

MARKETBEAT

Richmond, VA

Multifamily Q1 2017



ECONOMIC INDICATORS

National	Q1 16	Q1 17	12-Month Forecast
GDP Growth	1.6%	2.0%	▲
CPI Growth	1.1%	2.4%	▲
Consumer Spending Growth	2.4%	3.1%	▲
Ten Year Treasury	1.91%	2.45%	▲
Permits 5+ units	-6.0%	5.0%	▲
Starts 5+ units	17%	23%	▼
New Renter HH Formation	1.5%	0.91%	▲

Regional	Q1 16	Q1 17	12-Month Forecast
Household Income	\$62,186	\$63,915	▲
Population Growth	0.66%	0.57%	▲
Unemployment	4.2%	4.2%	▲

Economy

The U.S. added 2.3 million jobs from February 2016 to February 2017 of which 219,000 were in the construction industry. Housing starts increased 6.2% over the same time period. Improving economic fundamentals allowed the Federal Reserve to increase the federal funds rates in March for the third time since December 2015. According to the Census Bureau, an additional 365,000 rental housing units were occupied in Q1 2017 compared to Q1 2016. This is down from the 630,000 and 1,889,000 added in Q1 2016 and Q1 2015, respectively.

Richmond added 6,800 jobs from February 2016 to February 2017 marking the 80th consecutive month of year-over-year job gains. The biggest contributors to employment growth in February were the construction and the education and health services sectors. Multifamily building permits declined by 35% in 2016 from 2015 and is 56% below the peak set in 2002.

Market Overview

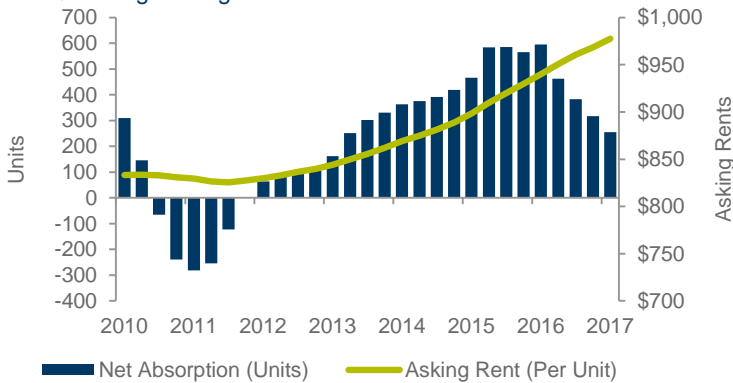
The overall multifamily vacancy rate remains a low 6.6% in Q1 2017. This is the same vacancy figure as Q1 2016 despite the addition of over 1,000 units. Asking rents are currently \$994 per unit per month which is a 3.76% increase over the same time period. A positive 444 units absorbed in Q1 2017 which is below the 692 units that absorbed in Q1 2016. Absorption in the Central submarket pulled back the most with 38 units absorbing in Q1 2017 compared to 277 in Q1 2016. Absorption in Western Henrico was the strongest with 359 units in Q1 2017, a significant uptick from the 39 units in Q1 2016.

Developer interest in the Central submarket remains the strongest with 810 units currently under construction followed by Chesterfield with 648 units under construction.

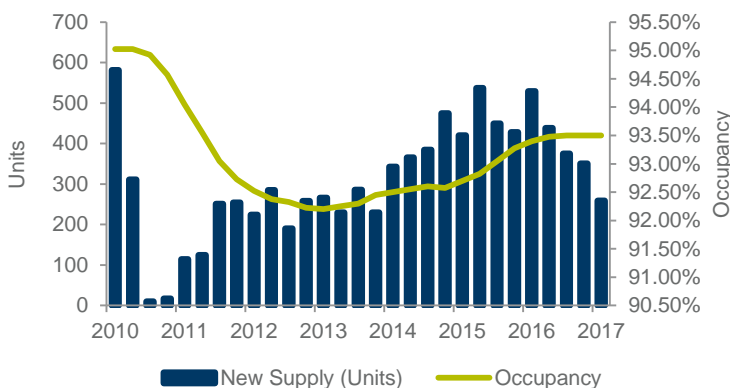
Outlook

New supply is expected to slightly outpace absorption in 2017 causing vacancy to increase and put a damper on rent growth. Despite the expected increase in vacancy, fundamentals will remain strong supported by continued employment growth. Multifamily pricing remains tight, according to Real Capital Analytics, with cap rates just 290 basis points higher than the 10 year treasury as of March. The spread was 426 basis points as of July 2016. Spreads have averaged 322 basis points over the long term. Investment sales volume has fallen at double digit year-over-year rates for the fourth month in a row with tight pricing causing a pullback in deal volume

