



MULTIFAMILY REPORT

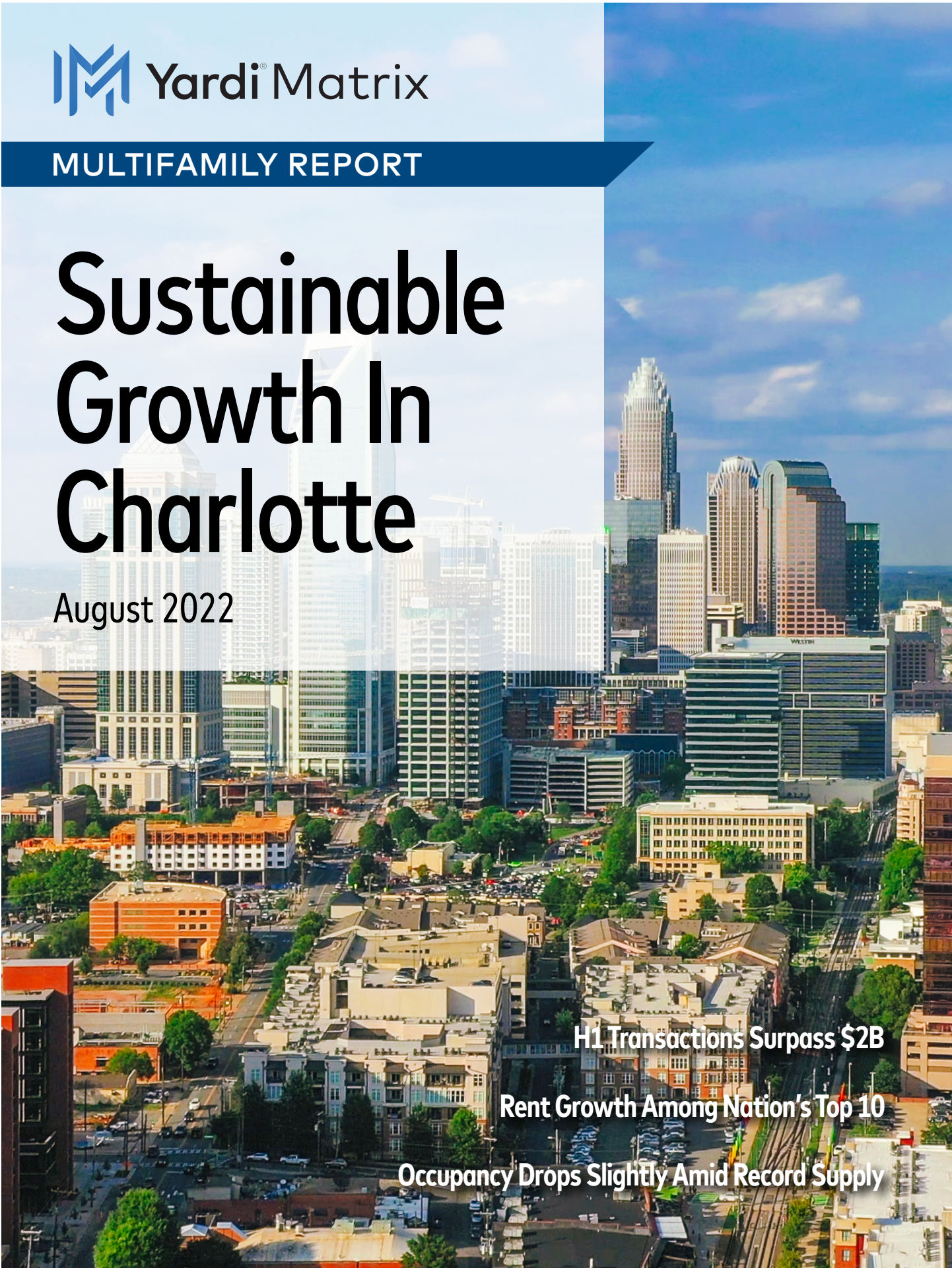
Sustainable Growth In Charlotte

August 2022

H1 Transactions Surpass \$2B

Rent Growth Among Nation's Top 10

Occupancy Drops Slightly Amid Record Supply



CHARLOTTE MULTIFAMILY



Demand Remains Healthy, Deals Push Through

Backed by its solidifying economy, expanding population and affordable lifestyle, Charlotte is well positioned to withstand potential fluctuations in the multifamily market. Despite record deliveries in 2021, rent growth stood at 1.3% in the second quarter, 20 basis points above the national rate. However, the addition of more than 40,400 units in the five years ending in 2021 has put a dent in occupancy, albeit a small one. The rate dropped 30 basis points, to 95.5%, in the 12 months ending in May.

Though stabilizing, employment growth in Charlotte in the 12 months ending in May was 90 basis points below the 4.7% national rate. Mirroring nationwide trends, leisure and hospitality led gains (14,700 jobs), followed by professional and business services (11,400 jobs) and financial activities (6,900 jobs). Finance positions are prevalent in the metro, and the sector expanded during the health crisis due to its ability to easily pivot to remote work.

