

Multifamily Metro Outlook:

Norfolk - Virginia Beach - Q1 2024

Overview:

- Norfolk's performance has been slowly stabilizing since the pandemic. Low business costs and aggressive development efforts have allowed personal income growth to increase 1.4% compared to last quarter. Expansion in the labor force led to monthly payroll growth that is mildly leading that of the state and region, especially leisure and hospitality which is showing signs of growth.
- The consistent flow of defense dollars to contractors in the area in combination with capital improvements in the logistics industry continues to fuel job creation; thus, it should hardly come as a surprise the median household income is above the national average at \$79,300 compared to \$75,100 for the national average. However, the rate of growth, 25.6%, is below the national average of 30.3%, according to RealPage.
- Although the cost of housing continues to rise in both the multifamily and single-family sectors, cooling inflation has slowed down the pace at which rents and mortgages are increasing. Although annual price growth among multifamily rents continues to outpace single-family housing price growth, the cost of renting in the metro remains a relatively more affordable option.

Market Strengths:

- Elevated defense spending and new investment projects will support Norfolk's outsized defense sector. The share of military employment is six times the U.S. average, and the metro is home to multiple high-profile defense contractors.
- Avangrid Renewables, an offshore wind company is planning to build an offshore wind project in the North Carolina Outer banks. The economic impact for Virginia is projected to be \$4.8 million and support 12,000 jobs. The project is also expected to generate over \$270 million in real estate tax revenue for Virginia beach.

Market Weaknesses:

- Norfolk has several cornerstones to ensure the economy does not further recede amidst a recession, but they do little to combat rising inflation as household incomes in the metro still lag the rest of the state.
- Norfolk's population continues to trail behind the national average in Q1 2024. In addition, the fastest growing population was the 55 years and over segment which grew 14.2% from 2017-2022. Meanwhile the metros 20-34-year-old cohort, a crucial component of the apartment market shrank -3.2%.

Development:

- Lackluster development has historically plagued Norfolk's multifamily market. However new apartment completions were modest recently as approximately 1,443 units were delivered in the year ending first quarter 2024, and there are 2,860 units under construction with most of those units scheduled to complete in the next four quarters.

Outlook:

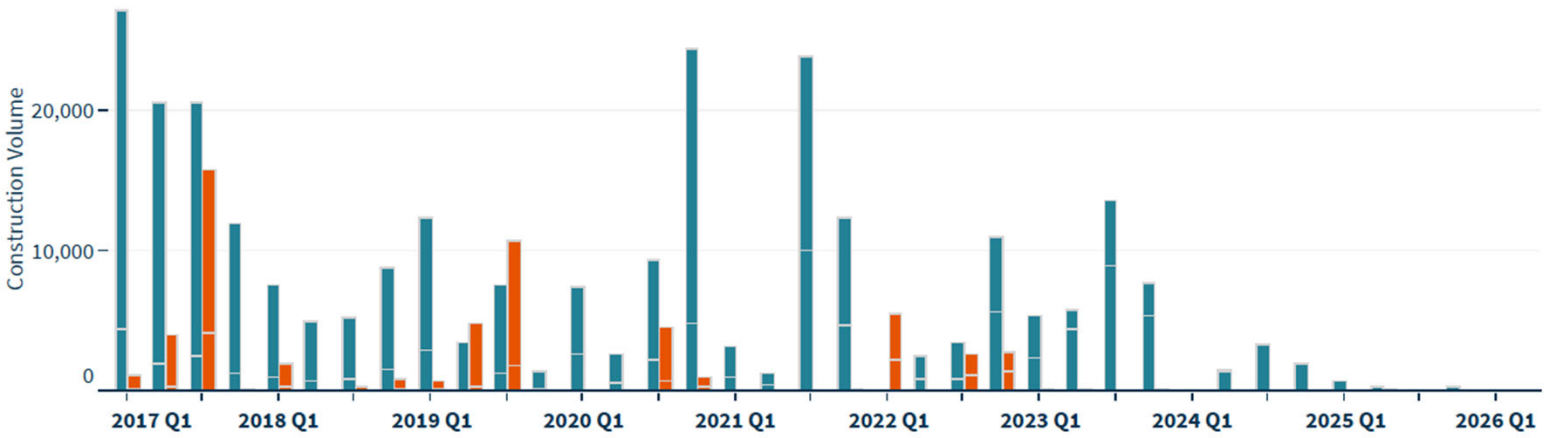
- Even with new multifamily supply trickling slowly into the market, the signs of easing appear to be ramping up. The vacancy rate has increased in each consecutive period since third quarter ending 2021, reaching 4.5% in Q1 2024. Nonetheless, the current multifamily pipeline is likely insufficient to produce adequate supply in the near-future, although the composition of the residents in the metro leave for little in term of demand. Thus, asking rents advanced 2.5% over the last year. As such, fundamentals are expected to remain in a relatively healthy range even if they continue modestly easing.
- Norfolk should benefit from the high-functioning port and elevated defense spending. However, the reliance on trade and federal budget decisions mean that outsized growth is just as unlikely as a severe downturn. Considering the performance of its peers, employment and income gains in the metro will probably underperform the rest of the region in the near-term, but the region is expected to overperform the rest of the nation.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

