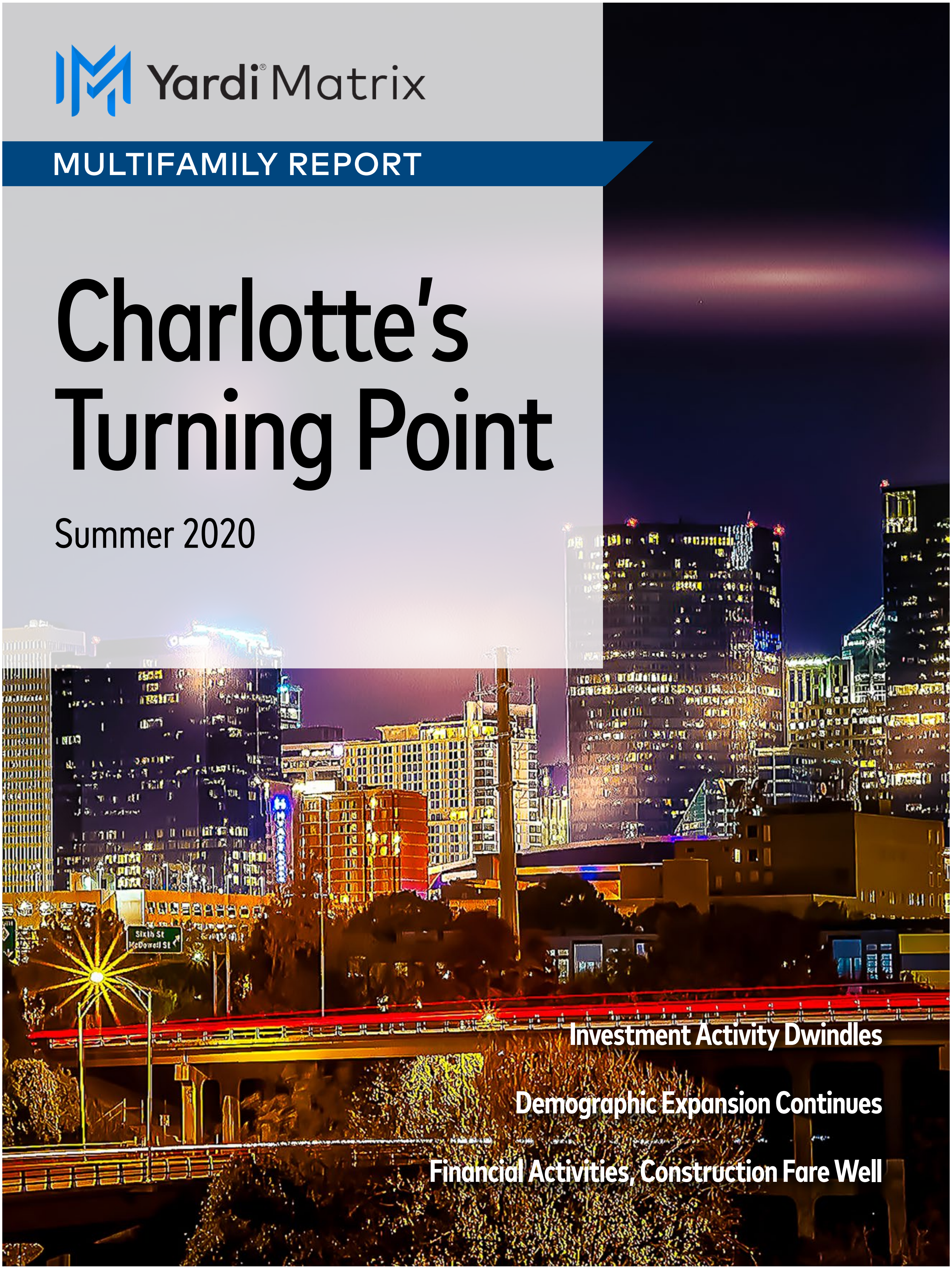
Yardi Matrix

MULTIFAMILY REPORT

Charlotte's Turning Point

Summer 2020



Investment Activity Dwindles

Demographic Expansion Continues

Financial Activities, Construction Fare Well

Yardi Matrix

Queen City Hits the Brakes

Despite the ongoing pandemic, steady fundamentals kept Charlotte's multifamily market relatively healthy in the first half of 2020, with rent gains mirroring the national trend. The average rent in the metro contracted just 0.3% in the second quarter, hitting $1,193. Meanwhile, the U.S. average slid to $1,457.

