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Increase in supply of apartments bodes well for D.C. area renters

By Erica Champion, Published:
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Anyone who has walked or driven around the area has seen them. The sign spinners are out in force again.

Some of the ones working up the biggest sweat are those trying to draw attention to apartment buildings for lease. Indeed, the late spring and early summer months tend to be high traffic and strong leasing months for landlords. But these signs aren't just a signal of a busy season; they are an indicator of an extremely competitive environment that has been created by the bulge of new supply that has recently hit the market.

Since the start of 2012, nearly 10,000 new apartments have been added to the local market, a level of new supply not seen since the peak of the prior building boom. Although the supply is not far beyond the typical volume of demand, which has historically handled about 1,500 units per quarter, recent leasing activity has not necessarily been tracking at historical levels because hiring has slowed and the local economy has been taking some well-known lumps recently.

And while these sparkling new properties are leasing relatively well, about one-third, or 3,200, of the newly finished units still sit vacant. Making things even more interesting are the nearly 9,000 additional units set for completion over the next four quarters. With local economic headwinds expected to linger, the outlook for apartment demand is weaker still, with expected absorption of just 3,700 units over the same period, which means that scales will be heavily tilted by supply.

As a result, it could be a renter's market here in the near term. With more available units than renters to fill them, landlords are expected to pull out bigger incentives in order to lure tenants to their properties. While rents may appear to be just as expensive on the surface, the concessions offered should become more generous, and most of that will likely come in the form of free rent.

Over the next quarter, as that new construction continues to pile into inventory, landlords are expected to add an additional four days of free rent to their current offers of about 18 days on average, and by this time next year, renters will be likely signing leases that offer a full week more of free rent than

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currently given today. So while the cost of everything from bread to gas may be on the rise right now, Washington apartment renters should expect to find some leasing discounts.

Erica Champion is a senior real estate economist with CoStar Group in Washington.

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