Yardi® Matrix

Richmond Sails On Steady Waters

Multifamily Report Winter 2018

Construction Surge Continues

Investor Interest Remains Elevated

Rents Outperform U.S. Average

Market Analysis

Winter 2018

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Upscale Demand Boosts Rent Growth

Although Richmond's economy is lagging, demographic expansion and the steady addition of office-using jobs are boosting upscale multifamily demand and elevating rent growth to above-trend levels. After trailing the U.S. average throughout the current cycle, the metro's rent growth reached 2.6% as of December, bucking the national trend during 2017's fourth quarter.

Anchored by government jobs, military bases, defense contractors and the Port of Virginia, the metro's economy relies heavily on public spending, but it is slowly diversifying. Facebook kicked off a $1 billion data center project in Henrico County, and Dominion Resources is slated to top out its 1 million-square-foot downtown Richmond office tower in early 2018. Several other large-scale initiatives are in the works, including construction of a $756 million tunnel, which recently kicked off in Hampton Roads. At the same time, the state is seeking a contractor for a $3.8 billion Interstate 64 road-bridge project, which is slated for completion in 2024.

Investor interest remains high, with $860 million in multifamily assets trading in Richmond last year. The development surge continues, signaled by the 3,800 units delivered in 2017 and the additional 4,800 units that were under construction as of December. Although occupancy in stabilized properties fell 50 basis points in 12 months, to 95.0% in November, above-trend population growth should keep demand healthy. We expect rents to grow by 2.5% in 2018.

Recent Richmond Transactions

Reflections

City: Virginia Beach, Va.
Buyer: The Breeden Company
Purchase Price: $61 MM
Price per Unit: $126,563

Copper Spring

City: Richmond, Va.
Buyer: Stonebridge Investments
Purchase Price: $54 MM
Price per Unit: $148,087

Colony at CenterPointe

City: Midlothian, Va.
Buyer: PAC
Purchase Price: $46 MM
Price per Unit: $179,741

Hunters Chase at Brandermill

City: Midlothian, Va.
Buyer: Hamilton Zanze & Co.
Purchase Price: $42 MM
Price per Unit: $131,250

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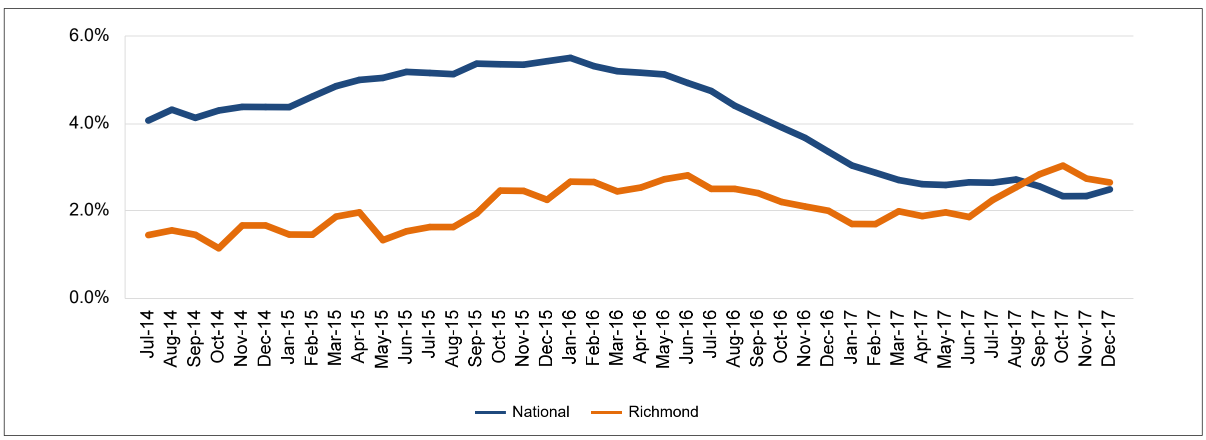
On the cover: Photo by Sean Pavone Photo/iStockphoto.com

