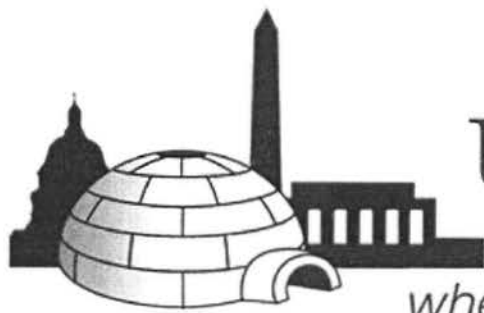




*where landlords and renters meet**

2013 Q4 DC Apartment Market Highlights by Delta Associates

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As we have predicted for two years, the Washington apartment market's metrics were finally affected by a rising tide of supply in 2013. This more competitive landscape will continue into 2015 and beyond, due to a record-setting wave of 28,500 units delivering to market over the next 24 months.

- **Class A rents** declined metro-wide by 3.0% in 2013, although as a testament to the Millennials fueling growth in the District, rents increased in DC.
- The Class A stabilized **vacancy** rate is 4.7%, up from December 2012 when it stood at 4.2%.
- The already oversized 36-month **development pipeline** grew to the highest level we have ever recorded in the Washington region, 39,122 units at December 201, up 3,000 units in the fourth quarter.

A bright spot amid these troubling trends is strong **Class A absorption** despite weak job growth in the region during 2013. However, outsized levels of new unit production during 2013, including the current quarter, will outstrip demand for the next two years. Therefore, a return to more positive metrics, previously predicted for 2016, is now more likely for the 2017 timeframe.

Where is the good news? We think it lies in two factors:

1. The current condition is a supply problem and not demand driven. This problem will dissipate as the pipeline shrinks.
2. In the long term, the region's apartment market prospects remain extremely bright, given lifestyle, economic, and demographic trends. These prospects and trends are discussed in detail a bit later in this article.

Year-End 2013 Highlights

- **Stabilized vacancy** for investment-grade apartments (Class A and B) rose to 4.9% from 4.3% a year ago.

- **Rents** for all investment-grade apartments were down 1.8% over the past 12 months. Class A rents declined by 3.0% over the past year, down from the 1.9% growth posted at year-end 2012. Class B rents were unchanged over the year.
- **Annual Net Absorption**, at 6,185 Class A and B apartments (121% of our long-term average), remained solid this quarter, with disabsorption of Class B units contrasting with a 2013 surge in Class A absorption. Washington recorded 8,188 Class A units absorbed over the past 12 months, as the trend toward renting vs. owning continued its upward path in the Washington metro area in 2013.
- As predicted by Delta Associates and demonstrated by the latest U.S. Census Bureau data, the structural shift toward renting appears to have played out in the Washington area. This trend is further illustrated by Washington's nation-leading for-sale housing market performance. Absorption of Class A units over the next 36 months will likely be somewhat higher than the region's long-term average of 5,767 units per annum. This projection is predicated upon the "de-nesting" and "un-coupling" of potential renters currently living with parents or roommates, and improved job growth and reduced uncertainty in the region over the intermediate term.
- **Average monthly absorption** of new projects declined over the past 12 months from 18 to 15 units per project per month. This decline in pace is reflective of the number of projects in lease-up growing from 33 to 62 over the past 12 months, with more to come in 2014-2015.
- The **development pipeline** reached a cyclical low of 16,606 units as of year-end 2009. Subsequently, improving market fundamentals and improving financing pushed the pipeline to 34,449 units at year-end 2011. At year-end 2013, the number stands at 39,122, as production ratcheted up in the latter half of 2013, with the market continuing to discount the threat of overbuilding. A foreboding statistic: **Starts** edged up again this quarter, with 3,895 units breaking ground, compared with our historical quarterly absorption pace of 1,442 units.