

Charlotte's Swift Rebound

Summer 2021



Deliveries Slated for Decade High

Transaction Activity Stays Strong

Rent Growth Enters Double-Digit Territory

CHARLOTTE MULTIFAMILY



Queen City Marches Toward Full Recovery

The first half of 2021 pointed toward healthy prospects for Charlotte's multifamily sector. Rents improved by 1.9% on a trailing three-month basis through June to \$1,338, but remained below the \$1,482 national figure. Year-over-year through June, Charlotte rent gains broke into double digits, clocking in at 10.6%.

Unemployment fell to 4.3% in May, according to preliminary Bureau of Labor Statistics data, a sign of the metro's fast-paced comeback. Several fintech companies, as well as logistics and distribution firms, announced plans to expand in the metro. Local authorities are paving the way for more investments, with plans for a strategic policy framework for the next 20 years. Charlotte Future 2040 is a land-use document that includes zoning reform and seeks to increase housing supply. Boasting a relatively affordable cost of living, favorable demographic movement, a highly skilled workforce and a friendly business environment, Charlotte is likely to remain a magnet for investment for years to come.

Investors remained active, with \$1.2 billion in multifamily assets changing hands in the first half of 2021. Developers had completed 5,247 units by midyear, almost matching 2019's deliveries. Despite steady completions, rent growth is likely to remain healthy—at least in the short term—fueled by in-migration and sustained economic improvement.

Market Analysis | Summer 2021

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Recent Charlotte Transactions

Brookson Resident Flats



City: Huntersville, N.C.
Buyer: Nuveen Real Estate
Purchase Price: \$72 MM
Price per Unit: \$243,243

Greylyn Estates



City: Charlotte, N.C.
Buyer: Bluerock Real Estate
Purchase Price: \$59 MM
Price per Unit: \$227,799

Bell Riverbend Village



City: Charlotte, N.C.
Buyer: Bell Partners
Purchase Price: \$58 MM
Price per Unit: \$218,421

Stone Haven Pointe



City: Rock Hill, N.C.
Buyer: Pedcor Cos.
Purchase Price: \$34 MM
Price per Unit: \$129,451

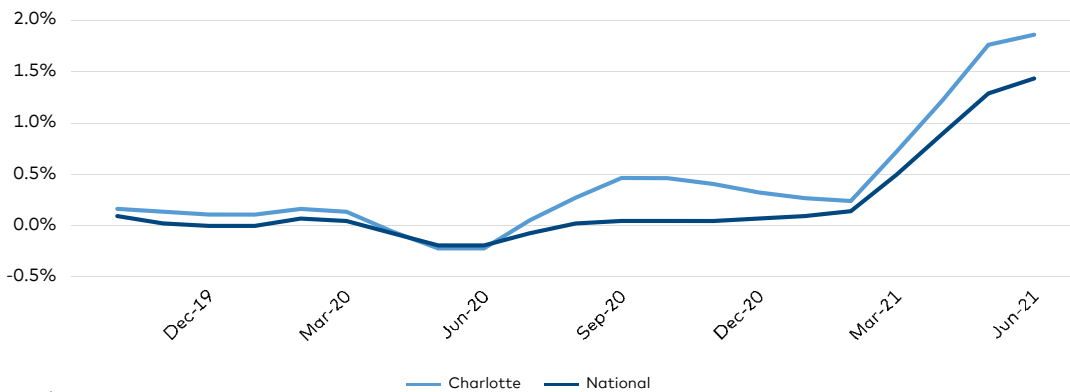
RENT TRENDS

- ▶ Rent growth in Charlotte accelerated further during the second quarter, with rates rising 1.9% on a trailing three-month basis through June, to \$1,338. On a year-over-year basis, rents increased by a whopping 10.6%, 430 basis points above the national rate.
- ▶ Despite sustained rent increases, the metro's housing market has remained relatively affordable, attracting residents from costlier cities. As a result, Lifestyle rents led growth, up 2.0% to \$1,474, while rates in the working-class Renter-by-Necessity segment grew by 1.3% to \$1,073.
- ▶ As developers strive to meet accelerating demand, the single-family rental market is also gaining momentum. The pandemic and work-

from-home climate gave young families the motivation to seek out larger housing options, reviving the SFR sector. Following Phoenix (2,592 units), Houston (1,035 units) and Jacksonville (766 units), Charlotte (719 units) had the most 50-plus unit SFR communities under construction, as of June.

