

Q2 2021 MULTIFAMILY MARKET REPORT



The multifamily rental sector in Virginia performed relatively well during the COVID-19 pandemic and is demonstrating strength in the first half of 2021. The outlook is for supersized rental demand in the months to come, although the multifamily market will face more competition from the single-family market, which is increasingly attracting families that are being priced out of homeownership.

Virginia's economy is opening back up and people are beginning to feel more optimistic as vaccination rates climb and restrictions have been lifted. In May 2021, there was a total of 3.89 million jobs in Virginia, which is down slightly from the April 2021 total but reflects a 7.0% increase from May 2020. The statewide unemployment rate fell to 4.5% in May, down from a peak of 11.3% in April 2020. Improving economic conditions are helping to fuel rent growth and strong rental demand across local markets.

This Multifamily Market Report provides data and analysis on multifamily rental buildings with 50 or more units. Information is summarized for nine metropolitan areas in Virginia. All market data are provided by CoStar and are analyzed by Virginia REALTORS®.

Key Takeaways

- **People are heading back to the rental market.** Statewide, vacancy in large multifamily rental buildings rose slightly at the end of 2019 and into 2020. Rising vacancy was due partially to renters moving into homeownership. Taking advantage of historically low mortgage rates, many renters decided that 2020 was the time to buy a home. However, a frenzied for-sale

| Economic Conditions (as of May 2021) | | |
|--|--------------|----------------|
| | Y-o-Y Change | Monthly Change |
| 3.89 million <i>Virginia employment</i> | ▲ | ▼ |
| 4.5% <i>Virginia unemployment rate</i> | ▼ | ▼ |
| 5.8% <i>U.S. unemployment rate</i> | ▼ | ▼ |

Source: U.S. Bureau of Labor Statistics

market and double-digit home price growth has led some of those households to return to renting, in some cases putting off their home purchase until the market settles down.

- Rents are rising, with the biggest gains in luxury apartments.** During the pandemic, there were no major declines in effective rent levels across Virginia’s multifamily rental markets. Statewide, overall rents in multifamily buildings dipped slightly in the second and third quarters of 2020. However, average rents posted strong gains in the first half of 2021, with the fastest rent growth in Class A apartment buildings. Across all Virginia markets, the average effective rent rose to more than \$2.00 per square foot in Q2 2021.

Furthermore, there is evidence that landlord concessions are easing up. In the second half of 2020, Class A apartment managers often offered free rent and parking, along with other perks, to attract new renters. In the second quarter of 2021, concessions like these have become less common.

- New construction has picked up, with a shift to mid-sized markets.** New multifamily construction slowed slightly during the spring of 2020, but the number of units under construction began to rise late last year. There were nearly 28,500 multifamily units under construction statewide in the second quarter of 2021. About 2,800 units were delivered during the quarter. While Northern Virginia accounts for about half of these new units, there has been a shift over the past 12 months to relatively more starts in the

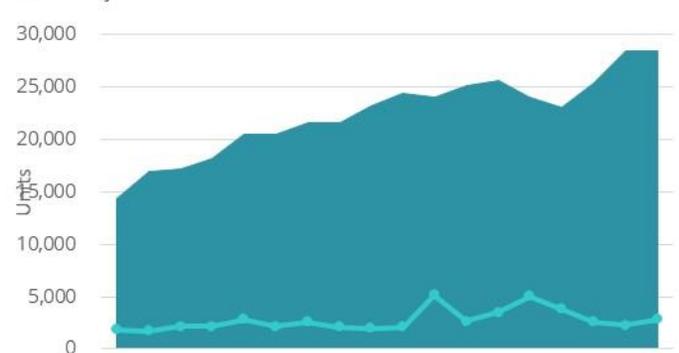
Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates



Virginia
Effective Rent



Virginia
Net Deliveries & Under Construction



Source: CoStar, data accessed June 24, 2021

state's mid-sized metro areas, with developers responding to growing demand outside of urban centers.

