

YARDI[®] Matrix

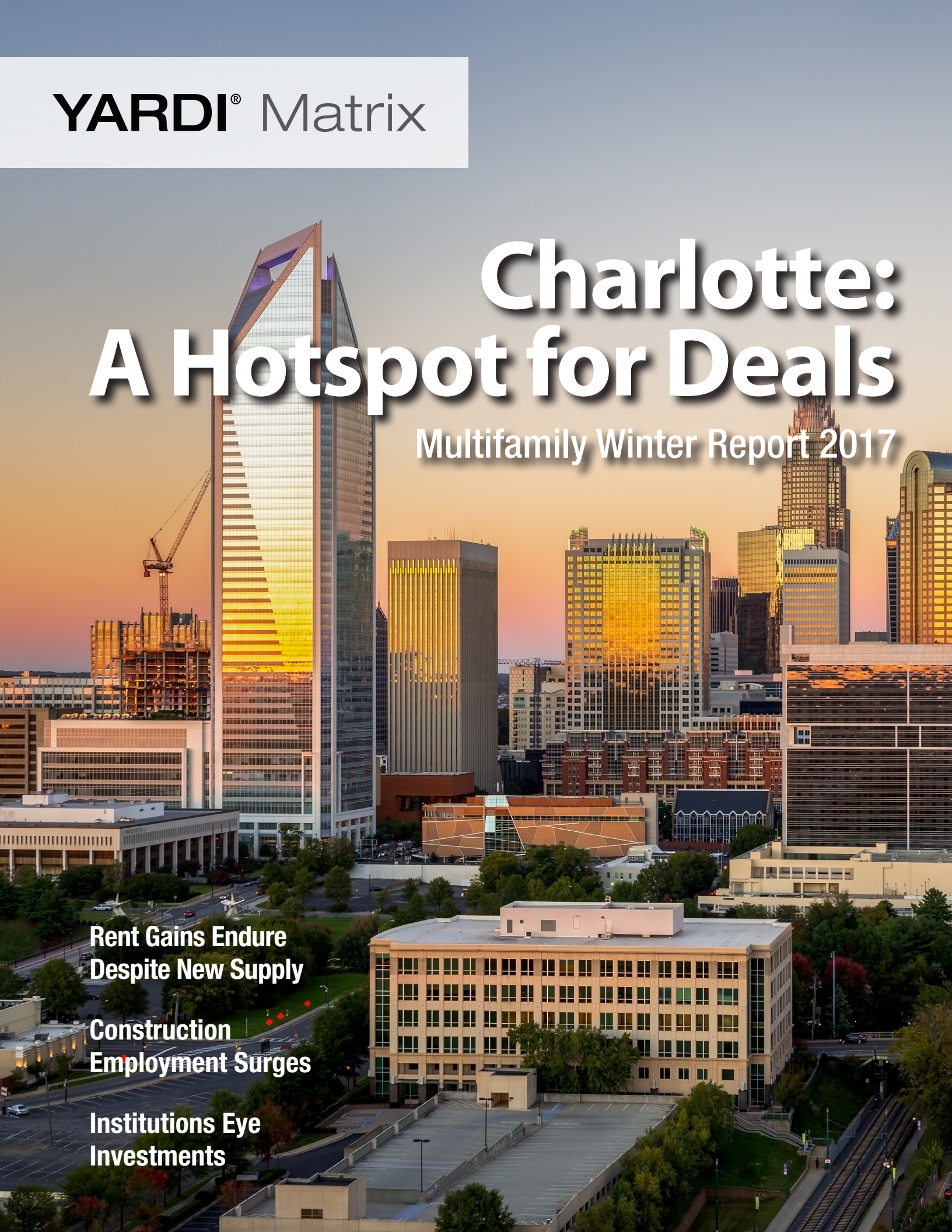
Charlotte: A Hotspot for Deals

Multifamily Winter Report 2017

**Rent Gains Endure
Despite New Supply**

**Construction
Employment Surges**

**Institutions Eye
Investments**



Market Analysis

Winter 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Robert Demeter

Associate Editor

Tech, Trade & Development Boom

Charlotte's multifamily market is thriving as a result of healthy demand, which has produced above-trend increases in rents and accelerated transaction volume and values. Though the outlook points to continued gains in employment and population, the outpouring of new supply and issues with affordability could prompt a slowdown in rent growth.

