

2024 Q2

Mid-Atlantic Apartment

OUTLOOK

A Market Report for Multifamily Investors & Executives



Washington Metro Area Second Quarter 2024 Trends



Class A absorption is 24% above the 10-year annual average, with 14,248 Class A units absorbed in the 12-month period ending June 2024. Absorption including Class B product totaled 14,036 units.



Metro area Class A rents increased by 3.5% over the past year, which is above the 2.3% 10-year annual average. For Class A and Class B combined, metro area rents increased by 3.6%.



The stabilized vacancy rate for all classes of investment grade apartments decreased by 10 basis points over the year and now stands at 5.2%; Class A vacancy also experienced a 30 basis-point decrease to 4.8%.



The 36-month development pipeline is 34,876 units, with Northern Virginia making up 38% of the number, followed by the District and Suburban Maryland being 36% and 26% of the pipeline, respectively.



13,855 units delivered in the 12-month period ending June 2024. Northern Virginia and the District accounted for roughly 75% of deliveries while Suburban Maryland accounted for 25%.

Prepared by:



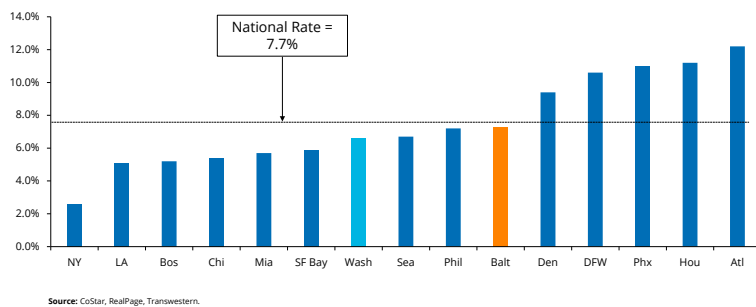
www.twMidAtlanticMultifamily.com

WASHINGTON METRO AREA CLASS A MARKET

COMPETITIVE MARKET CONDITIONS EXPECTED AS CONSTRUCTION STARTS DECELERATE SLIGHTLY

Annual rent growth in the Washington metro area Class A apartment market is trending above the 10-year annual average in the second quarter of 2024, as the development pipeline has moderated and demand remains strong. Vacancy is down in all three substates. Net absorption outpaced deliveries in the District and Northern Virginia over the past year, but not in Suburban Maryland, where absorption nearly matched new deliveries. We expect competitive market conditions to accelerate as deliveries are expected to keep at a healthy pace throughout the metro area in the rest of 2024 and early 2025. Although increasing construction and finance costs have limited starts, roughly 7,700 units broke ground during the 12 months ending June 2024, a deceleration compared to the nearly 11,000 starts during 2023.

