

# Green shoots alongside inventory growth into 2024

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **29,785**

UNITS DELIVERED **13,307**

## MARKET FUNDAMENTALS



VACANCY RATE **7.3%**

YEAR-OVER-YEAR CHANGE **+130bps**

ASKING RENTS **\$1,578**

YEAR-OVER-YEAR CHANGE **0.5%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$229,300**

## HIGHLIGHTS

- Operating conditions in the Charlotte multifamily market softened somewhat during the fourth quarter, as the vacancy rate rose, and rents inched lower. Completions were elevated and the construction pipeline has several projects that are slated to deliver in 2024.
- Area vacancy rose 30 basis points during the fourth quarter to 7.3 percent. Year over year, vacancy increased by 130 basis points, even with net absorption totals up more than 50 percent from 2022 levels.
- Asking rents inched lower in the last six months, offsetting solid rent growth in the first half of the year. Area rents dipped 0.9 percent in the fourth quarter to \$1,578 per month. Rents ended 2023 0.5 percent higher than one year earlier.
- Transaction volume bounced off of earlier lows during the second half of 2023, but total sales for the full year still lagged levels recorded in 2022 by 54 percent. The median price in 2023 was \$229,300 per unit, while cap rates ranged between 5 percent and 5.5 percent during the fourth quarter.

## CHARLOTTE MULTIFAMILY MARKET OVERVIEW

Supply growth in the Charlotte multifamily market picked up in the closing months of 2023, leading to a higher average vacancy rate and slightly lower rents. Still, net absorption has remained strong in recent quarters, fueled by a local labor market that continues to add workers and a regional economy that attracts new businesses. In 2023, the overall employment market expanded despite mixed trends in some of the Charlotte area's core sectors. Financial employment continued to expand at a healthy pace, while growth in the professional and business services sector was minimal. This was a sharp contrast from earlier periods; during the preceding five years, professional employment had surged by an average of more than 2 percent per year. While some sectors of the local labor market recorded mixed performance, apartment absorption was up more than 50 percent from 2022 levels.

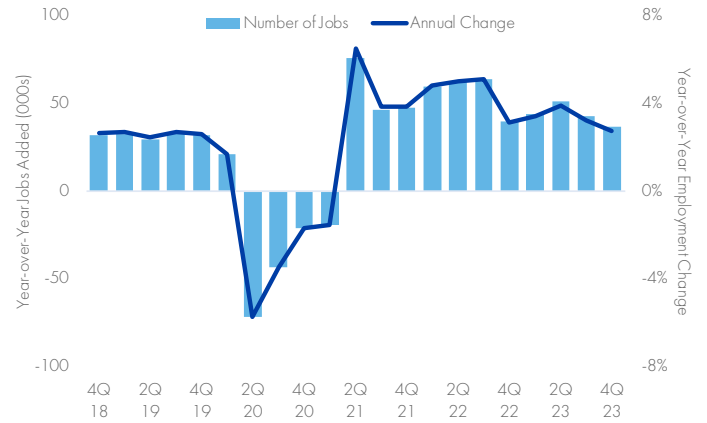
While the past year represented a significant decline in transaction activity, investment conditions in Charlotte showed some signs of gaining ground as the fourth quarter came to a close. The fourth quarter was the most active period of the year in Charlotte, but was still down about 30 percent from the same period, one year earlier. This was a more modest decline than the market recorded throughout the full year, where activity dropped by more than 50 percent. While sales volumes were down, transactions did close across the quality spectrum. Class B properties made up nearly half of total sales in 2023, closely tracking levels recorded last year. In the Class A segment, there were fewer new properties selling within the Charlotte city core, with a greater number of suburban properties located outside of Mecklenburg County changing hands.

## EMPLOYMENT

- An active pace of hiring in the first half fueled growth in the Charlotte labor market in 2023. Area employers added 36,500 positions, expanding total employment by 2.8 percent.
- The leisure and hospitality sector recorded the greatest number of job additions in 2023, expanding by 9.2 percent with an increase of 13,000 positions. Total employment in the sector has now surpassed its pre-COVID peak, and gains will likely level off in 2024.
- JP Morgan Chase recently announced plans to expand its presence across the Carolinas. Part of the expansion includes hiring more than 200 workers in the company’s Charlotte office, where the firm is adding 24,000 square feet of additional space.
- **FORECAST:** The local labor market is forecast to expand at a steady rate in 2024, after posting strong levels of employment growth for much of the past decade. Area employers are expected to add 15,000 workers in 2024, an annual increase of 1.1 percent.

Area employers expanded total employment by 2.8 percent.

