Apartment Housing in Hampton Roads

APARTMENT HOUSING IN HAMPTON ROADS

Do you live in an apartment? If not, chances are that you know people who do. **Approximately 35 percent of Hampton Roads residents do live in houses or apartments they do not own. Many of them – about 250,000, or roughly 18 percent of our region's population – live in large apartment complexes containing 50 units or more.**

What has been happening to the rental rates residents pay at these large complexes? What about vacancy rates in this market segment? How does Hampton Roads compare with other Southeastern metropolitan regions in these regards? This chapter provides some answers to those questions.

Our primary data source for the multifamily (apartment) market is Real Data, a real estate market research firm in Charlotte, N.C. Real Data tracks multifamily markets in several metro areas located in Florida, Georgia, North Carolina, South Carolina, Tennessee and Virginia. The firm provides the most extensive comparable data on apartments and currently tracks data on approximately 900,000 multifamily units located in these states. However, the firm surveys and reports data only for those apartment buildings that contain at least 50 units. Further, excluded from Real Data surveys are public housing units, Section 8 housing units that rely heavily upon subsidized rents and units exclusively available to senior citizens.

Real Data publishes market reports twice a year for each of the metro areas it covers. These reports include trends on vacancy rates, monthly rents, absorption and new development. The firm reports that approximately 95 percent of apartment buildings respond to its surveys.

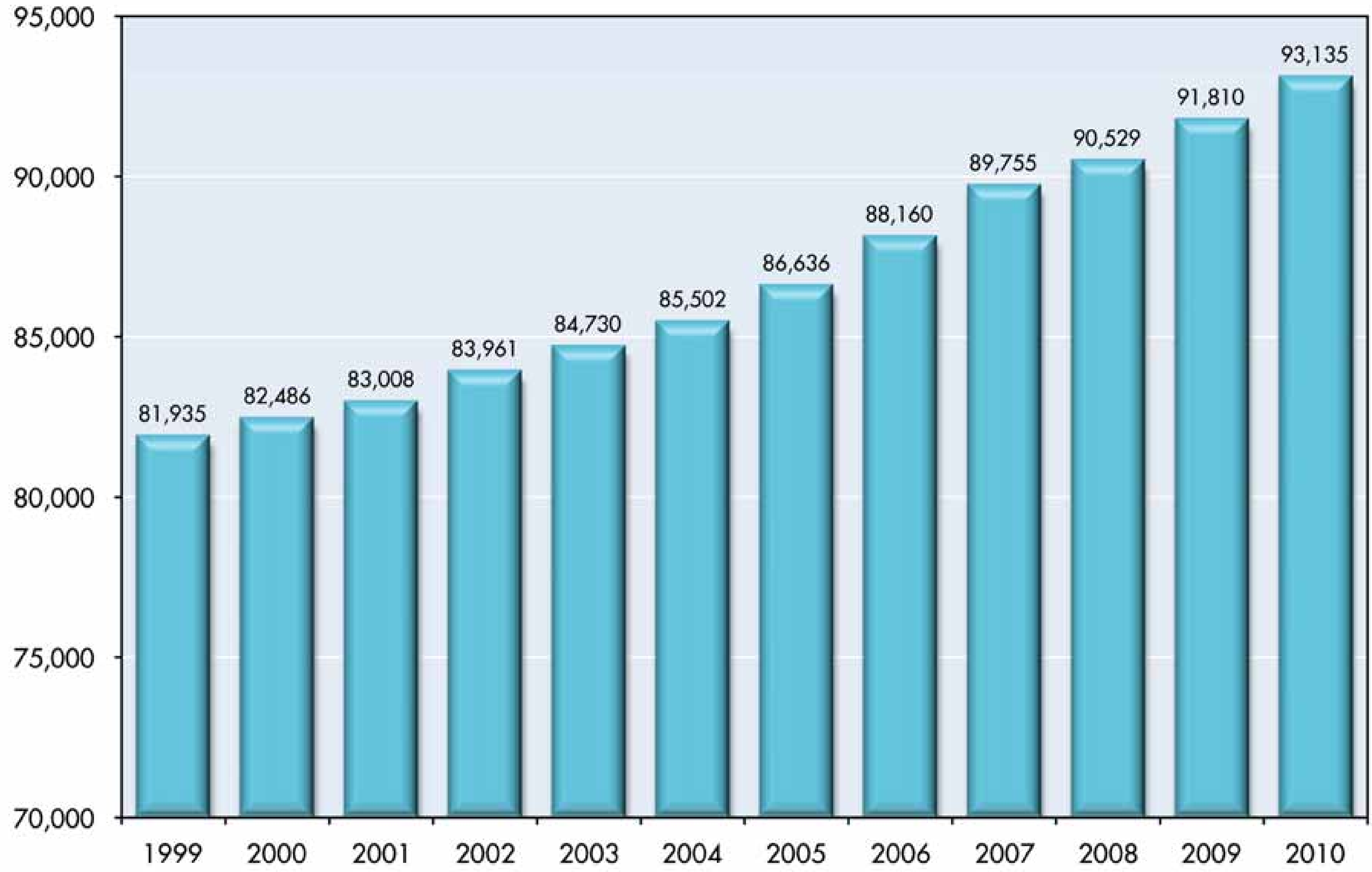
Real Data provides two annual market reports for Hampton Roads. The first is based on data collected in April, while the second report is from data collected in October. We rely upon the October data for Hampton Roads here, though we must note that the dates of Real Data's reports are not always identical in every metropolitan area.

