Yardi Matrix
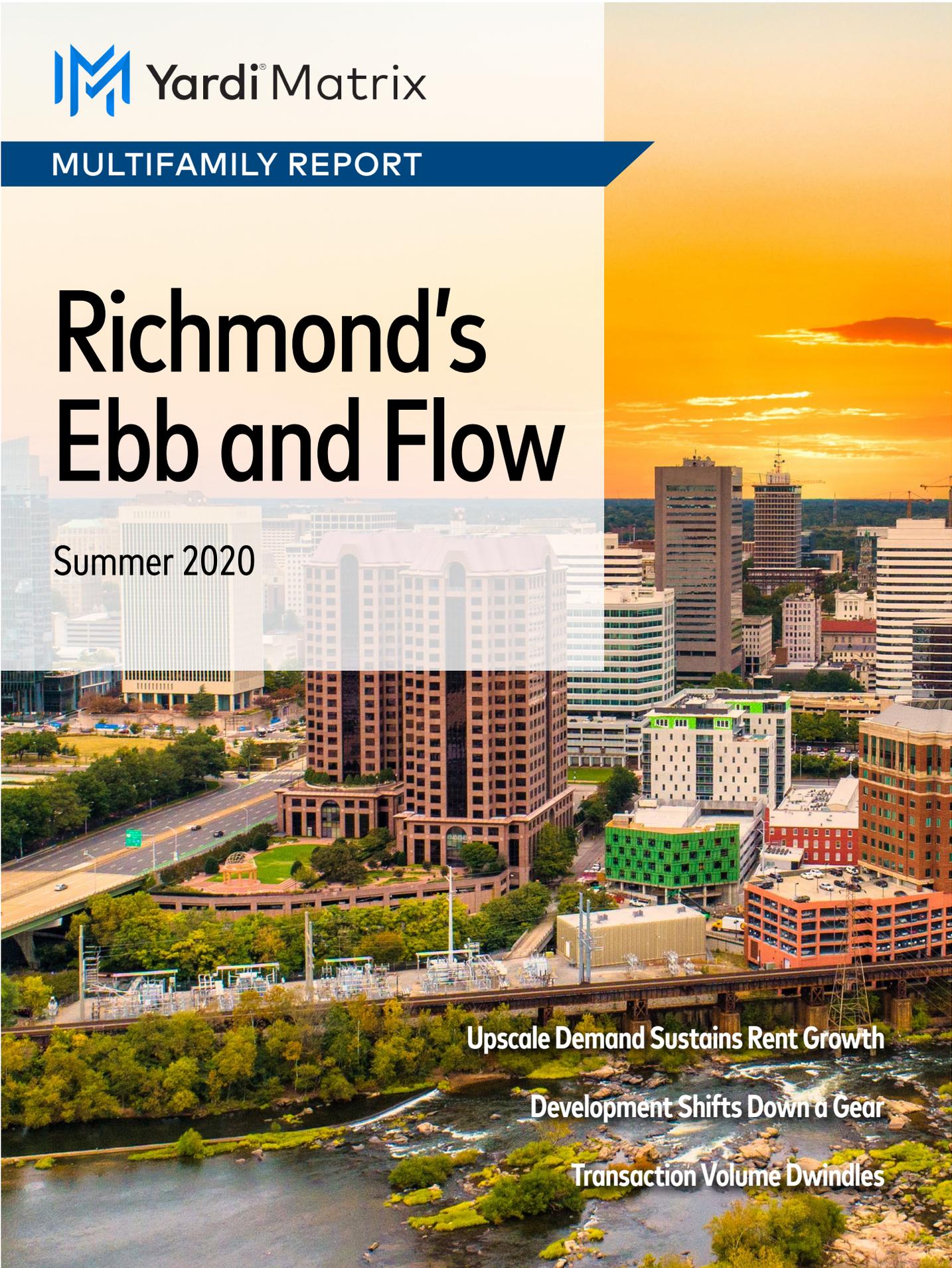
Richmond's Ebb and Flow

Summer 2020

Upscale Demand Sustains Rent Growth

Development Shifts Down a Gear

Transaction Volume Dwindles

Yardi Matrix

Low Inventory Keeps Rent Growth Positive

Despite the coronavirus pandemic, steady fundamentals kept the multifamily market relatively healthy in the Richmond-Hampton Roads area during the first five months of 2020. Rent growth remained encouraging, boosted by low inventory and steady upscale demand. The average rent rose 0.1% on a trailing three-month basis through May to $1,127. The national average slid 0.2% to $1,460 during the same period.

With government and professional and business services as its largest employment sectors, Richmond is relatively well prepared to weather COVID-19's impact. Nonetheless, five employment sectors contracted on a year-over-year basis through March, with education and health services registering the most job losses. Yet local firm Phlow Corp. received a four-year, $354 million contract to manufacture pharmaceutical ingredients needed to treat the virus. Other research companies and the Virginia Commonwealth University are working to develop antibody tests.

Following 2019's $1.4 billion cycle peak in multifamily deals, sales nearly stalled after the COVID-19 crisis reached the U.S. Just $189 million in apartments traded in the first five months of 2020 for a per-unit price that slid 8.4% to $103,530. Although construction was deemed an essential service, developers brought only 207 units online and had another 7,607 units underway as of May.

Market Analysis | Summer 2020

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Recent Richmond Transactions

