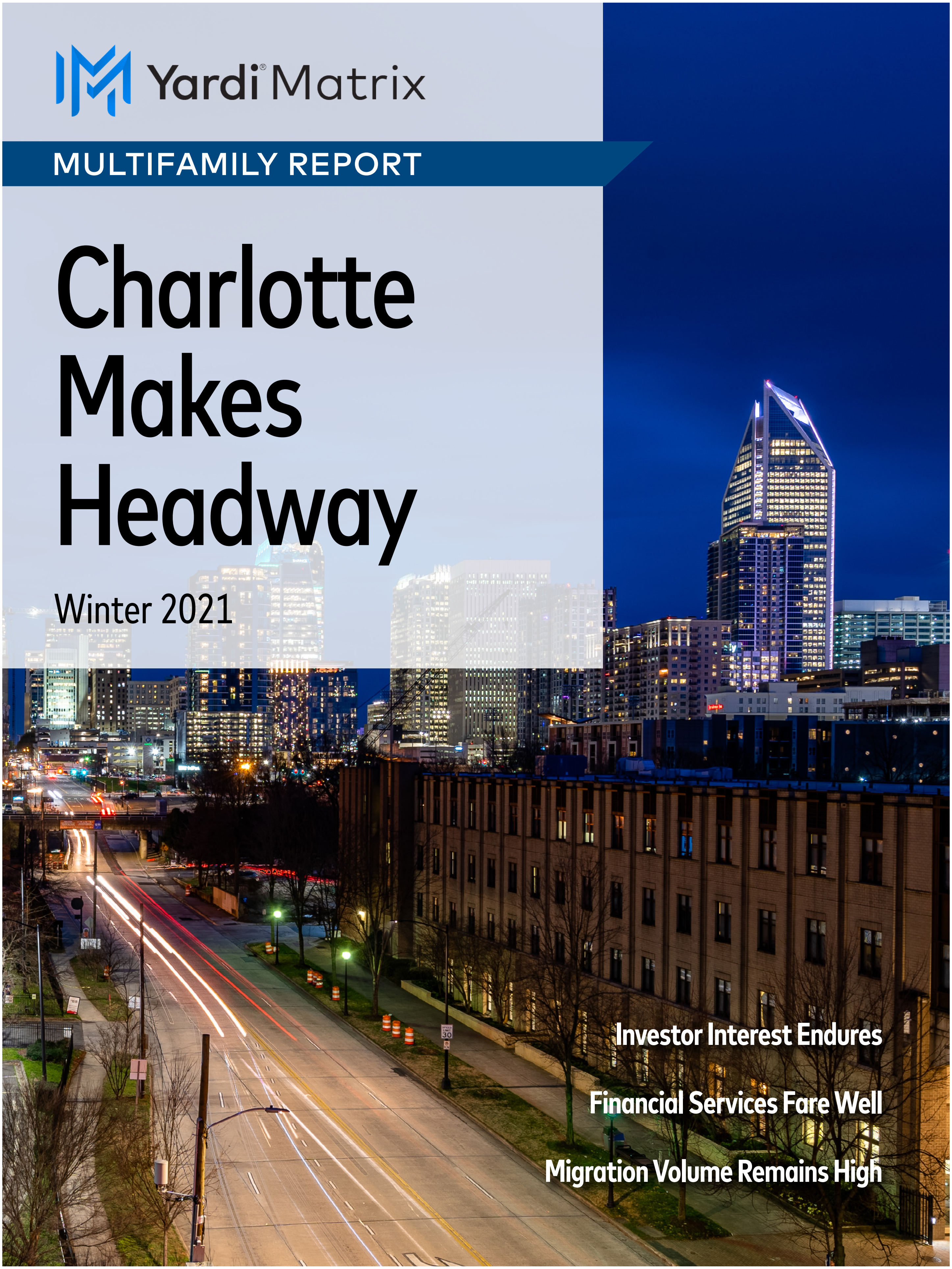
Yardi Matrix

MULTIFAMILY REPORT

Charlotte Makes Headway

Winter 2021



Investor Interest Endures

Financial Services Fare Well

Migration Volume Remains High

CHARLOTTE MULTIFAMILY

Yardi Matrix

Rental Market's Rebound Continues

Although it faced its share of challenges—particularly in the second quarter—Charlotte's multifamily market is on a better path. In November, overall rents averaged $1,229, improving by 0.5% on a trailing three-month basis. Meanwhile, the national rate remained flat.

