Market Insights

Richmond Multifamily 4Q 2021

Northmarq

Construction Activity

6,596
Units under construction

2,742
Units delivered (YTD)

Market Fundamentals

3.6%
Vacancy

-170bps | Year over year change

$1,378
Asking Rent

+12.3% | Year over year change

Transaction Activity

$160,800
Median sales price per unit (YTD)

Four Straight Quarters of Tightening Vacancy in 2021

Highlights

- Apartment operating conditions in Richmond posted strong gains during the final quarter of 2021, with vacancy tightening and rents pushing higher. Developers struggled to meet demand during 2021, as absorption levels outpaced new supply growth. Deliveries and absorption will likely closely track one another in 2022, and vacancy is expected to tighten modestly.
- The multifamily vacancy rate in Richmond dropped in all four quarters of 2021. During the final three months of the year, the rate fell 30 basis points to 3.6 percent. For the full year, vacancy tightened by 170 basis points.
- An improving vacancy rate and accelerating renter demand for units sparked rent growth. In 2021, asking rents spiked 12.3 percent, ending the year at $1,378 per month.
- Sales activity increased significantly during the fourth quarter of 2021, outpacing levels recorded in the first nine months of the year. Cap rates during the fourth quarter averaged 4.4 percent while the median price reached $160,800 per unit.

Richmond Multifamily Market Overview

The multifamily market thrived in Richmond late in 2021, as the local economy recorded its strongest quarter of job growth of the year. Apartment property fundamentals had been performing well throughout the year, and the economic jolt that was received as the pace of hiring growth picked up amplified the performance in the rental market. Asking rents reached record highs while the vacancy rate dropped to its lowest level in the last 20 years. Absorption levels outpaced apartment deliveries by more than 50 percent during the year. Additional employment gains are likely in the coming quarters, which should continue to support renter demand in the region.

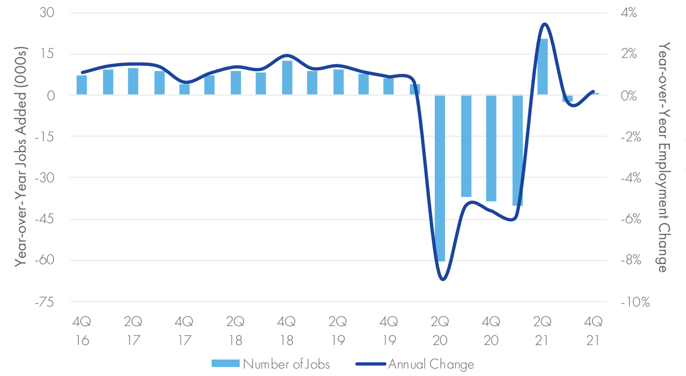
Investment activity in Richmond accelerated during the fourth quarter, as the number of transactions in the final months of the year outpaced levels recorded during the first nine months of 2021. The median sales price trended higher during 2021, which is likely to continue into the new year. The majority of sales in the fourth quarter consisted of Class A and Class B properties, which helped push prices higher. Cap rates in the region have compressed to the low- to mid-4 percent range, and the increased competition for acquisitions, coupled with improving property fundamentals, will likely keep yields low in the coming quarters.

Employment

- The employment market posted gains and gathered momentum in the final few months of 2021, with the addition of more than 4,000 jobs during the fourth quarter. After a slow start, total employment expanded less than 1 percent for the full year, with a gain of more than 1,000 positions.
- The trade, transportation, and utilities sector outperformed most other industries during the fourth quarter. Employment in this sector expanded by more than 5,100 workers in the last three months, a growth rate of 4.1 percent.
- Online used car retailer Carvana has plans to open a 191,000-square-foot facility in Chesterfield County. The new facility, which is scheduled to be completed in the spring of 2022, is expected to bring more than 400 jobs to the Richmond area.
- **Forecast:** Employers are forecast to continue to bring back jobs in 2022. The employment market in Richmond is expected to expand by about 13,000 jobs in the year ahead, an annual growth of 2 percent.

> The employment market is expected to expand by 13,000 jobs.

