RESEARCH Q2 2022

Washington Metro Area Multifamily Market

Virginia Drives Region's Growth; Investors Seeking Proven Stability

The Washington metro area's multifamily market remained tight in the second quarter, with a sturdier increase in annual effective rent growth, increased total inventory, and more second quarter deliveries, despite recording a slight decrease to occupancy. The demand of negative 1,756 units was notably down from the first quarter of 2022 with demand of 4,495 units. Quarterly demand has been quite varied between the three substate areas, measuring 32 units in Northern Virginia, negative 1,429 units in Suburban Maryland, and negative 154 units in the District of Columbia. Though decreased general activity is partially a result of market uncertainty and recessionary pressures, it can also be explained by seasonality. The current summer lull in market activity was, for the most part, expected, even though market uncertainty can exacerbate these conditions. The District's overall occupancy rate is 95.7%, Northern Virginia's measures 96.9%, and Suburban Maryland's occupancy rate in the second quarter of 2022 was 96.7%. The region's occupancy rate decreased in every market in the second quarter, however, because of how tight market conditions are, it is not a significant drop, and is more of a flattening.

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 5,093 and 4,747 units, respectively. Despite the robust construction pipeline, occupancy in the Navy Yard/Capitol Hill/Southwest measures 94.8%, and that of Northeast Dc/NoMa/H Street measures 95.5%, slightly below the District's overall average.

Region-wide, per-unit effective rents increased 10.4% over the last 12 months. Rent growth was supported by the metro area's suburbs, as Northern Virginia and Suburban Maryland recorded growth of 12.8% and 8.9%, 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 2.7% by early 2025.

Economy

- **Payroll Employment:** 3,292,300 at May 2022.
- **Historical Job Change:** 96,600 jobs added in the 12 months ending May 2022.
- **Unemployment Rate:** 3.3% in May 2022, down 180 basis points from May 2021.
- **Average Household Income:** $144,743 in 2021.

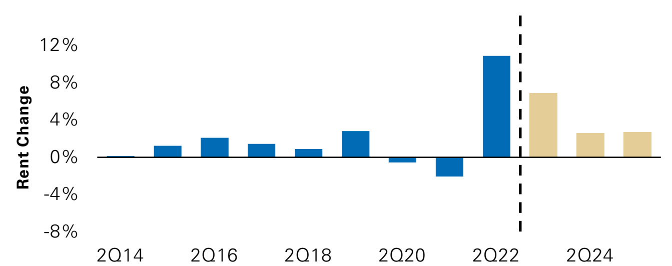
Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research; July 2022

Market Summary

	Current Quarter	Year Ago Period	36-Month Forecast
Total Inventory (Units)	664,559	651,854	↑
Occupancy Rate	96.5%	95.3%	↑
Quarterly Net Absorption (Units)	-1,551	7,950	↑
12-Month Effective Rent Change	10.4%	-2.1%	↓
Quarterly Deliveries (Units)	3,594	3,108	↑

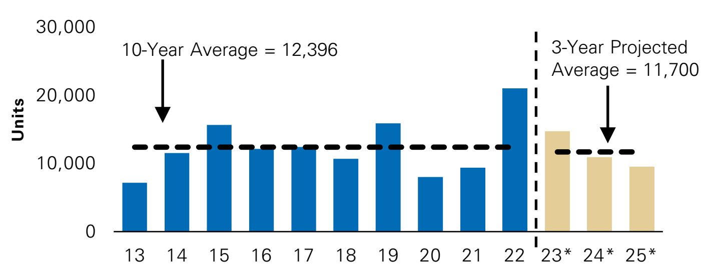
Market Analysis

ANNUAL AVERAGE EFFECTIVE RENT CHANGE



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

MULTIFAMILY ABSORPTION PROJECTION



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

A total of 34,521 units are under construction and 13,934 units delivered in the region during the second quarter. Approximately 3,431 units are planned and likely to deliver within the next three years, bringing the region's development pipeline to 37,952 units. Construction and material cost remains high and supply-chain issues continue, but developers in the region are bullish about future demand for newly-built rentals. It is worth nothing that while interest rates remain elevated, they have settled to a certain degree, and market activity should pick up soon after Labor Day. Nonetheless, investor interest is high in Northern Virginia, where there is greater ease of business transaction because of the absence of laws like those regulated by TOPA in the District. Concurrently, 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 96,600 jobs in the 12 months ending in May 2022. The region's unemployment rate was 3.3% in May and has declined 180 basis points from one year ago. Though labor market recovery was strong through the first quarter, the second quarter saw recovery stagnate slightly, due in part to increasing inflation and concerns of impending recessionary pressures. Despite these challenges, the Washington metro area continues to hold a competitive advantage thanks 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. Though economic diversification may soften the federal insulation effect the region holds during periods of economic downturns, it has also provided a stronger growth engine during periods of prosperity. Rental demand should further be supported by the particularly tight home ownership market in the Washington metro area. High interest rates continue to 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 96.3% over the next three years. Though occupancy decreased this quarter, and market conditions turned slightly downward, momentum should rebuild in the coming months, though possibly slower than expected in early 2022. 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.

