RESEARCH Q1 2022

Washington Metro Area Multifamily Market

Sustained Suburban Demand Aids Occupancy and Rent Growth

The Washington metro area's multifamily market continued to accelerate in the first quarter, recording a slight increase to occupancy and a sturdier increase in effective rent growth. The demand of 4,495 units was relatively strong in the first quarter of 2022, despite absorption being about 3,000 units fewer than fourth quarter. Quarterly demand has been relatively evenly distributed between the three substate areas, measuring 1,920 units in Northern Virginia, 1,565 units in Suburban Maryland, and 1,010 units in the District of Columbia. Though relatively balanced, Northern Virginia's greater absorption compared to Suburban Maryland and the District of Columbia is consistent with the absorption trends of the last year. Relative to inventory, quarterly occupancy was strongest in Northern Virginia at 0.71%, yet occupancy rates of Northern Virginia and the District of Columbia lag that of Suburban Maryland. The District's overall occupancy rate is 96.5%, Northern Virginia's measures 97.4%, and Suburban Maryland's occupancy rate in the first quarter of 2022 was 97.8%.

Meanwhile, the occupancy growth of the Navy Yard/Capitol Hill/Southwest submarket has been particularly noteworthy in recent quarters. This trend is bolstered by the fact that NoMa and Navy Yard have had the biggest pipelines in the District recently. The Navy Yard/Capitol Hill/Southwest submarket and the Northeast DC/NoMa/H Street submarket have pipelines of 3,979 and 4,730 units, respectively. Despite the robust construction pipeline, occupancy in the Navy Yard/Capitol Hill/Southwest measures 96.1%, and that of Northeast Dc/NoMa/H Street measures 96.6%, relatively in-line with the District's overall average.

Region-wide, per-unit effective rents increased 10.6% over the last 12 months. Rent growth was supported by the metro area's suburbs, as Northern Virginia and Suburban Maryland recorded growth of 13.7% and 8.7%, respectively. Elevated annual rent growth can be partially attributed to low rents measured in early 2021. Additionally fueling strong rent appreciation, lease trade-out rates have been rising, concurrent with increased demand, and average concessions have been contracting in the Washington metro for the last 6 months. Though exceptionally high lease trade-out rates have been registered in secondary markets, fast-growing suburban nodes within primary markets, such as Northern Virginia, could see trade-out rates in excess of those of the urban core. Rents are projected to remain positive for the next three years, though growth will slow to about 2.3% by early 2025.

Economy

- **Payroll Employment:** 3,252,400 at February 2022.
- **Historical Job Change:** 122,000 jobs added in the 12 months ending February 2022.
- **Unemployment Rate:** 3.6% in February 2022, down 170 basis points from February 2021.
- **Average Household Income:** $144,743 in 2021.

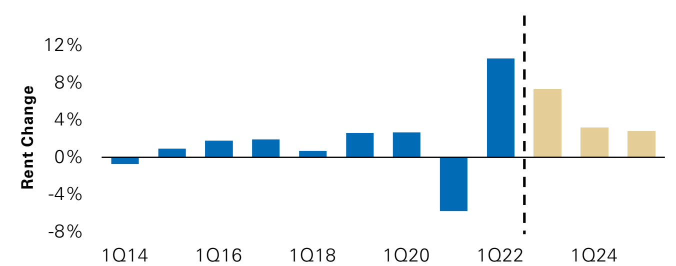
Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research; April 2022

Market Summary

	Current Quarter	Year Ago Period	36-Month Forecast
Total Inventory (Units)	661,690	648,919	↑
Occupancy Rate	97.3%	94.5%	↓
Quarterly Net Absorption (Units)	4,495	116	↓
12-Month Effective Rent Change	10.6%	-5.8%	↓
Quarterly Deliveries (Units)	2,628	1,874	↑

