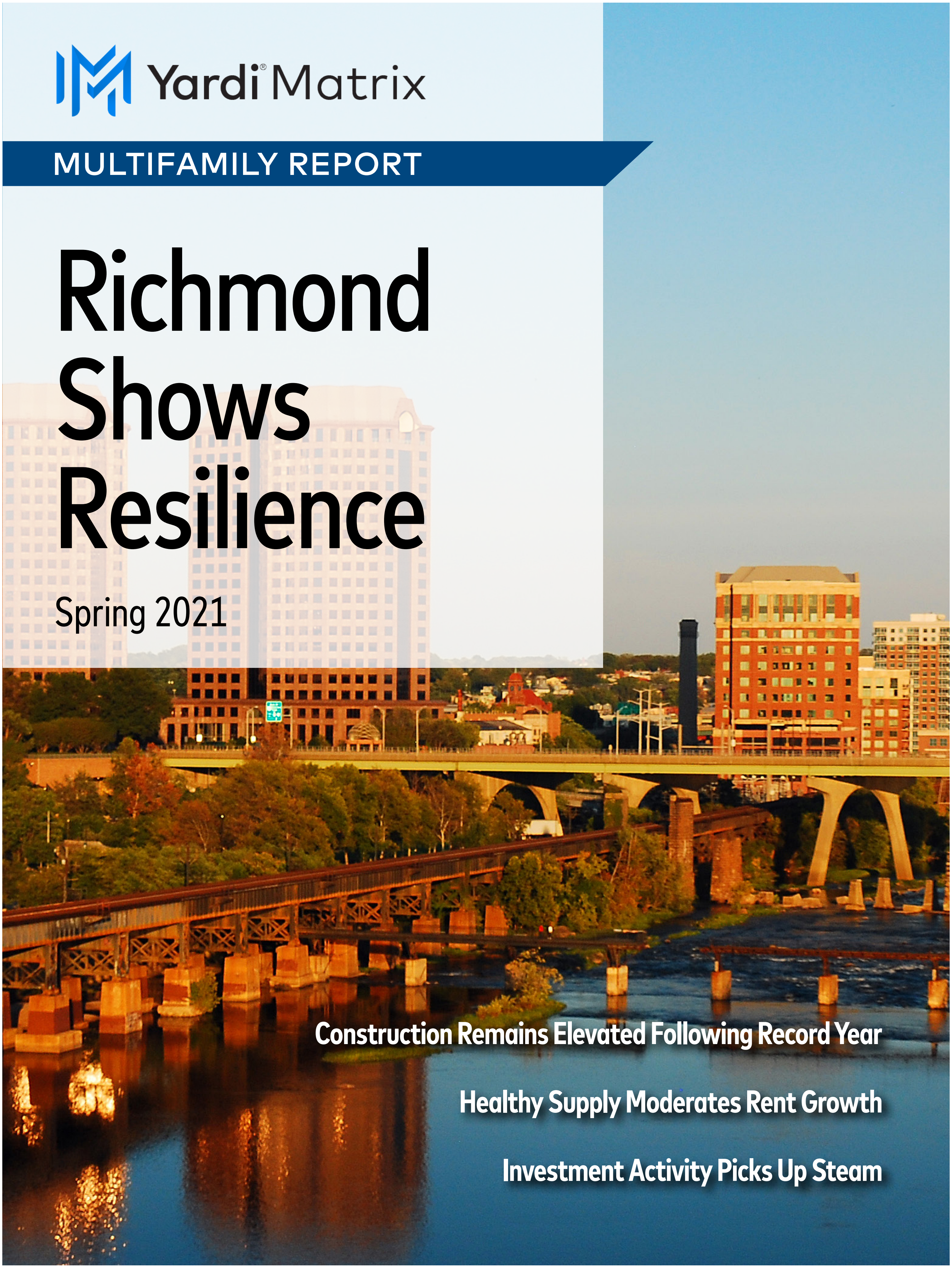
Yardi® Matrix

MULTIFAMILY REPORT

Richmond Shows Resilience

Spring 2021



Construction Remains Elevated Following Record Year

Healthy Supply Moderates Rent Growth

Investment Activity Picks Up Steam

RICHMOND MULTIFAMILY

Yardi Matrix

Strong Demand Outpaces Robust Supply

Richmond's economic anchors, diverse economy and relatively affordable cost of living compared to other East Coast markets has helped it withstand the pandemic's blows. The metro displayed healthy fundamentals, with strong demand boosting rent expansion despite robust supply. Rents rose 0.3% on a trailing three-month basis through February, outperforming the U.S. rate by 20 basis points. The occupancy rate in stabilized properties increased by 100 basis points in the 12 months ending in January, to 96.3%.

