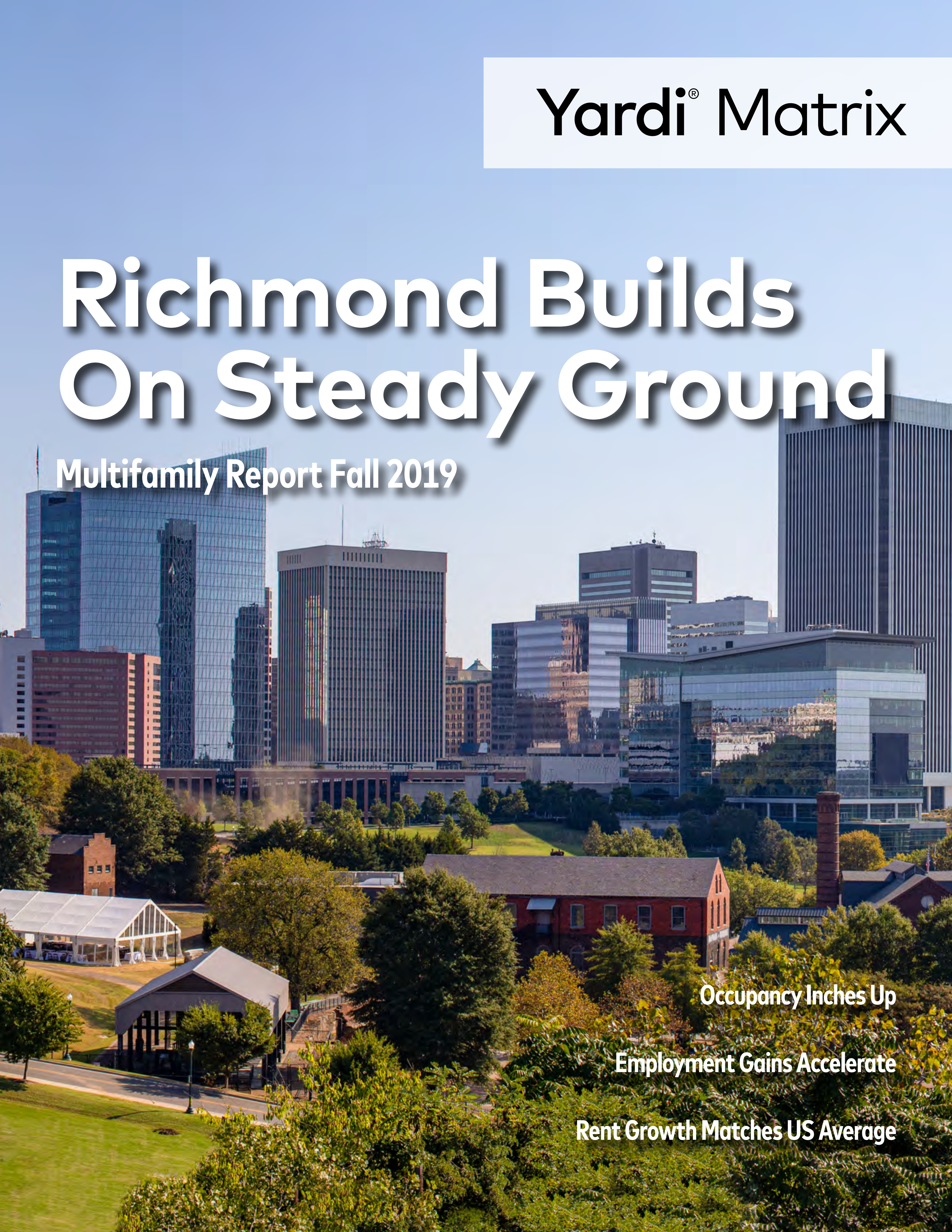
Yardi® Matrix

Richmond Builds On Steady Ground

Multifamily Report Fall 2019



Occupancy Inches Up

Employment Gains Accelerate

Rent Growth Matches US Average

Market Analysis

Fall 2019

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Job Gains Accelerate; Occupancy Increases

Despite overbuilding fears across key submarkets over the past few years, Richmond kept its cool going into 2019's last quarter, with long-term fundamentals still solid. Rents in the metro improved 2.8% year-over-year through September and occupancy moved up 30 basis points over 12 months, to 95.5%, as of August, reflecting moderate yet steady growth.

