

2024 Q4

Mid-Atlantic Apartment

OUTLOOK

A Market Report for Multifamily Investors & Executives



Washington Metro Area Fourth Quarter 2024 Trends



Class A absorption is 10% above the 10-year annual average, with 12,903 Class A units absorbed in the 12-month period ending December 2024. Absorption including Class B product totaled 12,697 units.



Metro area Class A rents increased by 2.9% over the past year, which is above the 2.4% 10-year annual average. For Class A and Class B combined, metro area rents increased by 3.0%.



The stabilized vacancy rate for all classes of investment grade apartments was rose 50-basis points during the quarter to 5.2%; Class A vacancy experienced a 20 basis-point increase to 5.1%.

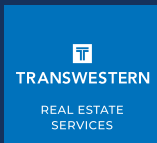


The 36-month development pipeline is 30,158 units, with Northern Virginia and the District each making up 40% of the number, followed by Suburban Maryland being 20% of the pipeline.



15,414 units delivered in the 12-month period ending December 2024. Northern Virginia and the District accounted for roughly 67% of deliveries while Suburban Maryland accounted for 33%.

Prepared by:



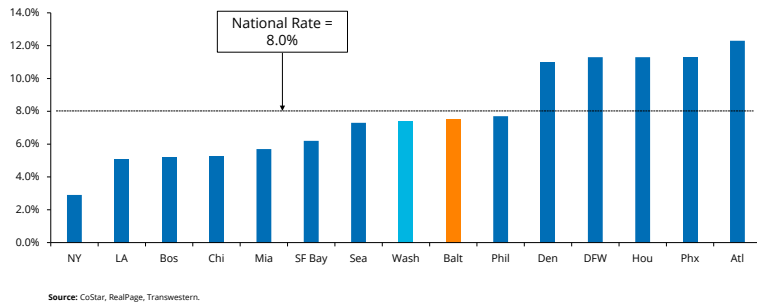
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WASHINGTON METRO AREA CLASS A MARKET

DEMAND HEIGHTENS IN THE WASHINGTON METRO AREA AS CONSTRUCTION STARTS CONTINUE TO DECLINE

Annual rent growth in the Washington metro area Class A apartment market stayed above the 10-year annual average in the fourth quarter of 2024, as development activity continues to level off and demand remains strong. Vacancy levels increased slightly over the quarter in each of the substates that make up the Washington metro area. New deliveries exceeded and outpaced net absorption in each of the substates over the past year. We expect competitive market conditions as deliveries keep a healthy pace throughout the metro area during 2025. Although increasing construction and finance costs have limited starts, roughly 8,810 units broke ground during 2024, a deceleration compared to the nearly 11,000 starts during 2023.

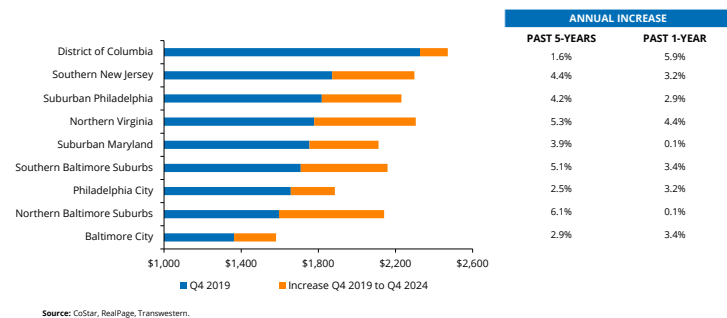
APARTMENT VACANCY RATE - ALL CLASSES MAJOR APARTMENT MARKETS | Q4 2024



SUPPLY/DEMAND AND RENT OUTLOOK

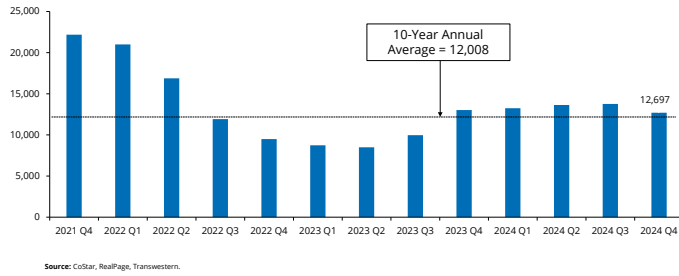
A way of looking at the development pipeline at the submarket level is new supply relative to existing inventory. In 15 submarkets of the 48 tracked in the metro area, the projected oncoming supply over the next 36 months represents less than 10% of existing inventory. Among high-rise product, two submarkets 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.

