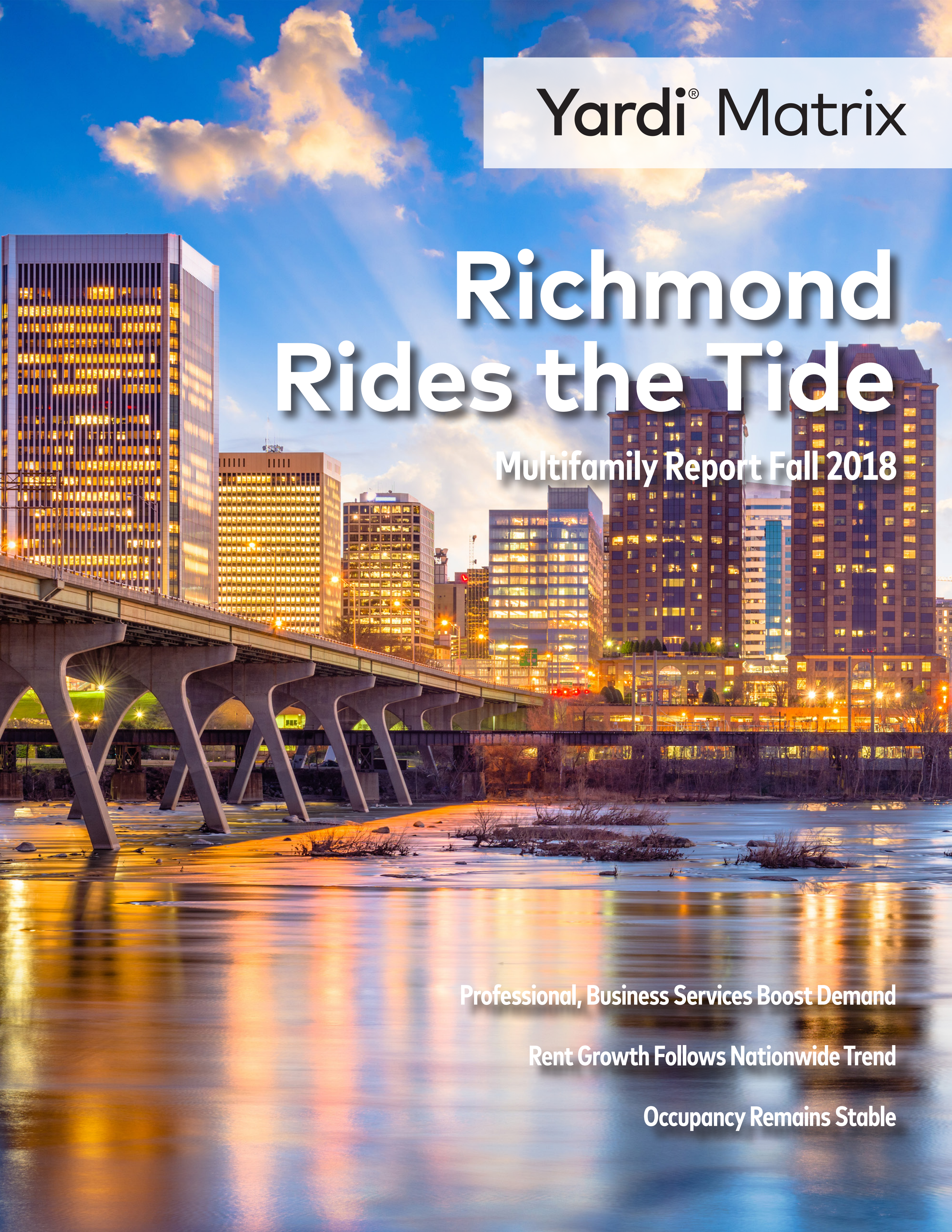
Yardi® Matrix

Richmond Rides the Tide

Multifamily Report Fall 2018



Professional, Business Services Boost Demand

Rent Growth Follows Nationwide Trend

Occupancy Remains Stable

Market Analysis
Fall 2018

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Job Gains Keep Absorption Steady

Although the area's economy is sluggish, Richmond–Tidewater continues to be a stable multifamily market with steady rent gains and a healthy absorption of new stock. Occupancy in stabilized properties was 95.2% as of August, remaining flat over the previous 12 months. Rents were up 3.0% year-over-year through September, on par with the U.S. figure.

