

Richmond Metro Area Multifamily Market

Investment Activity Softens; Future Demand to Outperform Supply

Richmond's multifamily market remained relatively stable through the first quarter of 2023, with unchanged occupancy and a small increase in asking rents. Although asking rents are moderating from the exceptionally high rates recorded in the preceding two years, Richmond's overall effective rents increased 4.5% over the last 12 months, on a same-store basis, a modest increase from the fourth quarter of 2022. The exceptionally high rent growth recorded over the past 24 months is anticipated to moderate over the next three years, but increased demand relative to available supply by early 2026 should keep rent appreciation healthy and above pre-pandemic rates.

Net absorption measured 605 units in the first quarter of 2023, offsetting some of the loss seen last quarter. The region's occupancy rate remains unchanged from the previous quarter, measuring 94.5%. New deliveries added 636 units to the total inventory this quarter. The market's active construction pipeline measured 7,617 units, with an additional 2,019 units scheduled to break ground and deliver within the next three years. This will bring the region's total development pipeline to 9,636 units. Furthermore, the market's occupancy rate is expected to increase 190 basis points to 96.4% over the next three years.

Richmond's stable occupancy rate and sturdy demand continue to lure investor attention as an appealing secondary Mid-Atlantic market. However, investment activity is cooling due to challenging economic and financing conditions. Multifamily investment activity measured \$78.3 million this quarter, lower than the 10-year average of \$129.7 million. Average cap rates have decreased 10 basis points over the last year, to 4.8%; however, some upward pressure is likely to be experienced as investors reconsider valuations and current market conditions for investment opportunities.

Economic and Multifamily Market Outlook

Richmond's economic development has been instrumental in supporting its multifamily market over the last decade. The region gained 18,400 jobs during the 12 months ending in February 2023. The Richmond market is home to several Fortune 500 companies, including Capital One and Altria, as well as noteworthy education and medical employers, including VCU, University of Richmond, and state government offices. The market's healthy share of high-wage jobs and its affordability relative to nearby markets make it attractive to investors seeking the historical stability of the Mid-Atlantic and the upside of a diversified secondary market. Despite the region's optimistic economic drivers and business-friendly environment, macroeconomic factors are beginning to affect investment activity.

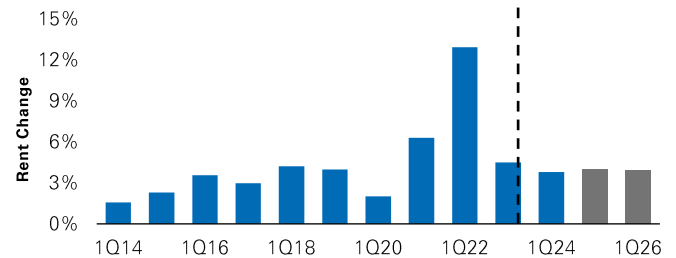
Economy

- **Payroll Employment:** 699,800 at February 2023.
- **Historical Job Change:** 18,400 jobs were gained in the 12 months ending February 2023.
- **Unemployment Rate:** 3.0% in February 2023, down 20 basis points from February 2022.
- **Average Household Income:** \$95,784 in 2021.

Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research.

Market Analysis

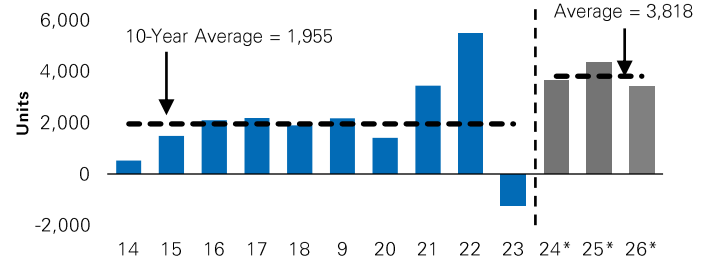
ANNUAL AVERAGE EFFECTIVE RENT CHANGE



Source: Real Capital Analytics, Newmark Research

Note: Effective rent change is calculated using same-store method for the trailing 12 months

