

Richmond-Hampton Roads Multifamily

Transaction Activity Picks Up During Third Quarter

Highlights

- > The Richmond-Hampton Roads, Virginia, market continues to record robust renter demand for apartments. Despite some economic volatility during the second quarter, current vacancies and rents are within recent ranges. Rent collections to this point have been consistent, closely tracking levels from one year ago.
- > During the third quarter, the local vacancy rate rose 10 basis points, reaching 4.6 percent.
- > Year over year, asking rents are up 3.5 percent, ending the third quarter at \$1,141 per month.
- > The investment market accelerated in the third quarter. The median price in properties sold thus far in 2020 is \$108,400 per unit, but in larger property sales, the median price is \$116,000 per unit. Cap rates have averaged in the low- to mid-5-percent range in 2020.

Richmond-Hampton Roads Multifamily Market Overview

The Richmond-Hampton Roads multifamily market continued to post healthy performance during the third quarter, with rents rising and the vacancy rate only recording a minimal uptick. These trends are consistent with property patterns throughout the country with the most expensive markets recording the steepest rent declines. The comparative affordability of the Richmond-Hampton Roads area is largely insulating the market from significant softening and should support improving conditions within a few quarters when the economy stabilizes and employers bring payrolls back closer to pre-COVID levels.

Q3 Snapshot Richmond-Hampton Roads Market



Market Fundamentals

Vacancy	4.6%
- Year Over Year Change	+90 bps
Asking Rent	\$1,141
- Year Over Year Change	+3.5%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$108,400
Cap Rates (Avg YTD)	5.4%



Construction Activity

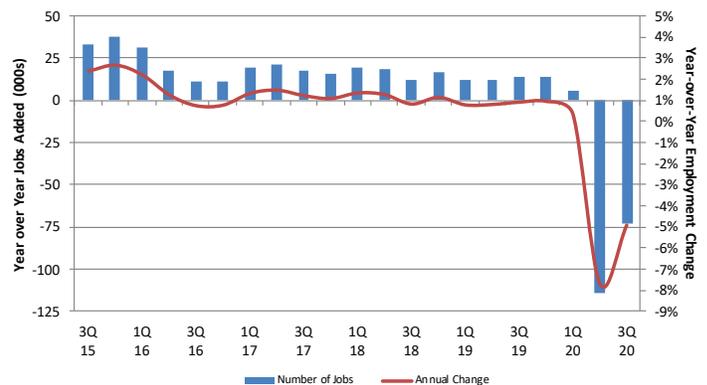
Units Under Construction	5,699
Units Delivered YTD	1,911

The local investment market regained momentum during the third quarter, following a lull in activity in the preceding three months. Investors pulled back when the coronavirus outbreak stifled nearly all forms of economic activity in the early spring, but local apartment sales have begun to return closer to normalized levels. Pricing is similar to 2019 levels, but there was a bit of an upswing during the third quarter when the median price rose and cap rates compressed from previous periods.

Employment

- > Employment in the Richmond-Hampton Roads area has declined by nearly 5 percent year over year. Job losses were concentrated early in the second quarter, and employers have been adding back workers since May.
- > Job losses in the area totaled approximately 165,000 positions during the coronavirus shutdown. Jobs started coming back beginning in May; from May through September, employers added back 76,500 positions.
- > Despite the recent economic turbulence, some companies are expanding. During the third quarter, SimpliSafe opened a call center in the Willow Lawn section of Richmond. The new facility is expected to have nearly 600 workers.
- > **Forecast:** Every major market in the country is expected to post job losses in 2020. The Richmond-Hampton Roads area is forecast to record payroll contraction of approximately 4.7 percent.