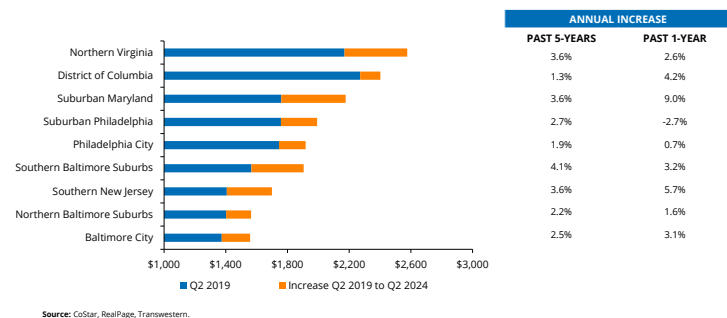
APARTMENT VACANCY RATE – ALL CLASSES MAJOR APARTMENT MARKETS | Q2 2024



SUPPLY/DEMAND AND RENT OUTLOOK

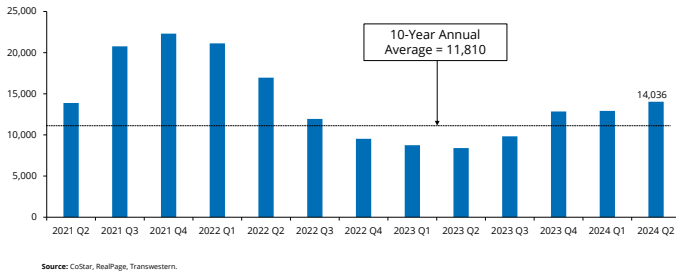
A way of looking at the development pipeline at the submarket level is new supply relative to existing inventory. In 25 submarkets of the 48 tracked in the metro area, the projected oncoming supply over the next 36 months represents less than 10% of existing inventory. Among high-rise product, two submarkets have oncoming supply representing 10% or less of existing inventory (Alexandria/I-395 and North Bethesda). Among low-rise product, four submarkets have oncoming supply representing 10% or less of existing inventory (Alexandria/I-395, Gaithersburg, South Prince George’s County, and Frederick County). 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.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH MID-ATLANTIC CLASS A LOW-RISE APARTMENTS | JUNE 2024

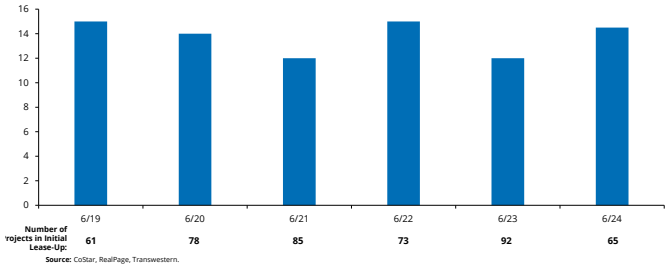


Given projected absorption and the delivery schedule of projects currently under construction, we expect the region-wide vacancy rate for stabilized Class A apartment properties will increase by 20 basis points in three years compared to today – resulting in a metro-wide rate of 5.0%; we expect vacancy to hover around 4.8% through year-end 2024, then rise slightly to 5.0% in 2025 and hover there through mid-year 2027. We expect rent growth to be above the 10-year annual average in the near-term; however, we expect slower growth closer to the 10-year annual average starting in 2027. We project rent growth of 4.2% in 2024, followed by a 3.9% increase in 2025 and 3.2% in 2026, then moderating to 2.6% in 2027.

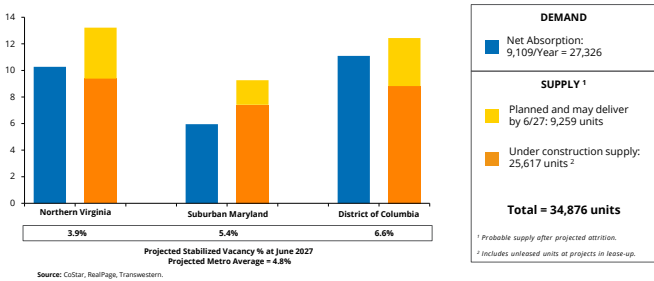
ANNUAL NET APARTMENT ABSORPTION CLASS A & B UNITS | WASHINGTON METRO



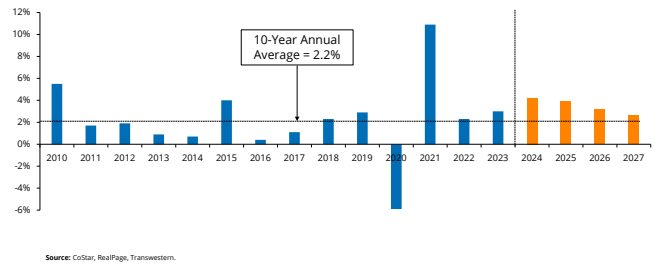
ABSORPTION PACE PER PROJECT PER MONTH FOR PROJECTS IN INITIAL LEASE-UP | WASHINGTON METRO



DEMAND AND SUPPLY PROJECTIONS WASHINGTON METRO CLASS A APARTMENT MARKET JUNE 2024 TO JUNE 2027



ANNUAL CLASS A APARTMENT EFFECTIVE RENT GROWTH WASHINGTON METRO



DEMAND ABOVE-AVERAGE METRO-WIDE, GROWTH LED BY NORTHERN VIRGINIA AND THE DISTRICT

Class A apartment absorption in the Washington area in the 12-month period ending June 2024 is 14,248 units, which is 24% above the 10-year annual average. About 37% of the units absorbed over the past year were in the District, which recorded 5,305 units. Compared to the 12 months ending June 2023, absorption accelerated in Suburban Maryland but remained consistent in Northern Virginia and the District.

