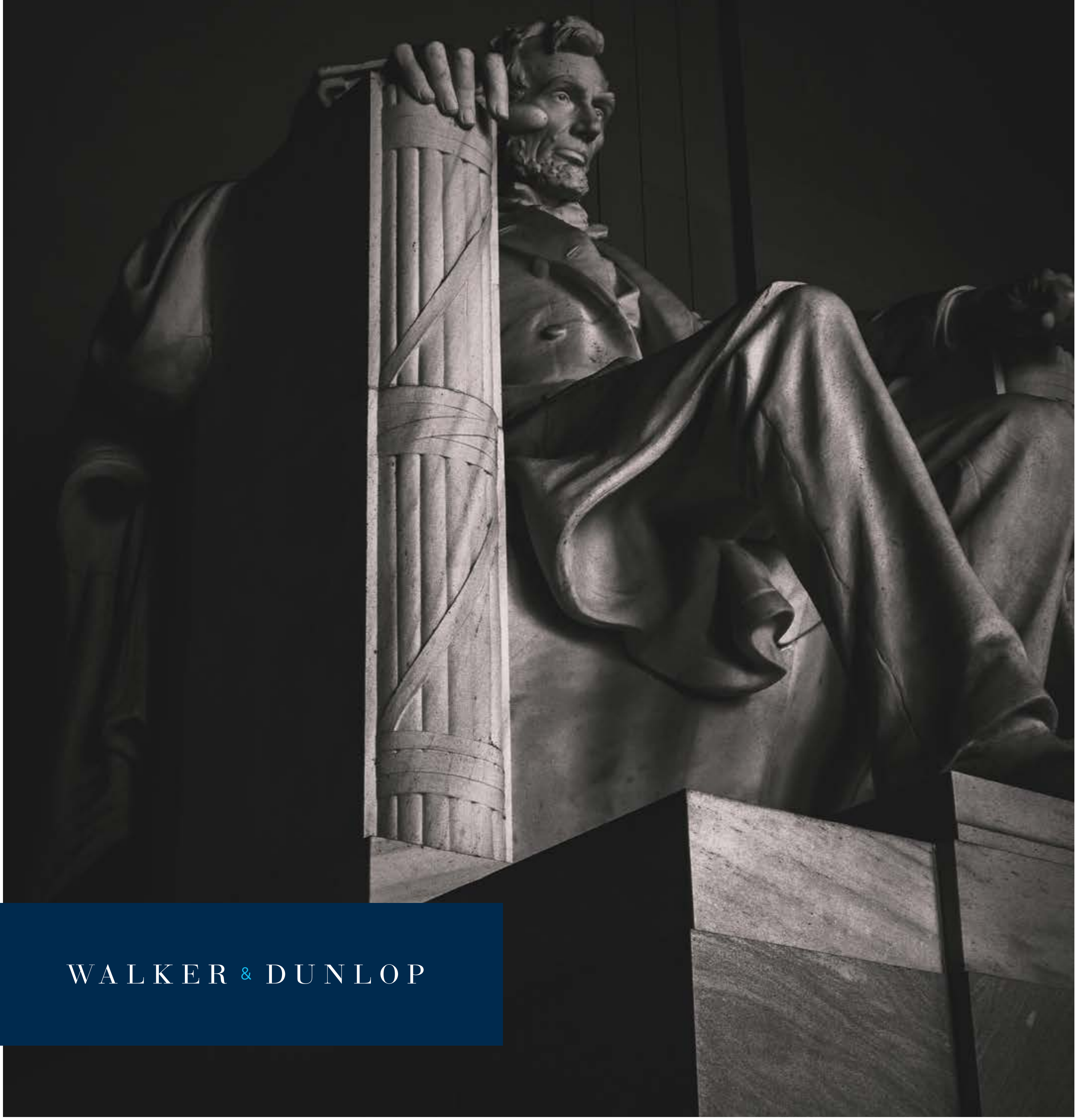
MULTIFAMILY OUTLOOK

QUARTERLY REPORT // WINTER 2020

WASHINGTON, D.C. SPOTLIGHT

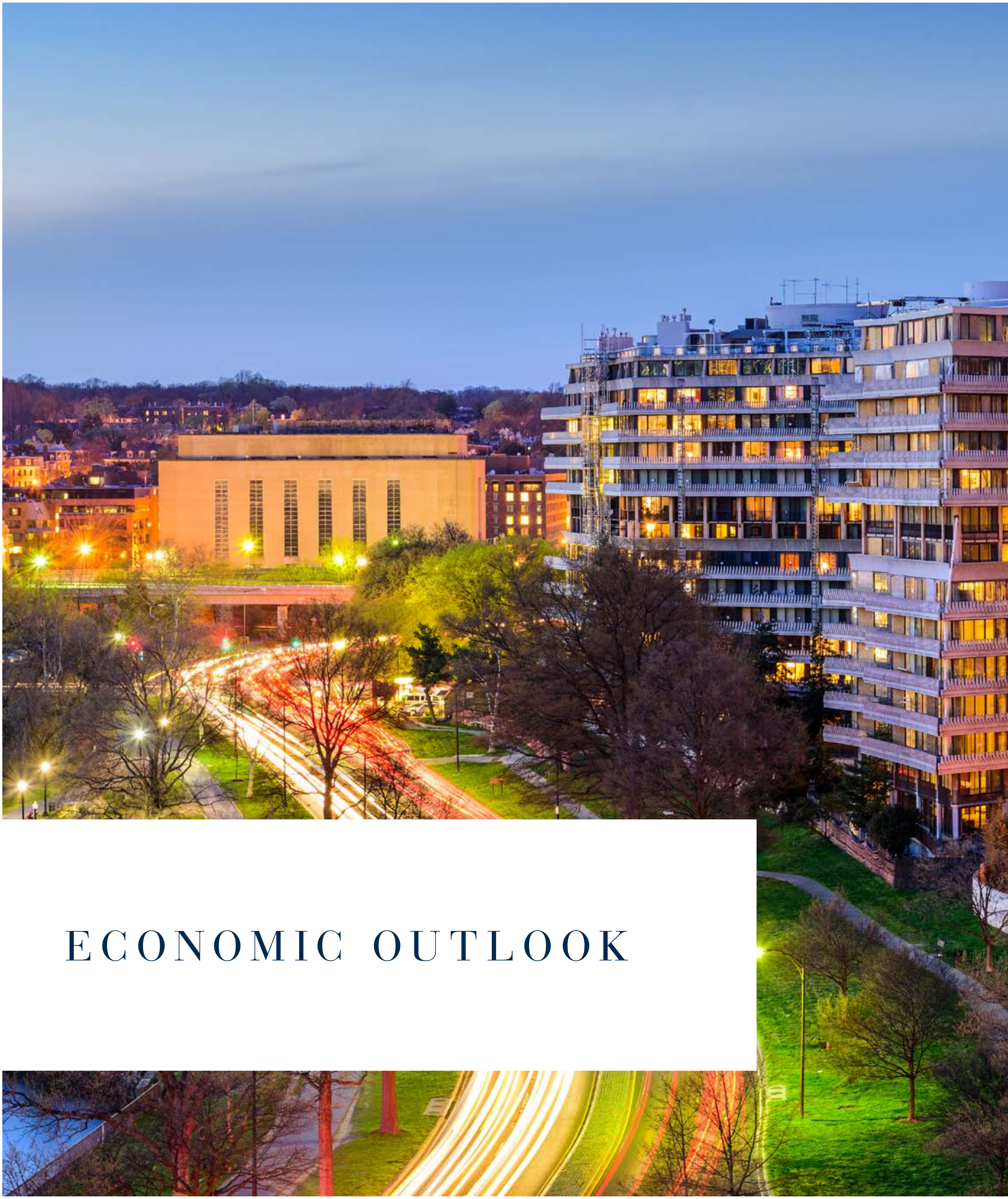


WALKER & DUNLOP

EXECUTIVE SUMMARY

We are nearing the end of the year, and our team is busy planning for the future of multifamily housing. While many aspects of the economy remain in-flux, and we are all tracking the impact of the pandemic on the space, we are seeing areas of opportunity and maintain a positive outlook. In this issue, we:

- Cover the state of the economy and its impact on the multifamily space
- Discuss the state of Student Housing
- Chat with Andy Helmer, CEO of Shelters to Shutters, on tackling situational homelessness
- Provide a market spotlight on Washington, D.C.
- Talk with Jason Golub, VP of Diversity, Equity, and Inclusion at Walker & Dunlop



ECONOMIC OUTLOOK

A TALE OF TWO CITIES

"IT WAS THE BEST OF TIMES, IT WAS THE WORST OF TIMES, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness…" so starts Dicken's famous book, *A Tale of Two Cities.* Set against the French Revolutionary War, the book highlighted the social inequalities of the era. 150 years later, the iconic quote still strikes a chord. While every recession is different, the pandemic-induced shelter-in-place rules quickly sent the U.S. economy into the deepest recession on record in the second quarter. Fortunately, economic recovery, at least thus far, is proving to be just as swift in the areas where it is occurring.

While unemployment rates dropped quickly from 14.7 percent in April to 8.4 percent in August, a more detailed look shows widening inequality that has yet to be resolved. For those with a bachelor's degree or higher, unemployment peaked at only 8.4 percent in April and has since fallen to 5.3 percent – a rate that was once thought to be near the point of equilibrium for the economy. Unemployment rates for those with less than a high school education peaked at 21.2 percent and for those with a high school education, at 17.7 percent. More than one in ten people of the 42 million people in these segments of the labor force still remain unemployed as of August[1].

