

Charlotte Business Journal - November 13, 2006

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Apartment market sees better rates, vacancies

Charlotte Business Journal - November 10, 2006

by [Bea Quirk](#)

Contributing Writer

Apartment properties are a bright light in a market worried about the strength of demand of for-sale housing.

The vacancy rate in the Charlotte market -- which includes Mecklenburg, Union, Cabarrus, Iredell, Gaston and York counties -- was 6.8% in August, down from 8.8% in February and 8.2% in August 2005. The rate was 10.5% in August 2004, and the current rate hasn't been this low since August 2000 when it was 6.6%, according to figures compiled by Charlotte-based Real Data.

"The recession of 2000 hit us harder locally than nationally, and that caught us off guard. Charlotte is used to being better off than the nation during slowdowns," says Jud Little, president of the apartment division of Crosland Inc. "We had a lot of manufacturing job losses, and the banks stopped expanding. Job growth makes the world go round, and if you have flat job growth or a loss of jobs, apartments don't get absorbed."

The Charlotte Chamber reports new and expanding businesses created 13,418 jobs last year and are on pace for about the same number this year. There were 11,761 jobs created in 2004. (The chamber does not track lost jobs.)

Business investment through the third quarter this year has already broken all records, totaling \$2.9 billion. The previous record was \$2.1 billion; the 2005 figure was \$1.3 billion.

Developers see a decline in vacancy rates as a signal to build more units. Some 2,070 units were started between February and August, adding to the 3,163 already under construction. It's been three years since that combined figure has topped 5,000 units. In addition, another 7,349 units have been proposed.

Most of the activity is being seen in the north, southwest and University areas of Mecklenburg County. Jay Sumner, an apartment broker and first vice president at CB Richard Ellis, expects to see more apartments going up along Interstate 485 as more interchanges open.

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"These are not unsustainable numbers -- I don't see things as being overheated," says John Porter, senior vice president at Charter Properties.

The market is finally recovering from what Ken Szymanski, executive director of the Charlotte Apartment Association, calls the "perfect storm" that created a glut of unoccupied units. Low interest rates prompted a horde of renters to become home buyers, while overbuilding in the late 1990s and a weak job market conspired to sap demand.

"New job growth has been the biggest factor in the recovery -- it's what the apartment business is all about -- but there has also been pent-up demand as developers weren't building," Szymanski adds. For example, for the year ending in February, construction began on just 1,545 units. For the six months ending in August, the total was 2,070.

Also helping the rental market is the tightening of underwriting criteria for home loans, limiting the number of qualified home buyers.

"It's harder to get a mortgage these days, and so some people are becoming renters again," he says.

The quoted average monthly rental rate in the Charlotte market rose to \$695 in August from \$646 in February 2005, the lowest figure in several years. Despite the increase, the figure is lower than the August 2001 average of \$713.

But, notes Szymanski, tenants were actually paying less in recent years, as landlords were offering free rent as an incentive. Those incentives pretty much dried up in the spring in what Porter describes as a "very quick process. One month they were there, and the next they were gone."

There are large disparities in rental rates in the market. For example, the average rent in apartments built within the last five years is \$834, while the average for units 30 years and older is \$552. One-bedroom units average \$611, two-bedroom units \$714, and three-bedroom units \$862.

Obstacles remain

But it's not all smooth sailing for apartment developers. "It's very difficult to get zoning for our product, and the condo folks are outbidding us for land," Porter says. "And rental rates still have a long way to go to catch up to construction costs," which have increased significantly. Still, he notes, "investors are accepting lesser returns."

Little says a unit that cost \$80,000 to build a few years ago now costs \$100,000. "There's still a cap on what you can charge in this market," he notes. "It's hard to make the numbers work." Even so, Crosland is building at Blakeney and Alpha Mill, and has plans for other projects that haven't been announced.

Charter Properties has 336 apartments under construction at Stelecroft Farm in southwest Mecklenburg, and it has plans to begin a 300-unit complex near Northlake mall in the spring. But Porter says his company -- and others -- are dealing with a land planning permitting process that he calls "ridiculously long."

He's found "a lot of inconsistency that seems to be the result of disagreements between departments, and we are the ones who are left to resolve them."

Despite these challenges, optimism reigns. Says Sumner, "The activity isn't going to abate. Only something cataclysmic could stop it."

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