Rent Trends

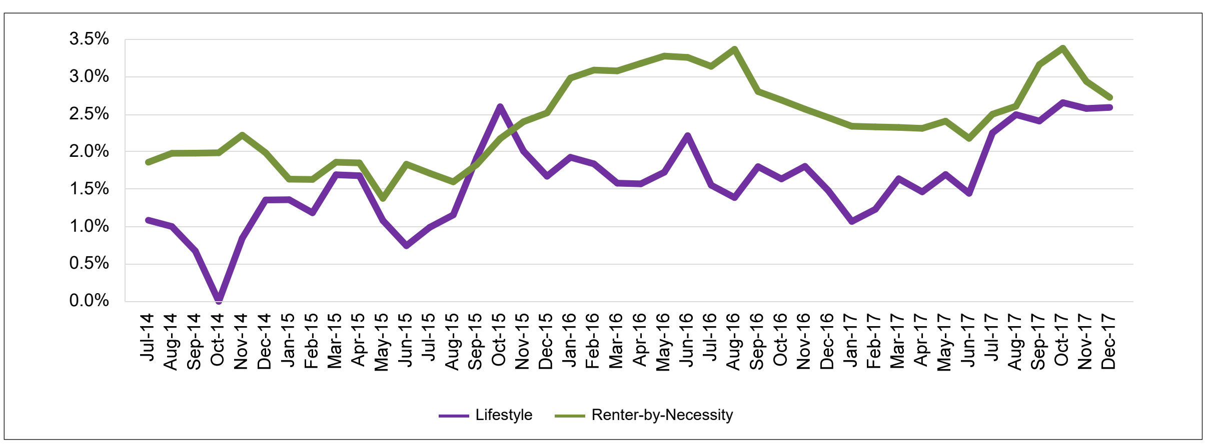
- Richmond-Tidewater rents rose 2.6% in 2017, 10 basis points above the U.S. average. After trailing the national rate throughout this cycle, Richmond rent growth outperformed the nation for the final four months of the year, mostly due to rising upscale demand. At $1,047 as of December, rents in the metro remained $300 lower than the $1,359 U.S. average.
- Working-class Renter-by-Necessity rents were up 2.7%, reaching $942. Picking up steam in the fourth quarter of 2017, Lifestyle rents rose 2.6%, to $1,266. Although the vast majority of units completed in the past four years were in Class A communities, upscale rental demand remains elevated, due to the steady addition of high-paying jobs in both Richmond and Hampton Roads.
- Less expensive areas and Richmond suburbs led gains, including Petersburg–North (9.1%), Richmond–South (6.7%), Henry Clay Heights (5.9%) and Mechanicsville (5.6%). Meanwhile, rents contracted in Hampton Roads submarkets such as Birchwood Gardens (-2.4%), Bernard Village (-1.2%) and Newport News–North (-0.8%).
- The construction surge is slated to continue, but the expansion of office-using sectors will maintain demand levels. We expect Richmond–Tidewater rents to rise 2.5% in 2018.