Employment Overview



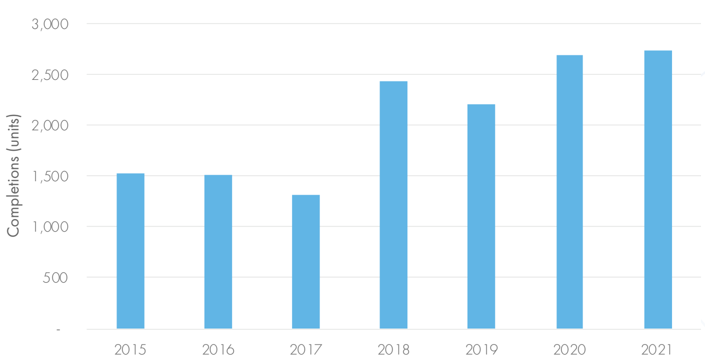
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Projects totaling nearly 6,600 units are currently under construction.

- The pace of quarterly deliveries was steady throughout much of 2021. During the fourth quarter, projects totaling approximately 580 units came online, bringing the total for the full year to more than 2,700 units.
- Multifamily construction activity accelerated during the past year, with projects totaling nearly 6,600 units under construction at the end of 2021 in the Richmond area. The current number of units that are under construction is up 50 percent from one year ago.
- Permitting activity accelerated in the fourth quarter, as developers pulled permits for more than 1,300 multifamily units in the final months of the year. Permits for 3,100 multifamily units were pulled in 2021, up 35 percent from 2020.
- **Forecast:** Apartment developers in Richmond will remain active in the coming quarters. Projects totaling nearly 3,200 units are forecast to be delivered by the end of 2022, up 15 percent from 2021 levels.

Development Trends



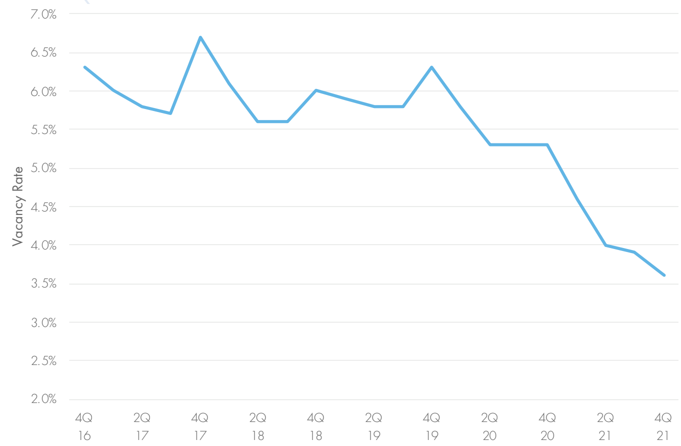
Sources: Northmarq, CoStar, Real Data, Reis

Vacancy

- As the local labor market gained momentum during the fourth quarter, vacancy in Richmond tightened. The rate dipped 30 basis points during the final quarter to 3.6 percent. Vacancy declined in each of the four quarters in 2021.
- Year over year, local vacancy compressed 170 basis points. The vacancy rate has improved in each of the past two years, declining 270 basis points in that time.
- Vacancy rates have compressed in all property classes during the past year with Class B and Class C properties posting the largest declines. In 2021, vacancy in Class B units dropped 170 basis points, ending the fourth quarter at 4.1 percent. Vacancy in Class C properties declined 220 basis points, ending the year at just 2.9 percent.
- **Forecast:** After recording a steep decline in vacancy in 2021, the rate is forecast to continue to tighten during 2022. Vacancy is expected to end 2022 at 3.3 percent, a decline of 30 basis points.

> Vacancy declined in each of the four quarters in 2021.

