2021 | Virginia REALTORS®

Virginia's Rental Housing Market

Characteristics of Renters and Rental Units

Virginia's Rental Housing Market

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Virginia's Rental Housing Market

Key Findings

Renter Households

- In 2019, there were more than a million renter households in Virginia. The renter population surged following the 2008 recession. In recent years, growth in the number of renter households has slowed.
- Over the past decade, there has been a significant increase in the number of older renters in Virginia. More higher-income households have fueled growth of the renter populaiton, as well.
- Non-White Virginians are significantly more likely than White Virginians to be renters. Black and Hispanic renters tend to rent longer than White households.
- Renters have been harder hit by the current economic downturn and COVID-19 pandemic than have homeowners. More than a quarter of Virginia renters say that they are worried about being able to make their rent next month.

Rental Housing Stock

- Small apartment buildings (i.e., those with fewer than 20 units) and single-family homes comprise the bulk of the rental stock in Virginia. Large apartment buildings account for just one-fifth of all rental units in the state.
- A significant share of the single-family rental stock and rental homes in small apartment buildings are 40 or more years old, suggesting significant needs for capital investments.
- Statewide, rents have increased 23.1% since 2010. Rents in the state's urban areas escalated since the 2008 recession. However, in some high-cost markets, there has been a softening of rent growth during the COVID-19 pandemic and economic downturn.

Rental Property Owners

- Individual investors own the vast majority of rental properties, typically single-family rental units or units in buildings with between two and four units. Owners of large apartment buildings are most likely to be LLCs, general partnerships, or real estate corporations.
- Individual investors are extremely likely to self-manage properties, with eight in ten reporting that they are responsible for day-to-day property management themselves.

Outlook

- The rental market has been more resilient in Virginia than it has in other parts of the country.
- Looking ahead, there will be rent growth in most markets in Virginia, with rising demand for single-family rental options and rental homes in suburban and rural communities.

Renter Households

In 2019, there were more than a million renter households in Virginia. The number of renters in Virginia changes from year to year with the growth of the population. Trends in demographic and economic factors also impact the renter rate.

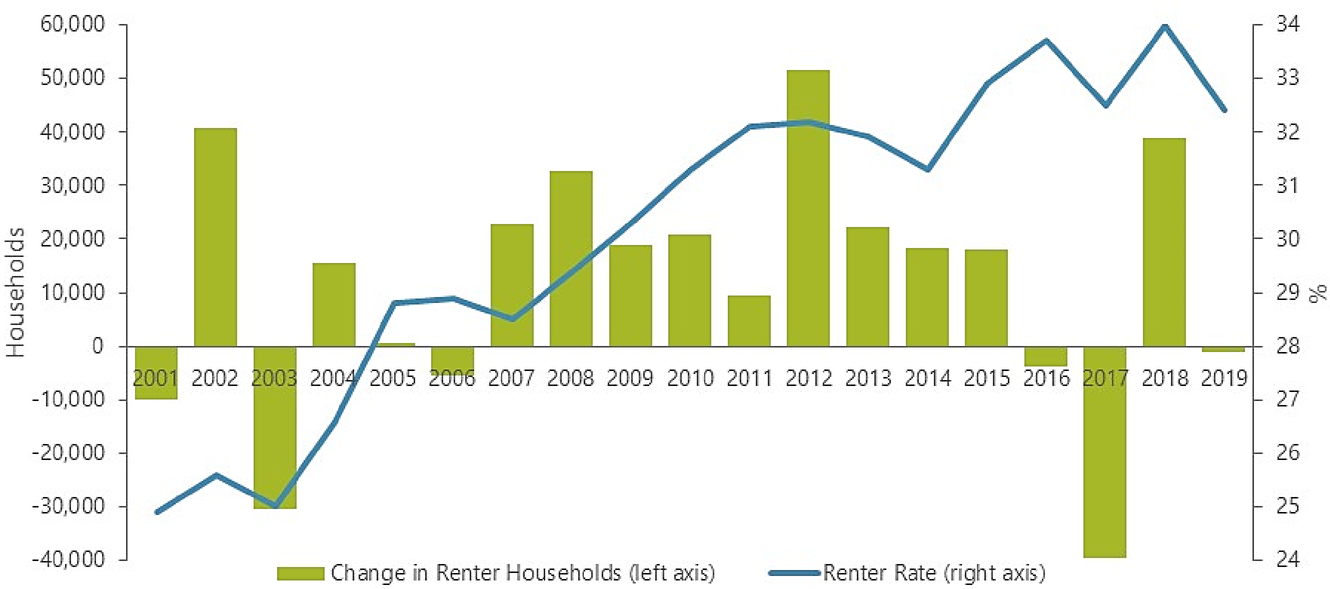
Growth in the number of renter households slowed during the 2002-to-2006 homeownership boom. A surge in single-family homeownership and easy access to mortgages fueled the rise in homeownership. However, the homeownership boom ended in a bust as home prices escalated, subprime mortgages imploded, and foreclosures flooded the market. The renter population in Virginia grew significantly following the housing market crash.

Over the nine-year period from 2007 through 2015, the number of renter households increased each year. The increase in the number of renters was driven both by renters who were "renters by choice" and those who were "renters by necessity."

