

Cap rates trended higher to close 2022

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **25,046**

UNITS DELIVERED **8,802**

MARKET FUNDAMENTALS



VACANCY RATE **6.0%**

YEAR-OVER-YEAR CHANGE **+190bps**

ASKING RENTS **\$1,570**

YEAR-OVER-YEAR CHANGE **+5.4%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$272,000**

HIGHLIGHTS

- Property fundamentals cooled in Charlotte during the fourth quarter, offsetting some of the gains from the first half of the year. Vacancy climbed and asking rents trended lower.
- Area vacancy rose 70 basis points in the fourth quarter, reaching 6 percent. The rate was up 190 basis points in 2022, following four straight years of improvements.
- Asking rents dropped 2.4 percent in the last three months to \$1,570 per month. Despite the recent decline, apartment rents increased by 5.4 percent for the full year.
- Multifamily investors continued to transact in Charlotte during the fourth quarter as deal volume tracked levels from the third quarter. The median sales price through the end of 2022 reached \$272,000 per unit, up 18 percent from 2021 levels.

CHARLOTTE MULTIFAMILY MARKET OVERVIEW

The Charlotte multifamily market recorded mixed performance in 2022, with a very strong first half of the year followed by cooling conditions in the second half. Operating conditions during the fourth quarter were dampened by a slowing pace of absorption, even as developers continued to complete new projects. Though new unit deliveries were up significantly in 2022, the Charlotte market has maintained a longer-term state of equilibrium since 2018. Demand for new projects is being met by rapid in-migration and strong job growth. While conditions have changed in recent months, this follows an extended period of heightened demand growth. When viewed over the longer term, the Charlotte apartment market is posting similar absorption and vacancy levels that were common from 2014 to 2017.

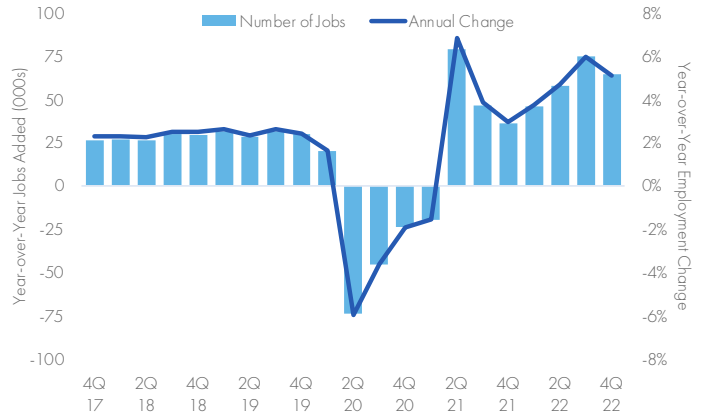
Despite a moderate downturn in local property fundamentals in recent months, multifamily investors continued to trade properties during the fourth quarter. The investment market held steady at the end of the year, as the number of transactions during the last three months closely tracked the previous period. While the number of property sales declined, total transaction dollar volume in 2022 remained consistent with levels from the prior year. The median sales price reached \$272,000 per unit, up 18 percent from the median price in 2021. Cap rates averaged approximately 4 percent in the final few months of 2022 and will likely approach the mid-4 percent range by midyear 2023.

EMPLOYMENT

- The pace of employment growth in Charlotte slowed significantly during the fourth quarter, as approximately 3,600 jobs were created in the last three months. The softer conditions in the final few months were in contrast to a very strong period of growth; in 2022, total employment grew by 5.1 percent with the addition of 64,500 positions.
- The health care and social assistance sector outperformed the overall labor market during the past 12 months. Year over year, this industry added 8,400 jobs and grew by 7.8 percent.
- Albemarle, a global specialty chemicals company headquartered in Charlotte, recently announced plans to develop a state-of-the-art advanced materials research and development facility in the University City neighborhood. The company will invest \$180 million to build the technology park, ultimately creating more than 200 high-paying jobs.
- **FORECAST:** Following rapid gains in the local economy during most of 2022, employment growth is expected to be more modest in the next year. Area employers are projected to add 15,000 jobs in 2023, an annual increase of 1.1 percent.

In 2022, total employment grew by 5.1 percent.

