



MULTIFAMILY REPORT

Charlotte Turns The Corner

Spring 2021

Construction Spree Continues

Transaction Volumes Remain Unscathed

Unemployment Stays Below US Average



CHARLOTTE MULTIFAMILY



Queen City's Economy On the Mend

Following a short-term dip in the second quarter of 2020, Charlotte's economy is now on the right track to recovery due in part to its affordable lifestyle and attractiveness to companies fleeing high-density gateway cities. This trend has been supporting the multifamily market's fundamentals, with rents marking the third consecutive quarter of appreciation. Rates rose 0.3% on a trailing three-month basis through March, to \$1,251.

Known as a major banking hub, the Queen City continued to add jobs in the financial activities sector (2,100 positions) on a year-over-year basis, despite pandemic-induced turbulence. Moreover, mortgage lender InterContinental Capital intends to expand its presence in Charlotte and add 500 new employees, while California-based financial services firm Robinhood Markets is set to establish an office in Charlotte and create nearly 400 jobs.

Investors continued to chase yields, with secondary markets such as Charlotte remaining an attractive option. Multifamily transaction activity continued to improve, with sales totaling \$561 million in the first quarter, significantly above the \$336 million recorded during the first three months of 2020. This trend prompted listing platform CommercialSearch to name Charlotte one of the hottest multifamily real estate markets in the U.S. Yardi Matrix expects the average Charlotte rent to rise 3.3% in 2021.

Market Analysis | Spring 2021

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Recent Charlotte Transactions

Live at NoDa



City: Charlotte, N.C.
Buyer: Knightvest Capital
Purchase Price: \$65 MM
Price per Unit: \$248,084

Residences at West Mint



City: Charlotte, N.C.
Buyer: Harbor Group International
Purchase Price: \$60 MM
Price per Unit: \$147,610

Summerlin at Concord



City: Concord, N.C.
Buyer: Morgan Properties
Purchase Price: \$17 MM
Price per Unit: \$103,125

The Landings

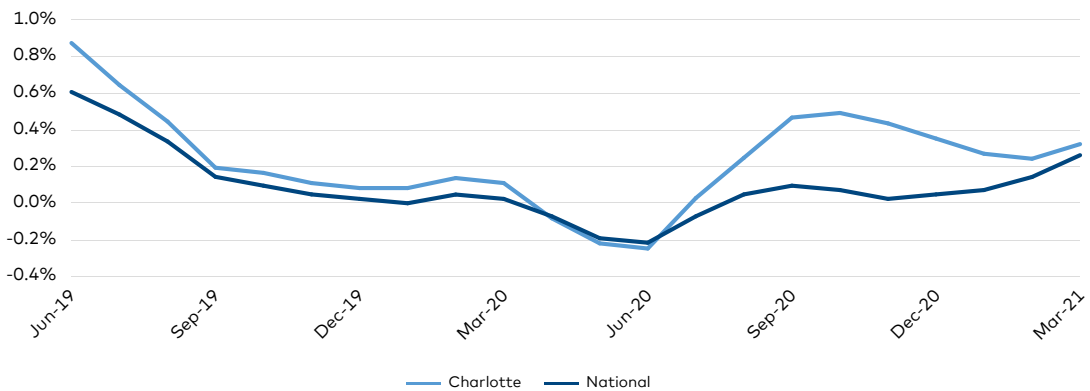


City: Gastonia, N.C.
Buyer: Pedcor Cos.
Purchase Price: \$16 MM
Price per Unit: \$102,564

