

Multifamily Metro Outlook:

Norfolk - Q1 2022

Overview:

- Norfolk's recovery is progressing, but performance has been mixed across industries. While the defense industry continues to flourish, healthcare has only recouped half the jobs it lost since the pandemic, and leisure/hospitality and retail is finally in line with pre-pandemic levels. In turn, the unemployment rate dropped to 3.2% in the first quarter of 2022, but this is just as reflective of a weakening labor force as it is the resurgence of jobs.
- Vacancy rates increased 25 bps over the last quarter to an average of 3.25%, but this is flat compared to vacancy levels from the same time last year and are significantly below the national average of 5.0%. Nonetheless, vacancy levels reflect sparse supply more so than outsized demand; only 164 units were delivered during the quarter, and while that level is on par with the amount of supply delivered during the first quarter of 2020, it's about a fifth of the volume from last quarter.
- Despite the market tightness, rents remained flat compared to last quarter at \$1,310. Although rents increased among all three property classes, the largest annual increase was among Class B properties, which increased 16.5%. What's more is that concession among these properties have dropped to the lowest levels ever at just 1.4%.

Market Strengths:

- The share of military employment is six-times the U.S. average, and the metro is home to multiple high-profile defense contractors. Both the military and private contractors rely heavily on the flow of defense dollars from the Pentagon.
- Strong trade volumes and infrastructure improvements bode well for the Port of Virginia. Business has been booming despite global supply chain disruptions. The port is among the fastest growing in the country, and 2021 was the port's most productive year ever, with container volume jumping 25% annually. The port has evaded the backlogs faced by many U.S. ports, partially because of less trade with Asian ports, which generally have stricter COVID-19 protocols that can cause delays.

Market Weaknesses:

- Norfolk has several cornerstones to ensure the economy does not further recede amidst a recession, household incomes in the metro still lag the rest of the state, and other government and defense hubs, such as Washington D.C.

Development:

- After a net decline during the previous quarter, close to 550 units were added to the development pipeline in Q1 2022, bringing the total to slightly under 3,100 units, an elevation of 21.7% over the past year. During the same period, close to 2,000 units were added to the metro's apartment inventory.
- The emphasis on development in the metro appears to be geared towards apartments - since Q4 2021, the pipeline inventory for condo units has dropped by about a third, and there are currently less than 500 condo units underway.

Outlook:

- The current pipeline is insufficient to produce adequate supply in the near-future; in-turn, market tightening will more than likely continue despite fundamentals reaching historic level. However, long-term new household formations are forecasted to lag expected deliveries and concerns over the spread of the virus poses additional downside risk from potential job seekers.
- Norfolk's recovery will lag the U.S. and the region but should pick up as more residents rejoin the labor force. Nonetheless, virus concerns add risk to the outlook and long-term, overreliance on the port and below-average expected population trends will cap growth, leading to employment and income growth to underperforming the rest of the nation.