The unemployment rate displayed a steady recovery path, dropping to 4.9% as of November in Richmond and to 5.1% in the Hampton Roads area. Job gains marked the third consecutive month of recovery, clocking in at -4.6% for the 12 months ending in December, outperforming the -6.8% national figure. Trade, transportation and utilities and financial activities gained 1,900 jobs combined. Professional and business services—Richmond's third-largest sector—shrunk by 4.9%, but company expansions and relocations have been announced in the metro.

Developers brought online 1,426 units in 2021 through February, following a bountiful 2020 when 4,610 units were delivered, marking the best year of the decade. Meanwhile, transaction activity resumed in the third quarter—a trend that continued in 2021 with $252 million in multifamily assets trading through February.

Market Analysis | Spring 2021

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Recent Richmond Transactions

The Belvedere

City: North Chesterfield, Va.
Buyer: Rockworth Cos.
Purchase Price: $67 MM
Price per Unit: $227,534

River Forest

City: Chester, Va.
Buyer: Rockworth Cos.
Purchase Price: $58 MM
Price per Unit: $192,167

The Alexander at Ghent

City: Norfolk,Va.
Buyer: The Whitmore Co.
Purchase Price: $56 MM
Price per Unit: $207,836

Courthouse Green

City: Chesterfield, Va.
Buyer: McCann Realty Partners
Purchase Price: $34 MM
Price per Unit: $126,880

RENT TRENDS

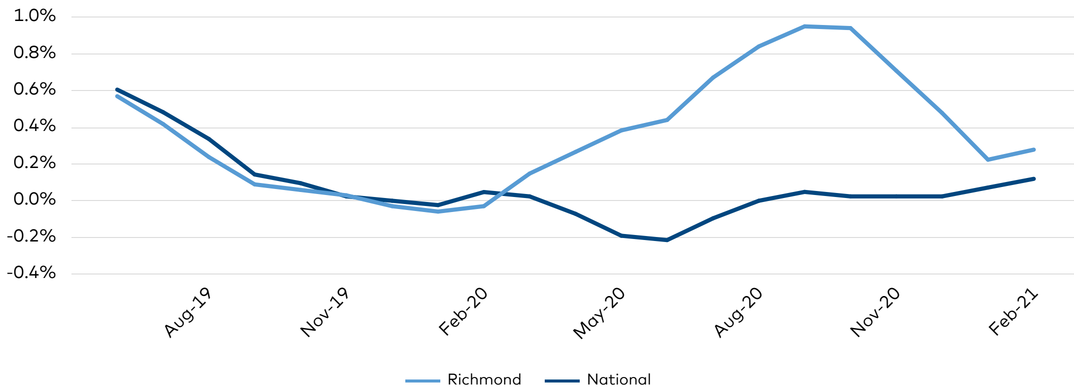
- Richmond rents rose 0.3% on a trailing three-month (T3) basis through February, outperforming the U.S. rate by 20 basis points. The average rent remained relatively affordable at $1,204, below the $1,399 U.S. figure. Strong demand was mirrored by the occupancy rate in stabilized properties, which marked a 100-basis-point uptick to 96.3% in the 12 months ending in January.

- Richmond rentals weathered the health crisis well. Rents not only remained positive since the outbreak in March 2020 but went as high as 0.9% on a T3 basis through September and October. However, 2020 completions—which marked the best year of the decade—made their mark on rent growth, which started to dampen during the last quarter of the year.

- Renter-by-Necessity figures led gains—up 0.4% on a T3 basis through February to $1,091—while Lifestyle rents were up 0.1%, to $1,415.

