

# Charlotte, NC

Multifamily Housing Update

March 2011

## EXECUTIVE SUMMARY

**E**mployment trends in the Charlotte MSA improved in the second half of 2010. Payroll headcounts advanced 4,200 (0.5%) year-over-year in 3Q10 and 4,500 (0.6%) y-o-y in 4Q10. Moreover, data from the BLS's household survey show that total employment surged 14,570 (2.0%) y-o-y in the fourth quarter and the metro unemployment rate declined from 12.2% in December 2009 to 10.7% in the same month last year.

Recent payroll gains were partially attributable to hiring among business and financial service firms. Professional, scientific and technical service providers added 3,700 jobs while administrative support service firms created 3,900 positions to payrolls y-o-y in 4Q10. Likewise, the financial service sector created 400 positions y-o-y, following a -1,300-job decrease in the 3Q10.

On a seasonally-adjusted basis, metro payrolls rose only 100 jobs in the fourth quarter. According to the Manpower Employment Outlook Survey, job growth will continue in the first three months of 2011. Indeed, 17% of area firms expressed plans to add workers, outnumbering the 11% that anticipated job cuts.

The **RED CAPITAL Research (RCR)** econometric payroll model predicts that payroll gains will accelerate over the next couple of years. Net job formation is expected to total 13,900 (1.7%) this year and 21,300 (2.6%) in 2012. Economy.com also predict a strong recovery as payroll rise 18,870 jobs in 2011 and 24,740 jobs in 2012.

Home price and sales trends deteriorated in the fourth quarter. According to the Case-Shiller home price index, area home prices plunged -4.4% y-o-y in December, a steeper loss than the -2.2% drop in the composite index of

the top 20 markets. Sales velocity figures from the Charlotte Association of Realtors also were down y-o-y. The source count 5,067 sales of single-family homes and condos, -11.7% fewer than were sold in the comparable period of 2009.

Apartment demand surged in 2010, producing a 290 basis point improvement in occupancy from 88.7% in December 2009 to 91.6% in December 2010. Property managers net leased 4,782 units during the year, including 1,017 units in the fourth quarter. By comparison, positive net absorption totaled only 338 units in 2009. Tenants preferred Class-A rentals, pushing the stock's occupancy rate up 380 basis points y-o-y to 92.8%. By comparison, Class B/C occupancy rose 200 basis points to 90.3%.

Bolstered by strong demand, property managers reduced concessions and increased rents last year. At year-end 2009, the size of the average concession package was equal to 11.5% of asking rent or roughly 1.4 months free-rent on a twelve-month lease. But concessions fell to 10.2% of asking rent (1.2-months free rent) in 4Q10. As a result, the pace of y-o-y effective rent growth accelerated to 2.4%, the fastest pace observed since 3Q08 (+3.5%).

Real Capital Analytics report that multifamily asset sales volume rose from only \$42 million in 2009 to \$206.9 million in 2010. Owing to the quality of properties that sold, the average price was \$108,092 per unit.

Based on an assumed 6.4% going-in yield, **RCR** expect a 10.9% unlevered five-year holding period total return, 4<sup>th</sup> highest among the **RED 50**. But elevated historic NOI growth trend volatility produces a less favorable (27<sup>th</sup> ranked) measure of risk-adjusted return.

## SNAP SHOT

|                                   | Y-o-y change | Projected 2011 |
|-----------------------------------|--------------|----------------|
| Vacancy<br>(8.4% - 4Q10)          | ↓ 290bps     | ↓ 110bps       |
| Effective Rents<br>(\$720 - 4Q10) | ↑ 2.4%       | ↑ 3.7%         |
| Cap Rate<br>(8.1% - 4Q10)         | ↑ 180bps     | ↓              |
| Employment<br>(811.1m - 4Q10)     | ↑ 4.5m       | ↑ 13.9m        |

## KEY POINTS

- The metro vacancy rate decreased 40 basis points sequentially and 290 basis points year-over-year to 8.4% in 4Q10. Strong apartment demand was responsible. Property managers net leased 4,782 units, outpacing supply of 2,235 units in 2010.
- Asking and effective rent growth rebounded during the fourth quarter. Face rents advanced 1.0% year-over-year, while effective rent rose at a 2.4% annual pace to \$720.
- Reis were aware of only three apartment properties under construction in February. Each of the assets are scheduled to open this year, adding 825 units to the rental inventory.
- Charlotte registered a -4.4% year-over-year decrease in the Case-Shiller home price index in December, ranking 11<sup>th</sup> highest among the top 20 markets.
- Real Capital Analytics identify nine transactions involving properties priced at or above \$5 million in 2010. Sales volume totaled \$206.9 million and the average price per unit was \$108,092.



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