

Market Insights

Charlotte Multifamily 3Q 2021



Construction Activity



10,996

Units under construction

7,661

Units delivered (YTD)

Market Fundamentals



3.7%

Vacancy

-110bps

Year over year change

\$1,460

Asking Rent

+17.6%

Year over year change

Transaction Activity



\$220,000

Median sales price per unit (YTD)

3.8%

Cap rates (YTD)

Vacancy Hits Decade Low, Rents on the Rise

Highlights

- Demand was the prevailing theme in the Charlotte multifamily market in the third quarter. Renter demand caused vacancy to tighten and rents to spike, while investor demand is yielding rising prices and falling cap rates.
- Vacancy fell 30 basis points in the third quarter, dipping to 3.7 percent. The rate is down 110 basis points year over year and is at its lowest point in more than a decade.
- Rents continue to push higher; asking rents ended the third quarter at \$1,460 per month, up 17.6 percent from one year ago. Rent growth in 2021 is forecast to total nearly 20 percent.
- Absorption totaled more than 4,300 units during the third quarter, and year to date, absorption has outpaced new construction by nearly 40 percent.
- The pace of investment activity remained elevated during the third quarter. With more properties trading, prices have pushed higher and cap rates have compressed. The median price year to date is approximately \$220,000 per unit; in the third quarter, the median price reached \$255,000 per unit. Cap rates have dipped to 3.8 percent.

Charlotte Multifamily Market Overview

The Charlotte multifamily market posted additional improvement during the third quarter, with rents continuing to grow at a rapid pace and vacancies dropping to the lowest levels in more than a decade. Apartment absorption topped 4,300 units in the third quarter, bringing the total for the first nine months of 2021 to more than 10,700 units, up nearly 40 percent from the full-year total recorded last year. Multifamily developers are bringing new units online, but new construction has not kept pace with tenant move-ins. The combination of tight conditions and accelerating demand is resulting in rapid rent growth; asking rents advanced by \$75 per month in the third quarter after spiking by nearly \$100 per month in the second quarter.

The strength of local property performance is being reflected in the investment market. Transaction activity maintained an accelerated pace during the third quarter, and sales velocity to this point in 2021 is about 50 percent ahead of the average level recorded in recent years. Investors are increasingly favoring larger deals as buyers move to allocate capital into investment-grade assets in the Charlotte market. More than a dozen properties have changed hands at over \$70 million each in just the second half of this year, with additional activity likely in this space before year end. Prices are on the rise, with the per-unit median price up more than 30 percent from 2020 levels. As the quality of properties being sold has increased and investor demand has intensified, cap rates have compressed.

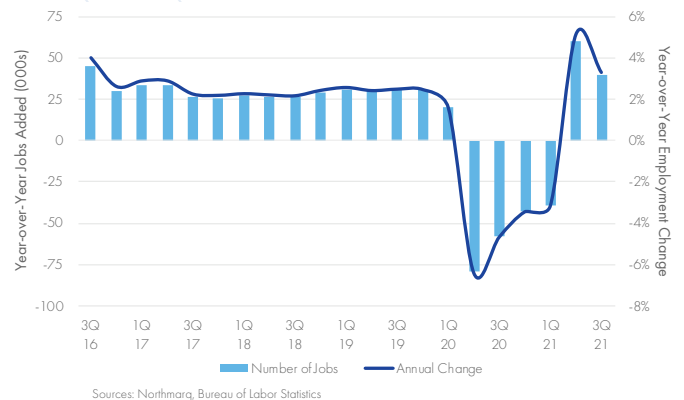
Employment

- The Charlotte labor market continues to expand, with businesses adding workers across a wide range of industries. Year over year through the third quarter, employers have added 39,400 jobs, an increase of 3.3 percent.
- High-wage professional employment in Charlotte has been growing at a rapid pace. Employment in the professional and business services sector has expanded by 12,500 jobs in the past year, a gain of 6.1 percent. Employment in this sector surpassed its pre-COVID peak during the third quarter, with additional gains anticipated.
- Arrival, a company that produces electric vehicles, recently announced plans to build its second U.S. microfactory in Charlotte. The new facility, which will produce electric delivery vans, is expected to open in the third quarter of next year in West Charlotte near the airport. The move is forecast to add approximately 250 new jobs in the area. Arrival has another facility in Rock Hill, and the company is establishing its North American headquarters in South End.
- **Forecast:** Area employers are on pace to add approximately 38,000 jobs in 2021, a growth rate of 3.2 percent. The Charlotte economy bounced back fairly quickly, and future gains will likely come in the form of organic growth in the local labor market.



