

Rents on pace for healthy close to 2023

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,488**

UNITS DELIVERED **1,127**

MARKET FUNDAMENTALS



VACANCY RATE **5.3%**

YEAR-OVER-YEAR CHANGE **+70bps**

ASKING RENTS **\$1,505**

YEAR-OVER-YEAR CHANGE **+3.4%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$139,500**

HIGHLIGHTS

- The Hampton Roads multifamily market posted a mixed performance during the third quarter, as the vacancy rate continued to improve while the rapid rise in rents paused. Projects totaling roughly 1,100 units have come online to this point in the year.
- Area vacancy trended lower in recent months, as the rate dipped 10 basis points to 5.3 percent during the third quarter. Year over year, the vacancy rate rose by 70 basis points.
- After increasing by more than \$50 per month during the first half, apartment operators gave back a small portion of recent rent gains. Asking rents dipped by 0.1 percent during the third quarter to \$1,505 per month. In the past year, area rents have still posted a 3.4 percent gain.
- Sales velocity continued to slow in recent months as transaction volume decreased by 33 percent from the second quarter to the third quarter. The median sales price to this point in the year is \$139,500 per unit.

HAMPTON ROADS MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Hampton Roads multifamily market recorded mixed results during the third quarter, as the vacancy rate posted a second consecutive period of improvement, while asking rents posted a minimal quarterly decline. The vacancy rate closed the third quarter at 5.3 percent, below the local average during the past decade. Rent trends from the last three months should not mask the rapid gains that have been record for much of the past three years, as well as during the first half of 2023. Property performance metrics remain strong in Hampton Roads, which has led to active development throughout the region. Deliveries have slowed to this point in 2023, with completions down 17 percent from the 2022 pace.

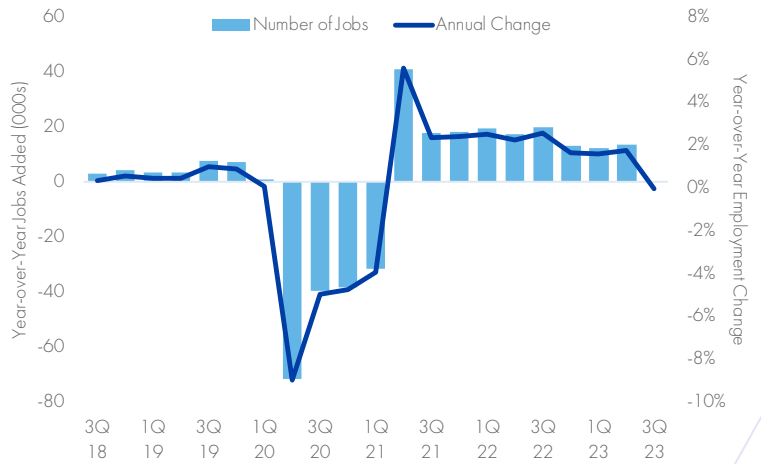
Multifamily transaction activity continued to cool during the third quarter, and sales volume was limited in recent months. After a strong start to the year, sales velocity slowed in both the second and the third quarters. The total number of closed deals year to date is down 50 percent from the same period last year, a lighter decline than has been reworded in most markets. Sales volume of Class A properties has returned closer to historical levels, which is dragging slightly on pricing after peaking last year. The median sales price to this point in the year is \$139,500 per month, down 7 percent from the 2022 figure. Cap rates continued to tick higher in recent months and averaged 6 percent during the third quarter, up 25 basis points from the previous quarter.

EMPLOYMENT

- Employment trends in Hampton Roads have been mixed in recent quarters. Total employment across all sectors recorded no change from levels recorded one year ago, even as some industries continued to add workers.
- The healthcare and social assistance sector is posting rapid employment gains. Year over year, this industry added 5,300 new employees, an annual increase of 5.5 percent.
- The area’s warehousing and distribution sector will be boosted by a large project. Amazon recently announced plans to build a 3.2-million-square-foot facility in Virginia Beach, located immediately south of the Naval Air Station Oceana. The site will serve as a delivery station and robotics fulfillment center and will create more than 1,000 jobs upon completion in 2025.
- Jefferson Labs in Newport News was recently selected by the Department of Energy as the lead location for its High Performance Data Facility Hub. The new site will be built out on Jefferson’s Central Campus and is expected to be completed by 2029. Upon completion, the site will create 150 jobs.
- **FORECAST:** Total employment in Hampton Roads is forecast to expand by 2,000 new workers in 2023, an increase of 0.3 percent.