Charlotte's unemployment rate hit 13.2% in May, but that figure had dropped to 6.0% by October, according to preliminary data from the U.S. Bureau of Labor Statistics. All but one employment sectors contracted in the 12 months ending in September. Banking and finance remained the linchpin of the Queen City's economy, with the financial services sector adding 4,200 jobs. Much of the growth came from fintech, particularly from firms handling online payments during and following last year's national lockdown. Local automation software firm AvidXchange has seen demand increase as companies accelerate digitalization plans. To accommodate growth, AvidXchange is working on a $41 million headquarters expansion north of Uptown, which is expected to create more than 1,200 jobs over the next few years.

A total of $2.2 billion in multifamily assets changed hands across Charlotte in 2020 through November. Going forward, investor appetite for more affordable, less-dense cities with strong talent pools is likely to put Charlotte at an advantage.

Market Analysis | Winter 2021

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Recent Charlotte Transactions

RUSH

City: Charlotte, N.C.
Buyer: TPG Real Estate
Purchase Price: $95 MM
Price per Unit: $286,898

The Apartments at Blakeney

City: Charlotte, N.C.
Buyer: Nuveen Real Estate
Purchase Price: $75 MM
Price per Unit: $252,542

Gateway at Rock Hill

City: Rock Hill, N.C.
Buyer: Southwood Realty
Purchase Price: $51 MM
Price per Unit: $164,423

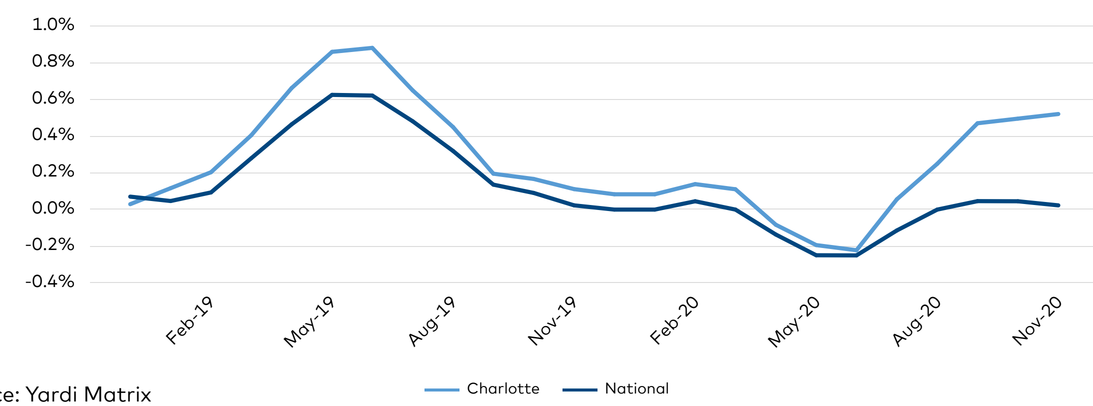
Delta Crossing

City: Charlotte, N.C.
Buyer: Peak Capital Partners
Purchase Price: $25 MM
Price per Unit: $137,640

