Northmarq

MARKET INSIGHTS

Developers trying to keep pace with renter demand

HIGHLIGHTS

- Renter demand in Richmond has remained strong, supporting additional rent gains even as supply-side pressures have pushed vacancy rates higher. Projects totaling more than 2,700 units have been delivered thus far in 2023, with new developments leasing up at a healthy pace.
- Area vacancy showed signs of stabilizing in recent months after recording increases in recent periods. The vacancy rate ticked higher by 10 basis points during the second quarter to 6.1 percent. Year over year, local vacancy is up 120 basis points.
- Apartment rents in Richmond have been on an upward trajectory for the past four years, and gains continued to be recorded during the first half of 2023. Year over year, asking rents have risen 2.6 percent to $1,514 per month.
- Sales activity in the second quarter closely tracked volume from the start of the year. In the transactions that have occurred to this point in 2023, the median sales price is $175,000 per unit, while cap rates are between 5.25 percent and 5.5 percent.

RICHMOND MULTIFAMILY MARKET OVERVIEW

The Richmond multifamily market has gotten off to a strong start through the first half of 2023. Despite a vacancy rate that has inched higher, leasing volume has been sufficient to support rent increases throughout much of the region. Development of new units has been elevated, offsetting a significant decline in the pace of inventory growth that was recorded in 2022. The new units that are hitting the market this year will allow for developers to keep pace with current and anticipated demand growth. The local labor market has been expanding at a healthy rate, supporting demand for new units. The professional and business services sector has been a steady source of high-wage jobs in the region for the past several years and the influx of white-collar workers into the region should be the source of the underlying demand for Class A units going forward.

Investment activity in Richmond has maintained a slow—but steady—pace to this point in 2023. Transaction counts during the second quarter were nearly identical to levels recorded during the first few months of the year, but both measures trailed the investment volume recorded in the first half of 2022. The decline in activity can be attributed more to the higher costs of financing than a change in investor sentiment or in operational performance. These trends suggest that area investment activity should regain momentum as interest rates stabilize or begin to inch lower, or when buyers and sellers adjust expectations to the new environment. A few signs of the closing expectations gap began to emerge in recent quarters, including a rise in average cap rates. During the first half, cap rates topped 5 percent on average and reached 5.5 percent in some cases, about 50 to 75 basis points higher than at the end of 2022.

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,066
UNITS DELIVERED	2,704

MARKET FUNDAMENTALS

VACANCY RATE	6.1%
YEAR-OVER-YEAR CHANGE	+120bps
ASKING RENTS	$1,514
YEAR-OVER-YEAR CHANGE	+2.6%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$175,000

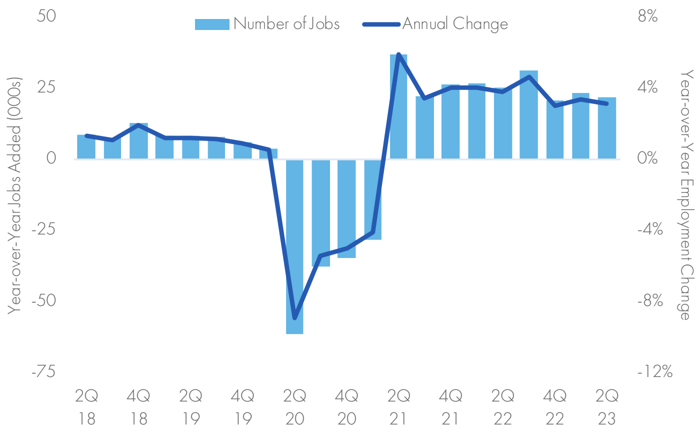
Richmond Multifamily
2Q 2023

EMPLOYMENT

- Employment growth has maintained a mostly steady pace in the Richmond area in recent periods. Year over year through the second quarter, area employment has expanded by 3.2 percent.
- The professional and business sector recorded its strongest first half since 2000 with the addition of 3,200 new jobs in the last six months. Professional employment in Richmond has been on an upward trend for the past several years; during the past five years, the sector has grown by 10 percent.
- German solutions provider, Weidmuller, recently broke ground on a manufacturing expansion at its existing location in Chesterfield County. Weidmuller will add 24,000 square feet of manufacturing space, creating approximately 150 new jobs
- Large employers are expanding in Richmond. CoStar Group is building an office tower in Downtown Richmond and will create 2,000 new jobs, while LEGO is constructing a 1.7 million-square-foot manufacturing facility in Chesterfield County that will employ more than 1,700 workers beginning in the first half of 2024.
- **FORECAST:** The Richmond economy should remain in growth mode for the remainder of the year. Employers are on pace to add approximately 14,000 jobs for the year, a 2 percent rate of expansion.

