

2024 Q1

Mid-Atlantic Apartment

OUTLOOK

A Market Report for Multifamily Investors & Executives



Washington Metro Area First Quarter 2024 Trends



Class A absorption is above the long-term average, with 11,268 Class A units absorbed in the 12-month period ending March 2024. Absorption including Class B product totaled 10,674 units.



Metro area Class A rents increased by 4.5% over the past year. For Class A and Class B combined, metro area rents increased by 4.7%.



The **stabilized vacancy rate for all classes of investment grade apartments increased by 30 basis points** over the year and now stands at 3.5%; **Class A vacancy also experienced a 30 basis-point increase to 4.6%.**



The **36-month development pipeline is down** from a year ago to 38,818 units, due to decreases in all three substate areas, most significantly in the District.

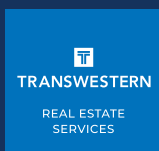


Only 5,768 units started construction in the year ending March 2024. During the first quarter 2,150 units started construction, all in Northern Virginia and Suburban Maryland.



Meanwhile, **10,907 units delivered in the 12-month period ending March 2024.** Northern Virginia and the District each accounted for roughly 40% of deliveries while Suburban Maryland accounted for the rest.

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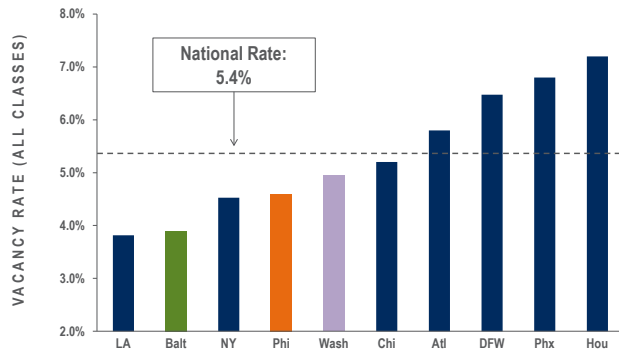
WASHINGTON METRO AREA CLASS A MARKET

ABOVE AVERAGE RENT GROWTH AS ABSORPTION CONTINUES UPWARD TREND

Annual rent growth in the Washington metro area Class A apartment market is trending above the long-term average in the first quarter of 2024, as the development pipeline has moderated and demand remains strong. Meanwhile, vacancy is up in Northern Virginia. Net absorption outpaced deliveries in the District over the past year and in Suburban Maryland, absorption nearly matched new deliveries. We expect competitive market conditions to accelerate as deliveries are expected to rise significantly throughout the metro area in the rest of 2024 and early 2025. Although increasing construction and finance costs severely limited starts in the second half of 2023, a total of 2,150 units started construction in the first quarter of 2024, all in the suburbs.

APARTMENT VACANCY RATES

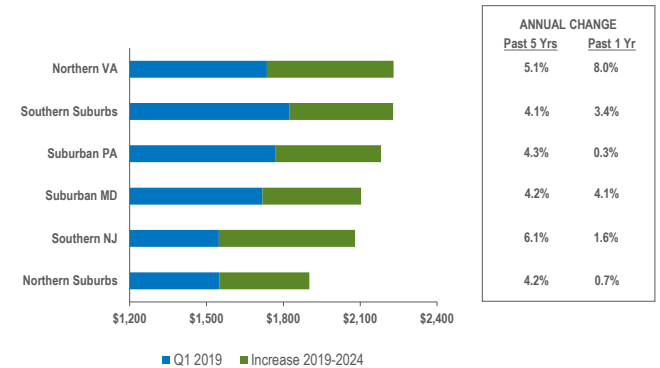
Major Apartment Markets | Q4 2023



Source: Reis, Delta Associates, March 2024.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH

Mid-Atlantic Class A Low-Rise Apartments | March 2024



Source: Delta Associates, March 2024.

