

multifamily

2015 hampton roads real estate market review

Author

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Data Analysis

Real Data

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Disclosure

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General Overview

The Hampton Roads apartment market has remained stable over the past five years with a current occupancy rate of 93.0% as of the fourth quarter of 2014 compared to a five year average of 93.6%. Occupancy rates are forecast to improve slightly in 2015.

After several years of increasing development activity, new construction has slowed but still remains very active in anticipation of continued strong demand for rental housing, especially in the urban core areas. As of October 2014 there were 2,488 units under construction. This equates to a 2.6% growth rate in supply compared to 3.8% growth last year. This rate is manageable given the current level of demand and should not have any negative impact on occupancies or rent growth for apartments.

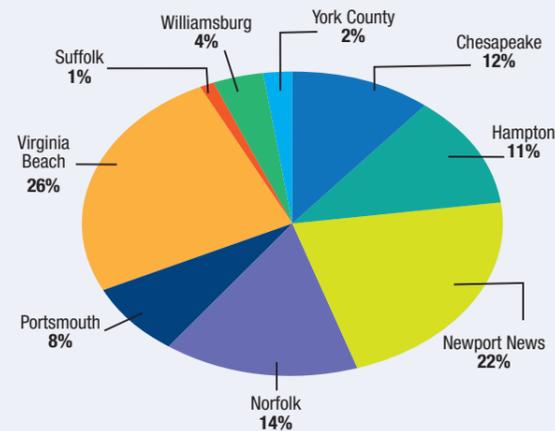
The average quoted rental rate is \$976, with one-bedroom rents averaging \$877 per month, two-bedroom units averaging \$984 per month, and three-bedroom units reporting an average rental rate of \$1,157 per month. Average rental rates from existing inventory increased by only \$13.24 in the last 12 months. The region should continue to see moderate rent growth outpace inflation over the next year.

METHODOLOGY

The Norfolk-Virginia Beach-Newport News Apartment Report, published by Real Data, is a detailed analysis of the rental market within conventional apartment communities in the Hampton Roads region. The full report is published semi-annually in May and November. This is a synopsis of the report published in the 4th quarter of 2014.

The region has been divided into nine submarkets: Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, Suffolk, Virginia Beach, Williamsburg and York. Combined, these areas contain a survey base of more than 95,000 units within conventional apartment communities of 50 or more units each. The region is divided into two portions by the James River and Hampton Roads harbor. The Peninsula area is north of the James River and contains Hampton, Newport News, Williamsburg and York. The Southside area is south of the James River and contains Chesapeake, Norfolk, Portsmouth, Suffolk and Virginia Beach. The cities with the highest concentration of units are Virginia Beach and Newport News, which accounts for nearly one half of the region's apartment units.