Year over year, area employment has expanded by 3.2 percent.

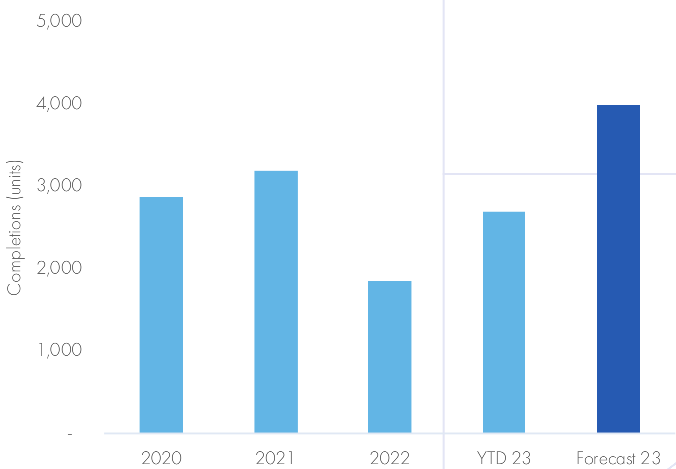
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers pulled permits for 600 units in the second quarter.

DEVELOPMENT TRENDS



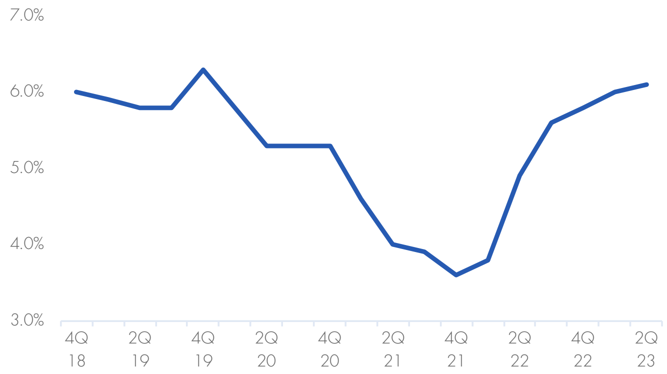
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment supply growth in Richmond was elevated during the first half of 2023 as developers move projects through the construction pipeline to keep pace with demand. Approximately 2,700 apartment units have come online year to date, more than doubling levels posted in the same period last year.
- As new projects have delivered and the pace of starts has slowed, the number of units that are under construction has declined. Projects totaling 5,066 units are currently under way throughout the Richmond area, down 32 percent from one year ago.
- Following an active start to start the year, permitting slowed in recent months. Developers pulled permits for approximately 600 multifamily units during the second quarter after roughly 1,800 permits were issued in the previous period.
- **FORECAST:** This year will be an active one for deliveries following a 40 percent drop in completions in 2022. Developers are slated to bring approximately 4,000 units online in 2023. Since 2018, completions have averaged nearly 2,500 units per year.

The vacancy rate rose just 10 basis points in the second quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

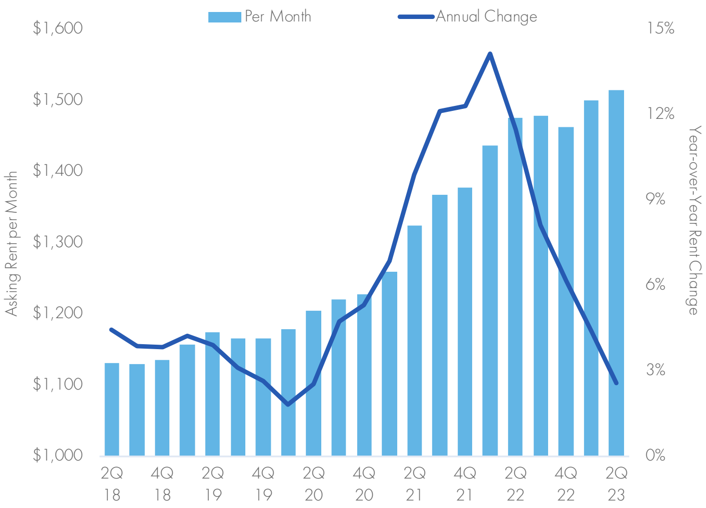
- Vacancy conditions in Richmond are stabilizing, after pushing higher in prior periods. The vacancy rate in Richmond rose just 10 basis points during the second quarter to 6.1 percent.
- Year over year, local vacancy increased by 120 basis points and the rate is returning closer to its normalized pre-Covid levels. Area vacancy averaged 6.3 percent from 2015 to 2019.
- The vacancy rate in Western Henrico County, Richmond's most construction-heavy submarket, has been trending higher. After finishing 2021 at a cyclical low, the rate in this submarket rose 120 basis points to 7 percent.
- **FORECAST:** The vacancy rate is expected to hold fairly steady in the coming months, finishing 2023 at 6.2 percent, an increase of 40 basis points from the end of last year.