The healthcare and social assistance sector continues to post rapid gains.

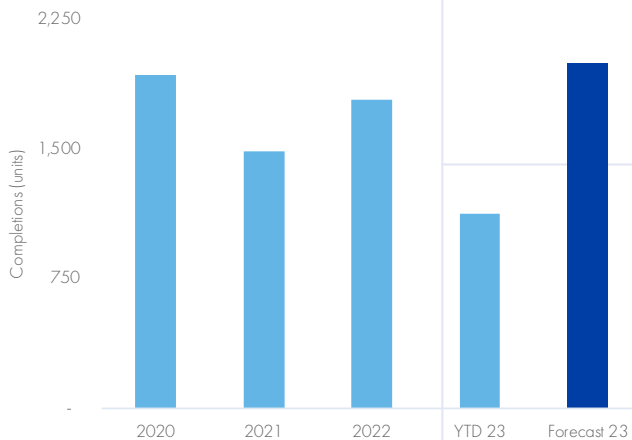
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Approximately 2,500 units are currently under construction.

DEVELOPMENT TRENDS



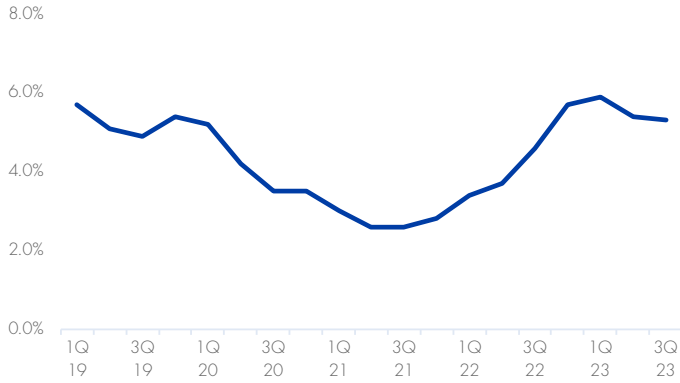
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of apartment deliveries has cooled to this point in 2023. Developers have completed roughly 1,100 units during the last nine months, down 17 percent from the same period last year.
- Projects totaling approximately 2,500 units are currently under construction in the Hampton Roads region, down 16 percent from one year ago. Nearly half of the market’s ongoing projects are located in Norfolk, with an additional 575 units under way in Virginia Beach.
- Although multifamily permitting picked up a bit during the third quarter, the level of issuance to this point in 2023 is down 13 percent from last year. Developers pulled permits for more than 2,000 units in the last nine months after roughly 2,300 permits were issued during the same period in 2022.
- **FORECAST:** The pace of multifamily deliveries should accelerate through the end of the year, with projects totaling 2,000 units forecast to come online in 2023. Delivery totals have averaged nearly 1,800 units per year in the last five years.

The vacancy rate improved for its second consecutive quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

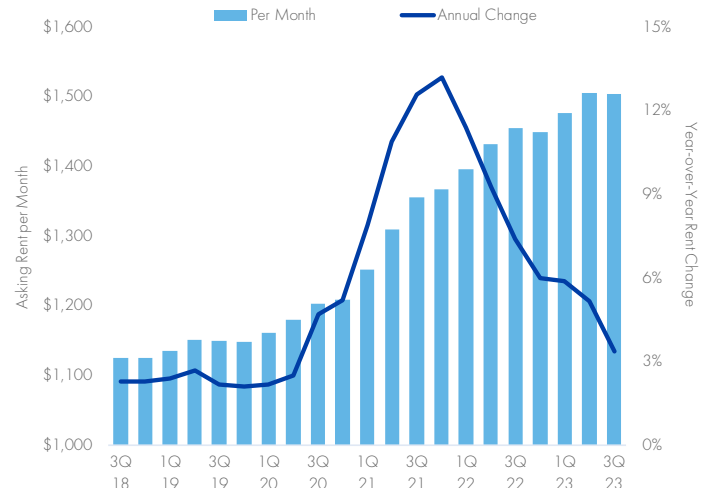
- The local vacancy rate improved for its second consecutive quarter, decreasing 10 basis points to 5.3 percent. During the past year, area vacancy has increased by 70 basis points, but the rate remains more than 100 basis points lower than the national average.
- The Virginia Beach submarket continues to post some of the tightest vacancy conditions in the region. The vacancy rate ended the third quarter at 4.6 percent, having inched up only 10 basis points year over year.
- While vacancy in Class B and Class C properties ticked higher during the past 12 months, the rate tightened in upper-tier assets during the same period. Class A vacancy dropped 40 basis points in the past year, finishing the third quarter at 4.3 percent.
- **FORECAST:** The vacancy rate is expected to rise in the final three months 2023 but will still record an annual decline. The rate is forecast to finish the year at 5.5 percent, down 20 basis points from the year-end 2022 figure.

