Yardi® Matrix

Richmond Hits A Speedbump

Multifamily Report Summer 2018

Rent Growth Decelerates

Tepid Job Gains Soften Demand

Investors Focus on Value-Add Plans

Market Analysis

Summer 2018

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Upscale Rents Take a Hit

Richmond–Tidewater rent growth decelerated in the first few months of 2018, reaching 1.1% as of May and once again falling behind the U.S. rate. The bump is mostly due to supply catching up with demand at the upper end of the spectrum, as the vast majority of new stock is upscale. While the number of Class A assets continued to grow, job gains in highly paid sectors shifted down a gear, which is dampening demand in the short run.

Tepid job growth in Richmond and Hampton Roads remains the area's well-known chorus, as the region's main anchors continue to greatly influence the local economy. Targets of deep defense cuts just five years ago, military bases and contractors across the Hampton Roads area are now bound to benefit directly from the turning of the budget tide. This could, in turn, send positive ripples across the area's economy, strengthening residential real estate fundamentals along the way.

Investment volume and per-unit prices dropped in the first four months of 2018, with investors heavily focusing on value-add plans. While occupancy in stabilized properties slid 70 basis points year-over-year to 94.7% as of April, and roughly 1,200 units came online across the metro in the first five months of 2018, steady demographic expansion should keep demand relatively healthy this year. We expect rents to grow 2.5% in 2018.

Recent Richmond Transactions

Ashland Towne Square

City: Ashland, Va.
Buyer: United Property
Purchase Price: $27 MM
Price per Unit: $125,000

Meadow View Townhomes

City: Newport News, Va.
Buyer: Brick Lane
Purchase Price: $25 MM
Price per Unit: $61,250

Midlothian Village

City: Richmond, Va.
Buyer: WNC & Associates
Purchase Price: $18 MM
Price per Unit: $81,019

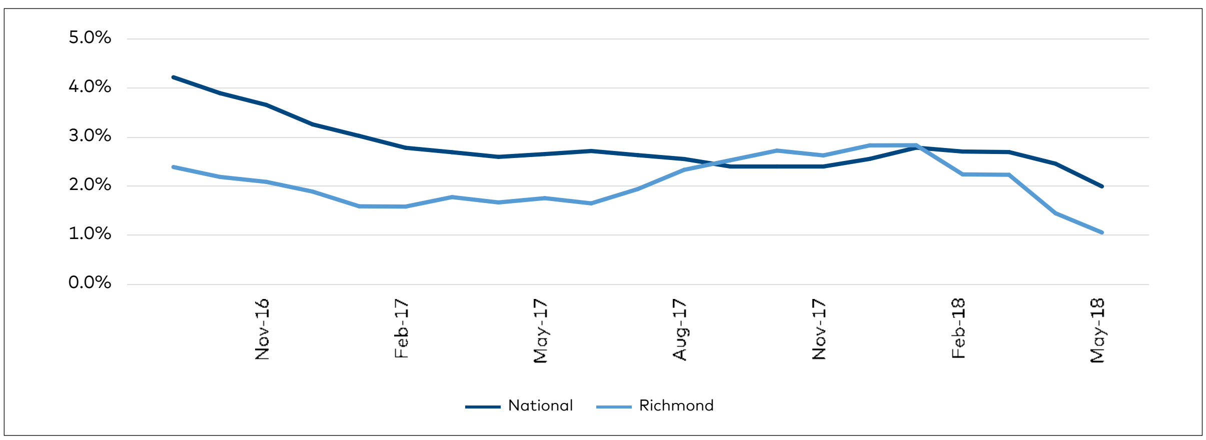
Village at the Arbors

City: Richmond, Va.
Buyer: RailField Realty Partners
Purchase Price: $17 MM
Price per Unit: $58,784

