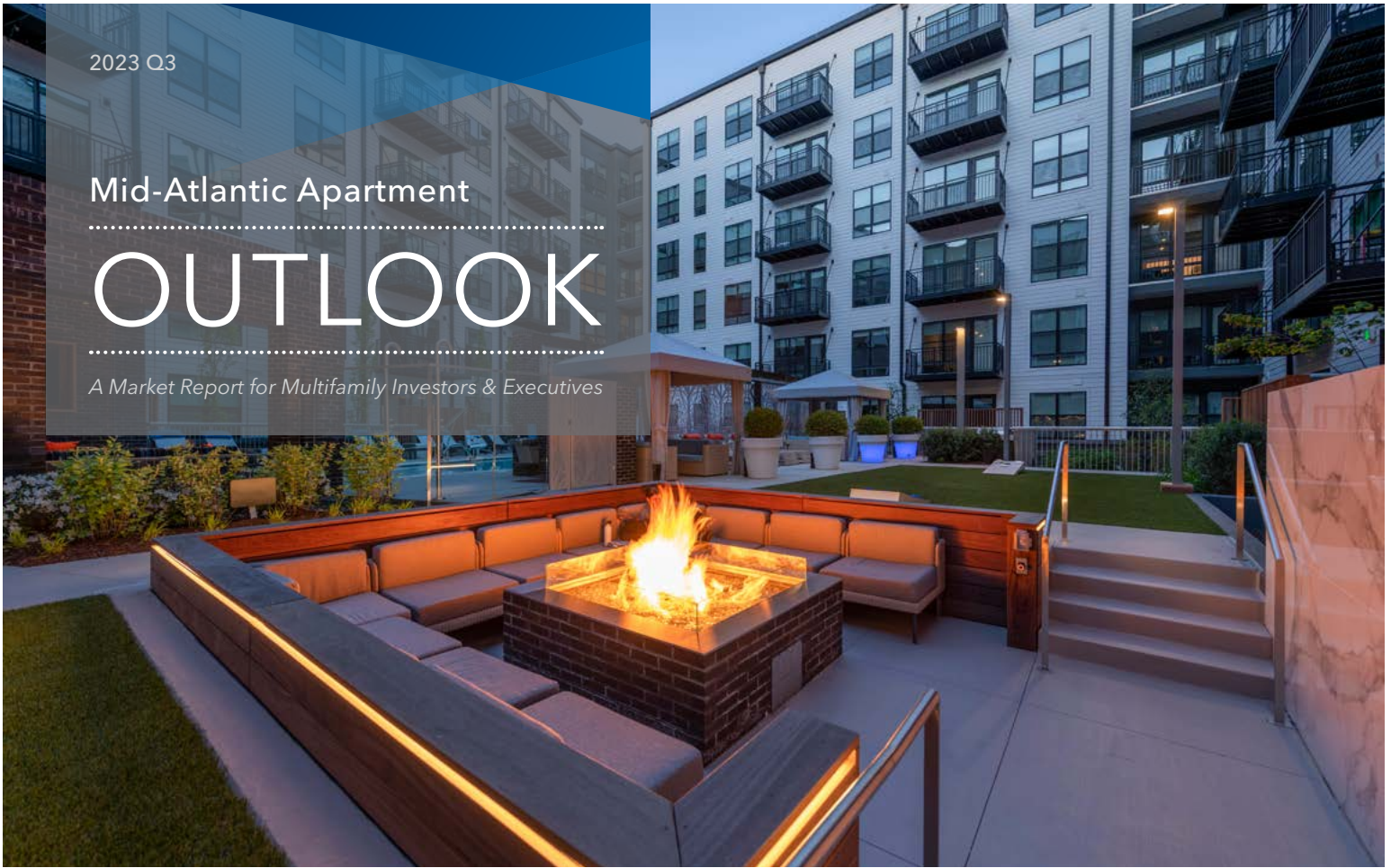


2023 Q3

Mid-Atlantic Apartment

OUTLOOK

A Market Report for Multifamily Investors & Executives



Washington Metro Area Third Quarter 2023 Trends



Class A absorption is above the long-term average, with 10,003 Class A units absorbed in the 12 months ending September 2023. Absorption including Class B product totaled 9,334 units.



Metro area Class A rents increased by 2.3% over the 12-month period ending September. For Class A and Class B combined, metro area rents increased by 2.9%.



