



MULTIFAMILY REPORT

Richmond Drives On

Fall 2021

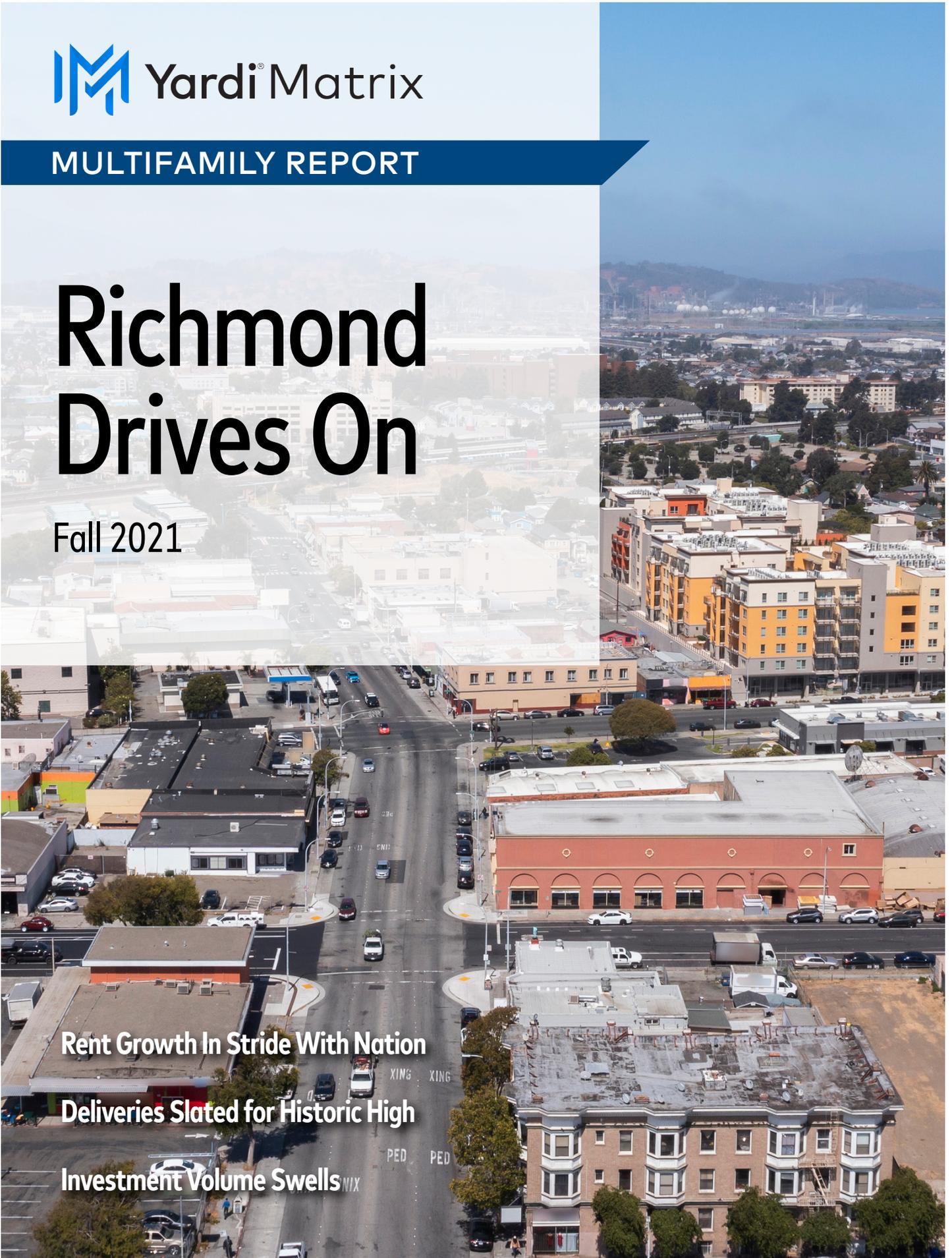
Rent Growth In Stride With Nation

Deliveries Slated for Historic High

Investment Volume Swells

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RICHMOND MULTIFAMILY



Picking Up the Pace

Richmond's multifamily market has held strong after weathering last year's economic disruptions. Rents were up by 1.7% on a trailing three-month (T3) basis to \$1,325 as of August, on par with the national rate of growth. At the same time, affordability has drawn additional demand as the metro's population expands. While Lifestyle rents grew fastest, up 2.3% on a T3 basis to \$1,584, the working-class Renter-by-Necessity segment also held positive, up 1.4%, to \$1,184, during the same period.