Rent Trends

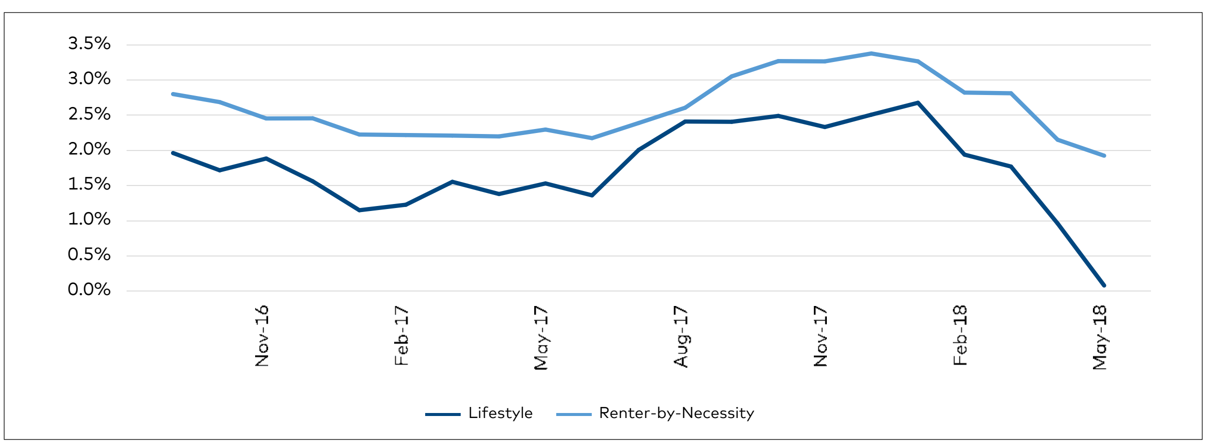
- After briefly outpacing the national rate toward the end of 2017, Richmond rent growth decelerated in the first part of 2018, to 1.1% year-over-year as of May. The overall average rent was $1,055, more than $300 below the U.S. figure.
- Working-class Renter-by-Necessity rents rose 1.9%, to $953. Supply has caught up with demand in the Lifestyle sector, where solid levels of upscale deliveries continued, while high-paying job gains shifted down a gear. Lifestyle rents were up only 10 basis points over 12 months, at $1,261 as of May.
- Growth was spotty, with rents still advancing in several upscale submarkets, including the three most expensive ones: Norfolk-South (up 2.7% to $1,333), the Fan District (2.1%, $1,310) and Virginia Beach-South (2.9%, $1,262). Meanwhile, rates dropped by 2.4% in Church Hill-Manchester, where 10 properties totaling 1,500 units have been delivered since the beginning of 2015.
- The metro continues to offer relatively stable fundamentals, although absorption and rent growth fluctuated at submarket level. And although occupancy in stabilized properties slid 70 basis points to 94.7% in the 12 months ending in April, demographic expansion is slated to keep demand healthy, at least across most core submarkets. Overall, we expect Richmond rents to rise 2.5% this year.

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)

