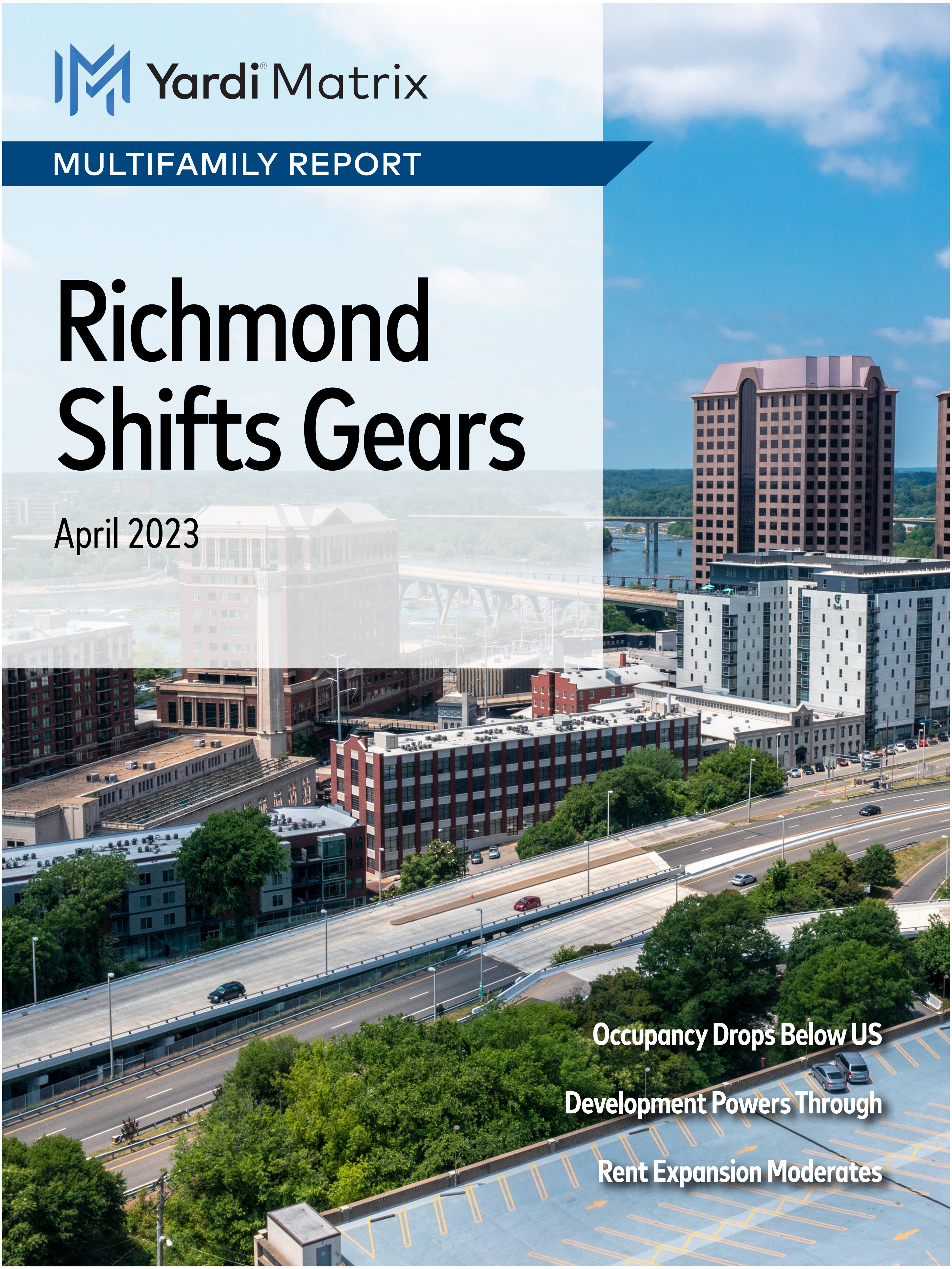
Yardi Matrix

MULTIFAMILY REPORT

Richmond Shifts Gears

April 2023



Occupancy Drops Below US

Development Powers Through

Rent Expansion Moderates

RICHMOND MULTIFAMILY

Yardi Matrix

Rent Growth Stalls, Development Endures

In line with the national cooldown and on the tail end of seasonal sluggishness, Richmond's multifamily market is now rebounding closer to historic figures. The average rent was down 30 basis points on a trailing three-month basis as of February, bringing year-over-year growth to 5.3%, still above the 4.8% U.S. figure. Meanwhile, occupancy took a hit, down 190 basis points in the 12 months ending in January, to a still relatively healthy 94.9%.

The area's economy is a mixed bag, with several sectors recording contractions, including professional and business services (-1,500 jobs) and financial activities (-1,300). However, other sectors, led by education and health services (11,300) and leisure and hospitality (10,900) more than made up for the loss. What's more, employment remained tight, at 3.4% in the Richmond MSA and 3.5% in the Hampton Roads area. While the metro's job growth has trailed the nation for the better part of the past 10 years, the