The **stabilized vacancy rate for all classes of investment grade apartments increased by 50 basis points** over the past year and now stands at 3.0%; **Class A vacancy experienced a 70 basis-point increase to 4.2%**.



The **36-month development pipeline is down** from a year ago to 41,338 units, due to decreases in Northern Virginia, and more significantly, the District.



7,453 units started construction over the 12-month period ending September 2023. During the third quarter, only 891 units started construction.



Meanwhile, **11,081 units delivered in a 12-month span ending September 2023** with roughly half of the total in the District. Another 17,966 units are scheduled to deliver over the next year.

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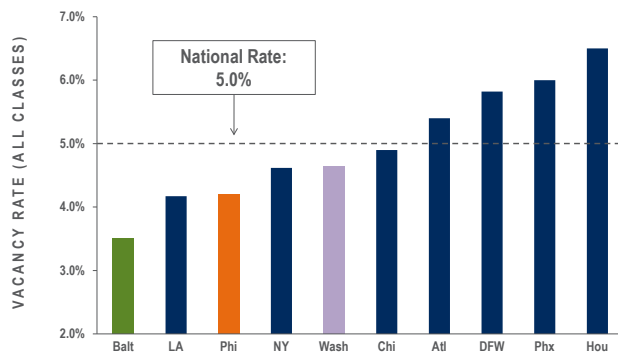
WASHINGTON METRO AREA CLASS A MARKET

SLOWER RENT GROWTH AS VACANCY CREEPS UPWARD

Annual rent growth in the Washington metro area Class A apartment market is trending below the long-term average in the third quarter of 2023, which is the result of a highly competitive environment as a record number of new projects are now available. Meanwhile, vacancy is up in the District and Northern Virginia. Suburban Maryland was the only substate which experienced a decrease in vacancy. Net absorption trailed deliveries in the District and Northern Virginia and led in Suburban Maryland over the past year. The largest gap between net absorption and deliveries exists in Northern Virginia where a wave of new deliveries has outpaced absorption. We expect competitive market conditions to persist as deliveries are expected to rise significantly in the suburbs over the next two years, similar to the heightened level of deliveries in the District over the past 12 months. Higher construction and financing costs have caused a slowdown in construction starts over the past year, a trend that has continued into the third quarter in which starts are down significantly from the second quarter.

APARTMENT VACANCY RATES

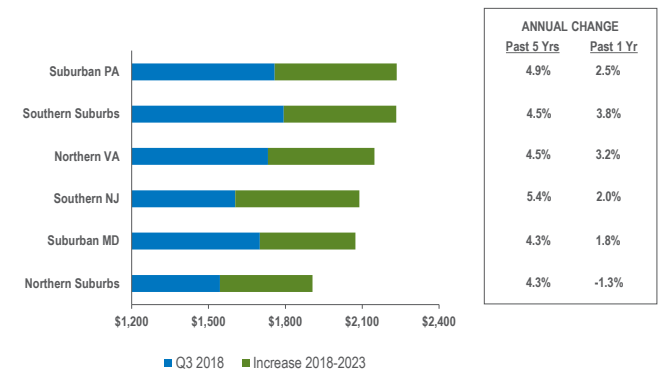
Major Apartment Markets | Q2 2023



Source: Reis, Delta Associates; September 2023.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH

Mid-Atlantic Class A Low-Rise Apartments | September 2023



Source: Delta Associates; September 2023.

SUPPLY/DEMAND AND RENT OUTLOOK

While the 36-month pipeline remains elevated across the metro area, absorption has not kept pace with new construction, resulting in an increase in vacancy. When the prior year's absorption is compared to the development pipeline at the submarket level, 14 low-rise submarkets in Northern Virginia and Suburban Maryland have less than four years of supply (or one year's worth of product overhang). Eleven of these submarkets have less than two years of supply and could be considered supply constrained. There are eight high-rise submarkets with four years or less of supply, two with two years or less (Northeast and NoMa/H Street). This suggests development opportunities exist in submarkets throughout the metro area.

