

Q4 2021 MULTIFAMILY MARKET REPORT



Demand for multifamily rental housing in Virginia has been strong throughout the year and the multifamily market is poised for even stronger growth in the year ahead. By all measures—occupancy, rent growth, absorption, new construction—the multifamily apartment sector performed beyond expectations in markets across Virginia, shattering records. The outlook for 2022 is continued strength in the multifamily rental sector, with a shift towards greater demand for high-amenity properties and urban locations.

The Economy

Virginia’s economy continues to improve steadily, with six consecutive months of job growth. Despite concerns that the new COVID variants would stall progress, the economy has been demonstrating resiliency driven by strong consumer demand, rising vaccination rates, and pandemic fatigue. The strengthening economy will support a strong multifamily rental sector in Virginia, as both employment rates and wages rise.

In November 2021, there were 3.97 million jobs in Virginia, which is an increase of 82,600 compared to a year earlier, and up 13,600 from October. Unemployment continued to fall across the state. The statewide unemployment rate was 3.4% in November and has been steadily declining since the beginning of 2021. Virginia’s unemployment rate has been consistently lower than the U.S. unemployment rate.

	Y-o-Y Change	Monthly Change
3.97 million <i>Virginia employment</i>	▲	▲
3.4% <i>Virginia unemployment rate</i>	▼	▼
4.2% <i>U.S. unemployment rate</i>	▼	▼

Source: U.S. Bureau of Labor Statistics

	Y-o-Y Change	Monthly Change
Virginia	2.1%	0.3%
Northern Virginia	3.5%	0.3%
Richmond	-0.4%	0.0%
Hampton Roads	0.6%	0.4%
Roanoke	1.0%	0.1%
Lynchburg	1.5%	0.0%
Charlottesville	1.1%	-0.4%
Blacksburg	6.6%	1.1%
Winchester	4.3%	1.2%
Harrisonburg	4.2%	0.4%

Source: U.S. Bureau of Labor Statistics

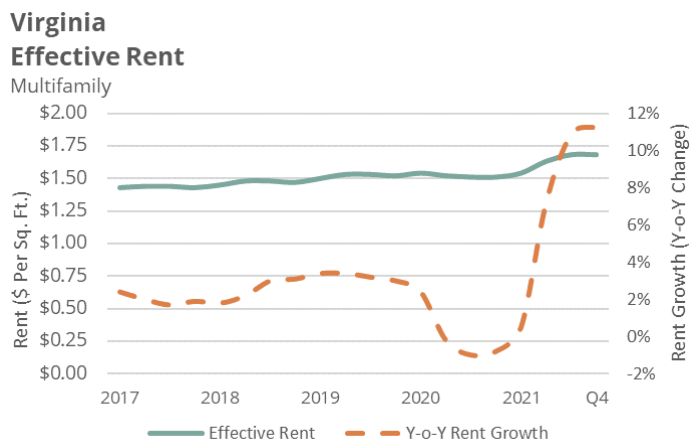
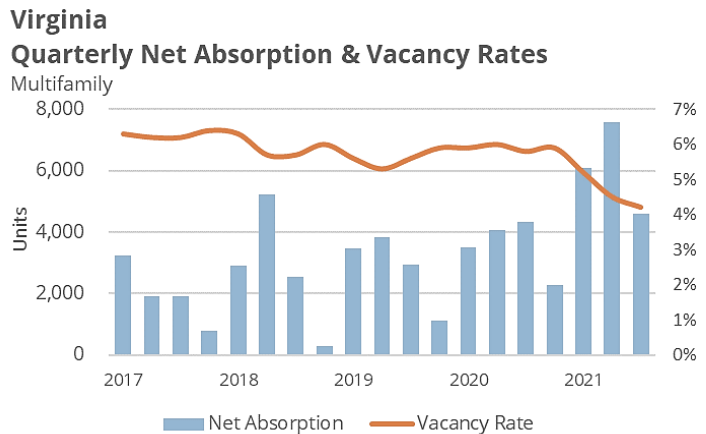
The Multifamily Rental Market

Virginia’s multifamily apartment sector set records in the fourth quarter of 2021, with falling vacancy rates, fast rent growth, and an increase in new construction activity. Federal stimulus programs supported the multifamily rental market throughout much of the pandemic, providing payments directly to individuals and families and making rent relief available to tenants and landlords. In 2021, however, the rental market began to stand on its own, with strong demand fueled by a rise in household formation rates and escalating home prices. In response to the growing demand, new construction activity has increased in Virginia, although supply remains far below what is needed, and rents are expected to climb quickly in the coming months.

