RESEARCH Q2 2022

Richmond Metro Area Multifamily Market

Investment Activity Accelerates; Occupancy Expansion Slows

Richmond's multifamily market softened slightly in the second quarter of 2022, with decreasing occupancy rates and asking rents. Average effective rents increased 12.4% over the past 12 months on a same-store basis, a slightly lower growth rate than in the first quarter of 2022. Exceptionally high rent growth in the region is expected to slow over the next three years, but balanced supply and demand through June 2025 should keep rent growth in line with pre-pandemic rates, settling around 4% in 2024-2025.

Net absorption measured negative 427 units in the second quarter, the lowest quarterly total over the last 12 months. The region's occupancy rate measured 96.8%, down 100 basis points from last quarter. There are 7,414 units under construction; 726 units delivered in the second quarter. Approximately 972 units are planned to begin construction and likely to deliver within the next three years, bringing the region's development pipeline to 8,386 units. Furthermore, the market's occupancy rate is expected to increase 20 basis points over the next three years.

The market's high occupancy rate, sturdy demand, and status as an appealing secondary market are supporting investment activity in Richmond. Total multifamily investment activity measured $522.4 million on the quarter, much higher than the 10-year average of $162.4 million. Average multifamily cap rates have fallen 100 basis points over the last year, and 30 basis points over the last quarter, to 4.7%.

Economic and Multifamily Market Outlook

Richmond's economic development has been instrumental in supporting its multifamily market over the last decade. The region gained 12,800 jobs during the 12 months ending in May 2022. The Richmond market is home to several Fortune 500 companies, including Capital One and Altria, as well as noteworthy "Eds and Meds" employers including VCU, University of Richmond, and state government offices. The market's healthy share of high-wage jobs, and its affordability relative to the nearby Washington market make it attractive to investors seeking the historical stability of Mid-Atlantic real estate and the upside of a diversified secondary market. However, despite the region's optimistic economic drivers and business-friendly environment, macroeconomic factors could suppress investment activity in the period ahead. Increased interest rates will not singly arrest investment activity, but the increased cost of capital could result in some deceleration in the second half of the year. Seasonality in real estate investing could further suppress volume in the third quarter, as historically this period represents the lowest share of annual investment activity.

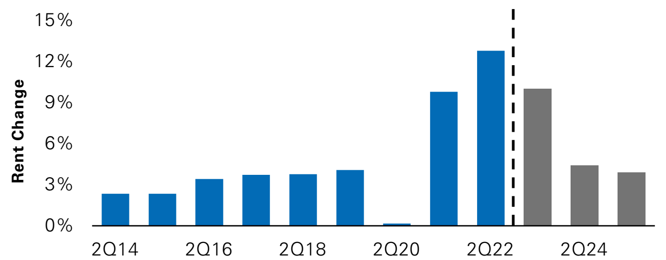
Economy

- **Payroll Employment:** 674,100 at May 2022.
- **Historical Job Change:** 12,800 jobs were gained in the 12 months ending May 2022.
- **Unemployment Rate**: 3.2% in May 2022, down 220 basis points from May 2021.
- **Average Household Income:** $95,784 in 2021.

Source: Moody's, U.S. Bureau of Labor Statistics, Esri, Newmark Research; July 2022

