

Market Insights

Richmond Multifamily 3Q 2022



Construction Activity



6,644

Units under construction

1,588

Units delivered (YTD)

Market Fundamentals



5.8%

Vacancy

+190bps

Year over year change

\$1,479

Asking Rent

+8.1%

Year over year change

Transaction Activity



\$178,900

Median sales price per unit (YTD)

Sales Activity Concentrated in Newer, Larger Properties

Highlights

- The Richmond multifamily market recorded a mixed performance during the third quarter, as asking rents inched higher and vacancy rose. Apartment developers remain active across the region with projects totaling more than 6,600 units currently under construction.
- The vacancy rate increased during the third quarter, jumping 90 basis points to 5.8 percent. Year over year, vacancy is up 190 basis points after reaching cyclical lows in late 2021 and earlier this year.
- Average asking rents made modest gains during the third quarter, advancing less than 1 percent to \$1,479 per month. During the past 12 months, local apartment rents rose 8.1 percent.
- Sales activity accelerated during the third quarter, and the number of transactions to this point in the year is elevated. The median sales price climbed to \$178,900 per unit, ahead of last year's figure. Cap rates have been fairly stable thus far in 2022, averaging 4.25 percent.

Richmond Multifamily Market Overview

After a fairly strong first half of the year, the Richmond multifamily market slowed in recent months as rent growth began to level off, and the vacancy rate increased. Renter demand cooled in the third quarter, following strong absorption levels during the past several periods. Recent absorption totals have returned closer to the market's long-term trend after spiking in 2020 and again in 2021. Although vacancies have trended higher in recent months, the rate is still below its historical average. The outlook calls for continued multifamily development activity, with the number of units under construction up from one year ago, and multifamily permitting accelerating in recent months.

The local multifamily investment market posted a healthy performance during the third quarter as sales volume rose, and cap rates remained compressed. Activity year to date has been concentrated in several large sales, with a significant number of transactions occurring at \$50 million or more. This trend continued during the third quarter, with approximately half of the total properties that sold trading for more than \$50 million. Some of the recent rise in transaction size was the result of operators acquiring recently delivered and stabilized, Class A projects. These newer assets have also resulted in lower cap rates, which have averaged approximately 4.25 percent in recent transactions.

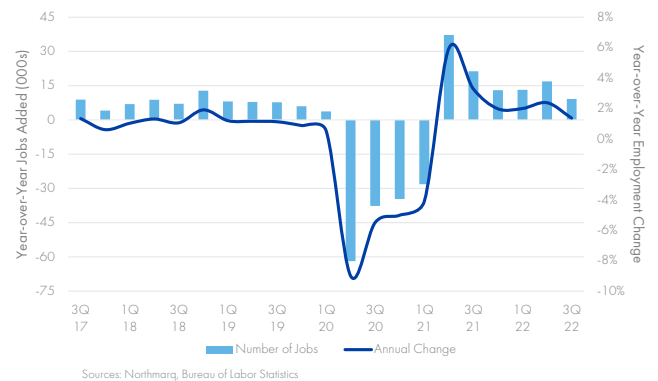
Employment

- Employment growth slowed during the third quarter after a strong first half of the year; local employers added 700 workers in the last three months. Year over year, total employment expanded by 9,200 positions, an increase of 1.4 percent.
- Education and health services was one of the top industries for local job growth in recent quarters. Year over year, this sector added 6,600 jobs, a gain of 6.8 percent. The sector has accounted for about 70 percent of total employment growth in the region during the past 12 months.
- Toy manufacturer LEGO announced plans to invest \$1 billion in a new factory in Chesterfield County that will bring more than 1,700 workers to the area. The permanent facility is expected to begin production in the second half of 2025. A temporary operation will open in 2024, creating 500 new jobs. This will be the company's first facility in the U.S.
- **Forecast:** Area employers are expected to add jobs at a modest pace through the rest of the year. The local labor market in Richmond is forecast to expand by 14,000 jobs in 2022, a 2.1 percent rate of growth.



