Northmarq

MARKET INSIGHTS

Rents push higher as economy continues to expand

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	30,184
UNITS DELIVERED	5,977

MARKET FUNDAMENTALS

VACANCY RATE	6.5%
YEAR-OVER-YEAR CHANGE	+170bps
ASKING RENTS	$1,620
YEAR-OVER-YEAR CHANGE	-0.1%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$232,200

Charlotte Multifamily
2Q 2023

HIGHLIGHTS

- Property performance metrics continued to strengthen in Charlotte during the second quarter with asking rents trending higher and the vacancy rate dipping. Developers are bringing projects online at an active pace, with nearly 16,100 units slated to deliver this year.
- Local vacancy dipped 10 basis points during the second quarter to 6.5 percent. This marked a modest trend reversal, as vacancy had increased in the prior three quarters. Year over year, the rate has increased by 170 basis points.
- Following a strong start to the year, asking rents in Charlotte rose an additional 1.1 percent during the second quarter, reaching $1,620 per month. Despite the recent advance, current asking rents are essentially unchanged from levels recorded one year ago.
- Multifamily investment activity has remained limited through the first half of this year. The median sales price year to date is $232,200 per unit, while cap rates are averaging between 4.75 percent to 5.25 percent.

CHARLOTTE MULTIFAMILY MARKET OVERVIEW

Property fundamentals in Charlotte continued to improve during the second quarter, as vacancy inched lower and apartment rents rose, even as construction activity picked up. The Charlotte area's rapid pace of economic growth continues to spur development, and the pace of apartment deliveries ramped up in the last three months with a concentration of activity throughout Central Charlotte and North Charlotte. This trend will continue, with projects totaling more than 30,000 units under construction as of midyear. While the inventory of rental units is on the rise, demand for apartments is being fueled by continued expansion in the local labor market. Employers are forecast to add approximately 40,000 jobs in the region in 2023, nearly identical to the gains recorded last year. This steady pace of growth is sustaining local property fundamentals and supporting market sentiment.

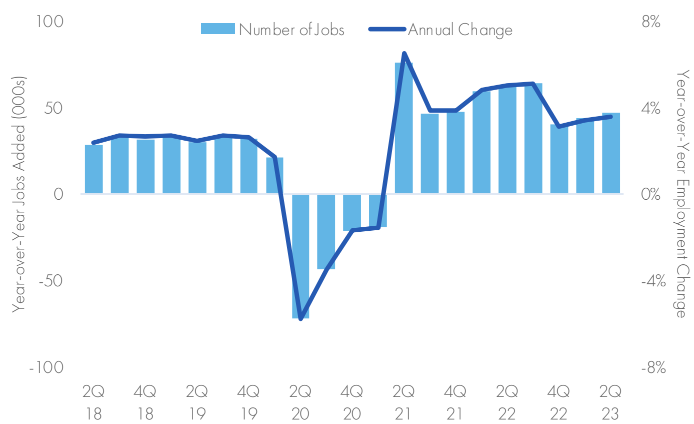
Investment activity levels in the Charlotte multifamily market have gotten off to a slow start in the first half of 2023, but the low volume masks some of the underlying strength in the region. Vacancies are only about 100 basis points higher than Charlotte's long-term average, rents are on the rise, and net absorption has accelerated in each of the first two quarters of the year. These conditions will ultimately fuel investment activity, but first the market will need to adjust to an environment of higher borrowing costs and an expectations gap between buyers and sellers. The limited transaction mix during the second quarter primarily consisted of larger Class A and Class B properties that were constructed in recent years. Cap rates have ticked higher to this point in the year with most properties selling with cap rates between 4.75 percent to 5.25 percent.

EMPLOYMENT

- Area employers continue to add jobs at a healthy pace with the addition of 14,000 workers during the second quarter. Year over year, the local labor market grew by 46,800 positions, a 3.6 percent increase.
- Charlotte's healthcare and social assistance sector is one of the fastest-growing industries. This sector expanded 6.2 percent during the past 12 months and added 7,100 jobs. With the local population continuing to swell, there should be continued growth in the heathcare sector.
- Power tool maker, Bosch, recently announced plans to expand its operations in the Charlotte region. The company invested $130 million to build a 325,000-square-foot industrial facility in Lincolnton. The new site will be dedicated to manufacturing, logistics, and warehouse operations and is expected to create more than 400 jobs when it delivers in 2025.
- **FORECAST:** Employers are expected to continue to grow payrolls at a fairly steady pace throughout the remainder of this year. Approximately 40,000 net new jobs are forecast to be added in 2023, nearly identical to the pace of gains recorded in the prior year. The growth rate for the full year is expected to total 3 percent.

Year over year, the local labor market grew by 46,800 positions.

