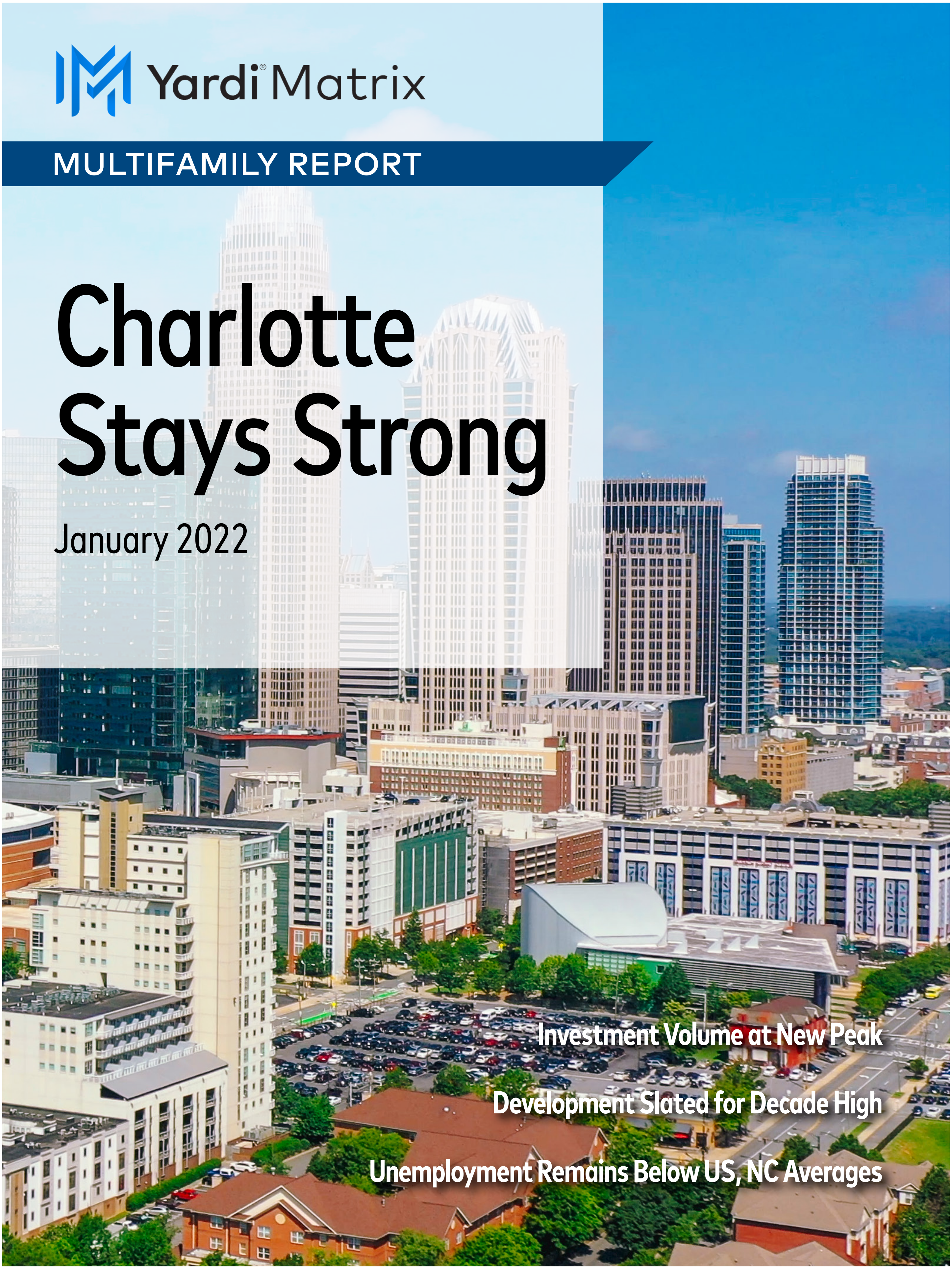
Yardi Matrix

MULTIFAMILY REPORT

Charlotte Stays Strong

January 2022



Investment Volume at New Peak

Development Slated for Decade High

Unemployment Remains Below US, NC Averages

CHARLOTTE MULTIFAMILY

Yardi Matrix

The Queen City Begins 2022 on a High Note

Charlotte's economic recovery is in full swing, fueled by its concentration of young, highly educated people, a business-friendly environment and an affordable lifestyle. Multifamily rents grew by 1.2% on a trailing three-month (T3) basis through November, surpassing the national rate by 20 basis points. On a year-over-year basis, rents increased by 17.6%, granting Charlotte the last spot in the top 10 U.S. metros for rent growth. Despite substantial gains, the average rate stood $126 below the $1,590 U.S. figure, which added to the market's overall appeal.