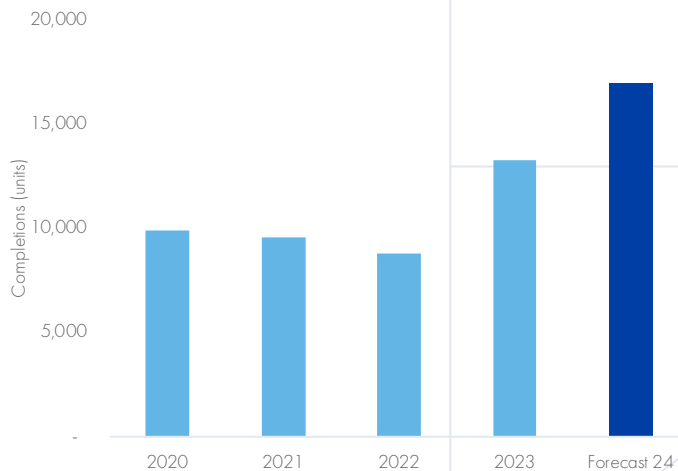
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling roughly 29,800 units were under construction at the end of 2023.

### DEVELOPMENT TRENDS



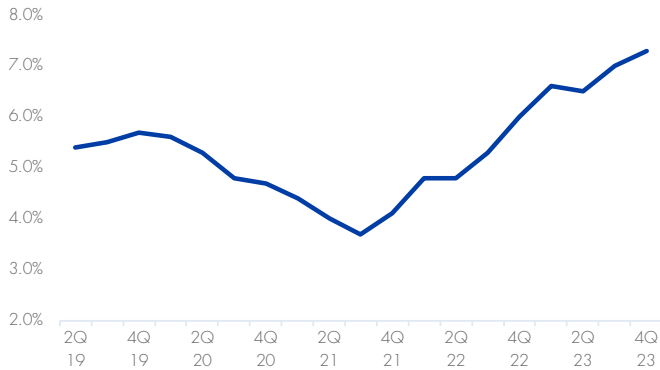
Sources: Northmarq, CoStar

## DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries accelerated in the closing months of 2023, bringing Charlotte’s annual completion total to more than 13,300 units. Construction is occurring faster than the region’s historical rate; developers delivered an average of approximately 8,700 units per year from 2018 to 2022.
- Projects totaling roughly 29,800 units were under construction at the end of 2023, up nearly 20 percent from one year ago. The South End submarket is currently recording the highest concentration of projects in development, with the West Charlotte and North Charlotte submarkets also having healthy levels of new construction.
- Permitting trends were mixed in 2023. For the full year, permits for more than 9,800 multifamily units were issued, but activity slowed by 30 percent in the second half. Construction starts for new rentals declined by approximately 45 percent as the year progressed.
- **FORECAST:** This year will likely represent a construction peak before deliveries slow in coming years. Developers are expected to complete approximately 15,000 units in 2024. Construction starts will likely slow by more than 50 percent in the coming year.

Year over year, area vacancy increased by 130 basis points.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

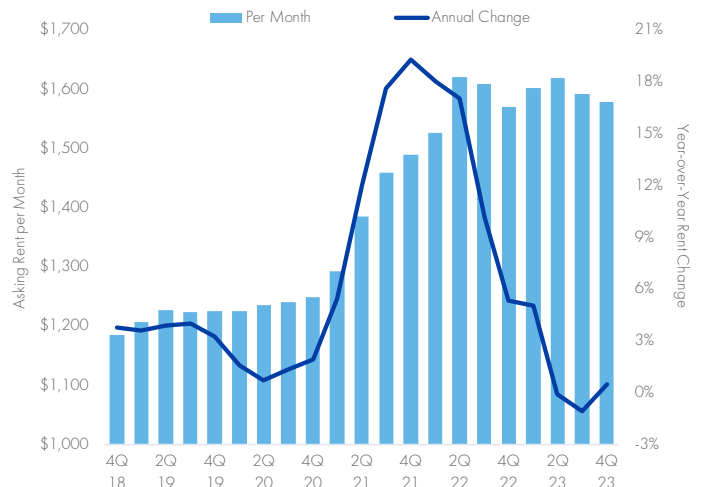
- Elevated supply growth continued to apply upward pressure on vacancy conditions. The vacancy rate rose 30 basis points during the fourth quarter to 7.3 percent. This marked the fifth time in the past six quarters where vacancy ticked higher.
- Year over year, area vacancy increased by 130 basis points. While the recent trend has been for the rate to push higher, this follows a period of several years where the rate remained close to 5 percent.
- Vacancy rate in the LoSo-Lower South End submarket posted a healthy improvement in 2023. Vacancy in the submarket decreased by 90 basis points in 2023 to 4.6 percent. The submarket’s popularity with renters is prompting developers to move several projects into the development pipeline.
- **FORECAST:** While renter demand is forecast to continue, the local vacancy rate will likely push higher in the coming quarters in response to additional supply-side pressures. Vacancy in Charlotte is expected to finish 2024 at 7.8 percent.