RENT TRENDS

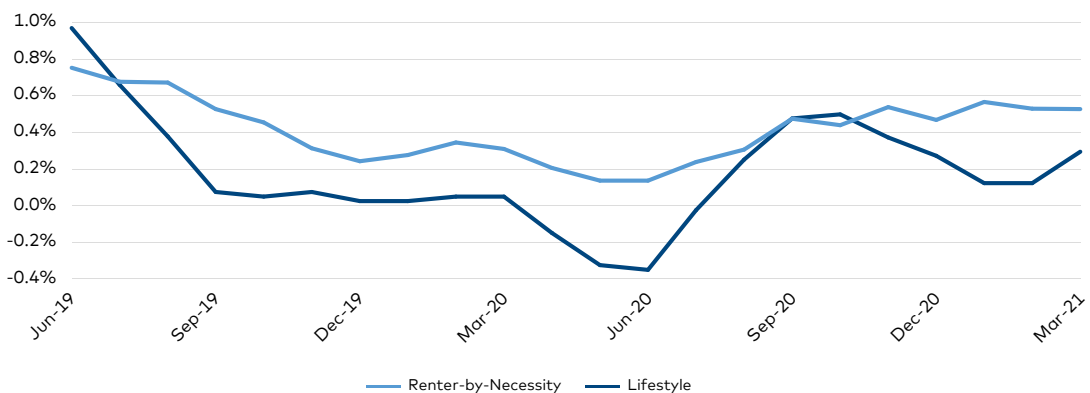
- ▶ Rents in Charlotte marked the ninth consecutive month of appreciation, with the average rising 0.3% on a trailing three-month (T3) basis through March. Although this was on par with the national rate, Charlotte's \$1,251 average rent remained well behind the \$1,407 U.S. figure. Year-over-year, Charlotte rents were up 2.7% through March. The metro's high quality of life combined with a more affordable lifestyle has been sustaining in-migration, especially in the past year, a trend that could further underpin rent growth.
- ▶ Working-class Renter-by-Necessity rates held up better than Lifestyle rents both last year and during the first quarter of 2021. Rents in the RBN segment were up 0.5% to an average of \$1,024, while Lifestyle rates improved 0.3%, to \$1,368.
- ▶ Year-over-year through March, rents dropped the most in Charlotte's priciest submarkets: Uptown (-6.9% to \$1,802) and Myers Park (-6.3% to \$1,623). Meanwhile, renters' quest for more affordable housing options in less dense areas had a notable impact in noncore submarkets such as Hidden Valley-Oak Forest (average up 10.0% year-over-year to \$1,015), Gastonia-South (9.8% to \$949) or Fort Mill (8.0% to \$1,218).
- ▶ North Carolina got a \$700 million rent aid allocation out of the second federal coronavirus relief package, passed late last year. Additionally, the state expects to receive nearly \$9 billion from the American Rescue Plan for state and local governments, health care and others.

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

- ▶ Charlotte unemployment clocked in at 5.5% in February, according to preliminary BLS data. After peaking at 13.2% in May, the jobless rate improved significantly in the second half of 2020, pointing toward sustained recovery.
- ▶ Financial activities, professional and business services and trade, transportation and utilities gained a combined 5,700 positions in the 12 months ending in February. The region's fintech industry benefited most from the shift to remote services in 2020, driving employment growth in financial services and strengthening the metro's status as a financial services hub—according to Charlotte Regional Business Alliance research.
- ▶ Mirroring nationwide trends, Charlotte's industrial sector was also a top performer last year, with developers taking notice. NorthPoint Development intends to build a 365-acre industrial park between Gastonia and Lowell. Meanwhile, several other investments are also expected to create new jobs. Besides Centene's \$1 billion East Coast headquarters that will reportedly create 6,000 positions over the next few years, aircraft engine manufacturer Pratt & Whitney announced it would build a \$650 million facility in Asheville, N.C., a move anticipated to create 800 permanent jobs.

Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	109	9.2%
60	Professional and Business Services	213	17.9%
40	Trade, Transportation and Utilities	258	21.7%
15	Mining, Logging and Construction	69	5.8%
50	Information	23	1.9%
80	Other Services	39	3.3%
30	Manufacturing	104	8.7%
65	Education and Health Services	120	10.1%
90	Government	147	12.3%
70	Leisure and Hospitality	108	9.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Charlotte gained 43,224 residents in 2019, a 1.7% expansion and almost six times the 0.3% U.S. average.
- ▶ North Carolina's population continued to grow at a rapid pace, with the state being among the top five in terms of total new residents added between 2019 and 2020.