RENT TRENDS

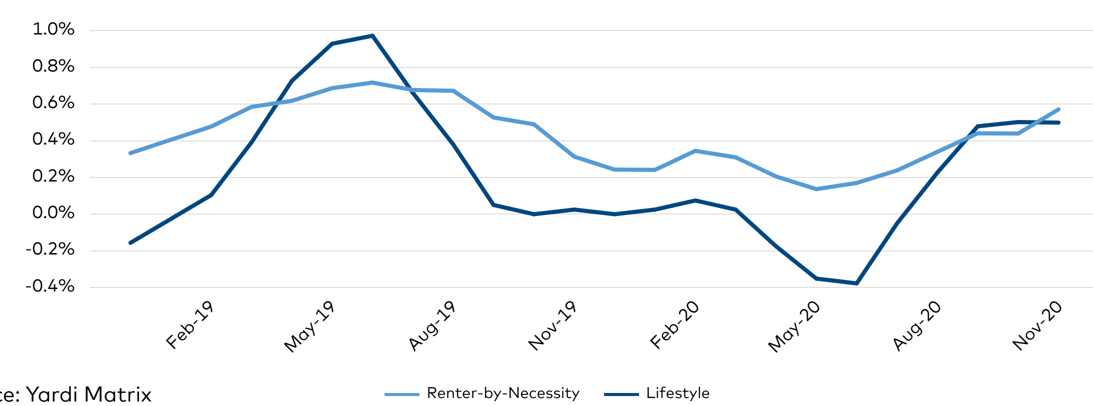
- Charlotte rents rose 0.5% on a trailing three-month basis through November, as the national figure remained flat for the fourth consecutive month. The metro's average rent was $1,229, while the U.S. average clocked in at $1,465. Rental rates stumbled during the second quarter of 2020, only to begin their steady rebound in the second half of the year.
- The working-class Renter-by-Necessity segment led gains, with rates up by 0.6% to $1,004, while Lifestyle rents also increased, by 0.5% to $1,349.
- Charlotte mirrored a trend seen in many other markets since the start of the pandemic-driven economic fallout, when rents dropped the most in the priciest areas and grew in the suburbs or in submarkets favoring the Renter-by-Necessity segment. In the 12 months ending in November, the largest declines were in Uptown (-7.1% to $1,840) and Myers Park (-7.1% to $1,602). At the opposite end, rents improved most in Gastonia-South (8.1% to $1,012), Becton Park-Marlwood (7.8% to $1,069) and Hidden Valley-Oak Forest (7.5% to $1,079).
- In mid-October, a state program created to assist tenants facing financial hardships was launched. More than 37,000 renters who couldn't afford their rent and bills applied for a portion of the program's $117 million to avoid evictions and utility disconnections. Due to high demand, the funds were depleted in less than a month.

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

- Following a decade-long economic boom, with strong new investments and corporate expansions and relocations, the health crisis put an abrupt end to Charlotte's growth. After the initial shock, when unemployment climbed to 13.2% in May, the metro's economy slowly started to rebound. As of October, the rate was down to 6.0%, according to preliminary Bureau of Labor Statistics data.

- Financial services remained the only sector to see employment growth throughout the pandemic. In the 12 months ending in September, the sector added 4,200 jobs. A Charlotte Regional Business Alliance report showed that talent growth was possible due to increased demand for contactless technologies, with financial services companies mostly looking for software developers, QA testers and financial managers.

- Despite pandemic-induced hardships, healthcare administration company Centene broke ground on a $1 billion investment in the third quarter of 2020. The University City submarket will be home to the firm's new 1 million-square-foot East Coast headquarters, which is expected to generate roughly 6,000 jobs in the next few years. Another large-scale project is Carolina Panthers' $500 million new headquarters and football practice facility in Rock Hill, S.C.

Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
55	Financial Activities	108	9.3%
15	Mining, Logging and Construction	69	6.0%
50	Information	23	2.0%
80	Other Services	40	3.5%
40	Trade, Transportation and Utilities	241	20.8%
30	Manufacturing	104	9.0%
60	Professional and Business Services	205	17.7%
90	Government	145	12.5%
65	Education and Health Services	118	10.2%
70	Leisure and Hospitality	104	9.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Having added 43,224 residents in 2019, Charlotte is the second fastest-growing metro in the Carolinas.

- The health crisis has accelerated migration to Charlotte and other Sun Belt metros as residents in densely populated areas like New York City and San Francisco opt to relocate.

