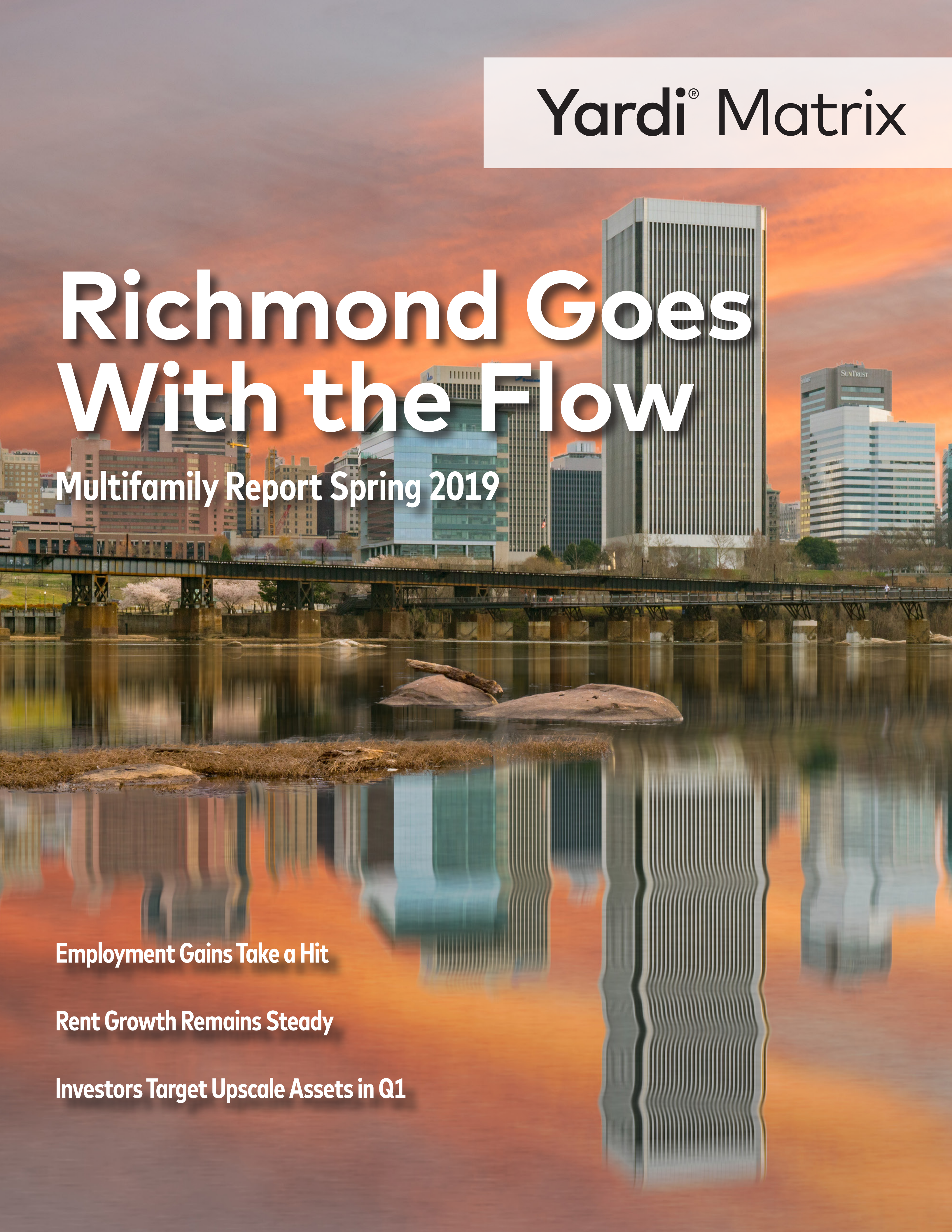
Yardi® Matrix



Richmond Goes With the Flow

Multifamily Report Spring 2019

Employment Gains Take a Hit

Rent Growth Remains Steady

Investors Target Upscale Assets in Q1

Market Analysis

Spring 2019

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alex Girda, Bogdan Odagescu
Senior Editors

Job Gains Slip, Rent Growth Lingers

Although employment gains in Richmond–Tidewater started slipping in mid-2018, the multifamily market remained mostly unfazed. Rents were up 3.4% year-over-year as of March, outperforming the national average, while occupancy in stabilized properties actually inched up 10 basis points over 12 months, to 95.0% as of February.

