

Multifamily Metro Outlook:

Richmond - Q2 2021

Overview:

- Richmond is just getting back on its feet after falling to its knee from COVID-19's blows to the economy. Employment fell for the first five months of 2021 and just recently started moving in the right direction. The unemployment rate stands at 4.6%, below the regional average, but the reduction is driven just as much by a contraction in the workforce as it is by job gains.
- Vacancies, which have consistently trended below the national average since the third quarter of 2020, have been steadily declining since the beginning of the year, dropping to 4.5% during Q2 2021. Compared to the same period of last year, this is lower by about 125 bps.
- Considering just over 1,100 units were delivered to the metro during the quarter, pretty much on par with the rest of the nation, the vacancy rate decline is more reflective of increasing demand; this is further reinforced by asking rents increasing 2.5% quarter-over-quarter to \$1,180. Despite the decline seen in the two quarters prior to Q2 2021, asking rents this quarter were still elevated more than 8.25% over the levels seen last year.
- What's interesting is where the rent increases have taken place. Rents among Class A & B properties have increased by 8.3% and 8.8%, respectively, over the last year. Annual growth among Class C rents on the other hand, while up 7.4% year-over-year during Q2 2021, declined from 7.8% during the last quarter. In turn, concession for Class C properties shot up to 10.5%, in contrast with concession of 3.1% for Class A and 5.8% for Class B properties.

Market Strengths:

- Richmond has the highest concentration of financial employment in Virginia, and it was growing faster than in other parts of the state pre-pandemic. Strong demographics, especially the metro's high educational attainment, and favorable operating costs will help to draw new investment.
- Virginia ended fiscal 2021 with the largest budget surplus in the state's history thanks to support from the federal government, a significant rise in tax revenue, and cautious spending throughout the pandemic.

Market Weaknesses:

- Healthcare employment in Richmond fell more than average when the pandemic began and has not received the lift observed in other parts of the state. Local hospitals are struggling in the midst of capacity constraints as they have been forced to reprioritize COVID-19 cases over much more profitable elective and routine procedures.

Development:

- The pipeline in Richmond does not contain as much inventory as other metros across the nation. Just over 5,200 units are in the pipeline as of Q2 2021, compared to an average of 7,350 across the country. However, even with deliveries exceeding 1,000 units this quarter, the pipeline has increased 18.2% compared to the end of 2020.
- The increase in condo development has taken a backset; although around 2,000 condo units are currently underway, its an increase of just 11.1% over the last year, after 280 condo units were delivered this quarter.

Outlook:

- Although the apartment fundamentals improved in the second quarter of the year, much of this was the market playing catch-up thanks to pause in construction due to the pandemic. However, the pause didn't extend to projects in planning, leaving the pipeline slightly overloaded, which is expected to lead to increasing vacancy rates in the short-term. Rents growth rarely exceeds the national average, and that isn't expected to change in the near-future.
- Richmond's economy will recover more slowly than its regional peers and the rest of the nation. Growth in financial services and logistics will support the rebound over the near term but will not be enough to push the metro's long-term performance past average.

