

Charlotte Multifamily

Momentum Builds Heading into the Second Half

Highlights

- > An active leasing environment improved property performance in the Charlotte multifamily market during the first half of this year. Vacancies have tightened, and rents are on the rise. Demand is forecast to remain elevated as the local labor market continues to add workers.
- > Vacancy in local multifamily properties fell 40 basis points during the second quarter, reaching 4 percent. The rate is down 130 basis points year over year.
- > Driven by an accelerating pace of absorption, asking rents spiked 7 percent in the second quarter, reaching \$1,385 per month. In the past year, rents have advanced 12.1 percent.
- > New apartment properties are coming online, but the pace of supply growth is not keeping up with absorption. Deliveries totaled more than 3,700 units in the first half compared to more than 5,700 units of absorption.
- > Sales of apartment properties picked up in the second quarter, with velocity spiking more than 40 percent. The median price in sales year to date reached \$155,400 per unit, while cap rates have averaged 3.8 percent.

Charlotte Multifamily Market Overview

The Charlotte multifamily market posted strong operational performance in the second quarter, with rents rising at a rapid clip and vacancies dropping. The tightening of vacancy is fueled primarily by record absorption rates. More than 5,700 units were absorbed during the first half of 2021, with more than 3,000 units absorbed in the second quarter. Renter demand is being driven by a healthy employment market. Jobs are being added across industries, and the Charlotte area continues to attract businesses looking to expand. The pace of apartment completions during the first two quarters of 2021 slowed from the second half of last year, contributing to the improving vacancy trends.

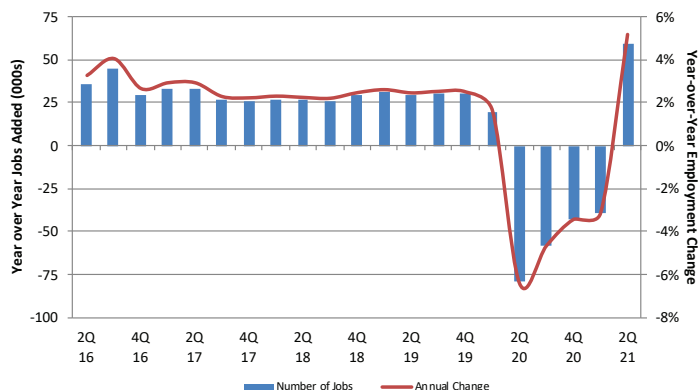
Q2 Snapshot	Charlotte Market
Market Fundamentals	
Vacancy	4.0%
- Year Over Year Change	-130 bps
Asking Rent	\$1,385
- Year Over Year Change	+12.1%
Transaction Activity	
Median Sales Price Per Unit (YTD)	\$155,400
Cap Rates (Avg YTD)	3.8%
Construction Activity	
Units Under Construction	10,782
Units Delivered YTD	3,740

With property fundamentals strengthening, investment activity gained momentum during the second quarter. While the bulk of the transactions occurred within the Charlotte city limits, activity picked up in the Rock Hill submarket at the end of the quarter. A broad mix of properties is changing hands, reflecting the widespread investor demand for multifamily assets in the region. This strong investor demand for area multifamily properties has caused cap rates to compress significantly; cap rates have averaged 3.8 percent in transactions since the beginning of this year.

Employment

- > Employers in Charlotte added 7,300 jobs during the second quarter, and additions through the first half of this year have reached approximately 11,500 positions. The local labor market has bounced back from COVID-19 lows; year over year, total employment is up more than 5 percent.
- > Charlotte’s large financial activities sector has proven its stability during the past year. The sector did not record any significant cuts last year and has expanded at a steady pace in recent quarters. Year over year through the second quarter, financial sector employment has expanded by 2 percent.
- > Credit Karma recently announced plans to expand its presence in the region and build an East Coast headquarters in Charlotte. The finance-technology company is set to add 600 new jobs in the coming quarters.
- > **Forecast:** As local employment in Charlotte continues to recover, the employment market is expected to grow roughly 2.5 percent in 2021, adding 30,000 jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, financial sector employment has expanded by 2 percent

Vacancy

- > Multifamily vacancy in Charlotte tightened during the second quarter, dropping 40 basis points to 4 percent. The rate has fallen 70 basis points in the first two quarters of 2021.
- > Year over year through the second quarter, multifamily vacancy has improved 130 basis points. The current figure matches the lowest vacancy rate in the past decade.
- > Class A properties recorded the steepest decline in vacancy during the second quarter, dropping 240 basis points to 4.3 percent.
- > **Forecast:** Vacancy in Charlotte is forecast to improve a bit throughout the remainder of the year, ending 2021 at 3.8 percent, 90 basis points lower than the year-end 2020 figure.

