RESEARCH Q1 2023

Washington Metro Area Multifamily Market

Demand Softens; Limited Investor Activity Driven by Suburbs

The Washington metro area's multifamily market remained relatively tight in the first quarter of 2023, despite key performance indicators continuing to soften. Despite strong rent appreciation, a slight decrease in net occupancy and new unit deliveries resulted in decreased occupancy. Net demand measured 1,754 units in the first quarter of 2023, which is an improvement from the negative 246 units measured in the previous quarter. Quarterly demand has varied between the three substate areas, measuring 1,314 units in the District of Columbia, 1,053 units in Northern Virginia, and negative 613 units in Suburban Maryland. Uncertain economic conditions were one of a variety of factors that contributed to occupancy contraction, along with expected seasonality during the first quarter. Occupancy decreased and measured 94.8%, 94.7%, and 95.1% in the District of Columbia, Suburban Maryland, and Northern Virginia, respectively. The modest softening of fundamentals should not raise alarms; however, conditions should continue to moderate, following the exceptional growth of the past year. Although economic headwinds are applying downward pressure on the market, overall fundamentals remain strong.

Regionally, per-unit effective rents have increased 4.0% over the last 12 months. Rent growth continues to be supported by the District of Columbia and Northern Virginia, with average growth rates of 4.3% and 4.2%, followed by Suburban Maryland, at 3.5%. Though moderating, high lease trade-out rates have been supporting high rent growth nationwide, particularly in secondary markets. Fast-growing suburban nodes within major gateway markets, such as Northern Virginia, continue to see more aggressive trade-out rates relative to the urban core. Rents are projected to remain positive for the next three years, though growth will slow to about 2.7% by the first quarter of 2026.

A total of 36,247 units are under construction and 3,787 units delivered regionally in the first quarter of 2023. Additionally, 2,809 units are planned and likely to deliver within the next three years, bringing the region's development pipeline to 39,056 units. Construction and material costs remains high, but developers are optimistic about future demand for newly built rentals. While interest rates remain elevated, expectations for continued growth have moderated. Consequently, market activity could pick up later in 2023 as financial market conditions become more predictable. Nonetheless, investor interest is high in Northern Virginia and Maryland due to fewer regulations, most notably TOPA, but challenges such as access to equity and exceptionally limited assets available for purchase are suppressing actionable investment. The region's diverse pipeline and ongoing optimism among developers for new product will result in relatively balanced supply and demand regionally.

Economy

- **Payroll Employment:** 3,340,700 in March 2023.
- **Historical Job Change:** 74,700 jobs added in the 12 months ending March 2023.
- **Unemployment Rate:** 2.9% in February 2023, down 30 basis points from February 2022.
- **Average Household Income:** $144,743 in 2021.

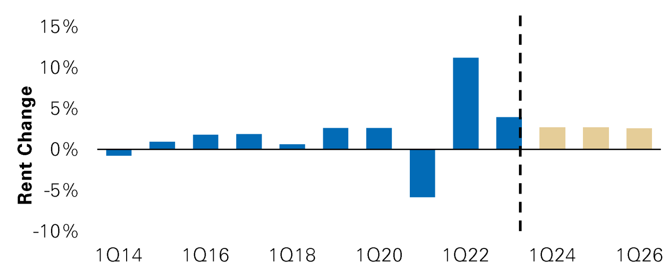
Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research

Market Summary

	Current Quarter	Year-Ago Period	36-Month Forecast
Total Inventory (Units)	674,527	661,690	↑
Occupancy Rate	94.9%	97.3%	↑
Quarterly Net Absorption (Units)	1,754	4,495	↑
12-Month Effective Rent Change	4.0%	10.6%	↓
Quarterly Deliveries (Units)	3,787	2,628	↑

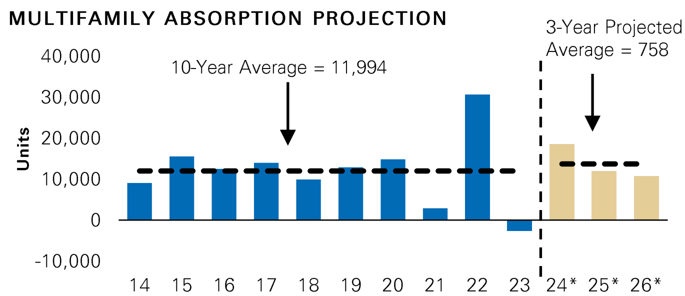
Market Analysis

ANNUAL AVERAGE EFFECTIVE RENT CHANGE



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

MULTIFAMILY ABSORPTION PROJECTION



*12 months ending in first quarter
Source: Real Capital Analytics, Newmark Research

