

2024 Q3

Mid-Atlantic Apartment

OUTLOOK

A Market Report for Multifamily Investors & Executives



Washington Metro Area Third Quarter 2024 Trends



Class A absorption is 20% above the 10-year annual average, with 13,458 Class A units absorbed in the 12-month period ending September 2024. Absorption including Class B product totaled 14,421 units.



Metro area Class A rents increased by 3.4% 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 3.7%.



The stabilized vacancy rate for all classes of investment grade apartments was unchanged during the quarter and currently stands at 5.2%; Class A vacancy experienced a 10 basis-point increase to 4.9%.



The 36-month development pipeline is 29,462 units, with Northern Virginia making up 41% of the number, followed by the District and Suburban Maryland being 39% and 20% of the pipeline, respectively.



14,070 units delivered in the 12-month period ending September 2024. Northern Virginia and the District accounted for roughly 74% of deliveries while Suburban Maryland accounted for 26%.

Prepared by:



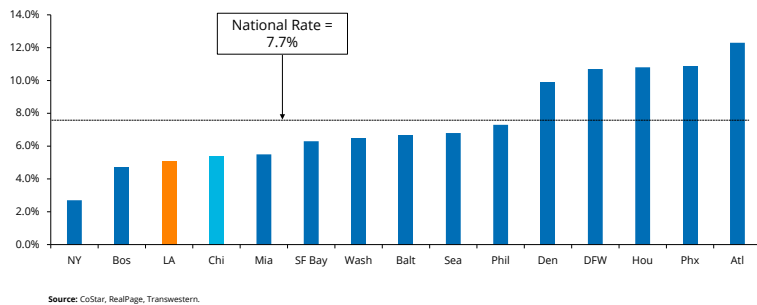
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WASHINGTON METRO AREA CLASS A MARKET

DEMAND REMAINS HIGH IN THE WASHINGTON METRO AREA AS CONSTRUCTION STARTS LEVEL OFF

Annual rent growth in the Washington metro area Class A apartment market is trending above the 10-year annual average in the third quarter of 2024, as the development pipeline has leveled off and demand remains strong. Vacancy is down in Suburban Maryland and the District, while it remains relatively unchanged for Northern Virginia. Net absorption outpaced deliveries in the District over the past year, but not in Suburban Maryland and Northern Virginia, where new deliveries barely exceeded absorption. We expect competitive market conditions to accelerate as deliveries are expected to keep at a healthy pace throughout the metro area in the end of 2024 and early 2025. Although increasing construction and finance costs have limited starts, roughly 7,931 units broke ground during the 12 months ending September 2024, a deceleration compared to the nearly 11,000 starts during 2023.

APARTMENT VACANCY RATE – ALL CLASSES MAJOR APARTMENT MARKETS | Q3 2024

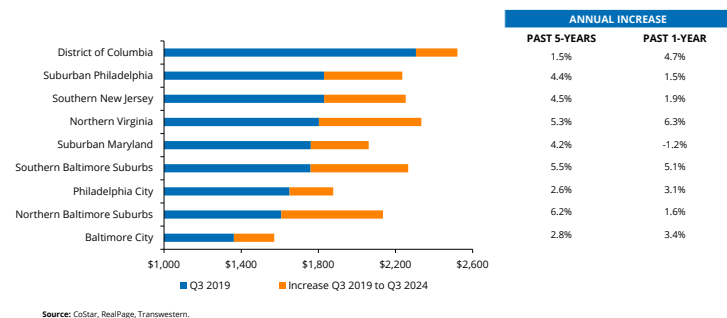


SUPPLY/DEMAND AND RENT OUTLOOK

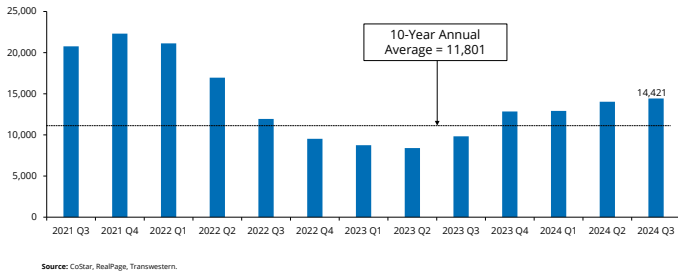
A way of looking at the development pipeline at the submarket level is new supply relative to existing inventory. In 28 submarkets of the 48 tracked in the metro area, the projected oncoming supply over the next 36 months represents less than 10% of existing inventory. Among high-rise product, two submarkets have oncoming supply representing 10% or less of existing inventory (Alexandria/I-395 and North Bethesda). Among low-rise product, three submarkets have oncoming supply representing 10% or less of existing inventory (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.