SUPPLY/DEMAND AND RENT OUTLOOK

As the 36-month pipeline has declined across the metro area, absorption exceeded deliveries in the District and was nearly equal in Suburban Maryland. When the prior year's absorption is compared to the development pipeline at the submarket level, 12 low-rise submarkets in Northern Virginia and Suburban Maryland have less than four years of supply (or one year's worth of product overhang). Nine of these submarkets have less than two years of supply and could be considered supply constrained. There are nine high-rise submarkets with four years or less of supply, three with two years or less. This suggests development opportunities still exist in submarkets throughout the metro area.

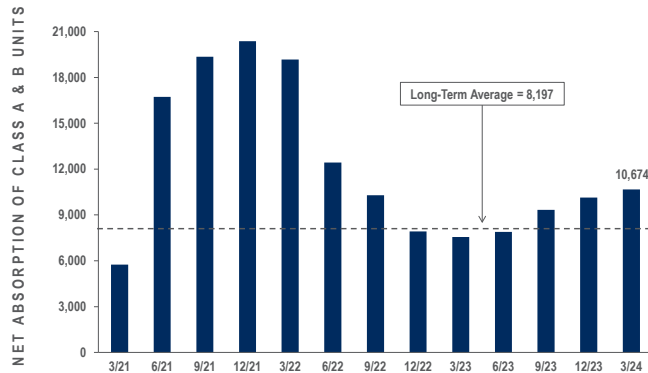
Another way of looking at the development pipeline at the submarket level is new supply relative to existing inventory. In 15 low-rise submarkets, the projected oncoming supply over the next 36 months represents less than 10% of existing inventory. Among high-rise product, one submarket has oncoming 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 4.9%; we expect vacancy to rise to 5.5% by the end of 2024, then decrease slightly to 5.3% in 2025 before decreasing below 5.0% by 2026. We expect rent growth to be below the long-term average in the short term; however, we expect stronger growth starting in 2025. We project rent growth of 3.0% in 2024, followed by a 4.0% increase in 2025 and 6.5% in 2026, then moderating to 4.0% in 2027.

ANNUAL NET APARTMENT ABSORPTION

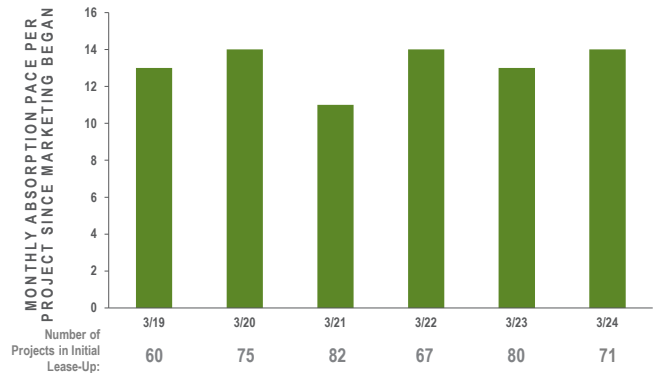
Class A & B Units | Washington Metro



Source: Delta Associates, March 2024.

ABSORPTION PACE PER PROJECT PER MONTH

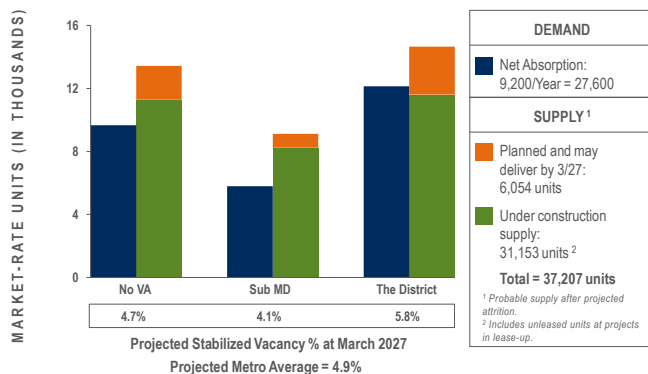
For Projects in Initial Lease-Up | Washington Metro



Source: Delta Associates, March 2024.

