

Market Insights

Hampton Roads Multifamily 4Q 2021



Construction Activity



2,149

Units under construction

1,239

Units delivered (YTD)

Market Fundamentals



2.8%

Vacancy

-70 bps

Year over year change

\$1,368

Asking Rent

+13.2%

Year over year change

Transaction Activity



\$136,000

Median sales price per unit (YTD)

Low Vacancy, Accelerating Job Gains Likely in 2022

Highlights

- The Hampton Roads multifamily market posted gains throughout 2021 with consistent rent growth in every quarter. Vacancy levels remained tight in the region as absorption outpaced the deliveries of new units for the year.
- Despite vacancy inching higher during the fourth quarter, the rate has dropped 70 basis points year over year, ending 2021 at just 2.8 percent. The rate has been steadily trending lower over the past four years.
- Asking rents jumped during 2021, though the pace of growth tapered off during the fourth quarter. Asking rents rose more than 13 percent during the past year, ending 2021 at \$1,368 per month.
- Investor demand remained elevated in 2021, leading to continued momentum during the second half of 2021. The median sales price reached \$136,000 per unit through the end of 2021 while cap rates averaged approximately 4.5 percent.

Hampton Roads Multifamily Market Overview

The Hampton Roads multifamily market improved in 2021, with the strongest gains recorded in the middle part of the year and some leveling off in the fourth quarter. The tight vacancy rate in the region highlights the strength of the market. Despite a slight uptick in the fourth quarter, the vacancy rate in Hampton Roads ended 2021 below 3 percent, one of the lowest levels in the nation. These consistently tight conditions allowed operators to increase rents throughout 2021. Absorption in 2021 outpaced the deliveries of new units by approximately 75 percent. Permitting activity surged during the past year to its highest level since 2015, as developers rush to meet the heightened demand.

Multifamily sales activity accelerated in the second half of 2021, outpacing transactions from the same period last year by nearly 60 percent. As the sales volume expanded, the median sales price through the end of 2021 advanced more than 30 percent from 2020. Sales prices ticked higher in the region in recent quarters in response to the market's strong rent growth, as well as an increased number of Class A and Class B properties being sold. As the investment sales market gained momentum during 2021, cap rates continued to compress. Cap rates in the fourth quarter averaged 4.5 percent with a number of properties selling at or below 4 percent.

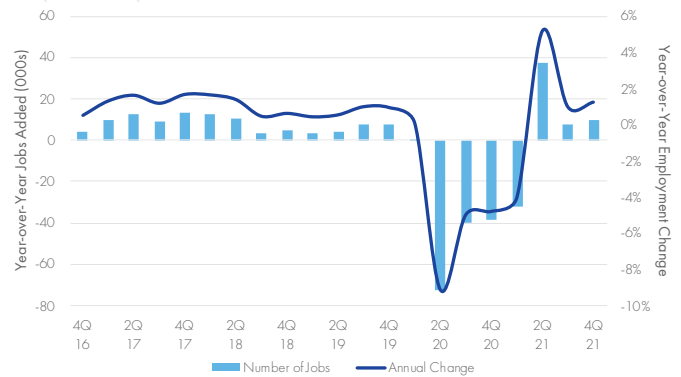
Employment

- The employment market in Hampton Roads expanded by 1.2 percent in 2021, with 9,400 jobs added. Annual job growth has been uneven in recent years, but gains have generally averaged about 7,500 net new jobs per year. As the local economy rebounds, the pace of growth should accelerate.
- The trade, transportation, and utilities sector outperformed most other industries in the market during 2021. Year over year, this sector has added about 6,700 jobs in Hampton Roads, a growth rate of 5.1 percent. Approximately 4,000 of these jobs were in the warehousing and distribution industries.
- Aerospace company Aery Aviation has plans to expand its operations in Newport News. The company will invest \$15.3 million into a new 60,000-square-foot hangar facility with access to the Newport News/Williamsburg International Airport runway. The addition will create more than 200 jobs with salaries averaging \$85,000 per year.
- **Forecast:** Local employers are expected to add workers at a faster pace in 2022. The Hampton Roads area is forecast to add approximately 15,500 jobs in the next 12 months, an annual growth of nearly 2 percent.