area continues to add multibillion-dollar projects that are drawing capital and boosting employment. The list includes large developments from Lego and Meta, in addition to the $2.3 billion mixed-use GreenCity.

Developers are doubling down in Richmond, having started work on 7,081 apartments last year, following the 4,931 units recorded in 2021. Yardi Matrix expects 4,433 units to come online this year, on par with the metro's five-year average. Meanwhile, transaction activity slowed down at the start of 2023, after two record years.

Market Analysis | April 2023

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Bogdan Odagescu
Senior Editor

On the cover: Photo by Kyle Little/iStockphoto.com

Recent Richmond Transactions

Riverlands

City: Newport News, Va.
Buyer: Blackfin Real Estate Investors
Purchase Price: $42 MM
Price per Unit: $104,455

Royal Pointe

City: Virginia Beach, Va.
Buyer: Featherstone Partners
Purchase Price: $36 MM
Price per Unit: $173,077

Laurel Pines

City: Richmond, Va.
Buyer: Highlands Vista Group
Purchase Price: $21 MM
Price per Unit: $175,000

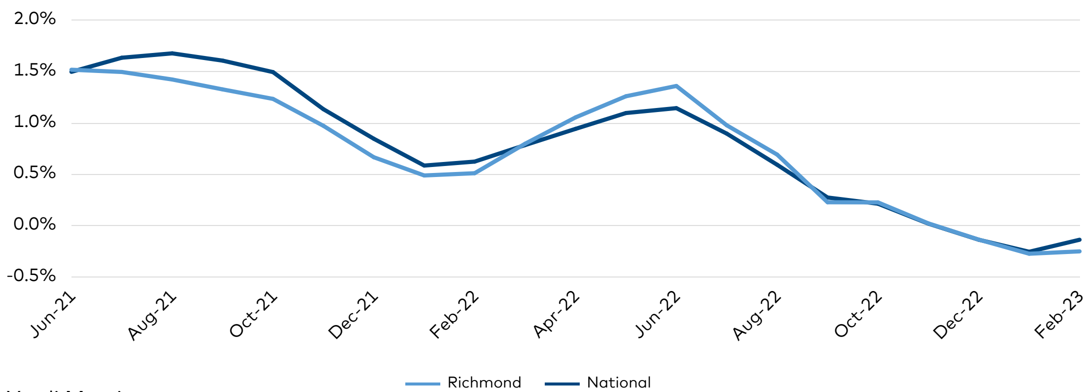
Forest Ridge

City: Richmond, Va.
Buyer: Ritz Banc Group
Purchase Price: $19 MM
Price per Unit: $142,963

