

Supply and demand growth elevated to start 2023

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **27,711**

UNITS DELIVERED **2,406**

MARKET FUNDAMENTALS



VACANCY RATE **6.6%**

YEAR-OVER-YEAR CHANGE **+180bps**

ASKING RENTS **\$1,603**

YEAR-OVER-YEAR CHANGE **+5.0%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$225,000**

HIGHLIGHTS

- The first quarter was an active period in Charlotte for both new supply and demand growth, given the region's current housing shortage. Multifamily developers will increase the pace of deliveries this year with 16,500 units scheduled to come online.
- Area vacancy rose 60 basis points in the first quarter to 6.6 percent. The vacancy rate increased 180 basis points during the past year.
- Asking rents rose 2.1 percent during the first quarter, after dipping lower in the second half of 2022. Year over year, rents are still posting healthy gains, increasing 5 percent to \$1,603 per month.
- The multifamily investment market in Charlotte slowed during the first quarter. During the first quarter, the median price was \$225,000 per unit, while cap rates ranged between 4.5 percent and 5.5 percent.

CHARLOTTE MULTIFAMILY MARKET OVERVIEW

The Charlotte multifamily market posted a mixed performance in the early months of 2023, a trend that could continue in the coming quarters. The local market is in a period of high demand growth and elevated supply expansion. During the first quarter, both net absorption and new construction were ahead of the pace recorded at the beginning of last year, which resulted in rising rents but also an uptick in the local vacancy rate. Looking ahead, these trends should continue. The local labor market continues to support renter demand by adding workers at an elevated clip, and the development pipeline contains enough new projects to meet the growing demand for housing in the area. With local housing prices expensive and mortgage rates elevated, many new households created in Charlotte will occupy rental housing.

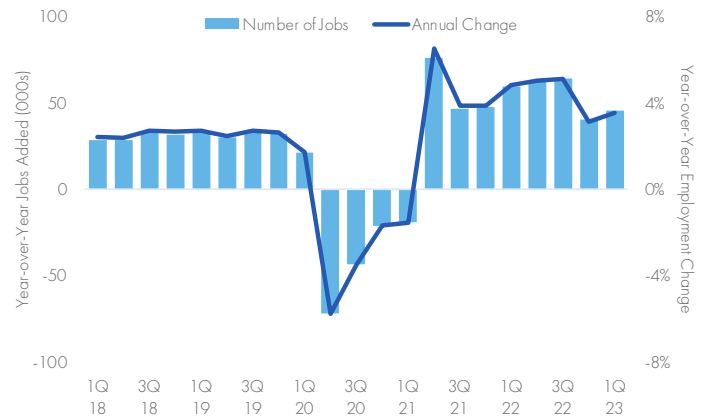
While leasing and development trends in Charlotte started 2023 ahead of the year-earlier pace, conditions in the investment market were slower during the first quarter. Transaction activity in the first three months of this year was about half of the total deal volume in the same period in 2022, although there were a few transactions that closed at the end of the quarter that could signal an uptick for the coming quarters. Cap rates have begun to trend higher, but an expectations gap has remained to this point, with owners citing strong operations and prospects for additional rent gains when valuing existing assets. One segment of the market where there has been some transaction activity has been among newer assets. More than half of the properties that changed hands in the first quarter have been delivered in the past 10 years.

EMPLOYMENT

- The local labor market started the year strong with the addition of 17,900 jobs in the first quarter. Year over year, employers in Charlotte created 45,600 positions, a gain of 3.5 percent.
- The local leisure and hospitality sector continues to rebound and was one of the top-performing industries during the past 12 months. Year over year, employment in the sector grew 10.6 percent with the addition of 13,900 workers.
- Hendrick Motorsports is planning a \$15 million expansion to its Concord campus to grow its advanced manufacturing services. With an existing workforce of 75 employees, the new project will create more than 50 additional manufacturing jobs upon completion in 2024.
- **FORECAST:** After two years of above-average job growth, total employment in Charlotte is expected to advance at a more moderate pace in the coming quarters. The local labor market is projected to expand nearly 2 percent in 2023 with the addition of 25,000 workers.

Year over year, employers in Charlotte created 45,600 positions.

