

# Multifamily Metro Outlook:

## Norfolk - Virginia Beach - Q3 2024

### Overview:

- Norfolk's performance has remained unexciting yet extremely steady. The third quarter has seen monthly payroll growth in line with the state and above the nation. This can be attributed to gains within the manufacturing space and a recoupment of job losses in transportation and warehousing in recent years post-pandemic.
- Absorption metrics show that demand is experiencing tailwinds from Class A and Class B stock, with net absorption reaching 928 units over the first three quarters of 2024. CBRE Econometric Advisors expect an additional 400 units of absorption by the end of the year.
- The consistent flow of defense dollars to contractors in the area, in combination with capital improvements and solid investment in the logistics and transportation industries, continue to fuel job creation; thus, it should hardly come as a surprise that the median household income is neck-and-neck with the national average, coming in at \$80,200 in Norfolk compared with the national mean of \$80,900, according to Moody's Analytics.

### Market Strengths:

- Continued elevated defense spending and new investment projects will support Norfolk's outsized defense sector. The share of military employment is six times above the U.S. average, and the metro is home to multiple high-profile private defense contractors that manufacture equipment for the military, furthering future job growth potential.
- In May, Dominion Energy began construction on an offshore wind farm around 30 miles off the coast of Virginia Beach. The company is investing \$9.8 billion in the project, creating local manufacturing jobs, and eventually the renewable energy project will assist in powering over 600,000 homes in the area.
- According to Moody's, the age 20-34 cohort, an important demographic for multifamily housing demand, is estimated to be 22.4% of the metro's total population. This is meaningfully above the national average of 20.3% as of Q4 2023.

### Market Weaknesses:

- While the metro's defense and military industries are cornerstones of the job market and bolster the local economy, this also means that Norfolk is highly exposed to governmental risk, especially considering the recent uptick in possible government shutdowns and last-minute, short-term government funding bills.
- Norfolk's population growth continues to trail behind the national average in Q3 2024. The metro saw growth of 0.3% over the past 12 months, while the national average population growth was double that at 0.6% over the past year.

### Development:

- Lackluster development has historically plagued Norfolk's multifamily market. Per Dodge Data & Analytics, the metro has around 1,500 units underway, mostly concentrated in the Virginia Beach West and Newport News submarkets. If demand continues to grow for multifamily rentals without a response in construction, rent growth and capitalization rates could spike.

### Outlook:

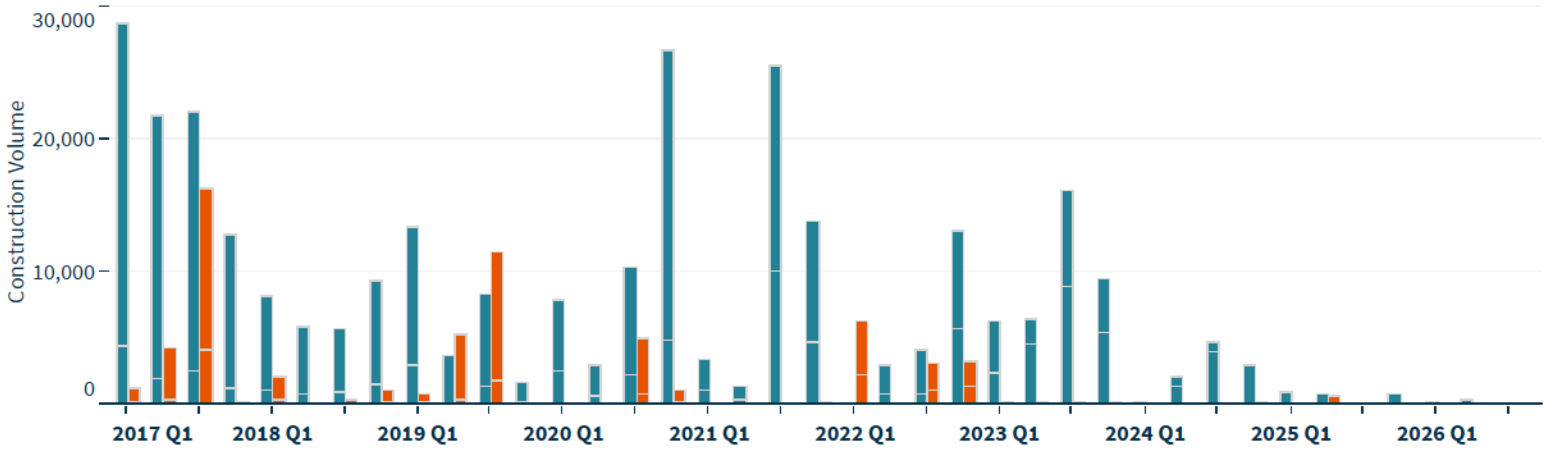
- Even with new multifamily supply trickling slowly into the market, the signs of easing appear to be ramping up. The vacancy rate has fluctuated since Q1 2023 but has decreased from 4.9% to 4.6% this quarter as a result of strong demand. Accordingly, the current multifamily pipeline is likely insufficient to produce adequate supply in the near future, although it is yet to be seen if the metro can experience population growth similar to the rest of the Southeastern region. Thus, asking rents advanced 1.0% in the third quarter of 2024. At this juncture, fundamentals are expected to remain in a relatively healthy range, especially if new deliveries can keep pace with demand growth.
- Norfolk should benefit from the high-functioning port and elevated defense spending. However, its 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