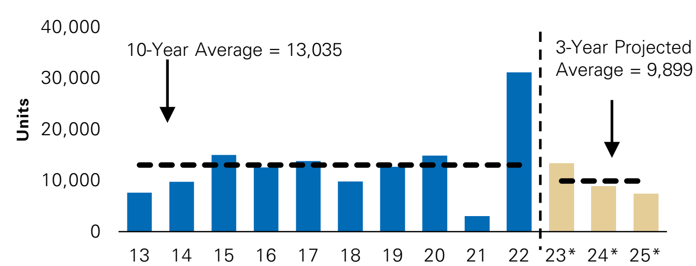
Market Analysis

ANNUAL AVERAGE EFFECTIVE RENT CHANGE



Source: Real Capital Analytics, Newmark Research; April 2022
Note: Effective rent change is calculated using same-store method for the trailing 12 months

MULTIFAMILY ABSORPTION PROJECTION



*12 months ending in fourth quarter
Source: Real Capital Analytics, Newmark Research; April 2022

A total of 32,214 units are under construction and 2,628 units delivered in the region during the first quarter. Approximately 3,486 units are planned and likely to deliver within the next three years, bringing the region's development pipeline to 35,700 units. The impact of COVID-19 continues to strain global supply chains and construction costs, but developers in the region are bullish about future demand for newly-built rentals. The District Government has begun investigating the feasibility of a tax abatement program as an incentive for developers who redevelop office buildings for multifamily use. This potential bill has not been approved, but its advocacy is notable, since part of the qualification for the abatement is tied to increasing availability of affordable multifamily units. Despite Washington's history of steady occupancy gains and forecasted employment growth, the region's robust pipeline, and developer optimism for new product will result in supply outweighing demand in aggregate over the next three years.

Economic and Multifamily Market Outlook

The Washington metro area's employment base recovered 122,000 jobs in the 12 months ending in February 2022. The region's unemployment rate was 3.6% in February and has declined 170 basis points from one year ago. Labor market recovery continued to steadily grow during the first quarter, though Omicron disrupted other areas of the market's rebound, including office reboarding. Despite the challenges of the pandemic and variants, the Washington metro area continues to hold a competitive advantage due to its economic stability, with a large and highly-educated workforce, and growth among its private sector demand drivers as a backbone. Although the federal government and associated activities have been the anchor of the region's economy, private sector diversification over the last 20 years has been a catalyst for new economic expansion, and thus, multifamily demand. Rental demand should further be supported by the particularly tight home ownership market in the Washington metro area. Rising interest rates will apply greater financial pressure on prospective home buyers and may continue to encourage more rental activity.

The region's economic drivers for the period ahead – including life sciences, technology, and the federal government and its associated contractors – are supporting multifamily growth in the urban core and alternative suburban areas. This includes off-Metrorail areas of Montgomery and Fairfax Counties, and in technology-focused markets along the Dulles Toll Road. The growth of high-wage jobs in suburban markets is encouraging for continued growth in Northern Virginia's future demand, which is forecasted to absorb the most multifamily units over the next three years among the three substate areas in the region.

Bullish multifamily demand forecasts have bolstered the region's development pipeline, ensuring the region's forecasted supply outweighs demand, on balance. Newmark projects that the region's occupancy rate will decrease to 96.6% over the next three years. Though occupancy increased this quarter, the downtown core is recovering more slowly, causing some sellers to remain out of the market and wait for momentum to rebuild. Nonetheless, a robust pipeline of new supply should slowly reduce occupancy as projects deliver and encourage lease turnover and trade-outs. Still, forecasted regional occupancy in excess of 95.0% is healthy, particularly for a market as large as the Washington metro.