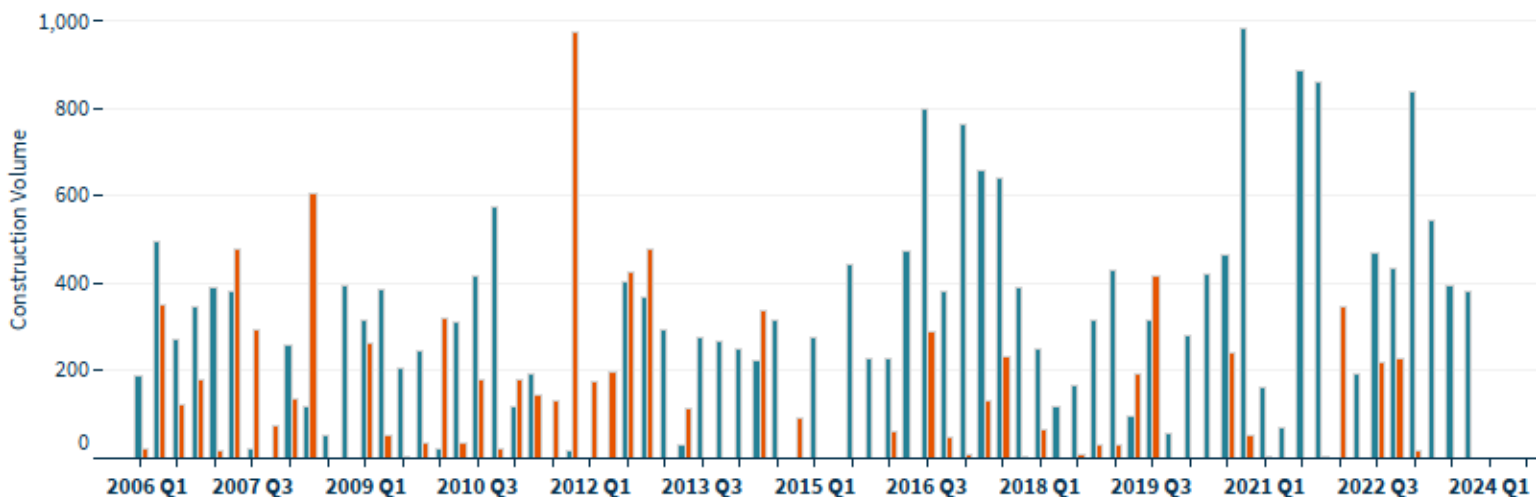
Five Year Metro Area Growth Forecast

Source: Moody's Analytics	Q4 2021	Q4 2026	Norfolk (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	1,747	1,782	0.40%	0.47%
Households (000s)	679	707	0.81%	0.90%
Renting Cohort (Ages 20-34) (000s)	409	404	-0.23%	-0.30%
Total Employment (000s)	768	801	0.85%	1.08%
Median Household Income	\$72,712	\$85,142	3.21%	3.30%
Median SF Home Price	\$292,288	\$333,952	2.70%	1.93%
Net Migration	1,769	1,475		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



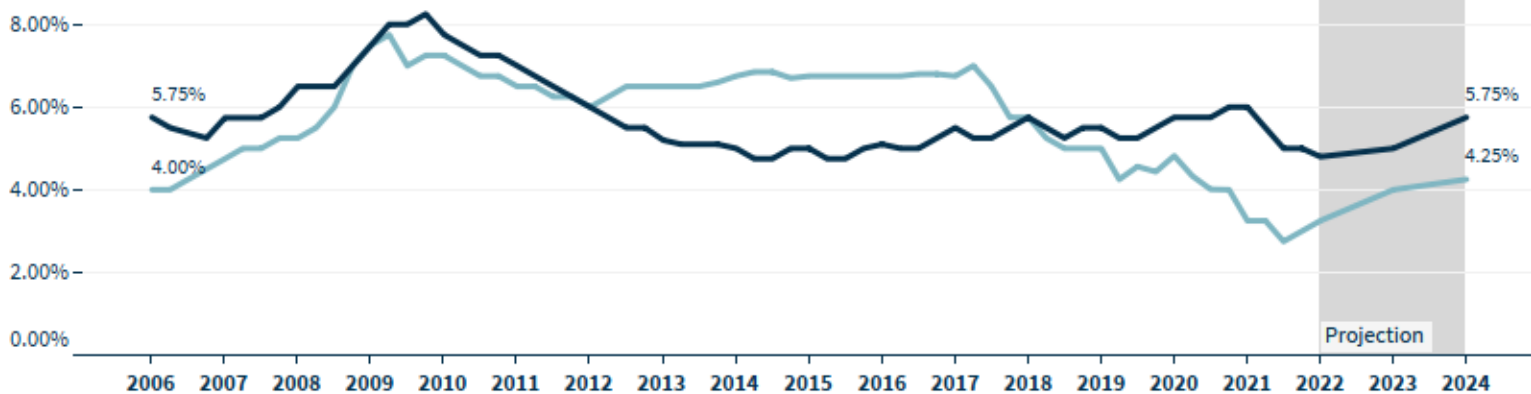
Vacancy & Rent Composite Estimates

Vacancy Rates

Norfolk | National

Q1 2022 Vacancy Rate:

3.25%

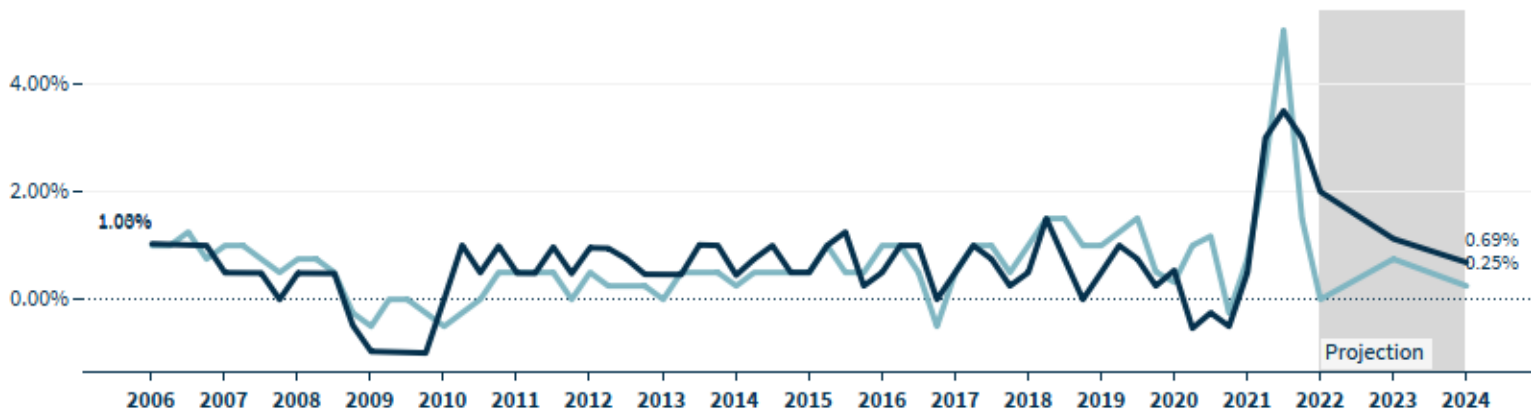


Asking Rent Growth

Norfolk | National

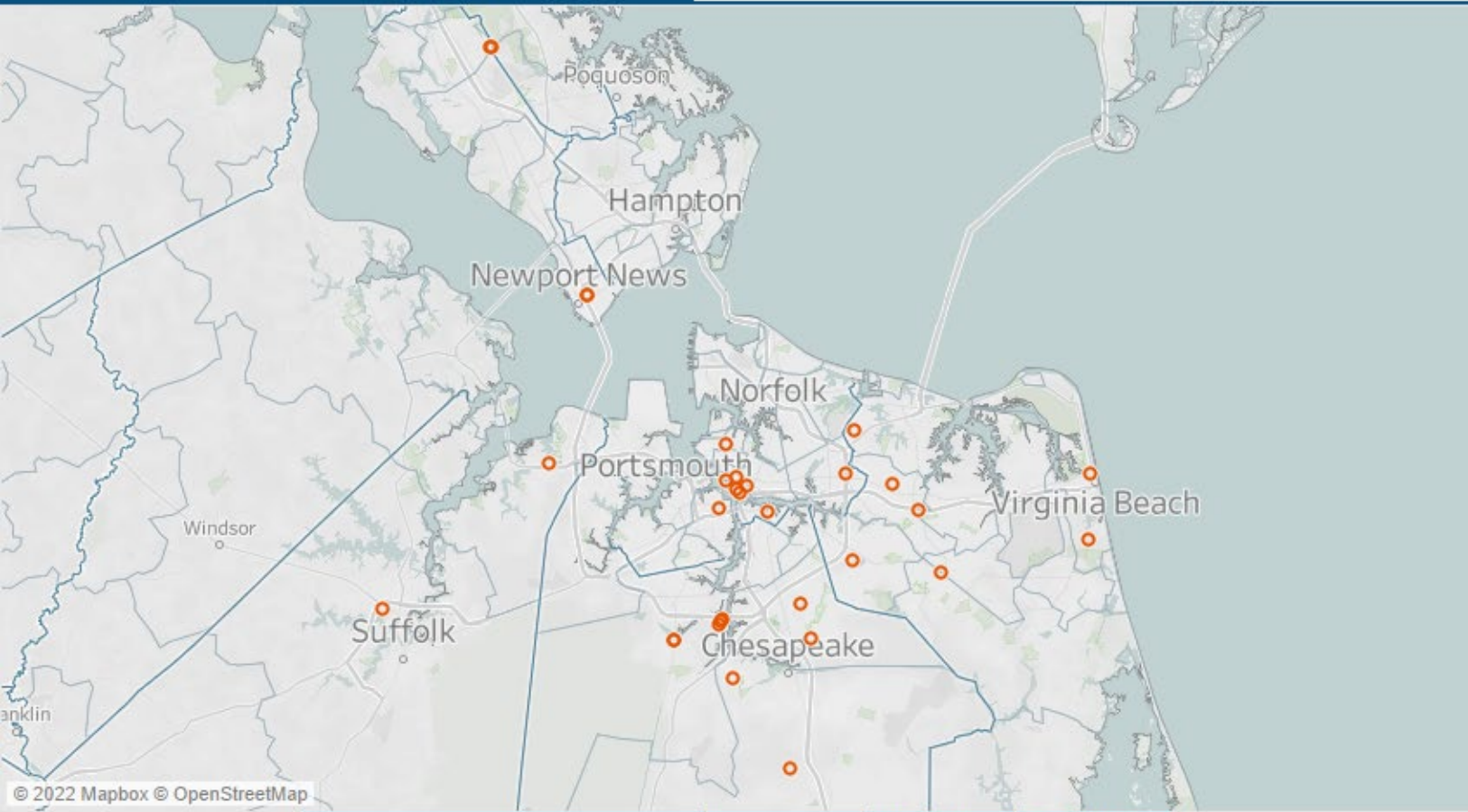
Q1 2022 Asking Rent:

\$1,310



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Chesapeake	9	295	0.38M
Newport News	4	263	0.39M
Portsmouth/Suffolk	3	392	0.35M
Southern Norfolk	8	1,161	1.51M
Virginia Beach East	4	542	0.80M
Virginia Beach West	5	440	0.52M
Grand Total	33	3,093	3.94M

Multifamily: ESR 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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