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

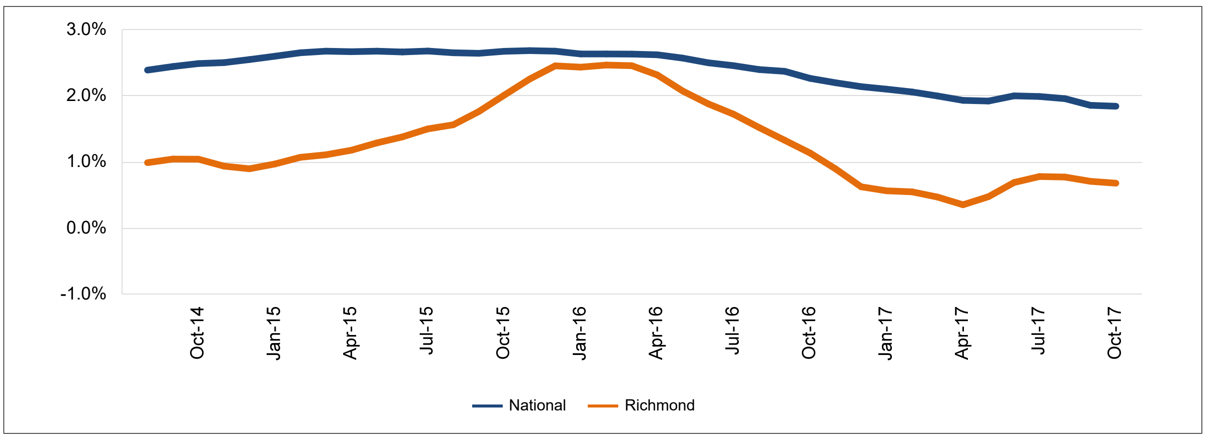
Economic Snapshot

- Richmond lost 100 jobs in the 12 months ending in October, primarily in trade, transportation and utilities (-6,400 positions) and leisure and hospitality (-5,700). This has offset additions in higher-earning sectors, including government (3,400 jobs) and professional and business services (3,200). Although growth has been spotty, the expansion of white-collar industries in both Richmond and Hampton Roads continues to fuel demand for upscale housing.

- The steady addition of high-paying jobs has also impacted the office market: According to Colliers International, positive absorption pushed down office vacancy in both Richmond and the Hampton Roads area, reaching 7.4% and 9.3% as of 3Q17, as rents are once again inching upward.

- Despite a sluggish economy, Richmond added 3,400 construction jobs. Large-scale developments include Facebook's $1 billion data center project in Henrico County, kicked off in late 2017; Dominion Energy's 1 million-square-foot office tower, slated to top out in early 2018; and the local administration's prospective redevelopment of a 10-block area of downtown Richmond, which will replace the outdated Coliseum hotel with mixed-income and affordable housing. In Hampton Roads, work began on a $756 million infrastructure project, while state officials are seeking a builder for the $3.8 billion expansion of the Hampton Roads Bridge–Tunnel.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	220	15.2%	5,000	2.3%
90	Government	276	19.0%	3,400	1.2%
15	Mining, Logging and Construction	78	5.4%	3,400	4.6%
60	Professional and Business Services	223	15.4%	3,200	1.5%
30	Manufacturing	84	5.8%	300	0.4%
50	Information	18	1.2%	-700	-3.7%
80	Other Services	67	4.6%	-800	-1.2%
55	Financial Activities	87	6.0%	-1,800	-2.0%
70	Leisure and Hospitality	147	10.1%	-5,700	-3.7%
40	Trade, Transportation and Utilities	251	17.3%	-6,400	-2.5%

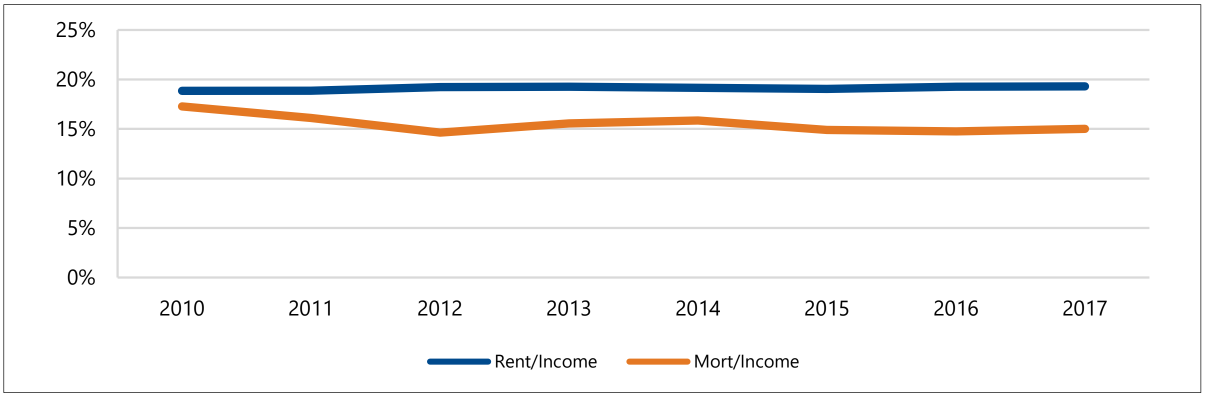
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