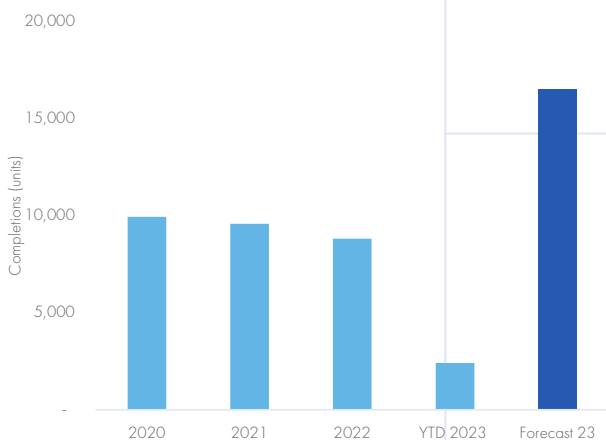
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers delivered 2,406 units in the first quarter.

DEVELOPMENT TRENDS



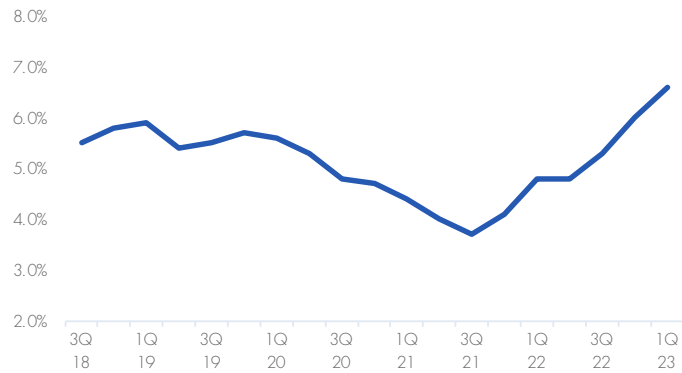
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers remained active at the start of the year and delivered 2,406 units in the first quarter. Since 2018, quarterly completions have averaged around 2,200 apartment units.
- Construction activity has been on the rise for the past few years with more developments entering the construction pipeline. Projects totaling 27,711 units were under construction at the end of the first quarter. Development activity is heaviest in the South End and Lower South End submarkets. These neighboring areas account for nearly 30 percent of the units in the pipeline.
- Developers pulled permits for approximately 2,400 multifamily units in the first quarter. Last year, permits for 8,800 units were issued, 10 percent lower than average levels in the preceding two years.
- **FORECAST:** Apartment deliveries are expected to accelerate in the coming quarters. Projects totaling roughly 16,500 units are scheduled to come online by the end of the year. Capitalized deals that are in progress continue to advance, albeit at a more measured pace, which will lead to staggered delivery schedules. Those that are in the planning stages will take much longer to advance, if at all – limiting future supply.

Nearly 1,400 units were absorbed during the first quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

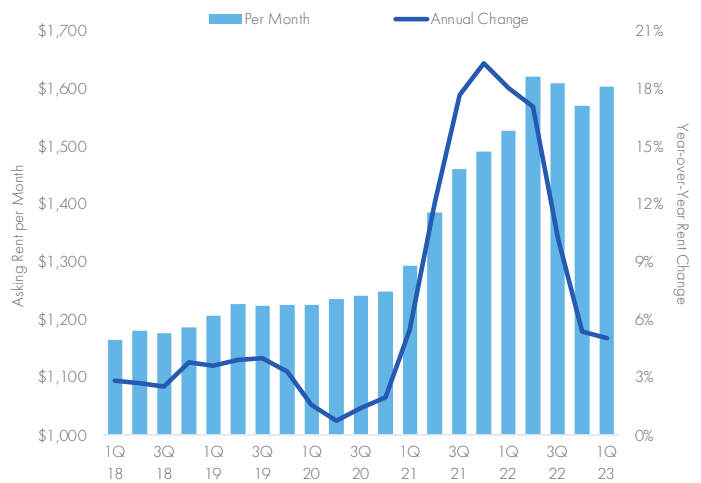
- The vacancy rate in Charlotte pushed higher in the first quarter, rising 60 basis points in the early months of the year to 6.6 percent. The current rate is about 150 basis points higher than the region’s five-year average.
- Year over year, the rate has risen 180 basis points. Area vacancy reached a cyclical low of 3.7 percent in 2021 and has gradually trended higher. Longer term, area vacancy has generally ranged between 5 percent and 5.5 percent.
- After renter demand surged in 2021, absorption levels have been more moderate in recent quarters and continue to trail new supply growth. Nearly 1,400 units were absorbed during the first quarter of 2023, up 8 percent from the same period last year.
- **FORECAST:** With construction activity gaining momentum, area vacancy will continue to trend higher. The vacancy rate in Charlotte is expected to finish 2023 at around 7 percent, 100 basis points higher than at the end of 2022.

