virginia BUSINESS

‘Flight to quality’

Luxury apartment developments are on the rise

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When Jessica Bronner wants to meet up with friends for a drink or meal, she doesn’t have to move her car from the garage at Ink, the luxury apartment building where she lives in Richmond’s trendy Scott’s Addition neighborhood.

Developed by Glen Allen-based Capital Square and completed in January 2022, the 80-unit Ink is one of the newest luxury apartment communities to rise in the area.

“Scott’s Addition is a booming area, and it’s close to everything, and that’s what drew me here,” says Bronner.

Plus, as a previous homeowner, she has no interest in taking on a mortgage again anytime soon.

“I don’t think it’s super-affordable for anyone 20 to 35 to buy a house unless they’re married or someone else is financially contributing,” she says. “I know I couldn’t afford to buy a house right now on my own.”

Bronner, 30, who owns a commercial flooring sales business, is part of a growing demographic of young, affluent adults who are — at least for now — eschewing the idea of home ownership as too expensive. Instead, they’re turning to apartment communities like Ink that provide a mix of high-end amenities and convenience.

Luxury apartment buildings with high density and high rents are popping up in some of Virginia’s most populated areas at a record pace. Multifamily developers are targeting stylish, in-demand neighborhoods such as Richmond’s Scott’s Addition and Arlington County’s National Landing, fueling fast growth of Class A apartment spaces.

As of late December 2022, multifamily inventory in Northern Virginia was 218,140 units, up about 3,000 from the end of 2021. It’s projected to get to 225,459 by the end of 2023, according to data from Washington, D.C.-based CoStar Group Inc., a commercial real estate data and analytics provider. Nearly all the new construction is Class A, or luxury apartments, according to CoStar.

“If you think about the supply side, developers have been moving into multifamily for a variety of reasons,” says Kevin Boyle, Willis Blackwood director of Virginia Tech’s Blackwood Department of Real Estate. “One relates to good demand [for] housing and a shortage of supply satisfying that. Another factor is there is money to be invested, and where are you going to invest it? Multifamily has been, for a long time, a relatively safe investment.”

Other factors feeding the demand for luxury units include a shortage of available homes for sale, as well as higher home prices and interest rates.

“There are people likely priced out of the homeownership market and [who] may not have that down payment ready and are opting to rent a bit longer,” says Ryan Price, chief economist for Virginia Realtors. “A lot of people are voluntarily pushing pause or getting priced out.”

ZOM Living is building Hazel & Azure, two high-rise apartment towers with a total of 491 units, in Arlington.

RENDERING COURTESY ZOM LIVING

In November 2022, there were 6,057 pending home sales in Virginia, nearly 4,000 fewer than the same period in 2021, according to a report from Virginia Realtors.

Additionally, home prices have risen dramatically since the pandemic, and there is a dearth of “starter home price points” in the market, Price says. In November 2022, the statewide median sales price was $364,900, about 2.6% higher than the year before. Combined with higher interest rates — hovering around 6% to 7% — it’s putting the brakes on the housing market.

But rental prices are skyrocketing as well. Average rents in Arlington rose from $2,219 in the first quarter of 2020 to $2,356 at the beginning of 2023, with rents in National Landing rising from $2,348 to $2,492 during the same period, according to data from CoStar Group. In Richmond, average rents have risen from $1,165 to $1,347 since 2020, and Scott’s Addition has seen rents climb from $1,536 to $1,721.

Most new multifamily development in Virginia is higher end because the rising cost of construction and materials makes it difficult to build profitable multifamily communities below that level of quality, says Mike Cobb Jr., director of market analytics with CoStar Group.

Says Virginia Tech’s Boyle: “While there is a huge need for affordable [housing], the margin on them is not as high and the management challenges can be higher.”

“What developers are doing, whether it’s in Virginia or across the country, is building into this flight to quality,” says Cobb.

As used by the commercial real estate industry lately, the term “flight to quality” is a common one, referring not only to developers flocking toward high-end, high-profit properties, but also consumers such as the affluent young professionals who are gravitating toward rentals with premium features.

“You have all those amenities right there,” says Boyle. “I think it is kind of falling into that category of people that want something they don’t have to maintain but also want to have those amenities available to them.”

In-demand perks include gyms, pools, dog parks, bicycle repair stations, coworking spaces, rooftop spaces, urban views, community gathering spots and proximity to transit, grocery stores, retail and restaurants.

Ink resident Craig Rollyson, 29, says renting is a better fit for him than buying. He recently moved to Richmond to be an occupational therapist and was drawn to Ink and its "clean, cool vibe," he says.

"Before I want to put roots down, I have some fact-finding to do first," Rollyson says. "Renting, there is not as much of a commitment. There is certainly some flexibility there that is appealing."

NoVa luxury boom

National Landing is seeing a wave of high-end apartment development, driven by Amazon.com Inc.'s multibillion-dollar HQ2 East Coast headquarters, which is under development in the neighborhood, as well as Virginia Tech's $1 billion-plus Innovation Campus, which is under construction in nearby Alexandria. The extension of Metro's Silver Line is also boosting development.

