

Market Insights

Hampton Roads Multifamily 1Q 2022



Construction Activity



3,735

Units under construction

401

Units delivered (YTD)

Market Fundamentals



3.4%

Vacancy

+40bps

Year over
year change

\$1,396

Asking Rent

+11.4%

Year over
year change

Transaction Activity



\$144,800

Median sales price
per unit (YTD)

Investment Activity Begins 2022 Ahead of Traditional Pace

Highlights

- Vacancy in the Hampton Roads multifamily market rose during the first quarter, after several years of the rate trending lower as new construction lagged demand levels. Supply and demand are expected to be more closely aligned in 2022.
- Asking rents rose 2.4 percent in the first quarter, reaching \$1,396 per month. Year over year, average rents have advanced 11.4 percent, supporting new development.
- Multifamily investment activity cooled during the first quarter but is showing signs of gaining momentum. The median sales price to this point in 2022 is approximately \$144,800 per unit, up 6 percent from the median price in 2021. Cap rates in the first quarter averaged 4.5 percent.

Hampton Roads Multifamily Market Overview

After an extended period where the multifamily vacancy rate in Hampton Roads was cut in half, vacancy has crept higher in each of the past two quarters. The rate remains low and is about 170 basis points tighter than the market's long-term average, allowing for continued rent growth. Net absorption slowed at the start of 2022 but is expected to rebound as the local labor market continues to recover. Development of new apartment communities is beginning to accelerate after declining in both 2020 and 2021. This rise in new construction will bring the market's supply and demand conditions closer to equilibrium.

The pace of multifamily sales spiked in the second half of last year, and while transaction levels at the start of 2022 did not match the recent peaks, more properties sold during the first quarter of this year than in any first quarter in more than a decade. It is common for transaction activity to cool in the first quarter, and preliminary indications suggest sales velocity has been sustained throughout much of the second quarter. The momentum in the market has supported price levels; the median sales price recorded to this point in 2022 is up about 40 percent from the 2020 median price.

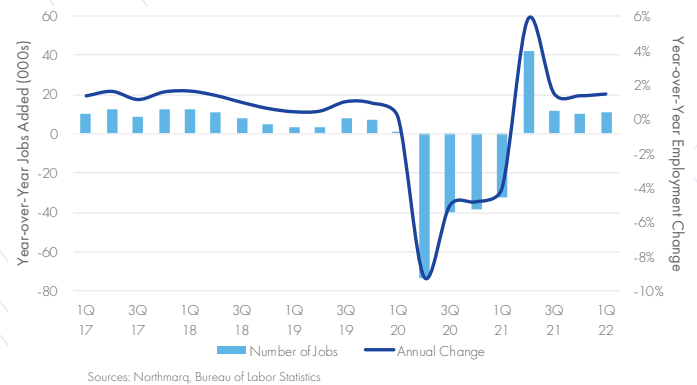
Employment

- The Hampton Roads labor market continued to post a steady rate of growth at the start of the year with the addition of 2,700 workers in the first quarter. Area employers added 11,200 jobs in the last year, a growth rate of nearly 1.5 percent.
- The professional and business services sector outperformed most other industries in recent quarters. Year over year, this sector added 2,000 positions and expanded by nearly 1.8 percent.
- Industrial equipment supplier, Plasser American Corp., recently announced plans to expand its presence in Chesapeake. The company will be investing \$52 million into the region to build a 45,000-square-foot office building and an 82,000-square-foot manufacturing site. The expansion project will bring nearly 100 jobs to the region in the coming quarters.
- Forecast:** Area employers are expected to continue to add back jobs in the coming quarters. Total employment in Hampton Roads is forecast to expand by approximately 12,500 positions in 2022, an annual growth of roughly 1.6 percent.



