YARDI® Matrix

Charlotte's Boom

Multifamily Report Spring 2017

RBN-Lifestyle Gap Widens

Development Targets Uptown

Sales Volume Hits Post-Bubble Best

Market Analysis
Spring 2017

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Demand Reigns in Queen City

The Charlotte multifamily market is one of the best-performing in the country, with healthy demand, job increases and strong growth potential. Charlotte's apartment boom has shown no signs of slowing down, though rent growth is decelerating due to an increasing supply and affordability issues.

The metro has established itself as a thriving financial, tech and logistics center for the entire Southeast, with nearly 19,000 new hires last year. Large-scale developments underway include the $600 million Hard Rock Hotel and Casino in King Mountain, the $520 million rail revamp between Charlotte and Raleigh, and the $2.5 billion airport expansion.

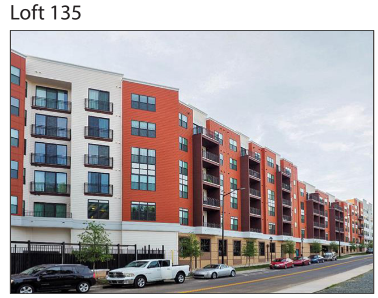
Growth in the multifamily market is enormous. Developers are focusing on live-work-play communities, especially in Uptown Charlotte. Though cranes are in full flight in the city's urban core, development also stretches into the suburbs. High demand in the Renter-by-Necessity segment is pushing up rents. Due to the metro's favorable demographics and potential for higher yields, investor appetite has not diluted and transaction activity reached $1.9 billion last year, a new cycle high. The significant amount of new units coming online and the 95.2% occupancy rate have not scared developers, as most of the upcoming deliveries are aimed at Lifestyle renters. We expect demand and supply to remain high, with rents growing by 3.8% in 2017.

Recent Charlotte Transactions

Cascades of Northlake

City: Charlotte
Buyer: Cortland Partners
Purchase Price: $83 MM
Price per Unit: $145,011

Loft 135

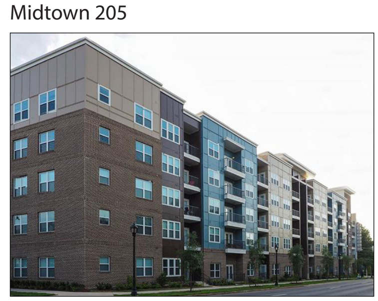


City: Charlotte
Buyer: Wafra Investment Advisory Group
Purchase Price: $79 MM
Price per Unit: $263,423

Berkshire Dilworth

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

Midtown 205



City: Charlotte
Buyer: CWS Capital Partners
Purchase Price: $63 MM
Price per Unit: $242,720

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On the cover: Photo by Sean Pavone Photo/iStockphoto.com

