

Hampton Roads Multifamily

Tightening Vacancies Fuel Rent Increases, Price Appreciation

Highlights

- > The Hampton Roads multifamily market posted extremely tight vacancy conditions in the second quarter, signaling the overall health of the market. Rents rose and per-unit sales prices pushed higher.
- > Vacancy dipped 40 basis points during the second quarter, with the rate reaching 2.6 percent. Year over year, vacancy has fallen 160 basis points.
- > Rent growth surged in the second quarter. Rents are up 10.9 percent year over year. Asking rents reached \$1,310 per month at midyear.
- > Sales of apartment properties continued at a steady pace in the second quarter. Prices have pushed higher in response to improving operating conditions. The median price reached approximately \$112,000 per unit in the first half of this year, while cap rates compressed to 5 percent on average.

Hampton Roads Multifamily Market Overview

The Hampton Roads multifamily market recorded significant strengthening during the second quarter, with the vacancy rate dipping below 3 percent and rents spiking. Vacancy in the area has been trimmed in half in the past 18 months, and the extremely tight conditions are giving landlords the leverage to raise rents at an accelerating clip. The pace of deliveries of new units picked up in the second quarter, and multifamily permitting also surged, as developers are taking steps to meet heightened renter demand for units.

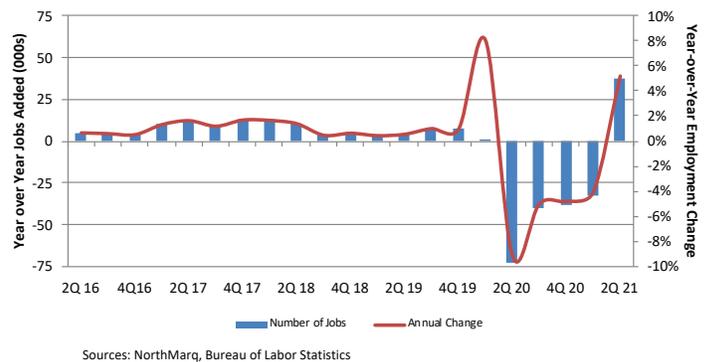
Q2 Snapshot	Hampton Roads Market
	Market Fundamentals
	Vacancy 2.6%
	- Year Over Year Change -160 bps
	Asking Rent \$1,310
	- Year Over Year Change +10.9%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$112,000
	Cap Rates (Avg YTD) 5.0%
	Construction Activity
	Units Under Construction 1,826
	Units Delivered YTD 1,651

Multifamily sales activity maintained a consistent pace throughout the first half of 2021, but fewer properties changed hands than in the second half of last year. Despite fewer transactions taking place, the median sales price crept higher, advancing approximately 10 percent in the transactions that have closed thus far in 2021. The uptick in sales price is primarily due to a higher proportion of Class A and Class B properties being sold during 2021 than last year. Cap rates continue to compress with an average of around 5 percent through the first half of the year.

Employment

- > Employment in the Hampton Roads market has expanded by 37,400 jobs during the past year, a growth of more than 5 percent. The strongest gains were recorded late last year, while conditions have been more stable to this point in 2021.
- > The trade, transportation, and utilities sector has been one of the most resilient industries in the market in recent months. More than 4,300 jobs were added in this sector during the second quarter, ending the quarter with a growth of roughly 8.9 percent year over year.
- > Several companies are still expanding in the region. French logistics and shipping company CMA CGM recently announced plans to add more than 400 jobs in Hampton Roads and Northern Virginia in the coming quarters.
- > **Forecast:** Employers are forecast to continue to add workers back to payrolls in 2021. The Hampton Roads area is forecast to add 8,000 jobs this year, an expansion of nearly 1 percent.

Employment Overview



Employment has expanded by 37,400 jobs during the past year

Vacancy

- > Vacancy in the Hampton Roads area reached its lowest point in 20 years during the second quarter. The rate retreated 40 basis points to 2.6 percent. Year to date, vacancy in the region has declined 90 basis points, fueled by healthy levels of renter demand for units.
- > Year over year, local vacancy has dropped 160 basis points. The rate has been consistently declining since the end of 2017. The local vacancy rate has been essentially cut in half during the past 18 months.
- > Vacancies are tight across all property classes. Class A vacancy levels retreated to approximately 2 percent at the end of the second quarter, down more than 250 basis points year over year. In the Class B segment, vacancy is approximately 2.5 percent.
- > **Forecast:** The local vacancy rate is forecast to end 2021 at 2.8 percent, 70 basis points lower than at the end of last year.