RENTS

- After ticking lower late in 2022, apartment rents in Charlotte rebounded at a healthy rate in recent months. Average rents increased 2.1 percent in the first quarter to \$1,603 per month.
- Year over year through the first quarter, asking rents have advanced by 5 percent. Before spiking in 2021, annual rent growth had averaged 3.2 percent since 2015.
- Class A asking rents ended the first quarter at \$1,814 per month, up just 1.7 percent from one year earlier. The most rapid growth is being recorded in the lower tiers. Rents in Class C units rose 6.5 percent during the past 12 months, reaching \$1,268 per month.
- **FORECAST:** After a strong start to the year, asking rents are projected to inch higher in the coming quarters. Local rents are forecast to rise 3.5 percent in 2023 to around \$1,625 per month.

Average rents increased 2.1 percent in the first quarter.

RENT TRENDS



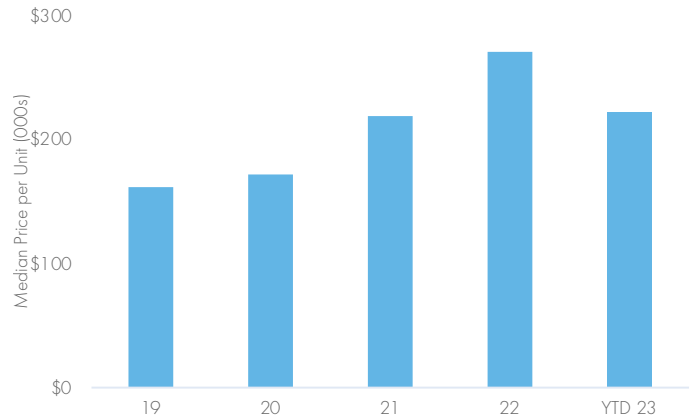
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Multifamily sales activity slowed in recent months as only a handful of properties traded in Charlotte at the start of the year. The number of deals during the first three months of 2023 was down roughly 55 percent from the same period in 2022.
- While overall sales activity was limited to start 2023, a few properties traded late in the month, which could support additional transaction activity going forward.
- The median price of properties that sold during the first quarter was \$225,000 per unit. While most properties traded around the median price, the high-end of the sales range topped \$330,000 per unit during the first quarter.
- Cap rates averaged between 3.5 percent and 4 percent throughout much of 2022 but began to trend higher in the first quarter. Cap rates ranged between 4.5 percent and 5.5 percent in the sales that closed at the start of 2023.

The median price in the first quarter was \$225,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

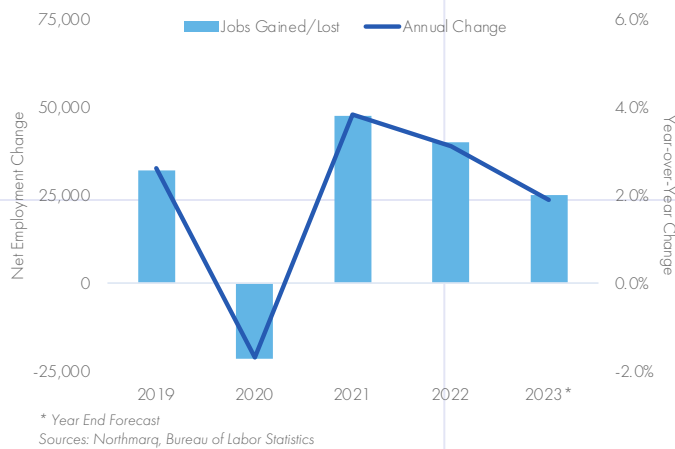
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Providence Court	8110 Providence Court Ln., Charlotte	420	\$104,000,000	\$247,619
Sycamore at Tyvola	707 Sycamore Centre Dr., Charlotte	288	\$96,300,000	\$334,375
Highland Park	7116 Finn Hall Ave., Charlotte	240	\$51,000,000	\$212,500
Ayrsley Lofts	2025 Ayrsley Town Blvd., Charlotte	230	\$50,300,000	\$218,696

