

# Richmond Multifamily




## Accelerating Absorption Drives Down Vacancy Rate

### Highlights

- > Operating conditions in the Richmond multifamily market improved during the second quarter. Vacancy rates tightened considerably, with absorption outpacing new supply growth. Rents rose and investment activity accelerated.
- > Vacancy fell 60 basis points during the second quarter, with the rate dipping to 4 percent. Area vacancy is down 130 basis points year over year; the current rate is the lowest vacancy in the market in nearly 20 years.
- > Asking rents spiked 5.2 percent in the second quarter, reaching \$1,324 per month. In the past year, rents in the area have pushed up 9.9 percent.
- > Sales activity gained momentum in the second quarter, fueled by improving property fundamentals. Cap rates have compressed, averaging 4.9 percent year to date, while the median price reached approximately \$129,900 per unit.

### Richmond Multifamily Market Overview

The Richmond multifamily market strengthened during the first half of the year, with vacancies tightening and the pace of rent growth accelerating. The local labor market began a fairly quick rebound in the second half of last year, while holding steady through the second quarter of 2021. With the economy reopening, absorption has been active; net absorption during the first half of the year topped 2,300 units, compared to new deliveries totaling approximately 1,400 units.

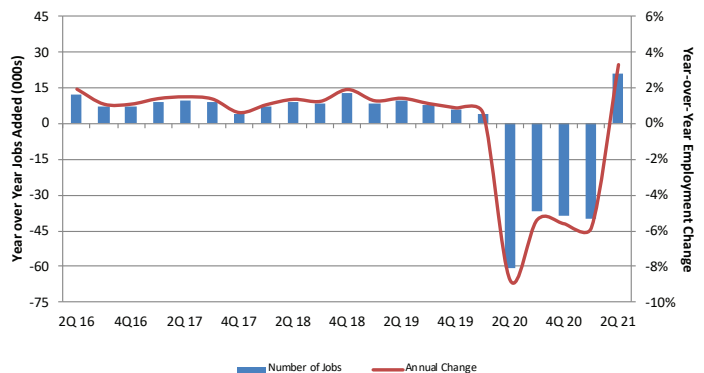
Q2 Snapshot	Richmond Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.0%</b>
	- Year Over Year Change ..... <b>-130 bps</b>
	Asking Rent ..... <b>\$1,324</b>
	- Year Over Year Change ..... <b>+9.9%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$129,900</b>
	Cap Rates (Avg YTD) ..... <b>4.9%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>7,223</b>
	Units Delivered YTD ..... <b>1,401</b>

Investment activity in Richmond gained momentum during the second quarter. The number of properties that sold during the second quarter more than doubled the number of transactions that were recorded in the first quarter. The median price was a bit lower than the median price in 2020, reflecting the mix of properties that have changed hands thus far in 2021. Last year, the uncertainty in the market concentrated sales activity at the higher end of the quality spectrum. To this point in 2021, a greater number of Class C properties have sold as the investment outlook has become more favorable.

## Employment

- > Year over year through the second quarter, employment in Richmond is up 3.3 percent with employers adding approximately 20,000 jobs. The bulk of the jobs were added back in the second half of last year, and employment to this point in 2021 has been mostly flat.
- > The education and health services sector has been one industry that has been posting gains in recent quarters. Employment in education and healthcare has expanded by 2,400 workers year to date, and growth in the sector has totaled nearly 6 percent in the past 12 months.
- > Business expansions continue in the area as the economic recovery gains momentum. CoStar, which first moved into Richmond in 2016, recently leased an additional 51,000 square feet with plans to add another 200 jobs in the coming quarters.
- > **Forecast:** After a steady first half of the year, employers are forecast to bring back more jobs in the second half of 2021. Employers are projected to add 9,000 jobs by the end of the year, an annual growth of roughly 1 percent.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Year over year through the second quarter, employment is up 3.3 percent*

## Vacancy

- > Vacancy in Richmond continues to tighten, ending the second quarter at 4 percent, down 60 basis points from the previous quarter. The current vacancy rate is the lowest figure in the area since 2002.
- > Year over year, local vacancy dropped 130 basis points. The rate has been consistently declining since the end of 2019.
- > Class A properties have posted the largest declines in vacancy thus far in 2021. The Class A vacancy rate reached just 4.2 percent in the second quarter, 180 basis points lower than at the end of last year.
- > **Forecast:** After significant improvement in the first half, local vacancy levels are forecast to inch lower in the second half of the year. The rate is expected to end 2021 at 3.9 percent, 140 basis points lower than one year earlier.

