

Yardi® Matrix

# Overbuilding in Richmond?

Multifamily Report Spring 2017



**Rent Growth Cools Off**

**Transactions Reach Cycle High**

**Construction on Track to Surpass 2016**

## Market Analysis

Spring 2017

### Contacts

#### Paul Fiorilla

Associate Director of Research  
Paul.Fiorilla@Yardi.com  
(800) 866-1124 x5764

#### Jack Kern

Director of Research and Publications  
Jack.Kern@Yardi.com  
(800) 866-1124 x2444

### Author

#### Bogdan Odagescu

Senior Associate Editor

## New Supply, Weak Growth Slow Rent Gains

Following several years of strong supply, Richmond's multifamily market is shifting down a gear. Rents rose 1.6% year-over-year through April, continuing to trail the national average. With almost 20,000 units in the pipeline—more than a third of which are under construction—the metro is at risk of overbuilding.

Richmond's economy is slowly but steadily expanding. Anchored by military bases, defense contractors and health-care providers, the metro's job market is underperforming. However, with Virginia Beach becoming a Mid-Atlantic hub for transoceanic high-speed data cables, the area may develop into a tech hot spot. Projects are in the works to connect the region to the Netherlands, Spain and Brazil, and Dutch company NxtVn has announced a \$2 billion data center park. Huntington Ingalls, the state's largest industrial employer, is adding 3,000 jobs this year. The list of major developments includes Dominion Resources' 20-story downtown Richmond headquarters, a \$220 million arena in Virginia Beach and the \$450 million Tech Center in Newport News.

With \$830 million in assets changing hands, 2016 marked the sixth consecutive cycle high. Investors are focusing mainly on value-add opportunities. There were roughly 7,800 units under construction as of April, and the metro is well on track to surpass 2016's level of completions this year. As new stock is putting a damper on growth, Yardi Matrix expects rents to rise by 3.5% in 2017.

### Recent Richmond Transactions

Tattersall



City: Chesapeake, Va.  
Buyer: Peter J. Weidhorn  
Purchase Price: \$60 MM  
Price per Unit: \$173,977

Latitudes



City: Virginia Beach, Va.  
Buyer: Chandler Management  
Purchase Price: \$56 MM  
Price per Unit: \$124,732

Founders Village



City: Williamsburg, Va.  
Buyer: PAC  
Purchase Price: \$42 MM  
Price per Unit: \$170,580

Trail Creek



City: Hampton, Va.  
Buyer: The Wolff Co.  
Purchase Price: \$39 MM  
Price per Unit: \$130,000