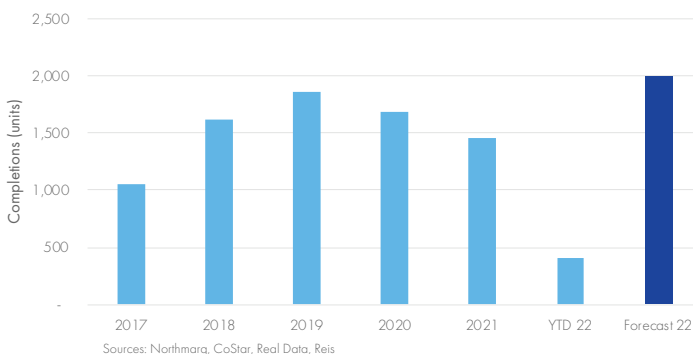
Area employers added
11,200 jobs in the last year.

Employment Overview



Projects totaling 3,735 units are
currently under construction.

Development Trends



Development and Permitting

- Multifamily construction activity accelerated in recent months with more than 400 units delivered in the first quarter; fewer than 100 units were completed in the same period last year.
- Developers should remain active in the coming quarters with projects totaling 3,735 units currently under construction in Hampton Roads, up 36 percent from one year ago.
- Multifamily permitting surged to nearly 700 permits pulled during the first quarter of 2022, up nearly 40 percent when compared to the same period last year. Permitting levels spiked in 2021 as developers pulled permits for more than 2,550 units, the highest annual total since 2015.
- Forecast:** Apartment deliveries in the Hampton Roads area should remain elevated through the end of the year. Projects totaling approximately 2,000 units are forecast to come online in 2022, the highest annual total since 2016.

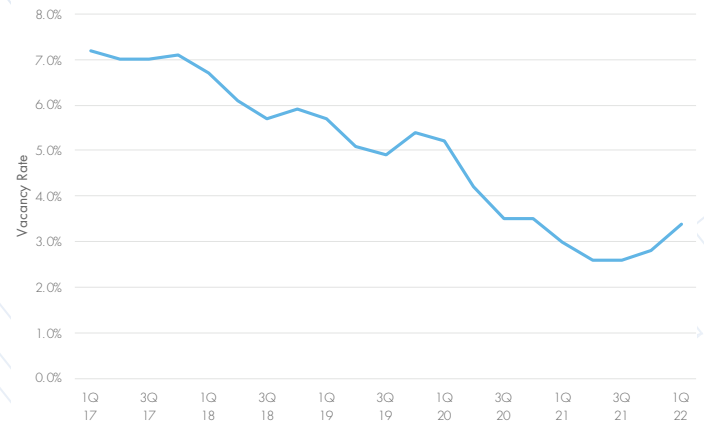
Vacancy

- After the vacancy rate in Hampton Roads was trimmed in half from late-2019 to mid-2021, the rate has ticked higher in each of the past two quarters. During the first quarter, the rate rose 60 basis points, reaching 3.4 percent.
- Year over year, the vacancy rate has increased by 40 basis points. Despite the recent uptick, vacancy in Hampton Roads is still well below its long-term trend, averaging 5.1 percent from 2017 through 2021.
- The tightest vacancy conditions are being recorded in Class A properties, a trend that is facilitating an accelerating pace of development. The current vacancy rate in Class A units is 3.3 percent.
- **Forecast:** Absorption levels are forecast to closely track new supply in the coming quarters, allowing for the vacancy rate to stabilize. The vacancy rate is expected to dip slightly in the remainder of the year, ending 2022 at 3.3 percent.



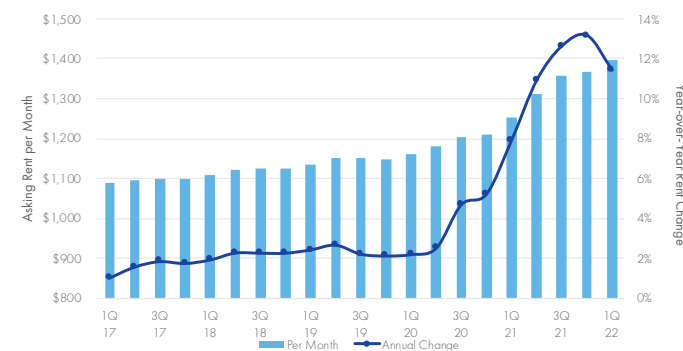
During the first quarter, the vacancy rate reached 3.4 percent.