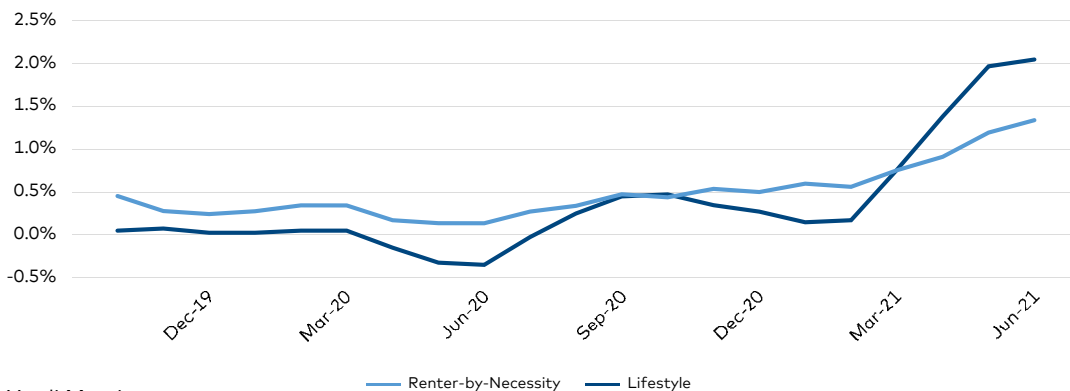
- ▶ Second Ward (23.1% to \$1,778) led submarkets for rent growth in the 12 months ending in June. In Uptown, the most expensive submarket, rates rose 2.4% to \$1,928. Rent growth bottomed out at the height of the pandemic last year, so these rent spikes are unlikely to continue indefinitely. However, conditions for above-average growth are likely to persist for months. Yardi Matrix expects Charlotte rents to expand 4.5% in 2021.

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

- ▶ Unemployment in Charlotte is rapidly progressing toward pre-pandemic levels, hitting 4.3% in May, indicative of the metro's fast-paced comeback. With the worst of the pandemic more than one year away, employment growth turned positive in May—marking a 0.2% year-over-year uptick.
- ▶ Sectors showing the fastest signs of recovery include hospitality, other services, transportation and professional and business services. After Credit Karma revealed in May its plans for an East Coast headquarters in Charlotte—ultimately creating 600 jobs—another fintech company disclosed plans to open an office in South End. USAA plans to add up to 750 positions to its Charlotte workforce over the next few years.
- ▶ Queen City is quickly becoming a top East Coast logistics and distribution hub, as well as a preferred location for manufacturers. Electric vehicle company Arrival intends to spend more than \$41 million on a second plant near Charlotte Douglas International Airport. The firm already occupies a 193,750-square-foot facility in Rock Hill's Legacy Park East. The same industrial park will be home to Scentsy, a fragrance product distributor that will occupy a 460,800-square-foot building for its East Coast distribution center.

Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	128	10.5%
40	Trade, Transportation and Utilities	251	20.6%
60	Professional and Business Services	214	17.6%
80	Other Services	44	3.6%
65	Education and Health Services	121	9.9%
30	Manufacturing	103	8.4%
15	Mining, Logging and Construction	70	5.7%
55	Financial Activities	110	9.0%
90	Government	154	12.6%
50	Information	23	1.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Charlotte's population grew by 1.8% last year, more than four times the national rate.
- ▶ Low housing and living costs have been attracting Millennials to the metro over the past decade. More recently, the same factors have appealed to remote workers.

Charlotte vs. National Population

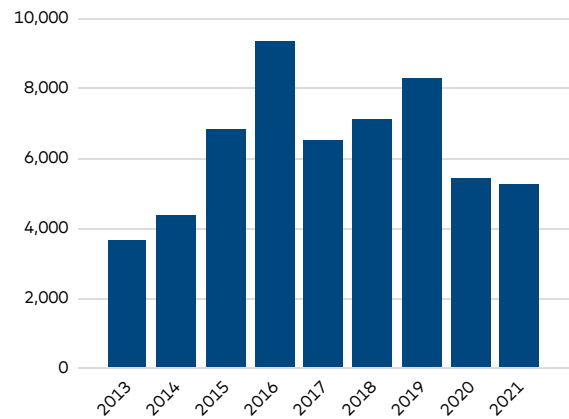
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Charlotte Metro	2,524,863	2,569,213	2,612,437	2,660,179