RENT TRENDS

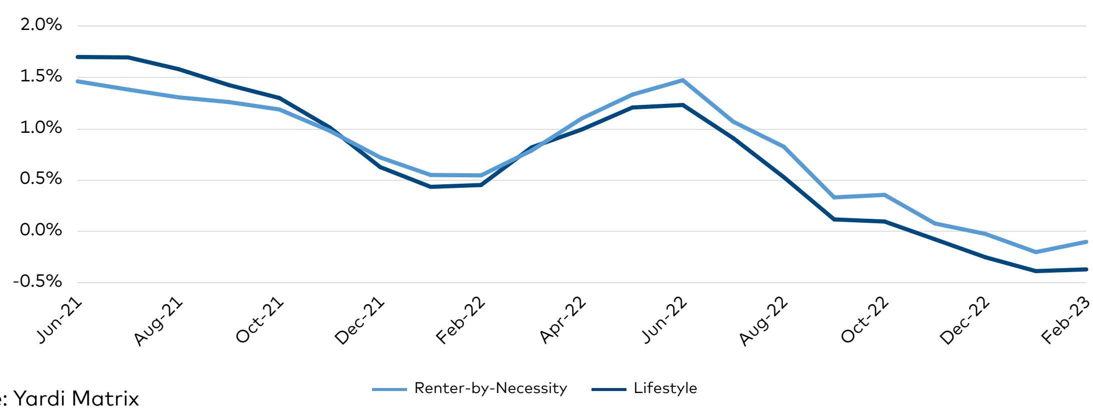
- Richmond rents were down 30 basis points on a trailing three-month (T3) basis as of February, to $1,458, while the U.S. rate dropped 10 basis points, to $1,702. The seasonal slowdown is in its final stretch, but the market is still facing dampening demand, brought in large part by a rocky economy and slowing household formation. Even so, year-over-year growth remained in positive territory, at 5.3% as of February, above the 4.8% national average.
- Working-class Renter-by-Necessity rates fared better, down just 10 basis points on a T3 basis, to $1,315. Meanwhile, Lifestyle rents were down 40 basis points, reaching $1,700. The trend has been apparent for some time now: Year-over-year, RBN rents were up 6.6%, while rates for Lifestyle units advanced significantly slower, at 3.9%.
- Of the 65 submarkets tracked by Yardi Matrix, 16 recorded double-digit rent growth year-over-year as of February. The list includes Mechanicsville (up 16.1% to $1,559), Virginia Beach-Northwest (12.8% to $1,495) and Hopewell (10.4% to $1,081). Meanwhile, Virginia Beach-Bayside ($1,810 average rent), Three Chopt ($1,798) and Stony Point ($1,730) remained the most expensive submarkets.
- Dampening demand is also contributing to the drop in occupancy. The rate in stabilized assets was down a significant 1.9% in the 12 months ending in January, to 94.9%. Occupancy dropped across the quality spectrum, down 2.0% for Lifestyle communities and 1.8% in RBN properties.

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 unemployment clocked in at 3.4% in January 2023, according to preliminary data from the Bureau of Labor Statistics. During the past year, the rate was relatively stable, ranging between 2.8% and 3.7%. Meanwhile, Hampton Roads-area unemployment stood at 3.5% as of January, down from 3.9% one year prior.
- Metro Richmond gained a net 29,700 positions in 2022, which marked a 2.1% employment expansion, below the 3.7% national rate. This is in line with the long-term trend, as Richmond employment growth hasn't outperformed the nation since the first year of the pandemic, and before that, for a few months in 2015.
- The local economy was a mixed bag, with several sectors making strong gains while others shed jobs. Education and health services (11,300 positions) and leisure and hospitality (10,900) led growth, while professional and business services (-1,500), financial activities (-1,300) and construction (-1,100) contracted.
- While the economy is facing roadblocks, there is no shortage of major developments in the Richmond area. The list includes a $1 billion, 1 million-square-foot Lego plant, a significant Meta data center expansion, an Amazon fulfillment center, as well as GreenCity, a $2.3 billion mixed-use project in Henrico County.