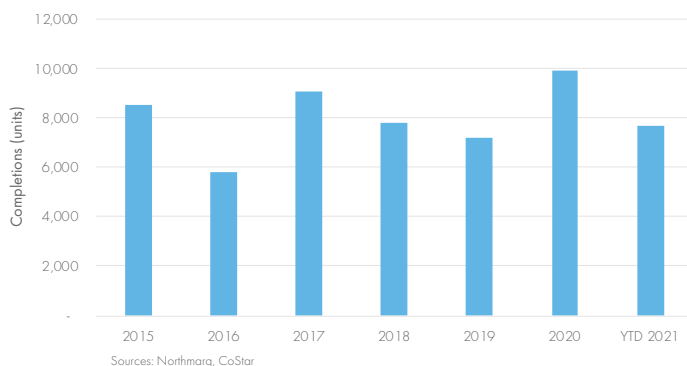
Year over year through the third quarter, employers have added 39,400 jobs.

Employment Overview



Year to date, projects totaling approximately 7,700 units have been delivered.

Development Trends



Development and Permitting

- Year to date, projects totaling approximately 7,700 units have been delivered, an increase of nearly 8 percent compared to the first three quarters of 2020.
- While the pace of deliveries has accelerated in recent years, the development pipeline has thinned a bit. As of the end of the third quarter, projects totaling around 11,000 units were under construction, down from the 14,000 units that were under way one year ago. This marks the lowest total number of units under construction in the Charlotte area since mid-2016.
- After slowing in 2020, the pace of multifamily permitting has regained momentum this year. Year to date through the third quarter, developers pulled permits for nearly 7,000 multifamily units, outpacing the total for all of last year. Multifamily permitting averaged about 7,400 units per year from 2014 to 2020.
- **Forecast:** Multifamily construction is expected to remain active during the rest of the year, as roughly 10,100 units are forecast to be delivered by the end of 2021. An average of 8,500 units has been delivered per year since 2017.

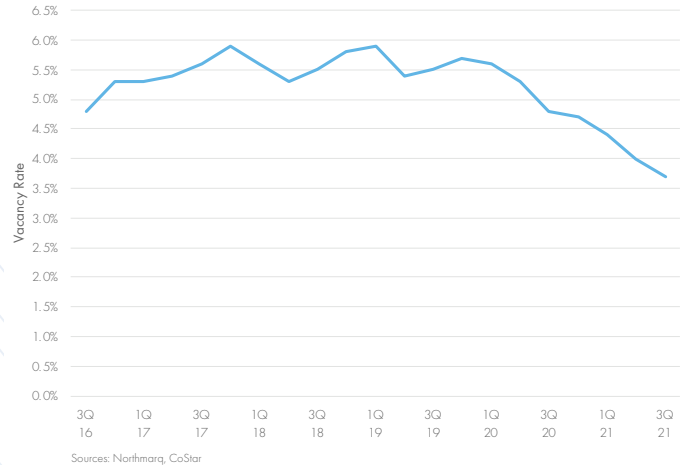
Vacancy

- Multifamily vacancy in Charlotte continued to tighten during the third quarter, dropping 30 basis points to 3.7 percent. Vacancy has decreased in Charlotte for six consecutive quarters.
- Year over year through the third quarter, multifamily vacancy has improved by 110 basis points. The current figure is the lowest vacancy rate in the Charlotte area in the past decade.
- Vacancies tightened among all property classes during the third quarter. The Class A rate dipped 10 basis points to 4.2 percent. Vacancies in both Class B and Class C properties ended the quarter at 3.5 percent, down 40 basis points and 10 basis points, respectively, from second quarter levels.
- **Forecast:** Vacancy in Charlotte is forecast to inch lower at the end of the year, ending 2021 at 3.6 percent, 110 basis points lower than the rate one year earlier. This would mark the second consecutive year where the area vacancy rate tightened by at least 100 basis points.