The employment market expanded by 1.2 percent in 2021.

Employment Overview

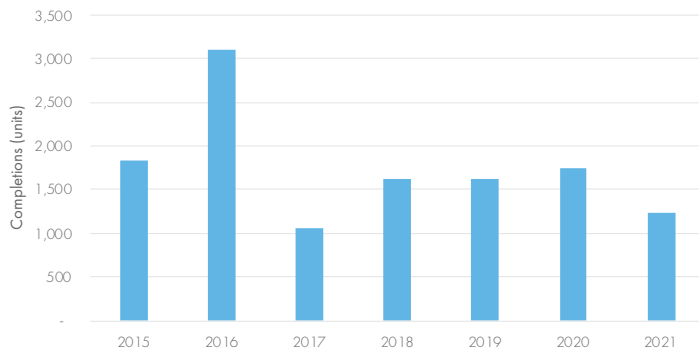


Sources: Northmarq, Bureau of Labor Statistics



Projects totaling nearly 2,150 units are currently under construction.

Development Trends



Sources: Northmarq, CoStar, Real Data, Reis

Development and Permitting

- Following a peak in construction activity during the second quarter, the pace of deliveries slowed in the second half of 2021. Approximately 1,240 units came online in 2021, the lightest level of annual deliveries since 2017.
- While deliveries cooled a bit, new apartment construction activity increased in 2021. Projects totaling nearly 2,150 units are currently under construction in Hampton Roads, up more than 15 percent from levels one year ago.
- With operating conditions tight, developers are bringing more projects into the pipeline. Multifamily permitting accelerated during 2021, as developers pulled permits for roughly 2,500 units in the last 12 months. Permitting activity in 2021 was up more than 50 percent from 2020 levels.
- **Forecast:** Apartment construction will continue to accelerate in the year ahead. Projects totaling approximately 1,400 units are scheduled to come online in 2022.

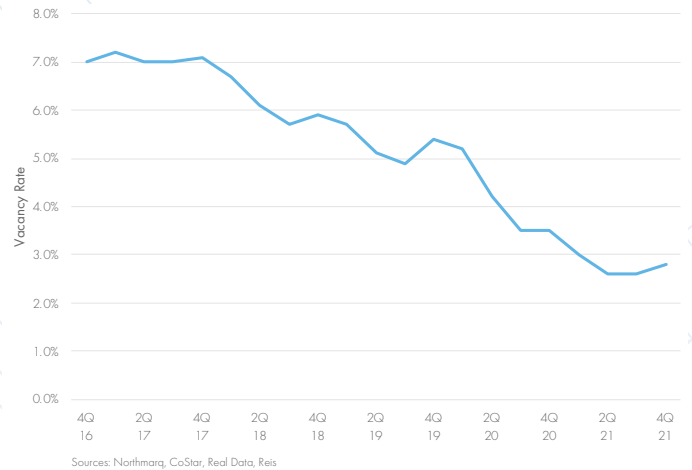
Vacancy

- After dipping for seven consecutive quarters, vacancy in Hampton Roads ticked higher at the end of 2021, rising 20 basis points to 2.8 percent in the fourth quarter.
- Despite the recent uptick, vacancy in the region dropped 70 basis points in 2021, after tightening by 190 basis points in 2020. Vacancy in Hampton Roads has declined in each of the past four years.
- Vacancy rates remain low across all property classes with Class A units reporting the largest annual declines. Year over year, vacancy in Class A properties dropped 130 basis points, ending the year at 2.3 percent.
- **Forecast:** An accelerating pace of employment growth will support renter demand and result in a modest vacancy decline. The rate is expected to finish 2022 at 2.7 percent, down 10 basis points from the end of 2021.