Richmond Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	218	14.7%
70	Leisure and Hospitality	162	10.9%
40	Trade, Transportation and Utilities	264	17.8%
30	Manufacturing	90	6.1%
90	Government	269	18.2%
80	Other Services	65	4.4%
50	Information	15	1.0%
15	Mining, Logging and Construction	78	5.3%
55	Financial Activities	89	6.0%
60	Professional and Business Services	231	15.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- While major coastal cities lost residents in 2021, Richmond continued to grow. The metro added 8,683 people, for a 0.6% uptick. Meanwhile, the U.S. grew by only 0.1%.
- Richmond gained 115,395 residents in the past 10 years, marking a 9.5% expansion.

Richmond vs. National Population

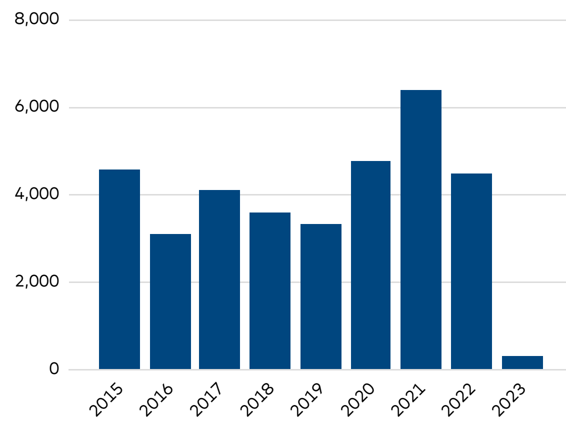
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Richmond	1,306,248	1,317,717	1,340,049	1,348,732

Source: U.S. Census

SUPPLY

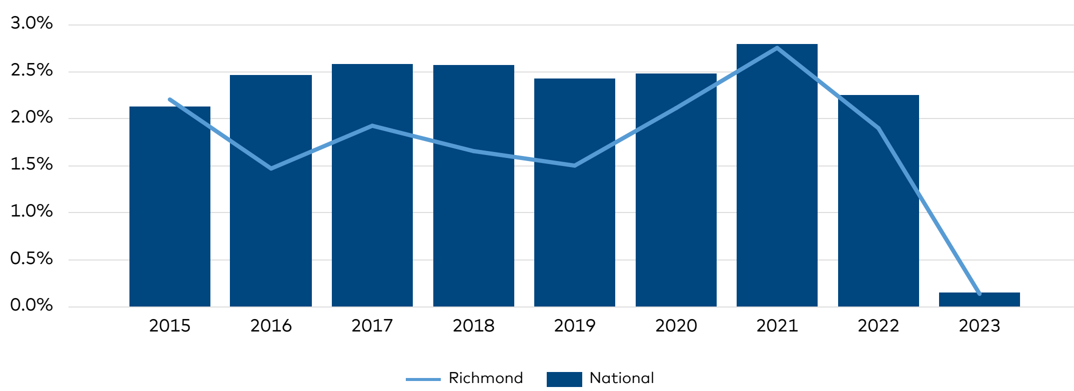
- The metro had 12,733 apartments underway as of February, with an additional 50,000 in the planning and permitting stages. Yardi Matrix expects 4,433 units to come online in 2023, in line with the metro's recent pace. Despite compounding economic headwinds, the pipeline is not slated to shrink, at least not in the short term: Work began on 7,081 units across 37 communities last year, significantly above the 4,931 units in 20 properties recorded in 2021.
- Only 327 units across three projects came online in the first two months of 2023, on the heels of the 4,514 units completed last year. The 2022 total represented 1.9% of total stock, below the 2.3% national average. Last year's deliveries were virtually on par with Richmond-Tidewater's five-year average, which stands at 4,533 apartments annually.
- The nationwide trend of developers focusing heavily on upscale projects continued. Of the 16,500 apartments that came online across Richmond-Tidewater since the beginning of 2020, more than 80% were in Lifestyle assets. Meanwhile, only 2,508 units were delivered in fully affordable communities.
- While several submarkets significantly factor into the equation of the total pipeline, development is spread across the map. As of February, Glen Allen (1,871 units underway) led the metro, followed by Scott's Addition (1,127), Norfolk-Central West (884), Midlothian (849) and North Chesterfield (618).
- Metropolis in Glenn Allen was the metro's largest rental project underway as of February. Robinson Development Group is building the 700-unit community.