Unemployment improved to 3.6% in October, according to preliminary data from the Bureau of Labor Statistics, outperforming the 4.1% North Carolina rate. Charlotte added 40,600 jobs in the 12 months ending in September, for a 5.9% year-over-year improvement. Leisure and hospitality added the most positions (13,700 jobs), followed by professional and business services (13,200). The Queen City is steadily making its mark in fintech, as well. Fortune 500 investor services company Moody's announced it would expand this year to a South End office space that will house 500 employees.

Developers brought 9,617 units online in 2021 through November, with year-end deliveries expected to exceed 2016's cycle high of 9,785 units. Meanwhile, investment volume surpassed $3.2 billion, and the per-unit price topped 200,000 for the first time ever.

Market Analysis | January 2022

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Recent Charlotte Transactions

Celsius

City: Charlotte, N.C.
Buyer: American Landmark Apartments
Purchase Price: $103 MM
Price per Unit: $229,621

Country Club

City: Charlotte, N.C.
Buyer: Concordia Properties
Purchase Price: $75 MM
Price per Unit: $165,198

Vanguard Northlake

City: Charlotte, N.C.
Buyer: Covenant Capital Group
Purchase Price: $44 MM
Price per Unit: $216,912

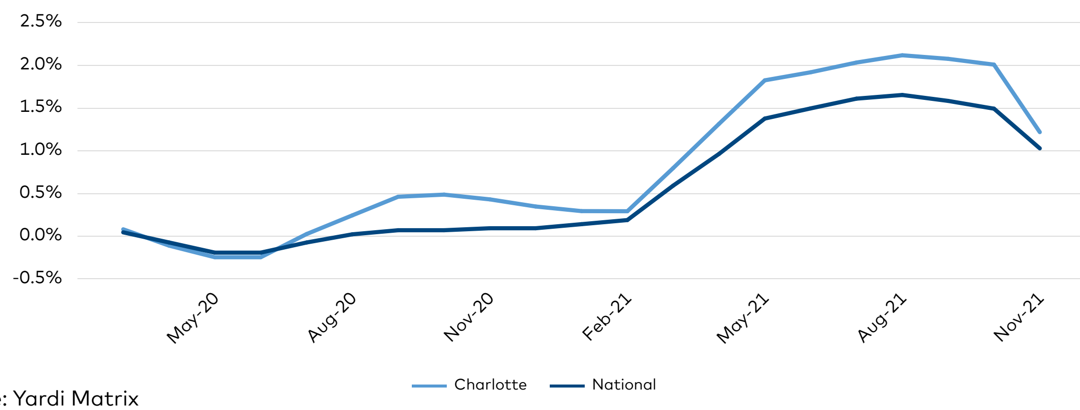
Palmetto Place

City: Fort Mill, S.C.
Buyer: TerraCap Management
Purchase Price: $37 MM
Price per Unit: $199,914