Charlotte's strategic location within the Piedmont-Atlantic Megaregion helps fuel the metro's economy, with employment led by transportation and distribution. The city is also known for its banking industry, though tech start-ups have begun making inroads. Young workers are attracted to the live-work-play environment, as evidenced by the amount of new supply concentrated in the Uptown submarket. The cranes stretch beyond Uptown, as Charlotte Douglas International Airport undergoes a \$2.5 billion expansion.

A low cost of living has bolstered population growth, but most of the upcoming supply is aimed at high-end renters and buyers. Affordability is starting to become a problem, though rents rest below the national average at \$918. Signs of decelerating rent growth align with national trends. Due to robust investor demand, transaction activity reached \$1.7 billion in 2016, a new high in the current cycle, while prices also hit highs for the current cycle.

Recent Charlotte Transactions

Cascades of Northlake



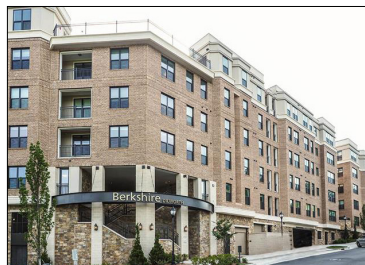
City: Charlotte, N.C.
Buyer: Cortland Partners
Purchase Price: \$83 MM
Price per Unit: \$145,000

LaVie SouthPark



City: Charlotte, N.C.
Buyer: UBS Realty Investors
Purchase Price: \$75 MM
Price per Unit: \$234,891

Berkshire Dilworth



City: Charlotte, N.C.
Buyer: Berkshire Group
Purchase Price: \$75 MM
Price per Unit: \$252,905

The Retreat at McAlpine Creek

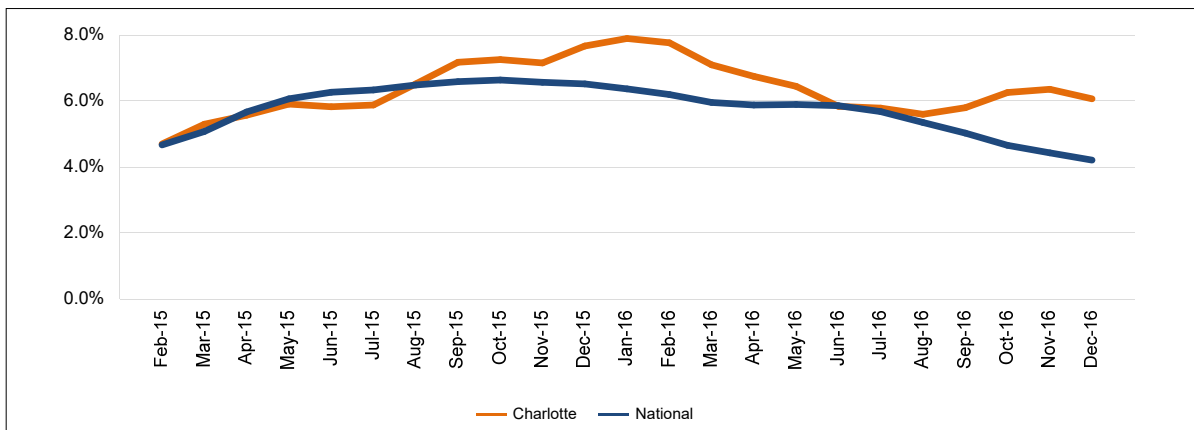


City: Charlotte, N.C.
Buyer: Bainbridge Cos.
Purchase Price: \$56 MM
Price per Unit: \$138,875