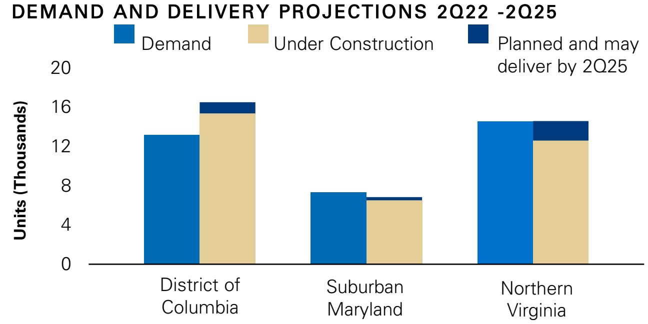
Current Conditions

- The region absorbed negative 1,551 units during the second quarter of 2022, down from 4,495 units absorbed in first-quarter 2022.
- The region's occupancy rate decreased 80 basis points from first-quarter to 96.5%.
- The average effective rent increased 10.4% over the past 12 months, a lower rate than the 10.6% of first-quarter 2022.

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

Demand and Delivery Projections

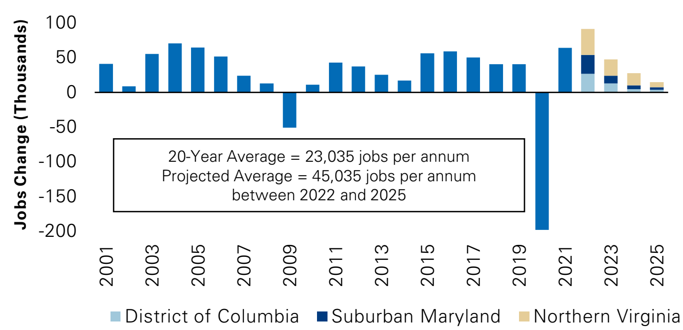
DEMAND AND DELIVERY PROJECTIONS 2Q22 -2Q25



Source: Newmark Research, July 2022

Payroll Job Growth Forecast

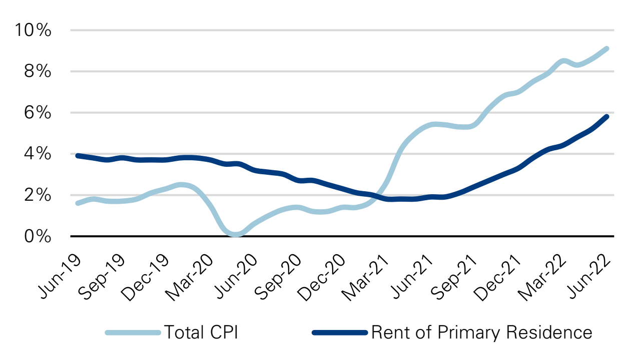
WASHINGTON METRO AREA | 2001 - 2025



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; July 2022

Inflation and the Consumer Price Index

CONSUMER PRICE INDEX – ANNUAL PERCENTAGE CHANGE



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

Investment Sales Volume Moderates in Second Quarter, Consistently Decreasing Cap Rates

The Washington area multifamily market registered $2.3 billion in quarterly sales volume in the second quarter of 2022, on-par with the five-year average but an increase from the first quarter of 2022. The 12-month trailing average cap rate measured 4.6% in the second quarter, which is 40 basis points lower than a year ago. One challenge facing investors in the Washington market is the limited supply of multifamily assets on the market. For much of the pandemic, investment activity in the District of Columbia was hampered by the inability to adhere to TOPA regulations. While TOPA adherence is no longer an issue for investors, policies which cause uncertainty in closing timelines, such as TOPA and ROFR, are challenging investors given the unclear direction of future interest rate increases. Northern Virginia has fewer of these regulations and combined with its history of strong economic expansion, has captured an outsized share of multifamily investment activity within the Washington market. In the second quarter, Northern Virginia recorded $1.2 billion in multifamily sales activity, or 50.5% of the market's overall sales activity.

