

# Vacancy remains tight, inches lower in 3Q

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION

6,168

UNITS DELIVERED

2,769

## MARKET FUNDAMENTALS



VACANCY RATE

6.0%

YEAR-OVER-YEAR CHANGE

+40bps

ASKING RENTS

\$1,498

YEAR-OVER-YEAR CHANGE

+1.3%

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT

\$191,500

## HIGHLIGHTS

- The Richmond multifamily market posted a mixed performance during the third quarter, as rents ticked lower even as vacancy started to tighten.
- The vacancy rate dipped 10 basis points during the third quarter to 6 percent. Year over year, area vacancy is up 40 basis points. Despite an active pace of new development, Class A vacancy rates have remained more than 100 basis points below the market average.
- Local apartment rents dipped in recent months after posting solid gains in the first half of 2023. Asking rents fell 1.1 percent during the third quarter to \$1,498 per month. Area rents have risen 1.3 percent in the past year and are forecast to post healthy gains in 2023.
- After a fairly steady pace of investment activity in 2022, transaction volume has been minimal in 2023. This trend continued in recent months. The median price thus far in 2023 is \$191,500 per unit, nearly identical to last year's figure.

## RICHMOND MULTIFAMILY MARKET OVERVIEW

Property performance metrics in Richmond reversed first-half trends, as asking rents inched lower and vacancy improved during the third quarter. Vacancy moves in recent periods have generally been modest upticks, but the trend reversed course in the third quarter with a slight decline. Apartment operators pulled back on rent increases during the third quarter, after posting rapid gains for most of the past two years.

Consistently steady operating conditions in Richmond have fueled development activity, with projects totaling nearly 2,800 units coming online in the last nine months. More projects are slated to be delivered going forward, with nearly 6,200 apartment units under construction.

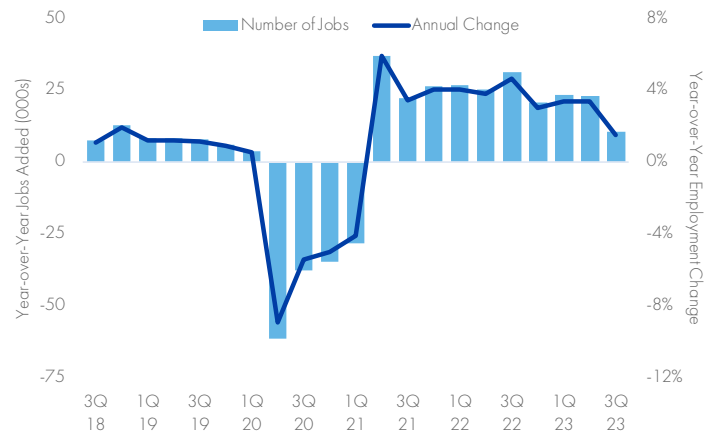
Multifamily sales activity in the Richmond investment market remained light during the third quarter after transaction volume had already been limited in the first six months of the year. The total number of deals to this point in 2023 is down 75 percent from levels posted in the same period of last year. Elevated financing costs and uncertainty surrounding the direction of future interest rates have contributed to the decline in activity. In the deals that are getting done, investors appear to be favoring low-vacancy Class A and Class B properties. Cap rates continued to trend higher, averaging 5.75 percent during the third quarter, up 150 basis points from one year ago.

## EMPLOYMENT

- Following a strong start to the year, job growth in Richmond has continued at a modest pace. Area employers expanded payrolls by 1.5 percent during the past 12 months, with the addition of 10,500 new workers.
- While most sectors have maintained flat job totals during the past year, the leisure and hospitality industry recorded elevated growth in recent periods. Year over year, this sector added 6,300 jobs an increase of 9.6 percent.
- The trade, transportation, and utilities sector continues to expand; in the past 12 months, this sector added 4,600 workers, a 3.6 percent rate of growth.
- **FORECAST:** The local labor market is on pace to add 10,000 jobs in 2023, an annual gain of 1.4 percent.

Area employers have expanded payrolls by 1.5 percent.