Richmond Completions (as of February 2023)



Source: Yardi Matrix

Richmond vs. National Completions as a Percentage of Total Stock (as of February 2023)

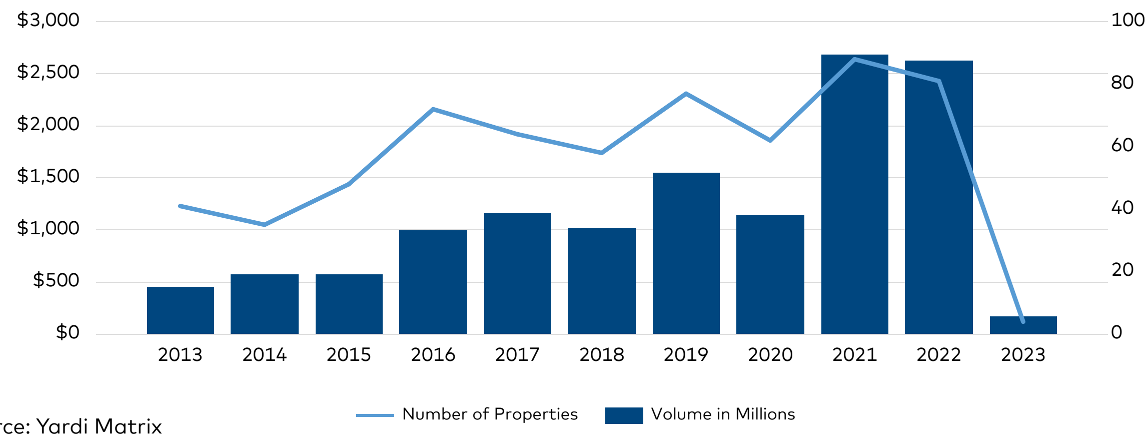


Source: Yardi Matrix

TRANSACTIONS

- A total of $173 million in multifamily assets traded in Richmond-Tidewater during the first two months of 2023, marking a visible slowdown after a good stretch of intense activity. Transactions surpassed $5.3 billion in 2021 and 2022 combined, the metro's best years for sales on record. However, with capital harder to access, the pace of transactions will most likely see significant deceleration.
- The average price per unit marked a small uptick at the beginning of the year, up 2.5% from last year's value, to $175,866. The figure remained below the $204,722 U.S. rate.
- While in previous years transactions were heavily concentrated in the suburbs or the Hampton Roads area, several core Richmond submarkets made the top 10 in the 12 months ending in February: West End ($253 million), Scott's Addition ($117 million) and Richmond-West ($96 million).

Richmond Sales Volume and Number of Properties Sold (as of February 2023)



Source: Yardi Matrix

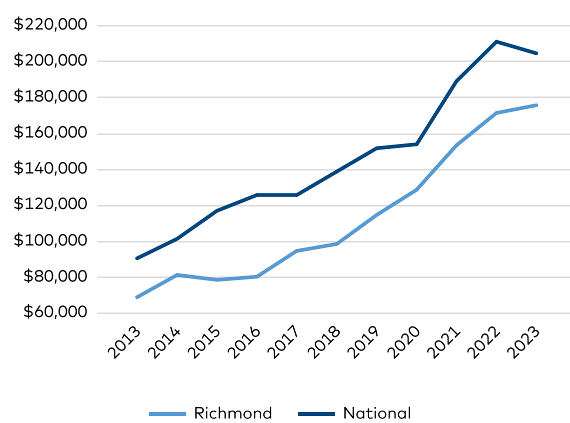
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Richmond - West End	253
Virginia Beach - Northwest	228
Williamsburg - North	170
Virginia Beach - West	155
North Chesterfield	143
Hampton - South	127
Richmond - Scott's Addition	117