[1] *BLS Table A-4*

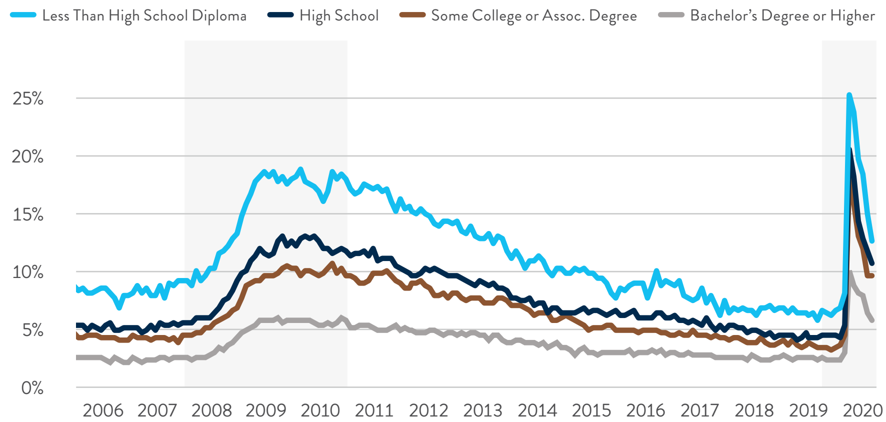
To add to the current volatile environment, the contentious U.S. presidential election kept investors on edge, assessing political as well as economic uncertainty, at least in the near-term. Volatility indices remain somewhat elevated, although the stock market recuperated all of its March losses by August and interest rates remain at historic lows, a good support for real estate investors. Third quarter GDP increased at an annual rate of 33.1 percent, also showing an important recovery from the second quarter losses[2].

However, the economy is far from being back to 'normal.' The federal reserve's balance sheet increased by nearly $3 trillion this year as subsidies such as those provided by the CARES act backstopped businesses, individuals and farmers. That's almost triple the subsidies provided in 2008 which have yet to be paid back, igniting a debate about whether the economy can grow out of its increasing debt burden, print money, or continue in a low interest rate environment to pay back the debt. Long-term, that could put upward pressure on interest rates and inflation; however, interest rates are expected to remain at historically low levels in the near term. Personal consumption expenditures (PCE), normally the largest part of economic growth, remain 5 percent below the January level after declining by a historic record amount of 18 percent in April. As comparison, PCE gradually fell to a low of a 2.5 percent decline from the peak in April 2009 after the Great Financial Crisis in 2008-09.

[2] Source: https://www.bea.gov/news/2020/gross-domestic-product-3rd-quarter-2020-second-estimate-corporate-profits-3rd-quarter

MORE EDUCATION = LESS CHANCE OF UNEMPLOYMENT

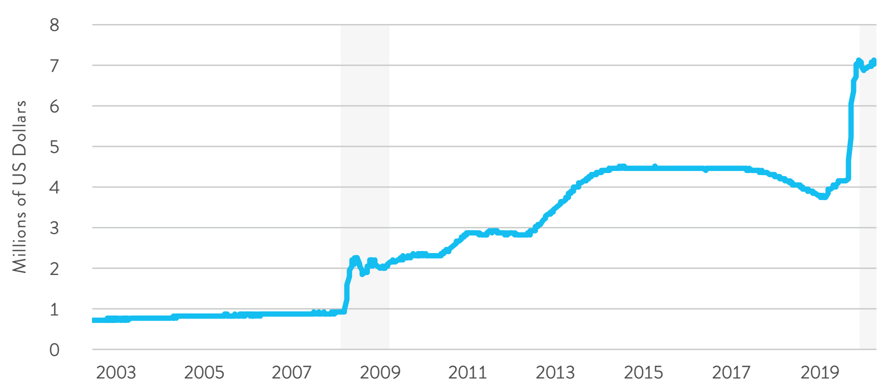
Unemployment Rate by Educational Attainment



Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

DRASTIC 2019 INCREASE IN FEDERAL RESERVE BANKS TOTAL ASSETS

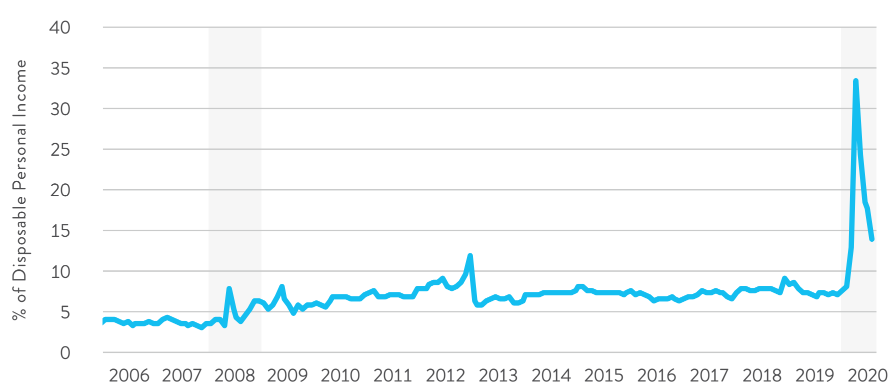
Federal Reserve Banks Total Assets



Source: Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level [WALCL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WALCL, October 16, 2020.

DRASTIC INCREASE IN PERSONAL SAVINGS IN EARLY 2020?

Personal Savings Rate



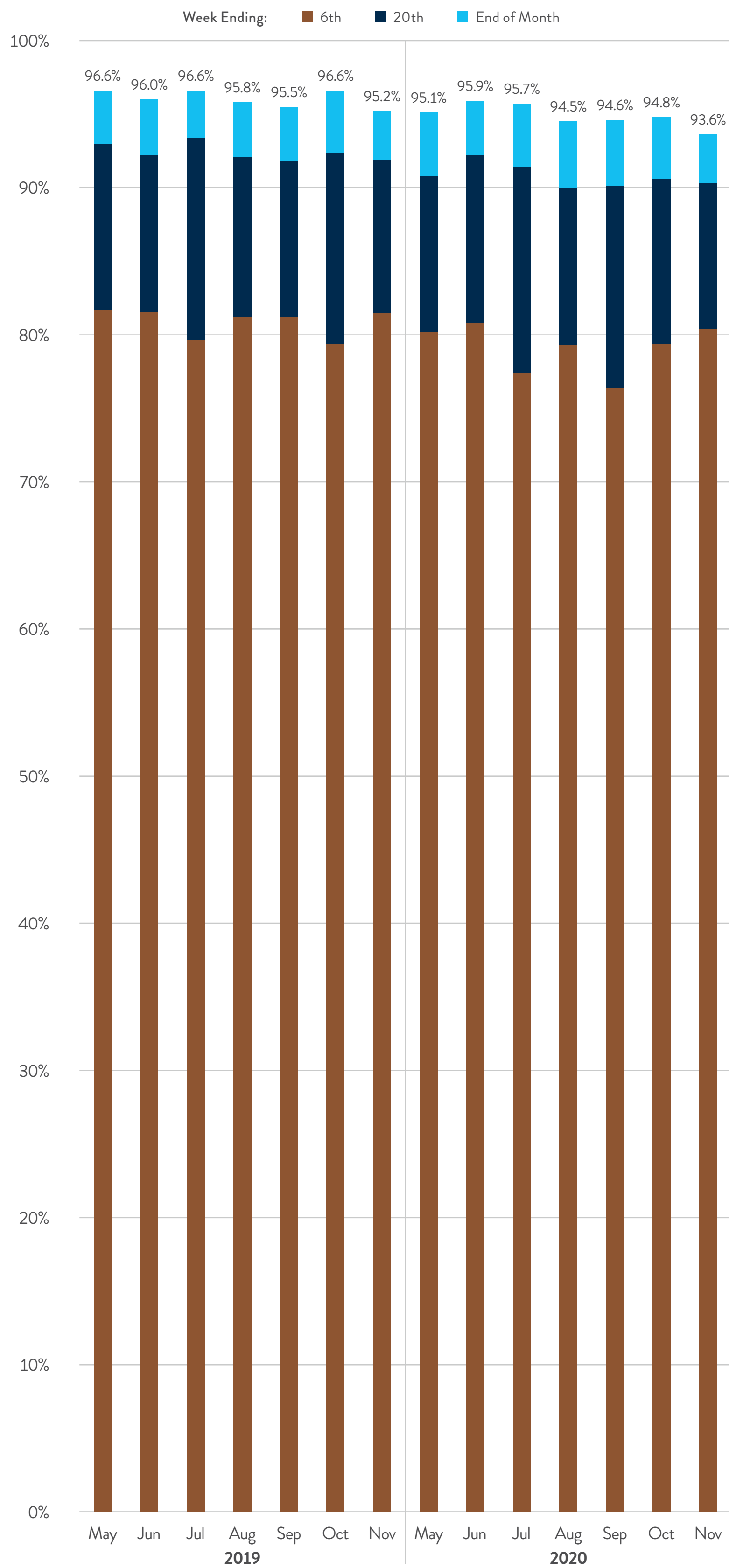
Source: U.S. Bureau of Economic Analysis, Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PSAVERT, October 16, 2020.