More than 1.1 million North Carolinians applied for unemployment benefits between March 15 and June 30, according to the N.C. Division of Employment Security. All employment sectors excluding financial activities and construction contracted year-over-year through May, bringing the jobless rate to 13.2%, according to preliminary data from the U.S. Bureau of Labor Statistics. To partly offset the effects of the health crisis, $30 million of the federal coronavirus aid bill was set aside for small businesses. Large investments are also planned for the metro. Centene, a health care administration company, intends to spend $1 billion on a 1 million-square-foot East Coast headquarters, a move expected to generate 6,000 jobs.

Transaction activity dampened notably after the pandemic hit, with deals totaling only $464 million in the first half of 2020. Meanwhile, developers delivered 2,313 units and had another 14,249 apartments under construction as of June. Considering the current economic climate, we expect Charlotte rents to contract 3.4% this year.

Market Analysis | Summer 2020

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Recent Charlotte Transactions

Stone Ridge

City: Charlotte, N.C.
Buyer: Investors Management Group
Purchase Price: $53 MM
Price per Unit: $166,274

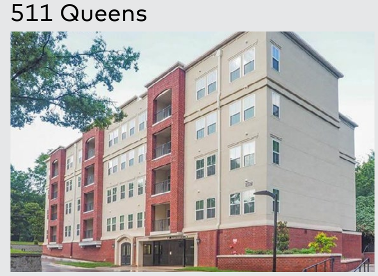
Braxton at Lake Norman

City: Mooresville, N.C.
Buyer: Handford Capital
Purchase Price: $50 MM
Price per Unit: $215,323

Solis Keltonwood at Berewick

City: Charlotte, N.C.
Buyer: Myers Apartment Group
Purchase Price: $44 MM
Price per Unit: $191,000

511 Queens



City: Charlotte, N.C.
Buyer: Sherman Residential
Purchase Price: $20 MM
Price per Unit: $313,281

RENT TRENDS

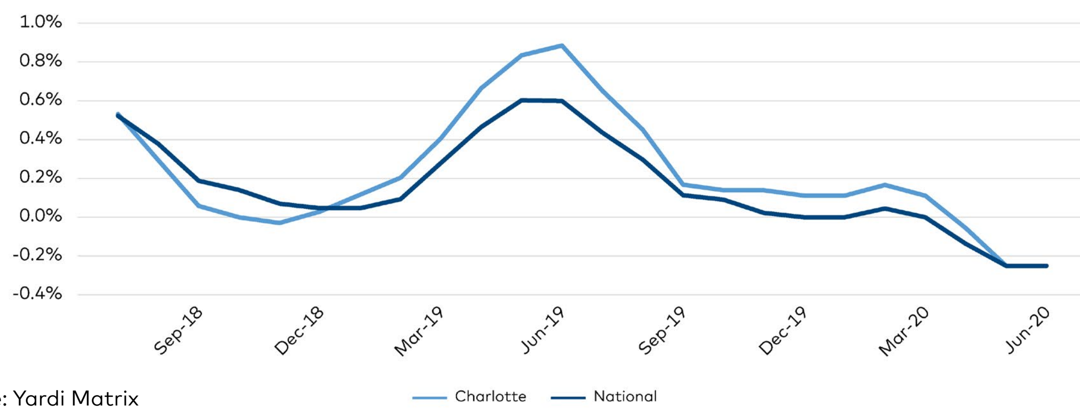
- The average rent in Charlotte contracted 0.3% to $1,193 in the second quarter—on par with the U.S. rate. The Lifestyle segment recorded a steep decline—down 0.4% to $1,314—while rents in the working-class Renter-by-Necessity segment inched up 0.1% to $975.

- The city of Charlotte and the Charlotte-Mecklenburg Housing Partnership provided homeowners and property managers with mortgage relief through the Emergency Rent Assistance Program. Individuals and families unable to pay rent due to COVID-19-related financial hardship were also eligible for help.