RENTS

- Rents in Richmond have been on the rise, increasing in 14 of the past 15 quarters. Rents pushed up 3.5 percent in the first half of 2023, although the gain was strongest in the first three months of the year. During the second quarter, rents advanced 0.9 percent.
- Year over year, asking rents in Richmond rose 2.6 percent to $1,514 per month. Annual rent growth has averaged 5.1 percent since 2015.
- Asking rents in Western Henrico County are higher than the market average, but have inched lower in recent months, following rapid gains in prior periods. In the past year, asking rents in this submarket dipped by 1.3 percent to $1,596 per month.
- **FORECAST:** Rents are forecast to rise 4.2 percent in Richmond this year, reaching $1,525 per month by the fourth quarter.

Rents pushed up 3.5 percent in the first half of 2023.

RENT TRENDS



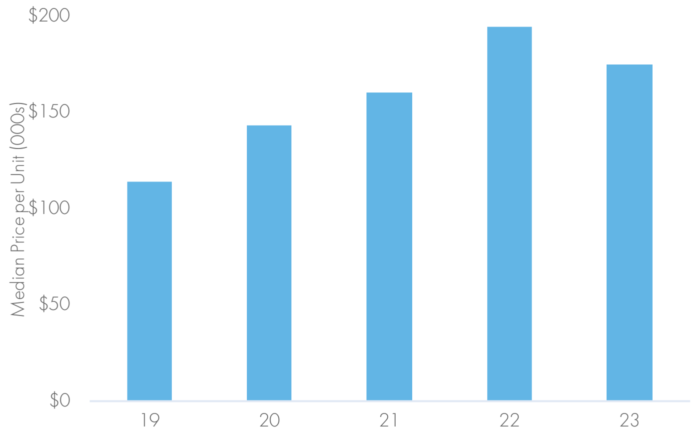
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Investment volume has remained steady from the first quarter to the second quarter, although sales velocity is lagging levels from one year ago. Multifamily transaction counts year to date are down roughly 50 percent from the same period in 2022.
- With fewer properties changing hands and cap rates inching higher, sales prices have come down a bit from last year. The median sales price in the first half of 2023 was $175,000 per unit, down approximately 10 percent from last year's figure.
- Cap rates in the first half of this year have generally ranged between 5.25 percent and 5.5 percent in Richmond. At the end of 2022, cap rates were averaging between 4.5 percent and 5 percent.

The median price in the first half was $175,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

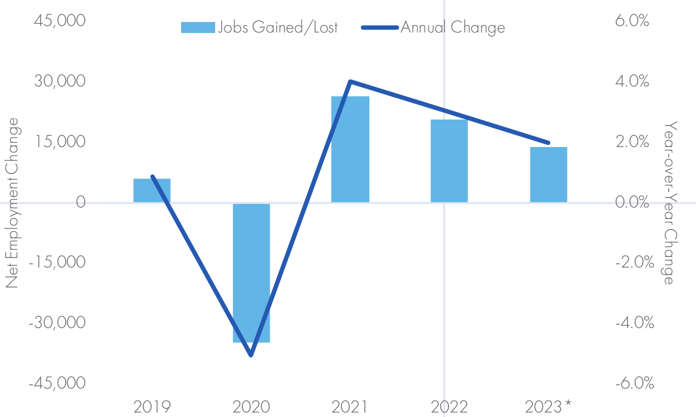
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Millspring Commons	9318 Tarheel Ter., Richmond	159	$34,100,000	$214,465
The Mill at Manchester Lofts	815 Perry St., Richmond	70	$14,800,000	$211,429

