

Q3 2021 MULTIFAMILY MARKET REPORT



The multifamily rental sector in Virginia posted strong occupancy and rent growth in the thirdquarter of 2021. Virginia’s rental market is poised for significant growth through the end of 2021 and into 2022, with market conditions to approach the frenzy that has been seen in the for-sale market for the past 18 months.

While many rental property owners and tenants have faced challenges during the COVID-19 pandemic and economic recession, the worst fears of massive evictions or significant foreclosure activity have not materialized. The influx of federal assistance has been an important stabilizer to the rental sector. Landlords and property managers have also been able, in many cases, to offer flexibility to tenants facing hardships during the pandemic. The result has been significant tenant retention even as demand from new renters has begun to surge.

The Economy

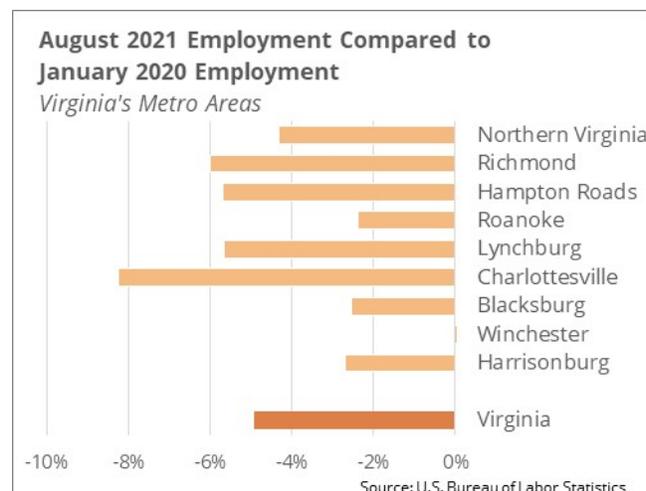
The Delta variant has taken some wind out of the sails of the economy, creating more uncertainty and slowing the state’s economic growth in the third quarter. Despite the recent slower economic growth, however, it is expected that the state’s economy will continue to expand throughout the rest of 2021 and grow even faster in 2022.

In August 2021, there was a total of 3.91 million jobs in Virginia, which is up 82,500 jobs from a year ago but is still down 175,000 from the pre-pandemic employment level. It is projected that

Economic Conditions (as of August 2021)

	Y-o-Y Change	Monthly Change
3.91 million <i>Virginia employment</i>	▲	▲
4.0% <i>Virginia unemployment rate</i>	▼	▼
5.2% <i>U.S. unemployment rate</i>	▼	▼

Source: U.S. Bureau of Labor Statistics



the state will not regain all of the jobs lost during the pandemic and the recession until the end of 2022. The statewide unemployment rate fell to 4% in August. However, this falling unemployment rate masks the rising number of people leaving the workforce. Full labor force participation will be difficult to achieve until the number of COVID-19 cases declines, wages increase, and childcare options become more readily available.

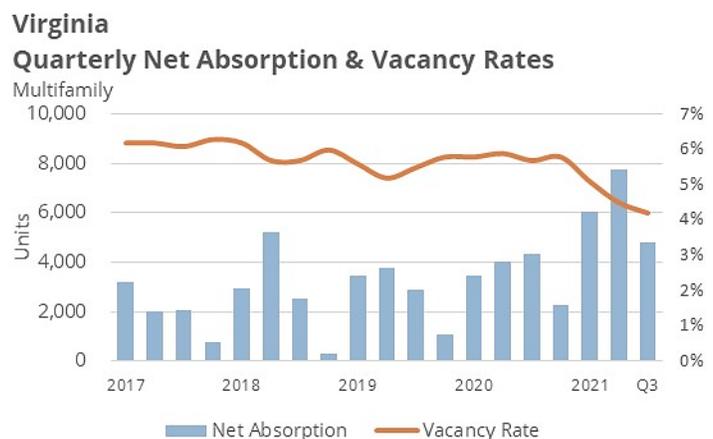
The Multifamily Rental Market

The performance of the multifamily apartment sector in most parts of Virginia was upbeat in the third quarter, despite some concerns earlier this year. Landlords and property managers who faced rental income losses over the past 18 months are beginning to regain their financial balance. The wave of evictions that many feared would devastate renters and destabilize the rental market has not come to pass. The frenzied conditions in the for-sale market have fueled greater demand for rental housing. And new construction activity has resumed after a slowdown, bringing new multifamily options to the tight market.

