

# Market Insights

Charlotte Multifamily 2Q 2022



## Construction Activity



**20,657**

Units under construction

**2,657**

Units delivered (YTD)

## Market Fundamentals



**4.8%**

Vacancy

**+80bps**

Year over year change

**\$1,621**

Asking Rent

**+17.0%**

Year over year change

## Transaction Activity



**\$282,300**

Median sales price per unit (YTD)

## Rents and Prices Post Strong Gains in 2Q

### Highlights

- A rise in renter demand led to a favorable quarter in the Charlotte multifamily market. Rents posted a rapid increase and vacancies held steady. Healthy operating conditions carried over into the investment market where transaction activity gained momentum and prices surged.
- After trending higher in the first three months of the year, the vacancy rate held steady at 4.8 percent during the second quarter. Year over year, vacancy has increased 80 basis points, but the current figure is below the market's five-year average rate.
- Asking rents spiked in recent months, rising 6.2 percent from April to June. Rents ended the second quarter at \$1,621 per month, 17 percent higher than one year ago.
- Investment activity accelerated during the second quarter, rising more than 50 percent from the first three months of the year. The increase in transactions has supported a sharp rise in prices; the median price approached \$300,000 per unit in the second quarter, and year to date, has reached \$282,300 per unit. Cap rates have remained low, averaging 3.5 percent.

### Charlotte Multifamily Market Overview

The Charlotte multifamily market posted improved performance during the second quarter with rent growth accelerating and vacancy holding steady. Demand has recently increased; net absorption topped 1,500 units in the second quarter, spiking by more than 60 percent from levels posted in the first three months of the year. This demand is supporting rent growth. Asking rents in Charlotte have now increased in each of the past 11 consecutive quarters, including a 6.2 percent spike in the second quarter. While apartment completions have not matched levels recorded one year ago, deliveries are expected to rise in the second half.

The local investment market remained competitive during the second quarter with activity gaining momentum, per-unit prices rising, and cap rates remaining low. The median price during the second quarter was nearly \$300,000 per unit, 15 percent higher than the median price in the first three months of the year. Transactions in recent months have involved a mix of new construction projects—including a few properties that were still being leased-up—as well as assets that were built 30 to 50 years ago. These older properties generally offer value-add potential in a growing market where rents are on a rapid upswing.

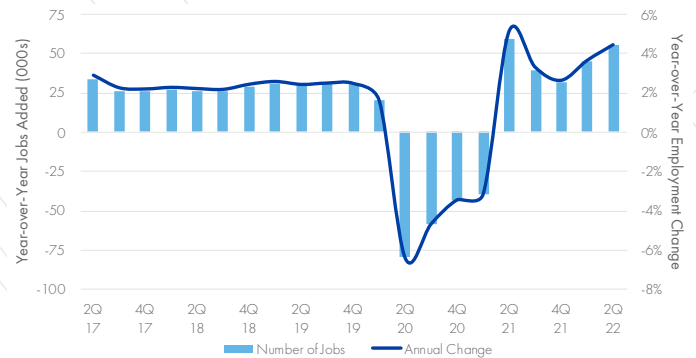
## Employment

- The economy continues to expand in Charlotte. During the second quarter, employers added more than 19,000 jobs. Strong growth has been recorded during the past several periods; year over year, area employment has increased by 4.5 percent with the addition of more than 55,000 jobs.
- The banking industry in Charlotte continues to bolster the overall economy. The financial activities sector has expanded by 7.3 percent in the past 12 months with the addition of 8,200 employees.
- Macy's recently announced that the company is expanding its supply chain into North Carolina with the opening of a \$584-million fulfillment center in Rowan County. The company's first automated facility, which is scheduled to open in 2024, will bring 2,800 jobs to the region.
- **Forecast:** Charlotte employers are on pace to add approximately 50,000 new jobs to the labor market in 2022, a 4 percent increase in local payrolls.