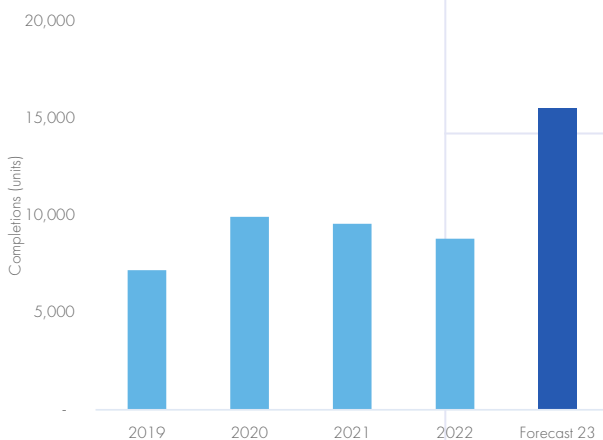
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Approximately 8,800 units came online in 2022.

DEVELOPMENT TRENDS



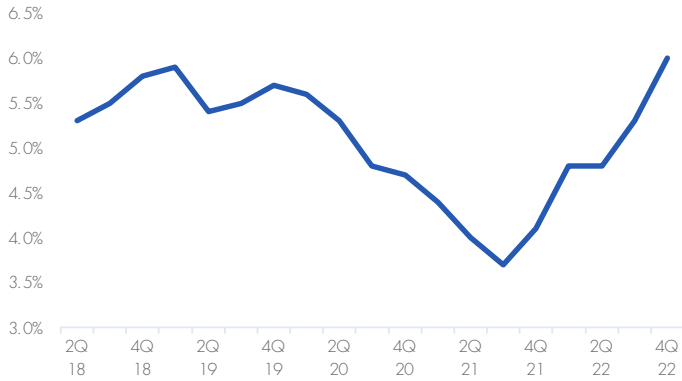
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers remained active in the final months of the year, as projects totaling more than 2,600 units were completed during the fourth quarter. In 2022, approximately 8,800 units came online, down 8 percent from the prior year.
- New projects continue to break ground across the region with more than 25,000 apartment units under construction, up 85 percent from one year ago. Development is most active near Downtown Charlotte and in the close-in surrounding submarkets.
- Multifamily permitting picked up in the fourth quarter, as developers pulled permits for more than 1,950 units in the final few months of the year, up 76 percent from the previous period. Approximately 8,000 permits were issued for the full year, down 13 percent from 2021 levels.
- **FORECAST:** The pace of apartment deliveries is expected to ramp up in the new year with projects totaling more than 15,500 units scheduled to come online in 2023. Deliveries have averaged closer to 8,700 units per year since 2017.

In 2022, vacancy rose 190 basis points.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

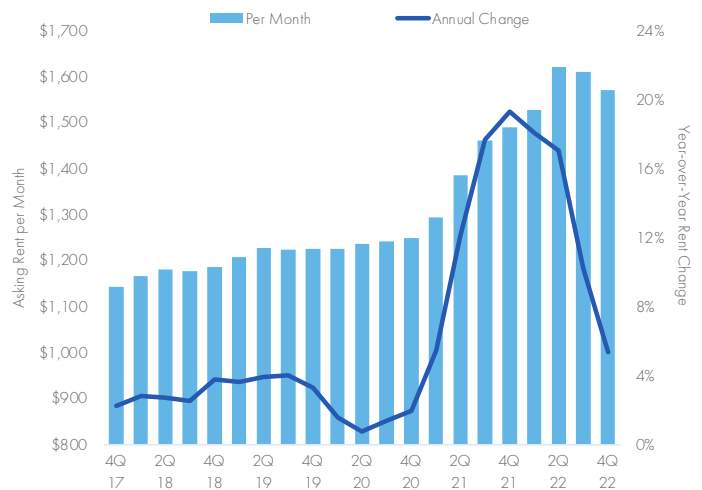
- The vacancy rate in Charlotte climbed during the fourth quarter, rising 70 basis points to 6 percent. The current rate is nearly identical to levels recorded from 2017 through 2019; during the past five years, area vacancy has averaged 5.1 percent.
- In 2022, vacancy rose 190 basis points. This followed four consecutive years of declines, where the rate retreated from 5.9 percent to 4.1 percent.
- While vacancy is trending higher across all asset classes, lower-tier properties continue to post the tightest vacancy rate. The average Class C vacancy rate ended 2022 at 5.3 percent, 140 basis points higher than one year earlier.
- **FORECAST:** With new development on the rise, area vacancy is projected to trend higher in the coming year. The vacancy rate is expected to rise 60 basis points in 2023 to 6.6 percent.