Richmond gained 20,600 jobs in the 12 months ending in July. While employment growth acceleration is partly due to seasonal factors, a high number of gains were in high-paying sectors, as professional and business services, and financial activities added more than 10,000 jobs. Meanwhile, the area's touristic appeal continued to boost the leisure and hospitality sector, which gained 7,300 jobs year-over-year, for a 4.3% expansion.

Bolstered by institutional investors' increasing appetite for secondary and tertiary markets at this point in the cycle, more than $734 million in multifamily assets traded year-to-date through September. Meanwhile, developers added more than 1,200 apartments to Richmond–Tidewater's inventory in 2019's first three quarters, with an additional 6,907 units under construction as of September. As supply is slated to remain just one step behind demand in the foreseeable future, we expect Richmond rent growth to stay steady going into 2020.

Recent Richmond Transactions

Saltmeadow Bay

City: Virginia Beach, Va.
Buyer: Capital Square 1031
Purchase Price: $49 MM
Price per Unit: $212,227

Bridgewater on the Lake

City: Hampton, Va.
Buyer: Chandler Residential
Purchase Price: $45 MM
Price per Unit: $90,681

South Bank

City: Richmond, Va.
Buyer: Mercer Street Partners
Purchase Price: $23 MM
Price per Unit: $261,364

Lexington Commons

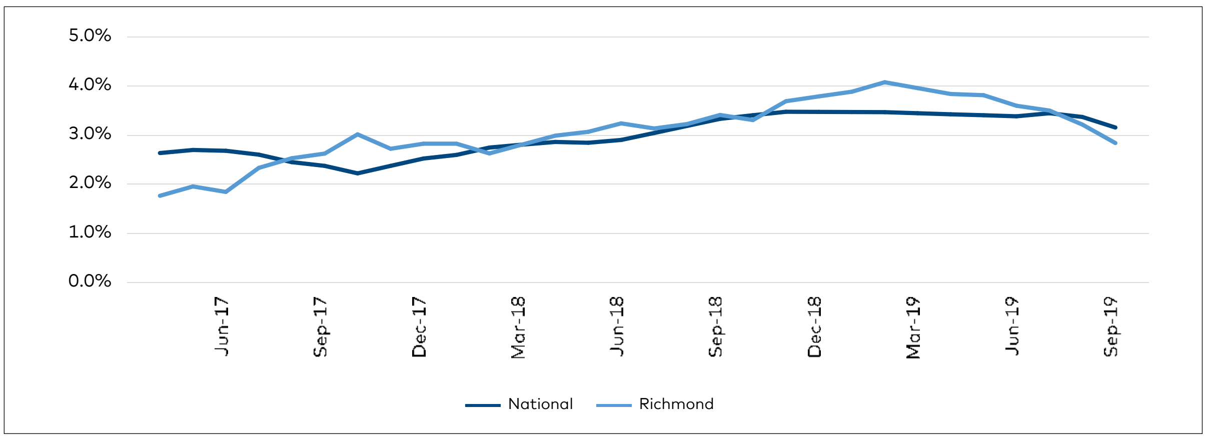
City: Newport News, Va.
Buyer: Laramar Group
Purchase Price: $10 MM
Price per Unit: $75,568

