

# Market Insights

Charlotte Multifamily 3Q 2022



## Construction Activity



**21,775**

Units under construction

**6,160**

Units delivered (YTD)

## Market Fundamentals



**5.3%**

Vacancy

**+160**bps

Year over year change

**\$1,609**

Asking Rent

**+10.2%**

Year over year change

## Transaction Activity



**\$262,400**

Median sales price per unit (YTD)

# Transaction Activity Ticks Higher, Sales Prices on the Rise

## Highlights

- Property fundamentals softened slightly in Charlotte during the third quarter despite continued economic growth. Multifamily development remains active in Charlotte with roughly 9,700 units scheduled to come online in 2022, similar to the number of deliveries in the past two years.
- During the third quarter, the vacancy rate rose 50 basis points to 5.3 percent. Year over year, the rate increased 160 basis points.
- Asking rents dipped less than 1 percent in the third quarter, reaching \$1,609 per month. This followed several periods of upward momentum. Rents on renewals and trade-outs continue to rise; year over year, average rents are up 10.2 percent.
- The local investment market marched on amid the much publicized rate volatility, with more deals trading in Charlotte than in the previous quarter. The median sales price year to date reached \$262,400 per unit, up 20 percent from 2021 levels.

## Charlotte Multifamily Market Overview

Following a period of rapid expansion and surging property fundamentals, operating conditions in the Charlotte multifamily market cooled slightly during the third quarter. The leveling off was likely a short-term interruption of a longer-term upward trajectory, with the region's rapid economic expansion and continued population growth forecast to fuel additional gains going forward. The vacancy rate has trended higher since reaching an all-time low one year ago, and with deliveries of new units remaining active, operators found it tougher to increase rents in recent months. While the pace of employment growth has been fairly consistent in recent quarters, absorption patterns have been more volatile, with net move-ins to this point in 2022 lagging levels from one year earlier. Going forward, the continued additions to payrolls should spur demand for rentals. On the supply side, while many top markets are posting sharp increases in annual deliveries in 2022, completions in Charlotte are on pace to be nearly identical to levels from each of the past two years.

From an investment standpoint, the Charlotte multifamily market continued to outperform most major markets during the third quarter. Sales velocity increased modestly in the past three months, building on an acceleration that happened from the first quarter to the second quarter. This runs counter to the national trend, where rising interest rates resulted in fewer property sales since midyear. While properties have traded throughout the metro area in recent periods, activity to this point in the year has been most concentrated near the city core and in the South Park and South Charlotte submarkets. The transaction mix has primarily consisted of middle-tier and upper-tier assets, which have pushed per-unit pricing higher in 2022. The median sales price year to date is \$262,400 per unit, up 20 percent from the 2021 figure. One area where rising borrowing costs have been reflected in the investment market has been cap rates, which averaged about 4 percent in the third quarter, after hovering around 3.5 percent in the previous year.

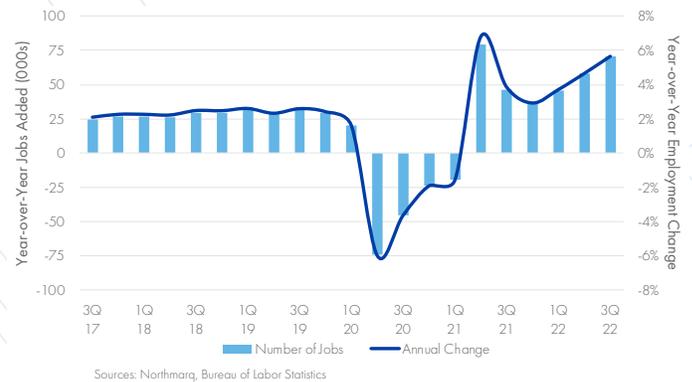
## Employment

- The Charlotte employment market has significantly expanded to this point in the year. Year over year, total employment grew by roughly 5.7 percent with the addition of nearly 71,000 jobs. The pace of growth accelerated in the third quarter when local employers added approximately 20,000 workers.
- The Charlotte area’s well-trained workforce and large corporate presence mean white-collar employment generally fuels expansion in the region. During the past 12 months, the professional and business services sector added 16,500 jobs, a 7.7 percent gain.
- The Bank of London recently announced plans to open its U.S. Global Platform & Services headquarters in Charlotte and has already leased a 40,000-square-foot space at One Independence Center in the Central Business District. The expansion will create 350 jobs in the region by 2026, including new positions in software development, compliance and risk, technology operations, infrastructure engineering, and business operations.
- **Forecast:** Charlotte’s labor market is on track to post a strong year for job growth. Area employers are forecast to expand payrolls by 5 percent in 2022, adding approximately 63,000 jobs.