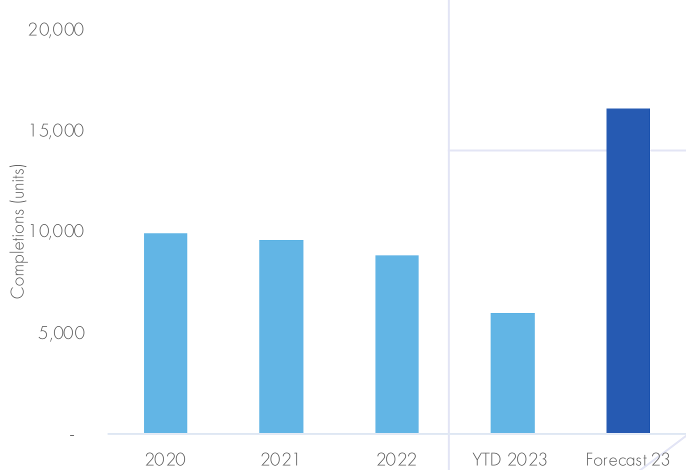
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers in have completed nearly 6,000 multifamily units.

DEVELOPMENT TRENDS



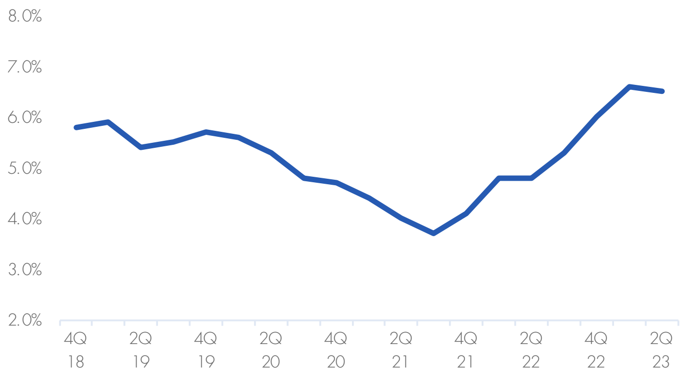
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of apartment deliveries picked up in recent months with projects totaling roughly 3,570 units completed in the second quarter. Year to date, developers in Charlotte have completed nearly 6,000 multifamily units.
- The development pipeline continues to expand as projects totaling 30,184 units are currently under construction, up more than 45 percent from one year ago. More than half of the units that are under construction are located in Central Charlotte including a concentration of activity in the LoSo, South End, and NoDa submarkets.
- Developers pulled permits for more than 3,900 multifamily units during the second quarter, a 50 percent increase from the previous period. Permitting activity is expected to cool slightly in the second half of the year.
- **FORECAST:** Apartment completions in Charlotte are projected to reach a cyclical high in 2023, as developers are on track to complete nearly 16,000 units. In recent years, annual completions have averaged approximately 9,500 units.

Vacancy dipped 10 basis points in the last three months.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

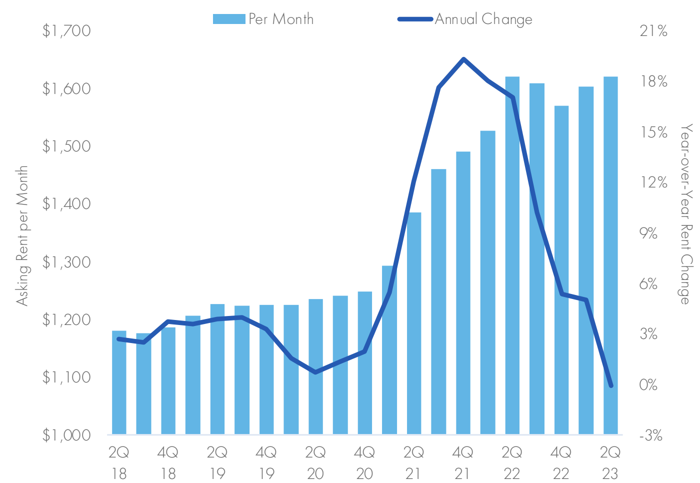
- After rising for three consecutive periods, vacancy trends changed directions in the second quarter, improving slightly. Vacancy in Charlotte dipped 10 basis points in the last three months to 6.5 percent. Year over year, the rate has risen by 170 basis points.
- The tightest vacancy conditions are being recorded in the South End submarket where the rate increased 90 basis points in the past year to 5 percent. Vacancy is generally within a fairly tight range across most parts of the market, with rates between 5.5 percent and 6.9 percent in more nearly three-quarters of the submarkets across the Charlotte region.
- While the vacancy rate trended higher across all asset classes in the last 12 months, vacancy conditions remain tightest in Class C properties. Vacancy in Class C units rose 140 basis points during the past year to 6 percent.
- **FORECAST:** With construction activity gaining momentum, area vacancy is expected to inch higher in the second half of the year. The vacancy rate in Charlotte is forecast to finish 2023 at 6.8 percent, 80 basis points higher than at the end of 2022.