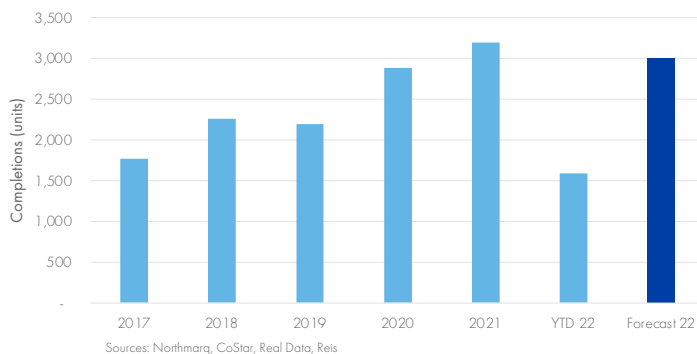
Year over year, total employment expanded by 9,200 positions.

Employment Overview



Developers pulled permits for more than 1,700 multifamily units in the last three months.

Development Trends



Development and Permitting

- Multifamily development slowed slightly during the third quarter with the completion of 375 units. Projects totaling nearly 1,600 units have been delivered to this point in the year, down 18 percent from the same period in 2021.
- Construction activity has remained strong across the region, as projects totaling more than 6,600 units are currently under construction. The most active areas for new development include the Western Henrico and Downtown Richmond submarkets.
- Permitting continues to accelerate, as developers pulled permits for more than 1,700 multifamily units in the last three months, the highest level of issuance in a quarter in Richmond.
- **Forecast:** The pace of deliveries is forecast to accelerate in the final months of the year. Projects totaling approximately 3,000 units are scheduled to come online in 2022, similar to inventory growth levels recorded in each of the past two years.

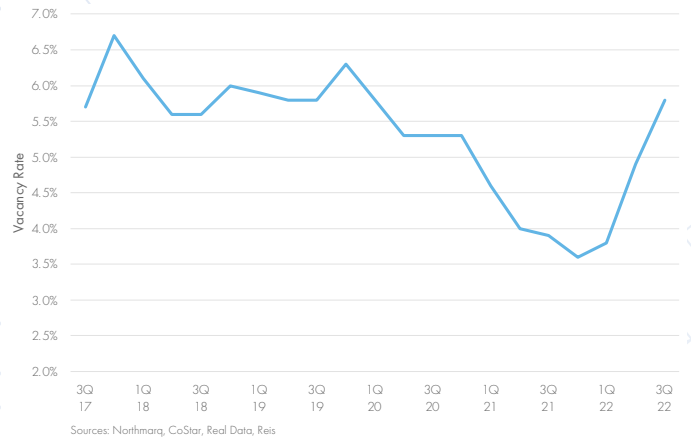
Vacancy

- After healthy absorption levels during 2021, the pace of net move-ins has slowed, and vacancies have trended higher. Vacancy ended the third quarter at 5.8 percent, up 90 basis points for the quarter.
- Local vacancy trends have been uneven in recent quarters. Year over year, vacancy is up 190 basis points. The latest rise follows a multi-year period when the rate fell from nearly 7 percent to an all-time low in 2021.
- Vacancy has held fairly steady in upper-tier units. Vacancy in Class A assets dipped 10 basis points during the past year to 4.6 percent.
- **Forecast:** Area vacancy is expected to level off in the remainder of the year. The rate is projected to finish 2022 at around 5.7 percent.