Rent Trends

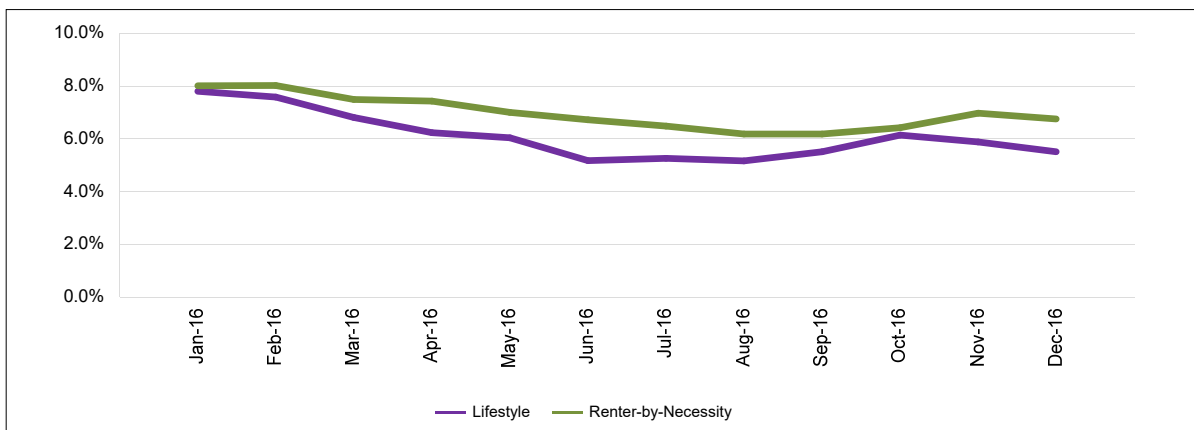
- Rents in Charlotte were up 6.4% year-over-year as of November, 210 basis points above the 4.3% national growth rate. At \$918, rents fell below the \$1,214 national average. Despite a drop in rent growth from 8% at the beginning of the year, gains remain healthy.
- Undeterred by the increasing amount of new supply, occupancy rates of stabilized properties remained high (95.9% as of October) due to strong demand from a growing population and healthy job market. As long as new supply is absorbed, rent increases are likely to remain steady.
- The working-class Renter-by-Necessity segment experienced the largest rent gain, a 7% year-over-year increase to \$802. Workers in low-paying fields such as construction and transportation will continue to drive demand for mid-price assets. The higher-end Lifestyle renter segment increased 6% to \$1,033. As new supply is concentrated in Lifestyle assets, affordability is likely to gain traction as an issue.
- Charlotte's secondary submarkets are driving rent growth, with Foxcroft leading the way with an 8.5% increase, followed by Mt. Holly (8.4%) and Matthews (8.2%). Ballantyne–Providence (\$1,292), Foxcroft (\$1,263), Concord–West (\$1,078) and Huntersville (\$1,062) posted the highest rental rates.

Charlotte vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Charlotte Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