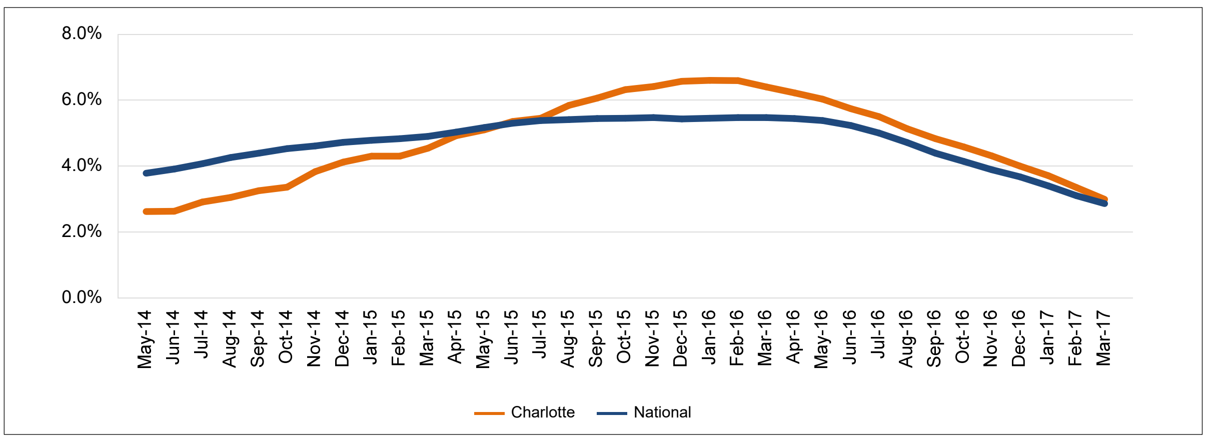
Rent Trends

- Rents in Charlotte were up 3.0% year-over-year through March, just 30 basis points above the national average. At $1,067, average rents in the metro were less than the $1,312 national average. Since peaking in early 2016, Charlotte's rent growth has decelerated, in line with the national trend. Demand for units remains strong, due to robust population and job growth, although that is mitigated to some degree by the heavy supply pipeline. Occupancy for stabilized properties was 95.3% as of the first quarter.

- Growth was led by the working-class Renter-by-Necessity segment, which rose to $864, up 6.0% year-over-year through March. The gap is widening between RBN and the higher-end Lifestyle segment, which rose only 1.7% to $1,191. Most of the metro's new supply is in the Lifestyle segment, though demand mostly comes from workers in the fast-growing but lower-paying employment segments such as construction, transportation, leisure and hospitality.

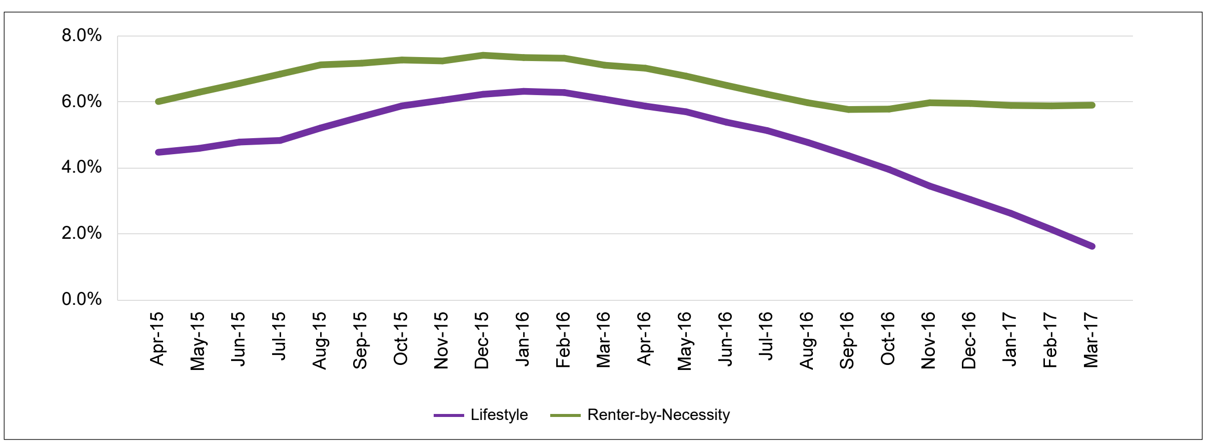
- Rents grew the fastest in lower-priced submarkets such as Northwest Charlotte (9.0%), Gastonia – North (8.0%) and Gastonia – South (7.8%). Despite rental-rate contractions, core submarkets such as Uptown (-1.9%), Myers Park (-0.7%), Second Ward (-3.8%) and Third Ward – Lakewood (-3.4%) continue to be some of the most expensive in the metro.