Source: Yardi Matrix

[1] From March 2022 to February 2023

Richmond vs. National Sales Price per Unit



Source: Yardi Matrix

An Insider's Perspective on Multifamily Development in the Mid-Atlantic

By Olivia Bunescu

Like many parts of the country, the Mid-Atlantic is currently readjusting to the new economic environment, but most metros are still seeing intense construction activity. With thousands of units in various stages of development in Maryland, Virginia and Washington, D.C., JBG SMITH Properties is one of the most active developers in the area. Ed Chaglassian, executive vice president, head of acquisitions, discusses the region's strengths and his firm's expansion plans.

What makes your properties stand out and outperform?

People are drawn to vibrant, walkable communities and our residential properties are defined by their locations in dynamic amenity-rich, transit-served urban neighborhoods. Our portfolio of more than 7,000 owned and operated multifamily units—98 percent of which are within walking distance of Metro stations—are primarily concentrated in high-growth submarkets in Washington, D.C., Virginia and Maryland.

How have occupancy rates fluctuated across your properties in the Mid-Atlantic region in the past couple of years?

Our multifamily portfolio ended 2022 at a solid 93.6 percent occupied and 94.5 percent leased, with renewal trends continuing on a bullish trajectory. Overall market asking rents ended in 2022 three percent ahead of where they were in 2021 and 7.7 percent ahead of 2020. This pattern suggests that, despite some softening occupancies, the market has successfully held onto gains realized over the past two years as reflected within our own portfolio.

Do you intend to further expand in the region?

We remain steadfast in our ongoing, long-term commitment to convert our portfolio to the majority multifamily in the region, which includes both acquiring and developing assets .

In terms of acquisitions, we recently invested $181 million across three off-market partner buyouts within our multifamily portfolio.

Tell us more about your placemaking efforts.