NEWMARK

Economic and Multifamily Market Outlook

The Washington metro area's employment base recovered 74,700 jobs in the 12 months ending in March 2023. The region's unemployment rate was 2.9% in February and has declined 30 basis points from one year ago. Though annualized labor market recovery was strong, month-over-month growth has slowed down in 2022, heading into 2023, due in part to increasing recessionary concerns. Despite these challenges, the Washington metro area continues to hold a competitive advantage thanks to its economic stability, highly educated workforce, and strong private sector demand drivers. 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 catalyzed new economic expansion, leading to greater multifamily demand. Though economic pressures may soften the federal insulation effect the region holds during periods of economic uncertainty, the federal government has also provided a stronger growth engine during periods of prosperity. Rental demand should be further supported by the particularly tight home ownership market due to lack of quality inventory and elevated interest rates, which further constrain opportunities for prospective homebuyers, thus supporting 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 both the urban core and alternative suburban areas. This includes off-Metrorail areas of Montgomery and Fairfax Counties and technology-focused markets along the completed Silver Line and Dulles Toll Road. Northern Virginia continues to support most of the region's office-using employment growth, gaining 45,100 jobs over the last year. The growth of high-wage jobs in suburban markets is encouraging for continued growth in Northern Virginia. Increased demand is expected in all three substate areas but will be most prevalent in Northern Virginia.

Multifamily demand forecasts have strengthened the region's development pipeline, which will result in a slight increase in demand relative to supply. Newmark anticipates that the region's occupancy rate will increase slightly to 95.8% over the next three years. Though occupancy modestly contracted this quarter and market conditions tilted downward, the region is anticipated to see positive occupancy growth in the period ahead, driven by suburban markets. Still, forecasted regional occupancy greater than 95% is healthy for investors, particularly for a market as large as the Washington metro area. More neutral supply and demand conditions are anticipated in the District of Columbia over the next three years. A strong construction pipeline in the urban core has effectively densified the District's fastest growing and high value micro-markets. In the period ahead, developers will have to consider riskier development propositions as opportunities contract.

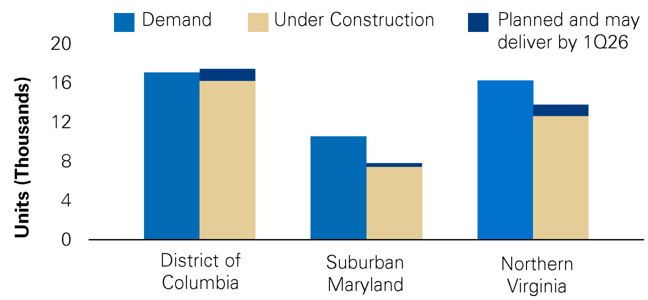
Although the pace of rent growth is beginning to slow, inflation indicators assembled by the Bureau of Labor Statistics highlight the relative strength of rent appreciation relative to overall inflation. Rent of primary residences has continued to increase at a record pace over the last four quarters, reaching 8.8% as of March 2023. Concurrently, the Consumer Price Index experienced modest downward pressure after reaching an apex in June 2022. Given the slowing rent growth measured locally in the first quarter of 2023, it is expected that the inflation rate for rent of primary residence will temper in the coming months but will remain above that of the CPI, at least in the near term.

Current Conditions

- The region absorbed 1,754 units during the first quarter of 2023, up from negative 246 units absorbed in fourth-quarter 2022.
- The region's occupancy rate decreased 30 basis points from the fourth quarter to 94.9%.
- The average effective rent increased 4.0% over the past 12 months; a decrease from the 5.4% annualized growth recorded in the fourth quarter of 2022.