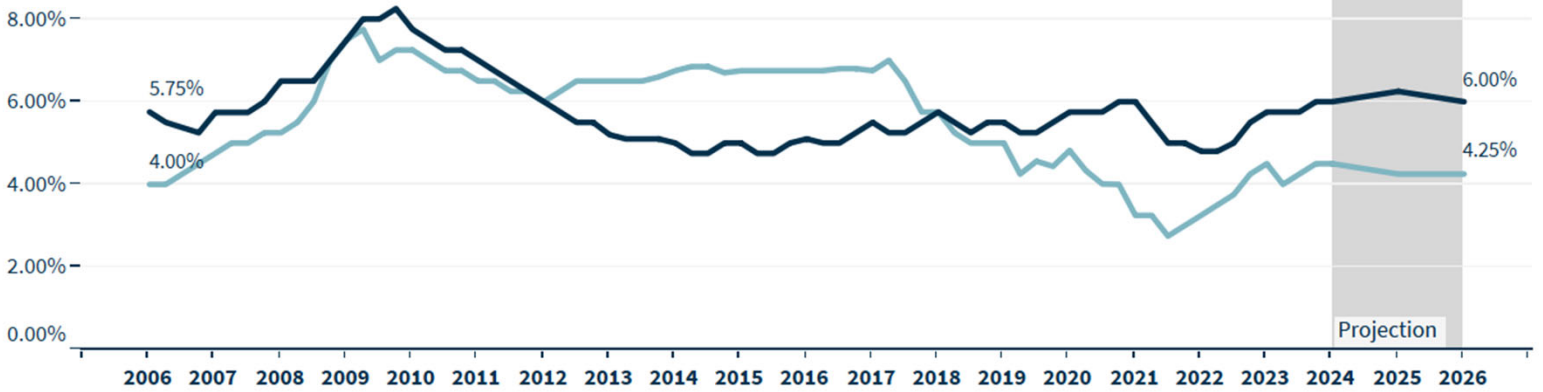
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Norfolk | National

Q1 2024 Vacancy Rate:

4.50%

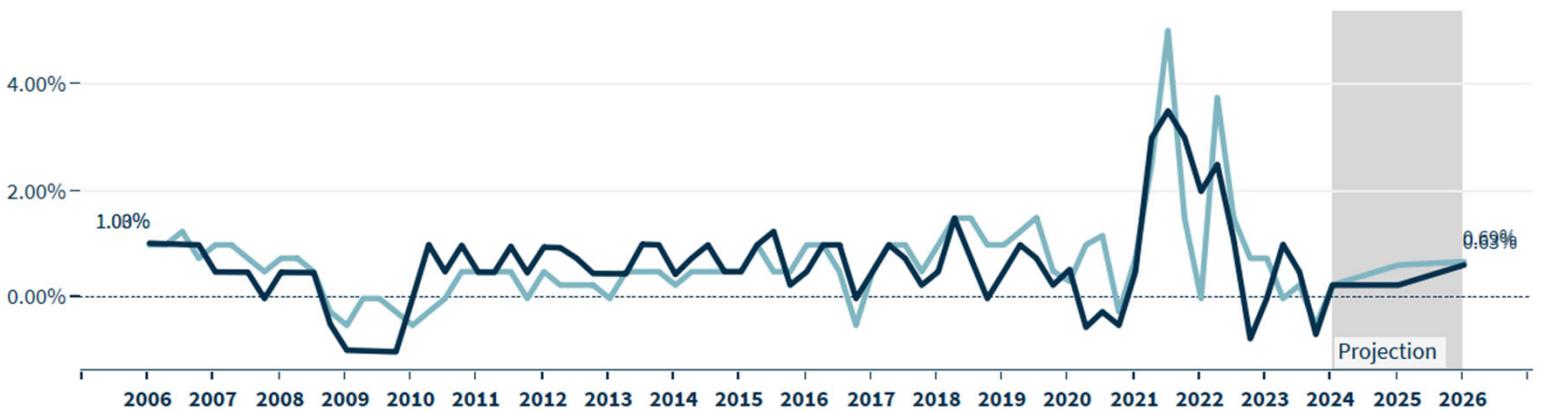


Asking Rent Growth

Norfolk | National

Q1 2024 Asking Rent:

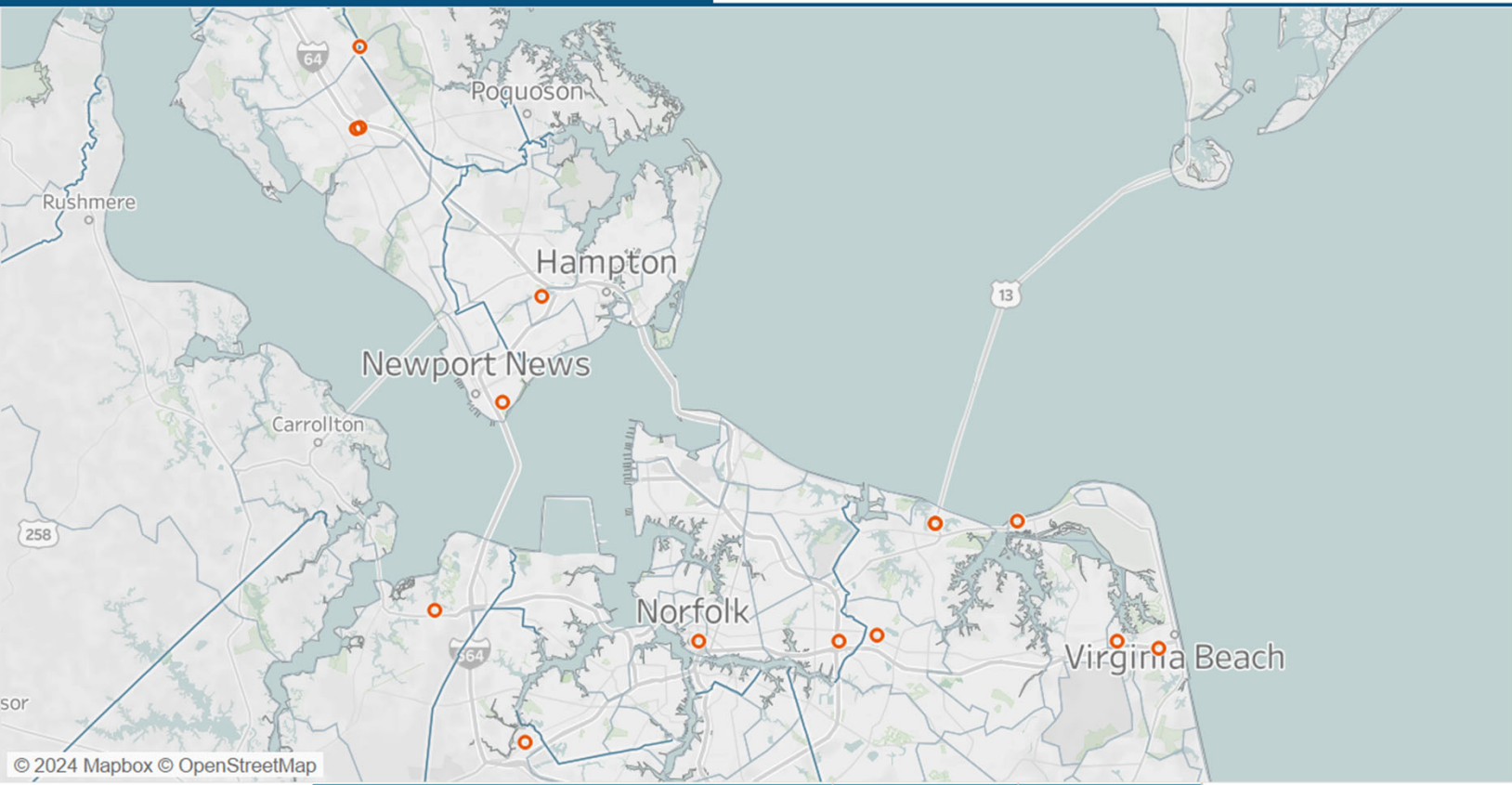
\$1,430



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Hampton/Poquoson	1	68
Newport News	4	566
Portsmouth/Suffolk	2	288
Southern Norfolk	2	435
Virginia Beach East	3	419
Virginia Beach West	3	269
Grand Total	15	2,045

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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