A good part of the government subsidies provided to individuals and businesses in the first part of the year was socked away in savings, which are now declining as people use those savings for expenditures such as groceries and rent. Top of mind for the near-term is whether employment rates will improve fast enough to replenish household wealth before savings run dry, or whether the government will fund more subsidies. This is particularly important for low wage earners, most impacted by the recession and generally with less ability to save. Fortunately, savings rates currently remain elevated and the pace of decline in savings is slowing. Nevertheless, at the current pace, excess savings could be depleted in three to six months, which could begin to have a larger impact on housing payments. Since May, the National Multifamily Housing Council's rent tracker has shown slight year-over-year decreases in monthly rent payments, with the largest year-over-year dip of 1.8 percent in October and the smallest decline of 0.1 percent in June. Overall, rent collection has remained better than most expected at the onset of the pandemic, but there are still an abundance of factors that will impact renters' ability to continue to make payments in the months ahead, as well as persisting trends that will impact renters' housing choices. The latter of which we will discuss in greater detail later in the report.

The economy is disparate by location as well. Some of the hardest hit job markets recently are the larger high-cost, urban markets. Unemployment remains above 10 percent in markets such as New York, Boston, Philadelphia, San Francisco, and Los Angeles. Similarly, unemployment remains elevated in tourism-related markets such as Las Vegas and Orlando. Conversely, lower cost markets in the south and Midwest have unemployment rates of 8 percent or lower, including Atlanta, Austin, Dallas-Ft. Worth, Kansas City, Indianapolis, and Cincinnati. Raleigh-Durham and Washington D.C.,as well as Salt Lake City and Denver, also have relatively lower unemployment rates.

NATIONAL MULTIFAMILY RENT COLLECTIONS SHOW SLIGHT YEAR-OVER-YEAR DECLINES

Data collected from 11.1 – 11.5 million apartment units each month



TENANTS LOOK FOR SPACE

The apartment market reflects similar trends to the broader U.S. economy. While work-from-home (WFH) accommodations have kept many white-collar employees on the job, 'home' does not necessarily have to be close to an office anymore. High cost, dense cities lost many of the attractions of urban amenities such as walkable restaurants, bars and entertainment venues due to pandemic-related shelter-in-place orders. Consequently, the worst-hit this year have been the San Francisco and Manhattan apartment markets where effective rents fell by more than 9 percent year-over-year as tenants either condensed households or moved to outlying areas[3] - e.g., Long Island, Northern New Jersey, and Sacramento where rents are up. With firms such as Google, Facebook and Microsoft announcing that employees will be able to work from home at least until Summer 2021, sales in second home destinations are also soaring. For example, in the Bay Area home sale volumes are up by more than 50 percent from a year ago in Santa Cruz and Monterey counties[4]. Nationally, nearly half of CBD spaces are currently providing some sort of concessions in terms of free or reduced rent. Low cost, drive-to markets are doing well in contrast. In terms of number of units absorbed, demand over the past twelve months has been strongest in Dallas, Houston, Atlanta, Phoenix, Charlotte, Washington D.C., Austin, San Antonio, and Minneapolis.

Tenants, now with higher work-from-home needs, are also looking for larger spaces. Rent growth is strongest for two-bedroom and three-bedroom units. Studio apartment rents are declining as vacancy rates soared from near 6 percent in mid-2019 to near 8 percent currently. The lowest vacancy rates are recorded for two-bedroom units, which provide maximum flexibility for working from home or roommate sharing.

More broadly, the apartment market remains fairly stable. 62 of the 80 largest markets continue to post positive effective rental growth as of September. True to its reputation as a defensive investment in times of economic weakness, stabilized apartment properties have maintained vacancy rates under 6 percent as compared to 13 percent for office, 7.6 percent for industrial and 10.2 percent for retail[5]. Multifamily delinquency rates also remain low at under 4 percent, up only slightly from a year ago[6].

Despite all of these positive signals, the apartment market will face some downside risks going forward. An aggressive construction pipeline that already delivered 200,000 units in the first half of the year will further stress the market; another 600,000 units are currently under construction (equivalent to 3.5 percent of inventory). Two-thirds of these units are expected to be completed in the next 18 months. Consequently, markets such as Austin, Boston, Charlotte, Denver, Raleigh-Durham, Miami-Ft. Lauderdale, Long Island, Nashville, Northern New Jersey, Orlando, Palm Beach, and Seattle will increase in size by 5 percent or more. U.S. net absorption averaged 1.7 percent of stock over the past five years and is expected to be equivalent to about 1 percent of stock in 2020, indicating that vacancy rates are likely to continue increasing in the near-term. The impact of excess construction is already being seen as U.S. vacancy rates, including projects that were recently delivered, average 6.8 percent, up from 6.4 percent at year-end 2019. Including newly delivered properties, Class A vacancy is even higher – at 10.2 percent, up from 9.2 percent at year-end 2019. Comparatively, Class B vacancy is only 5.7 percent.

Interestingly, the lowest quality units – those that theoretically are most exposed to the lower income and higher unemployment segments of the labor force – have the lowest vacancy rates, measuring 5.4 percent as of September. This segment will be most exposed to the unemployment to savings rate balance risk previously discussed.

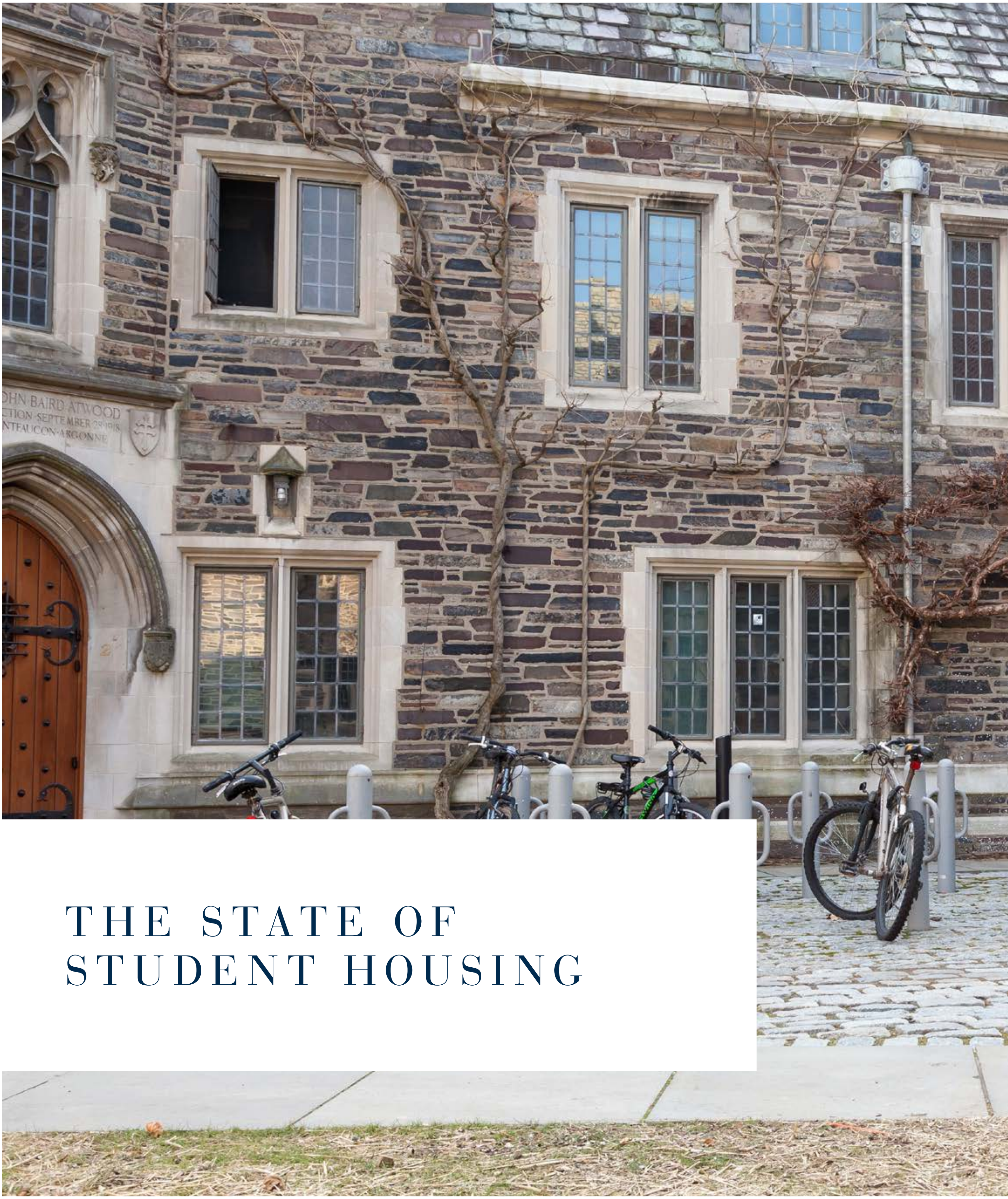
While many can shop online and work remotely from home, everybody needs to live in a physical space. Despite increased vacancies and construction, as we have seen in other periods of economic instability, we believe multifamily will remain the most stable, resilient, and likely to create lasting, long-term value. As we have seen already, higher income locations may not be the fastest to recover, both because of supply as well as demand weakness, but the apartment sector continues to chug along, offering an attractive investment that has proven once again that it can withstand an economic downturn.