Demand and Delivery Projections

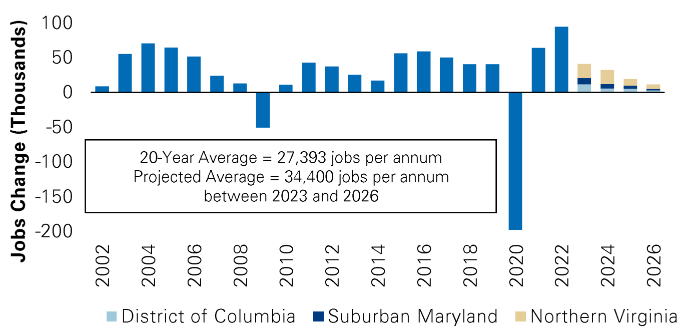
DEMAND AND DELIVERY PROJECTIONS 1Q23 -1Q26



Source: Newmark Research

Payroll Job Growth Forecast

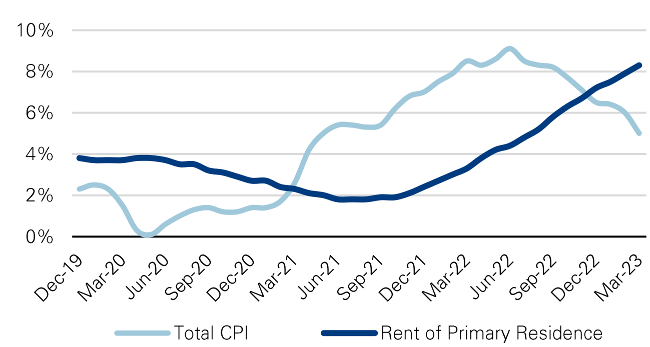
WASHINGTON METRO AREA | 2002 - 2026



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

Inflation and the Consumer Price Index

CONSUMER PRICE INDEX – ANNUAL PERCENTAGE CHANGE



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

Investment Sales Activity Cools; Cap Rates to Experience Upward Pressure in 2023

The Washington region's multifamily market registered $1.1 billion in quarterly sales volume in the first quarter of 2023, slightly below the five-year average and a decrease from the fourth quarter of 2022. The 12-month average cap rate measured 4.5% in the first quarter, which remains unchanged from 12 months ago. One challenge continuing to face investors is the limited supply of multifamily assets on the market. Given the rapidly changing financial market conditions, both buyers and sellers are exhibiting significantly greater caution in exploring investment prospects. Quarterly sales in Suburban Maryland and Northern Virginia were relatively low, at $399.2 million and $321.5 million, respectively. A notable transaction in the first quarter was Sussex at Kingstowne, in Alexandria, Virginia, which sold for $179.0 million, or $321,942 per unit, from GID to Harbor Group Int'l.

Multifamily Investment Sales Outlook

Multifamily investment activity in the Washington region continued to decelerate through the first quarter of 2023. Macroeconomic headwinds persist, slowing some of the growth drivers anticipated to push the market. Recessionary pressures, a high 10-year Treasury rate, and increased interest rates continue to apply downward pressure on investor demand as access to debt remains limited. Market fundamentals remain strong as buyers and sellers continue to navigate the uncertain climate by re-pricing deals due to higher interest rates. The Mid-Atlantic has historically been targeted by investors for its stability during periods of economic uncertainty. Given inflation, slowing economic indicators, and the competitive advantage of residential over alternative assets, safety-minded investors may focus on Washington's multifamily market. Regional cap rates remain relatively low, but cap rates are increasing in certain areas, partially a result of decreased buyer-demand. A subtle easing of the region's yield compression could help to limit the leakage of investors to higher-return secondary markets.

Washington's high occupancy rate and economic fundamentals, particularly in the suburbs, are expected to be stalwarts in driving continued investor demand. Investment opportunities will be most attractive in areas with upward economic growth, such as healthcare nodes in Montgomery County and the technology corridor connecting Arlington, Tysons, and Reston. Suburban Maryland's consistent fundamentals and strong demographics will support its position as a safe and stable investment market. Relatively low cap rates will continue to demonstrate Washington's relative safety compared to other markets for investors.

