Yardi Matrix

MULTIFAMILY REPORT

Richmond's Return

April 2022

Non-Core Submarkets Lead Rent Gains

Transactions Hit New High

Supply Keeps Steady Course

RICHMOND MULTIFAMILY

Yardi Matrix

Deliveries, Deals Heat Up

The Richmond multifamily market started 2022 on the right foot as fundamentals continued to solidify, seasonal rent deceleration notwithstanding. Despite a strong pipeline, rates continued to grow, up 0.4% on a trailing three-month basis through February. Meanwhile, the occupancy rate in stabilized properties climbed 60 basis points in the 12 months ending in January, to a tight 96.9%, pointing to healthy demand even as deliveries heated up.

While most multifamily fundamentals rebounded strongly, the lackluster economic recovery continued. Richmond added 12,700 net positions last year, with leisure and hospitality (11,600 jobs) and trade, transportation and utilities (7,100) leading the pack. Meanwhile, five sectors contracted, including manufacturing, financial activities and education and health services. Unemployment was at a tight 3.2% as of December, even as the total number of employees remained below pre-pandemic levels. The Hampton Roads area painted a similar picture, with several sectors still in negative territory through 2022.

Both deliveries and transactions hit new records last year, with 5,591 units coming online and $2.4 billion in multifamily assets trading across Richmond in 2021. And while we expect rents to continue growing, deceleration toward a more sustainable pace is the likely outcome for the rest of the year.

Market Analysis | April 2022

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Recent Richmond Transactions

Crystal Lakes

City: Richmond, Va.
Buyer: Levco Management
Purchase Price: $106 MM
Price per Unit: $ 148,045

Reserves at Tidewater

City: Norfolk, Va.
Buyer: AION Partners
Purchase Price: $91 MM
Price per Unit: $142,188

Boulders Lakeside

City: North Chesterfield, Va.
Buyer: American Landmark Apartments
Purchase Price: $72 MM
Price per Unit: $288,710

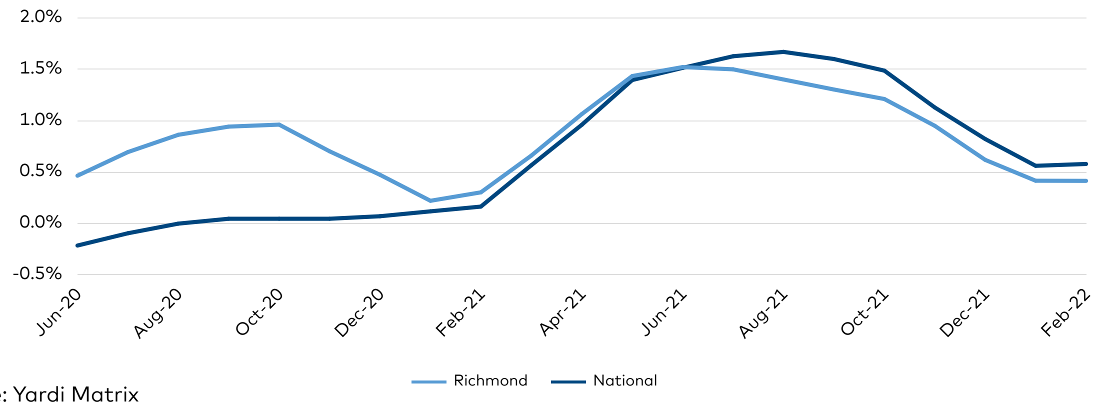
Park West End

City: Richmond, Va.
Buyer: McCann Realty Partners
Purchase Price: $59 MM
Price per Unit: $189,904