Professional and business services added 7,900 positions in the 12 months ending in July, leading job growth and boosting demand for both upscale apartments and office space. Meanwhile, several large-scale developments point to further economic expansion. The list includes two massive infrastructure projects in Hampton Roads, Facebook's 2.4 million-square-foot data center campus in Henrico County and the proposed $1.4 billion redevelopment of a 10-block core Richmond parcel, which could bring a new arena, 2,800 multifamily units, a large hotel and other facilities. At the same time, the Hampton Roads area, which relies heavily on its army presence and defense contractors, is set to benefit from increased military spending.

Roughly 2,200 units came online and nearly $450 million in multifamily assets traded in the metro this year through September. With an additional 4,900 units underway and overall job growth bound to remain tepid, we expect rents to advance moderately, in line with nationwide trends.

Recent Richmond Transactions

First National

City: Richmond, Va.
Buyer: Gates, Hudson & Associates
Purchase Price: $39 MM
Price per Unit: $254,870

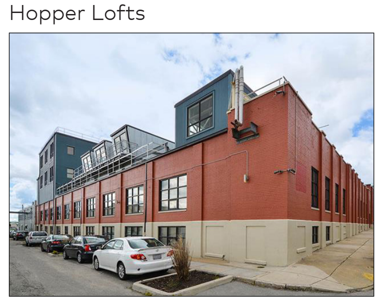
Cottage Trails at Culpepper Landing

City: Chesapeake, Va.
Buyer: Steadfast Cos.
Purchase Price: $30 MM
Price per Unit: $164,480

Falling Creek

City: Richmond, Va.
Buyer: Brick Lane
Purchase Price: $25 MM
Price per Unit: $71,225

Hopper Lofts



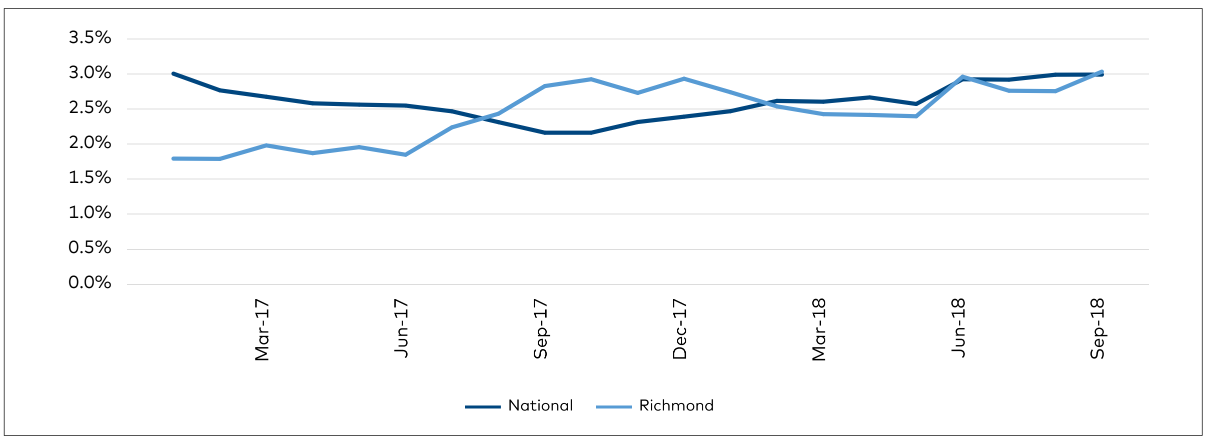
City: Richmond, Va.
Buyer: Mercer Street Partners
Purchase Price: $14 MM
Price per Unit: $102,662