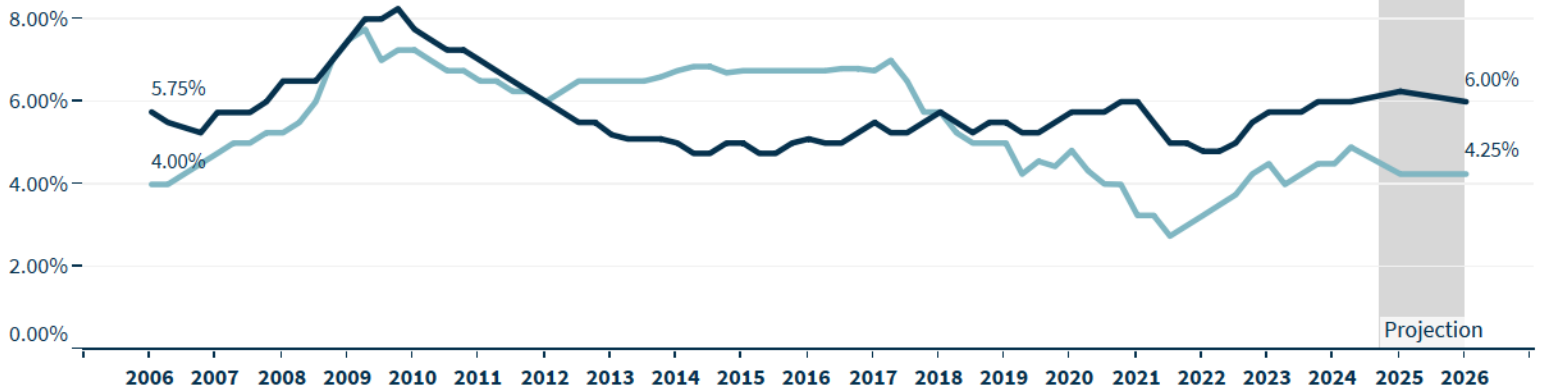
## Multifamily Vacancy & Rent Estimates

### Vacancy Rates

Norfolk | National

Q3 2024 Vacancy Rate:

4.60%

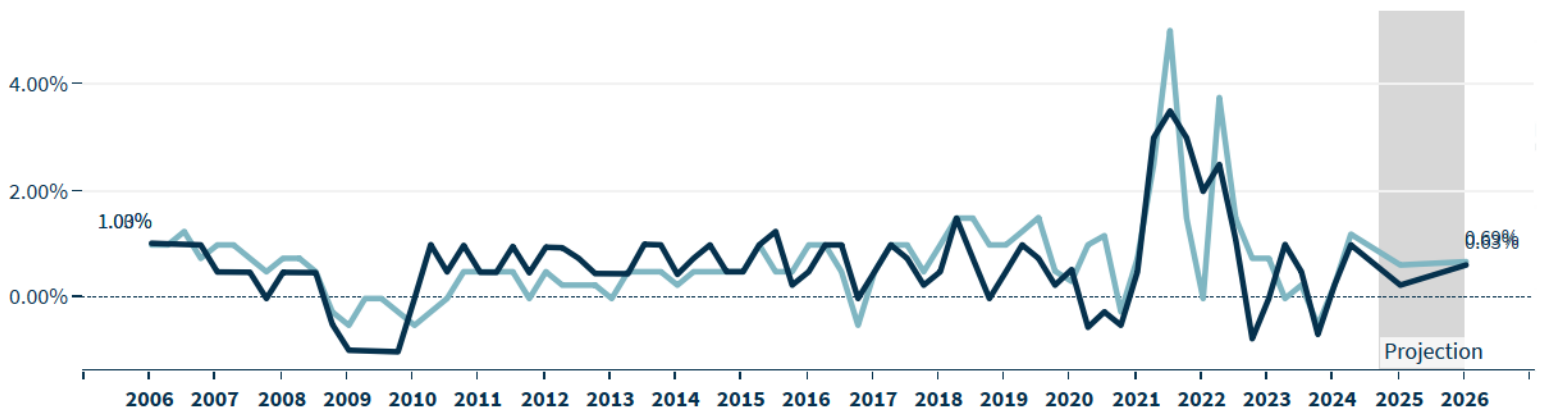


### Asking Rent Growth

Norfolk | National

Q3 2024 Asking Rent:

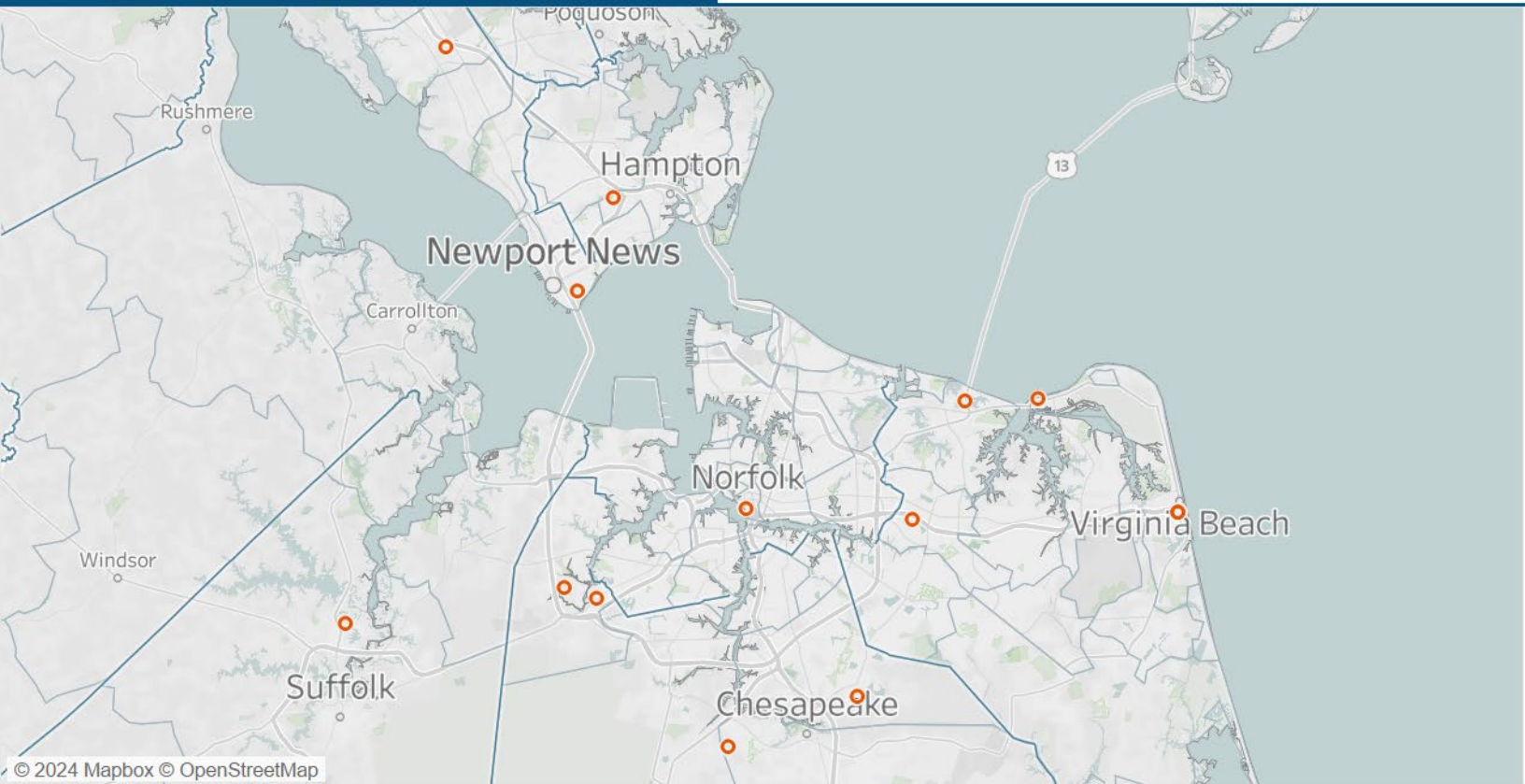
\$1,450



Source: Fannie Mae Multifamily Economics and Research



# Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Chesapeake	2	41
Hampton/Poquoson	1	68
Newport News	2	383
Portsmouth/Suffolk	3	99
Southern Norfolk	1	191
Virginia Beach East	3	226
Virginia Beach West	2	510
<b>Grand Total</b>	<b>14</b>	<b>1,518</b>

Source: Dodge Data & Analytics SupplyTrack Pipeline



## Multifamily: ESR Team

# Multifamily Metro Outlook: Norfolk – Virginia Beach Q3 2024

## Multifamily Economics and Market Research Team

John Collier, Economic and Strategic Research

### Sources Used

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

*Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.*