riverdale	1	285
Landover/Bowie	1	379
Loudoun County	11	865
Manassas/Far Southwest Suburbs	4	767
Navy Yard/Capitol South	4	1,570
North Arlington	6	2,478
North Central DC	9	2,052
Northeast DC	7	869
Northeast Montgomery County	1	387
Northwest DC	6	1,465
Reston/Herndon	6	2,121
Rockville/North Bethesda	5	1,285
Seven Corners/Baileys Crossroads/Annandale	1	361
South Fairfax County	1	439
South Prince George's County/St. Charles	8	962
Southeast DC	16	3,346
Suitland/District Heights/Capitol Heights	4	732
Tysons Corner/Falls Church/Merrifield	4	1,357
West Fairfax County	6	346
Wheaton/Aspen Hill	3	465
Woodbridge/Dale City	14	1,478
Grand Total	**159**	**31,818**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

Multifamily Metro Outlook: Washington DC Q3 2024

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