



Yardi® Matrix

# Richmond's Revival

Multifamily Report Fall 2017

**Deliveries to Top Last Year**

**Rent Growth Exceeds U.S. Average**

**Investment Tempers After Cycle High**

## Market Analysis

Fall 2017

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## High-Paying Jobs Add to Upscale Demand

After fears of overbuilding began to subside in 2017's first half, the Richmond-Tidewater multifamily market rebounded, boosted by consistent, substantial job gains in the professional and business services sector. Mainly fueled by demand for upscale apartments, rents were up 2.5% year-over-year through August, surpassing the U.S. growth rate for the first time during the cycle.

Although overall employment growth is tepid and continues to trail the national rate, the metro's economy is slowly but steadily diversifying, drawing investors and large projects. Dominion Energy's 20-story Canal Place headquarters is underway and scheduled to open in 2019. The Virginia Port Authority has kicked off a \$670 million project expected to expand the port's container capacity by 40%. The pipeline also includes a 1,035-unit master-planned project in Glen Allen and a large Ikea store in Norfolk, as well as a \$2 billion data center park and a \$220 million arena, both in Virginia Beach.

Roughly \$375 million in assets traded in 2017 through July, with investment moderating after last year's \$880 million cycle peak. Although 2,200 units came online this year through August and another 1,000 are slated for delivery by December, the occupancy rate in stabilized properties rested at 95.3% as of July, staying flat year-over-year. Demand for Lifestyle apartments is bound to remain relatively steady, leading us to predict that rent growth will reach 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

Wellesley Terrace



City: Richmond, Va.  
Buyer: General Services Corporation  
Purchase Price: \$51 MM  
Price per Unit: \$150,375

The Pointe at New Town



City: Williamsburg, Va.  
Buyer: The Penzance Companies  
Purchase Price: \$47 MM  
Price per Unit: \$177,736

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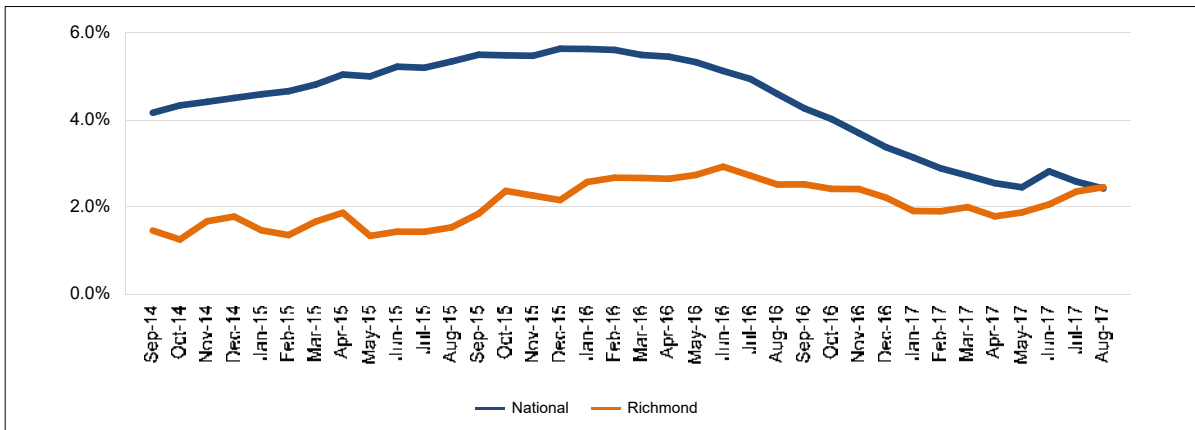
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## Rent Trends