The Number Of Rental Apartment Units In Large Complexes

Graph 1 illustrates changes in the number of multifamily apartment units in Hampton Roads from 1999 to 2010. Units increased from 81,935 in 1999 to 93,135 in 2010, or 13.7 percent. However, most of this growth occurred between 2005 and 2010. Even more notably, the growth continued even while the economy was plunging into recession.

GRAPH 1

ESTIMATED NUMBER OF LARGE-COMPLEX APARTMENT UNITS, HAMPTON ROADS, 1999-2010



Sources: Real Data and the Old Dominion University Economic Forecasting Project

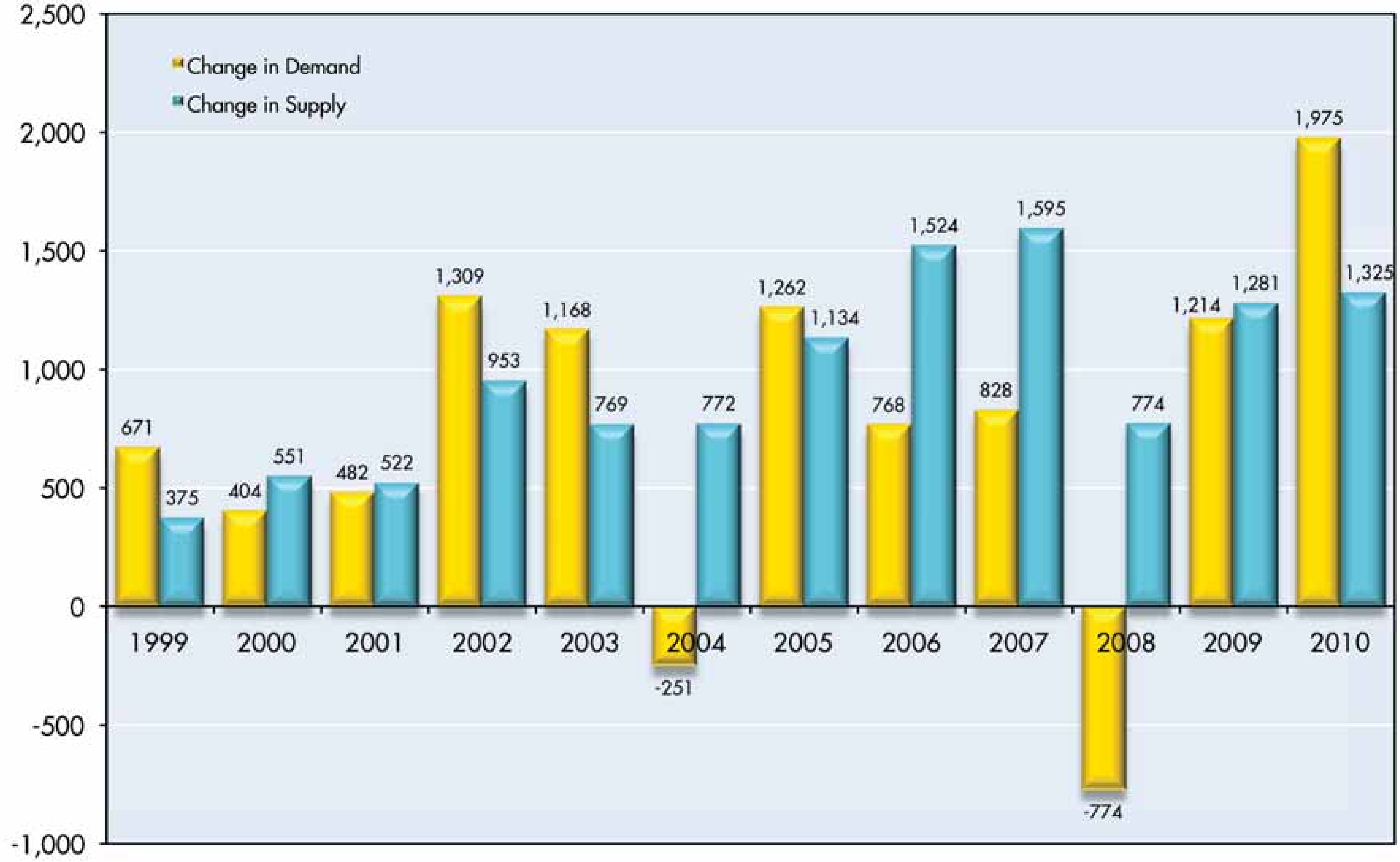
Changing Demand And Supply Conditions

Graph 2 displays changes in demand and supply of large-complex apartment units in Hampton Roads between 1999 and 2010. "Change in demand" is defined simply as the change in the number of units absorbed during a year. Thus, a positive change in demand of, say, 100 units, means that 100 previously vacant or newly built apartment units were rented during that year. "Change in supply" reflects the number of newly built units that become available for rent during a year. It is apparent from Graph 2 that, with the exception of 2004, absorption from 1999 to 2005 generally exceeded or was very close to changes in supply. However, between 2006 and 2008, this trend reversed as increases in supply exceeded absorption.

The worldwide recession changed things. **In 2008, the demand for rental housing decreased by nearly 770 units, even while the supply of newly built units increased by an estimated 775 units. Things began to turn around a bit in 2009. Demand (absorption) increased modestly in 2009 and actually outpaced the change in supply in 2010.**

