

Market Insights

Hampton Roads Multifamily 2Q 2022



Construction Activity



3,165

Units under construction

971

Units delivered (YTD)

Market Fundamentals



3.7%

Vacancy

+110 bps

Year over year change

\$1,432

Asking Rent

+9.3%

Year over year change

Transaction Activity



\$149,000

Median sales price per unit (YTD)

Rents Continue to Trend Higher, Despite Recent Vacancy Upticks

Highlights

- The apartment market in Hampton Roads appears to be settling into a new level of operational performance. The vacancy rate has pushed higher, after reaching an unsustainably low level late last year, while rents have risen across all property classes.
- Average rents rose 2.6 percent in the second quarter to \$1,432 per month. This followed a 2 percent increase at the beginning of the year. During the past 12 months, asking rents have surged 9.3 percent higher.
- Multifamily investment activity gained momentum in the first six months of the year. The median sales price reached more than \$149,000 per unit in the first half of 2022, a 10 percent increase from the median price in 2021. Cap rates during the second quarter averaged approximately 4.2 percent.

Hampton Roads Multifamily Market Overview

The Hampton Roads multifamily market recorded a mixed performance thus far in 2022, as asking rents climbed, even as the vacancy rate pushed higher. Net absorption slowed significantly in recent periods, following a spike in new leases in 2020 and into 2021. With fewer units being absorbed and construction activity ramping up, the vacancy rate climbed for the third consecutive quarter. Vacancy in Hampton Roads should continue to creep higher with apartment development and multifamily permitting on the rise and absorption of units slowing. Despite the recent uptick in vacancy, the rate is still well below its long-term average of around 5 percent.

The multifamily investment market recorded a strong first half of 2022. Sales prices rose, and transaction activity is above levels recorded in recent years. While the bulk of the sales to this point in the year consisted of Class C properties, activity showed signs of a slight increase of newer, Class A assets during the second quarter. Newly built and more expensive properties should continue to change hands in the coming months, especially as construction activity accelerates and recently completed projects become available for acquisition. Cap rates continued to compress, averaging 4.2 percent during the second quarter.

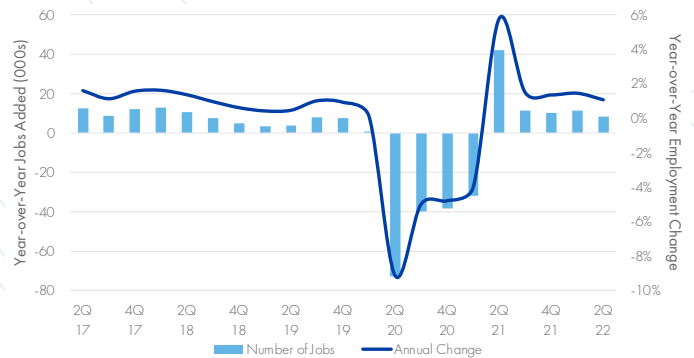
Employment

- Local employment trends have been mixed in recent periods. Year over year, employers have expanded payrolls by 1.1 percent with the addition of more than 8,000 jobs. In the second quarter, total employment in the market recorded a net loss of approximately 1,000 jobs.
- The leisure and hospitality sector has been a top-performing industry in recent months. Year over year, this sector added 12,900 jobs and grew by nearly 15 percent.
- Richmond-based Atlantic Constructors, Inc. is expanding its local presence with a new, 39,000-square-foot facility in Suffolk. The construction company will bring 75 new jobs to the area in the coming periods.
- Forecast:** Employers in Hampton Roads are forecast to add workers to payrolls in the coming months, although the pace of growth is expected to slow from the previous year. Total employment is expected to expand by approximately 1 percent in 2022 with the addition of roughly 7,500 jobs.