Local Markets

- **Northern Virginia.** The Northern Virginia multifamily rental market has been booming in the first half of 2021 after higher-end properties took a modest hit during the COVID-19 pandemic. More than 2,200 units were absorbed in Q2 2021, and the vacancy rate declined to 6.5%. Average rents in Class A buildings surged nearly 12% between the first and second quarter of 2021, and rents in Class B and C buildings were up more than 10%. There were more than 1,400 apartment units absorbed in the Northern Virginia market in the second quarter of 2021. Nearly 15,000 units were currently under construction, a major boost from the 11,000 units under construction during the spring of 2020.
- **Richmond.** The Richmond area multifamily market had been very resilient throughout the pandemic. In Q2 2021, a total of 912 multifamily units were absorbed, which follows five consecutive quarters when the market absorbed more than 1,000 units each quarter. The overall multifamily vacancy rate fell to 5.8%, the lowest level in more than five years. Rents were stable or rising slightly throughout 2020; however, there have been bigger rent gains in 2021, particularly among Class B and C properties. In the second quarter of 2021, the average rents in Class A buildings were up 3.7% compared to the first quarter, while the average rent in Class B and C properties increased by 7.2%. There were 661 multifamily units delivered in Q2 2021, and there were more than 8,100 units under construction.
- **Hampton Roads.** The COVID-19 pandemic did not dampen the multifamily market in the Hampton Roads area, and the market remains strong in the first half of 2021. In the second quarter of 2021, a total of 808 multifamily units were absorbed in the Hampton Roads market. The multifamily vacancy rate fell to an incredibly low 3.1%, which is half of the pre-COVID vacancy rate in the region. Multifamily rents rose steadily in Hampton Roads throughout 2020, and there was a sizeable uptick in rents in 2021. In Q2 2021, Class A rents rose 6.0% compared to Q1 2021, while Class B and C rents were up 6.7%. The pace of new construction activity slowed slightly at the end of last year, though new multifamily starts are on the upswing. In the second quarter of 2021, 447 units were delivered in Hampton Roads, and more than 3,300 units were under construction.
- **Roanoke.** While there was a bit of softening in the Class A multifamily rental market in the Roanoke area last year, overall, the market performed well during the pandemic and has strengthened in the first part of 2021. More than 100 multifamily units were absorbed in the second quarter of 2021, and the multifamily vacancy rate in the region fell to 3.0%, the lowest level in more than five years. In Q2 2021, the average Class A rent was up more than 11% compared to Q1 2021. Rents were up 6.4% in Class B and C buildings. No multifamily units

were delivered in the second quarter in the Roanoke area, but there were 610 units under construction, which is a significant increase over 2020 construction activity.

| Metro Area Multifamily Markets (Q2 2021) | | | | |
|---|-----------------------|------------------|--------------|------------------|
| | Effective Rent (s.f.) | | Vacancy Rate | |
| | Y-o-Y Change | Quarterly Change | Y-o-Y Change | Quarterly Change |
| Northern Virginia | ▲ | ▲ | ▼ | ▼ |
| Richmond | ▲ | ▲ | ▼ | ▼ |
| Hampton Roads | ▲ | ▲ | ▼ | ▼ |
| Roanoke | ▲ | ▲ | ▼ | ▼ |
| Charlottesville | ▲ | ▲ | ▼ | ▼ |
| Winchester | ▲ | ▲ | ▲ | ▲ |
| Lynchburg | ▲ | ▼ | ▼ | ▼ |
| Harrisonburg | ▲ | ▲ | ▼ | ▼ |
| Blacksburg | ▲ | ▲ | ▲ | ▲ |