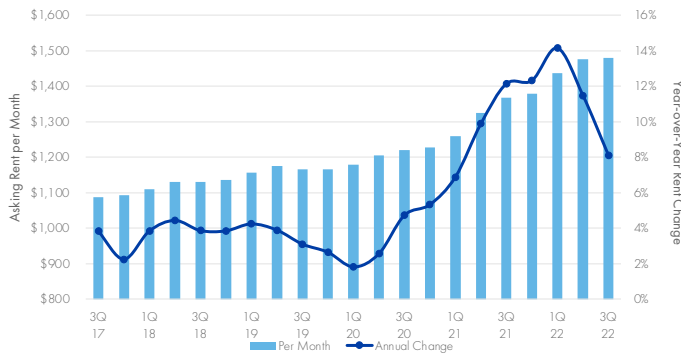
Vacancy ended the third quarter at 5.8 percent.

Vacancy Trends



Year over year, apartment rents increased by 8.1 percent.

Rent Trends



Rents

- The pace of rent growth slowed in the last three months, following several spikes during recent periods. Average asking rents during the third quarter ticked up less than 1 percent, ending the quarter at \$1,479 per month.
- Year over year, apartment rents increased by 8.1 percent. Annual rent growth averaged 3.7 percent from 2015 to 2020 before approaching 15 percent in late 2021 and early this year.
- Asking rents in Class A properties continued to rise in the third quarter; rents in Class A units increased 6.8 percent during the past year, reaching \$1,749 per month.
- **Forecast:** Rents are forecast to continue to inch higher in the coming months. Asking rents are expected to finish the fourth quarter at \$1,485 per month, marking an increase of 7.8 percent in 2022.

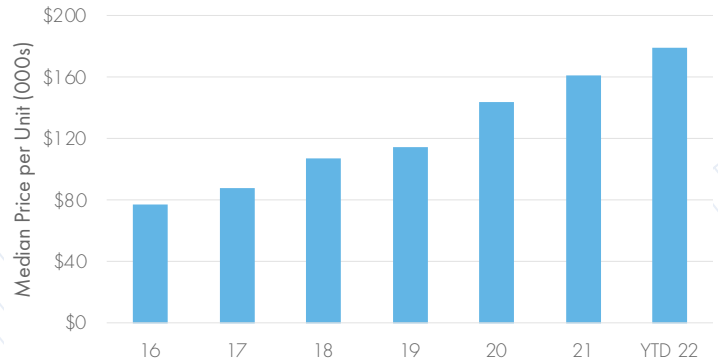
Multifamily Sales

- Investment activity increased during the third quarter as sales velocity rose 12 percent from the previous period. To this point in 2022, transaction volume has more than doubled compared to the same period last year. There was some slowing of transaction activity at the end of the quarter as buyers and sellers adjusted to the rising interest rate environment.
- Year to date, the median sales price is \$178,900 per unit, about 12 percent higher than the median price in 2021. Prices continued to trend higher in the third quarter as newer projects changed hands; the median price in the third quarter was over \$225,000 per unit.
- Cap rates have remained low for most of 2022. For much of this year, cap rates have averaged about 4.25 percent.



Year to date, the median sales price is \$178,900 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

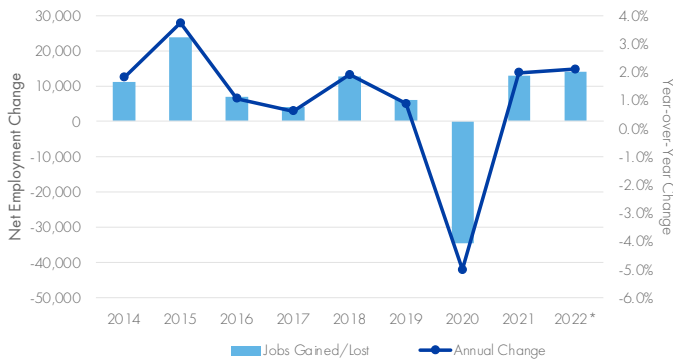
Property Name	Street Address	Units	Sales Price	Price/Unit
Element at Stonebridge	301 Karl Linn Dr., North Chesterfield	400	\$96,000,000	\$240,000
Tapestry West Apartments	2031 Maywill St., Richmond	262	\$91,700,000	\$350,000
Straford Hills and Bethany Springs	2517 E Tremont Ct., Richmond	430	\$76,500,000	\$177,907
Canterbury Square	900 Pump Rd., Richmond	219	\$28,900,600	\$131,966
Lakeview Terrace	100-141 Lakeview Park Rd., Colonial Heights	151	\$20,000,000	\$132,450