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 5.1%; we expect vacancy to hover around 4.9% through year-end 2024, then rise slightly to 5.1% in 2025 and hover there through September 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 5.3% in 2025 and 4.3% in 2026, then moderating to 3.1% in 2027.

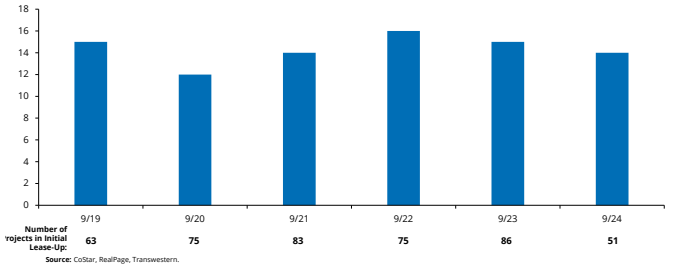
ANNUAL AVERAGE EFFECTIVE RENT GROWTH MID-ATLANTIC CLASS A LOW-RISE APARTMENTS | SEPT 2024



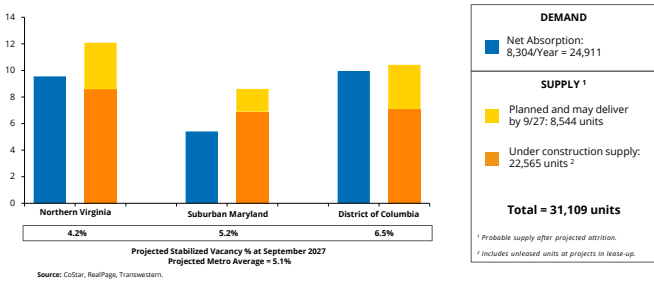
ANNUAL NET APARTMENT ABSORPTION CLASS A & B UNITS | WASHINGTON METRO



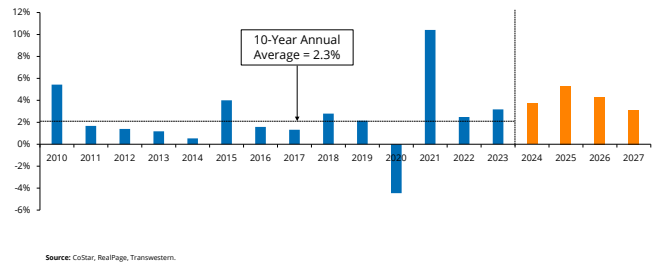
ABSORPTION PACE PER PROJECT PER MONTH FOR PROJECTS IN INITIAL LEASE-UP | WASHINGTON METRO



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



ANNUAL CLASS A APARTMENT EFFECTIVE RENT GROWTH WASHINGTON METRO



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

Class A apartment absorption in the Washington area in the 12-month period ending September 2024 is 13,458 units, which is 20% above the 10-year annual average. About 38% of the units absorbed over the past year were in the District, which recorded 5,097 units. Compared to the 12 months ending September 2023, absorption accelerated in Suburban Maryland and Northern Virginia, but remained consistent in the District.

We project annual demand averaging about 8,304 Class A units over the next three years with stronger absorption over the next year (projected at 10,115 units).

WASHINGTON METRO AREA CLASS B MARKET

RENTS ESCALATE AS DEMAND HEIGHTENED FOR CLASS B APARTMENTS

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 5.5% as of September 2024, which was unchanged from September 2023. Effective rents at Class B properties in the Washington metro area are up 4.1% over the 12-month period ending September 2024, well above the 10-year average of 3.0%. Northern Virginia was the leader in rent growth over the year, acting as a catalyst once again for the metro, with a 6.1% rise. In the first nine months of the year, there were at least 37 Class B property sales in the Washington metro area, totaling 6,304 units at a value of \$813.3 million.