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

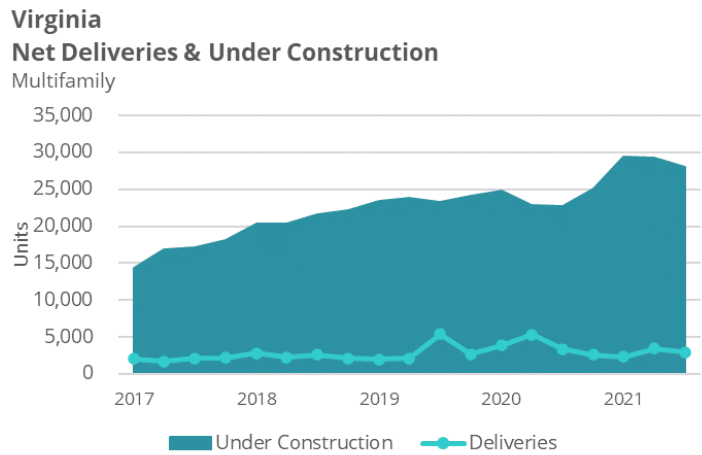
- Vacancy is lower than it has been since 2002.** In Virginia, multifamily vacancy rates have been falling steadily since late 2020. In the fourth quarter of 2021, the overall statewide vacancy rate was just 4.2%, about the same as in the third quarter of 2021, and 1.7 percentage points lower than a year ago. Vacancy rates have hit nearly 20-year lows in the commonwealth. This level of vacancy—which corresponds to about a 96% occupancy rate—indicates that apartment buildings are essentially full. High occupancy rates make it hard not only for new households to find a unit, but make it challenging for existing renters to move, exacerbating the tight rental situation.



- Rents rose faster than they have in more than two decades.** Demand for multifamily rental housing surged during the second half of 2021, as COVID cases began to ease, household formation rebounded, and more people began returning to the office. In the fourth quarter, the average effective rent was up 11.3% compared to a year earlier, the fastest rate of year-over-year rent growth since at least 2000. Rents have been rising quickly in most markets around the state, with the strongest rent growth in the state’s largest metropolitan areas and urban markets.

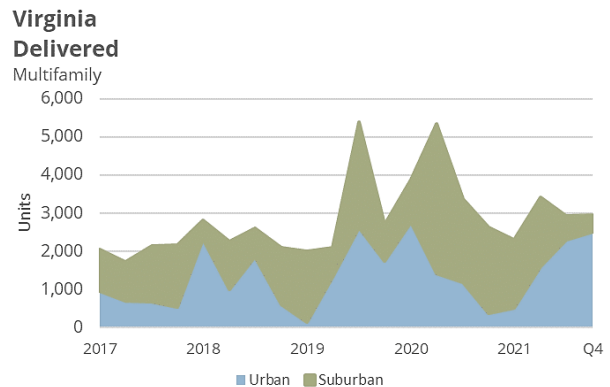
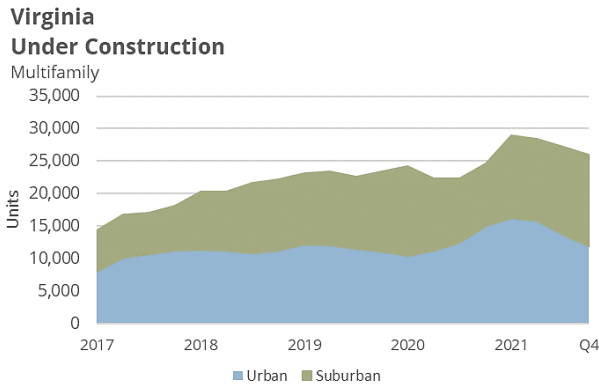
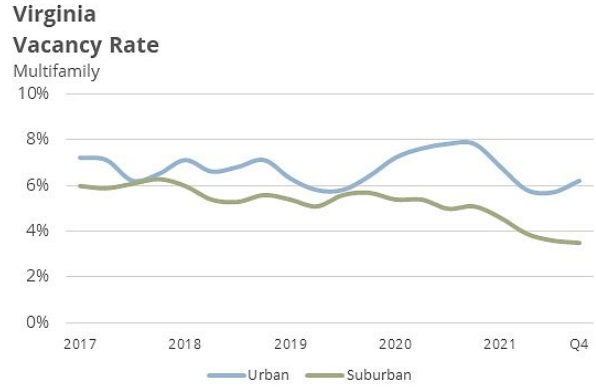
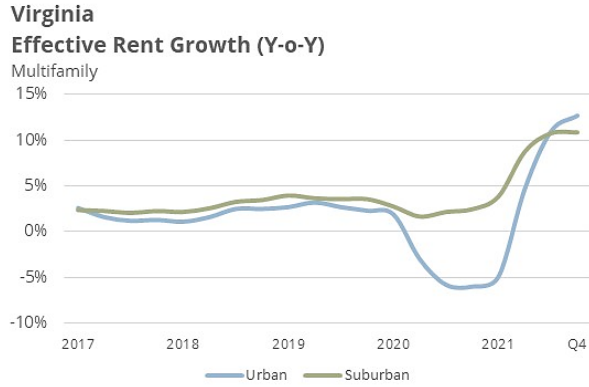
- There is more new apartment construction than there has been in more than 20 years.**

Construction activity was hampered somewhat during the pandemic by supply chain and labor constraints. However, in 2021, there were more than 27,000 new apartment units under construction across Virginia. Construction activity in 2021 outpaced activity in any other year since at least 2000. More than half



of the new apartment construction in the fourth quarter of 2021 is in the Northern Virginia market. Another 30% of the new multifamily units being built are in the Richmond region. In the fourth quarter, a total of 2,726 new units were delivered in Northern Virginia, Richmond, and Hampton Roads.