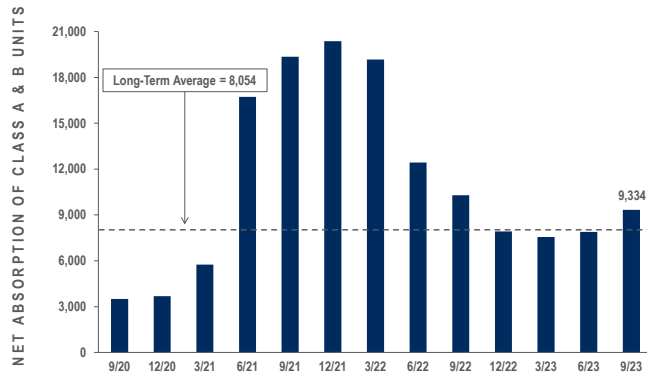
Another way of looking at the development pipeline at the submarket level is new supply relative to existing inventory. In 15 low-rise submarkets, the projected oncoming supply over the next 36 months represents less than 10% of existing inventory.

Among high-rise product, one submarket has oncoming supply representing 10% or less of existing inventory (Silver Spring/Wheaton). In submarkets where new pipeline represents a relatively smaller increase in inventory, negative impacts on vacancy and rent growth will be less than in other locations.

Given projected absorption and the delivery schedule of projects currently under construction, we expect the region-wide vacancy rate for stabilized Class A apartment properties will increase by 30 basis points in three years compared to today - resulting in a metro-wide rate of 4.5%; we expect vacancy to fluctuate in the interim. We expect rent growth to be mostly below the long-term average over the next three years. Rent growth will average between 2.5% and 4.0% in 2023 - 2026.

ANNUAL NET APARTMENT ABSORPTION

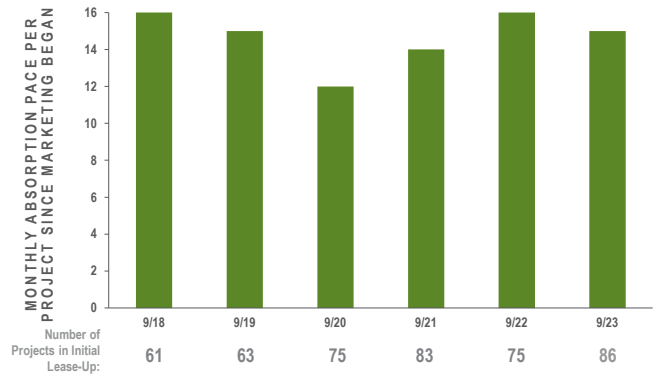
Class A & B Units | Washington Metro



Source: Delta Associates, September 2023.

ABSORPTION PACE PER PROJECT PER MONTH

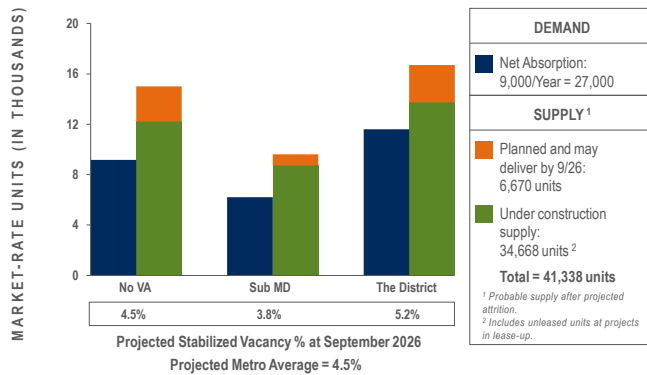
For Projects in Initial Lease-Up | Washington Metro



Source: Delta Associates, September 2023.

DEMAND AND SUPPLY PROJECTIONS

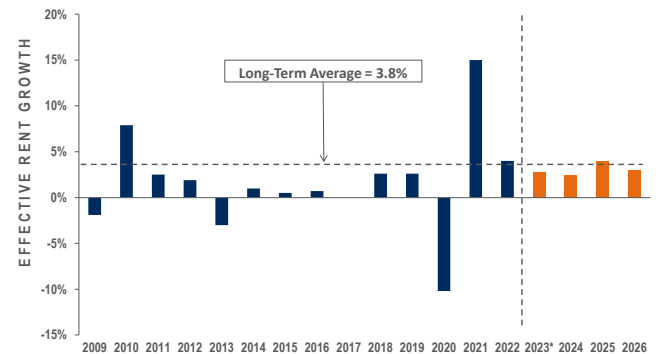
Washington Metro Class A Apartment Market
September 2023 – September 2026



Source: Delta Associates, September 2023.