Share of Multifamily Units by Submarket

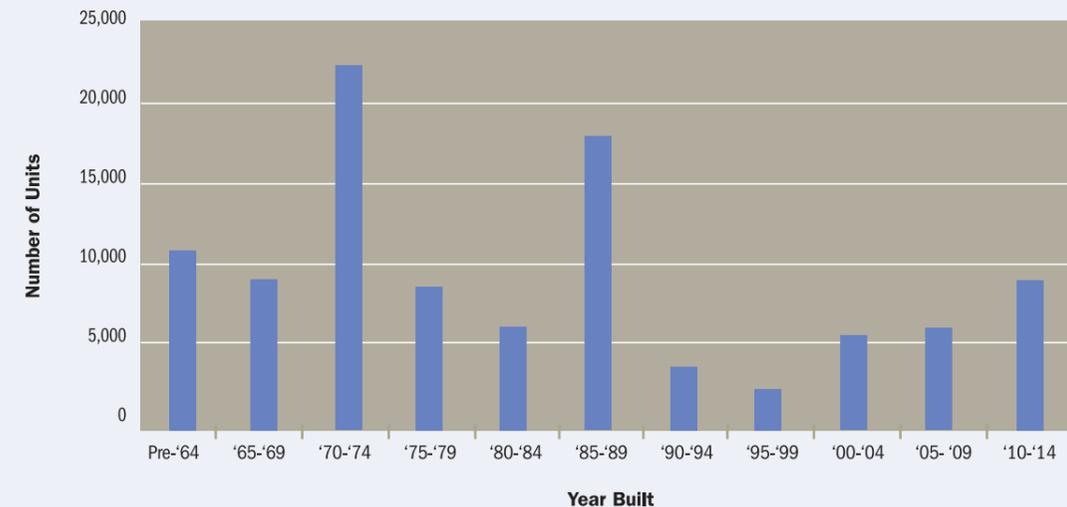


Historical Apartment Development

NORFOLK-VIRGINIA BEACH-NEWPORT NEWS

Development of apartment units in this market peaked during two time periods, the early 1970s and the late 1980s. Although not at the levels of 1970 and 1985, the current development trend of the past years is twice the level of prior periods since 1990. Current development activity slowed in 2014 as developers assessed the level of demand for current projects coming online. There are nearly 2,500 units expected to come on line within the next 18 months. There are another 3,000 units in some level of planning.

Historical Apartment Development

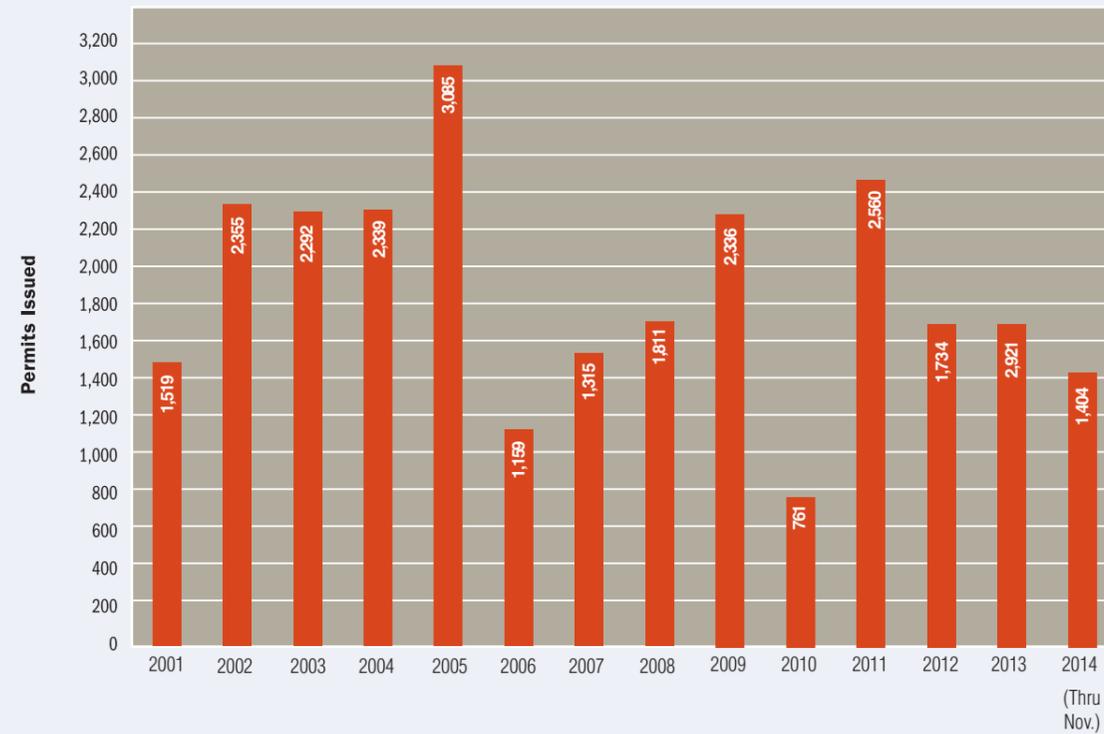


MULTIFAMILY PERMIT ACTIVITY

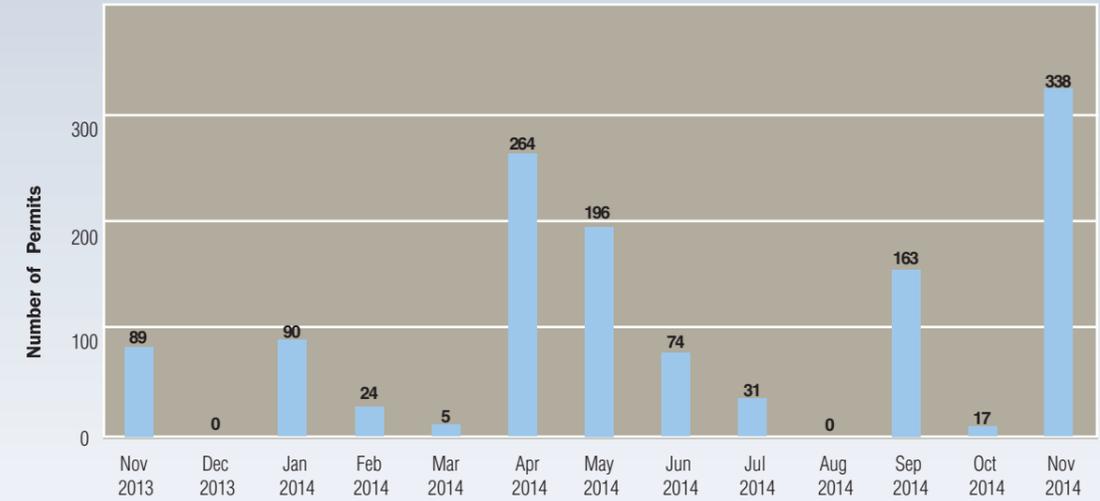
HISTORICAL MULTIFAMILY BUILDING PERMITS NORFOLK-VIRGINIA BEACH-NEWPORT NEWS

Overall housing development in the region was at its peak from 2002-2006 with more than 10,000 permits issued annually for single and multi-family housing. Multi-family permit activity, which includes rental and for-sale units, surged from 2002-2005 and surged again in 2011-2013. Over the past year, permit activity for multi-family units dipped to 1,404 units, which is the lowest level since the housing market collapse. The current development wave continues to be led by multifamily rentals whereas development prior to 2010 was fueled by the for sale housing market.

Annual Multifamily Permit Activity



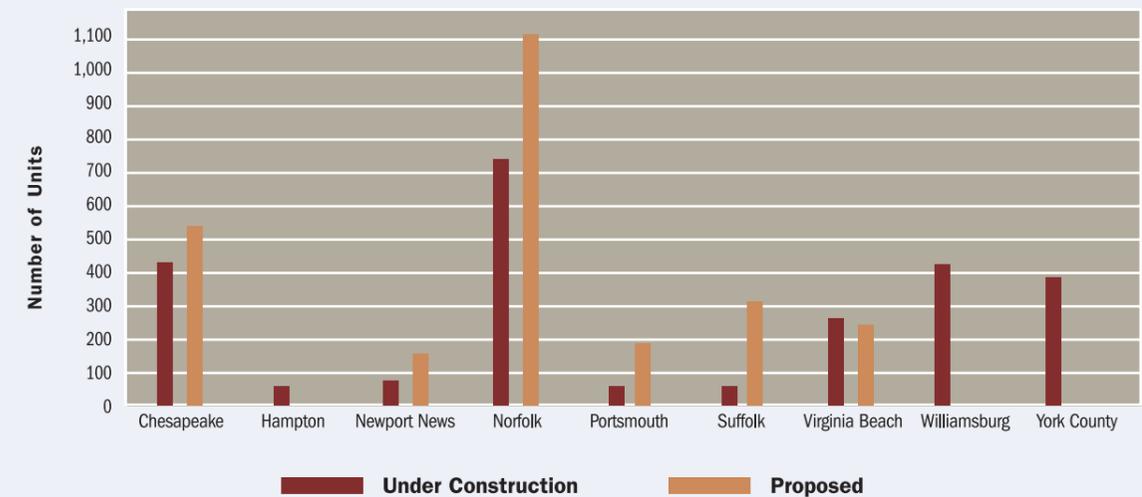
Multifamily Permits Issued by Month November 2013-2014



APARTMENT DEVELOPMENT ACTIVITY

As of the 4th quarter of 2014, there were 2,488 apartment units under construction within nineteen communities in the Norfolk-Virginia Beach-Newport News market. There are an additional 3,031 apartment units proposed to start construction within the next year. Norfolk is the most active area for new apartment development with thirteen communities either underway or in planning.

Apartment Development Activity (October 2014)



DEMAND

Based on historical performance, the Norfolk-Virginia Beach-Newport News area is expected to absorb approximately 1,500 units annually. A surge in demand for rental housing has pushed the absorption rate to nearly 2,200 units annually in the past year.

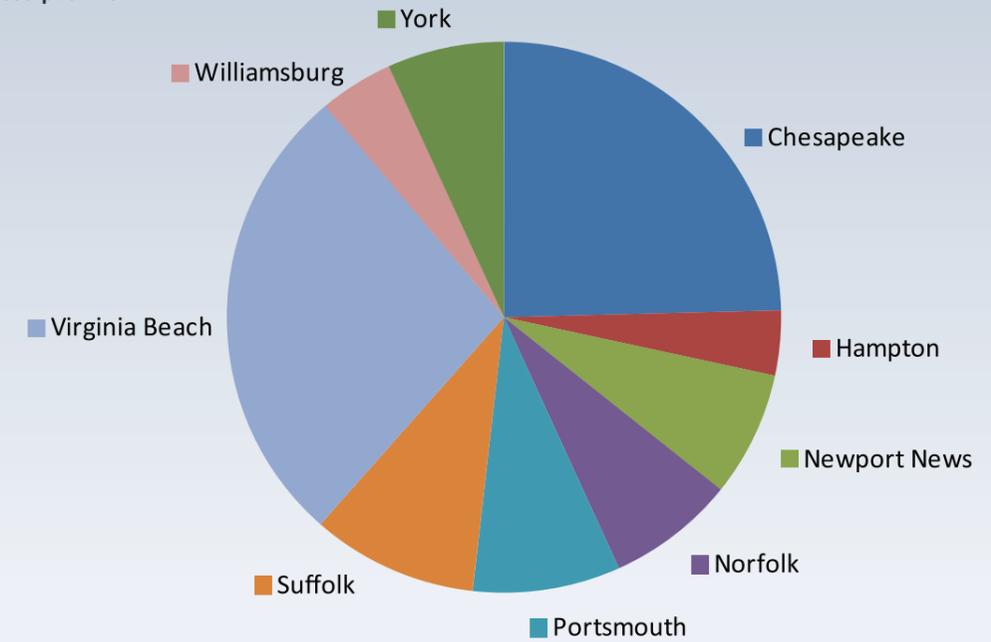
The area has experienced record levels of demand over the past two years.

Demand in 2014 was strongest in the Virginia Beach and Chesapeake submarkets, which accounted for half of all the area's absorption. Although the outlook for rental demand is expected to remain strong for the next several years, household formation and job growth are the ultimate drivers for housing demand, and a rebounding job market will help sustain demand into 2016.

