

Market Insights

Richmond Multifamily 1Q 2022



Construction Activity



7,297

Units under construction

659

Units delivered (YTD)

Market Fundamentals



3.8%

Vacancy

-80bps

Year over year change

\$1,437

Asking Rent

+14.1%

Year over year change

Transaction Activity



\$116,400

Median sales price per unit (YTD)

The Pace of Rent Growth Accelerates to Start 2022

Highlights

- The Richmond multifamily market recorded rapid rent growth in the first quarter, even as the vacancy rate inched higher. Current conditions are considerably stronger than one year ago.
- During the first quarter, the local vacancy rate rose 20 basis points to 3.8 percent. Despite the recent uptick, the rate has dropped 80 basis points year over year.
- Asking rents continued to climb at the start of 2022. Average rents in Richmond rose 4.3 percent in the first quarter to \$1,437 per month. Rents are up 14.1 percent in the past 12 months.
- Transaction volume ticked lower, although activity levels to start 2022 are ahead of the pace recorded in recent years. The median sales price in the first few months of 2022 reached \$116,400 per unit, as the bulk of the sales activity consisted of older, Class C properties.

Richmond Multifamily Market Overview

The Richmond multifamily market got off to an active start to 2022. New supply growth slightly outpaced net absorption, causing the vacancy rate to inch higher. Net absorption averaged more than 1,100 units per quarter in 2021 but dropped to roughly 400 units in recent months. Despite a dip in renter demand from heightened levels one year ago, asking rents continued to post rapid gains across the Richmond area. As the local economy gains momentum and employers continue to add back workers, renter demand should return to more typical levels in the coming quarters.

The Richmond multifamily investment market slowed somewhat during the first quarter, following an active period at the end of 2021. Despite fewer properties changing hands in recent months, sales volume during the first quarter was ahead of levels recorded at the start of the past two years. Activity picked up in the sale of Class C properties to this point in 2022, which brought per-unit sales prices lower in the short term. Cap rates held fairly steady in recent months, averaging around 4.5 percent. With improving property fundamentals and rising rents, the investment market should gain momentum in the next several quarters.

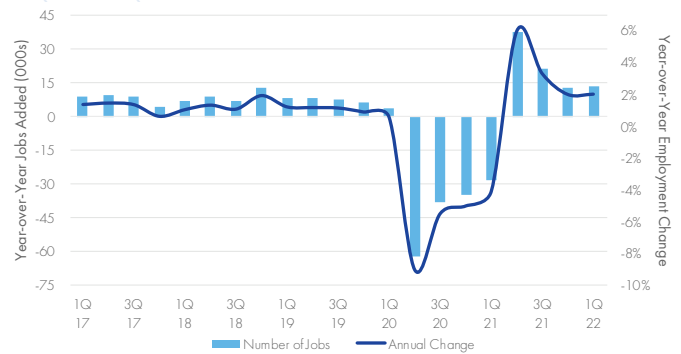
Employment

- The Richmond labor market recorded a strong start to the year as area employers added 4,500 positions in the first quarter. Year over year, the employment market expanded by approximately 13,200 workers, growing 2 percent.
- Richmond’s large government sector has been one of the segments of the economy that has been leading the way. Government employment grew by 2,700 jobs in the last year, an expansion rate of 2.5 percent.
- Amazon will be opening a 650,000-square-foot robotics fulfillment center in Henrico later this year. The new facility will bring more than 1,000 jobs to the Richmond area in the coming quarters.
- **Forecast:** The local labor market is forecast to continue to recover throughout the remainder of the year. Total employment in Richmond is expected to expand by approximately 12,000 jobs in 2022, advancing 1.8 percent.



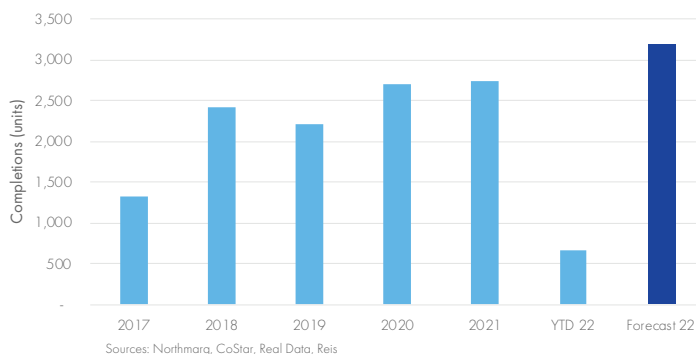
Area employers added 4,500 positions in the first quarter.

Employment Overview



Projects totaling nearly 7,300 units are under construction.

