Fannie Mae

Multifamily Metro Outlook:

Richmond – Q2 2023

Overview:

- Richmond's economy remains an above average performer relative to the rest of the state and nation. Employment growth continues to accelerate, rising 4.53% annually in second quarter ending 2023 – the third consecutive quarter of elevated growth, and well above the average growth seen across the country. In turn, the unemployment rate declined 8 bps over the same period to 2.95%, which is below the national average.
- The labor force has grown significantly faster than the metro's historical average, leading to outsized gains in financial services and leisure/hospitality and allowing payroll wages to increase 4.79% over last year' s levels, which also exceeds the pace of growth around the rest of the country. While this led to the median household income advancing just under 3.0%, at just under $78,200, household incomes are just slightly above the national median income.
- With interest rates increasing at an unprecedented pace, wage appreciation in the metro was insufficient to mitigate the high cost of housing, which continues to diminish affordability, especially among single-family properties. At the beginning of 2021, single-family mortgage costs were on par with asking rents in the metro, but since have risen to command a 90% premium, making multifamily the more affordable option by a considerable margin.

Market Strengths:

- Richmond's population will maintain faster-than-average growth in the quarters ahead. Migration into the metro has been trending upward in the last few years, with net flows proportionally larger than those for other major metro areas in the state. Relative to its regional peers, Richmond's affordability has propelled stronger population growth than the state in the last decade, a trend accelerated by pandemic-era flight from high-cost cities. These migration trends will increase demand for population-dependent industries and housing but may come at the cost of additional stress on an already-tight housing market.

Market Weaknesses:

- One of Richmond's greatest strengths is also its weakness, the metro has high employment in mortgage finance where 12.8% of jobs are related to housing. Despite previously strong financial activity, a significantly increased interest rate environment has severely weakened demand in the housing sector.

New Development:

- In second quarter ending 2023, just over 3,400 units were delivered to the metro, the highest amount of supply delivered to the metro in a single quarter. Because deliveries come to the metro in waves of development, the construction pipeline declined slightly despite the flood of recent supply, though it remains at one of the highest levels to-date with more than 6,000 units underway. Richmond's condo development has always been spotty, but 2024 projects to see an additional 1,500 units delivered to the metro, but this is still just a fraction of the apartment activity.
- The number of single-family permits issued during second quarter ending 2023 totaled just below 4,400 – a decline of nearly -16.5% from levels seen during the same quarter ending last year and below the historical average – but equal to the number of new single-family home completions.

Multifamily Outlook:

- Multifamily Outlook: Lagging. Richmond's economic gains did little to improve apartment fundamentals. The vacancy rate increased another 50 bps to 6.0% and is now above the national average. Asking rents did increase 0.75% over last's quarters levels, rising to an average asking price of $1,370, but this too lags the national average. Even with the economy humming along, activity in the metro struggles to gain solid footing over the rest of the nation. And with floods of supply expected to come online in 2024, at best, performance will track the rest of the nation, but more than likely easing in the metro will only accelerate.

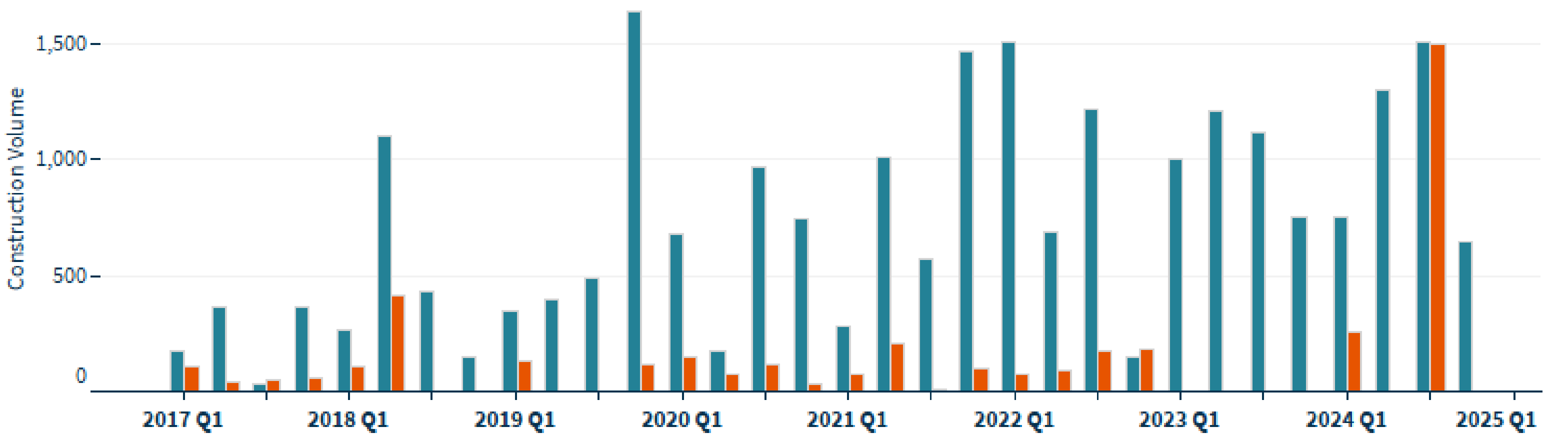
Economy:

- Economic Environment: More Stable. Richmond will outperform the rest of the country well into the next year, with strong migration and a high concentration of high-wage jobs expected to boost the economy in the near term. However, the long-term outlook is bleaker. Unfavorable demographic trends are expected to offset the metro's key asset: a lower costs of living and doing business, which is expected to weigh of performance.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

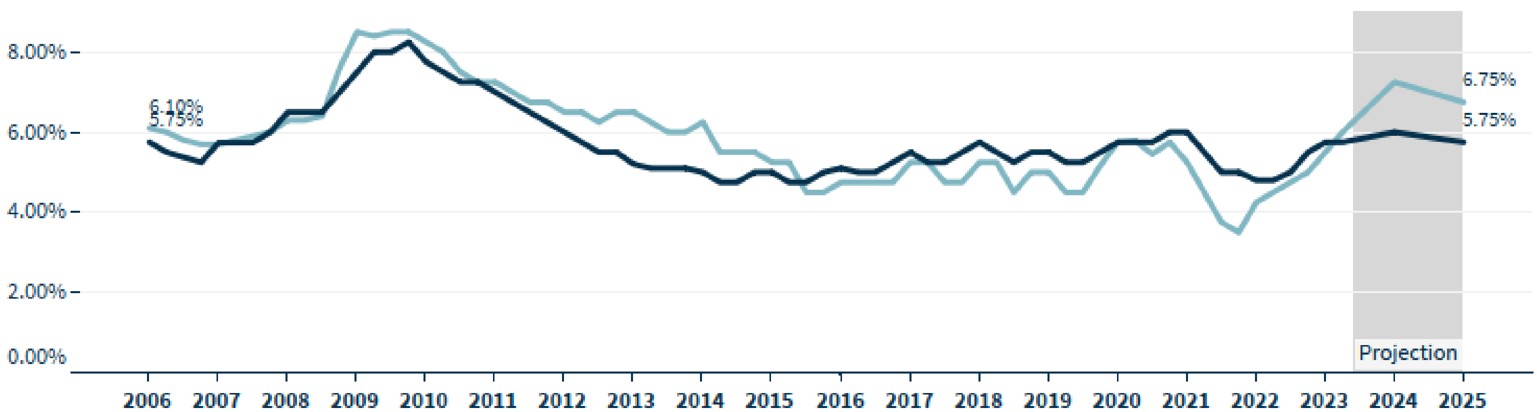
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Richmond | National

Q2 2023 Vacancy Rate:

6.00%

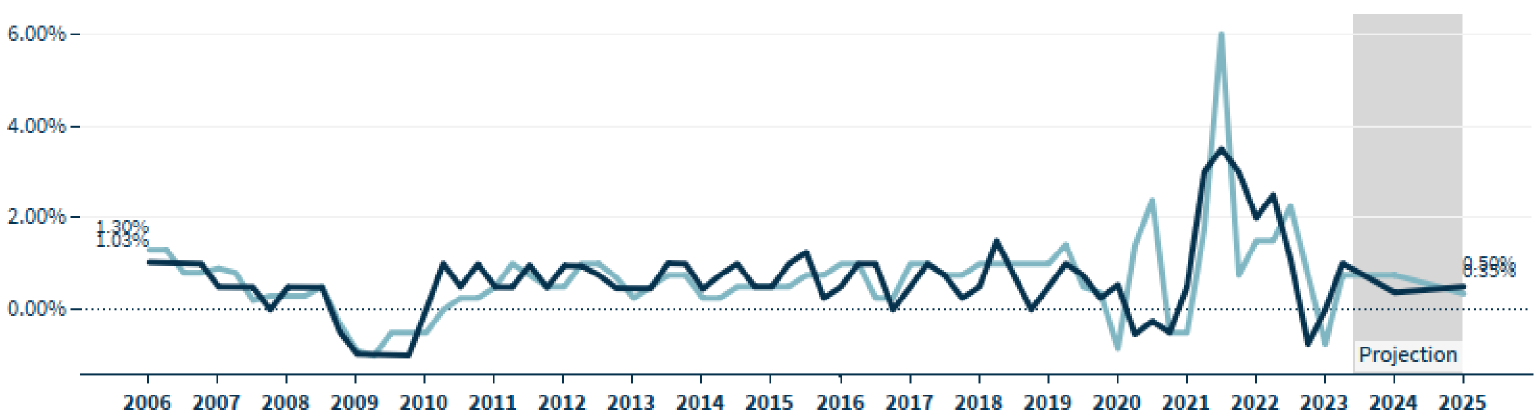


Asking Rent Growth

Richmond | National

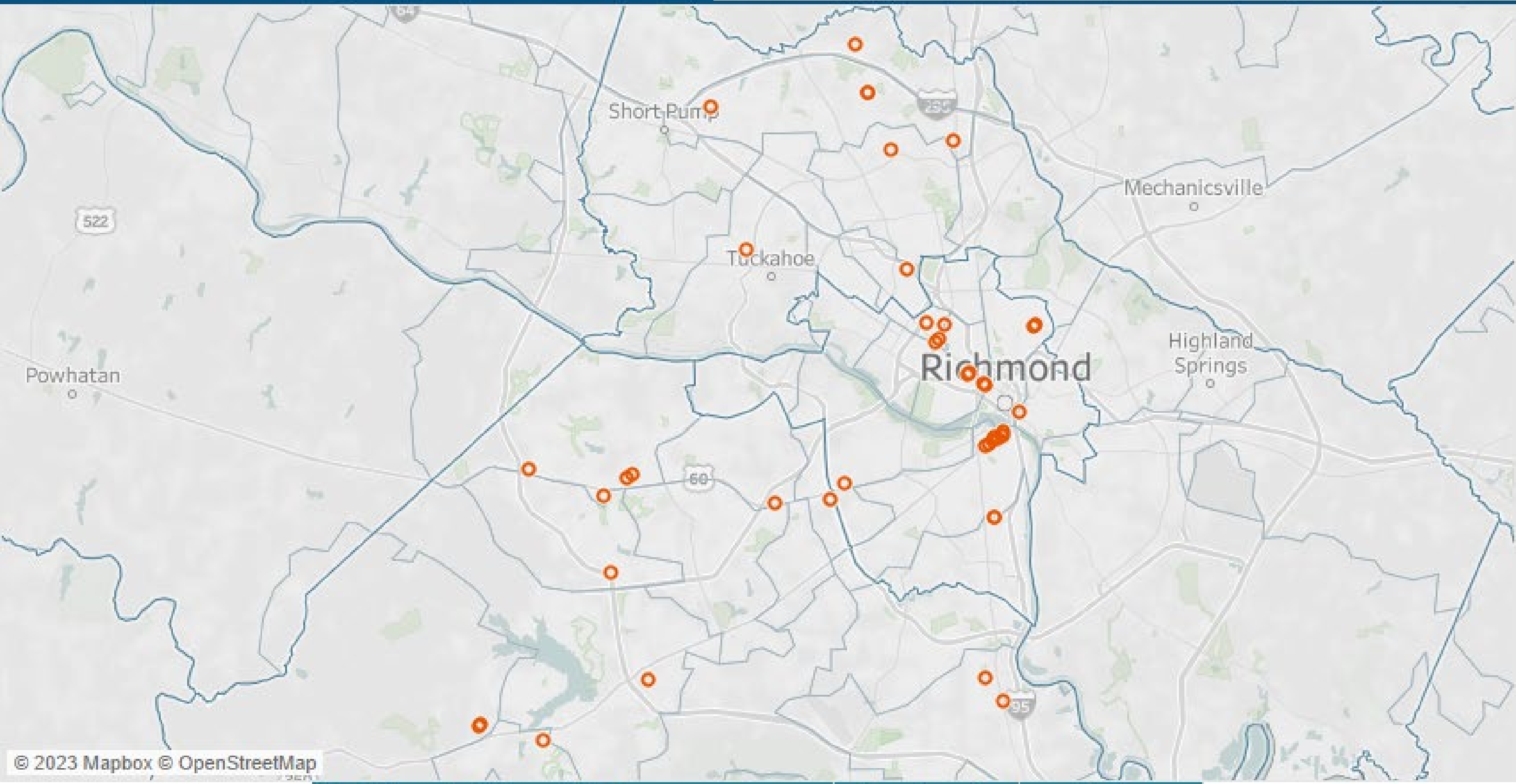
Q2 2023 Asking Rent:

$1,370



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Chesterfield County	12	1,472
Downtown Richmond/The Fan	4	247
East Richmond	3	344
Hanover County	1	24
Northwest Richmond	7	1,443
Southside	12	1,606
Tuckahoe/Westhampton	6	939
Grand Total	**45**	**6,075**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

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Multifamily Economics and Market Research Team

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Sources Used

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- U.S. Bureau of Labor Statistics
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- REIS
- Yardi
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