Vacancy Trends



Average rents rose to \$1,396 per month in the first quarter.

Rent Trends



Rents

- Despite vacancy inching higher in recent months, asking rents continued to climb. Average rents in Hampton Roads rose 2 percent in the first quarter to \$1,396 per month.
- Year over year, local apartment rents jumped 11.4 percent. Current asking rents average \$1.47 per square foot, per month. As recently as the beginning of 2020, asking rents were below \$1.25 per square foot, per month.
- Rents have been trending higher across the market with the largest gains recorded in Class C properties. Asking rents in Class C units rose 12.3 percent in the past year, finishing the first quarter at \$1,150 per month.
- **Forecast:** The Hampton Roads market is forecast for healthy rent growth in the remainder of the year. Apartment rents are expected to rise nearly 8 percent in 2022, ending the year at \$1,475 per month.

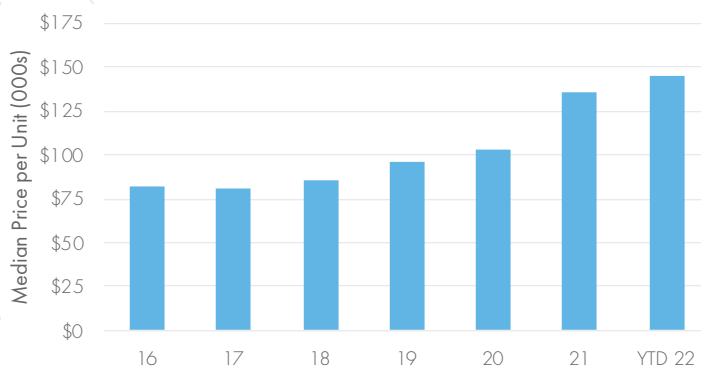
Multifamily Sales

- Sales velocity in Hampton Roads got off to its strongest start to a year in more than a decade in 2022. The number of properties that sold in the first quarter was up 50 percent from average levels recorded during the same period of the past five years. Transaction activity reached peak levels during the fourth quarter of last year.
- The median sales price in the first quarter reached \$144,800 per unit, up 6 percent from the median price in 2021. The average transaction size was approximately \$40 million, with a mix of transactions occurring across all classes of properties. Class A properties generally transacted above \$300,000 per unit, while Class B units were priced closer to \$185,000 per unit.
- Cap rates in the first few months of the year averaged around 4.5 percent, similar to levels in the previous quarter.



The median sales price in the first quarter reached \$144,800 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

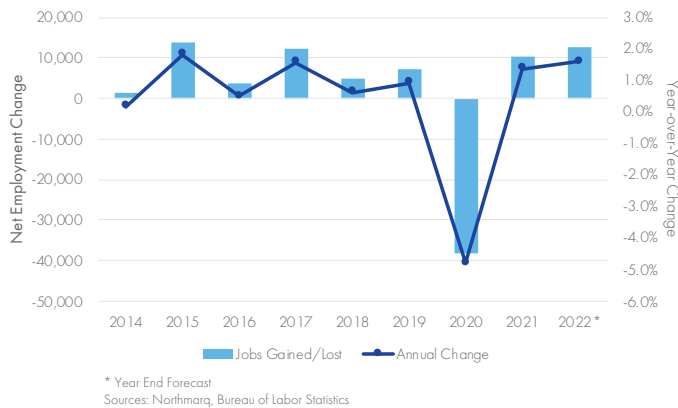
Property Name	Street Address	Units	Sales Price	Price/Unit
Coastline Apartments	631 Lake Edward Dr., Virginia Beach	600	\$98,500,000	\$164,167
Cottage Grove	614 Peninsula Dr., Newport News	553	\$51,000,000	\$92,224
Doria Apartments & Townhomes	5516 Seawall Ct., Virginia Beach	160	\$33,500,000	\$209,375
Marina Point Apartments	1301 Canal Dr., Chesapeake	104	\$14,150,000	\$136,058