On the cover: Photo by Roberto Galan/iStockphoto.com

Rent Trends

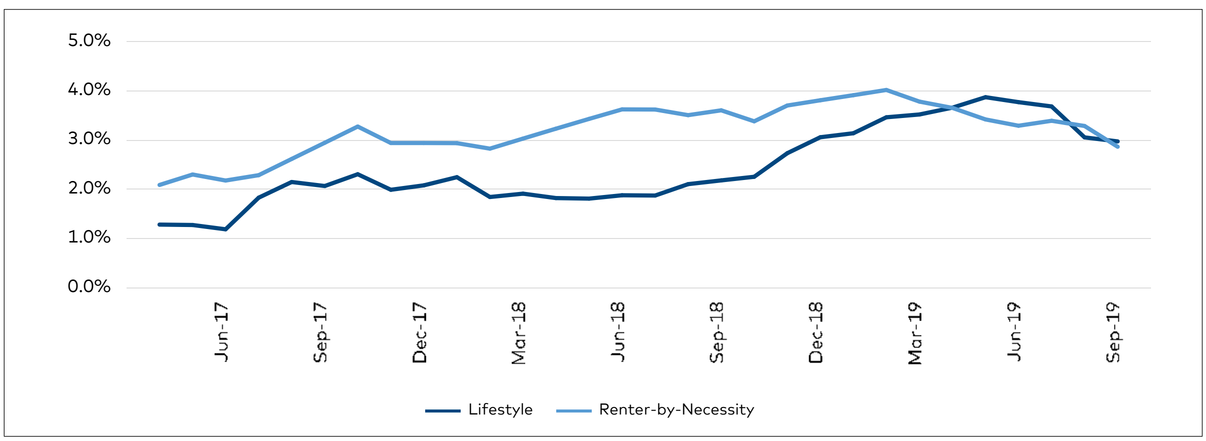
- Richmond–Tidewater rents were up 2.8% year-over-year through September, 40 basis points below the U.S. average. Market and national figures were closely aligned: The largest spread in rent growth between the markets since the beginning of 2018 was 60 basis points, recorded in February 2019. At $1,122 as of September, the average rent remained behind the $1,471 national figure.
- Growth across asset classes has evened out: The average working-class Renter-by-Necessity rate was up 2.9% year-over-year, to $1,004, while rents in the Lifestyle segment recorded a 3.0% hike, reaching $1,349. In fact, a narrowing gap between rent growth in the two classes is a nationwide trend. As of September, the spread dropped to 20 basis points, the lowest in eight years.
- Expensive submarkets recorded strong gains: Scott's Addition (5.6% to $1,489), Richmond–City Center (6.3% to $1,403), Three Chopt (5.9% to $1,395) and Virginia Beach–Bayside (5.4% to $1,371).
- Boosted by population growth and job creation across several high-paying employment sectors, occupancy in stabilized assets inched up 30 basis points over 12 months, to 95.5% in August. Considering the relatively limited pipeline, we expect Richmond rent growth trends to remain close to the national average through 2019's last quarter.

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

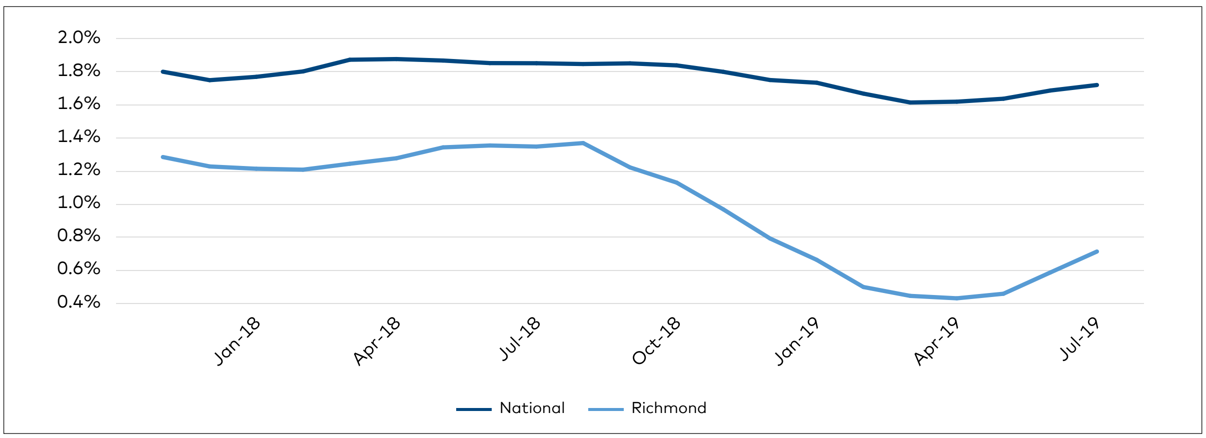
Economic Snapshot

- Richmond gained 20,600 jobs in the 12 months ending in July, marking a 70-basis-point uptick, less than half the 1.7% national figure. The metro's employment gains are on an upswing, having rebounded slightly after three quarters of steady deceleration. The area's tight labor market, however, is hinting at expansion headwinds: Richmond's unemployment rate stood at just 3.0% as of July, with Hampton Roads' figure only 10 basis points higher.