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)

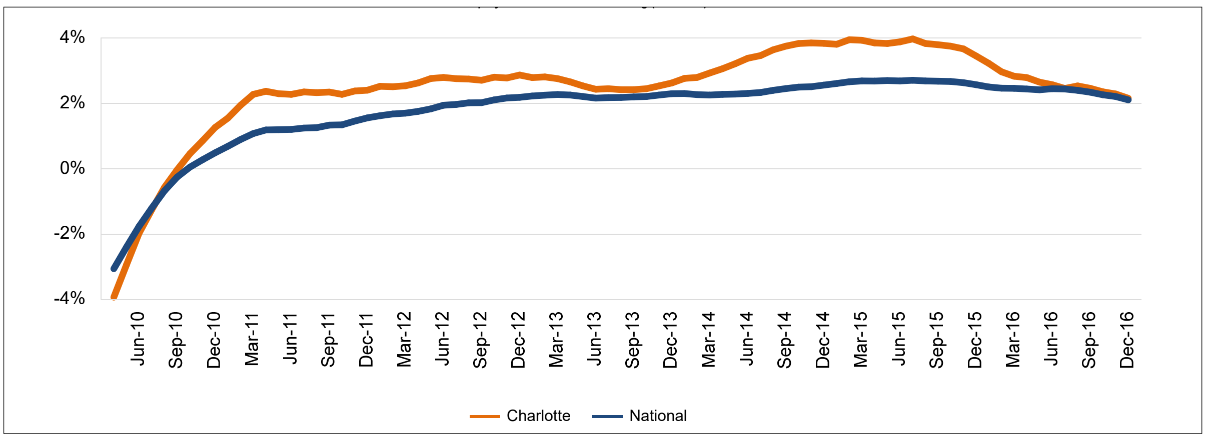


Source: YardiMatrix

Economic Snapshot

- Charlotte added nearly 19,000 jobs last year, up 2.2%, in line with the 2.1% national average. Employment has consistently outperformed the national growth rate since the recovery from the last recession in 2010. Job growth was led by professional and business services (4,000 jobs); trade, transportation and utilities (3,400); construction (3,200); and financial activities (2,400).
- The $2.5 billion expansion at Charlotte Douglas International Airport and the $520 million rail revamp between Charlotte and Raleigh are expected to create construction jobs; and drive economic activity when they are completed.
- More customers are shifting to mobile banking, so banks are reducing branch networks and trimming staff to reduce expenses. Hiring in the financial activities sector has shrunk in the past few years, but highly specialized risk and compliance personnel are still needed. The financial activities sector added 2,400 jobs last year.
- The expanding health-care and tech sectors have boosted the office market, and nearly 1.7 million square feet of office space was absorbed last year. New York-based Northwood Investors closed the largest single sale in Charlotte's history, purchasing the 4 million-square-foot Ballantyne Corporate Park from local company Bissell Cos. for $1.2 billion. Prior to that, One Wells Fargo Center traded for $284 million in March 2016.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	193	16.8%	4,000	2.1%
40	Trade, Transportation and Utilities	240	20.9%	3,400	1.4%
15	Mining, Logging and Construction	61	5.3%	3,200	5.6%
65	Education and Health Services	117	10.2%	2,500	2.2%
55	Financial Activities	89	7.7%	2,400	2.8%
90	Government	154	13.4%	1,400	0.9%
80	Other Services	39	3.4%	1,200	3.1%
30	Manufacturing	105	9.1%	700	0.7%
70	Leisure and Hospitality	125	10.9%	400	0.3%
50	Information	26	2.3%	-300	-1.1%

