

Rents maintain a steady upward trajectory to close 2023

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,658**

UNITS DELIVERED **1,247**

MARKET FUNDAMENTALS



VACANCY RATE **5.7%**

YEAR-OVER-YEAR CHANGE **+0bps**

ASKING RENTS **\$1,510**

YEAR-OVER-YEAR CHANGE **+4.1%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$142,900**

HIGHLIGHTS

- The Hampton Roads multifamily market ended 2023 in a slightly stronger position than it began the year. Vacancies were largely flat, and rents posted a steady advance. Fewer properties sold during the course of the year, but there was an increase in transactions in the fourth quarter.
- Rent gains were steady in 2023, building on increases from prior years. Average asking rents advanced 4.1 percent for the full year, ending the fourth quarter at \$1,510 per month.
- While transaction activity bounced off earlier lows late in the year, total sales velocity was down about 40 percent from 2022 to 2023. The median price ended the year at \$142,900 per unit, while cap rates ranged between 5.75 percent and 6.25 percent.
- Coming off of two consecutive quarters where local vacancy tightened, the rate rose 40 basis points during the fourth quarter to 5.7 percent. Current vacancy levels are identical to the figure from one year earlier.

HAMPTON ROADS MULTIFAMILY MARKET OVERVIEW

Property performance metrics in the Hampton Roads multifamily market were solid throughout 2023, highlighted by a vacancy rate that proved to be steady and rents that continued to post healthy gains. Area vacancy finished 2023 at 5.7 percent, marking no change from levels recorded one year earlier. This stood in contrast to the majority of markets across the country where vacancies pushed higher. The consistency in conditions allowed for continued rent growth. Rents rose by more than 4 percent in 2023, building on a 6 percent increase in the prior year. Since the beginning of 2021, average rents in the region have spiked by approximately \$300 per month, with further gains anticipated in the coming year.

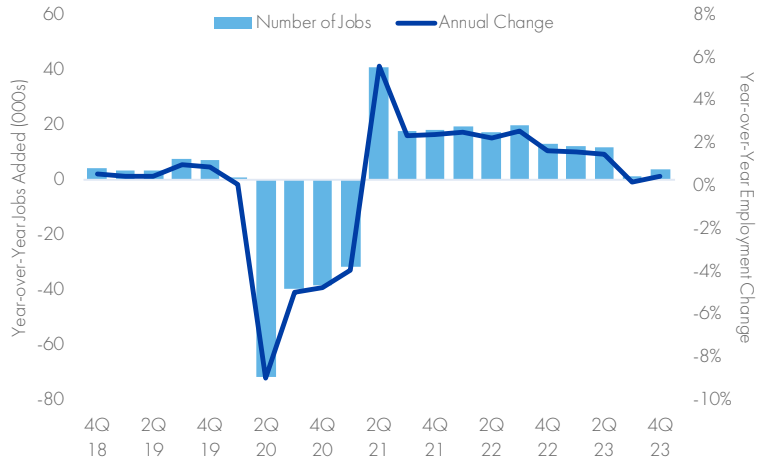
Investment sales trends in the Hampton Roads area were uneven in 2023. Transaction activity was strongest at the beginning of the year, before conditions cooled in the middle two quarters as interest rates rose and investors took a more cautious approach. The fourth quarter got off to a slow start as well, before activity accelerated in the final month of the year, with a handful of properties trading in the \$40 million range. Investors were drawn back into the market by steady operating fundamentals and the likelihood that interest rates have peaked. Cap rates have trended higher, averaging between 5.75 percent and 6.25 percent in recent months, about 100 basis points higher than one year earlier.

EMPLOYMENT

- Employment trends in Hampton Roads were mixed this year, but a modest gain was recorded in the fourth quarter and the region added workers in 2023. Year over year, area employers added 3,800 jobs, expanding local payrolls by 0.4 percent.
- The education and health services sector added jobs at a far faster rate than the overall economy in 2023. Employment in this sector expanded by 2,900 positions, an increase of 2.5 percent.
- Lyon Shipyard in Norfolk recently announced plans to invest \$8.5 million into expanding its capacity to work on commercial ships used for offshore wind farm operations. The move is expected to create roughly 135 local jobs.
- **FORECAST:** Total area employment is forecast to expand by 0.4 percent in 2024, with the addition of 3,000 workers.

Year over year, area employers added 3,800 jobs.

