

# Market Insights

Hampton Roads Multifamily 3Q 2022



## Construction Activity



**2,976**

Units under construction

**1,352**

Units delivered (YTD)

## Market Fundamentals



**4.6%**

Vacancy

**+200bps**

Year over year change

**\$1,456**

Asking Rent

**+7.4%**

Year over year change

## Transaction Activity



**\$149,000**

Median sales price per unit (YTD)

## With Rent Growth Persisting, Investors Remain Active

### Highlights

- The multifamily market in Hampton Roads recorded a mixed performance during the third quarter, as vacancy rates pushed higher, and rent growth continued to climb. Multifamily developers remained active, with nearly 3,000 units currently under construction, up 40 percent from one year ago.
- After remaining in a very low range for the past two years, the local vacancy rate rose 90 basis points during the third quarter, reaching 4.6 percent. Year over year, the rate is up 200 basis points.
- Apartment rents rose by 1.7 percent during the past three months, reaching \$1,456 per month. During the past 12 months, average rents have advanced by 7.4 percent.
- The multifamily investment market posted another strong quarter. Sales velocity exceeded levels recorded during the previous period, and prices have trended higher. Year to date, the median sales price is roughly \$149,000 per unit. Cap rates have ticked higher, averaging approximately 4.6 percent during the third quarter.

### Hampton Roads Multifamily Market Overview

The Hampton Roads multifamily market posted modest gains during the third quarter. Area rent growth has proven to be resilient, with the pace of gains recorded in the third quarter coming in only slightly slower than the growth recorded in the first two periods of the year. Vacancies pushed higher in the third quarter. Absorption levels have tapered off significantly in recent periods while multifamily developers continue to construct new units. Apartment deliveries for 2022 are on track to reach a five-year high. Despite the recent vacancy increases, the rate remains nearly 200 basis points below its long-term average.

The multifamily investment market posted a continuation of solid performance during the third quarter, building on the healthy conditions recorded during the first half of the year. Sales activity to this point in 2022 is ahead of last year's levels. Investor demand has remained elevated for older, Class B and Class C properties, which have accounted for the bulk of the recent transaction activity. The median sales price has trended higher to this point in the year, reaching \$149,000 per unit, up 10 percent from the median price in 2021. A handful of newer, Class A projects have changed hands with prices around \$300,000 per unit.

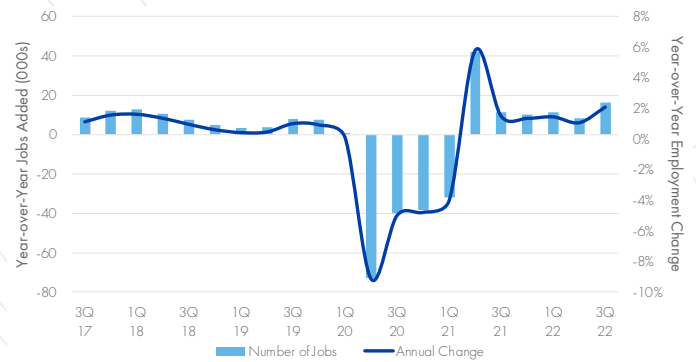
## Employment

- The employment market made gains in recent months, following steady expansion in the past several quarters. Employers added 10,700 jobs to payrolls in the last three months. Year over year, 16,200 workers have been added, an increase of 2.1 percent.
- The education and health services sector recorded consistent growth in recent quarters. Year over year, this industry added 6,800 jobs and grew by 6.2 percent. Additionally, the trade, transportation, and utilities sector expanded by 1.5 percent with a gain of nearly 2,000 net new jobs.
- Newport News Shipbuilding has plans in place to significantly expand its workforce. The shipyard has a goal of hiring 5,000 new employees in the coming year and is expected to add more than 20,000 employees over the next decade.
- **Forecast:** After a recent swell of new jobs, employers will continue to add workers to payrolls in the coming months. The local labor market is forecast to add 16,800 positions in 2022, a gain of 2.2 percent.



