



MULTIFAMILY REPORT

Richmond Steadies Ship

October 2022

Investment Likely to Slow After Hot Year

Construction Activity Remains Strong

Job Market Posts Middling Numbers

RICHMOND MULTIFAMILY



Richmond-Tidewater Rides Tall Wave

At a point when the national market is finally seeing an expected shift, Richmond-Tidewater's multifamily sector is enjoying a solid moment. Rent development outpaced the national rate of improvement on a trailing three-month basis, at 0.7% as of August. That still puts the average rent at \$1,469, a long way from the \$1,718 U.S. figure. However, improvement is still in the cards, with the average occupancy rate as of July at 96.5%, 60 basis points higher than the national overall rate. With the construction market heavily tilted to the Lifestyle segment, further rent expansion is likely.

Richmond's employment market is growing conservatively, having added 25,600 jobs in the 12 months ending a June, a 1.7% growth rate year-over-year. Improvement is mostly driven by the recovery of the leisure and hospitality sector, while other sectors continued to shed jobs. Still, ongoing infrastructure projects in the metro, its armed forces-anchored economy and large-scale projects such as Future Cities and Concord Eastridge's proposed \$2.3 billion ecodistrict should provide continued stability for the job market.

Sales activity in Richmond-Tidewater has been positive through the 12 months ending in August, as more than \$3.1 billion in multifamily assets traded. Construction also had a strong 2021 that continued through 2022, but a slowdown in both areas due to rising costs and interest rate-related concerns may dent activity.

Market Analysis | October 2022

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Recent Richmond Transactions

The Trails at Short Pump



City: Richmond, Va.
Buyer: Capital Square
Purchase Price: \$89 MM
Price per Unit: \$255,000

Glenmoor Oaks



City: Moseley, Va.
Buyer: NorthRock Cos.
Purchase Price: \$72 MM
Price per Unit: \$290,323

ReNew Virginia Beach



City: Virginia Beach, Va.
Buyer: FPA Multifamily
Purchase Price: \$70 MM
Price per Unit: \$197,443

Rivers Landing



City: Hampton, Va.
Buyer: PRG Real Estate
Purchase Price: \$27 MM
Price per Unit: \$108,738

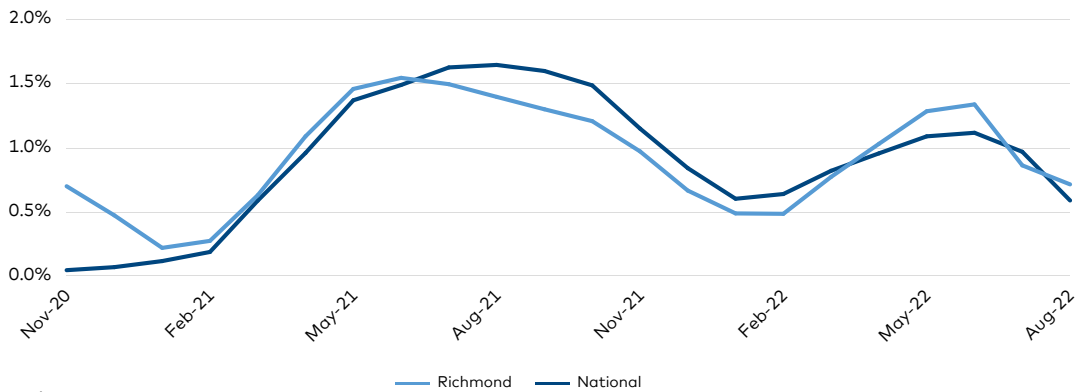
RENT TRENDS

- ▶ Rent development in Richmond-Tidewater was 0.7% on a trailing three-month (T3) basis, 10 basis points over the U.S. rate. Nationally, rent growth is decelerating after a prolonged interval of overperformance, while the metro has seen solid dynamics this summer.
- ▶ The metro's average overall rate was \$1,469 as of August, up 9.0% on a year-over-year basis. Improvement has largely lagged national trends, as the market had less of a fiery second half of 2021. As a result, rents in Richmond still significantly lag the national average, which stood at \$1,718.
- ▶ Following a stellar year for multifamily deliveries in 2021, the average occupancy rate in stabilized

assets has taken a 30-basis-point slide, to 96.5% as of July. That's still 60 basis points higher than the national rate, meaning that, despite the slight dip, Richmond-Tidewater is still one of the tighter rental markets in the U.S.

