Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	6,672
UNITS DELIVERED (YTD)	377

MARKET FUNDAMENTALS

VACANCY RATE	6.2%
YEAR-OVER-YEAR CHANGE	-80bps
ASKING RENTS	$1,568
YEAR-OVER-YEAR CHANGE	+3.4%

TRANSACTION ACTIVITY

MEDIAN PRICE PER UNIT	$168,900

RICHMOND MULTIFAMILY
2Q 2024

MARKET INSIGHTS

With absorption elevated, rents gain ground

HIGHLIGHTS

- The Richmond multifamily market posted strengthened performance in the second quarter, as rents increased while the vacancy rate trended lower. Following peak levels of deliveries in 2023, supply growth has been light to this point in the year.
- The vacancy rate continued to tighten in the second quarter, dipping by 50 basis points to 6.2 percent. Year over year, the vacancy rate in Richmond has decreased by 80 basis points.
- Rent growth in Richmond gained momentum, rising by 2 percent in the past three months to $1,568 per month. Year over year, area rents have risen by 3.4 percent.
- Transaction activity in the Richmond multifamily market was limited in the first half of 2024. The median price in the past 12 months was $168,900 per unit, with cap rates ranging between 5.75 percent and 6.5 percent.

RICHMOND MULTIFAMILY MARKET OVERVIEW

The first half of 2024 was a period of recovery in the Richmond multifamily market. Absorption was elevated while construction was limited, tightening the vacancy rate and sparking rent growth. Apartments in Richmond posted net absorption of nearly 2,300 units in the first half of the year, nearly doubling the total from the same period in 2023. Strengthening renter demand led to healthy rent increases in recent months, following some modest contraction at the end of last year. High levels of absorption and low totals of new deliveries have helped to push the vacancy rate down, dropping 80 basis points over the past 12 months.

Sales velocity in the Richmond multifamily investment market has been light year to date, following a short-term spike in activity during the fourth quarter of 2023. Despite strong property performance in several submarkets, many investors are still waiting on the sidelines. With only a few properties trading to this point in the year, the mix of assets that have sold is impacting pricing. Year to date, nearly all of the rental communities that have been acquired have been Class B or Class C assets. This followed a period in the final few months of last year when a few Class A properties sold. This trend is reflected in recent pricing; the median price during the past year is $168,900 per unit, down 13 percent from the area's peak recorded in 2022.

EMPLOYMENT

- Area employers continued to add positions at a consistent pace in the second quarter. Year over year, total employment has expanded by 12,300 workers in Richmond, an increase of 1.7 percent; over the past decade employment has grown by 1.4 percent per year on average.

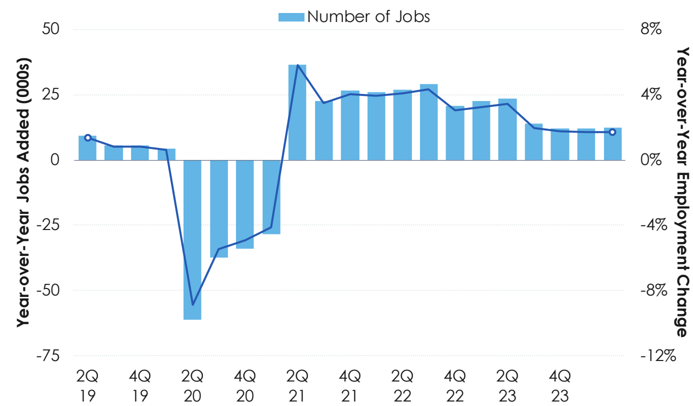
- The education and health services sector was the leader in payroll growth in the second quarter. Employment totals in the industry expanded by 5.4 percent in the past 12 months with the addition of 5,500 new jobs.

- The government sector has grown at a rapid rate in recent periods. During the past 12 months, employment in this sector has surged by 4,100 positions, an increase of 3.7 percent. More than half of all government jobs added in the area are local government positions.

- **FORECAST**: Total employment is expected to grow at a quicker pace in 2024 than it did last year. Employers in Richmond are on pace to add around 15,000 jobs in 2024, an increase of 2.1 percent.

Year over year, employment has expanded by 12,300 workers.

EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Multifamily completions in Richmond have been relatively light so far this year after deliveries peaked in 2023. Fewer than 400 units have come online in the past six months, down more than 85 percent compared to the same period last year.

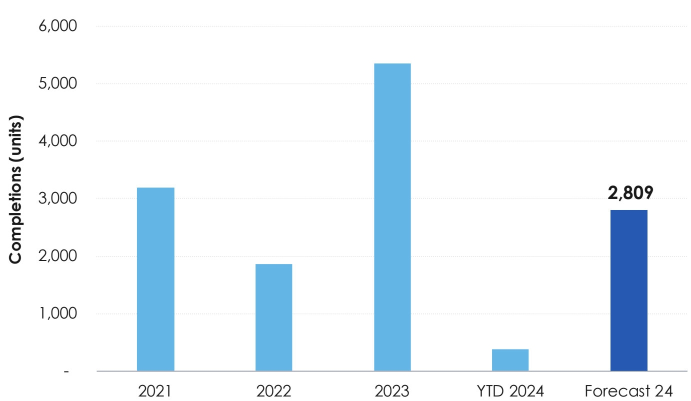
- While deliveries have been slow to start the year, the construction pipeline still includes projects totaling roughly 6,700 units currently under construction. The Downtown Richmond submarket has the highest number of apartments under construction at roughly 1,850 units. Richmond's largest submarket, Western Henrico County, currently has nearly 1,100 units that are under way.

- Permitting thus far in 2024 lags well behind recent highs recorded in 2022 and 2023. Developers pulled permits for roughly 1,500 multifamily units in the past six months, down 35 percent from the same period of last year.

- **FORECAST**: Multifamily completions in 2024 will slow after a spike was recorded last year. Projects totaling 2,800 units are forecast to come online in 2024, closer to recent averages. From 2018 to 2022, developers delivered an average of 2,500 units per year.

Fewer than 400 units have come online in the past six months.

DEVELOPMENT TRENDS



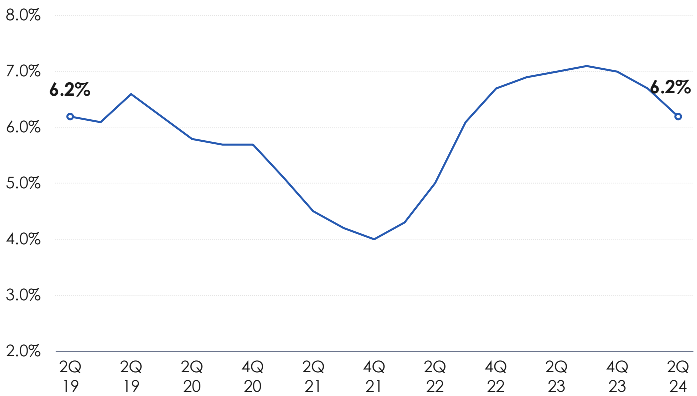
Sources: Northmarq, CoStar

VACANCY

Vacancy dropped by 50 basis points during the second quarter.

- The vacancy rate continued to trend lower in recent months. Vacancy in Richmond dropped by 50 basis points in the second quarter, following a 30 basis point dip in the first quarter. Year over year, the vacancy rate decreased by 80 basis points to 6.2 percent.
- The Western Henrico County submarket had some of the healthiest performance in the region. The vacancy rate in this submarket fell by 180 basis points in the past 12 months to 5 percent. Absorption totaled more than 400 units in the second quarter alone.
- Class C apartments continued to post the greatest vacancy improvements in the region. The vacancy rate in the Class C segment decreased by 140 basis points over the past 12 months, ending the second quarter at 6.3 percent.
- **FORECAST**: The local vacancy rate will likely post a slight increase by the end of the year as the pace of completions accelerates in coming months. Vacancies are expected to end the year at 6.6 percent, down 40 basis points for the full year.

