

Sales activity picked up to close 2023

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **4,231**

UNITS DELIVERED **5,349**

MARKET FUNDAMENTALS



VACANCY RATE **6.1%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **\$1,495**

YEAR-OVER-YEAR CHANGE **+2.2%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$175,000**

HIGHLIGHTS

- The past year has been an active one in the Richmond multifamily market. Developers delivered projects totaling 5,349 units, and absorption was considerably stronger than in 2022. The heightened demand resulted in a mostly stable vacancy environment and allowed for modest rent growth.
- Rents gained ground in 2023, although increases were concentrated in the first half of the year. Asking rents were \$1,495 per month in the fourth quarter, up 2.2 percent from one year earlier.
- Transactions in the Richmond multifamily investment market were limited in 2023, although the pace picked up at the end of the year. The median price for the full year was \$175,000 per unit, while cap rates ranged between 5.5 percent and 6.25 percent.
- Vacancy was steady throughout much of the year, despite a surge in new construction. Vacancy inched up 30 basis points in 2023, ending the year at 6.1 percent. Net absorption totaled approximately 3,700 units in 2023.

RICHMOND MULTIFAMILY MARKET OVERVIEW

The Richmond multifamily market posted a healthy year of operating fundamentals in 2023, despite some minor softening in the fourth quarter. While vacancies inched higher and rents ticked lower in the final few months of the year, some of this can be explained by seasonality and an increase in additions to inventory, following steady performance in the middle part of 2023. Completions accelerated in the closing quarter of the year, with developers bringing roughly 2,000 units online in the last three months. The recent deliveries pushed annual completions to a cyclical high, however, current vacancy conditions are still closely aligned with the region's long-term average and rents gained ground throughout much of the year.

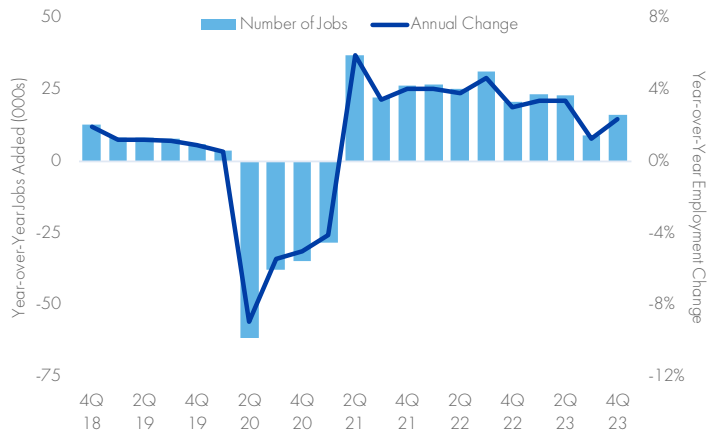
Transaction activity in Richmond was light for most of 2023, but there was an uptick in sales during the fourth quarter. The investment market was hindered by elevated and volatile interest rates, which made it challenging for buyers and sellers to agree on cap rates to complete deals. The median price reached \$175,000 per unit, while cap rates generally ranged between 5.5 percent and 6.25 percent. In the properties that did sell during 2023, a healthy portion of sales occurred in Chesterfield County. Properties in Chesterfield County accounted for about 40 percent of sales in 2023, up from just 15 percent in 2022. These properties were at the higher end of the region's price range, despite the bulk of the transactions involving properties built in the 1970s.

EMPLOYMENT

- Employment growth accelerated in the closing months of 2023 after job additions were modest during the middle part of the year. In 2023, area employers expanded payrolls by 2.3 percent with the addition of 16,300 positions.
- The leisure and hospitality sector posted the greatest number of additions in 2023. The sector expanded by more than 10 percent for the year, with the addition of about 7,000 new jobs.
- Berkley Insurance Company announced during the second half of 2023 that the company will be expanding its Henrico County location, adding office space. The expansion is expected to create 70 new jobs; the company's existing Henrico workforce totals more than 170 employees.
- **FORECAST:** Total employment is expected to expand at a slower pace in the coming quarters. Richmond employers are forecast to add 8,000 positions in 2024, increasing local employment by 1.1 percent.

In 2023, area employers expanded payrolls by 2.3 percent.