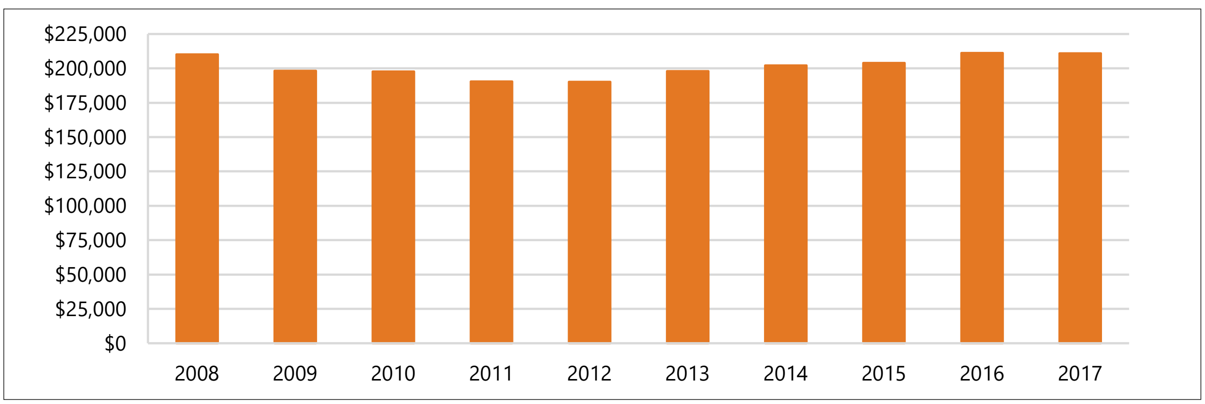
- Richmond home prices remained virtually flat, with the median value at roughly $211,000 last year, same as in 2016. Rents continue to rise, but the metro remains a relatively affordable coastal market, especially when compared to nearby Washington, D.C. Owning is more affordable, the average mortgage payment accounting for 15% of the area's median income. Meanwhile, the average rent of $1,047 comprises roughly 19%.
- In November, the city of Richmond put forward a request for proposals for the redevelopment of a large area of downtown, with Mayor Levar Stoney calling for the inclusion of mixed- and low-income housing in the project, alongside the replacement of the 13,500-seat Richmond Coliseum.

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 48,000 people between 2012 and 2016. This marks a 3.9% expansion, 100 basis points above the U.S. average.
- The metro added 11,300 residents in 2016 for a 0.9% uptick.

Richmond vs. National Population

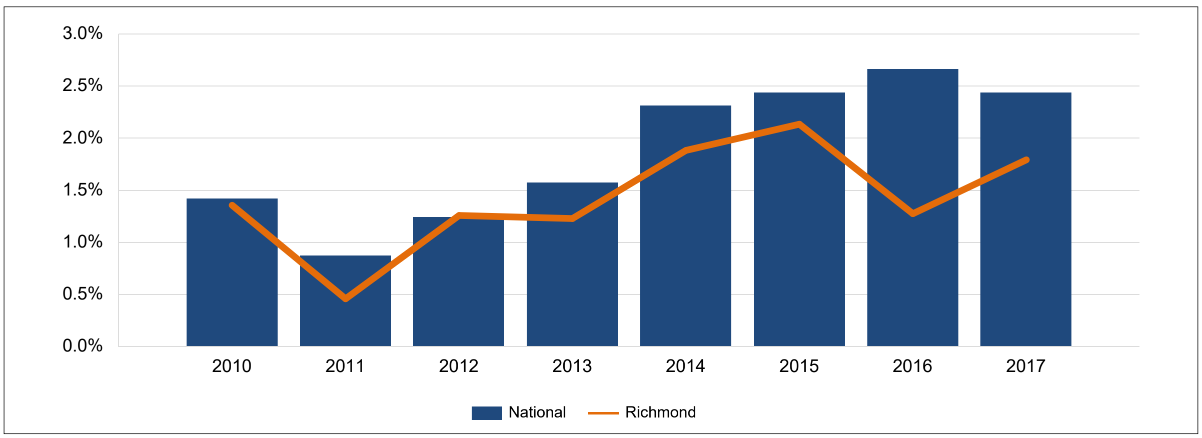
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Richmond Metro	1,233,682	1,246,100	1,258,885	1,270,414	1,281,708