We project annual demand averaging about 9,100 Class A units over the next three years with stronger absorption over the next year (projected at 10,814 units).

WASHINGTON METRO AREA CLASS B MARKET

LOW VACANCY BOOSTS RENTS, PARTICULARLY IN THE 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 5.6% as of June 2024, which was up 10 basis points from June 2023. Effective rents at Class B properties in the Washington metro area are up 3.7% over the 12-month period ending June 2024, well above the 10-year average of 3.0%. Northern Virginia was the leader in rent growth over the year, acting as a buoy for the metro, with a 6.1% rise. In the first half of the year, there were at least 15 Class B property sales in the Washington metro area, totaling 2,192 units at a value of \$447.7 million.

- > Northern Virginia up 6.1%
- > Suburban Maryland up 2.2%
- > The District up 1.9%
- > Metro-wide low-rise up 4.7%
- > Metro-wide mid and high-rise up 3.7%

OUTLOOK FOR CLASS B APARTMENTS

Class B rent growth metro-wide over the 12-month period ending June 2024 (3.7%) is strong and is slightly higher than Class A growth (3.5%). Vacancy in Class B product (5.6%) edged up by 10 basis points from a year ago but is still much lower than Class A vacancy (7.9%). Several contributing factors will continue to impact vacancy and rents going forward:

1. Gap between Class A and Class B rent is expanding slowly. There is a \$619 difference in effective rent between Class A and Class B mid-/high-rise. Five years ago, the gap between asset classes was \$583 for mid-/high-rise. This showcases the consistency of the gap between Class A and B rents over the years.
2. Interest rate trends: From stabilization to possible rate cuts. After the Federal Reserve stopped increasing interest rates in the beginning of this year, it was perceived that the lowering of interest rates could happen around the halfway point of 2024, with the Fed indicating as much as three separate instances of cuts could happen. However, hotter than expected inflation reports have changed the tone of those expectations and it is uncertain of when the first interest rate cut since March 2020 will happen. Since March 2022, the Federal Reserve held a rate hiking campaign with 11 consecutive raises. This streak of hikes by the Federal Reserve escalated mortgage rates to their highest level 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 June 2024, the rates for 30-year mortgages are just below 7%. The Federal Reserve believes it is still on track to begin reducing the federal funds rate at some point in the second half of this year.
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.