Looking Ahead

The Richmond multifamily market is expected to maintain steady conditions through the end of the year. Asking rents are forecast to inch higher but at a slower pace until vacancy levels off. Construction activity has slowed slightly to this point in the year, following strong absorption levels and supply growth during 2020 and 2021. Going forward, multifamily development is expected to accelerate in the final months of the year. Additionally, renter demand is projected to improve in the coming months, which will help bring the vacancy rate down slightly.

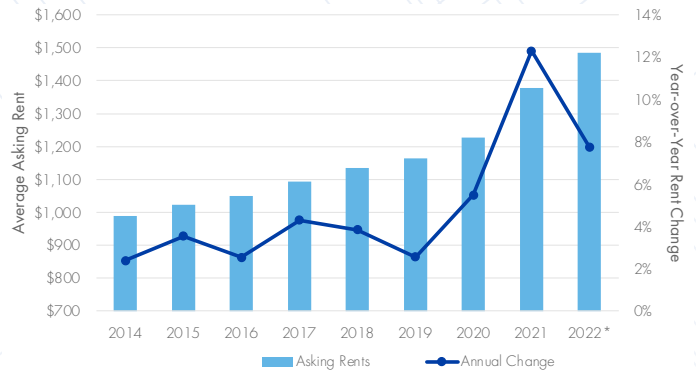
The momentum gained in the multifamily market is forecast to be sustained in the fourth quarter and into 2023. With the national economy showing signs of slowing, investors will likely be drawn to regions of the country where sustained growth is likely. To this end, Richmond will benefit from a significant expansion plan by one of the region's largest private employers. Late in 2022, CoStar Group broke ground on a research and technology center expansion that will ultimately bring the company's local campus to approximately 1 million square feet. The company is planning to add about 2,000 workers, building on the 1,500 employees currently in the Richmond area.

Employment Forecast



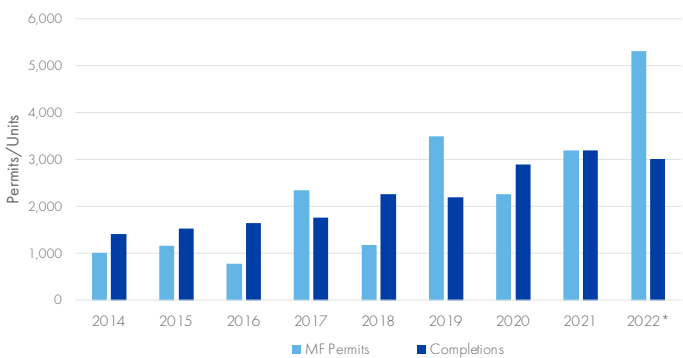
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



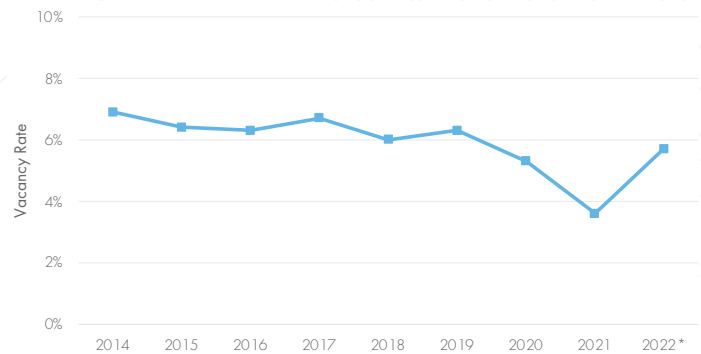
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

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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