Multifamily Investment Sales Outlook

Multifamily investment activity in the Washington metro has maintained its velocity through mid-2022. Macroeconomic headwinds have recently emerged, slowing some of the anticipated growth drivers. Increasing interest rates may apply some downward pressure on investor demand, but the effects of this uncertainty will be most pronounced in markets where property sales are subject to uncontrolled closing schedules.

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 continue to decline and are expected to remain low, but modest upward pressure could be registered in some areas given the constrained availability of quality investments. 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.

Outside of the urban core 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.

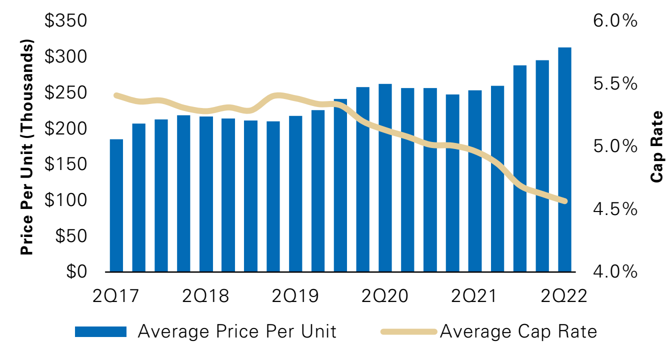
Metro Area Multifamily Investment Sales Market Summary

	Metro Region
12-Month Transaction Volume at 2Q 2022	$12.6 B
12-Month Transaction Volume at 2Q 2021	$8.3 B
2Q 2022 Average Price Per Unit	$313,131
2Q 2022 Average Cap Rate	4.6%

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

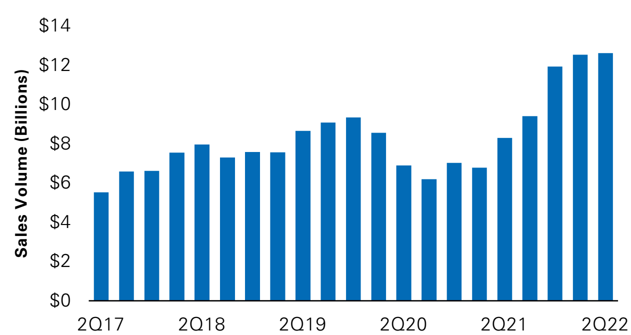
Investment Sales Analysis

AVERAGE MULTIFAMILY CAP RATE AND PRICE PER UNIT



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

TRAILING 12-MONTH MULTIFAMILY TRANSACTION VOLUME



Source: Real Capital Analytics, Newmark Research; July 2022

Notable Recent Multifamily Sales Transactions

Project	Sale Price (Millions)	Price/Unit	Buyer	Seller	City
Evo	$334.6	$735,477	Cortland	Penzance/The Baupost Group	Arlington
Aubrey	$266.5	$805,000	Cortland	Penzance/The Baupost Group	Arlington
The Willard (Bethesda)*	$185.0	$357,834	AIR	Dweck Properties	Bethesda
Denizen at Eisenhower Square	$158.5	$471,726	Pantzer Properties	Rushmark Properties	Alexandria
Rivergate	$98.5	$245,025	Capital Square 1031	The Shidler Group	Woodbridge

Source: Real Capital Analytics, Newmark Research; July 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)	2Q 2022 Absorption (Units)	YTD 2022 Absorption (Units)
Washington Metro Area	**664,559**	**96.5%**	**11,537**	**4,357**	**28,728**	**-1,551**	**2,944**
District of Columbia	166,002	95.7%	4,115	1,216	11,558	-154	856
Suburban Maryland	228,250	96.7%	3,260	706	7,374	-1,429	136
Northern Virginia	270,307	96.9%	4,162	2,435	9,796	32	1,952

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	**664,559**	**$2,002**	**$2.31**	**10.4%**	**2.8%**	**13,934**	**6,222**	**34,521**	**37,952**
District of Columbia	166,002	$2,153	$2.82	8.7%	1.3%	6,924	1,867	15,381	16,519
Suburban Maryland	228,250	$1,825	$2.01	8.9%	3.5%	1,117	1,743	6,513	6,845
Northern Virginia	270,307	$2,060	$2.25	12.8%	3.3%	5,893	2,612	12,627	14,589