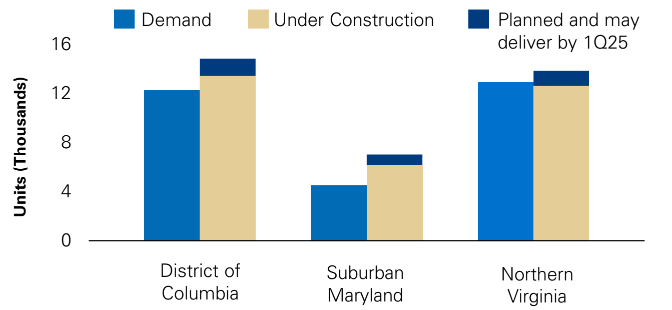
Current Conditions

- The region absorbed 4,495 units during the first quarter of 2022, down from 7,161 units absorbed in the fourth quarter of 2021.
- The region's occupancy rate increased 280 basis points over the past year to 97.3%.
- The average effective rent increased 11.8% over the past 12 months but has averaged an annual increase of 2.7% over the past five years.

Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research; April 2022

Demand and Delivery Projections

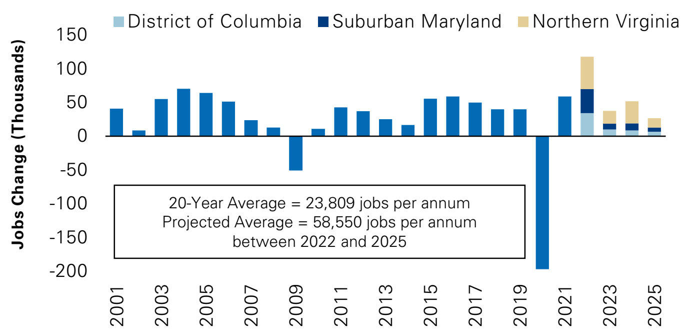
DEMAND AND DELIVERY PROJECTIONS 1Q22 -1Q25



Source: Newmark Research, April 2022

Payroll Job Growth Forecast

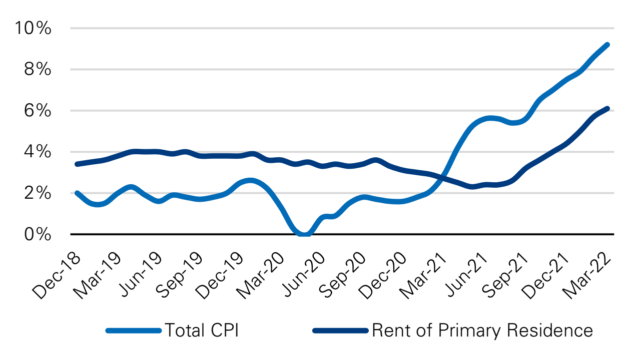
WASHINGTON METRO AREA | 2021 - 2025



Source: U.S. Bureau of Labor Statistics; forecast by Newmark Research with reference to data from the Stephen S. Fuller Institute and Moody's Analytics; April 2022

Inflation and the Consumer Price Index

CONSUMER PRICE INDEX – ANNUAL PERCENTAGE CHANGE



Sources: U.S. Bureau of Labor Statistics, Newmark Research; April 2022

Investment Sales Volume Stagnates in First Quarter, Steadily Declining Cap Rates

The Washington area multifamily market registered $12.5 billion in sales volume for the 12 months ending in the first quarter, an increase of $5.8 billion compared with the prior 12 months. The 12-month trailing average cap rate measured 4.5% in the first quarter, which is 50 basis points lower than a year ago. In the first quarter, there is relatively little product on the market for sale in the District of Columbia, which is hampering sales volume. Year-to-date sales in Northern Virginia and Suburban Maryland measured on the low side, but within the normal range of the last year, at $536.5 million and $1.0 billion, respectively. The largest sale of the first quarter was the Millennium at Metropolitan Park, which sold for $200.0 million, or about $666,667 per unit to Urban Investment Partners.