[3] *Source: San Francisco - CoStar as of September 2020 and Manhattan - Miller Samuel as of August 2020*

[4] *Source: Compass as of June 2020*

[5] *Source: Costar, CBRE and REIS for shopping center retail.*

[6] *https://www.cpexecutive.com/post/cmbs-delinquency-rate-declines-again-trepp-finds as of August 2020*



THE STATE OF STUDENT HOUSING

THE STATE OF STUDENT HOUSING

As students left for the 2020 spring break, U.S. colleges and universities scrambled to put online learning in place amid the COVID-19 pandemic. Five months later, with no national guidelines for return to campus, schools initiated a wide range of back to school plans. According to the College Crisis Initiative, a research project at Davidson College in North Carolina, approximately 65 percent of the 2,958 schools in the study planned an online or hybrid approach for the new school year, while 27 percent planned a primarily in-person approach. However, some in-person plans resulted in a rocky August as COVID-19 outbreaks caused some schools to immediately send students back home and others to alter their remote learning plans. For example, UNC-Chapel Hill quickly reversed initial policies, moving the campus to fully remote learning after 177 cases were reported in the first week of school. Michigan State University also reversed decisions at the last minute, opting for online instruction out of precaution.

An analysis of 175 large colleges and universities tracked by RealPage found that while some campuses opted for an online-only approach, most adopted a hybrid model of both in-person and virtual education. However, students were not deterred from returning to campus. At the end of the pre-leasing period in August, 88.3 percent of beds at the core universities tracked by RealPage were pre-leased for the fall as compared to just 91.7 percent a year ago.

In addition to students returning to campus, many student housing properties may be benefiting from de-densification of university-owned properties as a result of the pandemic. On-campus housing capacity is expected to be operating at approximately 82.5 percent of the previous term, according to an August survey from the Association of College and University Housing Officers. Additionally, 79 percent of on-campus housing officers indicated that their institutions were planning on keeping an existing on-campus housing facility offline for a potential quarantine space during the 2020–21 academic year, further limiting on-campus housing space. As a result, many students are turning to off-campus student housing as a better and safer alternative. As compared to the traditional shared "dormitory-style" bathrooms, modern student housing properties also provide better bed-to-bath parity, further lessening contagion risk during the pandemic. This de-densification of on-campus housing will likely help to offset any enrollment declines at schools and allow the off-campus student housing market to remain highly occupied. American Campus Communities (ACC) CEO, Bill Bayless, stated, "When the universities in March and April panicked and told students to leave the on-campus residence halls of that older quality, we actually, in the middle of an academic year, picked up a thousand new residents...And so the modernization of student housing really helped the university."

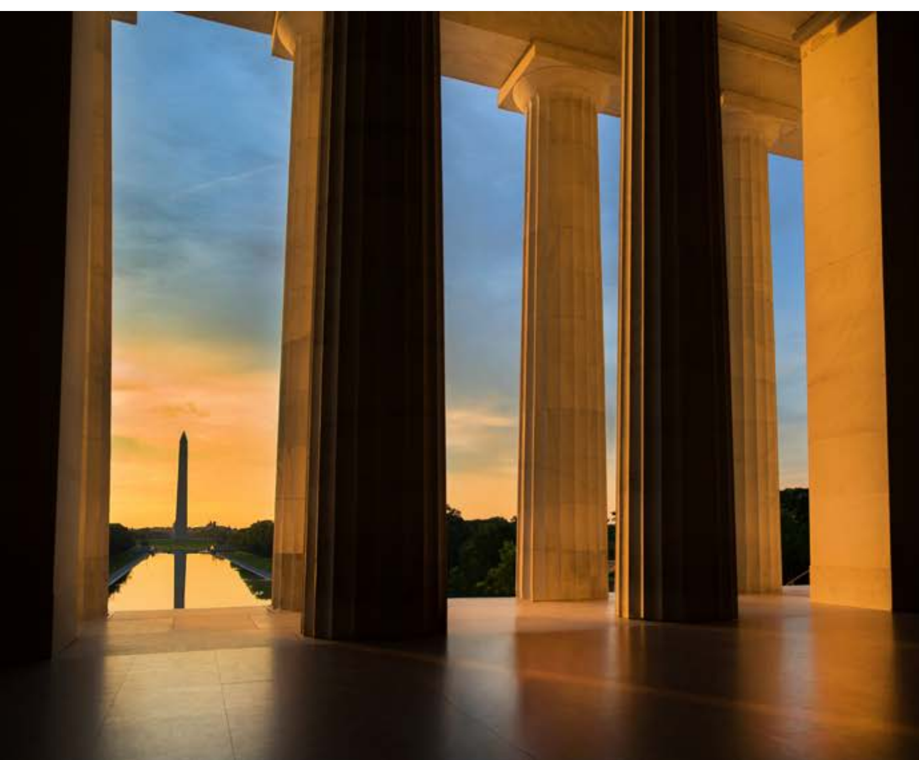
In the near-term, occupancy is heavily impacted in the fall of 2020 by re-opening plans as a response to the COVID-19 pandemic. Schools with over 95 percent of beds leased are concentrated in markets that were among the first to announce a return to on-campus learning. The Southeast and Midwest lead the pack, particularly flagship state schools in Mississippi, Indiana, Wisconsin, Georgia, Maryland, North Carolina, South Carolina, and Virginia. Conversely, online learning remains significant in the coastal markets. Several of these schools, particularly in California are less than 80 percent leased.

However, at the national level, student housing rent collections remained relatively high throughout the summer; rent collections as of June 13th averaged 92 percent, outpacing conventional multifamily collections reported at 89 percent. However, vacancies by bed are projected to rise 210 basis points from 5.2 percent to 7.3 percent in 2020, while vacancies by unit rise 80 basis points from 2.3 percent to 3.1 percent, indicating some de-densification in student housing properties as well. Near-term rising vacancy rates and questionable occupancy due to the pandemic even if the space is rented, particularly in the coastal markets where online learning continues to dominate, are expected to weaken rental growth for the 2020 school year. Rent declines are expected to be universal across every U.S. region, but will take the steepest dive in the Southwest, where rents are projected to fall by 7.1 percent as compared to 4.4 percent in the Northeast.

Despite increased demand for student housing, new supply is slowing. Prior to the pandemic, the number of student housing beds was expected to increase by 4 percent (1.7 percent unit growth) in the 2020-21 school year. Since then, a number of projects have been delayed or halted entirely due to market uncertainty. Thus, inventory growth is projected to be more moderate at 2.8 percent for properties by bed and 0.8 percent for properties by unit, although this is still up from the 0.4 percent and 0.6 percent increases in the past two school years.

The student housing sales market also started the year strong with $1.7 billion in Q1 transactions, a pace that was 13.3 percent higher than a year ago. However, the transaction market has since been virtually at a standstill outside of a handful of assets that had started trading pre-pandemic. Over the longer-term, the slow down in new completions will help to boost occupancy. As the pandemic wanes and investors have a view of how the market performed in 2020 with large online educational formats, investor confidence is expected to return.

Longer-term, the pandemic may have a positive impact on the student housing market as real estate in general will be expected to play a larger part in public health policy. Purpose-owned student housing already provides better bed-bath parity ratios than either on campus or non-institutionally owned properties, and institutional owners will be able to further integrate policies and building materials to support student health while reduced tax revenues as a result of the recession will slow university funding, and thus new university owned construction. With more than half of the student housing market still not institutionally owned, purpose-built buildings that better support the health and safety of students may also increase market share of off-campus housing.



https://collegecrisis.shinyapps.io/dashboard/

"Swab, spit, stay home? College coronavirus testing plans are all over the map," Michael Mcauliff, The Charlotte Observer, August 25, 2020.

"Student Housing Pre-Lease Season Ends Just Below Last Year's Results," Julia Bunch, RealPage, September 11, 2020.

COVID-19 Response Survey #6 Results, ACUHO-I, July 28 2020 survey

"Student Housing State of the Market," CBRE Roundtable, June 25, 2020.

"COVID Is Accelerating a Revolution in Student Housing," Les Shaver, GlobeSt, September 22, 2020