- Leisure and hospitality led gains with the addition of 7,300 positions through July. While this partly accounts for seasonal gains, the area's tourism figures continue to improve. According to a study commissioned by the Virginia Tourism Corp., travel and tourism spending in the Richmond region recorded a 5% uptick last year.

- Financial activities and professional and business services gained a combined 10,700 positions, increasing demand for upscale housing along the way. Meanwhile, several high-profile projects are expected to boost the area's economy in the long run, including Virginia Commonwealth University's OneVCU master plan, which scheduled more than $900 million in construction spending for 2019 alone. At the same time, the $1.5 billion Navy Hill/Coliseum redevelopment project is getting closer to breaking ground, as developer NH District Corp. seeks the green light from the city council.

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	%
70	Leisure and Hospitality	178	11.9%	7,300	4.3%
60	Professional and Business Services	238	15.9%	6,600	2.9%
55	Financial Activities	95	6.3%	4,100	4.5%
65	Education and Health Services	214	14.3%	3,100	1.5%
30	Manufacturing	92	6.1%	2,100	2.3%
15	Mining, Logging and Construction	82	5.5%	1,900	2.4%
80	Other Services	70	4.7%	700	1.0%
90	Government	265	17.7%	500	0.2%
50	Information	17	1.1%	-1,400	-7.6%
40	Trade, Transportation and Utilities	251	16.7%	-4,300	-1.7%

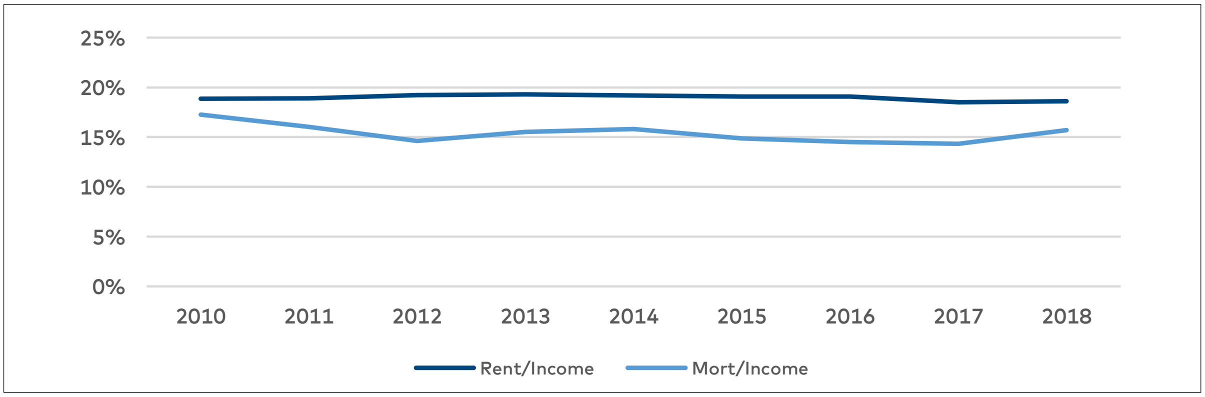
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