ANNUAL CLASS A APARTMENT RENT GROWTH

Washington Metro | 2009 - 2026



Source: Delta Associates, September 2023.

*Annual rent increase of 2.3% as of Q3 2023.

DEMAND ABOVE-AVERAGE METRO-WIDE, GROWTH LED BY SUBURBAN MARYLAND

Class A apartment absorption in the Washington area is 10,003 units over the year ending September 2023, which is above the long-term average. About 45% of the units absorbed over the past year were in the District, which recorded 4,532 units. Absorption is up significantly in Suburban Maryland to 2,317 units.

We project annual demand averaging about 9,000 Class A units over the next three years with stronger absorption over the next year as the apartment market continues to recover, then moderating some in the following two years.

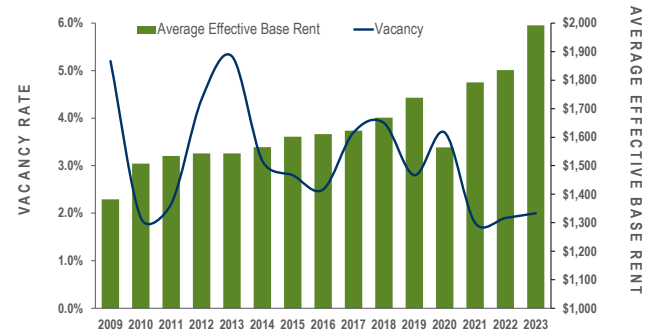
WASHINGTON METRO AREA CLASS B MARKET

RENT GROWTH REMAINS ROBUST AS VACANCY INCREASES SLIGHTLY

The Washington metro area's Class B multifamily market is on a positive trajectory with vacancy rates showing stability and robust rent growth. Rent growth in the region was solid at 3.4% over the 12-month period ending September 2023. In Northern Virginia, the vacancy rate remained unchanged at 1.9%. Suburban Maryland also maintained its low vacancy rate with only a 50 basis points increase since September 2022. Rent growth in Suburban Maryland over the year was 2.7%. Meanwhile, in the District, vacancy rates increased 240 basis points to 3.3%. The District's rent growth was at 3.4% year-over-year; however, rents have yet to recover to pre-pandemic levels in the Southwest submarket. Looking at the Washington metro area, rent growth outpaced the five-year average (except Suburban Maryland) and vacancy remained low, exemplifying the Class B multifamily market's resilient recovery post-pandemic and the flight to affordability given the current state of inflation and economic uncertainty.

EFFECTIVE RENT AND VACANCY RATE

Class B Apartments | Washington Metro Area | 4th Quarter 2009 – 3rd Quarter 2023



Source: Delta Associates, September 2023.

- > Northern Virginia up 3.9%
- > District up 3.4%
- > Suburban Maryland up 2.7%
- > Metro-wide low-rise up 3.3%
- > Metro-wide mid and high-rise up 3.6%

AN OVERVIEW OF THE CLASS B APARTMENT MARKET AT THIRD QUARTER 2023 BY SUB-STATE AREA:

The Trend Since Third Quarter 2022

NORTHERN VIRGINIA



EFFECTIVE RENTS
3.9%

SUBURBAN MARYLAND



EFFECTIVE RENTS
2.7%

THE DISTRICT

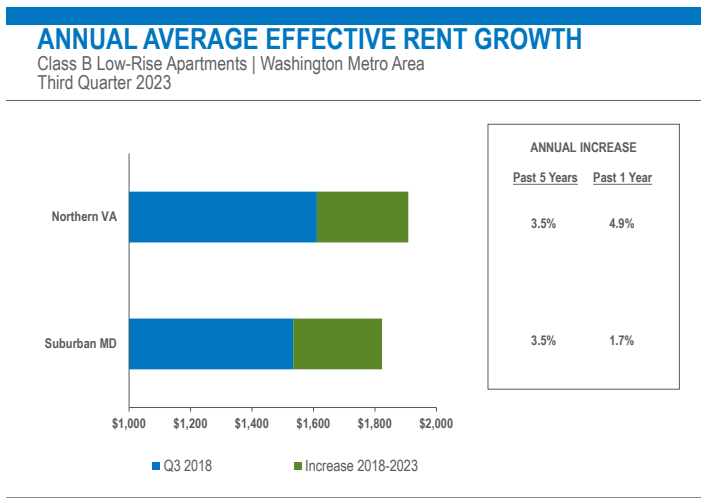


EFFECTIVE RENTS
3.4%

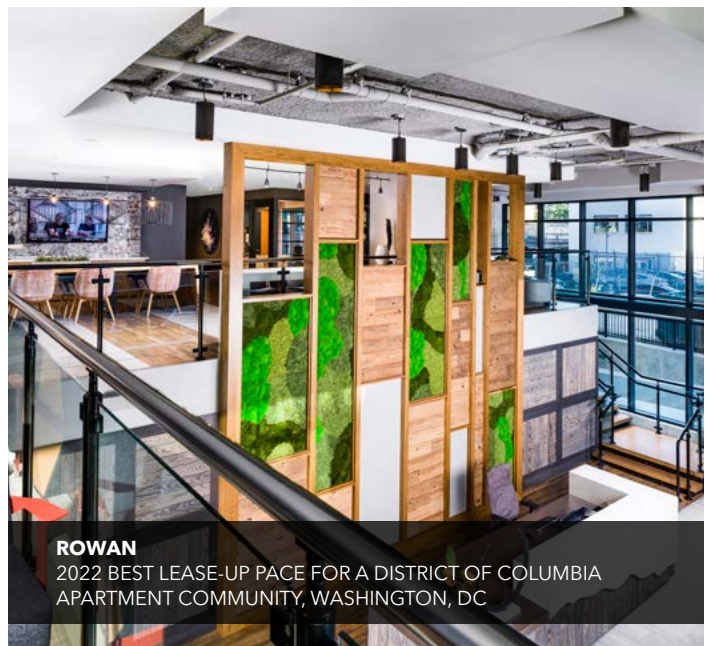
OUTLOOK FOR CLASS B APARTMENTS

Class B year-over-year rent growth (3.4%) continues to outpace Class A growth (2.2%). Vacancy in Class B product (2.0%) increased only 30 basis points from a year ago and is still much lower than Class A vacancy (4.2%). Several contributing factors will continue to impact vacancy and rents going forward:

- 1. Renters seek more affordable living options.** The increase in the District’s vacancy rate could be a result of price-sensitive renters choosing to move out of the city to the suburbs where rent is cheaper. The prevailing trend of remote work diminishes the necessity of residing within city limits, causing a preference for suburban housing where rents are comparatively lower. Industry forecasts predict the continuation of this suburban migration in the coming months due to the sustained viability of remote work.
- 2. Federal Reserve temporarily halts increases as interest rates peak to highest level in decades.** Interest rates have reached a plateau as the Federal Reserve refrains from implementing further hikes. Since March 2022, the Central Bank has elevated the federal funds rate on 11 occasions, catapulting mortgage rates to unparalleled levels in decades. Despite consecutive rate augmentations for over a year, policymakers have resolved to maintain the current rate, albeit with provisions for potential enhancements within the year. The recent hikes have resulted in the average 30-year fixed mortgage rate surging above 8%, consequently dampening the demand for home buying and potentially leading to a larger pool of renters.
- 3. Escalating prices block entry for new homebuyers.** Escalating property values are rendering homeownership unattainable for first-time buyers, particularly within the Washington metro area. Housing prices in major urban centers have peaked during the pandemic, and the consequential lack of equilibrium between supply and demand exacerbates housing inaccessibility. Despite recent cooling growth, housing production remains inadequate compared to the escalating demand, elevating housing prices within the region. Beyond these encumbrances for first-time purchasers, a substantial demographic continues to favor leasing due to the flexibility and adaptability it provides over homeownership.
- 4. Renovation activity on a consistent upward trend.** Renovation activity continues to increase year over year. Close to 15,000 Class B units within the metro area are presently undergoing renovations, a substantial increase from approximately 11,000 units in September 2022. Several renovation projects, initially stalled by the pandemic, resumed upon economic stabilization post-COVID-19. The forecast for the rest of 2023 indicates a persistence of renovation activity surpassing pre-pandemic levels. Properties that do move forward with these improvements are achieving premium rents, which we continually expect to see in those still undergoing renovations.



Source: Delta Associates, September 2023.