Vacancy Trends



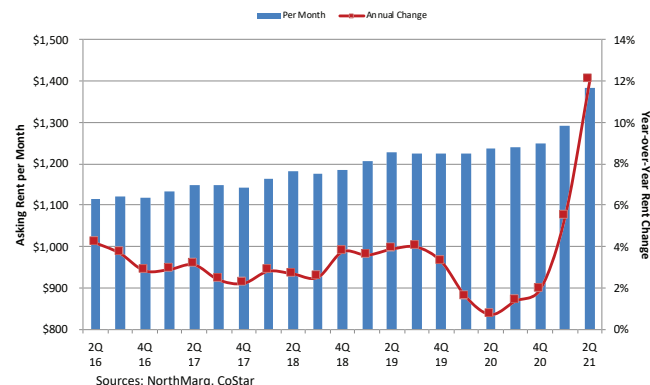
Sources: NorthMarq, CoStar

Vacancy tightened during the second quarter, dropping 40 basis points to 4 percent

Rents

- > Asking rents jumped 7 percent during the second quarter, reaching \$1,385 per month. Rents have posted healthy gains in each of the first two quarters of this year, after the pace of growth slowed throughout much of 2020.
- > The strong growth to this point in 2021 has pushed asking rents 12.1 percent higher than one year ago. Annual increases had been averaging approximately 3 percent prior to this year.
- > Asking rents in Class A properties are up 10.5 percent from one year ago, reaching \$1,622 per month at the end of the second quarter.
- > **Forecast:** With rents already up more than 10 percent in just the first half of the year, 2021 is on pace to record robust rent growth. Asking rents in Charlotte are expected to reach \$1,425 per month by the end of the year, 14 percent higher than one year earlier.

Rent Trends

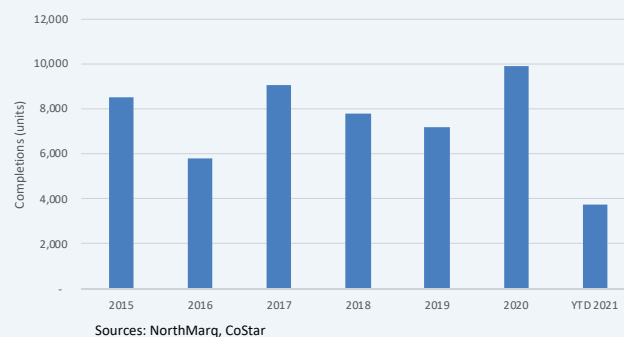


Asking rents jumped 7 percent during the second quarter, reaching \$1,385 per month

Development and Permitting

- > The pace of apartment deliveries has been fairly steady through the first half of this year, with developers delivering approximately 1,900 units in each quarter. Construction was more active in 2020, when nearly 10,000 units were delivered.
- > There are currently projects totaling approximately 10,800 units under construction throughout the metro area, down from a peak of more than 15,000 units one year ago.
- > Multifamily permitting slowed during the second quarter, with developers pulling approximately 1,200 permits, down from around 1,750 last quarter.
- > **Forecast:** Multifamily construction is expected to remain active during the rest of the year, as roughly 11,000 units are forecast to be delivered by the end of 2021.

Development Trends

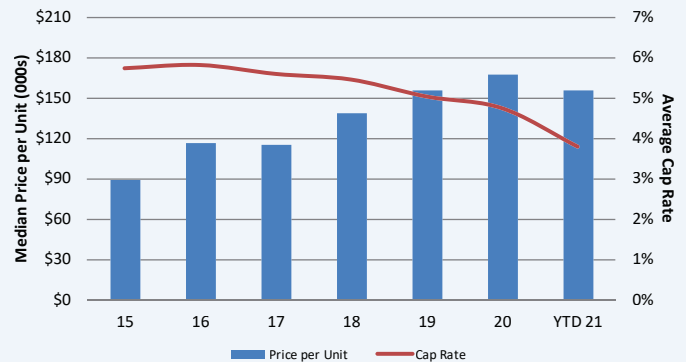


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Multifamily Sales

- > Sales activity has gained momentum in recent months. The number of properties that sold in the second quarter was up more than 40 percent from the start of the year.
- > Prices rose in the second quarter, but the median price to this point in 2021 is a bit lower than last year. Year to date, the median price is approximately \$155,400 per unit. The median price in sales that closed during the second quarter was nearly \$165,000 per unit.
- > Cap rates have compressed in 2021, pushed lower by improving property fundamentals, a brightening economic outlook, and strengthening investor demand. Cap rates have averaged 3.8 percent to this point in 2021.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Cap rates have averaged 3.8 percent to this point in 2021

