Market Insights

Richmond Multifamily 2Q 2022

Northmarq

Construction Activity

7,392

Units under construction

1,213

Units delivered (YTD)

Market Fundamentals

4.3%

Vacancy

+30bps | Year over year change

$1,476

Asking Rent

+11.5% | Year over year change

Transaction Activity

$127,100

Median sales price per unit (YTD)

Strong Growth Outlook Driving New Development

Highlights

- The Richmond multifamily market ended the second quarter in a strong position. Rents continue to push higher, and while the vacancy rate has ticked up, current levels are about 150 to 200 basis points lower than recent averages.
- The vacancy rate trended upwards in the first half of the year, following two years of declines in 2020 and 2021. The rate ended the second quarter at 4.3 percent, up 30 basis points year over year.
- Asking rents have advanced at a healthy rate to this point in the year. Average rents rose 2.7 percent in the second quarter to $1,476 per month. During the past year, rents jumped 11.5 percent.
- Sales activity dipped slightly during the second quarter, although the number of transactions year to date is ahead of levels recorded during the same period in recent years. The median sales price in the first half of 2022 is roughly $127,000 per unit, while the median price in the second quarter topped $175,000 per unit.

Richmond Multifamily Market Overview

The Richmond multifamily market continued to record solid property performance metrics through the first half of this year. Local asking rents climbed at a substantial rate during the second quarter even as vacancies rose. Additionally, apartment developers have been active year to date with an elevated number of projects scheduled to come online through the end of 2022 and into next year. Continued renter demand for apartments is expected to fuel new development. Multifamily permitting surged in recent months as developers are on pace to pull permits for more than 4,000 units in 2022, an all-time high for the region.

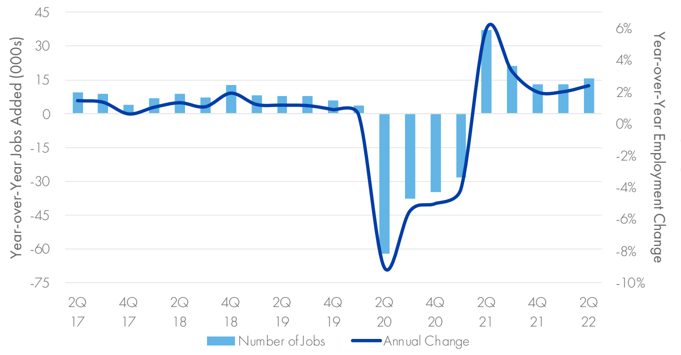
The Richmond multifamily investment market improved during the second quarter, with sales prices ticking higher, even as the number of transactions cooled. The median sales price of deals that traded in the second quarter was approximately $175,500 per unit, up 38 percent from the median price at the start of the year. Cap rates averaged in the low-4 percent range during the second quarter, slightly lower than at the start of the year. The impact of higher borrowing costs in the second half has the potential to create a bit of an expectations gap between potential buyers looking to acquire properties at higher interest rates than in earlier periods, and existing operators who continue to implement rent increases as leases renew.

Employment

- Employers in Richmond added 5,100 jobs during the second quarter, building on a gain of 4,500 new positions at the start of the year. During the past 12 months, total employment has grown by 15,800 jobs, a 2.4 percent pace of growth.
- More than half of the gains in the labor market in the last year came from a recovery in the leisure and hospitality sector. Leisure and hospitality employment has expanded by more than 14 percent year over year with the addition of 8,700 workers.
- Thermo Fisher Scientific Inc. recently announced it will invest $97 million to expand its operations in Richmond with the addition of three new labs totaling 150,000 square feet. The science equipment manufacturer currently employs 1,200 workers in the region and is expected to add 500 new jobs in the next three years.
- **Forecast:** The local labor market is set for further additions through the remainder of the year, although the pace of expansion will taper off slightly. Total employment in Richmond is forecast to add 13,300 jobs in 2022, advancing 2 percent.

“ Employers in Richmond added 5,100 jobs during the second quarter.