Overall Net Absorption/Asking Rent
4Q Trailing Average



New Supply/Occupancy
4Q Trailing Average



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SUBMARKET	INVENTORY (Units)	AVG. SF	VACANCY RATE	VACANCY RATE CHANGE 12 MONTHS (bps)	ABSORPTION 1Q17 (UNITS)	ROLLING 4Q ABSORPTION (UNITS)	HISTORIC AVG. ANNUAL ABSORPTION* (UNITS)	UNDER CONSTRUCTION (UNITS)**	CHANGE IN SUPPLY YTD 2017 (UNITS)	HISTORIC AVG. ANNUAL DELIVERIES	RENT (Monthly)	RENT/SF/MONTH	RENT CHANGE (12 MONTHS %)
Central	12,394	821	6.80%	-250	38	567	336	810	162	364	\$1,187	\$1.45	5.54%
East Richmond/Henrico	4,464	878	5.50%	0	12	2	29	156	-	21	\$767	\$0.87	1.81%
North Richmond	2,780	788	6.90%	-30	-21	8	47	0	-	49	\$697	\$0.88	2.50%
Hanover	1,903	931	8.20%	420	41	52	-1	0	-	7	\$1,011	\$1.09	5.42%
South Richmond	12,588	860	7.80%	100	19	-128	150	266	-	177	\$845	\$0.98	2.99%
Western Henrico	22,800	917	5.20%	-480	359	205	36	327	320	86	\$1,039	\$1.13	4.74%
Near West End	733	828	4.50%	-140	-2	10	4	0	-	6	\$1,097	\$1.32	-1.44%
Chesterfield	10,379	976	7.60%	220	-48	29	170	648	-	195	\$1,017	\$1.04	2.11%
Tri-Cities	6,768	894	6.00%	-250	83	164	59	62	-	54	\$812	\$0.91	0.62%
Midlothian	4,339	1,005	8.30%	-250	-36	108	70	0	-	86	\$1,117	\$1.11	2.95%
Total	79,148	898	6.60%	0	445	1,017	901	2,269	482	1,044	\$994	\$1.11	3.76%

SUMMARY BY BEDROOM	UNITS	AVG. SF	VACANCY RATE	VACANCY RATE CHANGE 12 MONTHS (bps)	ABSORPTION 1Q17	ROLLING 4Q ABSORPTION	HISTORIC AVG. ANNUAL ABSORPTION*	UNDER CONSTRUCTION (UNITS)**	CHANGE IN SUPPLY YTD 2017 (UNITS)	HISTORIC AVG. ANNUAL DELIVERIES	RENT (Monthly)	RENT/SF/MONTH	RENT CHANGE (12 MONTHS %)
Studio	2,022	510	7.2%	-500	10	138	23	105	0	37	\$858	\$1.68	5.28%
One Bed	24,174	710	6.7%	-40	207	395	380	898	223	434	\$915	\$1.29	3.74%
Two Bed	42,333	956	6.4%	40	216	116	371	551	224	434	\$994	\$1.04	3.11%
Three Bed	7,261	1,248	7.2%	20	8	-5	101	171	35	116	\$1,262	\$1.01	4.82%
Four+ Bed	522	1,381	3.2%	-42	0	10	25	1	-	23	\$1,362	\$0.99	29.73%

Source: CoStar.

Notes: Only includes properties with five units and above. Dormitories, senior housing, and properties with only affordable housing units excluded.

*Rolling four month quarterly average for the past ten years.

**Unit mix not available on every property currently under construction

Significant Q1 2017 Apartment Sales

PROPERTY NAME	SUBMARKET	BUYER	SELLER	# OF UNITS	PURCHASE PRICE	PRICE/UNIT (\$/PSF)
Lofts at Commerce	South Richmond	Hudson Group	True North	225	\$19,700,000	\$87,1450
Bellevue Land Apartments	North Richmond	Genesis Properties	Code Capital Partners	144	\$3,700,000	\$25,694
Laurel Pines Apartments	East Richmond	Laurel Pines Acquisitions	Monument Capital	120	\$10,600,000	\$87,983
Shockoe Cary Building	Central	Private Individual	Torchlight	16	\$2,300,000	\$143,750

Sources: Real Capital Analytics, Cushman & Wakefield | Thalhimers Research Services

Notable Construction Pipeline

PROPERTY NAME	ADDRESS	Submarket	OWNERSHIP / DEVELOPER	# OF UNITS	STATUS	COMPLETION DATE
Libbie Mill	Libbie Mill East	Western Henrico	Gumenick Properites	327	Under Construction	Q3 2018
Cary Street Station	101 S Davis	Central	Monument Companies	280	Under Construction	Q2 2017
Village at Westlake	Jahnke & German School	Chesterfield	Breeden Companies	252	Under Construction	Q2 2017
Symbol Mattress	Highpoint and Patton	Central	Spy Rock	202	Under Construction	Q2 2017
Element at Stonebridge	301 Karl Linn	Chesterfield	Boyd Homes	132	Under Construction	Q2 2017
Valley West	100 N 20 th Street	Central	Emerson	160	Under Construction	Q4 2017

Sources: Real Data, Costar, Cushman & Wakefield | Thalhimers Research Services

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