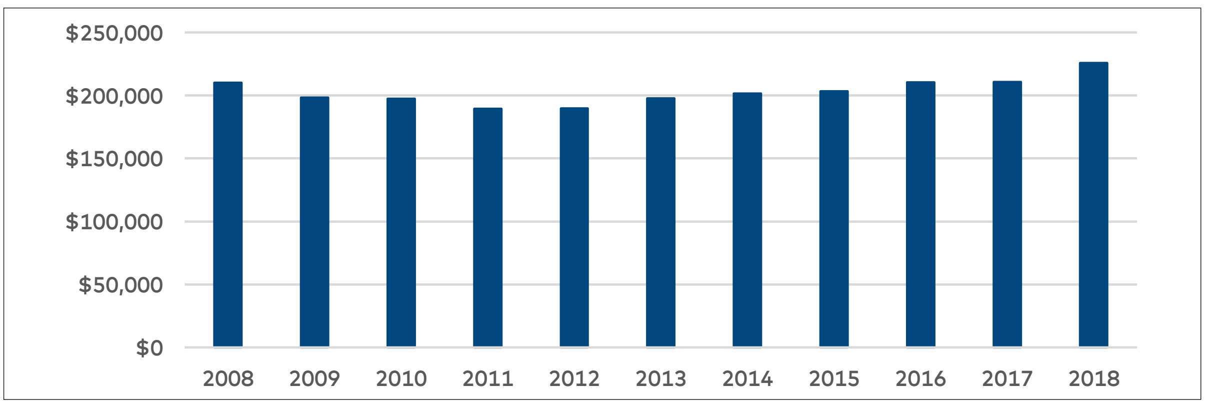
- The median home price in Richmond climbed to $225,865 in 2018, rising 7% in one year and 19% since the 2011 trough. While both home values and rents recorded consistent gains during this cycle, wage growth roughly matched increasing costs, keeping overall housing affordability relatively stable.
- Owning remained more affordable than renting last year. The average rent accounted for 19% of the area's median income, while the average mortgage payment equated to just 16%. Overall, Richmond remains a relatively affordable metro, especially when compared to nearby Washington, D.C., and its Maryland and Virginia suburbs.

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 gained 13,261 residents last year, which marked a 1.0% uptick, 40 basis points above the 0.6% U.S. figure.
- The MSA added almost 100,000 people between 2010 and 2018, an 8.0% expansion.

Richmond vs. National Population

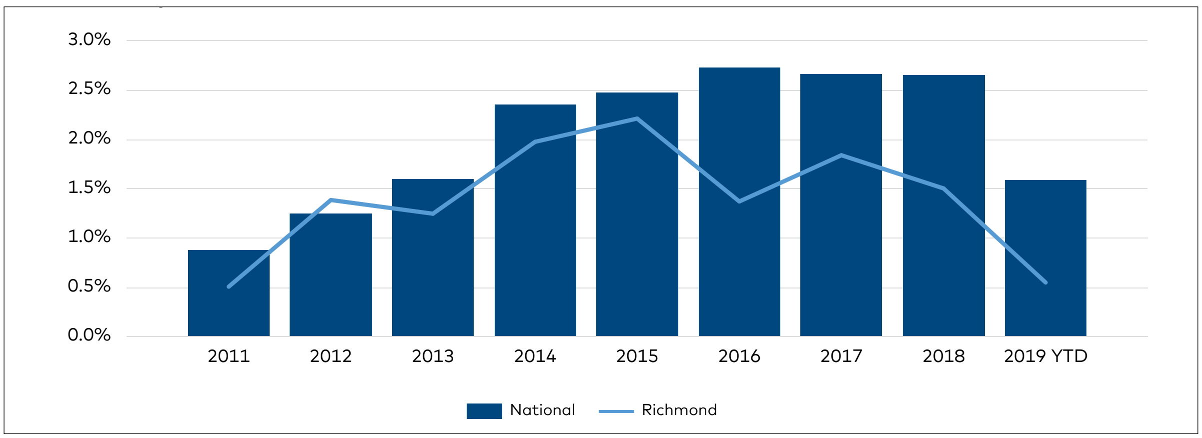
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Richmond Metro	1,257,769	1,269,483	1,281,314	1,292,911	1,306,172