Employment Overview

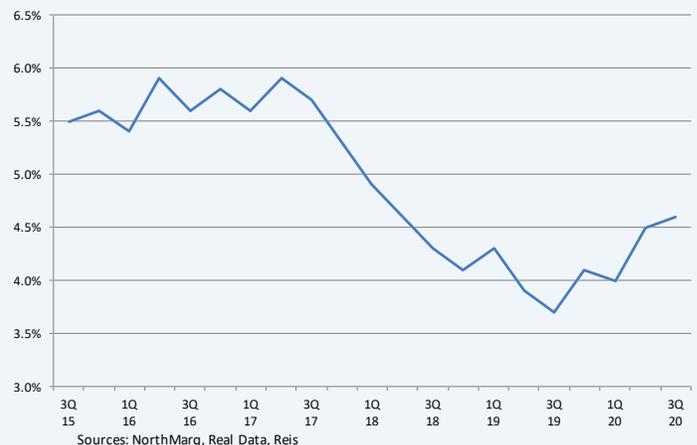


From May through September, employers added back 76,500 positions

Vacancy

- > Vacancy in the Richmond-Hampton Roads area reached a cyclical low in the second half of last year and has been trending higher in recent quarters. During the third quarter, vacancy ticked up 10 basis points to 4.6 percent.
- > Year over year, local vacancy has risen 90 basis points. This marked the second consecutive quarter where the market recorded an annual vacancy increase following periods of declines for the past two years.
- > Renter demand has been particularly strong in the Hampton Roads section of the market with net absorption reaching all-time highs. Vacancy in Hampton Roads ended the third quarter at just 4.2 percent. The rate in Richmond is higher, reaching 6 percent.
- > **Forecast:** The local vacancy rate is expected to end the year at approximately 5 percent. Vacancy dipped below 5 percent in 2018 and 2019, but the rate is expected to return closer to its long-term average late this year and into 2021.

Vacancy Trends

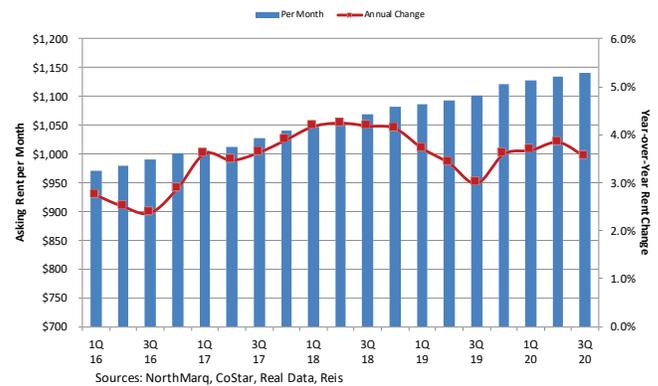


Renter demand has been particularly strong in the Hampton Roads section of the market

Rents

- > Local rents have continued to tick higher at a steady pace. Asking rents rose 0.6 percent during the third quarter, reaching \$1,141 per month.
- > Asking rents have been posting annual gains between 3 percent and 4 percent since 2017. Year over year through the third quarter, asking rents are up 3.5 percent.
- > Rents in the Hampton segment of the market are approximately \$1,130 per month, while rents in Richmond are approximately \$1,160 per month. Rents in both areas are up more than 3 percent compared to one year ago.
- > **Forecast:** Local rents will likely post steadier performance than in more expensive neighboring markets. For the full year, rents are expected to advance approximately 2.6 percent.

Rent Trends



Year over year through the third quarter, asking rents are up 3.5 percent

Development and Permitting

- > Apartment construction thus far in 2020 is running ahead of last year's pace. Year to date, developers have delivered projects totaling approximately 1,900 units. Nearly 1,200 of the units came online in the Richmond segment of the market.
- > Development is likely to remain active in the years to come. Nearly 5,700 units are currently under construction. Approximately 4,500 units are under construction in the Richmond portion of the market, while projects totaling nearly 1,200 units are under way in the Hampton Roads area.
- > While construction activity is up, the development pipeline will likely thin in the next 18 months. Permitting for multifamily units thus far in 2020 has totaled approximately 3,200 units, 24 percent lower than during the same period in 2019.
- > **Forecast:** Developers are on pace to deliver approximately 2,600 apartment units to the Richmond-Hampton Roads area in 2020. Completions have averaged 3,100 units annually since 2017.

Development Trends



Nearly 5,700 units are currently under construction

Multifamily Sales

- > After almost no significant transactions occurred during the second quarter, sales velocity regained momentum in the third quarter. While the number of properties sold in the third quarter lagged levels from the first quarter, some larger transactions closed, making the third quarter the highest point in 2020 for dollar volume.
- > The median price in properties sold thus far in 2020 is \$108,400 per unit, 3 percent higher than the median price in 2019. In transactions that closed during the third quarter, the median price spiked to nearly \$136,000 per unit.
- > Cap rates have compressed in 2020, averaging 5.4 percent. During the third quarter, cap rates were generally in the low- to mid-5-percent range.