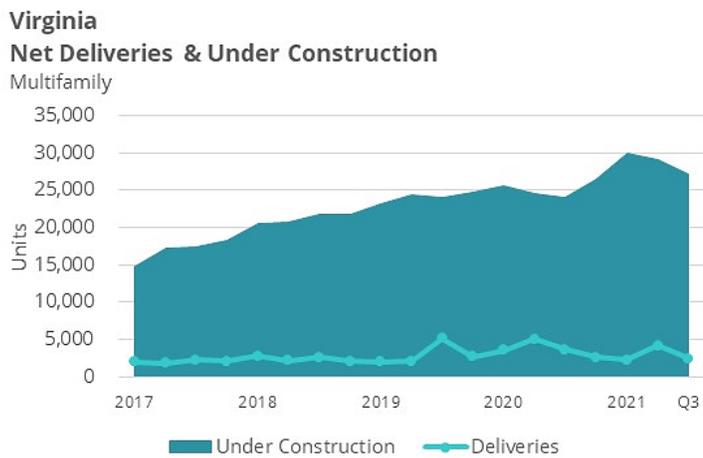
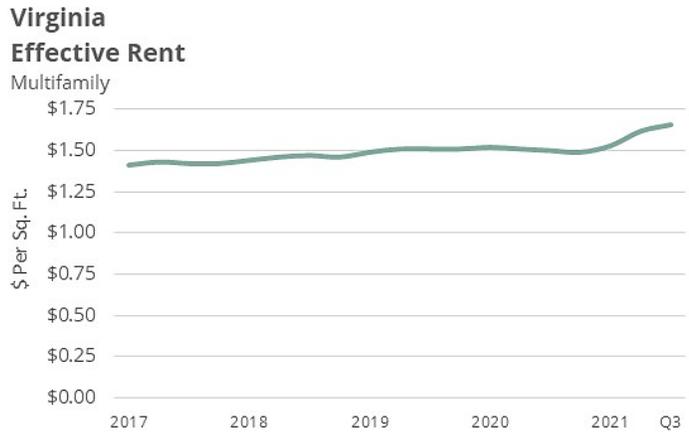
This Multifamily Market Report provides data and analysis on multifamily rental buildings with 50 or more units. Information is summarized for nine metropolitan areas in Virginia. All market data are provided by CoStar and are analyzed by Virginia REALTORS®.

Key Takeaways

- Existing renters are not moving.** Nationally, retention rates in large apartment buildings have hit record highs. As current renters look at their other housing options, they are finding that their best option is to stay put. While landlords may be raising rents for existing renters, those new rent levels are likely to be lower than rents being charged to new renters. Occupancy is at an all-time high in many markets. In typical multifamily apartment operations, a healthy market is one where buildings have between a four and five percent vacancy rate, which allows sufficient time for turnover but maintains steady income. Before the COVID-19 pandemic, multifamily vacancy rates averaged about six percent statewide in Virginia. In the third quarter of 2021, the average statewide vacancy rate fell to 4.2%. Multifamily vacancy has been declining steadily since the beginning of the year.



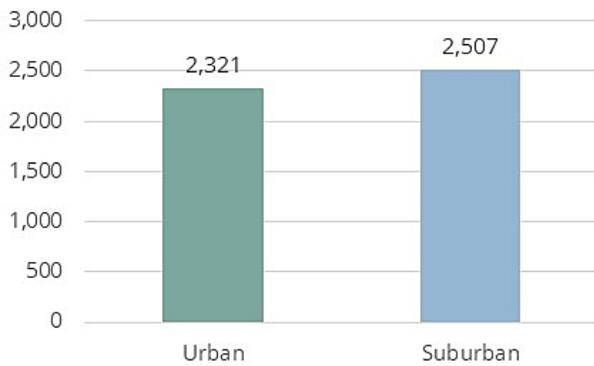
- **Rental bidding wars are the new home price bidding wars.** Over the past 18 months, home prices have risen at dizzying rates as prospective buyers have faced stiff competition, bidding wars, and price escalation. Some of that price frenzy in the for-sale market is beginning to show up in the rental market. At the state level, the multifamily rents have been rising for four consecutive quarters. The average effective multifamily rent in Virginia has increased by more than 11% over the past year. While property managers have typically gone easy on rent increases for existing tenants, new renters are often facing asking rents that are much higher than what existing tenants are paying. They may also be competing with two, three, or even more prospective renters who have submitted an application for a unit. In addition, there is growing demand for rental housing from higher-income households that have been discouraged by the homeownership market. As a result, rents are being pushed up at a faster rate than at any time in recent history.



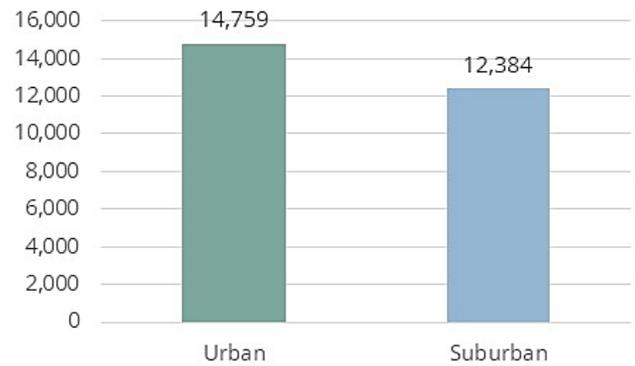
- **New construction has ramped up, particularly in the state’s urban markets.** The construction of new multifamily apartment buildings slowed somewhat during the pandemic, as developers faced spikes in material prices, supply chain bottlenecks, and a persistent labor shortage. In 2021, new construction activity has increased, though third quarter activity is down from earlier in the year. There were more than 27,000 multifamily apartment units under construction in Virginia in the third quarter, with a focus on urban markets. While about a quarter of multifamily units in Virginia are in areas defined as “urban,” these urban markets accounted for more than half of the ongoing multifamily development activity. After a year and a half of people moving out of cities to look for more space in less crowded communities, there is growing evidence that the amenities offered by an urban environment—including proximity to employment centers, retail, and restaurant options—will continue to attract a significant subset of prospective renters.

