

Multifamily Metro Outlook:

Norfolk - Q1 2021

Overview:

- Norfolk slowed to a crawl over the winter as coronavirus cases spiked significantly, but now the economy is stepping into a recovery. Overall, the number of jobs recouped in the metro is consistent with regional averages, and at 5.5%, the unemployment rate is below the national average. However, weak underlying trends, such as the continued labor force contraction present risks to future job growth.
- The apartment market seems to be indifferent to these trends one way or another; Norfolk was one of the few metros with a vacancy rate that declined consistently throughout 2020, especially impressive considering the delivery of more than 2,000 units over the same period. With vacancy rates declining an additional 75 bps to 3.25% in the first quarter of 2021, multifamily demand in the metro has yet to abate.
- An even more encouraging sign for the recovery is that concessions weren't required to drive demand forward; rents for both Class A and B property were discounted less than 2.5% in the quarter, about half as much as concessions for Class C properties. This allowed asking rents to increase an additional 0.75% over the last quarter to \$1,160. Relative to last year, rents in the metro are up more than 4.5%.

Market Strengths:

- Norfolk boasts the largest naval base in the world, which has been crucial in providing much needed stability throughout the pandemic. And while near-term growth is highly contingent on federal budgets, the Pentagon's continued focus on shipbuilding necessitates a steady stream of defense dollars to flow to contractors in the metro.
- Key indicators for the tourism industry, such as hotel revenues – which increased 42.0% compared to last year – are signaling pent up demand for travel that in combination with relaxed business restrictions should provide the boost in consumer spending required to support employment growth through the summer.

Market Weaknesses:

- Even though retail and recreation activities in Norfolk have already surpassed pre-pandemic levels, hiring challenges will persist in the metro – especially as the volatility of the pandemic led to many low-wage workers changing industries or dropping out the labor force altogether.

Development:

- Norfolk has around 2,500 units under construction, which given recent absorption trends, does not seem to be enough to justify the demand in the metro despite its small size. Further, with just 160 units delivered this quarter, the metro is on track to deliver only a third of last year's volume.

Outlook:

- Multifamily Outlook: Steady.** Although deliveries appeared to surge in 2020 at first glance, a second look reveals activity really converged to levels seen a couple years prior. However, the current development pipeline is insufficient to produce the same amounts of supply in the near-future, which should allow for additional tightening in the metro – especially considering vacancies are already hovering near historical lows. Even with new household formations forecasted to lag expected deliveries over the next year, the apartment market should continue to overperform.
- Economic Environment: Stable.** Employment in the metro area is on track to return to pre-pandemic levels within the next year – slightly faster than expected for the rest of the nation. However, with smaller defense budgets expected in the near-term, overreliance on shipping and federal spending could turn the metro's greatest strength into its greatest weakness – potentially dampening future growth.