The metro added 61,500 jobs in the 12 months ending in June, with increases in nearly all sectors. Unemployment levels continued to trend downward, falling to 4.4% in July—100 basis points less than the national figure. Future growth is on the horizon, with several employers announcing major expansion plans earlier this year. What's more, Virginia ended the fiscal year with a \$2.6 billion budget surplus, which could spur additional growth.

Multifamily development has taken off, with close to 11,500 units under construction at the end of August. Deliveries this year are anticipated to hit levels not seen in more than three decades. Investment has also picked up, with \$789 million in transactions closed year-to-date through August, more than double the volume of the same period last year. Sales prices averaged \$133,973 per unit, nearly one-quarter less than the national figure.

Market Analysis | Fall 2021

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Recent Richmond Transactions

Starling Village



City: Chesapeake, Va.
Buyer: Standard Communities
Purchase Price: \$68 MM
Price per Unit: \$113,903

Streets of Greenbrier



City: Chesapeake, Va.
Buyer: Capital Square
Purchase Price: \$66 MM
Price per Unit: \$237,356

Spotswood Commons



City: Williamsburg, Va.
Buyer: Kushner Cos.
Purchase Price: \$46 MM
Price per Unit: \$216,981

Maple Springs

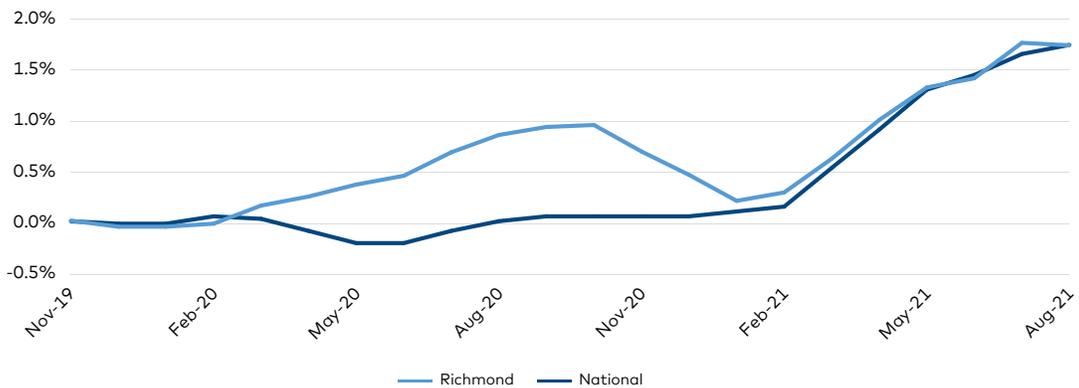


City: Richmond, Va.
Buyer: BH Equities
Purchase Price: \$35 MM
Price per Unit: \$129,851

RENT TRENDS

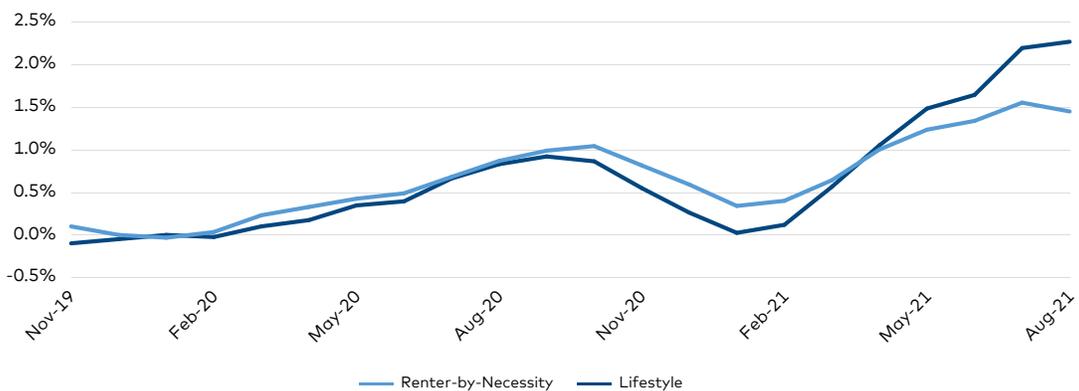
- ▶ The average rent in Richmond was \$1,325 in August, up 1.7% on a T3 basis, in line with national growth. Year-over-year, rents increased 13.0% through August, surpassing the already staggering 10.3% U.S. figure. The metro's average rent was 13.9%, less than the \$1,539 national rate. Although occupancy grew by 60 basis points across asset types during the 12 months ending in July, the national rate rose even faster, by 90 basis points.
- ▶ Lifestyle rents climber the fastest, up 2.3% on a T3 basis to \$1,584 as of August. During the same period, working-class Renter-by-Necessity rates increased by 1.4%, to \$1,184.
- ▶ Midlothian recorded the highest year-over-year rent growth, up 19.6%, to \$1,553, in August. The suburban submarket, 15 miles west of Richmond, has units geared primarily toward Lifestyle renters. These assets account for almost 80% of the submarket's inventory. Other submarkets with high rent growth included Hampton-North (19.0% to \$1,386) and Lakeside (18.5% to \$1,243).
- ▶ The Scott's Addition submarket had among the highest rents in the market, averaging \$1,625 in August. Rents expanded by 9.3% year-over-year, though the submarket's robust development pipeline could see that moderate in the long term.