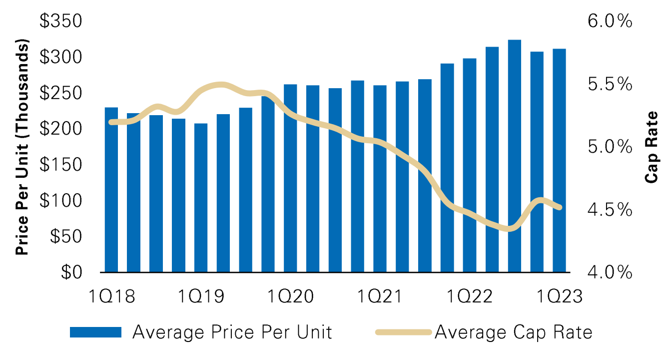
Metro Area Multifamily Investment Sales Market Summary

	Metro Region
12-Month Transaction Volume at 1Q 2023	$6.8 B
12-Month Transaction Volume at 1Q 2022	$9.3 B
1Q 2023 Average Price Per Unit	$311,470
1Q 2023 Average Cap Rate	4.5%

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

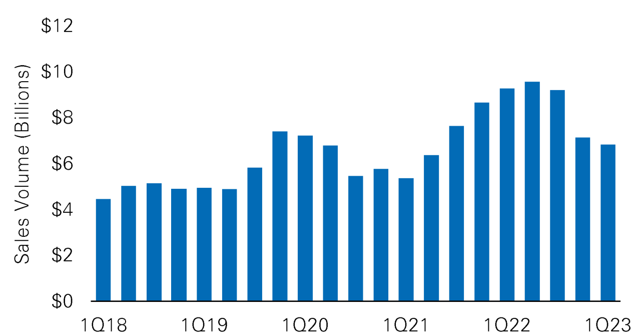
Investment Sales Analysis

AVERAGE MULTIFAMILY CAP RATE AND PRICE PER UNIT



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

TRAILING 12-MONTH MULTIFAMILY TRANSACTION VOLUME



Source: Real Capital Analytics, Newmark Research

Notable Recent Multifamily Sales Transactions

Project	Sale Price (Millions)	Price/Unit	Buyer	Seller	City
The Lydian	$181.5	$560,185	Pacific Life	The Wilkes Co JV Quadrangle	Washington DC
Sussex At Kingstowne	$179.0	$321,942	GID	Harbor Group Int'l	Alexandria
Highgate at Metropolitan Mile	$137.0	$346,835	Kettler JV Pacific Life	Blackstone	Fairfax
Huntington King Farm Phase I	$123.0	$283,410	AEW Capital	RREEF Funds JV JPI Multifamily	Rockville
Lyric Apartments	$111.5	$476,496	Pacific Life	Quadrangle	Washington DC

Source: Real Capital Analytics, Newmark Research

Market Statistics – Occupancy and Absorption

	Total Inventory (Units)	Overall Occupancy Rate	2020 Absorption (Units)	2021 Absorption (Units)	2022 Absorption (Units)	1Q 2023 Absorption (Units)	YTD 2023 Absorption (Units)
Washington Metro Area	**674,527**	**94.9%**	**4,357**	**28,728**	**-246**	**1,754**	**1,754**
District of Columbia	170,637	94.8%	1,216	11,558	1,664	1,314	1,314
Suburban Maryland	229,869	94.7%	706	7,374	-858	-613	-613
Northern Virginia	274,021	95.1%	2,435	9,796	-1,052	1,053	1,053

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	YTD 2023 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Washington Metro Area	**674,527**	**$2,044**	**$2.36**	**4.0%**	**3.3%**	**3,787**	**36,247**	**39,056**
District of Columbia	170,637	$2,225	$2.92	4.3%	1.9%	2,007	16,209	17,438
Suburban Maryland	229,869	$1,859	$2.05	3.5%	3.9%	305	7,419	7,828
Northern Virginia	274,021	$2,087	$2.28	4.2%	3.7%	1,475	12,619	13,790

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 2023 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
District of Columbia	**170,637**	**94.9%**	**$2,225**	**$2.92**	**4.3%**	**1.9%**	**2,007**	**16,209**	**17,438**
Central DC/West End/Shaw/ Mt. Vernon Triangle	50,387	95.5%	$2,556	$3.49	4.7%	1.3%	471	3,097	3,533
Navy Yard/Capitol Hill/ Southwest	22,505	93.0%	$2,679	$3.36	3.2%	2.8%	246	4,792	5,072
North Central DC/Columbia Heights/Petworth	18,928	95.9%	$1,894	$2.66	5.9%	2.0%	323	1,264	1,294
Northeast DC/NoMa/H Street	27,349	93.3%	$2,313	$2.88	1.9%	1.6%	831	4,501	4,850
Northwest DC/Georgetown/ Friendship Heights	22,139	95.7%	$2,323	$3.05	6.4%	1.7%	136	1,568	1,639
Southeast DC	29,329	95.1%	$1,368	$1.69	4.1%	2.9%	0	987	1,050