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

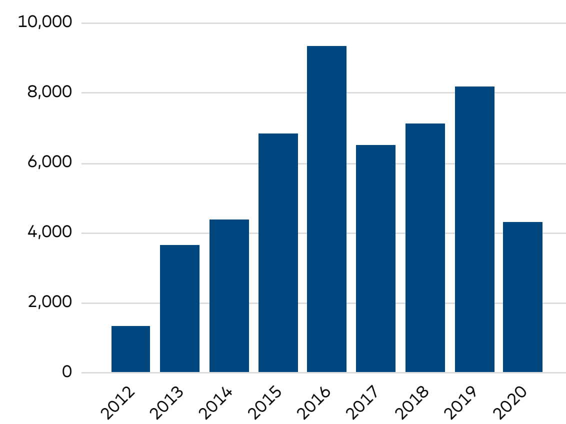
- Charlotte had 14,312 units under construction as of November, with roughly 85% of those aimed at high-income residents. However, COVID-19's impact on the service industry—leisure and hospitality was the hardest hit and lost a third of its workforce—will likely increase demand for Renter-by-Necessity product. Of the underway units, 5,308 were initially scheduled to be completed by the end of 2020, but health crisis-related challenges pushed most of these deliveries to 2021.

- Following the completion of 8,182 units in 2019, developers added only 4,310 units last year through November. Inventory challenges were already an issue even before the pandemic and they are likely to persist. According to a study by the National Multifamily Housing Council and the National Apartment Association, the Charlotte region is expected to need at least 72,000 more apartments by 2030.

- As of November, four submarkets in the immediate vicinity of Interstate 485—Charlotte's beltway—accounted for a little more than a third of the metro's construction pipeline: Colonial Village-Montclaire (1,782 units), Southwest Charlotte (1,355), Hidden Valley-Oak Forest (1,155) and North Charlotte (1,067). The largest property underway was Lennar Multifamily Communities' 549-unit The Ellis.

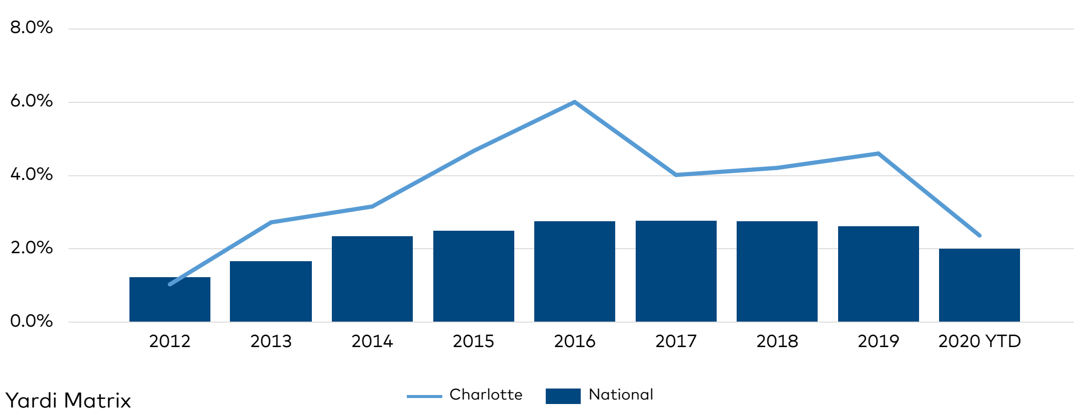
- Charlotte's multifamily market is expected to pick up steam in 2021, considering the downturn in rents was short-lived and prices had recovered by July.

Charlotte Completions (as of November 2020)