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

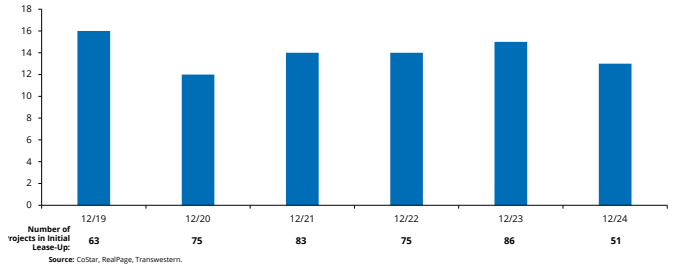


Given projected absorption and the delivery schedule of projects currently under construction, we expect the region-wide vacancy rate for stabilized Class A apartment properties will increase by 60 basis points in three years compared to today - resulting in a metro-wide rate of 6.3%; we expect vacancy to rise slightly to around 6.0% by year-end 2025, then edge up to 6.3% through year-end 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 5.1% in 2025 and 3.8% in 2026, then moderating to 3.3% in 2027.

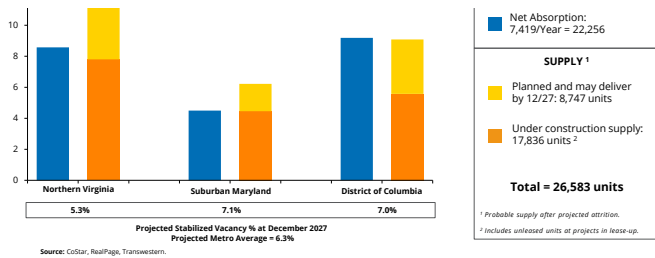
ANNUAL NET APARTMENT ABSORPTION CLASS A & B UNITS | WASHINGTON METRO



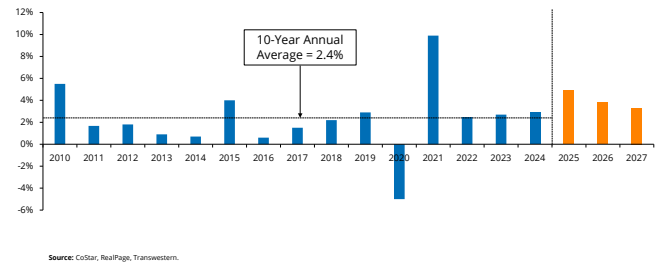
ABSORPTION PACE PER PROJECT PER MONTH FOR PROJECTS IN INITIAL LEASE-UP | WASHINGTON METRO



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



ANNUAL CLASS A APARTMENT EFFECTIVE RENT GROWTH WASHINGTON METRO



DEMAND REMAINS STRONG METRO-WIDE, GROWTH LED BY SUBURBAN MARYLAND AND NORTHERN VIRGINIA

Class A apartment absorption in the Washington area in the 12-month period ending December 2024 is 12,903 units, which is 10% above the 10-year annual average. About 35% of the units absorbed over the past year were in the District, which recorded 4,472 units. Compared to the 12 months ending December 2023, absorption gained in Suburban Maryland and Northern Virginia, but was scaled back in the District despite being positive.

We project annual demand averaging about 7,419 Class A units over the next three years with stronger absorption over the next year (projected at 8,994 units).

WASHINGTON METRO AREA CLASS B MARKET

RENTS CONTINUE TO CLIMB AS DEMAND STRENGTHENS FOR CLASS B APARTMENTS

The Washington metro area's Class B multifamily market continues to perform well with low vacancy and positive rent growth (particularly in the suburbs), further proving the strength of this asset class and the continued behavioral pattern of consumers looking for more affordable options given the current state of the housing market. The Washington metro area Class B apartment vacancy rate is 6.2% as of December 2024, which was elevated 50-basis points from December 2023. Effective rents at Class B properties in the Washington metro area are up 3.1% over the 12-month period ending December 2024, just below the 10-year average of 3.2%. Northern Virginia was the leader in rent growth over the year, acting as a spark for the metro, with a 4.3% rise. During 2024, investment sales on notable Class B assets averaged \$77.0 million (\$214,561 per unit), compared to \$52.9 million (\$245,438) during 2023.

