

# Charlotte Multifamily

## Rents Rise, Vacancy Drops to Start 2021

### Highlights

- > Property fundamentals in the Charlotte multifamily market posted healthy improvement during the first quarter. A modest decline in the pace of new construction allowed vacancies to tighten and rents to surge to start the year. Further improvement is likely as economic growth accelerates in the coming quarters.
- > Vacancy in Charlotte fell 50 basis points in the first quarter, retreating to 8 percent. The rate has inched up 10 basis points year over year.
- > Rent growth accelerated to start 2021. Asking rents rose 3.5 percent during the first quarter, reaching \$1,293 per month. Rents are up 5.5 percent from one year ago.
- > Multifamily developers have remained active in Charlotte in recent years. The pace of deliveries slowed in the first quarter, but there are still nearly 12,000 units currently under construction.
- > Sales of apartment properties in the first quarter were ahead of the pace established at the beginning of last year. The median price during the first quarter was \$148,100 per unit, while cap rates averaged 5.1 percent.

### Charlotte Multifamily Market Overview

The Charlotte multifamily market strengthened during the first quarter, with vacancy tightening and rents posting strong gains. The market has been in growth mode for the past several years, with renter demand being fueled by a thriving local labor market prior to the economic disruption brought about by the coronavirus. Growth has already begun to resume, and multifamily developers have been actively delivering new projects to the market to meet demand. The pace of completions slowed during the first quarter, allowing vacancy to tighten, but elevated apartment construction is forecast to be present for the next few quarters.

Q1 Snapshot	Charlotte Market
<b>Market Fundamentals</b>	
Vacancy .....	<b>8.0%</b>
- Year Over Year Change .....	<b>+10 bps</b>
Asking Rent .....	<b>\$1,293</b>
- Year Over Year Change .....	<b>+5.5%</b>
<b>Transaction Activity</b>	
Median Sales Price Per Unit (YTD) .....	<b>\$148,100</b>
Cap Rates (Avg YTD) .....	<b>5.1%</b>
<b>Construction Activity</b>	
Units Under Construction .....	<b>11,990</b>
Units Delivered YTD .....	<b>1,575</b>

Following a surge of transactions at the end of 2020, investment activity in Charlotte cooled during the first quarter, but more properties sold than during the same period in 2020. A mix of properties sold during the first quarter, including a handful of projects that were delivered since 2019, as well as some older Class B and Class C properties. In the newer properties, prices ranged from \$250,000 per unit to \$350,000 per unit, although the median price for sales of all properties was slightly below \$150,000 per unit. Cap rates averaged 5.1 percent during the first quarter, while cap rates in Class A properties typically averaged 4.75 percent.

## Employment

- > Year over year through the first quarter, total employment in Charlotte is down 2.7 percent. The market has added back workers since the COVID-19 shutdown during the middle of last year. Employment growth in Charlotte got off to a steady start in 2021; during the first quarter, more than 10,000 jobs were added locally.
- > Charlotte's large financial services sector continued to expand even as several industries contracted. Year over year, the sector has added 2,200 workers, a 2 percent expansion.
- > At the end of the first quarter, fintech company Robinhood announced plans to establish an office in Charlotte. The move is expected to result in an additional 400 jobs with an average wage topping \$70,000 per year.
- > **Forecast:** Employers are forecast to expand payrolls by 3.1 percent in 2021, adding approximately 37,000 net new jobs.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Charlotte's large financial services sector continued to expand*

## Vacancy

- > Vacancy tightened during the first quarter, dropping 50 basis points to 8 percent. The rate had pushed higher in the second half of last year as the pace of deliveries accelerated.
- > Year over year though the first quarter, the local vacancy rate has ticked up 10 basis points. Vacancy peaked a few years ago but had retreated to 7.4 percent in the third quarter of 2019.
- > Vacancy rates in Class B and Class C units are lower than the market average and have been mostly steady in recent quarters. The Class B vacancy rate ended the first quarter at 7.7 percent, while vacancy in Class C properties is just 4.6 percent.
- > **Forecast:** Vacancy is forecast to end 2021 at 8 percent, down 50 basis points from the end of last year. New supply growth and net absorption are expected to be closely aligned in 2021.