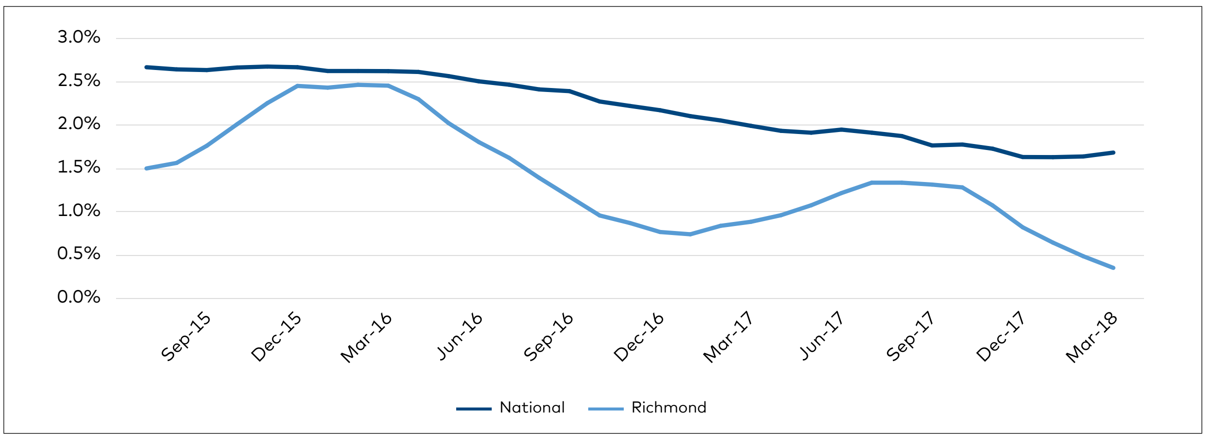


Source: YardiMatrix

Economic Snapshot

- Richmond added 4,700 jobs year-over-year through March for a 0.4% expansion, well behind the 1.7% U.S. average. The metro's sharp drop in education and health services positions over the past year has offset solid gains in lower-income sectors such as trade, transportation, utilities, construction and manufacturing.
- The Hampton Roads economy remains a mixed basket. On the one hand, employment growth has remained virtually flat and the area continues to be highly dependent on defense and associated contractors. On the other hand, several ongoing projects—including major infrastructure works and upcoming data centers—are bound to boost the area's diversification efforts, while an increased defense budget for the next two years should directly benefit the area.
- The metro added 1,000 jobs in financial activities and professional and business services. Sustained by these gains, the office market continues to register positive absorption and increasing rental rates. According to Yardi Matrix data, the Richmond pipeline totaled more than 1.1 million square feet of office space underway as of June, which includes Dominion Energy's 915,000-square-foot downtown tower. Meanwhile, the Hampton Roads area had 260,000 square feet of office space under construction.

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	%
40	Trade, Transportation and Utilities	255	17.7%	4,100	1.6%
15	Mining, Logging and Construction	76	5.3%	2,400	3.2%
30	Manufacturing	86	6.0%	2,400	2.9%
55	Financial Activities	89	6.2%	800	0.9%
60	Professional and Business Services	221	15.3%	200	0.1%
80	Other Services	69	4.8%	200	0.3%
50	Information	19	1.3%	100	0.5%
70	Leisure and Hospitality	151	10.5%	-100	-0.1%
90	Government	273	18.9%	-400	-0.1%
65	Education and Health Services	205	14.2%	-5,000	-2.4%

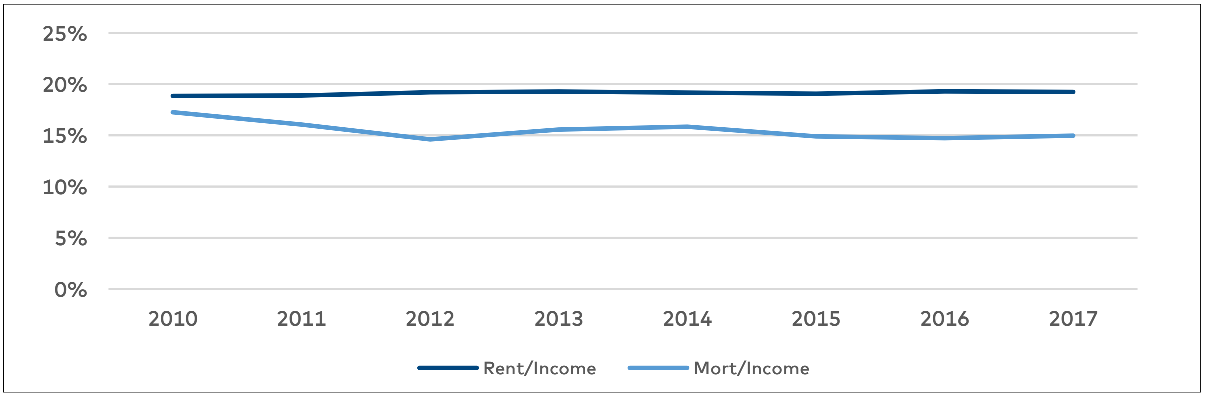
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