## Vacancy Trends



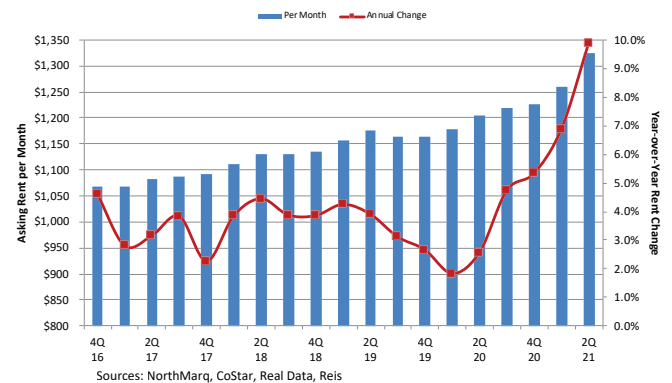
Sources: NorthMarq, CoStar, Real Data, Reis

*Year over year, local vacancy dropped 130 basis points*

## Rents

- > After recording fairly steady gains in 2020, the pace of rent growth in Richmond has been accelerating in 2021. Asking rents spiked 5.2 percent in the second quarter, building on a 2.6 percent increase during the first quarter.
- > Year over year, local asking rents have advanced 9.9 percent, reaching \$1,324 per month. The sharp improvement in the vacancy rate is supporting the accelerating pace of rent growth.
- > Asking rents in Class A properties are up more than 8 percent from one year ago, reaching \$1,569 per month at the end of the second quarter.
- > **Forecast:** This year is expected to be one of the strongest years on record for rent growth. Asking rents are forecast to spike more than 9 percent in 2021, ending the year at approximately \$1,345 per month.

## Rent Trends

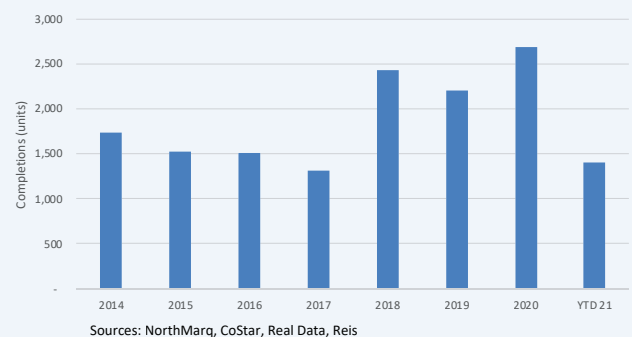


*This year is expected to be one of the strongest years on record for rent growth*

## Development and Permitting

- > Multifamily developers were active in the first half of this year, delivering around 1,400 apartment units. Activity is ahead of the pace established last year when 1,100 units were delivered during the first half of 2020.
- > Construction activity is accelerating from previous quarters, with projects totaling more than 7,200 units currently under construction throughout the Richmond area, up nearly 45 percent from one year ago.
- > Permitting has slowed to this point in 2021. During the first half, developers pulled permits for fewer than 800 multifamily units, down 40 percent from the same period one year earlier. In the second quarter, activity was minimal with permits for only 180 multifamily units issued.
- > **Forecast:** New apartment development is forecast to remain active during the rest of the year, as roughly 3,200 units are on schedule to be delivered by the end of 2021, up from 2,700 units in 2020.

## Development Trends

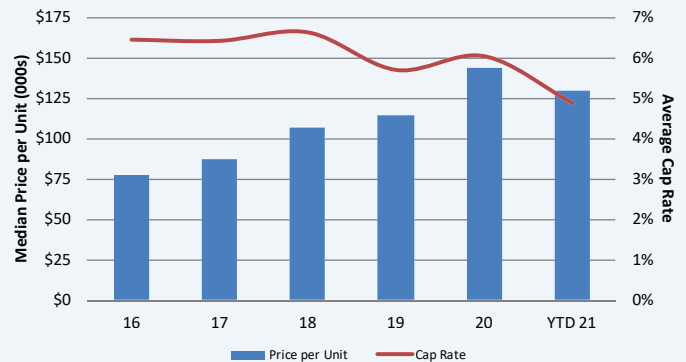


*Projects totaling more than 7,200 units are currently under construction throughout the Richmond area*

## Multifamily Sales

- > Transaction activity accelerated through the first half of 2021, doubling the number of sales from the same period last year. The number of properties that sold during the second quarter more than doubled the pace established in the first quarter.
- > The median sales price through the first half of 2021 is approximately \$129,900 per unit, about 10 percent lower than the median price in 2020. A few more Class A and Class B properties traded in 2020 than have transacted to this point in 2021.
- > Cap rates have compressed in 2021, reflecting positive investor sentiment and the expectations for future rent growth in the market. Cap rates averaged 4.9 percent in the first half of the year, about 100 basis points lower than the average cap rate in 2020.