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

SUPPLY

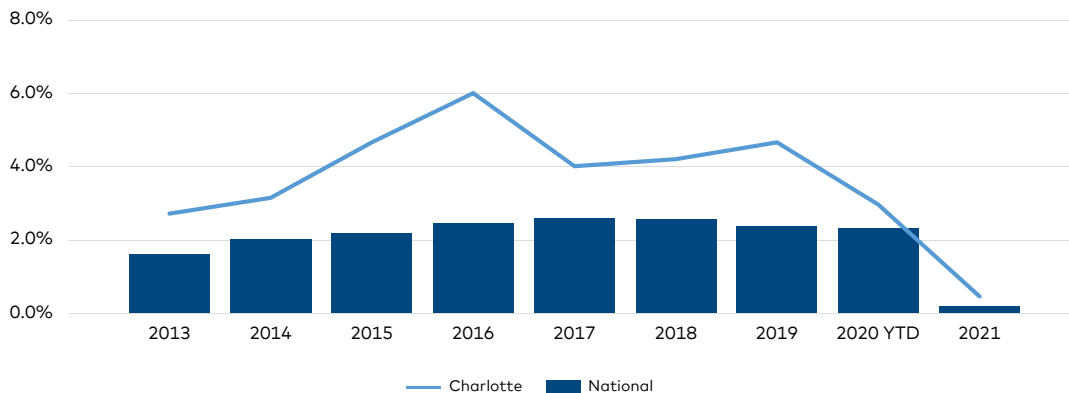
- ▶ Charlotte had 17,784 units under construction as of June, with 86% of them in projects targeting Lifestyle renters. Developers, bullish on the metro’s outlook, have an additional 72,000 apartments in the planning and permitting stages.
- ▶ In the first half of the year, 5,247 units were completed across the metro, with 4,686 of them aimed at high-income residents. Lancaster County, a suburban submarket in the metro’s southern area, accounted for most completions (872 units). While the move toward the suburbs is not new, the health crisis has clearly underscored households’ need for more space and reduced density.
- ▶ Despite more than 43,600 units coming online across the metro between 2015 and 2020, the overall occupancy rate in stabilized properties rose to 95.5% in May—marking a 90-basis-point year-over-year increase—as Charlotte remained a popular destination for those fleeing high-cost gateway markets since the onset of the pandemic.
- ▶ Colonial Village-Montclair (1,693 units under construction) along with northern submarkets North Charlotte (1,532 units), Hidden Valley-Oak Forest (1,334 units) and UNC at Charlotte (1,318 units) had the most units underway at the end of the second quarter. Overall, Yardi Matrix expects 10,803 units to be delivered this year, accounting for a 6.0% stock expansion, which would mark a decade high.

Charlotte Completions (as of June 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

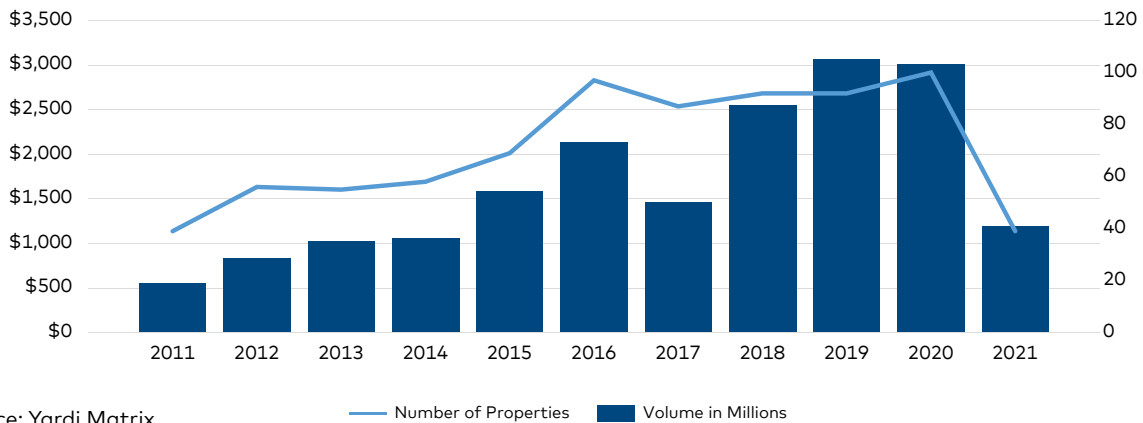
TRANSACTIONS

- ▶ Investment volume in Charlotte hit \$1.2 billion in the first half of the year, the same amount as in 2019 and more than double the \$548 million recorded over the same interval last year, when the first effects of the health crisis emerged. Before COVID-19, the city was booming, and migration trends toward the Sun Belt only pushed more people and investors to the area.
- ▶ Lagging housing supply, high demand and low interest rates have driven the average

price per unit to an all-time high this year—\$177,461, some \$4,500 above the national figure. Going forward, prices are likely to continue appreciating, despite the swift addition of new housing units.

