

Market Insights

Charlotte Multifamily 1Q 2022



Construction Activity



16,607

Units under construction

1,516

Units delivered (YTD)

Market Fundamentals



4.8%

Vacancy

+40bps

Year over year change

\$1,526

Asking Rent

+18.0%

Year over year change

Transaction Activity



\$260,500

Median sales price per unit (YTD)

Sales Activity Ahead of the 2021 Pace

Highlights

- Rents continued to push higher at a rapid pace in the Charlotte multifamily market in the first quarter, with additional gains likely for the remainder of this year. Investor demand remained elevated to start the year, but vacancies did creep higher for the second consecutive quarter.
- After sharp declines for the past few years, area vacancy has begun to trend higher. The rate rose 70 basis points in the first quarter, reaching 4.8 percent; year over year, vacancy has ticked up 40 basis points.
- Asking rents rose 2.4 percent in the first quarter, reaching \$1,526 per month. During the past 12 months, rents in Charlotte have spiked 18 percent.
- The momentum in the investment market continued to build after a very active 2021. Sales of multifamily properties in the first quarter were ahead of the pace set at the beginning of last year. Values continued to push higher with the median sales price reaching \$260,500 per unit in the first quarter.

Charlotte Multifamily Market Overview

Nearly all of the traditional metrics for evaluating property performance were positive in the Charlotte multifamily market in the first quarter. Vacancies pushed higher at the start of the year, but rents continued to rise. After recording the largest annual growth on record in 2021, the pace of rent growth was expected to moderate this year. During the first quarter, rent growth topped 2 percent—slower than levels achieved in 2021—but still putting the market on pace to record asking rent gains of approximately 7.5 percent in 2022. While the pace of completions slowed at the start of this year, deliveries are expected to accelerate throughout the year as the development pipeline remains active.

Investors have been stepping up activity levels in the Charlotte multifamily market for the past several years, a trend that continued in the first quarter of 2022. Sales velocity spiked more than 50 percent from the first three months of last year. While investor demand remained elevated across nearly every segment of the market, the greatest spikes in activity are being recorded in large transactions. Several transactions closed at more than \$100 million at the end of last year, and there was additional activity above this threshold to start 2022. Some of the increase in large transactions is attributable to investors acquiring properties built in the past few years. Per-unit prices have also continued to rise in response to rapid rent growth and the likelihood of additional increases.

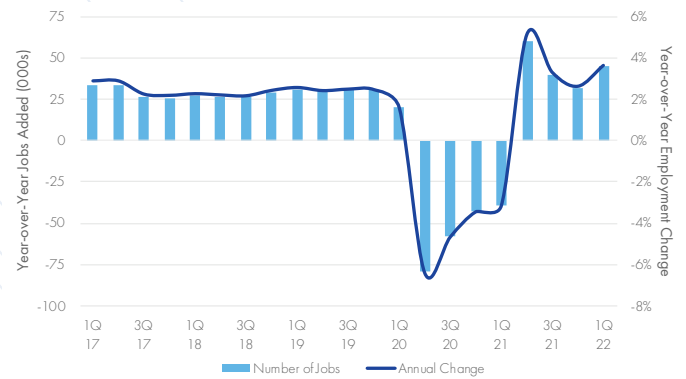
Employment

- The Charlotte labor market started the year off strong with the addition of more than 14,000 workers in the first quarter. Employment levels are up nearly 3.7 percent with 45,100 new jobs added in the past 12 months.
- White-collar, high-wage employment is fueling the local labor market. The professional and business services sector accounted for nearly 25 percent of all new jobs in the market, adding 11,000 workers in the past 12 months.
- During the first quarter, Eli Lilly announced plans to invest \$1 billion in a new pharmaceutical manufacturing facility in Concord. The move is expected to result in an additional 600 jobs in Cabarrus County.
- **Forecast:** The year ahead is expected to be a strong one in the Charlotte economy. Employers are forecast to add workers at a rapid pace across a wide range of industries. For the full year, employers are expected to add approximately 40,000 workers, expanding payrolls by 3.2 percent.