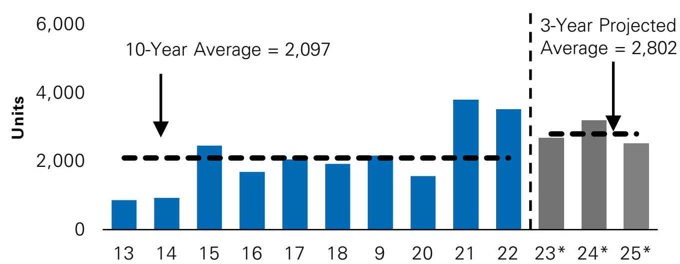
Market Analysis

ANNUAL AVERAGE EFFECTIVE RENT CHANGE



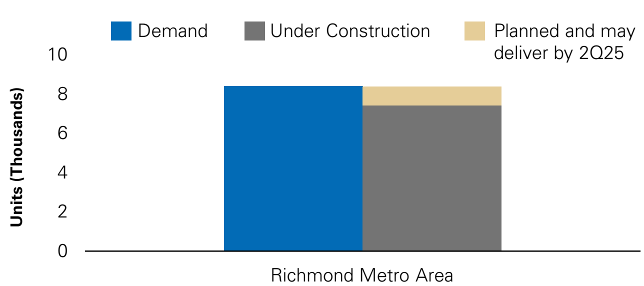
Source: Real Capital Analytics, Newmark Research; July 2022
Note: Effective rent change is calculated using same-store method for the trailing 12 months

MULTIFAMILY ABSORPTION PROJECTION



*12 months ending in second quarter
Source: Real Capital Analytics, Newmark Research; July 2022

DEMAND AND DELIVERY PROJECTIONS 2Q22 -2Q25



Source: Real Capital Analytics, Newmark Research; July 2022

NEWMARK

Market Summary

	Current Quarter	Year Ago Period	36-Month Forecast
Total Inventory (Units)	109,266	105,626	↑
Occupancy Rate	96.8%	96.8%	↓
Quarterly Net Absorption (Units)	-427	1,555	→
12-Month Effective Rent Change	12.4%	9.8%	↓
Quarterly Deliveries (Units)	726	967	↑

Metro Area Multifamily Investment Sales Market Summary

	Metro Region
12-Month Transaction Volume at 2Q 2022	$1.8 B
12-Month Transaction Volume at 2Q 2021	$742.0 M
2Q 2022 Average Price Per Unit	$176,334
2Q 2022 Average Cap Rate	4.7%

Note: Values are trailing 12-month averages
Source: Real Capital Analytics, Newmark Research; July 2022

Market Statistics – Occupancy and Absorption

	Total Inventory (Units)	Overall Occupancy Rate	2019 Absorption (Units)	2020 Absorption (Units)	2021 Absorption (Units)	2Q 2022 Absorption (Units)	YTD 2022 Absorption (Units)
Richmond Metro Area	**109,266**	**96.8%**	**1,507**	**2,504**	**5,469**	**-427**	**587**

Market Statistics – Effective Rents and Deliveries

	Total Inventory (Units)	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Effective Rent Change	YTD 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Richmond Metro Area	**109,266**	**$1,415**	**$1.56**	**12.4%**	**6.9%**	**1,461**	**7,414**	**8,386**

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 2022 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
Richmond Metro Area	**109,266**	**96.8%**	**$1,415**	**$1.56**	**12.4%**	**6.9%**	**1,461**	**7,414**	**8,386**
Chesterfield County	14,930	96.7%	$1,577	$1.54	12.4%	7.1%	175	1,455	1,455
Downtown Richmond/ The Fan	12,107	97.6%	$1,420	$1.79	5.9%	2.8%	188	951	1,004
East Richmond	19,104	95.2%	$1,272	$1.48	13.7%	6.7%	0	199	487
Hanover County	5,517	98.0%	$1,629	$1.61	13.8%	6.3%	0	0	0
Northwest Richmond	12,130	96.7%	$1,496	$1.68	15.1%	7.0%	28	1,291	1,291
Petersburg/ Colonial Heights/ Hopewell	9,181	97.0%	$1,111	$1.20	9.4%	5.2%	79	0	0
Southside	21,746	97.2%	$1,307	$1.49	12.8%	9.2%	48	1,091	1,468
Tuckahoe/Westhampton	14,551	96.8%	$1,636	$1.70	14.9%	8.0%	943	2,427	2,681

*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
11 North at White Oak	$154.5	$130,448	AION Partners	C-III Investment Management	Richmond
Aden Park and Glenway Green	$124.0	$230,483	AION Partners	Hivernan Realty Group	Richmond
Hunter's Chase Apartments	$79.2	$247,500	Capital Square 1031	Hamilton Zanze & Co.	Midlothian
Everleigh Apartments	$66.0	$400,000	Eagle Realty Group	Greystar Management	Henrico

Source: Real Capital Analytics, Newmark Research; July 2022

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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.