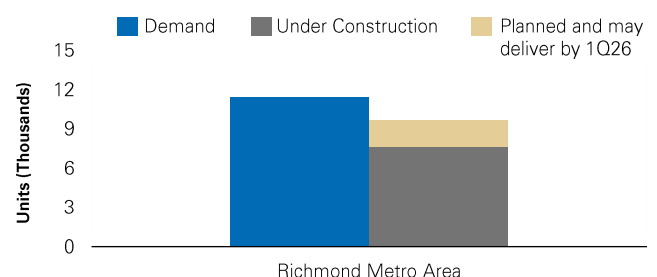
MULTIFAMILY ABSORPTION PROJECTION



*12 months ending in first quarter

Source: Real Capital Analytics, Newmark Research

DEMAND AND DELIVERY PROJECTIONS 1Q23 -1Q26



Source: Real Capital Analytics, Newmark Research

RESEARCH Q1 2023

Market Summary

	Current Quarter	Year-Ago Period	36-Month Forecast
Total Inventory (Units)	111,443	109,055	↑
Occupancy Rate	94.5%	97.8%	↑
Quarterly Net Absorption (Units)	605	1,014	↑
12-Month Effective Rent Change	4.5%	12.3%	↓
Quarterly Deliveries (Units)	636	735	↑

Metro Area Multifamily Investment Sales Market Summary

	Metro Region
12-Month Transaction Volume at 1Q 2023	\$1.3 B
12-Month Transaction Volume at 1Q 2022	\$1.4 B
1Q 2023 Average Price Per Unit	\$142,076
1Q 2023 Average Cap Rate	4.8%

Note: Values are trailing 12-month averages.
Source: Real Capital Analytics, Newmark Research

Market Statistics – Occupancy and Absorption

	Total Inventory (Units)	Overall Occupancy Rate	2020 Absorption (Units)	2021 Absorption (Units)	2022 Absorption (Units)	1Q 2023 Absorption (Units)	YTD 2023 Absorption (Units)
Richmond Metro Area	111,443	94.5%	2,504	5,469	-1,051	605	605

Submarket Statistics – All Classes

	Total Inventory (Units)	Overall Occupancy Rate	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Effective Rent Change	YTD 2023 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Richmond Metro Area	111,443	94.5%	\$1,441	\$1.59	4.5%	6.9%	636	7,617	9,636
Chesterfield County	15,260	94.8%	\$1,585	\$1.55	3.9%	6.5%	0	1,449	2,016
Downtown Richmond/ The Fan	12,598	95.7%	\$1,453	\$1.83	4.3%	3.2%	204	444	659
East Richmond	19,198	93.4%	\$1,276	\$1.48	4.0%	7.0%	51	530	530
Hanover County	5,517	96.5%	\$1,683	\$1.67	11.2%	6.5%	0	285	285
Northwest Richmond	12,128	93.9%	\$1,491	\$1.67	1.8%	6.7%	0	1,291	1,291
Petersburg/ Colonial Heights/ Hopewell	9,185	94.0%	\$1,181	\$1.28	8.0%	5.8%	0	0	0
Southside	22,013	94.2%	\$1,354	\$1.54	4.8%	9.7%	72	1,382	1,784
Tuckahoe/Westhampton	15,544	94.8%	\$1,645	\$1.71	3.1%	7.4%	309	2,236	3,073

*Units under construction plus those planned and likely to deliver within the next 36 months.
Note: Column totals may not be exact due to rounding. Rent growth calculated using same-store method.

Notable Recent Multifamily Sales Transactions

Project	Sale Price (Millions)	Price/Unit	Buyer	Seller	City
Element at Stonebridge	\$96.3	\$240,625	American Landmark	Boyd Homes	Richmond
Hickory Creek	\$65.0	\$221,088	NorthRock Companies	Capital Square 1031	Henrico
College Park	\$26.0	\$107,438	Dorbin CLG PK LLC	Brookfield	Richmond
Laurel Pines Apartments	\$21.0	\$175,000	Highlands Vista Group	H2 Capital	Richmond

Source: Real Capital Analytics, Newmark Research

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GLOSSARY

Absorption: Net change in occupied units over a specific period.

Effective Rent: The price at which a unit leases after factoring in all concessions and discounts, calculated over the lease period.

Inventory: Professionally managed, investment-grade apartment buildings with 40 or more units.

Occupancy Rate: The number of physically occupied units, expressed as a percentage of total inventory.

Pipeline: Units under construction, plus those planned and likely to deliver within the next 36 months.

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nrmk.com/research.

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