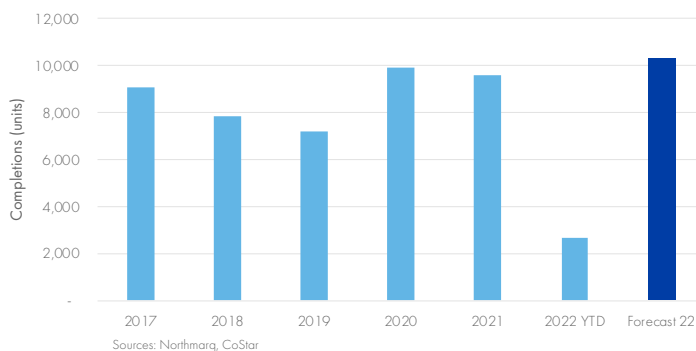
During the second quarter, businesses added more than 19,000 jobs.

### Employment Overview



Developers pulled permits for 4,500 multifamily units during the first half of 2022.

### Development Trends



## Development and Permitting

- Developers delivered approximately 2,650 units during the first half of 2022, down 36 percent from the same period last year. The pace of completions is expected to accelerate in the coming quarters.
- Multifamily development will remain elevated in the year ahead, as projects totaling nearly 20,700 units are currently under construction, up 38 percent from one year ago. While several new properties will come online in the second half of this year, more than 60 percent of the projects that are under construction will deliver in 2023 or 2024.
- Developers pulled permits for approximately 4,500 multifamily units during the first half of the year. Permitting activity is on pace to closely track average annual totals recorded in the market since 2018.
- **Forecast:** The pace of apartment deliveries will pick up throughout the remainder of the year. Projects totaling more than 10,000 units are scheduled to come online during 2022, about 8 percent higher than the number of units delivered last year.

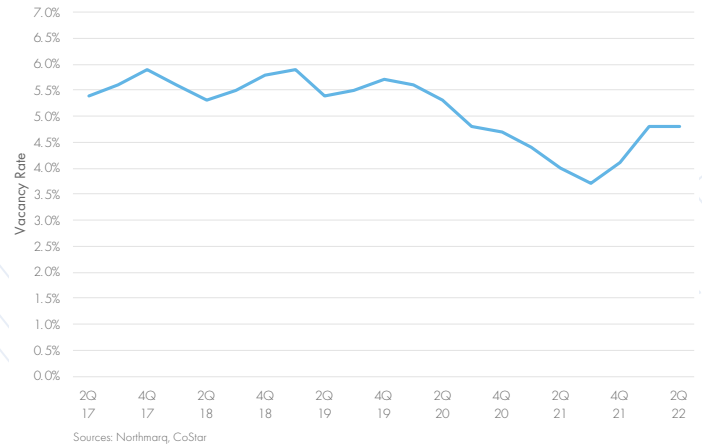
## Vacancy

- After rising at the beginning of the year, apartment vacancies stabilized during the second quarter. The vacancy rate held steady at 4.8 percent, unchanged from the first three months of the year.
- Year over year, area vacancy has pushed up 80 basis points. The rate reached a cyclical low in the third quarter of 2021, after steady declines during the previous few years. Since 2017, area vacancy has averaged 5.2 percent.
- After net absorption spiked to nearly 12,000 units in 2021, the pace of demand growth retreated closer to the market's long-term average during the first half of this year. Net absorption totaled approximately 2,450 units in the first half of 2022, including absorption of more than 1,500 units in the second quarter.
- **Forecast:** With deliveries expected to accelerate, the vacancy rate will likely tick higher in the second half of the year. Vacancy is forecast to end the year at 5.2 percent, an annual increase of 110 basis points. This follows five consecutive years of vacancy declines.



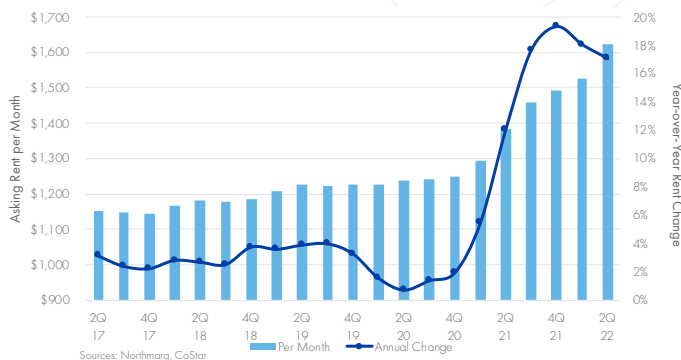
Net absorption totaled approximately 2,450 units in the first half.