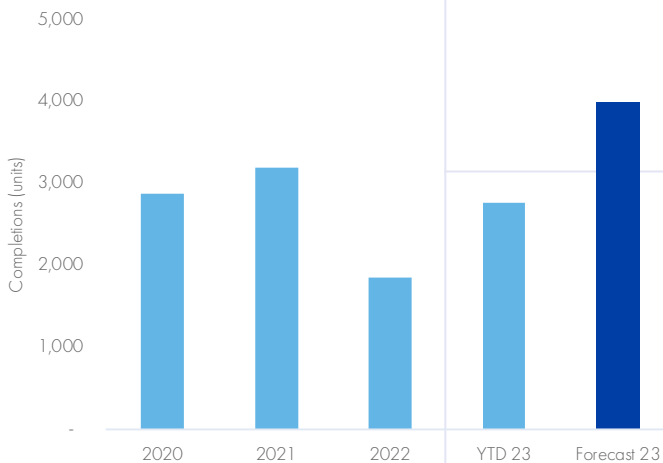
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers completed 2,769 units year to date.

### DEVELOPMENT TRENDS



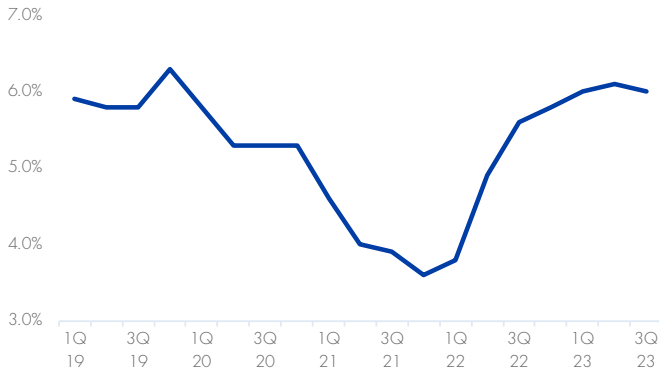
Sources: Northmarq, CoStar

### DEVELOPMENT & PERMITTING

- Multifamily completions were light in recent months as projects totaling fewer than 300 units came online during the third quarter. Developers completed 2,769 units year to date, up from roughly 1,600 units delivered in the same period last year.
- Projects totaling approximately 6,200 units were under construction at the end of the third quarter, down 7 percent from levels recorded one year ago. The Western Henrico County submarket has the highest concentration of new development, accounting for nearly one-third of the projects in the construction pipeline.
- Multifamily permitting has been limited in recent months. To this point in the year, developers have pulled permits for approximately 2,800 units, down 33 percent from the same period last year.
- **FORECAST:** Development activity is expected to pick up in the final months of the year with projects totaling approximately 4,000 units forecast to come online in 2023. Annual delivery totals averaged roughly 2,500 units per year from 2018 to 2022.

Year over year, vacancy increased 40 basis points.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

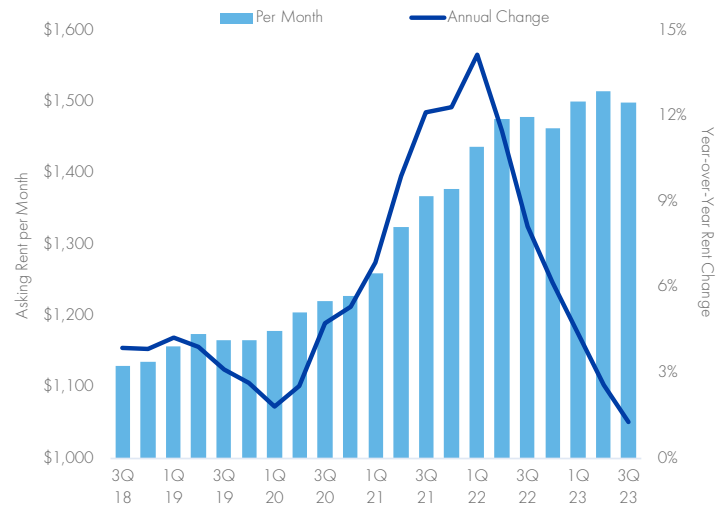
- After retreating to all-time lows and then returning to long-term averages in recent years, vacancy conditions are stabilizing in Richmond. The local vacancy rate inched lower in the third quarter, dipping 10 basis points to 6 percent.
- Year over year, the vacancy rate increased by 40 basis points. The current rate is in line with the long-term trend in the region, as vacancy averaged 6 percent during the past decade.
- Despite several periods of new development, the vacancy rate in Richmond’s top-tier properties posted a slight improvement during the past 12 months. Class A vacancy finished the third quarter at 4.7 percent, down 10 basis points from levels posted one year ago.
- **FORECAST:** Area vacancy will likely tick higher through the end of the year as the pace of deliveries ramps up. The vacancy rate is projected to finish 2023 at 6.2 percent, up 40 basis points for the full year.