RENTS

- Asking rents continued to tick a bit lower in recent months after posting healthy gains during the first half of the year. Asking rents declined by 0.9 percent during the fourth quarter to \$1,578 per month. The mixed quarterly trends resulted in a modest 0.5 percent annual rental increase in Charlotte in 2023.
- In addition to an improving vacancy rate, the LoSo-Lower South End submarket posted the steepest rent increases in the Charlotte area in 2023. Asking rents in this submarket rose 2.6 percent during the past year, reaching \$1,658 per month.
- Asking rents in the development-heavy South End submarkets dipped by 2.4 percent during the past 12 months to \$2,045 per month. Despite declining in recent periods, apartment rents in this submarket are among the most expensive in the region.
- **FORECAST:** Rent growth in 2024 is forecast to be stronger than it was in 2023, but annual gains will likely remain below the region’s long-term metrics. Asking rents are projected to rise 2.5 percent in 2024, closing the year at \$1,618 per monthly 3.5 percent per year.

Rents in Charlotte posted a modest 0.5 percent increase in 2023.

RENT TRENDS



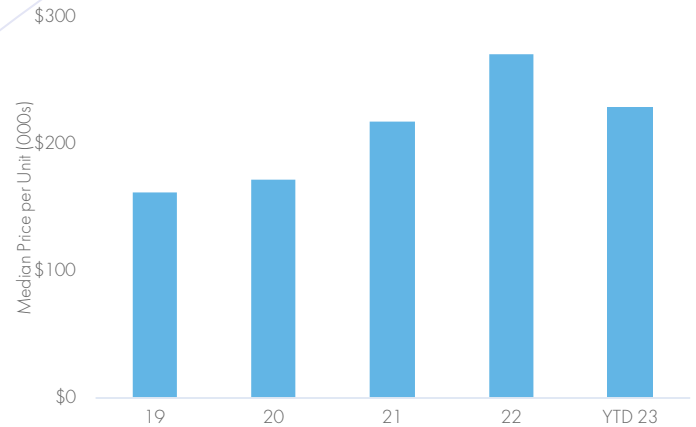
Sources: Northmarq, CoStar

## MULTIFAMILY SALES

- Total sales velocity in 2023 was approximately 60 percent lower than levels posted in the prior year, but there has been some momentum gathering in recent quarters. Transaction counts reached a cyclical low at midyear and have accelerated in each of the past two quarters.
- The median price in 2023 was \$229,300 per unit, down 15 percent from the previous year. Class B properties accounted for about half of the annual total—similar to prior years—but fewer Class A assets sold and Class C properties accounted for a larger share of the transaction mix in 2023.
- Cap rates trended higher in 2023 but have generally remained within a fairly tight band for most assets. In trades that closed during the fourth quarter, cap rates were between 5 percent and 5.5 percent, up from about 4 percent one year ago.

The median price in 2023 was **\$229,300 per unit.**

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

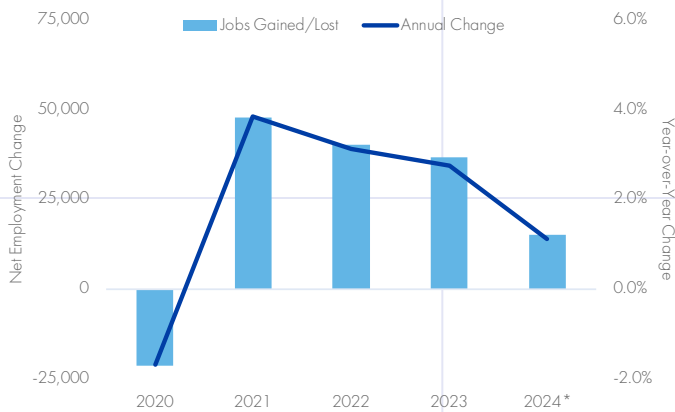
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
MAA Optimist Park	525 E 21st St., Charlotte	352	\$107,000,000	\$303,977
The Retreat at McAlpine Creek	6800 Fishers Farm Ln., Charlotte	400	\$81,500,000	\$203,750
Greys Harbor Lake Norman	8701 Pinnacle Cross Dr., Huntersville	312	\$72,500,000	\$232,372
The Mason at Six Mile Creek	5209 Craftsman Dr., Indian Land	300	\$69,250,000	\$230,833
Stillwater	8242 Runaway Bat Dr., Charlotte	280	\$39,200,000	\$140,000
The Park at Ferentino	8061 Woodscape Dr., Charlotte	216	\$30,888,000	\$143,000