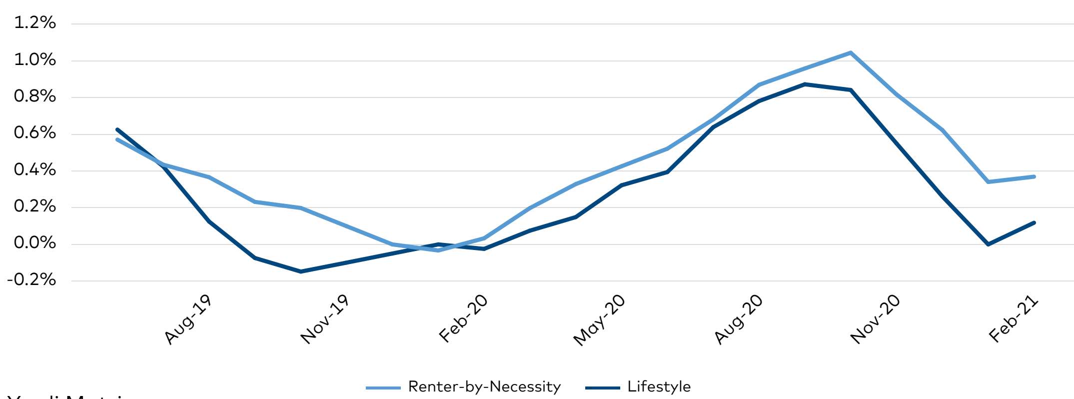
- Rent performance was positive across the map, with the metro's most expensive submarkets recording significant upticks: Scott's Addition (2.0% to $1,512), Chesapeake-South (5.8% to $1,475) and Norfolk-Central West (4.3% to $1,475). Scott's Addition also had the largest pipeline as of February, with more than 1,000 units underway. Midlothian, another target for developers, marked one of the best rent performances in the metro, up 10.6% year-over-year through February to $1,380.

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

- The Richmond unemployment rate kept a slow and steady recovery trend, dropping from 11.2% in April to 4.9% as of November. Preliminary January data, however, pointed to an uptick to 6.1%. The jobless rate in Hampton Roads was fairly similar—at 5.1% in November 2020, while preliminary January data put the figure at 6.5%.
- The metro's total employment contracted 4.6% in 2020, but the year's last quarter marked three consecutive months of solid recovery prior to an early 2021 slowdown, which mirrored nationwide trends. Overall, Richmond's employment market outperformed U.S. figures over the past year.
- Two sectors gained jobs in 2020, led by trade, transportation and utilities (1,600 jobs) and financial activities (300). The public sector and professional and business services, two of the area's main economic drivers, shrunk by 3.3% and 4.9%, respectively. Education and health services (-15,400 jobs) and leisure and hospitality (-14,500) posted the largest declines.
- Company expansions and relocations have been announced in the city: CoStar leased three floors at the Riverfront Plaza East Tower, where it will house more than 200 employees, and Vytal Studios will relocate its headquarters from Austin, bringing 155 jobs to the metro.

Richmond Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	261	18.2%
55	Financial Activities	93	6.5%
50	Information	17	1.2%
15	Mining, Logging and Construction	79	5.5%
30	Manufacturing	88	6.1%
80	Other Services	64	4.5%
90	Government	269	18.7%
60	Professional and Business Services	223	15.5%
70	Leisure and Hospitality	141	9.8%
65	Education and Health Services	202	14.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Although showing signs of a slowdown, Richmond still gained 9,428 residents in 2019, marking a 0.7% increase, more than double the 0.3% national rate.
- Between 2010 and 2019, the metro's population expanded by 8.7%, outperforming the 6.1% U.S. rate.

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

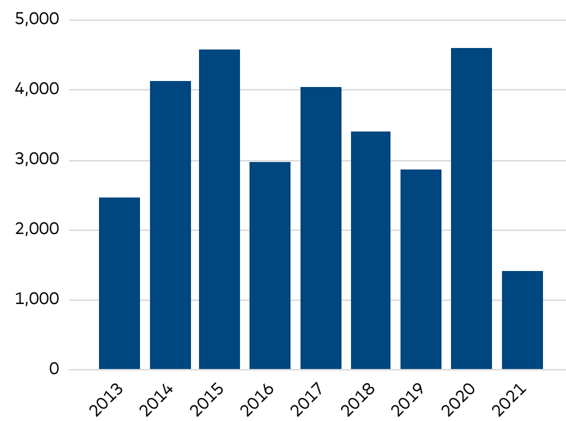
- Both local and out-of-state developers kept busy in 2020, marking the decade's strongest year for deliveries. Last year, 4,610 units were added to the inventory, of which 617 units were in fully affordable communities, with the rest targeting Lifestyle renters.

