

Strong rent growth likely to continue

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,672**

UNITS DELIVERED **644**

MARKET FUNDAMENTALS



VACANCY RATE **5.4%**

YEAR-OVER-YEAR CHANGE **+170bps**

ASKING RENTS **\$1,506**

YEAR-OVER-YEAR CHANGE **+5.2%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$135,400**

HIGHLIGHTS

- The Hampton Roads multifamily market posted a strong performance during the second quarter, as the vacancy rate declined and asking rents continued to trend higher. The pace of multifamily deliveries picked up in recent months, and projects totaling roughly 650 units have been completed to this point in 2023.
- Asking rents are increasing at a healthy pace to this point in the year after dipping at the end of 2022. Area rents advanced 1.9 percent in the last three months to \$1,506 per month. Rents have risen 5.2 percent in the last 12 months, one of the fastest rates of growth in the country.
- Despite a healthy start to the year, multifamily sales velocity through the first half of 2023 is down 33 percent from levels posted in the same period last year, due to the higher interest rate environment. The median sales price year to date is \$135,400 per unit.
- Vacancy conditions tightened in recent months, as the rate fell 50 basis points during the second quarter to 5.4 percent. This marks the first vacancy decline since the second quarter of 2021. Year over year, the vacancy rate has risen by 170 basis points.

HAMPTON ROADS MULTIFAMILY MARKET OVERVIEW

Property performance metrics in the Hampton Roads multifamily market improved in recent months, as vacancy conditions tightened and rent growth remained elevated. Renter demand strengthened considerably during the second quarter, driving the first quarterly vacancy decline in several periods. The rate fell to 5.4 percent, lower than the market's long-term trend; vacancy averaged closer to 6.5 percent from 2015 to 2019. With vacancies fairly low, rents on the rise, and demand elevated, developers continue to move new projects through the construction pipeline. Deliveries this year should closely track average annual completions totals recorded since 2015.

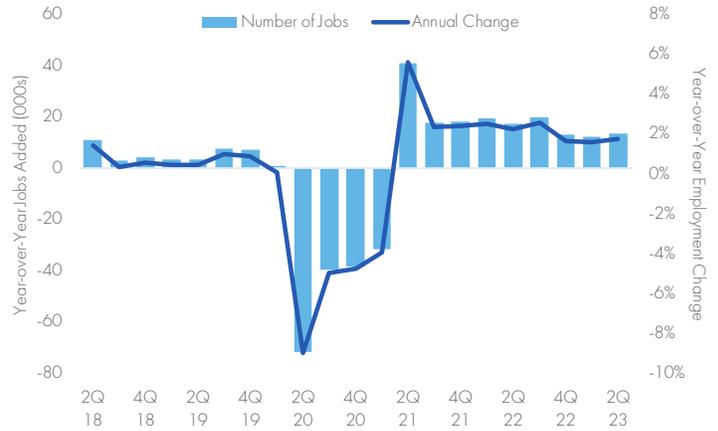
Apartment sales activity in the Hampton Roads investment market cooled in recent months, following a fairly consistent pace of transactions at the beginning of the year. Higher interest rates have resulted in a 33 percent drop in sales velocity from levels posted in the first half of 2022. While fewer properties are trading, the drop in activity recorded in Hampton Roads is less severe than the contraction at the national level. To this point, Class B and Class C assets have accounted for nearly all of the recent sales in the region, and the median sales price has reached \$135,400 per unit. Cap rates have ticked higher in response to higher borrowing costs. Cap rates averaged 5.75 percent in the last three months, up 25 basis points from the previous quarter.

EMPLOYMENT

- During the past 12 months, total employment in the Hampton Roads area has grown by 1.7 percent with the addition of 13,700 positions. Expansion has continued through the first half of 2023, albeit at a more modest pace than in earlier periods. Employers added 4,700 net new jobs in the area through the first two quarters of the year.
- While local employment continues to expand, growth has been uneven across industries. The education and health services sector has been one of the fastest-growing sectors, advancing at a rapid rate in recent periods and accounting for approximately half of the region's total job growth. Nearly 7,000 jobs have been added in the sector in the past year, a growth rate of 6.2 percent.
- Bauer Compressors recently announced plans to invest more than \$7 million to expand operations at its Norfolk location. The company plans to hire nearly 50 new workers at the facility.
- **FORECAST:** The Hampton Roads employment market is forecast to grow 1.1 percent in 2023, with the addition of 8,500 jobs. During the past decade, the region's growth rate has averaged 0.7 percent.

During the past 12 months, employment has grown by 1.7 percent.