RENT TRENDS

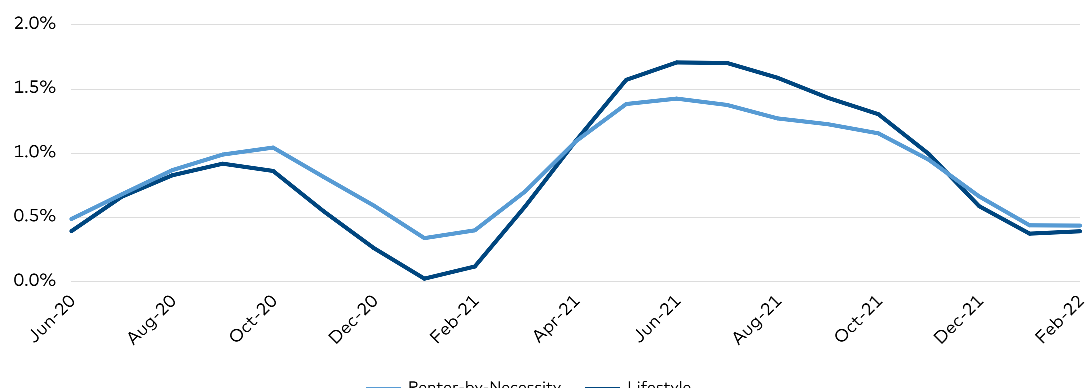
- Following nationwide trends, Richmond rent growth started decelerating in the last two quarters of 2021, clocking in at 0.4% on a trailing three-month (T3) basis through February, behind the 0.6% U.S. figure. Even so, Richmond's growth remained well above historic averages, at 13.4% year-over-year through February, slightly below the overperforming 15.4% U.S. figure. Richmond's average rent reached $1,375 in February, while the national figure climbed to $1,628.
- There was little difference between quality segments for rent growth going into the first quarter. Working-class Renter-by-Necessity rates were up 0.4% on a T3 basis through February, to $1,233, with Lifestyle rents growing at the same pace and reaching $1,626.
- Non-core submarkets led rent growth in the 12 months ending in February, with Highland Springs (up 24.4%), Three Chopt (22.5%) and Tuckahoe (17.5%) registering some of the highest gains. Many Hampton Roads submarkets also recorded strong appreciation, including Virginia Beach–Bayside (20.8%), Yorktown (19.5%) and Newport News–West (18.0%).
- The average overall occupancy rate in stabilized assets across Richmond and Hampton Roads was up 60 basis points in the 12 months ending in January, reaching 96.9% as deliveries marked a new high. Taking into account the decelerating pattern and overall market fundamentals, we expect rent growth to temper in the coming quarters, moving at a more sustainable pace.

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's economic recovery continued to be spotty, with the metro adding 12,700 net jobs in 2021. That marked a 1.0% improvement, significantly below the 4.4% national figure.
- While leisure and hospitality (11,600 positions) and trade, transportation and utilities (7,100) led growth and continued their fast-paced comeback, several sectors contracted, including manufacturing (-2,300), financial activities (-1,900), education and health services (-1,700), and construction (-1,500). This picture shows a relative short-term disconnect between multifamily demand and the local economy, also apparent elsewhere across recovering U.S. metros.
- Unemployment in Richmond dropped to a tight 3.2% as of December, according to preliminary Bureau of Labor Statistics data, close to the pre-pandemic low of 2.4% in December 2019. Even so, employment remained below totals registered before the pandemic hit. Richmond had 626,567 employees at the end of 2021, more than 50,000 positions below the number it stood at in December 2019.
- Spotty recovery was also visible in the Hampton Roads area, where unemployment dropped to 3.1% as of December 2021. In line with Richmond proper, leisure and hospitality and trade, transportation and utilities expanded, while several sectors still recorded drops.

Richmond Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	141	9.9%
40	Trade, Transportation and Utilities	266	18.6%
80	Other Services	61	4.3%
90	Government	265	18.5%
50	Information	16	1.1%
60	Professional and Business Services	226	15.8%
15	Mining, Logging and Construction	79	5.5%
65	Education and Health Services	204	14.3%
55	Financial Activities	90	6.3%
30	Manufacturing	85	5.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Over the past decade, Richmond grew by 8.9%, adding 108,000 residents. During the same time, the U.S. population rose 5.7%. Between 2011 and 2020, natural growth and immigration fueled the city, making up for eight consecutive years of negative domestic net migration.

Richmond vs. National Population

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

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

SUPPLY

- Metro Richmond had 12,396 units under construction as of February, with no completions recorded in 2022. The metro also had an additional 40,000 apartments in the planning and permitting stages, a testament to developers' confidence in the market's long-term prospects.

- This is in line with last year's strong pipeline and comes on the heels of a strong 2021, when 5,591 multifamily units came online across Richmond, a decade-high for the metro. That accounted for 2.4% of total stock, slightly below the 2.6% national average.