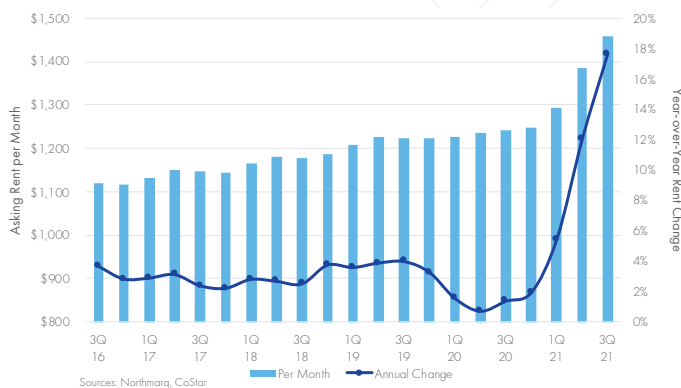
Vacancy tightened during the third quarter, dropping 30 basis points to 3.7 percent.

Vacancy Trends



Asking rents jumped 5.4 percent during the third quarter, reaching \$1,460 per month.

Rent Trends



Rents

- Asking rents continued to make significant gains during the third quarter, increasing by 5.4 percent to \$1,460 per month. Charlotte rents have grown for eight consecutive quarters.
- Strong gains in the third quarter have pushed current asking rents 17.6 percent higher than one year ago. With vacancy rates low, additional gains are likely in the next few quarters, but the current pace of increases is not expected to be sustained.
- Asking rents in Class A units ended the third quarter at \$1,699 per month, or \$1.74 per square foot, per month. Rents in the Class A segment of the market have spiked 17.1 percent in the past year.
- **Forecast:** Rents will continue to rise through the fourth quarter, making 2021 a historic year for rent growth in Charlotte. Asking rents are forecast to reach \$1,495 per month, a 19.7 percent increase from the end of 2020.

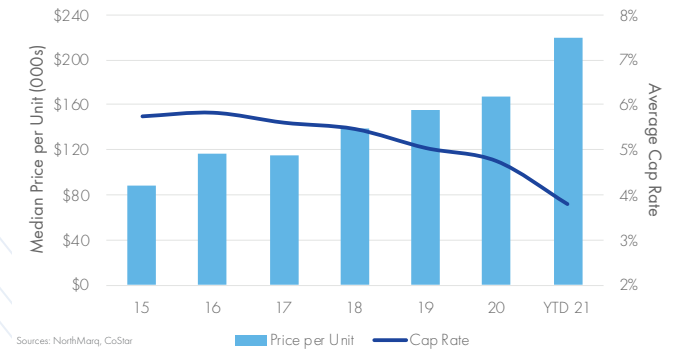
Multifamily Sales

- Transaction activity has strengthened throughout 2021. Year to date, the number of properties that have sold has increased by 70 percent from the first three quarters of 2020.
- Multifamily projects totaling nearly \$1.5 billion were sold in the third quarter, representing more than half of the year-to-date total of approximately \$2.6 billion. Sales volume in the first nine months of this year outpaced the total figure for all of 2020.
- Sales velocity during the third quarter closely tracked levels from the preceding quarter. While the number of properties changing hands in each quarter was nearly identical, transaction dollar volume surged by nearly 50 percent in the third quarter, reflecting a steep rise in the average deal size. Nearly half the transactions that closed in the third quarter were over \$75 million.
- With property fundamentals gaining momentum and transaction activity picking up in Class A and newer Class B properties, prices pushed higher. The median price in sales during the third quarter was \$255,000 per unit. The median price in sales closed year to date is approximately \$220,000 per unit, up more than 30 percent from the median price in 2020.
- Cap rates have compressed in 2021. Among multifamily properties in Charlotte, cap rates have averaged 3.8 percent year to date, nearly 100 basis points lower than 2020 levels.



The median price in sales during the third quarter was **\$255,000 per unit.**

Investment Trends



Recent Transactions

Multifamily Sales Activity

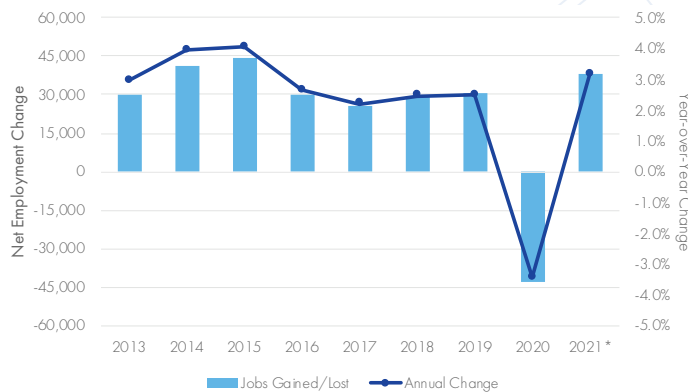
Property Name	Street Address	Units	Sales Price	Price/Unit
Elizabeth Station	2512 Weddington Ave., Charlotte	366	\$99,250,000	\$281,175
8 Metro Station	5025 Wembley Central Ln., Charlotte	338	\$81,500,000	\$241,124
The Collective	2300 N Davidson St., Charlotte	250	\$72,050,000	\$288,200
The Mint	425 W Trade St., Charlotte	178	\$64,075,000	\$359,972