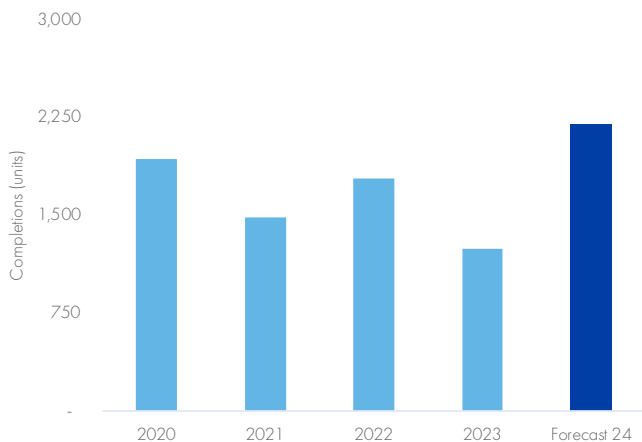
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 1,250 units came online in 2023.

DEVELOPMENT TRENDS



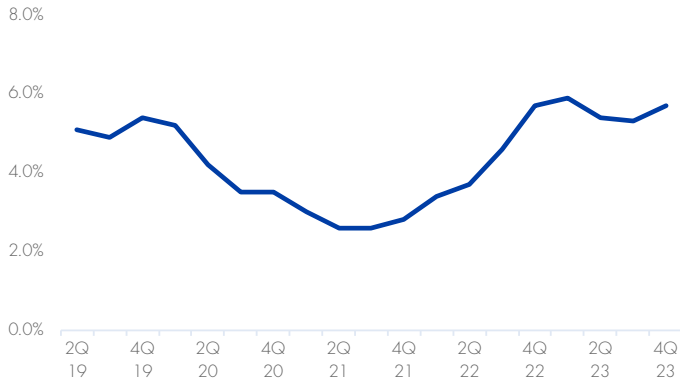
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily completions were limited in the second half of 2023, and annual deliveries lagged the region’s historical metrics. Projects totaling nearly 1,250 units came online in 2023, down 30 percent from the preceding year.
- Approximately 2,650 units were under construction at the end of 2023, a slightly higher total than one year earlier. The population centers of Norfolk and Virginia Beach are the two most active areas for new development in the Hampton Roads region. Approximately 1,000 units are under construction in Norfolk, with an additional 850 units under way in Virginia Beach.
- Multifamily permitting was limited during the fourth quarter after a fairly steady rate of permitting earlier in the year. Developers pulled permits for roughly 2,050 multifamily units in the past 12 months, down approximately 20 percent from 2022 levels.
- **FORECAST:** After recording modest levels of supply growth in 2023, the pace of deliveries is expected to accelerate in the year ahead. Projects totaling approximately 2,200 units are scheduled to be delivered in 2024, the region’s highest completion total since 2016.

The vacancy rate ended the year at 5.7 percent.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

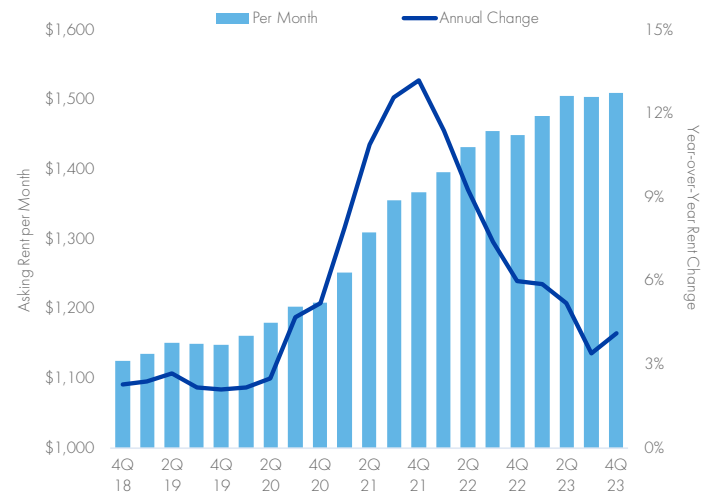
- Vacancy in Hampton Roads trended higher in recent months after posting improvements in the second and third quarters. The rate rose 40 basis points in the final three months of the year to 5.7 percent. While there was some quarterly volatility, the year-end 2023 vacancy rate was identical to the figure from one year earlier.
- Vacancy in the Hampton submarket posted some of the strongest improvement in the region during the past 12 months. Apartment vacancy in this submarket finished 2023 at 6.9 percent, down 50 basis points from the year-end 2022 average.
- Tight vacancy conditions and strong demand in Virginia Beach and Norfolk are supporting new development in the submarkets. The vacancy rate in Virginia Beach was 5.2 percent at the end of 2023, while the rate in Norfolk was 5 percent.
- **FORECAST:** An accelerating pace of inventory growth should result in some modest supply-side pressures in 2024. The vacancy rate is projected to rise 30 basis points to 6 percent by the end of the year. This figure would closely track the region’s long-term trends; during the past decade, local vacancy has averaged 5.7 percent.