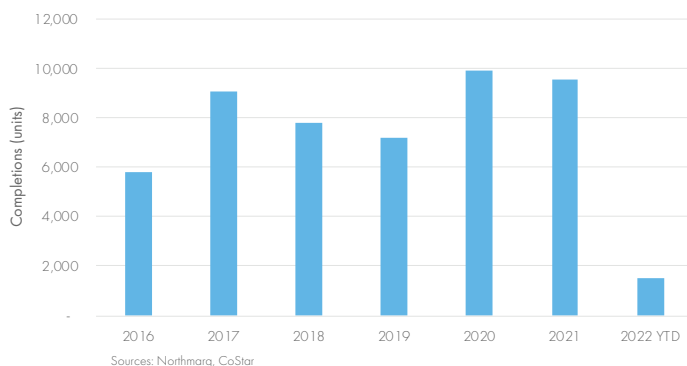
Employment levels are up 3.7 percent in the past 12 months.

Employment Overview



Projects totaling more than 16,600 units are under construction.

Development Trends



Development and Permitting

- The pace of apartment development slowed at the beginning of 2022. Developers completed projects totaling 1,526 units in the first quarter, down 53 percent from one year ago.
- While deliveries slowed at the start of this year, developers have ramped up construction activity in Charlotte. There are currently projects totaling more than 16,600 units under construction in the region, an increase of 17 percent compared to levels from one year ago. The projects under construction represent 9 percent of the Charlotte market's existing apartment inventory.
- Permitting activity has accelerated in the first three months of 2022 with developers pulling permits for nearly 3,600 multifamily units, up from 2,300 permits issued in the fourth quarter. One year ago, permitting activity was about half of the most recent figure.
- **Forecast:** Apartment construction is expected to remain active through the rest of the year as approximately 10,300 units are slated to be delivered by the end of 2022, an increase of 8 percent from last year's levels.

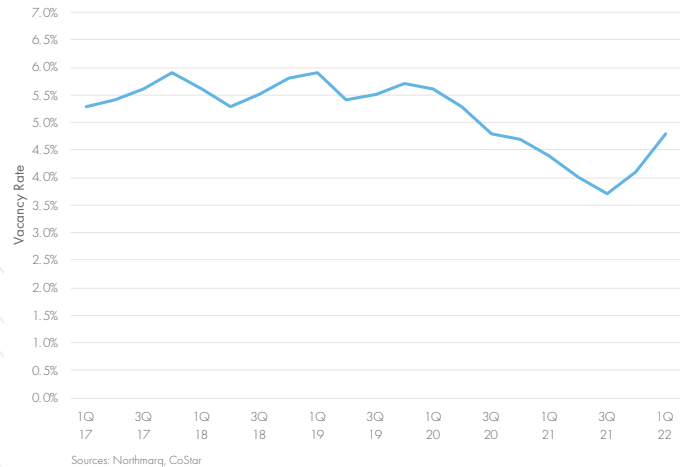
Vacancy

- Market vacancies dropped 200 basis points from the end of 2019 to the third quarter of last year but have trended higher in the past two quarters. During the first quarter of this year, the rate rose 70 basis points to 4.8 percent. The market's average vacancy rate since 2017 is 5.2 percent.
- Year over year, area vacancy has inched up 40 basis points. In Class A properties, the vacancy rate reached 5.3 percent in the first quarter, after tightening to just 4.4 percent at the end of 2021.
- After renter demand reached an all-time high in 2021, the pace of absorption has since slowed to a more modest level in 2022. Net absorption totaled approximately 890 units to start 2022, down from over 2,700 units absorbed during the first quarter of last year.
- Forecast:** The pace of renter demand for units and new supply growth should be closely aligned through the remainder of the year, and the vacancy rate should be mostly stable in the coming quarters. Vacancy in Charlotte should end 2022 near current levels at 4.8 percent.