- Charlotte rents followed a trend apparent across many other U.S. markets since the onset of the pandemic. Rents dropped the most in the metro's priciest submarkets: Uptown (-2.8% year-over-year through June to $1,879), Second Ward (-4.2% to $1,439) and Third Ward-Lakewood (-4.1% to $1,413).

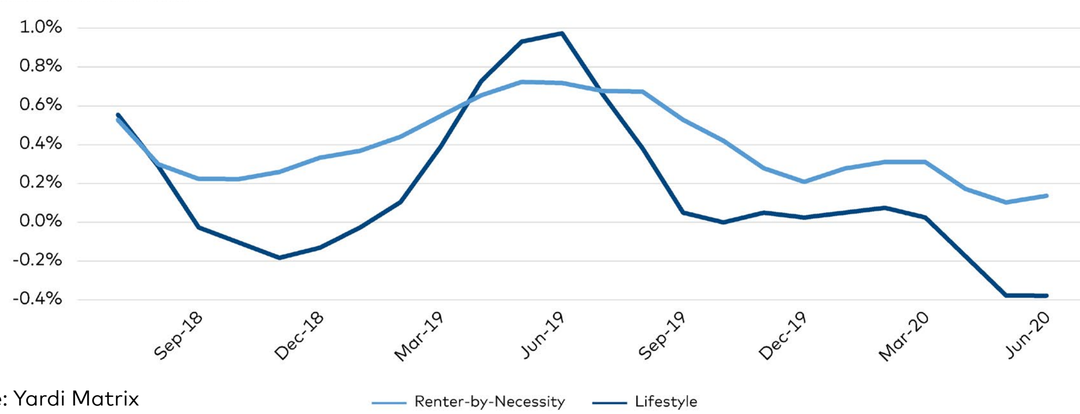
- In mid-March, a moratorium on evictions and utility cut-offs was put in place across North Carolina. Housing providers offered tenants flexible payment-plan options and waived late fees to mitigate the coronavirus-induced loss of income. While indicators for June were generally more positive for the industry than in April or May, the future remains uncertain, and collecting rents could prove challenging in the third and fourth quarters.

Charlotte vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Charlotte Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- As the effects of the coronavirus outbreak began to ripple through the economy, Charlotte's job growth came to an abrupt halt. According to preliminary BLS data, the unemployment rate rose to 13.2% in May—the highest rate among major North Carolina markets. Raleigh-Cary (11.5%) and Durham-Chapel Hill (10.6%) also hit double-digit figures.

- All sectors but financial activities and mining, logging and construction contracted year-over-year through May. The Queen City has been diversifying its economy in the last decade, which has shielded it to some extent from the effects of the health crisis. Apart from being one of the largest banking centers in the country, the metro is also a fintech hub. Charlotte's business appeal is evident by several recent relocations to the area by companies including Honeywell and Truist Bank. Centene, a health care administration company, also selected Charlotte for the location of its new 1 million-square-foot East Coast headquarters. The firm plans to invest $1 billion in the development of a campus that will generate 6,000 new jobs.

- The CARES Act distributed more than $4 billion to North Carolina at the end of March to cover COVID-19 expenses, with local governments, schools, hospitals and state agencies receiving a $150 million, second round of relief.

Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
55	Financial Activities	106	9.6%
15	Mining, Logging and Construction	69	6.3%
50	Information	23	2.1%
30	Manufacturing	104	9.4%
80	Other Services	35	3.2%
60	Professional and Business Services	198	17.9%
65	Education and Health Services	115	10.4%
90	Government	143	13.0%
40	Trade, Transportation and Utilities	228	20.7%
30	Manufacturing	235	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Last year, Charlotte gained 43,224 residents. That marked a 1.7% demographic expansion, more than five times the national average.

- In the last decade, the metro's low cost of living, increasing mobility and diversifying economy have attracted and retained a young talent pool.