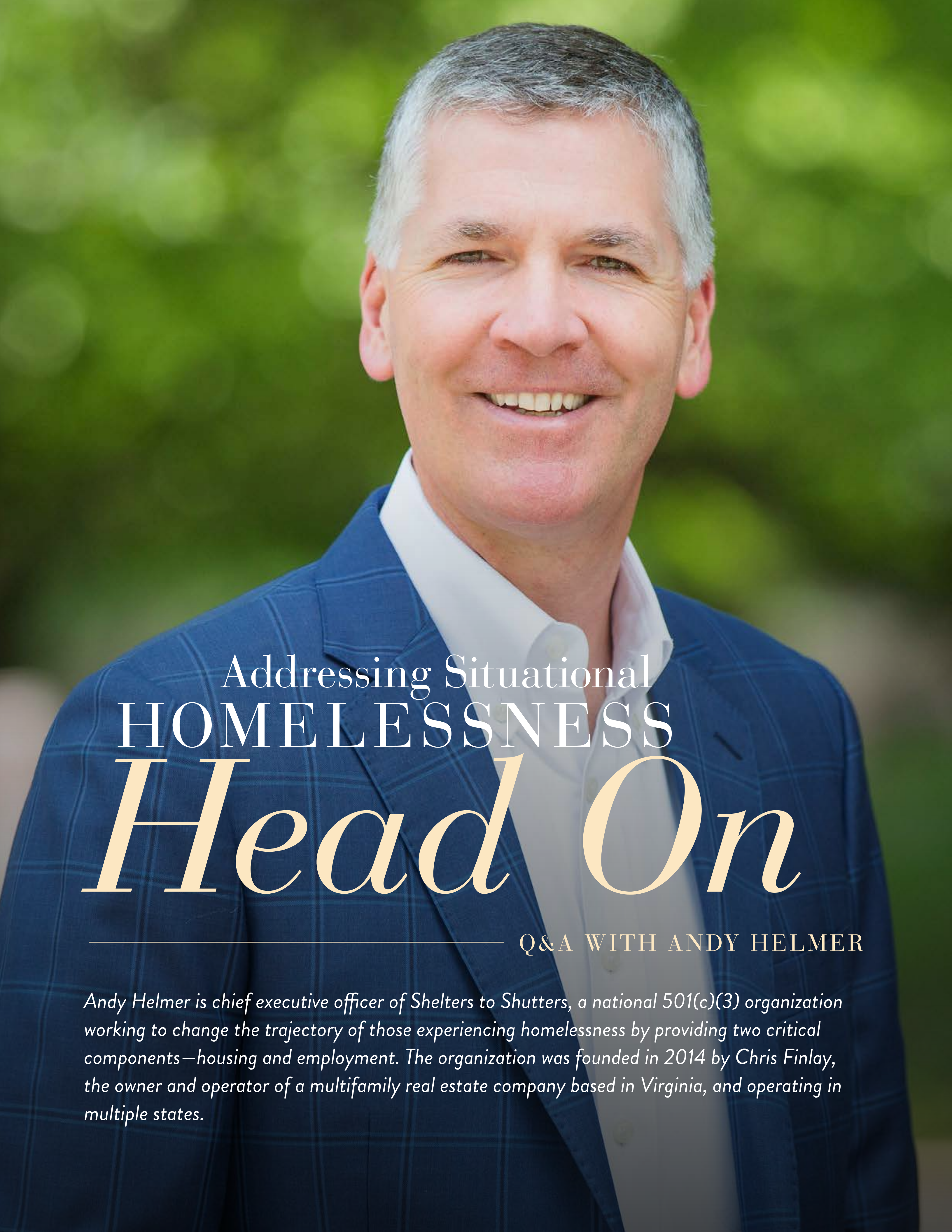
"Strongest Student Housing Leasing in Southeast, Midwest as West Falters," Julia Bunch, RealPage, October 9, 2020.

Berkadia's June 2020 Student Housing Collections Survey

Apartment data from The National Multifamily Housing Counsel June Rent Payment Tracker for Conventional Multifamily. Note that the NMHC tracker includes full or partial payment and the Berkadia survey is based on an actual percentage of scheduled rents so the 3 percent better performance for student housing is likely understated.

"Q2 2020: Student Housing Quarterly View," Keegan Kelly, Moody's Analytics, August 27, 2020.

"Student Housing State of the Market," CBRE Roundtable, June 25, 2020.



Addressing Situational HOMELESSNESS *Head On*

Q&A WITH ANDY HELMER

Andy Helmer is chief executive officer of Shelters to Shutters, a national 501(c)(3) organization working to change the trajectory of those experiencing homelessness by providing two critical components—housing and employment. The organization was founded in 2014 by Chris Finlay, the owner and operator of a multifamily real estate company based in Virginia, and operating in multiple states.

Q

How did you get involved with Shelters to Shutters? What attracted you to the organization and its approach?

A

It happened by accident. I was taking some time off work and Chris Finlay reached out to me to see if I would head up a search to find them new leadership. At the time, I was on sabbatical from my role as a senior vice president for a technology company. After several weeks of interviewing people and getting smarter on the issues of situational homelessness, I somehow got "Jedi mind-tricked" into recruiting myself!

The mission of Shelters to Shutters has resonated with me since the beginning, and it is immensely rewarding to lead up an organization dedicated to ending situational homelessness. I also loved Chris's vision for the organization and the fact that this was a private industry solution tackling a very serious public social issue.

Situational homelessness, if you're not familiar with the term, is when individuals who have marketable skills and have been employed in the past find themselves without a permanent address due to a series of circumstances and bad luck. Shelters to Shutters addresses situational homelessness by helping people find employment and housing simultaneously and return to self-sufficiency.

Q

How does Shelters to Shutters work?

A

Candidates are first referred to us by our network of nonprofit partners. After going through an application and screening process, we connect our qualified candidates with our industry partners—who are multifamily owners and operators for available employment and housing at a multifamily property.

Almost 60 percent of our candidates take positions in maintenance, an area where multifamily companies traditionally have a tough time finding and keeping staff. Those with retail sales experience are often placed as leasing agents. Others begin in groundskeeping. If you are motivated, work hard and don't mind working outside, this can be the perfect entry to groundskeeper and eventually maintenance tech roles.

The great thing about multifamily operations is that every position has upward mobility. For example, a groundskeeper can get a pool certification or a maintenance tech can get a HVAC certification, both result in a wage bump. Almost three out of four people in the program will receive a wage increase or promotion in the first 12-months. They also have the opportunity to receive continuing education through their employer.

We continue to work with participants for a full year after they have been hired with supportive case management services from S2S staff to ensure their success.

Concurrently, participants' employers provide them with housing in their apartment buildings. Rent is typically discounted 50-70 percent for the first year, which enables participants to pay off any debts and stabilize their finances again.

Q

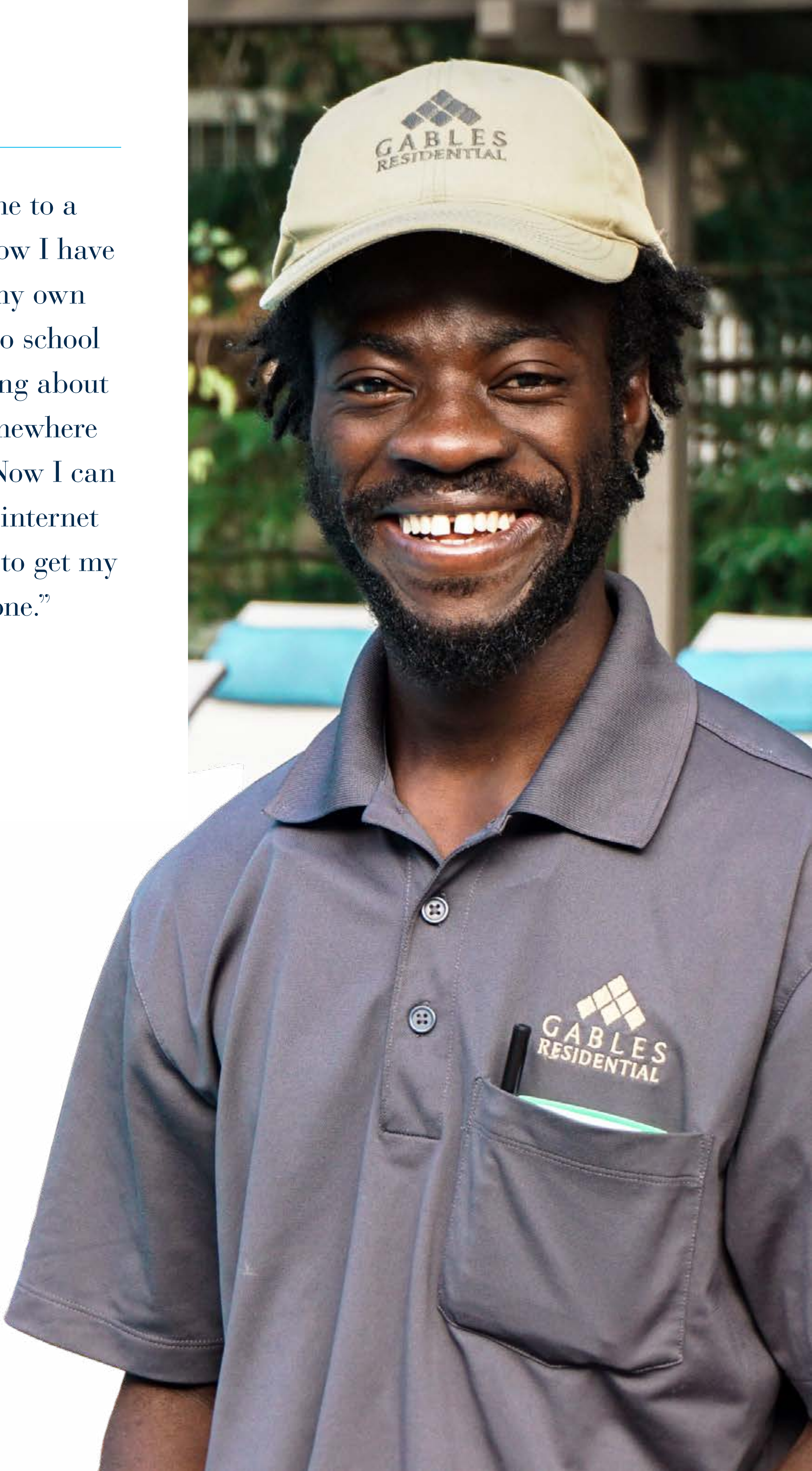
How have you seen Shelters to Shutters make a difference?