Renters by choice included a large number of Millennials in their early- to-mid-20s who were just leaving high school or college and forming their own households. Renters by necessity included the thousands of individuals and families who had lost their homes due to foreclosure and found rental housing as their only option.

The renter rate in Virginia peaked at 33.7% in 2016 and the renter rate declined by more than a percentage point between 2016 and 2019 (**Figure 1**). Preliminary estimates for 2020 suggest that the renter rate ticked up slightly in the first six months of the year.

Figure 1. Renters in Virginia, 2001-2019



Source: U.S. Census Bureau

Changing Characteristics of Renters

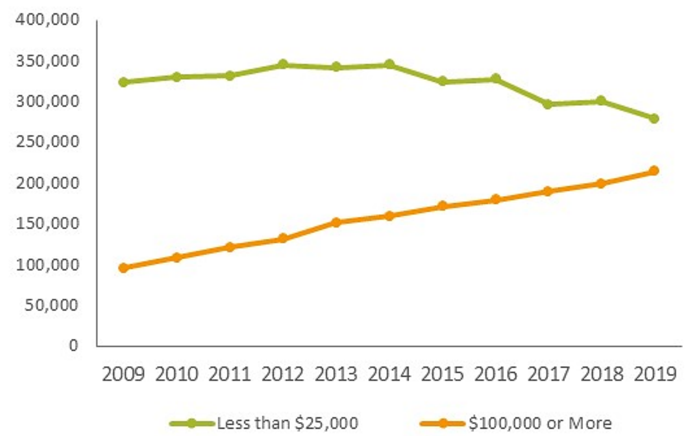
Income. Since the end of the Great Recession, the growth in the renter population has been driven by higher-income households. The number of higher-income renters nearly doubled between 2010 and 2019 while the number of lower-income renters actually declined.

In 2009, households earning less than $25,000 accounted for about one-third (34.2%) of all renter households. By contrast, renters with incomes of $100,000 or more were just 10.1% of renter households in 2009 (**Figure 2**).

By contrast, in 2019, renters with incomes below $25,000 accounted for only a quarter of renter households, while nearly 20.0% of renters had incomes of $100,000 or more.

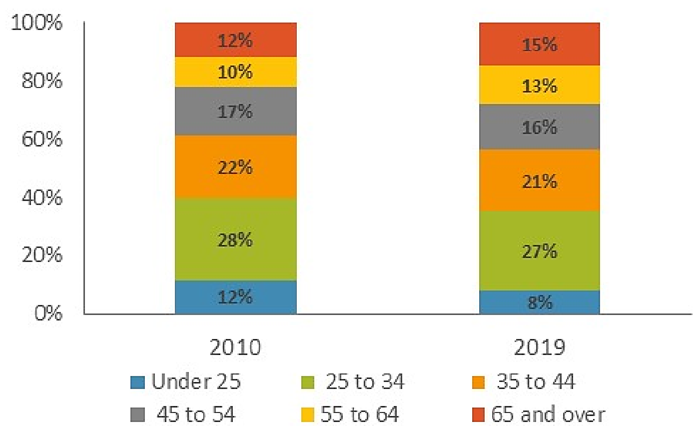
Some of the increase in higher-income renters is due simply to the growth in the number of higher-income households overall. But part of the growth is attributable to shifting attitudes towards homeownership over this period. Some higher-income individuals and famlies looked back at the housing market bust and decided renting was a safer bet than owning a home.

Figure 2. Renter Households by Income



Source: U.S. Census Bureau

Figure 3. Age Distribution of Renters



Source: U.S. Census Bureau

Age. Partially as a result of the overall aging of the population, the age of the typical renter increased between 2010 and 2019. The biggest shift has been the share of renters who are older adults age 55 or older. In 2010, older adults accounted for 22.1% of renter households. By 2019, the older adult share had increased to 28.1% (**Figure 3**). The primary driver of this shift has been general demographic shifts. However, the increase in older adult renters also reflects the transition of some former homeowners into renters as a result of the 2008 downturn.

Despite this age shift, renters remain significantly younger than homeowners. In 2019, 35.4% of renters were under age 35, compared with just 9.7% of homeowners.

Families. Immediately in the aftermath of the 2008 recession, a growing share of renter households were families with children. Since 2010, however, the share of renters with children has declined somewhat. In 2010, about a third of renters were families with children. By 2019, hat share had dropped to 28.1%.

In 2019, 13.5% of renter households were married couples with children, while 14.4% were single-parent households. Married couples without children accounted for 13.7% of renter households.

Nonfamilies (e.g., roomates, people living alone) were half of all renter households. The share of nonfamily households increased slightly between 2010 and 2019, driven by the increase in the number of seniors living alone, as well as the uptick in the number of unmarried couples living together.

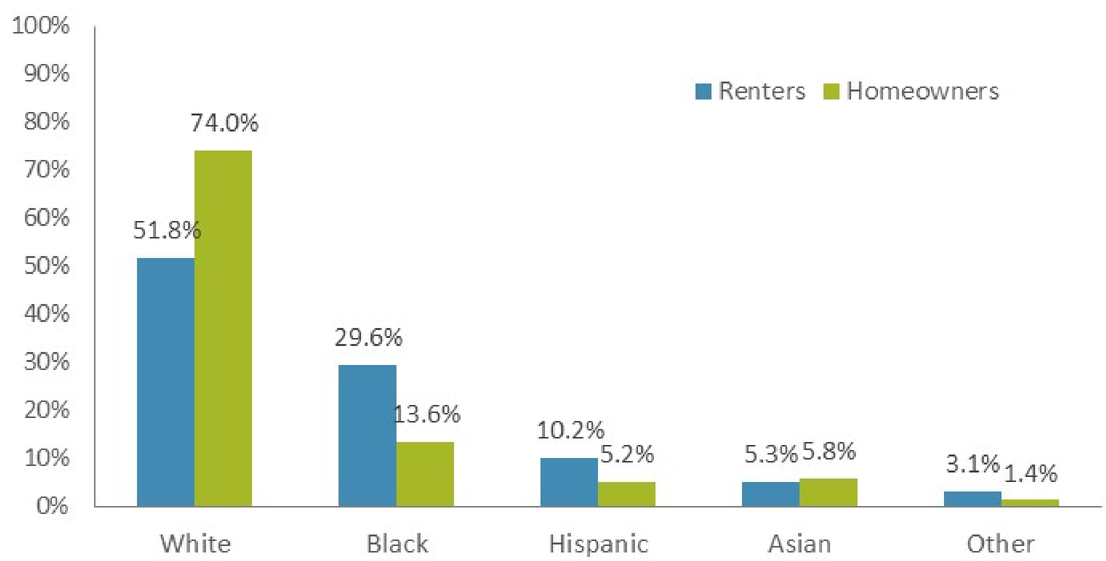
Race/Ethnicity. Renter households in Virginia are significantly more likely to be headed by someone who is non-White. In 2019, just over one half of renter households were White; by contrast, Whites accounted for nearly three-quarters of homeowners in Virginia. Black or African American households comprise about 30.0% of renters and 13.6% of homeowners (**Figure 4**).

One in ten renter households is Hispanic or Latino, and one in 20 homeowners is Hispanic or Latino. Asian households account for roughly five percent of both renters and homeowners in Virginia.

Non-Whites made up a larger share of renter households in 2019 than they did in 2010, largely a result of the increasing racial and ethnic diversity of the overall population.

While rates of homeownership tend to increase with age and income, Black and Hispanic households are much more likely than White households to be renters, even across age and income groups. African Americans, in particular, are far less likely than White households to ever own a home. When they do transition from renter to homeowner, it tends to be when they are older.

Figure 4. Race/Ethnicity by Tenure



Source: U.S. Census Bureau

The Impact of COVID-19 on Renters

In 2020, as a result of the global COVID-19 pandemic, the U.S. economy tumbled into a recession. While the economic pain has been widespread, renters have been harder hit than homeowners during the current recession.

According to the U.S. Census Bureau's Household Pulse Survey, in early September 2020, half of all renters in Virginia said that they had experienced job or income loss since the pandemic hit, compared to 36.2% of homeowners.

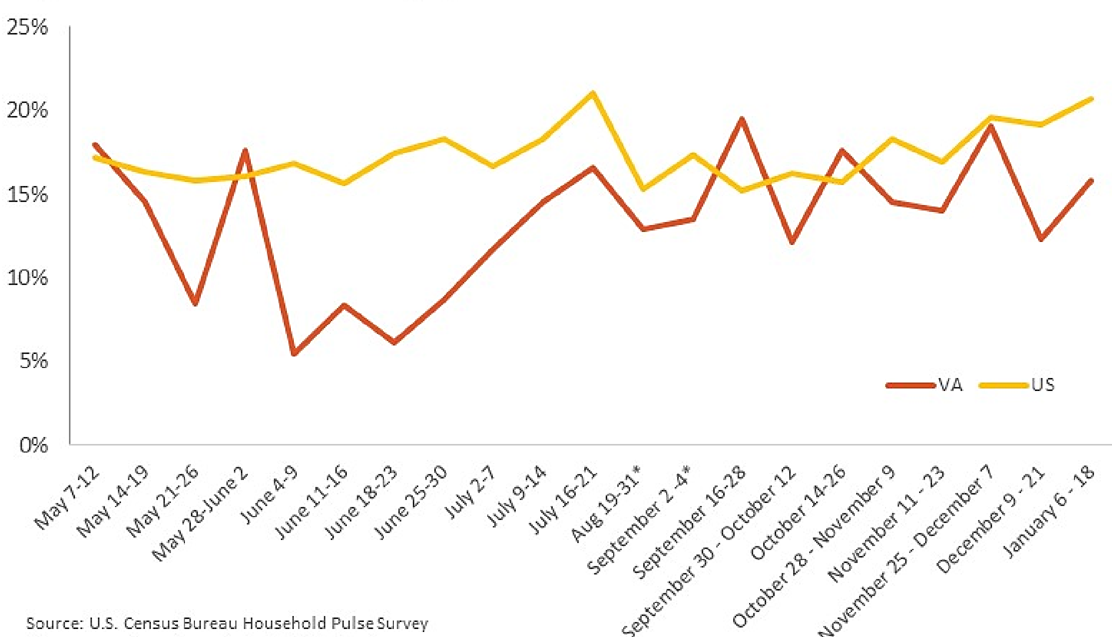
During the economic downturn, many households had to find ways to make ends meet. One out of five Virginia renters said they borrowed from friends and family to meet household expenses (versus just seven percent of owners). Renters have been much more likely to use unemployment insurance benefits or federal stimulus payments to meet spending needs.

Renters in Virginia have also been significantly more likely than homeonwers to receive Supplemental Nutrition Assistance Program (SNAP) benefits—12.1% of renters versus 4.1% of homeowners.

The majority of renters in Virginia have been keeping current with their rent, but some have had challenges with making rent payments. In January, about 16% of Virginia renters said that they were not current on their rent (**Figure 5**). This is slightly lower than the share of renters nationally that did not pay the previous month's rent.

According to this same survey, more than a quarter of Virginia renters say they have no or only slight confidence in their ability to pay their rent in the upcoming months, a share that has been holding fairly steady over the past 10 months.

Figure 5. Share of Renters Not Paying Rent Last Month



Source: U.S. Census Bureau Household Pulse Survey
*Survey question changed slightly in September.

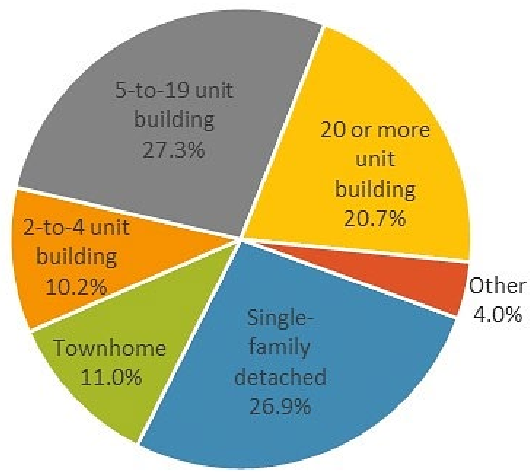
Rental Housing Stock

Rental housing includes both apartments in multifamily buildings, as well as single-family homes and townhomes. In Virginia, small apartment buildings account for a large share of the state's rental housing stock. In 2019, nearly 40.0% of rental units were located in buildings with between two and 19 units, which includes both small apartment buildings as well as duplex, triplex, and quadplex structures **(Figure 6)**.

About one in five rental units (20.7%) are located in large apartment buildings, or buildings with 20 or more units. Overall, therefore, about 58.2% of Virginia's rental housing are units in multifamily buildings.

Single-family rentals make up an important part of the rental stock in Virginia. More than one out of every four rental units (26.9%) is a single-family detached home. Another 11.0% are townhome units.

Figure 6. Rental Units by Building Type



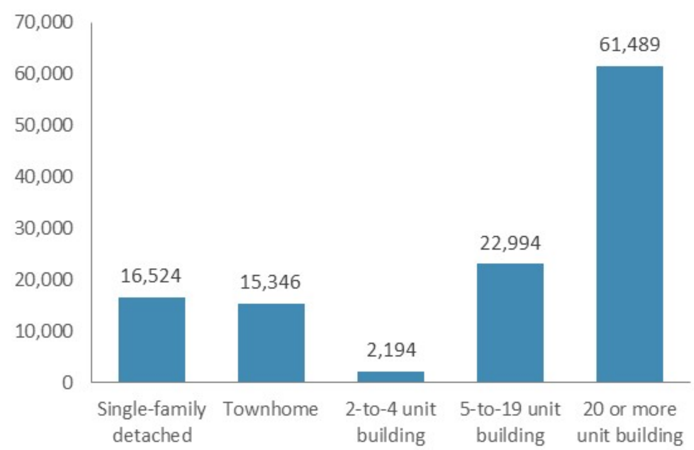
Source: U.S. Census Bureau

Changes in the Composition of the Rental Housing Stock

Between 2010 and 2019, more than 113,000 rental units—both occupied and unoccupied units—were added to Virginia's rental housing stock, reflecting an increase of 11.7% over the nine-year period.

Following the last housing market downturn, there was a large influx of investors that swept in and bought up single-family homes that had entered into foreclosure. Since 2010, some of those single-family rentals have transitioned back to owner-occupancy. The growth in the rental housing stock in Virginia has been driven by development of larger apartment buildings over the past decade.