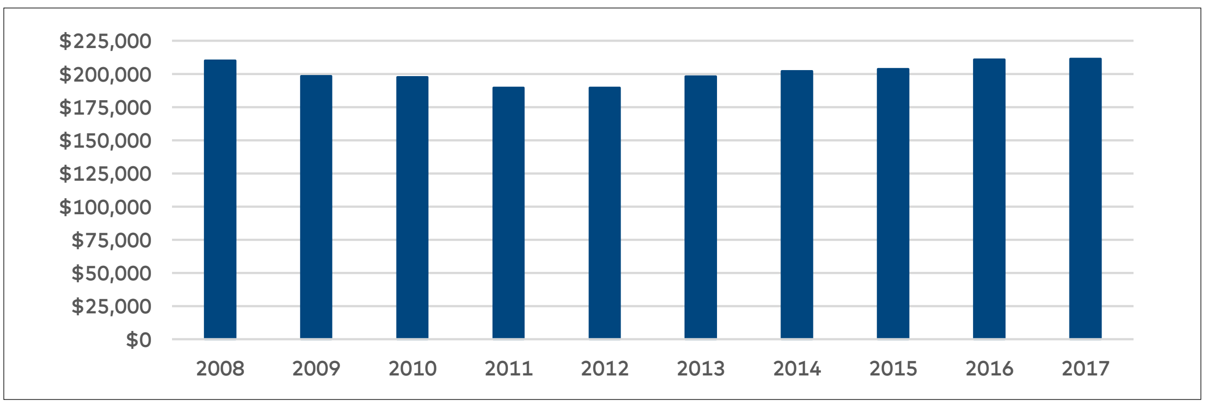
- After seven consecutive years of appreciation, the Richmond median home price reached $211,437 in 2017. This marks a 12% increase since 2011, when the market bottomed out. Even so, owning remains more affordable than renting. Last year, the average mortgage payment accounted for roughly 15% of the median income, while the average rent comprised as much as 19%.
- Richmond–Tidewater remains relatively affordable, especially when compared to nearby coastal markets. Although both rents and home values have risen slowly but steadily during the better part of the cycle, area incomes have kept up, preserving affordability ratios over 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 12,000 people in 2017 for a 0.9% expansion, 20 basis points above the national average.
- The metro gained 48,500 people since 2013, marking a 3.9% growth rate, vs. the 3.0% U.S. rate.

Richmond vs. National Population

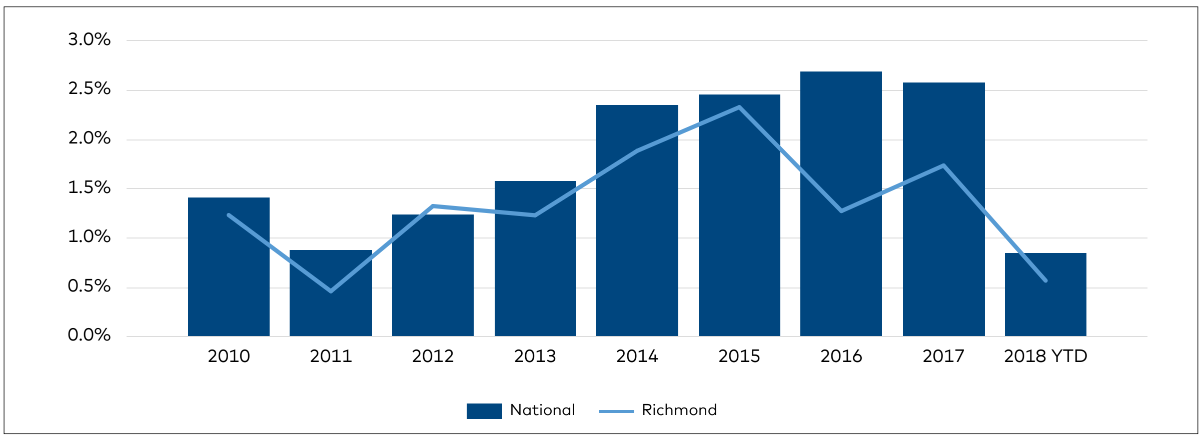
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Richmond Metro	1,245,755	1,258,597	1,270,027	1,282,205	1,294,204

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

Supply

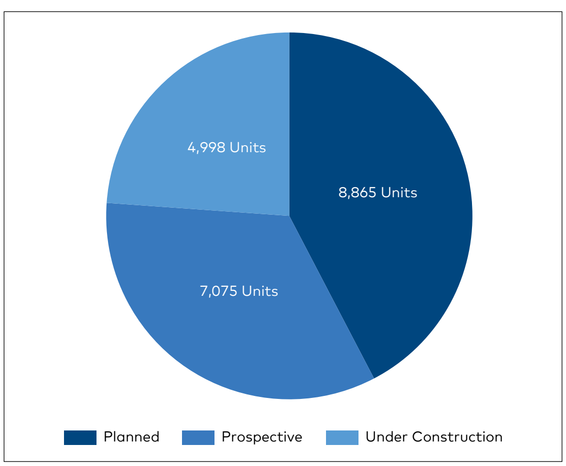
- Seven communities totaling 1,212 units came online in 2018 through May. This marks a slowdown after the 3,681 units delivered last year, a figure that was almost on par with the metro's five-year average. More than 17,000 units were completed in Richmond–Tidewater between 2013 and 2017, the vast majority of which are in Class A and B+ communities.
- There were almost 5,000 units under construction in Richmond–Tidewater as of May. Nonetheless, development is bound to remain in check, as we expect a total of only 1,900 units to come online across the metro during the whole of 2018. The metro also had approximately 16,000 units in the planning and permitting phases.
- Three Hampton Roads submarkets lead the development pipeline, adding up to one-third of the total units underway: Hollywood–Thalia (670 units under construction), Powells Corner (616 units) and Norfolk–South (481 units). These are followed by four submarkets bringing new units within Richmond's city limits: Church Hill–Manchester (373 units), Montrose (360 units), Lakeside (327 units) and Richmond–North (301 units).