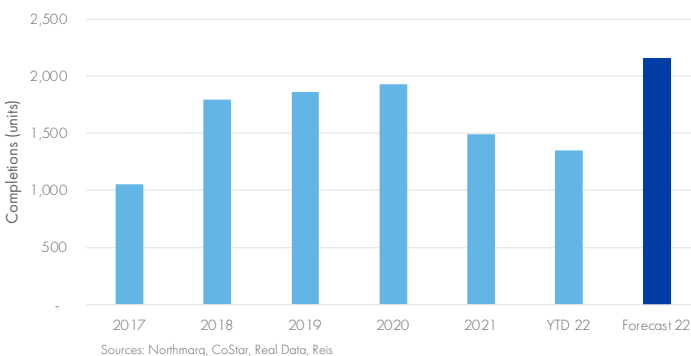
Year over year, 16,200 workers have been added.

### Employment Overview



Projects totaling nearly 3,000 units are under construction.

### Development Trends



## Development and Permitting

- The pace of multifamily deliveries slowed modestly during the third quarter, after more than 400 units came online in each of the previous two periods. Projects totaling approximately 380 units were delivered in the last three months, bringing year-to-date deliveries to 1,352 units.
- Development activity remains strong, with projects totaling nearly 3,000 units under construction at the end of the third quarter, up 40 percent from one year ago. Ongoing projects are dispersed across the region, with a concentration of activity in Downtown Norfolk, Suffolk City, and Northwest Virginia Beach.
- After a strong first half of the year, multifamily permitting slowed in recent months. Roughly 450 multifamily permits were issued during the third quarter, down 60 percent from the previous period. Despite the recent slowdown, developers are still on pace to pull the highest number of multifamily permits in a year since 2013.
- **Forecast:** Multifamily deliveries are expected to accelerate during the last few months of the year. Projects totaling 2,150 units are forecast to come online in 2022, a five-year high for the region.

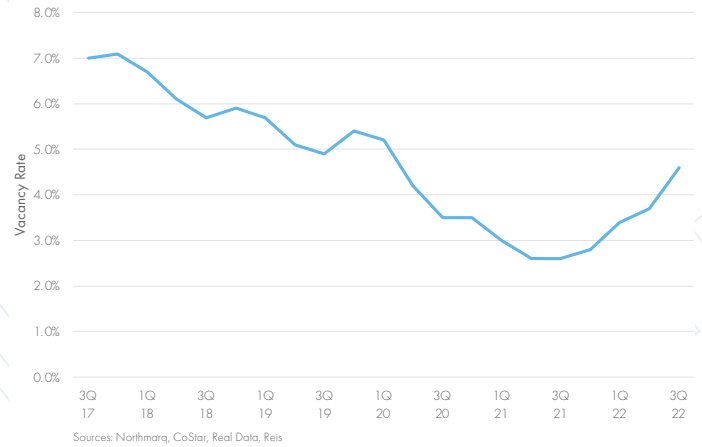
## Vacancy

- The local vacancy rate continued to rise during the last three months, marking four consecutive quarters of vacancy increases. During the third quarter, the rate jumped by 90 basis points to 4.6 percent.
- Year over year, vacancy is up 200 basis points. Although vacancy has been trending higher in recent quarters, the current rate is still well below its historical average. Vacancy averaged 6.5 percent from 2015 to 2019 before tightening to an all-time low below 3 percent in 2021.
- Class B properties are recording the lowest vacancy rates across all asset classes. Vacancy in middle-tier units closed the third quarter at 4.3 percent. Vacancy in Class B units will likely remain tight with the local employment market expanding and supply growth limited to the Class A segment.
- **Forecast:** The vacancy rate is forecast to inch higher in the coming months. Vacancy in Hampton Roads is projected to end the year at 4.8 percent.



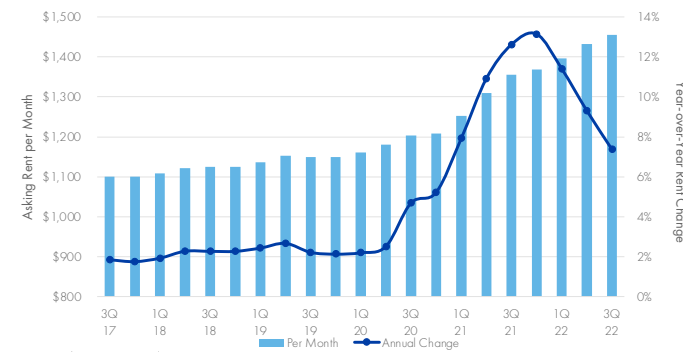
Vacancy tightened to an all-time low below 3 percent in 2021.