"We already liked the neighborhood, [but] development was happening there much slower than what's happening today and … Amazon … really supercharged interest by us and many, many other developers," says Andrew Cretal, senior vice president of Florida-based ZOM Living, which is developing the Hazel & Azure luxury apartment buildings, 15 and 11 stories apiece, in National Landing.

Launched in April 2022 and slated for completion by mid-2024, the $235 million project will have 491 units, with rents ranging from $2,225 for a 548-square-foot studio apartment to $5,780 for a 1,688-square-foot penthouse unit.

ZOM's target audience for Hazel & Azure is 25- to 35-year-old professionals, both singles and couples, as well as middle-aged professionals who have chosen not to purchase a home or who are living in the area temporarily, Cretal says.

"Our project will also appeal to empty nesters who desire the carefree lifestyle a Class A apartment affords," he says. "The location near U.S. Route 1 and I-395 will appeal to residents who work in Arlington, Alexandria, the District of Columbia and other locations in the Washington metro area, including couples with split work locations. Clearly Amazon employees are included in this, as well as other nearby employers."

Bethesda, Maryland-based developer JBG Smith Properties, the primary developer for Amazon's HQ2, has 1,583 units under construction in National Landing across two $765 million luxury multifamily projects.

1900 Crystal Drive, which has 808 apartments spread across two 26- and 27-story towers, broke ground in March 2021 and is scheduled for completion in 2024. Another project, 19- and 25-story towers with a combined 775 units at 2000 and 2001 S. Bell St., broke ground in 2022 and is slated to deliver in 2025.

Another area with a high concentration of luxury apartments under construction is the Dulles corridor, where Reston-based Comstock Holding Companies Inc., developer of Reston Station, has several projects in development. Comstock has developed about 10 million square feet of transit-oriented and mixed-use properties, including along Metro's Silver Line.

"I think we are probably the most prolific developers along the Silver Line," says Chris Clemente, Comstock's CEO and chairman of the board of directors. "It's because people want to live here [and] … want to live in the best new product."

For more than a decade, Comstock has been developing Blvd, a luxury multifamily apartment brand, in Fairfax and Loudoun counties. The newest properties in the collection are Blvd Hadley at Reston Row with 420 luxury apartments planned, Blvd Gramercy West at Loudoun with 270 units and Blvd Midline at Reston Station with 250 units. All three will have studio, one- and two-bedroom apartments, with the Loudoun community also offering three-bedroom options.

A similar story

About 100 miles south of Arlington, a similar story is playing out in the Richmond market. At the end of 2021, there were about 95,000 apartments in the region. Another 3,000 were expected to come online by the end of 2022, and the forecast for 2023 jumps to 101,540, according to CoStar data. The majority of this new multifamily construction is Class A, according to CoStar.

Since early 2020, about 8,600 units have been delivered in the Richmond area, increasing market inventory by about 10%. Another 6,200 units are currently under construction, with an additional 8,700 planned for the near future, says Liz Greving, research manager with Cushman & Wakefield | Thalhimer, a commercial real estate company with offices around the mid-Atlantic.

One of the neighborhoods seeing a lot of development is Scott's Addition. Barely a decade ago, it was a declining industrial district. Now, it's a hotspot for millennials and Gen-Zers.

Between 2020 and 2022, Capital Square built Ink, Viv and Gem, a collection of three five-story luxury apartment buildings, with a total of 209 apartments. Two more are in various stages of development: six-story Otis, with 350 units, was delivered in January, and another 350-unit development with three buildings will be finished in 2025. All of these apartments are 600 to 1,400 square feet and rent from about $1,500 to $3,800, ranging from studios to one-, two- and three-bedrooms.

Across its five developments in Scott's Addition, Capital Square has invested more than $260 million.

"It's just a cool place to live," Capital Square co-CEO Louis Rogers says of Scott's Addition. "In our experience, more than half the residents are coming in from out of state … [and] it resembles neighborhoods in big cities. People like that."

Co-CEO Whitson Huffman adds that they have delivered buildings "that had different personalities and design aesthetics that would specifically target different segments of Scott's Addition's broader demographic. We thought there was an untapped segment of the market looking for higher end finishes, unit design and amenities."

Also under development in the neighborhood is Crescent Communities' Novel Scott's Addition, a five-story, 275-unit complex that will be renting in a similar price range for studios to two-bedrooms.

"As a Class A developer, you're always going to chase employment and population growth. You're going to go where there are new jobs and new employment," says Brandon Wright, Crescent Communities' managing director for Washington, D.C., Virginia and Maryland.

As with Scott's Addition and National Landing, population growth and job growth are also driving luxury apartment development in western Chesterfield and Henrico counties, says CoStar's Cobb.

From Willow Lawn west in Henrico, about 2,440 units, many of them luxury, are under construction, with more than 1,700 additional units proposed. In Chesterfield's Midlothian area, about 1,200 units are under construction and another 900 are proposed.

But the boom won't last forever.

Wright, with Crescent, says developers are going into 2023 with "eyes wide open, knowing we will have challenges on the financial front."

That includes rising construction and labor costs, labor shortages, supply chain disruptions and other economic headwinds across the board for the industry, including the potential for recession.

Adds Boyle: "I think that multifamily across all different product types is probably reaching the peak of this development." ■