

Multifamily Metro Outlook:

Charlotte - Q2 2023

Overview:

- Charlotte's apartment market saw a strong rebound in rent growth and vacancy compression in 2021 and into mid-2022, as the area strongly rebounded from the pandemic shock, though the market has begun to somewhat ease, with more modest rent growth and an increase in vacancy likely over the next several quarters. Prior to the pandemic, Charlotte's rental market was poised to ease modestly, as a large wave of new supply was to be added to a generally strong economy.
- Charlotte is likely to remain one of the stronger growing economies in the country, with growing demand for new apartments, but it will probably be entering a period of growth notably slower than what it experienced over the past 20 years. Furthermore, it will still be a growing economy, and developers have been steadily supplying multifamily units for many years, and they will continue to do so, likely preventing the apartment market from experiencing breakout performance.

Market Strengths:

- Charlotte's long-term demand fundamentals are favorable for a steady supply of new inventory, with exceptional growth forecasted for the key age 25-34 prime renting cohort. Furthermore, the area has been experiencing robust population growth: this quarter, the population expanded +1.63%, compared to +0.28% nationally. Moody's Analytics forecasts that population growth through 2028 will be above the national average at +1.2% per year.
- In the second quarter of 2023, the area added nearly 24,600 jobs growing +3.46%, compared to the +2.34% national average. Moody's Analytics forecasts that total employment growth through 2028 will be +6.3%, though near-term volatility to the financial industry's job concentration is possible.

Market Weaknesses:

- Charlotte's economy is experiencing a long-term change. Formerly a manufacturing city, it is still transitioning into a service-economy city; it has coped well while its exceptionally large banking entities navigate through a period of industry change and consolidation, which has benefitted the metro. Given the volatility of financial markets (and the metro's concentration of banking jobs), the metro is likely headed for a moderating growth period once the current national macroeconomic uncertainty subsides, relative to its more recent exceptional growth, though still considerably better than national averages.

Development:

- Apartment development is on the rise in Charlotte. Completions will likely hit near-record levels in the next year or two. There are currently 19,500 apartments underway and 48,000 have been completed since 2017.
- Single-family development has lightly improved from last quarter, with 20,213 permits issued this quarter. However, this is a slight decline from the 21,027 permits that were issued at the same time last year. 17,248 homes were completed during the quarter, a decline from the 70 homes completed last quarter. Active listings slightly increased to 27,489.

Outlook:

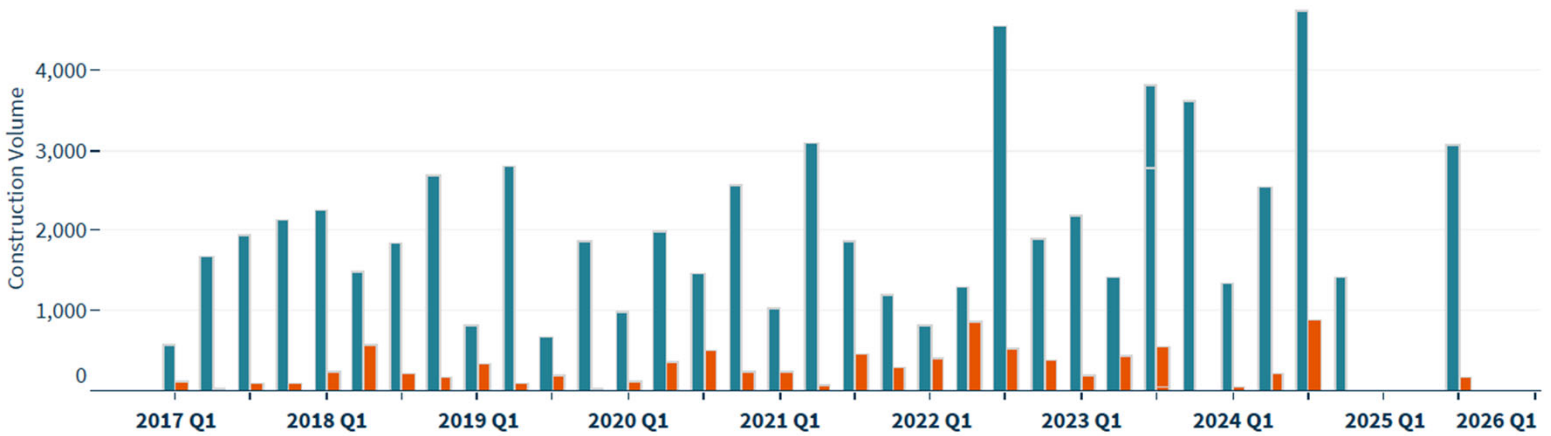
- The metro's for-rent market was rebounding recently but it is probably in the early stages of some brief easing as a large volume of new supply enters the market. Vacancies may rise for brief periods and rent levels may contract modestly or grow slowly as the market stabilizes from the recent large jumps in rent. But compared to other markets around the country, Charlotte is well positioned to quickly return to its prior growth path once national economic conditions further stabilize and improve. Its modern service economy can restart, especially compared to its more-manufacturing focused history.
- Charlotte's long term favorable economic and demographic forecast will allow for healthy expansion of its for-rent market if or when COVID-19 disruption is history, and the nation makes its way through the current recession. The metro's concentration of young people (it has a large age 20-34 cohort), coupled with its strong in-migration trends will present opportunity for new for-rent development to be absorbed over the forecast horizon. While a robust long-term expansion of the local economy is all but certain, the metro's economy is likely to see significant, and somewhat volatile, peaks and valleys along the way.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