- Federal COVID assistance worked.** During the COVID-19 pandemic, the federal government provided more than \$5.3 trillion in the form of direct payment to households, expansive unemployment benefits, assistance to state and local governments, and grants and loans to businesses. This federal assistance included \$5.1 billion in emergency rental assistance designed to help renters unable to pay their rent as a result of the COVID-19 pandemic. As of the third quarter of 2021, Virginia leads the nation in distributing federal and state rental assistance, establishing a program that involves cooperation between renters and landlords and makes it easier for property owners to apply for assistance on behalf of their tenants. Federal government assistance has been critical for propping up the economy during the COVID-19 pandemic. It has also been a critical resource for avoiding some of the worst outcomes that were forecasted earlier in the pandemic.

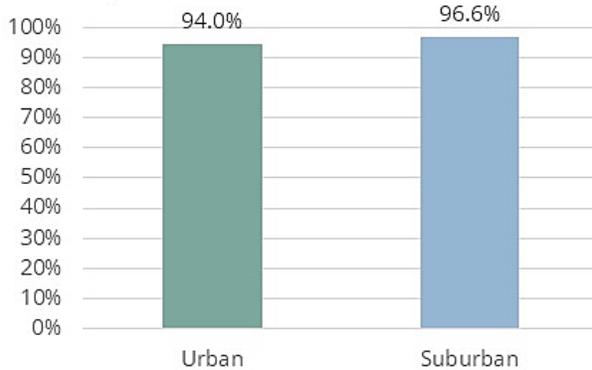
Net Absorption (units)



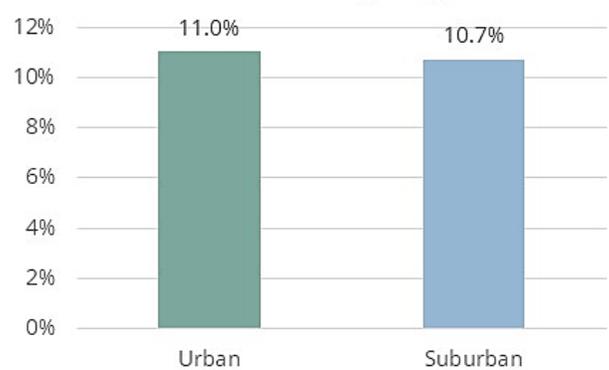
Under Construction (units)



Vacancy Rate



Effective Rent Growth (y-o-y)



Local Markets

- **Northern Virginia.** The Northern Virginia multifamily rental market has continued to boom through the third quarter of 2021, reflecting strong demand and robust new construction activity. More than 2,200 units were absorbed in Q3 2021, and the vacancy rate declined to 5.2%. Average effective rents in multifamily buildings in urban submarkets in Northern Virginia surged 12.3% year-over-year. Multifamily properties in the region's suburban submarkets increased 10.3%. Across Northern Virginia, there were more than 14,700 multifamily units under construction in the third quarter of 2021, which accounted for more than half of all construction activity statewide.
- **Richmond.** The Richmond area multifamily market has fared very well during the pandemic. There have been 11 quarters of positive net absorption in the region. In the third quarter of 2021, a total of more than 1,200 multifamily units were absorbed. The overall multifamily vacancy rate in the Richmond region fell to 4.8%, the first time the regional vacancy rate has fallen below 5% in more than five years. Rent growth accelerated during 2021. In the third quarter of 2021, the average effective rent in the Richmond region grew more than 10% year-over-year. Suburban submarkets in the Richmond region experienced very strong rent growth, increasing by 11.2% in the third quarter. Average multifamily rents in Richmond's urban submarkets rose more slowly but were still up by more than six percent over a year ago. There were 815 multifamily units delivered in Q3 2021 and there were more than 7,500 units under construction in the Richmond region.
- **Hampton Roads.** The Hampton Roads multifamily rental market has gotten even tighter. In the third quarter of 2021, a total of 728 multifamily units were absorbed, following two quarters of total net absorption of more than 1,200 units. The multifamily vacancy rate fell to a historically low level, dropping to 2.9% in the third quarter. Rents continued to rise quickly in the Hampton Roads region. Average effective rents rose 10.6% year-over-year. Rent growth in the region's suburban submarkets rose significantly, with 16.2% year-over-year rent growth. Average rents in urban submarkets rose at a somewhat slower rate. After a strong start to the year, the pace of new multifamily construction slowed slightly. In the third quarter of 2021, there were just 149 multifamily units. A total of 2,400 multifamily units were under construction in the Hampton Roads region during the quarter.
- **Roanoke.** The multifamily market in the Roanoke region remains very competitive. The multifamily vacancy rate in the region fell to 2.4% in the third quarter of 2021, which is less than half the rate prior to the pandemic. There were 129 units absorbed in the region during the quarter. The average effective rent in the Roanoke region increased by 9.5% year-over-year in the third quarter. Rent growth in Roanoke's suburban submarkets reached 10% while rents grew more slowly in urban submarkets. No multifamily units were delivered in

the third quarter in the Roanoke area. There were 446 units under construction in the third quarter.