### To Subscribe

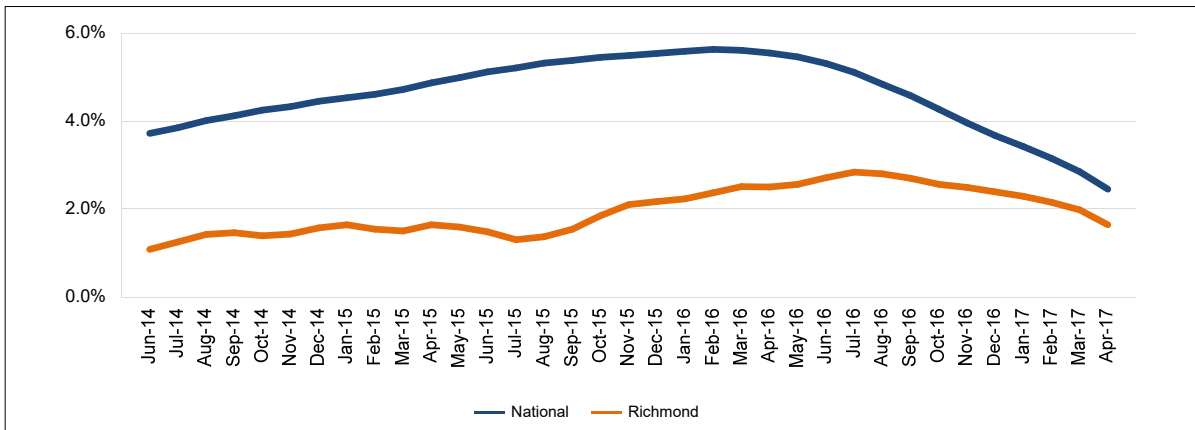
#### Hollie Zepke

Audience Development Specialist  
Hollie.Zepke@Yardi.com  
(800) 866-1124 x5389

## Rent Trends

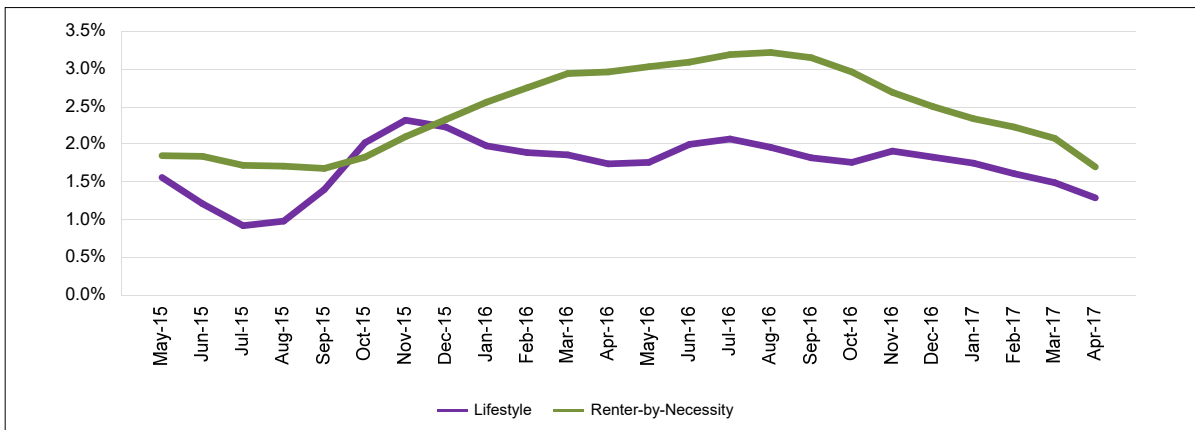
- Rents in Richmond–Tidewater rose 1.6% year-over-year through April, which was 40 basis points below the national average. After peaking in June 2016 at 2.9%, the metro’s rental growth rate steadily decelerated due to strong levels of new supply. At \$1,014, the Richmond average rent was \$300 below the national rate.
- Working-class Renter-by-Necessity rents grew by 1.7% year-over-year to \$917, outperforming the Lifestyle segment, which saw a rent increase of only 1.3%. The gap can be explained by an imbalance in supply and demand. Developers have been focused on high-end assets, with 85% of completions since 2012 being Class A and B-plus units. This has put a cap on Lifestyle rents, while pushing up demand for lower-priced units.
- Rent growth is spotty, with rents across half of the map either stagnant or contracting. Predominantly working-class submarkets—including Marshall (5.9% rent growth), Richmond South (4.5%) and Williamsburg–North (4.1%)—are seeing rent hikes. At the other end, rents in more expensive submarkets—such as Acredale (-0.7% rent growth), Norfolk–South (-0.6%) and Chesapeake (0.2%)—are either flat or contracting.
- Due to high levels of new supply and below-average job growth, demand in Richmond–Tidewater will likely remain tepid. Yardi Matrix expects a 3.5% rent increase in 2017.

### Richmond vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Richmond Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

