

MARKET REPORT

Multifamily

Norfolk-Virginia Beach Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

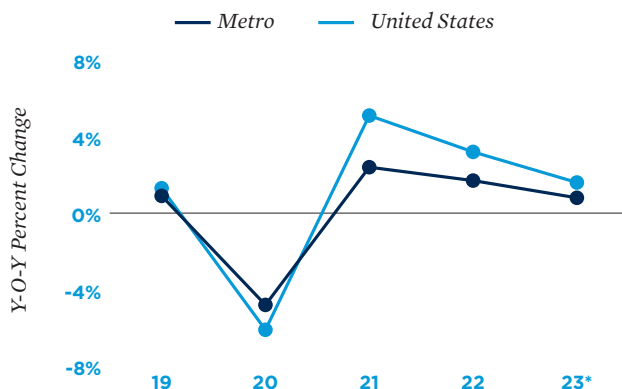
3Q/23

Vacancy Remains in Line with Historical Norms, Amid the Recent Stretch of Negative Absorption

Demand slips as renter protections subside. The expiration of the state-wide eviction moratorium and federal rent relief in mid-2022 have had a significant impact on local rental occupancy. Since August 2022, there has been nearly 50,000 eviction filings metrowide. These actions coincided with five consecutive quarters of negative net absorption through March of this year, marking the longest stretch of negative demand in more than two decades. Fortunately, renter demand returned to positive territory in the second quarter, which may indicate that some of these headwinds are beginning to abate. Vacancy also remains in line with pre-pandemic norms, despite these recent challenges. Registering at 4.7 percent in June, the rate was 20 basis points below the historical mean prior to 2020, suggesting the market still remains in fundamentally healthy shape.

Completions should be well-received. The size of the active pipeline suggests deliveries will eclipse the metro's long-term average in both 2023 and 2024. Although this may place some upward pressure on vacancy in the near-term, these effects will likely be short lived. Entering July, vacancy in Class A apartments was at 4.4 percent, which is the lowest rate among local property tiers and roughly 120 basis points below the national average for luxury units. The metro's well-educated workforce, coupled with its large pool of military personnel who often enter the private sector following their service, bodes well for demand in both Class A and B units long-term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2023 Outlook



**6,500
JOBS**

will be created

EMPLOYMENT:

The pace of hiring slows relative to last year as local firms expand headcounts by 0.8 percent in 2023. As of July, the metro's unemployment rate was 60 basis points below the national average at 2.9 percent.



**1,650
UNITS**

will be completed

CONSTRUCTION:

Development activity reaches a three-year high as builders expand the metro's apartment inventory by 1.2 percent in 2023. The bulk of near-term completions are concentrated in the Virginia Beach area.



**90
BASIS POINT**

increase in vacancy

VACANCY:

Strong development and a slowdown in leasing result in the second consecutive year of rising vacancy. The rate will reach 5.3 percent by December, which marks the highest level recorded since 2017.



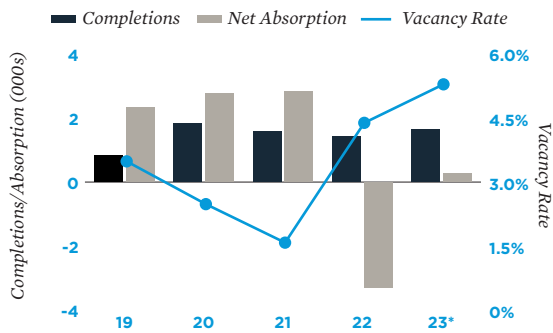
**4.3%
INCREASE**

in effective rent

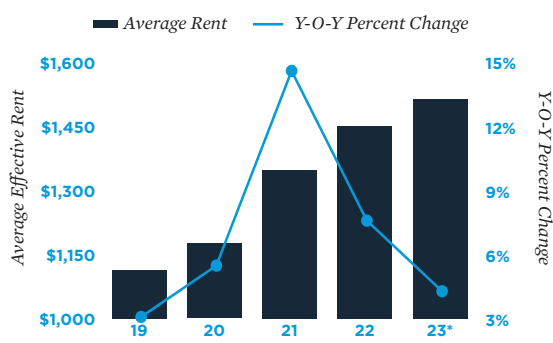
RENT:

Despite a reduction in apartment demand, annual rent growth is still projected to outpace the long-term average of 3.9 percent this year. The metro's average effective rent will rise to \$1,512 per month.

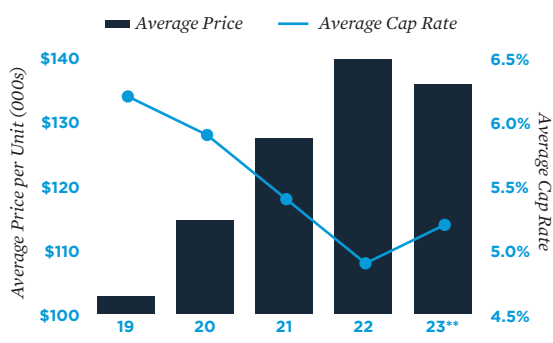
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION

1,222 units completed

- Developers lifted the metro's apartment stock by 0.7 percent during the trailing 12 months ending in June.
- Supply additions were most prevalent in the Portsmouth-Suffolk and Southern Norfolk submarkets, where local multifamily inventory increased by 2.2 and 3.2 percent, respectively.

VACANCY

200 basis point increase in vacancy Y-O-Y

- The metro recorded negative net absorption totaling more than 1,860 units during the past year ending in June, which lifted vacancy to 4.7 percent.
- As of June, vacancy was below 4 percent in Chesapeake and East Virginia Beach. Meanwhile, the Hampton-Poquoson and Newport News submarkets each recorded local rates above 5.7 percent.

RENT

6.2% increase in the average effective rent Y-O-Y

- Local annual rent growth of at least 9 percent in West Virginia Beach and Northern Norfolk in June helped lift the metro's average effective rent to a new all-time high of \$1,481 per month.
- Class A units recorded strong rent gains, posting an annual growth rate of 7.9 percent, bringing the mean effective rate to \$1,838 per month.

Investment Highlights

- Transaction velocity in Norfolk-Virginia Beach has not slowed as much locally compared to other major markets across the country, with deal flow through the first half of this year still exceeding pre-pandemic norms. The presence of 12 universities and the large pool of military personnel in the region provide the metro with a unique economy that supports strong demand for rental housing, which continues to stoke investor interest.
- Elevated borrowing costs have begun to impact pricing on local apartment assets. The average sale price over the trailing 12-month period ending in June was roughly 2.8 percent below the recording in 2022. Still, despite the recent deceleration in pricing, entry costs are still more than \$30,000 per unit higher than the average in 2019, with cap rates averaging around 5.2 percent over the past year.
- Institutional investors have been targeting Class B and C apartments with over 100 units in areas like Virginia Beach and Newport News as of late. These submarkets reported robust rent growth following pandemic lockdowns, which likely elevated investor interest. Entry costs for these types of assets averaged around \$151,400 per unit during the past four quarters.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.
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