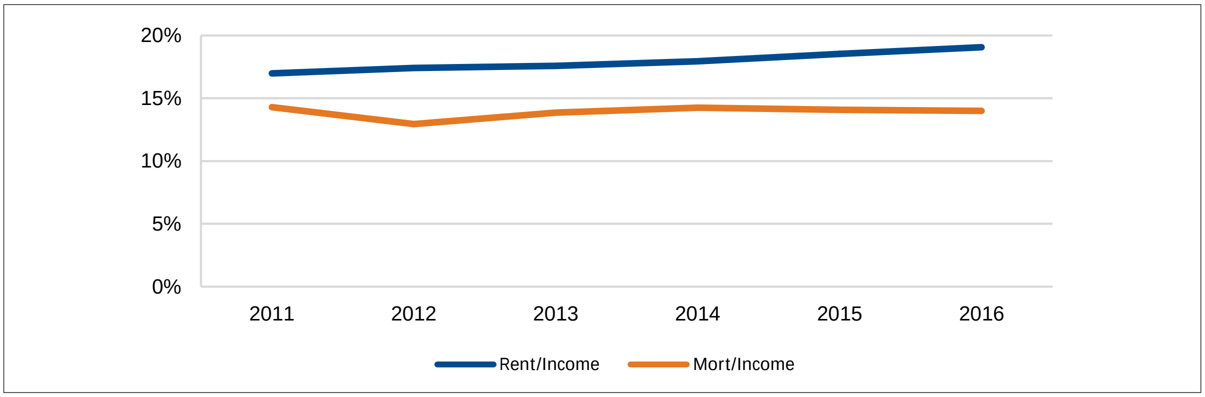
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

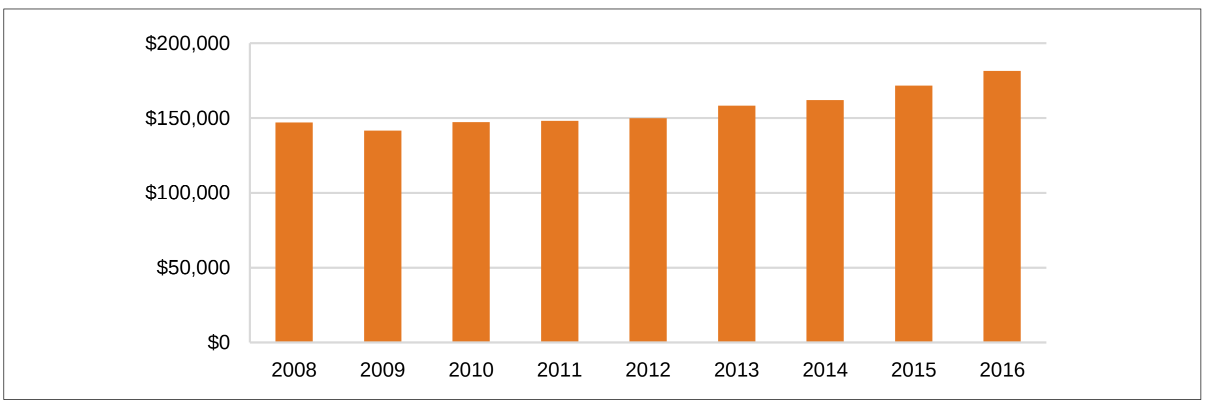
- Owning a house in Charlotte is more affordable than renting, as the average mortgage accounts for just 14% of the area's median income, while rent comprises 19%. The median home value hit $181,431, a new cycle high.
- The Charlotte City Council is discussing strategies that would facilitate the construction of 5,000 low-cost units over the next three years to combat the growing issue of affordability. Local authorities are also considering loosening their policy on where subsidized housing is built. Although roughly 34,000 more affordable units are needed to keep up with demand, most of the metro's new supply is in the luxury Lifestyle segment.

Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Charlotte Median Home Price



Source: Moody's Analytics

Population

- The metro added 47,000 residents in 2015, up 2% and far above the 0.8% national average.
- Since 2011, the metro's population has risen by more than 165,000, a 7.5% increase.