Vacancy Trends



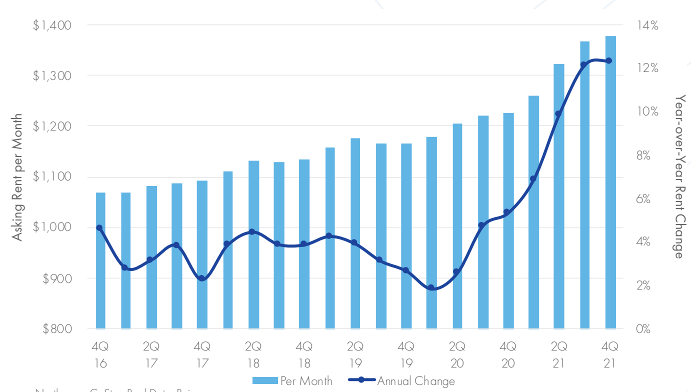
Sources: Northmarq, CoStar, Real Data, Reis

Rents

- Rents in Richmond have increased for the past several quarters, with the strongest gains recorded in the middle part of 2021. During the fourth quarter, rents rose at a pace that was closer to the market's long-term average. Asking rents inched up nearly 1 percent to $1,378 per month in the final three months of the year.
- In 2021, asking rents rose 12.3 percent, building on a 5.3 percent gain in the prior year. This marks the largest annual rent growth in the past decade. Asking rents rose more than $150 per month in 2021.
- Asking rents in Class A properties rose 11.2 percent in 2021, closing the year at $1,633 per month, and $1.85 per square foot, per month.
- **Forecast:** Asking rents are expected to continue to trend higher in the coming quarters. Rents are forecast to end 2022 at around $1,445 per month, nearly 5 percent higher than the end of 2021.

> In 2021, asking rents rose 12.3 percent.

Rent Trends



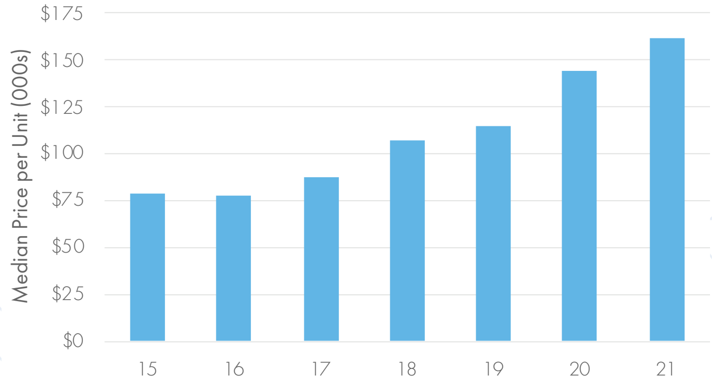
Sources: Northmarq, CoStar, Real Data, Reis

Multifamily Sales

- After only a handful of properties changed hands during the third quarter, sales volume increased significantly at the end of 2021. More properties sold in the fourth quarter than had transacted in the first nine months of the year. Sales activity in 2021 doubled levels from 2020, and total dollar volumes nearly tripled.
- The median sales price through the end of 2021 is approximately $160,800 per unit, up about 12 percent from the median price in 2020. Half of all transactions this year consisted of Class A properties, with a handful of properties selling in Western Henrico County.
- Cap rates during the fourth quarter averaged approximately 4.4 percent. A few properties transacted with cap rates at or below 4 percent.

> Sales activity in 2021 doubled levels from 2020.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

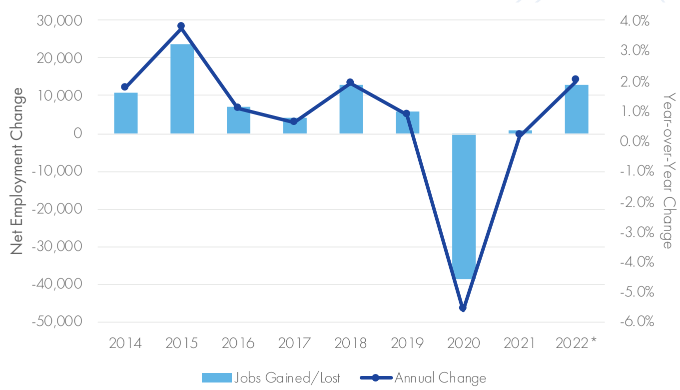
Property Name	Street Address	Units	Sales Price	Price/Unit
Crystal Lakes	3501 Meadowdale Blvd., Richmond	716	$106,000,000	$148,045
Avana Copper Spring	3301 Coppermill Trace, Henrico	366	$85,750,000	$234,290
The Boulders Lakeside	1006 Boulder Lake Ter., North Chesterfield	248	$71,500,000	$288,306
The Point at Beaufont	6839 Carnation St., Richmond	312	$44,000,000	$141,026
The Gallery Midtown	308 N Nansemond St., Richmond	157	$27,250,000	$173,567