- Charlottesville.** The multifamily market in the Charlottesville region has surged throughout 2021. In the third quarter of 2021, there was a total of 190 multifamily units absorbed. The multifamily vacancy rate fell to 3.2% in the third quarter, which is down dramatically from a year ago. Rent growth accelerated in the Charlottesville region. In the third quarter, effective rents were up by 9.1% year-over-year. There were 50 multifamily units delivered in the in the Charlottesville area in Q3 2021. There were more than 1,100 units under construction in the region.

	Effective Rent (s.f.)		Vacancy Rate	
	Y-o-Y	Quarterly	Y-o-Y	Quarterly
	Change	Change	Change	Change
Northern Virginia	▲	▲	▼	▼
Richmond	▲	▲	▼	▼
Hampton Roads	▲	▲	▼	▼
Roanoke	▲	▲	▼	▼
Charlottesville	▲	▲	▼	▼
Winchester	▲	▲	▼	▲
Lynchburg	▲	▲	▼	▼
Harrisonburg	▲	▲	▲	▲
Blacksburg	-	-	▲	▼

Source: CoStar - no change

- Winchester.** There was significant improvement in Winchester’s multifamily rental market, and the market is remarkably tight compared to a year ago. In the third quarter of 2021, there were 62 multifamily units absorbed in the region, and the vacancy rate fell to 4.3%. In the Winchester region, rent growth was more modest than in some markets. In the third quarter of 2021, the average multifamily rent was up 3.4% compared to a year ago. There were no multifamily units under construction in the Winchester market in the third quarter of 2021, but there were 137 multifamily units under construction.
- Lynchburg.** The multifamily vacancy rate in the Lynchburg area in the third quarter of 2021 fell to 3.3%, continuing five quarters of consecutive vacancy declines. There were 27

multifamily units absorbed in the third quarter, following net absorption of more than 250 units in the second quarter. Rent growth continued to accelerate. In the third quarter of 2021, the average effective rent in the Lynchburg region rose 6.4% year-over-year. In the third quarter, a total of 247 units were under construction across the region.

- **Harrisonburg.** The Harrisonburg multifamily market has been incredibly tight, though the third quarter shows signs of easing a bit. The multifamily vacancy rate in the region was 2.6% in the third quarter, up from 1.8% in the second quarter. Rent growth was somewhat slower than in some markets, but the pace of rent growth has accelerated. In the third quarter, the average effective rent in the Harrisonburg region increased by 3.6% year-over-year. There have been no multifamily units delivered in the Harrisonburg market since mid-2019. In the third quarter, there were 86 units under construction.
- **Blacksburg.** The Blacksburg multifamily rental market was stable in the third quarter. The multifamily vacancy rate in the region fell to 1.9% in the third quarter. A total of 57 units were absorbed in the region during the quarter. The average effective rent in the Blacksburg region was virtually unchanged from a year ago. There were no units delivered in the third quarter, and there were 320 units under construction in the Blacksburg region.

Outlook

Virginia's multifamily rental market has performed relatively well despite challenges brought about by the COVID-19 pandemic and economic downturn. There are several indicators that the already robust multifamily market is poised for even stronger growth through the rest of 2021 and into 2022. Key factors to watch include the following:

- While there were projections of an evictions "tsunami", it appears as though massive federal assistance and flexibility on the part of landlords has staved off a major rise in evictions. Overall, it seems more likely now that the pace of evictions will return to pre-pandemic levels, rather than skyrocket as the moratoria have ended.
- Demand for suburban rental housing is still strong, but there are signs of growing competition for multifamily rental housing in Virginia's urban markets. During the pandemic, some renters decided to move away from denser communities. However, as COVID-19 conditions begin to ease, the amenities of urban neighborhoods will attract more renter households, particularly younger renters and empty nesters.
- Rising home prices have pushed more individuals and families into the rental market in 2021. The pool of prospective renters is more likely to include families with children, and tenants likely will have higher incomes than those renting a year or two ago.

Q3 2021 Multifamily Rental Market*

	Northern Virginia		Richmond		Hampton Roads	
	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg
Total Inventory (Units)	254,689	▲	122,544	▲	165,929	▲
Vacancy Rate	5.2%	▼	4.8%	▼	2.9%	▼
Absorption (Units)	2,297	▲	1,208	▲	728	▼
Effective Avg Rent (SF)	\$2.11	▲	\$1.43	▲	\$1.34	▲
Effective Avg Rent (Unit)	\$1,907	▲	\$1,258	▲	\$1,237	▲
Completed (Units)	1,479	▲	815	▼	149	▼
Under Construction (Units)	14,707	▲	7,578	▲	2,412	▼