- > Northern Virginia up 6.1%
- > Suburban Maryland up 2.9%
- > The District up 2.1%
- > Metro-wide low-rise up 4.5%
- > Metro-wide mid and high-rise up 3.6%

OUTLOOK FOR CLASS B APARTMENTS

Class B rent growth metro-wide over the 12-month period ending September 2024 (4.1%) is strong and is higher than Class A growth (3.4%). Vacancy in Class B product (5.5%) remained the same from a year ago but is still much lower than Class A vacancy (8.0%). 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 \$617 difference in effective rent between Class A and Class B mid-/high-rise. Five years ago, the gap between asset classes was \$590 for mid-/high-rise. This showcases the consistency of the gap between Class A and B rents over the years, even as it came closer together this quarter.
2. Interest rate trends: Finally, the much-anticipated rate cut has occurred. In September, the Federal Reserve performed the first interest rate cut since March 2020. Throughout the beginning of this year, it was perceived that the lowering of interest rates could happen around the halfway point of 2024, but the Fed decided to hold off until the end of the third quarter to make this decision. Hotter than expected inflation reports caused the Fed to wait a little longer. 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 September 2024, the rates for 30-year mortgages are just above 6%. It is uncertain if the Federal Reserve will cut interest rates at least one more time before the year-end.
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. Although rates are starting to soften somewhat, they remain out of reach for many prospective homeowners.

AN OVERVIEW OF THE CLASS B APARTMENT MARKET AT THIRD QUARTER 2024 BY SUB-STATE AREA: The Trend Since Third Quarter 2023

