

What's on deck for Charlotte's apartment market amid the Covid-19 pandemic

By [Jenna Martin](#) – Digital Editor, Charlotte Business Journal
Jun 9, 2020, 6:50am EDT

The Charlotte metro's apartment inventory has grown during the past decade at a faster clip than any other major U.S. market, but the Covid-19 pandemic is likely to put a damper on demand in the near term.

That was one topic addressed during a recent webcast by RealPage Inc. (NASDAQ: RP), a Texas-based real estate analytics firm, which provided an update on Charlotte's apartment market. RealPage's chief economist, [Greg Willett](#), and market analyst, [Adam Couch](#), led the market update.

During the presentation, Willett said there have been more than 55,200 apartments completed in the Charlotte metro since early 2010. That number represents inventory growth over the past 10 years of nearly 34%, a percentage that is the largest of the nation's major markets in this current cycle.

Following Charlotte for most growth of apartment inventory in the past decade are the metros of Austin, Texas — a 29.7% increase; Nashville, Tennessee — a 29.5% increase; and Salt Lake City, a 26.5% increase. The Raleigh-Durham market trailed in fifth place with growth of 25.5%.

Willett said that apartment deliveries in the Charlotte metro will remain high, with more than 12,500 units currently under construction. That'll grow the local apartment stock by another 6.5%.

The local metro ranked 14th in the U.S. for most new product on the way, according to RealPage's data. Dallas-Fort Worth in comparison has nearly 43,000 apartments under construction, the most of any market in the nation. The metros of Washington, D.C., and Houston followed in second and third place, with 32,171 and 26,342 units under construction, respectively.

Willett noted the current pandemic has tempered performance expectations for markets across the U.S., with job growth over recent years now wiped out. He pointed out, however, several positives for housing demand in the Charlotte metro, including a diverse industry mix, having an airport hub, home affordability relative to other major markets and high homeownership rate — 72.5% versus national average of 65.3%, among others.

Apartment renewals remain steady in the Charlotte metro amid the pandemic — 51.6% of apartment renters with an expiring lease opted to renew, marking a record for the metro. That rate, based on a four-quarter average, is slightly more than a year ago and nearly three percentage points higher than in 2017. But it still trails the national standard of 54% for apartment resident retention.

Meanwhile, the number of apartment leases signed by new residents in the Charlotte metro just recently swung back into positive territory, increasing an annual 10% in late May, Couch said. That's after plummeting as much as 54% in late March as the pandemic took hold across the nation.

Occupancy

As for apartment occupancy in the Charlotte metro, hovering at 95.1%, it remains near the same level as a year ago and is on par with the national rate of 95.4%, Couch said. He called Charlotte's track record for occupancy impressive, given the high number of new units delivering here in the past decade.

Willett, however, anticipates a "moderate decline" in local occupancy, slipping to around 94% through early 2021. But he doesn't foresee apartment occupancy here dropping back to levels experienced in the wake of the Great Recession, when it took a big hit and fell to under 90%.

Willett expects occupancy will begin to rebound in late 2021 and return to near today's levels "fairly quickly," so long as the current health crisis doesn't linger.

Currently, occupancy for Class A apartments — the most upscale — is the lowest in Charlotte's metro area, at 93.6%. That compares to a 95% occupancy level for Class B units and 96% for Class C product.

"That figure (for Class A apartments) could drop quite a bit in the near term when a lot more of new supply will come on stream at a time when the demand volume probably won't be all that great," Couch said.

Class C occupancy in the Charlotte metro is also at risk as that product is susceptible during times of recession, Couch said. During the last recession, it dropped to 86%.

Rent

In the Charlotte metro, 95.3% of apartment residents paid their rent as of May 27 — down 2.6% from the same point in 2019, said Willett, noting that "it's really not a bad result considering the magnitude of local job loss."

"Rent collections certainly could become more challenging in the coming months, especially once enhanced unemployment payments provided by the CARES Act run

their course," he said. "That bonus money is scheduled to run out in July but could be extended."

Annual growth in the amount Charlotte-area apartment operators are asking for rent has slowed to 1.2% from about 4% in 2019, per RealPage data.

On the other hand, rent prices on executed leases began dropping in mid-March. They have since fluctuated from annual declines of 2% to 10% and, as of May 23, were down about 7%. While still not a perfect data set, rent prices for new-resident leases more accurately portray the current rent environment, Willett said.

He predicts annual changes in asking rent in the Charlotte metro also will start falling, following the national trend. Willett projects local rent will dip 4% over the year in early 2021 before regaining some ground to post growth of about 2% by the end of the year.

Submarket performance

Growth in Charlotte's apartment inventory has been led by the uptown/South End submarket, which has seen about 12,600 new units added since early 2010. That figure, accounting for about 23% of building in the metro area, is double the total number seen in other local neighborhoods.

"In the Sunbelt I think our perspective is it's pretty much business as usual once we get past the health crisis, that both the urban core and the suburbs in markets like Charlotte are going to perform pretty darn well," Willett said.

During the webcast, Willett and Couch provided a snapshot of apartment performance for the following Charlotte-area submarkets.

Uptown/South End

- Existing stock: 19,667
- Units under construction now: 2,000-plus
- Rent change: down 0.4%
- Monthly rent: \$1,676
- Occupancy: 93.2%
- Near-term inventory growth: 10.1%

Southwest Charlotte

- Existing stock: 18,657
- Units under construction now: nearly 1,900

- Rent change: up 1%
- Monthly rent: \$1,143
- Occupancy: 95.2%
- Near-term inventory growth: 10%

UNC Charlotte

- Existing stock: 16,864
- Units under construction now: about 1,700
- Rent change: up 1.9%
- Monthly rent: \$1,125
- Occupancy: 94.6%
- Near-term inventory growth: 10.5%

Rock Hill/Fort Mill

- Existing stock: 17,601
- Units under construction now: about 600
- Rent change: up 4.9%
- Monthly rent: \$1,122
- Occupancy: 94.8%
- Near-term inventory growth: 3.5%