	Roanoke		Charlottesville		Winchester	
	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg
Total Inventory (Units)	18,666	▲	12,959	▲	5,988	▲
Vacancy Rate	2.4%	▼	3.2%	▼	4.3%	▲
Absorption (Units)	129	▼	190	▲	62	▲
Effective Avg Rent (SF)	\$1.06	▲	\$1.51	▲	\$1.22	▲
Effective Avg Rent (Unit)	\$930	▲	\$1,469	▲	\$1,140	▲
Completed (Units)	0	▼	50	▲	0	-
Under Construction (Units)	446	▲	1,116	▼	137	▼

	Lynchburg		Harrisonburg		Blacksburg	
	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg	Q3 2021	Y-o-Y Chg
Total Inventory (Units)	12,422	▲	4,773	▲	8,823	-
Vacancy Rate	3.3%	▼	2.6%	▲	1.9%	▲
Absorption (Units)	27	▲	102	▲	57	▲
Effective Avg Rent (SF)	\$0.98	▲	\$1.06	▲	\$1.16	-
Effective Avg Rent (Unit)	\$944	▲	\$965	▲	\$1,087	▼
Completed (Units)	0	-	0	-	0	-
Under Construction (Units)	247	▼	86	▼	320	▲

Source: CoStar, data accessed September 22, 2021

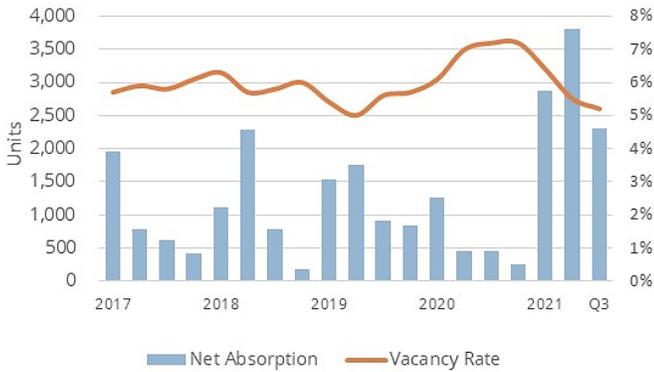
* buildings with 50+ units

- no change

Multifamily Market

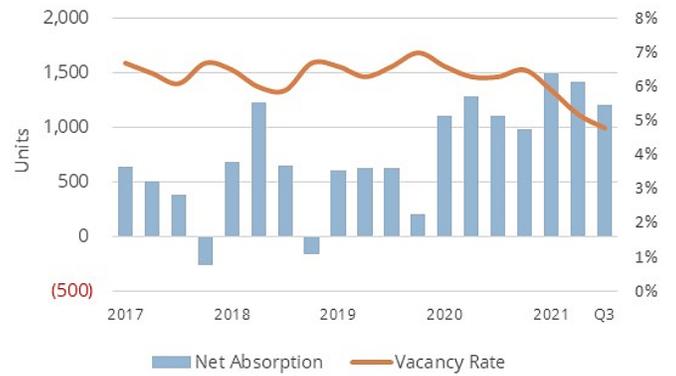
Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily

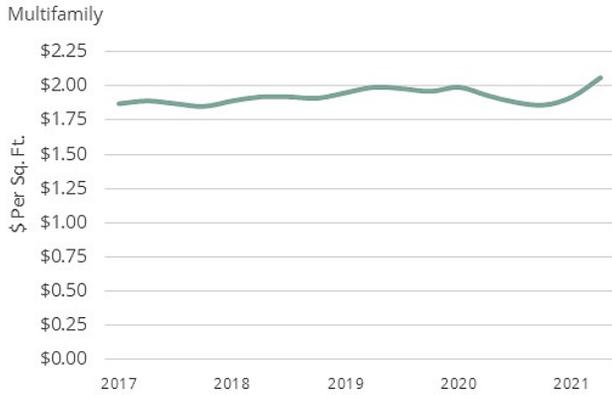


Richmond Metro

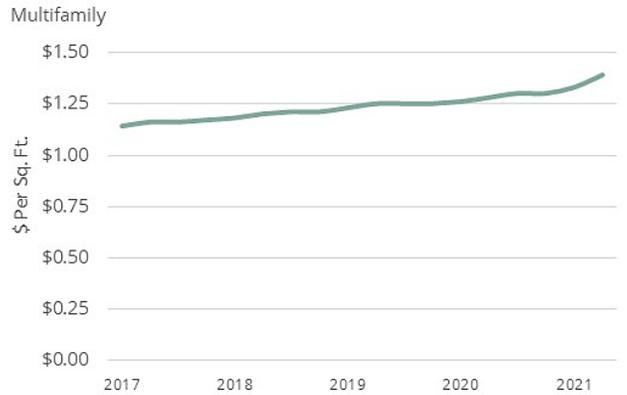
Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



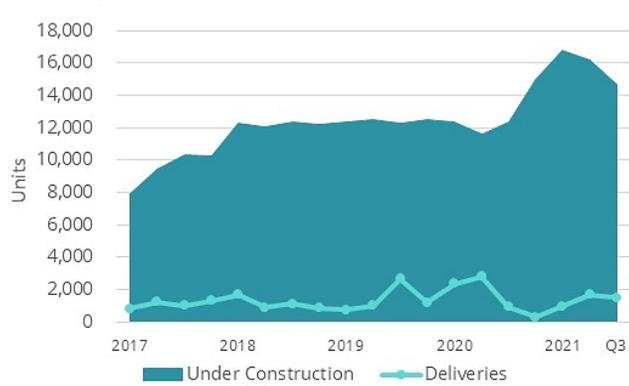
Northern Virginia Metro Area
Effective Rent
 Multifamily