- The trend continued in 2021. Through February, 1,426 units came online, or 0.6% of stock, double the 0.3% national rate. The construction pipeline comprised 8,805 units underway and another 24,072 in the planning and permitting stages as of February. Yet, development still faces significant hurdles nationwide, including surging material prices and a domino of supply chain disruptions, all of which have altered delivery timelines and will continue to do so, at least in the near future.

- Both recently delivered and underway projects heavily tilt toward the upscale segment, which fulfills immediate demand. Case in point: The Lifestyle segment's occupancy rate in stabilized properties rose 70 basis points in the 12 months ending in January, to 96.1%. The sustained supply expansion has, however, started to moderate rent gains.

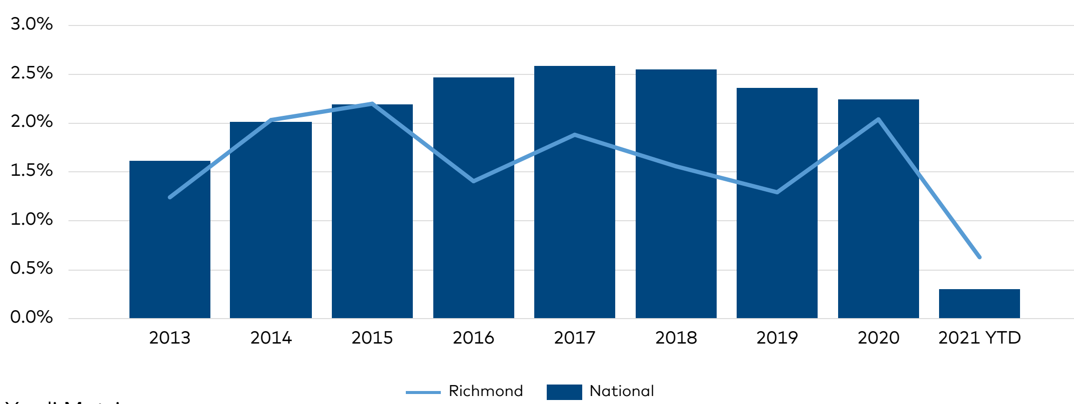
- Scott's Addition is generating a lot of interest and topped the metro in construction activity, with 1,093 units underway as of February. Manchester and Midlothian followed, with 943 and 875 units. The largest project completed so far this year is Lumen, a 300-unit Lifestyle asset in Hampton, owned by Craig Davis Properties.

Richmond Completions (as of February 2021)



Source: Yardi Matrix

Richmond vs. National Completions as a Percentage of Total Stock (as of February 2021)