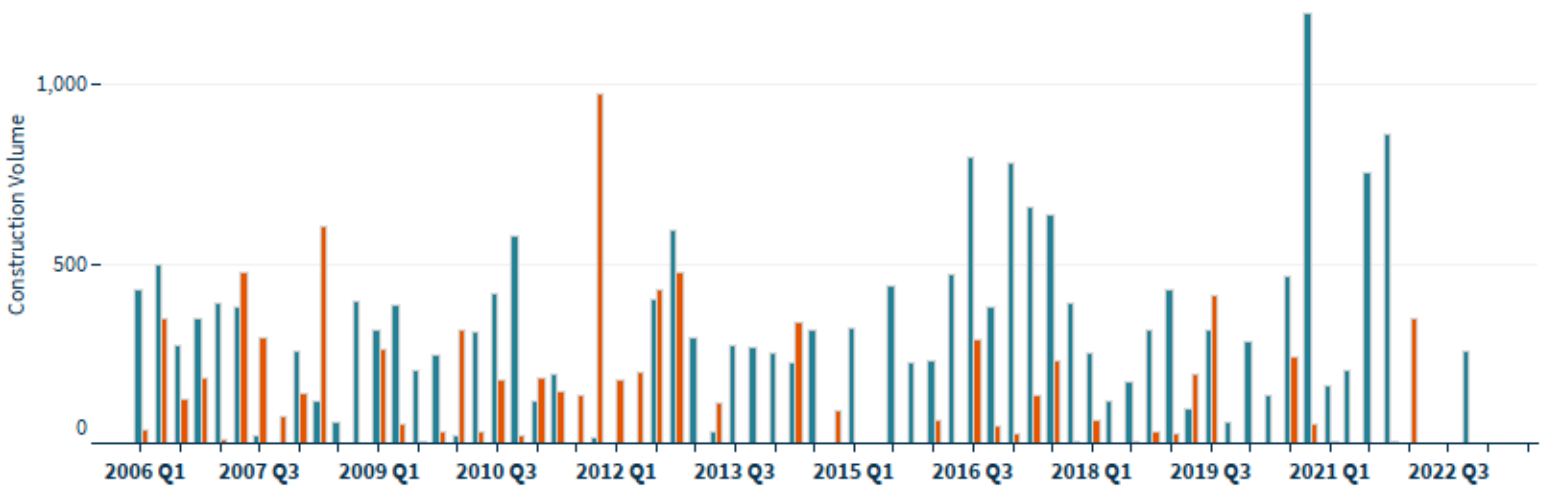
Five Year Metro Area Growth Forecast

Source: Moody's Analytics	2020	2025	Norfolk (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	1,745	1,785	0.46%	0.52%
Households (000s)	668	712	1.30%	1.41%
Renting Cohort (Ages 20-34) (000s)	409	408	-0.06%	-0.26%
Total Employment (000s)	771	830	1.49%	1.71%
Median Household Income	\$70,215	\$78,433	2.24%	2.83%
Median SF Home Price	\$270,551	\$345,902	5.04%	4.30%
Net Migration	3,059	1,911		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



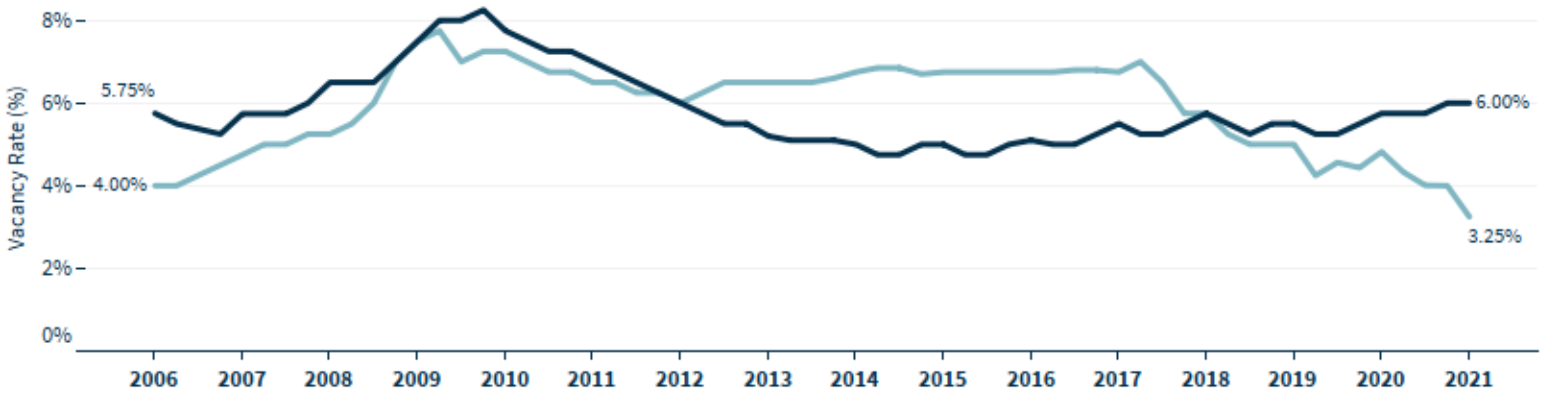
Vacancy & Rent Composite Estimates

Vacancy Rates

Norfolk | National

Q1 2021 Vacancy Rate:

3.25%

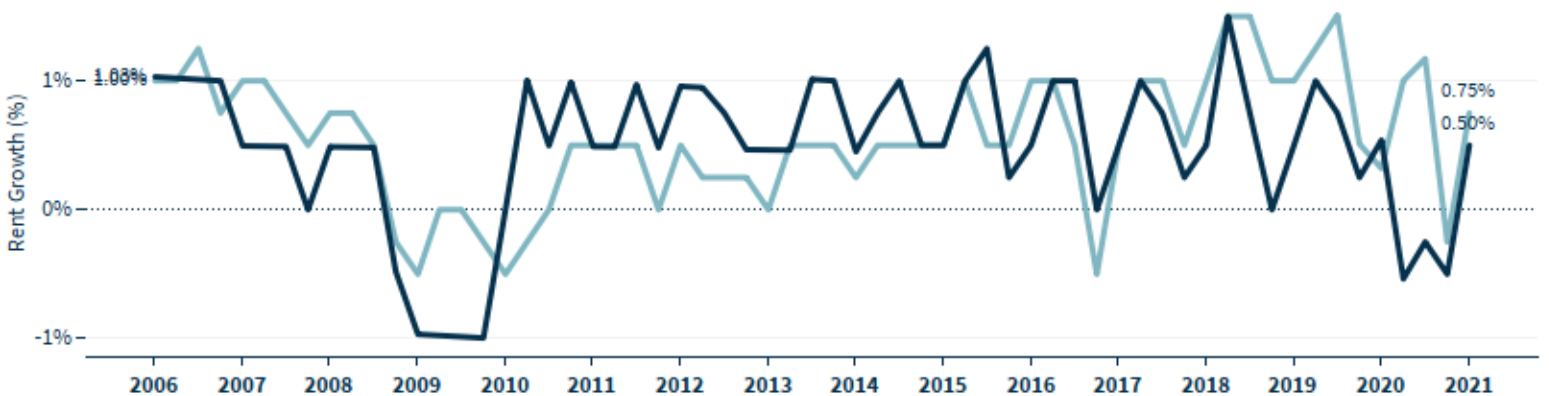


Asking Rent Growth

Norfolk | National

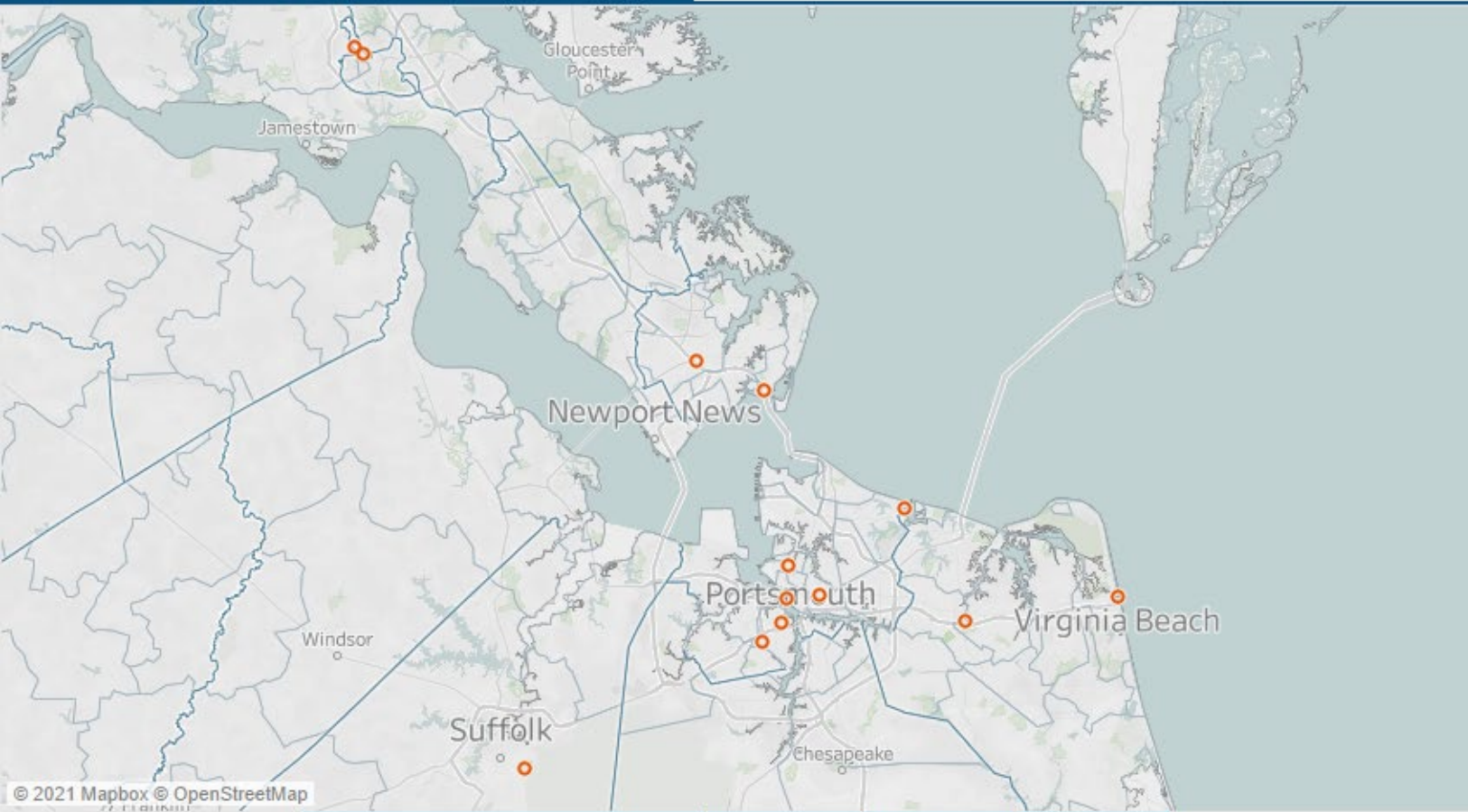
Q1 2021 Asking Rent:

\$1,160



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Hampton/Poquoson	2	444	0.59M
Northern Norfolk	1	132	0.18M
Portsmouth/Suffolk	3	225	0.24M
Southern Norfolk	3	525	0.57M
Virginia Beach East	1	234	0.19M
Virginia Beach West	1	219	0.36M
Williamsburg/Jamestown	2	463	0.62M
Grand Total	13	2,242	2.74M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Stephen Gardner, Economic and Strategic Research

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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