Richmond vs. National Completions as a Percentage of Total Stock (as of May 2018)



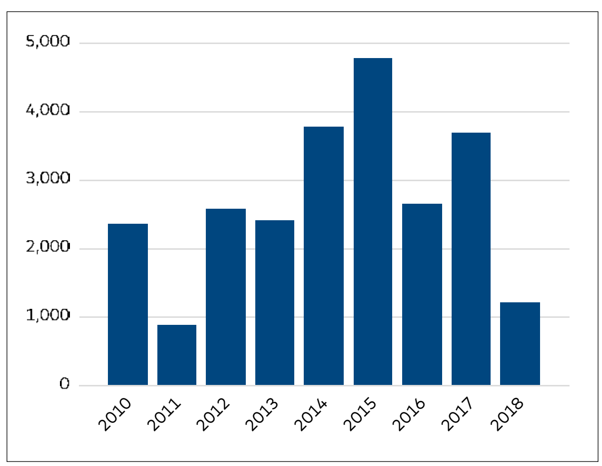
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

Richmond Completions (as of May 2018)

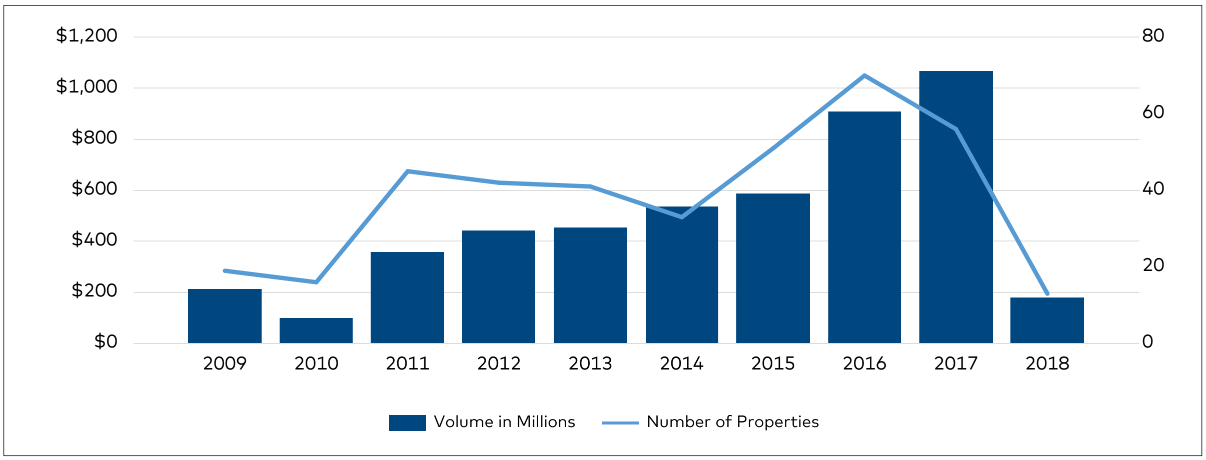


Source: YardiMatrix

Transactions

- Only $177 million in multifamily assets traded in Richmond–Tidewater this year through April. This comes after a strong 2017, when more than 50 properties changed hands for a $1.1 billion cycle peak.
- Per-unit prices dropped in the first four months of 2018 to $76,849, roughly half the $145,822 U.S. average. The slide is mostly due to a shift in interest: While investors did predominantly target value-add communities throughout the whole cycle, all 13 assets changing hands this year through April were Class B and C.
- Hampton Roads and suburban Richmond submarkets continued to attract the most capital in the 12 months ending in April. Powells Corner ($115 million) led the list, followed by West Chesterfield County ($88 million), Henrico ($75 million) and Williamsburg–North ($74 million).