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

Rent Trends

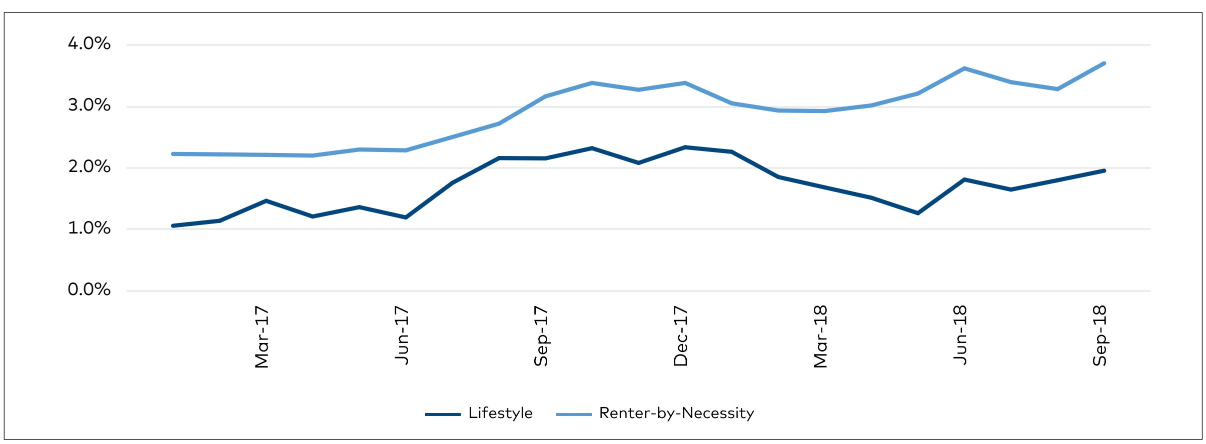
- Richmond–Tidewater rents were up 3.0% year-over-year in September, on par with the national rate of growth. During the past six quarters, rent growth in the metro evolved roughly in line with the U.S. average: The largest spread between the two during that period was 70 basis points, recorded in the first half of 2017. At $1,087, the average Richmond rent was more than $300 below the national figure.
- The average Lifestyle rent rose 2.0% year-over-year, reaching $1,303 as of September. Meanwhile, rents in the working-class Renter-by-Necessity segment were up 3.7%, to $980. The difference between the two reflects a nationwide trend wherein developers are focusing almost exclusively on upscale projects, while the economy is steadily adding jobs across the board. However, demand for workforce housing is growing at a faster pace, putting additional pressure on low- and middle-income renters.
- Rates advanced faster in and around Richmond, with only two of the top 10 submarkets for rent growth being in the Hampton Roads area. Mechanicsville (up 11.4%) topped the list, followed by Wyndham (8.5%), Petersburgh–South (8.2%) and Tuckahoe (8.0%). The city's two main submarkets registered below-average growth: Fan District (2.3%) and Church Hill–Manchester (1.3%). With supply and demand more or less in balance for the foreseeable future, we expect rent growth to remain steady but moderate, in line with nationwide trends.

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)

