Yardi Matrix

MULTIFAMILY REPORT

Richmond Rebounds

Fall 2020

Investment Concentrated in Hampton Roads

Rent Growth Bucks Nationwide Trend

Deliveries Increase Significantly

RICHMOND MULTIFAMILY

Rent Growth Endures Despite Economic Woes

This year was forecast to be a strong one for Richmond's economy and multifamily market, following steady demand in 2019 and the prospect of above-average rent gains. Indeed, while fundamentals took a hit as a result of the health crisis, rents were still up 0.6% on a trailing three-month basis through September, bucking nation-wide trends. What's more, the metro's occupancy rate in stabilized assets rose 0.2% over 12 months, to 95.6% as of August.

Richmond's employment pool contracted by more than 90,000 positions in the 12 months ending in July—down 5.3%—with all sectors recording drops. While many of the national job losses reported at the beginning of the pandemic consisted of temporary layoffs and furloughs, in September, the national number of workers who permanently lost their jobs spiked to 3.8 million. That's almost twice as many as the number in April.

Almost 4,000 of the 9,578 units under development as of September are slated to reach completion as early as year-end. However, due to supply chain disruptions and economic and health factors, some projects will inevitably register delays. Meanwhile, transaction volume over the first nine months of 2020 dropped almost 75% compared to the same period last year, to $256.1 million.

Market Analysis | Fall 2020

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Recent Richmond Transactions

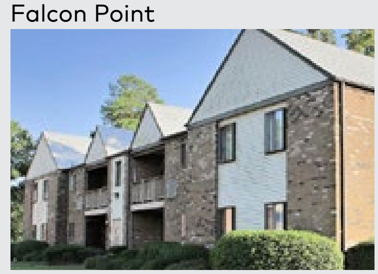
Brittany Place

City: Norfolk, Va.
Buyer: Levco Management
Purchase Price: $17 MM
Price per Unit: $114,189

Harborstone

City: Newport News, Va.
Buyer: AION Partners
Purchase Price: $16 MM
Price per Unit: $55,405

Falcon Point



City: Virginia Beach, Va.
Buyer: Seminole Trail Properties
Purchase Price: $7 MM
Price per Unit: $102,734

McGuire Park

City: Richmond, Va.
Buyer: Richmond Area Housing
Purchase Price: $5 MM
Price per Unit: $60,000

RENT TRENDS

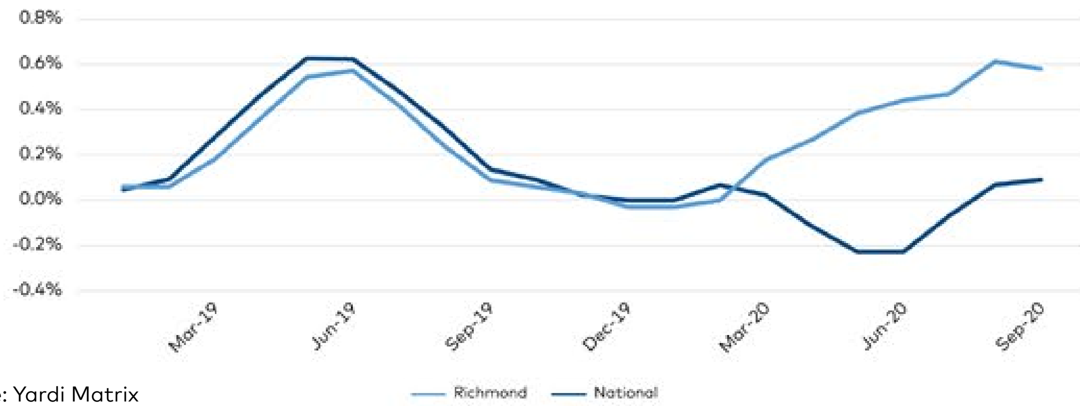
- Richmond rents rose 0.6% to $1,163 on a trailing three-month (T3) basis through September. Lifestyle rents were up 0.8% to $1,392, while working-class Renter-by-Necessity rates rose by 0.4% to $1,044. While the current downturn dented demand, the area overperformed during the second and third quarters. The U.S. average was up just 0.1% to $1,463 on a T3 basis as of September. The metro's strong gains for upscale units is also an outlier, with workforce units faring better over the summer in most U.S. markets.