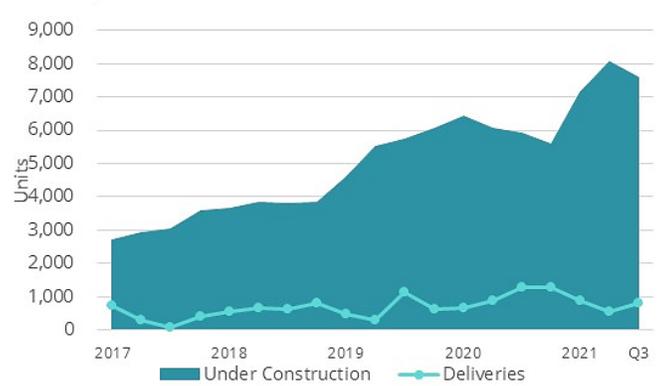
Richmond Metro Area
Effective Rent
 Multifamily



Northern Virginia Metro Area
Net Deliveries & Under Construction
 Multifamily



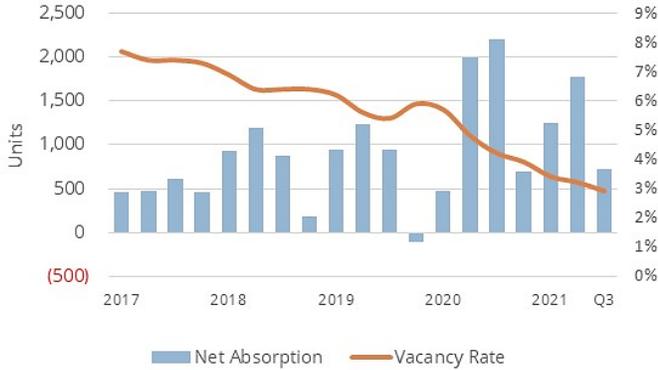
Richmond Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

Hampton Roads Metro

Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily

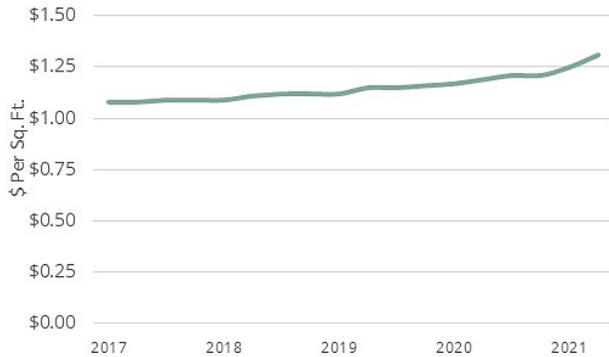


Roanoke Metro

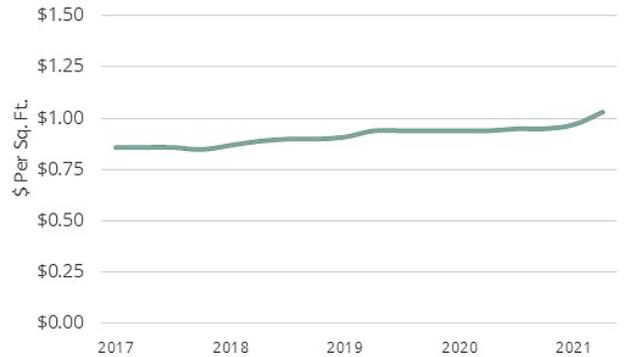
Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



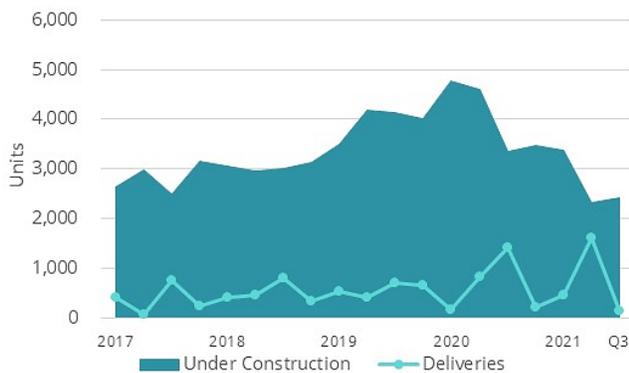
Hampton Roads Metro Area
Effective Rent
 Multifamily



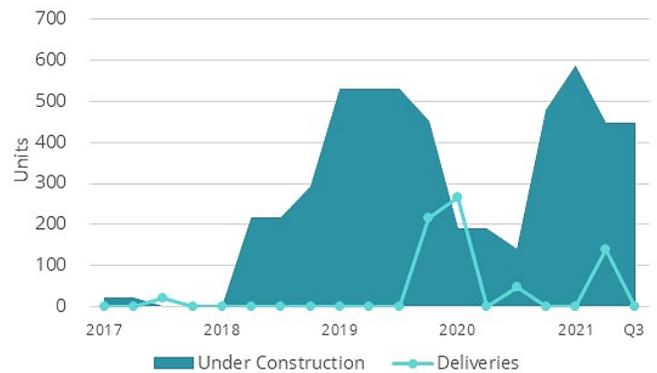
Roanoke Metro Area
Effective Rent
 Multifamily