Absorption



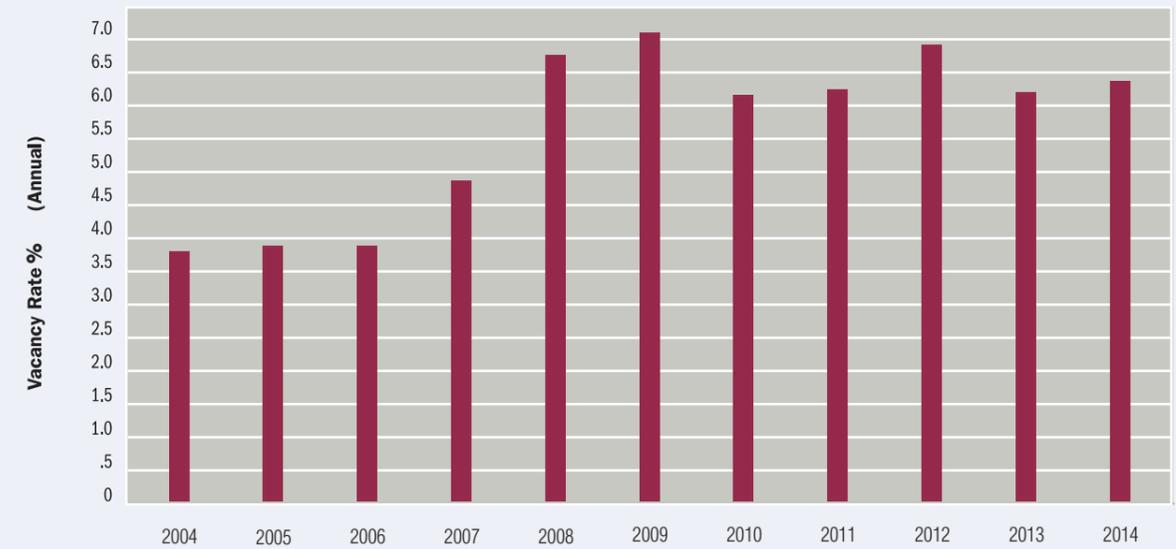
Submarket Absorption 2014



VACANCY

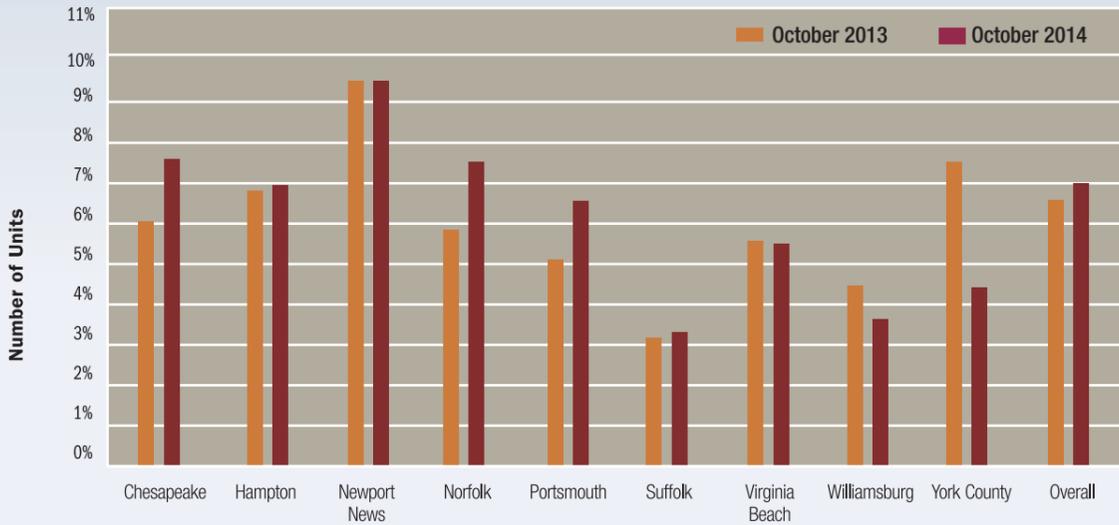
The overall vacancy rate for the Norfolk-Virginia Beach-Newport News market as of October 2014 was 7.0%, a slight increase from 6.6% in 2013. Vacancy rates across the Peninsula average 7.8% compared to only 6.4% in the Southside submarkets. Vacancy rates for the region are expected to dip back below 7% in 2015.

Overall Vacancy



Most submarkets experienced a modest rise in vacancies over the past year. The rise in vacancy was more pronounced in Chesapeake and Norfolk which have been more impacted by an increase in new supply. Williamsburg and York recorded the best improvement in vacancies over the past year but are expected to see a rise in their vacancies as new developments come online in those submarkets.