LOOKING AHEAD

Operating conditions in the Richmond multifamily market will likely stabilize through the end of the year. New supply growth will be elevated, but the number of units that are slated to come online this year will offset a slower pace of construction from 2022, when deliveries declined by more than 40 percent. Renter demand should remain strong in the coming quarters, which will help the vacancy rate level off. One of the clearest indicators of the demand for local apartment properties is the trajectory of rents in the area. Growth has been consistently strong for the past few years, and rents are forecast to push higher again in the second half. Longer-term, supply-side pressures should ease, as the construction pipeline has thinned in recent quarters and multifamily permitting has slowed, indicating a slower period of housing starts for the second half.

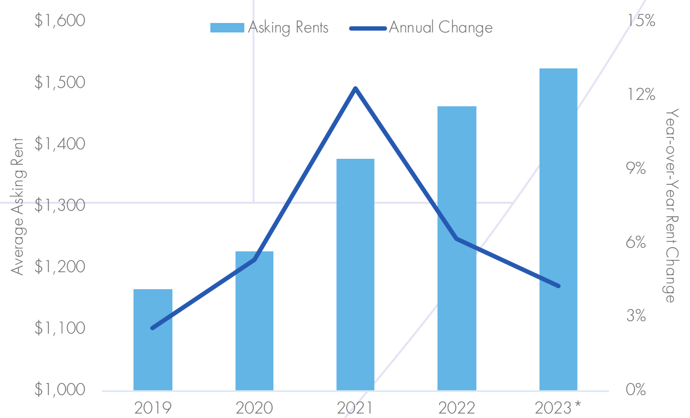
The Richmond multifamily investment market should benefit from strong operating fundamentals through the remainder of this year. Cap rates have already pushed higher, offsetting some of the rise in borrowing costs, and the prospect for additional rent gains in the coming quarters should support acquisitions. Much of the sales activity to date has been concentrated in Class B and Class C assets, but there should be an uptick in Class A property sales as new projects are delivered and successfully leased-up. Since 2017, Class A property sales have accounted for nearly 20 percent of all transactions, but there has been limited activity in the top tier to this point in 2023. As a greater number of newer, larger assets change hands, there could be an upward pull on pricing and a leveling off in local cap rates, which may not push much higher than the mid-5 percent range.

EMPLOYMENT FORECAST



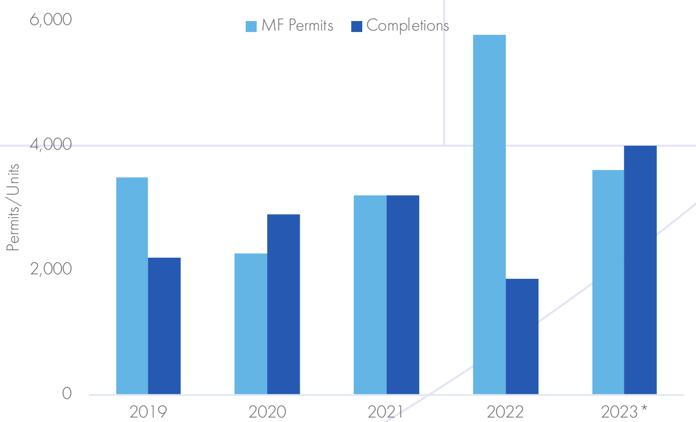
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



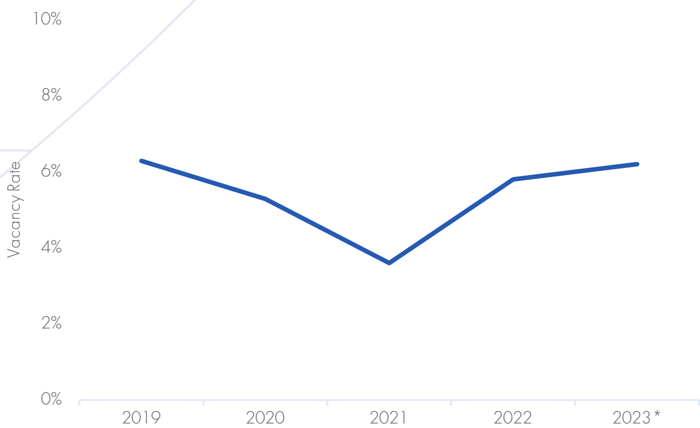
* Year End Forecast
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar

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