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

Supply

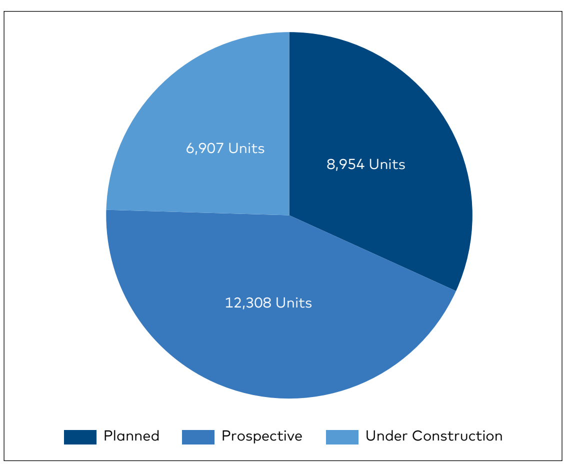
- Richmond–Tidewater had 6,907 apartments under construction as of September, with one-third located within 3 miles of downtown Richmond, one-third in the Hampton Roads area and one-third in Richmond's suburbs. Apart from these, the metro also had some 21,000 apartments across more than 120 projects in the planning and permitting stages. While these projects indicate that a large number of developers are betting on the area's fundamentals, planned and prospective projects could easily be delayed or cut if economic conditions deteriorate.
- Developers brought some 1,200 units online during the first three quarters of 2019, on the heels of last year's 3,264 new apartments. Richmond's five-year average of 3,730 units delivered every year since 2014 has helped keep rent growth stable to a certain extent, but the metro's population growth, increasing occupancy rate and job creation show that there's additional room for growth.
- Development is widespread, with Midlothian (759 units underway) leading the pipeline, followed by Suffolk–North (576 units), Richmond–City Center (558 units), Virginia Beach–Town Center (504 units) and Richmond–Church Hill (461 units).

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



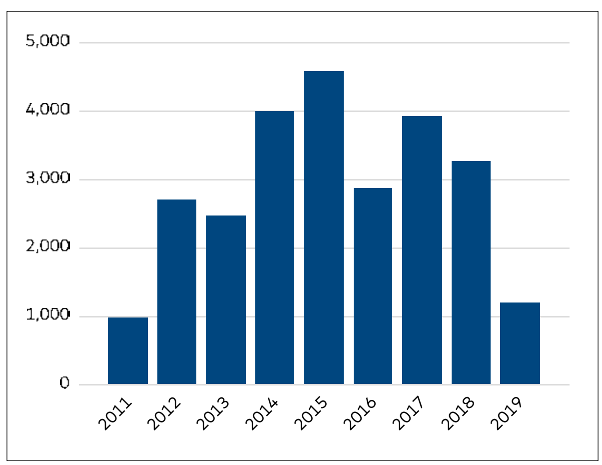
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Richmond Completions (as of September 2019)

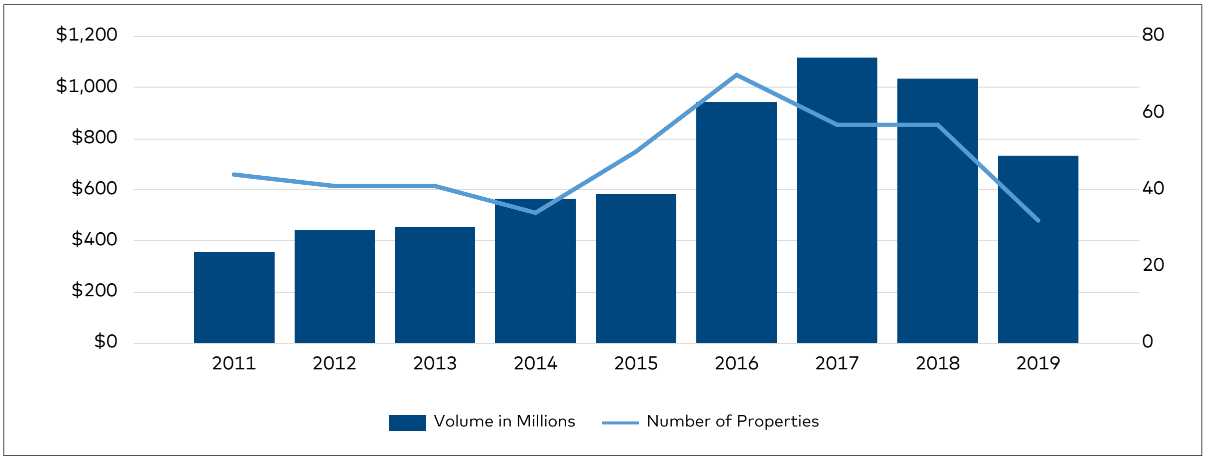


Source: YardiMatrix

Transactions

- A total of $734 million in assets traded during the year's first three quarters. While fundamentals recorded some short-term volatility over the past three years and risks of oversupply in key submarkets came and went, Richmond and Hampton Roads' overall long-term prospects remained fairly safe.
- The average price per unit rose to $114,018 as of September, but remained below the $158,670 U.S. average. Rising values are no surprise: The area recorded above-average population growth during this cycle, but the multifamily pipeline was relatively slow in keeping up the pace, leading to overall lingering demand and rent growth roughly in line with the U.S. average.
- Hampton Roads took the lion's share with seven of the top 10 submarkets for transaction volume in the 12 months ending in September. Suburban Richmond accounted for the remaining three.