Source: CoStar

- Charlottesville.** Performance in the Charlottesville multifamily rental market was uneven during the pandemic, partially due to its dependence on the University of Virginia population. However, the market has rebounded strongly in the first half of 2021. In the second quarter of 2021, the multifamily vacancy rate in the Charlottesville area fell to 5.1%, which is higher than the pre-COVID vacancy rates but reflects a significant decline compared to last fall. There was a significant increase in rents in 2021. The average Class A rent increased by 6.8% between Q1 2021 and Q2 2021, while Class B and C rents were up by 8.6%. There were no multifamily deliveries in the Charlottesville area in Q2 2021; however, there were 666 units under construction.
- Winchester.** Vacancy rates shot up in the Winchester region in the second half of 2020 and they still have not returned to typical levels. In Q2 2021, the vacancy rate in Winchester was 6.6%, up from 6.2% in Q1 2021, and nearly four percentage points higher than the pre-COVID vacancy rate. Increased supply may be driving higher vacancy. In Q2 2021, there were 67 units delivered in the Winchester market, after 350 units came onto the market in 2020. Despite higher vacancy, rents are rising in Winchester, which reflects the higher-quality units coming

to the market. In Q2 2021, the average multifamily rent in the Winchester area was up 6.7% compared to Q1 2021. There were no multifamily units under construction in the Winchester market in the second quarter of 2021.

- **Lynchburg.** The average multifamily vacancy rate in the Lynchburg area in the second quarter of 2021 was 3.6%, the lowest vacancy rate in more than five years. More than 230 multifamily units were absorbed into the market in Q2 2021, reflecting the strongest absorption in more than five years, as well. The average rent of units in Class B and C properties fell by 5.2% between the first and second quarters of 2021, but the average Class A rent increased by 4.4%. In Q2 2021, a total of 203 multifamily units were delivered, and another 247 units were under construction.
- **Harrisonburg.** The Harrisonburg multifamily market remains very tight, with limited inventory, pushing vacancy rates down and rents up. In the second quarter of 2021, the multifamily vacancy rate in the Harrisonburg region was just 1.8%, the lowest rate in more than five years. The average effective rent in the region was up 5.6% between the first and second quarters of 2021, and rents have been rising steadily every quarter over the past five years. There have been no multifamily units delivered in the Harrisonburg market since mid-2019, although there were 230 units under construction in Q2 2021.
- **Blacksburg.** The Blacksburg multifamily rental market was impacted somewhat during the COVID-19 pandemic, although the market remains tight. In Q2 2021, there was negative net absorption in the Blacksburg market. At the same time, the multifamily vacancy rate edged up slightly to 2.5%, a level that is still quite low, though it is higher than it has been since 2019. Class A rents held steady between Q1 and Q2 2021, but the average rent in Class B and C buildings jumped up 11.4%. Nine multifamily units were delivered in Q2 2021, and there were 320 units under construction.

Outlook

The outlook for Virginia's multifamily market is optimistic for 2021. Several key trends tied to the improving economy will support strong demand for rental housing, generally, and multifamily rental housing, specifically:

- Job and income growth are on the rise. While renters were disproportionately impacted by the COVID-19 pandemic and downturn, their financial situations are improving as employers resume hiring and raise wages to attract workers.
- College graduates and young workers who moved back home during the pandemic will be back on the rental market this year. At the same time, this year's grads are also looking for rental housing, so demand from this young cohort could be nearly double what is typical.

- Double-digit home price appreciation and a very competitive for-sale market have pushed homeownership out of reach for many individuals and families. These households will be returning or entering the rental market, fueling demand for both single-family rentals as well as multifamily rentals.

Q2 2021

Multifamily Rental Market*

| | Northern Virginia | | Richmond | | Hampton Roads | |
|----------------------------|-------------------|-----------|----------|-----------|---------------|-----------|
| | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg |
| Total Inventory (Units) | 212,742 | ▼ | 121,229 | ▲ | 164,216 | ▲ |
| Vacancy Rate | 6.5% | ▼ | 5.8% | ▼ | 3.1% | ▼ |
| Absorption (Units) | 2,204 | ▲ | 912 | ▼ | 808 | ▼ |
| Effective Avg Rent (SF) | \$2.12 | ▲ | \$1.42 | ▲ | \$1.33 | ▲ |
| Effective Avg Rent (Unit) | \$1,920 | ▲ | \$1,255 | ▲ | \$1,245 | ▲ |
| Completed (Units) | 1,449 | ▼ | 661 | ▼ | 447 | ▼ |
| Under Construction (Units) | 14,954 | ▲ | 8,137 | ▲ | 3,319 | ▼ |