A

There are so many individual success stories! You can read some of them on our **website**. There's one in particular that inspires me. Moma from Atlanta was living in his car, going to school and working at McDonald's so he could use McDonald's Wi-Fi to do his homework. Through Shelters to Shutters, he was hired by a multifamily company, acquired skills in building maintenance, and has been there for over a year. He's been promoted and his life has taken a totally different trajectory.

"S2S catapulted me to a whole other level. Now I have a stable job and my own apartment. I can do school now without stressing about having to park somewhere safe so I can sleep. Now I can go home and have internet service in my house to get my assignments done."

Moma



Q ***Talk about some of the top highlights and milestones since you became CEO.***

A We created an ongoing series of hiring events in our core cities of Atlanta, Charlotte, Houston, Nashville, and Washington, D.C., which have been a very effective way to get participants placed en masse. We invite industry partners, have them meet potential employees, and then watch the magic happen. Also at these events, we work with participants to refine their resumes and hone their interviewing skills. When one participant received this on-site support, he got five offers on the spot and free housing for the length of his employment.

With COVID-19, we had to quickly pivot to virtual events. We've also been helping participants get comfortable doing Zoom interviews and create "video cover letters" to accompany their resumes. Here they spend 30-45 seconds introducing themselves and talking about their skills and why they'd be a great fit for a certain position. This has been a great way to differentiate our candidates from the dozens, sometimes hundreds of resumes an employer receives for a job opening.

Q ***What are some of the top challenges you're facing now?***

A One of our biggest challenges right now is growing our network of industry partners. There is a lot of stress for multifamily owners and operators right now because of COVID-19 and the related economic impacts, such as unemployment and residents struggling with rent. All of this affects a property's bottom line. We've been trying to combat these challenges by talking to our industry partners about the long-term picture. With Shelters to Shutters, they can help their communities address the complex issue of situational homelessness while finding great employees for maintenance, leasing, groundskeeping, and beyond.

Q ***What's ahead?***

A We want to expand our job fair into more of a hiring expo and provide more services at these events, like legal aid, wellness services, even registered nurses doing things like blood pressure checks. There is a lot of room for growth, and I'm excited for the even greater impact we can make as an organization.

Find more information at www.shelterstoshutters.org or email Andy at andrew.helmer@shelterstoshutters.org.

SPOTLIGHT ON D.C.

FOCUS ON WASHINGTON, D.C.

The Washington metropolitan area, colloquially known as the "DMV" region, has been a perennial favorite for multifamily capital, particularly pension funds, life companies, family offices, and other institutional investors and is often regarded as 'recession-proof'.

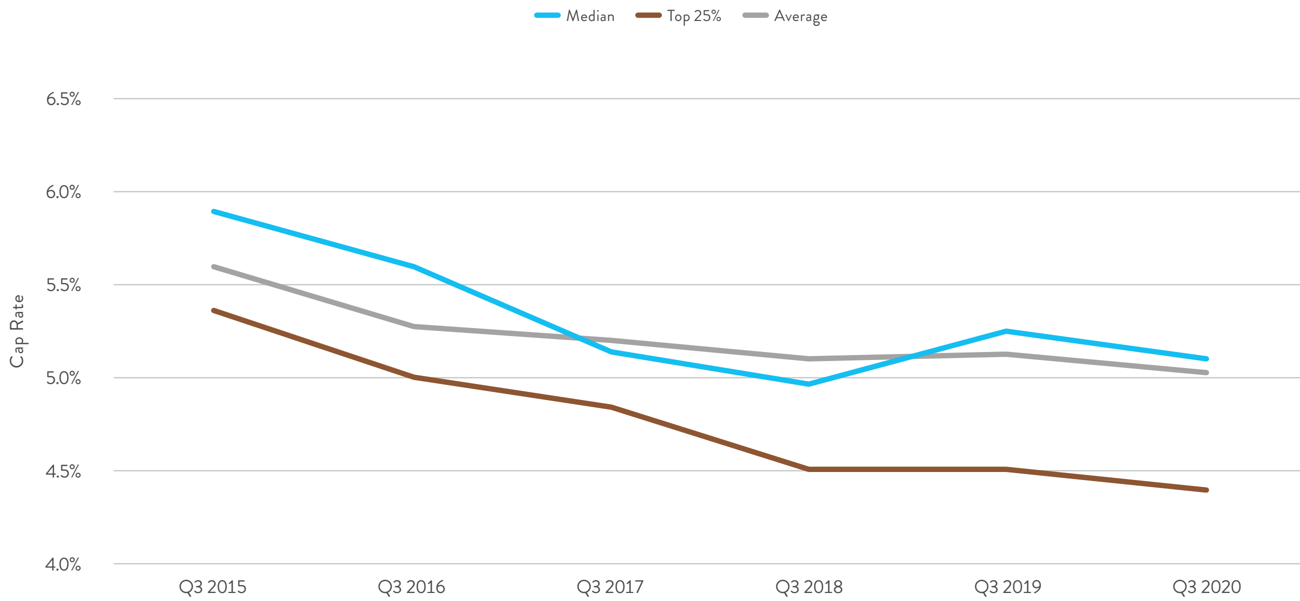
"There's no shortage of capital pursuing multifamily assets in D.C. Whether it's the Metro expansion, Opportunity Zones or Amazon's HQ2, the job and population growth make D.C. and the surrounding areas not only a strong market for local investors, but large pension funds, institutional money and overseas investors," REBusinessOnline wrote at the end of 2019.

As we all know, 2020 has been a year like no other. What impact has COVID-19 and recent economic turmoil had on this market's luster, and what do the prospects look like for investors, owners, and operators in the long term?

Pike 3400 // Arlington, VA

PANDEMIC CAUSES A DECREASE IN CAP RATES

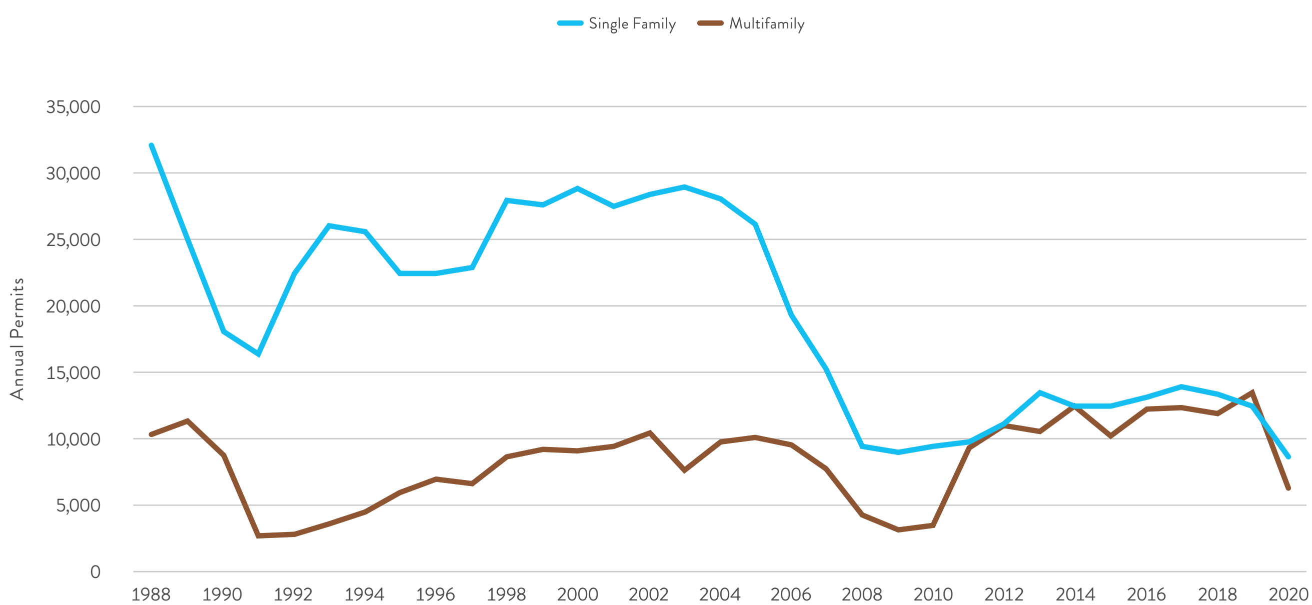
Historic Cap Rates



Source: Real Capital Analytics; WDIS

THE GAP CLOSES BETWEEN SINGLE AND MULTIFAMILY PERMITS ISSUED

Historic Annual Permitting



Source: RealPage; WDIS

AN ECONOMY BUFFERED BY GOVERNMENT AND TECHNOLOGY

From the initial shutdowns in March to the continued uncertainty of today, cities with heavy representation in retail, tourism, and service sectors have experienced significant economic repercussions from COVID-19. In Washington, D.C., by contrast, having the federal government as the city's largest employer has served as a major buffer. D.C. experienced a particularly acute government-mandated economic shutdown from March – May. To illustrate, while payroll performance in the District of Columbia's leisure and hospitality sector declined nearly 60 percent from May 2019 to May 2020, jobs in this sector account for less than 5 percent of the city's workforce. Jobs in government, which actually increased slightly from May to May, account for roughly one-third of the District's workforce. Stabilized vacancy rates have approached 7 percent and asking rents have dropped in that same time period. However, the D.C. Metro's response to the crisis has been one of the most robust, with local economy currently 90 percent + open for business and no signs of a dip back into lockdown.