## LOOKING AHEAD

The Charlotte multifamily market should post significant velocity for both supply and demand growth in 2024. Expansion in the local economy should spark continued renter demand for new units and allow for modest rent growth even as the pace of deliveries of new units accelerates. Vacancies are forecast to trend higher after very tight conditions prevailed throughout 2020 and 2021. The pace of absorption—particularly in new developments—will be a primary indicator of the overall health of the market. To this point, renter demand has closely tracked supply growth, with more than 80 percent of the Class A units that were delivered in 2023 successfully leased-up by year end. A somewhat slower pace of absorption patterns is most likely in 2024, but there should be healthy leasing activity across most new properties.

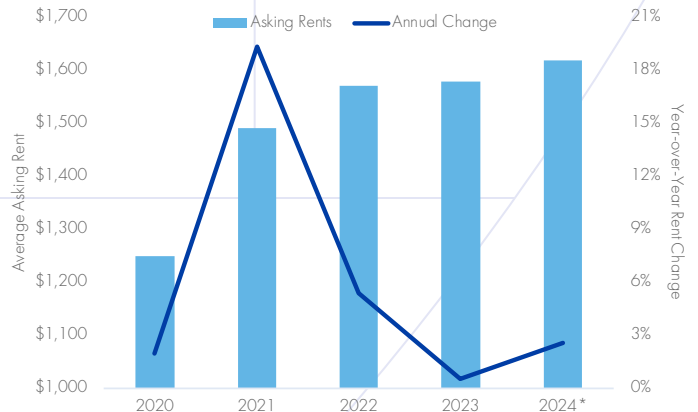
Transaction volume in the Charlotte multifamily market should pick up in the coming quarters, with annual sales in 2024 expected to outpace levels posted from the past year. Sales velocity may take a few months to gain momentum, repeating a pattern that took shape in 2023, but should accelerate as the year goes on, particularly if interest rates decline. One factor influencing transaction volumes to this point has been a limited supply of listed inventory. For the most part, properties that were available for acquisition in 2023 changed hands. In the coming year, there should be a greater number of properties available for sale, including newer assets that are a part of this latest wave of new development.

### EMPLOYMENT FORECAST



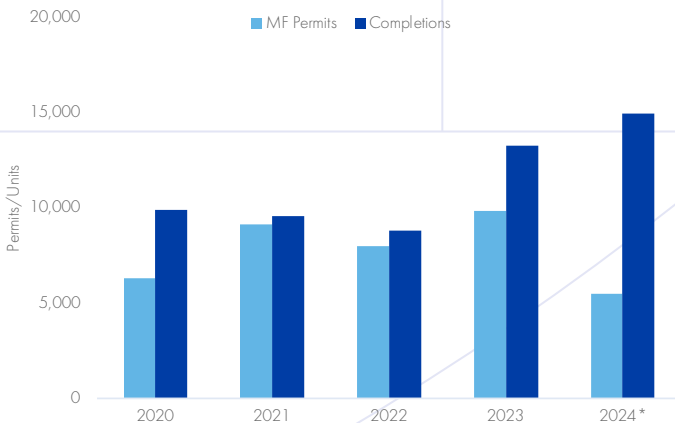
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



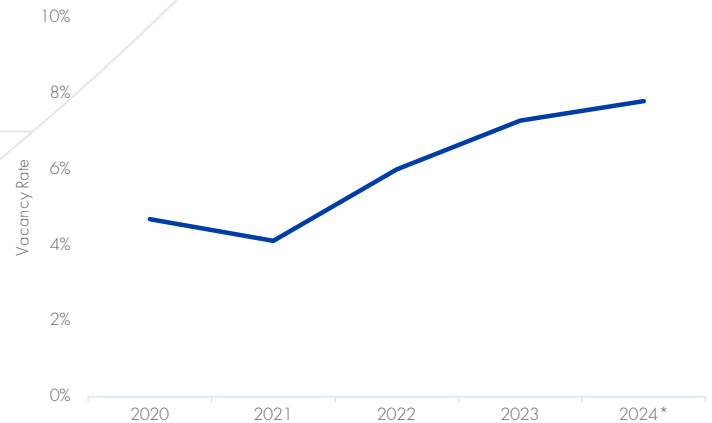
\* Year End Forecast  
Sources: Northmarq, CoStar

### CONSTRUCTION & PERMITTING FORECAST



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

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, CoStar



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