- ▶ Over the 12 months ending in June, four submarkets accounted for a third of the \$3.7 billion total transaction volume: North Charlotte, Colonial Village-Montclair, Tryon Hills and Ballantyne-Providence.

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



Source: Yardi Matrix

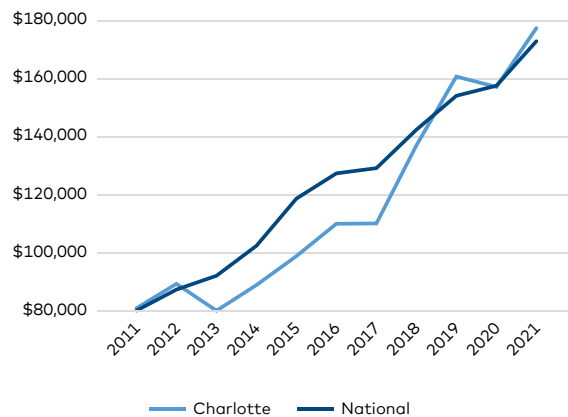
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Charlotte	360
Colonial Village-Montclair	304
Tryon Hills	288
Ballantyne-Providence	286
UNC at Charlotte	265
Southwest Charlotte	261
Foxcroft	184

Source: Yardi Matrix

¹ From July 2020 to June 2021

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix



How Grubb Properties' Essential Housing Is Filling the Gap

By Timea-Erika Papp

Grubb Properties is addressing the U.S. housing shortage by taking a different approach. The company's Link Apartments brand is focused on intelligent design and provides working professionals a lower-cost, quality housing option in urban markets, according to CEO Clay Grubb. Along with sharing fundamental investment and development strategies, Grubb explains why Charlotte, N.C., is among his firm's markets of focus.

What did 2020 mean for Grubb Properties? How have you adjusted your business strategy?

As a company, we prepare for Black Swan events during the good times, so we have the bandwidth, balance sheet and capability to play offense when those events occur. While we couldn't have and didn't foresee the pandemic, this preparation served us well.

The pandemic demonstrated the dire need for housing that is more affordable to people in the workforce, which we call essential housing. We recognized that, on top of the current housing shortage, low interest rates would cause demand and prices to spike even further. Anticipating that an increase in new starts would follow, we quickly locked in construction contracts for our development projects, including our pipeline of projects in the Southeast.

What does Grubb Properties' essential housing strategy entail?



Essential housing is a demographic-driven strategy that fills the gap between affordable and luxury housing, and is necessary to address the current housing shortage in America. We define it as housing for people making between 60 percent and 140 percent of the area median income. We drive value through 59 proven methods, such as innovative site acquisition, shared parking, tax incentives, grants and more. For example, we focus on just six highly efficient floorplan types that we replicate across all our communities. This is unique in the industry, where the standard is often more than 25 unit types.