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	**166,002**	**95.7%**	**$2,153**	**$2.82**	**8.7%**	**1.3%**	**1,867**	**15,381**	**16,519**
Central DC/West End/Shaw/ Mt. Vernon Triangle	49,765	95.8%	$2,483	$3.39	11.6%	0.4%	101	2,426	2,502
Navy Yard/Capitol Hill/ Southwest	21,116	94.8%	$2,661	$3.34	9.9%	3.0%	610	4,774	5,093
North Central DC/Columbia Heights/Petworth	18,713	94.8%	$1,800	$2.53	5.5%	0.7%	61	978	1,209
Northeast DC/NoMa/H Street	25,158	95.5%	$2,278	$2.83	8.1%	1.0%	792	4,441	4,747
Northwest DC/Georgetown/ Friendship Heights	21,866	95.5%	$2,222	$2.92	12.7%	0.9%	144	1,523	1,666
Southeast DC	29,384	97.0%	$1,293	$1.60	2.5%	2.4%	159	1,239	1,302

*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; July 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	**228,250**	**96.7%**	**$1,825**	**$2.01**	**8.9%**	**3.5%**	**1,743**	**6,513**	**6,845**
Bethesda/Chevy Chase	14,813	96.5%	$2,484	$2.59	9.2%	1.8%	330	2,503	2,559
College Park/Greenbelt	10,765	96.4%	$1,801	$1.91	7.1%	3.4%	472	393	393
Downtown Silver Spring	14,130	96.9%	$1,946	$2.21	8.6%	1.2%	0	956	956
East Silver Spring/ Takoma Park/Adelphi	17,608	97.8%	$1,525	$1.92	8.3%	2.5%	0	0	0
Frederick	11,863	97.7%	$1,786	$1.85	13.6%	7.1%	0	0	0
Gaithersburg	16,352	97.7%	$1,881	$1.98	12.1%	3.9%	193	268	268
Germantown	8,449	96.6%	$1,975	$2.05	15.3%	5.6%	0	212	212
Hyattsville/Riverdale	17,345	96.2%	$1,581	$1.94	6.7%	3.4%	0	284	485
Landover/Bowie	18,194	96.1%	$1,802	$1.98	6.2%	3.7%	296	984	984
Laurel/Beltsville	14,615	97.0%	$1,711	$1.90	6.3%	4.2%	0	0	0
Northeast Montgomery County	9,312	97.2%	$1,713	$1.83	7.8%	3.4%	0	0	0
Rockville/North Bethesda	21,356	96.4%	$2,183	$2.23	11.4%	2.5%	258	755	830
South Prince George's County/St. Charles	22,431	96.5%	$1,618	$1.87	7.1%	4.2%	194	158	158
Suitland/District Heights/ Capitol Heights	17,628	95.7%	$1,576	$1.76	6.4%	3.5%	0	0	0
Wheaton/Aspen Hill	13,389	97.2%	$1,900	$2.06	11.6%	3.4%	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 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Northern Virginia	**270,307**	**96.9%**	**$2,060**	**$2.25**	**12.8%**	**3.3%**	**2,612**	**12,627**	**14,589**
Central Alexandria	12,880	97.6%	$1,764	$2.05	14.1%	2.6%	0	0	0
Columbia Pike	15,032	97.3%	$1,976	$2.31	15.8%	1.9%	0	0	0
Crystal City/Pentagon City	14,539	96.5%	$2,297	$2.49	15.5%	0.6%	0	2,633	2,633
East Alexandria	20,876	96.5%	$2,125	$2.52	9.8%	2.2%	1,187	1,306	1,687
Fredericksburg/Stafford	14,926	97.3%	$1,780	$1.75	8.2%	7.2%	200	431	468
Loudoun County	17,673	97.1%	$2,030	$2.06	13.6%	4.2%	76	97	97
Manassas/Far Southwest Suburbs	15,965	97.9%	$1,783	$1.87	12.1%	5.6%	0	0	0
North Arlington	31,681	96.4%	$2,529	$2.91	11.6%	2.1%	184	1,893	2,325
Reston/Herndon	21,466	96.4%	$2,158	$2.15	14.1%	3.5%	216	1,232	2,205
Seven Corners/Bailey's Crossroads/Annandale	11,682	96.7%	$1,869	$1.97	10.8%	2.9%	0	480	480
South Fairfax County	22,854	97.2%	$1,920	$2.14	13.9%	3.0%	0	1,106	1,106
Tysons/Falls Church/Merrified	27,788	96.3%	$2,177	$2.35	13.2%	2.8%	514	1,949	2,088
West Alexandria	11,100	96.8%	$1,887	$2.16	19.6%	3.5%	235	213	213
West Fairfax County	17,027	97.6%	$2,086	$2.22	11.7%	3.7%	0	969	969
Woodbridge/Dale City	14,818	97.1%	$1,796	$1.98	10.8%	4.9%	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; July 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.

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.