Regency at Longhill

City: Williamsburg, Va.
Buyer: Seminole Trail Properties
Purchase Price: $26 MM
Price per Unit: $117,188

Banbury Lake Village

City: Virginia Beach, Va.
Buyer: Sierra Assets
Purchase Price: $20 MM
Price per Unit: $105,615

Kingstowne

City: Newport News, Va.
Buyer: Grasshopper Capital
Purchase Price: $12 MM
Price per Unit: $31,738

Marina Point

City: Chesapeake, Va.
Buyer: Pinto Capital Investments
Purchase Price: $9 MM
Price per Unit: $88,942

RENT TRENDS

➤ Bucking the national trend, Richmond rents rose 0.1% to $1,127 on a trailing three-month (T3) basis through May. Meanwhile, the U.S. average registered a 20-basis point downtick to $1,460.

➤ Growth was sustained by the Lifestyle segment, which posted T3 rent gains of 0.4% to an average of $1,351. Meanwhile, working-class Renter-by-Necessity rents dropped 10 basis points to $1,011.

➤ A concentration of office-using jobs, especially in the professional and business services sector, which accounts for 15.5% of the metro's employment, has favored multifamily fundamentals. As such, a substantial segment of renters was not heavily affected by Gov. Ralph Northam's stay-at-home order, which expired on June 10.

➤ To offset some of COVID-19's impact on the local economy, Virginia has enacted some tenant protections. After a brief hiatus, the state's Supreme Court extended the moratorium on hearings, evictions and mortgage foreclosures through June 28.

➤ The Chesapeake South and Virginia Beach submarkets recorded the strongest rent performance in the 12 months ending in May, up 6.9% to $1,402 and 6.1% to $1,316, respectively. At the other end, Midlothian rents were down 3.7% to $1,260.