Source: Yardi Matrix

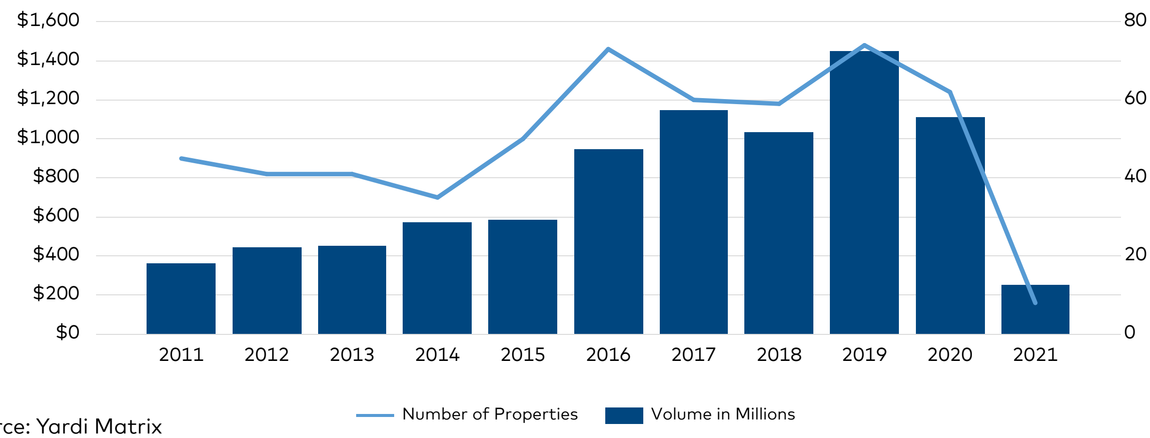
TRANSACTIONS

- More than $1.1 billion in multifamily assets traded in Richmond in 2020. Transaction activity nearly halted in the second quarter, regaining its pace at the end of the third. The fourth quarter posted strong activity, with some $620 million in communities changing hands. Overall, the per-unit price rose 12.4% to $127,617 last year.

- Investment continued to run high in 2021, with multifamily sales amounting to $252 million through February. The price per unit marked a solid increase relative to the same period last year, rising 36.1% to $146,896, with a deal composition that tilted slightly toward RBN assets.

- Geographically, sales distribution was equally spread between metro Richmond and the Hampton Roads area in the first two months of 2021. However, Hampton Roads led in total transaction volume, with sales there accounting for $159 million, while Richmond totaled $93 million.

Richmond Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

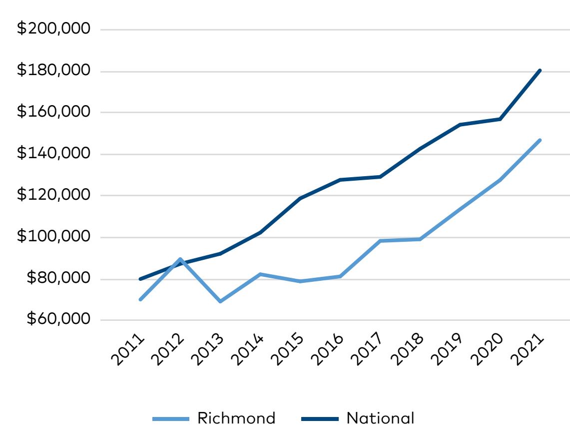
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Newport News-Central	159
Chester	116
Richmond-North Side	84
North Chesterfield	83
Williamsburg-North	73
Hampton-South	71
Bon Air	67

Source: Yardi Matrix

[1] From March 2020 to February 2021

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by: MULTI-HOUSING NEWS

Richmond Multifamily on Firm Footing

By Laura Calugar

In Richmond, Va., multifamily continues to be the preferred segment for investors as overall fundamentals have remained strong throughout COVID-19, according to Colliers research. Barry Tomlin, vice president of local company Breeden Property Management discusses the strengths of the Richmond multifamily market and reveals his business strategy for the spring and summer leasing seasons.

How has the Richmond multifamily market performed in the past 12 months?

The Richmond multifamily market has performed well. While the Richmond area was also affected by COVID-19—with the loss of more than 45,000 jobs—the occupancy rates have remained high, with average occupancies between 95 percent and 97 percent.

Demand for units has exceeded what is currently available in the market. We have also seen rental rates increase by 4 percent to 5 percent over the past 12 months and are anticipating the trend will continue, if not slightly improve, as we move into the spring and summer leasing seasons.

How do you expect the next leasing seasons to be impacted by the ongoing economic crisis?

Typically, spring and summer months are the busiest times of the year in our industry, with schools closing for the summer. People tend to schedule their moves around the school year calendar. We have experienced record-high occupancy levels over the past 12 months. I believe our residents have seen and experienced how we as a company have handled keeping our properties maintained and kept an open line of communication with them throughout this pandemic, and most have no intention of moving out anytime soon. We are seeing renewal rates at 85 percent to 95 percent across our portfolio.

Which areas of the metro are the most coveted nowadays and why?