- Demand for urban rental housing is expanding, though the suburban multifamily rental market remains tighter.** Rents in urban markets took a hit during the second half of 2020, but rent growth has rebounded strongly in 2021. In the fourth quarter, year-over-year rent growth averaged 12.7% in urban markets, compared to 10.8% in suburban markets. Vacancy rates remain higher in urban markets, though at a 6.2% average vacancy rate in the fourth quarter, vacancy in urban apartment buildings has returned to pre-pandemic levels. In suburban markets, the multifamily rental vacancy rate was 3.5% in the fourth quarter, meaning virtually no units were available for prospective tenants. New construction has been on the rise in 2021 and about half of the new multifamily units under construction are in urban areas. However, deliveries have been highly concentrated in the state’s urban areas, with 85% of multifamily units delivered in the fourth quarter located in urban areas.



Local Markets

- Northern Virginia.** Demand for rental housing in Northern Virginia expanded during the fourth quarter of 2021. More than 1,500 units were absorbed in Q4 2021, accounting for 60% of all multifamily units absorbed in Virginia. The vacancy rate remained steady at 5.2% but is a full two percentage points lower than a year ago. Average effective rents in multifamily buildings in Northern Virginia increased by 12.5%, the second consecutive quarter of double-digit rent growth. Across Northern Virginia, there were more than 13,700 multifamily units under construction, which accounted for more than half of all construction activity statewide, and 1,655 multifamily rental units were delivered in the region in the fourth quarter.
- Richmond.** The Richmond area multifamily market has performed very well during the pandemic. There have been 12 quarters of positive net absorption in the region. Regionwide, the multifamily vacancy rate was 4.6% in the fourth quarter, up slightly from the third quarter, but lower than pre-pandemic levels. Rents continued to rise quickly. In the fourth quarter, the average effective rent in the Richmond area was up 10.7% over a year ago, the second quarter in a row of double-digit rent growth, and continuing a trend of above-average rent increases. New construction has been brisk in the region, and there were more than 8,000 multifamily units under construction in the fourth quarter, with nearly 800 units delivered during the quarter.

- **Hampton Roads.** Hampton Roads remains one of the tightest multifamily markets in the state. In the fourth quarter, the regional multifamily vacancy rate was 3%, less than half the rate during 2019. Rents have been rising very quickly since the beginning of 2021. In the fourth quarter, the average effective rent in the Hampton Roads market was up 10.2% compared to a year ago. Rents have been rising by about 10% for three consecutive quarters in Hampton Roads. The pace of new construction in the region has slowed slightly but remains elevated compared to historic trends. In the fourth quarter, there were more than 2,700 units under construction and 257 units delivered in the Hampton Roads region.
- **Roanoke.** With limited supply, the multifamily rental market in the Roanoke region has gotten even more challenging for renters. In the fourth quarter, the average multifamily vacancy rate dropped to just 2.2%. Vacancy rates have been declining for seven consecutive quarters in the region. Rents surged in 2021, and the average effective rent in the Roanoke metropolitan area was up by 9.5% in the fourth quarter, rising more than three times faster than during the pre-pandemic period. There are more than 400 units under construction in the Roanoke area, but no new units have been delivered in the region since the second quarter of 2021.
- **Charlottesville.** The multifamily market in Charlottesville softened during the pandemic due primarily to less demand as University of Virginia students attended school virtually. In 2021, however, the market has rebounded. In the fourth quarter, the multifamily rental vacancy rate in the Charlottesville region dropped to 3%, down from its peak of 7.6% a year ago. Rents continued to rise quickly. The average effective rent in Charlottesville pushed up 9.6% between Q4 2020 and Q4 2021. In the fourth quarter, more than 1,300 multifamily rental units were under construction. New construction has increased, but supply is still below what is needed to meet demand in the region.
- **Winchester.** The relatively small multifamily rental market in the Winchester region has continued to perform well in 2021. In the fourth quarter, the multifamily vacancy rate in the region dipped to 3.7%. While vacancy is somewhat higher than it was during the height of the pandemic, the regional vacancy rate is still below long-term averages. Rents have been rising faster than they have in several years. In the fourth quarter, the average effective rent in the Winchester market was up 6.3% compared to a year ago, which is double the rate of rent growth prior to the pandemic. Supply in the Winchester market remains limited. There were 17 units delivered in the fourth quarter and no new multifamily construction underway.

Metro Area Multifamily Markets (Q4 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 - no change

- Lynchburg.** In the Lynchburg area, the multifamily market continued to get tighter. In the fourth quarter, the multifamily vacancy rate in the region fell to 3%, which is down from its peak of 7.9% in 2019. Rent growth has been steady. In the fourth quarter, the average effective rent in the Lynchburg region was up by 6.4% compared to a year ago. Historically, rents in the Lynchburg market have increased by around two percent annually, so recent rent increases are significant changes for the area. No new multifamily units were delivered in the fourth quarter. There were 247 units under construction, but new construction activity remains below where it was before the pandemic.
- Harrisonburg.** Conditions in the Harrisonburg market eased somewhat at the end of 2021, though the market remains very competitive for renters. In the fourth quarter, the multifamily vacancy rate in the Harrisonburg region was 3.3%, down from 3.4% in the third quarter, but higher than it was earlier in 2021. Rent growth was brisk in the fourth quarter, with the average effective rent up 6.4% compared to a year earlier. Before the fourth quarter, rents had been rising by between two and three percent annually. Limited new supply has been a challenge in the market. In the fourth quarter, there were no multifamily units delivered, and 86 units were under construction.
- Blacksburg.** Multifamily vacancy rates are lower in the Blacksburg region than they are in any other market. In the fourth quarter, the regional multifamily vacancy rate fell to 1.4%, meaning there were virtually no available units for prospective renters. Despite the very low vacancy, rent growth has been modest in the region. In the fourth quarter, the average

