

Sales activity concentrated in older assets

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **6,007**

UNITS DELIVERED **1,859**

MARKET FUNDAMENTALS



VACANCY RATE **5.8%**

YEAR-OVER-YEAR CHANGE **+220bps**

ASKING RENTS **\$1,463**

YEAR-OVER-YEAR CHANGE **+6.2%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$194,800**

HIGHLIGHTS

- The Richmond multifamily market slowed during the fourth quarter as vacancy and rent growth returned closer to historic norms. Projects totaling approximately 6,000 units are currently under construction in the region.
- While transaction velocity slowed during the fourth quarter, per-unit prices advanced during the year. In 2022, the median price reached approximately \$194,800 per unit.
- Vacancy continued to rise during the fourth quarter, increasing 20 basis points to 5.8 percent.
- Average rents were up 6.2 percent in 2022 to \$1,463 per month.

RICHMOND MULTIFAMILY MARKET OVERVIEW

Following several years of strengthening performance, property fundamentals in the Richmond multifamily market returned closer to historic norms at the end of 2022. Vacancy trended higher in 2022, ending the year at 5.8 percent. This followed a 24-month period where the vacancy rate was trimmed nearly in half. Current vacancy levels are consistent with the region's longer-term trend. Rents inched lower in the fourth quarter, only marginally offsetting a steep upward climb that persisted since 2020. Despite a mild contraction at the end of the year, rents still advanced by more than 6 percent in 2022. Multifamily developers remain active across the region with projects totaling more than 6,000 units currently under construction.

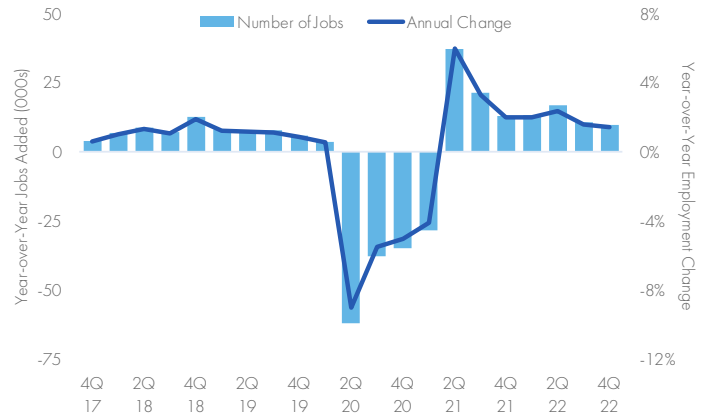
Rising interest rates slowed transaction activity in the Richmond multifamily investment market during the fourth quarter. Although sales velocity typically accelerates at the end of the year, deal volume continued to taper off in the final months of 2022. Despite the recent slowing, transaction volume in 2022 outpaced the prior year figure by 12 percent, making Richmond one of the few markets in the country that posted an annual increase in transaction activity. Cap rates rose but the median price advanced in 2022. There were significant pricing disparities based on the mix of assets that changed hands. Investment activity in late 2022 was dominated by Class C properties, after a more diversified mix of assets sold in 2021.

EMPLOYMENT

- After recording healthy gains in the first half of 2022, the local labor market cooled in the fourth quarter. For the full year, area employers added 9,700 positions, an increase of 1.5 percent.
- Richmond’s leisure and hospitality sector accounted for more than half of the region’s net job gains in 2022. The sector added 6,100 workers in the past year, a growth rate of nearly 10 percent. Total employment in the sector remains down about 5 percent from its all-time peak, suggesting there could be additional gains in the coming quarters.
- During the fourth quarter, CoStar Group broke ground on a 26-story office tower in Downtown Richmond. The new skyscraper is set to finish construction in 2025 and will be located next to the company’s existing research and technology center. The company’s expansion will result in 2,000 new jobs.
- **FORECAST:** The local labor market is expected to continue to add back workers in 2023, although the pace of recovery is not forecast to be as strong as in recent years. The current forecast calls for a net gain of approximately 5,000 workers in 2023, a 0.7 percent addition to payrolls.