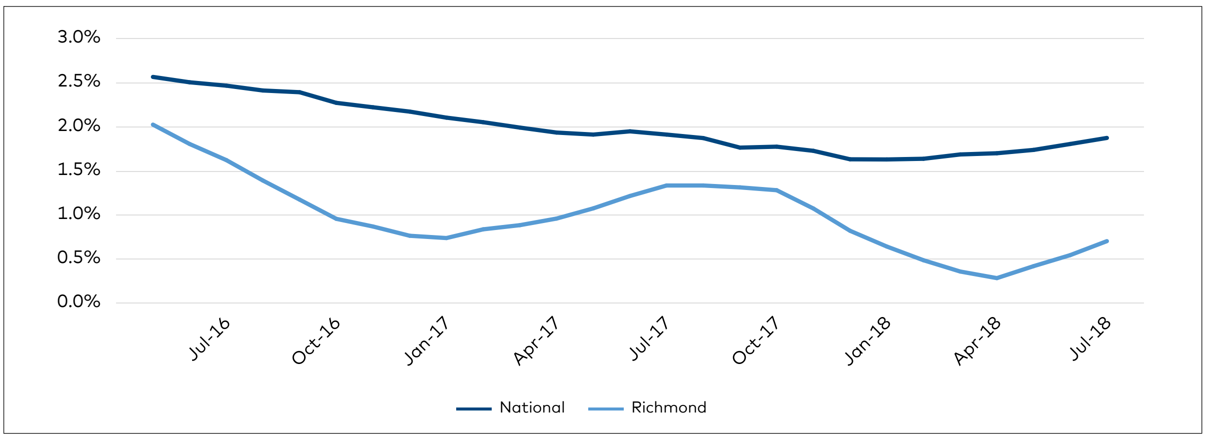


Source: YardiMatrix

Economic Snapshot

- Richmond added 18,800 jobs year-over-year through July. This marks a 0.7% expansion, 120 basis points below the U.S. average. Although underperforming against national figures, the metro's employment gains picked up during this year's second quarter, with strong improvement across several sectors.
- Professional and business services led gains, generating 7,900 positions for a 3.5% improvement rate and boosting demand for both upscale apartments and office space. Five properties adding up to more than 180,000 square feet of office space were delivered in Richmond this year as of mid-October, with an additional 1.7 million square feet underway. The office pipeline includes 600 Canal Place, Dominion Energy's new 20-story headquarters, which is close to completion and should be delivered in 2019.
- Although overall job growth was moderate, there's no shortage of large-scale developments in the area. Facebook announced an additional $750 million investment in Henrico County, which would expand its total data center pipeline there to more than 2.4 million square feet. Meanwhile, the city is negotiating with NH District for the redevelopment of the Coliseum, a $1.4 billion mixed-use project that would bring a new arena, some 2,800 apartments and many other facilities to downtown Richmond.

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	%
60	Professional and Business Services	231	15.6%	7,900	3.5%
70	Leisure and Hospitality	173	11.7%	4,000	2.4%
40	Trade, Transportation and Utilities	260	17.6%	3,800	1.5%
30	Manufacturing	88	5.9%	2,800	3.3%
15	Mining, Logging and Construction	79	5.3%	1,800	2.3%
80	Other Services	71	4.8%	700	1.0%
90	Government	264	17.8%	200	0.1%
50	Information	19	1.3%	-100	-0.5%
55	Financial Activities	91	6.2%	-400	-0.4%
65	Education and Health Services	204	13.8%	-1,900	-0.9%

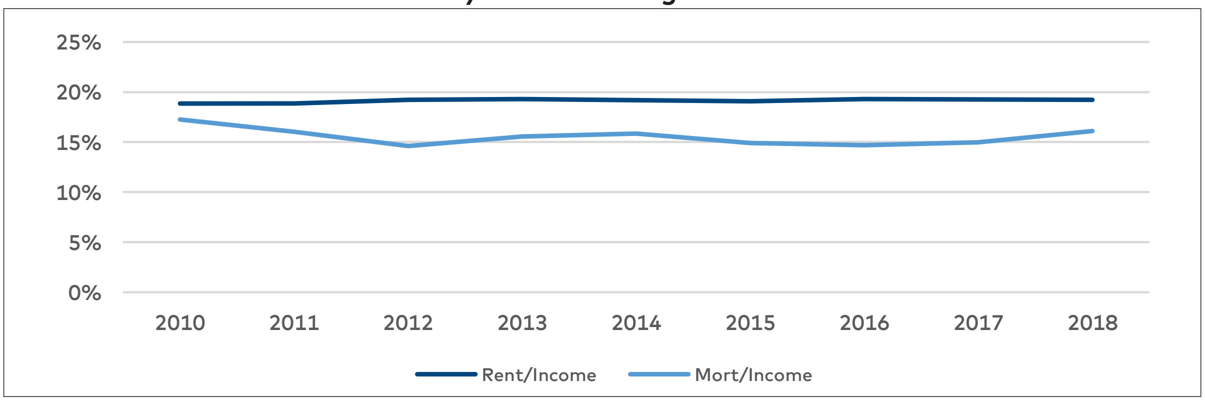
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