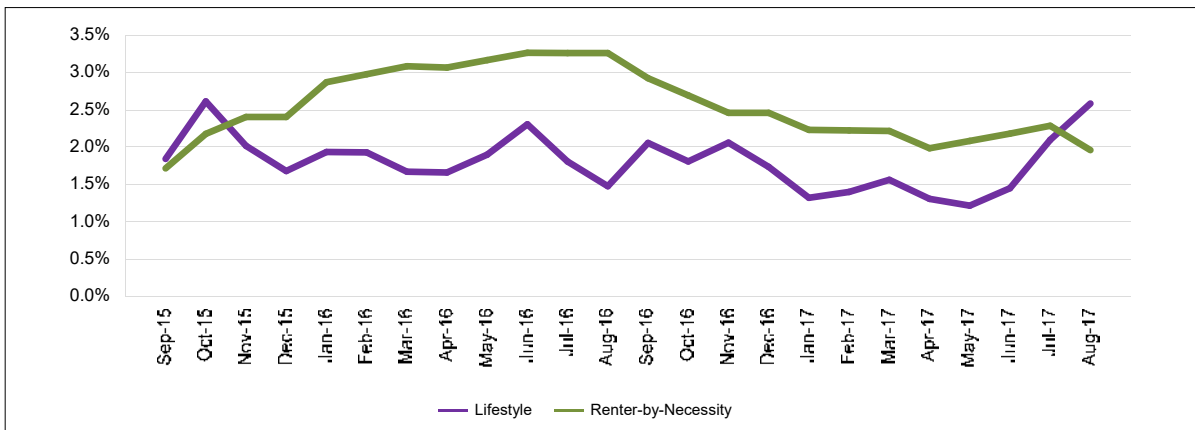
- Richmond rents were up 2.5% year-over-year through August, 10 basis points above the U.S. average, marking the first time this cycle that the metro outperformed the nation. At \$1,044 as of August, rents in Richmond were more than \$300 below the national figure.
- Rents in the Renter-by-Necessity segment grew 2.0%, to \$937. For the first time since 2015, Lifestyle rent growth surpassed the increase in rent for working-class properties, which were up 2.6% to \$1,271. Although more than 85% of the units delivered since January 2016 are in Class A and B-plus communities, demand for upscale apartments remains healthy. With both Richmond and Hampton Roads generating high-paying positions at a fast pace while losing lower-paying jobs in trade, transportation and utilities, the demand balance has slightly shifted toward the Lifestyle segment.
- Rents are up across most of core Richmond, including Church Hill/Manchester (5.6%) and Fan District (5.2%). Growth is spotty in Hampton Roads: While gains are consistent in several central submarkets such as Portsmouth–South (8.8%) and Edmonds Corner (8.7%), rents are contracting in other areas, including Birchwood Gardens (-7.5%) and Norfolk–South (-1.5%). With the metro slowly but steadily adding high-paying jobs, we expect rent growth to reach 3.5% 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)