Richmond vs. National Rent Growth (Trailing 3 Months)
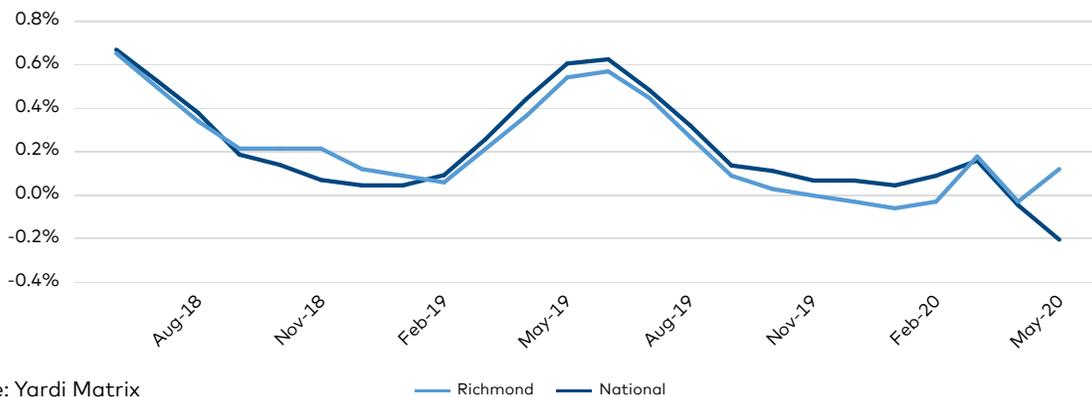
Source: Yardi Matrix — Richmond — National

Richmond Rent Growth by Asset Class (Trailing 3 Months)

Source: Yardi Matrix — Renter-by-Necessity — Lifestyle
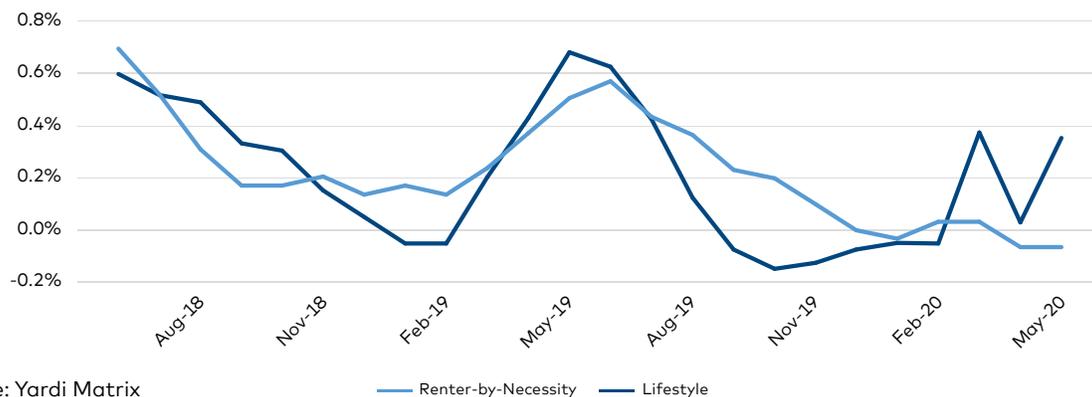
ECONOMIC SNAPSHOT

➤ Initial unemployment claims filed in Virginia in the first three months of the outbreak surpassed 800,000. More than $3.8 billion has been distributed to people who lost jobs during this time.

➤ The metro's year-over-year employment growth rate has been on a decelerating path since early 2019, down to 0.5% as of March. Yet, Richmond is relatively well equipped to weather the effects of the health crisis. Of the country's 50 largest metros, Richmond ranks within the top 10 for durable jobs, which we define as positions in the government, finance, and professional and technical services sectors. The three sectors combined account for nearly one-third of the city's

workforce. This is also reflected in the area's unemployment rate, which clocked in at 11.3% as of April for Richmond and at 12.1% for Hampton Roads; both figures closed below the 14.7% national rate.

➤ In May, the Trump administration signed a four-year, $354 million contract with Richmond-based Phlow Corp. to manufacture medicines and pharmaceutical ingredients needed to treat the virus. Meanwhile, the $1.5 billion Navy Hill redevelopment project was voted down earlier this year and a new request for proposal is open to bidders. The $3.8 billion Hampton Roads Bridge-Tunnel expansion is also moving forward.