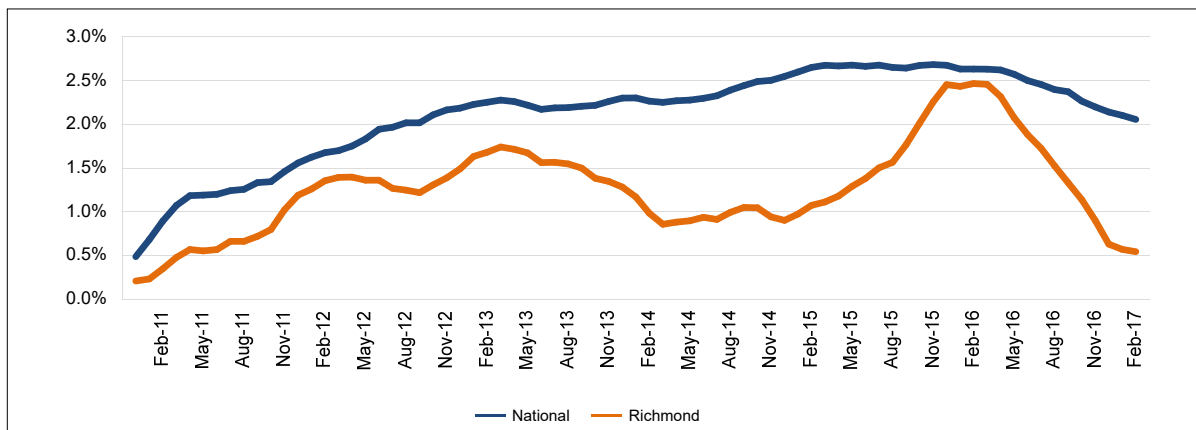


Source: YardiMatrix

## Economic Snapshot

- Richmond-Tidewater added roughly 11,000 jobs in the year ending in February 2017, trailing the 2.0% national growth rate by 150 basis points, an apparent trend throughout the better part of the current cycle.
- Flat job growth is more prevalent in the Hampton Roads area, partially due to its strong links to military and federal spending. The military bases in the area employ almost 15% of the active workforce, and according to the Hampton Roads Economic Development Alliance, about two-thirds of business services are military-related. Nonetheless, Richmond-Tidewater has several industries capable of balancing the economy, including advanced manufacturing, biomedical research and development, health care, education and tourism.
- Steady job formation trends in Richmond's core are mirrored by a stable office market. According to Cushman & Wakefield | Thalhimer, the office vacancy rate in the first quarter of 2017 was 7.6%, the lowest since 2009.
- Although sluggish, the metro's steady economy is drawing in developers. Dominion Resources broke ground on its future Richmond base, a 20-story downtown high-rise. HHHunt will start construction on River Mill, a master-planned project in Glen Allen bringing 1,035 residential units, 285 of which will be rentals. The Main, a new \$175 million convention center in Norfolk, is expected to boost the hospitality sector. The development pipeline also includes a \$220 million arena in Virginia Beach and the \$450 million mixed-use Tech Center in Newport News.

### Richmond vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Richmond Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	216	15.2%	8,000	3.8%
70	Leisure and Hospitality	146	10.3%	2,800	2.0%
15	Mining, Logging and Construction	72	5.1%	1,600	2.3%
90	Government	273	19.2%	500	0.2%
55	Financial Activities	87	6.1%	(100)	-0.1%
50	Information	18	1.3%	(200)	-1.1%
60	Professional and Business Services	214	15.0%	(200)	-0.1%
80	Other Services	67	4.7%	(200)	-0.3%
40	Trade, Transportation and Utilities	250	17.6%	(400)	-0.2%
30	Manufacturing	82	5.8%	(700)	-0.8%

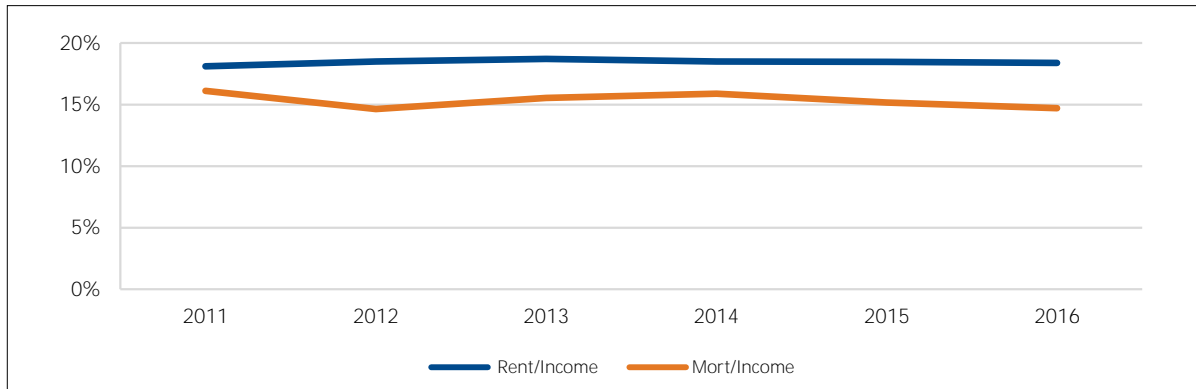
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