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 added 61,500 jobs during the 12 months ending in June, a 4.5% increase. The July unemployment rate of 4.4%, according to preliminary data from the Bureau of Labor Statistics, marked a 50-basis-point drop from the previous month and was 100 basis points below the U.S. rate. Richmond's unemployment rate has remained significantly below the national average throughout the past two years.
- ▶ All but two employment sectors showed job growth during the 12 months ending in June. The largest gains were recorded by leisure and hospitality, which added 28,600 jobs, or a 24.8% year-over-year increase. Trade, transportation and utilities also grew, up 7.3%, with the addition of 17,500 jobs. Government—the metro's largest sector—shed 300 jobs, while the financial activities sector lost 400 positions.
- ▶ The market continued to recover, as the metro's diversified economy positioned it favorably to weather much of last year's disruption. Corporate relocations and expansions moved forward, with used-car retailer Carvana announcing plans to hire 400 employees in the metro. In the public sector, the Commonwealth reported a record \$2.6 billion budget surplus for the 2021 fiscal year, following a sharp rise in revenue collections.

Richmond Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	144	10.1%
40	Trade, Transportation and Utilities	256	18.0%
60	Professional and Business Services	226	15.8%
65	Education and Health Services	204	14.3%
80	Other Services	61	4.3%
15	Mining, Logging and Construction	81	5.7%
30	Manufacturing	87	6.1%
50	Information	15	1.1%
90	Government	261	18.3%
55	Financial Activities	91	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ In 2020, the metro gained 11,787 residents, growing by 0.9% compared to the 0.4% national rate.
- ▶ Richmond's population has grown faster than the national average over the past decade, with the addition of 108,749 residents, or an 8.9% increase.

Richmond vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Richmond Metro	1,292,911	1,306,172	1,315,600	1,327,387

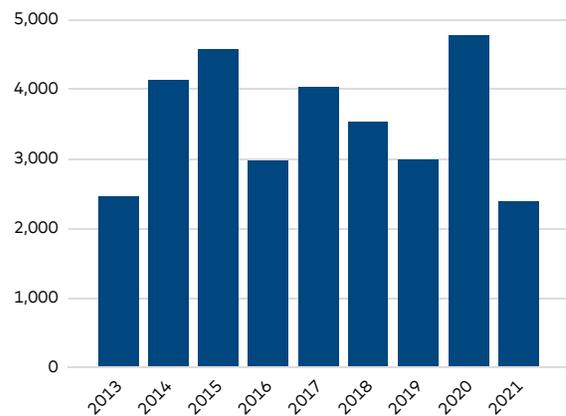
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Nearly 11,500 units were under construction in Richmond at the end of August, equivalent to 5.0% of existing inventory, with an additional 34,000 units in the planning and permitting stages. Development increased in 2021, with 18 projects totaling nearly 3,500 units breaking ground between January and August.
- ▶ Thirteen developments with a combined 2,400 units came online through August, equal to 1.0% of stock. We anticipate this year's deliveries to exceed 5,500 units, 15.7% greater than the 4,788 units completed in 2020 and the highest level of new supply since the 1980s.
- ▶ Scott's Addition had the greatest level of construction activity as of August, with 1,575 units underway. This is set to nearly double the submarket's inventory, which had already seen rapid growth: More than 85% of the submarket's units were delivered in 2014 or later. The largest project underway was the 350-unit 1601 Roseneath Road. A joint venture between Capital Square and Greystar broke ground on the six-story development in April 2021, with delivery planned for early 2023.