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

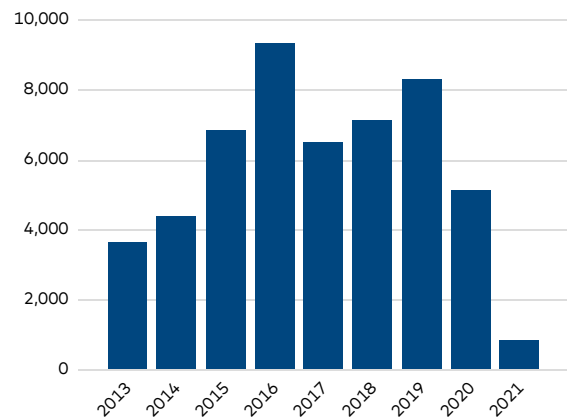
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ As of March, developers had 15,335 multifamily units under construction in Charlotte, as the metro continued to expand its rental housing stock, despite consistent deliveries in the past five years. However, considering strong in-migration from expensive gateway markets into the Queen City, as well as the metro's large concentration of people between ages 20 and 34—a large renter cohort—the absorption rate is likely to stay high.
- ▶ Occupancy in stabilized Charlotte properties was 95.1% as of February, flat year-over-year and 50 basis points above the U.S. rate.
- ▶ Developers brought online 2,617 units across 11 properties during the first quarter, which represented 1.4% of total stock, 100 basis points above the national rate. The bulk of the new inventory is geared toward high-income residents. The largest property completed this year through March was Alta Purl, a 341-unit luxury community in Charlotte's Optimist Park neighborhood—a former industrial hub that has seen a surge of real estate activity since the Lynx Blue Line extension opened in spring 2018.

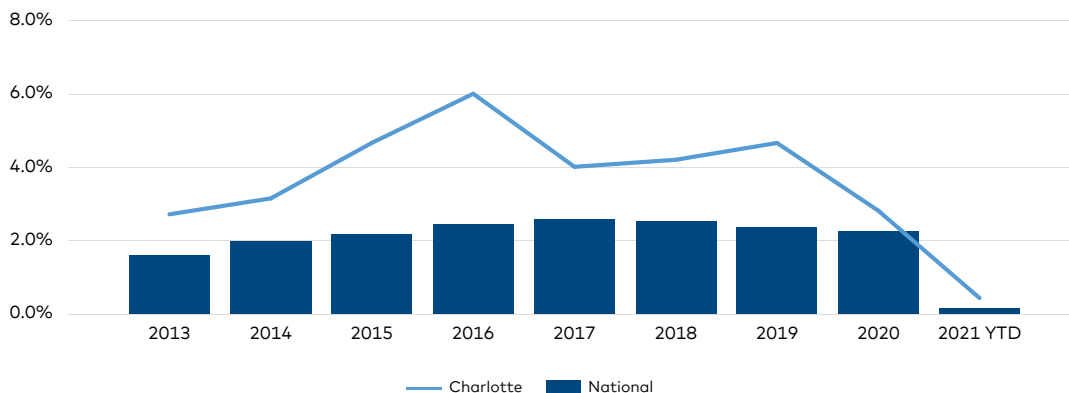
- ▶ As of March, half of the construction pipeline was clustered in just five submarkets: Hidden Valley-Oak Forest (1,821 units underway), Southwest Charlotte (1,796), North Charlotte (1,647), Colonial Village-Montclair (1,283) and Third Ward-Lakewood (1,185). The largest project underway was Lennar Multifamily Communities' 549-unit The Ellis in Uptown.

Charlotte Completions (as of March 2021)



Source: Yardi Matrix

Charlotte vs. National Completions as a Percentage of Total Stock (as of March 2021)