- > Northern Virginia up 4.3%
- > Suburban Maryland up 2.1%
- > The District up 2.5%
- > Metro-wide low-rise up 3.5%
- > Metro-wide mid and high-rise up 2.7%

OUTLOOK FOR CLASS B APARTMENTS

Class B rent growth metro-wide over the 12-month period ending December 2024 (3.1%) is strong and is outpacing Class A growth (2.9%). Vacancy in Class B product (6.2%) increased 50-basis points from a year ago but is still much lower than Class A vacancy (8.8%). Several contributing factors will continue to impact vacancy and rents going forward:

1. The gap between Class A and Class B rent has widened. There is a \$615 difference in effective rent between Class A and Class B mid-/high-rise. Five years ago, the gap between asset classes was \$591 for mid-/high-rise. This shows the consistency of the gap between Class A and B rents over the years, even as it came closer together this quarter and last quarter.
2. Interest rate trends: When the Federal Reserve met in November and December, they decided to cut interest rates by 25-basis points in each meeting, achieving their previously stated goal of having three interest rate cuts in 2024. This has brought the federal funds rate to 4.25-4.5%. Hotter than expected inflation reports caused the Fed to wait longer to cut rates in 2024, but they were still able to cut them due to cooling inflation data. This is the first streak of cuts by the Federal Reserve since March 2020, when rates were historically low even prior to the pandemic. As of December 2024, the rates for 30-year mortgages are just below 7.0%. The expectation for 2025 is that the Federal Reserve will cut interest rates twice before year-end.
3. Difficulty in becoming a first-time homeowner. Escalating home costs and high mortgage rates continue to be a problem for first-time homebuyers, particularly in the Washington metro area. Housing supply continues to be behind in meeting escalating demand, resulting in higher prices within the region. High interest rates continue to be a burden for prospective homeowners attempting to access the market. Although the Federal Reserve cut interest rates, the 30-year mortgage rate is not exactly following suit.