DEMAND AND SUPPLY PROJECTIONS

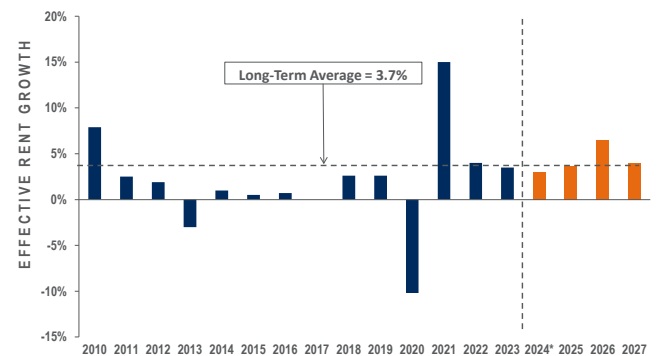
Washington Metro Class A Apartment Market
March 2024 – March 2027



Source: Delta Associates, March 2024.

ANNUAL CLASS A APARTMENT RENT GROWTH

Washington Metro | 2010 - 2027



Source: Delta Associates, March 2024.

*4.5% as of First Quarter 2024.

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

Class A apartment absorption in the Washington area in the 12-month period ending March 2024 is 11,268 units, which is 41% above the long-term average. About 47% of the units absorbed over the past year were in the District, which recorded 5,337 units, an increase of 50% over the year ending March 2023. Absorption is also up in Suburban Maryland and Northern Virginia by 53% and 4%, respectively.

We project annual demand averaging about 9,200 Class A units over the next three years with much stronger absorption over the next year (projected at 14,000 units) as a record number of units enter the market, then moderating significantly in the following two years.

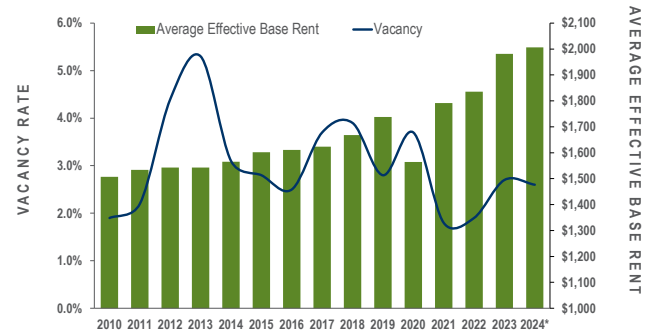
WASHINGTON METRO AREA CLASS B MARKET

VACANCY REMAINS LOW, STRONG RENT GROWTH IN SUBURBS

The Washington metro area's Class B multifamily market has been healthy, experiencing low vacancy and strong rent growth (in the suburbs), exemplifying the resilience of this asset class and the continued flight to affordability given the current state of the housing market. The Washington metro area Class B apartment vacancy rate is 2.6% as of March 2024, which increased only 30 basis points from March 2023 (2.3%). Metro-wide, rent growth outpaced the five-year average (except in the District). Effective rents at Class B properties in the Washington metro area are up 4.8% over the 12-month period ending March 2024. Renovation activity increased slightly this quarter and is up significantly from a year ago. Upgrades are still underway in over 15,600 units as of March 2024. In the first quarter of the year, there were at least four Class B property sales in the Washington metro area, totaling 985 units at a value of \$201.4 million.

EFFECTIVE RENT AND VACANCY RATE

Class B Apartments | Washington Metro Area | 4th Quarter 2010 – 1st Quarter 2024



Source: Delta Associates, March 2024.

* As of First Quarter.