Richmond Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
55	Financial Activities	94	6.4%
15	Mining, Logging and Construction	80	5.4%
40	Trade, Transportation and Utilities	250	17.0%
80	Other Services	69	4.7%
30	Manufacturing	90	6.1%
50	Information	17	1.2%
90	Government	275	18.7%
60	Professional and Business Services	228	15.5%
70	Leisure and Hospitality	154	10.5%
65	Education and Health Services	214	14.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

➤ Richmond gained 9,428 residents in 2019—up 0.7% and more than double the 0.3% national rate.

➤ The metro's demographics reflect a slight deceleration trend, with an annual growth 30 basis points below the 2018 figure.

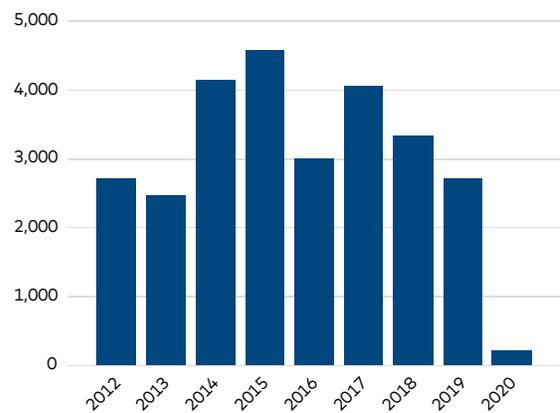### Richmond vs. National Population

|	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Richmond Metro	1,281,314	1,292,911	1,306,172	1,315,600

Sources: U.S. Census, Moody's Analytics

➤ Richmond's pipeline had more than 7,600 units under construction as of May, of which more than 5,200 were slated for completion by the end of the year. However, accounting for delays brought by supply chain disruptions and a shortage of skilled workers, the number of completions will most likely be lower, with projects facing delays.

➤ Despite sustained population growth that maintained healthy rental demand, completions in the Richmond-Hampton Roads area lagged overall, with the yearly average since 2012 at 3,300 units. Development remained tepid this year too, even though construction was deemed an essential service following the coronavirus outbreak. Only 207 units came online in the first five months of the year. This represented a mere 0.1% of the metro's total stock, trailing the 0.7% national rate.

➤ As of May, developers were most active in Richmond-Manchester, where 1,086 units were underway, and in Williamsburg-North, where 761 units were under construction across three projects. All units are geared to the Lifestyle segment.

➤ The largest project under construction as of May was Scott's View, a 345-unit project in the Scott's Addition submarket, developed by Main Street Realty. The project came online with the help of a $40 million construction loan held by M&T Bank and is slated for full completion this summer.

Richmond Completions (as of May 2020)

Source: Yardi Matrix

**Richmond vs. National Completions as a Percentage of Total Stock** (as of May 2020)
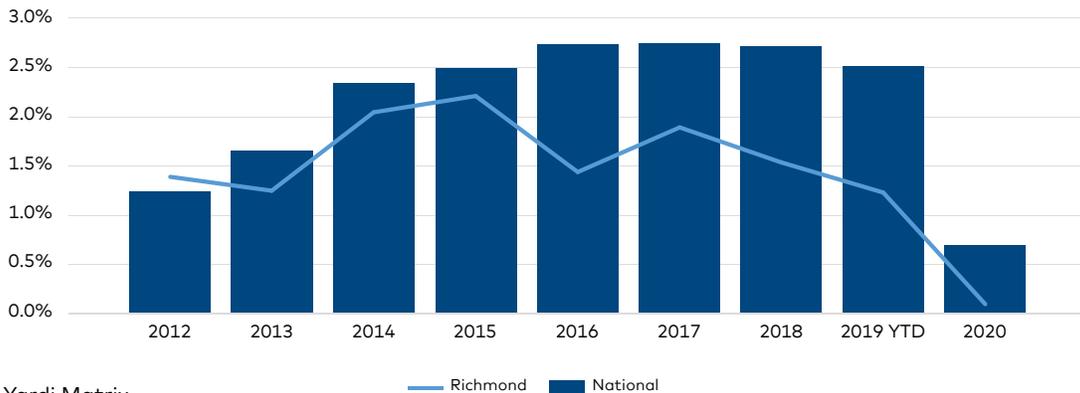
Source: Yardi Matrix

TRANSACTIONS

➤ The area's investment appeal steadily rose during the past cycle, visible in the rising volume of multifamily deals which culminated in a total of $1.4 billion last year.