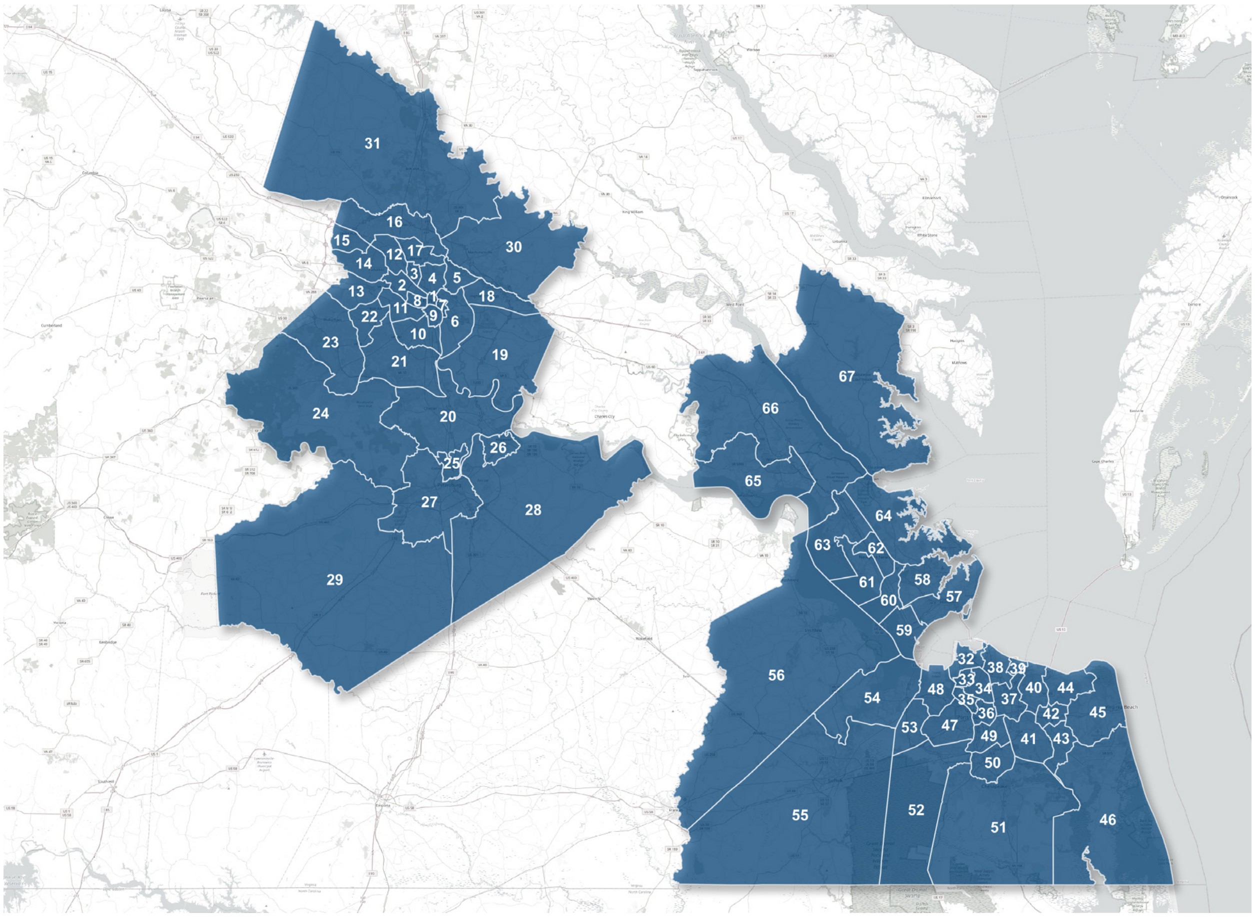
JBG SMITH's ongoing placemaking efforts aim to create meaningful places to connect communities and enhance the experience of those that live, work or visit. In National Landing, D.C., specifically, where almost 70 percent of our portfolio is located, catalysts including our ongoing placemaking and digital infrastructure investments have set the stage for the area's ongoing transformation.

Going forward, how do you anticipate the Mid-Atlantic multifamily market to perform?

We are energized by what's to come and continue to advance our residential development pipeline in alignment with our transition to a majority multifamily portfolio. We are well-positioned to capitalize on the growth we expect in one of the most unique innovation ecosystems in the country.

(Read the complete interview on 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 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.

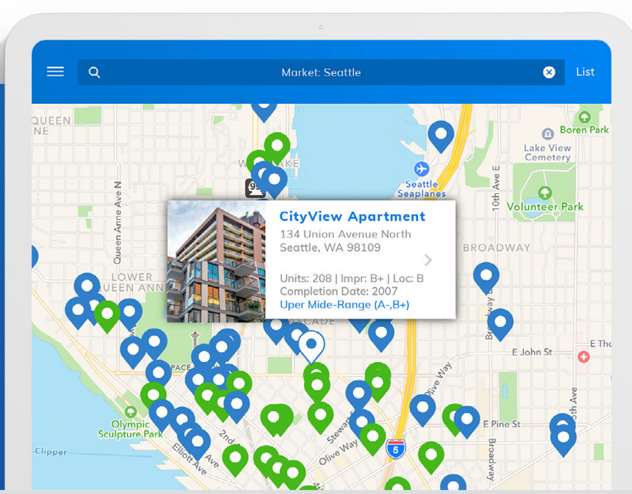
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

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.**

YARDI

(800) 866-1144
Learn more at yardimatrix.com/**multifamily**

Contact us