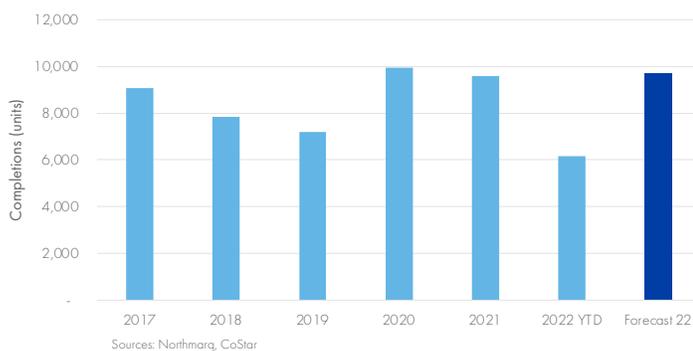
Year over year, total employment grew by roughly 5.7 percent.

### Employment Overview



Projects totaling approximately 21,800 units are under construction.

### Development Trends



## Development and Permitting

- Apartment development activity ramped up in recent months with the completion of roughly 3,500 multifamily units coming online during the third quarter. Year to date, projects totaling 6,160 units have been delivered.
- Projects totaling nearly 21,800 units are under construction in Charlotte, nearly double the number of units in the construction pipeline one year ago. Although multifamily development is ongoing throughout the region, construction is most active near the city center, including the South End and East Charlotte submarkets.
- Permitting activity slowed in recent months as developers pulled permits for more than 1,100 units during the third quarter, roughly half the level of issuance from the previous period. Year to date, permits for about 6,000 multifamily units have been pulled, down 12 percent from the same period in 2021.
- **Forecast:** Projects totaling approximately 9,700 units are scheduled to come online in 2022. Construction totals in 2022 should be nearly identical to the number of units delivered in each of the preceding two years.

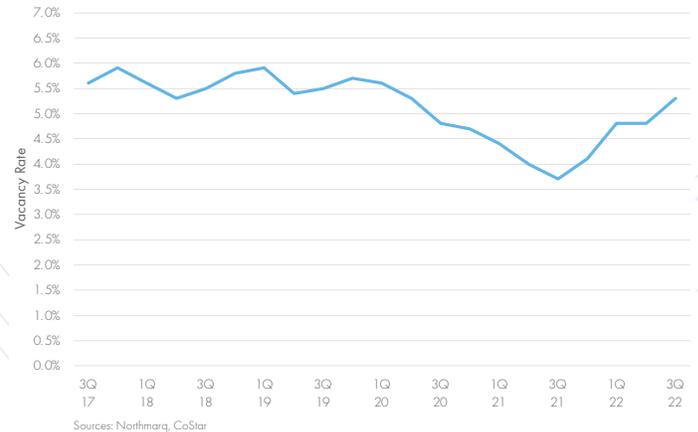
## Vacancy

- After holding steady for two consecutive quarters, the vacancy rate ticked higher in recent months. During the third quarter, the rate increased by 50 basis points to 5.3 percent.
- Local vacancy has trended higher during the past 12 months, after reaching a two-decade low. Year over year, the rate is up 160 basis points but remains in line with the long-term average. The market's average vacancy since 2015 is 5.1 percent.
- Although vacancy rose across all asset classes in recent months, lower-tier properties are recording the tightest rates. Class C vacancy ended the third quarter at 4.6 percent, 90 basis points higher than one year ago.
- **Forecast:** Area vacancy is expected to inch higher at the end of this year. The rate is forecast to finish the year at around 5.4 percent. This will mark the first year since 2017 that vacancy has pushed higher in Charlotte.