RENTS

- Rents in Charlotte rose at a healthy rate to this point in the year, after ticking lower in the second half of 2022. Following a gain of more than 2 percent at the start of the year, asking rents rose an additional 1.1 percent during the second quarter, reaching $1,620 per month.
- Despite strong rent growth year to date, current asking rents are essentially unchanged from one year ago. Rents dropped in the second half of 2022, and recent gains have offset earlier declines.
- The Gaston County submarket is recording some of the fastest rent growth in Charlotte. Rents in this submarket rose 3.4 percent during the past 12 months to $1,342 per month. Continued growth in Gaston County should support additional rent growth.
- **FORECAST:** Rent growth in Charlotte is forecast to reach approximately 4.5 percent in 2023, with asking rents expected to end the year at $1,640 per month. The anticipated gain for 2023 is more rapid than the market's longer-term trend; growth has traditionally averaged about 3.5 percent per year.

Asking rents reached $1,620 per month.

RENT TRENDS



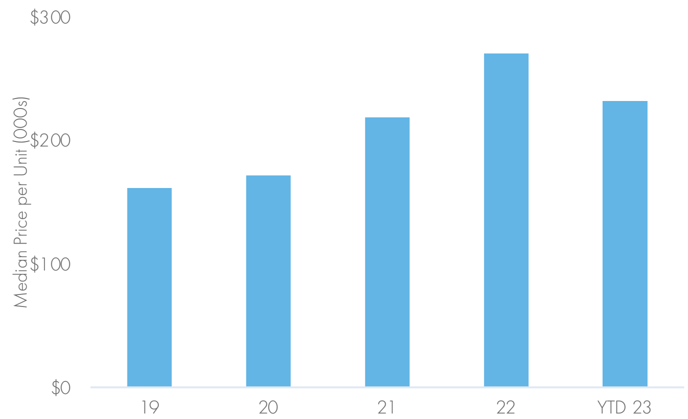
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Multifamily sales activity continued to slow during the second quarter as deal volume dropped 33 percent from the previous period. Through the first half of the year, transaction velocity is down nearly 70 percent from the same period in 2022.
- With only a handful of properties trading in Charlotte, pricing crept lower from last year. The median sales price thus far in 2023 is $232,200 per unit, down 14 percent from the median price in 2022.
- In Class A properties that have sold thus far in 2023, the median price is nearly $300,000 per unit, compared to about $308,000 per unit in 2022. Since the beginning of last year, Class A properties have accounted for approximately 40 percent of multifamily transactions in Charlotte.
- Cap rates have trended higher. Most properties are selling with cap rates between 4.75 percent to 5.25 percent, after averaging in the mid-3 percent range one year ago.

Properties are selling with cap rates between 4.75 to 5.25 percent.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

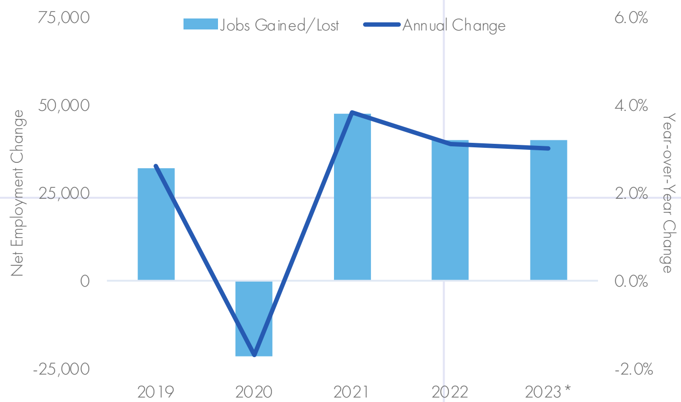
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Wellen	305 Prine Pl., Charlotte	325	$97,500,000	$300,000
The Indigo at Cross Creek	2001 Cramer Cir., Indian Land	303	$76,000,000	$250,825
Station at Poplar Tent	50 Poplar Station Cir NW., Concord	312	$74,700,000	$239,423
Apartments at Brayden	1027 Aubrey Ln., Fort Mill	332	$70,000,000	$210,843

LOOKING AHEAD

The remainder of this year will likely be an active period in the Charlotte multifamily market. After nearly 6,000 units came online in the first half, developers are on pace to deliver projects totaling an additional 10,000 units in the coming quarters. Construction is widespread throughout the fast-growing region, with scheduled deliveries concentrated in Central Charlotte and North Charlotte. With construction activity on the rise, vacancy is expected to tick higher at a modest pace, despite continued growth across the local economy. The local vacancy rate is projected to finish the year in the high-6 percent range, about 100 basis points higher than the average level recorded during the past decade. Even with vacancy likely to inch higher, renter demand should remain strong enough for operators to achieve continued rent growth in the second half.