### Vacancy Trends



Year over year, asking rents climbed 7.4 percent.

### Rent Trends



## Rents

- Local rents continued to trend higher in recent months, advancing 1.7 percent during the third quarter to \$1,456 per month. Rents have risen in every quarter since the start of 2020.
- Year over year, asking rents climbed 7.4 percent. This more than doubles the market's long-term average pace of growth; from 2016 to 2020, rents advanced by about 2.6 percent per year before spiking in 2021.
- Newport News recorded the largest year-over-year rent increase of the region's five largest submarkets. Asking rents in Newport News rose by 8.2 percent to \$1,263 per month during the past 12 months.
- **Forecast:** Rent growth this year is expected to total about 7 percent, following a gain of more than 13 percent in 2021. Asking rents are forecast to reach \$1,465 per month by the end of the fourth quarter.

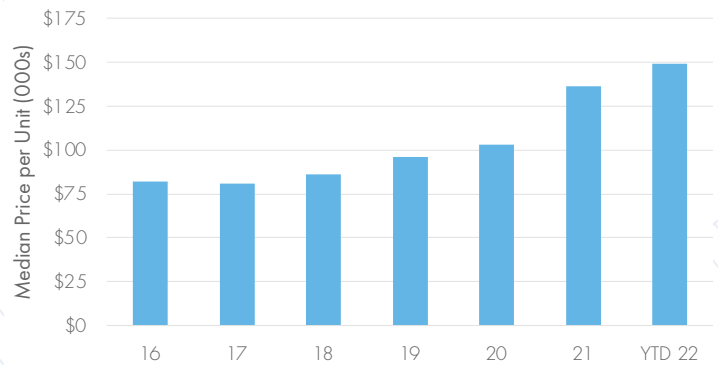
## Multifamily Sales

- Sales activity continued to build momentum in the last three months, surging after a strong second quarter. Total transactions to this point in the year are up roughly 35 percent from the same period last year.
- Prices during the third quarter closely tracked values recorded during the first half of 2022. Year to date, the median sales price is \$149,000 per unit, 10 percent higher than the median price in 2021. The bulk of the transactions that have closed in recent months are 1960s- and 1970s-vintage, Class B and Class C properties.
- Cap rates averaged approximately 4.6 percent in the third quarter, up from 4.2 percent during the first half of the year. Most properties are selling with cap rates between 4.5 and 4.75 percent.



Year to date, the median price is \$149,000 per unit.

### Investment Trends



Sources: NorthMarq, CoStar

## Recent Transactions

### Multifamily Sales Activity

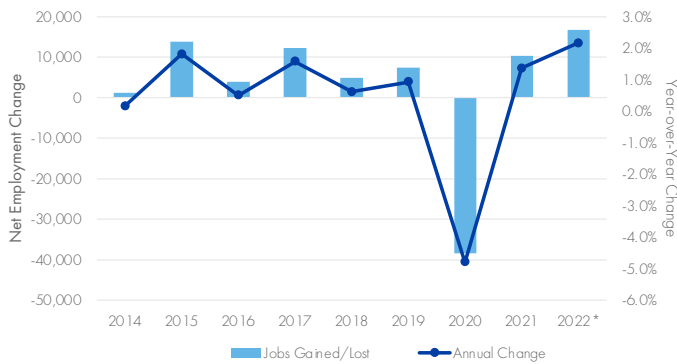
Property Name	Street Address	Units	Sales Price	Price/Unit
Cambridge	5109 Goldsboro Dr., Hampton	465	\$86,000,000	\$184,946
Bayville Apartments	1512 Kindly Ln., Virginia Beach	240	\$43,000,000	\$179,167
The Village At Stoneybrook Apartments	400 Cox Lndg., Newport News	256	\$32,000,000	\$125,000
Baypointe Crossing	5414 Catina Arch., Virginia Beach	160	\$29,500,000	\$184,375
Highwater Flats	17 Middlesex Rd., Newport News	108	\$14,600,000	\$135,185