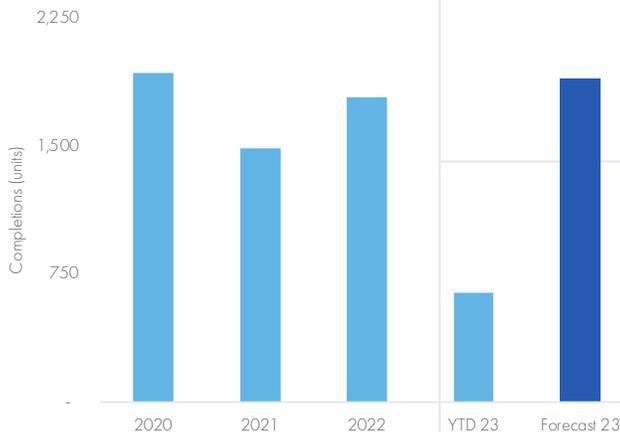
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

During the first half, developers delivered 644 units.

DEVELOPMENT TRENDS



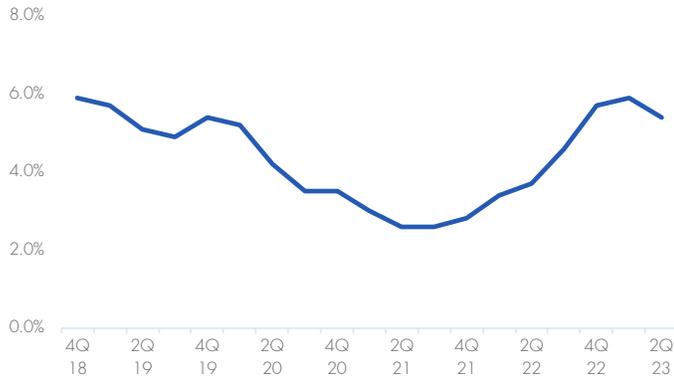
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- During the first half, developers delivered apartment properties totaling 644 units. The pace of deliveries to this point in the year is down more than 30 percent from the first half of 2022.
- Projects totaling roughly 2,700 units are currently under construction throughout Hampton Roads, down 16 percent from one year ago. The largest concentration of units that are under construction is located in Norfolk, where more than 1,200 units are under way. Additionally, nearly 500 units are under construction in Virginia Beach.
- Permitting volume slowed in recent months as developers pulled permits for fewer than 600 multifamily units during the second quarter, down 19 percent from levels at the start of the year.
- **FORECAST:** Developers are on pace to deliver approximately 1,900 apartment units in 2023, an increase of 6 percent compared to last year's total. The pace of new development has been very steady in the region; completions have averaged 1,850 units per year since 2015.

The rate declined 50 basis points in the second quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

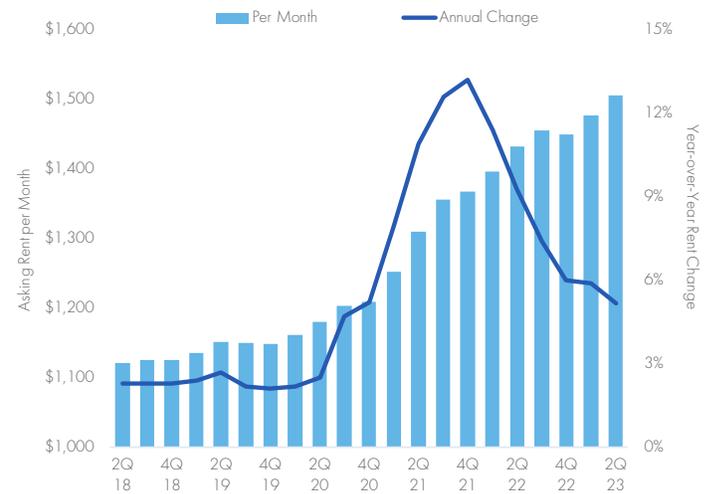
- Renter demand rebounded significantly in recent months, leading to the first quarterly vacancy improvement in more than two years. The rate declined 50 basis points in the second quarter to 5.4 percent. Despite the recent tightening, vacancy has increased 170 basis points during the past 12 months.
- The Virginia Beach submarket is posting the tightest vacancy conditions in the region. The rate in this submarket ended the second quarter at 4.6 percent. Vacancy in Virginia Beach has crept up 90 basis points in the past year.
- Following substantial tightening in recent months, Class A vacancy conditions are now closely aligned with levels recorded one year ago. Year over year, the vacancy rate in the top tier ticked up just 10 basis points to 4.1 percent.
- **FORECAST:** Local vacancy will likely hold steady through the end of the year, as supply growth should closely track absorption levels. The vacancy rate is forecast to finish 2023 at 5.4 percent, dropping 30 basis points for the full year.