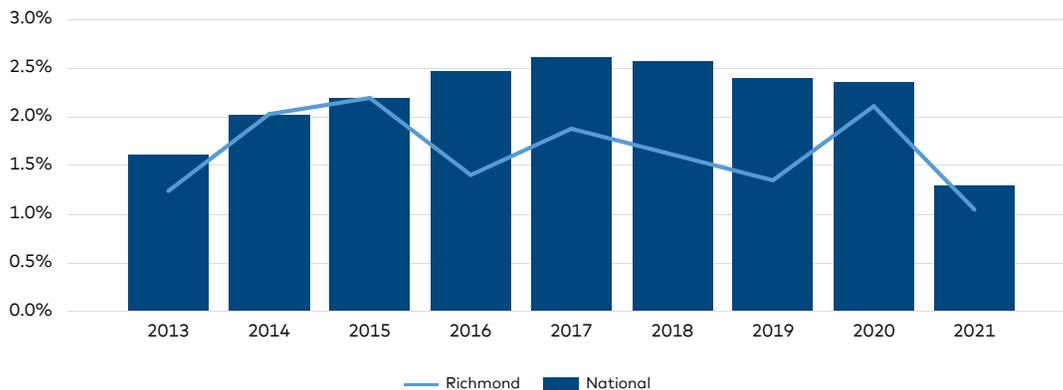
- ▶ The largest multifamily project to deliver this year was LIV Development's 307-unit Livingston Apartment Flats in Chesterfield County. The developer broke ground on the garden-style community in early 2020, financed with a \$40 million construction loan from Truist Bank.

Richmond Completions (as of August 2021)



Source: Yardi Matrix

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

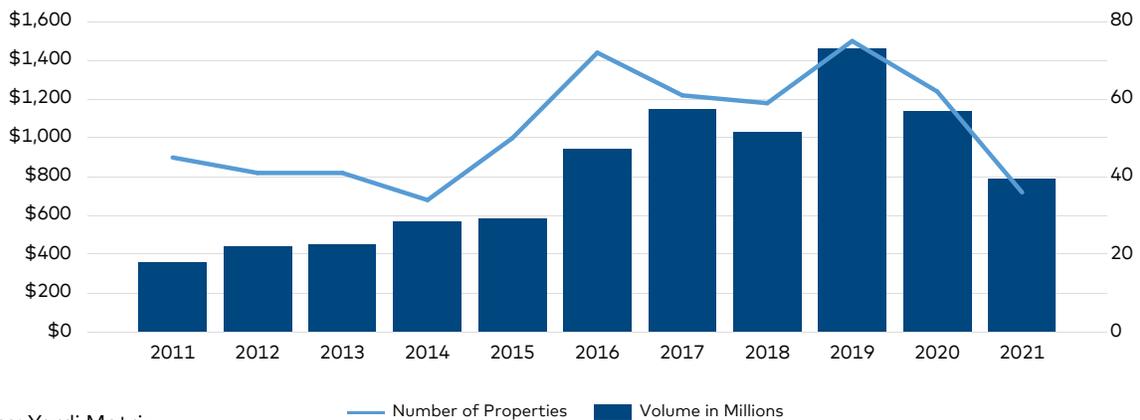


Source: Yardi Matrix

TRANSACTIONS

- ▶ Richmond multifamily transactions totaled \$789 million year-to-date through August, more than double the \$315 million that closed during the same time frame in 2020. This year's sales averaged \$133,973 per unit, nearly flat from last year and 24.3% less than the \$176,903 U.S. figure.
- ▶ RBN properties were the most sought after, with transactions totaling \$495 million at an average of \$112,113 per unit. This marked a nearly 10% increase from the average price of \$102,305 recorded last year. Investments targeting Lifestyle assets averaged \$199,477 per unit, recording a 1.7% uptick.
- ▶ The largest investment transaction year-to-date was Standard Communities' \$68 million April acquisition of the 597-unit Starling Village from Boyd Homes. The age-restricted community in Chesapeake has 522 affordable units and was constructed in phases between 1992 and 2005.