Looking Ahead

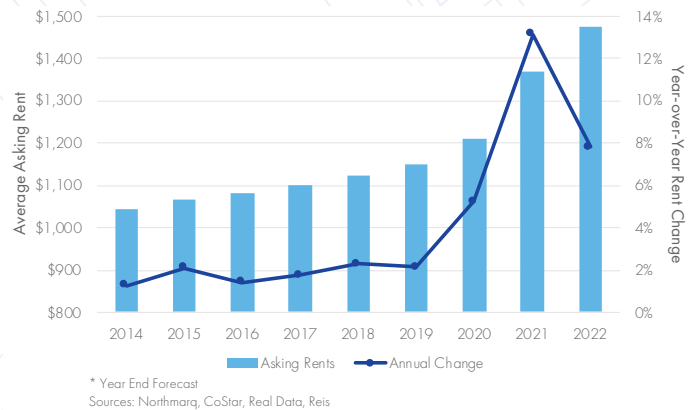
Activity in the Hampton Roads multifamily market is expected to accelerate throughout the remainder of the year. During the past several years, the pace of new development has slowed, creating an undersupply of rental housing. After developers delivered more than 3,000 apartment units in 2016, the annual average has been roughly half of that total in the subsequent years. In 2022, projects totaling approximately 2,000 units are forecast to come online. The new supply entering the market will be met by a recovering local economy, bringing absorption levels in line with completions. Local employers hired back workers at a healthy rate during the first quarter, setting the stage for a rebounding economy in 2022. Improving property fundamentals in the market will continue to push rent prices higher in the region.

The investment outlook for Hampton Roads multifamily properties is expected to remain favorable as the year progresses. The investment market gained significant momentum in the second half of last year, and transaction activity to this point in 2022 is ahead of the pace recorded at the starts of recent years. Investors should gain confidence in the market as operating conditions strengthen and asking rents continue to climb. Transaction volume is expected to accelerate in the next 12 to 24 months, particularly as new projects are delivered and successfully leased-up and stabilized. While interest rates have begun to push higher, preliminary indications show cap rates have generally remained near ranges from recent quarters, and prices continue to advance.

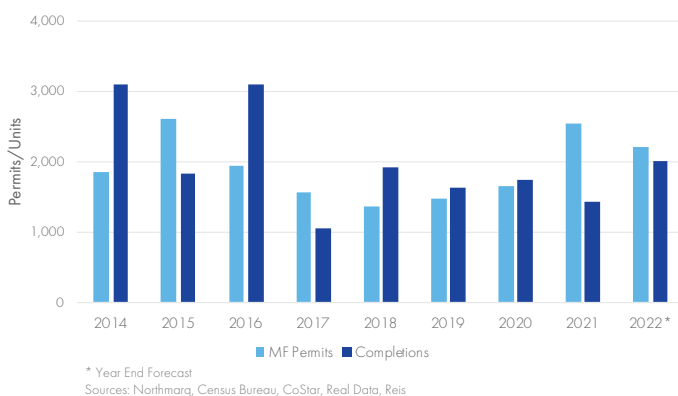
Employment Forecast



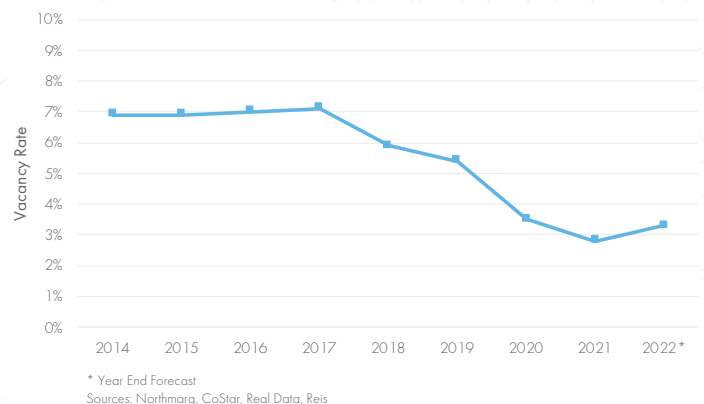
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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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.