RENT TRENDS

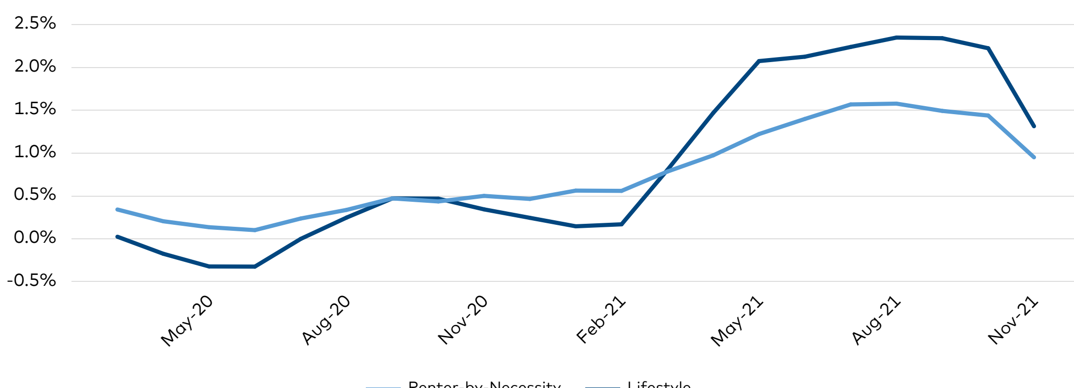
- Charlotte rents rose 1.2% on a T3 basis through November, surpassing the 1.0% national rate. However, the average ($1,464) remained below the U.S. figure ($1,590), making the metro a highly desirable option for those looking for more affordable markets.
- Following nationwide trends, rent growth in luxury Lifestyle properties outstripped expansion in working-class Renter-by-Necessity assets. Rates in the upscale segment grew by 1.3% to $1,623, while RBN figures improved by 1.0% to $1,144.
- Fueled by strong in-migration and a swift economic rebound, overall occupancy in stabilized properties increased by 90 basis points year-over-year through October 2021, to 96.0%. Charlotte was described as "a magnet market" in PwC's 2022 Emerging Trends in Real Estate report, so occupancy is expected to stay high this year.
- Although the low interest rates made mortgages more affordable, first-time buyers and those with limited budgets are likely to face ongoing challenges. This, in turn, will benefit both the multifamily and single-family rental market. The occupancy rate in SFR properties hit 99.1% in October.
- Uptown, the most expensive submarket in the metro, recorded a 17.5% year-over-year increase, to $2,150, through November. However, rents grew most in Second Ward, another urban core submarket—by 29.0% to $1,869.

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 was at 3.6% in October, according to preliminary BLS data, which is comparable to pre-pandemic levels. The metro's swift recovery was mainly fueled by its diversified economic makeup, in-migration and low cost of doing business. The Queen City added 40,600 jobs over the 12 months ending in September, accounting for a 5.9% year-over-year improvement.

- Leisure and hospitality, along with professional and business services, accounted for more than half of total gains, adding 26,900 jobs. Charlotte's fintech industry is rapidly expanding, boosting the metro's status as an emerging force in the industry. After Credit Karma and USAA announced major investments in the metro in spring, companies active in other fields also decided to bolster their Charlotte presence. Electric vehicle maker Arrival will establish a third facility in the metro, adding 150 jobs.

- Although manufacturing was the only sector that lost jobs year-over-year through September, the sector could experience a rebirth this year. Corning Optical Communications is set to add a second optical cable manufacturing plant in Hickory, N.C., in addition to expanding an existing facility in the city. The company plans to spend $150 million on both projects by the end of 2022, creating 200 jobs.

Charlotte Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	127	10.4%
60	Professional and Business Services	219	17.9%
40	Trade, Transportation and Utilities	250	20.4%
55	Financial Activities	112	9.1%
15	Mining, Logging and Construction	71	5.8%
80	Other Services	44	3.6%
65	Education and Health Services	122	10.0%
50	Information	24	2.0%
90	Government	153	12.5%
30	Manufacturing	102	8.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Charlotte gained 47,742 residents in 2020, up 1.8% and more than four times the 0.4% U.S. average.

- The Queen City has been experiencing robust population increases. The Charlotte Business Alliance projects that the population will reach 4.6 million residents by 2050.

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

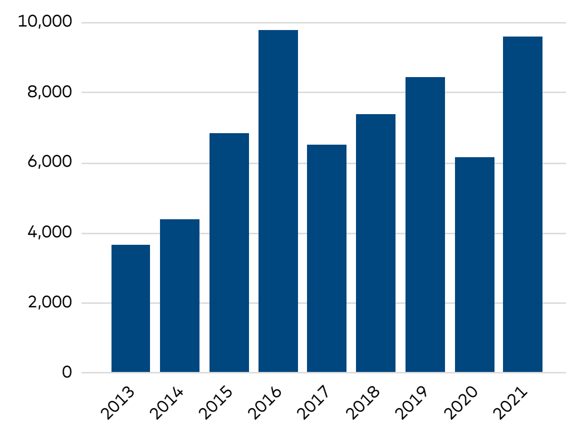
- Developers had 18,613 units under construction as of November, with more than 85% of them aimed at high-income residents. Another 71,500 apartments were in the planning and permitting stages, with investors bullish about the market's sustained economic recovery in 2022.