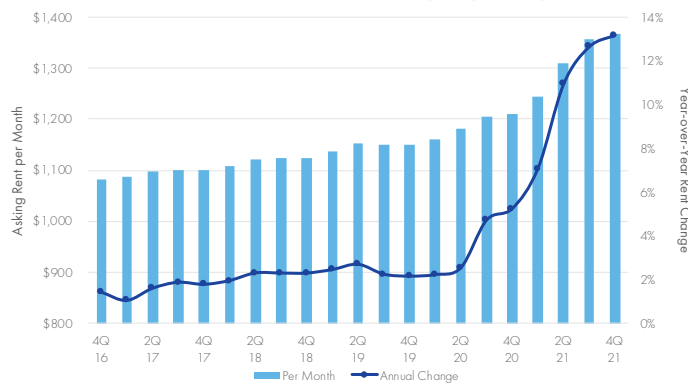
Year over year, local vacancy has dropped 70 basis points.

Vacancy Trends



Local asking rents spiked 13.2 percent during the past year.

Rent Trends



Rents

- As vacancy rates remained low, rents edged higher at the end of the year. After steep increases in the middle part of the year, asking rents in Hampton Roads rose approximately 1 percent during the fourth quarter, reaching \$1,368 per month.
- Local asking rents spiked 13.2 percent in Hampton Roads during the past year, the market's largest annual growth on record.
- Asking rents for Class A units advanced 11.5 percent in the past year, ending the fourth quarter at nearly \$1,700 per month. Current asking rents in the Class A segment average \$1.73 per square foot, per month.
- **Forecast:** The Hampton Roads market is expected to continue to post rent increases in the coming year, although the pace of growth will be more modest than in 2021. Asking rents are forecast to end 2022 at \$1,435 per month, an annual increase of nearly 5 percent.

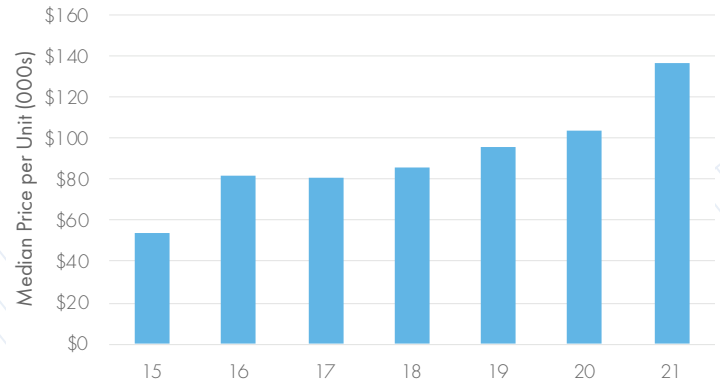
Multifamily Sales

- The pace of transaction activity slowed slightly in recent months, as sales volume declined 10 percent from the third quarter to the fourth quarter. Despite a minimal drop in sales activity in the final months of the year, the number of transactions in the second half of 2021 has advanced nearly 60 percent from the same period one year ago.
- While the bulk of the projects that sold during 2020 included older, Class C properties, transaction activity picked up in Class B projects in recent quarters, pushing prices higher. The median sales price in the past year was approximately \$136,000 per unit, up 31 percent from the median price in 2020.
- Cap rates during the fourth quarter averaged approximately 4.5 percent with a handful of properties selling at or below 4 percent.



The median sales price through the end of 2021 is approximately \$136,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

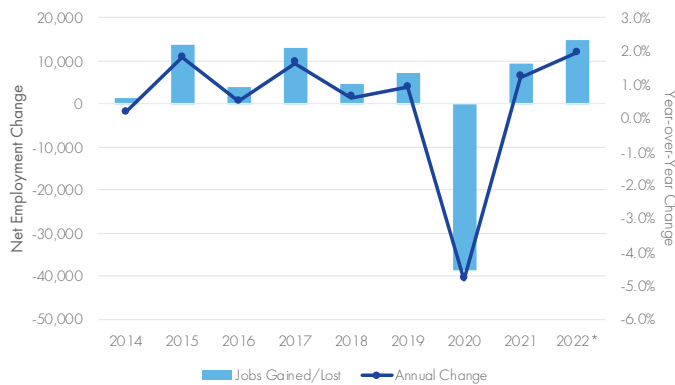
Property Name	Street Address	Units	Sales Price	Price/Unit
Coastline Apartments	631 Lake Edward Dr., Virginia Beach	600	\$98,500,000	\$164,167
Crown Point Townhomes	5371 Wyngate Dr., Norfolk	480	\$77,000,000	\$160,417
Wendwood Square Apartments I & II	100 Radcliff Ln., Newport News	292	\$30,250,000	\$103,596