Richmond added 6,500 jobs in the 12 months ending in February. Gains in manufacturing (3,900 jobs), leisure and hospitality (2,200) and professional and business services (1,900) helped offset cuts in contracting sectors, which included trade, transportation and utilities (-4,500 jobs) and information (-1,400). Despite the slightly shaky economy, the area has no shortage of large-scale development plans. The Commonwealth has picked a contractor for the $3.3 billion Hampton Roads Bridge-Tunnel expansion, set for completion in 2025. Meanwhile, the City and NH District Corp. continued to negotiate the $1.4 billion proposal to redevelop the Richmond Coliseum area, a megaproject that could reshape the metro's core.

With 4,315 units underway as of March and 2,520 units expected to come online during the whole of 2019, supply is bound to partially dampen rent growth in the context of a decelerating job market. We expect the average Richmond rent to advance 2.3% this year.

Recent Richmond Transactions

The Flats at West Broad Village

City: Glen Allen, Va.
Buyer: Pollack Shores
Purchase Price: $76 MM
Price per Unit: $222,714

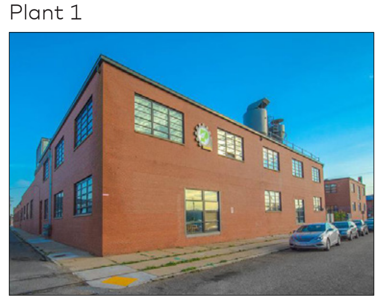
Crowne at Swift Creek

City: Midlothian, Va.
Buyer: Sentinel Real Estate
Purchase Price: $60 MM
Price per Unit: $190,705

Park Crescent

City: Norfolk, Va.
Buyer: Croatan Investments
Purchase Price: $57 MM
Price per Unit: $143,000

Plant 1



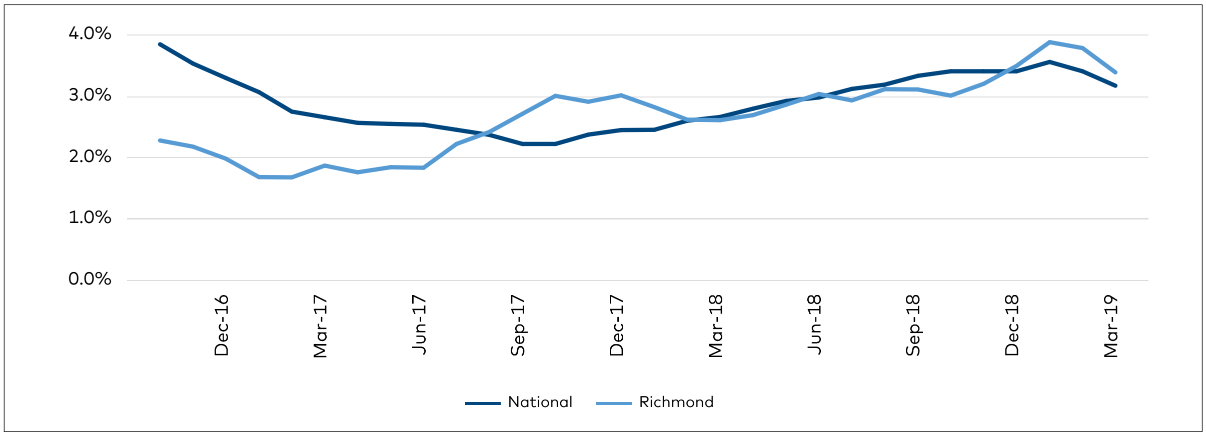
City: Richmond, Va.
Buyer: PMC Property Group
Purchase Price: $24 MM
Price per Unit: $172,794