Hampton Roads Metro Area
Net Deliveries & Under Construction
 Multifamily



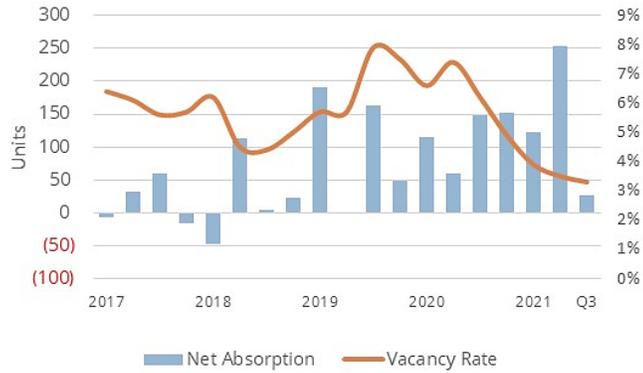
Roanoke Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily

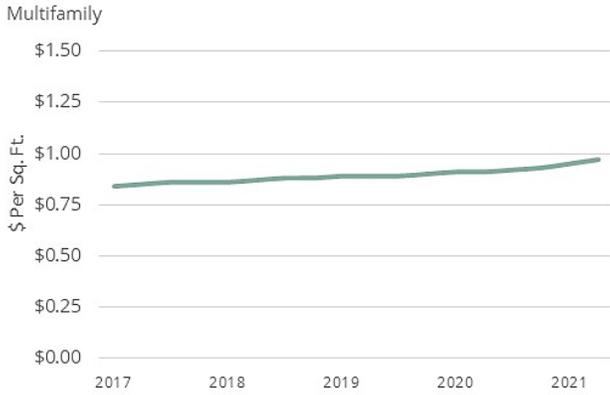


Charlottesville Metro

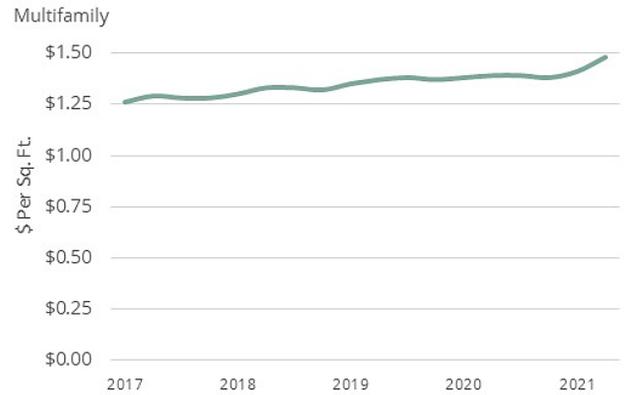
Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Lynchburg Metro Area
Effective Rent
 Multifamily



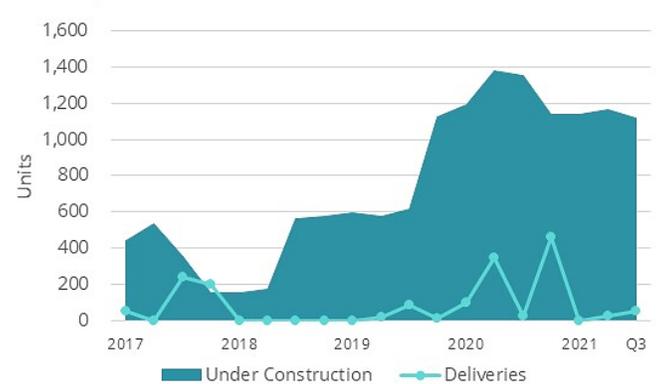
Charlottesville Metro Area
Effective Rent
 Multifamily



Lynchburg Metro Area
Net Deliveries & Under Construction
 Multifamily



Charlottesville Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

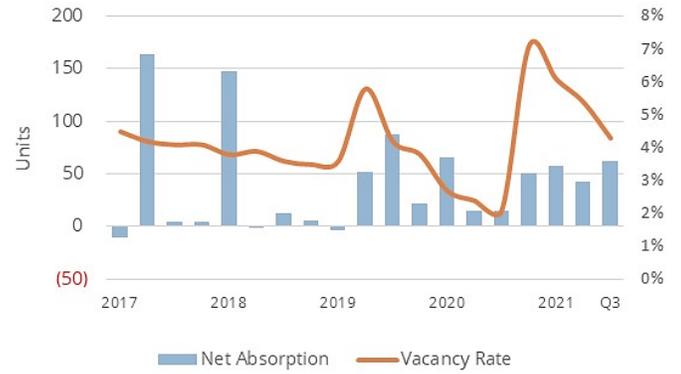
Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