GRAPH 2

CHANGES IN THE DEMAND AND SUPPLY FOR LARGE-COMPLEX APARTMENT UNITS, HAMPTON ROADS, 1999-2010



Sources: Real Data and the Old Dominion University Economic Forecasting Project

Vacancy Rates

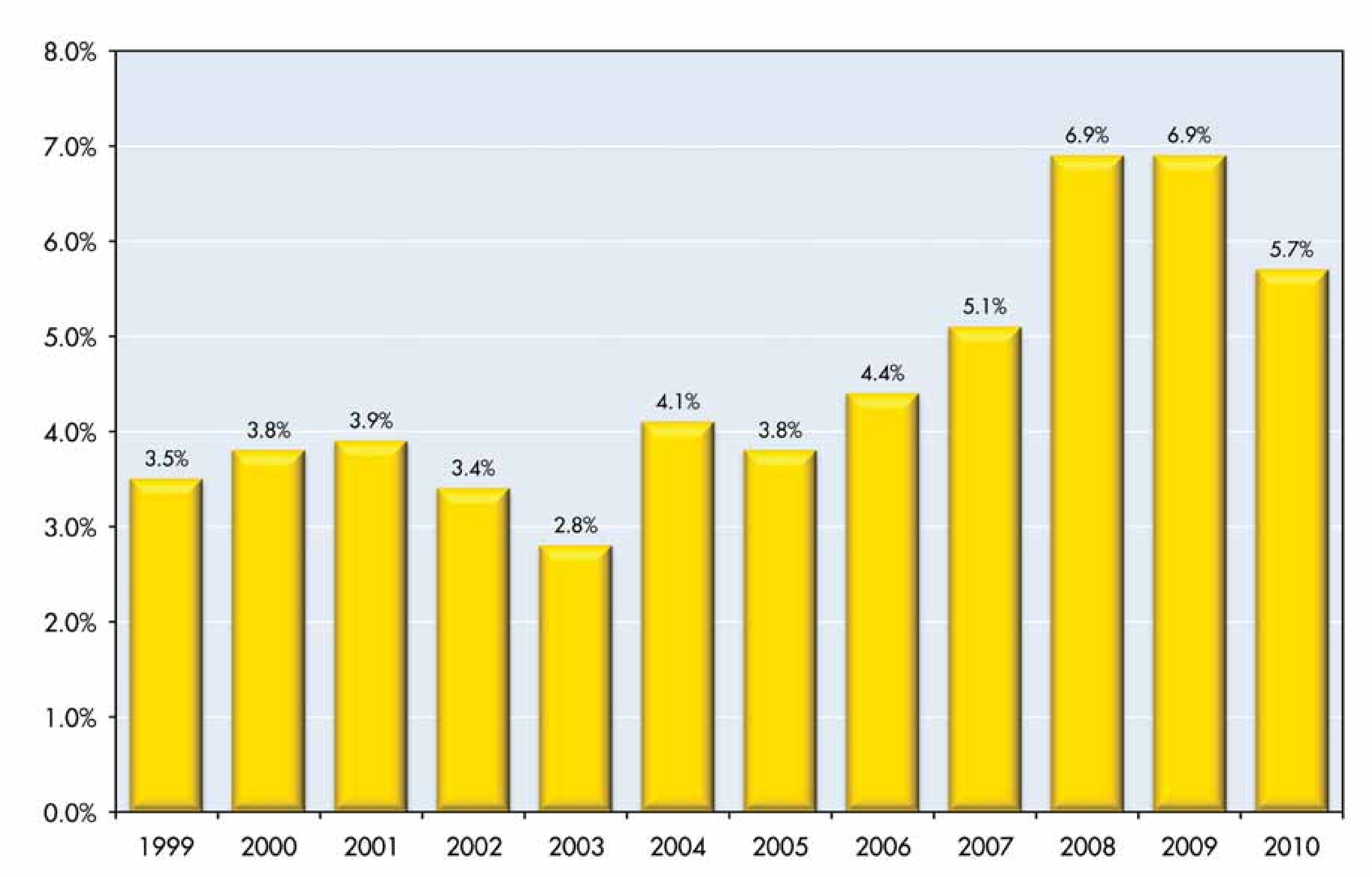
Rental vacancy rates, of course, are tied to the changes in demand and supply. In 2008 and 2009, the number of vacant apartments in the large, 50-plus unit complexes we looked at rose significantly to 6.9 percent. Graph 3, however, also reveals that the rental vacancy in our region fell to 5.7 percent in 2010. This still is well above the 4.0 average that prevailed from 1999 to 2007.

There are indications both that the rental vacancy rate declined somewhat in 2011 and that builders and developers have increased their construction of new units. This suggests changed conditions in the large-complex apartment market. One reason among several is that the number of housing foreclosures in the region increased significantly in recent years. It seems likely that many of the foreclosed-upon individuals ended up living in rental apartments as a consequence.

At the same time, mortgage standards have risen perceptibly; the era of "no money down" mortgages and minimal background checks on mortgage applicants is over. Hence, today we have a group of individuals and families who, in a year such as 2005, might have purchased a home, but who now do not have that option. The upshot is they become renters, even though the twin inducements of falling home prices and low mortgage rates have made buying a home more attractive in Hampton Roads. The end result of this tangle of influences is that rental vacancy rates have fallen somewhat, and at least some developers have decided it is once again profitable to construct new large-complex apartment units.