On the cover: Photo by pabradyphoto/iStockphoto.com

Rent Trends

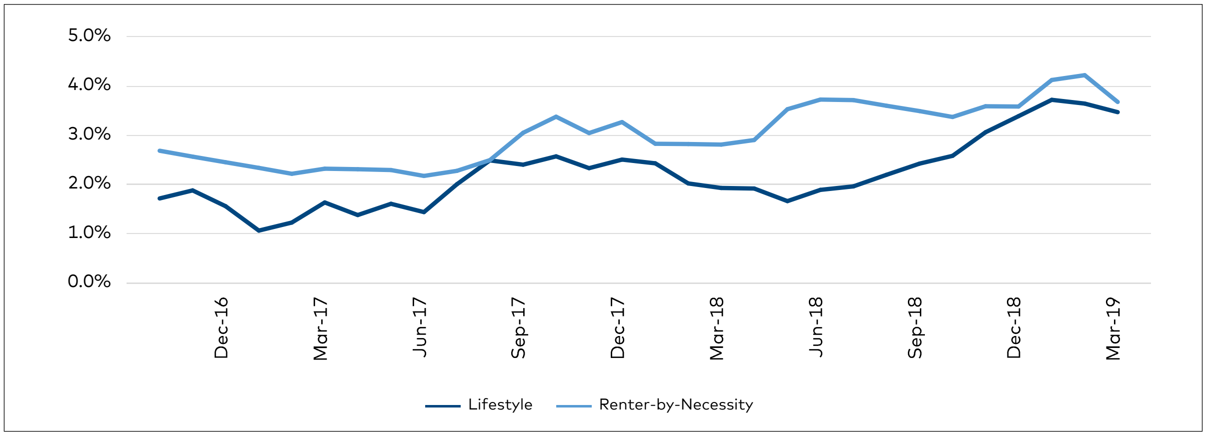
- Rents in Richmond–Tidewater were up 3.4% year-over-year through March, 20 basis points above the U.S. growth rate. The average rent reached $1,097, well below the $1,430 national figure, as the market remains a relatively affordable alternative to nearby Northern Virginia and the wider D.C. area.
- Working-class Renter-by-Necessity assets make up the bulk of the market's rental stock, with the Lifestyle segment remaining somewhat undersupplied. As a result, rents in the two quality segments have grown nearly in sync, with RBN rates up 3.7% while Lifestyle rents increased 3.5%.
- Occupancy in stabilized properties stood at 95.0% as of February, up 10 basis points year-over-year. Rental demand remained robust, with the metro adding 3,700 units per year on average during the second half of the cycle. While a large share of the population works in mid-to-low-wage sectors, Richmond has diversified its economic base, leading to increased demand across the quality spectrum. As a result, occupancy by quality segment stayed close to the 95.0% mark over the past year.
- The recent slide in overall job creation will likely put a dent in Richmond's recent run of growth. Yardi Matrix expects rent appreciation to moderate in 2019, reaching 2.3% for the 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