Source: Yardi Matrix

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

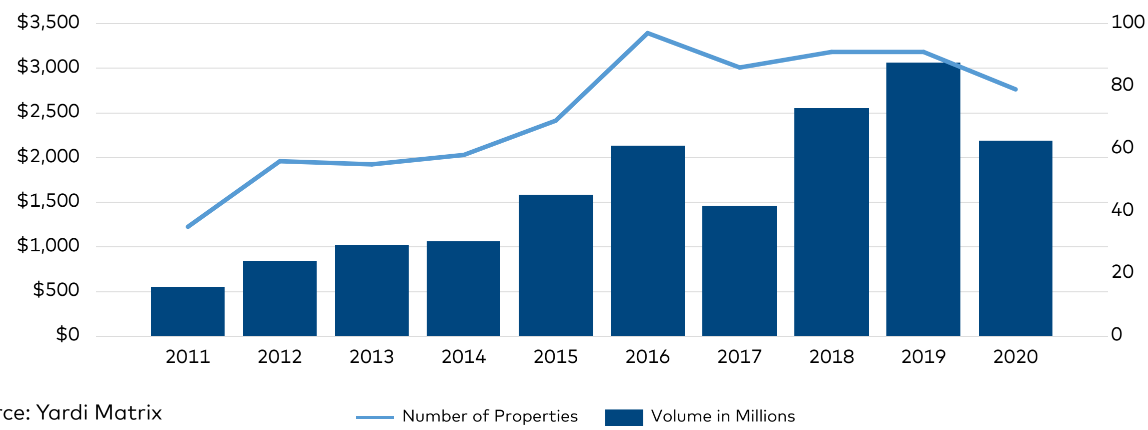


Source: Yardi Matrix

TRANSACTIONS

- Some $2.2 billion in multifamily assets traded in 2020 through November in Charlotte, after 2019's $3.1 billion cycle peak. Following government restrictions during the first months of the health crisis, investment activity was significantly dampened due to ongoing uncertainty, in line with the national trend. Only seven properties changed hands in the second quarter, but investment activity later resumed, with 53 assets trading in the metro between July and November.
- Although the average per-unit price in 2020 clocked in at $146,374—below the $167,022 national figure—it ranked as the second highest value of the cycle, after 2019's $161,009.
- Bucking the national trend, assets in urban core areas continued to attract the most capital, with UNC at Charlotte, North Charlotte and Colonial Village-Montclaire accounting for almost a third of the $2.4 billion total volume over the 12 months ending in November.

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



Source: Yardi Matrix

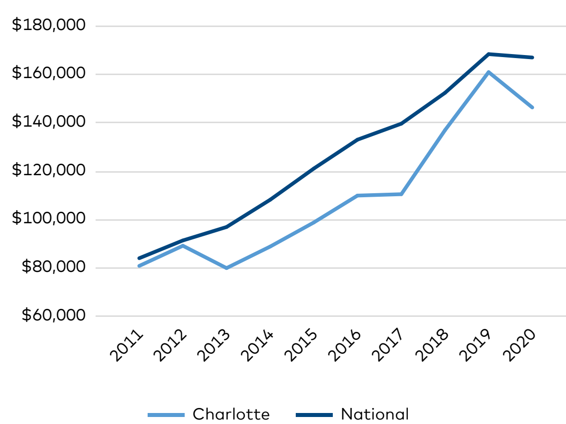
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
UNC at Charlotte	262
North Charlotte	219
Colonial Village-Montclaire	215
Southwest Charlotte	204
Mooresville	164
Coventry Woods-East Forest	112
Hidden Valley - Oak Forest	100

Source: Yardi Matrix

[1] From December 2019 to November 2020

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

How the Quest for Low Population Density Is Benefiting the Sun Belt

By Laura Calugar

According to the Urban Land Institute and PwC's 2021 Emerging Trends in Real Estate report, the highest interest rate for thinly populated areas is concentrated in the Sun Belt markets. But the relatively low cost of living and the high quality of life had been fueling migration to the Sun Belt region well before the pandemic, according to Cushman & Wakefield specialists.

How have Sun Belt multifamily investors responded to the COVID-19 crisis?

Cohen: There was certainly a pause in transactions between March and May while owners assessed their current portfolios and COVID-19's impact on resident job loss and bad debt. Once they felt comfortable again, everyone flooded back in, especially into the Sun Belt. Now investors are underwriting the same as they were before COVID-19.

What Sun Belt markets do you consider to be more likely to recover first?

Stickel: Atlanta, Charlotte, N.C., and Raleigh-Durham are three markets in the Sun Belt region that will likely recover first. Atlanta is a major hub and starting point for new investments in the Sun Belt region. When people come in from other regions, they often start in Atlanta.