- Year-to-date through November 2021, developers brought 9,617 units online, but total completions for 2021 were on track to surpass 2016's cycle high of 9,785 units. Although many residents fled the urban core during COVID-19 in search of less dense areas and more affordable housing options in the suburbs, development in the metro's urban core pushed through, with roughly a quarter of the properties delivered located in Charlotte's inner-ring submarkets.

- Despite 38,307 units coming online in the five years ending in 2020, Charlotte multifamily deliveries are likely to hit record levels in the next few years. Developers broke ground on 10,115 units across 43 projects between January and November, which was a significant jump from the 6,358 units across 29 projects they started work on in the same interval of 2020.

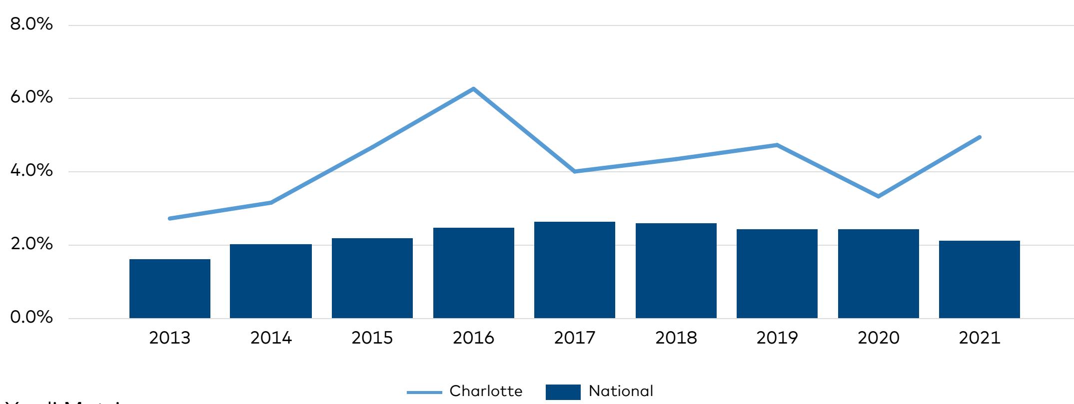
- Two northern submarkets accounted for almost a quarter of the development pipeline—North Charlotte (2,755 units under construction) and the University of North Carolina at Charlotte (1,566 units). The largest project underway is Providence Row, a two-phase project in Foxcroft, developed by Northwood Ravin. The 326-unit first phase of the project was delivered in 2019, but work is still underway on the 830-unit second phase.

Charlotte Completions (as of November 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