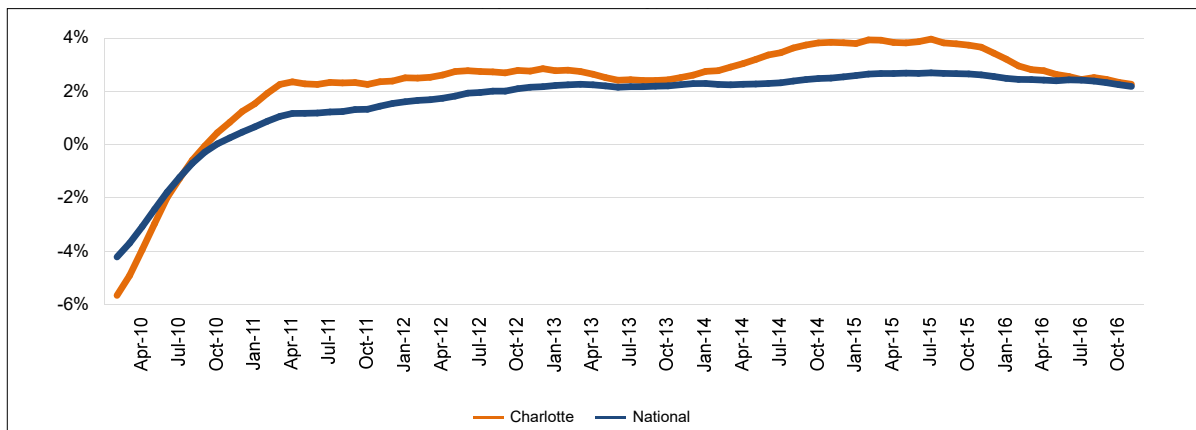


Source: YardiMatrix

Economic Snapshot

- Charlotte added nearly 22,400 jobs during the 12 months ending in September, a 2.4% change year-over-year, roughly on par with the 2.3% national average.
- A longtime economic driver, transportation and trade contributed 6,400 jobs in Charlotte, which enjoys a strategic location within the Piedmont-Atlantic Megaregion, enabling it to connect products and people along the Interstate 85 corridor. The city is also located within a two-hour flight or a 24-hour drive of more than half the nation's population.
- As one of the financial hubs of the Southeast, Charlotte has a growing tech sector, although the lack of non-traditional office space represents a significant challenge for the types of jobs that fuel demand for innovative space. The professional and business services, information and finance sectors made 7,100 new hires.
- The North Carolina Department of Transportation's (NCDOT) Piedmont Improvement Project, a \$520 million rail revamp between Charlotte and Raleigh, will come online in the fall of 2017. In November, a crucial part of the development came to fruition: a rail overpass at Morrisville Parkway in Morrisville, N.C. Additionally, nearly \$2.7 billion worth of development will transform Stonewall Street on the edge of Uptown Charlotte. To support these efforts, the construction sector added 3,900 jobs.

Charlotte vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Charlotte Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	761	17.6%	30,800	4.2%
60	Professional and Business Services	615	14.2%	15,300	2.6%
70	Leisure and Hospitality	512	11.9%	14,600	2.9%
40	Trade, Transportation and Utilities	826	19.1%	9,600	1.2%
50	Information	203	4.7%	4,500	2.3%
55	Financial Activities	220	5.1%	4,400	2.0%
80	Other Services	155	3.6%	2,100	1.4%
15	Mining, Logging and Construction	134	3.1%	1,100	0.8%
90	Government	534	12.4%	-1,800	-0.3%
30	Manufacturing	358	8.3%	-4,700	-1.3%

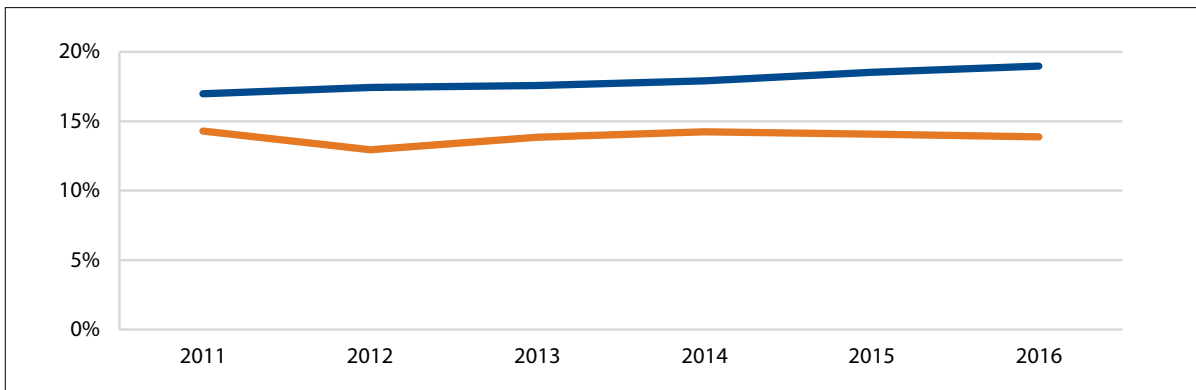
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