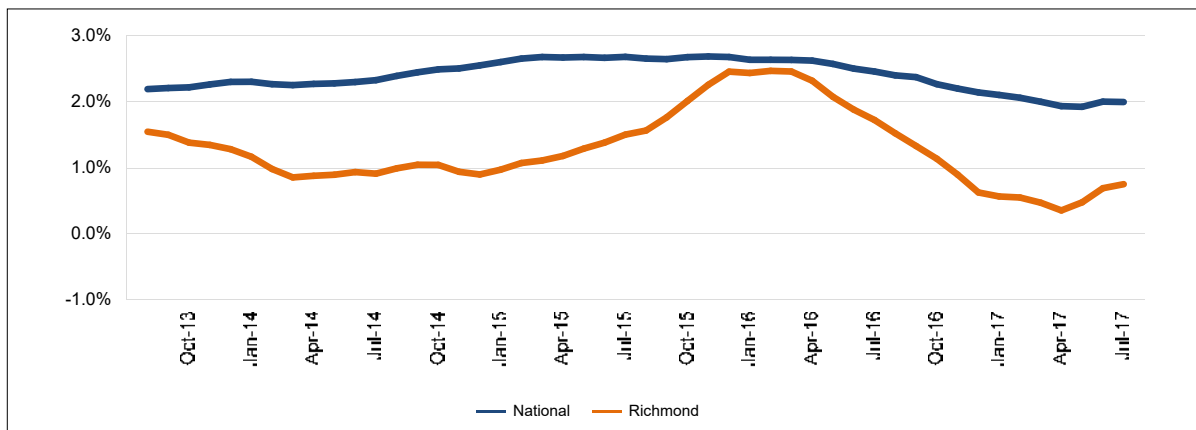


Source: YardiMatrix

## Economic Snapshot

- Richmond added 14,300 jobs in the year ending in July, trailing the 2.0% U.S. growth rate by roughly 120 basis points. Anchored by financial institutions, military facilities, federal contractors, health-care providers, the Virginia Commonwealth University and the Port of Virginia, the metro's economy is stable, albeit underperforming when compared to the national average.
- Professional and business services led growth, adding 11,900 jobs and marking the largest sector expansion. The addition of high-paying jobs is also reflected in solid office market fundamentals. According to CBRE, the Richmond market absorbed more than 400,000 square feet of office space in the second quarter of 2017, a new 10-year high. The vacancy rate, at 10.7% mid-year, tightened by almost 1.2% since the first quarter of 2017.
- Although relying heavily on federal spending and military bases, cities in the Hampton Roads area are striving to diversify their economy. Virginia Beach is becoming a hub for undersea data cables, which is creating demand for data centers and could transform the area into a tech hot spot. At the same time, the city has a \$220 million arena in the works, with the developer moving closer to breaking ground. The project, approved since 2015, is expected to boost the area's leisure and hospitality sector. Furthermore, Virginia Port Authority has kicked off a \$670 million, three-year expansion project that is slated to increase the port's container capacity by 40%.

### 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	%
60	Professional and Business Services	228	15.7%	11,900	5.5%
15	Mining, Logging and Construction	78	5.4%	3,300	4.4%
90	Government	266	18.3%	2,600	1.0%
65	Education and Health Services	210	14.4%	2,400	1.2%
70	Leisure and Hospitality	165	11.3%	200	0.1%
30	Manufacturing	83	5.7%	100	0.1%
50	Information	18	1.2%	-700	-3.7%
55	Financial Activities	88	6.0%	-800	-0.9%
80	Other Services	68	4.7%	-1,100	-1.6%
40	Trade, Transportation and Utilities	252	17.3%	-3,600	-1.4%

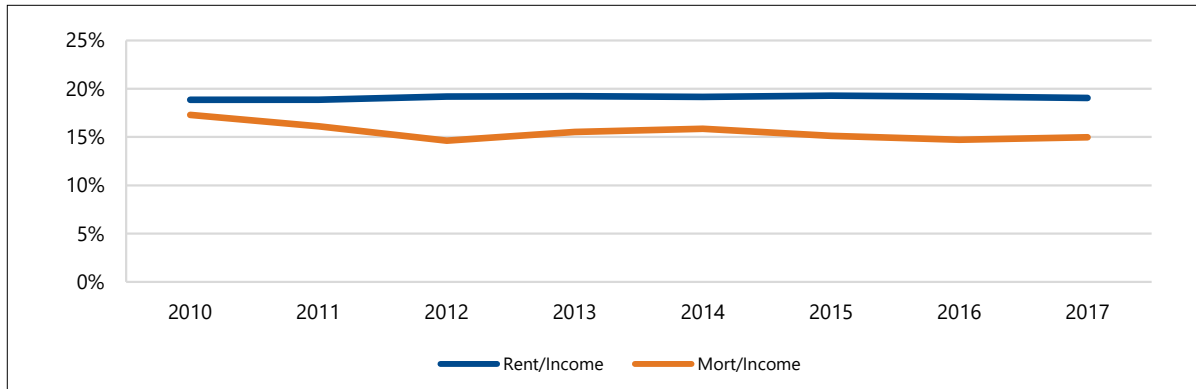
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