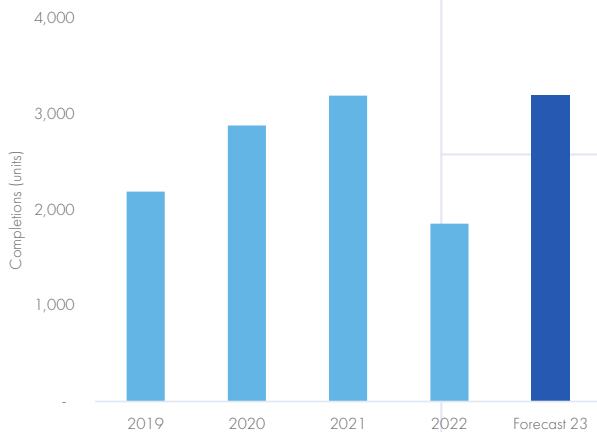
For the full year, area employers added 9,700 positions.

EMPLOYMENT OVERVIEW



Projects totaling nearly 1,860 units came online in 2022.

DEVELOPMENT TRENDS

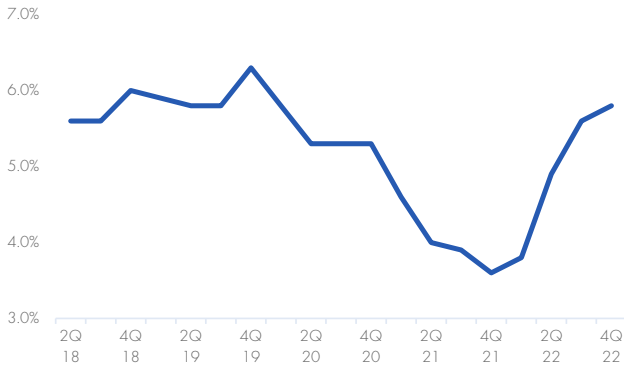


DEVELOPMENT & PERMITTING

- The pace of deliveries in Richmond slowed in recent months, as roughly 270 units were completed during the fourth quarter. Projects totaling nearly 1,860 units came online in 2022, down 42 percent from levels in 2021.
- At the end of the fourth quarter, projects totaling more than 7,000 units were under construction, up 7 percent from one year earlier. Western Henrico County is currently the area’s most active submarket for ongoing development, accounting for nearly 40 percent of the units that are currently under way.
- Multifamily permitting levels were elevated in 2022, with developers pulling permits for nearly 5,700 units, up from 3,200 permits in the previous year. During the fourth quarter, permits for more than 1,500 units were issued, closely tracking the total from the preceding quarter.
- **FORECAST:** Projects totaling 3,200 units are forecast to come online in 2023. Since 2018, deliveries have averaged about 2,500 units per year.

The Class A vacancy rate finished 2022 at 5.8 percent.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

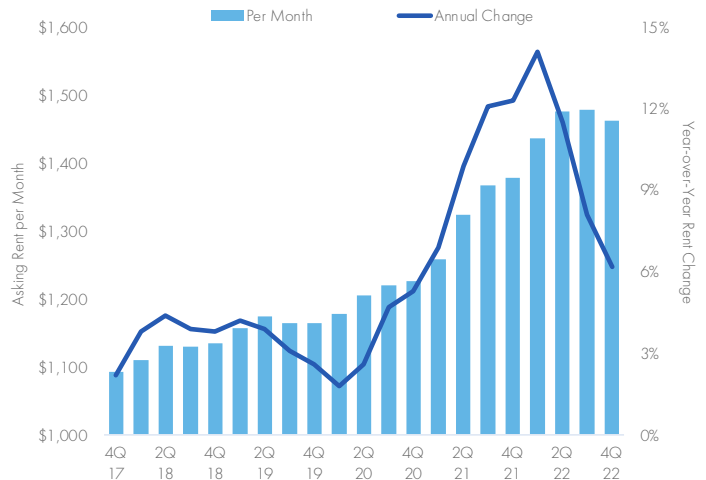
- Vacancy rose 220 basis points in 2022, following two consecutive years where the rate was nearly trimmed in half. The current vacancy level is below the region’s historical norm. From 2010 to 2021, vacancy averaged 6.3 percent.
- The vacancy rate increased 20 basis points during the fourth quarter to 5.8 percent.
- Vacancy remains tight in the region’s top-tier properties; the Class A vacancy rate finished 2022 at 5.8 percent, 120 basis points higher than one year earlier.
- **FORECAST:** Area vacancy is expected to tick higher at a moderate rate in the coming quarters. Vacancy is forecast to rise 60 basis points in 2023 with the rate reaching 6.4 percent.