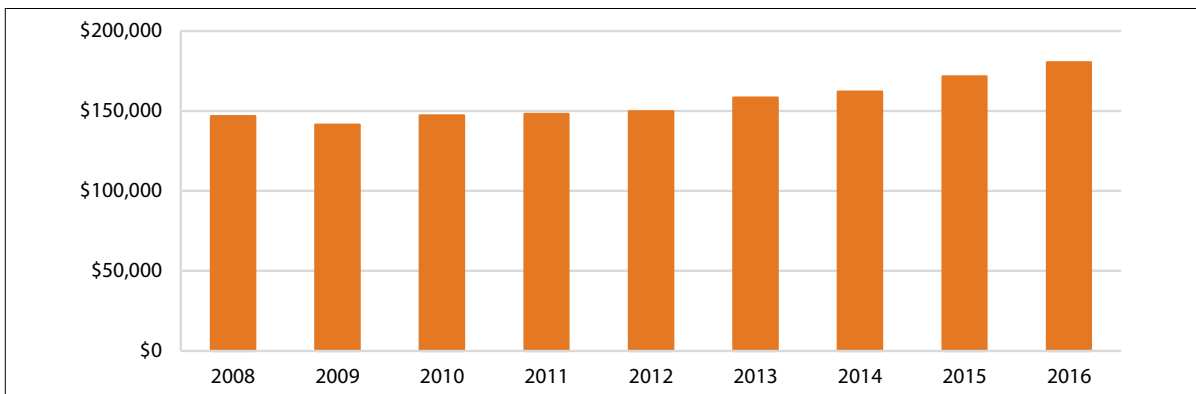
- Renting in Charlotte is relatively costlier than owning, as rents account for 19% of the area’s median income, while owning comprises 14%. The median home value equates to \$180,500.
- Charlotte is among a group of cities that has considered loosening land-use rules to bolster affordable housing. A proposed ordinance would require developers to set aside a certain percentage of new developments for affordable units. Though the ordinance isn’t expected to be rewritten until 2019, the city aims to build 5,000 additional low-cost units before then.

Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody’s Analytics

Charlotte Median Home Price



Source: Moody’s Analytics

Population

- Around 43,246 residents flocked to Charlotte in 2015, a 2% gain, far above the 0.8% national average.
- Since 2011, the city’s population has risen by more than 169,500 residents, an increase of 7.5%.

Charlotte vs. National Population

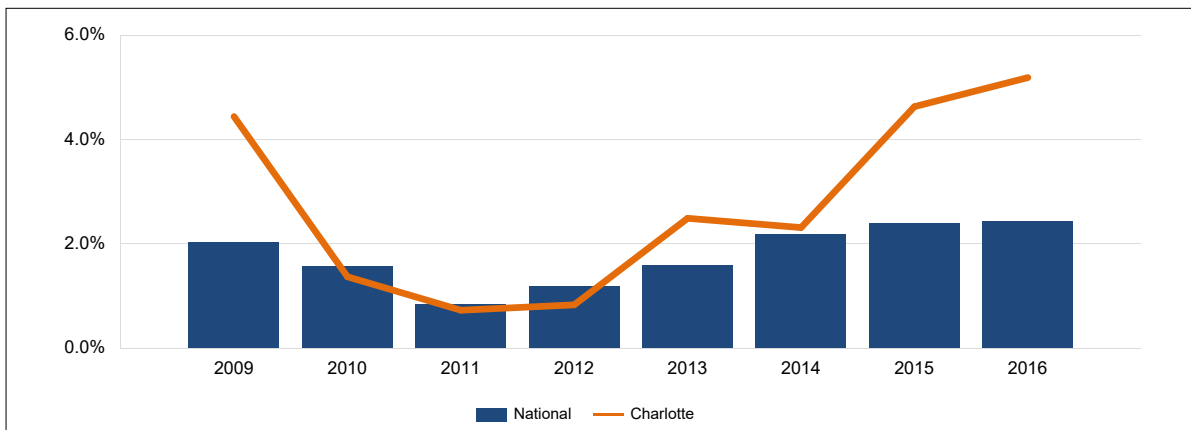
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Metropolitan Statistical Area	2,256,845	2,295,310	2,336,266	2,379,177	2,426,363