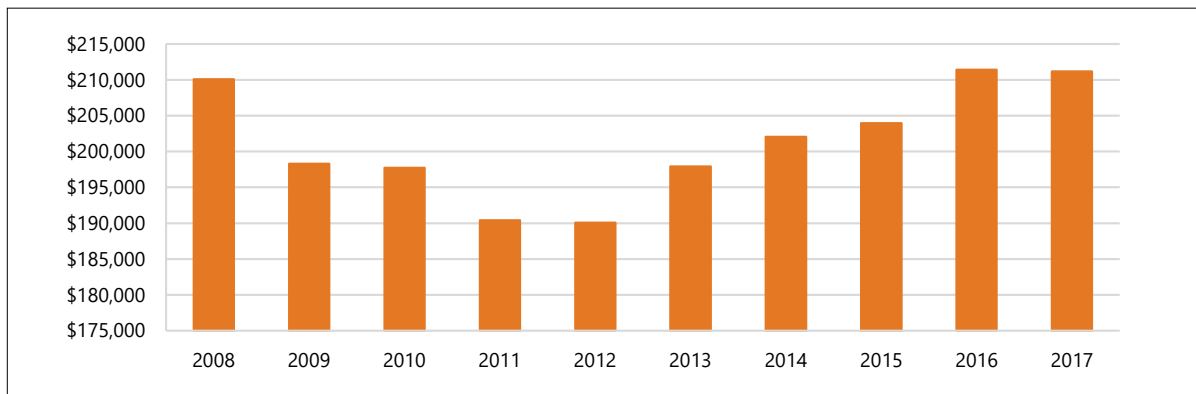
- The Richmond-Tidewater median home price was \$211,171 for the first half of 2017, maintaining last year's average valuation. Hitting a cycle peak of \$211,409 in 2016, home prices reached pre-recession levels after four consecutive years of significant improvement.
- Renting continues to be the less costly option in Richmond-Tidewater. The average mortgage payment accounts for 15% of the metro's median income, while the average rent of \$1,044 takes up as much as 19%. Rents and mortgages appreciated during the better part of the cycle, along with incomes. As a result, affordability remained virtually unchanged during the past five years.

### 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 71,400 residents between 2010 and 2016. This accounts for a 5.9% growth rate, 140 basis points above the U.S. average.
- The city added roughly 11,300 people in 2016 alone, representing a 0.9% increase.

### Richmond vs. National Population

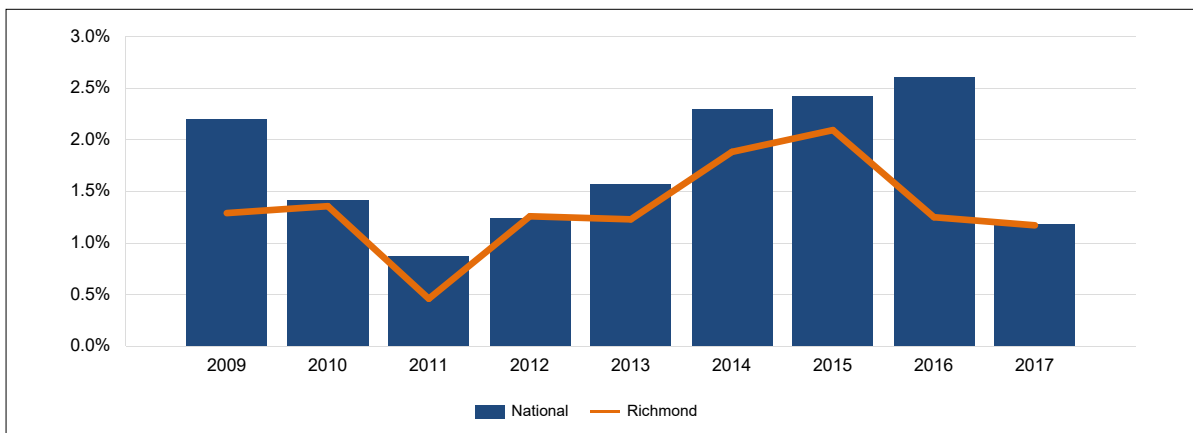
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Richmond Metro	1,233,682	1,246,100	1,258,885	1,270,414	1,281,708