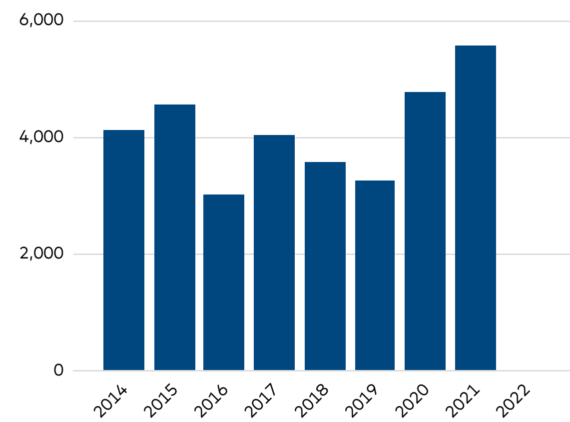
- Developers continued to focus on upscale projects, with 23 of last year's 29 completions in the Lifestyle segment, while the remaining six were fully affordable communities. There were no market-rate workforce properties delivered across the metro last year.

- Scott's Addition led the development pipeline as of February, with seven projects totaling 1,325 units under construction. Glen Allen (1,054 units underway) and Norfolk-Central West (944 units) rounded out the top three.

- Development is spread out across the map; of the top 10 submarkets for units under construction as of February 2022, six were within or close to Richmond, while four were in the Hampton Roads area.

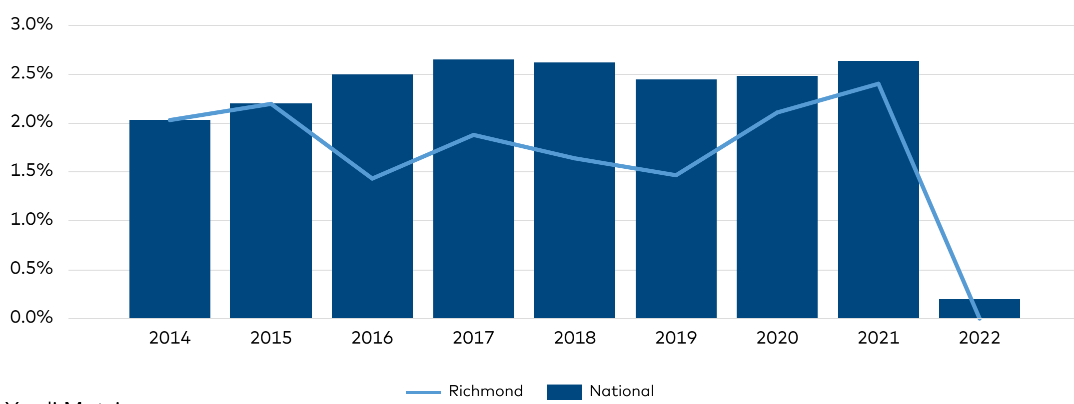
- The largest Richmond-area project underway as of February was Metropolis in Glen Allen, a 700-unit project expected to reach full completion by the end of next year. Owned by the Robinson Development Group, the development benefits from a $64 million construction loan from Fulton Bank.

Richmond Completions (as of February 2022)



Source: Yardi Matrix

Richmond vs. National Completions as a Percentage of Total Stock (as of February 2022)