effective rent in the Blacksburg market was up just 1.2% compared to a year ago. A slowdown in rental activity—with more renters remaining in place—is likely moderating rent growth. In the fourth quarter, there were 320 multifamily units under construction, which will bring much-needed supply to the region. No new multifamily units have been delivered in Blacksburg since early 2019.

Outlook

Virginia's multifamily rental market had a remarkable 2021, and this sector will continue to perform well into 2022. Strong underlying demand fundamentals will support growth in the market, while the opening up of the economy and a return to more urban locations will shift where demand is strongest. Several key factors suggest a strong 2022 for the multifamily rental sector:

- **Household formation is up.** During the pandemic, many people delayed activities such as getting married, having children, or moving out of their parents' homes. As COVID begins to stretch into its third year, there is serious pent-up demand to move on with life. Household formation rates began to climb in 2021, and more people will be moving out on their own in 2022, prompting a new wave of demand for rental housing.
- **Gen Z is here.** The oldest Gen Z'ers are reaching their early 20s and will be a force for strong multifamily rental demand in 2022 and beyond. While the vast majority of the Gen Z population say they eventually want to buy a home, most will be solidly in the rental market over the next decade or so. There is some evidence that Gen Z'ers are more frugal than Millennials, which could have an impact on their housing decisions and what they are willing to pay for.
- **We're heading back to the office.** While the omicron variant has delayed the return to the office for some companies, in 2022, more workers will be shifting back to in-person work. Many businesses are focusing on a hybrid model of work, where employees have flexibility to work some days at home and some days at the office. Nevertheless, the desire for housing closer to employment centers—which had slowed during the pandemic—will rebound in 2022.
- **Rising home prices make renting more appealing.** The for-sale market in Virginia had its best year on record, with home prices up at double-digit rates in most local markets. Affordability is the biggest challenge in the market, pushing many prospective home buyers—particularly first-time buyers—out of the homeownership market. Both multifamily and single-family rentals will be highly sought after in the next year, as some are forced to pivot away from homeownership.

Q4 2021 Multifamily Rental Market*

	Northern Virginia		Richmond		Hampton Roads	
	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg
Total Inventory (Units)	256,326	▲	124,602	▲	166,177	▲
Vacancy Rate	5.2%	▼	4.6%	▼	3.0%	▼
Absorption (Units)	1,564	▲	656	▼	52	▼
Effective Avg Rent (SF)	\$2.10	▲	\$1.44	▲	\$1.35	▲
Effective Avg Rent (Unit)	\$1,903	▲	\$1,268	▲	\$1,250	▲
Completed (Units)	1,655	▲	797	▼	257	▲
Under Construction (Units)	13,772	▼	8,094	▲	2,709	▲

	Roanoke		Charlottesville		Winchester	
	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg
Total Inventory (Units)	18,744	▲	12,669	▲	6,011	▲
Vacancy Rate	220.0%	▼	3.0%	▼	3.7%	▼
Absorption (Units)	93	▲	42	▼	50	▼
Effective Avg Rent (SF)	\$1.06	▲	\$1.51	▲	\$1.26	▲
Effective Avg Rent (Unit)	\$937	▲	\$1,480	▲	\$1,175	▲
Completed (Units)	0 -		0	▼	17	▼
Under Construction (Units)	446	▼	1,366	▲	0 -	

	Lynchburg		Harrisonburg		Blacksburg	
	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg	Q4 2021	Y-o-Y Chg
Total Inventory (Units)	12,442	▲	4,704	▲	8,823	-
Vacancy Rate	3.0%	▼	3.3%	▲	1.4%	▼
Absorption (Units)	11	▼	2	▲	10	▲
Effective Avg Rent (SF)	\$0.98	▲	\$1.14	▲	\$1.19	▲
Effective Avg Rent (Unit)	\$950	▲	\$1,023	▲	\$1,136	▲
Completed (Units)	0 -		0 -		0 -	
Under Construction (Units)	247	▼	86	▼	320	▲