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

## Supply

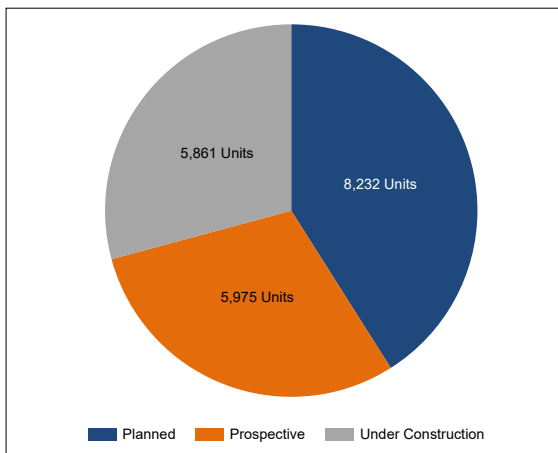
- More than 2,200 units came online in Richmond-Tidewater this year through August, 350 units short of 2016's total completions. With an additional 1,000 units scheduled for delivery by December, the metro is well on track to surpass last year's inventory expansion. Although deliveries are slowing down across the nation—many projects are suffering delays this year due to workforce shortages—the Richmond-Tidewater pipeline has remained largely unaffected.
- Roughly 18,500 units have come online since 2012—the vast majority in upscale communities—and construction activity in Richmond is on the rebound after a slower 2016. There were 5,900 units under construction as of August, the bulk of them slated for delivery in 2018 and 2019. The metro's pipeline adds up to 20,000 units in all stages of development.
- Although development is spread out across the map, Hampton Roads dominates the pipeline, with Powells Corner (616 units), Hollywood–Thalia (568) and Norfolk–South (567) having the most units under construction. The following five submarkets—all within or close to Richmond—add up to more than 2,000 units. The list includes two core submarkets: Church Hill–Manchester (539 units) and Fan District (369).