RENTS

- After ticking lower in the third quarter, apartment rents in Charlotte continued to fall in the final few months of the year. Local asking rents dropped 2.4 percent during the fourth quarter to roughly \$1,570 per month.
- Despite declines in the second half of the year, average rents rose 5.4 percent in 2022, well above the long-term average for the region. Annual rent growth averaged 2.8 percent from 2016 to 2020 before surging in 2021.
- Rent growth was strongest in lower-tier units in recent periods. In the last year, the average rent in Class C units rose 7 percent to \$1,231 per month.
- **FORECAST:** Asking rents in Charlotte are expected to inch higher in the coming quarters as the pace of growth should more closely track the region's historical average. Local apartment rents are forecast to rise 2.5 percent in 2023 to approximately \$1,610 per month.

Average rents rose 5.4 percent in 2022.

RENT TRENDS



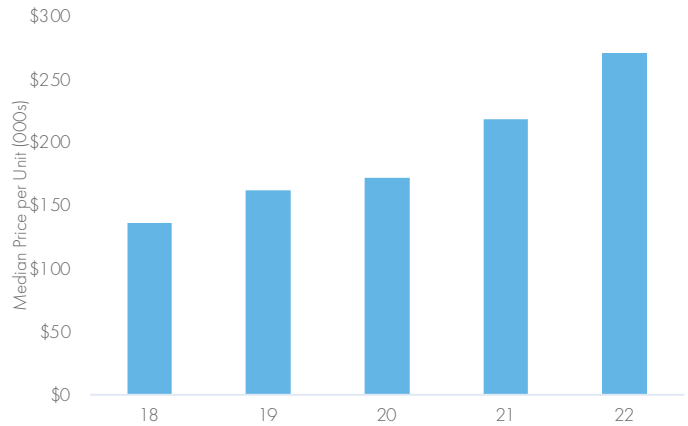
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- The multifamily investment market remained steady during the last few months of the year, as sales volume during the fourth quarter closely tracked levels during the previous period. The number of deals that closed in 2022 is down 20 percent from last year’s levels.
- Although fewer properties changed hands this year than during 2021, per-unit pricing remained elevated. The median sales price in 2022 was \$272,000 per unit, up 18 percent from the 2021 figure.
- Cap rates held steady from the third quarter to the fourth quarter, averaging around 4 percent in the final months of the year. Most properties were selling with cap rates closer to 3.5 percent one year ago.

The median sales price in 2022 was \$272,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

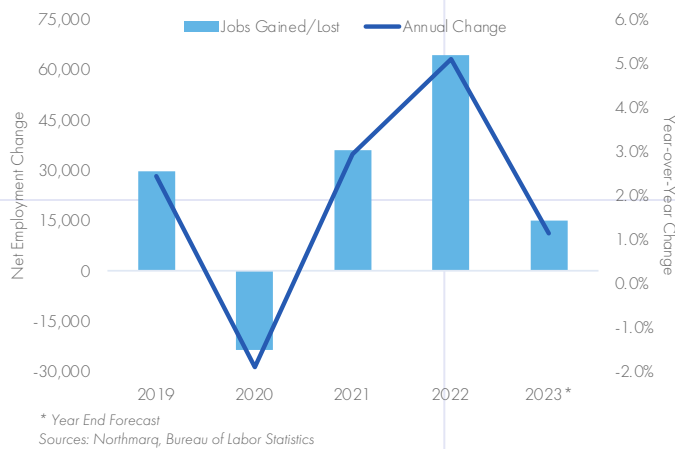
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Ascent Uptown	225 S Poplar St., Charlotte	300	\$137,900,000	\$459,667
Tapestry University City	5340 Periwinkle Hill Ave., Charlotte	352	\$100,000,000	\$284,091
Broadstone Highland Creek	4930 Goose Creek Dr., Charlotte	260	\$76,700,000	\$295,000
Ardmore at Price	242 Price St., Waxhaw	245	\$71,050,000	\$290,000
Avril Cambridge Village	1332 Holly Rush Ln., Denver	247	\$69,000,000	\$279,352
300 Optimist Park	300 Parkwood Ave., Charlotte	48	\$10,550,000	\$219,792