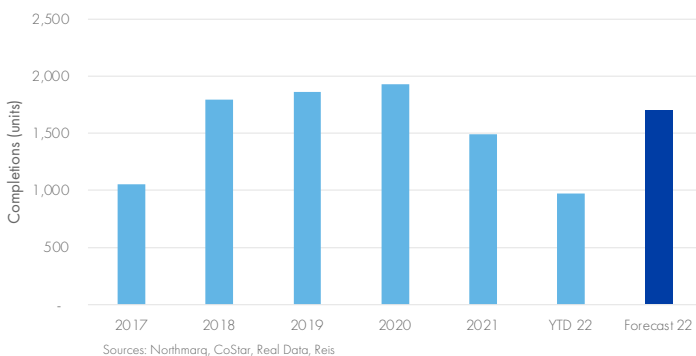
Year over year, employers have expanded payrolls by 1.1 percent.

Employment Overview



More than 970 units have been delivered year to date.

Development Trends



Development and Permitting

- The pace of multifamily deliveries continues to accelerate with 570 units coming online in the second quarter. More than 970 units have been delivered year to date, about 20 percent ahead of the average pace of construction from the first halves of the last five years.
- Projects totaling 3,165 units were under construction in Hampton Roads at midyear, a 23 percent increase from one year earlier. New construction is ongoing throughout most of the market with a handful of apartment projects currently being developed in Downtown Norfolk.
- Developers in Hampton Roads are on pace to pull the highest number of multifamily permits in a year since 2013. During the second quarter, permits for approximately 700 multifamily units were pulled, closely tracking levels from the start of the year.
- Forecast:** Supply growth should be steady in the second half of the year. Projects totaling 1,700 units are forecast to come online in 2022, up 10 percent from the average completion total in the past five years.

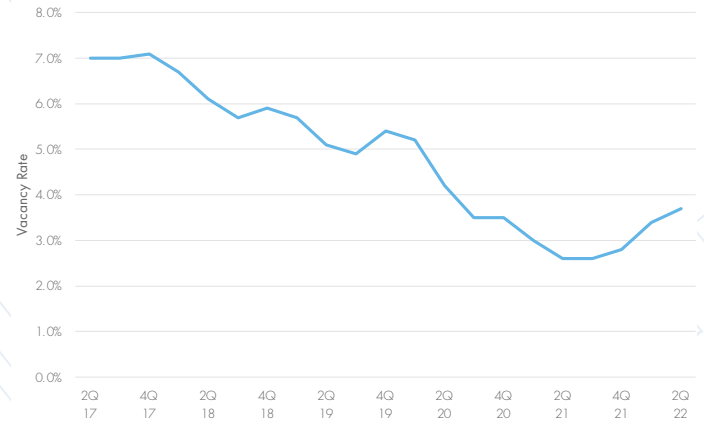
Vacancy

- The vacancy rate increased for the third consecutive quarter after tightening significantly during 2020 and into 2021. In the second quarter, local vacancy rose 30 basis points to 3.7 percent.
- Year over year, vacancy in Hampton Roads is up 110 basis points. Absorption levels have been relatively flat in recent periods, pushing the vacancy rate higher. Despite the recent increases, current conditions are tighter than the market's long-term average. Vacancy averaged approximately 5 percent from 2017 through 2021.
- Although vacancies are fairly consistent across all asset classes, the lowest average rates are being recorded in Class B units, which settled at 3.6 percent at midyear.
- **Forecast:** New supply growth is forecast to outpace net absorption in the second half, resulting in an uptick in vacancy. The rate is expected to rise 50 basis points in the second half, ending the year at 4.2 percent.



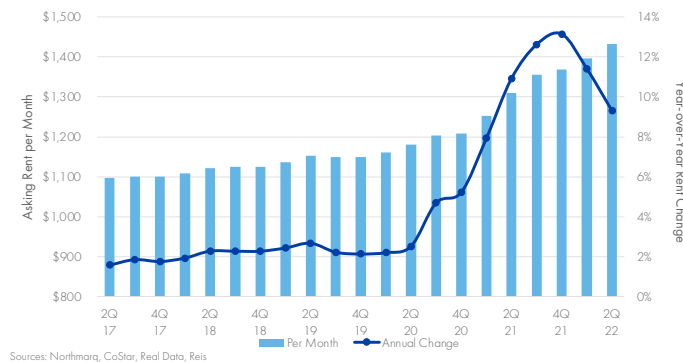
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Vacancy Trends



Year over year, asking rents in the region are up 9.3 percent.