➤ Yet, COVID-19's impact has been swift. In the first five months of 2020, only $189 million in assets traded, all in the first quarter. This marked a 67% drop in volume relative to last year, and tepid activity is expected to continue until price discovery settles back in.

➤ Of the 14 properties that traded in 2020 through May, two-thirds were RBN assets, which pushed down the per-unit price slightly, to $103,530.

➤ The largest deal through May was Hamilton Zanze's acquisition of Indigo 19 in January. The company paid $41.5 million for the 196-unit Virginia Beach asset, using a $32 million Freddie Mac loan. Spy Rock Real Estate Group was the seller of the 2014-completed asset.

Richmond Sales Volume and Number of Properties Sold (as of May 2020)
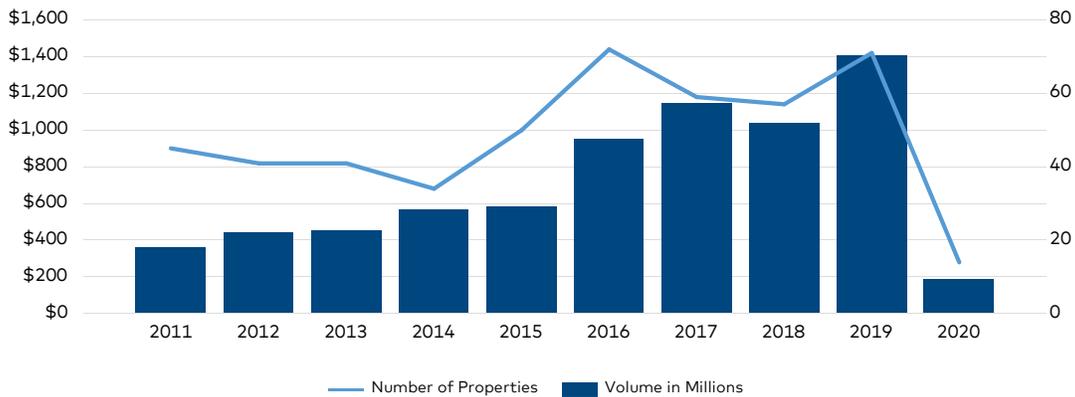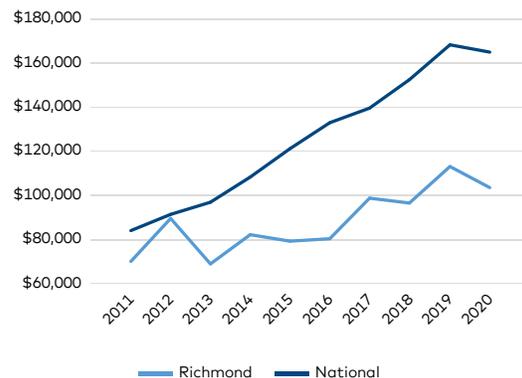

Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

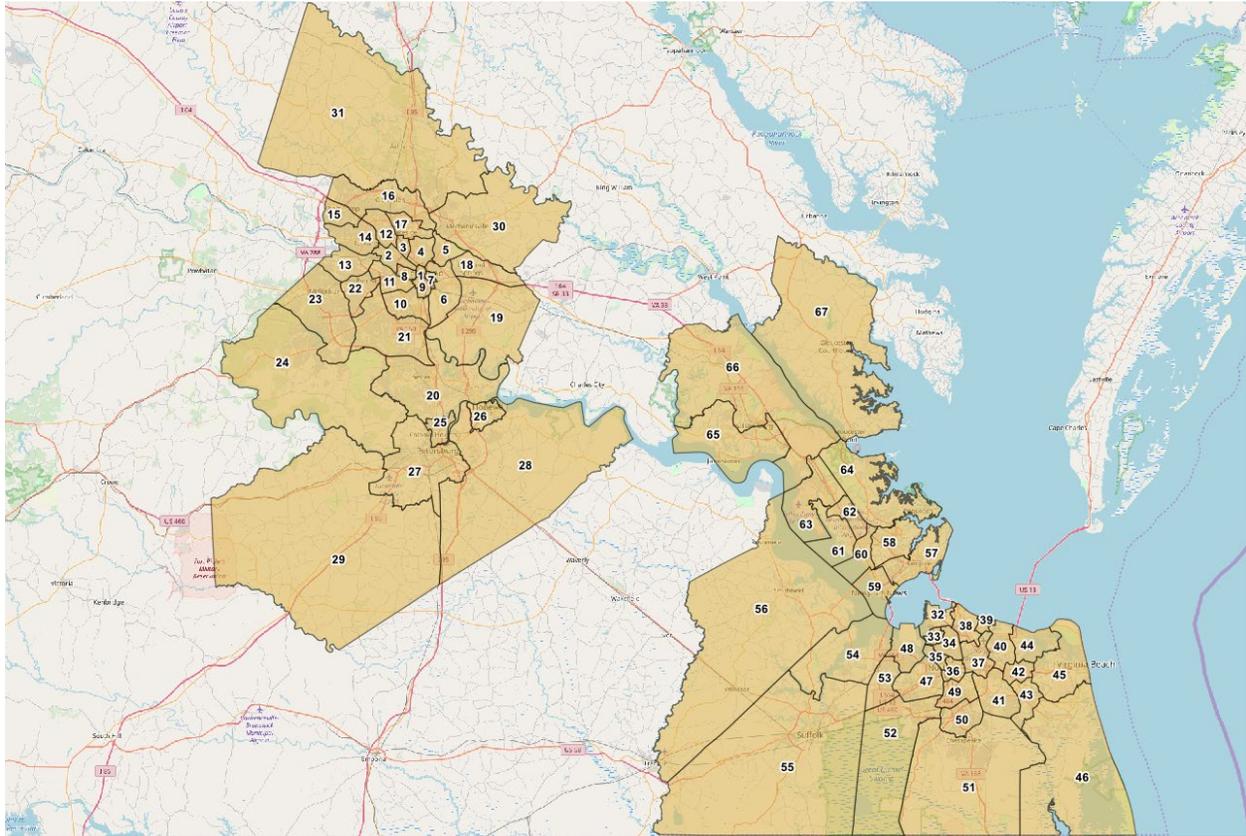| Submarket	Volume ($MM)
Newport News–Central	149
Virginia Beach–Northeast	140
Richmond–West End	68
Three Chopt	63
Hampton–North	62
Virginia Beach–Northwest	61
Portsmouth–Central	45

Source: Yardi Matrix
[1] From June 2019 to May 2020

Richmond vs. National Sales Price per Unit

Source: Yardi Matrix

RICHMOND SUBMARKETS

Area No.	Submarket
1	Richmond–City Center
2	Richmond–Fan District
3	Richmond–Scott's Addition
4	Richmond–North Side
5	Richmond–East Highland Park
6	Richmond–East End
7	Richmond–Church Hill
8	Richmond–Randolph
9	Richmond–Manchester
10	Richmond–South
11	Richmond–West
12	Richmond–West End
13	Richmond–Stony Point
14	Tuckahoe
15	Three Chopt
16	Glen Allen
17	Lakeside
18	Highland Springs
19	Sandston–Airport
20	Chester
21	North Chesterfield
22	Bon Air
23	Midlothian