RENTS

- Asking rents continued to advance at a rapid rate in recent months, rising 1.9 percent during the second quarter to \$1,506 per month. After dipping in the closing months of 2022, area rents have increased by nearly 3.9 percent year to date.
- Apartment rents in Hampton Roads increased 5.2 percent during the past 12 months. Prior to unprecedented growth in the previous two years, rents rose an average of 2.6 percent annually from 2016 to 2020.
- Rents trended higher across all of the region’s submarkets in the past year. The Virginia Beach segment of the market has some of the highest rents in the area, and rents continue to push higher; year over year, asking rents in Virginia Beach rose 3.1 percent to \$1,621 per month.
- **FORECAST:** Rents are forecast to continue to trend higher in the second half of 2023, resulting in a strong year of growth. Area asking rents are on pace to rise 5 percent this year, topping \$1,520 per month.

Rents increased 4.6 percent during the past 12 months.

RENT TRENDS



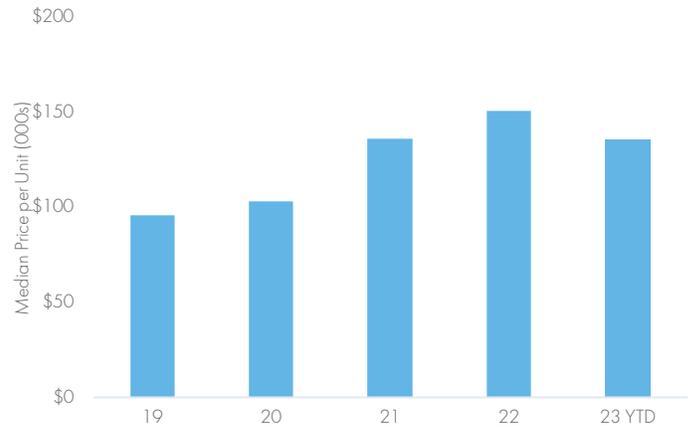
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Investment activity in Hampton Roads got off to a healthy start in 2023, with transaction counts in the first quarter closely tracking year-earlier levels. While investor demand persists, a more challenging interest rate environment restricted transaction activity during the second quarter.
- The median sales price year to date is approximately \$135,400 per unit, about 10 percent lower than the median price in 2022. A few larger projects traded at more than \$250,000 per unit in the first half.
- Sales of Class A properties have been limited and most transactions have involved Class B or Class C assets. The median price in Class B sales has exceeded \$180,000 per unit, while Class C properties sold for between \$105,000 per unit and \$145,000 per unit.
- Cap rates continued to trend higher in recent months, averaging 5.75 percent during the second quarter. Cap rates were approximately 5.5 percent in the first three months of the year.

The median sales price year to date is \$135,400 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

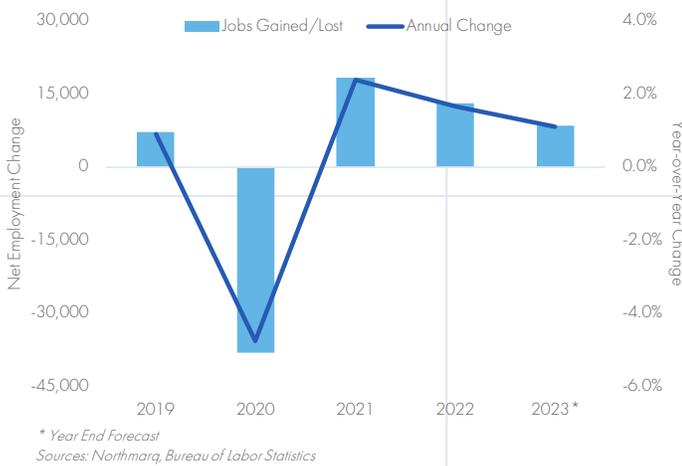
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Carson Square Apartments	1587 Briarfield Rd., Hampton	296	\$31,000,000	\$104,730
Lee's Landing	104 Republic Rd., Newport News	136	\$15,100,000	\$111,029
The Grand Hampton at Langley	611 Michigan Dr., Hampton	136	\$13,400,000	\$98,529