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

Supply

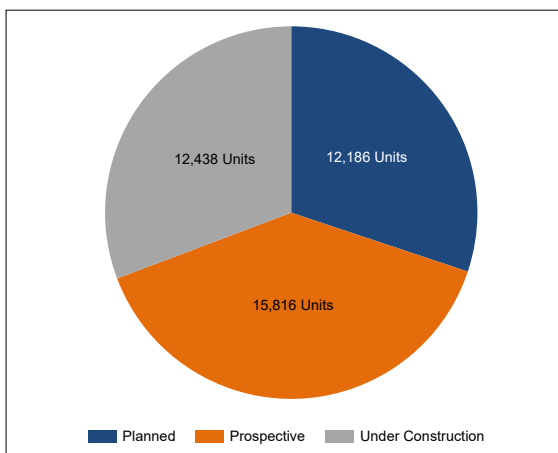
- Charlotte is in the midst of a construction boom, with more than 7,300 units coming online through the end of November. The rate of multifamily development has more than doubled since 2014, when the inventory expansion rate hovered around the 2% mark. There are no signs of slowing down.
- More than 41,000 units are currently in various stages of development. Of those, roughly 12,000 are under construction and 14,000 are in the planning phase.
- The boost in construction derives from strong demand for apartments, population surge and employment growth. The large number of completions may contribute to a rise in vacancy, resulting in higher occupancy of stabilized properties as the new supply takes some time to get absorbed. Rents are likely to continue an upward trend.
- Charlotte's apartment boom isn't evenly spread. Growth is occurring in both core and secondary submarkets, with Uptown leading gains (1,503 units), followed by Morningside (1,434) and Ballantyne-Providence (966). The largest project completed in 2016 was the 375-unit Solis Waverly, owned by Federal Capital Partners, in Charlotte's Ballantyne-Providence submarket.

Charlotte vs. National Completions as a Percentage of Total Stock (as of January 2017)



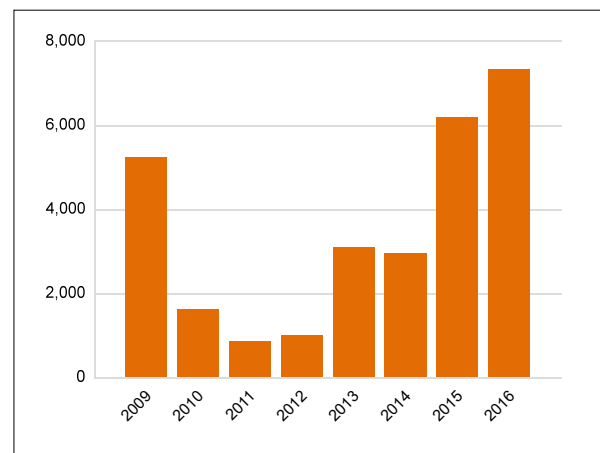
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Charlotte Completions (as of January 2017)