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

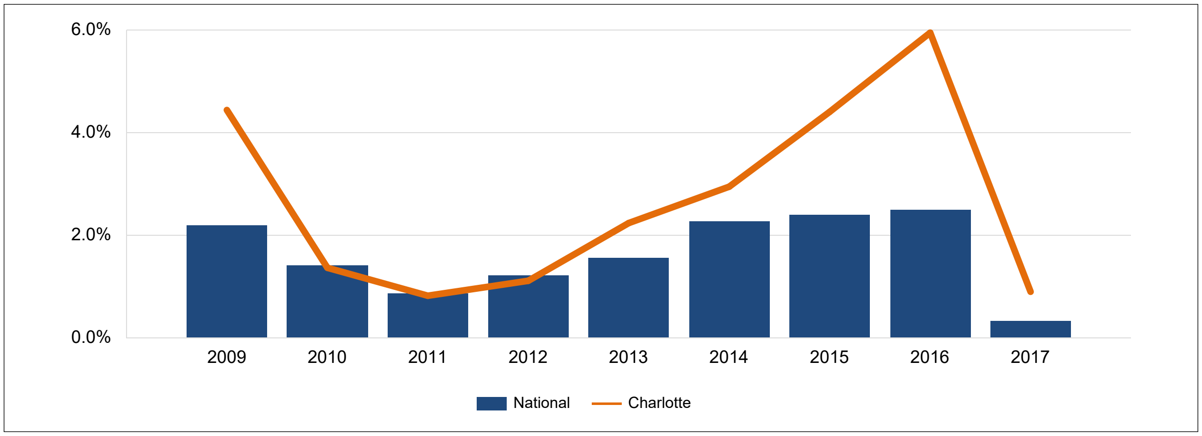
- Charlotte's vibrant economic growth is appealing to developers. More than 8,500 units came online last year, an increase of 6.0%, more than double the national average. Supply has grown substantially in recent years as developers rush to meet the demand for apartments brought on by in-migration, as young workers arrive to fill the new jobs that are being created.

- The supply pipeline is likely to remain extremely heavy over the next few years. More than 12,000 units are under construction, and we expect about 9,000 to come online in 2017. Roughly 40,000 units are in various stages of development. Housing demand is outpacing supply, especially along new sections of the city's light-rail system, which is scheduled for completion by the end of this year.

- Despite the high number of deliveries and units under construction, occupancy rates for stabilized properties is still high—95.2% as of February 2017. Developers are counting on an ongoing influx of Millennials and Charlotte's growing population to fill the new units.

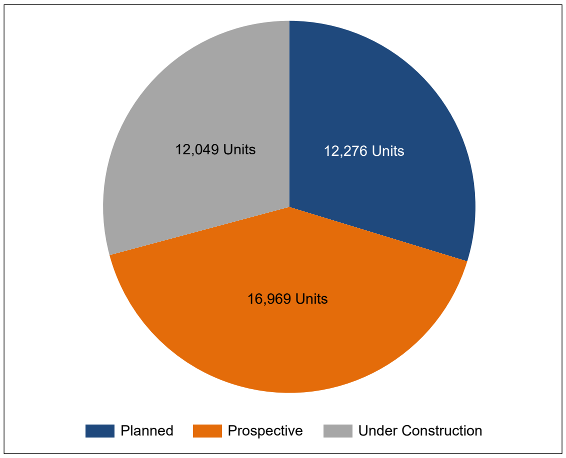
- New supply was led by Uptown (1,503 units). The largest project underway is Crescent Communities' 459-unit Crescent Stonewall Station, which is part of a mixed-use development adjacent to a light-rail station.

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



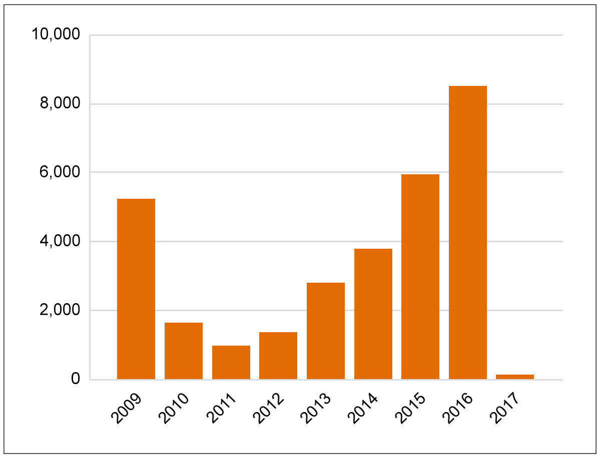
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Charlotte Completions (as of March 2017)