Vacancy Trends

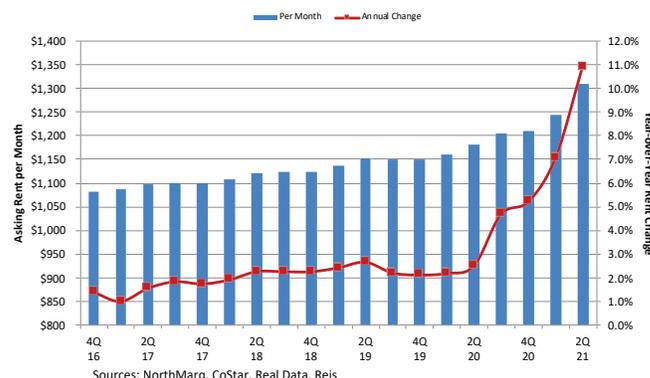


Year over year, local vacancy has dropped 160 basis points

Rents

- > Tight vacancy conditions are fueling rapid rises in area rents. Asking rents spiked during the second quarter, finishing at \$1,310 per month, up 5.3 percent from the previous quarter.
- > Year over year, local asking rents have advanced 10.9 percent in Hampton Roads, the largest annual growth on record.
- > Asking rents for Class A properties finished the second quarter at \$1,644 per month, up more than 11 percent from one year ago.
- > **Forecast:** The Hampton Roads market is expected to continue to post additional rent increases through the remainder of the year. Asking rents are forecast to end 2021 at \$1,330 per month, up 10 percent year over year.

Rent Trends

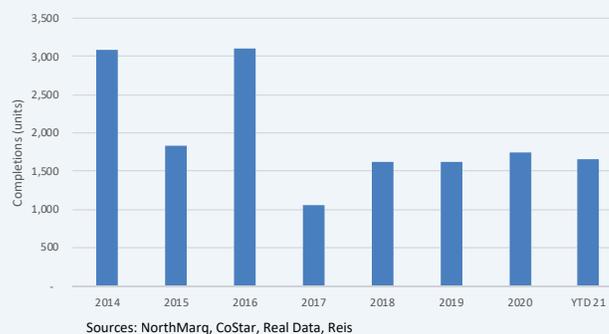


Asking rents spiked during the second quarter, finishing at \$1,310 per month

Development and Permitting

- > Multifamily developers were active in the first half of this year, delivering roughly 1,650 apartment units; more than 90 percent of the deliveries occurred during the second quarter. Deliveries in the first half of 2021 more than doubled the number of units that came online in the same period in 2020.
- > As projects came online, the construction pipeline thinned. Heading into the second half of the year, projects totaling 1,826 units were under construction. One year ago, there were more than 3,100 units under construction.
- > Multifamily permitting in Hampton Roads accelerated during the second quarter, as developers pulled permits for more than 750 units, up 130 percent from last quarter.
- > **Forecast:** The pace of new construction should slow in the second half of the year, although completions in 2021 will be elevated compared to recent years. Projects totaling approximately 2,300 units are forecast to come online in 2021, up from nearly 1,300 units in 2020.

Development Trends



Heading into the second half of the year, projects totaling 1,826 units were under construction

Multifamily Sales

- > The pace of transaction activity was consistent from the first quarter to the second quarter, with a similar number of properties changing hands in each period. Sales velocity got off to a stronger start last year, before activity slowed in the second and third quarters.
- > The median sales price through the first half of 2021 is approximately \$112,000 per unit, up nearly 10 percent from the median price last year.
- > Cap rates continue to compress, averaging 5 percent thus far in 2021, roughly 70 basis points below the average cap rate in 2020. Cap rates have been trending lower since 2014.

Investment Trends



Sources: NorthMarq, CoStar

The median sales price through the first half of 2021 is approximately \$112,000 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

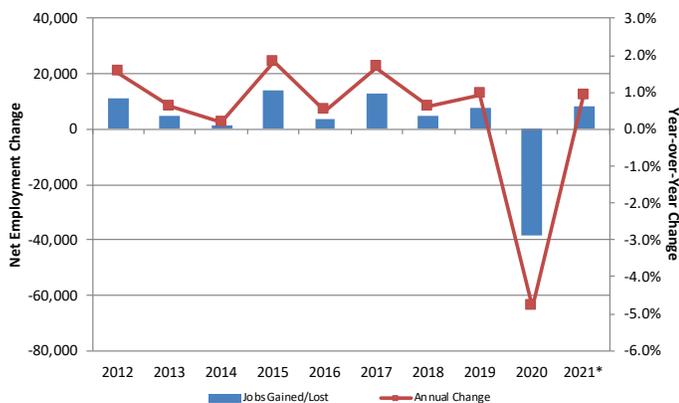
Property Name	Street Address	Units	Sales Price	Price/Unit
Spotswood Commons	100 Glenburnie Rd, Williamsburg	212	\$46,000,000	\$216,981
Hilton Village Townhomes	531 Bulkeley Pl, Newport News	160	\$15,000,000	\$93,750
Parkwood Manor	7703 Major Ave, Norfolk	100	\$8,650,000	\$86,500