Employment Overview



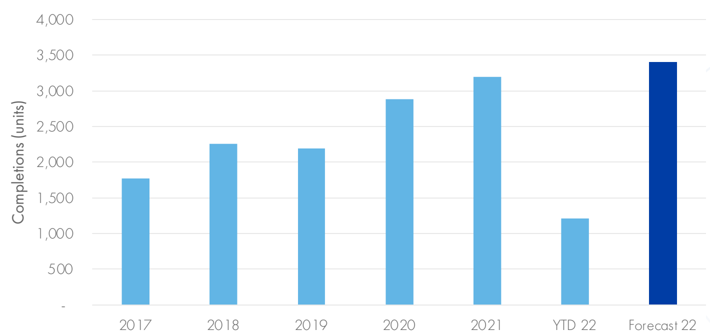
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

“ Permits for more than 2,600 multifamily units were pulled in the first half.

- Multifamily developers delivered 1,213 units in the first half of the year, including 554 units during the second quarter. Completions in the first half were down 12 percent compared to the same period in 2021.
- Projects totaling nearly 7,400 units were under construction in Richmond at midyear, nearly identical to the total from one year earlier. The number of apartment projects in the development pipeline has generally been increasing every year during the past decade.
- Permitting activity surged to this point in the year. Permits for more than 2,600 multifamily units were pulled from January to June, the largest first-half total in the market on record.
- **Forecast:** The pace of multifamily deliveries is expected to accelerate in the coming quarters. Projects totaling nearly 3,400 units are slated to come online in 2022, up 38 percent from the average number of deliveries in the past five years.

Development Trends



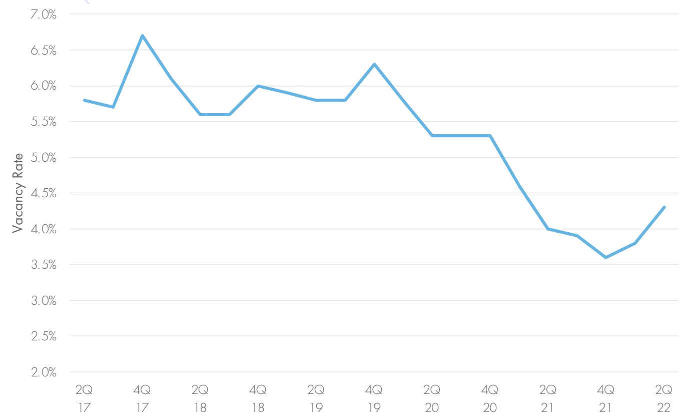
Sources: Northmarq, CoStar, Real Data, Reis

Vacancy

- Vacancy in Richmond rose 50 basis points in the second quarter to 4.3 percent. The rate averaged nearly 6 percent from 2017 to 2019, before declining in 2020 and 2021, and then creeping higher in the first half of this year.
- The quarter-to-quarter fluctuations have resulted in the vacancy rate increasing 30 basis points year over year. Net absorption in the first half of 2022 declined 66 percent from peak levels one year earlier.
- The tightest vacancies are being recorded in Class C properties. During the past 12 months, the vacancy rate in Class C units dropped 40 basis points to 3.8 percent.
- **Forecast:** Vacancy is expected to tick higher during the remainder of the year, but the bulk of the increase for the full year has already occurred. The local vacancy rate is forecast to finish 2022 at 4.4 percent.

> Vacancy ended the second quarter at 4.3 percent.

Vacancy Trends



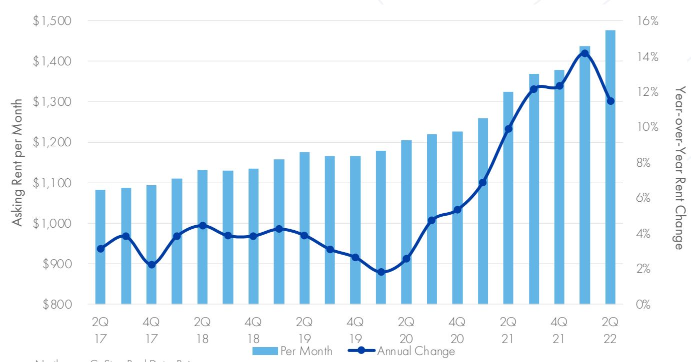
Sources: Northmarq, CoStar, Real Data, Reis