VACANCY TRENDS



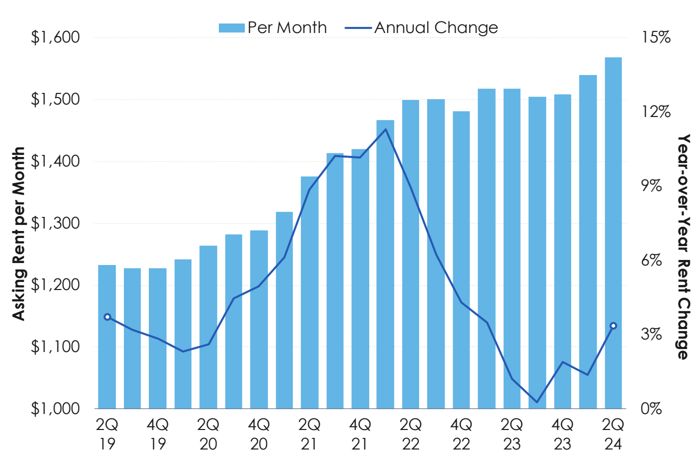
Sources: Northmarq, CoStar

RENTS

- Rent growth continued to climb at an elevated pace in the second quarter, building on gains posted in the first quarter. Asking rents rose 2 percent in the past three months to $1,568 per month. Year over year, area rents have advanced 3.4 percent.
- While Class A and Class B assets had more modest rent increases over the past 12 months, rents in lower-tier assets spiked. Asking rents in Class C properties rose by 6.9 percent in the past 12 months, reaching $1,351 per month.
- Rents gained ground in many of Richmond's submarkets, including South Richmond, which recorded a 6.6 percent increase in asking rents over the past year, reaching $1,426 per month. Rent growth in the submarket was spurred by the largest drop in vacancy in the region, with the rate falling 260 basis points.
- **FORECAST**: Rents are expected to continue to rise through the end of the year. Asking rents are forecast to trend higher by 4.4 percent for the full year, closing 2024 at $1,575 per month. Rent growth averaged 3.7 percent per year from 2016 to 2020.

Asking rents rose 2 percent in the past three months.

RENTS TRENDS



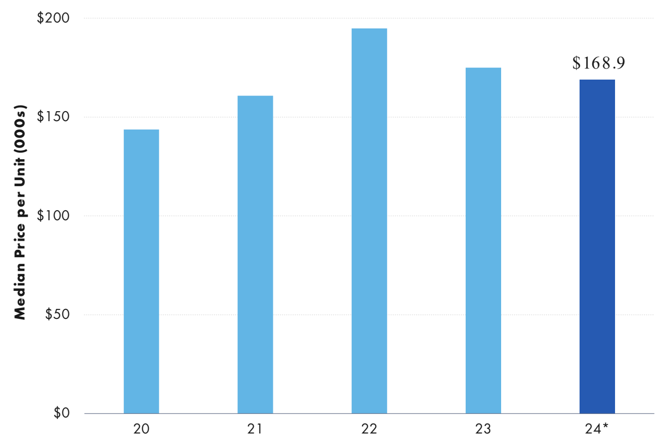
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- While property fundamentals are healthy, transaction volume in Richmond has been minimal in 2024. This follows a much more active fourth quarter of 2023. Roughly two-thirds of all sales in the past 12 months took place during in the final three months of last year.
- In the past year, the median price in Richmond was $168,900 per unit, down 13 percent from the region's peak in 2022.
- Transaction counts have been limited in the past year, but cap rates have generally ranged from 5.75 percent to 6.5 percent. In the prior 12 months, cap rates were closer to 5 percent to 5.5 percent.

In the past year, the median price was $168,900 per unit.

INVESTMENT TRENDS



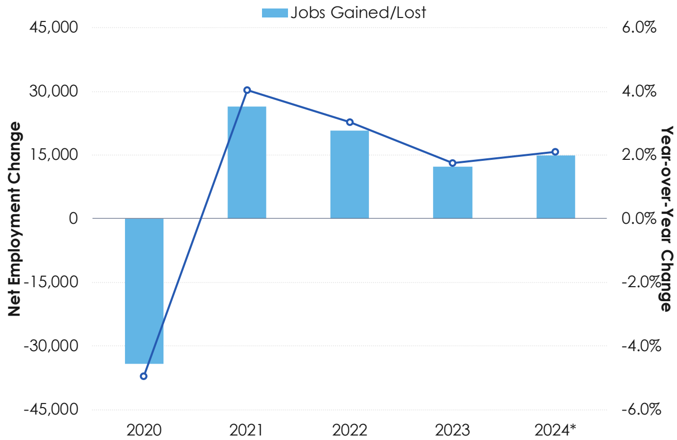
* Sales closed in the past 12 months
Sources: Northmarq, CoStar

LOOKING AHEAD

The Richmond multifamily market should remain in a healthy position through the end of 2024, as rent growth maintains an upward trajectory and vacancy is expected to end the year at a net improvement. While these two primary measures of performance are poised for continued steadiness, the pace of deliveries will accelerate in the second half after minimal inventory growth year to date. Still, deliveries for the full year are expected to total 2,800 units, or roughly half of the 2023 total. Demand is expected to remain strong enough for most new units to be absorbed and for operators to continue to implement rent increases.