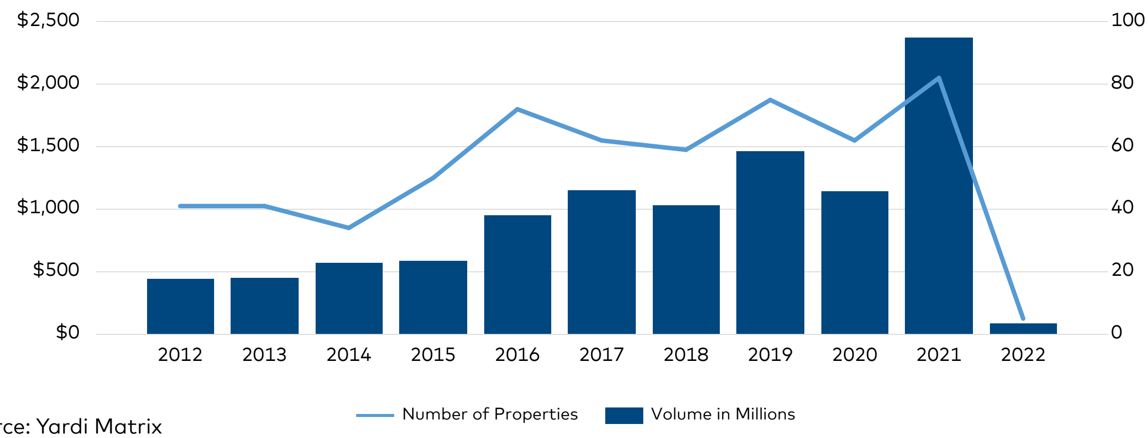


Source: Yardi Matrix

TRANSACTIONS

- Encouraged by strong market fundamentals, investors traded an unprecedented $2.4 billion in Richmond multifamily assets last year. In line with nationwide trends, that's more than double the metro's previous five-year average, which clocked in at $1.1 billion. At least five assets changed hands in the first two months of 2022. All were in the Renter-by-Necessity segment, amounting to a combined $86 million.
- Sales composition continues to reflect a strong appetite for value-add plays. Out of last year's total value across 75 sales, more than half involved workforce housing, with a quarter being upscale assets and roughly 20% comprised of fully affordable properties.
- Although all units trading in 2022 through February were in the RBN segment, the price per unit climbed to $170,516, significantly above the figure recorded in the first two months of last year, which was $135,996.

Richmond Sales Volume and Number of Properties Sold (as of February 2022)



Source: Yardi Matrix

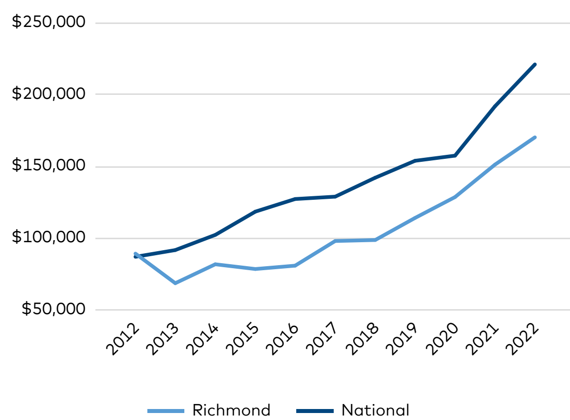
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Richmond–West End	196
North Chesterfield	178
Hampton–North	133
Chesapeake–Central	121
Virginia Beach–West	116
Virginia Beach–Northwest	109
Norfolk–Navy Base	91

Source: Yardi Matrix

[1] From March 2021 to February 2022

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix

Why Investors Remain Bullish on the Mid-Atlantic Market

By Adriana Marinescu

The Mid-Atlantic multifamily market had a strong performance throughout 2021, fueled by constant demand and strong economic activity. While some metros performed better than others, the whole region saw betterment across the board. CBRE Executive Vice President Michael Muldowney and Vice President Peyton Cox shared their thoughts on the Mid-Atlantic multifamily investment landscape.

In the past 12 months, what Mid-Atlantic metros have been the most attractive to investors?

Cox: The Southern Virginia region as a whole has had some of the strongest fundamentals of the Mid-Atlantic region, with the Richmond and Virginia Beach markets being the leaders. This is due to a combination of post-COVID-19 trends that include the Millennial and general population migration south from the Northeast gateway markets, as well as the stable economy which proved to be one of the most resilient multifamily markets nationally in 2020.

What sets Richmond apart from the other major markets?

Cox: Richmond punches above its weight on a per-capita basis and had been overlooked by larger investors for years, as they skipped over Richmond for markets like Raleigh, N.C., and Washington, D.C. Richmond has seven Fortune 500 companies, is the state capital and has a tremendous Eds & Meds driver with VCU powering the economy.

Michael Muldowney *(left)* and Peyton Cox *(right)*

Richmond also is in the middle of a transition from a sleepy, local and regional investor and developer base to a much more competitive national and even international group of players that are bringing institutional-level capital, ideas and management to this market that raises the bar and benefits everyone.

Besides the more prominent metros, were there any smaller cities in high demand?

Cox: Charlottesville and Williamsburg, Va. These are both smaller markets with strong university and tourism offerings that are attractive to empty nesters and Millennials.