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

The Trend Since Fourth Quarter 2023

NORTHERN VIRGINIA



EFFECTIVE RENTS

▲ 4.3%

SUBURBAN MARYLAND



EFFECTIVE RENTS

▲ 2.1%

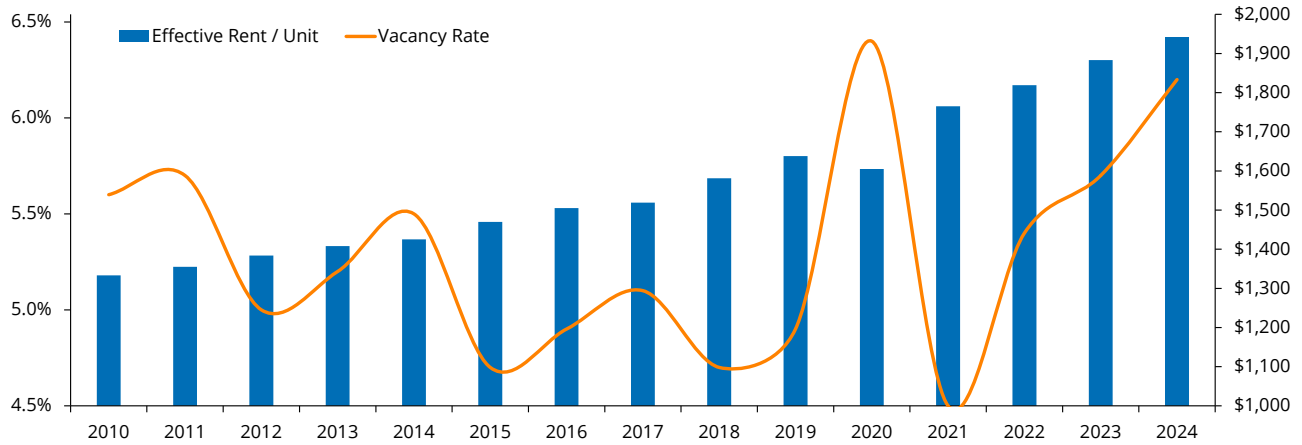
THE DISTRICT



EFFECTIVE RENTS

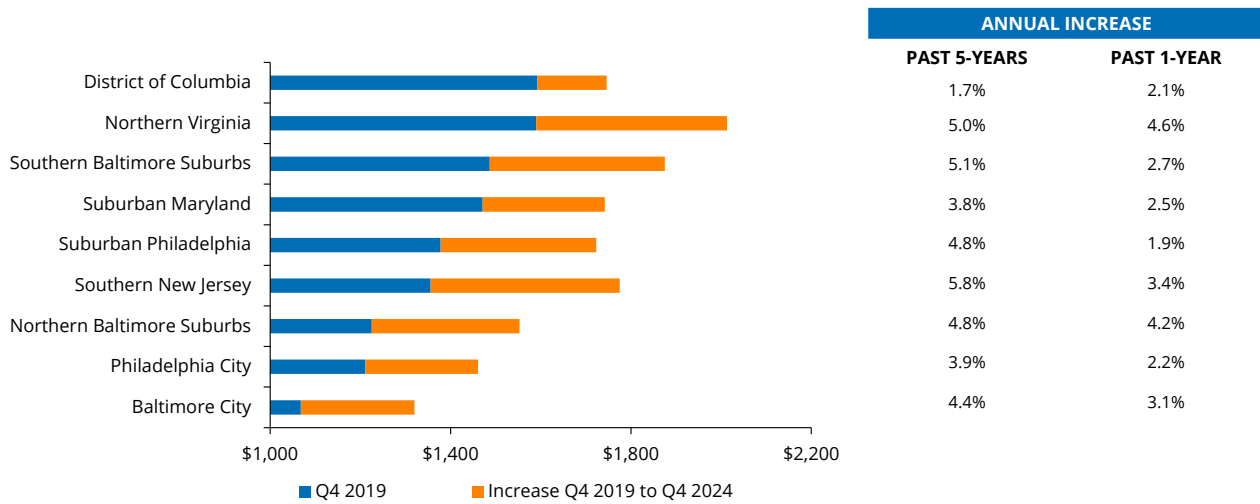
▲ 2.5%

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 | DEC 2024



Source: CoStar, RealPage, Transwestern.

BALTIMORE METRO AREA CLASS A MARKET

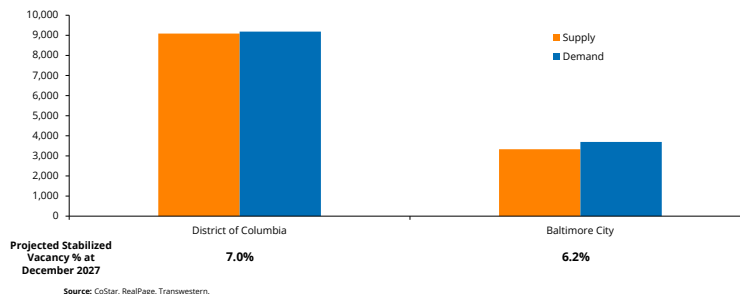
AREA ABSORPTION REMAINS STRONG

Class A absorption was positive across the Baltimore metro area in the year ending December 2024. In the previous year, annual absorption was 1,812 units compared to 2,150 units absorbed in the 12-month period ending December 2024. Over the past 12 months, 2,817 units delivered. This is a marginal decrease compared to the 2,917 that were brought to market in the prior period ending December 2023. Meanwhile, annual rent growth at 2.3% is below the 10-year annual average of 2.6%.

FOURTH QUARTER 2024 HIGHLIGHTS

- > Stabilized vacancy in the Baltimore metro area for all product was 6.7% during the fourth quarter of 2024, from 5.9% a quarter prior. The stabilized vacancy rate in the southern suburbs was up 70-basis points from the third quarter to 5.7% while a 30 basis-point increase to 6.0% was recorded in the Northern Suburbs. Baltimore City recorded a 170 basis-point decrease to 8.7%.
- > Average effective rents for all classes of space in the metro area are \$1,695 (\$1.87 per SF). Rents are up by 3.0% metro-wide in the 12-month period ending December 2024. Rent growth was strongest in the Northern Suburbs - up by 3.6%, followed by Baltimore City with a 3.3% increase. The Southern Suburbs had positive rent growth of 1.9%.
- > Absorption for all classes of space in the 12-month period ending December 2024 was 2,893 units, which was almost doubled the prior 12-month period.
- > Deliveries metro-wide stands at 4,043 units in the 12-month period ending December 2024. Deliveries are up when compared to the same period ending December 2023, in which 3,384 units were delivered.
- > Baltimore City and the Southern Suburbs accounted for 46% and 41% of the total deliveries, respectively, with the Northern Suburbs accounting for 13%.
- > The 36-month development pipeline is 4,793 units, with Baltimore City making up 69% of the number, followed by the Southern and Northern Suburbs being 24% and 7% of the pipeline, respectively.
- > Per project lease-up pace for the 16 actively marketing projects in the Baltimore metro area currently averages 11 units per month, down one unit from last quarter.
- > During 2024, investment sales on notable Class A assets averaged \$61.8 million (\$301,193 per unit), compared to \$47.8 million (\$219,096) during 2023. This compares to Class B assets which sales averaged \$50.2 million (\$148,530) during 2024, compared to \$22.9 million (\$139,577) during 2023.