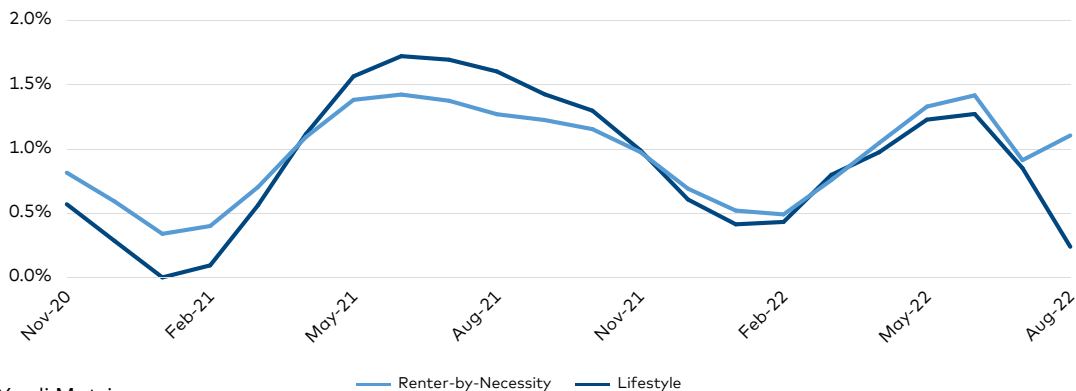
- ▶ No submarkets saw rent decreases on a year-over-year basis, Yardi Matrix data shows. Gains were generalized, led by improvement in Mechanicsville (23.7% year-over-year), Virginia Beach-Bayside (20.9%), Norfolk-Southeast (20.6%) and Portsmouth-North (20.5%).
- ▶ The single-family rental sector also saw improvement through the interval, with rents up 3.2% on a year-over-year basis, while occupancy plateaued.

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-Tidewater added 25,600 jobs in the 12 months ending in June, mostly on the back of the leisure and hospitality sector's continued resurgence. The new positions translated into 1.7% employment growth on a year-over-year basis, significantly trailing the U.S. rate, at 4.7%.
- ▶ Richmond unemployment was 3.2% as of July, trending slightly upward since April, when the rate was 40 basis points lower. The metro trails the state-level unemployment rate, at 2.7%, which moved down during spring and summer.
- ▶ Leisure and hospitality saw the most improvement, at 21,600 jobs, as the sector continued to fight to regain positions lost during the early stages of the pandemic.
- ▶ The public sector, which accounts for the largest employment share in the metro, was down 3,900 jobs, or 1.5%, as a change in governorship in 2021 has driven a contraction in jobs.
- ▶ Although the construction sector recorded some losses, down 1,800 jobs, multifamily construction started the year off strong, while other projects in the pipeline will ensure stability for the sector. Future Cities and Concord Eastridge are developing a \$2.3 billion mixed-use ecodistrict in Henrico County that will also feature a 17,000-seat arena.

Richmond Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	171	11.7%
65	Education and Health Services	212	14.5%
60	Professional and Business Services	236	16.1%
80	Other Services	64	4.4%
50	Information	15	1.0%
40	Trade, Transportation and Utilities	251	17.1%
15	Mining, Logging and Construction	80	5.5%
30	Manufacturing	87	5.9%
55	Financial Activities	90	6.1%
90	Government	261	17.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Richmond added 8,700 residents in 2021, a population increase of 0.6%, well outpacing the national rate of 0.1%. Population has been steadily growing in the past decade but really took a step forward in 2020, due to residents looking for lower-density housing options on the East Coast.