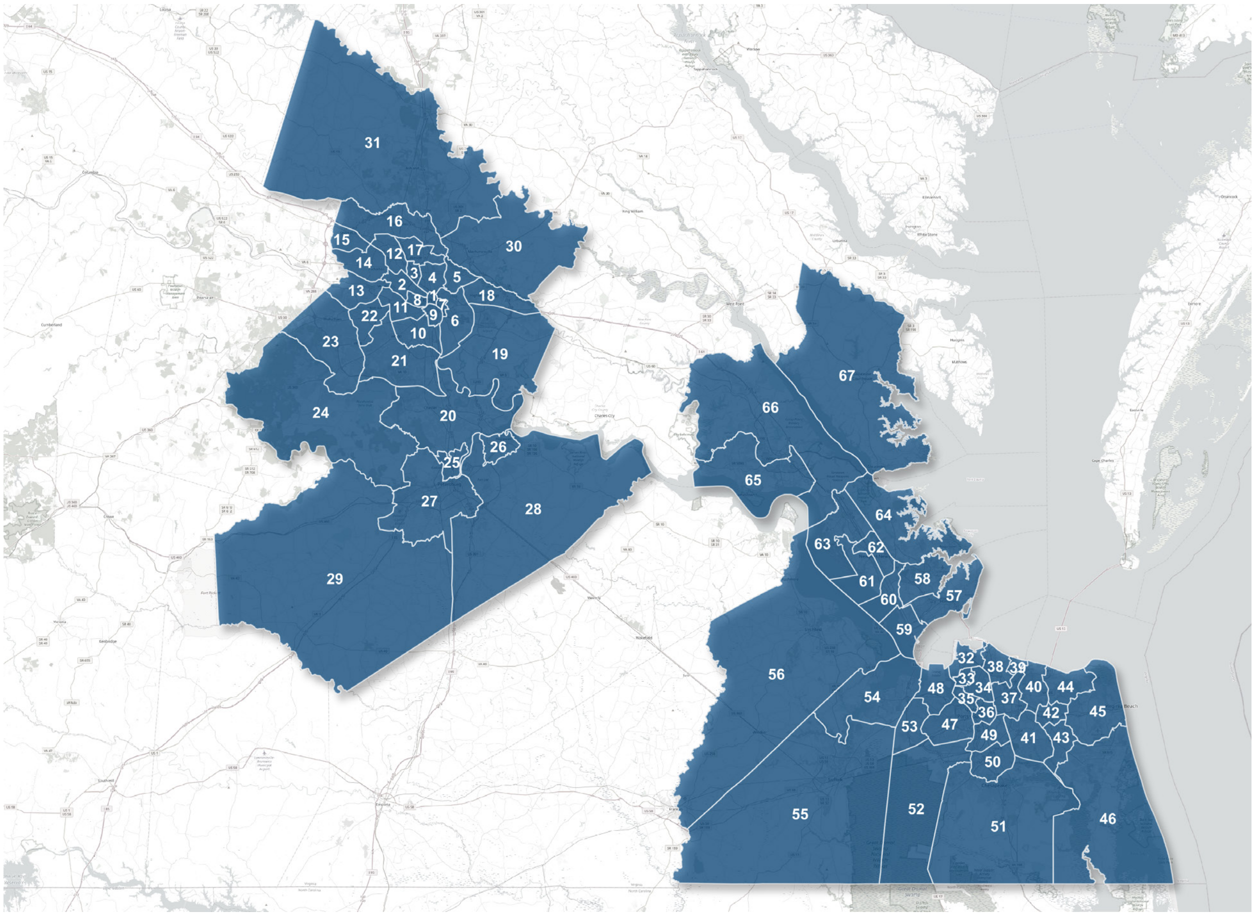
The Scott's Addition area is generating a lot of attention these days. It has been deemed one of the fastest-growing areas in the city of Richmond. There is a big draw for multifamily developers like us, due to the large number of breweries, cideries, distilleries, restaurants, bars and retail shops—a big draw to the Millennial generation as well as working professionals that are relocating to the downtown area. Scott's Addition is also very convenient to interstates 64, 95 and 195, giving easy access in and out of the city.

What makes Richmond a good market for multifamily investments?

There are several universities throughout the Richmond area, which is a draw for both in-state and out-of-state students, while also creating many jobs for faculty and staff. Richmond offers a relatively affordable cost of living, which is appealing to many Millennials. The Richmond area is also a very business-friendly market, as seen by the influx of new businesses and growth in the area.

(Read the complete interview on multihousingnews.com.)

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
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
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 December 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 December 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, December 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.