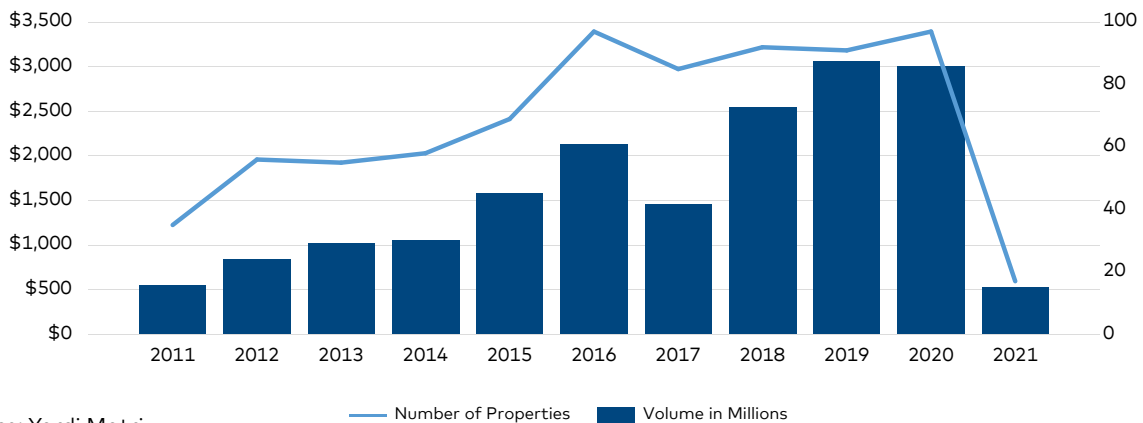


Source: Yardi Matrix

TRANSACTIONS

- Nearly \$561 million in rental assets traded in the metro during the first quarter, significantly above the \$336 million recorded during the first three months of last year. With investor interest almost evenly split between asset classes, the average per-unit price clocked in at \$179,969, slightly above the \$170,611 U.S. figure.
- Charlotte has seen consistent growth over the past decade, closing 2020 with \$3 billion in sales. If transaction activity maintains its pace, deal volume in 2021 is well on track to surpass the \$2 billion average of the 2013-2020 interval.
- Colonial Village-Montclair was the most sought-after area in the 12 months ending in March, with \$304 million in assets trading. It also recorded the largest deal of the first quarter: Praedium Group paid \$96 million for the 337-unit Novel Montford Park. Crescent Communities was the seller of the 2019-completed property.

Charlotte Sales Volume and Number of Properties Sold (as of March 2021)



Source: Yardi Matrix

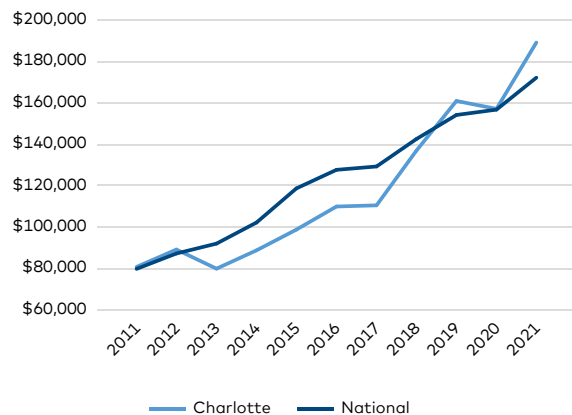
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Colonial Village-Montclair	304
North Charlotte	288
Ballantyne-Providence	286
UNC at Charlotte	214
Tryon Hills	214
Southwest Charlotte	187
Foxcroft	184

Source: Yardi Matrix

¹ From April 2020 to March 2021

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix

Top Southeast Markets for Multifamily Construction

By Corina Stef

The Southeast managed to stay afloat during the pandemic thanks to lower living costs, which, among other factors, has attracted large numbers of movers since the onset of the pandemic. According to Yardi Matrix data, more than 73,000 units were under construction in the region as of April, representing 5.8 percent of total stock. Some 43,000 units are scheduled for completion by year-end.