RENTS

- Asking rents inched higher during the fourth quarter, rising 0.3 percent to \$1,510 per month. Area rents have increased in 14 of the past 16 quarters.
- For the full year, the Hampton Roads region posted healthy rent increases. Average rents rose 4.1 percent in 2023, following a 6 percent increase in the prior year.
- Rents trended higher across all submarkets during the past year. In Virginia Beach, rents rose 2.4 percent in 2023, reaching \$1,607 per month. Rents in Norfolk rose 3.4 percent to \$1,445 per month.
- **FORECAST:** Apartment operators are forecast to raise rents at a similar rate in 2024 as they did in 2023. Asking rents are expected to rise 4 percent in the year ahead, reaching roughly \$1,570 per month.

Average rents rose 4.1 percent in 2023.

RENT TRENDS



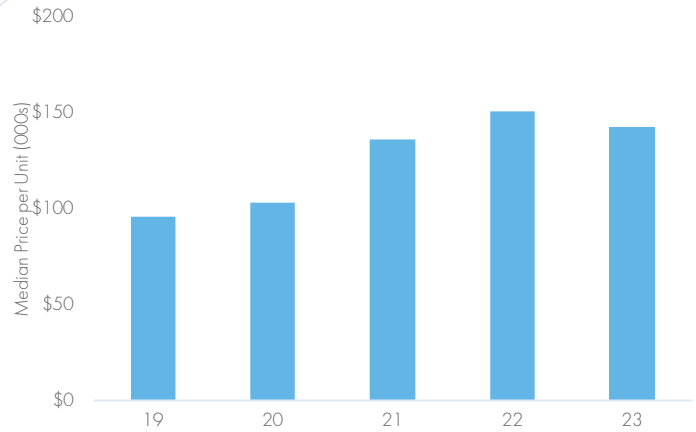
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Investment activity in 2023 was concentrated in the beginning of the year and in the final few months, with limited transactions closing during the second and third quarters. For the full year, sales velocity was down about 40 percent when compared to 2022 levels.
- The median price in properties that sold in 2023 was approximately \$142,900 per unit, 5 percent lower than the 2022 figure. In the fourth quarter, prices were higher, topping \$220,000 per unit.
- Cap rates at the end of the year generally ranged from 5.75 percent to 6.25 percent in most cases. On average, cap rates rose approximately 100 basis points from 2022 to 2023.

The median price in 2023 was **\$142,900 per unit.**

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

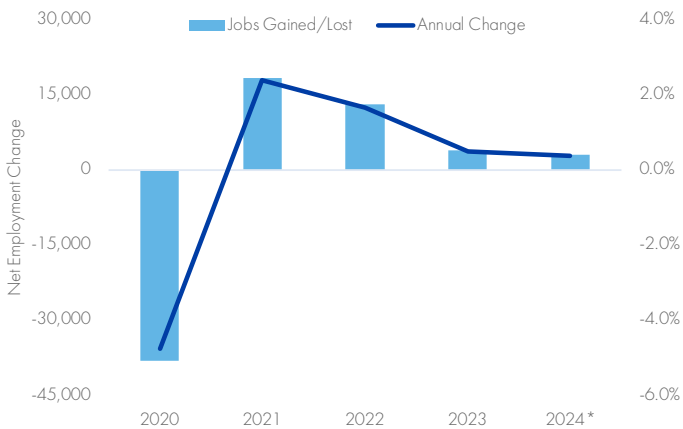
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Monticello Station	328 E Freemason St., Norfolk	121	\$42,000,000	\$347,107
NAV850 at Olde Towne	850 Crawford Pky., Portsmouth	244	\$41,500,000	\$170,082
Cottage Trails	3000 Conservancy Dr., Chesapeake	183	\$40,750,000	\$222,678

LOOKING AHEAD

The Hampton Roads multifamily market is forecast to record another solid year of property performance in 2024, although an accelerating pace of new construction will likely result in a modest, short-term increase in the local vacancy rate. Completions are forecast to total approximately 2,200 units in the coming year, but this will thin out the development pipeline considerably. Further, with multifamily permitting and starts slowing, the outlook beyond 2024 calls for much more modest construction levels. With the economy continuing to expand, renter demand is forecast to remain fairly steady, and the vacancy rate is likely to end the year only slightly higher than the region's 10-year average. This stability should allow for rent growth that closely tracks 2023 levels.