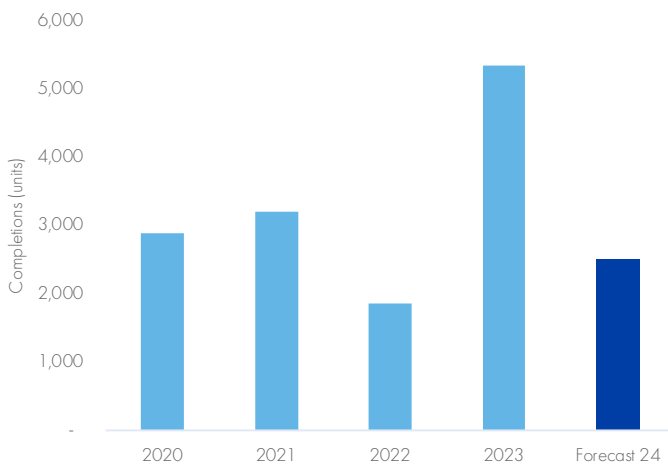
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 2,000 units came online during the fourth quarter.

DEVELOPMENT TRENDS



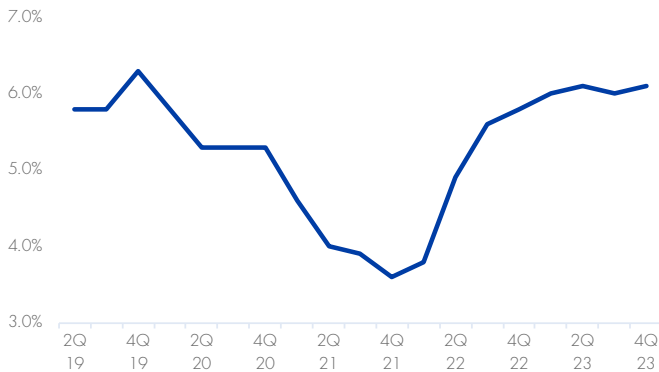
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of multifamily completions accelerated to close 2023. Projects totaling nearly 2,000 units came online during the fourth quarter, after only about 300 units were delivered in the preceding period. Completions peaked in 2023, with developers delivering approximately 5,350 units for the full year, outpacing the combined totals from 2021 and 2022.
- The development pipeline thinned in recent months as new properties were delivered. Projects totaling more than 4,200 units were under construction at the end of 2023, down 30 percent from one year ago. Construction is dispersed throughout Richmond, with the Western Henrico County and Downtown Richmond submarkets being the most active areas in the region.
- In 2023, permits for 5,250 multifamily units were issued, down 9 percent from peak levels posted in the prior year. Permitting is forecast to slow in the coming quarters and will likely return closer to the region's long-term average of less than 2,000 units per year.
- **FORECAST:** After posting a one-time spike in 2023, completions should slow considerably in the coming year. Developers are on pace to deliver about 2,500 units in 2024.

In the fourth quarter, area vacancy inched higher by 10 basis points.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

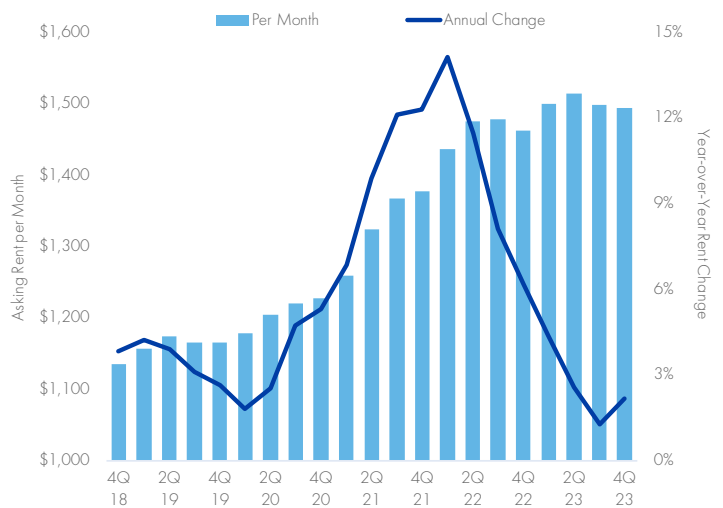
- Despite an elevated pace of new development, operating conditions were stable throughout much of the past 12 months, fueled by absorption of nearly 3,700 units. The vacancy rate remained in the low-6 percent range throughout 2023. In the fourth quarter, area vacancy inched higher by 10 basis points to 6.1 percent. For the full year, vacancy ticked up just 30 basis points.
- The Midlothian submarket highlighted some of the active supply and demand trends that prevailed across the Richmond region throughout 2023. Year over year, the vacancy rate in the submarket declined by 130 basis points to 6.2 percent, even as more than 1,000 new units were delivered.
- Renter demand in the region remains strong for Class A properties. Average vacancy in the top tier improved by 60 basis points in 2023, finishing the year at 5.3 percent. Absorption in Class A units totaled approximately 2,400 units in 2023, nearly tripling the total from the prior year.
- **FORECAST:** Vacancy is forecast to remain in a tight range in 2024, with the rate expected to end the year at 6.3 percent. Vacancy has averaged 6 percent over the course of the past decade.