Looking Ahead

The Hampton Roads multifamily market is expected to record ongoing strength and stability in the year ahead. The labor market is forecast to improve in 2022, building on an accelerated pace of hiring that emerged in the fourth quarter. This job growth should provide a boost to renter demand. This demand for units will come at a time when the local vacancy rate is already among the lowest in the country, after being trimmed in half during the past few years. Developers are increasing permitting and construction activity in efforts to keep pace with demand, but the vacancy rate is forecast to inch lower in 2022, and the consistently tight conditions will allow for continued rent growth.

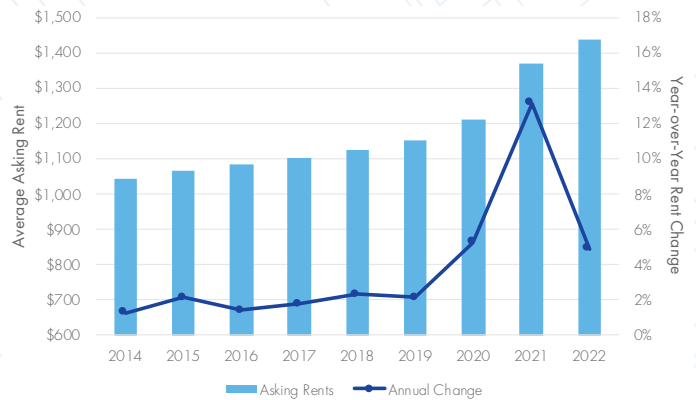
The strong operating conditions and improving local economy will likely continue to support investor demand for area multifamily properties in the coming quarters. Investment activity started to gain momentum a few years ago and has remained fairly consistent since 2017. Investors are expected to respond favorably as the local economy adds back workers at an accelerating pace. To this point in the recovery, job growth has been modest, but there have been a handful of companies announcing plans to expand operations, which should amplify the gains associated with economic reopening. Cap rates have compressed in the region in 2022 and should remain tight as competition intensifies and rents continue to push higher.

Employment Forecast



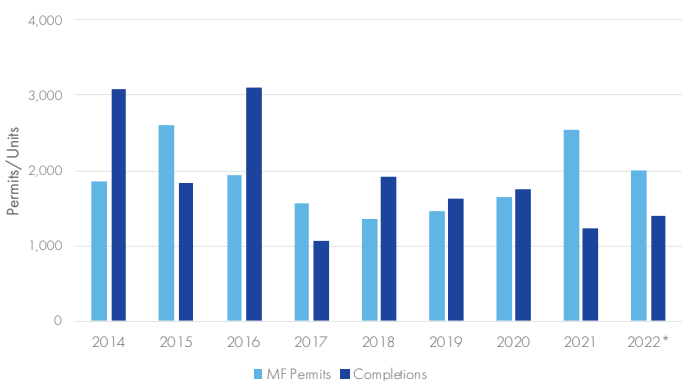
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



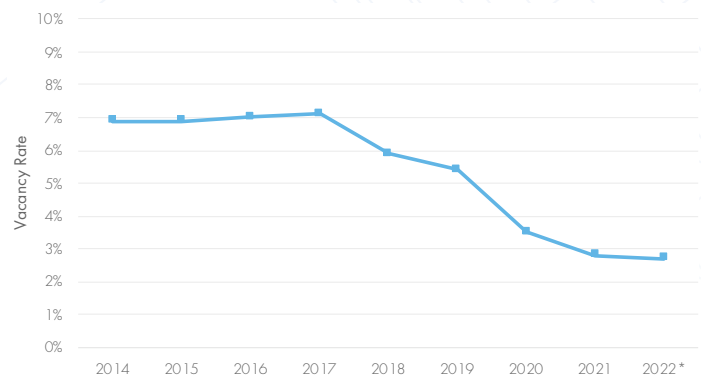
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Real Data, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis



For more information,
please 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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