Source: CoStar, data accessed December 22, 2021

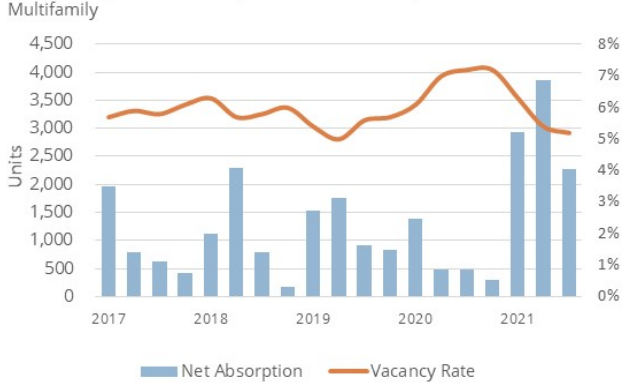
* buildings with 50+ units

- no change

Multifamily Market

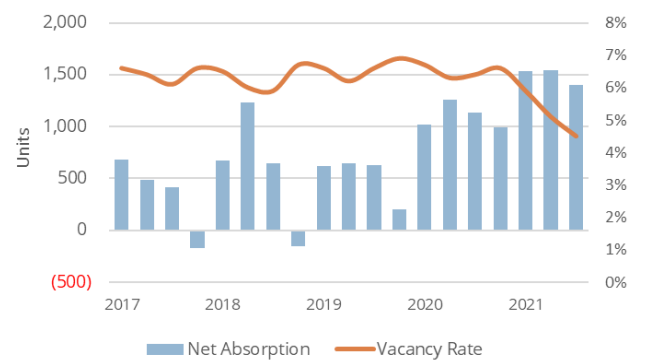
Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
Multifamily

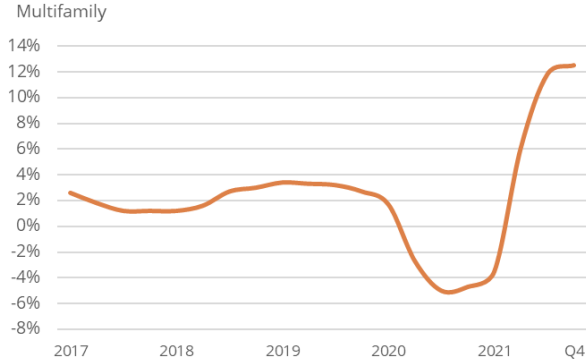


Richmond Metro

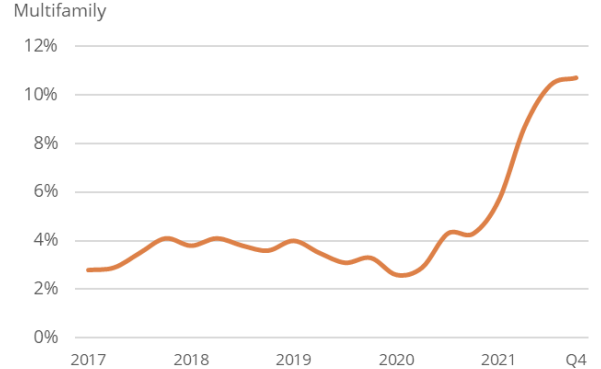
Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
Multifamily



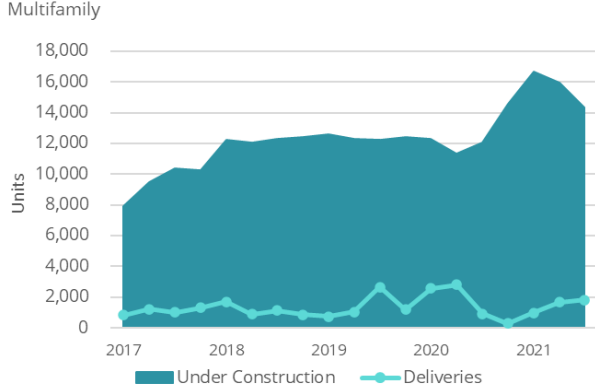
Northern Virginia Metro Area
Effective Rent (Y-o-Y Change)
Multifamily



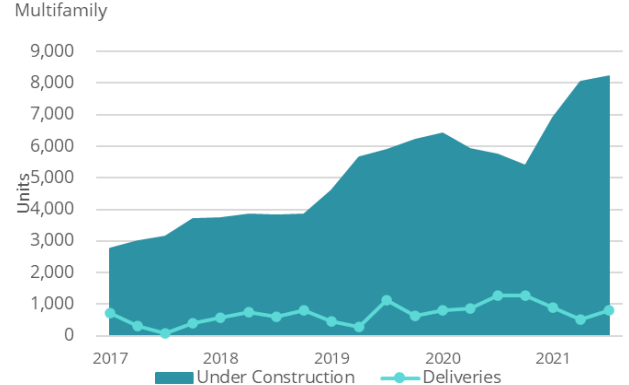
Richmond Metro Area
Effective Rent (Y-o-Y Change)
Multifamily