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

Supply

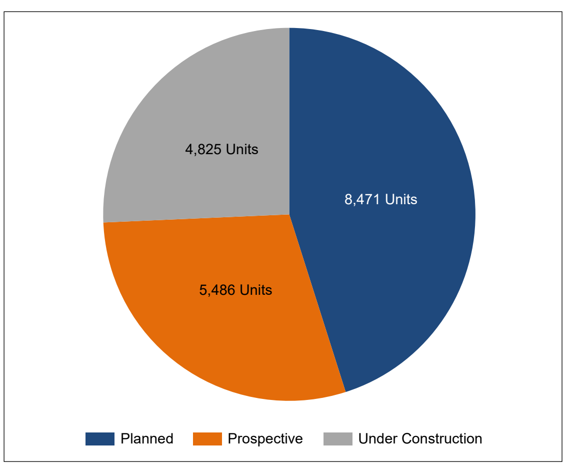
- Roughly 3,800 units came online in Richmond–Tidewater in 2017, accounting for 1.8% of total stock, 70 basis points below the U.S. average. Responding to above-trend demographic expansion and the addition of high-paying jobs, developers added 14,500 units between 2014 and 2017, almost 60% of which were added in the Hampton Roads area and 20% in core Richmond.
- The construction surge is set to continue, as more than 4,800 units were underway as of January, the bulk of which are scheduled for completion by year-end. Richmond–Tidewater has an additional 14,000 units in the planning and permitting phases, less than a third of which are to be added within Richmond's city limits.
- Developments are spread out across the map, but Hampton Roads and non-core Richmond submarkets are dominating the pipeline, led by Powells Corner (616 units under construction), Bon Air–Midlothian (520 units) and Norfolk–South (481 units).
- Several projects are slated for completion next year, including Whittle & Roper Realtors' 385-unit Moores Lake in Chester, CMB Development's 238-unit Midlothian Town Center in Midlothian and Fulton Hill Properties' 204-unit Artisan Hill in Montrose.

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



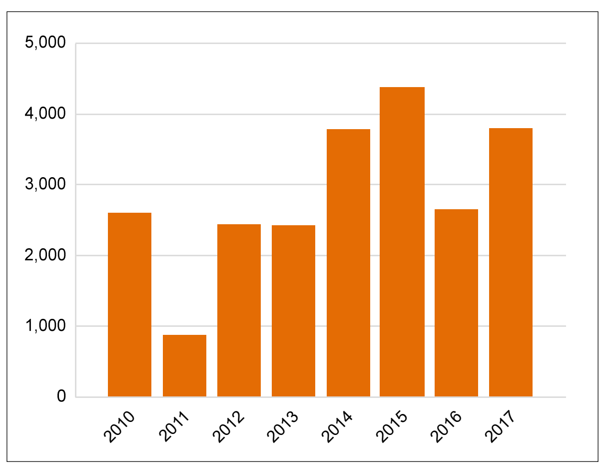
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

Richmond Completions (as of December 2017)