Richmond vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Richmond	1,306,248	1,317,717	1,340,049	1,348,732

Source: U.S. Census

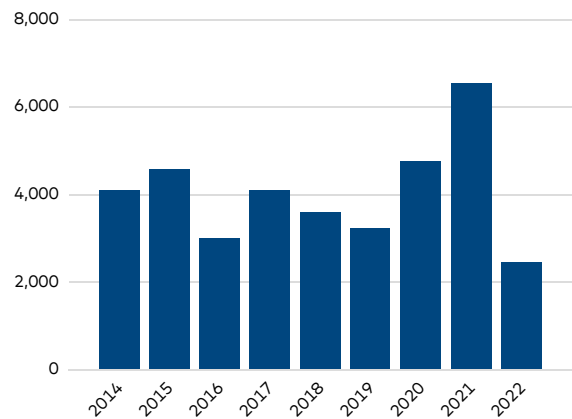
SUPPLY

- ▶ There were 11,177 units under construction in Richmond-Tidewater as of August, as the rate of development stayed elevated in the metro. Another 42,400 units were in the planning and permitting stages, pointing to heightened development activity in the long run.
- ▶ Developers completed 2,462 units in the first eight months of the year, accounting for 1.0% of existing rental stock. That's just 30 basis points behind the national figure, fairly in line with general trends, as the market hasn't outperformed the national rate of delivery in the past decade. In 2021, the metro had its best year for deliveries in some time, as 6,552 units were added to the inventory.
- ▶ Development is largely focused on the upscale segment, as roughly three-quarters of units underway are taking shape in communities in the Lifestyle segment. However, despite the lack of interest in Renter-by-Necessity development, the metro actually has 17% of its units under construction set to come online in fully affordable projects.
- ▶ Developers began work on 19 projects comprising 3,765 units through the first eight months of 2022, a slight decline from the 4,101

units that began construction during the same interval last year.

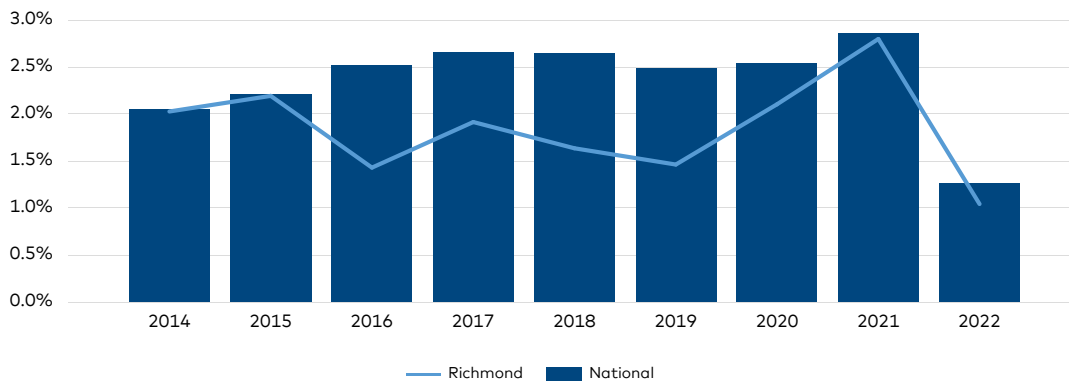
- ▶ The Glen Allen submarket led construction activity by quite a margin, with 1,589 units under construction. Scott's Addition (974 units under construction) and Norfolk-Central West (944 units) rounded out the top three. The three submarkets accounted for nearly a third of all units underway in Richmond-Tidewater.

Richmond Completions (as of August 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