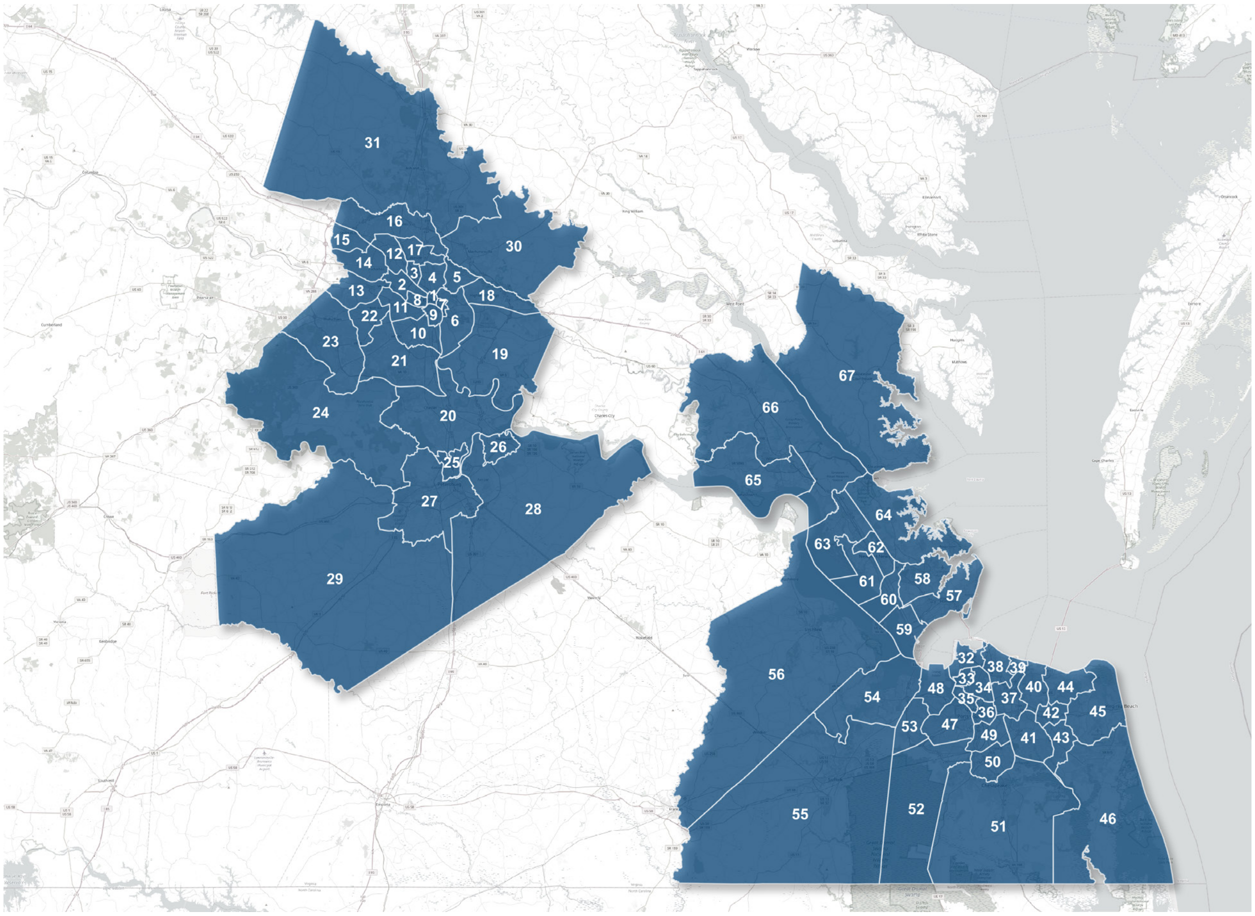
Please tell us a few details about your investment activity across the Mid-Atlantic last year.

Muldowney: In 2021 alone, the team completed $5.2 billion of sales transactions, including six prominent portfolio sales. One of the team's more notable and high-profile transactions of 2021 included the sale of the Barcroft Apartments, a 1,334-unit multifamily community in Arlington, Va. Other notable transactions include the sale of the MD-5 portfolio, consisting of workforce housing communities comprising 1,646 apartments and 1,395 townhomes.

How do you expect the Mid-Atlantic multifamily investment market to evolve in 2022?

Muldowney: The ongoing economic recovery, job creation, wage growth, household formation and the eventual reoccupation of workplaces will support multifamily demand in 2022.

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.

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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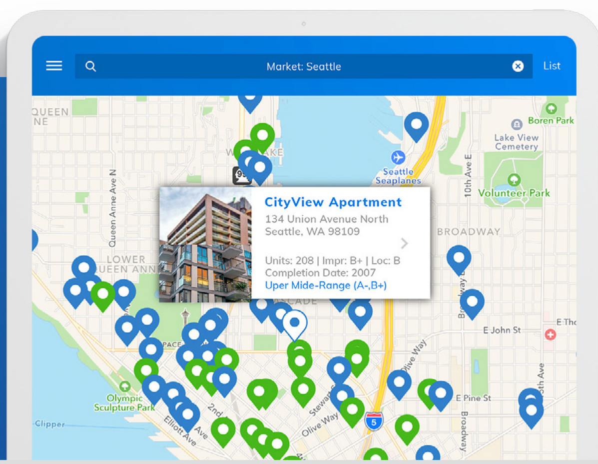
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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