Charlotte vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Charlotte Metro	2,474,478	2,524,863	2,569,213	2,612,437

Sources: U.S. Census, Moody's Analytics

SUPPLY

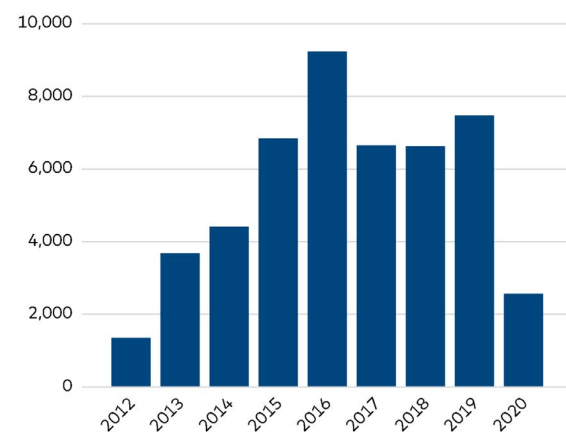
- Charlotte's pipeline had 14,249 units under construction as of June, of which 9,245 were initially scheduled for delivery in 2020. Despite construction being deemed essential during the lockdown, projects could face some delays, having been impacted by social distancing guidelines and supply chain disruptions.

- Developers brought 2,313 units across nine properties online during the first half of the year, which accounted for 1.4% of total stock and registered 40 basis points above the U.S. average. Mirroring a nationwide trend, most projects—recently completed and underway projects—catered to the Lifestyle segment. Considering the job losses and furloughs that stemmed from the coronavirus crisis—most of which were in lower-income positions—the RBN segment could also face some volatility going forward.

- As of June, half of the construction pipeline was clustered in just five submarkets: Southwest Charlotte (1,629 units underway), Colonial Village-Montclaire (1,432), Uptown (1,213), Lancaster County (1,161) and Hidden Valley-Oak Forest (1,155). The largest delivery of the year so far was Bradham at New Bern, a 432-unit property by Lennar Multifamily Communities.

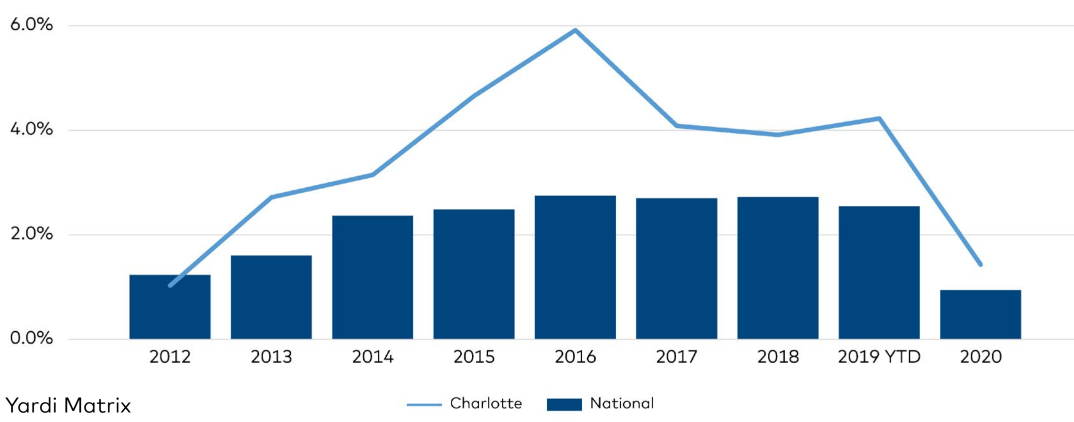
- Charlotte's multifamily market kicked off 2020 on the right foot, recording high demand and healthy absorption prior to the health crisis. And while construction slowed temporarily, development is expected to pick up steam, with developers adapting to the new conditions.