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



Source: YardiMatrix

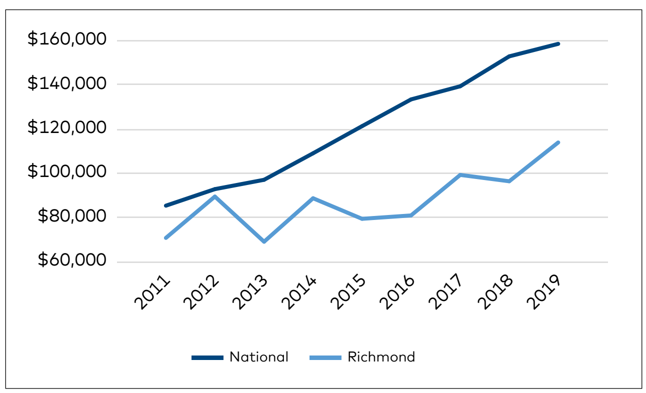
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Virginia Beach–Northeast	125
Hampton–North	90
Richmond–West End	79
Three Chopt	76
Norfolk–Northeast	75
Richmond–Stony Point	62
Midlothian	60
Virginia Beach–Northwest	57

Source: YardiMatrix

[1] From October 2018 to September 2019

Richmond vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

HHHunt Finds Synergies, Stability in Diversification

By Diana Mosher

In 1966, Harry H. Hunt III, the founder of HHHunt, saw the need for faculty and student housing at Virginia Tech in Blacksburg, Va. Now, more than five decades later, HHHunt is a leader in diversified real estate development throughout the Southeast.

As president of HHHunt Asset Management Group, Janet Riddlebarger is responsible for the operations of the organization's apartment and senior living communities as well as the development division, which comprises the land acquisitions, development and construction groups.

How has HHHunt changed since it was founded in the 1960s, and what aspects of the culture and mission continue to endure?

The organization has changed in many ways. We have added senior living, homebuilding and community development to our very stable apartment living platform. We have focused on providing a great place to work, and our employment now sits at close to 2,000 teammates. We also have expanded our market footprint. We began in Blacksburg, Va., and grew regionally in Virginia, especially in Richmond, and now have communities in Maryland, North Carolina and South Carolina, as well. Our culture and our mission are still part of what makes our company special.

What projects is HHHunt developing in the apartment and senior living segment?

Our pipeline is probably similar to other developers. We seek sites in high barrier-to-entry locations that offer us the best chance to grow rents, create jobs and provide synergy

of our product types. Our current focus is more on the apartment-rental side of the business as demographics continue to point to growth of the multigenerational renter by choice.

How does HHHunt's diversified approach—apartment living, senior living, new homes and planned communities—improve your position in the marketplace?

The diversification provides synergy in some markets and provides stability overall. Our model is not typical for many developers, who concentrate on one line of business. Our diversity kept our homebuilding and communities groups in business during the downturn, when others went out of business. Our homebuilding and communities operations continue to provide cash to expand and grow our multifamily and senior living businesses. The steady income from our senior living and apartment living operations provides a way to expand all areas of the business, invest in new technology, pay competitive salaries and benefits, and provide wonderful places for thousands of residents and homeowners to live.

What exciting changes do you see in multifamily and senior living operations?

The changes are mostly related to technology. New revenue software programs are necessary in apartment living. CRM (customer relationship management) platforms are necessary as well in order to ensure that we drive sales and stay connected with our customers. Apartment technology enhancements include things like access to your apartment using your phone and the freedom to set your thermostat remotely.

News in the Metro

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West End Capital Buys Newport News Community

The new owner has renamed the 104-unit fully affordable multifamily asset and plans to invest in capital improvements.

Hampton Project Gets $22M Financing

Bellwether Enterprise secured the loan for the developer of the 162-unit community. The project is slated for completion in late 2020.