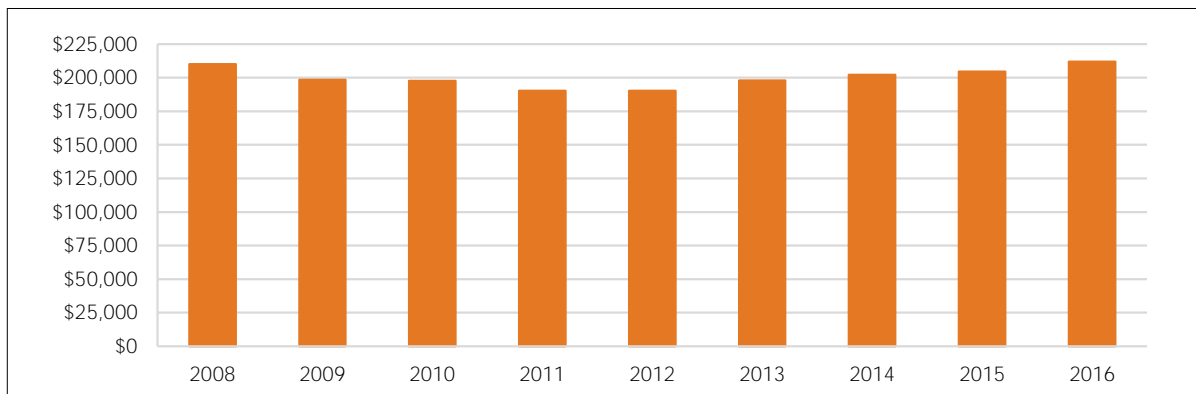
- The median home price in Richmond peaked at almost \$212,000 in 2016. After four years of upticks, this was the first time the median home price surpassed pre-recession levels. Relative affordability for first-time home buyers gives the city an edge when compared to nearby Northern Virginia and Washington, D.C.
- Owning remains slightly more affordable than renting in Richmond-Tidewater. Mortgage payments accounted for roughly 15% of the metro's median income, while rents, averaging \$1,014, accounted for nearly 18%. However, as supply is catching up with demand, renting is bound to remain relatively affordable.

### Richmond Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Richmond Median Home Price



Source: Moody's Analytics

### Population

- Richmond added nearly 62,000 residents in the last five years, a 5.0% gain and 130 basis points above the national growth rate.
- In 2016 alone, the city added roughly 11,300 residents, marking a 0.9% expansion.

### Richmond vs. National Population

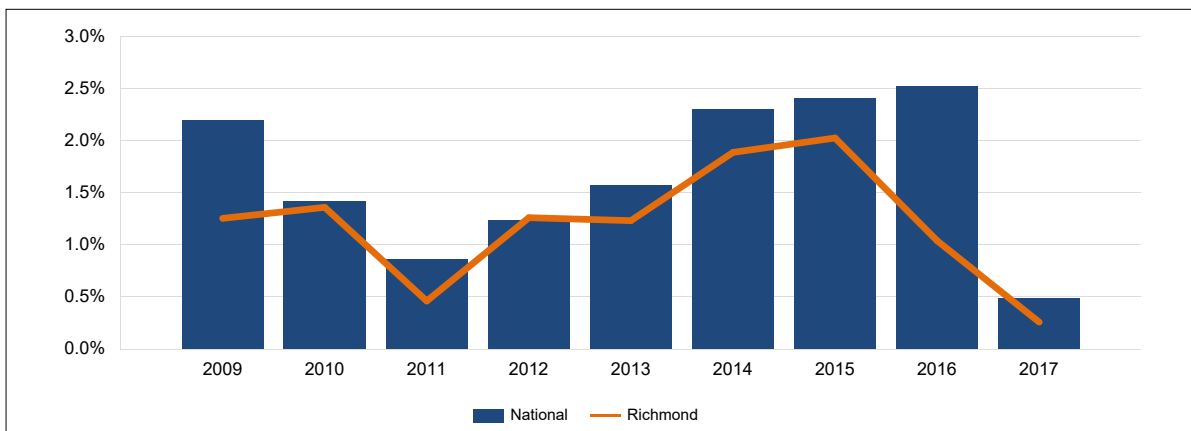
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Richmond, Va., Metro	1,233,682	1,246,100	1,258,885	1,270,414	1,281,708