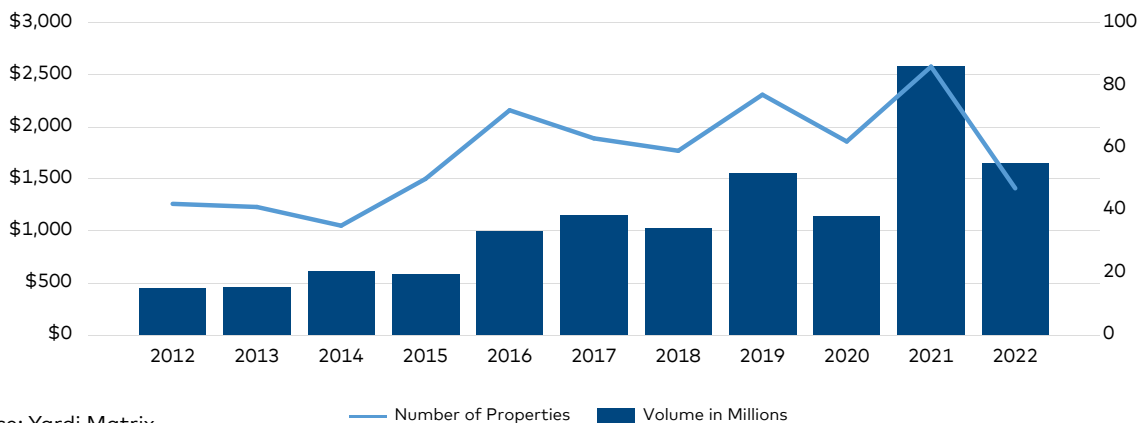
TRANSACTIONS

- ▶ Multifamily investment reached \$1.6 billion through the first eight months of 2022. That's nearly \$600 million more than what traded during the same interval of last year. Moreover, sales recorded through August already made 2022 the second-best year for investment in the past decade.
- ▶ More than two-thirds of sales involved Renter-by-Necessity assets, as value-add opportunities dominated sales activity, accounting for \$1 billion of the volume. Intense competition in

the segment supported an increase in the average overall per-unit price to \$177,939, 16% higher than the 2021 figure.

- ▶ An accelerated rate of investment between the final quarter of 2021 and a very solid first half of this year has pushed sales to more than \$3.1 billion in the 12 months ending in August. However, investment is rapidly cooling across asset classes as credit becomes harder to come by, leading to a slowdown in sales activity.

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



Source: Yardi Matrix

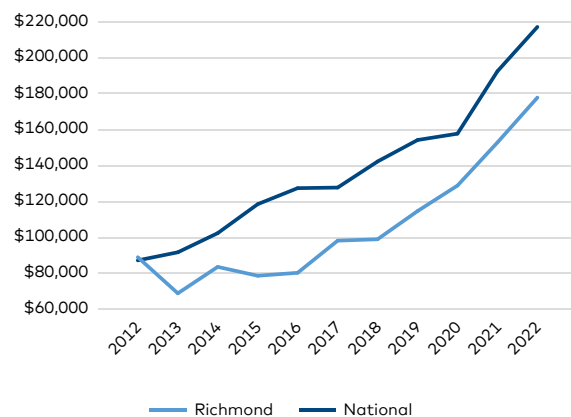
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Richmond–West End	333
Virginia Beach–Northwest	289
North Chesterfield	225
Highland Springs	173
Virginia Beach–West	153
Norfolk–Lafayette River	136
Hampton–South	129