GRAPH 3

VACANCY RATE FOR LARGE-COMPLEX APARTMENT UNITS, HAMPTON ROADS, 1999-2010



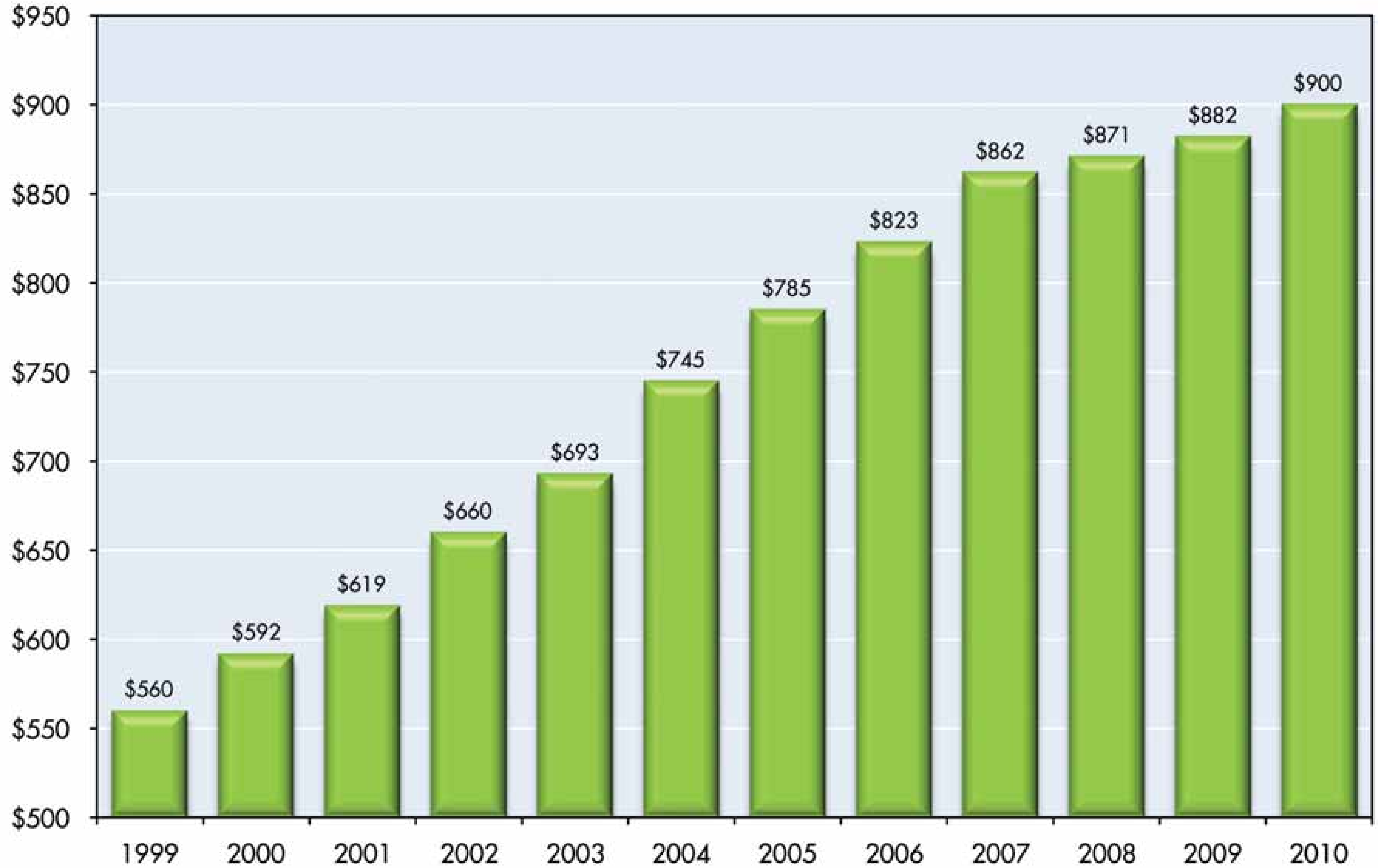
Sources: Real Data and the Old Dominion University Economic Forecasting Project