NORTHERN VIRGINIA



EFFECTIVE RENTS

▲ 6.1%

SUBURBAN MARYLAND



EFFECTIVE RENTS

▲ 2.9%

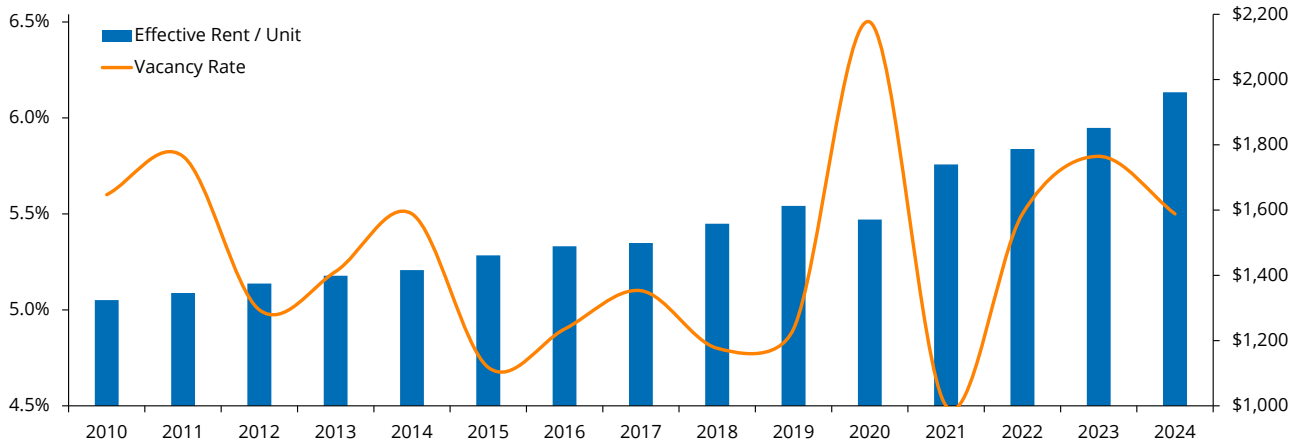
THE DISTRICT



EFFECTIVE RENTS

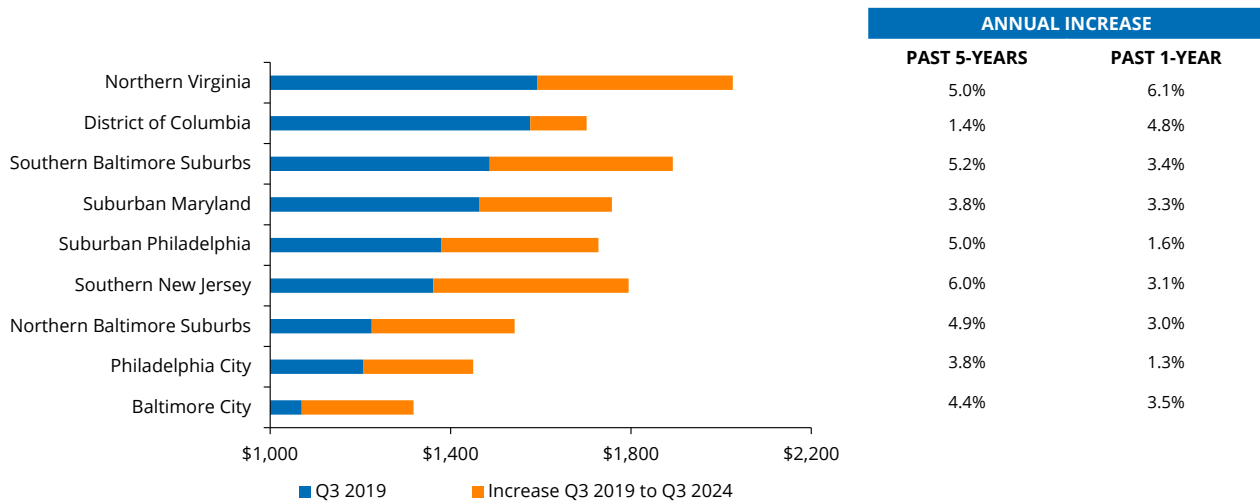
▲ 2.1%

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 | SEPT 2024



Source: CoStar, RealPage, Transwestern.

BALTIMORE METRO AREA CLASS A MARKET

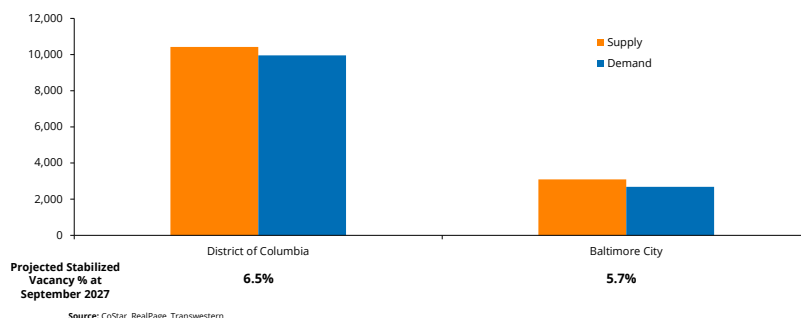
AREA ABSORPTION MAINTAINS CONTINUOUS STRENGTH

Class A absorption once again increased significantly across the Baltimore metro area in the year ending September 2024. In the previous year, annual absorption was 1,415 units compared to 3,179 units positively absorbed in the 12-month period ending September 2024. Over the past 12 months, 2,588 units delivered – somewhat mirroring demand. This is a slight dip compared to the 3,111 that were brought to market in the prior period ending September 2023. Meanwhile, annual rent growth at 2.9% is above the 10-year annual average of 2.6%.

THIRD QUARTER 2024 HIGHLIGHTS

- > Stabilized vacancy in the Baltimore metro area for all product was 5.9% during the third quarter of 2024, from 6.1% a quarter prior. The stabilized vacancy rate in the southern suburbs was unchanged at 5.0% while a 10 basis-point increase to 5.7% was recorded in the northern suburbs. Baltimore City recorded an 80 basis-point decrease to 7.0%.
- > Average effective rents for all classes of space in the metro area are \$1,685 (\$1.87 per SF). Rents are up by 2.9% metro-wide in the 12-month period ending September 2024. Rent growth was strongest in Baltimore City – up by 3.3%, followed by the Northern Suburbs with a 2.9% increase. The Southern Suburbs had positive rent growth of 2.8%.
- > Absorption for all classes of space in the 12-month period ending September 2024 was 4,486 units, which was notably higher than the prior 12-month period.
- > During the first nine months of 2024, 19 notable sales were recorded totaling an average \$33.3 million (\$145,038 per unit).
- > Deliveries metro-wide stands at 3,684 units in the 12-month period ending September 2024. Deliveries are down slightly when compared to the same period ending September 2023, in which 3,542 units were delivered.
- > Baltimore City and the Southern Suburbs accounted for 49% and 45% of the total deliveries, respectively, with the Northern Suburbs accounting for 6%.
- > The 36-month development pipeline is 3,931 units, with Baltimore City making up 62% of the number, followed by the Southern and Northern Suburbs being 29% and 9% of the pipeline, respectively.
- > Per project lease-up pace for the 16 actively marketing projects in the Baltimore metro area currently averages 12 units per month, down one unit from last quarter.