Development Trends



Development and Permitting

- The pace of apartment completions slowed in the first quarter; projects totaling more than 650 units were delivered in the first few months of 2022.
- Multifamily construction activity accelerated in recent months with nearly 7,300 units currently under construction in the Richmond area, up 39 percent from one year ago. Since 2018, deliveries have averaged approximately 2,500 new units added to inventory per year.
- Permitting activity remained elevated in the first quarter. Developers pulled permits for 1,440 multifamily units to start the year, more than double the number of permits pulled during the same period in 2021.
- **Forecast:** Multifamily developers will remain active in the coming quarters. Projects totaling approximately 3,200 units are forecast to come online by the end of 2022.

Vacancy

- The vacancy rate in Richmond ticked higher in the first quarter after dropping during the past several periods. The rate rose 20 basis points in the first few months of 2022, ending the quarter at 3.8 percent.
- Despite the recent uptick, vacancy in Richmond has declined by 80 basis points in the past year. While absorption has generally been strong over the past several periods, demand levels in the first quarter trailed behind new completions by 35 percent.
- Although vacancies tightened across all asset classes in Richmond during the past 12 months, the steepest declines were recorded in Class A properties. Year over year, the vacancy rate in Class A properties dropped 150 basis points, ending the first quarter at 4 percent.
- **Forecast:** The vacancy rate is forecast to level off in the remainder of the year. The rate is expected to finish 2022 at 3.7 percent, up 10 basis points from the end of last year.



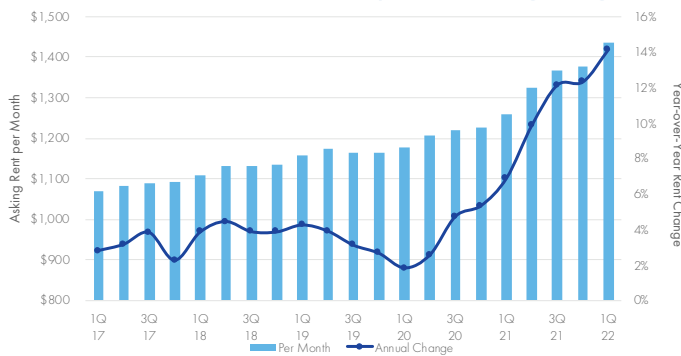
Vacancy has declined by 80 basis points in the past year.

Vacancy Trends



Asking rents rose to \$1,437 per month in the first quarter.

Rent Trends



Rents

- Rents in Richmond continue to advance. Asking rents rose 4.3 percent to \$1,437 per month in the first quarter. This marked the strongest period of rent growth since mid-2021.
- Year over year, average rents in Richmond spiked by 14.1 percent, the largest annual rent growth in the last decade. Rents per square foot averaged \$1.61 per month in the first quarter.
- Asking rents jumped across all asset classes in the last year with the largest gains recorded in Class C properties. Average rents in Class C properties rose 14.3 percent in the past year, reaching \$1,196 per month.
- **Forecast:** Rents are forecast for further growth in the Richmond area. Asking rents are expected to rise 8.5 percent in 2022, finishing the year at \$1,495 per month.

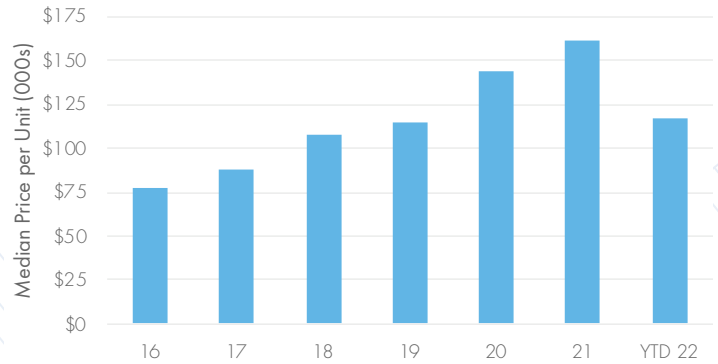
Multifamily Sales

- Transaction activity slowed at the start of the year, following a spike in the previous period. Even with the pace of sales slowing, the deal volume in the first quarter of 2022 was ahead of the levels recorded at the start of previous years.
- The bulk of the transactions to this point in 2022 consisted of Class C properties, which brought the median sales price down from the prior year. The median sales price through the first quarter was approximately \$116,400 per unit, down 27 percent from the median price in 2021.
- Cap rates in the first quarter averaged roughly 4.5 percent, similar to levels recorded in recent periods.