Multifamily Investment Sales Outlook

Multifamily investment activity has consistently increased throughout 2021 and into 2022, as investors continue to target the long-term value and stability of multifamily, despite the appeal of value-priced competing asset types. Cap rates declined marginally this quarter and are expected to remain low. Although investment sales activity in the metro area was quieter in first-quarter 2022, it should pick up through the second quarter. This moderation in investment demand is not significant, as seasonality and external pandemic factors created some volatility in first quarter recovery. The region's high occupancy rate will keep investor demand for the market sturdy. Investment opportunities in the District of Columbia have been slim because many sellers are electing to hold valuable multifamily assets until greater normalcy is achieved in the urban core.

Outside of the District, investment opportunities in the period ahead will be most attractive in areas boasting dynamic economic growth, such as the healthcare nodes in Montgomery County and the technology corridor connecting Arlington, Tysons, and Reston. Suburban Maryland's stable fundamentals, strong demographics, and emerging economic drivers will support its position as a safe investment market. Consistently decreasing cap rates will continue to attract investors seeking steady returns, but yield compression may nudge upside-focused investors to smaller metro markets. Nonetheless, the Washington metro area remains a highly-desired multifamily investment market, noted for its historic stability and current growth opportunities, particularly in the suburbs.

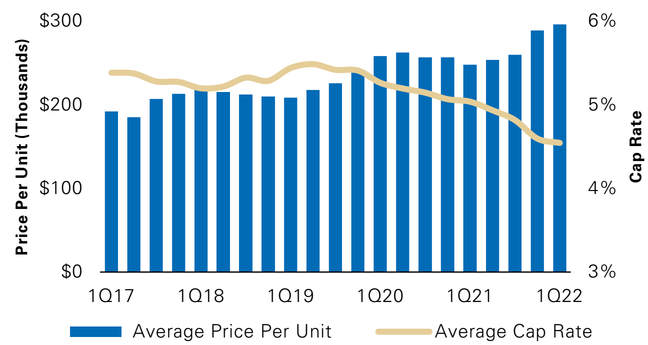
Metro Area Multifamily Investment Sales Market Summary

	Metro Region
12-Month Transaction Volume at 1Q 2022	$12.5 B
12-Month Transaction Volume at 1Q 2021	$6.8 B
1Q 2022 Average Price Per Unit	$296,031
1Q 2022 Average Cap Rate	4.5%

Note: Values are trailing 12-month averages
Source: Real Capital Analytics, Newmark Research; April 2022

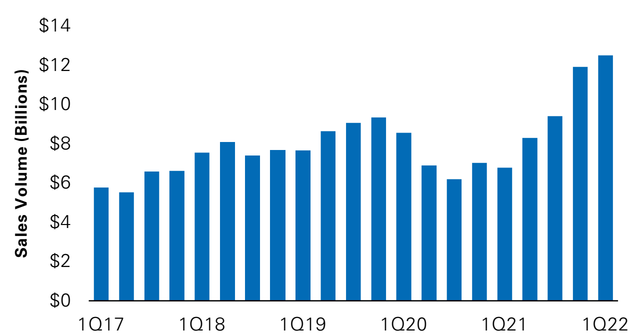
Investment Sales Analysis

AVERAGE MULTIFAMILY CAP RATE AND PRICE PER UNIT



Note: Values are trailing 12-month averages
Source: Real Capital Analytics, Newmark Research; April 2022

TRAILING 12-MONTH MULTIFAMILY TRANSACTION VOLUME



Source: Real Capital Analytics, Newmark Research; April 2022

Notable Recent Multifamily Sales Transactions

Project	Sale Price (Millions)	Price/Unit	Buyer	Seller	City
The Millennium at Metropolitan Park	$200.0	$666,667	Urban Investment Partners	Clarion Partners	Arlington
The Alaire/The Terano*	$137.5	$278,905	Eastsky Properties	JBG Smith	Rockville
The Monterey	$133.8	$309,722	FPA Multifamily	Pantzer Properties	North Bethesda
The Fields at Cascades	$105.5	$329,688	Nuveen/Jair Lynch	FCP	Sterling
Heather Hills	$97.0	$211,329	OneWall Communities	Hampshire Assets	Temple Hills