Rents

- Asking rents in Richmond rose at a healthy rate in the second quarter, although the pace of growth has slowed from rapid increases at the start of the year. Average rents increased 2.7 percent from April to June, finishing the period at $1,476 per month.
- Year over year, apartment rents advanced 11.5 percent, more than tripling the market's long-term average rate of growth. Annual rent growth averaged 3 percent from 2011 to 2020 before spiking in 2021.
- Asking rents in the Class A segment rose 9.3 percent in the past year to $1,745 per month. Current rents in Class A units average $1.98 per square foot, per month.
- **Forecast:** Rents are forecast to continue to climb in the second half of the year, although the pace of growth in 2022 will slightly lag the unprecedented increases recorded in 2021. Asking rents are forecast to rise 9.5 percent this year, reaching approximately $1,510 per month.

> Year over year, apartment rents advanced 11.5 percent.

Rent Trends



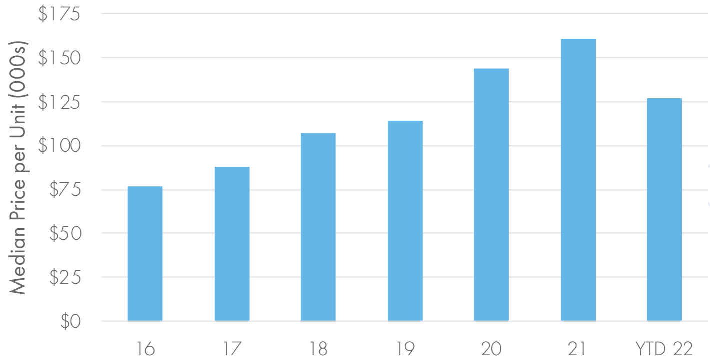
Sources: Northmarq, CoStar, Real Data, Reis

Multifamily Sales

- The pace of sales dipped during the second quarter, with transaction activity slowing by 14 percent from the start of the year. Even after slowing in recent months, sales volume thus far in 2022 is ahead of levels recorded in the first halves of the previous two years.
- Class C properties continue to make up the bulk of the transaction mix with a handful of Class B assets trading in the second quarter. The median sales price year to date is roughly $127,100 per unit. The median sales price of deals that traded in the second quarter reached nearly $175,500 per unit, reflecting healthy investor sentiment.
- Cap rates averaged around 4.2 percent from April to June, roughly 30 basis points lower than average rates in the previous period.

“ Cap rates averaged around 4.2 percent from April to June.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

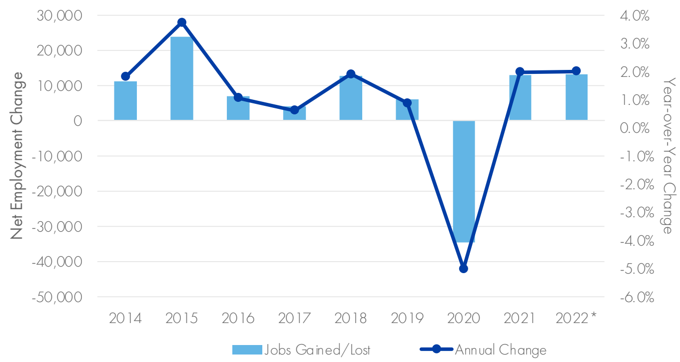
Property Name	Street Address	Units	Sales Price	Price/Unit
Acclaim at Carriage Hill Apartments	7050 Coachman Ln., Richmond	664	$138,000,000	$207,831
Hunter's Chase Apartments	5200 Hunt Master Dr., Midlothian	320	$79,200,000	$247,500
Aden Park & Glenway Green	435 German School Rd., Richmond	538	$77,000,000	$143,123
Townhomes of Oakleys	4633 Needham Ct., Richmond	160	$18,500,000	$115,625

Looking Ahead

The Richmond multifamily market is expected to post modest gains in the remainder of the year. Asking rents should continue to rise, although the pace of growth will dip slightly from levels recorded during the past several quarters. The vacancy rate may inch slightly higher as new apartment projects enter the local inventory. The likelihood is that the local and national employment markets will show some signs of slowing during the second half of the year, which could result in absorption lagging demand growth in the near term. Multifamily developers are on pace to deliver nearly 3,400 units in 2022, a record number of completions in a year in Richmond. The bulk of the projects slated to come online in the coming quarters are currently being built in Downtown Richmond and near the city center.