Looking Ahead

The Hampton Roads multifamily market is forecast to post very strong operating conditions through the remainder of this year and into 2022. A vacancy rate that is forecast to remain below 3 percent should support continued rent increases throughout the region, and the pace of gains could accelerate as the local labor market gains traction. Despite the tight operating conditions, the development pipeline contains fewer projects than it did last year at this time, suggesting a limited competitive threat from new construction in the near term. Permitting has begun to accelerate, as developers are responding to the strong demand in the market, but deliveries are not forecast to gain momentum for another year or more.

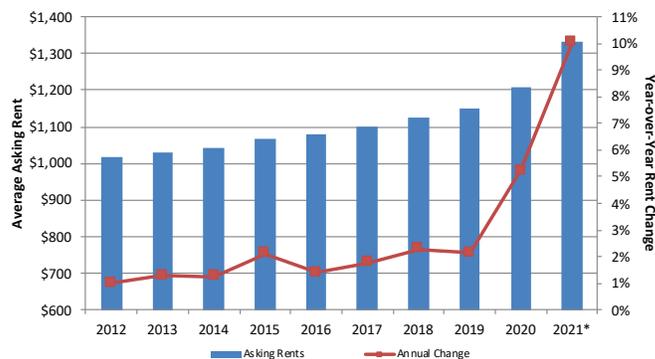
The same factors that are supporting renter demand for units will remain in place and fuel investment demand for existing properties. Prices are rising and cap rates are compressing, trends that will likely continue in the second half of the year. The extremely tight vacancy conditions should support continued rent increases, allowing for lower cap rates on in-place financials, as investors anticipate future revenue gains as leases roll over. The most likely potential drag on transaction activity could be a lack of available properties on the market. This could ease in the coming months as sales velocity often gains momentum in the fourth quarter.

Employment Forecast



* Year End Forecast

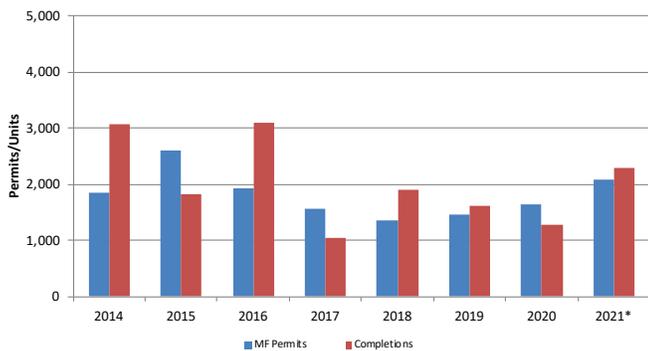
Rent Forecast



* Year End Forecast

Sources: NorthMarq, CoStar, Real Data, Reis

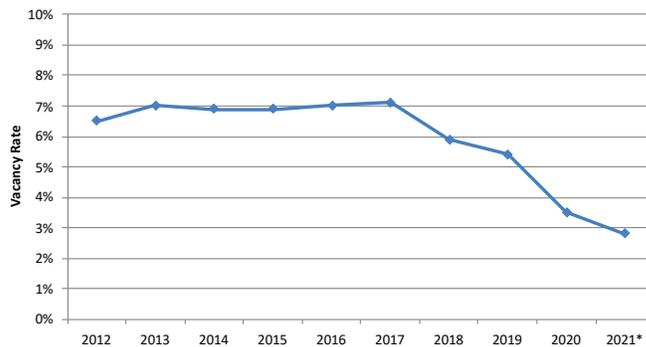
Construction & Permitting Forecast



* Year End Forecast

Sources: NorthMarq, Census Bureau, Real Data, Reis

Vacancy Forecast



* Year End Forecast

Sources: NorthMarq, CoStar, Real Data, Reis

About NorthMarq

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For more information, 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

Jared Alcorn

ANALYST—INVESTMENT SALES
540.553.2210
jalcorn@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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