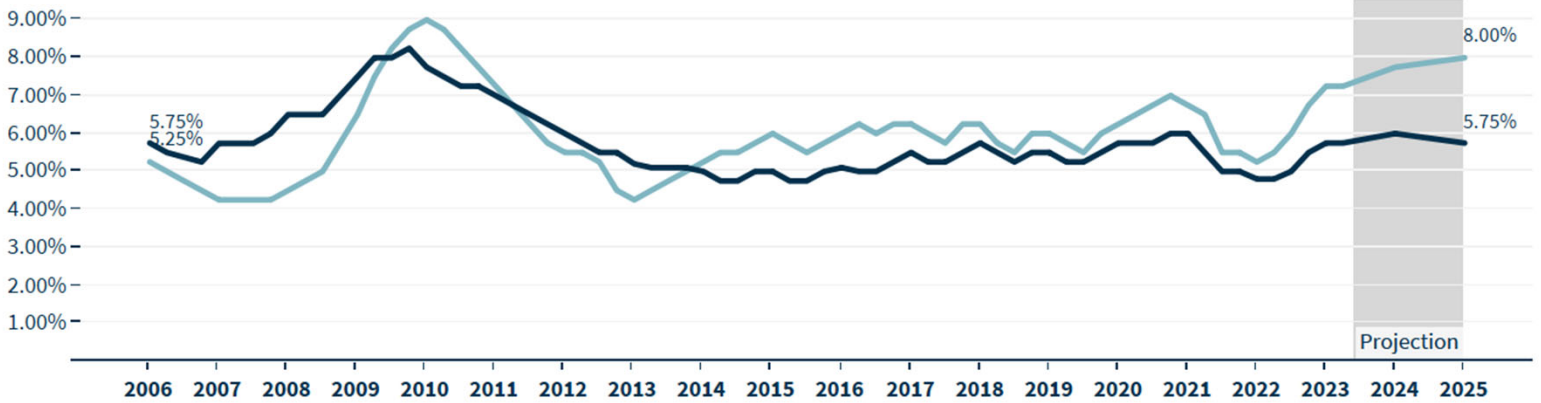
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Charlotte | National

Q2 2023 Vacancy Rate:

7.25%



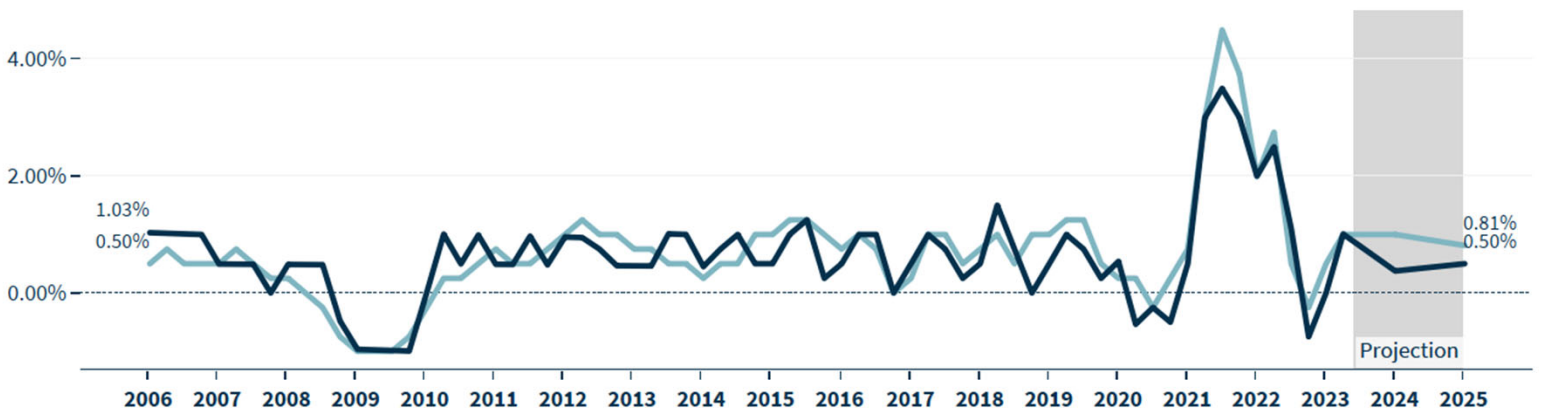
Projection

Asking Rent Growth

Charlotte | National

Q2 2023 Asking Rent:

\$1,420

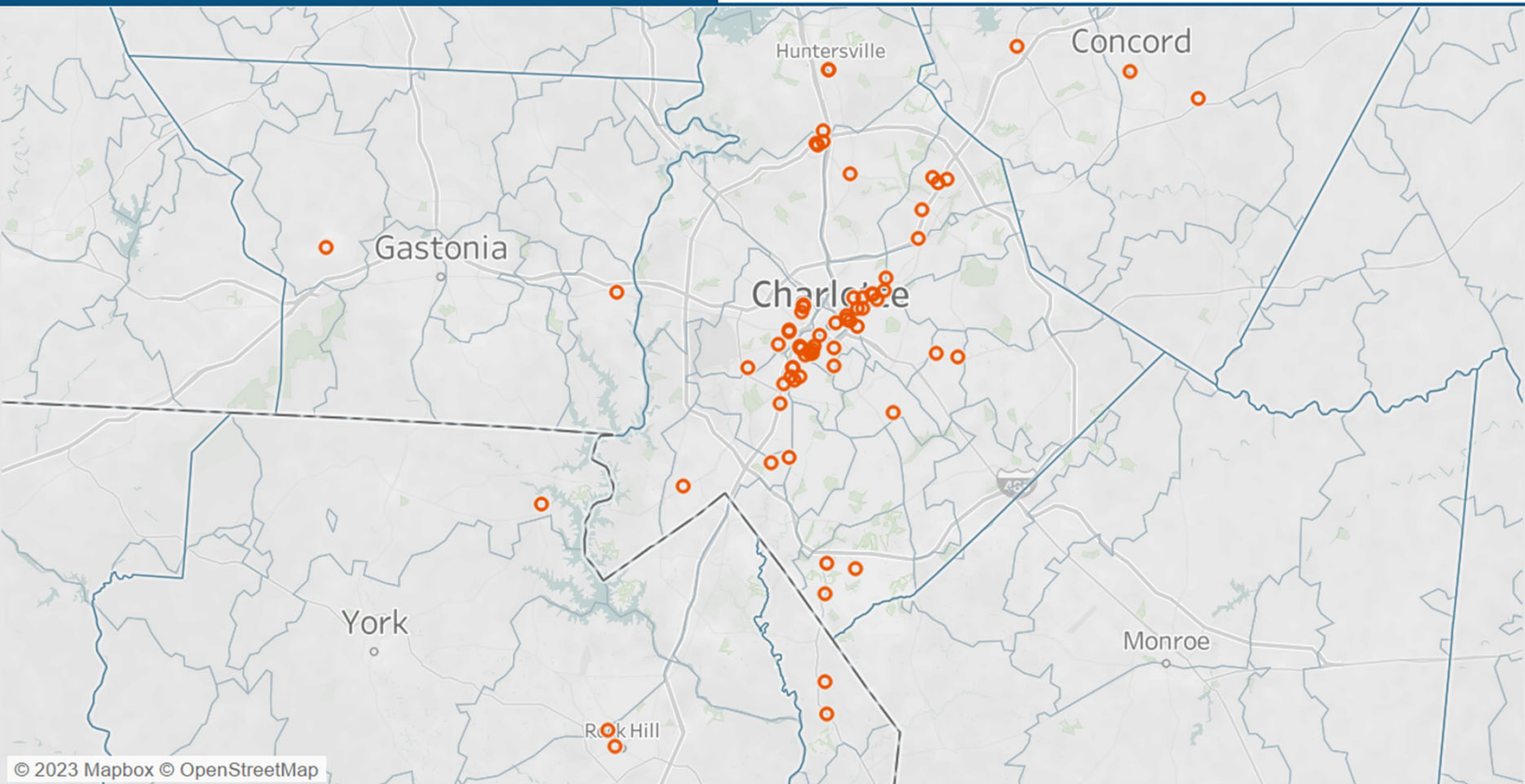


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Ballantyne	3	885
Concord/Kannapolis/Salisbury	3	700
East Charlotte	5	987
Gaston County	2	461
Huntersville/Cornelius	3	621
Myers Park	3	871
North Charlotte	13	3,606
Rock Hill/Fort Mill	5	1,369
Southwest Charlotte	15	3,904
UNC Charlotte	6	2,216
Uptown/South End	13	3,893
Grand Total	71	19,513

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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