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

## Supply

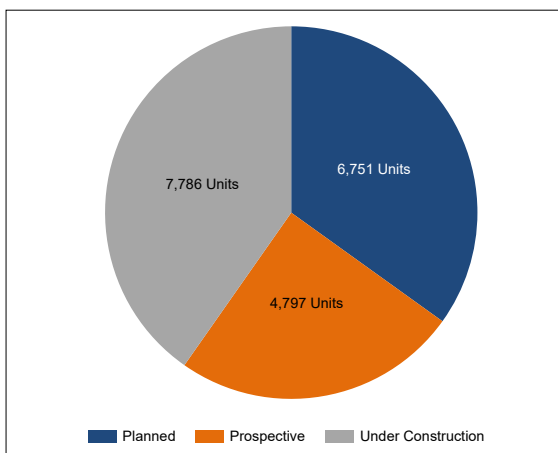
- Approximately 2,200 units came online in 2016, marking a 1.0% inventory expansion, which was 150 basis points below the national average. After hitting a cycle peak in 2015 with 4,100 units delivered, the metro's pipeline shrunk last year, especially in the central Richmond and core Hampton Roads submarkets.
- Developers have completed more than 15,000 units since the beginning of 2012—the vast majority in Lifestyle assets—and supply has mostly caught up with demand. Nonetheless, there are almost 20,000 units in different stages of development throughout the metro, 7,786 of which are already under construction.
- Development is fairly concentrated, with the top 10 submarkets accounting for two-thirds of the metro's total number of units under construction. The list is led by Powells Corner (764 units), the Fan District (659 units; \$1,231 average rent) and Norfolk–South (484 units; \$1,296 average rent).
- Despite the risk of overbuilding, developers are betting on Richmond's fairly stable economy over the long run. Three of the five largest projects under construction are not slated to be completed for at least a year. The list includes the 385-unit Moore's Lake in Chester, the 364-unit MARQ in Powells Corner and the 327-unit Libbie Mill in Lakeside.