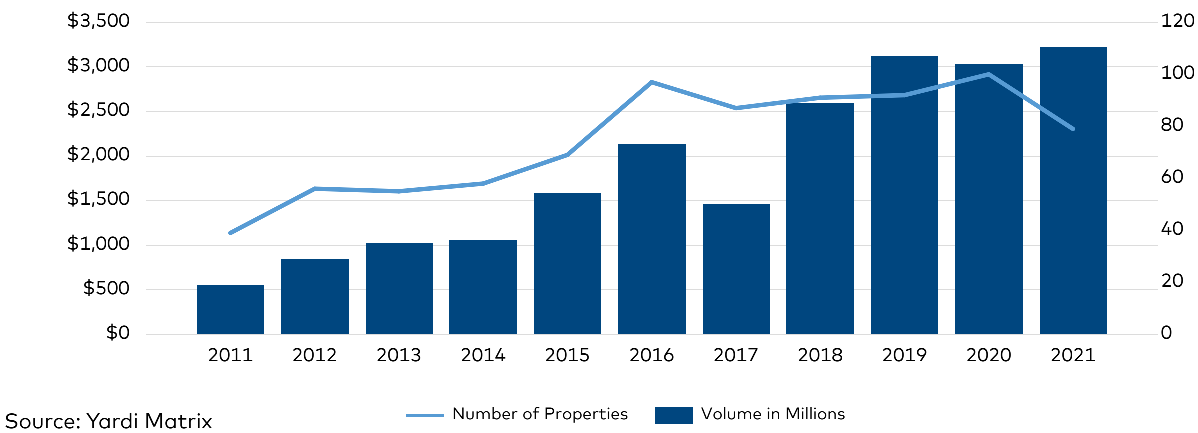
TRANSACTIONS

- Year-to-date through November, Charlotte's transaction volume surpassed $3.2 billion, clocking a new decade high. Investors favored the Lifestyle segment—46 of the 79 deals that closed during the first 11 months of 2021 were for upscale assets.

- With investor interest tilting toward luxury properties, the average price per unit topped the $200,000 mark for the first time ever. Meanwhile, the U.S. figure clocked in at $185,466.

- In the 12 months ending in November, deal velocity spiked in Matthews ($321 million), a popular and easily accessible suburban submarket in southeastern Charlotte. Hidden Valley-Oak Forest ($281 million) and Tryon Hills ($280 million) rounded out the top three submarkets for multifamily investment volume. Nuveen Real Estate's $120 million acquisition of the recently completed 355-unit Briley in Matthews' Entertainment District—from developer Proffitt Dixon Partners—marked the largest transaction in the metro.

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



Source: Yardi Matrix

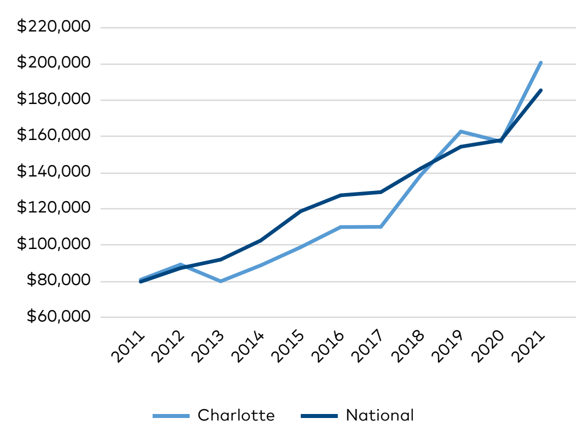
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Matthews	321
Hidden Valley–Oak Forest	281
Tryon Hills	280
Wedgewood	250
North Charlotte	240
Lancaster Country	228
Morningside	188

Source: Yardi Matrix

[1] From December 2020 to November 2021

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix

Why the Southeast Remains the Star of Multifamily

By Laura Calugar

The perfect climate, a lower cost of living, tax breaks and some of the highest-paying jobs—the Southeast has got them all. No wonder so many people have been relocating to this region, a trend that continues to fuel a surge in multifamily demand across several established metros, but smaller cities are also performing well. First Communities Executive Vice President Pauline Houchins reveals the hottest areas of the fast-growing region.

In the past 18 months, what areas were the most sought-after and why?

COVID-19 changed the work model for many, and more employers than ever are allowing a truly remote workforce. As people came out of lockdown, individuals were drawn to areas that provided outdoor accessibility—lakes, beaches, mountains—to escape the feeling of confinement. As a result, we are seeing demand and population increases in South Carolina, North Carolina and Florida in areas that provide access to these features.

Besides accessibility and climate, what else is attracting people to the Carolinas and how is that impacting the multifamily market?

Nearly 361,000 people moved to North Carolina in 2019, according to the U.S. Census Bureau. Part of this growth can be attributed to additional tech companies entering the market, making it attractive for the 25–35-year-old demographic. With the delays in household formation among that

age group, we are seeing longer-term renters in major metros in the Carolinas and that, combined with the overall population growth, has led to a surge in demand.

Besides the more prominent metros, are there any smaller ones that are in high demand?

Greenville, S.C., is a great example of a smaller town that is in high demand, and should be included on a list with Chattanooga and Murfreesboro, Tenn., and Savannah, Ga. What these cities all have in common is a lower cost of living than what you see in the more prominent metro cities such as Atlanta. That southern charm of a smaller town is also appealing to residents.

As vaccination rates increase across coastal metros, do you expect the trend to reverse?