Looking Ahead

The Charlotte multifamily market is forecast to record additional improvement through the end of this year and into 2022. Vacancy is already at its lowest rate in more than a decade, and with developers unable to bring enough new supply to the market to keep up with renter demand, conditions should tighten further between now and midyear 2022. This supply-demand imbalance should support additional rent growth, although the rapid pace of increases that has been in place in recent quarters will likely prove to be unsustainable over longer-term periods. Renter demand, however, should be sustainable throughout next year, as the local economy continues to record significant job growth, particularly in high-wage industries.

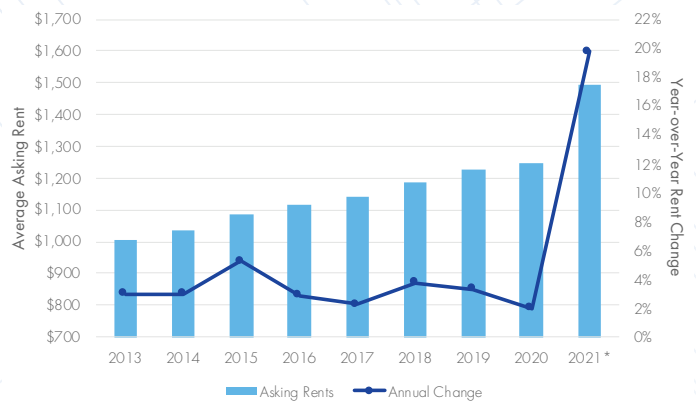
Investment demand is forecast to remain elevated for Charlotte-area multifamily properties in the coming periods. Investors are being drawn to the market by both the robust short-term property performance as well as the region's long-term growth outlook. The area's educated workforce continues to attract companies that are active in industries that will fuel growth in the coming decades. While Charlotte has been known as a finance and life sciences hub for several years, the area has just recently attracted its first electric vehicle manufacturer, expanding the breadth and depth of the regional economy. Charlotte is expected to remain one of the nation's top markets for multifamily investment volume, and with new buyers moving into the area and intensifying competition for assets, cap rates are likely to remain compressed.

Employment Forecast



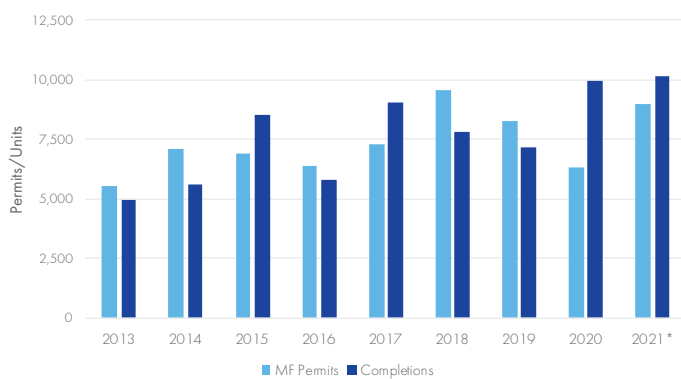
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



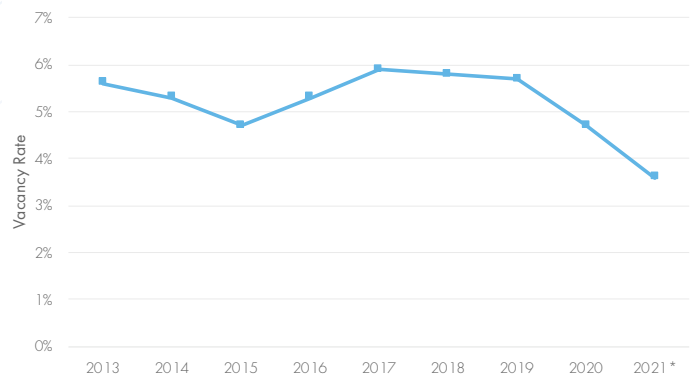
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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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.