Looking Ahead

The local labor market is forecast to continue to rebound in the year ahead, building on momentum that was created as 2021 came to a close. The strengthening employment outlook should allow for the multifamily market to post healthy growth in 2022. Gains in the labor market should fuel renter demand, leading to a modest decline in the area vacancy rate even as developers step up the pace of deliveries. These conditions should support ongoing rent gains, although the pace of future increases will come closer to levels recorded toward the end of 2021, rather than the steep increases that were posted when conditions were at their most robust in the middle part of the year.

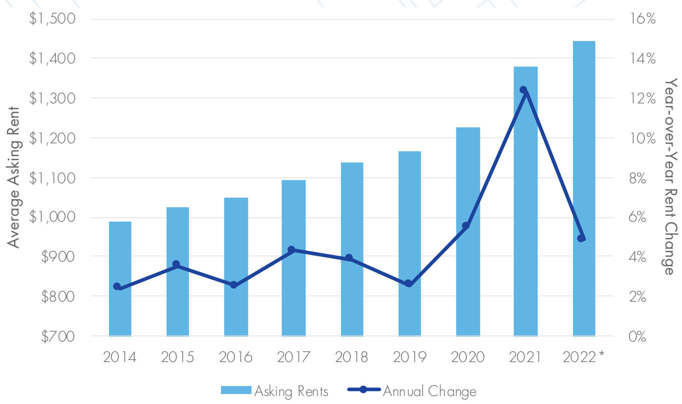
The Richmond multifamily investment market posted strong gains during the final quarter of 2021, brightening the outlook for the year ahead. The significant increase in transaction volume in recent months signals the positive market sentiment that is expected to continue into 2022. Price growth in 2021 was in line with increases in rents, and with forecasts calling for additional rent appreciation, per-unit prices will likely continue on an upward trajectory. Cap rates have trended lower but will likely not tick higher even if interest rates rise as expected. The market's strong property fundamentals are causing transactions to be underwritten with the expectation for future revenue growth in the next several periods.

Employment Forecast



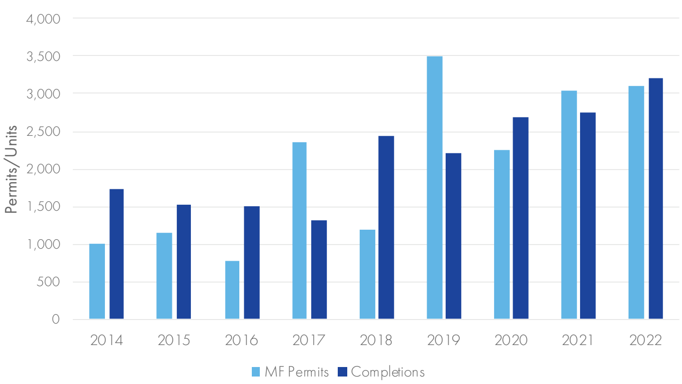
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



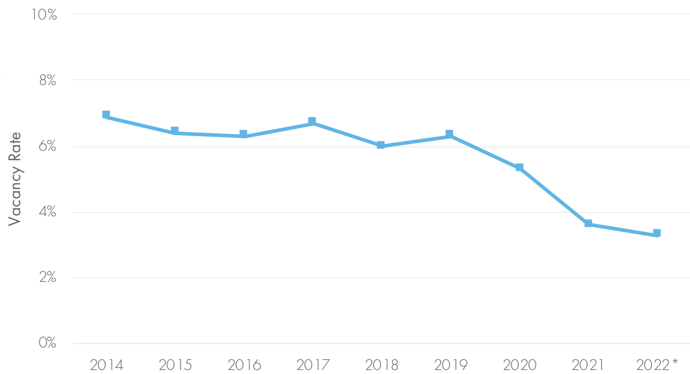
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



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

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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching $70 billion, and $30+ billion in transaction volume.