RENTS

- Asking rents inched lower during the third quarter after healthy rent growth in the first six months of 2023. Apartment rents fell by 1.1 percent in the last three months to \$1,498 per month.
- Average rents in Richmond advanced by 1.3 percent during the past year, following gains of more than 8.5 percent since the beginning of 2022. Annual rent growth averaged 3.7 percent from 2015 to 2020.
- The South Richmond submarket continued to post rent gains, and the area’s below-average rents should allow for more upside as renter demand gains momentum. Year over year, asking rents in this submarket advanced by 2.1 percent to \$1,310 per month.
- **FORECAST:** Rent growth is expected to trend higher at the end of the year. Asking rents are forecast to close 2023 at \$1,520 per month, up nearly 4 percent for the full year.

Rents advanced by 1.3 percent during the past year.

RENT TRENDS



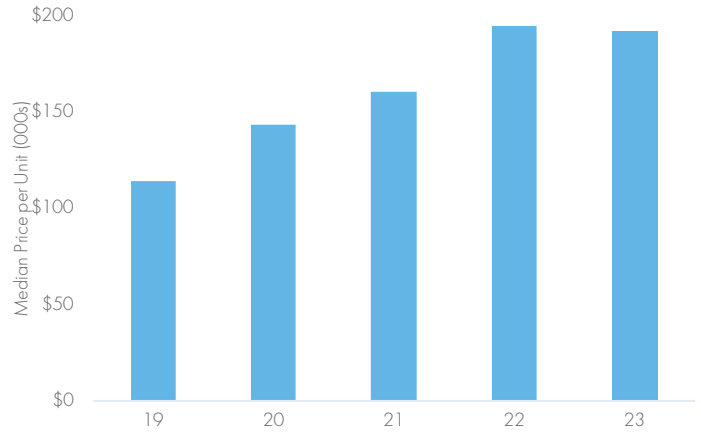
Sources: Northmarq, CoStar

## MULTIFAMILY SALES

- Multifamily sales volume has been fairly limited during the first nine months of 2023. The total number of transactions to this point in the year fell 75 percent from levels recorded in the same period of 2022. Recent investment volumes are closer to levels recorded from 2015 to 2020, prior to the steep increases in activity that occurred in the past two years.
- While only a handful of properties have traded, pricing year to date has closely tracked elevated levels recorded last year. The median price in transactions that have closed in 2023 is \$191,500 per unit, just 2 percent lower than the median price in 2022.
- Cap rates continued to rise in recent months. Cap rates averaged 5.75 percent during the third quarter, up about 25 basis points from the first half of 2023 and 150 basis points higher than one year ago.

The median price in 2023 is **\$191,500 per unit.**

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

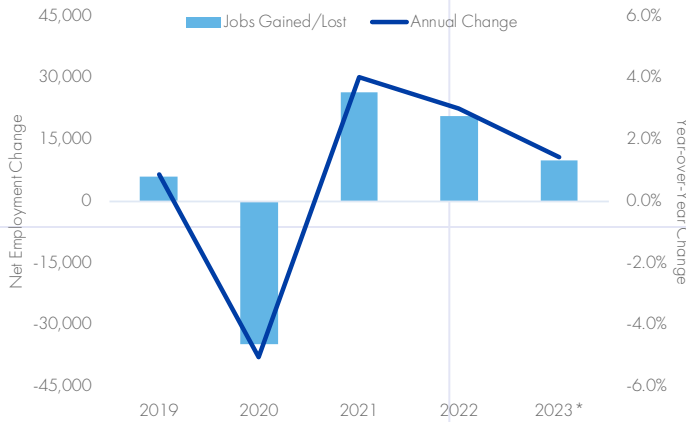
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Courthouse Green Apartments	6417 Statute St., Chesterfield	266	\$50,950,000	\$191,541
American Heritage Apartments	1001 E Main St., Richmond	57	\$9,875,000	\$173,246

## LOOKING AHEAD

The Richmond multifamily market is going through a period of heightened apartment construction but is posting healthy operational performance, despite supply-side pressures. Vacancy rates will likely inch higher in the coming months, but increases are expected to be modest. The ability to absorb new units is supporting rent growth; the region was a top market for gains in the first half of 2023, and further increases are likely as the year comes to a close. The pace of multifamily completions should accelerate at the close of 2023, as annual completions are forecast to reach a cyclical high, with 4,000 multifamily units coming online this year. With permitting and construction starts slowing, the development pipeline should thin beginning in 2024.