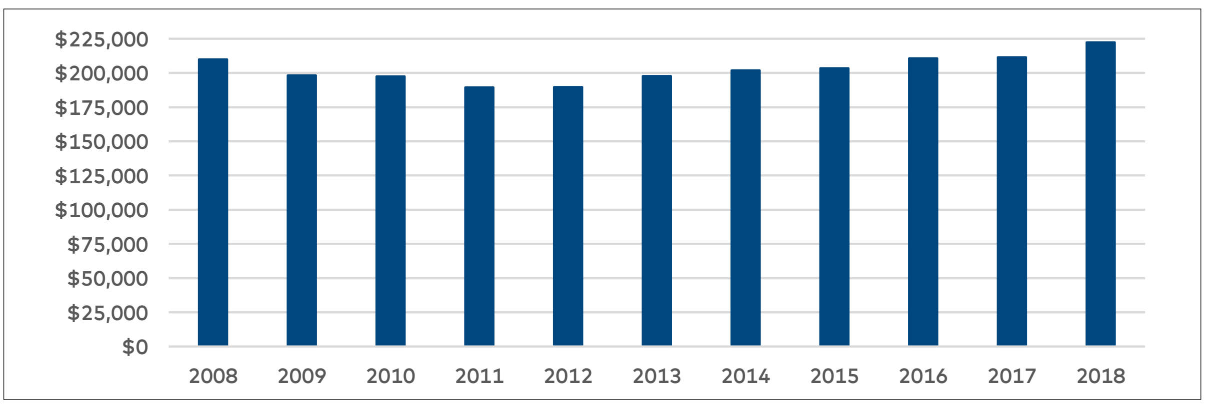
- The median home value reached $222,368 during the first half of 2018, up 17% since 2012—this cycle's low point. Although both rents and home prices have slowly but steadily risen throughout the cycle, wage gains have kept up, meaning that overall affordability levels have stayed flat over the course of the current expansion.
- Owning continues to be more affordable than renting in Richmond, with the average mortgage payment accounting for approximately 16% of the area median income. Meanwhile, the average rent equated to as much as 19%.

Richmond Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Richmond Median Home Price



Source: Moody's Analytics

Population

- Metro Richmond added 12,000 residents last year. That accounts for a 0.9% uptick, 20 basis points above the U.S. rate.
- The metro gained roughly 84,000 people between 2011 and 2017, a 7.0% expansion.

Richmond vs. National Population

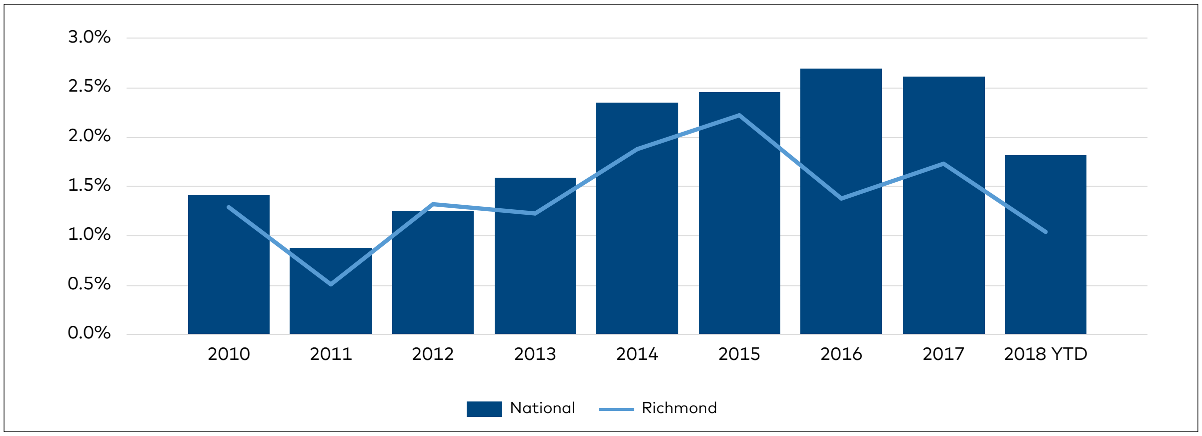
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Richmond Metro	1,245,755	1,258,597	1,270,027	1,282,205	1,294,204