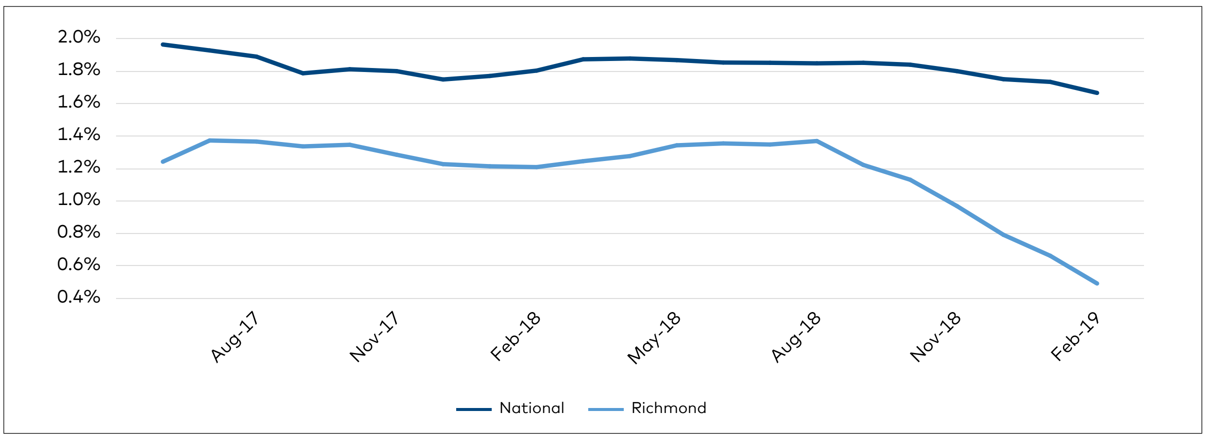
Economic Snapshot

- Richmond added just 6,500 jobs in the 12 months ending in February for a 0.5% expansion, 120 basis points below the U.S. figure. Employment gains have been declining steadily since mid-2018, when the growth rate was in the 1.2% to 1.3% range. Several employment sectors contracted, including information and trade, transportation and utilities, which lost a combined 5,900 positions.

- Manufacturing and leisure and hospitality led gains, helping offset some of the effects of job cuts by adding a total of 6,100 positions. Richmond also generated high-paying office-using jobs, with financial activities and professional and business services gaining a combined 3,500 positions.

- Although employment growth took a hit, the area has no shortage of large developments, including major infrastructure plans. In February, the Commonwealth picked a contractor for the $3.3 billion Hampton Roads Bridge-Tunnel expansion, the largest construction project in the history of Virginia's Department of Transportation. The project is set for completion in the second half of 2025. Meanwhile, the City and NH District Corp. continue to negotiate the $1.4 billion proposal to redevelop the Richmond Coliseum area. The project calls for a new arena, more than 3,000 rental units, a high-rise hotel, as well as nearly 1 million square feet of office and retail space. According to Mayor Levar Stoney, the project is expected to generate a total of 21,000 jobs.

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	%
30	Manufacturing	91	6.3%	3,900	4.5%
70	Leisure and Hospitality	150	10.3%	2,200	1.5%
60	Professional and Business Services	229	15.7%	1,900	0.8%
55	Financial Activities	90	6.2%	1,600	1.8%
15	Mining, Logging and Construction	77	5.3%	1,500	2.0%
80	Other Services	68	4.7%	900	1.3%
90	Government	274	18.8%	800	0.3%
65	Education and Health Services	214	14.7%	-400	-0.2%
50	Information	17	1.2%	-1,400	-7.6%
40	Trade, Transportation and Utilities	247	17.0%	-4,500	-1.8%

Sources: YardiMatrix, Bureau of Labor Statistics

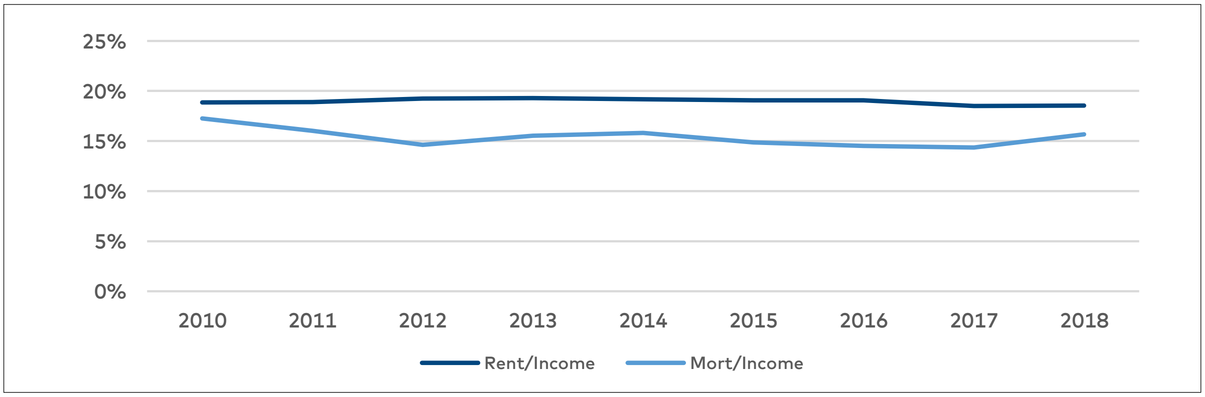
Demographics

Affordability

- The median home value in Richmond reached $225,919 in 2018, up 7% over the year prior and marking a 19% improvement since 2011. Both home prices and rents appreciated during the current expansion. However, Richmond wage increases managed to keep up, maintaining affordability levels.