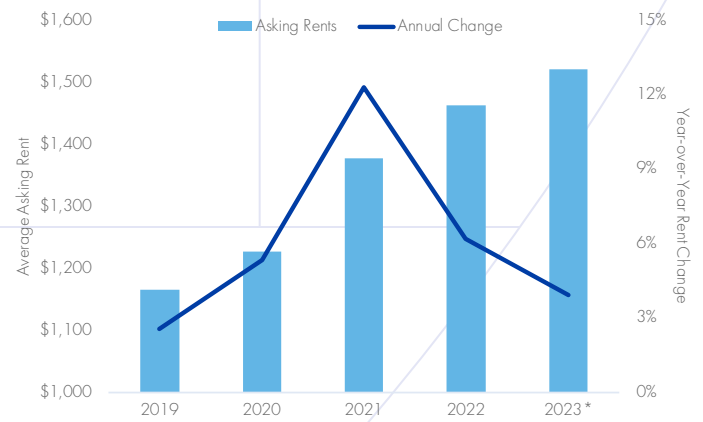
Multifamily investment activity in Richmond could pick up slightly in the final few months of 2023, as cap rates continue to rise, pushing closer to 6 percent. With cap rates tracking rises in interest rates, investors should begin to have more success underwriting potential acquisitions, particularly in response to the region's strong operational performance. In addition, some of the recently delivered projects may make their way into the investment market in the next several quarters, particularly given the top-tier's strong operational performance in recent years. Still, Class B properties are expected to make up the largest share of the transaction mix in 2023, likely accounting for roughly half of Richmond's annual sales.

### EMPLOYMENT FORECAST



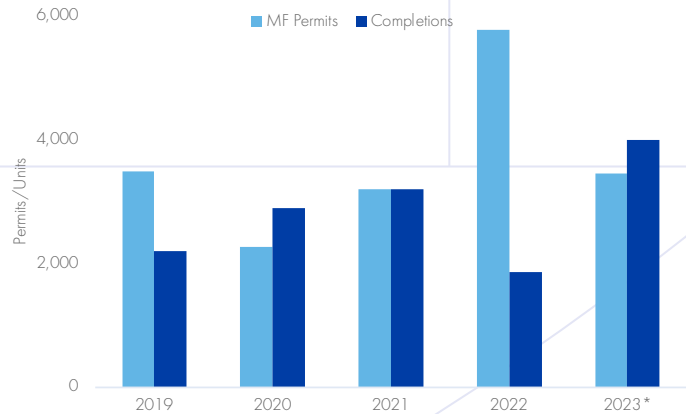
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



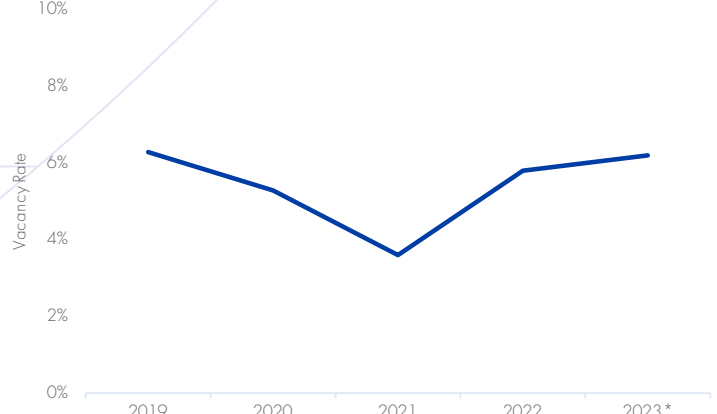
\* Year End Forecast  
Sources: Northmarq, CoStar

### CONSTRUCTION & PERMITTING FORECAST



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

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, CoStar



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