RENTS

- Local asking rents inched lower during the fourth quarter, dipping 0.2 percent to \$1,495 per month. Annual rent growth in the market was positive, despite the slight decline in the final few months of the year. In 2023, rents in Richmond rose 2.2 percent.
- Asking rents rose across all asset classes in 2023, with older properties recording the strongest increases. Apartment rents for Class C properties rose 2.7 percent in the last 12 months, closing 2023 at \$1,269 per month.
- Rents in the rapidly expanding Western Henrico County submarket were mostly steady in 2023, inching up 0.2 percent to \$1,570 per month. This followed a three-year period where average rents in the submarket spiked by 25 percent, or approximately \$300 per month.
- **FORECAST:** Asking rents should record modest gains in 2024, with annual growth in the coming year closely tracking levels recorded in 2023. Apartment rents are forecast to finish 2024 at \$1,530 per month.

In 2023, rents in Richmond rose 2.2 percent.

RENT TRENDS



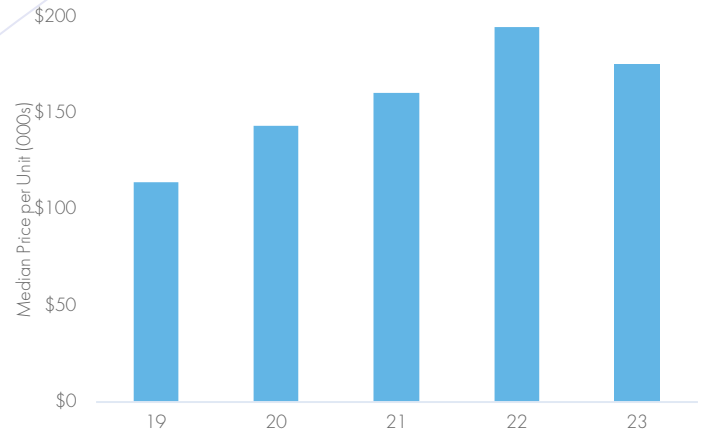
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Sales velocity in Richmond fell nearly 65 percent from 2022 to 2023, but there was some momentum in the market at the end of the year. The fourth quarter was the most active period for sales activity, with nearly one-third of the year’s total transaction activity closing during the month of December.
- In 2023, the median price was \$175,000 per unit, about 10 percent lower than the median price in the prior year. Properties built in the 1970s and 1980s accounted for approximately half of the total sales volume during the past year, while the transaction mix in 2022 included more properties that were less than a decade old.
- Cap rates were generally between 5.5 percent and 6.25 percent in the second half, after averaging closer to 4.5 percent in 2022.

In 2023, the median price was \$175,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

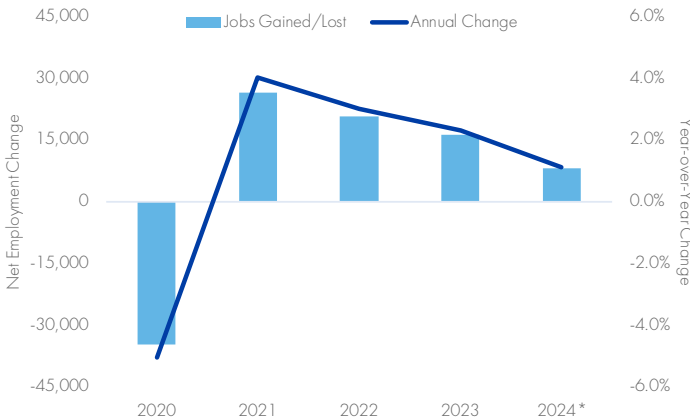
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Belmont Hills	4037 Lamplighter Dr., Richmond	651	\$102,800,000	\$157,911
The Station at Chester Village	4101 Runner Loop, Chester	201	\$60,500,000	\$300,995
Summit at Bon Air	1701 Irondale Rd., North Chesterfield	296	\$53,250,000	\$179,899
Courthouse Green Townhomes	6417 Statue St., Chesterfield	266	\$50,950,000	\$191,541