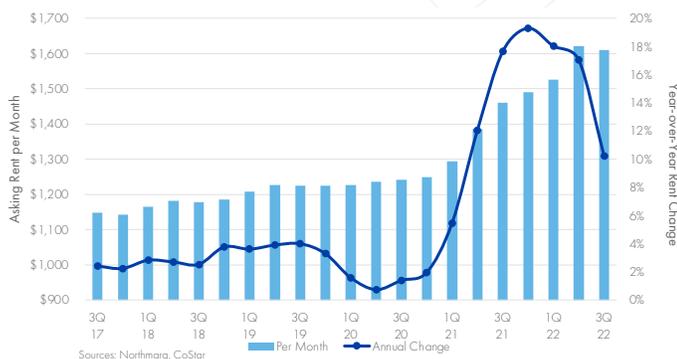
During the third quarter, the vacancy rate increased by 50 basis points to 5.3 percent.

### Vacancy Trends



Apartment rents are up 10.2 percent from one year ago.

### Rent Trends



## Rents

- After surging in recent periods, average rents in Charlotte recorded a quarterly dip for the first time in three years. Local asking rents fell less than 1 percent during the third quarter to \$1,609 per month. Rents began the quarter recording gains, and several projects are still seeing increases on renewals and trade-outs.
- Despite a minimal retreat in recent months, apartment rents are up 10.2 percent from one year ago.
- While asking rents declined in Class A and Class B units in recent months, rents inched higher in lower-tier assets. Average rents in Class C apartments rose nearly 1 percent during the third quarter to \$1,249 per month. Year over year, rents in Class C buildings spiked by 11.6 percent, reflecting the continued demand for moderately priced housing options in the region.
- **Forecast:** Asking rents are projected to hold fairly steady in the remainder of the year. Local apartment rents are forecast to rise nearly 8.5 percent in 2022 to \$1,615 per month.

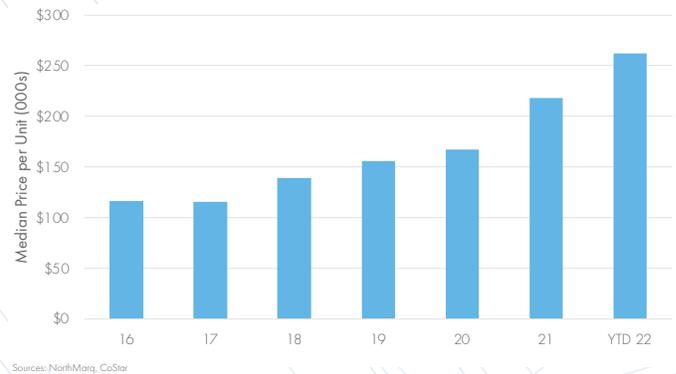
## Multifamily Sales

- Despite a rising interest rate environment, sales velocity accelerated 12 percent from the second quarter to the third quarter. Current-year transaction levels have closely tracked the accelerated pace recorded in 2021; year-to-date sales activity is down just 6 percent from the same period in 2021. Transaction volume during the third quarter was the most active period since the fourth quarter of last year.
- Prices have trended higher to this point in 2022. The median price in sales that have closed this year is approximately \$262,400 per unit, up 20 percent from the median price in 2021. Several newer construction projects changed hands during the third quarter; the median price in sales from the most recent three-month period topped \$285,000 per unit.
- The sales involving newer properties at elevated per-unit prices have generally kept cap rates low in recent transactions. The average cap rate in sales from the third quarter was approximately 4 percent, after remaining around 3.5 percent for the previous 12 months.



The median price is approximately \$262,400 per unit.

### Investment Trends



## Recent Transactions

### Multifamily Sales Activity

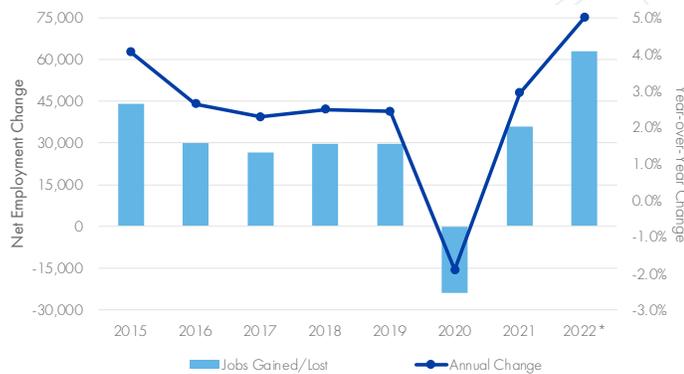
Property Name	Street Address	Units	Sales Price	Price/Unit
NOVEL LoSo	4015 Craft St., Charlotte	344	\$140,000,000	\$406,977
The Vive at Kellswater	4800 Integra Springs Dr., Kannapolis	312	\$91,250,000	\$292,468
5115 Park Place	5115 Park Rd., Charlotte	273	\$87,550,000	\$320,696
1210 @ South End Apartments	1210 Pressley Rd., Charlotte	504	\$82,150,000	\$162,996
Magnolia Terrace	8301 Paces Oaks Blvd., Charlotte	264	\$60,000,000	\$227,273
Ardmore at Alcove	139 Alexander Bank Dr., Mooresville	180	\$51,550,000	\$286,389