- Submarkets with below-average rates and significant supply over the past two decades led rent growth. Average prices in Prince George County and Norfolk-Central East were up by 8.3% year-over-year through August, to $1,087 and $851, respectively. And in Chesapeake-Northeast, rents rose on average by 7.3%, to $1,137.

- Meanwhile, submarkets with lower rates but with virtually no significant deliveries in more than a decade saw contractions. In Highland Springs, rents were down by 5.6%, to $838. And in the Sandston-Airport submarket, prices dropped by 3.9%, to $949.

- Unemployed Virginians were approved for an additional $300 a week in benefits; payments took effect on Oct. 15. This supplemental disbursement should provide a boost for rent collections. It was initially expected to reach beneficiaries by the end of September, according to the Virginia Employment Commission.

Richmond vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Richmond Rent Growth by Asset Class (Trailing 3 Months)

Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Richmond lost 92,100 jobs in the 12 months ending in July, marking a 5.3% decrease compared to a 6.6% drop nationwide. After the end of the statewide stay-at-home order, the unemployment rate improved steadily, to 7.0% as of August, according to Bureau of Labor Statistics estimates. Meanwhile, Hampton Roads unemployment dropped to 7.4% as of August from a 12.1% peak in April.

- With the exception of the construction sector, which was flat, all employment sectors shrank in Richmond in the 12 months ending in July. As the city postponed or canceled all major events at the beginning of the pandemic, leisure and hospitality led contractions with 25,200 positions, or a 14.8% drop. For other sectors, losses ranged from 10.1% for other services to 2.7% for financial activities. Leisure and hospitality recorded the largest year-over-year drop in the Hampton Roads area, as well—down 9.7%—while construction actually recorded a 1.3% uptick.

- Even though many restrictions on businesses have been lifted, economic uncertainty lingers. In Virginia, initial jobless claims soared 15.6% from the previous week to 10,843 for the week ending Oct. 3. Meanwhile, in metro Richmond, initial unemployment claims recorded a sharper rise during the same period, up 39.3% to 1,227.

Richmond Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	80	5.7%
50	Information	16	1.1%
55	Financial Activities	91	6.5%
30	Manufacturing	87	6.2%
80	Other Services	64	4.6%
65	Education and Health Services	200	14.3%
40	Trade, Transportation and Utilities	239	17.1%
60	Professional and Business Services	220	15.8%
90	Government	251	18.0%
70	Leisure and Hospitality	146	10.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Richmond continued to add residents in 2019, gaining 9,428 people, for a 0.7% increase—more than double the U.S. rate.

- Population growth slowly but steadily decelerated following a 1.2% uptick in 2012, when the metro gained nearly 14,300 residents.

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

SUPPLY

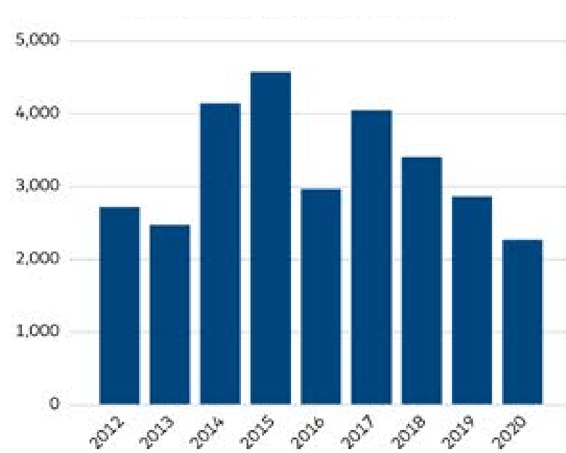
- Developers were working on a total of 9,578 units across Richmond and Hampton Roads as of September, equal to 4.2% of existing stock. Some 4,000 units underway were initially slated to reach completion as early as the end of the year. However, the health crisis and ensuing volatility is expected to bring significant delays. Additionally, more than 25,000 units were in the planning and permitting stages.

- With Virginia's stay-at-home order not affecting construction, deliveries over the first three quarters rose 26%, compared to 2019's first nine months, to a total of 2,271 units.

- Developers focused increasingly on smaller submarkets in recent years, thanks to their above-average rent growth. Development activity picked up steam in the Manchester submarket, with a total of 566 units delivered between 2017 and 2019, equal to 20% of its existing inventory. As of September, developers were working on more than 1,100 units there, topping the development pipeline.