## Looking Ahead

The multifamily market in Hampton Roads will likely record a bit of a supply-demand imbalance in the next quarter or two, as the pace of new deliveries accelerates at the same time the local economy is expected to record a more modest pace of expansion. These trends should combine for a minimal vacancy uptick in the final few months of the year. Despite rising vacancy, local rents have continued to push higher and are forecast to record additional gains in the coming months. Rents have increased by about \$200 per month since the beginning of 2021, and growth should continue in 2023. However, annual gains will more closely track the region's longer-term average. Developers have delivered units to the market at a mostly steady rate during the past few years, but a recent decline in permitting suggests the pace of inventory growth will likely slow beginning in 2024.

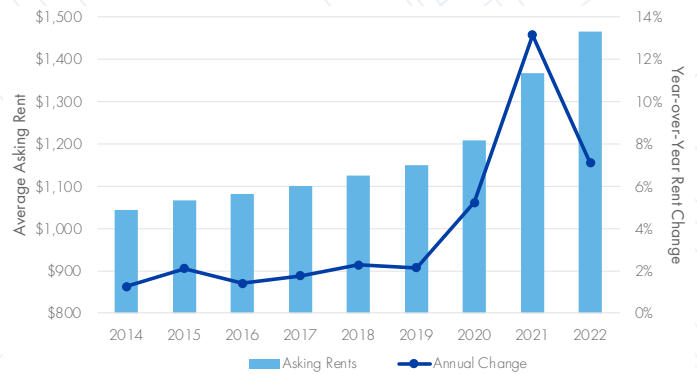
The local multifamily investment market is expected to be mostly stable in the next few quarters. In most years, transaction activity gains momentum in the fourth quarter. That may not be the case in 2022 as buyers and sellers adjust expectations to account for rising interest rates and a more restrictive capital markets climate. Despite these challenges, transactions will occur, buoyed by the still-strong operational performance of local properties and forecasts for continued rent growth. Cap rates began to push higher in the third quarter, and additional increases could occur in the next few months. In the current climate, the market should not require much of a contraction in interest rates to support deal flow; any stabilization in borrowing costs should be enough to maintain current investment volumes.

### Employment Forecast



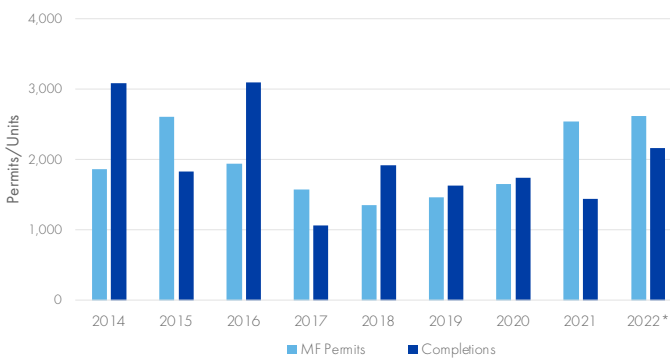
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### Rent Forecast



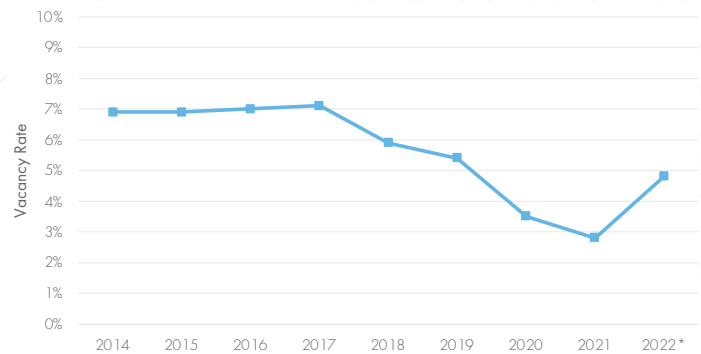
\* Year End Forecast  
Sources: Northmarq, CoStar, Real Data, Reis

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: Northmarq, Census Bureau, CoStar, Real Data, Reis

### Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, CoStar, Real Data, Reis



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