Average Rental Rates

Meanwhile, renters paid higher average rents per month in every year between 1999 and 2010, despite economic recession and bouts of excess apartment supply. Indeed, Graph 4 reports that the average monthly rent paid in Hampton Roads went up from $560 in 1999 to $900 in 2010 – 4.41 percent a year, compounded. Rental rate increases were particularly rapid between 1999 and 2005. For example, the increase in 2004 was 7.5 percent. **The market cooled thereafter, however, and monthly rental rate increases were only about 1 percent per year in 2007, 2008 and 2009. Further, the comments of landlords and renters suggest that even these small on-paper increases may not have been real because of unreported financial concessions offered by landlords to tenants.** "It was a renter's market the past few years," said one developer who has constructed thousands of apartments in the region.

GRAPH 4

AVERAGE RENT PER MONTH FOR LARGE-COMPLEX APARTMENT UNITS, HAMPTON ROADS, 1999-2010



Sources: Real Data and the Old Dominion University Economic Forecasting Project

Comparing Hampton Roads To Other Metropolitan Areas

How did the large-complex apartment market in Hampton Roads perform during the 1999 to 2010 time period compared to similar metropolitan areas on the East Coast?

MARKET SIZES: THE NUMBER OF LARGE-COMPLEX APARTMENTS

As seen in Table 1, the size of the market in Hampton Roads is similar to markets in Charlotte, Charleston, Raleigh-Durham, Jacksonville and Richmond. In 1999, the Hampton Roads large-complex apartment market was the largest in this group, but it had fallen to third largest by 2010. **In 1999, both Charlotte and Raleigh-Durham had smaller big-complex apartment markets than Hampton Roads, but by 2010, both were larger than Hampton Roads. Raleigh-Durham's market grew 55 percent between 1999 and 2010, while Charlotte's increased 45 percent. The Hampton Roads market grew only 14 percent during the same time period.**

The absence of dynamism in the Hampton Roads market during the past decade reflects two factors – slower economic growth rates and the more cautious behavior of builders and developers after what one describes as the "hangover of the '80s and '90s" when the overbuilding of both residential homes and apartments led to major problems and some developer bankruptcies.

Table 2 records changes in the excess supply of large-complex apartment units. Excess supply once again is calculated by subtracting absorption (the change in demand for rental units) from new additions to the rental market in a given time period. Between 1999 and 2005, Hampton Roads exhibited the smallest change in excess supply. Things were different the remainder of the decade. Raleigh-Durham and Charlotte surged ahead of our region, both economically and in terms of the construction of units in large apartment complexes.

If there is good news here, it is that the more cautious behavior of Hampton Roads builders and developers this time around led to fewer problems and financial disasters on their part. This is another verse in a chapter whose major theme is this: Our economy tends to be more stable than those of comparable metropolitan areas. Defense spending has provided us with a solid, less volatile economic base than most other areas have enjoyed. As a consequence, the hills and valleys on our regional economic roller coaster have been much less pronounced than those observed in other areas.

TABLE 1

ESTIMATED NUMBER OF MULTIFAMILY HOUSING UNITS, HAMPTON ROADS AND OTHER METROPOLITAN AREAS, 1999-2010

	1999	2005	2008	2009	2010
Hampton Roads	81,935	86,636	90,529	91,810	93,135
Charlotte	79,396	100,601	106,521	110,250	114,763
Raleigh-Durham	67,788	90,990	98,910	102,076	104,988
Jacksonville	61,856	64,868	69,177	71,255	71,217
Richmond	44,509	52,064	53,784	55,004	56,522
Charleston	24,999	29,235	30,975	32,983	33,576

Sources: Real Data and the Old Dominion University Economic Forecasting Project

TABLE 2

CHANGES IN THE EXCESS SUPPLY OF LARGE-COMPLEX HOUSING UNITS, HAMPTON ROADS AND OTHER METROPOLITAN AREAS, 1999-2010

	1999-2005	2005-2007	2007-2009	2009-2010	1999-2010
Hampton Roads	31	1,395	2,382	-650	2,519
Charlotte	5,059	-2,678	7,208	-1,232	9,710
Raleigh-Durham	7,025	-1,534	1,720	-1,360	6,776
Jacksonville	1,335	3,070	3,149	-1,486	4,336
Richmond	2,151	-1,405	1,956	-157	3,598
Charleston	709	814	1,414	-316	2,594

Sources: Real Data and the Old Dominion University Economic Forecasting Project
Note that negative excess supply is excess demand.