RENTS

- After posting strong gains during the first half of 2023, asking rents dipped slightly in recent months. Apartment rents in Hampton Roads inched lower by 0.1 percent during the third quarter to \$1,505 per month.
- Local asking rents advanced 3.4 percent during the past 12 months, matching the average annual rent growth during the past decade. Similar gains are likely going forward.
- Although rent growth was fairly consistent across the asset classes, lower-tier properties recorded the largest gains during the last year. Asking rents in Class C properties are 3.8 percent higher than they were one year ago, finishing the third quarter at \$1,246 per month.
- **FORECAST:** Area rents are projected to rise roughly 4.5 percent this year to \$1,515 per month. This follows a 6 percent rise in rental rates in 2022.

Asking rents advanced 3.4 percent during the past 12 months.

RENT TRENDS



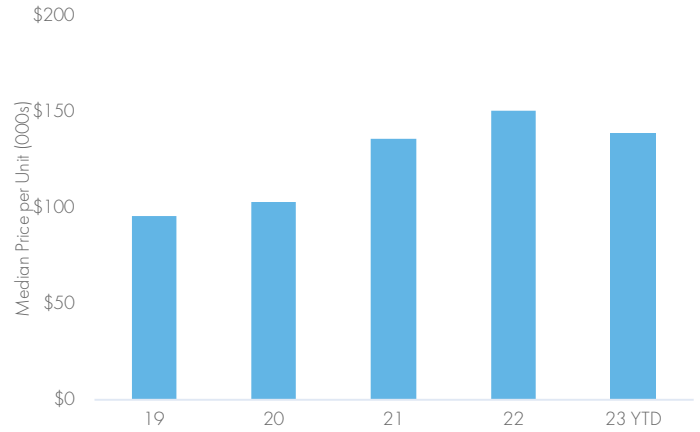
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- After a fairly active start to 2023, sales activity slowed in recent months, as transactions fell by 33 percent from the second quarter to the third quarter. The total number of sales year to date is down roughly 50 percent from levels recorded during the same period in 2022.
- While Class C assets have made up more than half of the transactions in 2023, the sale of middle-tier assets has jumped from levels recorded in 2022. Class B properties accounted for 40 percent of deals in the last nine months, up from 15 percent of the total in 2022.
- The median sales price to this point in 2023 is roughly \$139,500 per unit, down 7 percent from last year's figure. The median price in sales that closed during the third quarter rose to \$171,800 per unit.
- Cap rates averaged 6 percent during the third quarter, up 25 basis points from the previous quarter.

The median price in sales that closed during the third quarter rose to \$171,800 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

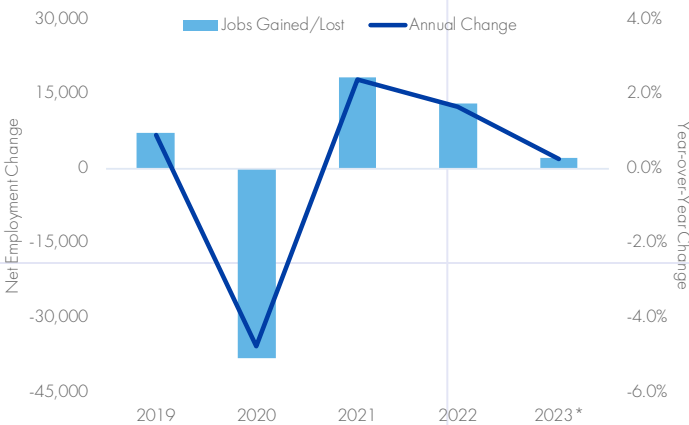
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
NAV850	850 Crawford Pky., Portsmouth	244	\$41,500,000	\$170,082
The Courts at Yorkshire Downs	101 Little Bay Ave., Yorktown	202	\$35,050,000	\$173,515