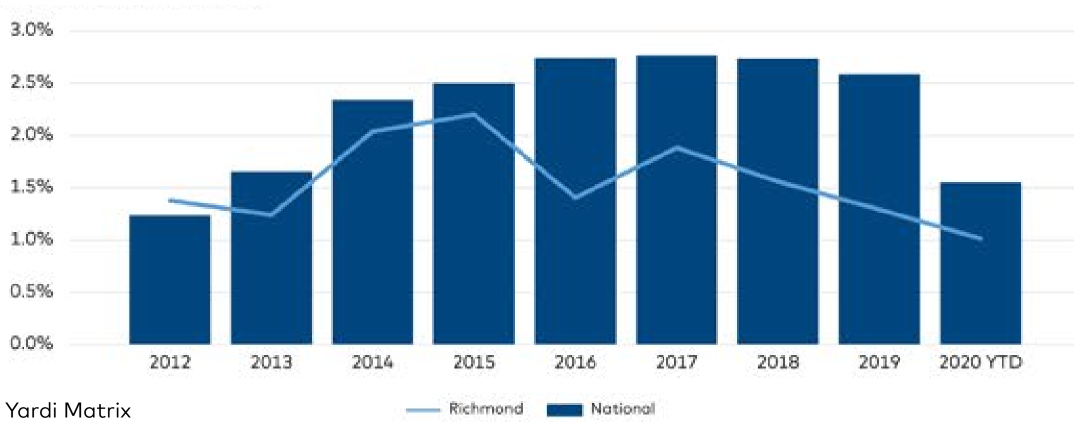
- Gumenick Properties is growing its West End footprint with the development of a 327-unit community dubbed The Wellsmith, the largest multifamily project underway in Richmond as of September. The property, which is located within an Opportunity Zone, is expected to come online by the end of next year. At full build-out, it will be one of the largest communities to reach completion in the submarket in a decade.

Richmond Completions (as of September 2020)



Source: Yardi Matrix

Richmond vs. National Completions as a Percentage of Total Stock (as of September 2020)



Source: Yardi Matrix

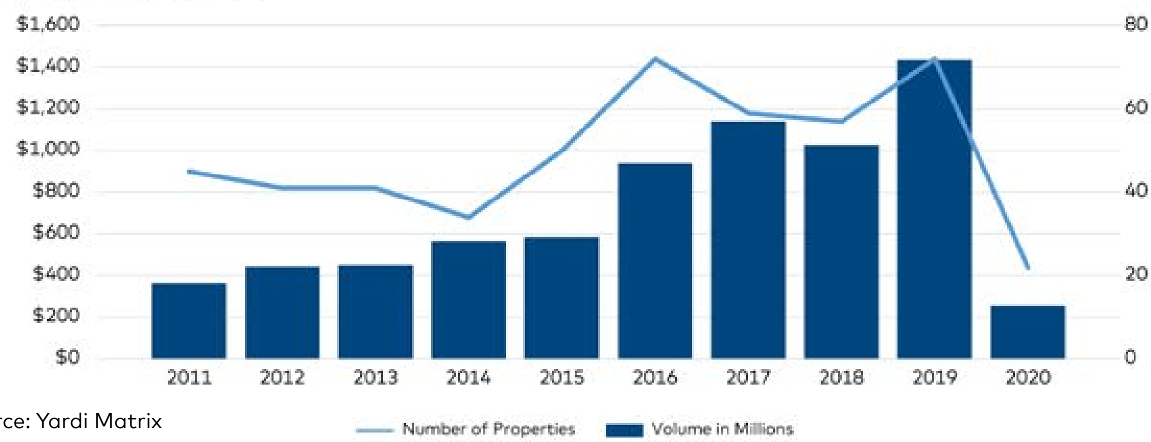
TRANSACTIONS

- Investment volume totaled $256.1 million for the first three quarters of 2020, down nearly 75% from the $1 billion recorded last year through September. This was largely in line with nationwide trends, with the vast majority of U.S. metros recording significant drops amid economic uncertainty.

- After increasing last year by 17.8% to $113,676, the metro's average per-unit price dropped 15.8% to $95,663 for the first nine months of 2020. The drop was also influenced by deal composition: Of the 22 properties that changed hands during the first nine months of the year, 16 were in the Renter-by-Necessity category, while only six were Lifestyle assets.