### Richmond vs. National Completions as a Percentage of Total Stock (as of April 2017)



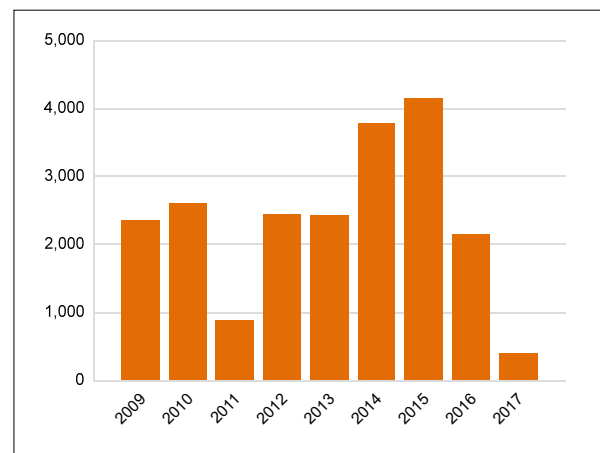
Source: YardiMatrix

### Development Pipeline (as of April 2017)



Source: YardiMatrix

### Richmond Completions (as of April 2017)

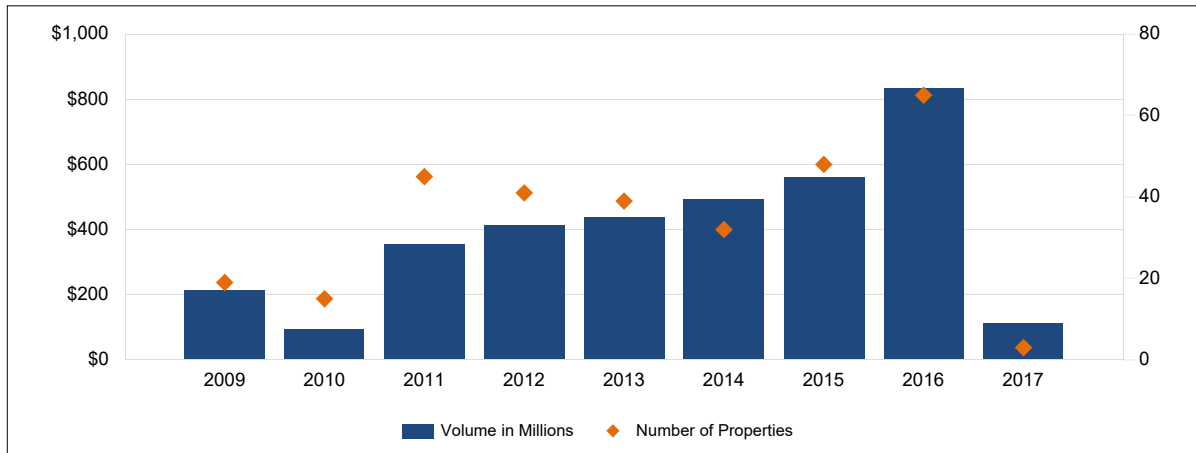


Source: YardiMatrix

## Transactions

- Investor appetite is growing in Richmond–Tidewater, with 2016 marking the sixth consecutive cycle high for transaction volume. Roughly \$830 million worth of assets traded last year, a 48% increase since 2015.
- Per-unit prices fell to \$79,068 last year, down 5.7% from 2015 and well below the \$133,876 national average. The dip is largely due to investors betting heavily on value-add plans, with almost 70% of the units traded in 2016 being Class B and C assets. This trend has been apparent throughout the cycle, albeit to a lesser extent. As Richmond is a relatively affordable metro, investors are catering to residents with expanding payrolls seeking to upgrade by acquiring and refurbishing cheap and readily available working-class assets.
- Out of the top 10 submarkets by transaction volume for the year ending in April, nine are located in Hampton Roads. Virginia Beach–North leads the list with four assets trading for a total of \$95 million, or \$94,182 per unit.

### Richmond Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

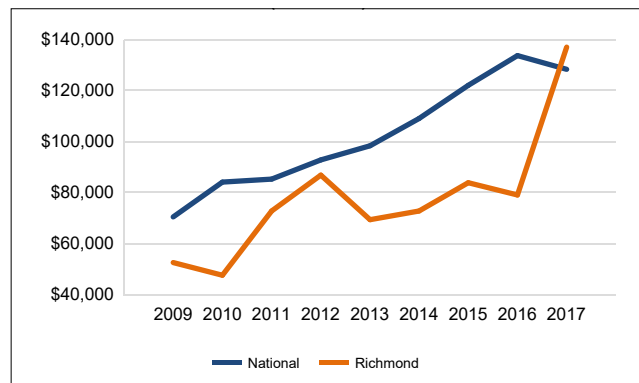
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Virginia Beach–North	95
Henrico	71
Newport News–South	71
Chesapeake	60
Bernard Village	56
Newport News–North	49
Hampton–East	45
Williamsburg–North	42