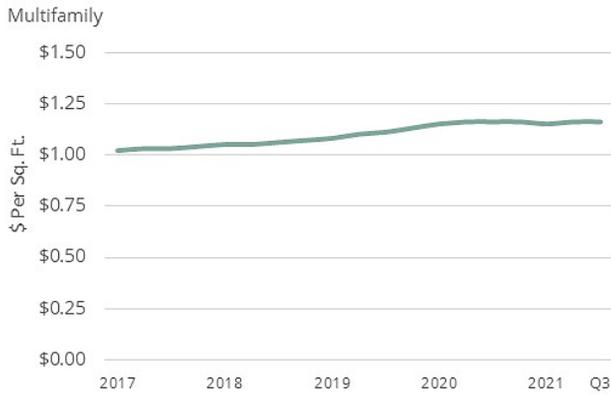
Winchester Metro

Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



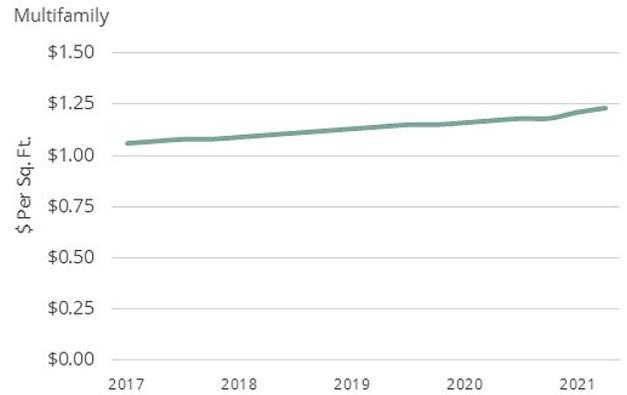
Blacksburg Metro Area

Effective Rent



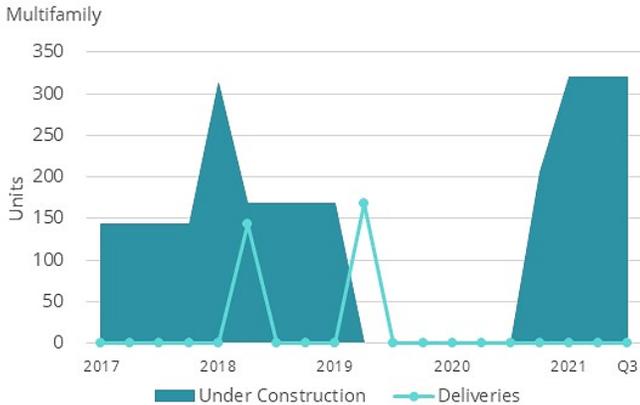
Winchester Metro Area

Effective Rent



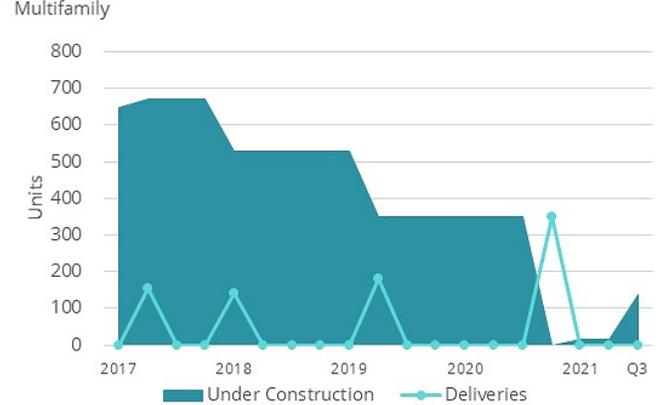
Blacksburg Metro Area

Net Deliveries & Under Construction



Winchester Metro Area

Net Deliveries & Under Construction



Multifamily Market

Harrisonburg Metro

Harrisonburg Metro Area

Quarterly Net Absorption & Vacancy Rates

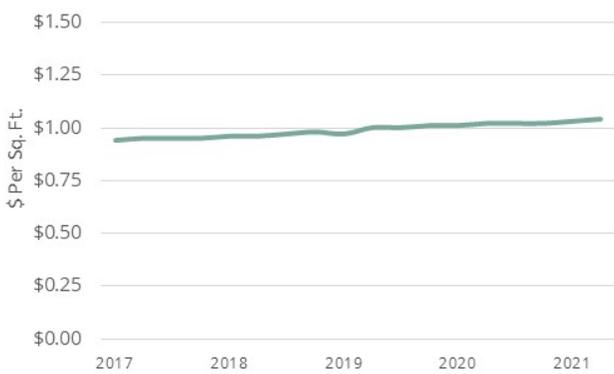
Multifamily



Harrisonburg Metro Area

Quarterly Effective Rent

Multifamily



Harrisonburg Metro Area

Net Deliveries & Under Construction

Multifamily



The Virginia REALTORS® association is the largest professional trade association in Virginia, representing 36,000 REALTORS® engaged in the residential and commercial real estate business. The Virginia REALTORS® association serves as the advocate for homeownership and private property rights and represents the interests of real estate professionals and property owners in the Commonwealth of Virginia.

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All inquiries regarding this report may be directed to:

Robin Spensieri
Virginia REALTORS® Vice President of
Communications and Media Relations
rspensieri@virginiarealtors.org
804-622-7954

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