LOOKING AHEAD

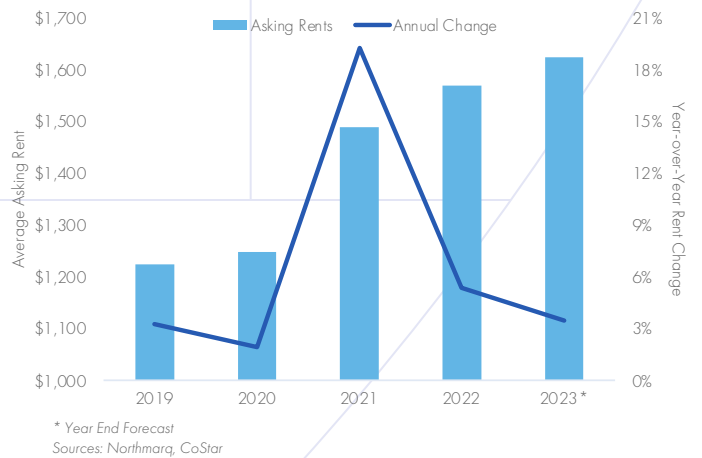
Charlotte is projected to be among the top markets for supply growth in 2023, a trend that is consistent with the region’s rapid population expansion and employment growth in recent years. With projects totaling more than 27,000 units currently under construction, the pace of apartment completions will remain elevated at least through the next 24 months. As new development continues to pick up, the local vacancy rate should push higher. Area vacancy is forecast to finish 2023 at around 7 percent. Renter demand is likely to outpace levels recorded last year, but not quite keep pace with the amount of new construction that will come online. Still, rents are projected to inch higher in the next few periods and rise around 3.5 percent for the full year.

Current investment trends in Charlotte are similar to those in some of the other fastest-growing markets in the country. In recent quarters, cap rates had compressed nearly as low as Treasury yields, and demand from investors and developers reached unprecedented heights. In recent quarters, the potential of slowing economic growth and elevated competition from new supply led to a pause in transaction activity. While fewer properties are trading, there are some signs that buyers’ and sellers’ expectations may be moving closer to one another. Cap rates have trended higher in recent transactions. Assuming interest rates eventually level off, the market can adjust to the capital environment, and investment activity can resume at a fairly steady rate in the second half of this year.

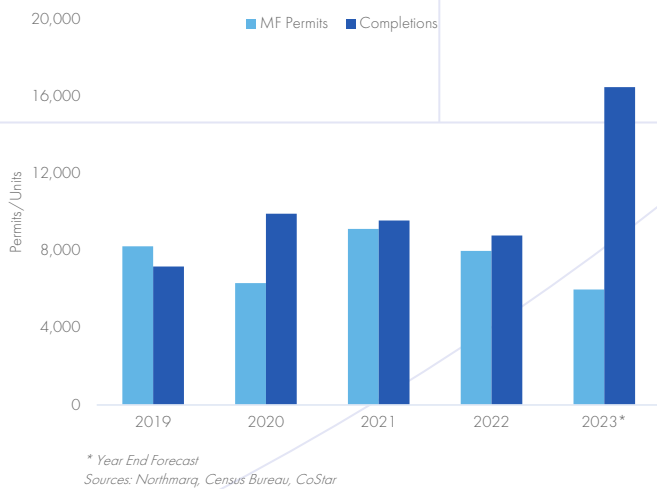
EMPLOYMENT FORECAST



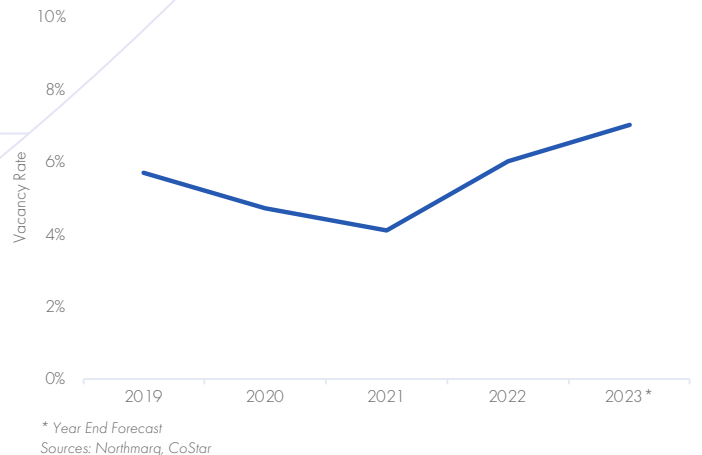
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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