VACANCY RATES

Hampton Roads had the lowest vacancy rate of the six metropolitan areas from 1999 to 2005, when military spending was expanding significantly. Vacancy rates during this time increased in all six areas, but the least in Hampton Roads, which continued to boast the lowest rate in 2010 as well (see Table 3).

TABLE 3

VACANCY RATES FOR LARGE-COMPLEX HOUSING UNITS, HAMPTON ROADS AND OTHER METROPOLITAN AREAS, 1999-2010

	1999	2005	2007	2008	2009	2010
Hampton Roads	3.5	3.8	5.1	6.9	6.9	5.7
Charlotte	6.1	8.2	6.8	9.1	12.8	11.1
Raleigh-Durham	5.8	9.8	8.4	9.2	10.4	8.7
Jacksonville	7.0	6.8	14.2	16.0	13.1	12.0
Richmond	3.9	6.3	5.5	5.8	8.9	7.2
Charleston	6.2	5.9	8.1	10.0	11.1	9.8

Sources: Real Data and the Old Dominion University Economic Forecasting Project

AVERAGE MONTHLY RENTS

The rental data displayed in Table 4 show that rents were higher in Hampton Roads in 2010 than in any of the other metropolitan regions and that the growth rate in those monthly rents was higher in our region (4.44 percent annually) than in any other. By contrast, Charlotte, which directly suffered the ill effects of the worldwide banking and financial crisis of 2008-10, experienced only a .7 percent annual growth in average large-complex apartment rents.

The connections between average monthly rental rates, excess supply and vacancy rates are numerous, but the most obvious is that low vacancy rates in our region led to higher rates of increase in rents. As always, relative scarcity of a valuable resource drives up its price and that is what occurred in Hampton Roads over the past decade.

TABLE 4

AVERAGE MONTHLY RENTS FOR MULTIFAMILY HOUSING, HAMPTON ROADS AND OTHER METROPOLITAN AREAS, 1999-2010

	1999	2005	2007	2008	2009	2010
Hampton Roads	$560	$785	$862	$871	$882	$900
Charlotte	$670	$663	$734	$751	$697	$725
Raleigh-Durham	$715	$700	$763	$787	$760	$786
Jacksonville	$620	$741	$800	$774	$734	$750
Richmond	$601	$727	$799	$816	$804	$823
Charleston	$581	$713	$759	$774	$751	$772

Sources: Real Data and the Old Dominion University Economic Forecasting Project

A Look At The Future

What should we expect in the large-complex apartment market in 2012? Much, if not almost all, of the story will depend on the overall condition of our regional economy. If we experience robust economic recovery, and that recovery is not jobless, then the demand for apartment space will increase and builders and developers will be more likely to construct that new space. Even so, our builders and developers have behaved more cautiously in recent years than those in many other regions, and we will not see new apartment units immediately. The likely result will be declining vacancy rates and rising rents.

Our builders and developers, however, did not fall off the nearest turnip truck. They are critically aware that their ability to earn competitive rates of return in the long term on investments in new apartment units depends substantially upon what happens to defense spending in the region. **Votes in the U.S. Congress to fund the renovation and expansion of Naval Station Mayport in Jacksonville (at the expense of a carrier group based in Hampton Roads) and the possibility of the loss of yet another aircraft carrier to the Pacific Rim do not encourage the construction of new apartment units. Nor did the closing of the Joint Forces Command stimulate the juices of our builders and developers.**

It is difficult to forecast defense spending because, to some extent, that spending is tied to international crises and developments that cannot be predicted. It does appear, however, that the remainder of this decade is likely to be characterized by more modest defense spending than we have seen in the past. If this is so, then builders and developers will continue their cautious behavior and our region will continue to see the lowest apartment vacancy rates and the highest average monthly rents among comparable metropolitan regions in the Southeast.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