LOOKING AHEAD

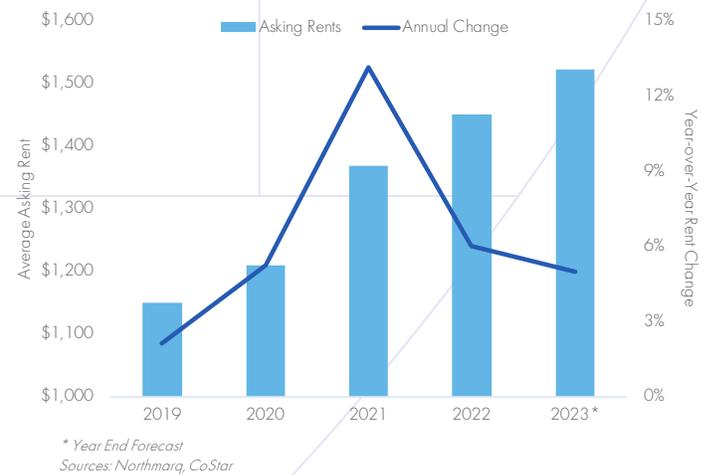
The Hampton Roads multifamily market is positioned for a strong end of the year. New development will gain momentum in the coming months with projects totaling 1,900 units forecast to come online in 2023, up slightly from last year's completion total. Net absorption is expected to keep pace with coming supply growth in the near future, leading to the vacancy rate staying in the mid-5 percent range. The introduction of newer, more expensive units to the local inventory, accompanied by continued absorption, should result in additional rent increases. Area rents are expected to finish 2023 about 5 percent higher than one year earlier, one of the stronger anticipated rent increases in the region.

Sales velocity in the Hampton Roads multifamily market should gain some momentum in the remainder of 2023 after transaction volume cooled in recent months. Although deal volume should accelerate a bit, total sales for the full year will lag levels recorded in 2021 and 2022. While older, Class B and Class C assets will continue to account for most of the sales in Hampton Roads, future activity in the next 12 to 24 months should pick up in the sale of upper-tier assets. Some of these Class A transactions will likely occur in the city of Norfolk, where much of the new development is concentrated. Cap rates have pushed higher, but may need to increase further to move some investors off of the sidelines.

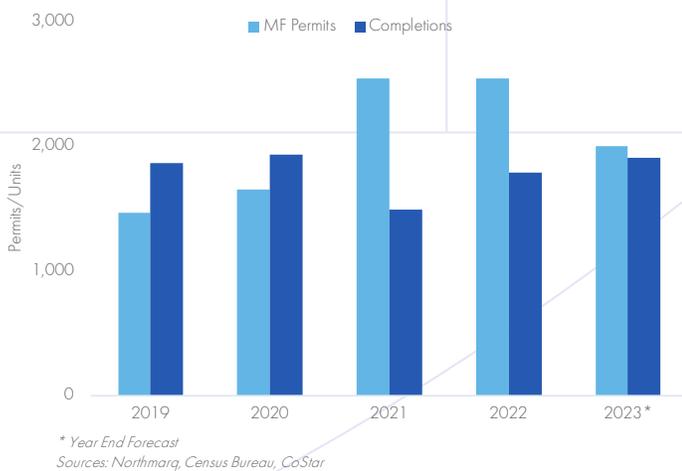
EMPLOYMENT FORECAST



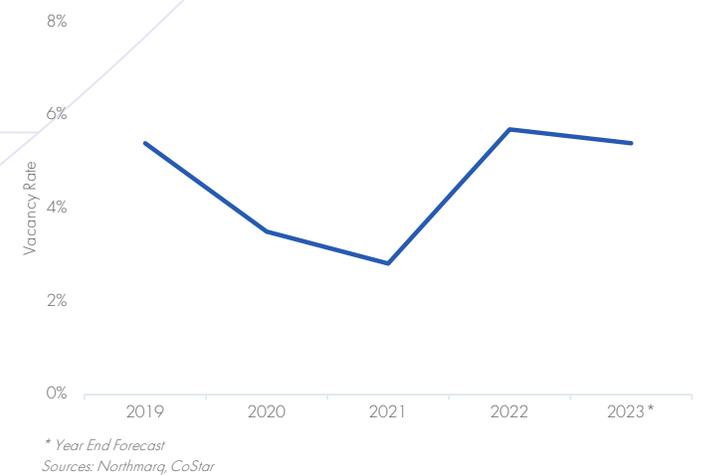
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





**FOR MORE INFORMATION,
PLEASE CONTACT:**

WINK EWING

Managing Director—Investment Sales
804.534.1485
wewing@northmarq.com

MATT STRAUGHAN

Associate—Investment Sales
804.781.5681
mstraughan@northmarq.com

KEITH WELLS

Managing Director—Debt & Equity
804.447.0433
kwells@northmarq.com

PETE O'NEIL

Director of Research
602.508.2212
poneil@northmarq.com

ABOUT NORTHMARQ

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching \$80 billion, and \$40+ billion in transaction volume.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

© 2023. All rights reserved.

BUILT TO THRIVE

northmarq.com