**Richmond vs. National Completions as a Percentage of Total Stock** (as of August 2017)



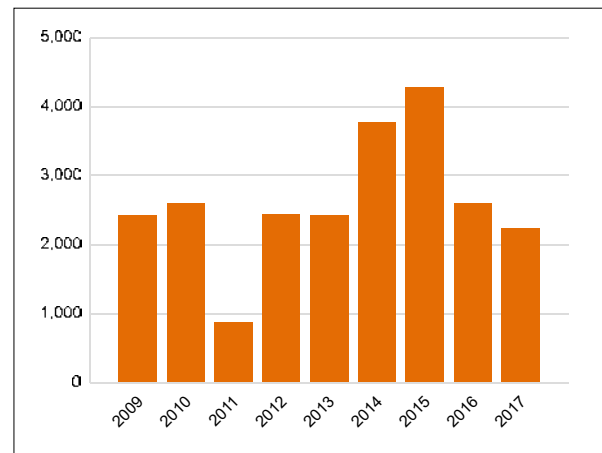
Source: YardiMatrix

**Development Pipeline** (as of August 2017)



Source: YardiMatrix

**Richmond Completions** (as of August 2017)

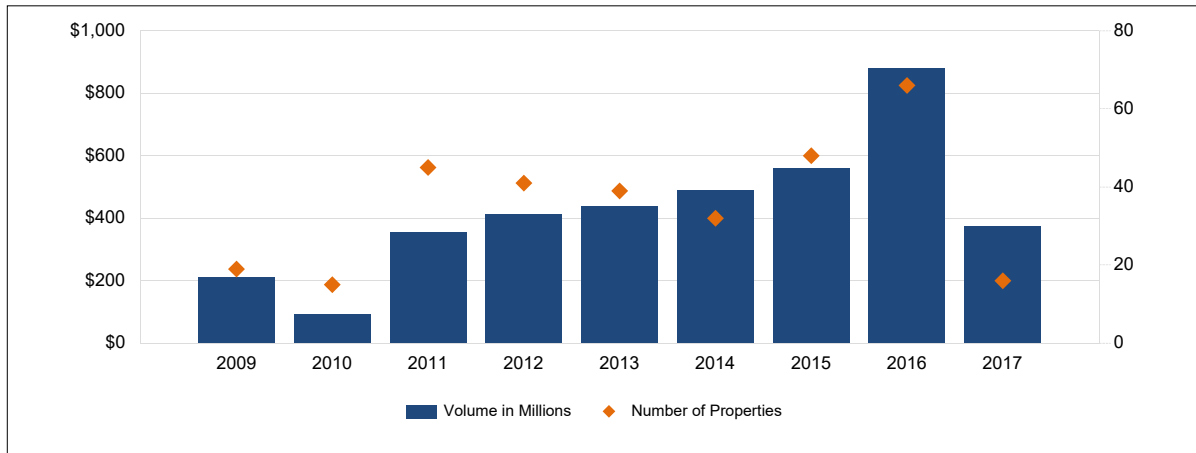


Source: YardiMatrix

## Investment Transactions

- Some \$375 million in multifamily assets traded in Richmond-Tidewater this year through July, marking a slowdown after 2016's cycle high of \$880 million.
- Per-unit prices reached \$104,000 in the first seven months of 2017, up 28% from last year but still below the \$133,537 U.S. average. The price spike is due to a shift in investment interest: Several high-profile Lifestyle deals completed this year have bucked the trend of value-add buys, which had dominated the current cycle.
- Investor activity is heavily focused on Hampton Roads, with 11 of the top 15 transactions in the year ending in July taking place in the area. Although Virginia Beach and Newport News are drawing the most interest, the state capital remains on the radar: During the same 12 months, almost 1,900 units traded in submarkets within the city of Richmond, at an average per-unit price of \$89,553.

**Richmond Sales Volume and Number of Properties Sold** (as of July 2017)



Source: YardiMatrix

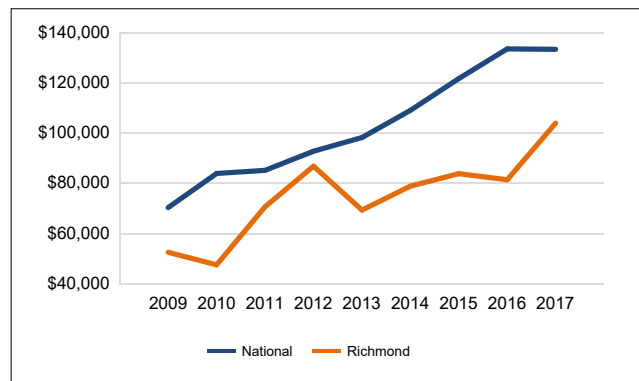
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Williamsburg–North	89
Virginia Beach–North	84
Newport News–South	70
Newport News–North	60
Chesapeake	60
Tuckahoe	51
Belleville	44
Bernard Village	43

Source: YardiMatrix

<sup>1</sup> From August 2016 to July 2017


**Richmond vs. National Sales Price per Unit**





Source: YardiMatrix

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 Pillar Provides Freddie Mac Loan For Richmond Community