RENTS

- Rents retreated slightly during the fourth quarter, marking the first quarterly rent decline in three years. Asking rents dipped 1.1 percent in the last three months, ending the year at \$1,463 per month.
- Despite the decline at the end of the year, average rents advanced by 6.2 percent in 2022. Prior to the rent spikes in 2021, annual rent growth averaged 3.7 percent from 2015 to 2020.
- Class A asking rents reached \$1,728 per month at the end of 2022, up 4.3 percent year-over-year. This followed a spike of nearly 10 percent in 2021.
- **FORECAST:** After three consecutive years of elevated growth, asking rents are forecast to inch higher at a modest pace in 2023. Local rents are expected to rise by nearly 2 percent in the next 12 months to \$1,490 per month.

Average rents advanced by 6.2 percent in 2022.

RENT TRENDS



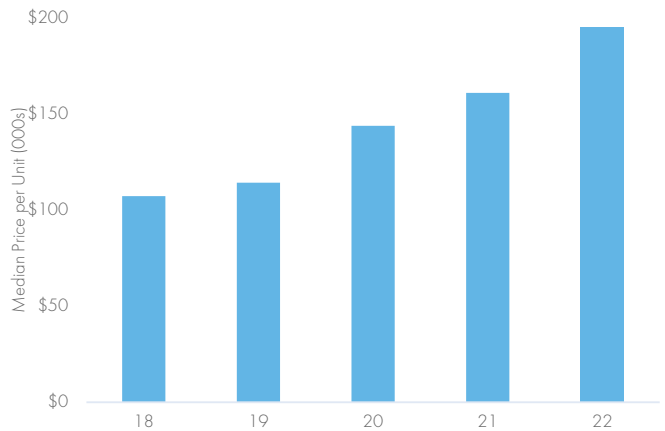
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Sales velocity slowed in the final three months of the year, as transaction volume fell 25 percent from the third quarter to the fourth quarter. Despite cooling in recent months, total transactions in 2022 finished the year up 12 percent from 2021 levels.
- The median sales price finished 2022 at \$194,800 per unit, 21 percent higher than the median price last year.
- Cap rates continued to tick higher in recent months. Cap rates averaged 4.5 percent during the fourth quarter, up from 4.25 percent in the previous period.

The median sales price finished 2022 at \$194,800 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

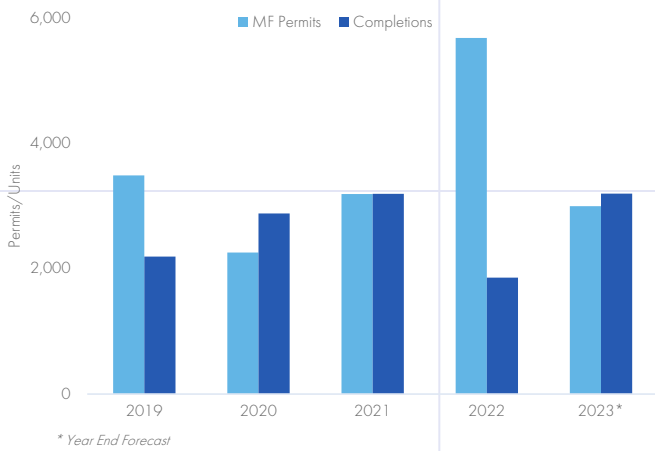
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Villages at West Laurel	5541 Olde West Ct., Richmond	503	\$98,000,000	\$194,831
Hickory Creek	2344 Hickory Creek Dr., Richmond	294	\$65,000,000	\$221,088
Guardian Place Apartments	1620 N Hamilton St., Richmond	236	\$25,650,000	\$108,686
Forest Ridge	2665 Granite Hill Cir., Richmond	135	\$19,300,000	\$142,963