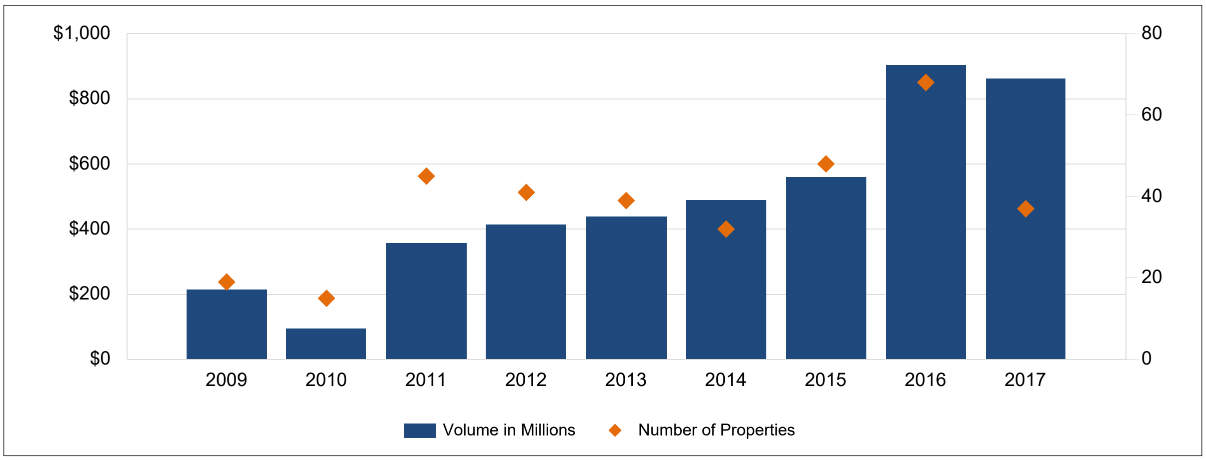


Source: YardiMatrix

Transactions

- Investor interest remained high, with roughly $860 million in multifamily assets trading in Richmond–Tidewater last year, almost on par with 2016's cycle high of $903 million.
- Per-unit prices in the metro reached $104,239 in 2017, 30% over 2016 but still below the $137,967 national average. The price surge was partially due to investors slightly shifting their attention to larger or more expensive Lifestyle assets following a prolonged wave of Class A completions. Of the properties trading last year, 12 were Class A and B+ assets, as compared to 10 in 2016 and just four in 2015.
- Suburban areas and Hampton Roads properties continued to draw the most interest. Of the top 10 submarkets by transaction volume in 2017, only two—Church Hill–Manchester and Richmond–North—are located within the city of Richmond.

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



Source: YardiMatrix

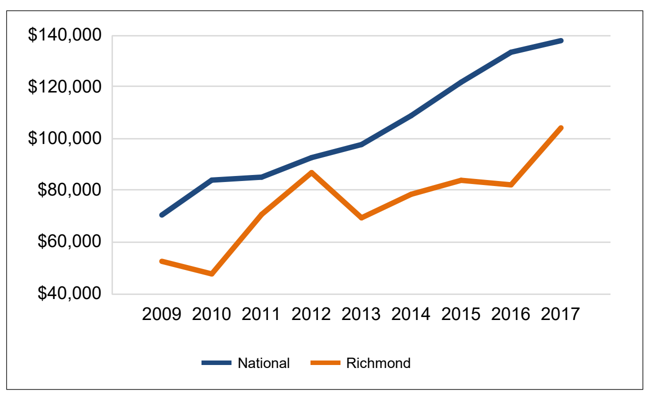
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Powells Corner	115
Williamsburg–North	88
West Chesterfield County	88
Church Hill–Manchester	59
Virginia Beach–North	56
Henrico	54
Richmond–North	51
Tuckahoe	51