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

The Trend Since Second Quarter 2023

NORTHERN VIRGINIA



EFFECTIVE RENTS

▲ 6.1%

SUBURBAN MARYLAND



EFFECTIVE RENTS

▲ 2.2%

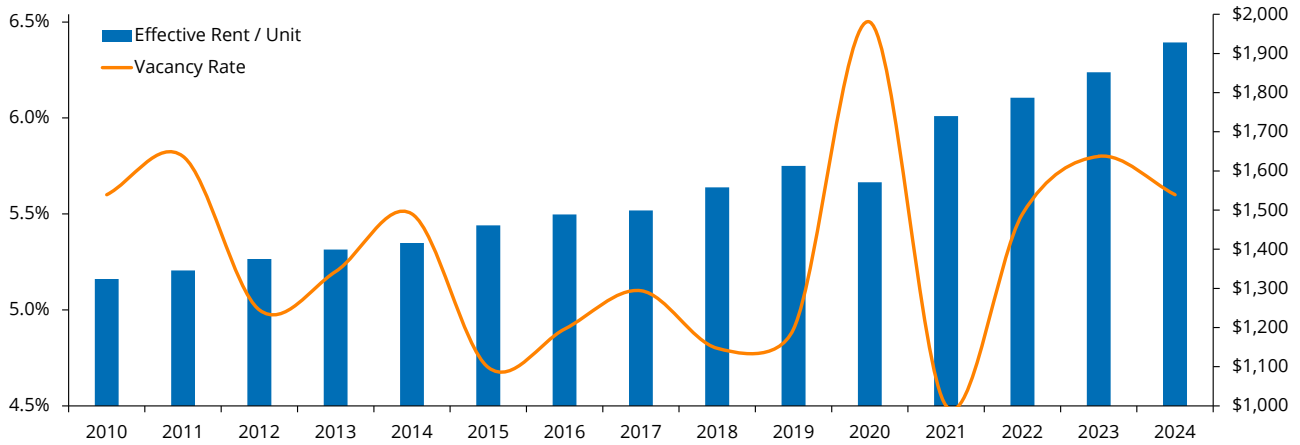
THE DISTRICT



EFFECTIVE RENTS

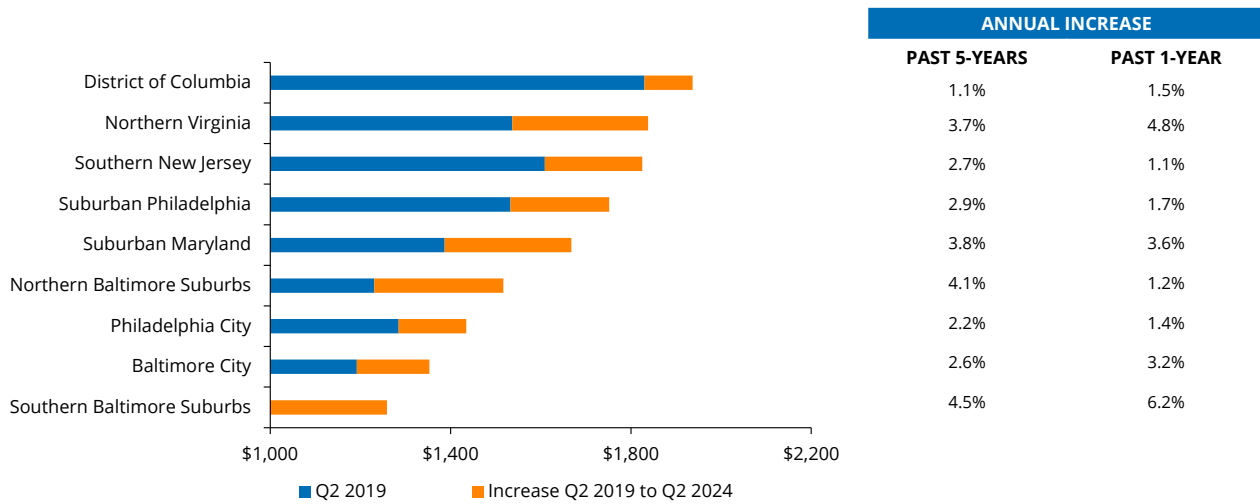
▲ 1.9%

EFFECTIVE RENT AND VACANCY RATE CLASS B APARTMENTS | WASHINGTON METRO



Source: CoStar, RealPage, Transwestern.

ANNUAL AVERAGE EFFECTIVE RENT GROWTH MID-ATLANTIC CLASS B LOW-RISE APARTMENTS | JUNE 2024



Source: CoStar, RealPage, Transwestern.

BALTIMORE METRO AREA CLASS A MARKET

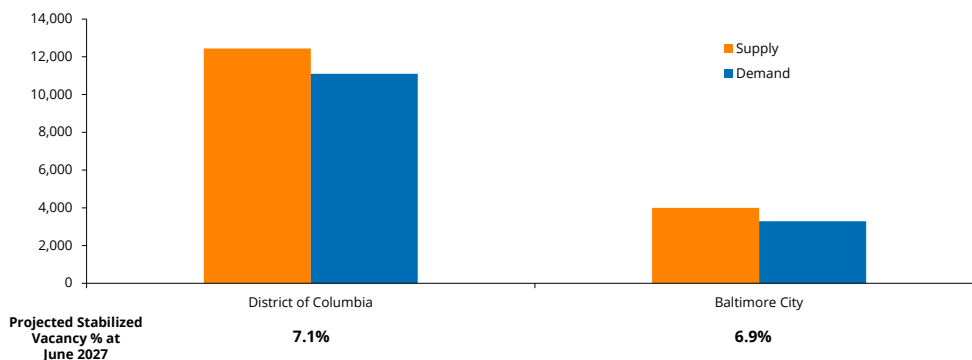
ABSORPTION REBOUNDS AND TURNS POSITIVE

Class A absorption increased significantly across the Baltimore metro area in the year ending June 2024. In the previous year, annual absorption was 959 units compared to 2,288 units positively absorbed in the 12-month period ending June 2024. Over the past 12 months, 2,228 units delivered - mirroring demand. This is a slight decrease compared to the 3,428 that were brought to market in the prior period ending June 2023. Meanwhile, annual rent growth at 2.8% is above the 10-year annual average of 2.6%.