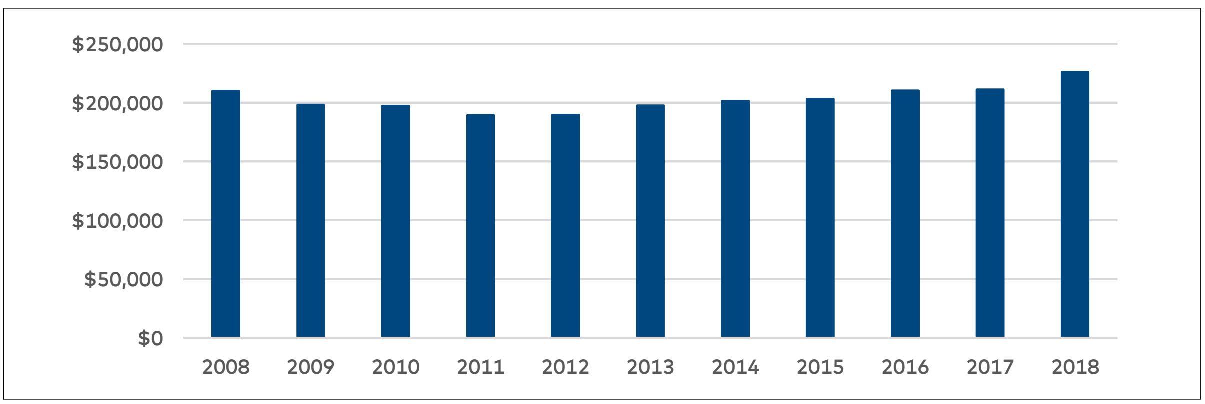
- Owning remained the slightly more affordable option last year, with the average mortgage payment equating to 16% of the area median income. Meanwhile, the average rent accounted for 19%. These figures keep Richmond relatively affordable, especially when compared to nearby Northern Virginia and Washington, D.C.

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 84,165 residents between 2011 and 2017 for a 7.0% expansion, 170 basis points above the U.S. growth rate.
- The metro gained 12,000 people in 2017, a 0.9% uptick, above the 0.7% U.S. figure.

Richmond vs. National Population

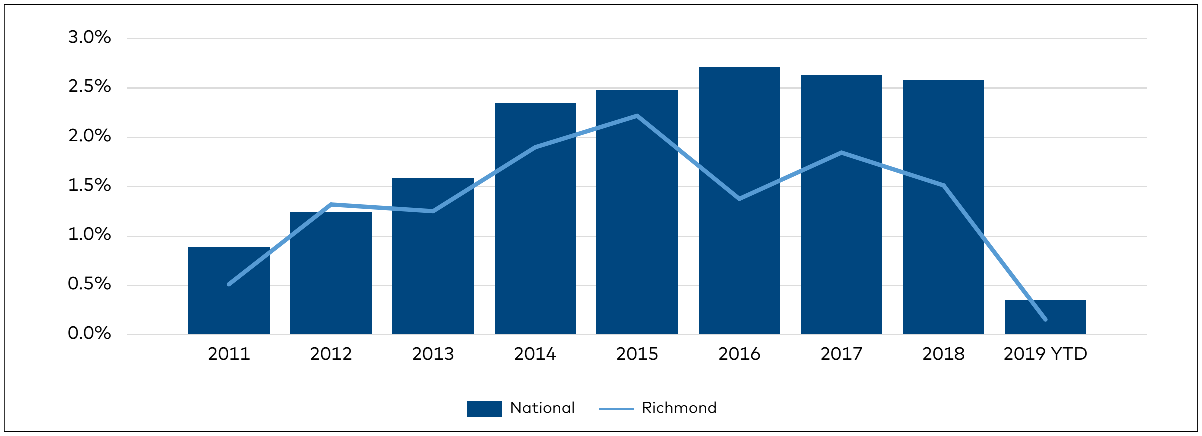
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Richmond Metro	1,245,755	1,258,597	1,270,027	1,282,205	1,294,204

