D.C. IS A HOTSPOT FOR MULTIFAMILY INVESTORS, LENDERS AS ABSORPTION TICKS UP

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Driven by increasing high-paying jobs, billions of dollars in public and private investment and healthy population growth, the Washington, D.C., metro area boasts a dynamic multifamily market with rebounding rent growth and stabilizing occupancy rates.

Washington, D.C., gained 20,500 jobs in June and another 13,000 jobs in July, according to the District of Columbia Department of Employment Services.

Additionally, D.C.'s population topped 700,000 for the first time since 1975. The Washington metropolitan area's total population has climbed to more than 6 million, and more households mean more demand for apartments.

These strong fundamentals have led to increased rent growth in the apartment sector. D.C.'s average net asking rate is $1,990 — up 1.7 percent, making it the sixth-fastest rent growth in the United States, according to Reis. The net asking rate increased for 10 consecutive quarters.

Between now and year-end 2020, asking rents are expected to climb 2.5 percent and 3.6 percent by year-end 2021, Reis notes. The District's apartment occupancy rate is currently 94 percent.

In nearby suburban Maryland, rents rose 1.2 percent, and in Northern Virginia, 1.4 percent.

Demand, supply in balance

Although there was concern over an influx of new construction, multifamily product has been well-absorbed. The metro area absorbed more than 10,000 of Class A and B units for the first time in nearly two years, Reis noted. The District, Northern Virginia and Suburban Maryland each absorbed more than 3,000 units a piece.

The development pipeline remains mostly balanced and healthy. In metro D.C., 3,346 units are slated to be delivered by year-end, and total net absorption is anticipated at 3,028 units. Millennials, empty nesters and other renters are placing the most emphasis on smaller, amenity-filled units.

Developers remain focused on sites around metro locations, but nonetheless, there are healthy statistics in further-out submarkets where the price point is more affordable for many renters. Many employees working in D.C. commute from elsewhere.

In Arlington, where Amazon is building its new HQ2 headquarters, Reis reports that 3,783 units will be delivered by year-end. Amazon is a major catalyst for the region's growth.

There's no shortage of multifamily product in the CBD or emerging markets along the Metro rail line. Tysons Corner in Fairfax County, Virginia is extremely pro-growth, and many municipalities are very pro-development. Bethesda is on fire with new multifamily and commercial projects, including Marriott International's new headquarters. Suburban Maryland as a whole continues to see a spike in development around Metro stations and the future Purple Line.

Anything inside the Capital Beltway has tremendous legs, but there's also activity by the Washington-Dulles International Airport, which is an employment driver and boasts a large tech presence.

Opportunity Zones

Various D.C. multifamily projects are taking advantage of the new federal tax benefit program created by Opportunity Zones. These tax incentives are making these areas even more desirable to investors and developers as they help companies solidify financing for projects in underserved pockets in the metro.

Hot market for investors

There's no shortage of capital pursuing multifamily assets in D.C. Whether it's the Metro expansion, Opportunity Zones or Amazon's HQ2, the job and population growth make D.C. and the surrounding areas not only a strong market for local investors, but large pension funds, institutional money and overseas investors. Most recent acquisitions NorthMarq has been working on are 1031 exchanges, but there's no shortage of all types of funds pursuing assets.

Ten apartment deals totaling $177.2 million (with a median price of $343,342 per-unit) closed in the second quarter, which is the highest amount traded since second-quarter 2016, according to Reis. The biggest transaction was the $141.6 million sale of the then under-construction RESA NoMA.

Lenders' perspective

Multifamily remains a top asset class desired by the lending community, with no shortage of capital for either debt or equity in all submarkets and all property types.

The Federal Housing Finance Agency announced in September that the agencies (Fannie Mae and Freddie Mac) will focus on mission-driven assets with affordable-housing components for the next five quarters. With a total cap of $200 billion across all U.S. markets for that period, the real estate community is breathing a sigh of relief that a degree of certainty is finalized.

The balance of the lending community, including life companies, banks and balance sheet lenders, remain committed and are actively financing quality multifamily opportunities across the DMV trade area.

A sunny outlook

While an increase in interest rates was expected, just the opposite has occurred. Barring any economic catalyst, we don't anticipate much changing in the near-term. Developers, owners and lenders in D.C. are very savvy. We don't foresee any hyper-lending activity or anyone getting over their skis.

Because rates are so low and the yield curve is flat, many of our loan requests are well beyond 10 years. That poses a competitive advantage to balance sheet lenders and life companies.

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pressure on industrial markets.

This pressure is driving some innovations in the market as companies explore multi-story spaces to maximize efficiency, enhanced electrical support through rooftop solar power and the integration of technology and automation capacity to make spaces even more attractive and efficient for tenants. On the leasing end, marketing a collection of smaller spaces spread over a larger geographical area may allow companies to serve more tenants and provide the critical last-mile logistical connectivity consumers demand.

Regardless of any potential fluctuation in other economic areas, the climate for industrial real estate has never been stronger and the thirst for data center and last-mile proximity will continue to drive demand for quality industrial spaces throughout the D.C. metro area for the foreseeable future.