### Vacancy Trends



Average rents ended the second quarter at \$1,621 per month.

### Rent Trends



## Rents

- Rent gains in Charlotte have been rapid for the past several quarters. The pace of growth surged to 6.2 percent in the second quarter, building on a 2.4 percent increase in the first three months of the year. Average rents ended the second quarter at \$1,621 per month.
- Year over year, asking rents have advanced 17 percent. This marked the fourth consecutive quarter where annual rent increases have been between 17 percent and 20 percent.
- Rents in Class A units continue to push higher, supported by elevated demand and the delivery of new, more expensive units in popular submarkets. Asking rents in Class A properties reached \$1,882 per month in the second quarter, up 16 percent from one year earlier.
- **Forecast:** Rent growth is forecast to total nearly 11 percent in 2022, with the average asking rent expected to rise to approximately \$1,650 per month. Rents spiked by nearly 20 percent last year.

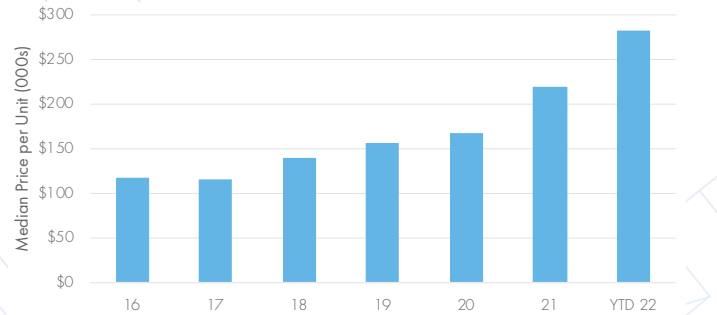
## Multifamily Sales

- Transaction activity gained momentum during the second quarter, rising more than 50 percent from levels in the first three months of the year. Transaction activity year to date is nearly identical to sales totals from the same period in 2021.
- Prices continued to push higher in the second quarter; in recent months, several properties sold for more than \$300,000 per unit. During the first half of this year, the median price is \$282,300 per unit, 29 percent higher than the median price in 2021.
- Cap rates have remained low, averaging approximately 3.5 percent during the first half. Properties have generally traded within a fairly tight cap rate range during the past four quarters.



The median sales price through the first half of 2022 reached **\$282,300 per unit.**

### Investment Trends



Sources: NorthMarq, CoStar

## Recent Transactions

### Multifamily Sales Activity

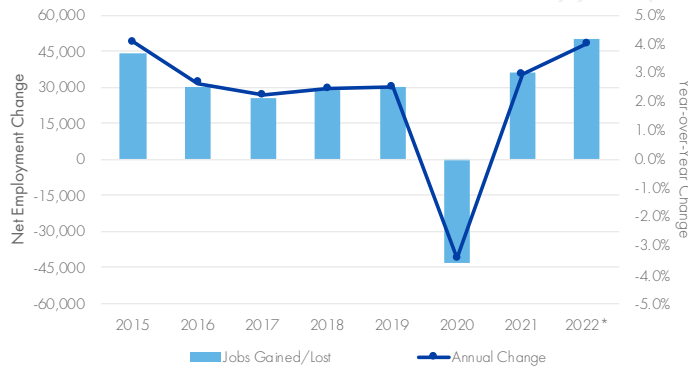
| Property Name                | Street Address                               | Units | Sales Price   | Price/Unit |
|------------------------------|--|-------|---------------|------------|
| Bell Uptown Charlotte        | 355 W Martin Luther King Jr Blvd., Charlotte | 352   | \$165,000,000 | \$468,750  |
| Avant at Steele Creek        | 13212 Winter Hazel Rd., Charlotte            | 456   | \$140,000,000 | \$307,018  |
| The Collins                  | 5499 Shopton Rd. W, Charlotte                | 350   | \$108,150,000 | \$309,000  |
| Coffey Creek Apartment Homes | 2208 Yager Creek Dr., Charlotte              | 420   | \$97,000,000  | \$230,952  |
| The Cove at Matthews         | 1701 Gander Cove Ln., Matthews               | 288   | \$60,250,000  | \$209,201  |
| Solis Southline              | 4920 Tanager Park Dr., Charlotte             | 300   | \$129,000,000 | \$430,000  |