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

Supply

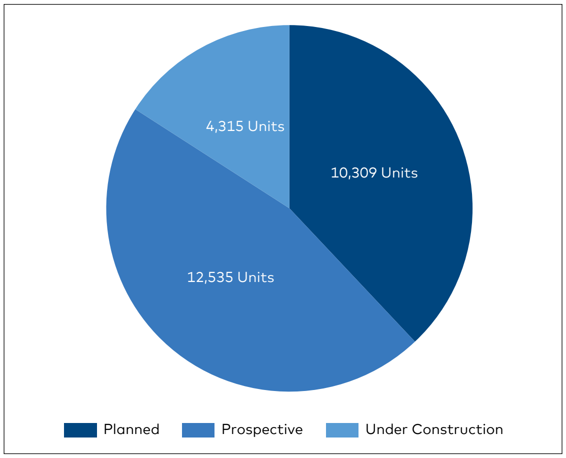
- With 4,315 units underway as of March, Richmond–Tidewater continues to lag behind national construction trends. Developers have added an average of 3,700 units per year throughout the second half of the cycle, with the figure sliding to 3,270 units in 2018. This year is slated to continue at a tempered rate, with a total annual supply of 2,520 units.
- The market's multifamily pipeline also includes 23,000 units in the planning and permitting stages, hinting at a possible development wave around the corner, despite the ongoing slide. Richmond–Tidewater's average occupancy rate in stabilized properties clocked in at 95.0% as of February—that was actually up 10 basis points year-over-year. Short-term variations aside, this increase reflects that rental demand remained relatively healthy, driving the need for units going forward.
- Developers focused on Richmond–City Center (558 units underway as of March), Virginia Beach–Northwest (550 units) and Midlothian (509 units). More than two-thirds of all units being built in Richmond–Tidewater as of March were aimed at Lifestyle renters, largely mirroring nationwide trends.

Richmond vs. National Completions as a Percentage of Total Stock (as of March 2019)



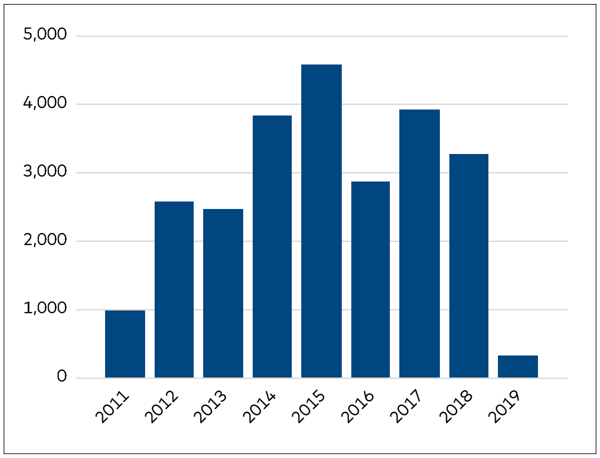
Source: YardiMatrix

Development Pipeline (as of March 2019)



Source: YardiMatrix

Richmond Completions (as of March 2019)