In addition to dozens of federal agencies and departments, the greater metropolitan area is home to private sector employers like Fortune 500-ranked Capital One Financial and Freddie Mac, defense contracting giants like Lockheed Martin, global consulting firms like Booz Allen Hamilton and Deloitte, and, of course, the four million square feet of Amazon's much-coveted, energy efficient HQ2, expected to employ over 25,000 people.

Workers in the metropolitan area also tend to be well compensated. In 2019, Loudoun, Fairfax, Howard, and Arlington counties and the Virginia city of Falls Church reported the nation's highest median household incomes, with Loudoun topping the list with a median household income of $129,588. As unemployed workers struggle to make ends meet, the metropolitan region's well-compensated, white-collar professionals—many of whom were able to continue business as usual from remote offices—keep paying their bills.

SHORT-TERM SPEED BUMPS, HISTORICAL STEADINESS

Vacancy rates for properties that have been open for leasing at least a year remain low, peaking at just over 6 percent earlier in the year. That being said, bolstered by diversified job growth, the market has a substantial supply pipeline with 12,000 units already delivered in the past 12-months and another 31,000 under construction, which will increase inventory by another 6 percent. That's the third largest pipeline in the country.

However, the luxury apartments in the area have been influenced by the pandemic-induced slowdown, with the average rent of a luxury, Class A, D.C. apartment falling from $2,649 a month in June 2019 to $2,561 a month in June 2020.

As the pandemic turns the corner into its eighth month, D.C. residents put a significant amount of value into where they live. Pet friendly, light, bright, airy open spaces have become the preferred living situation and renters and homeowners are putting more stock into 'the home' itself rather than the location. As the world continues to shelter in place, residences that can support a 'work from home strategy' while offering an improved quality of life

are in favor. The median home price of D.C. rowhomes exceeded $800,000 in July, and the value of homes in the region are 13 percent above July of 2019. Meanwhile, D.C. still retains its status as the forefront of the national apartment market. Renters by choice are opting to spend more time at home than ever before. Where Metro-served locations were once the favored assets, properties that prioritize open spaces, outdoor areas, a keen focus on indoor air quality, and expanded living spaces with a sense of place are now strongly in favor. Washington, D.C. is a consistent 'safe-haven market' and historically thrives during downturns relative to the rest of the country. This is due to the strength of the federal government employers and contractors and the expansion of the federal budget shows no signs of slowing down.

Manageable risk, with low volatility and a focus on the long game, is a hallmark of the Washington, D.C. market. Cap rates have remained at 5.7 percent–5.8 percent over the past five years. "At the beginning of the year, secondary and tertiary markets were picking up yield with their shorter commutes, lower taxes, and costs of living. Steadiness wasn't as big of a selling point," said Walker & Dunlop Director Nicole Brickhouse. "Now investors are rediscovering its appeal." While investors took a break in the second quarter to ascertain the impact of the pandemic, sales began increasing early in the third quarter, albeit some with income guarantees.

AFFORDABLE HOUSING IS MORE ACTIVE THAN EVER

According to an analysis by the Metropolitan Washington Council of Governments, the metro area needs 320,000 housing units by 2030—and these units need to be in price ranges residents can afford. "Even at higher income levels, many renters are paying more than 30 percent of their income on housing, and some find homeownership out of reach," according to the Urban Institute. "Lower-income residents, meanwhile, are getting further priced out of the market."

Fortunately, affordable housing remains active in Washington, D.C. Much of this is due to Mayor Muriel Bowser, who has a six-pronged strategy for affordable housing in the District of Columbia and set a goal of 36,000 new units by 2025, with 75 percent for middle and low-income families. Also providing vital support are the many programs of Fannie Mae, Freddie Mac, and the Federal Housing Finance Agency (FHFA).

"These agencies were designed to provide liquidity in a crisis like this, and they're delivering on their promise," said Walker & Dunlop Director Colin Coleman. On April 30, Walker & Dunlop closed on a $2.4 billion Fannie Mae Credit Facility to refinance 67 multifamily properties in the Washington, D.C. area, the largest facility in Fannie Mae's history. The portfolio of the borrower, Southern Management Corporation, includes 22,439 units total, over 60 percent which qualify as mission-driven affordable housing under FHFA guidelines.

Affordable housing is being financed in a variety of neighborhoods, including those making headlines for mixed use/Class A development. One example is 1550 First Street. Future residents will live close to the new soccer and baseball stadiums, the Waterfront and Navy Yard Metro stations, and new luxury developments like the RiverPoint.

HOT NEIGHBORHOODS OLD AND NEW

The region's biggest story for new development, of course, has been National Landing neighborhood, home to Amazon HQ2, the Virginia Tech Innovation Campus, over 50,000 jobs, and over 15,000 residential units with another 6,800 in the development pipeline.

As COVID-19 lockdowns spur renters to crave more living space and outdoor space, keep an eye on suburban submarkets with access to public transportation, such as Dunn Loring-Merrifield in Virginia and Largo in Maryland. Meanwhile, big marquee projects remain a Washington, D.C. staple. The Wharf at the Navy Yard/Waterfront, for example, is entering Phase 2 of development, with 255 apartments, 95,000 square foot retail, 549,000 square feet of office space underway.

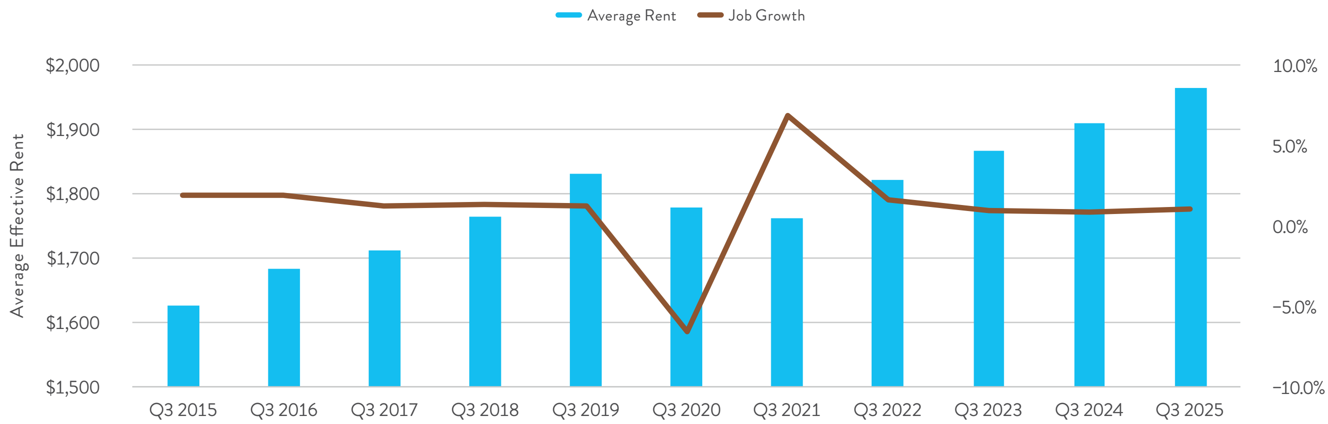
"Suburban value-add and infill core plus opportunities continue to generate the most interest from buyers," said Walker & Dunlop Director, Will Harvey. "Activity remains strong given the current rate environment and as soon as rent growth increases, owners will recapture their pricing power."