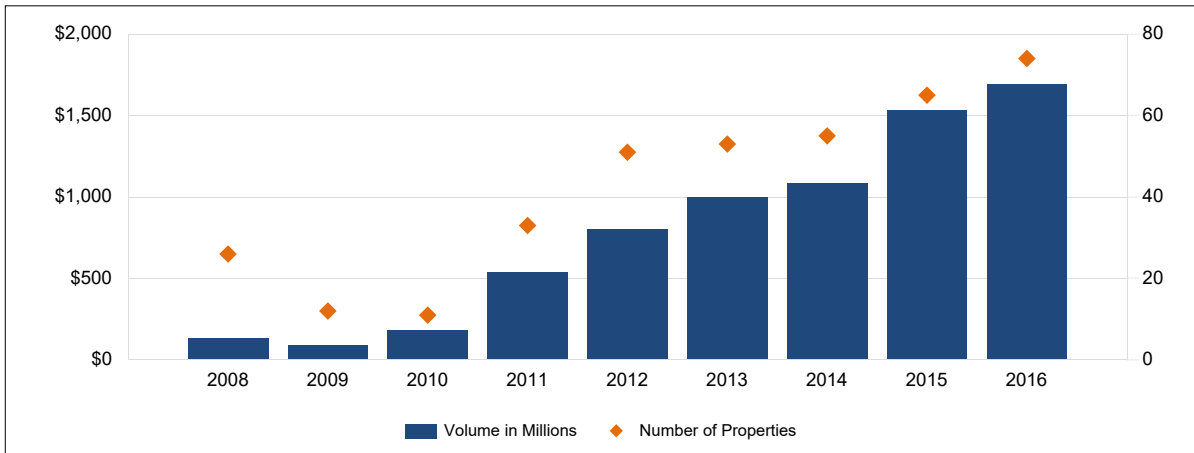


Source: YardiMatrix

Transactions

- Investor appetite for properties is growing, as evidenced by the leap in transaction activity to \$1.7 billion in 2016, a high in the current cycle. Institutional investors and private equity firms increasingly are looking to acquire apartments in Charlotte due to the market's potential growth, appeal to Millennials and thriving tech and trade sectors.
- As the market gains traction among larger investors, prices continue to rise. Acquisition yields for stabilized properties ranged from 4.5 to 6%, with the average price per unit reaching \$107,800, at year-end.
- In the 12 months ending in November, the most sought-after submarket was UNC at Charlotte (\$269 million), and the 570-unit Cascades of Northlake was the most expensive property to change hands (\$82.7 million). Cortland Partners purchased the asset at a per-unit price of \$145,000.

Charlotte Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

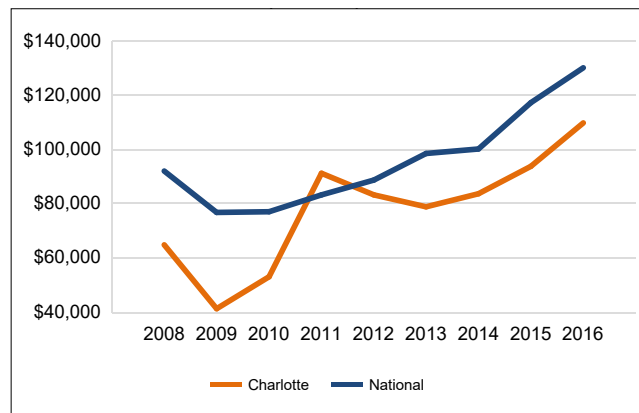
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
UNC at Charlotte	269
Foxcroft	188
North Charlotte	157
Pineville	142
Wedgewood	136
Second Ward	127
Southwest Charlotte	103
Huntersville	95

Source: YardiMatrix

¹ From December 2015 to November 2016

Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Bainbridge Nabs NC Site
For Multifamily Project