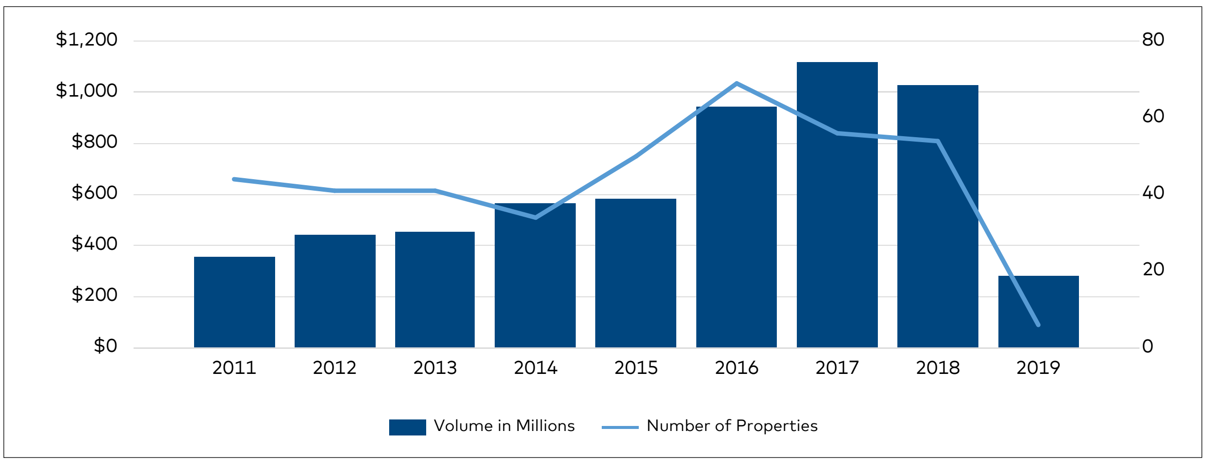
Source: YardiMatrix

Transactions

- Multifamily deals in Richmond–Tidewater totaled $282 million during the first quarter of 2019. With Class A acquisition yields in the 5.5% to 6.0% range, investors targeted Lifestyle assets this year, a common play in smaller markets with room to grow. With more upscale assets trading in the metro, per-unit prices inflated to an average of $156,753—exceeding the national figure for the second time during this cycle—albeit on a limited sample size.

- Capital was distributed broadly across the metro in the 12 months ending in March, with Chester ($80 million), Newport News–Central ($78 million), Three Chopt ($76 million) and Richmond–City Center ($63 million) leading the way. The largest deal completed during the year's first quarter was Pollack Shores' $75.5 million acquisition of the 339-unit Flats at West Broad Village in Glen Allen. ShopCore Properties sold the 2010-built asset at $222,714 per unit.

Richmond Sales Volume and Number of Properties Sold (as of March 2019)



Source: YardiMatrix

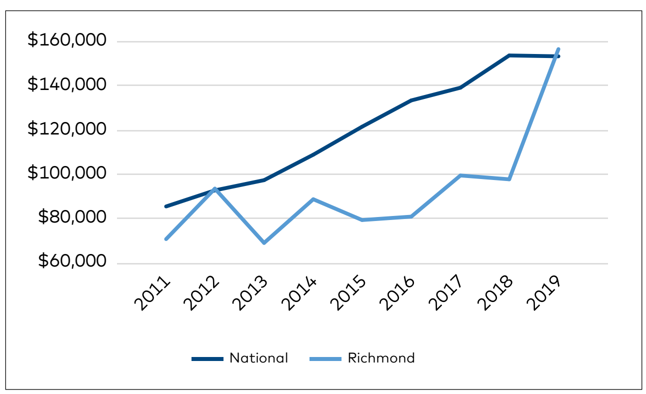
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Chester	80
Newport News–Central	78
Three Chopt	76
Richmond–City Center	63
Richmond–Stony Point	62
Midlothian	60
Norfolk–Northeast	57
Virginia Beach–Northwest	52

Source: YardiMatrix

[1] From April 2018 to March 2019

Richmond vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:

MULTI-HOUSING NEWS

Get the latest in local real estate news on Multi-HousingNews.com

Berkadia Arranges $125M in Financing For VA Properties

Totaling 655 units, the upcoming Magnolia Green Apartments and Faraday Park at Reston Station communities are located in Moseley and Reston.

Capital Square 1031 Completes Multifamily Purchase

The firm acquired the suburban Summit at Bon Air through a Delaware statutory trust offering that was fully subscribed by 61 investors.