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

Supply

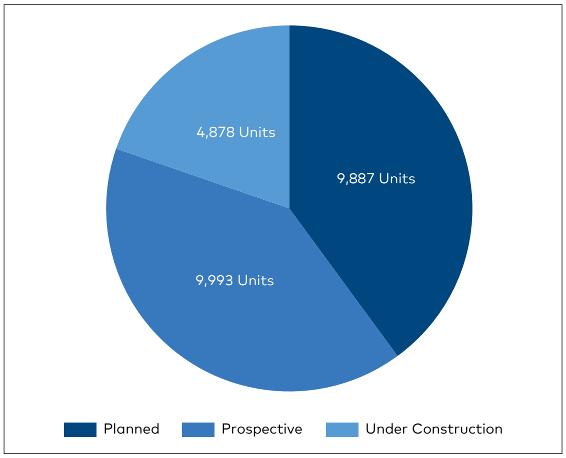
- More than 2,200 units came online in Richmond–Tidewater during the first three quarters of 2018, the vast majority being in Class A or B+ communities. This follows last year's 3,681 units, which accounted for approximately 1.7% of the total stock. Of the apartments delivered in 2017, roughly one-quarter were located within Richmond's city limits, the rest being in the suburbs and Hampton Roads.
- With 4,900 units under construction as of September and an additional 20,000 units in the planning and permitting stages, development activity is expected to remain fairly stable in the foreseeable future, and roughly keep up with current demand levels. Almost 17,500 units were delivered in the metro between 2013 and 2017, which puts Richmond–Tidewater's five-year average at approximately 3,500 units per year.
- Development is spread out across the map, with nearly half of the area's units underway being in Hampton Roads. The submarket leading the pipeline as of September was Hollywood–Thalia (681 units under construction), followed by Church Hill-Manchester (609 units), Powells Corner (364 units), Montrose (360 units) and Lakeside (327 units).

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



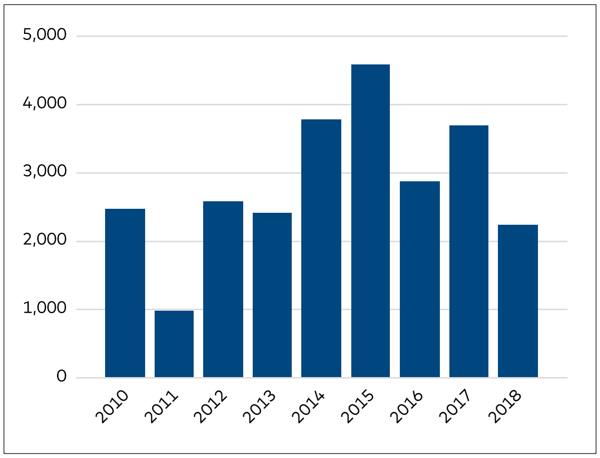
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Richmond Completions (as of September 2018)