Charlotte Completions (as of June 2020)



Source: Yardi Matrix

Charlotte vs. National Completions as a Percentage of Total Stock (as of June 2020)



Source: Yardi Matrix

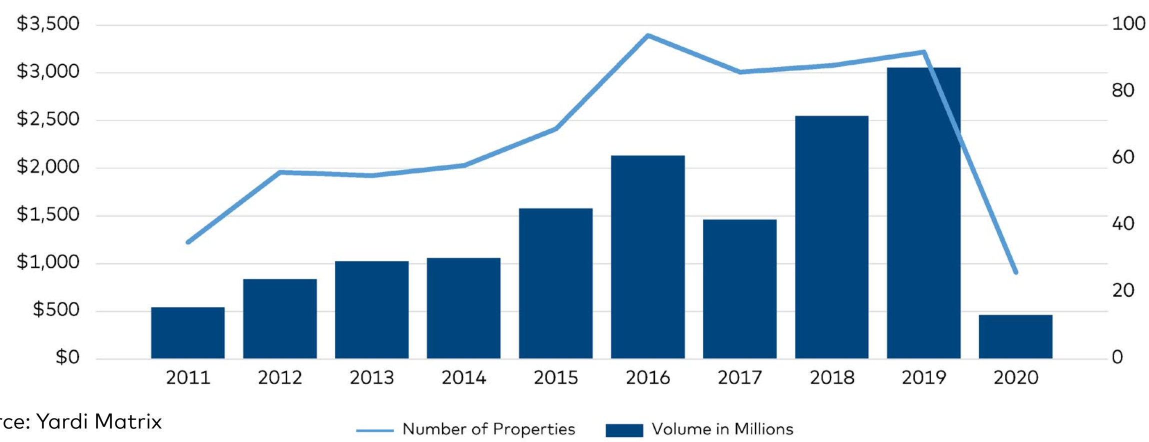
TRANSACTIONS

- After last year's cycle peak of $3.1 billion in multifamily assets traded across the metro, the first two quarters of 2020 totaled only $464 million in sales. With 17 of the 26 properties traded in the Renter-by-Necessity segment, the price per unit clocked in at $131,794, below the $163,799 U.S. average.

- Three metro's urban core submarkets—Foxcroft, Colonial Village-Montclaire and Uptown—accounted for a quarter of the $2.3 billion total transaction volume in Charlotte in the 12 months ending in June.

- Stay-at-home orders disrupted real estate transactions, and in-person showings were only possible at vacant properties in Mecklenburg County. The slowdown in transactions will likely continue, as the North Carolina governor has extended the Phase 2 of the state's reopening through September.

Charlotte Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

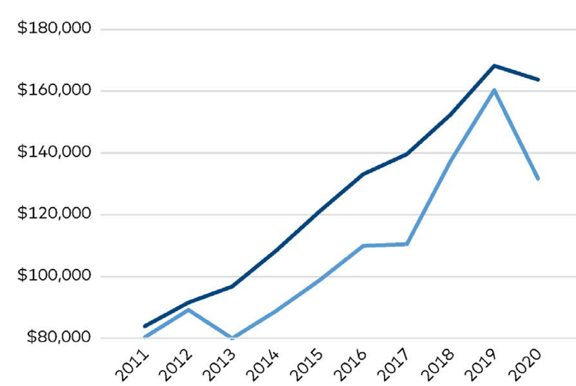
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Foxcroft	230
Colonial Village-Montclaire	178
Uptown	171
Southwest Charlotte	151
Tryon Hills	150
North Charlotte	141
Wedgewood	110

Source: Yardi Matrix

[1] From July 2019 to June 2020

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Investing Across Sun Belt Markets

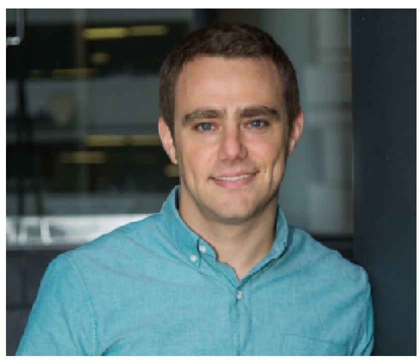
By Adina Marcut

With a portfolio of more than 5,000 units throughout the U.S., Houston-based Sun Holdings Group is particularly focused on investing in Texas and Georgia. According to Yardi Matrix data, more than half of the company's holdings are across these states. Sun Holdings Managing Partner Ido Blatt discusses what makes Sun Belt markets attractive and what investors should do to better manage the current economic disruption.

What led you to invest in the Sun Belt and do you plan on expanding to other markets?