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



Source: Yardi Matrix

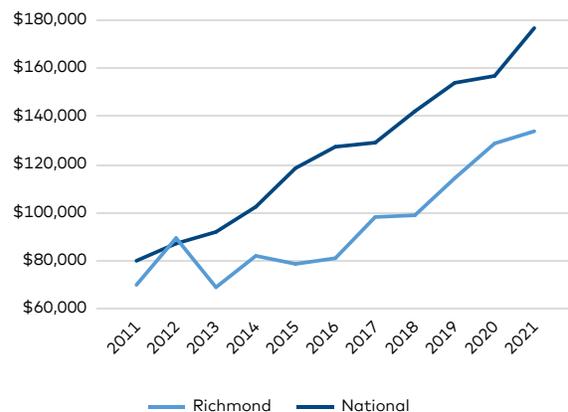
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Newport News–Central	150
Chester	138
Chesapeake–Central	102
Hampton–North	101
Williamsburg–North	93
Hampton–South	92
Richmond–North Side	84

Source: Yardi Matrix

¹ From September 2020 to August 2021

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix



The Key Factors Behind Richmond's Stability

By Adriana Marinescu

Underpinned by healthy fundamentals, Richmond has seen ever-growing rents since the beginning of the year, yet remains significantly more affordable than other Mid-Atlantic markets. To meet increasing demand, development activity is also booming across the metro. Whitson Huffman, chief strategy & investment officer with Capital Square, highlights Richmond's hottest area, and reveals his firm's projects and plans.

How has the Richmond multifamily market performed in the first half of 2021?

The first half of 2021 has been exceptionally strong in Richmond. We've seen outstanding rent growth across all asset classes and strong occupancy, as well.

Richmond is near employment centers, such as New York, Philadelphia and Washington, D.C., which are easily accessible by train or airplane. Even in a remote, work-from-home type of model, cities like Richmond have benefited, broadly speaking. Richmond has white-collar employment, with plenty of jobs. This puts more demand on housing, leading to more pressure on rents, especially relative to other gateway cities.

What sets Richmond apart from other Mid-Atlantic markets?

Affordability is the main aspect. Richmond is relatively affordable compared to other gateway cities. With 10 Fortune 100 companies and seven Fortune 500 headquarters, the employment



base in Richmond is relatively strong. Further differentiating Richmond from other Mid-Atlantic markets, is the area's low cost of doing business.

What areas/submarkets of the metro are garnering attention from developers nowadays?

We're very active in the Scott's Addition Historic District. As the fastest-growing neighborhood in Richmond and one of the highest performing markets in the region, Scott's Addition offers many amenities, entertainment options, bars and dining. The suburbs of Richmond also continue to be active, especially from a development perspective, and

they've performed well during the pandemic. For example, Manchester has been experiencing a lot of multifamily development.

What are your immediate plans for multifamily development across the Richmond market?