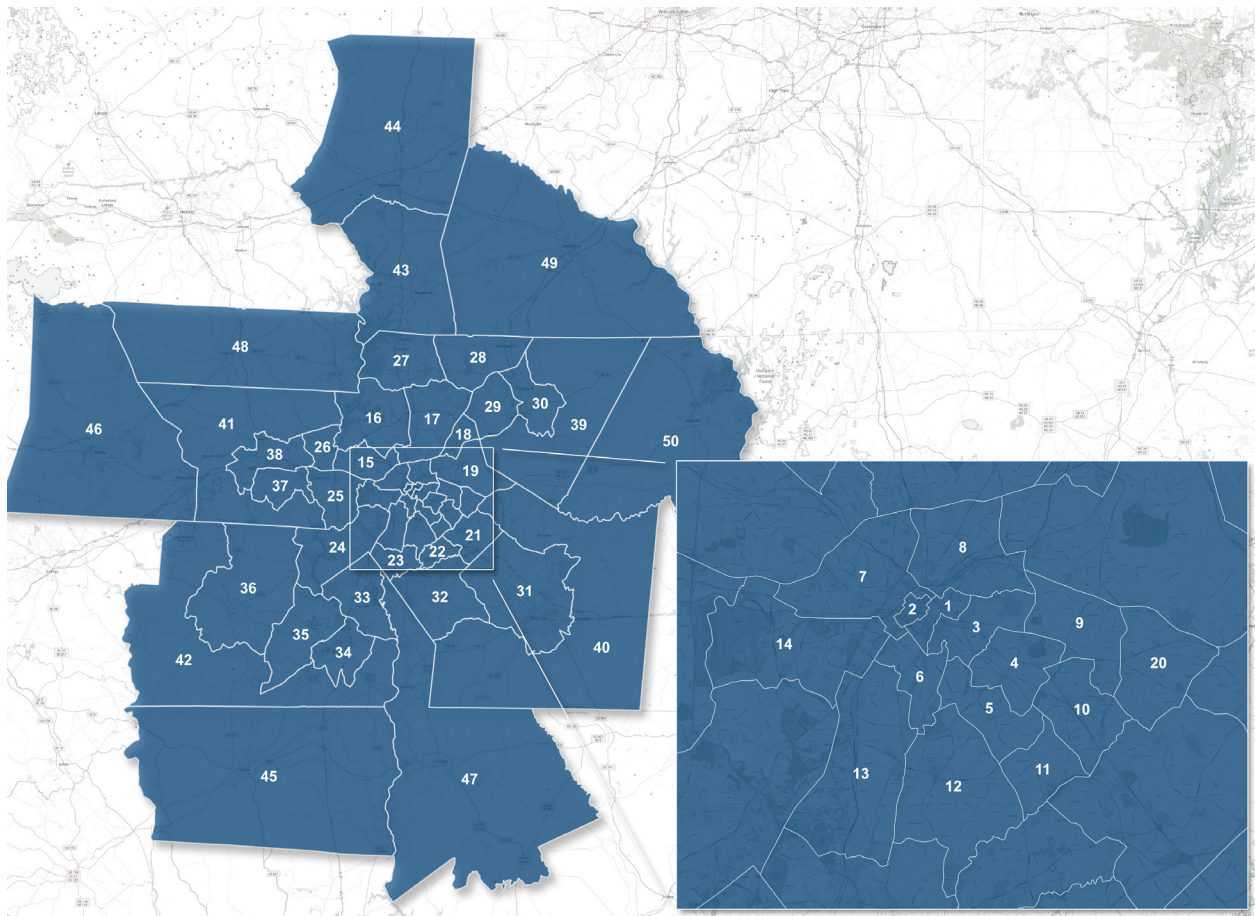
Rank	Market	Units Underway	Projects
1	Atlanta	19,455	77
2	Charlotte	15,571	70
3	Carolina Triangle	8,736	35
4	Greenville	5,673	25
5	Charleston	4,936	20

CHARLOTTE, N.C.

Charlotte's development scene is not the only sector where the metro is showing its strength. In 2020, Charlotte was one of the region's most-active markets for multifamily transactions. As of April, a total of 15,571 units across 70 properties were underway in the metro, accounting for 8.4 percent of total inventory. What's more, the thriving multifamily market paved the way for the transformation of underutilized assets into vibrant communities, making Charlotte an appealing alternative to dense urban centers.



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-Montclair
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	Mooreville
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 December 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 December 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, December 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.

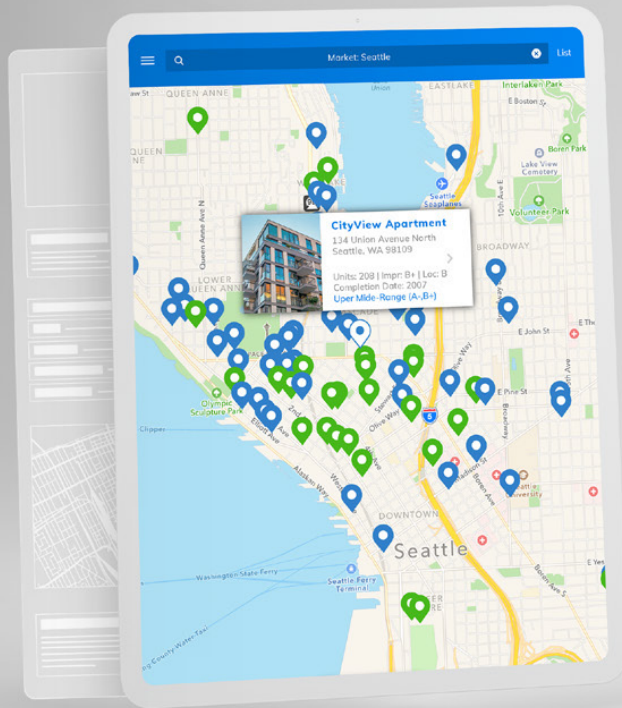
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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