*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

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 2023 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Suburban Maryland	**229,869**	**94.7%**	**$1,859**	**$2.05**	**3.5%**	**3.8%**	**305**	**7,419**	**7,828**
Bethesda/Chevy Chase	14,982	94.2%	$2,586	$2.70	1.9%	2.3%	0	2,614	2,863
College Park/Greenbelt	11,191	93.7%	$1,835	$1.95	4.1%	4.3%	66	0	0
Downtown Silver Spring	14,533	96.3%	$1,972	$2.24	3.2%	1.6%	135	553	553
East Silver Spring/ Takoma Park/Adelphi	17,563	96.7%	$1,577	$1.98	4.2%	3.1%	0	0	0
Frederick	11,863	95.6%	$1,821	$1.89	6.2%	6.9%	0	799	799
Gaithersburg	16,352	96.3%	$1,970	$2.07	6.5%	5.1%	0	268	268
Germantown	8,449	95.4%	$1,941	$2.02	3.1%	5.6%	0	212	212
Hyattsville/Riverdale	17,345	95.1%	$1,586	$1.95	2.4%	3.4%	0	600	632
Landover/Bowie	18,462	93.2%	$1,828	$2.00	4.2%	3.8%	90	1,256	1,256
Laurel/Beltsville	14,615	94.1%	$1,674	$1.86	-0.3%	3.5%	0	0	0
Northeast Montgomery County	9,312	96.0%	$1,787	$1.91	7.3%	4.1%	0	0	128
Rockville/North Bethesda	21,691	95.5%	$2,204	$2.26	4.0%	3.0%	0	670	670
South Prince George's County/St. Charles	22,494	94.1%	$1,641	$1.90	1.8%	4.4%	14	120	120
Suitland/District Heights/ Capitol Heights	17,628	91.0%	$1,591	$1.78	0.9%	3.6%	0	327	327
Wheaton/Aspen Hill	13,389	94.6%	$1,962	$2.13	6.2%	4.1%	0	0	0

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 2023 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Northern Virginia	**274,021**	**95.1%**	**$2,087**	**$2.28**	**4.2%**	**3.7%**	**1,475**	**12,619**	**13,790**
Central Alexandria	12,880	95.3%	$1,822	$2.11	5.3%	3.7%	0	511	640
Columbia Pike	15,032	96.3%	$1,997	$2.34	3.4%	2.4%	0	250	250
Crystal City/Pentagon City	14,845	94.1%	$2,362	$2.56	4.3%	1.6%	154	2,327	2,777
East Alexandria	21,188	95.5%	$2,168	$2.57	4.7%	2.8%	108	1,254	1,578
Fredericksburg/Stafford	15,005	94.1%	$1,728	$1.70	1.2%	6.6%	24	471	516
Loudoun County	17,793	95.1%	$2,097	$2.13	7.0%	5.3%	0	437	437
Manassas/Far Southwest Suburbs	16,059	96.3%	$1,817	$1.90	6.0%	5.5%	0	0	0
North Arlington	31,807	95.5%	$2,609	$3.01	4.5%	3.1%	0	1,808	1,863
Reston/Herndon	21,879	95.0%	$2,191	$2.18	6.2%	3.8%	0	1,655	1,731
Seven Corners/Bailey's Crossroads/Annandale	11,922	95.2%	$1,913	$2.01	3.8%	3.1%	0	240	240
South Fairfax County	23,167	94.6%	$1,937	$2.16	4.8%	3.8%	129	715	807
Tysons/Falls Church/Merrified	28,542	95.0%	$2,208	$2.38	4.8%	2.9%	569	2,037	2,037
West Alexandria	11,369	94.4%	$1,785	$2.04	-2.7%	2.9%	127	0	0
West Fairfax County	17,450	96.2%	$2,097	$2.23	4.9%	3.9%	205	914	914
Woodbridge/Dale City	15,083	93.9%	$1,747	$1.93	1.1%	4.4%	159	0	0

*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

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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.

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.