Area No.	Submarket
24	Chesterfield County
25	Colonial Heights
26	Hopewell
27	Petersburg
28	Prince George County
29	Dinwiddie County
30	Mechanicsville
31	Hanover County
32	Norfolk–Navy Base
33	Norfolk–Lochhaven
34	Norfolk–Lafayette River
35	Norfolk–Central West
36	Norfolk–Central East
37	Norfolk–Southeast
38	Norfolk–Northeast
39	Norfolk–East Beach
40	Virginia Beach–Northwest
41	Virginia Beach–West
42	Virginia Beach–Town Center
43	Virginia Beach–Central
44	Virginia Beach–Bayside
45	Virginia Beach–Northeast
46	Virginia Beach–South

Area No.	Submarket
47	Portsmouth–Central
48	Portsmouth–North
49	Chesapeake–Northeast
50	Chesapeake–Central
51	Chesapeake–South
52	Chesapeake–Deep Creek
53	Chesapeake–Northwest
54	Suffolk–North
55	Suffolk–Central
56	Isle of Wight County
57	Hampton–South
58	Hampton–North
59	Newport News–Far South
60	Newport News–South
61	Newport News–West
62	Newport News–Central
63	Newport News–North
64	Yorktown
65	Williamsburg–South
66	Williamsburg–North
67	Gloucester

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

➤ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;

➤ *Students,* who also may span a range of income capability, extending from affluent to barely getting by;

➤ *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;

➤ *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;

➤ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;

➤ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

| Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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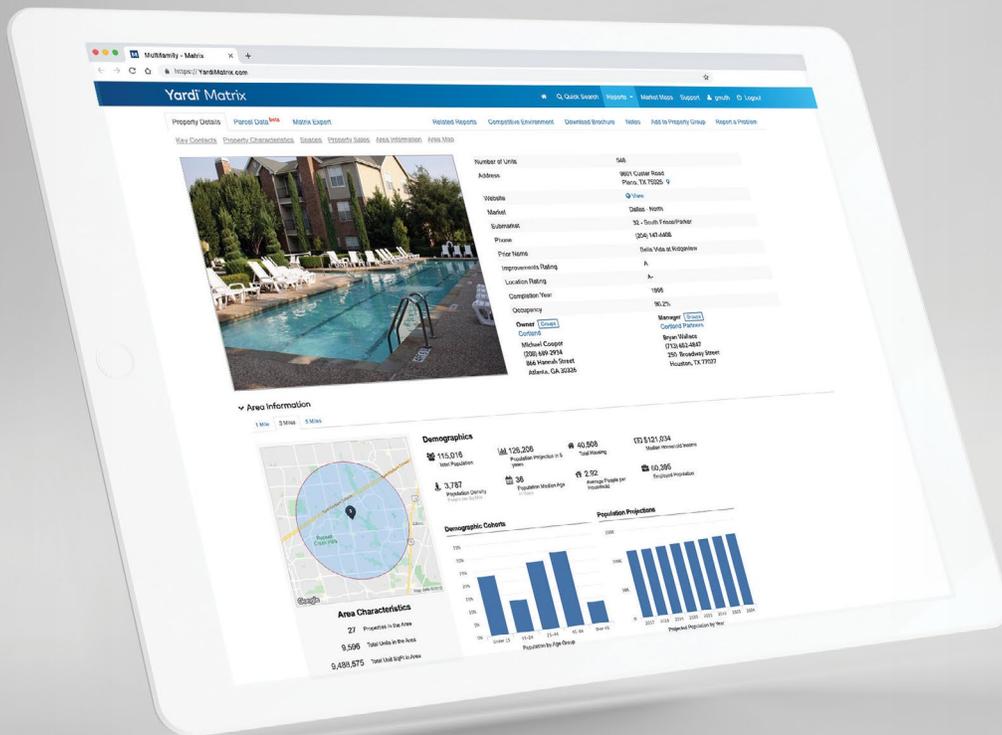
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