Tai Cohen *(left)* and Robert Stickel *(right)*

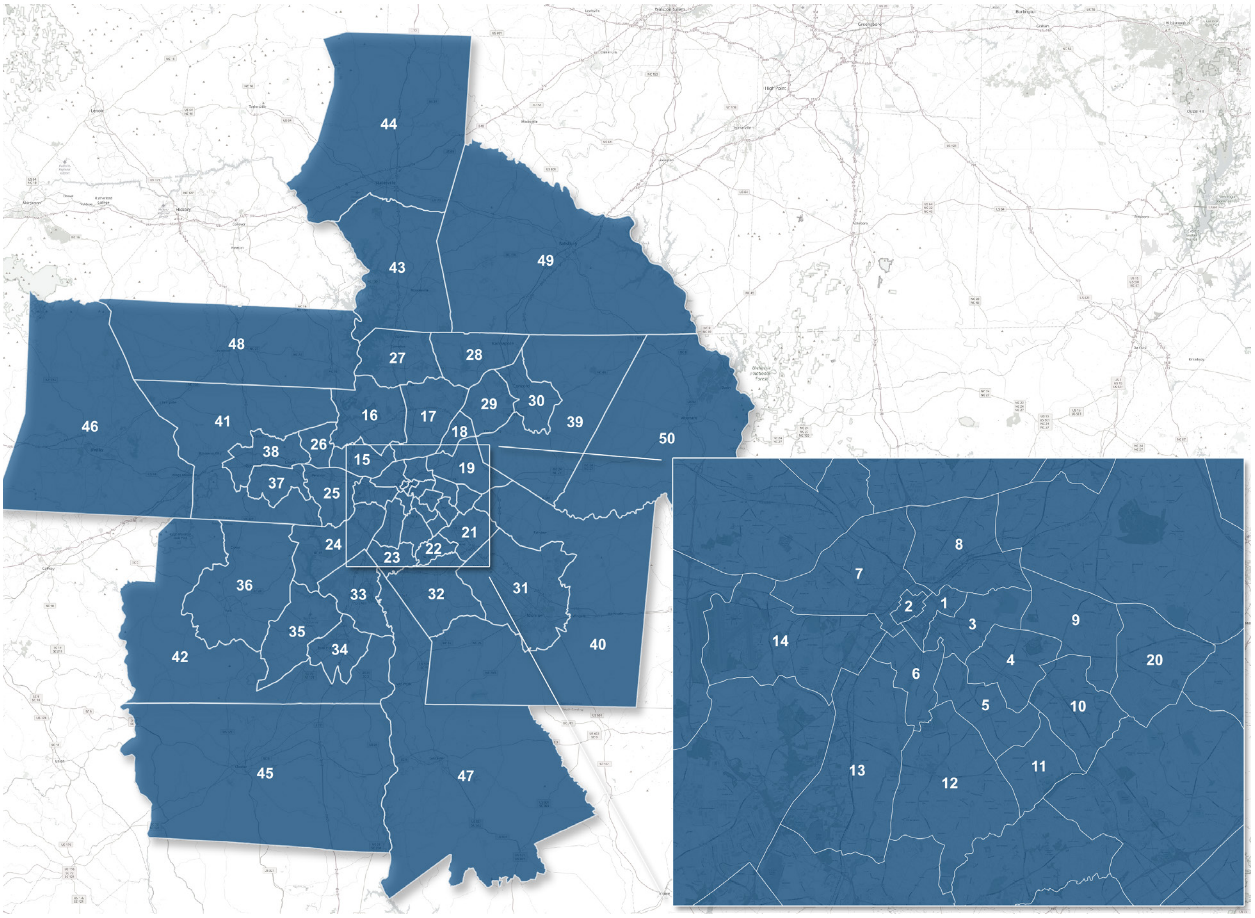
Charlotte has strong ties to banking and financial services, and in-migration was already occurring before the pandemic. Raleigh-Durham has an emphasis on research and life sciences, so we continue to see strong growth, and more population and rent growth also. Aside from these three major markets, there are several secondary markets that are also experiencing good leasing and collection stats, along with increased investment sales activity.

How do you expect the region's multifamily market to perform next year?

Stickel: Aside from biased optimism, I believe there are several good reasons the region will perform very favorably next year. We anticipate seeing increased capital flow from other regions of the country, while also other sectors within real estate. Transaction volume was down from 2019 to 2020, but, for our group specifically, 2020 was still better than 2017 and 2018. We believe 2021 could be onward and upward with record-setting stats.

(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
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
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 November 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 November 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, November 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.