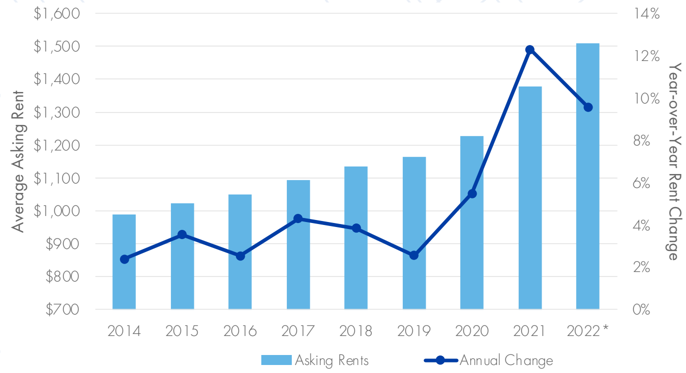
The Richmond multifamily investment market should remain in a healthy position in the second half of 2022, with strong operating fundamentals buoying investor sentiment. Following the first half of 2022, when Class B and older, Class C units accounted for the bulk of the transactions, the transaction mix could broaden in the next several quarters to include more Class A and Class B properties, especially as apartment developers bring more products online. The number of deals typically accelerates toward the end of the year, which may offset some of the changing financing landscape. Rising interest rates will likely push cap rates higher, although the region's strong property fundamentals and expectations of future rent increases could limit potential increases.

Employment Forecast



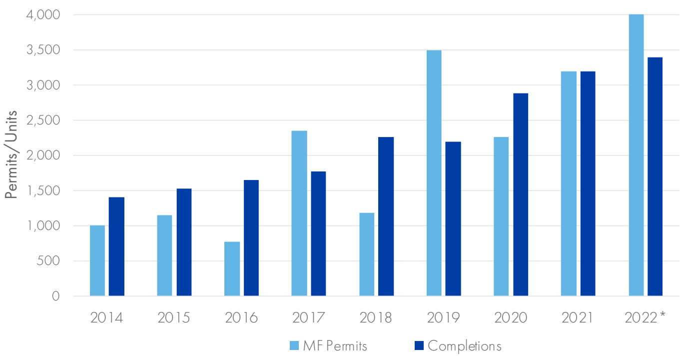
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



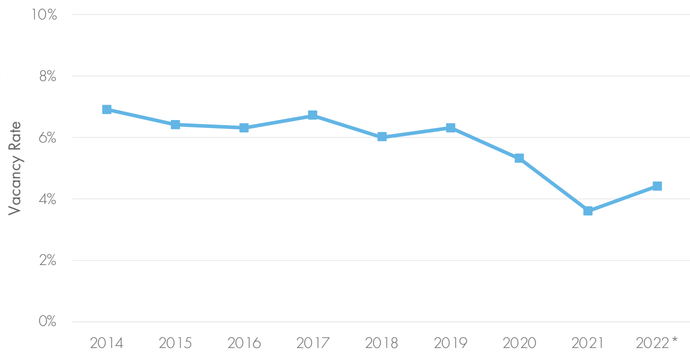
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



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

Northmarq

For more information, please contact:

Wink Ewing
Managing Director—Investment Sales
804.534.1485
wewing@northmarq.com

Mike Marshall
Managing Director—Investment Sales
804.534.1486
mcmarshall@northmarq.com

Matt Straughan
Associate—Investment Sales
804.781.5681
mstraughan@northmarq.com

Jason Kaplan
Analyst—Investment Sales
804.716.9153
jkaplan@northmarq.com

Keith Wells
Managing Director—Debt & Equity
804.447.0433
kwells@northmarq.com

Pete O'Neil
Director of Research
602.508.2212
poneil@northmarq.com

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