Following the 11,533-unit record supply added to the metro's inventory in 2021, developers hit the brakes in the first half of this year, as only 2,497 apartments came online. Meanwhile, transactions did not slow down, with \$2.1 billion in multifamily assets changing hands, significantly above the \$1.4 billion recorded in the first half of 2021. Going forward, rising interest rates and wider economic woes could hinder investment to some extent, with both buyers and sellers adjusting to market volatility.

Market Analysis | August 2022

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Recent Charlotte Transactions

Hazel SouthPark



City: Charlotte, N.C.
Buyer: Lincoln Property Co.
Purchase Price: \$131 MM
Price per Unit: \$644,089

Amaze @ NoDa



City: Charlotte, N.C.
Buyer: Varia US Properties
Purchase Price: \$91 MM
Price per Unit: \$303,980

Arcadia



City: Charlotte, N.C.
Buyer: TPG Real Estate
Purchase Price: \$76 MM
Price per Unit: \$368,293

The Cove at Matthews



City: Matthews, N.C.
Buyer: Abacus Capital Group
Purchase Price: \$60 MM
Price per Unit: \$209,201

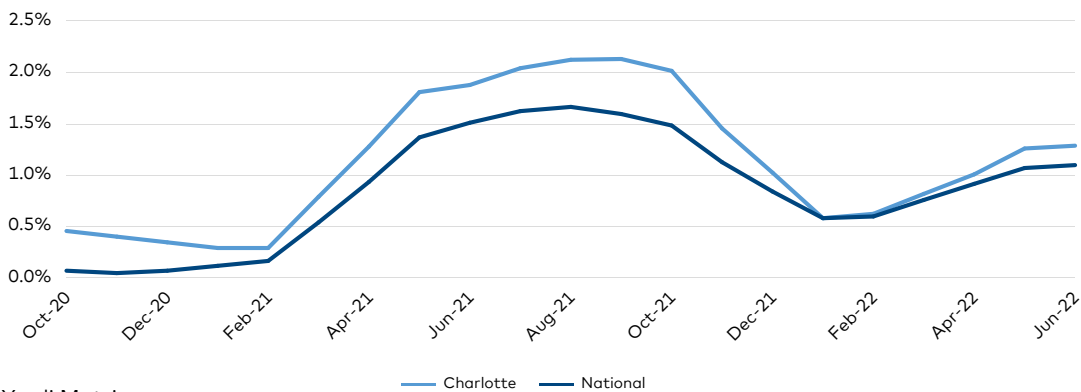
RENT TRENDS

- ▶ Charlotte rent expansion stood at 1.3% in the second quarter, 20 basis points above the national rate. However, the metro's \$1,594 average rate is still below the \$1,706 U.S. figure. Year-over-year through June, rates rose by 16.9%, putting Charlotte in the ninth spot nationally for growth among major markets. Despite substantial gains, Charlotte remains appealing to those looking to relocate to a more affordable market.
- ▶ Demand for upscale assets was slightly stronger than for workforce units. Rents in the Lifestyle segment grew by 1.3% in the second quarter, to an average of \$1,751. Meanwhile, figures in the working-class Renter-by-Necessity segment improved by 1.2% to \$1,263.
- ▶ Despite healthy demand, the large volume of

new supply in the past few years has affected occupancy. As of May, the 95.5% rate was 30 basis points below the May 2021 figure, while the overall occupancy rate in the country was 96.0%, up 20 basis points.

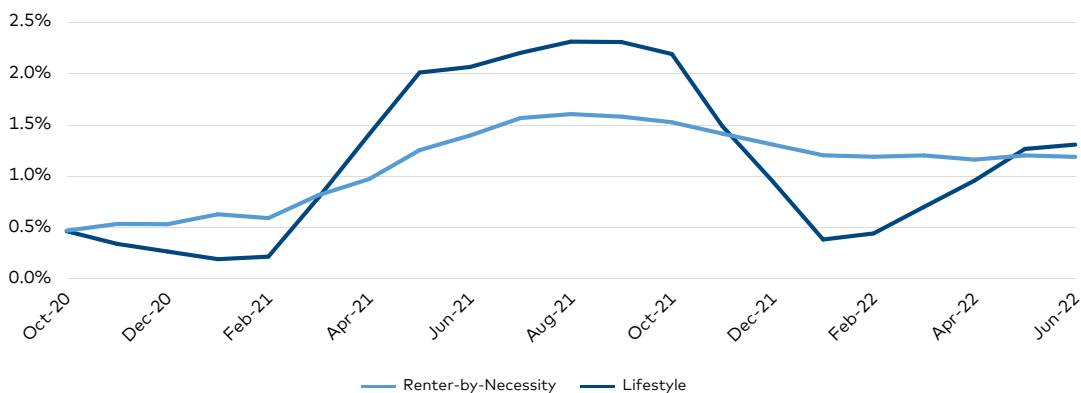
- ▶ Asking rents for single-family rentals are also on an upward trajectory in Charlotte. Year-over-year through May, the average rate increased by 21.9%, to an all-time high of \$2,394.
- ▶ Urban core submarkets such as Uptown (17.6% to \$2,301) and Myers Park (22.5% to \$2,157) remained the most expensive. