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General Overview

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 area has been divided into nine submarkets: Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, Suffolk, Virginia Beach, Williamsburg and York County. Combined, these areas contain a survey base of over 95,000 units within conventional apartment communities of 50 or more units each.

The Norfolk-Virginia Beach-Newport News market is divided into two portions by the James River. The Peninsula area is north of the James River and contains Hampton, Newport News, Williamsburg and York County. The Tidewater area is south of the James River and contains Chesapeake, Norfolk, Portsmouth, Suffolk and Virginia Beach; also known as South Hampton Roads. 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.

The Hampton Roads apartment market has remained stable over the past 18-24 months. Occupancy rates for the overall market are 94% which is higher than most major metros in the southeast. Looking ahead, apartments should see improving fundamentals due to strengthening demand for rentals in lieu of home ownership.

Development activity increased over the second half of 2010 as investors and developers looked to take advantage of a rebounding rental market. As of October 2010, there were nearly 2,000 units under construction; however, this equates to only a 2% growth rate in supply over the next 12-24 months which will help keep occupancies at or above current levels.

The average quoted rental rate is $926, with one-bedroom rents averaging $825 per month, two-bedroom units averaging $932 per month, and three-bedroom units reporting an average rental rate of $1,103 per month. Average rental rates from existing inventory increased by $14.60 in the last twelve months. Although rents have risen in each of the last three years, rent growth over the past 18 months has lagged the larger increases recorded in many other cities.
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 current development activity is being slowed by tighter lending restrictions, there are nearly 2,000 units expected to come on line within the next 18 months with less than 4,000 housing units of any type permitted in 2011.
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. With the slow down in the overall housing market, residential permits issued fell to 5,223 in 2009 which is less than half of the activity at the peak of the market in 2005. Based on single and multifamily permits issued, the slow down in new housing starts is expected to continue with less than 4000 units permitted in 2011.

Multi-family permit activity, which includes rental and for-sale units, was strongest in 2005. However, much of the permit activity up until 2009 had not been rental apartments, but instead for-sale condominiums and townhouses, especially in recent years when a decline in interest rates made it easier for many people to get into the for-sale arena. Multifamily development and apartments in particular, saw a surge in activity in 2011 with more than 2400 multi-family, including rental and for-sale, units permitted compared to only 761 units in 2010.

**TABLE II  Annual Multi-Family Permit Activity**
As of the 4th quarter of 2011, there were 1,940 apartment units under construction within twelve communities in the Norfolk-Virginia Beach-Newport News market. There are an additional 2,563 apartment units proposed to start construction within the next year. Chesapeake, Newport News, Norfolk and Virginia Beach are the most active areas for new apartment development with twenty-three communities either underway or in planning.

### APARTMENT DEVELOPMENT ACTIVITY

As of the 4th quarter of 2011, there were 1,940 apartment units under construction within twelve communities in the Norfolk-Virginia Beach-Newport News market. There are an additional 2,563 apartment units proposed to start construction within the next year. Chesapeake, Newport News, Norfolk and Virginia Beach are the most active areas for new apartment development with twenty-three communities either underway or in planning.
DEMAND

Demand for housing can be measured by calculating the number of housing units absorbed within a given time frame. Absorption is defined as the net change in occupied units. Therefore, positive absorption occurs when previously vacant or newly built dwellings become occupied. Based on historical performance, the Norfolk-Virginia Beach-Newport News area is expected to absorb between 600 and 900 units annually. The collapse of the housing markets nationwide and the weakening economy caused a significant drop in demand for all types of housing in 2008. The area experienced a surge in demand for rental units in 2009 and 2010. This was due in part to the depressed for-sale housing market and householder preferences switching from ownership to renting.

The area saw a decrease in demand in 2011 with only 628 units absorbed. This was less than half the rate of absorption occurring in 2009 and 2010. The slowdown in demand may be due in part to the same force (depressed for-sale housing market) that bolstered demand in the prior two years. Only this time, home prices and mortgage rates have dropped to such low levels that ownership is looking more financially appealing than renting in some cases. In addition, some distressed single family and condominium properties are moving into the rental pool and adding a new source of supply to compete with apartments for renters.