We gravitate toward the Sun Belt markets due to affordability and job growth, strong economics and warmer weather. Texas has shown a tremendous amount of population growth and job growth in the past few years, which translates into strong apartment demand. However, the main challenge in Texas is the relatively low barriers to entry, which results in elevated supply levels. Additionally, since real estate taxes are higher than other states, coupled with the metro being a non-disclosure state—this combination adds more uncertainty and risk for investors. We continue to look at other states across the Sun Belt markets, specifically Florida and the Carolinas, which often demonstrate strong apartment fundamentals.

How should housing investors respond to the COVID-19 crisis?



Investors should be cautious about transacting at yesterday's prices and need to adjust downward their rents/occupancies and net operating income assumptions in their underwriting. However, there are still attractive deals out there, if executed at the right basis and allowing for longer-term investment horizons.

What steps do you intend to take for a smooth recovery?

We will continue to work with residents on customized payment plans or rent deferments to soften any financial hardship they may be experiencing. Strengthening our relationship with our tenants will assist in renewals and limit our exposure. As investors, we hold off on distributions to our investors and make sure we have ample cash reserves as we need to be disciplined during this crisis.

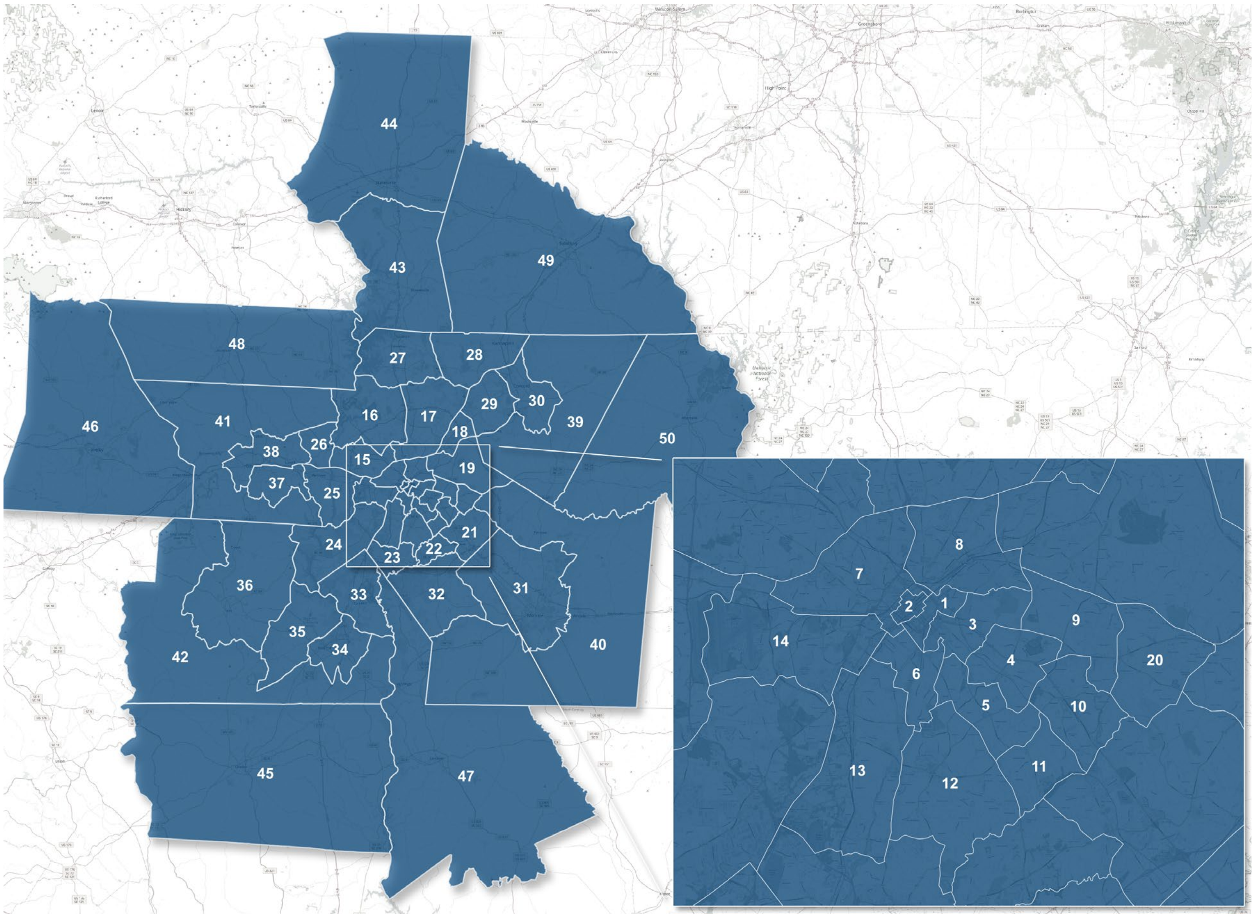
How do you see the multifamily sector going forward?

