RED CAPITAL GROUP®

Market Overview

Washington, D.C.

To register for free access to RED's full research reports, please click here.

Multifamily Housing Update March 2011

EXECUTIVE SUMMARY

The Washington DC metro area economy created jobs at a healthy 30,400 (1.0%) job annual rate in the fourth quarter and an even faster 74,600 (2.6%) job year-over-year pace in February. Faster hiring in the Virginia and Maryland suburbs was largely responsible. Employers in Suburban Maryland added 8,500 workers y-o-y in 4Q10 and 23,800 y-o-y in February. Likewise, annual job growth in Northern Virginia accelerated from 9,700 to 26,700. Employment growth in the District of Columbia was comparatively stable, rising from 9,900 net new jobs in 4Q10 to 13,200 new jobs in February.

Skilled service hiring fueled job growth in the Capital Region. Providers of business, education and health care services added 19,900 positions to payrolls y-o-y in 4Q10. Federal government expansion also contributed to the recent job growth as headcounts rose 9,400 in the twelve-month period ended in February.

Recent job growth also resulted in lower unemployment throughout the region. As of January, the metro unemployment rate was only 6.1%, down from 7.0% in January 2010. The seasonally-adjusted unemployment in The District fell to 9.5% in February, the lowest rate in 20 months.

Although preliminary February data suggest stronger growth, the **RED CAPITAL Research** (**RCR**) econometric payroll model predicts that metro payrolls will increase 26,900 (0.9%) in 2011 and 44,900 (1.5%) in 2012. With regard to The District, Economy.com forecast gains of 5,250 (0.7%) and 4,900 (0.7%) jobs in 2011 and 2012, respectively.

Home sales activity in The District accelerated this year. According to the Greater Capital Area Association of Realtors, 767 single-family homes and condos were sold in January and February, up from 700 sales recorded in the comparable period of 2010. Median prices also were higher. The median condo price rose from $341,000 to $361,400 and the median single-family home price advanced 11.7% to $374,125.

Following two years of robust supply, averaging 1,585 units, completions slowed last year. As a result, apartment occupancy rates tightened. The DC occupancy rate rose from 93.9% in 4Q09 to 94.5% in 4Q10 as positive net absorption (1,138 units) outpaced supply (648 units). Additionally, a 76-unit Dupont Circle / Adams Morgan apartment property was removed from the rental stock and converted to condos during the fourth quarter.

Owing to favorable supply and demand dynamics, property managers pushed face rents and reduced concessions last year. On an annual basis, the pace of asking rent growth accelerated to 2.3% in the fourth quarter, the fastest increase since 2Q09. Moreover, the size of the average concession package fell from 4.1% of asking rent in 4Q09 to only 2.8% in 4Q10, producing a robust 3.7% y-o-y surge in effective rent.

Reis expect effect rent to increase by 4.7% per year through 2015 and occupancy to reach 96.4% by year-end 2015. Consequently, **RCR** calculate a 9.7% five-year holding period unlevered total return for DC assets, comparing favorably to the 9.0% **RED** 50 mean. But finding an investment-grade asset for-sale in DC may prove difficult. According to Reis, only one transaction priced at or above $5 million was recorded in 4Q10. Furthermore, Loopnet.com were not aware of any investment-grade properties for-sale.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (5.5% - 4Q10)	▼ 60bps	▼ 80bps
Effective Rents ($1,403 - 4Q10)	▲ 3.7%	▲ 6.9%
Cap Rate (6.6% - 4Q10)	▲ 230bps	▼
Employment (2,993.9m - 4Q10)	▲ 30.4m	▲ 26.9m

KEY POINTS

- Vacancy in the District of Columbia decreased 20 basis points sequentially and 60 basis points year-over-year to 5.5% in 4Q10. Strong apartment demand contributed to the improvement. Positive net absorption totaled 588 units during the fourth quarter, outpacing supply of 466 units.
- The average effective rent increased 3.7% year-over-year to $1,403 in the fourth quarter, partially owing to falling concessions. The size of the average concession package fell from 4.1% of asking rent in 4Q09 to 2.8% in 4Q10.
- Class-A asking rent increased 1.7% sequentially, comparing favorably to the 1.2% advance recorded among Class B/C assets.
- Real Capital Analytics were aware of 22 investor-grade trades totaling $746.7 million in sales proceeds in the twelve-month period ended in January. The average price per unit was $223,162.
- Based on an assumed 4.5% going-in yield, **RCR** calculate a 9.7% expected rate of total return, ranking 19th highest among the **RED** 50.