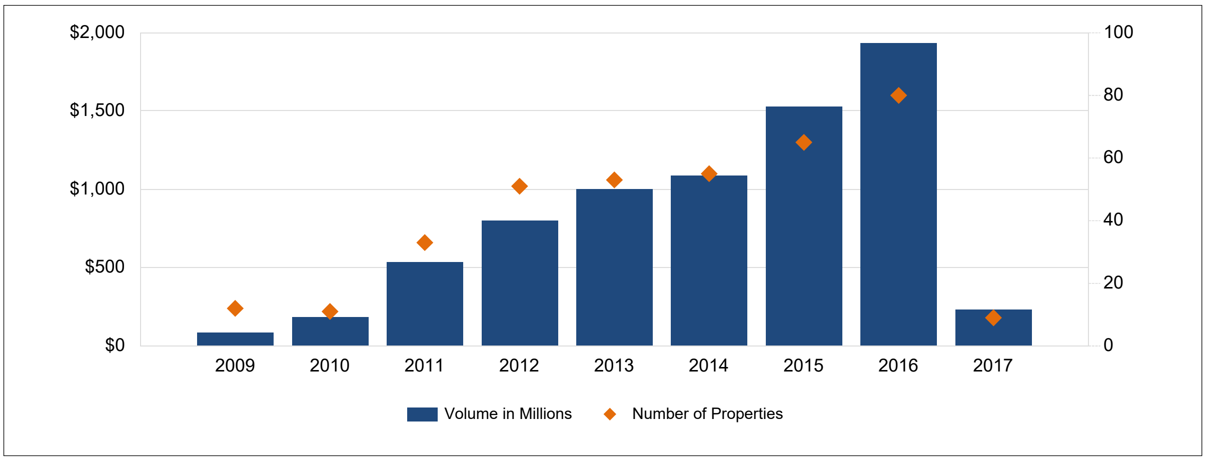
Source: YardiMatrix

Transactions

- Investor appetite remains consistent, as nearly $231 million in multifamily assets traded in the first quarter alone. Last year's $1.9 billion in investment sales marked a cyclical high for Charlotte. The city has become one of the most attractive secondary markets in the U.S., as institutional investors and private equity firms are drawn to the metro's prospects for growth due to the rapidly expanding population, thriving economy and increasing market size. The average price per unit was $112,436 through March, slightly below last year's $113,484 average.

- In the year ending in March, the most sought-after submarkets were Southwest Charlotte ($223 million) and Foxcroft ($144 million). However, the largest transaction was in the Wedgewood submarket, with Centennial Holding Co. selling the 570-unit Cascades of Northlake to Cortland Partners for $83 million. The property last traded in 2013, when Centennial Holding Co. purchased it from Charter Properties for $68 million.

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



Source: YardiMatrix

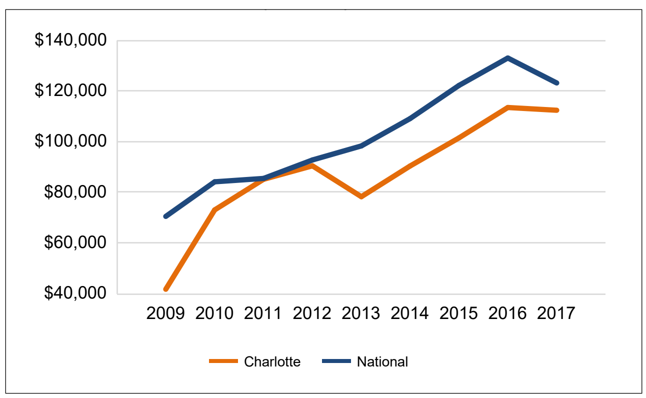
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Southwest Charlotte	223
Foxcroft	144
North Charlotte	139
Second Ward	127
Huntersville	123
UNC at Charlotte	118
Wedgewood	114
Colonial Village – Montclaire	96