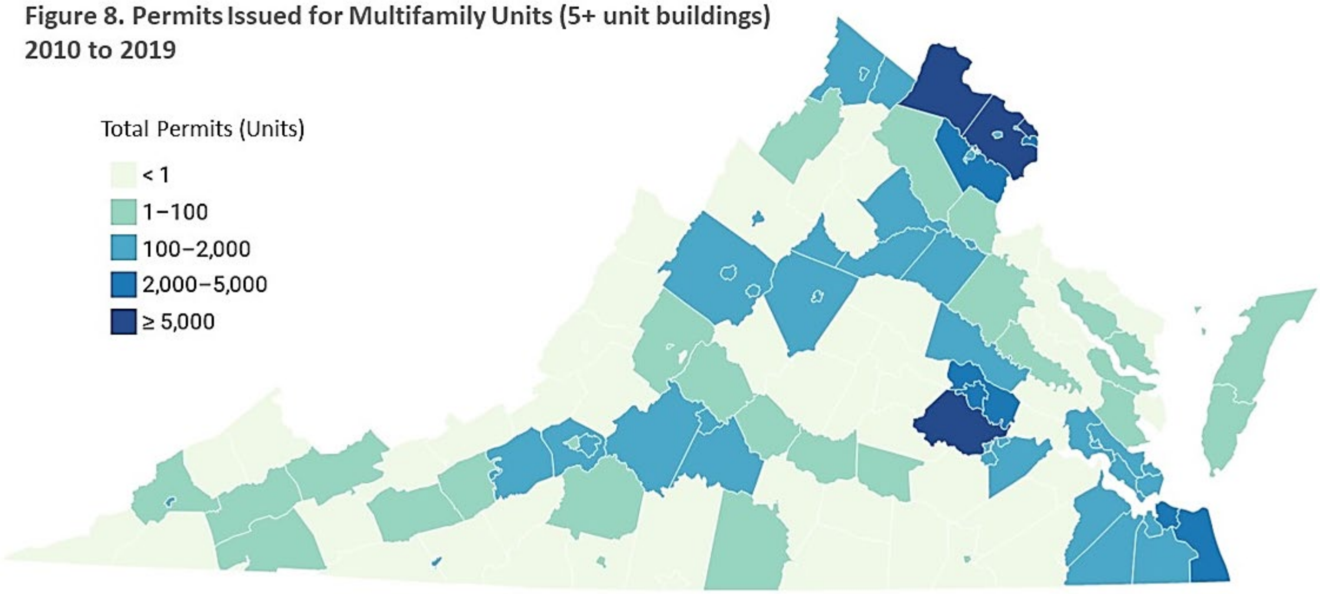
Figure 7. Change in Rental Units by Building Type, 2010 to 2019



Source: U.S. Census Bureau

Between 2010 and 2019, while the overall number of units increased by 11.7%, the number of rental units in buildings with 20 or more units increased by 38.0%. More than one out of every two net new rental units added between 2010 and 2019—or more than 61,000 apartment units—was in a large apartment building **(Figure 7)**.

Figure 8. Permits Issued for Multifamily Units (5+ unit buildings) 2010 to 2019



Source: U.S. Census Bureau

By contrast, there were about 16,500 more single-family rental units in 2019 than there were in 2010, an increase of 6.0%. The number of rental townhomes increased by 15,300 over the decade, a gain of 14.8%.

New apartment construction over the past decade has been largely concentrated in the state's urban areas **(Figure 8)**. For example, more than 16% of the permits issued for multifamily residential units were issued in Arlington County. About 11% were issued in Fairfax County and 10% were issed for construction in Loudoun County. (Note: multifamily construction could also include for-sale units.)

In Northern Virginia, the City of Alexandria and Prince William County also experienced significant new multifamily residential permitting.

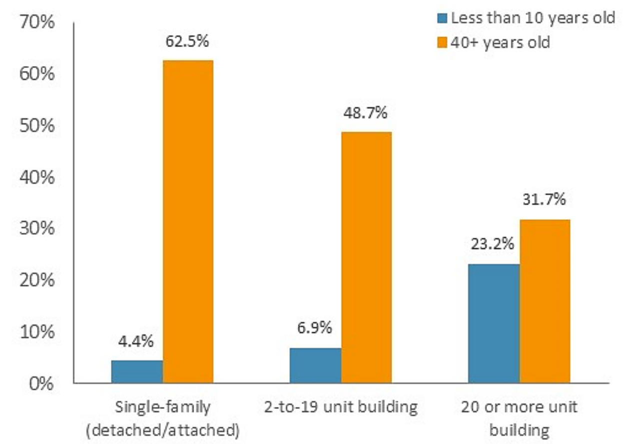
In other parts of the state, there were also relatively high numbers of permits issued for new multifamily residential units in Chesterfield County and the City of Richmond. The cities of Norfolk and Virginia Beach also had concentrations of multifamily construction permitting activity.

As a result of the expansion of multifamily apartment buildings, the rental housing stock in Virginia had a slightly larger share of units with no bedrooms (i.e., studios) or one bedroom. The share of units with four or more bedrooms declined slightly over that time period. In 2019, about two-thirds of all rental units in Virginia (66.2%) are two- or three-bedroom units.

While the pace of construction of new multifamily apartment buildings escalated over the 2010 through 2019 period, Virginia's rental stock, overall, includes many older structures.

In 2019, about 23.2% of all rental units in multifamily buildings were less than 10 years old **(Figure 9)**. By contrast, however, only 4.4% of single-family rental units and 6.9% of rental units in buildings with two to 19 units were less than a decade old. In fact, nearly two-thirds of single-family rental units in the state are 40 or more years old. Half of rental units in small buildings are four decades old or older.