Northern Virginia Metro Area
Net Deliveries & Under Construction
Multifamily



Richmond Metro Area
Net Deliveries & Under Construction
Multifamily

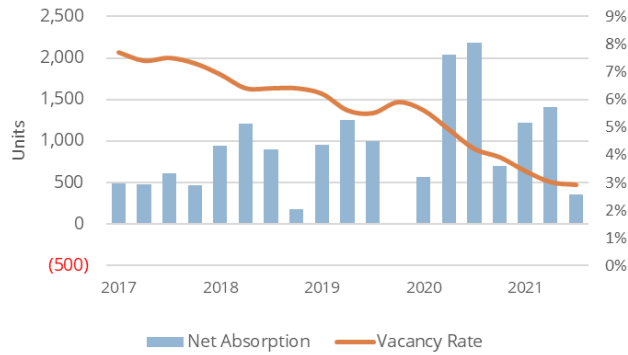


Multifamily Market

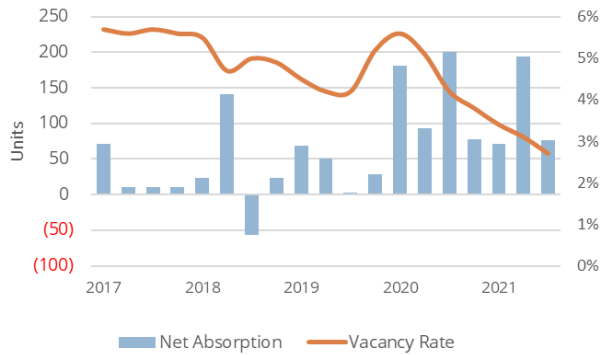
Hampton Roads Metro

Roanoke Metro

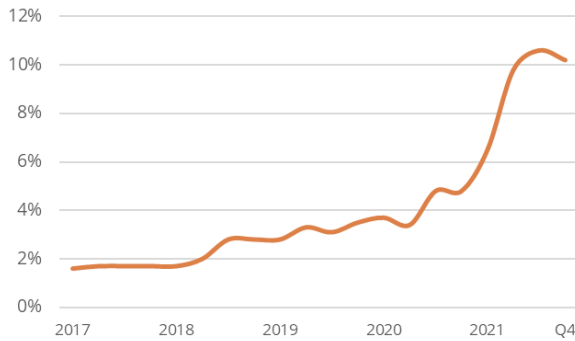
Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



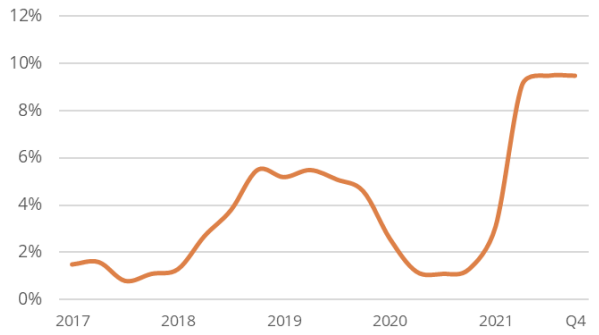
Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates
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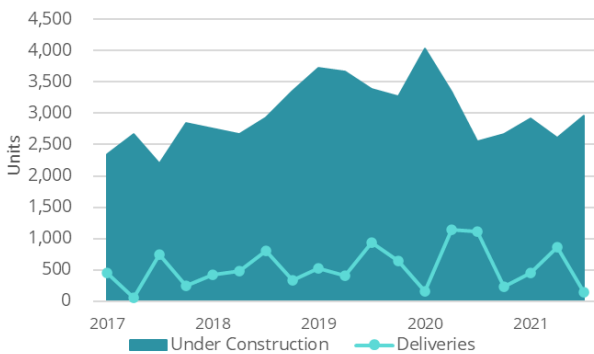
Hampton Roads Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



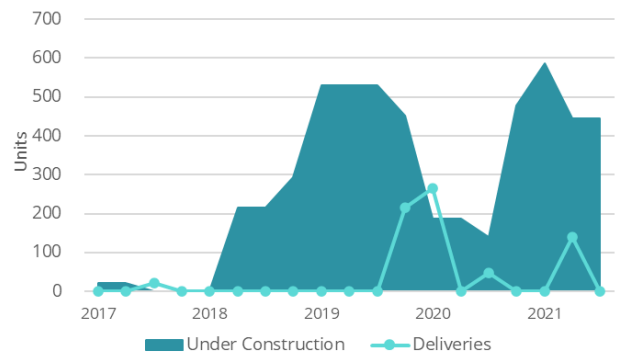
Roanoke Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



Hampton Roads Metro Area
Net Deliveries & Under Construction
 Multifamily



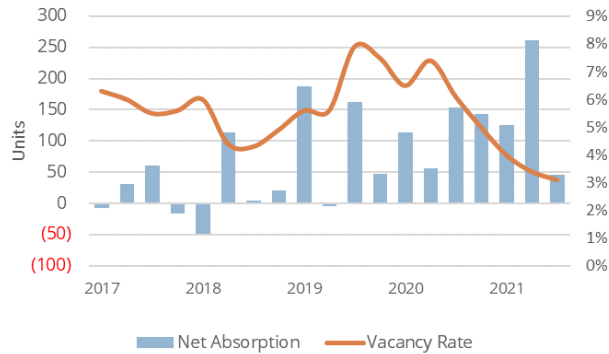
Roanoke Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

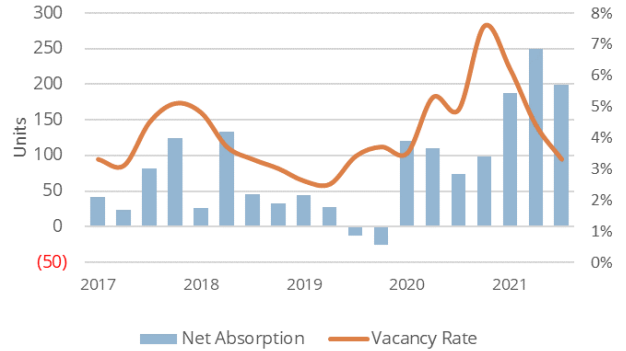
Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily

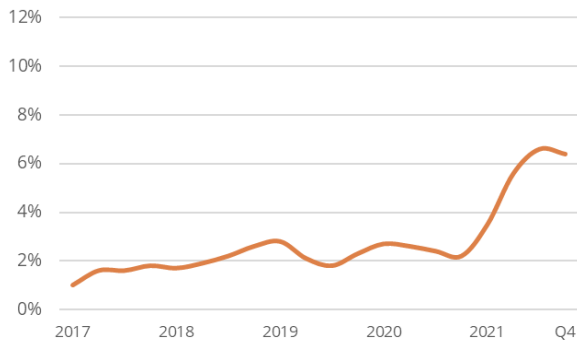


Charlottesville Metro

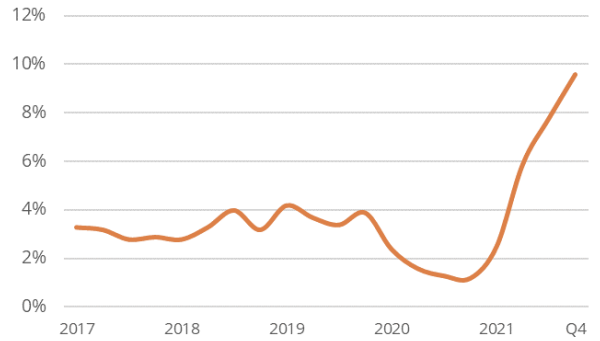
Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



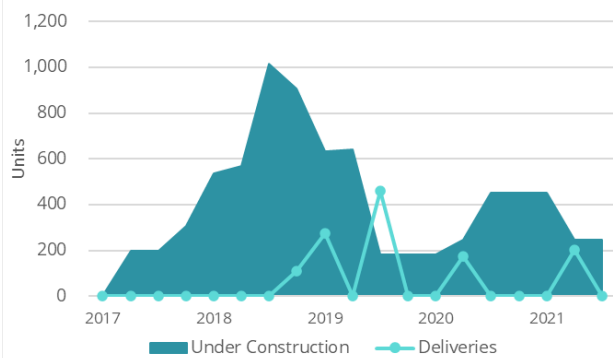
Lynchburg Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



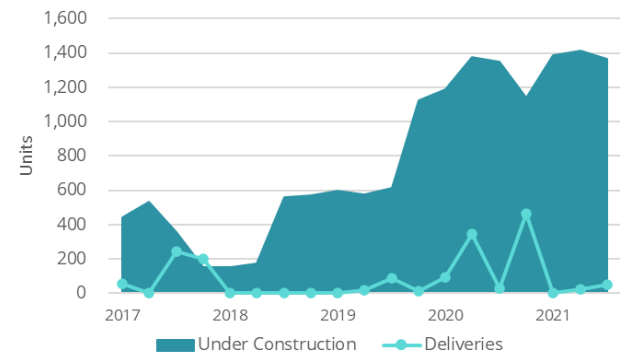
Charlottesville Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



Lynchburg Metro Area
Net Deliveries & Under Construction
 Multifamily



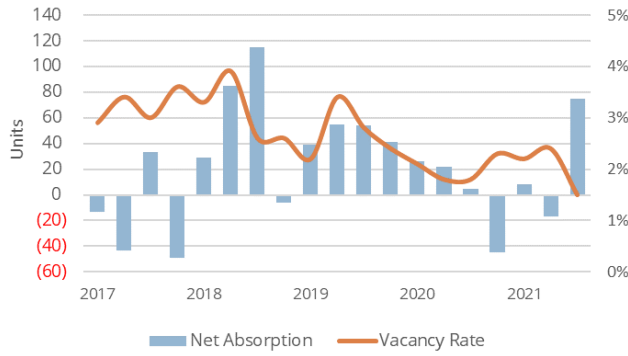
Charlottesville Metro Area
Net Deliveries & Under Construction
 Multifamily



Multifamily Market

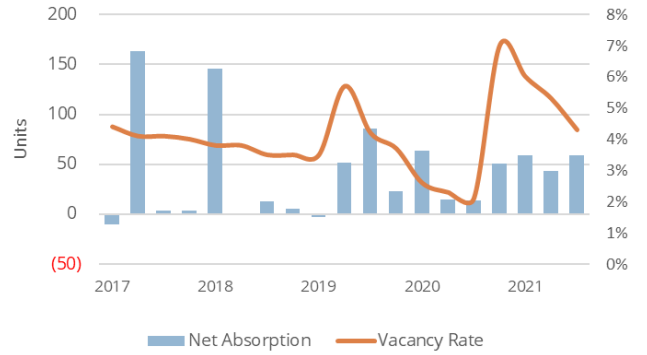
Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily

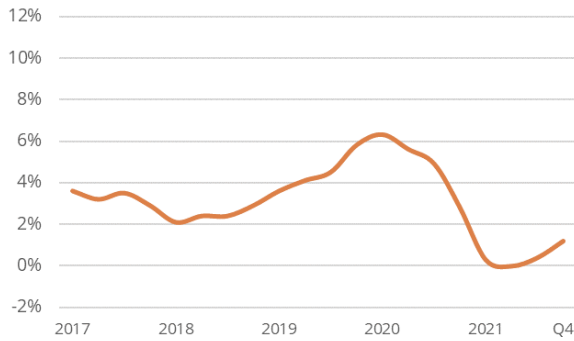


Winchester Metro

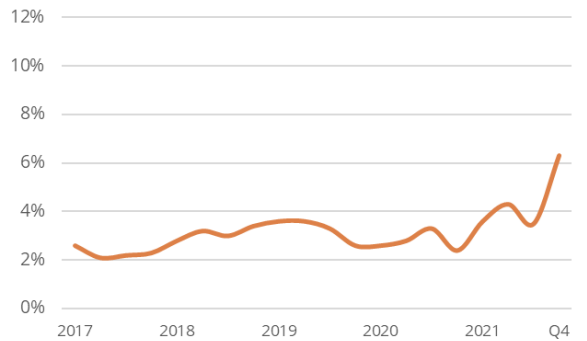
Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



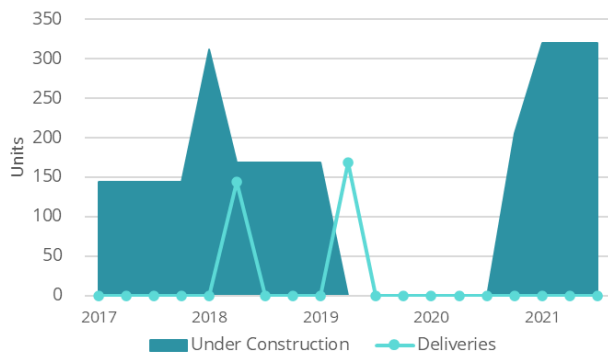
Blacksburg Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



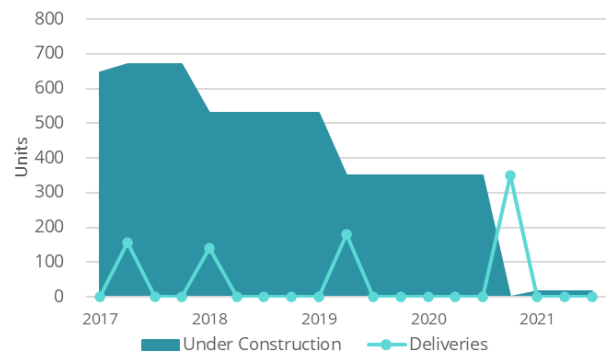
Winchester Metro Area
Effective Rent (Y-o-Y Change)
 Multifamily



Blacksburg Metro Area
Net Deliveries & Under Construction
 Multifamily



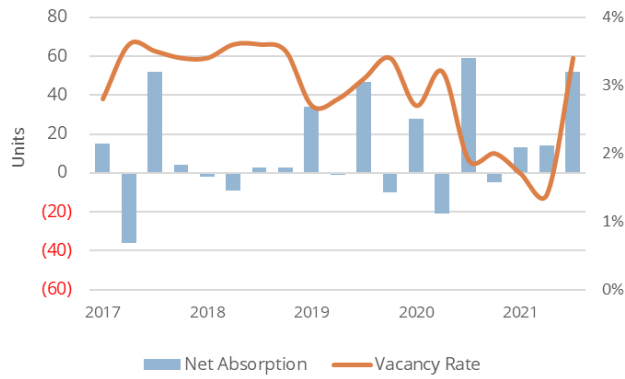
Winchester Metro Area
Net Deliveries & Under Construction
 Multifamily



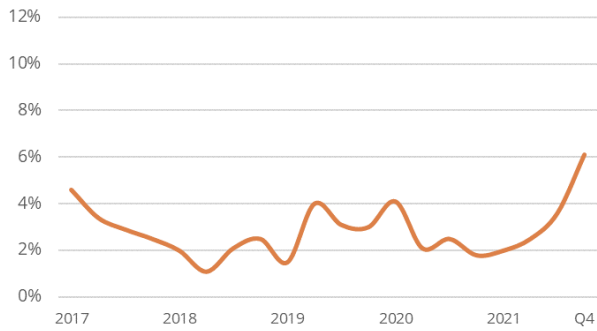
Multifamily Market

Harrisonburg Metro

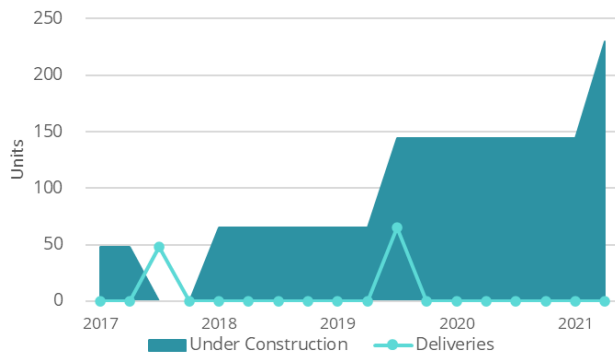
Harrisonburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Multifamily



Harrisonburg Metro Area
Quarterly Effective Rent (Y-o-Y Change)
 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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Data and analysis provided by Virginia REALTORS® Chief Economist, Lisa Sturtevant, PhD. The numbers reported here are based on data from CoStar.