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

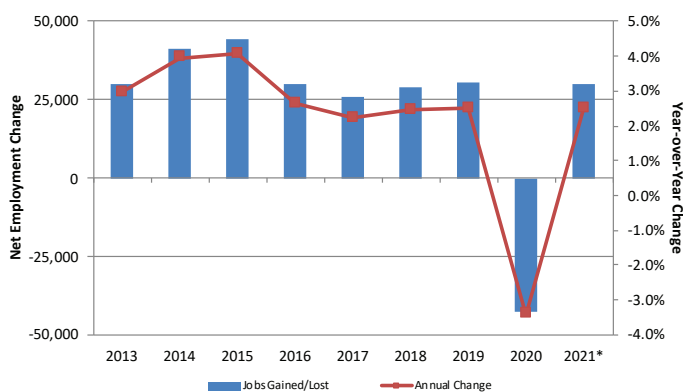
Property Name	Street Address	Units	Sales Price	Price/Unit
Broadstone Lemmond Farm	12009 Lemmond Farm Dr., Charlotte	336	\$82,000,000	\$244,048
University Center	1421 Baseline Dr., Charlotte	372	\$78,500,000	\$211,022
Bell Lake Norman	106 Plantation Pointe Loop, Mooresville	260	\$51,000,000	\$196,154

Looking Ahead

Demand for apartment properties outpaced supply growth in the first half of the year. While the pace of deliveries is forecast to accelerate in the second half, absorption should keep pace, and there should be additional vacancy tightening. Longer term, the outlook brightens, as the construction pipeline has thinned in recent quarters, which should result in a decline in deliveries of new units beginning in 2022. Rents are expected to rise in the second half of this year, but the pace of gain should cool following a sharp increase in the second quarter.

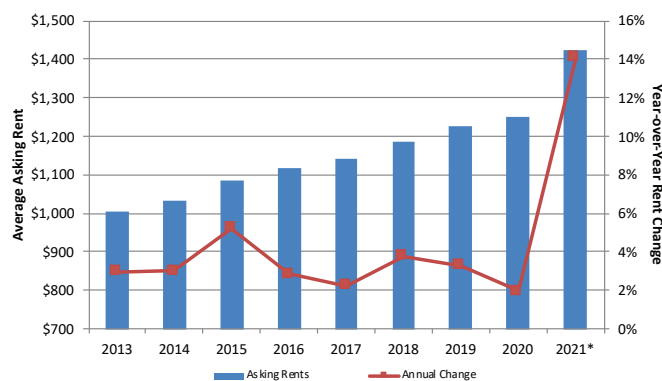
The favorable conditions that sparked sales velocity in the first half of 2021 are forecast to remain in place in the coming quarters, supporting further transaction activity. Investor demand for Class A and Class B properties has largely held steady in recent years, but activity appears to be picking up among older, Class C units, reflecting the overall health of the market. Cap rates have compressed since the beginning of the year, and if lending costs remain low and competition for properties stays elevated, some additional compression could continue.

Employment Forecast



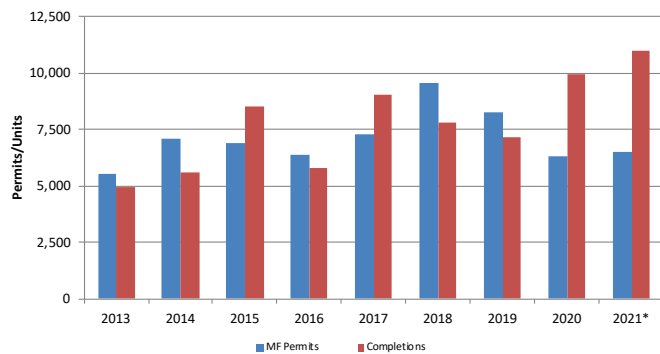
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



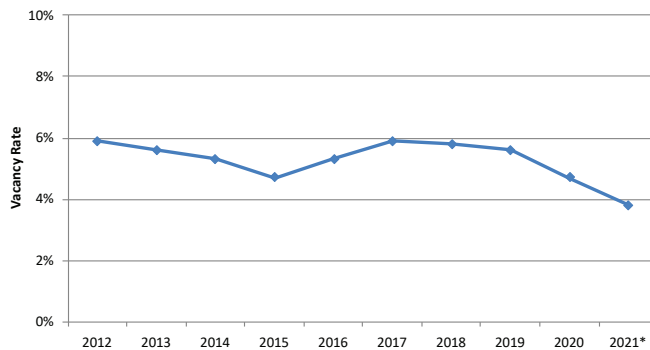
* Year End Forecast
Sources: NorthMarq, CoStar

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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