SECOND QUARTER 2024 HIGHLIGHTS

- > Stabilized vacancy in the Baltimore metro area was 6.1% at mid-year 2024, from 6.2% a year ago. The vacancy rate in the southern suburbs increased 20 basis points to 5.0% over the same period while a 60 basis-point decrease to 5.6% was recorded in the northern suburbs. Baltimore City recorded a 60 basis-point increase to 7.8%.
- > Average effective rents for all classes of space in the metro area are \$1,659 (\$1.84 per SF). Rents are up by 2.2% metro-wide in the 12-month period ending June 2024. Rent growth was strongest in Baltimore City - up by 2.9%, followed by the Southern Suburbs with a 2.4% increase. The Northern Suburbs had positive rent growth of 1.7%.
- > Deliveries metro-wide stands at 3,385 units in the 12-month period ending June 2024. Deliveries are down slightly when compared to the same period ending June 2023, in which 3,476 units were delivered.
- > Absorption in the 12-month period ending June 2024 was 3,188 units, which was notably higher than the prior 12-month period.
- > The 36-month development pipeline is 6,085 units, with Baltimore City making up 66% of the number, followed by the Northern and Suburban Suburbs being 19% and 16% of the pipeline, respectively.
- > 3,385 units delivered in the 12-month period ending June 2024. The Southern Suburbs and Baltimore City each accounted for 43% of the total deliveries, with Northern Suburbs accounting for 14%.
- > Per project lease-up pace for the 14 actively marketing projects in the Baltimore metro area currently averages 13 units per month, down three units from last quarter.
- > During the first half of 2024, 15 notable sales were recorded totaling \$24.7 million (\$128,051 per unit).

SUPPLY/DEMAND RELATIONSHIP MID-ATLANTIC CENTER CITY CLASS A APARTMENT MARKETS NEXT 36-MONTHS: PERIOD ENDING JUNE 2027

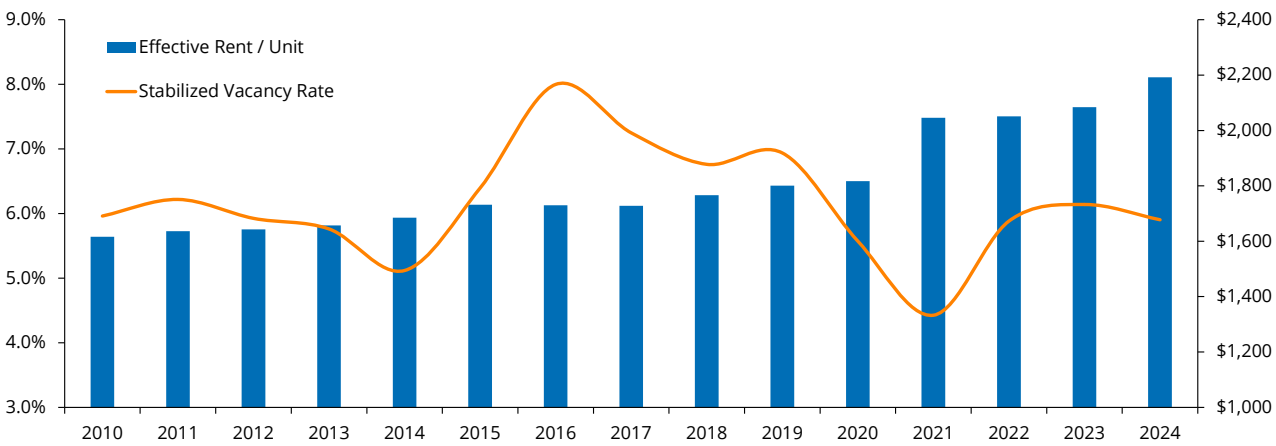


Source: CoStar, RealPage, Transwestern.