LOOKING AHEAD

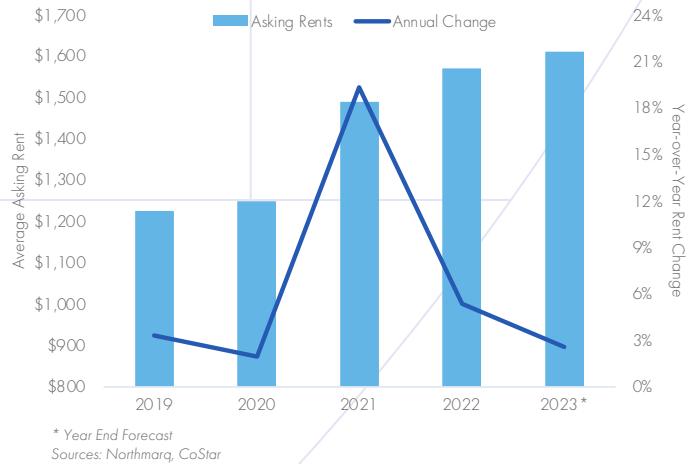
The Charlotte multifamily market is expected to record a mixed performance in the coming months, but operating conditions should stabilize by the end of 2023. As supply growth outpaces absorption during the next year, the vacancy rate will continue to push higher, ultimately reaching the mid-6 percent range. Going forward, renter demand will remain modest, as slower growth is expected in the local labor market as the national economy cools. While supply-side pressures will likely outpace demand, operators are still expected to be able to offset rising costs with rent increases. Asking rents are projected to rise between 2 percent and 3 percent in the next year. New development will remain most active in and around the city center as well as in the University submarkets.

Conditions in the multifamily investment market are expected to continue to adjust in 2023. Following an 18 percent increase in the median sales price during 2022, per-unit pricing may level off if cap rates continue to trend higher. Local investors will continue to monitor the pace of lease-up and rental rates, particularly if renter demand levels do not gain momentum after a slower 2022. The high volume of apartment projects scheduled to deliver in the next year will eventually support investment volume, although with lease-up times likely to be extended, stabilized properties may not trade until 2024. Cap rates are projected to tick higher during the next few periods, likely reaching the mid-4 percent range during 2023.

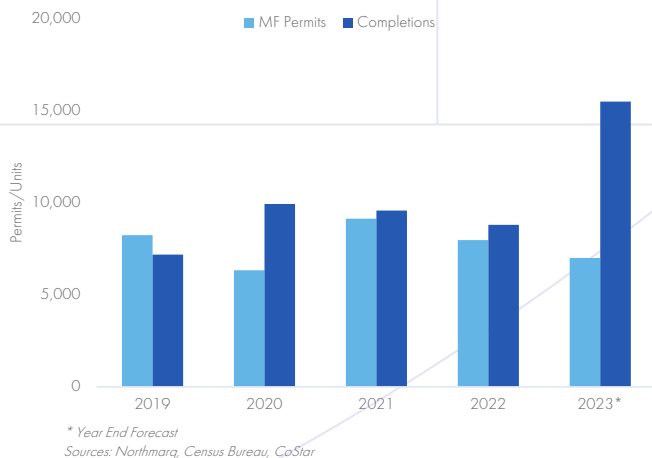
EMPLOYMENT FORECAST



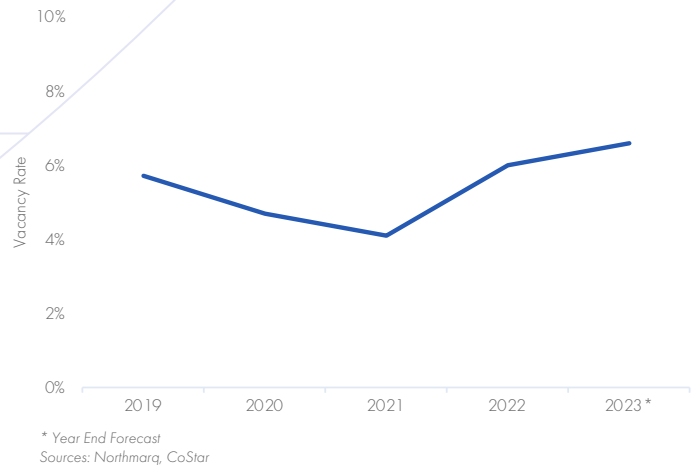
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





**FOR MORE INFORMATION,
PLEASE CONTACT:**

ANDREA HOWARD

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

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 1,000 employees, loan servicing volume approaching \$80 billion, and \$40+ billion in transaction volume.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

© 2023. All rights reserved.

BUILT TO THRIVE®

northmarq.com