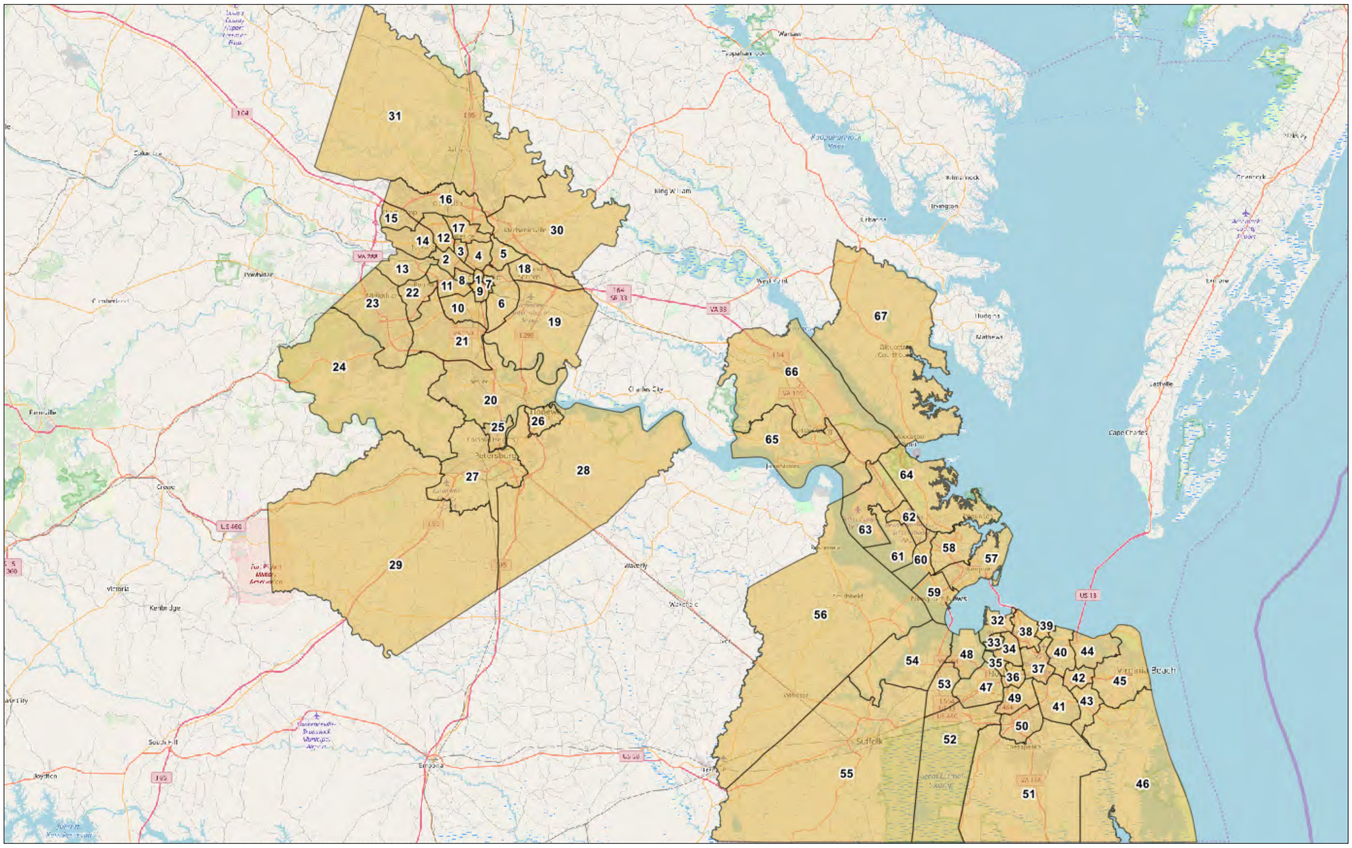
CBRE Arranges Sale, Financing Of Chesapeake Asset

Governor's Pointe traded for $7.3 million. Jeff Kunitz and Peyton Cox acted on behalf of the seller, while Jim Flinn arranged a Fannie Mae loan for the buyer.

Virginia Community Lands $30M Grant

The federal funds will go toward redeveloping the 256-unit Ridley Place public housing and the surrounding neighborhood. Pennrose is the master developer of the project.

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.