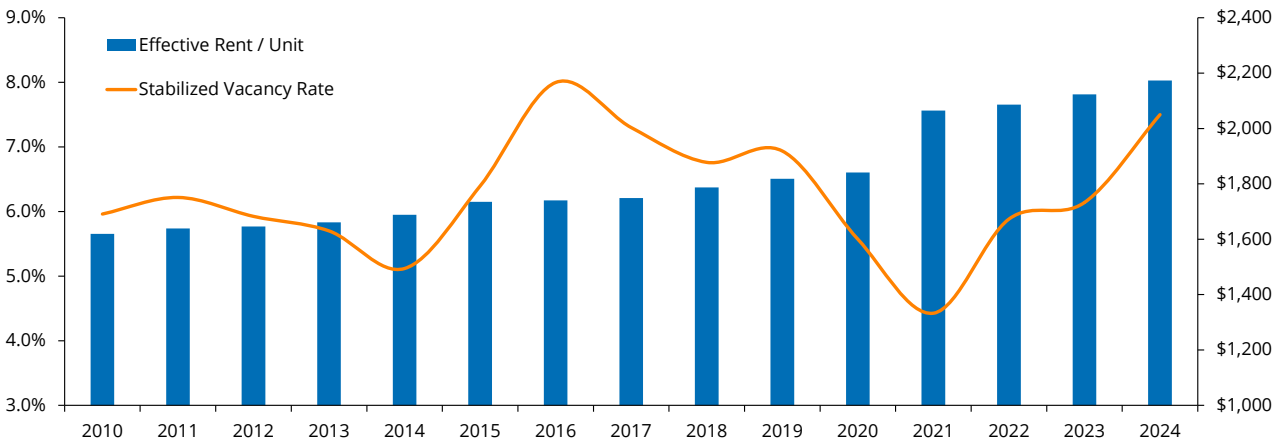
SUPPLY/DEMAND RELATIONSHIP MID-ATLANTIC CENTER CITY CLASS A APARTMENT MARKETS NEXT 36-MONTHS: PERIOD ENDING DECEMBER 2027



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, three submarkets have oncoming supply representing 10% or less of existing inventory (Harford County, West Anne Arundel 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.

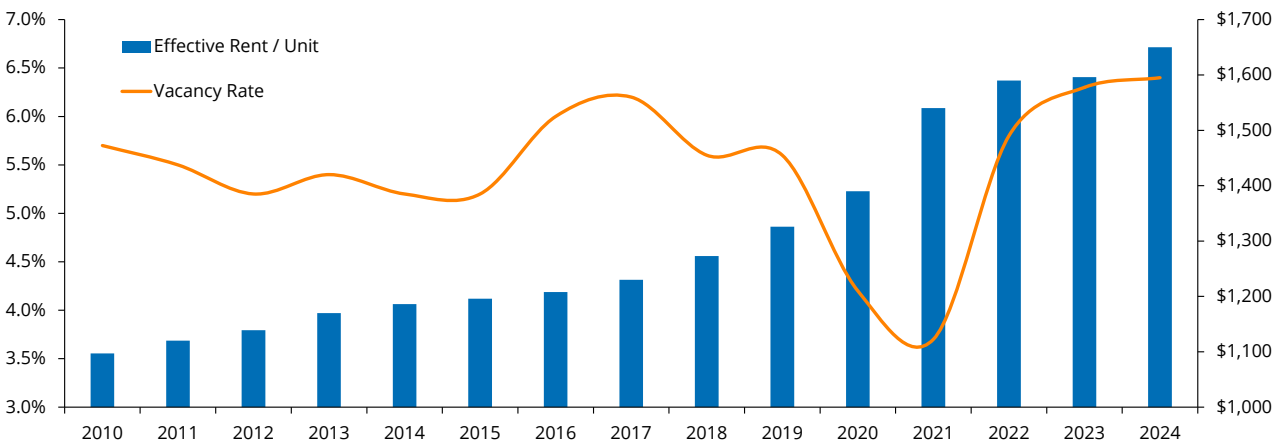
Baltimore’s supply/demand relationship indicates that Class A stabilized vacancy rates will decrease 140-basis points to 5.3% by the fourth quarter of 2027. We expect the vacancy rate to edge down to 6.4% by year-end 2025, and to 6.1% by year-end 2026, before landing at 5.3% by year-end 2027. Class A effective rents are expected to grow at 4.1% annually during this three-year period, which is above the 10-year annual average of 2.6%. However, growth will moderate slightly into 2027, with growth of 3.6%. We expect absorption will remain steady during 2025 and 2026, averaging about 1,960 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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