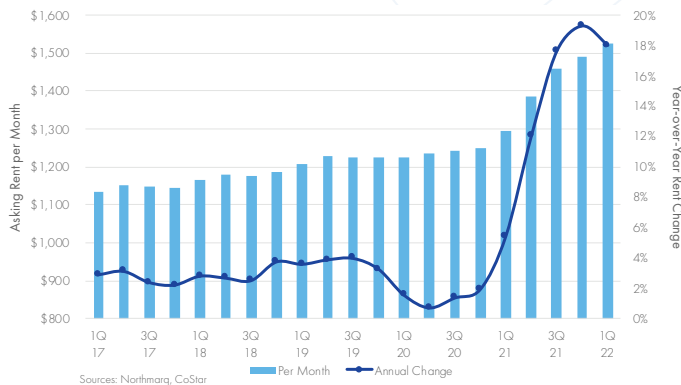
Vacancy in Charlotte should end 2022 near current levels at 4.8 percent.

Vacancy Trends



Asking rents have advanced 18 percent in the past year.

Rent Trends



Rents

- Rents continued on an upward trajectory in the first quarter of 2022. Asking rents in Charlotte grew by 2.4 percent from the end of 2021, rising to \$1,526 per month.
- After rapid rent growth in recent quarters, local asking rents have advanced 18 percent in the past year. The pace of rent growth has not matched the levels recorded last year, but gains will outpace historical levels.
- Class A rents increased by 3.2 percent in the first quarter, reaching \$1,774 per month. Asking rents in Class A properties have increased 16.3 percent year over year.
- Forecast:** Rents should continue to advance at a more modest pace throughout the rest of this year. Asking rents are forecast to rise 7.5 percent in 2022, topping \$1,600 per month.

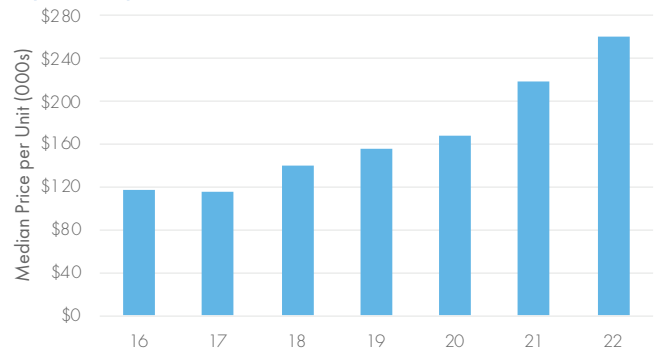
Multifamily Sales

- After peaking late last year, sales velocity to this point in 2022 is ahead of the 2021 pace. Sales velocity spiked 55 percent from levels recorded during the same period at the beginning of last year.
- The median price during the first quarter was \$260,500 per unit, up 20 percent from the median price in 2021. A handful of new construction projects have sold through the first few months of the year; transactions involving 2020-vintage units have sold for between \$300,000 per unit to \$400,000 per unit.
- Despite a surge in pricing, cap rates have remained stable to start the year. Cap rates have averaged 3.5 percent to this point, similar to the average at the end of last year. With borrowing costs on the rise, cap rates at the higher end of the range have begun to show signs of trending upward.



The median sales price in the first quarter reached **\$260,500 per unit.**

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

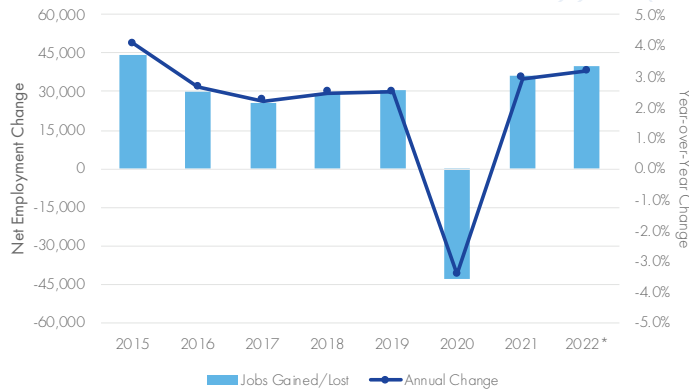
Property Name	Street Address	Units	Sales Price	Price/Unit
The Ospery at Lake Norman	134 Village Club Dr., Mooresville	288	\$116,000,000	\$402,778
Windsor Addison Park	6225 Hackberry Creek Trl., Charlotte	426	\$113,500,000	\$266,432
Broadstone Ayrslley	2200 Silver Crescent Dr., Charlotte	320	\$112,000,000	\$350,000
The Collins	5500 Shopton Rd. W, Charlotte	350	\$108,150,000	\$309,000
Arbors at Fort Mill	920 Stockbridge Dr., Fort Mill	340	\$74,800,000	\$220,000
The Elliott	4600 Mba Ct., Concord	240	\$56,850,000	\$236,875