The median sales price in the first quarter was approximately \$116,400 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

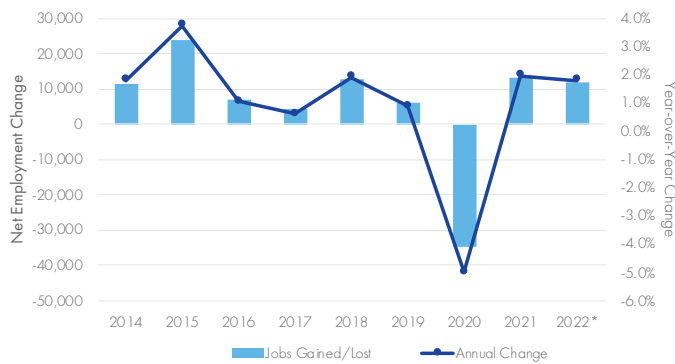
Property Name	Street Address	Units	Sales Price	Price/Unit
Pointe at River City	11 N Laburnum Ave., Richmond	1,184	\$154,400,000	\$130,405
Tanglewood Apartments	1700 Johnson Rd., Petersburg	408	\$44,000,000	\$107,843
River Road Terrace	20900 Riverterrace Rd., Petersburg	128	\$16,525,000	\$129,102

Looking Ahead

The Richmond multifamily market is expected to stabilize in the coming months, and the outlook for the remainder of the year is favorable. With local employers continuing to add back workers, renter demand should return to typical levels, resulting in elevated absorption levels. As net absorption increases, the vacancy rate is forecast to level off and tighten slightly by the end of the year. The strongest market performance metric in recent periods has been the rate of rent growth, and heightened renter demand for units should support further rent gains across the region in the next several quarters.

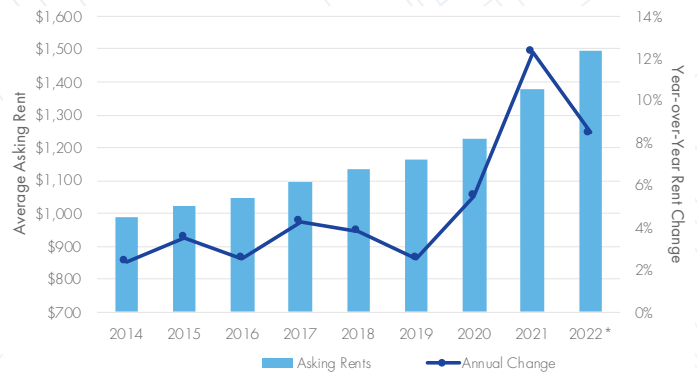
The Richmond multifamily investment market is forecast to remain healthy in the coming quarters. The pace of transaction activity should be steady in the remainder of the year, even as buyers and sellers adjust to the rising interest rates. The sale of Class C properties at the start of the year highlights the overall fundamental health of the market. As developers bring more projects online, investors should see a broader mix of assets enter the marketplace. Sales prices will likely trend higher as activity picks up in the sale of newer assets and asking rents continue to rise. Cap rates are expected to remain steady, averaging around 4.5 percent during the year.

Employment Forecast



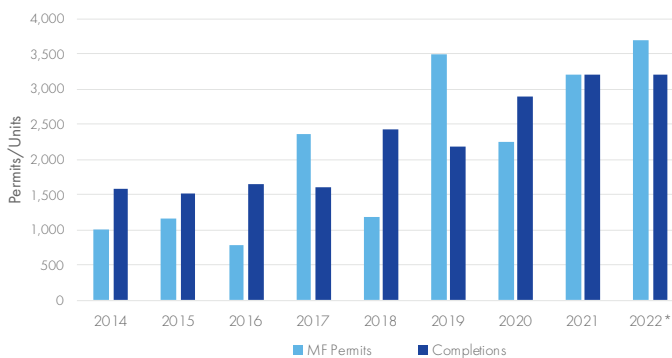
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



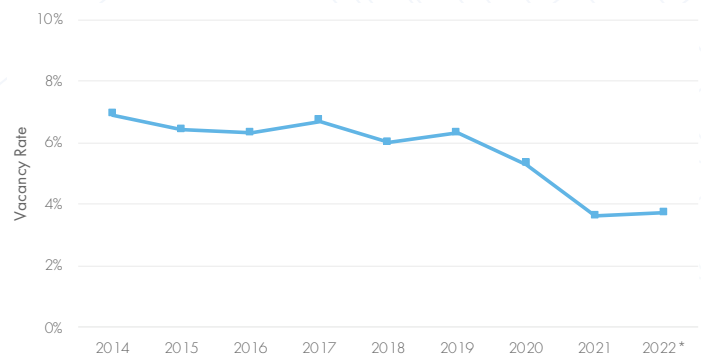
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

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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