Source: Yardi Matrix

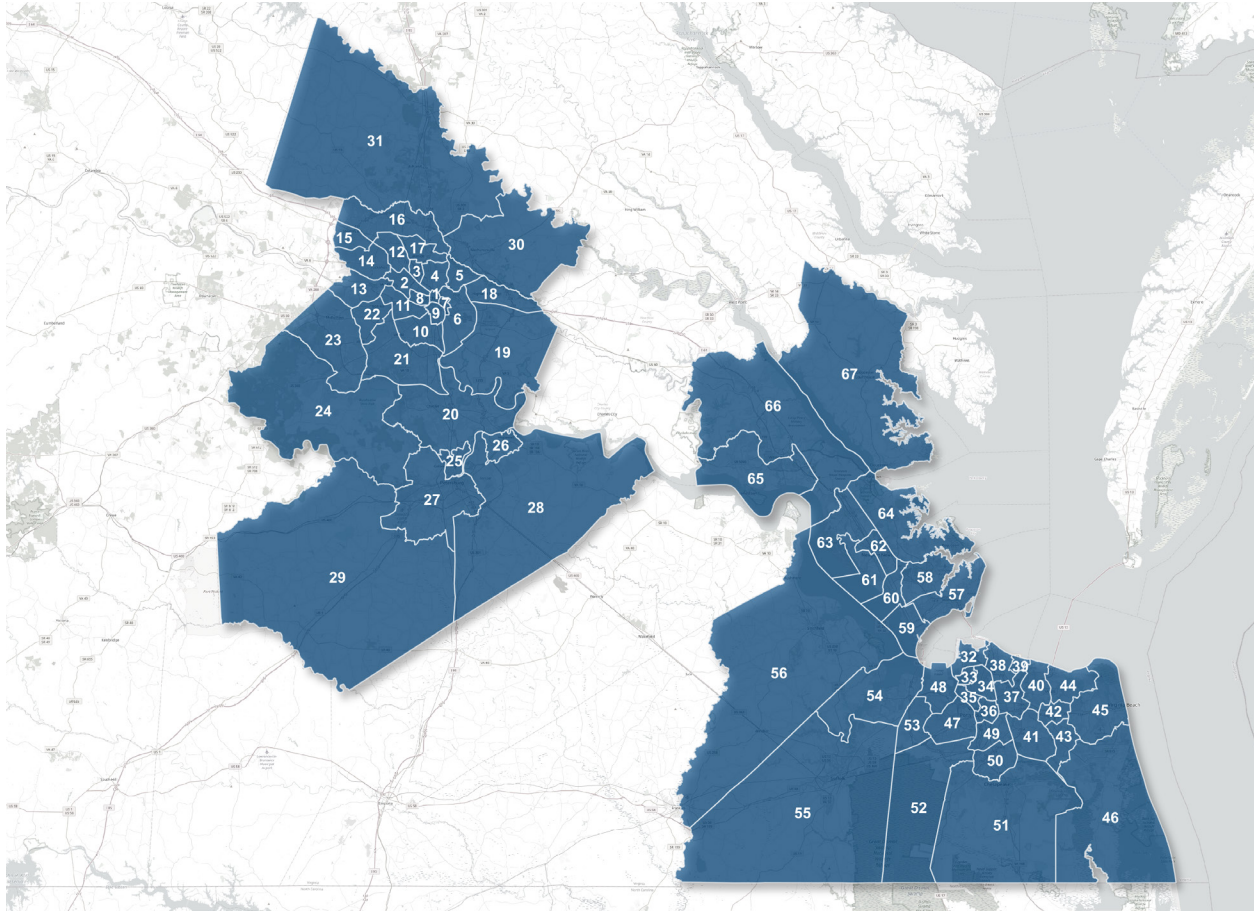
¹ From September 2021 to August 2022

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix

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 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 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, 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.

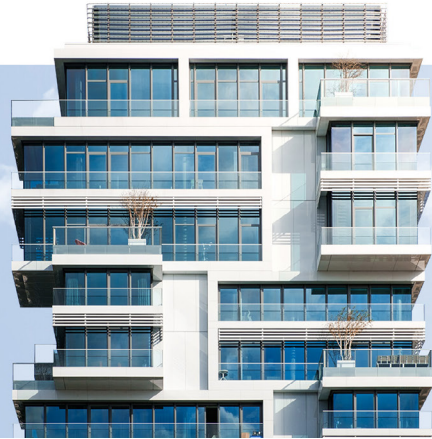
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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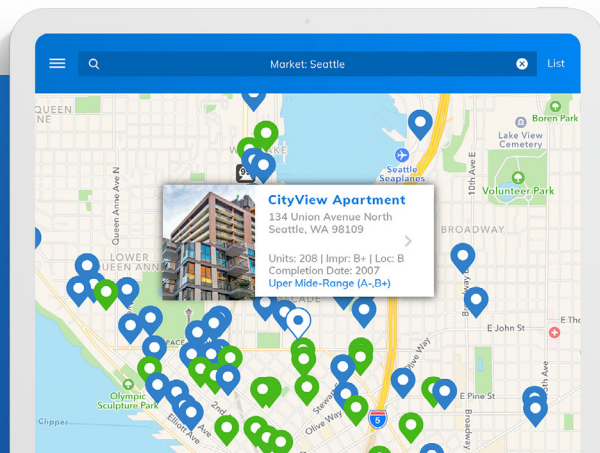
Yardi® Matrix

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leading data provider



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- 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



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