Source: Real Capital Analytics, Newmark Research; April 2022
*Sale was leasehold interest

Market Statistics – Occupancy and Absorption

	Total Inventory (Units)	Overall Occupancy Rate	2019 Absorption (Units)	2020 Absorption (Units)	2021 Absorption (Units)	1Q 2022 Absorption (Units)	YTD 2022 Absorption (Units)
Washington Metro Area	**661,690**	**97.3%**	**11,537**	**4,357**	**28,728**	**4,495**	**4,495**
District of Columbia	164,880	96.5%	4,115	1,216	11,558	1,010	1,010
Suburban Maryland	227,743	97.8%	3,260	706	7,374	1,565	1,565
Northern Virginia	269,067	97.4%	4,162	2,435	9,796	1,920	1,920

Market Statistics – Effective Rents and Deliveries

	Total Inventory (Units)	Effective Rent (Per Unit)	Effective Rent (Per SF)	1- Year Effective Rent Growth	5-Year Average Effective Rent Growth	2021 Deliveries (Units)	YTD 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Washington Metro Area	**661,690**	**$1,949**	**$2.25**	**10.6%**	**2.7%**	**13,934**	**2,628**	**32,214**	**35,700**
District of Columbia	164,880	$2,119	$2.78	8.3%	1.2%	6,924	693	13,404	14,832
Suburban Maryland	227,743	$1,784	$1.96	8.7%	3.4%	1,117	807	6,195	7,029
Northern Virginia	269,067	$1,986	$2.17	13.7%	3.1%	5,893	1,128	12,615	13,839

District of Columbia Submarket Statistics – All Classes

	Total Inventory (Units)	Overall Occupancy Rate	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Effective Rent Change	YTD 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
District of Columbia	**164,880**	**96.5%**	**$2,119**	**$2.78**	**8.3%**	**1.2%**	**693**	**13,404**	**14,832**
Central DC/West End/Shaw/ Mt. Vernon Triangle	49,763	96.7%	$2,440	$3.33	13.0%	0.3%	66	2,124	2,319
Navy Yard/Capitol Hill/ Southwest	20,645	96.1%	$2,624	$3.29	8.1%	3.3%	139	3,808	3,979
North Central DC/Columbia Heights/Petworth	18,713	95.8%	$1,775	$2.50	3.1%	0.7%	61	808	1,178
Northeast DC/NoMa/H Street	24,782	96.6%	$2,259	$2.81	8.3%	1.0%	364	4,508	4,730
Northwest DC/Georgetown/ Friendship Heights	21,722	96.0%	$2,174	$2.86	12.3%	0.7%	0	1,601	1,719
Southeast DC	29,255	97.1%	$1,277	$1.58	0.9%	2.2%	63	555	907

*Units under construction plus those planned and likely to deliver within the next 36 months.
Note: Column totals may not be exact due to rounding. Rent growth calculated using same-store method.
Source: Real Capital Analytics, Newmark Research; April 2022