Looking Ahead

Following a year of unprecedented growth, the Charlotte multifamily market is forecast to record continued strength throughout the remainder of this year. The local economy is expected to be one of the driving forces behind property performance, with businesses expanding throughout the market and supporting demand for rental housing. As Charlotte becomes increasingly identified as a high-growth economy, the local multifamily market is transitioning into one that is likely to record faster paces of rent growth than in the past decade. Development of new projects will be elevated and should closely track demand for units, keeping area vacancy near current levels.

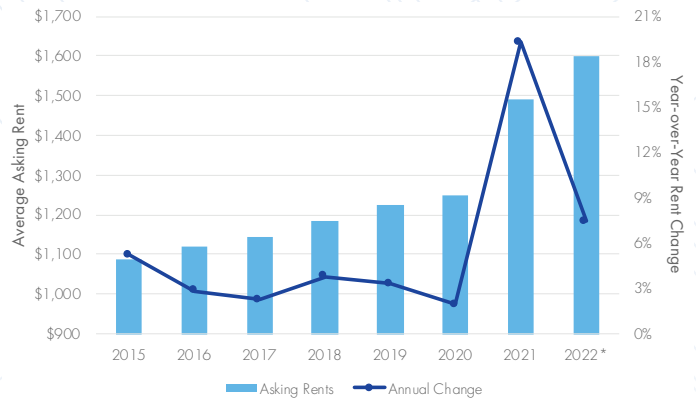
Investment capital is expected to continue to flow into Charlotte’s multifamily properties through the remainder of 2022. Rising interest rates could result in some uneven activity patterns as buyers and sellers adjust pricing and cap rate expectations as borrowing costs fluctuate. The rising interest rates will likely impact all major markets this year, although markets with the most rapid rent growth should be less affected. Charlotte is one of the markets where the outlook calls for particularly strong rent growth, offsetting some of the impact of rising borrowing costs. During the first quarter, there was an increase in larger transactions, often involving properties that were completed in the past few years. With the pace of deliveries accelerating, similar transactions appear likely in the coming quarters.

Employment Forecast



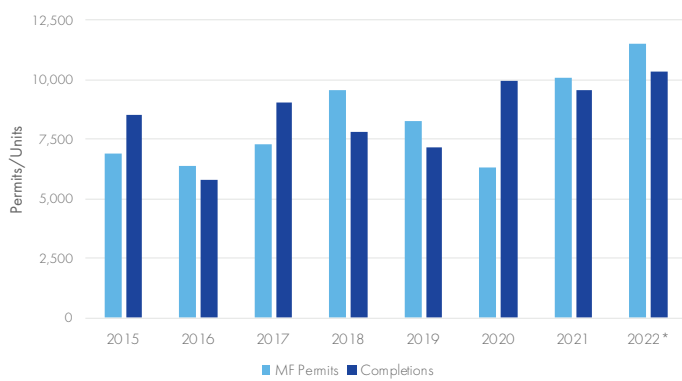
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



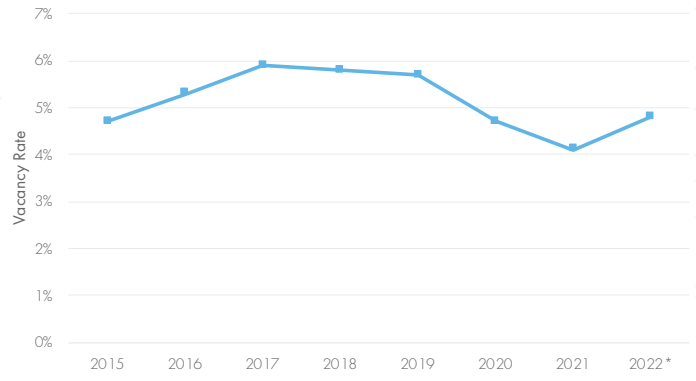
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.