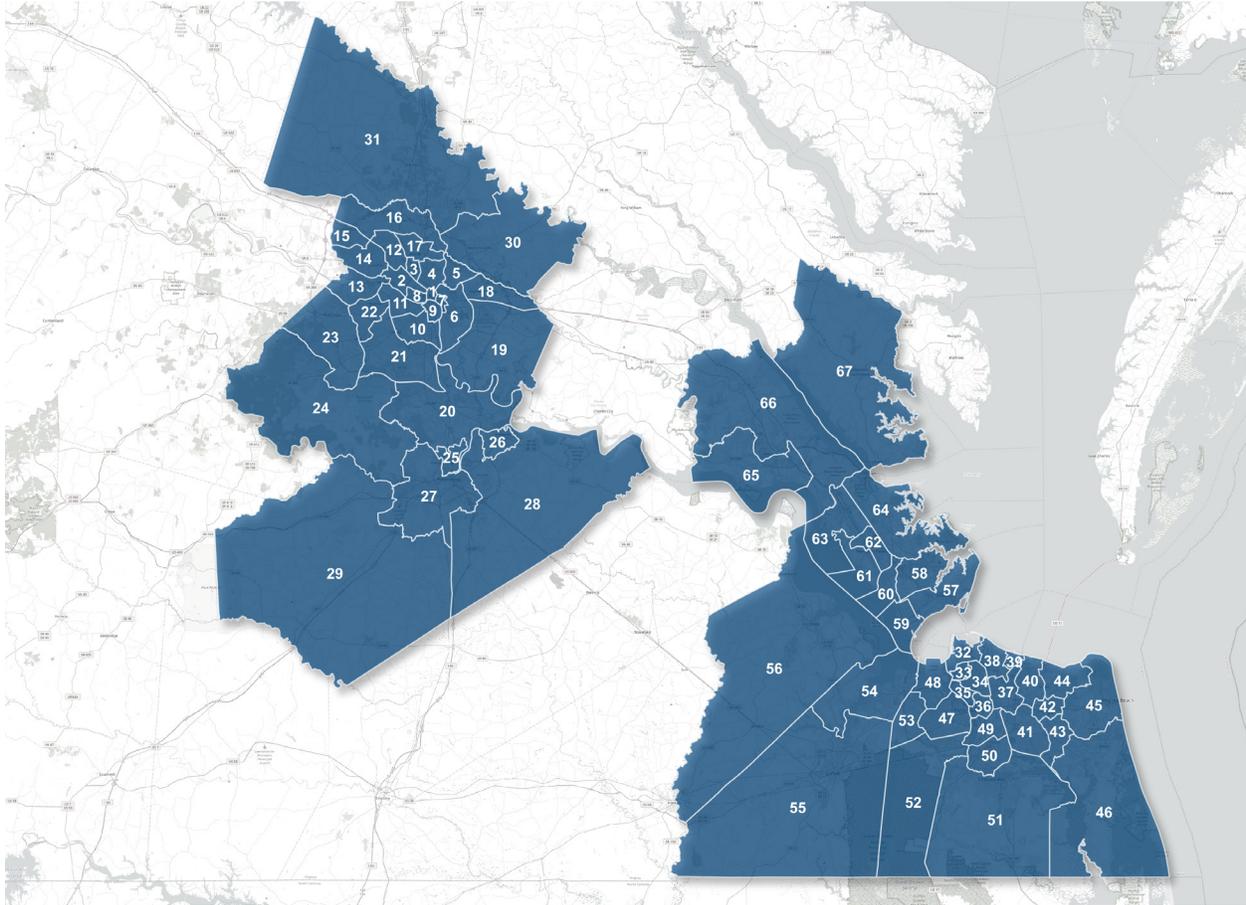
Capital Square has been very active in this market, especially in Scott's Addition. We have two projects that are in active planning, with one breaking ground sometime next year.

How do you expect the Richmond multifamily market to perform in the short and long term?

I anticipate that over both the short and long term, the Richmond multifamily market will perform exceptionally well. It will outperform peer markets in the Mid-Atlantic. Not only do we expect the job growth to continue on an upward trajectory but new apartment supply and more institutional investors jumping into the market will help propel rent growth.

Read the full interview on www.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

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 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.

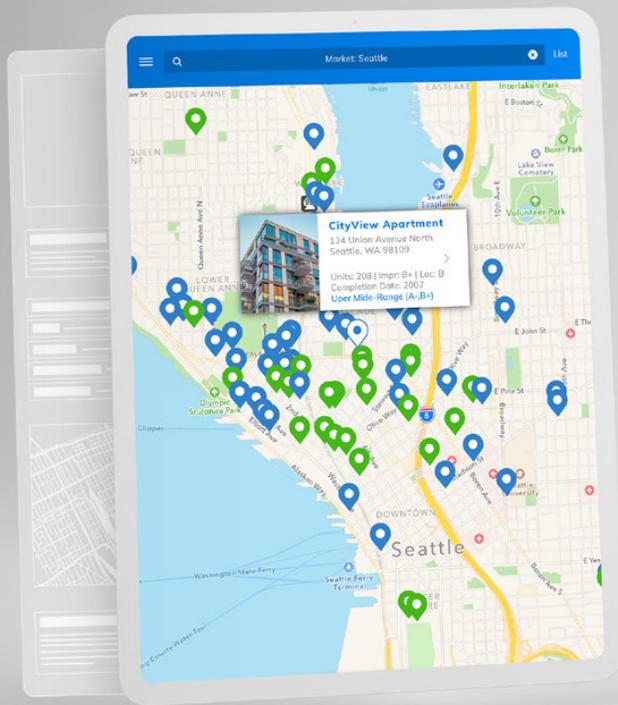
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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