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Data Analysis
Real Data

Financial Support
The E. V. Williams Center for Real Estate and Economic Development (CREED) functions and reports are funded by donations from CREED IPAC and Council Advisory Boards, organizations and individuals.

Disclosure
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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. Combined, these areas contain a survey base of over 95,000 units within conventional apartment communities of 50 or more units each.

The region 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. 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 account for nearly one half of the region’s apartment units.

Although the area saw stagnant rent growth over the past year and a slight uptick in vacancy rates, the Hampton Roads apartment market remains healthy. Occupancy rates for the overall market are nearly 93%, which is higher than most major metropolitan areas in the southeast. Looking ahead, apartments should see improving fundamentals due to strengthening demand for rentals in lieu of home ownership.

Development activity continues to gain momentum as developers/investors look to take advantage of the increasing demand for rental housing. As of October 2012, there were 2,004 units under construction in the Hampton Roads region; however, this equates to only a 2.1% growth rate in supply over the next 12 to 24 months which will help keep occupancies at or above current levels.

The average quoted rental rate is $931, with one-bedroom rents averaging $831 per month, two-bedroom units averaging $935 per month, and three-bedroom units reporting an average rental rate of $1,129 per month. Average rental rates from existing inventory increased by $9.51 in the last twelve months. Although the area did not see any significant drop in rents during the recession of 2008 to 2010, which other cities experienced, the Hampton Roads region has not benefited, in terms of rent growth, from the migration away from homeownership and toward rentals that many other cities have experienced over the past two years.
Historical Apartment Development

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 2,000 units expected to come on line within the next 18 months. There are another 3,500 units in some level of planning, many of which are waiting to secure financing.

NORFOLK-VIRGINIA BEACH-NEWPORT NEWS

Table I  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 to 2006, with more than 10,000 permits issued annually for single and multifamily 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.

Multifamily permit activity, which includes rental and for-sale units, surged from 2002 to 2005. Total multifamily development peaked in 2005 with over 3,000 new units permitted. 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 2,400 units permitted compared to only 761 units in 2010. Permit activity remained strong in 2012, although, below 2011 levels, with more than 1,700 multifamily units permitted.

Table II  Annual Multifamily Permit Activity
APARTMENT DEVELOPMENT ACTIVITY

As of the 4th quarter of 2012, there were 2,004 apartment units under construction within fourteen communities in the Norfolk-Virginia Beach-Newport News market. There are an additional 3,502 apartment units proposed to start construction within the next year. Chesapeake, Virginia Beach, Newport News, and Norfolk are the most active areas for new apartment development with twenty-one communities either underway or in planning.
DEMAND

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 recorded only modest levels of demand in 2012 with only 439 units absorbed. This was less than one-third the rate of absorption occurring in 2009 and 2010. The slowdown in demand is due in part to the same force, depressed for-sale housing market, which bolstered demand in the prior two years. Only this time, home prices have stabilized and mortgage rates have dropped to such low levels that ownership is looking more financially appealing than it did in 2009 and 2010. In addition, some distressed single family and condominium properties have moved into the rental pool, adding a new source of supply to compete with apartments for renters.

Demand remains strongest in the Chesapeake area followed by areas of redevelopment in Norfolk and Virginia Beach. Although the outlook for rental demand is expected to remain strong for the next several years, household formation and job growth is the ultimate driver for housing demand and a rebounding job market will be needed to sustain demand long term.

Table V  Absorption
The overall vacancy rate for the Norfolk-Virginia Beach-Newport News market as of October 2012 was 7.3%, up from 6.3% in 2011. Vacancy rates are expected to remain in the 7% range through 2013.

Most submarkets experienced a slight rise in vacancies over the past year. Chesapeake, Newport News and Virginia Beach experienced the largest rises in vacancies due primarily to the amount of new supply entering those markets. Although vacancy rates rose modestly in the past year, the area's vacancy rate remains lower than most other cities in the southeast. The Hampton Roads region has, historically, 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 2012, the average rental rate in Norfolk-Virginia Beach-Newport News was $931.

**AVERAGE RENTS**

Average overall rents ranged from a low of $823 in Newport News to a high of $1,042 in Chesapeake. Newport News, Portsmouth, Suffolk and Norfolk all reported rents lower than the regional average, while Hampton, Williamsburg, Virginia Beach, York and Chesapeake all reported rents higher than the regional average.
MANAGEMENT

There were over 480 conventional apartment communities with more than 50 units surveyed in the Hampton Roads region. Of the 95,000+ apartment units surveyed, the top five firms manage one-third of these units.

Table VII Top 10 Management Companies
REGIONAL TRENDS

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 suburban apartment development in Roanoke over the past several years. The development that has occurred recently has been focused on redevelopment of older commercial/industrial buildings into rental apartments in and around the downtown area. Occupancy rates in 2012 reached 95% with rents averaging $710 per month.

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 94% in 2012. Rents also showed modest growth over the past year with rents now averaging $880 per month. Developers remain focused on the downtown areas of Richmond, redeveloping former warehouses into upscale apartments.
Multifamily Submarkets

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

**Peninsula**
- Hampton
- Newport News
- York County
- Williamsburg