| | Roanoke | | Charlottesville | | Winchester | |
|----------------------------|---------|-----------|-----------------|-----------|------------|-----------|
| | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg |
| Total Inventory (Units) | 18,481 | ▲ | 12,805 | ▲ | 6,012 | ▲ |
| Vacancy Rate | 3.0% | ▼ | 5.1% | ▼ | 6.6% | ▲ |
| Absorption (Units) | 108 | ▲ | 206 | ▲ | 62 | ▲ |
| Effective Avg Rent (SF) | \$1.04 | ▲ | \$1.53 | ▲ | \$1.26 | ▲ |
| Effective Avg Rent (Unit) | \$927 | ▲ | \$1,498 | ▲ | \$1,166 | ▲ |
| Completed (Units) | 0 | - | 0 | ▼ | 67 | ▲ |
| Under Construction (Units) | 610 | ▲ | 666 | ▼ | 0 | ▼ |

| | Lynchburg | | Harrisonburg | | Blacksburg | |
|----------------------------|-----------|-----------|--------------|-----------|------------|-----------|
| | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg | Q2 2021 | Y-o-Y Chg |
| Total Inventory (Units) | 12,396 | ▲ | 4,461 | - | 8,859 | - |
| Vacancy Rate | 3.6% | ▼ | 1.8% | ▼ | 2.5% | ▲ |
| Absorption (Units) | 239 | ▲ | -2 | ▲ | -42 | ▼ |
| Effective Avg Rent (SF) | \$0.92 | ▲ | \$1.13 | ▲ | \$1.28 | ▲ |
| Effective Avg Rent (Unit) | \$926 | ▲ | \$1,009 | ▲ | \$1,182 | ▲ |
| Completed (Units) | 203 | ▲ | 0 | - | 9 | ▲ |
| Under Construction (Units) | 247 | - | 230 | - | 320 | ▲ |

Source: CoStar, data accessed June 24, 2021

* buildings with 50+ units

- no change

Multifamily Market

Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Richmond Metro

Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Northern Virginia Metro Area
Effective Rent
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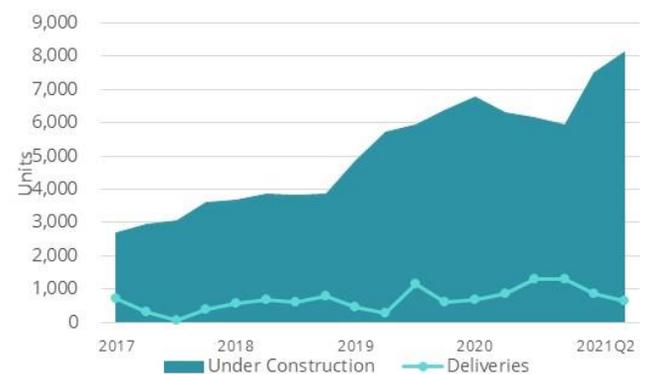
Richmond Metro Area
Effective Rent
 Multifamily



Northern Virginia Metro Area
Net Deliveries & Under Construction
 Multifamily



Richmond Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

Hampton Roads Metro

Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Roanoke Metro

Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Hampton Roads Metro Area
Effective Rent
 Multifamily