- Hampton Roads submarkets attracted most of the area's investment volume in the 12 months ending in September. Of the Top 10 submarkets by transaction volume, seven were located in the Hampton Roads area, two were in suburban Richmond and only one was located in the city core.

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



Source: Yardi Matrix

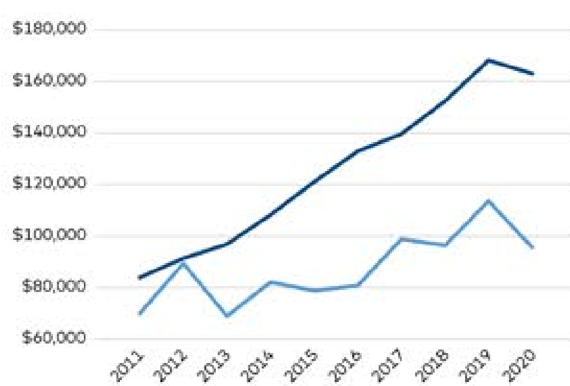
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Newport News-Central	130
Virginia Beach-Northeast	92
Three Chopt	63
Portsmouth-Central	45
Norfolk-East Beach	35
Chesapeake-Central	30
Richmond-West End	29

Source: Yardi Matrix

[1] From October 2019 to September 2020

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix

Balancing Business Needs With Safety Requirements

By Laura Calugar

With continued optimism and investor interest in the multifamily sector, Richmond, Va., has shown resilience over the past two quarters, despite COVID-19-induced disruptions. Dodson Property Management Founder & CEO Duke Dodson and Sarah Fehr, director of operations for the company's multifamily division, admit that their top priority is keeping everyone safe as the economy reopens. Here are their expectations for the metro's multifamily industry.

How has the Richmond multifamily market navigated the storm so far?

Dodson: For the most part, the Richmond multifamily market has remained fairly resilient throughout this pandemic, especially when compared to other asset classes and property types. Occupancy has remained high. Rent collection has been better than expected. Both renters and landlords have benefited from government intervention, and I expect that to be the case as we move forward.

Fehr: Though the process wasn't perfectly seamless, we have been able to flex and pivot with surprising ease. As an industry, we were actually well-positioned to weather the shutdown.

What are your biggest concerns now?

Dodson: Our biggest challenge has been to manage our portfolio to the best of our ability while focusing on the safety of our team and our residents. Our biggest concerns are continuing to keep our folks safe as the world begins to reopen.

Duke Dodson *(left)* and Sarah Fehr *(right)*

Fehr: We want to keep our teams safe, but be able to continue to provide the level of customer service our residents have come to expect from us. We also have to ensure we continue to collect rent in order for landlords to pay mortgages, taxes, insurance, utilities, etc. It is an ever-evolving situation, but one that we are carefully balancing.

What should property managers' top priorities be right now?

Dodson: Safety and working with nonprofit groups to help residents pay rent.