- > Northern Virginia up 5.8%
- > Suburban Maryland up 4.8%
- > The District down 3.5%
- > Metro-wide low-rise up 4.7%
- > Metro-wide mid and high-rise up 5.0%

AN OVERVIEW OF THE CLASS B APARTMENT MARKET AT FIRST QUARTER 2024 BY SUB-STATE AREA:

The Trend Since First Quarter 2023

NORTHERN VIRGINIA



EFFECTIVE RENTS

▲ 5.8%

SUBURBAN MARYLAND



EFFECTIVE RENTS

▲ 4.8%

THE DISTRICT



EFFECTIVE RENTS

▼ 3.5%

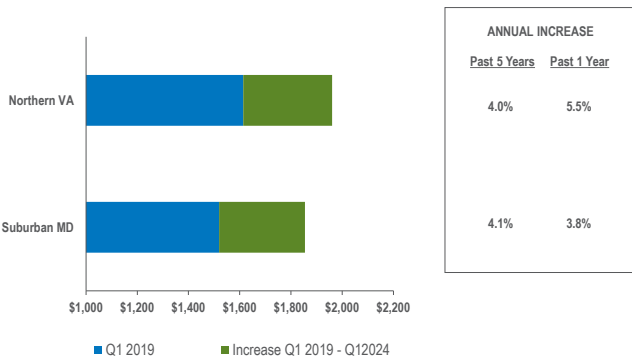
OUTLOOK FOR CLASS B APARTMENTS

Class B rent growth metro-wide over the 12-month period ending March 2024 (4.8%) is strong and is slightly higher than Class A growth (4.5%). Vacancy in Class B product (2.6%) increased 30 basis points from a year ago, but is still much lower than Class A vacancy (4.6%). Several contributing factors will continue to impact vacancy and rents going forward:

- 1. Gap between Class A and Class B rent is narrowing.** There is a \$448 difference in effective rent between Class A and Class B mid-/high-rise. Five years ago, the gap between asset classes was \$520 for mid-/high-rise. This showcases the continuing narrowing of the gap between Class A and B rents over the years.
- 2. Interest rate trends:** Transition from sharp rises to stabilization. Interest rates have leveled off, with the Federal Reserve pausing its rate hiking campaign after 11 consecutive raises since March 2022. This streak of hikes by the Federal Reserve has escalated mortgage rates to their highest in several decades. Consequently, these monetary policies have led to a significant reduction in the demand for home purchases, thereby increasing the number of individuals renting. As of March 2024, there has been a reduction in mortgage rates, with the rates for 30-year mortgages dropping below 7%. The Federal Reserve is on track to begin reducing the federal funds rate later this year with a growing consensus of three rate reductions expected.
- 3. Difficulty in becoming a first-time homeowner.** Escalating home costs are significantly challenging first-time homebuyers, particularly in the Washington metro area. Despite a recent deceleration in price increases, housing production remains inadequate in meeting escalating demand, resulting in higher prices within the region. High interest rates are further complicating the situation for prospective homeowners attempting to access the market.
- 4. Renovation activity is on a consistent upward trend.** Renovation activity continues to increase year-over-year. Renovation activity for Class B units has surpassed 15,600 in the first quarter. This is a substantial increase from the nearly 14,000 units under renovation in March 2023. Numerous renovation initiatives, which were paused due to the pandemic, have restarted following economic recovery and stability in the supply chain for materials. This year’s outlook suggests that renovation activity will continue to exceed levels seen before the pandemic.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH

Class B Low-Rise Apartments | Washington Metro Area
First Quarter 2024



Source: Delta Associates, March 2024.



GALLERY 64
2023 BEST LEASE-UP PACE FOR A DISTRICT OF COLUMBIA APARTMENT COMMUNITY, WASHINGTON, DC

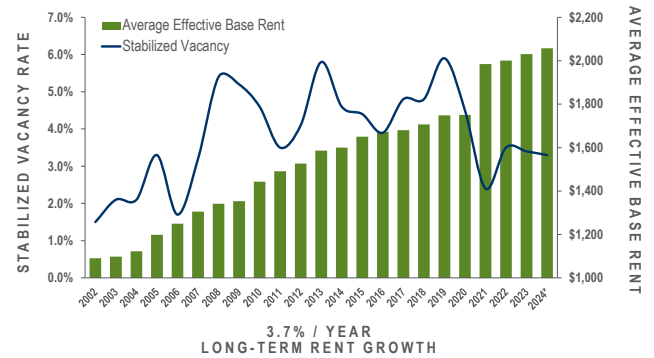
BALTIMORE METRO AREA CLASS A MARKET

ABSORPTION REBOUNDS AT A FASTER RATE

Absorption increased significantly across the Baltimore metro area in the year ending March 2024. In the previous year, annual absorption was quite weak with 284 units compared to 1,618 units absorbed in the 12-month period ending March 2024. Over the past 12 months, 2,023 units delivered, a 36% increase over the 1,484 that were brought to market in the prior period ending March 2023. Meanwhile, annual rent growth is well below the long-term average at 1.5% across the metro area.