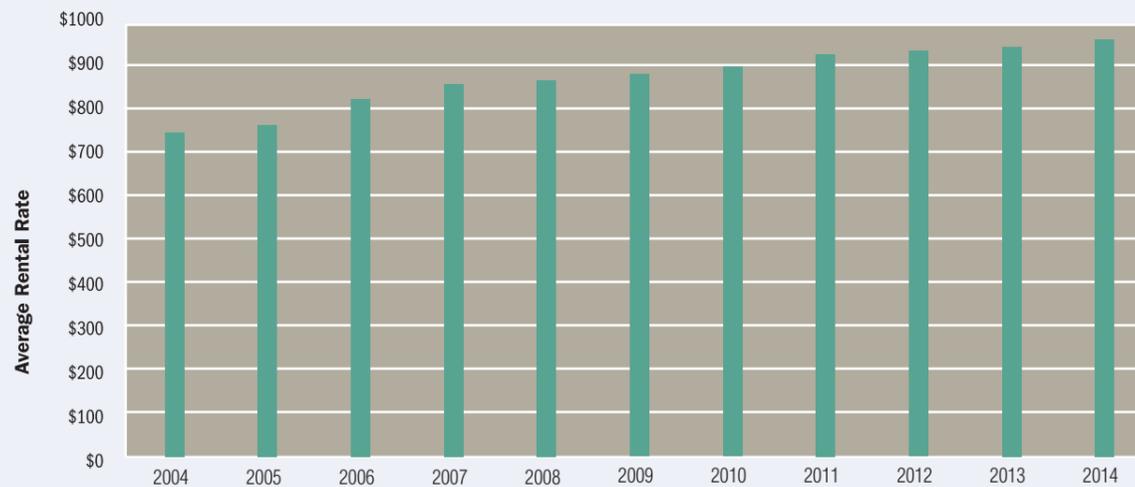
Submarket Vacancy Rates



RENTAL RATES

As of October 2014, the average rental rate in Norfolk-Virginia Beach-Newport News was \$976.

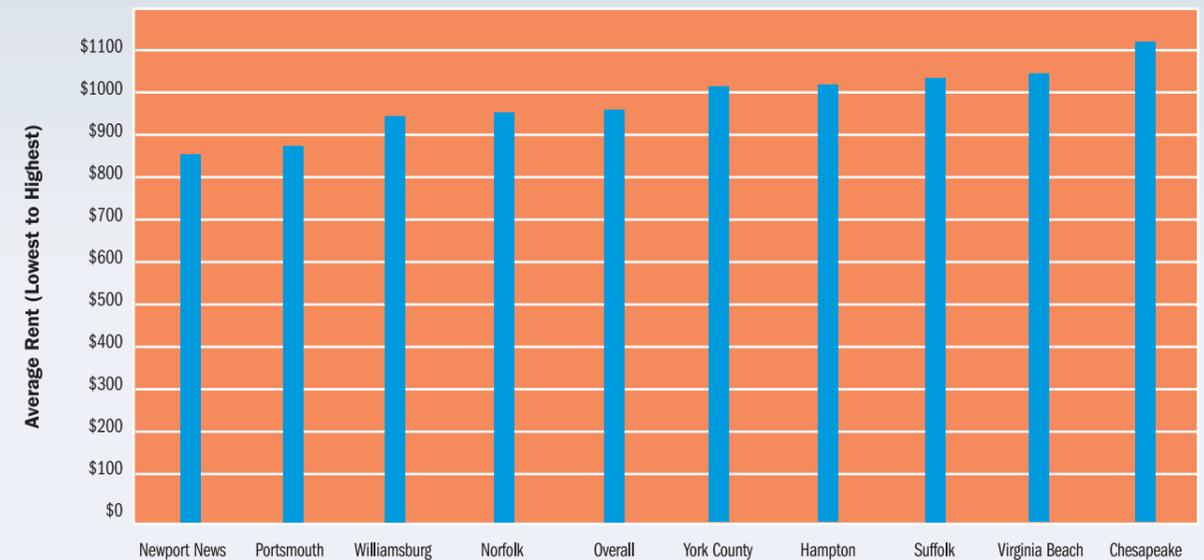
Average Rental Rates (New & Existing Communities)



SUBMARKET RENTS

Average overall rents ranged from a low of \$861 in Newport News to a high of \$1,104 in Chesapeake. Newport News, Portsmouth, Hampton and Norfolk all reported rents lower than the regional average, while Suffolk, Williamsburg, York, Virginia Beach and Chesapeake all reported rents higher than the regional average.