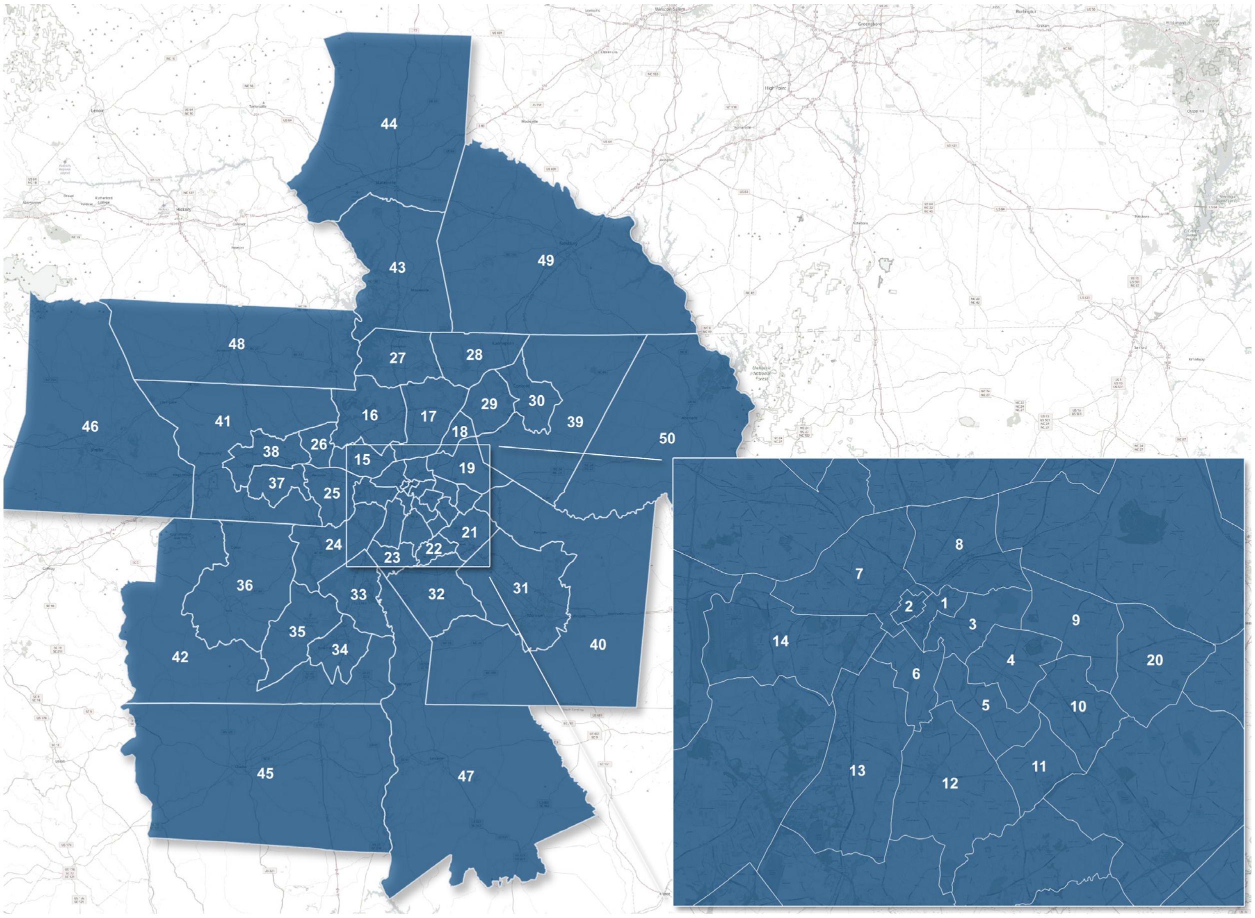
I think COVID-19 has redefined how and where we choose to spend our time. Markets are cyclical and so are the trends that we see in rental and housing markets. Rates will be the driver on where people are able to live, and their employer requirements will dictate when they need to make that change.

What challenges should multifamily property managers expect to face in 2022?

I think multifamily managers will face challenges when the market changes. As the market changes, our managers will have to adapt yet again to working in a far more competitive market.

(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 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.

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