Figure 9. Age of Unit by Building Type, 2019

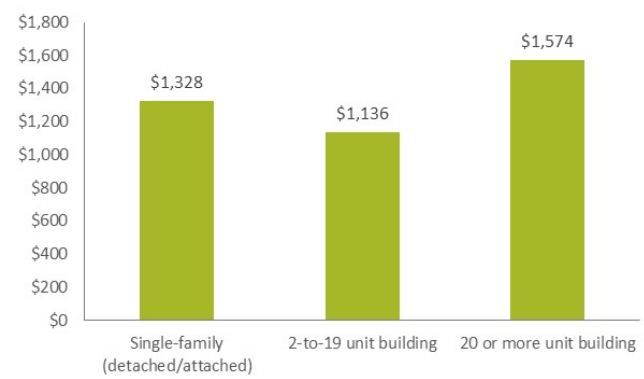


Source: U.S. Census Bureau

Rents across the Commonwealth have risen over the past decade. According to the U.S. Census Bureau, the median rent statewide was $1,254 in 2019, up 23.1% from 2010. There is considerable variation in rents, ranging from a low of $520 in Grayson County to a high of $1,970 in Arlington County over the 2015 to 2019 period.

Rents also vary by property type. Although single-family rentals tend to be somewhat older than small multifamily buildings, they command somewhat higher rents because they tend to be larger, with a greater number of bedrooms, and more private outdoor space. In 2019, the average statewide rent for a single-family rental unit was $1,328 compared to $1,136 for a rental unit in a 2-to-19 unit building **(Figure 10)**.

Figure 10. Average Monthly Rent by Building Type, 2019



Source: U.S. Census Bureau

Largely because of their relative newness and location in more urban, higher-cost markets, rents in large, multifamily apartment buildings tend to be higher. In 2019, the average rent for a unit in a 20+ unit multifamily building was $1,574.

New construction in Virginia's metro areas has been highly concentrated at the luxury end. In Northern Virginia, for example, a typical rental unit in a new multifamily building in Arlington County could rent for as much as $2,500 per month or more for a one-bedroom unit. A newly constructed two-bedroom unit rents for between $1,800 and $2,200 in Henrico County.

The Impact of COVID-19 on Vacancy and Rents

In some places around the U.S., the COVID-19 pandemic and economic downturn have led to rising rental vacancy rates and declining rents. For the most part, the rental market in Virginia has remained relatively resilient through 2020. The one exception is Northern Virginia, where pre-COVID rents were significantly higher and experienced a softening in 2020.

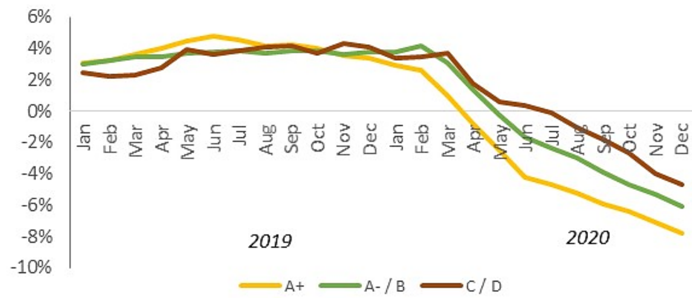
In 2019, the statewide rental vacancy rate for all rental units was 7%, according to data from the U.S. Census Bureau. The rental vacancy rate dropped below 5% in Virginia in the 2nd and 3rd quarters of 2020 before rising again to 7.3% in the 4th quarter of the year.

Among larger apartment buildings (50+ units), vacancy rates remain somewhat lower, averaging generally between three and six percent in the state's major markets—Northern Virgnia, Richmond Region, and Hampton Roads Region.

Across these three regions, there has been variability in rent trends in large buildings although, in general, luxury buildings have performed less well than buildings with lower rents **(Figures 11a through 11c)**[1]:

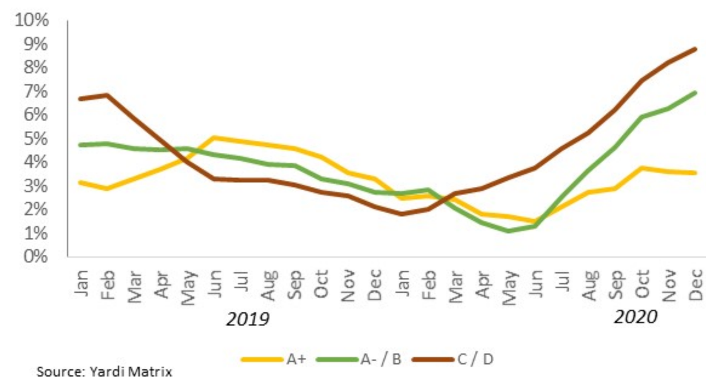
- Nothern Virginia: In 2020, average monthly rents have declined across building types, with the biggest drops among class A+ apartments. At the end of 2020, the average rent in a class A+ building in Northern Virginia was $2,063, a 7.8% decline from the end of 2019. The average rent for units in class A-/B buildings declined by 6.1%, and the average rent in class C/D buildings declined by just 4.7%.

Figure 11a. Percent Change in Monthly Rents Northern Virginia



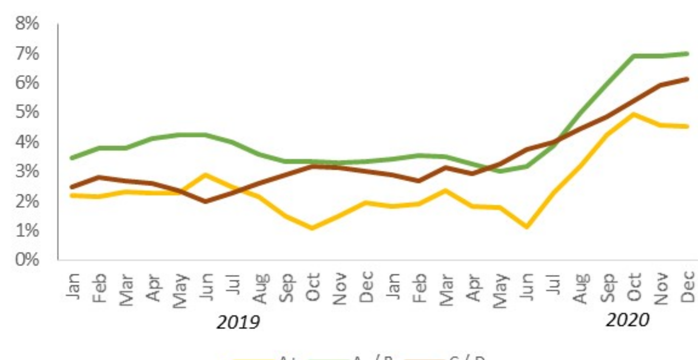
Source: Yardi Matrix

Figure 11b. Percent Change in Monthly Rents Richmond Region



Source: Yardi Matrix

Figure 11c. Percent Change in Monthly Rents Hampton Roads Region



Source: Yardi Matrix

[1] In general, class A+ buildings are the highest-quality, often newest buildings with the most amenities. Class A-/B buildings are generally a little older, but still have good quality management and amenities. Class C/D buildings tend to be older buildings located in less desirable locationsareasand with fewer amenities.

- Richmond Region: Rents remained firm during the pandemic, with strong growth in the latter half of the year. In December 2020, the average rent in a luxury, class A+ building was $1,555, up 3.5% compard to a year earlier. Rents in class A-/B buildings were up 6.9% and class C/D rents increased by 8.8% between December 2019 and December 2020.
- Hampton Roads Region: Rent growth accelerated in the Hampton Roads region in 2020. At the end of the year, the average rent in a class A+ building was $1,531, an increase of 4.5% from a year earlier. Rents were up by 7.0% and 6.1%, respectively, in class A-/B and class C/D builings.

Rental Property Owners

Rental property owners include small, individual owners as well as large, institutional owners. There are significant differences in the types of properties owned by different types of owners. There is limited data on characteristics of property owners in Virginia, so data on property owners nationally is included in this report.

Ownership. According to the U.S. Census Bureau's 2018 Rental Housing Finance Survey, the largest share of both rental properties and rental units are owned by individual investors. Individual investors own nearly three-quarters (71.6%) of all rental properties nationally; however, they own just 43.9% of all rental *units*.

About 16% of rental properties are owned by a Limited Liability Partnership (LLP), Limited Partnership (LP), or Limilited Liability Company (LLC), generally formed for the purpose of purchasing and/or managing the property or properties. The entitites account for about 40% of all rental units nationwide.

Only about 3.6% of rental properties are owned by a Trustee for an Estate. Real estate corporations own about 1.2% of rental properties, and another 1.0% are owned by Real Estate Investment Trusts (REITs).

Real estate corporations and REITs account for a larger share of units—3.0% and 2.5%, respectively.

Figure 12a. Rental Properties - Ownership, 2018

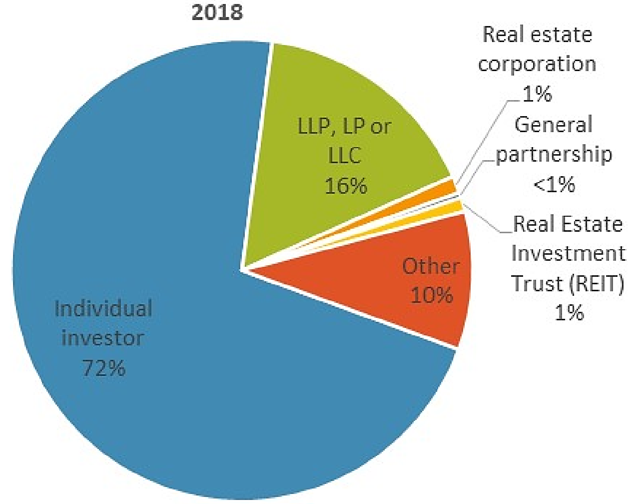
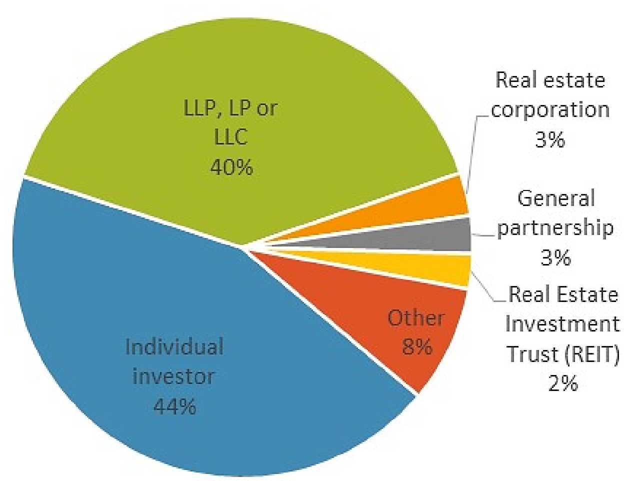


Figure 12b. Rental Units - Ownership, 2018



Source: U.S. Census Bureau

Property Management. About 12% of rental properties nationwide are professionally managed by a management company, and 11.1% are managed by a management agent directly employed by the property owner. However, the majority of rental properties are managed by the property owner or an unpaid agent of the owner.