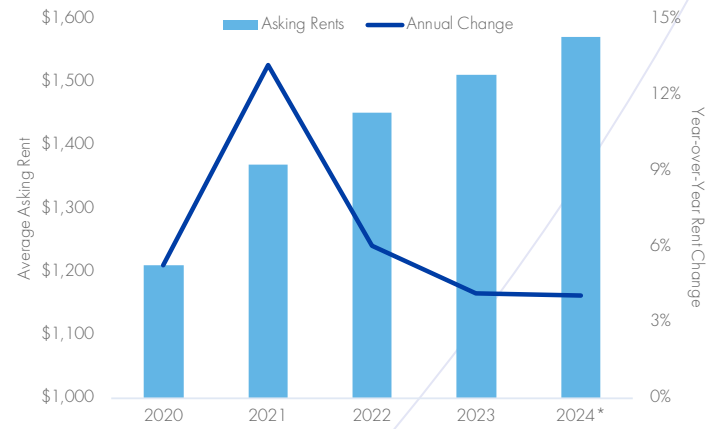
Investors are showing signs of increasing activity in the Hampton Roads market, a trend that is expected to carry over into 2024. The momentum that is building in the region is in response to an outlook that calls for persistent renter demand for units, a thinning development pipeline, and continued rent growth. In 2023, transaction activity in Class A and Class B properties only slightly lagged levels from the past few years. The greatest decline in transactions has been recorded in Class C properties, and a rebound in transactions in 1970s-vintage units that account for nearly one quarter of the market's total inventory, will likely increase overall sales velocity in the coming year.

EMPLOYMENT FORECAST



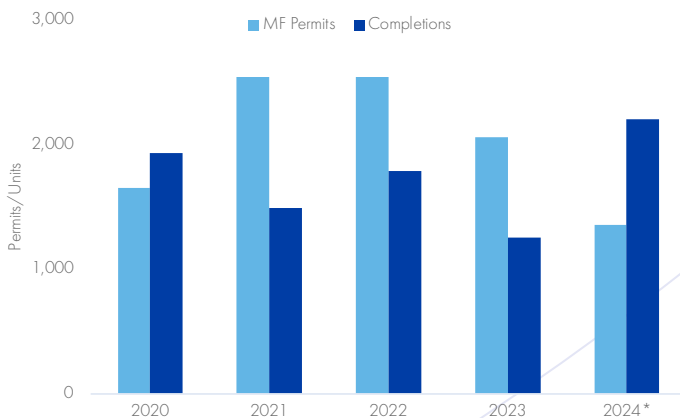
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



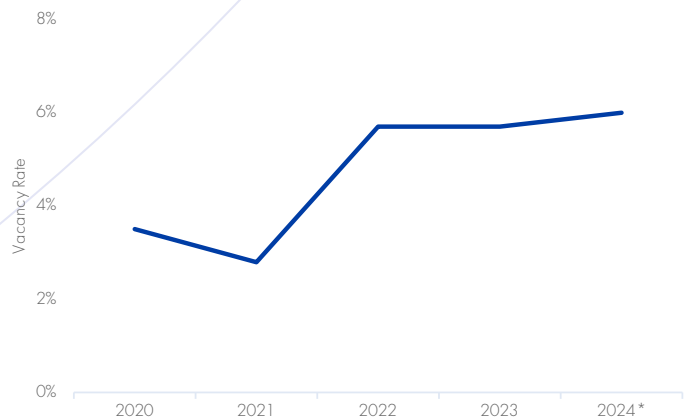
* Year End Forecast
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar



**FOR MORE INFORMATION,
PLEASE CONTACT:**

WINK EWING

Managing Director—Investment Sales
804.534.1485
wewing@northmarq.com

CHRIS DOERR

Reg. Managing Director—Investment Sales
202.486.0229
cdoerr@northmarq.com

MATT STRAUGHAN

Associate—Investment Sales
804.781.5681
mstraughan@northmarq.com

JASON KAPLAN

Analyst—Investment Sales
804.303.8751
jkaplan@northmarq.com

KEITH WELLS

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

MIKE LOWRY

Senior Vice President—Debt & Equity
804.447.0475
mlowry@northmarq.com

DALE WITTIE

Senior Vice President—Debt & Equity
804.918.9721
dwittie@northmarq.com

PETE O'NEIL

Director of Research
602.508.2212
poneil@northmarq.com

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