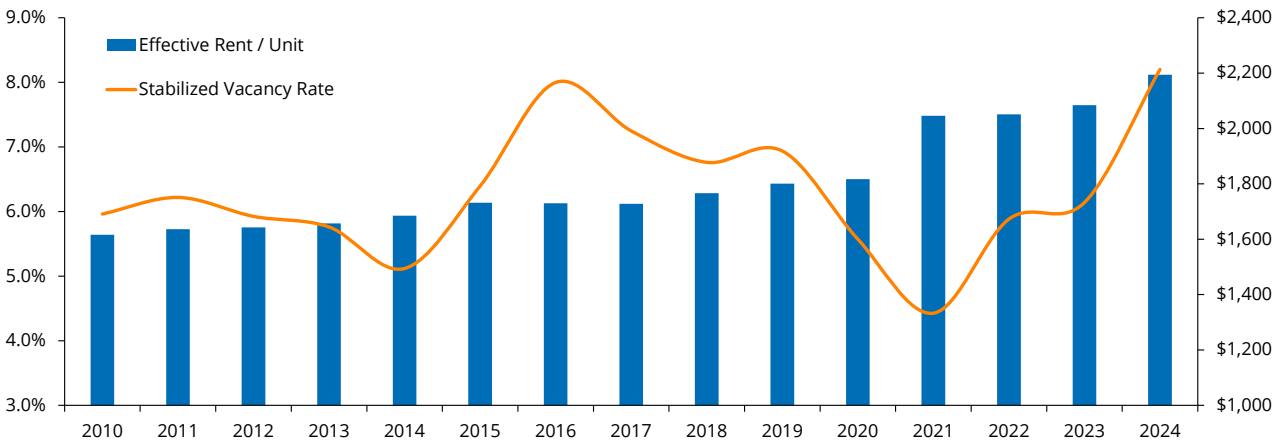
SUPPLY/DEMAND RELATIONSHIP MID-ATLANTIC CENTER CITY CLASS A APARTMENT MARKETS NEXT 36-MONTHS: PERIOD ENDING SEPTEMBER 2027



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, two submarkets have oncoming supply representing 10% or less of existing inventory (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.

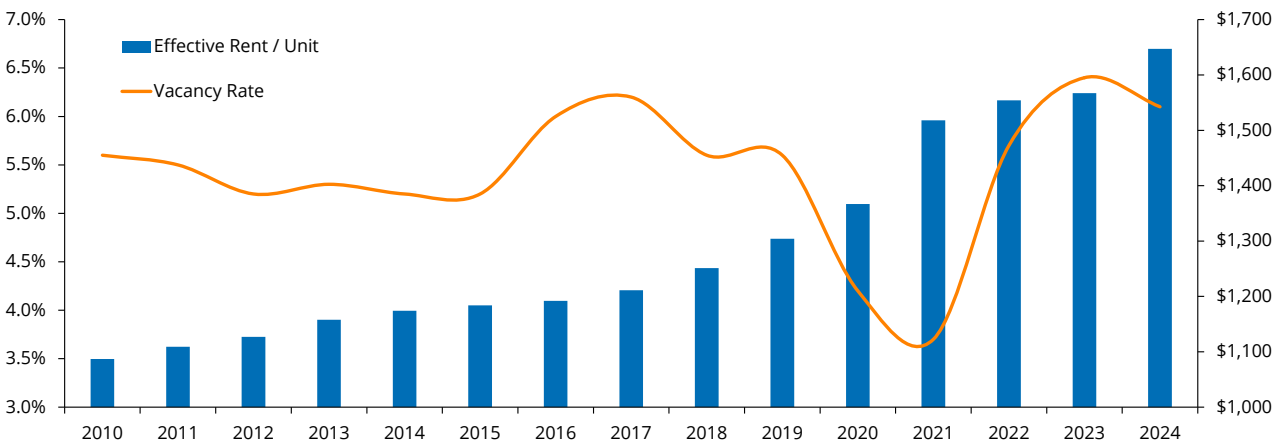
Baltimore’s supply/demand relationship indicates that Class A stabilized vacancy rates will decrease 70 basis points to 4.7% by the third quarter of 2027; however, we expect the vacancy rate to fluctuate during this three-year period. Class A effective rents are expected to grow at 4.6% annually during this three-year period, which is above the 10-year annual average of 2.6%. We expect absorption will remain steady during the balance of 2024 and 2025, averaging about 1,500 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.



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