LOOKING AHEAD

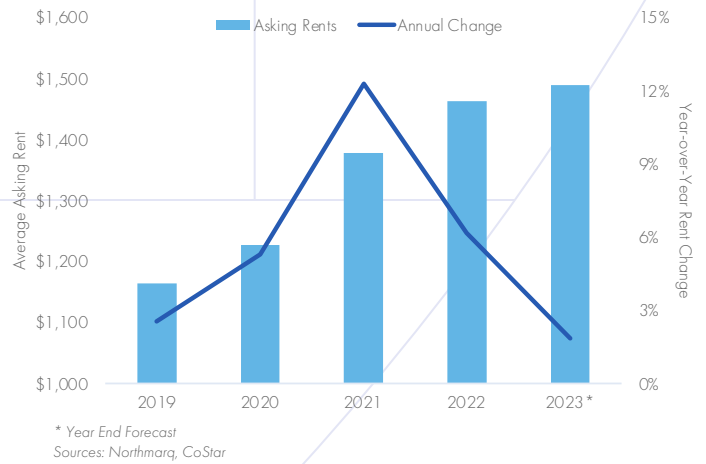
The Richmond multifamily market is projected to hold fairly steady in 2023, as property fundamentals are forecast to closely track current conditions. Fueled by the surge in multifamily permitting during 2022, construction activity will likely remain elevated in the coming quarters, and apartment completions are slated to approach cyclical highs in 2023. The supply growth will continue to put upward pressure on the vacancy rate, although the increases will be more modest than in 2022. Class A fundamentals have proven to be the most resilient in the local market in recent years, a trend that may continue in 2023.

The local investment market may record some continued slowing in 2023, particularly in the first half of the year, but opportunities will emerge. Investors have already begun to target some of the region's older, Class C assets. Average Class C rents were below \$1,000 per month as recently as early 2020 but have surged by nearly 25 percent in recent years. Against this backdrop, some existing owners may choose to list long-held assets that are trading at a considerable premium over levels from 2015 and earlier. Cap rates will likely trend higher, particularly if older buildings account for an increasing share of total transaction activity.

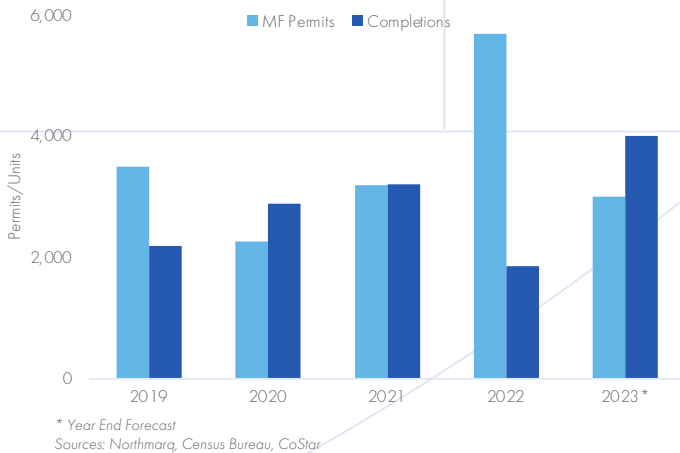
EMPLOYMENT FORECAST



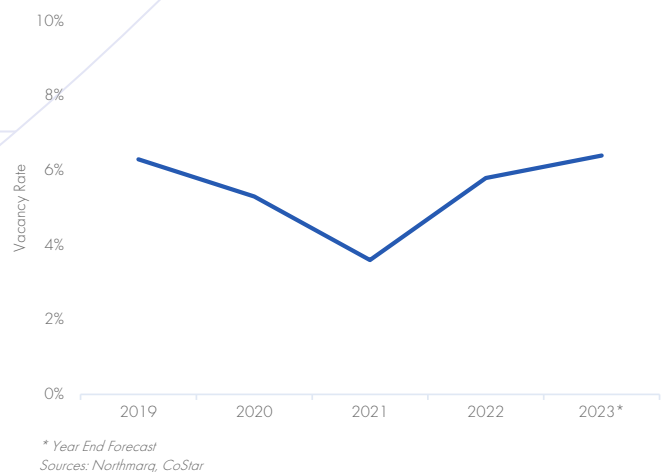
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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