Rent Trends



Rents

- Apartment rents in Hampton Roads recorded healthy gains in the first half of 2022. Local asking rents rose 2.6 percent in the second quarter to \$1,426 per month, following a 2 percent increase at the start of the year.
- Year over year, asking rents in the region are up 9.3 percent. Apartment rents are on pace to record above-average growth in 2022 but will not repeat the unprecedented spike in rents recorded since the beginning of last year.
- Rents in Class A units rose nearly 6 percent in the past year to \$1,779 per month, reaching \$1.79 per square foot, per month.
- **Forecast:** Asking rents are forecast to finish 2022 at \$1,465 per month, representing a 7.1 percent annual gain. This follows a spike of more than 13 percent recorded in 2021. Average rents will rise nearly \$100 per month in 2022.

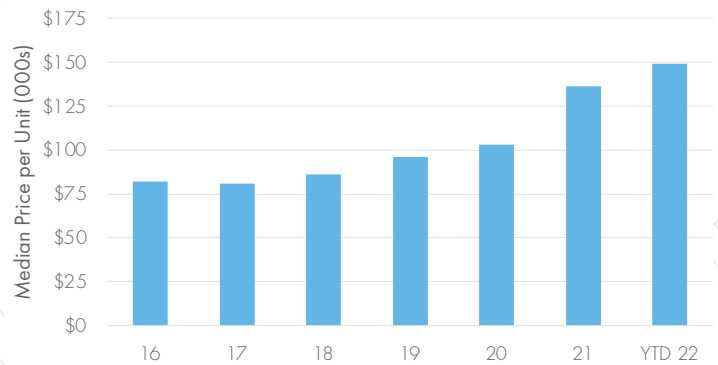
Multifamily Sales

- Transaction activity was mostly stable in the second quarter, following a strong start to the year. Sales velocity in the first half of 2022 was up more than 50 percent from average levels recorded during similar periods from 2017 to 2021.
- The median sales price continues to trend higher, reaching more than \$149,000 per unit in the first six months of the year, 10 percent higher than 2021 levels. Although most of the recent deals consisted of Class C properties, there were a handful of large, Class A assets that traded during the second quarter. The median sales price among these newer properties was \$305,500 per unit.
- As prices rose, cap rates compressed. Cap rates averaged 4.2 percent in the second quarter, down 40 basis points from one year earlier.



Cap rates averaged 4.2 percent in the second quarter.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

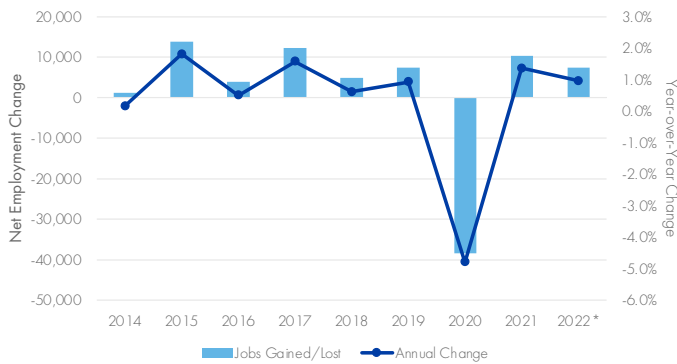
Property Name	Street Address	Units	Sales Price	Price/Unit
Spring Water	1205 Colgin Dr., Virginia Beach	252	\$75,200,000	\$298,413
Sterling Manor Apartments	155 Sterling Manor Dr., Williamsburg	207	\$70,000,000	\$338,164
Chesapeake Pointe	3537 Towne Pointe Rd., Chesapeake	404	\$58,500,000	\$144,802
The Lafayette	4601 Mayflower Rd., Norfolk	168	\$27,500,000	\$163,690
Hiddenwood North	17 Middlesex Rd., Newport News	108	\$14,600,000	\$135,185

