MARKET REPORT

Multifamily

Charlotte Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

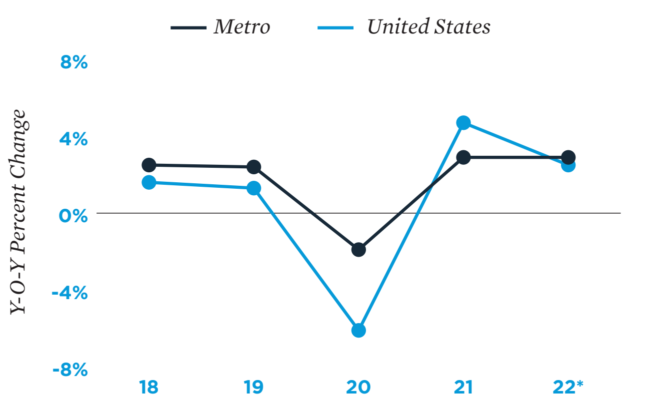
2Q/22

Job Gains During COVID-19 Fueling Heightened Demand Across Charlotte

Labor market strength bolsters rental market. The composition of employers in Charlotte has allowed the metro to better withstand and recover from the pandemic. The plethora of banking and FinTech firms in the area, including Bank of America, Credit Karma and Robinhood, have pushed employment counts in the metro to surpass pre-pandemic tallies well before the U.S. has. Swaths of labor opportunities have also resulted in high levels of population growth in Charlotte. These jobs have stabilized the local workforce and supported demand for upper-tier rentals, during a span of inventory growth. More than 7,000 new units will enter the metro this year, but expectations regarding high-skill job creation will support demand for these openings.

Shortage of lower-tier housing aiding Class C performance. Rapid development over the past decade in Charlotte has led to a higher proportion of newer, Class A units in the metro, compared to other major cities. As construction activity continues in the metro, a shortage of lower tier and more affordable rentals has intensified, leading to exceptional tightness in the Class C tranche. Moving forward, growth of the local health care sector and manufacturing expansions in Cabarrus County will continue to support robust demand for lower-cost rentals. These factors have resulted in a lack of availability across the apartment spectrum in Charlotte, creating a pathway for effective rent payments to rise swiftly as the year progresses.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

36,000 JOBS *will be created*

EMPLOYMENT:

Employers are set to expand payrolls by 2.9 percent this year, comparable to the increase observed in 2021. Job counts are already ahead of pre-pandemic totals, with the metro reporting significant office-using employment growth since the start of 2020.

7,100 UNITS *will be completed*

CONSTRUCTION:

Development will ease slightly in 2022, with the volume of completions representing a seven-year low. Construction near the core is focused around recent light rail extensions, with the University submarket reporting an uptick in building this year.

10 BASIS POINT *decrease in vacancy*

VACANCY:

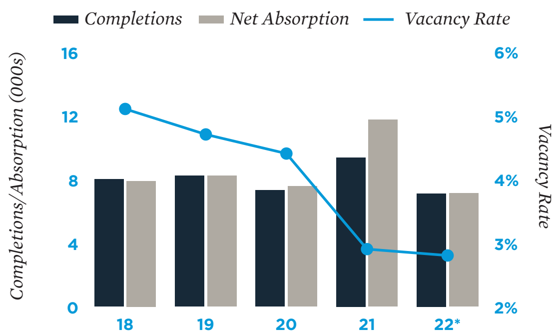
Unit availability slips to 2.8 percent in 2022, as net absorption outpaces supply additions for the third consecutive year. Charlotte's year-end vacancy represents the lowest rate in the metro since at least 2000.

8.5% INCREASE *in effective rent*

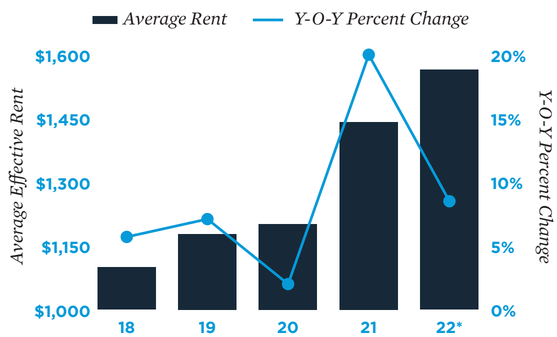
RENT:

Following last year's near 20 percent gain, rent continues to rise at a pace well above the long-term mean, lifting the average effective rate to $1,565 per month. This increase represents the 13th consecutive year of annual rent growth in Charlotte.

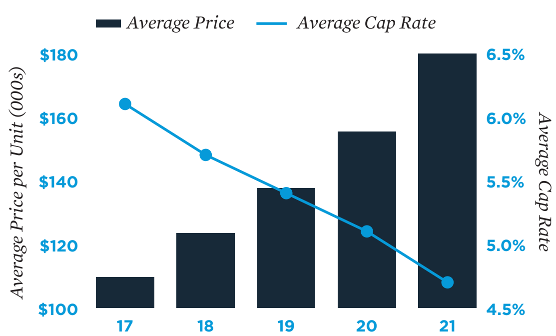
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

8,821 units completed

- Development was spread throughout the metro over the past year ended in March. Population growth in southern areas supported an uptick in building activity from Lower South End into Southern Charlotte.
- Fewer than 1,200 units arrived in the CBD, with other submarkets inside the Interstate 485 Beltway receiving the majority of new openings.

VACANCY

160 basis point decrease in vacancy Y-O-Y

- Renters in Charlotte absorbed roughly 11,500 units in the yearlong stretch ended in March. This level of demand enabled the metrowide vacancy rate to fall to 2.9 percent during the first quarter of 2022.
- Class C vacancy sat at 1.7 percent entering 2022, with all apartment sectors reporting record-low availability at the onset of this year.

RENT

20.7% increase in the average effective rent Y-O-Y

- Tight vacancy across rental tiers amid sizable in-migration elevated the average effective rent to $1,473 per month during the first quarter.
- Average rent in the suburbs and CBD each rose by 20 percent during 2021, lifting these area's effective rates to $1,418 and $1,906, respectively. Rents in suburban Charlotte have not dropped since 2009.

Investment Highlights

- Transaction velocity is rising in the metro, with 2021 sales volume finishing more than $1.6 billion ahead of the 2020 yearly total. This increase has spurred per-unit pricing growth of 15 percent in 2021 — one of the fastest among major U.S. metros. The strong finish to last year has extended into this year, with the start of 2022 registering a higher sales volume than the same period in previous years.
- The increase in out-of-state investor and institutional activity in Charlotte has coincided with first-year returns steadily diminishing. At the end of 2021, the average cap rate was 4.7 percent, 60 basis points below the end of year 2019 mark.
- National buyers remain active, with REITs, institutions and larger private investors targeting newer builds in central locales like South End and South Park. Class A returns can fall to the mid-3 percent range, while larger Class B/C properties with value-add potential are trading with cap rates near 5 percent. Local investors have largely responded to pricing increases by listing holdings; however, some buyers are acquiring older assets with upside potential in East Charlotte.

IPA Multifamily
John Sebree
Senior Vice President
Tel: (312) 327-5400 | jsebree@ipausa.com

For information on national multifamily trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250