Of the 21 submarkets we track in the Baltimore metro area, 17 submarkets will add less than 10% of existing inventory over the next 36 months. Among low-rise product, four submarkets have oncoming supply representing 10% or less of existing inventory (West Anne Arundel, Howard County, Harford County, and Downtown Baltimore). 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.

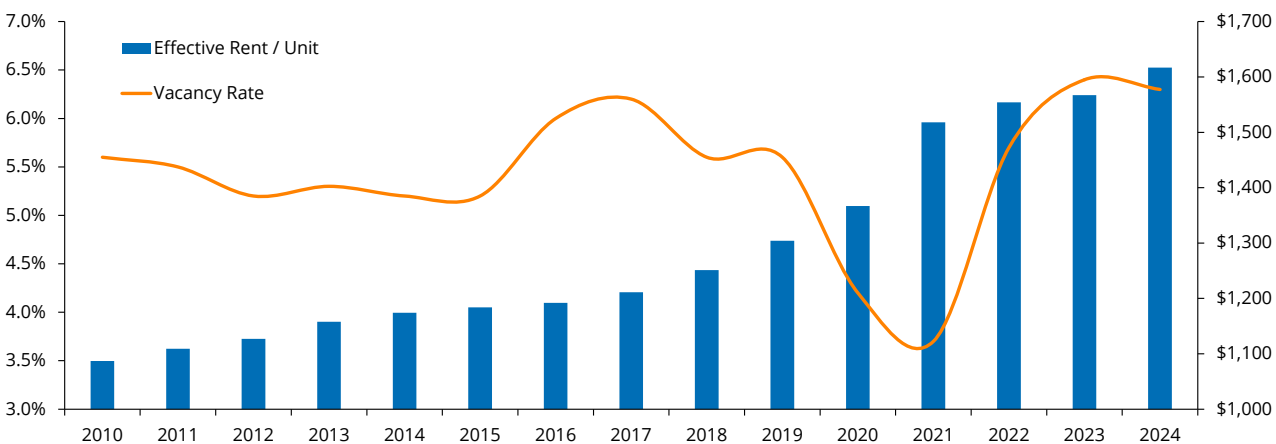
Baltimore’s supply/demand relationship indicates that Class A vacancy rates will decrease 40 basis points to 5.0% by the second quarter of 2027; however, we expect the vacancy rate to fluctuate during this three-year period. Class A effective rents are expected to grow at 3.7% annually during this three-year period, which is above the 10-year annual average of 2.4%. We expect absorption will remain steady during the balance of 2024 and 2025, averaging about 2,000 units per year.

EFFECTIVE RENT AND VACANCY RATE CLASS A APARTMENTS | BALTIMORE METRO



Source: CoStar, RealPage, Transwestern.

EFFECTIVE RENT AND VACANCY RATE CLASS B APARTMENTS | BALTIMORE METRO



Source: CoStar, RealPage, Transwestern.



MULTIFAMILY SALES:

DEAN SIGMON
301.896.9089

Executive Vice President, Director

ROBIN WILLIAMS
301.896.9070

Executive Vice President, Director

MICHAEL D'AMELIO
301.896.9077
Vice President

MOLLIE ZITO
301.896.9021

Graphic Designer / Marketing Associate

RESEARCH & INVESTMENT ANALYTICS:

ELIZABETH NORTON
202.775.7026

Senior Managing Director - Research Services

COLIN CHAPMAN
202.778.3105

Research Analyst

MID-ATLANTIC LEADERSHIP:

PHIL MCCARTHY
301.896.9011

Executive Managing Director- Market Leader

KEITH FOERY
301.896.9028

Executive Managing Director- Market Leader

TOM ROGERS
703.749.9412

Senior Managing Director

Bethesda

6700 Rockledge Drive
Suite 500-A
Bethesda, MD 20817

Washington, DC

2000 K Street, NW
Suite 1000
Washington, DC 20006

Northern Virginia

8444 Westpark Drive
Suite 850
McLean, VA 22102

Visit us online

www.transwestern.com