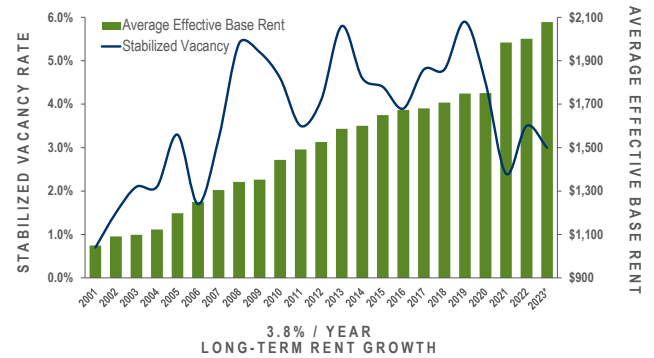
BALTIMORE METRO AREA CLASS A MARKET

ABSORPTION IMPROVING AT A FASTER RATE

Absorption increased significantly across the Baltimore metro area over the year. In the prior 12-month period, annual absorption was quite weak with 232 units compared to 1,263 units over the past 12 months. Over the last 12 months, 1,599 units delivered, a small increase over the 1,247 that were brought to market in the year ending September 2022. Meanwhile, annual rent growth is below average at 1.6% across the metro area.

EFFECTIVE RENT AND VACANCY RATE

Class A Apartments | Baltimore Metro

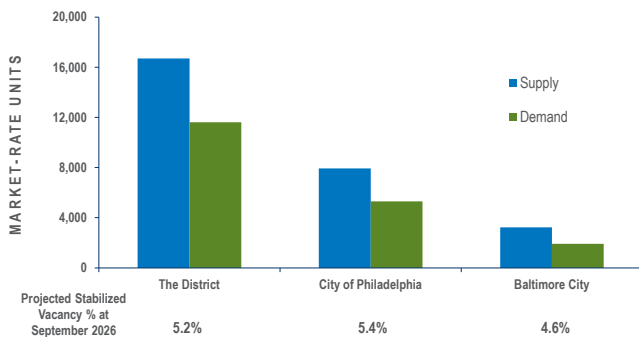


Source: Delta Associates, September 2023.

*As of September 2023.

SUPPLY/DEMAND RELATIONSHIP

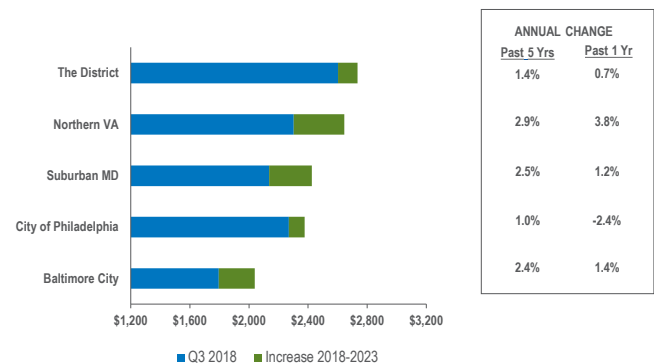
Mid-Atlantic Central City Class A Apartment Markets
Next 36 Months: Period Ending September 2026



Source: Delta Associates, September 2023.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH

Mid-Atlantic Class A Mid- and High-Rise Apartments | September 2023

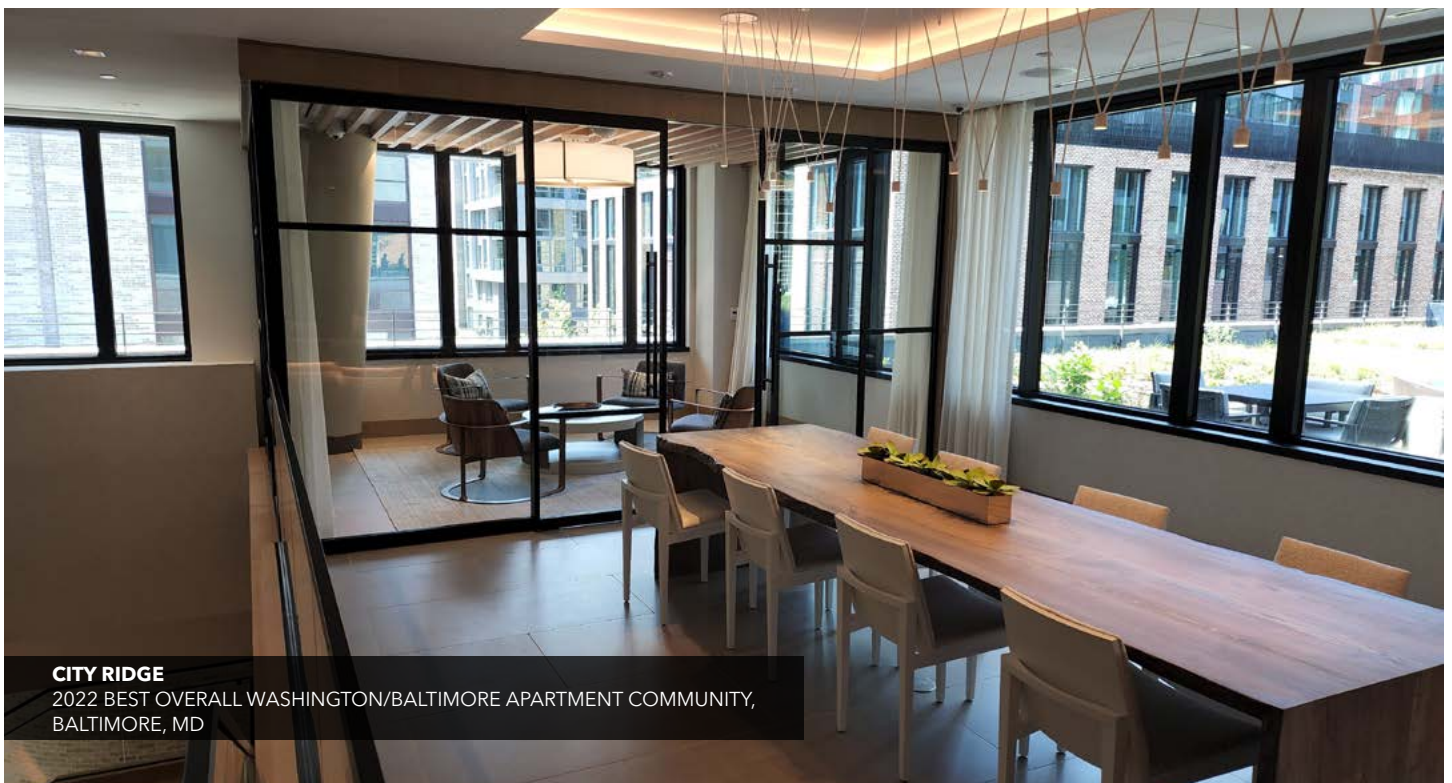


Source: Delta Associates, September 2023.

THIRD QUARTER 2023 HIGHLIGHTS

- > **Stabilized vacancy** in the Baltimore metro area increased 50 basis points from 2.5% a year ago to 3.0%. The vacancy rate in the suburbs is up by 40 basis points from 2.1% a year ago to 2.5%.
- > **Average effective rents** in the metro area are \$2,078 (\$2.19 per SF). Rents are up over the year by 1.6% metro-wide. Rent growth was strongest in the Southern Suburbs – up by 3.8%, followed by Baltimore City with a 1.4% increase. The Northern Suburbs had negative rent growth of -1.3% over the year ending in September 2023.
- > **Absorption** over the year was 1,263 units, which was significantly higher than a year ago.
- > **Deliveries** metro-wide stands at 1,599 units over the past 12 months. The number of deliveries in the 12-month period ending September 2023 compares to 1,247 units in the prior year.
- > **The supply pipeline** metro-wide experienced a 6% increase over the year. There are 5,735 unleased units under construction or planned for delivery in the next 36 months in the metro area after attrition. In Baltimore City, the 36-month development pipeline is up by 27%.
- > **Per project lease-up pace** for the eleven actively marketing projects in the Baltimore metro area currently averages 19 units per month, up four units from the same period last year.
- > **Apartment building sales** in 2022 included four transactions in low-rise buildings valued at \$238.2 million (\$322,260 per unit) and three transactions in mid-/high-rise buildings valued at \$223.4 million (\$266,250 per unit). As of September 2023, only one sale was recorded for a 335-unit property trading at \$105 million (\$313,433 per unit).

Of the 10 submarkets we track in the Baltimore metro area, four have less than four years of apartment supply based on absorption over the past 12 months (three have less than two years of apartment supply). In addition, three submarkets will add less than 10% of existing inventory over the next 36 months. Baltimore's supply/demand relationship indicates that vacancy rates will increase 90 basis points to 3.9% by the third quarter of 2026; however, we expect vacancy to fluctuate during this three-year period. Rents are expected to grow below the long-term average during this three-year period.



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