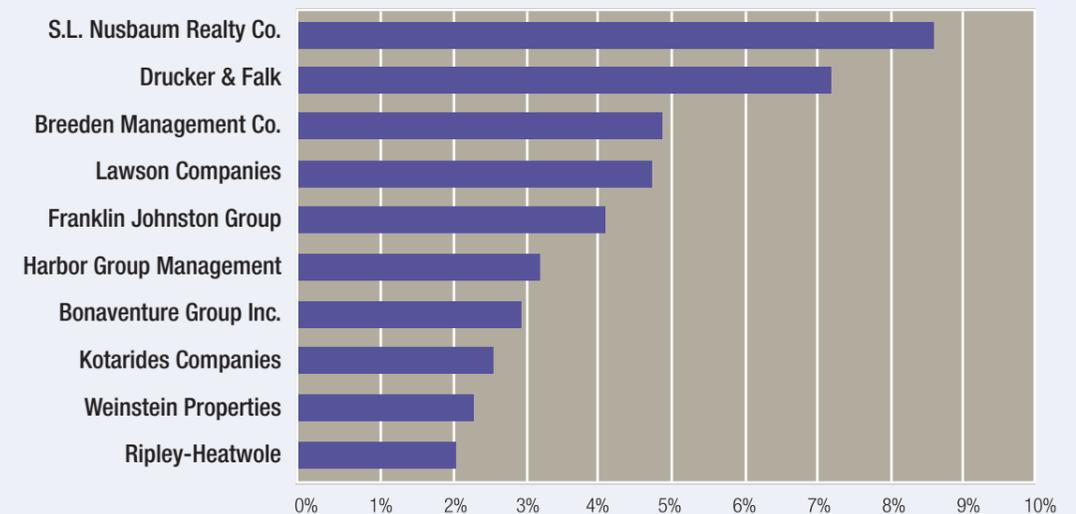
Average Rent by Submarket – October 2014



MANAGEMENT

There are approximately 500 conventional apartment communities with more than 50 units in the Hampton Roads region. Of the 95,000+ apartment units surveyed, the top four firms: S.L. Nusbaum, Drucker & Falk, Breedon Management and Lawson Companies manage one-quarter of the market.

Top 10 Management Companies



REGIONAL TRENDS

ROANOKE

Roanoke has fewer than 10,000 conventional apartment units among communities of at least 30 units. Development activity rebounded in 2011 and has steadily gained speed. There are more than 400 units under construction and another 400 planned, which is a record for the area. Recent development activity has been focused on redevelopment of older commercial/industrial buildings into rental apartments in and around the downtown area. Occupancy rates have surpassed 95% for the first time in more than 10 years with the rate reaching 95.2% in 2014. Although occupancy rates have risen, rent growth has only been modest over the past few years, averaging less than 2% annually.

RICHMOND

Richmond has more than 60,000 conventional apartment units within communities of at least 50 units. Since the end of the great recession, Richmond has seen a strong resurgence in rental demand especially in the downtown area. The region's overall occupancy rate has remained in the 93%-94% range for the last few years with a steady supply of new product being developed in the downtown area. Rent growth has surpassed 2% annually for the past two years and the current average monthly rent is \$933. Downtown Richmond communities are commanding monthly rents averaging more than \$1,200 per month. Developers remain focused on the downtown areas of Richmond with 20 projects underway or planned in the urban core.



Multifamily Submarkets

Southside

Chesapeake
Norfolk
Portsmouth
Suffolk
Virginia Beach
Isle of Wight

Peninsula

Hampton
Newport News
York County
Williamsburg
Poquoson
James City

