

# MARKET REPORT

Multifamily  
Charlotte Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

3Q/23

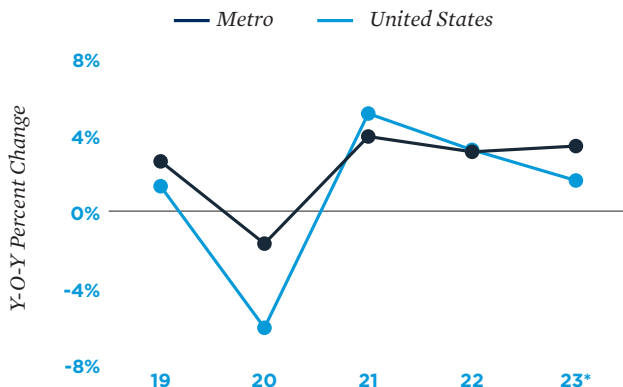
## Second-Largest Absorption Total on Record Not Quite Enough to Offset Historic Development

### Charlotte ranked top five nationally in a key first half metric.

The local multifamily sector continues to perform relatively well in relation to the rest of the country. Net absorption during the opening six months of 2023 exceeded the 5,000-unit mark, a threshold that only five other major U.S. markets surpassed. This feat is made even more impressive by the fact that the metros it joined on that list — Dallas-Fort Worth, Houston, New York City, Phoenix and Chicago — have apartment inventories that are at least 175,000 units larger. Apartment demand in Charlotte is replicating that of much bigger cities with more sizable populations. This trend bodes well for the sustained absorption of new deliveries, which is particularly crucial in the near-term as the local active pipeline has swelled to a historic size. As of August 2023, developers were underway on 37,000-plus rentals marketwide, equating to over 15 percent of current inventory.

**Two-thirds of the pipeline condensed in just four areas.** North and Southwest Charlotte, alongside Uptown-South End and UNC Charlotte, combined for about 24,000 rentals underway as of August. In contrast, the remaining 11 submarkets pooled together account for about half that total, showcasing the concentrated nature of the pipeline. Among the four locations set to receive an outsized share of new rentals, the UNC Charlotte area may be the most vulnerable to supply headwinds. This was the only spot of the four to have both Class A and B vacancy above 7 percent as of June 2023. North Charlotte is better equipped with the lowest Class A vacancy rate of the bunch.

### Employment Trends



\* Forecast

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

## Multifamily 2023 Outlook



**45,000  
JOBS**

*will be created*

### EMPLOYMENT:

Charlotte's workforce continues to grow at a robust pace. The metro is on track to be one of just five major U.S. markets to record a larger net job gain in 2023 than in 2022. It will be the only Sun Belt location to achieve this.



**14,700  
UNITS**

*will be completed*

### CONSTRUCTION:

Delivery volume in 2023 will shatter the prior record set in 2021 by about 5,400 units. The magnitude of underway projects at midyear signals that this construction pace will be sustained in 2024 and 2025 as well.



**100  
BASIS POINT**

*increase in vacancy*

### VACANCY:

This year's vacancy lift to 6.8 percent is almost entirely a result of aggressive construction, rather than a fault of soft demand. In fact, net absorption is expected to be at its second-highest annual figure on record in 2023.



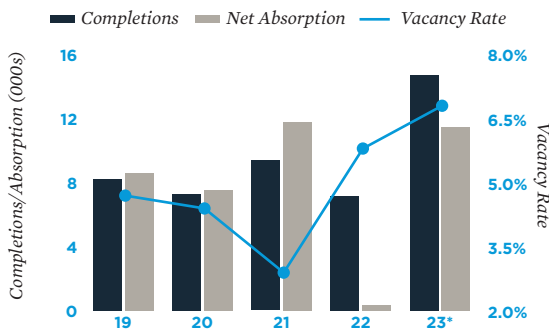
**3.4%  
INCREASE**

*in effective rent*

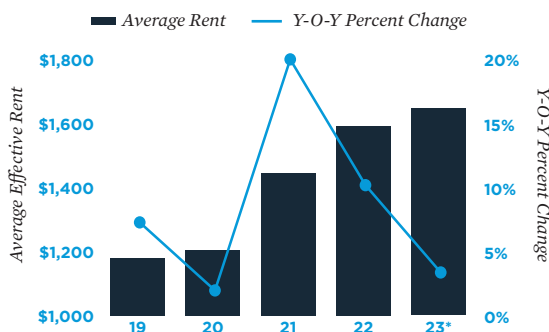
### RENT:

Supply pressure in some areas, paired with healthy demand across most of the market, produces a modest rent gain by historic standards. The second-smallest rise in 14 years brings the average to \$1,645 per month.

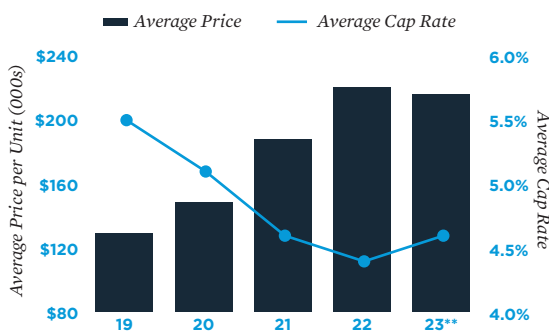
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

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

### IPA Multifamily John Sebree

Senior Vice President, Director  
Tel: (312) 327-5400 | jsebree@ipausa.com

### IPA Multifamily Research Greg Willett

First Vice President  
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: \$250

## 2Q 2023 - 12-Month Period

### CONSTRUCTION 11,172 units completed

- UNC Charlotte's 12.5 percent inventory growth rate year-over-year in June 2023 was not only the greatest in the metro, but the sixth largest of any sub-market in the country with at least 20,000 units of local supply.
- Mooresville-Statesville's 9.7 percent supply surge was the fourth straight annual period ending in June with 5-plus percent inventory growth here.

### VACANCY 230 basis point increase in vacancy Y-O-Y

- Vacancy rose by at least 200 basis points in each apartment classification over the four-quarter period. The Class C shift was the most drastic at 330 basis points, likely related to the segment's 12.1 percent rent growth.
- South Charlotte was one of three areas to enter July with sub-5 percent Class A vacancy. It also boasts the highest rental costs in that property tier.

### RENT 3.8% increase in the average effective rent Y-O-Y

- All 15 submarkets had year-over-year rent gains in June 2023, but growth differed. Myers Park and East Charlotte exceeded 5.5 percent, while Concord-Kannapolis-Salisbury and UNC Charlotte had sub-1.5 percent rises.
- While not back to September 2022's peak, the metrowide average rent rose in the second quarter of 2023 to \$1,600 per month, offsetting recent losses.

## Investment Highlights

- In a span of six years, Charlotte moved from the 33rd-lowest average cap rate among major U.S. markets in 2016, to having the 14th-smallest measure in 2022. This, and a conservative lending environment, created significant transaction hurdles once the Federal Reserve hiked interest rates. Price discovery is ongoing, but the average cap rate rose in the first half of 2023, implying buyers and sellers are moving closer toward alignment. Even so, a mean first-year return of 4.6 percent in Charlotte during the 12-month period ending in June 2023 adjusted its ranking to a tie for ninth lowest among major U.S. markets, sustaining these same challenges.
- Deal flow in the first six months of 2023 was down roughly 70 percent from the abnormally strong opening halves of 2021-2022, and about 40 percent below the equivalent mean in the decade prior. As capital markets become less volatile and institutions exit the sidelines, the historically large construction pipeline should present a plethora of high-end opportunities.
- Trades in the second quarter and preliminary July 2023 data reflect that out-of-state buyers remain attentive. Roughly half of the deals during that span went to non-local investors, particularly Northeastern-based buyers.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

© Marcus & Millichap 2023 | www.MarcusMillichap.com