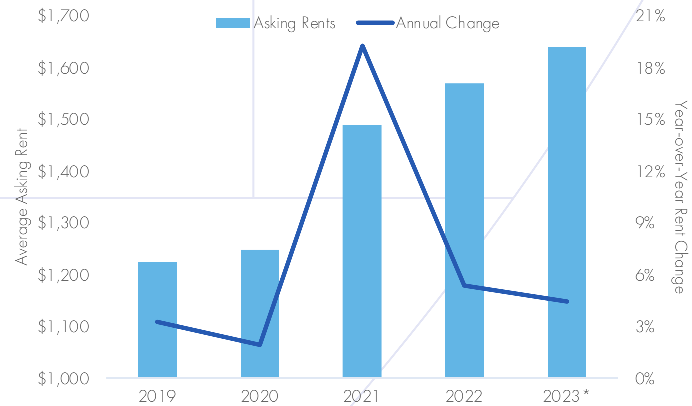
Investment activity for Charlotte apartment properties will likely take another quarter or two before regaining momentum. A handful of properties have changed hands to this point in the year, including a continuation of trends from recent years where newer, Class A properties account for a significant share of total transaction activity. There will likely be increasing deal flow in the coming periods, with bid-ask spreads forecast to narrow, and borrowing costs expected to either level off or dip slightly. Typically, investors are attracted to Charlotte for its strong labor market and healthy property fundamentals, conditions that will ultimately fuel the resumption of transaction activity. With employers remaining in expansion mode, the influx of new inventory should lease-up, drawing investor attention to the region.

EMPLOYMENT FORECAST



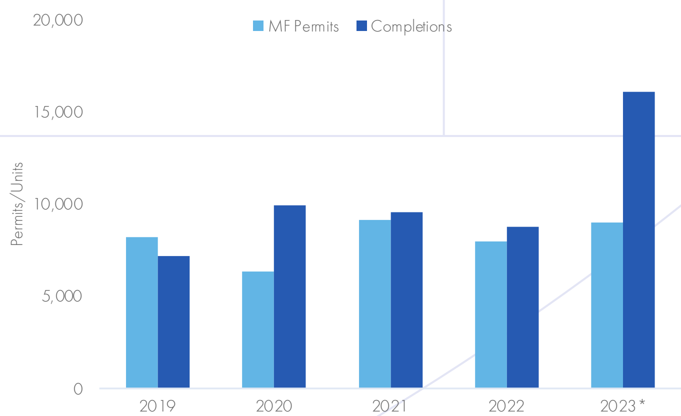
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



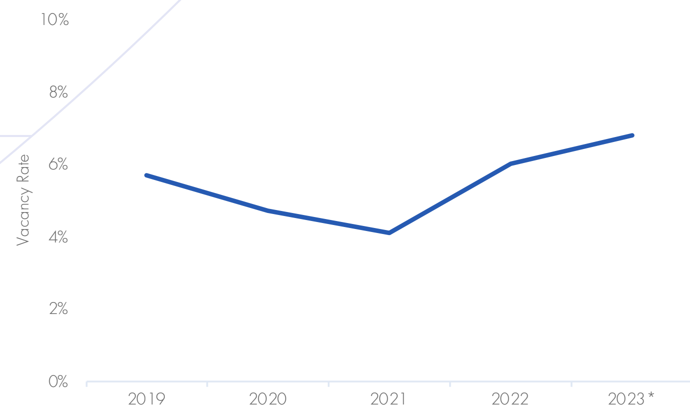
** Year End Forecast*
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, CoStar

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FOR MORE INFORMATION,
PLEASE CONTACT:

ANDREA HOWARD
Regional Managing Director–Investment Sales
704.595.4280
ahoward@northmarq.com

ALLAN LYNCH
Managing Director–Investment Sales
704.595.4277
alynch@northmarq.com

JEFF GLENN
Managing Director–Investment Sales
919.322.4769
jglenn@northmarq.com

JOHN CURRIN
Senior Vice President–Investment Sales
704.595.4276
jcurrin@northmarq.com

CAYLOR MARK
Senior Vice President–Investment Sales
704.595.4278
cmark@northmarq.com

FARON THOMPSON
Regional Managing Director–Debt & Equity
404.237.2456
fthompson@northmarq.com

DAVID VINSON
Managing Director–Debt & Equity
919.781.1811
dvinson@northmarq.com

GRANT HARRIS
Vice President–Debt & Equity
704.935.7029
gharris@northmarq.com

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