Source: YardiMatrix

<sup>1</sup> From May 2016 to April 2017

### Richmond vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



Home2 Suites by Hilton  
Debuts in Roanoke, VA



H2 Capital Nabs  
Virginia Assets



Divaris to Manage Class A  
Office Asset in Norfolk CBD



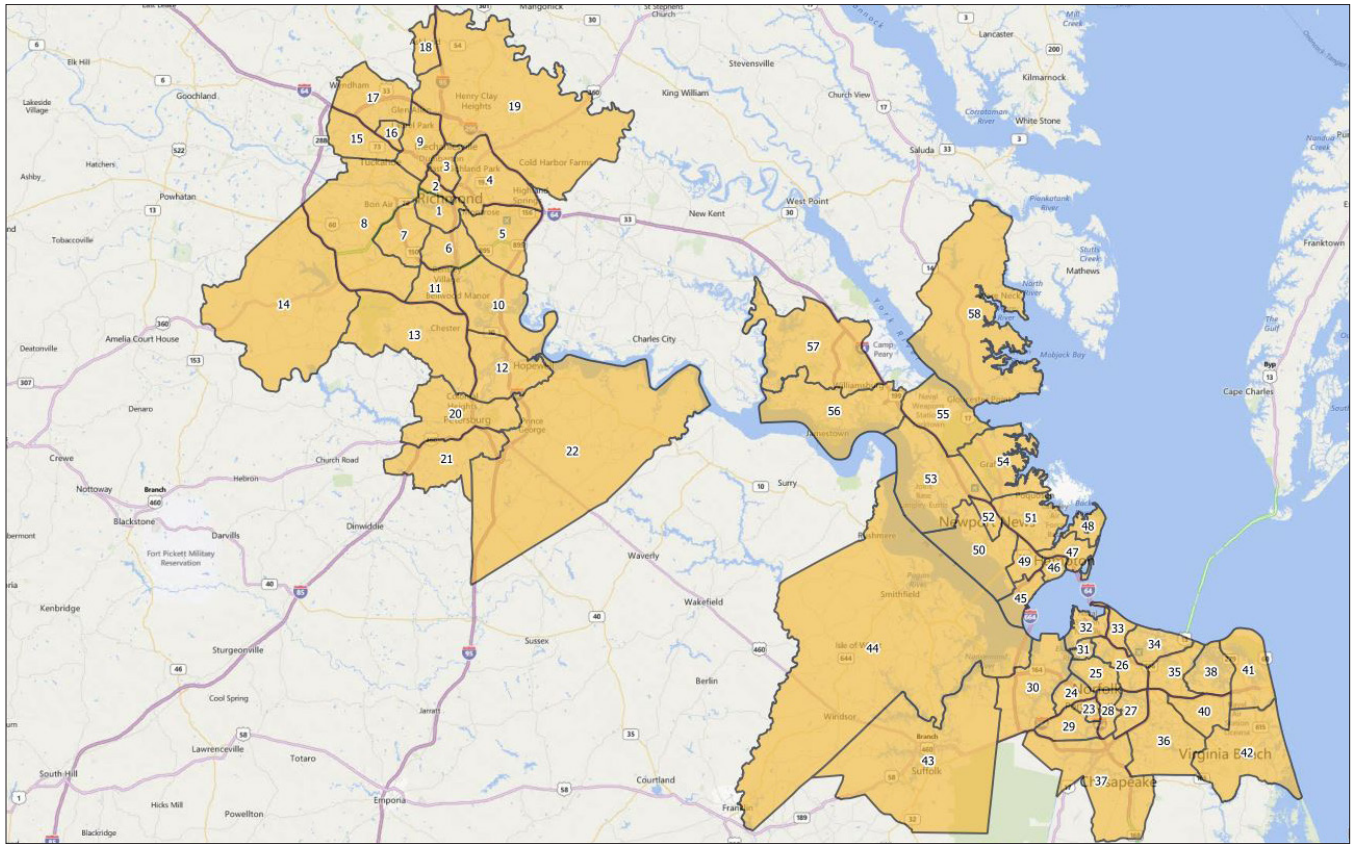
Berkadia Lines Up \$34M  
Refi for Richmond Asset

Get the latest Richmond real estate  
news at





## Richmond Submarket Map



Area #	Submarket
1	Church Hill–Manchester
2	Fan District
3	Richmond–North
4	Mechanicsville
5	Montrose
6	Richmond–South
7	Richmond - West
8	Bon Air–Midlothian
9	Lakeside
10	Hennicus Park
11	Bellwood
12	Hopewell
13	Chester
14	West Chesterfield County
15	Tuckahoe
16	Henrico
17	Wyndham
18	Ashland
19	Henry Clay Heights
20	Petersburg–North
21	Petersburg–South
22	Prince George County
23	Portsmouth–South
24	Portsmouth–North
25	Norfolk–South
26	Norfolk–North
27	Knob Hill
28	Edmonds Corner
29	Geneva Park
30	Belleville
31	Lochhaven

Area #	Submarket
32	Merrimack Park
33	Washington Park–Oceanair
34	Bayside–Larrymore Lawns
35	Hollywood–Thalia
36	Acredale
37	Chesapeake
38	Birchwood Gardens
40	Powells Corner
41	Virginia Beach–North
42	Virginia Beach–South
43	Suffolk
44	Smithfield
45	Marshall
46	Hampton–South
47	Hampton–East
48	Hollywood
49	Aberdeen Gardens
50	Newport News–South
51	Hampton–North
52	Bernard Village
53	Newport News–North
54	Poquoson
56	Williamsburg–South
57	Williamsburg–North
58	Gloucester Point
41	Virginia Beach–North
42	Virginia Beach–South
43	Suffolk
43	Maplewood
44	Oakdale–North
45	Oakdale–South

---

## 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 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.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

# What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



[cpexecutive.com](http://cpexecutive.com)



[multi-housingnews.com](http://multi-housingnews.com)

Visit our websites and sign up for our free emailed newsletters at [cpexecutive.com/subscribe](http://cpexecutive.com/subscribe) and [multi-housingnews.com/subscribe](http://multi-housingnews.com/subscribe).

---

#### DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

#### COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.