New Office Space Coming
To Charlotte's South End



Proffitt Dixon to Deliver
First Greenville Community

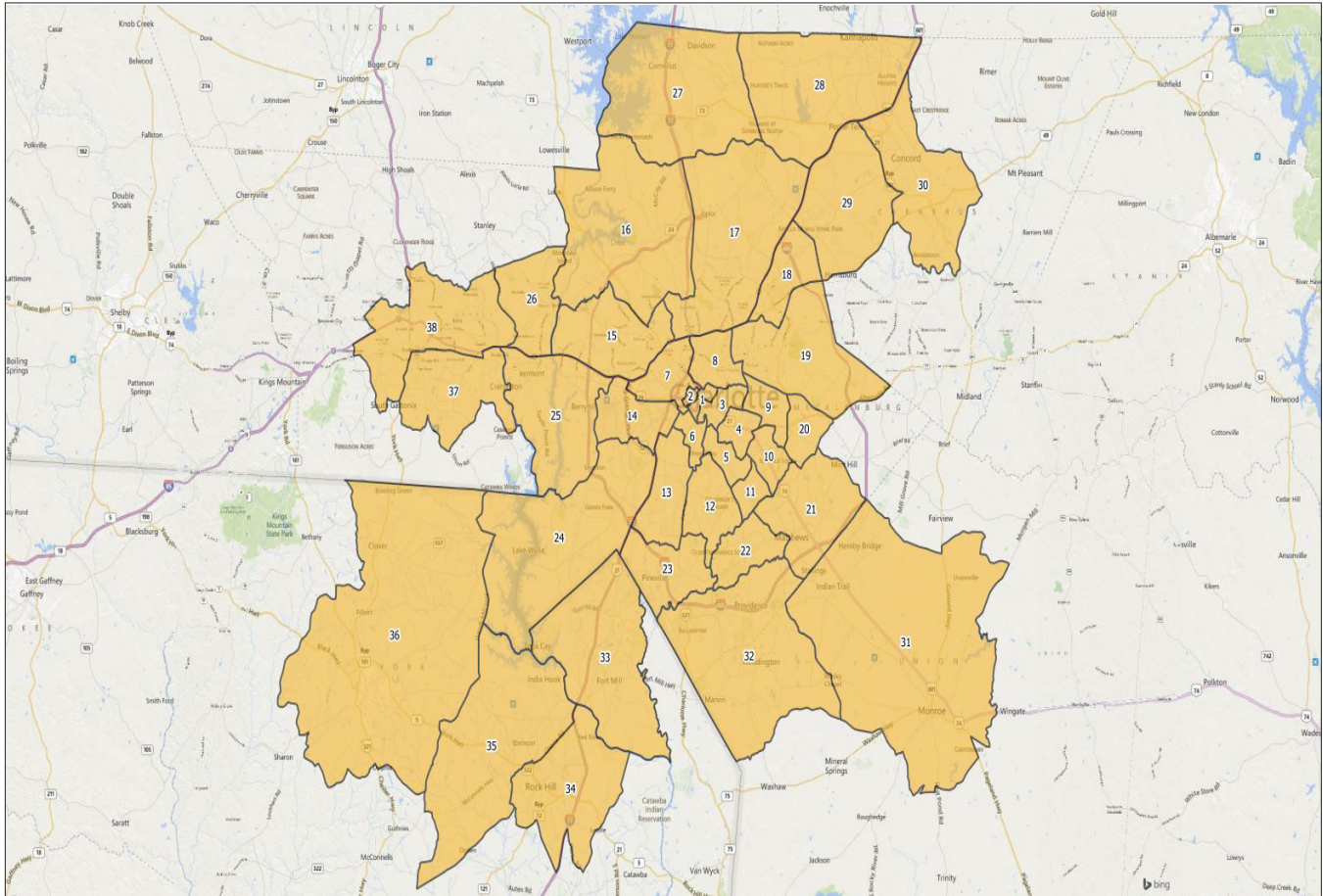


JV to Deliver 367 KSF
Industrial Park in Charlotte

Get the latest Charlotte real estate
news at



Charlotte Submarket Map



Area #	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
18	UNC at Charlotte
19	Hidden Valley-Oak Forest

Area #	Submarket
20	Becton Park-Marlwood
21	Matthews
22	Wessex Square
23	Pineville
24	Southwest Charlotte
25	Belmont
26	Mt. 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

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 may 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 may 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, may 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.

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.