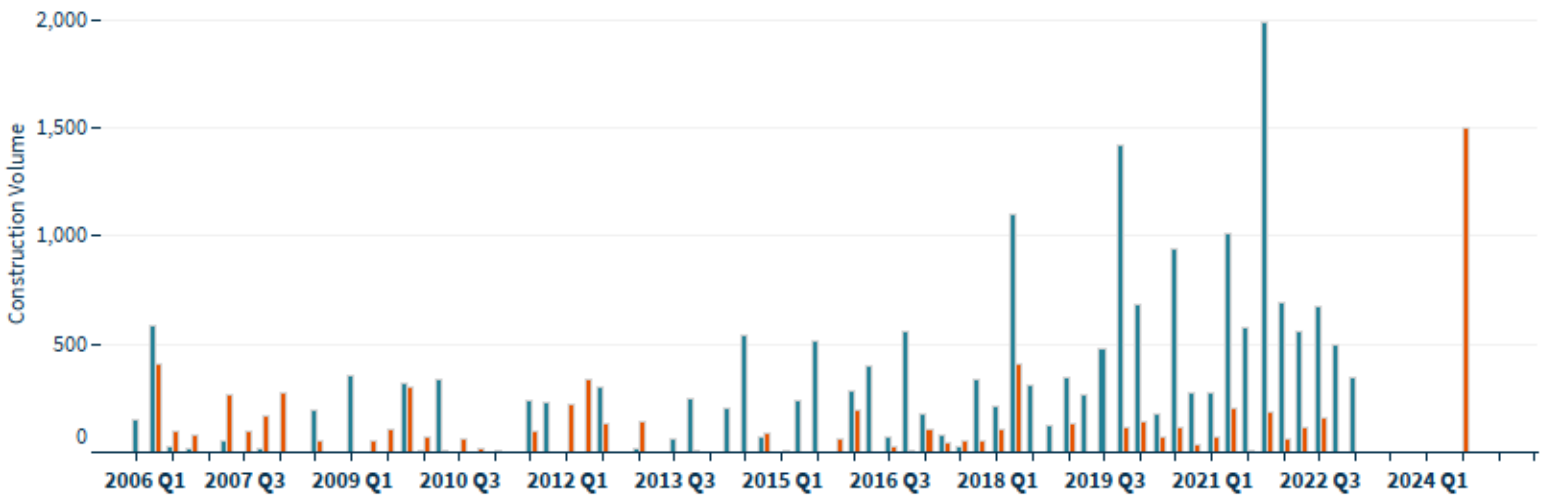
Five Year Metro Area Growth Forecast

	2020	2025	Richmond (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	1,327	1,363	0.53%	0.52%
Households	519	555	1.36%	1.41%
Renting Cohort (Ages 20-34)	277	277	-0.02%	-0.26%
Total Employment	659	717	1.68%	1.71%
Median Household Income	\$68,655	\$77,088	2.34%	2.83%
Median SF Home Price	\$325,253	\$402,800	4.37%	4.30%
Net Migration	4,604	3,385		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



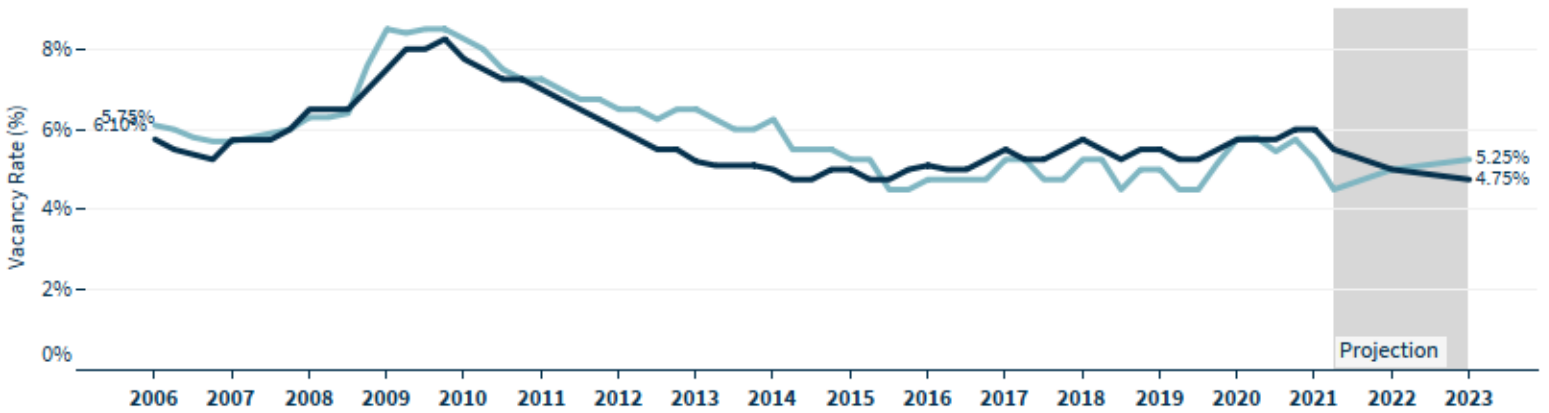
Vacancy & Rent Composite Estimates

Vacancy Rates

Richmond | National

Q2 2021 Vacancy Rate:

4.50%

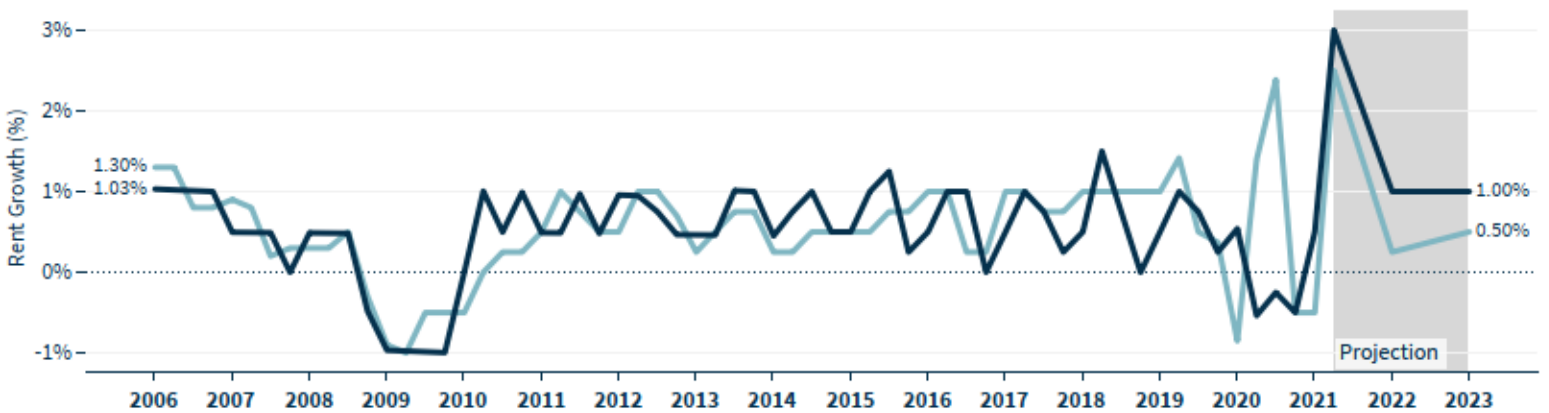


Asking Rent Growth

Richmond | National

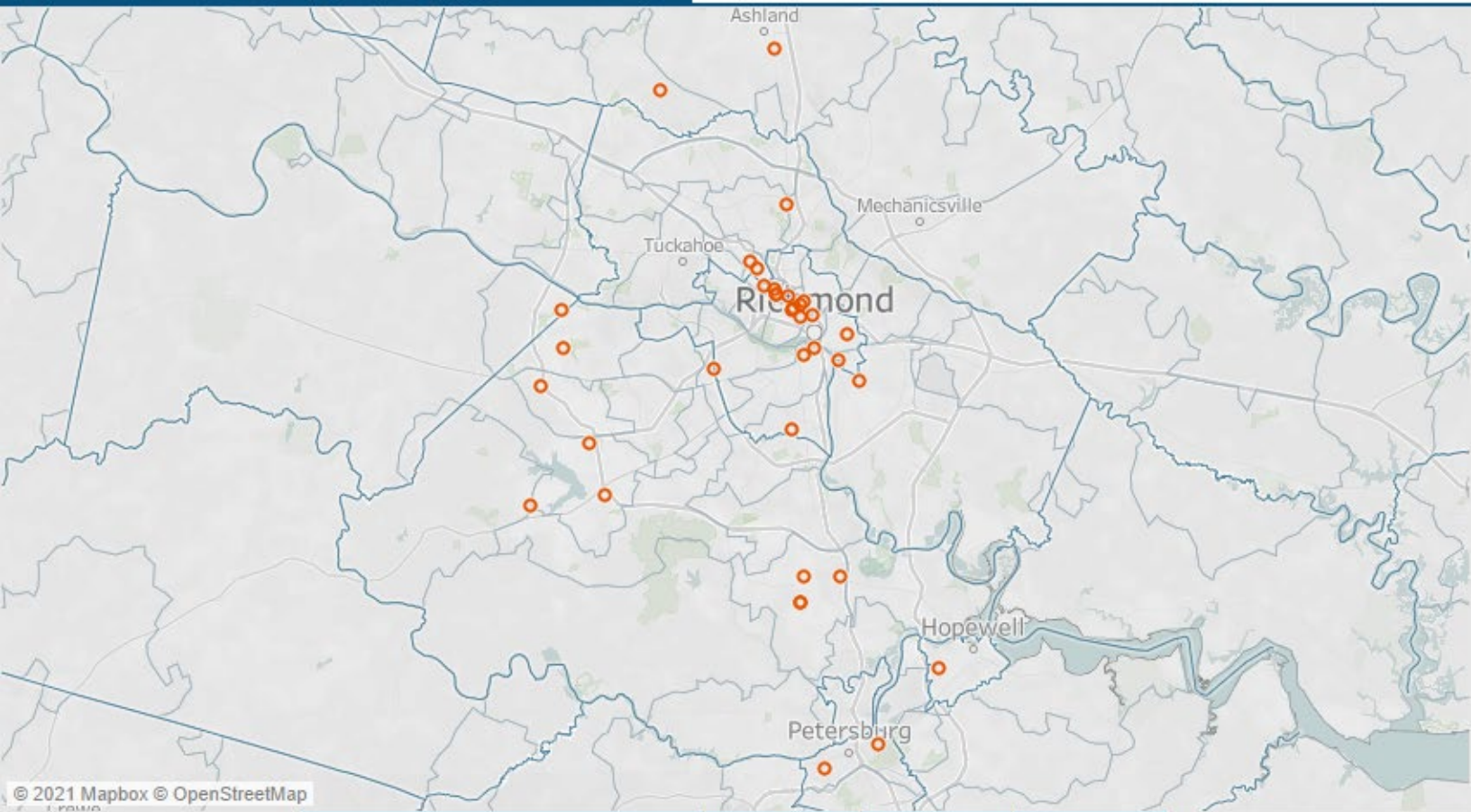
Q2 2021 Asking Rent:

\$1,180



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Chesterfield County	14	1,801	2.09M
Downtown Richmond/The Fan	7	924	1.10M
East Richmond	3	381	0.33M
Hanover County	2	4	0.01M
Northwest Richmond	1	84	0.11M
Petersburg/Colonial Heights/Hopewell	3	235	0.26M
Southside	4	459	0.46M
Tuckahoe/Westhampton	6	1,325	1.42M
Grand Total	40	5,213	5.78M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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