EFFECTIVE RENT AND VACANCY RATE

Class A Apartments | Baltimore Metro

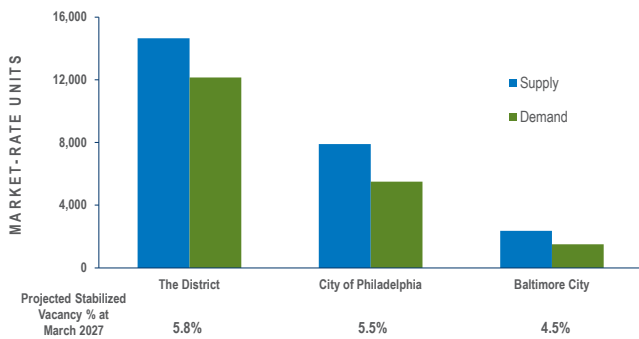


Source: Delta Associates, March 2024.

*As of First Quarter 2024.

SUPPLY/DEMAND RELATIONSHIP

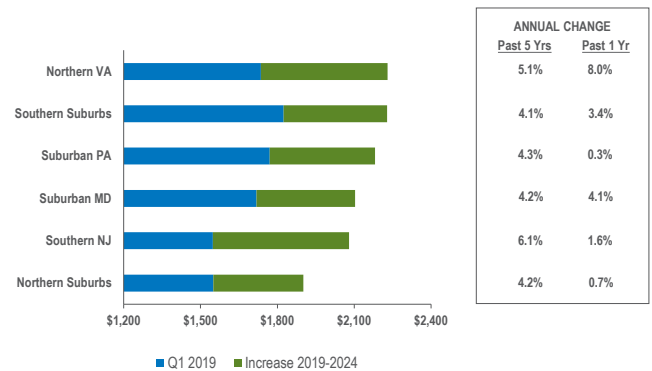
Mid-Atlantic Central City Class A Apartment Markets
Next 36 Months: Period Ending March 2027



Source: Delta Associates, March 2024.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH

Mid-Atlantic Class A Low-Rise Apartments | March 2024

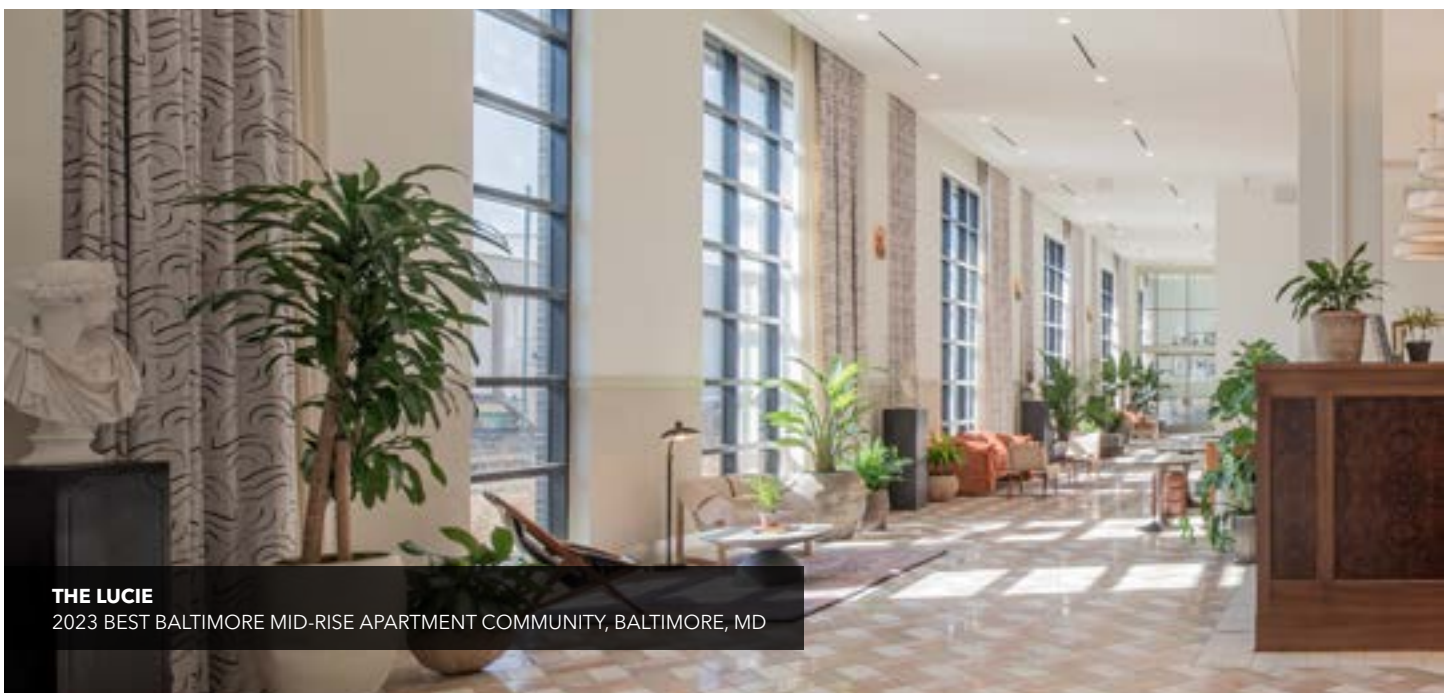


Source: Delta Associates, March 2024.

FIRST QUARTER 2024 HIGHLIGHTS

- > **Stabilized vacancy** in the Baltimore metro area decreased 10 basis points from 3.4% a year ago to 3.3%. The vacancy rate in the suburbs increased by 10 basis points to 2.9% over the same period while a 70 basis-point decrease was recorded in Baltimore City, down to 4.1%.
- > **Average effective rents** in the metro area are \$2,057 (\$2.17 per SF). Rents are up by 1.5% metro-wide in the 12-month period ending March 2024. Rent growth was strongest in the Southern Suburbs - up by 3.4%, followed by the Northern Suburbs with a 0.7% increase. Baltimore City had negative rent growth of -0.1%.
- > **Absorption** in the 12-month period ending March 2024 was 1,618 units, which was significantly higher than the prior 12-month period.
- > **Deliveries** metro-wide stands at 2,023 units in the 12-month period ending March 2024. Deliveries are up significantly compared to the period ending March 2023, in which 1,484 units were delivered.
- > **The supply pipeline** metro-wide experienced a 35% decrease over the 12-month period ending March 2024. There are 4,068 unleased units under construction or planned for delivery in the next 36 months in the metro area, after attrition. Meanwhile, in Baltimore City, the 36-month development pipeline is down by roughly 31%.
- > **Per project lease-up pace** for the 12 actively marketing projects in the Baltimore metro area currently averages 16 units per month, up four units from the same period last year.
- > **Apartment building sales** in 2023 totaled to only one 335-unit low-rise property being traded at \$105 million (\$313,433 per unit). As of March 2024, at least one sale was recorded for a 267-unit property trading at \$68.5 million (\$256,554 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 year (three submarkets have less than two years of supply). In addition, four 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 70 basis points to 4.0% by the first quarter of 2027; 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 and absorption will moderate some in 2024 and 2025, averaging about 1,100 units per year.



THE LUCIE
2023 BEST BALTIMORE MID-RISE APARTMENT COMMUNITY, BALTIMORE, MD



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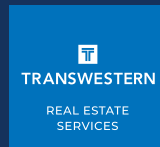
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