LOOKING AHEAD

The Hampton Roads multifamily market is expected to finish the year in a strong position. The vacancy rate is projected to record an annual improvement in 2023, despite multifamily deliveries accelerating in the final few months of the year. Apartment developers are on pace to gain momentum in the coming months, with projects totaling roughly 2,000 units slated to come online in 2023, the highest annual delivery total since 2016. Despite the influx of new supply, the vacancy rate is on track to finish 2023 in the mid-5 percent range, slightly below the rate at the end of 2022. Asking rents in Hampton Roads are projected to rise 4.5 percent for the full year, down from 6 percent growth in the previous year, but a stronger rate of growth than the region’s long-term average.

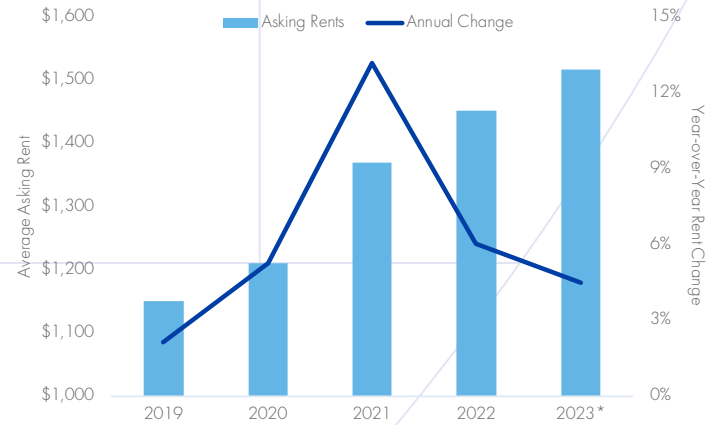
Multifamily investment activity in Hampton Roads should pick up slightly in the coming quarters, after deal volume has been light to this point in the year. While sales velocity may gain some momentum in the final months of the year, annual transaction volume will trail levels posted in 2021 and 2022. Middle-tier and lower-tier assets will likely continue to make up the majority of the transaction mix, but activity should eventually pick up in the sale of Class A assets, as many new projects will be delivered and leased-up. In recent years, new deliveries have generally sold within a span of one to four years of the asset’s delivery date. If this trend continues, the 9,000 units delivered in the region since 2019 should provide some of the fuel for the investment market in the coming years.

EMPLOYMENT FORECAST



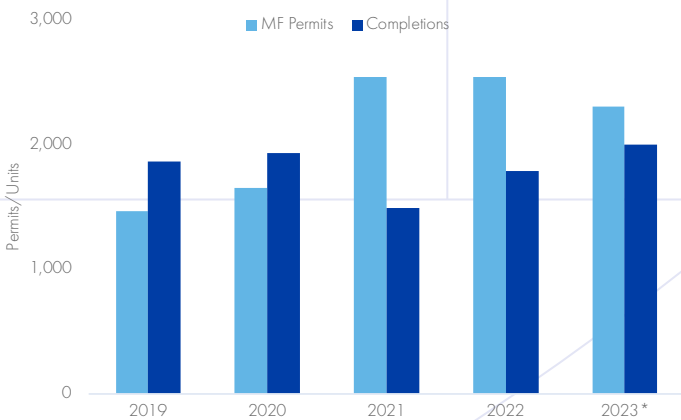
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



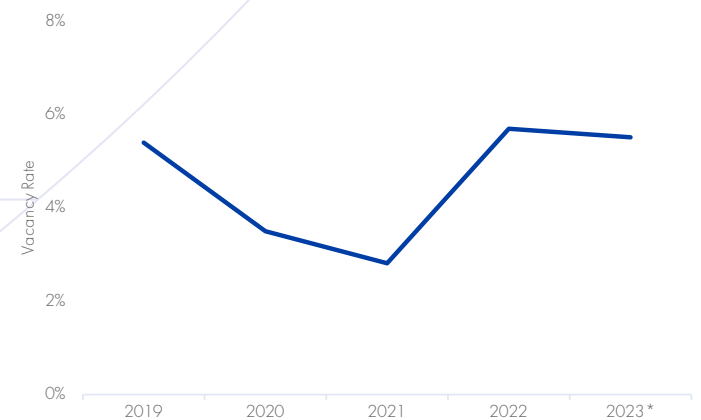
* Year End Forecast
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar



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