Source: YardiMatrix

[1] From April 2016 to March 2017

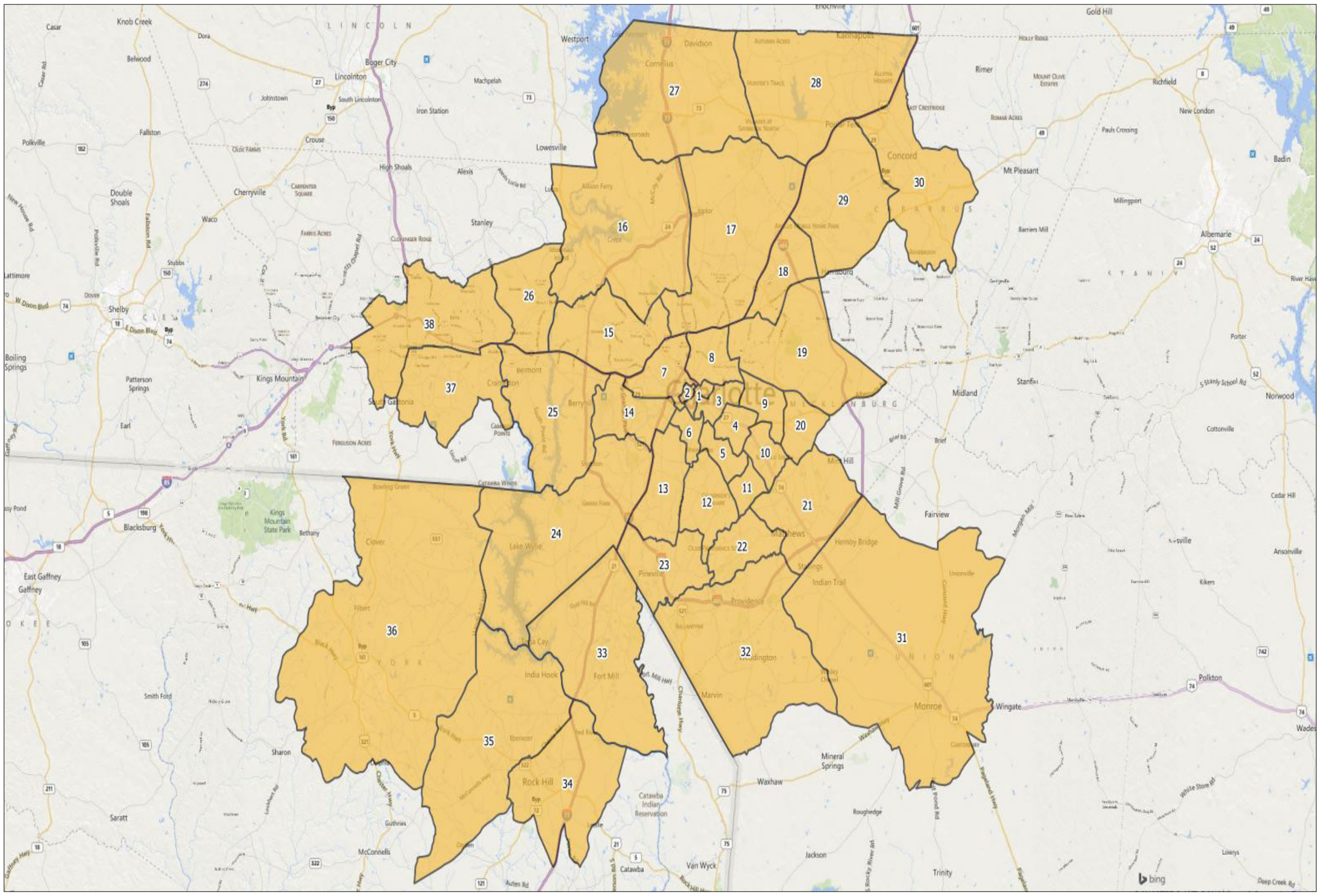
Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone Photo/iStockphoto.com

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–Montclaire
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.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