 IKEA Taps Linkous Construction For 2nd VA Location

 Upcoming VA Community Lands \$24M Construction Financing

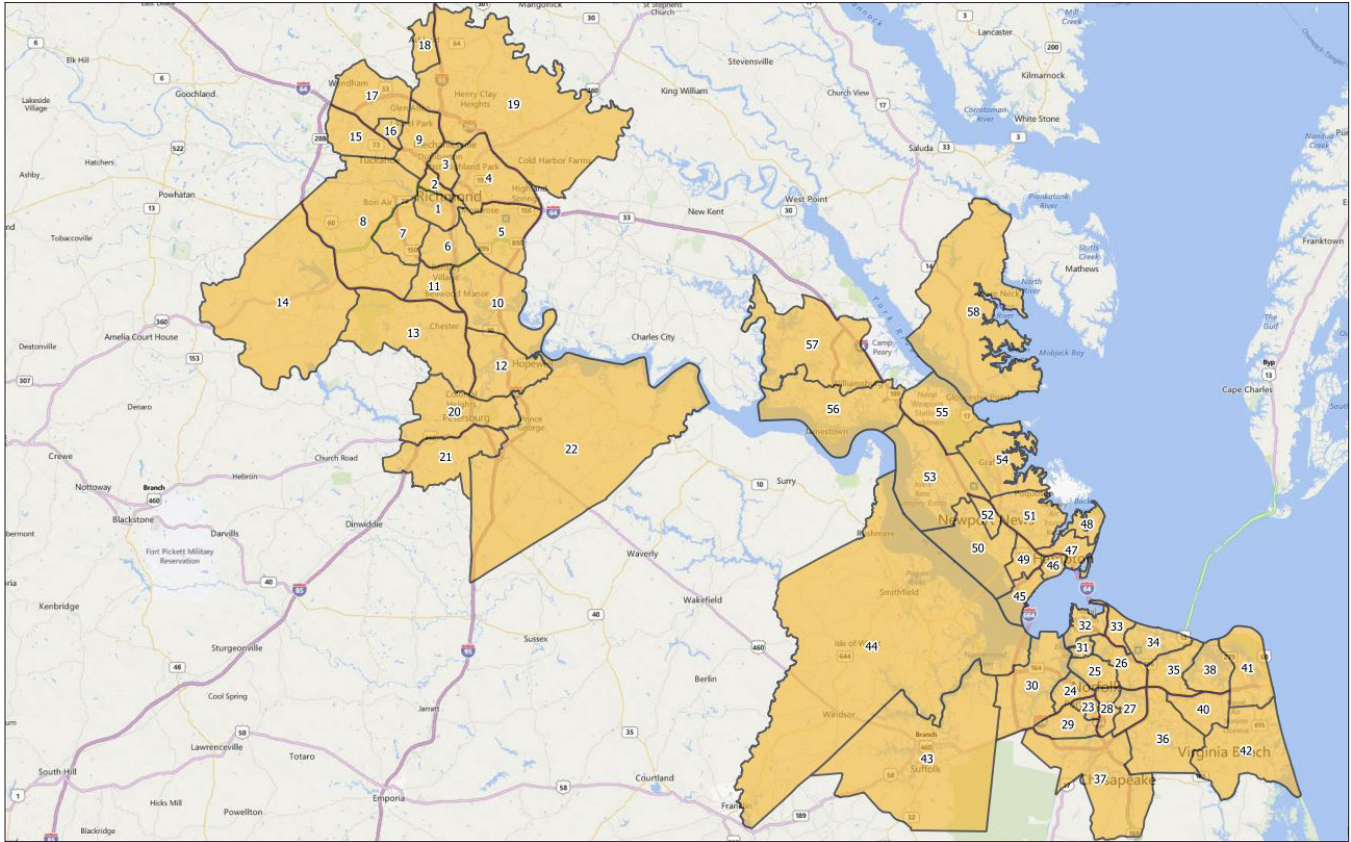
 C&W Adds New Tenant To VA Office Tower

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# Richmond Submarkets



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	Hennucus 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–Larrimore 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	Hallwood
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

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## 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.

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