As long as the uncertainty sustains and we don't have a clear path to recover from the pandemic and associated economic crisis, there is a wide range of opinions on values and disconnect between buyers and sellers. Long-term implications of the crisis are higher vacancy rates, stagnant-to-reducing rent levels and increasing delinquency.

Once certainty returns, transaction volume will increase, and the relatively stable income streams of the apartment sector and still relatively attractive yields will lure the surplus of liquidity and create a healthy, competitive landscape.

(Read the complete interview on multihousingnews.com.)

CHARLOTTE SUBMARKETS



Area No.	Submarket
1	Second Ward
2	Uptown
3	Morningside
4	Briarcreek–Oakhurst
5	Cotswold
6	Myers Park
7	Third Ward–Lakewood
8	Tryon Hills
9	Eastland–Windsor Park
10	Coventry Woods–East Forest
11	Stonehaven–Lansdowne
12	Foxcroft
13	Colonial Village–Montclaire
14	Southside Park–West Blvd.
15	Northwest Charlotte
16	Wedgewood
17	North Charlotte

Area No.	Submarket
18	UNC at Charlotte
19	Hidden Valley–Oak Forest
20	Becton Park–Marlwood
21	Matthews
22	Wessex Square
23	Pineville
24	Southwest Charlotte
25	Belmont
26	Mount Holly
27	Huntersville
28	Kannapolis
29	Concord–West
30	Concord–East
31	Monroe
32	Ballantyne–Providence
33	Fort Mill
34	Rock Hill–East

Area No.	Submarket
35	Rock Hill–West
36	York
37	Gastonia–South
38	Gastonia–North
39	Outlying Cabarrus County
40	Outlying Union County
41	Outlying Gaston County
42	Outlying York County
43	Mooresville
44	Statesville–North Iredell County
45	Chester County
46	Cleveland County
47	Lancaster County
48	Lincoln County
49	Rowan County
50	Stanly County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also June span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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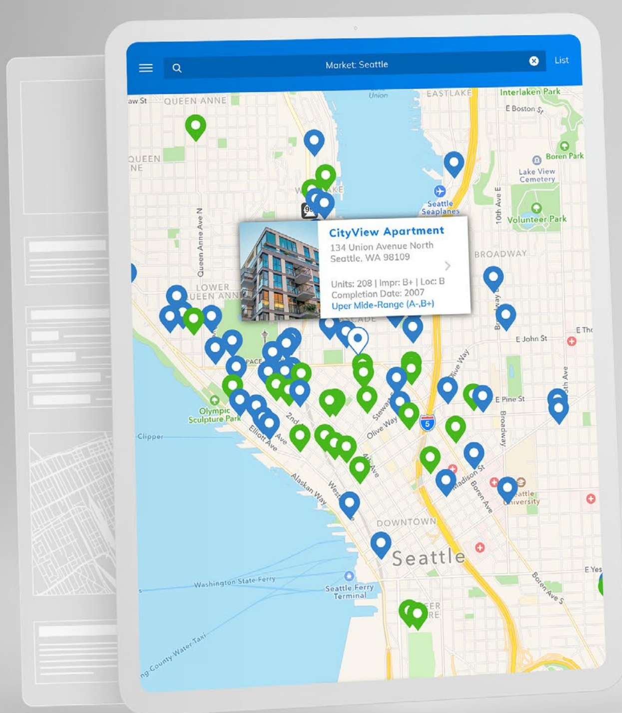

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