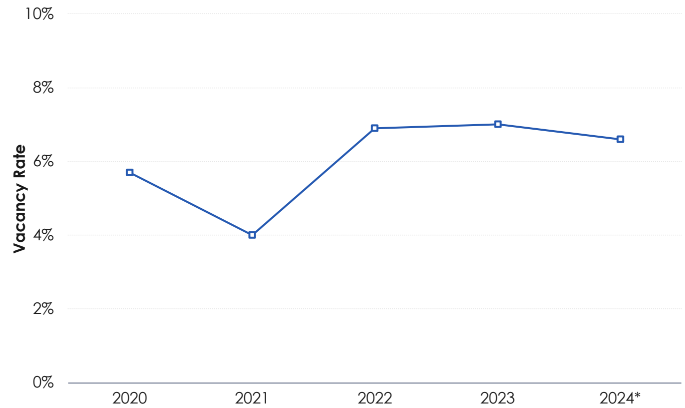
Steady operating fundamentals may spark an increase in transaction activity in the Richmond multifamily market. Investors should be drawn in as the region consistently proves it can absorb the new units that are added to inventory while rents post above-average growth. In recent quarters, transactions have been limited and largely concentrated in Class C assets. Historically, the transaction mix has more closely matched the overall inventory. Sales velocity may pick up modestly in the second half of the year, though volume is expected to remain low until 2025. After a year of trending higher at a fairly gradual pace, cap rates appear to have stabilized, and any declines in interest rates in coming periods could spark more deal flow.

EMPLOYMENT FORECAST



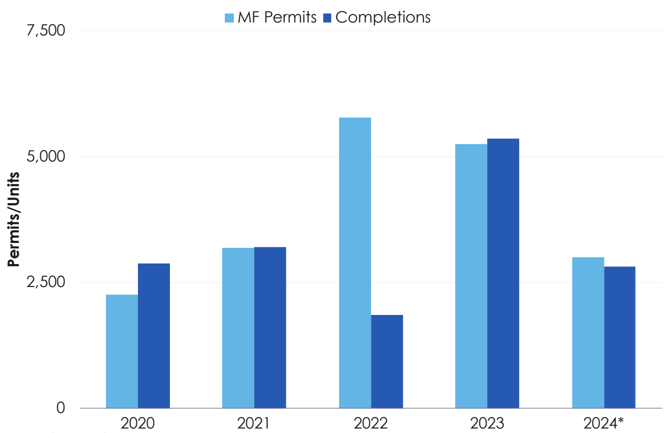
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



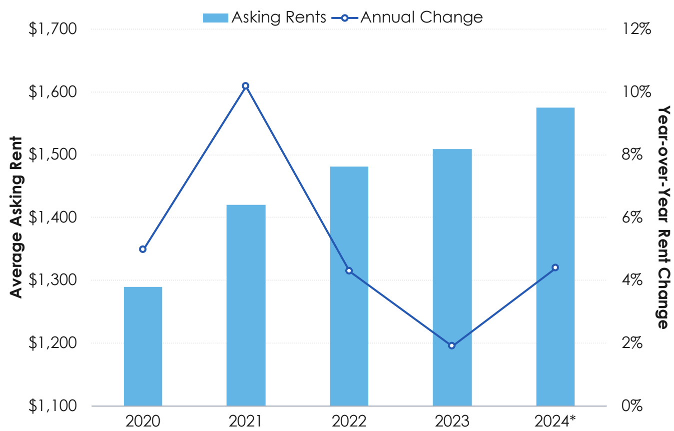
** Year End Forecast*
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights, Census Bureau

RENTS FORECAST



** Year End Forecast*
Sources: Northmarq, CoStar

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