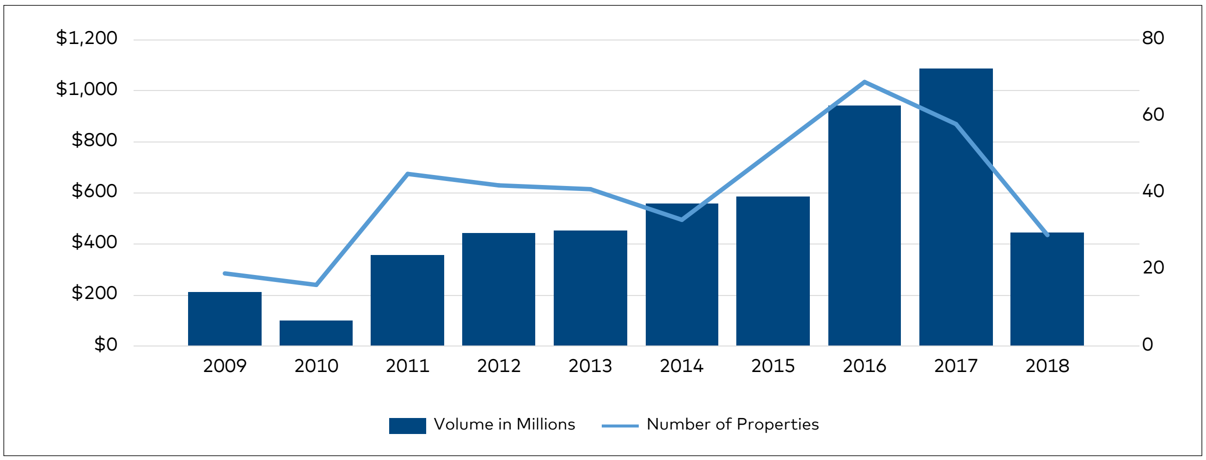


Source: YardiMatrix

Transactions

- Nearly $450 million in assets traded this year through September. This follows last year's $1.1 billion cycle high, when values also hit a peak, with the average Richmond–Tidewater unit just below the $100,000 mark.
- Per-unit prices in the metro took a small dive this year, as the average dipped to $88,000 for the year's first three quarters, well behind the $151,135 U.S. figure. That was partially due to sales distribution—although investors have heavily targeted value-add assets throughout the cycle, this was particularly evident in Richmond in 2018. Of the 29 transactions this year through September, only five were for upscale assets, compared to 16 last year and 11 in 2016. Hamilton Zanze & Co. was one of the most active buyers in the 12 months ending in September, acquiring three suburban assets totaling 594 units from Aimco for $69.4 million, or $117,000 per unit.

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



Source: YardiMatrix

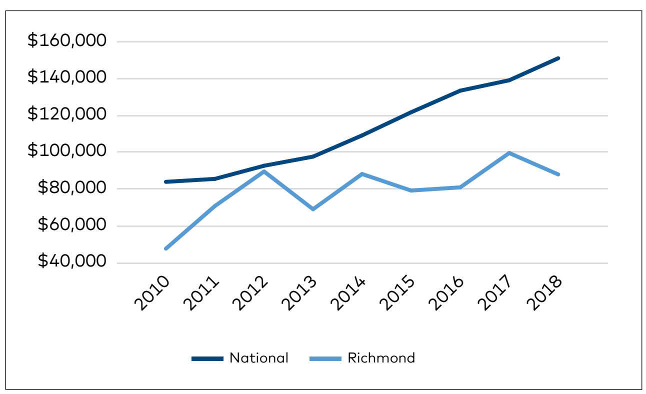
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West Chesterfield County	88
Hollywood–Thalia	81
Henrico	75
Fan District	64
Bellwood	63
Powells Corner	61
Richmond–North	57
Hampton–North	45

Source: YardiMatrix

[1] From October 2017 to September 2018

Richmond vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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MULTI-HOUSING NEWS

CPDC Breaks Ground On Mixed-Income Development

The community in Richmond's Jackson Ward neighborhood will comprise two buildings, one for low-income seniors and the other dedicated to workforce housing.

Richmond Asset Trades for $47M

Hivernan Realty Group acquired Aden Park & Glenway Green, a 538-unit value-add asset in Richmond, from Dominion Associates. The property is located just north of Midlothian Turnpike.

Walker & Dunlop Earmarks $70M For Southeast Portfolio

The company arranged the funding for Capital Square 1031's purchase of three properties, two of which are located in the Richmond area.

Brick Lane Expands Richmond Presence With $25M Buy

BAF Associates sold the 348-unit Falling Creek Apartments. HFF secured joint venture equity and debt financing. The property is less than one mile from Interstate 95.

Campus Apartments Snags VA Property For $31M

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

Drucker + Falk Buys 396-Unit Hampton Roads Asset

Federal Capital Partners sold the Newport News community for $46.7 million. The new owner is planning on implementing several upgrades.

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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.