Looking Ahead

The consistent pace of new construction is expected to be met with a bit of a slowdown in renter demand for units in the Hampton Roads multifamily market in the second half. Recovery in the national economy is expected to slow in light of rising interest rates, and the impact of a cooling pace of growth will be felt in demand for multifamily units. While vacancy is expected to trend higher, bouncing off cyclical lows posted last year, the rate will remain below the market's long-term average and allow for additional rent increases. Vacancy in Hampton Roads was stable at around 7 percent for much of the past decade before beginning to tighten in 2018.

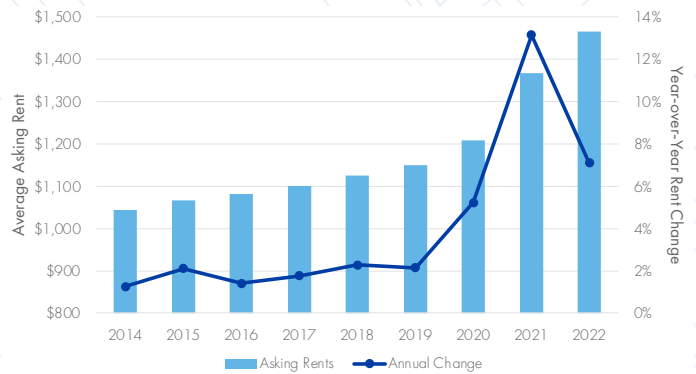
The region's rising asking rents should help maintain a healthy investment landscape for the remainder of 2022. Transaction volume in Hampton Roads generally increases in the second half of the year but anticipated rises in interest rates could curtail activity. Current owners are expected to be resistant to accepting sharp increases in cap rates, particularly as rents continue to trend higher. There will likely be a few months where transaction activity slows as both buyers and sellers adjust expectations to the new financing climate. Cap rates averaged around 4.2 percent in the second quarter and should trend higher, but it may take until the end of the year to establish a new equilibrium.

Employment Forecast



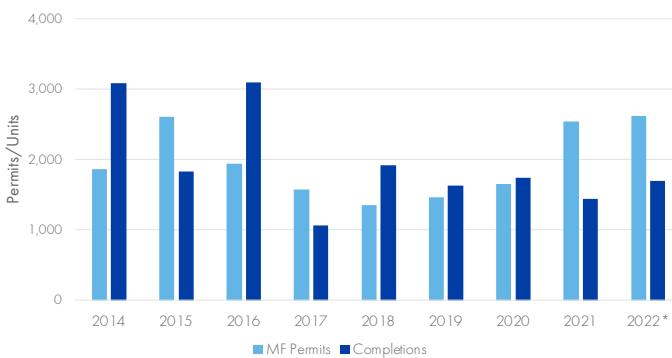
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



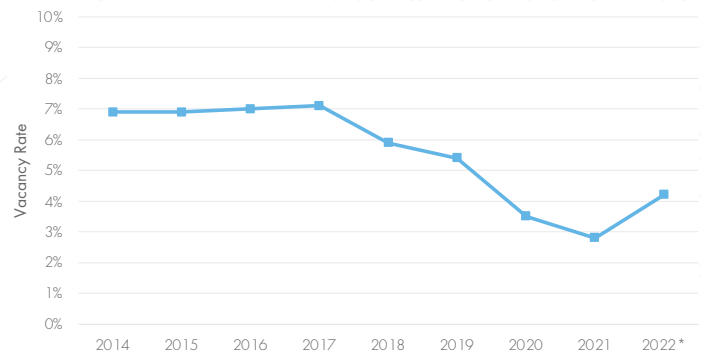
* Year End Forecast
Sources: Northmarq, CoStar, Real Data, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



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



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