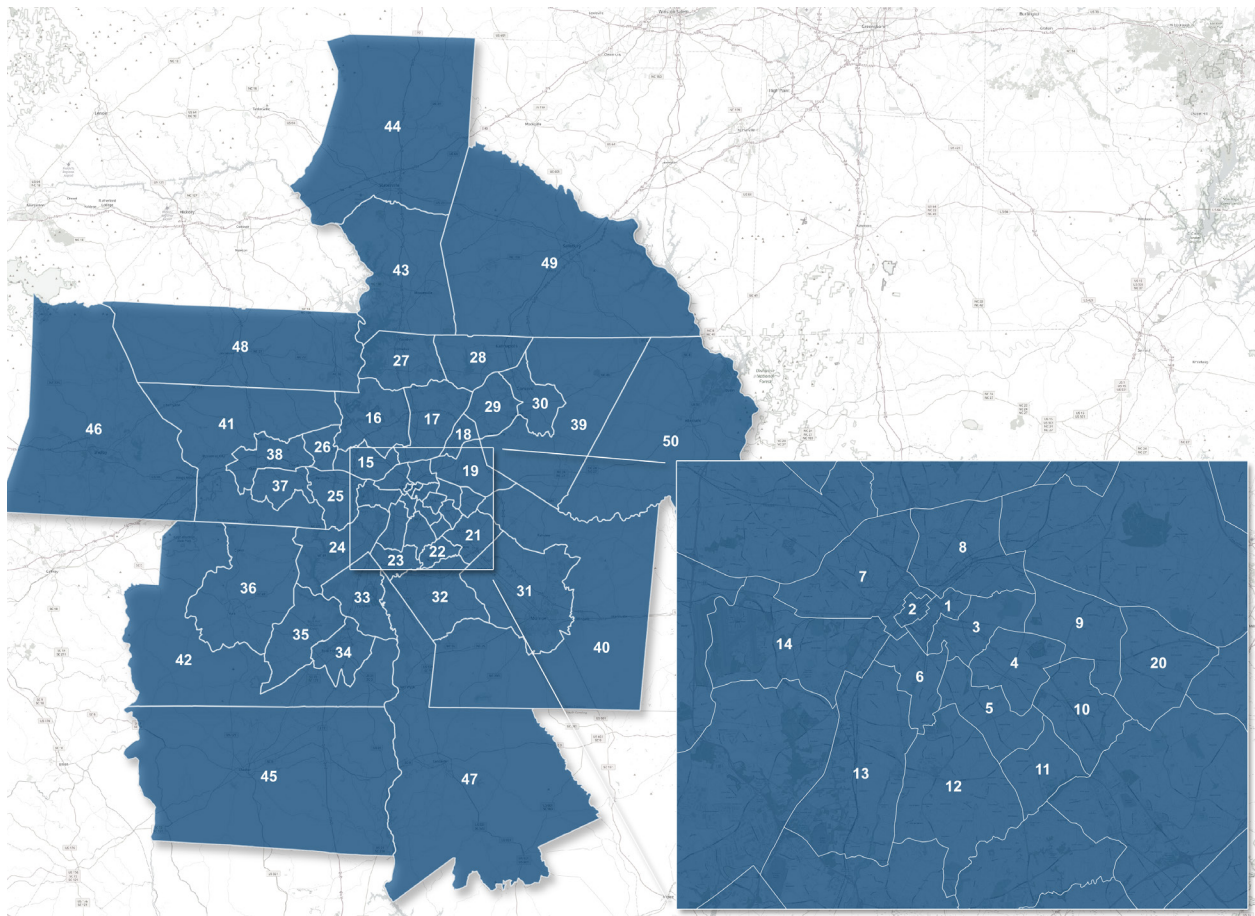
Please tell us more about Charlotte's first car-free residential property.

Our multifamily project will have 104 units, with half designated affordable for households earning 80 percent of the area median income, and only six parking spaces. The project is on a greenway that connects to downtown Charlotte and our community will include a state-of-the-art cycle center. It's also near other public transit options and we're working to improve accessibility. We're able to achieve that affordable housing set-aside without any public subsidy because of the reduced parking, which otherwise would cost us up to \$30,000 per space to build.

Do you intend to further expand in Charlotte?

We are completing a 500-plus unit Link Apartments community in Montford Park and are about to start an additional one of similar size in the hot NoDa market.

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.

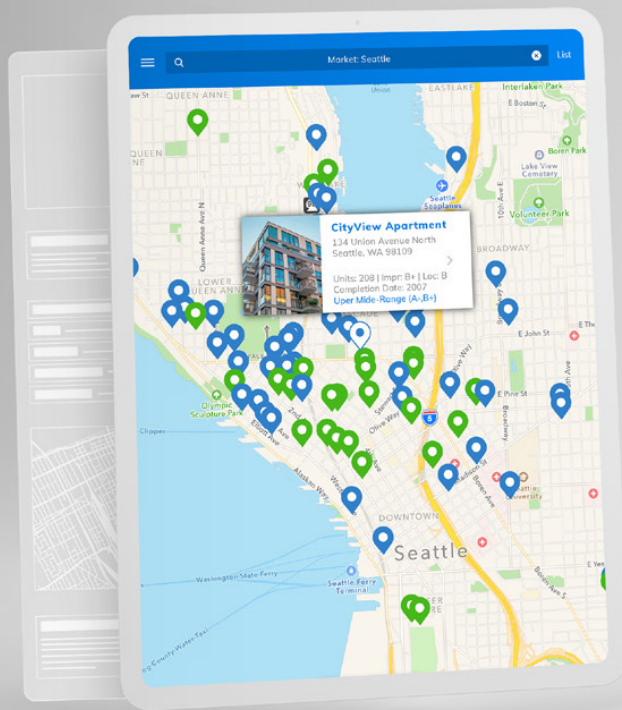
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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