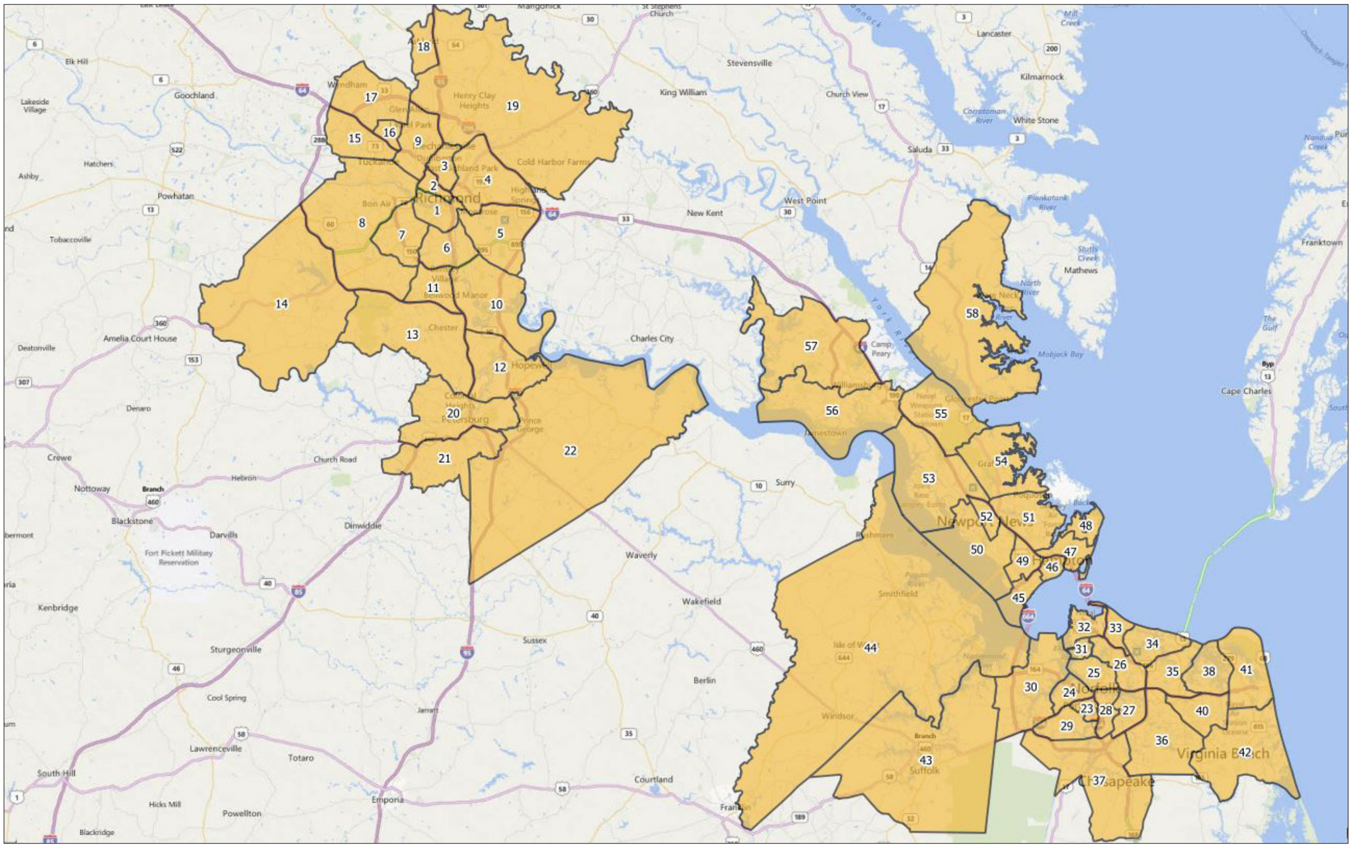
Richmond's economy is still picking up after employment growth took a dip during 2016 and then worked its way back since October of last year. The latest Yardi Matrix Richmond multifamily report indicates that rent growth had been below the national trend until December of last year, when it grew 10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

Property Name	Owner Type	Market Properties Owner	Market Units Owner	Total Properties National	Total Units National
The Breeden Co.	Private Owner	35	8,110	38	8,610
Weinstein Properties	Private Owner	16	6,866	46	16,814
General Services Corp.	Private Owner	13	6,413	52	17,888
S.L. Nusbaum Realty	Private Owner	20	5,585	30	7,226
Norfolk Redevelopment and Housing Authority	Government Agency	18	5,186	18	5,186
Thalhimer Realty Partners	Private Owner	28	5,001	35	5,872
Drucker & Falk	Private Owner	23	4,894	31	6,893
Seminole Trail Properties	Private Owner	15	4,390	15	4,390
Bonaventure Realty Group	Private Owner	14	3,901	20	5,725
Lawson Cos.	Private Owner	24	3,869	26	4,097

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 property 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.