## Vacancy Trends



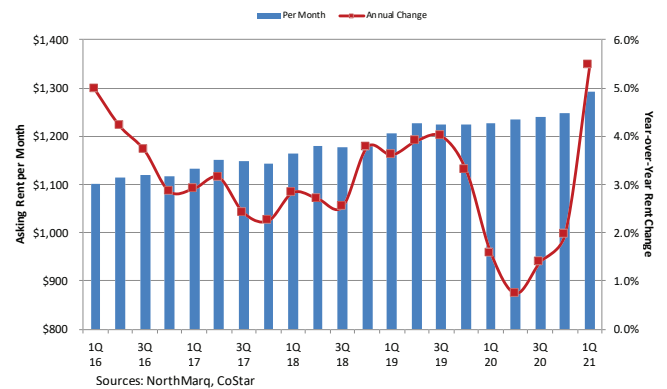
Sources: NorthMarq, CoStar

*Vacancy tightened during the first quarter, dropping 50 basis points to 8 percent*

## Rents

- > After leveling off throughout much of 2020, rents spiked during the first quarter. Asking rents rose 3.5 percent during the first quarter, outpacing the gain for all of 2020.
- > Year over year, asking rents have increased 5.5 percent, reaching \$1,293 per month. The pace of rent growth is expected to accelerate as vacancy tightens and the economy regains momentum.
- > Average asking rents in Class A properties topped \$1,500 per month during the first quarter. Rents in Class A units ended the first quarter at \$1,510 per month, 4.3 percent higher than one year ago.
- > **Forecast:** The strong start to the year should fuel rent gains in 2021. Asking rents are forecast to rise approximately 5.2 percent this year, reaching \$1,314 per month.

## Rent Trends

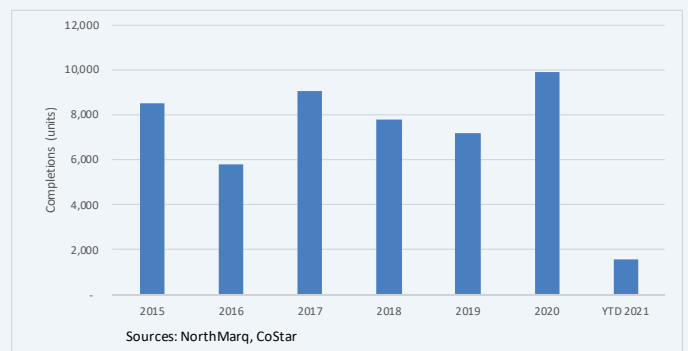


*Year over year, asking rents have increased 5.5 percent, reaching \$1,293 per month*

## Development and Permitting

- > Following a year when developers completed nearly 10,000 apartment units, the pace of deliveries slowed during the first quarter. Projects totaling 1,575 units came online in the first quarter, down nearly 20 percent from the same period in 2020.
- > The development pipeline includes projects totaling 11,990 units under construction. The number of units under construction peaked at more than 15,500 units last year and has thinned as properties have been delivered.
- > Developers pulled permits for approximately 1,800 multifamily units during the first quarter, down from nearly 2,500 permits in the fourth quarter. Permitting has been active for the past several years; multifamily permit issuance has averaged approximately 7,400 units per year since 2014.
- > **Forecast:** Developers are forecast to remain active in 2021. Projects totaling approximately 10,500 units are on pace to be delivered this year, up 5 percent from the 2020 total.

## Development Trends

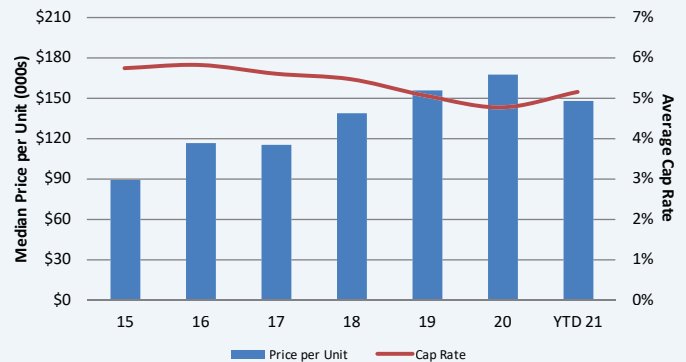


*Projects totaling 1,575 units came online in the first quarter, down nearly 20 percent from the same period in 2020*

## Multifamily Sales

- > Sales of apartment properties slowed from the end of last year to the first quarter of 2021. The number of sales in the first quarter of this year was ahead of the pace established at the beginning of 2020.
- > The median price during the first quarter was \$148,100 per unit, although there was a wide disparity in prices based on property class. The median price in sales of Class A units was nearly \$280,000 per unit. At the other end of the spectrum, older Class C properties traded at a median price of approximately \$92,000 per unit.
- > Cap rates averaged 5.1 percent during the first quarter, after dipping below 5 percent at the end of 2020. Cap rates in Class A properties were lower, generally between 4.5 percent and 5 percent.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*The median price during the first quarter was \$148,100 per unit*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