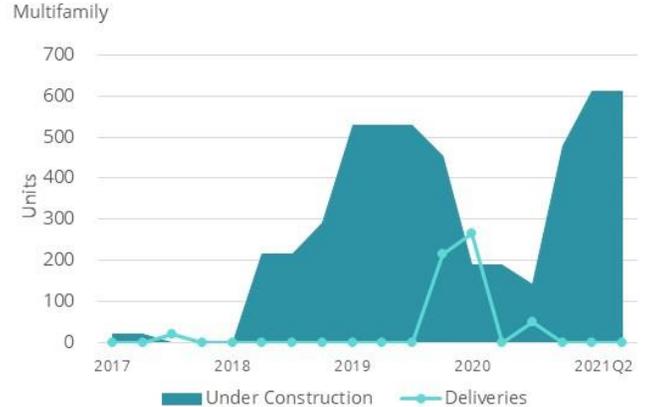
Roanoke Metro Area
Effective Rent
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Hampton Roads Metro Area
Net Deliveries & Under Construction
 Multifamily



Roanoke Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



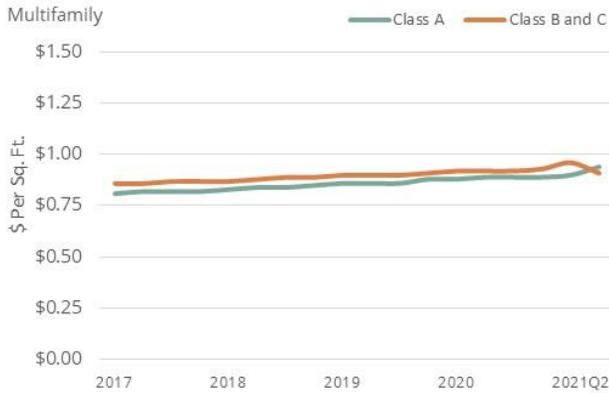
Charlottesville Metro

Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



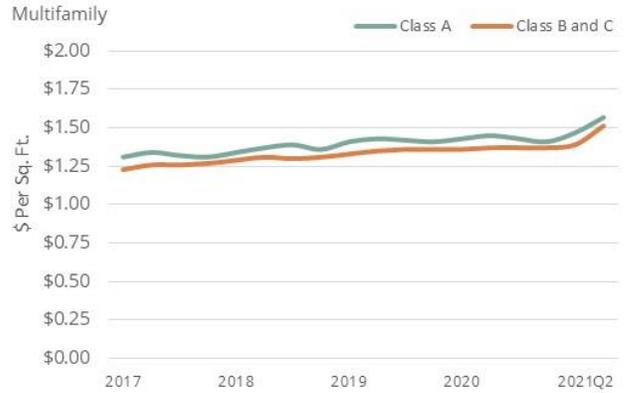
Lynchburg Metro Area

Effective Rent



Charlottesville Metro Area

Effective Rent



Lynchburg Metro Area

Net Deliveries & Under Construction



Charlottesville Metro Area

Net Deliveries & Under Construction



Multifamily Market

Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Winchester Metro

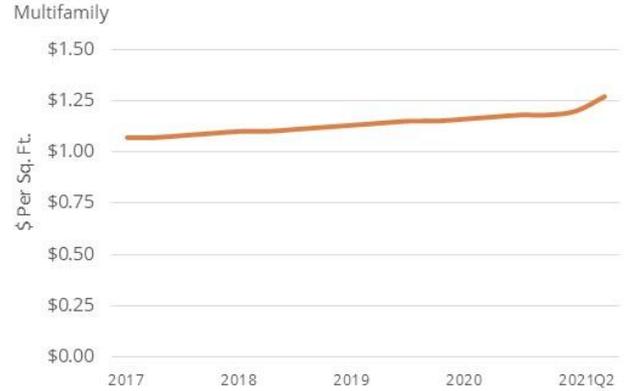
Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Blacksburg Metro Area
Effective Rent
 Multifamily



Winchester Metro Area
Effective Rent
 Multifamily



Blacksburg Metro Area
Net Deliveries & Under Construction
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Winchester Metro Area
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 Multifamily



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Data and analysis provided by Virginia REALTORS® Chief Economist, Lisa Sturtevant, PhD. The numbers reported here are based on data from CoStar.