## Looking Ahead

After unprecedented growth in recent quarters, property fundamentals in the Charlotte multifamily market are forecast to remain near current ranges through the remainder of this year. Apartment deliveries for the full year are expected to closely track levels recorded in each of the past two years. Absorption, however, will not be as robust, resulting in a vacancy increase in 2022, following four consecutive years of tightening. Fueled by rapid gains in the first half, this year will mark another period of above-trend rent growth. The pace of future increases should return closer to long-term growth rates in the next several quarters. While property fundamentals are expected to level off, the local economy will remain healthy and continue to attract large-scale employers to the region.

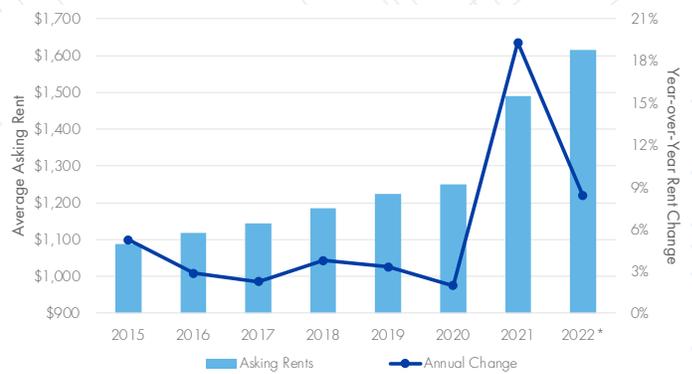
The Charlotte multifamily market is forecast to continue to attract capital in the coming quarters, however, as 2022 comes to a close, the investment landscape is different than one year ago. It may take a few quarters for buyers and sellers to close expectations gaps, particularly if interest rates continue to trend higher. When interest rates level off, the cost of capital uncertainty will fade, allowing the market to reset and more properties to change hands. Despite rising interest rates, pricing will end 2022 well above last year's levels, reflecting both the favorable market sentiment and the mix of newer properties that have changed hands. More than 25 new projects are scheduled to be delivered in the final few months of the year, including a handful of projects in Cabarrus and Iredell counties.

### Employment Forecast



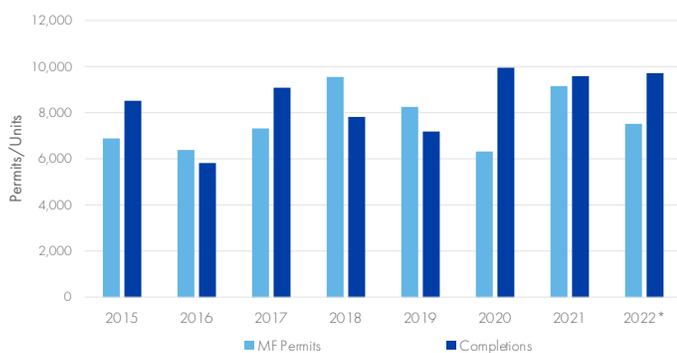
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### Rent Forecast



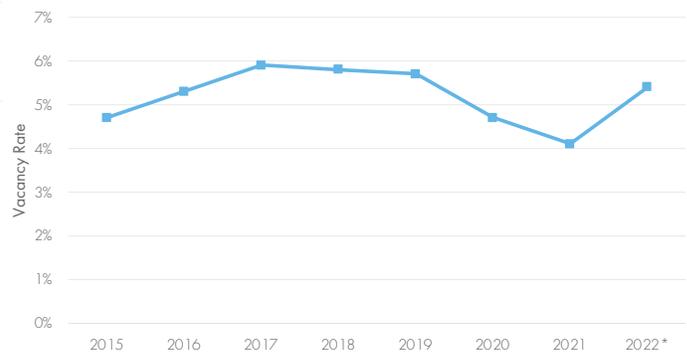
\* Year End Forecast  
Sources: Northmarq, CoStar

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, CoStar



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