## Looking Ahead

Activity is on pace to be quite elevated in the Charlotte multifamily market in the second half of this year. While the pace of economic growth could level off nationally, the outlook for Charlotte remains favorable, and continued employment gains should support renter demand for units. The pace of construction is likely to accelerate with developers scheduled to deliver approximately 8,000 units in the second half of the year. While the total number of apartment units that come online in 2022 will only be marginally higher than the 2021 total, the timing could result in a short-term supply-demand imbalance for a few months in a handful of submarkets. Beyond that, the longer-term outlook for the market remains very favorable, with Charlotte continually proving to be a top market for companies in the site-selection process.

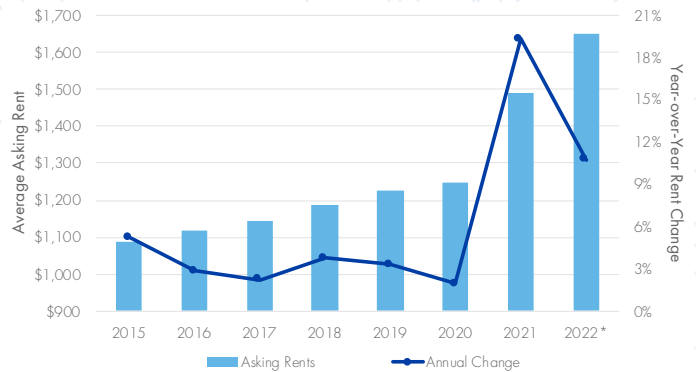
Investor demand in Charlotte is expected to remain elevated for the next several quarters as operators seek out acquisition opportunities in one of the fastest-growing markets in the Southeast. Investment activity has been occurring throughout several of the Charlotte area's rapidly expanding submarkets, and a development pipeline that includes more than 75 projects currently under construction, should result in additional transaction activity. The South End submarket will be one of the top spots for new development in the city core, while the University area will lead the way in the northeast portion of the market. The single-family, build-to-rent product type is becoming more prominent in Charlotte, with a handful of new developments occurring mostly in outlying suburban areas.

### Employment Forecast



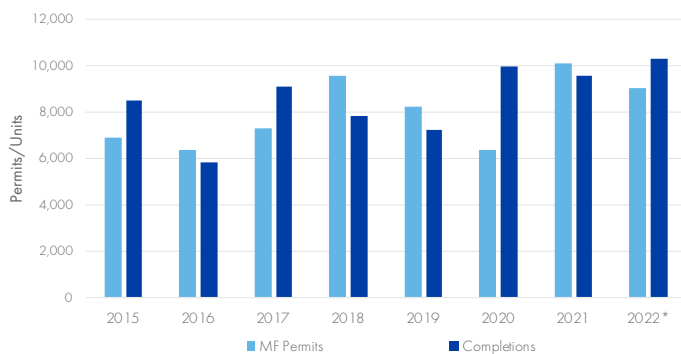
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### Rent Forecast



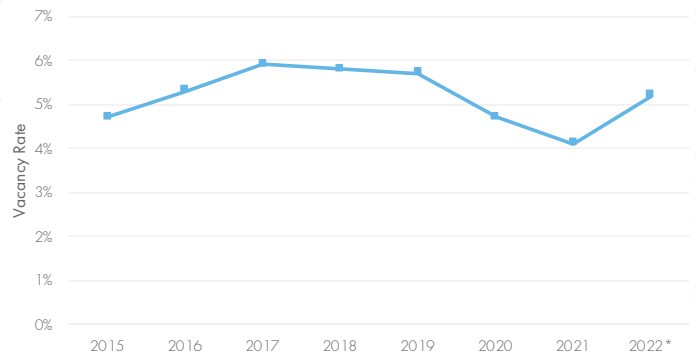
\* Year End Forecast  
Sources: Northmarq, CoStar

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: Northmarq, Census Bureau, CoStar

### Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, CoStar



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