Suburban Maryland Submarket Statistics – All Classes

	Total Inventory (Units)	Overall Occupancy Rate	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Effective Rent Change	YTD 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Suburban Maryland	**227,743**	**97.8%**	**$1,784**	**$1.96**	**8.7%**	**3.4%**	**807**	**6,195**	**7,029**
Bethesda/Chevy Chase	14,701	96.7%	$2,445	$2.55	9.9%	1.6%	164	1,941	1,997
College Park/Greenbelt	10,765	97.8%	$1,772	$1.88	5.4%	3.7%	118	393	497
Downtown Silver Spring	14,130	97.6%	$1,917	$2.17	8.4%	1.0%	0	956	1,060
East Silver Spring/ Takoma Park/Adelphi	17,608	98.8%	$1,507	$1.90	8.0%	2.4%	0	0	0
Frederick	11,863	98.5%	$1,712	$1.78	13.3%	6.9%	0	0	0
Gaithersburg	16,287	98.4%	$1,818	$1.91	10.5%	3.8%	193	268	268
Germantown	8,449	97.3%	$1,882	$1.96	16.3%	5.4%	0	212	212
Hyattsville/Riverdale	17,345	97.3%	$1,552	$1.91	5.5%	3.3%	0	0	233
Landover/Bowie	18,060	97.6%	$1,745	$1.91	5.0%	3.4%	134	1,239	1,335
Laurel/Beltsville	14,615	97.7%	$1,692	$1.88	8.5%	4.2%	0	0	0
Northeast Montgomery County	9,312	98.5%	$1,666	$1.78	5.6%	2.9%	0	0	0
Rockville/North Bethesda	21,306	97.3%	$2,126	$2.18	10.9%	2.4%	150	785	860
South Prince George's County/St. Charles	22,285	98.0%	$1,603	$1.86	8.6%	4.4%	48	401	401
Suitland/District Heights/ Capitol Heights	17,628	97.8%	$1,552	$1.74	6.6%	3.6%	0	0	0
Wheaton/Aspen Hill	13,389	97.6%	$1,846	$2.00	11.1%	3.2%	0	0	167

Northern Virginia Submarket Statistics – All Classes

	Total Inventory (Units)	Overall Occupancy Rate	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Effective Rent Change	YTD 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Northern Virginia	**269,067**	**97.4%**	**$1,986**	**$2.17**	**13.7%**	**3.1%**	**1,128**	**12,615**	**13,839**
Central Alexandria	12,880	98.1%	$1,731	$2.01	12.1%	2.8%	0	0	0
Columbia Pike	15,032	97.4%	$1,917	$2.24	14.6%	1.7%	0	0	0
Crystal City/Pentagon City	14,540	97.1%	$2,233	$2.42	19.0%	0.8%	0	2,142	2,304
East Alexandria	20,088	96.6%	$2,078	$2.46	12.4%	2.1%	451	2,266	2,322
Fredericksburg/Stafford	14,926	97.0%	$1,672	$1.64	12.0%	6.6%	200	160	197
Loudoun County	17,607	97.4%	$1,934	$1.97	14.0%	4.1%	76	97	179
Manassas/Far Southwest Suburbs	15,965	98.5%	$1,703	$1.78	11.0%	5.3%	0	0	0
North Arlington	31,498	97.1%	$2,427	$2.80	14.0%	2.1%	0	1,795	2,164
Reston/Herndon	21,503	97.2%	$2,061	$2.05	14.1%	3.2%	147	825	915
Seven Corners/Bailey's Crossroads/Annandale	11,682	98.3%	$1,809	$1.90	8.6%	2.3%	0	480	480
South Fairfax County	22,854	97.4%	$1,876	$2.09	14.0%	3.5%	0	1,106	1,106
Tysons/Falls Church/Merrified	27,422	97.2%	$2,116	$2.29	14.7%	2.7%	169	1,944	2,372
West Alexandria	10,985	97.9%	$1,855	$2.12	20.1%	3.4%	85	513	513
West Fairfax County	17,027	98.2%	$1,998	$2.13	14.2%	3.1%	0	969	969
Woodbridge/Dale City	15,058	97.1%	$1,703	$1.88	10.8%	4.6%	0	318	318

*Units under construction plus those planned and likely to deliver within the next 36 months.
Note: Column totals may not be exact due to rounding. Rent growth calculated using same-store method.
Source: Real Capital Analytics, Newmark Research; April 2022

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GLOSSARY

Absorption: Net change in occupied units over a specific period.

Effective Rent: The price at which a unit leases after factoring in all concessions and discounts, calculated over the lease period.

Inventory: Professionally managed, investment-grade apartment buildings with 40 or more units.

Occupancy Rate: The number of physically occupied units, expressed as a percentage of total inventory.

Pipeline: Units under construction, plus those planned and likely to deliver within the next 36 months.