Richmond Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

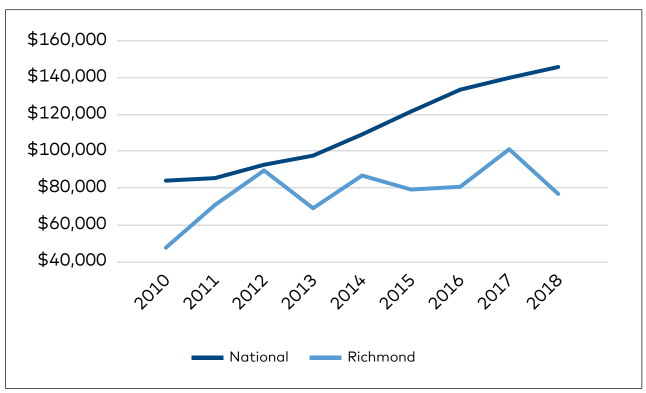
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Powells Corner	115
West Chesterfield County	88
Henrico	75
Williamsburg–North	74
Chester	64
Church Hill–Manchester	61
Richmond–North	57
Tuckahoe	51

Source: YardiMatrix

[1] From May 2017 to April 2018

Richmond vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING **NEWS**

Historic Richmond High-Rise Sells For $39M

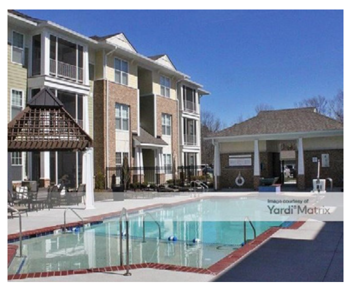
Built in 1913, the 19-story First National Bank building was the city's tallest tower at the time. In 2012, its owner converted the property into a 154-unit community.

Value-Add Virginia Beach Property Trades for $52M

Seminole Trail Properties has purchased Mariner's Cove, a 458-unit garden-style community situated within walking distance of two shopping centers.

Thalhimer Begins Next Phase of Richmond Adaptive Reuse Project

The company acquired the 18-acre lot in 2013. City View Marketplace is set to include 161 units and 13,270 square feet of commercial space.

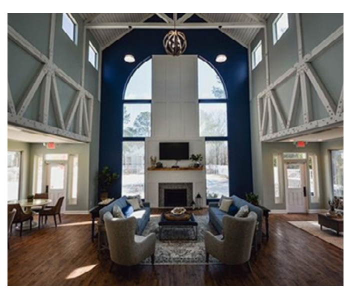


Hampton Roads Community Trades for $30M

Robinson Development Group sold the 183-unit property in Chesapeake, Va. Built in two stages, Cottage Trails at Culpepper Landing came online in 2015.

Campus Apartments Snags VA Property for $31M

The Collection Midtown in Richmond includes 20 buildings and 219 units. This acquisition is the company's third in the area.



Drucker + Falk Manages $1M Renovation in Newport News, VA

Already finished renovations include a new clubhouse, an overhauled swimming pool and new features to the outdoor areas. In-unit upgrades are currently underway.

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Top 10 Apartment Owners in Richmond

MULTI-HOUSING NEWS
data by Yardi® Matrix

By Tudor Scolca

After lagging the nation for most of 2017, rent growth in the city started rebounding last December. Upscale demand is driven by large commitments made by tech companies in the area, bringing in new multifamily construction.