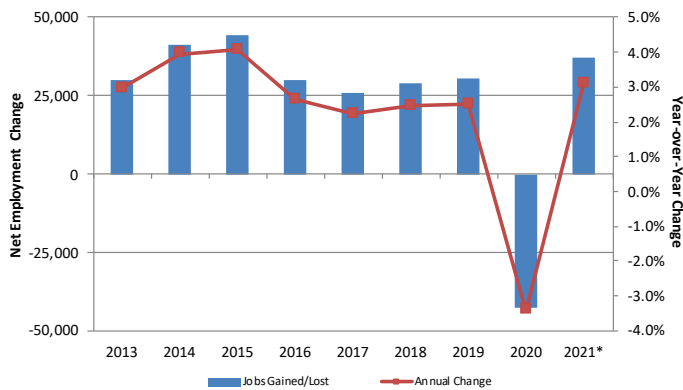
Property Name	Street Address	Units	Sales Price	Price/Unit
Broadstone Queen City	101 W Morehead St., Charlotte	260	\$90,000,000	\$346,154
Live @ NoDa	2121 N Brevard St., Charlotte	261	\$64,750,000	\$248,084
Preserve at Mountain Island Lake	10410 Cooks Way, Charlotte	240	\$44,300,000	\$184,583
Centro Railyard	1425 Winnifred St., Charlotte	91	\$30,200,000	\$331,868
The Landings	2248 Hudson Landinds Dr., Gastonia	156	\$16,000,000	\$102,564

## Looking Ahead

The Charlotte economy is forecast to continue to expand, fueling demand for multifamily rentals. Charlotte's employment base is expanding, supported by organic growth among existing companies as well as relocations from other markets. In the second half of last year, Centene Corp., one of the largest healthcare companies in the country, announced plans to establish an East Coast headquarters in Charlotte. The project is scheduled to come online in phases, with the first phase scheduled to be completed in the second half of next year. The company's moves are forecast to add 6,000 workers to the local economy from 2022 to 2024.

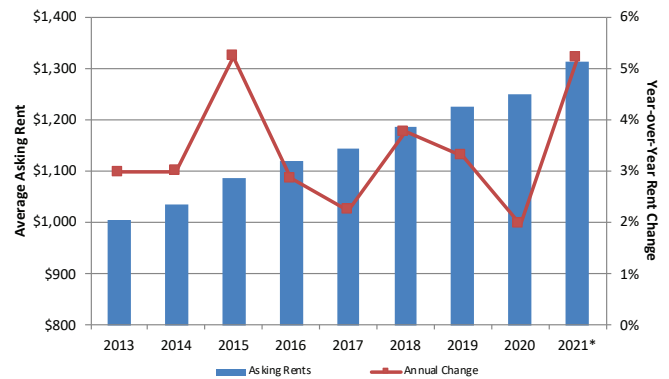
Investment activity in Charlotte is forecast to gain momentum in the coming quarters. Sales velocity in the market has been consistently strong in each of the past three years. More properties changed hands in 2020 than in the preceding year, despite the COVID-19 outbreak that added uncertainty to the market in the middle of the year. The region's short- and long-term growth trajectories will continue to fuel investment activity through the end of this year. The rise in interest rates that occurred during the first quarter may have had some impact on sales volume and cap rates, but as interest rates stabilize, transaction activity should resume close to the pace established in recent years.

### Employment Forecast



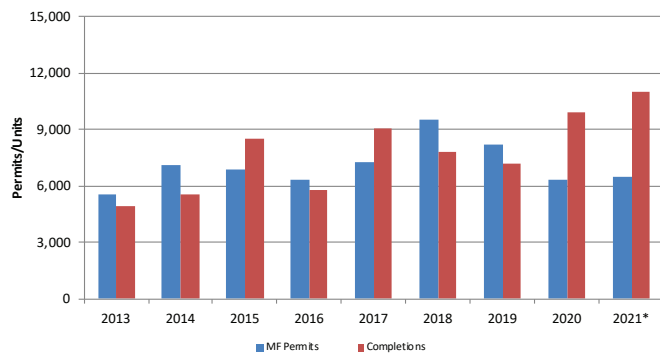
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



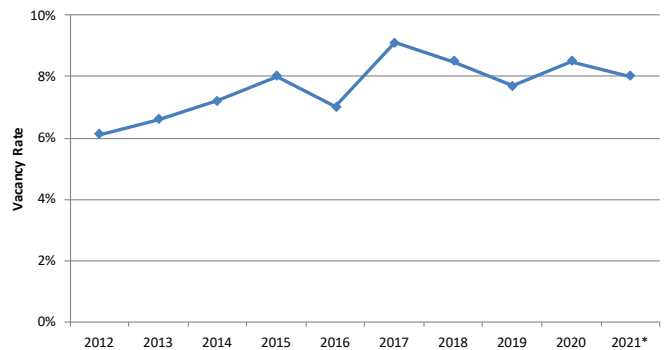
\* Year End Forecast  
Sources: NorthMarq, CoStar

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, CoStar

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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