LOOKING AHEAD

Operating conditions in the Richmond multifamily market should stabilize in 2024, as rent growth will likely maintain a steady upward trajectory and vacancy is expected to end the year only slightly higher than at the beginning of 2024. The most significant change that is likely to occur in 2024 is on the supply side, with completions expected to return closer to the market’s historical norms following a one-time spike in 2023. Projects totaling roughly 2,500 units are scheduled to come online in the coming year. The slowing pace of competition from new inventory will allow operators to implement continued rent increases.

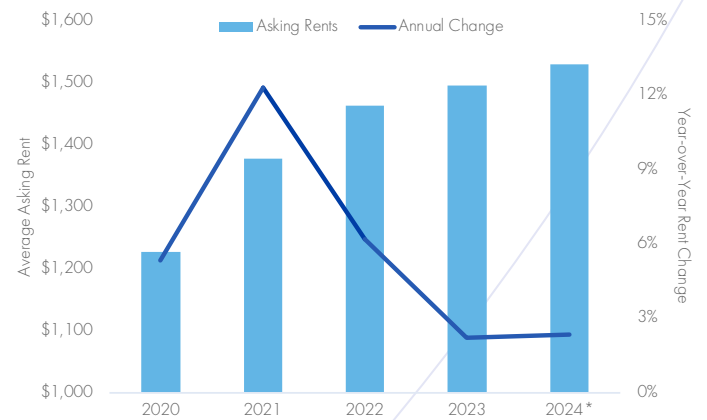
The rise in transaction activity in the final month of 2023 may signal some momentum building in the Richmond multifamily market that could spill over into the coming year. Investors will likely be drawn to a vacancy rate that has remained fairly stable during a period of heightened development activity, particularly with the pace of new construction expected to cool in the next two to three years. Rising rents should also attract investment, and sales velocity in the Richmond multifamily market will likely outpace prior year totals in 2024. After a year of increases, cap rates appear to have stabilized, and any declines in interest rates in the year ahead could spark deal flow.

EMPLOYMENT FORECAST



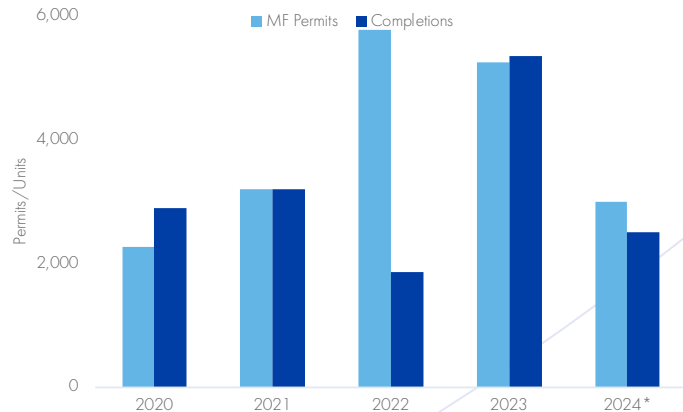
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



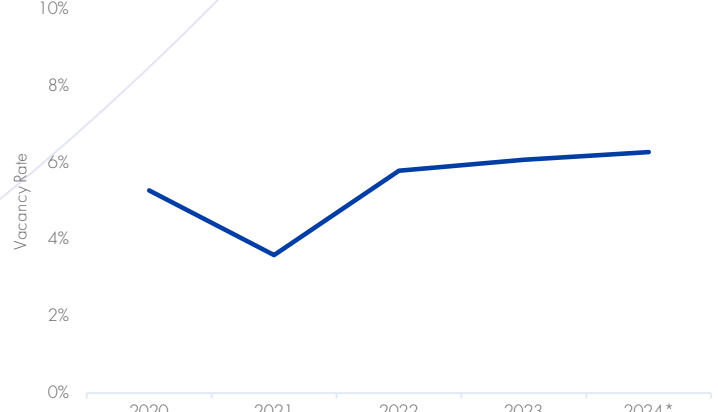
* Year End Forecast
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar



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