Investment Trends



Sources: NorthMarq, CoStar

During the third quarter, the median price spiked to nearly \$136,000 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

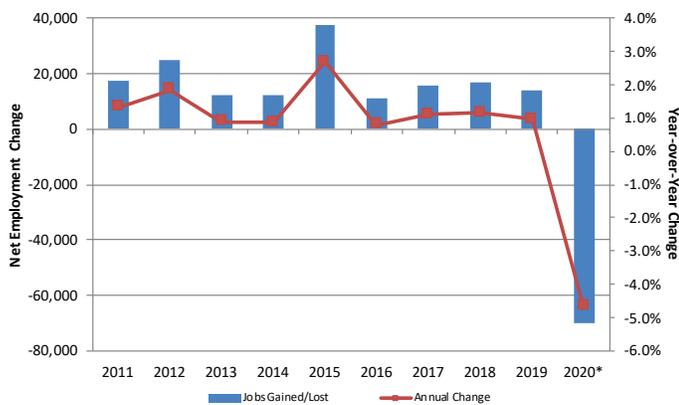
Property Name	Street Address	Units	Sales Price	Price/Unit
3 Property Portfolio	Multiple	710	\$113,000,000	\$159,155
Elan Williamsburg	100 Whitworth Way, Williamsburg	198	\$46,500,000	\$234,848
Legacy at Tech Center	2100-2134 Criston Dr., Newport News	156	\$24,300,000	\$155,769

Looking Ahead

The Richmond-Hampton Roads multifamily market is expected to remain fairly stable in the coming quarters, although it will likely take a few more quarters for the local employment market to fully recover. To this point, vacancy has inched higher and rents have fluctuated only a few dollars per month. The market is recording above-average collection rates, which should keep occupancies close to historical market averages. In the short term, the Hampton Roads segment of the market is forecast to continue to post strong levels of absorption, outpacing the delivery of new units.

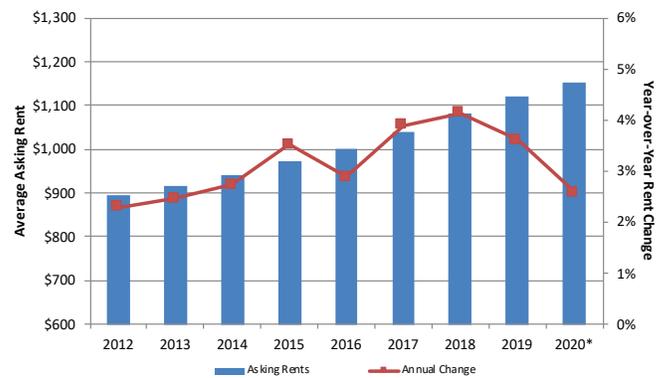
The rebound in local investment activity during the third quarter sets the stage for a healthy close to the year. During the third quarter, one area of the market that showed a significant increase was in larger transactions, particularly in sales of properties priced at \$20 million or more. These transactions accounted for more than half of the total activity in 2019 but had slowed considerably in recent months. A recovery in activity in the larger projects is likely to carry over into 2021.

Employment Forecast



* Year End Forecast

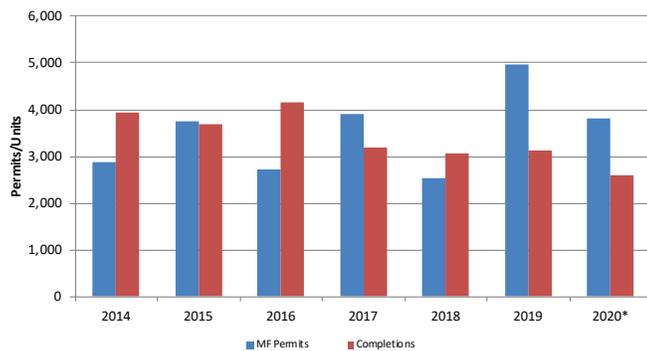
Rent Forecast



* Year End Forecast

Sources: NorthMarq, CoStar, Real Data, Reis

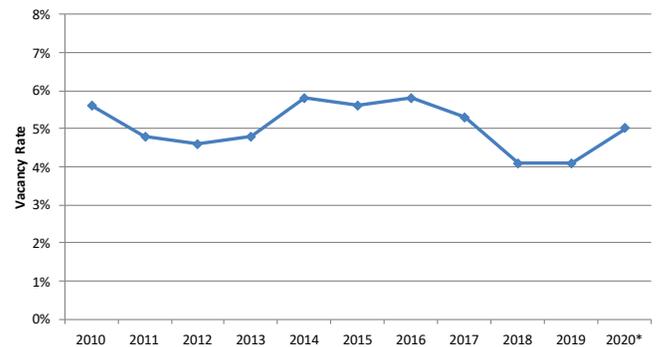
Construction & Permitting Forecast



* Year End Forecast

Sources: NorthMarq, Census Bureau, Real Data, Reis

Vacancy Forecast



* Year End Forecast

Sources: NorthMarq, Real Data, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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