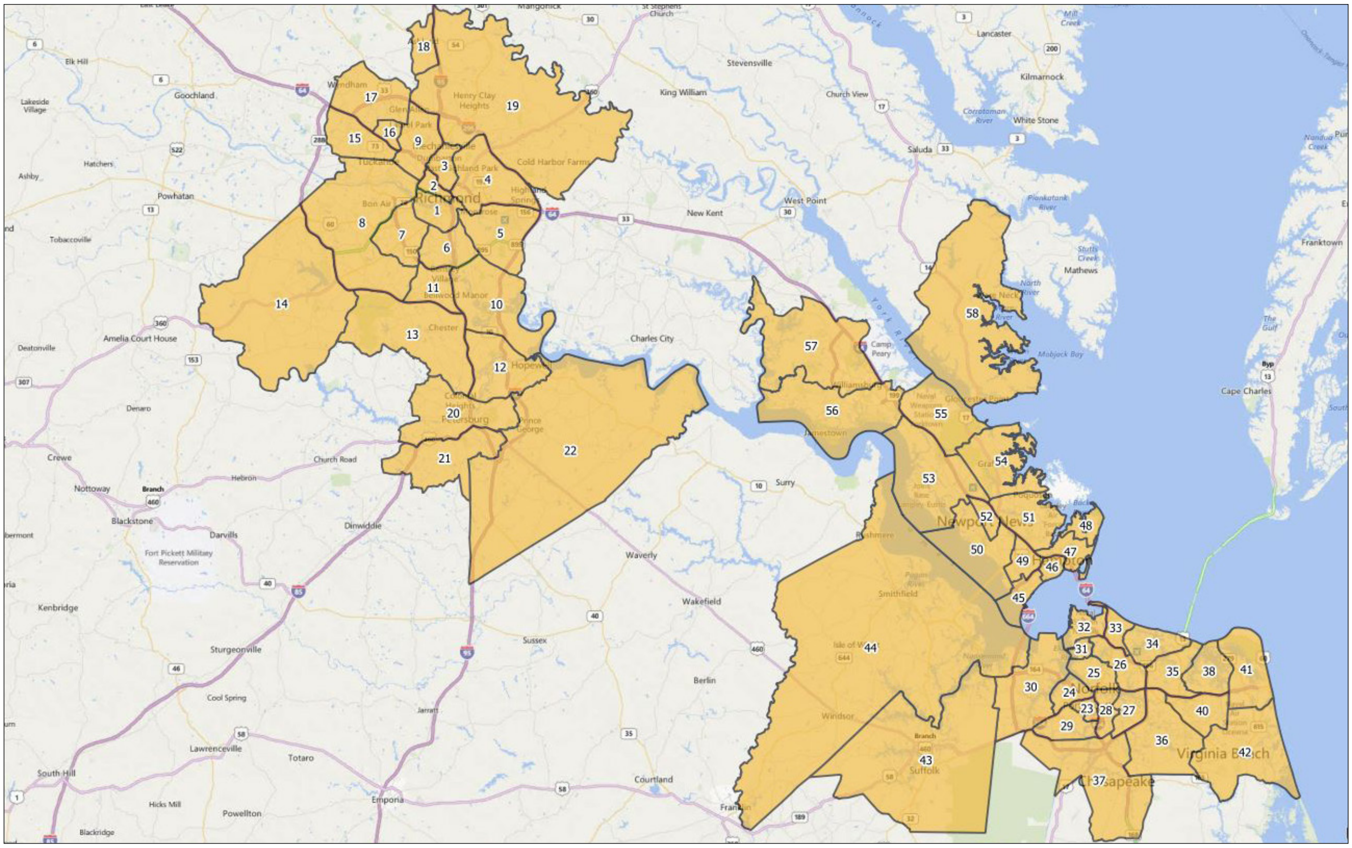
Richmond's economy is still picking up after employment growth took a dip in 2016 and then worked its way back up since October of last year. The latest Yardi Matrix Richmond multifamily report indicates that rent growth had been below the U.S. trend until December 2017, when it outpaced the national average rate by 10 basis points, largely because of an elevated upscale demand.

Owner Name	Owner Type	Market Properties Owner	Market Units Owner	Total Properties National	Total Units National
The Breeden Company	Private Owner	35	8,110	38	7,700
Weinstein Properties	Private Owner	16	6,866	46	16,814
General Services Corporation	Private Owner	13	6,413	52	17,888
S.L. Nusbaum Realty	Private Owner	20	5,585	30	7,226
Thalhimer Realty Partners	Private Owner	28	5,001	35	5,872

The Breeden Co.

The largest multifamily owner in Richmond has a footprint of approximately 7,700 units across 33 properties. Breeden Co. received a $26.1 million HUD loan for the development of The Nest on 17, a 208-unit community at 800 Chickahominy Lane in Carrollton, Va. The project was completed last year and comprises one-, two- and three-bedroom units ranging from 928 to 1,323 square feet. Common-area amenities include a fitness center, a business center, a playground and a swimming pool. The company is also developing a 450-unit apartment community in Fredericksburg, Va., for which Berkadia facilitated a $52 million HUD loan.

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.