Source: YardiMatrix

[1] From January 2017 to December 2017

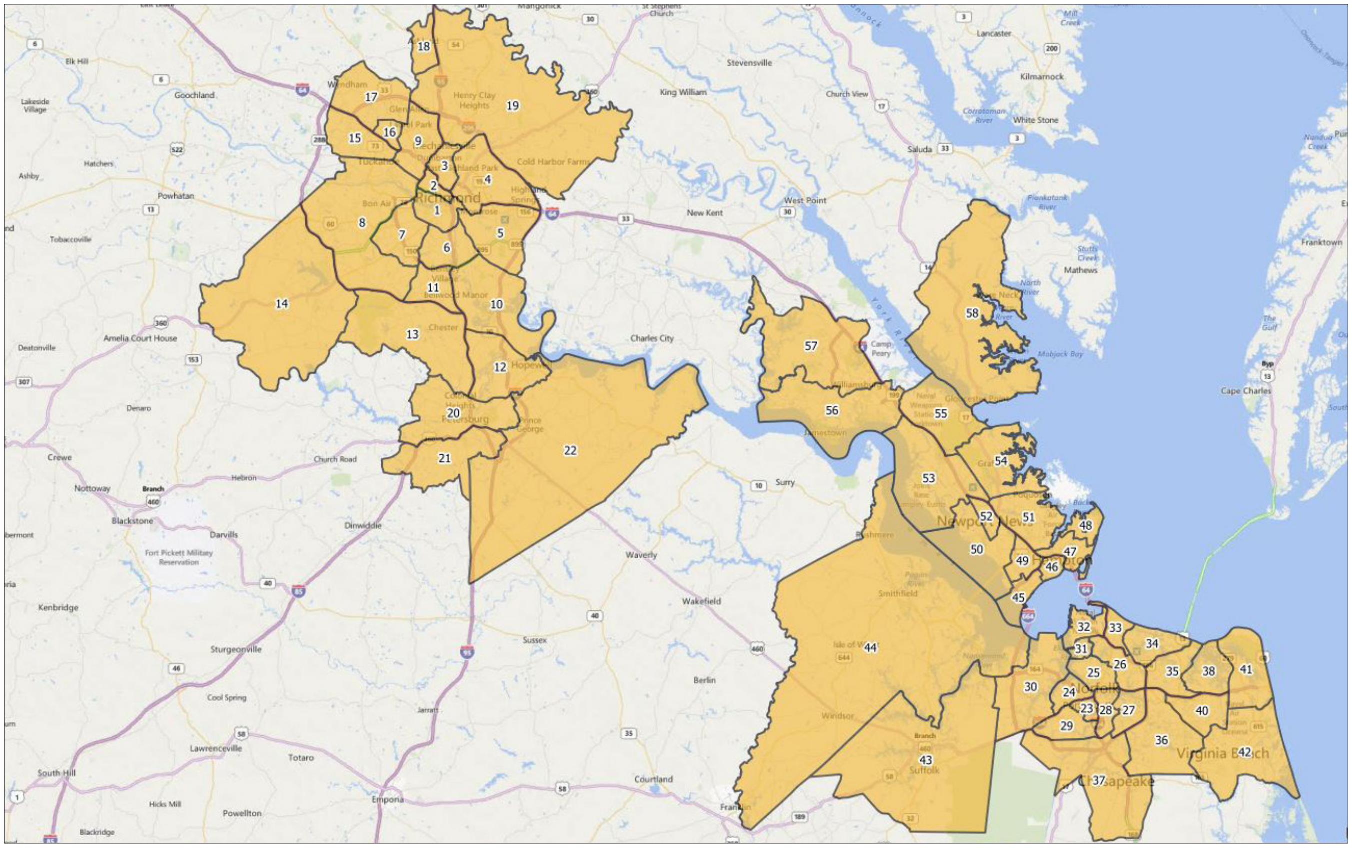
Richmond vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone Photo/iStockphoto.com

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	Henncus Park
11	Bellwood
12	Hopewell
13	Chester
14	West Chesterfield County
15	Tuckahoe
16	Henrico
17	Wyndham
18	Ashland
19	Henry Clay Heights

Area #	Submarket
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
32	Merrimack Park
33	Washington Park–Oceanair
34	Bayside–Larrymore Lawns
35	Hollywood–Thalia
36	Acredale
37	Chesapeake
38	Birchwood Gardens

Area #	Submarket
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
55	Yorktown
56	Williamsburg–South
57	Williamsburg–North
58	Gloucester Point

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 or call Ron Brock, Jr., at 480-663-1149 x2404.