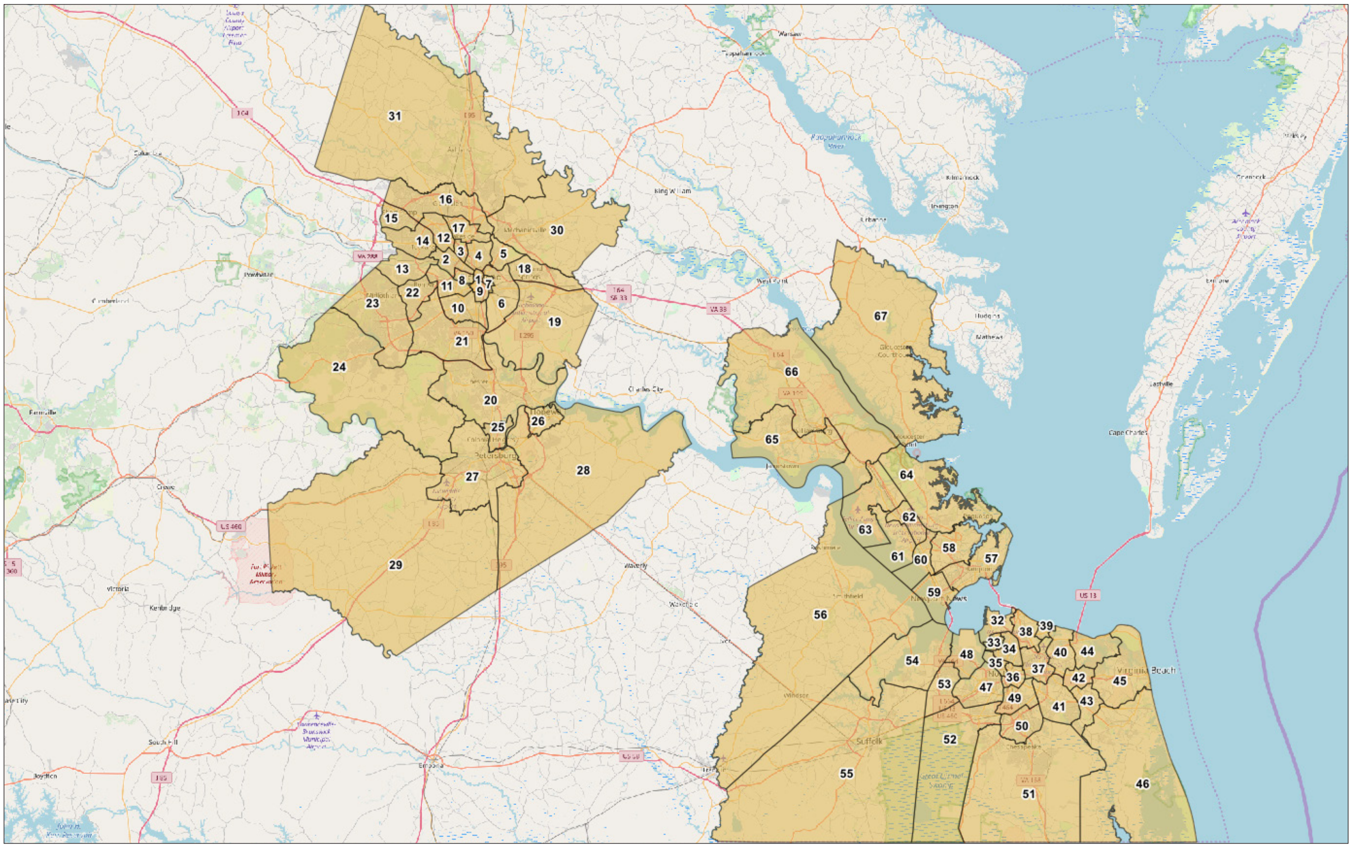
Pollack Shores Enters Mid-Atlantic Market

The company acquired The Flats at West Broad Village, a 339-unit community in Glen Allen, roughly 15 miles from Richmond.

Donaldson Group Expands Portfolio

The company has taken over management operations at two recently sold communities in Virginia—the 457-unit Rivermont Crossing in Chester and the 168-unit Lafayette in Norfolk.

Richmond Submarkets



Area #	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 #	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 #	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 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.