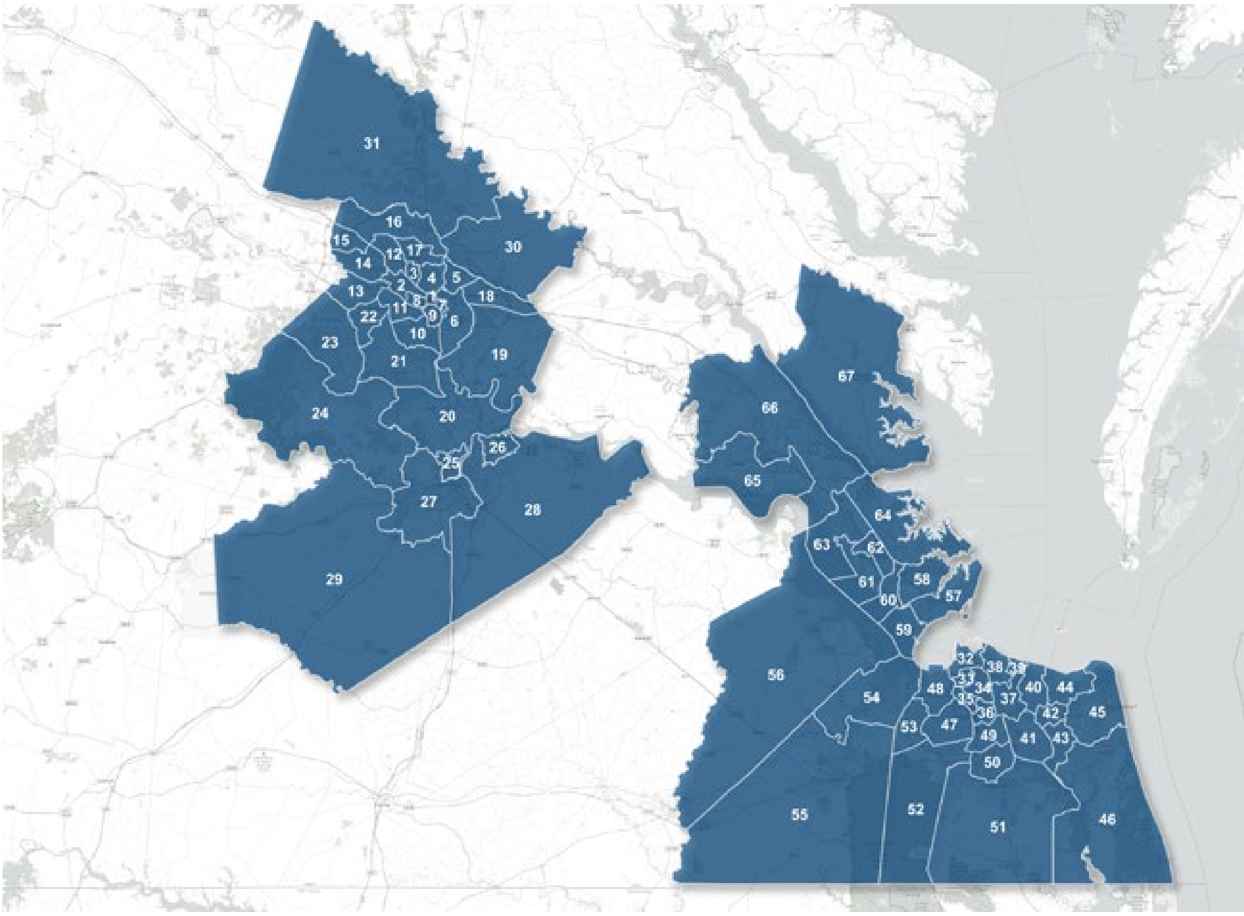
Fehr: We consider it part of our role to help residents understand how to seek and receive the assistance that is readily available to cover housing costs. We want to ensure we're keeping buildings clean, sanitary and in top-notch condition considering a lot of people are working at home and spending a lot of time in their apartment, indoor common spaces and exterior areas.

What are your predictions for the Richmond multifamily market for the next 12 months?

Dodson: Multifamily, along with industrial, will likely continue to be a preferred asset class, as it is way more predictable and less affected by the pandemic compared with office and retail.

Fehr: We are still receiving a lot of interest from both local and out-of-state developers looking at markets like Richmond, which is holding a strong market rate.

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

DEFINITIONS

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 September 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 September 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, September 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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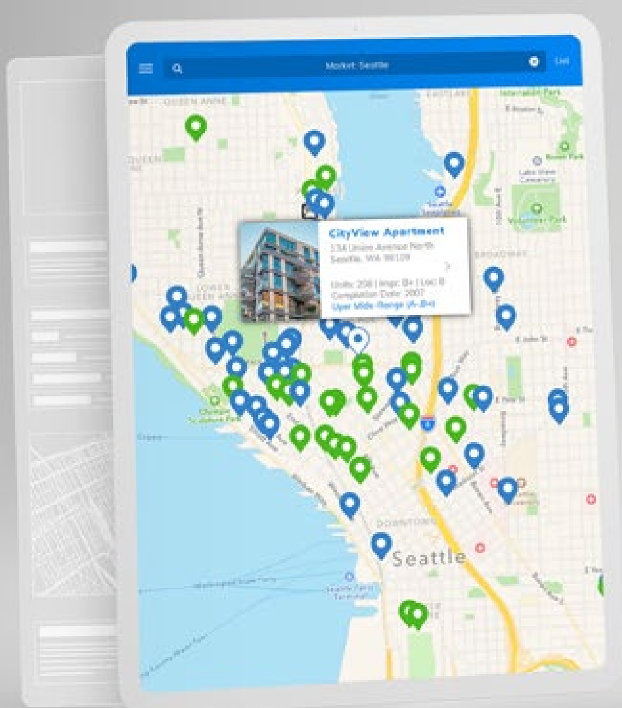

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