## Investment Trends



Sources: NorthMarq, CoStar

*Cap rates averaged 4.9 percent in the first half of the year*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

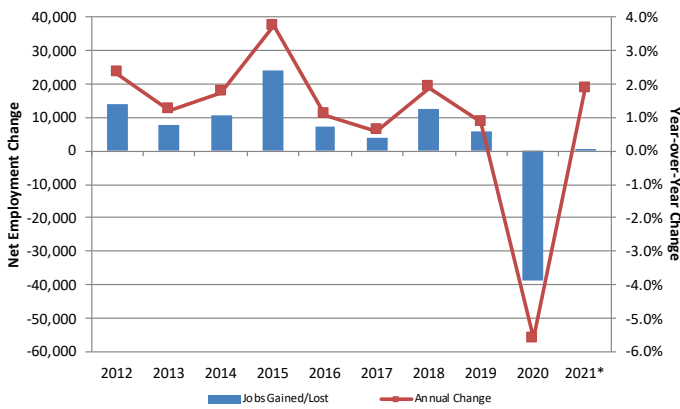
Property Name	Street Address	Units	Sales Price	Price/Unit
Maple Springs Apartments	5624 Maple Run Ln., Henrico	268	\$34,800,000	\$129,851
Grand Oaks Apartment Homes	5301 Grand Oaks Forest Cir., Chester	216	\$21,887,500	\$101,331
Place One Apartments	4222 Almora Ave., Richmond	114	\$15,750,000	\$138,158

## Looking Ahead

The rest of this year is expected to be an active period in the Richmond multifamily market. Developers are slated to deliver approximately a dozen new apartment projects totaling more than 1,500 units by year end. While the pace of construction is on pace to accelerate, renter demand for units is forecast to remain robust. Absorption outpaced supply growth in the first half of the year, and the pace of tenant move-ins is expected to closely track the number of new units that are added to the market in the second half. With supply and demand closely aligned, the market should continue to record healthy rent gains.

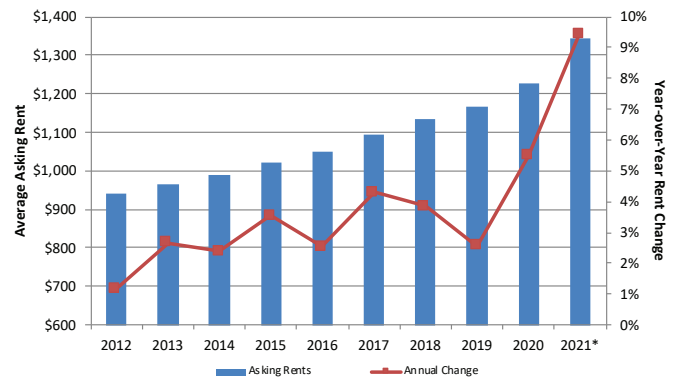
Tight vacancy conditions and strong rent gains should continue to attract investors to multifamily properties in the Richmond market at least through the remainder of this year. Area apartment properties are forecast to maintain vacancy rates that are about 250 basis points lower than the market's long-term average, which should support continued investor demand. Investors will likely keep a close eye on the pace of lease-up at new projects. The number of units scheduled to come online in 2021 is forecast to be the highest annual total in more than a decade, and a vacancy decline during such an active construction period would be an additional sign of the market's health.

### Employment Forecast



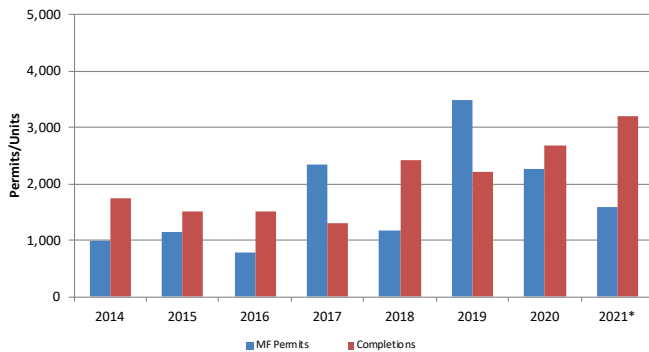
\* Year End Forecast

### Rent Forecast



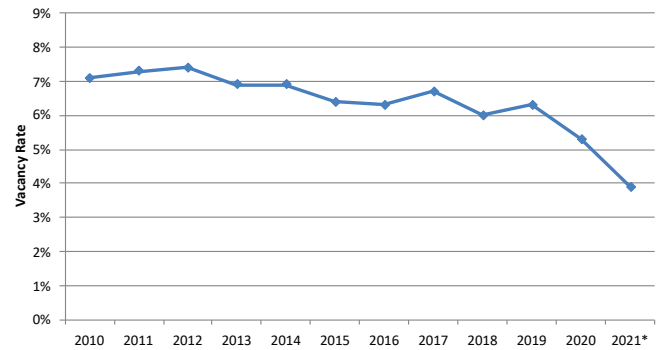
\* Year End Forecast  
Sources: NorthMarq, CoStar, Real Data, Reis

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Census Bureau, CoStar, Reis

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, CoStar, Real Data, Reis

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

### 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

Copyright © 2021 NorthMarq Multifamily, LLC.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