Although the outlook for rental demand is expected to remain strong for the next several years, job growth is the ultimate driver for housing demand and a rebounding job market will be needed to sustain demand long term.

<table>
<thead>
<tr>
<th>TABLE V</th>
<th>Absorption</th>
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<tbody>
<tr>
<td>Units Absorbed (Demand)</td>
<td>2002</td>
</tr>
<tr>
<td>0</td>
<td>120</td>
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</tbody>
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2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
The overall vacancy rate for the Norfolk-Virginia Beach-Newport News market as of October 2011 was 6.4%, up from 5.7% in 2010. Vacancy rates are expected to remain in the 6% range through 2013.
MULTI-FAMILY SUBMARKETS

**Southside**
- Chesapeake
- Norfolk
- Portsmouth
- Suffolk
- Virginia Beach

**Peninsula**
- Hampton
- Newport News
- York County
- Williamsburg
Most submarkets experienced a slight rise in vacancies over the past year other than Williamsburg which saw its vacancy rate improve slightly. Although vacancy rates rose modestly in the past year, the area’s vacancy rate remains much lower than most other cities in the southeast. Hampton Roads historically has maintained a relatively healthy vacancy rate even in weak economic cycles due to the strong and consistent demand from the military bases for rental housing in the area.

RENTAL RATES

As of October 2011, the average rental rate in Norfolk-Virginia Beach-Newport News was $926.
AVERAGE RENTS

Average overall rents ranged from a low of $821 in Newport News to a high of $1,020 in Chesapeake. Newport News, Portsmouth, Suffolk and Hampton all reported rents lower than the average rent of $926 per month, while Norfolk, Williamsburg, York County, Virginia Beach and Chesapeake all reported rents higher than the average overall rent.

TABLE X  Average Rent by Submarket – October 2011

[Diagram showing average rents by submarket with Newport News, Portsmouth, Suffolk, Hampton, Overall, Norfolk, Williamsburg, York County, Virginia Beach, Chesapeake]
MANAGEMENT

There were over 470 conventional apartment communities with more than 50 units surveyed in the Hampton Roads region. Of the 92,000+ apartment units surveyed, the top five firms manage one-third of these units. The majority of the management firms oversee one or two apartment communities and have 500 or less units under management.

Table XI  Top 10 Management Companies

<table>
<thead>
<tr>
<th>Management Company</th>
<th>Percentage</th>
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<tr>
<td>S.L. Nusbaum Realty Co.</td>
<td>8%</td>
</tr>
<tr>
<td>Harbor Group Management Co.</td>
<td>7%</td>
</tr>
<tr>
<td>Drucker &amp; Falk Real Estate</td>
<td>5%</td>
</tr>
<tr>
<td>Lawson Companies Inc.</td>
<td>4%</td>
</tr>
<tr>
<td>Breeden Management Company</td>
<td>3%</td>
</tr>
<tr>
<td>Weinstein Properties Real Estate</td>
<td>2%</td>
</tr>
<tr>
<td>Kotarides Companies Property Management</td>
<td>2%</td>
</tr>
<tr>
<td>Ripley-Heatwole Company, Inc.</td>
<td>1%</td>
</tr>
<tr>
<td>Perrel Management Company, Inc.</td>
<td>1%</td>
</tr>
<tr>
<td>Bonaventure Group Inc.</td>
<td>0%</td>
</tr>
</tbody>
</table>

REGIONAL TRENDS

Richmond
Richmond has over 60,000 conventional apartment units within communities of at least 50 units. The area’s apartments hit bottom in the fourth quarter of 2009 and first quarter of 2010 when occupancies fell to 90% and rents declined by (-3.5%) for the year. Since that time Richmond has seen a strong resurgence in rental demand and occupancies reached nearly 93% in 2011. Rents also showed modest growth over the past two years with rents now averaging $855 per month.

Roanoke
Roanoke has fewer than 10,000 conventional apartment units among communities of at least 30 units. Roanoke’s apartment market coped better than most markets during the past recession. This was due in large part to the fact that there has been minimal new apartment development in Roanoke over the past several years which has kept the rental supply at a manageable level. Occupancy rates in 2011 were 93.9% with rent averaging $693 per month.