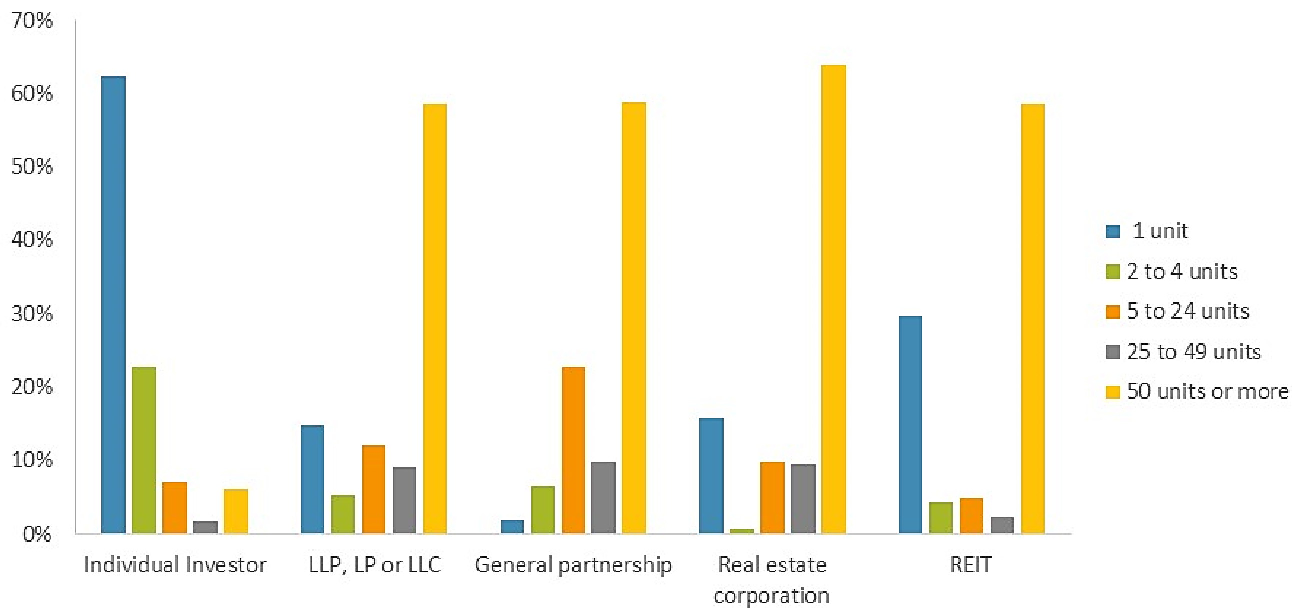
Individual investors are extremely likely to self-manage properties, with 80% reporting that they are responsible for day-to-day property management themselves. About 9.6% of individual investor owners use a property management company, and 7.0% hire a management agent that they directly employ.

Property Type. Most individual investors own single-family rental units. About 62% of individual investors own one-unit buildings, and another 23% are owners of units in buildings with two, three, or four units.

Institutional owners are far more likely to own and manage units in large, multifamily buildings. About 60% of units owned by an LLP, LLC, LP, a general partnership, or a REIT are in buildings with 50 or more units. A slightly higher share—64%—of units owned by a real estate corporation are in large, multifamily buildings.

While REIT-owned units are more likely to be in large buildings, REITs own a notable share of single-family rental units. Nearly 30% of REIT-owned rental units are single-family homes.

Figure 13. Ownership by Property Size, 2018



Source: U.S. Census Bureau

Outlook

Rental housing is a vital part of the housing stock in Virginia. About a third of households in the state are renters, and thousands of Virginians are owners of rental properties.

The COVID-19 pandemic has had a disproportionate impact on renters and the rental housing market. However, rental housing in Virginia has been more resilient than it has in many other parts of the country.

Key Trends for 2021

Softening of rents in high-cost markets. In 2020, rent growth remained strong in Virginia's major markets. The one exception has been in the state's highest-cost markets. Rents in luxury buildings in Northern Virginia declined during the pandemic, with rents declining more quickly towards the end of 2020.

Overall, rents will likely be stable in 2021, with faster rent growth expected in the second half of the year. Rent growth will continue to be weakest in the state's highest-cost markets, in particular in the urban markets in Northern Virginia.

Increase in demand for single-family rentals. Trends in the rental market depend on both demographic and economic trends. There is also an important relationship between the for-sale market and the rental market.

With the inventory of homes available for sale at historically low levels, many would-be buyers will be forced to delay their home search. As a result, more individuals and families will look for single-family rental options in 2021.

Growing affordability concerns. Rising demand for rental housing in 2021 will put upward pressure on rents in some markets, particularly those that have traditionally been more affordable. Lower-income individuals and families face the biggest challenges finding housing they can afford. These challenges will increase if the supply of new rental housing is not sufficient to meet demand.

Influence of remote work on rental demand. The COVID-19 pandemic has changed the way many people work and learn. The shift to telework has led to increased demand for housing farther from urban areas now that proximity to an office has become less important for some workers.

In 2021, expect rising demand for both rental and ownership housing in suburban and rural markets. Cities may continue to see a slight softening, but there is no expectationindication of dramatic declines in Virginia's urban markets.

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