Windsor at Arbors // Alexandria, VA


The Myrtles // Portsmouth, VA

THE DANCE BETWEEN RENT AND JOB GROWTH

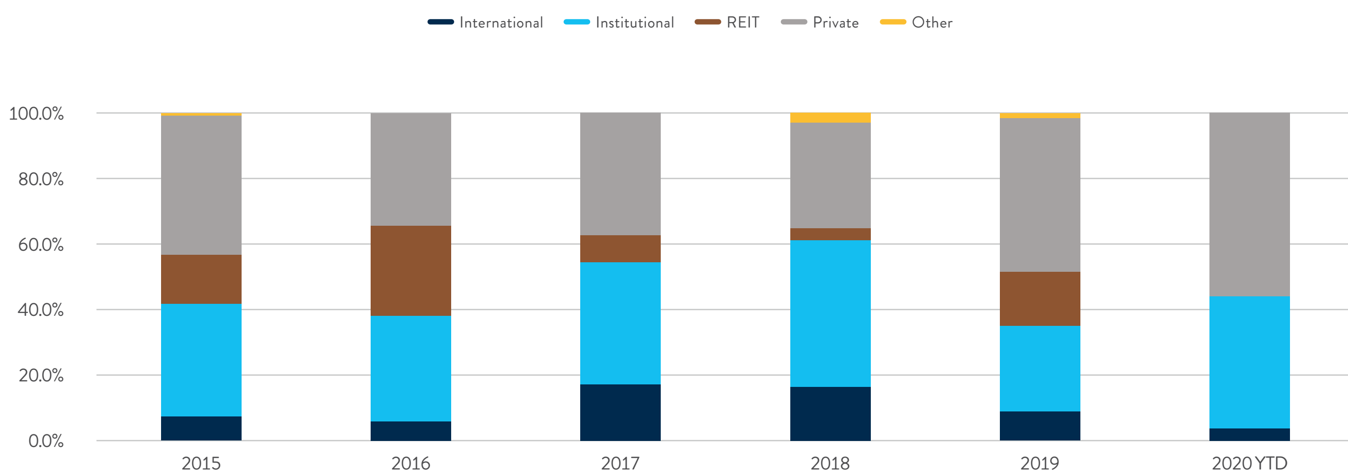
Average Rent vs. Job Growth



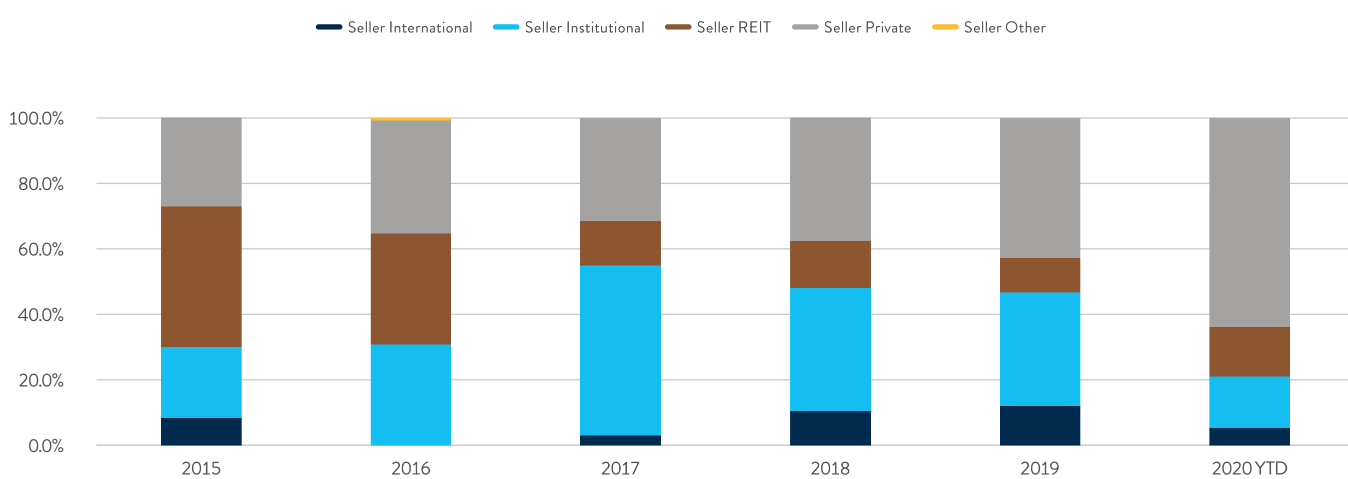
Source: RealPage; WDIS

INCREASE IN INSTITUTIONAL AND PRIVATE INVESTORS IN THE DMV

Buyer Type



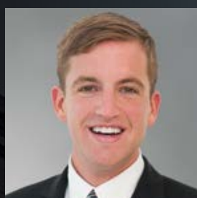
Seller Type



Source: Real Capital Analytics; WDIS

MEET THE CONTRIBUTORS

CONTRIBUTORS



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On *diversity* & INCLUSION

Q&A WITH JASON GOLUB

Jason Golub brings a multifaceted background to his new position as Walker & Dunlop's Vice President of Diversity, Equity, and Inclusion. He was a senior leader in GE's legal department, where he focused on high-risk investigations, workplace culture, training and compliance, and served for five years as a senior member of the company's Diversity & Inclusion Council. Earlier this year, he was appointed chair of the Police Reform and Re-imagination Task Force in Saratoga Springs, NY, a task force mandated by New York Governor Andrew Cuomo aimed at police reform and reducing racial inequality.

Q *Why is D&I so important in business—and why isn't progress where it needs to be?*

A Let's start with some definitions: The backgrounds and perspectives of your employees are diversity. Creating the environment and culture that unlocks that lens and allows employees to bring their full selves to work and thrive is inclusion. Together, they are one of the single most important drivers of innovation and growth. The inclusion of diverse experiences and backgrounds provides a missing perspective when you're trying to solve complex client problems or looking for opportunities to innovate. More and more clients are demanding this diverse thinking and want teams working on their problems who reflect the community at large.

In D&I, everyone says the right things—no one says "We're not committed" or "We don't care"—yet too often the promise of D&I in corporate America goes unrealized. Companies see it as separate from the business rather than part of the business. This often leads to D&I not being built into the culture of doing business and viewed as a nice-to-have. Companies often don't approach it with the same rigor as their business strategies, resulting in D&I activities, training, and communications that aren't operationalized into the business. It's all well meaning but often not impactful long-term. There needs to be a more rigorous approach to implementing a long-term D&I strategy.

You need to start by understanding where you are as a company. Once you conduct that qualitative and quantitative analysis, you can use that baseline to identify problems, goals, and strategies aligned with a long-term view of where you want to go. Without that, it's hard to see if there's traction being made or if you're actually solving the problems within your organization. Once that strategy is built out, organizations need to build accountability and transparency into their commitment, as you would in any other area of your business.

Finally, I think it's important for companies to rethink and reframe culture. Many companies believe they have a strong culture and often begin with the question — "does someone fit into our culture?" When building and growing your team this is a narrowing approach. Instead I encourage people to instead ask, "how does this person add to our culture"? It's a more inclusive way at prioritizing culture while leaving room for people to bring their full selves to the team.

Q *Talk about what Walker & Dunlop is doing to foster diversity within the company and industry.*

A Right now, we're conducting two separate culture and equity audits to get a baseline understanding of where we are as an organization as well as building out our data analytics capabilities. The audits and data will provide us a foundation for making measurable, sustainable progress toward our D&I goals, like nearly doubling female and minority representation in management positions and top company earners by 2025.

Partnerships are another part of our D&I strategy. For example, we are participating with Management Leadership for Tomorrow, whose CEO John Rice has served on Walker & Dunlop's board of directors since 2010, on an innovative new Black Equity at Work Certification program. We are also partnered with organizations such as Kahilla and the Crew Network that provide external leadership, growth, and community opportunities to our female leaders." Across the board we are looking at partnerships that will expand the opportunities for all our diverse employees to grow professionally.

We're also growing organizational partnerships to develop a more diverse talent pipeline at all levels of the company. Our goal is to expose more and more talented people to the commercial real estate industry and that requires partnerships, innovation, and patience. At times, the commercial real estate industry can feel like the professional equivalent of rowing—very insular, with not a lot of people exposed to, or even aware of it. We aim to change that.

For example, we're working with Historically Black Colleges and Universities and their real estate programs to expose their students to commercial real estate and our business. We're working with organizations like Seize Every Opportunity (SEO) and Project Destined on paid summer internships for college students from diverse backgrounds. Students work with leading commercial real estate firms on live transactions and get hands-on experience with technologies like REIRail, a real estate lead generation and business education platform, and the solutions developed by REPLI, which provides software to the owners of multifamily properties.

Throughout, we're looking to innovate and learn from others who have innovated in the D&I space. We are not satisfied with running the same plays as before hoping to get a different result. We're having conversations with peers and clients. We're evaluating partnerships with underserved communities and developing potential new go-to-market strategies and businesses. We're looking at understanding how we can help remove obstacles and unlock the potential of individuals and communities across our business. It all goes back to driving business innovation, harnessing the unique power of all our employee's experiences, and looking through a different lens to solve our clients problems.

Q ***What led you to join Walker & Dunlop?***

A I wanted to align with a company that was both committed to moving the D&I needle and changing the conversation. When I was introduced to Willy and the leadership team, I got the sense that Walker & Dunlop wasn't looking to participate in performative D&I—saying the right things but not committed to long-term systemic change when the press releases and interviews stop.

At Walker & Dunlop, I saw a senior management team with a real commitment to leading by example in a transparent and accountable way. It won't always be perfect, and it will take patience and commitment to implement our vision, but I am confident in our direction and ability to be the industry leader.

Q ***How can employees in any position contribute to a more diverse and inclusive culture?***

A My advice is to start small and be open. D&I can be very overwhelming as a topic, fraught with pitfalls, emotions and concerns about saying or doing the wrong thing. People don't want to say the wrong things or offend anyone, so instead they sit on the sidelines. That isn't the answer.

I encourage diving in with honest conversations, by asking "How can I help? What can I do?" Create safe spaces for conversations.

There are little things you can do to move the needle that won't be overwhelming. For example, create safe spaces for conversations. Ask questions you think are dumb but may open the lines of communications. Be wildly open to perspectives other than your own, even if it feels uncomfortable at first. Over time this is how you build an inclusive environment where everyone feels that their opinion and their way of being is valued.

Allyship is a verb, an act of doing anything in support of diversity. It doesn't have to be a grand step, but it needs to be a step forward. Even the smallest steps are valued.

Overall, be patient and take a long-term approach, like you would in any other element of business. This isn't something that is going to change overnight either internally or in our industry. It may take years to see the full impact. But the more we have external partnerships within the industry and work with clients on innovation, the more D&I will positively impact our business and become part of our culture and who we are.

CONCLUSION

As the economic landscape shifts, our team will be closely monitoring the performance of the multifamily market. Please visit our **Driven By Insight** hub to remain up-to-date on our latest reports, commentary, and analysis.

ABOUT WALKER & DUNLOP

Walker & Dunlop is one of the largest commercial real estate finance companies in the United States. The company provides a comprehensive range of capital solutions for all commercial real estate asset classes, as well as investment sales brokerage services to owners of multifamily properties. Walker & Dunlop is included on the S&P SmallCap 600 Index and was ranked as one of FORTUNE Magazine's Fastest Growing Companies in 2014, 2017, and 2018. Walker & Dunlop's 950+ professionals in 41 offices across the nation have an unyielding commitment to client satisfaction.

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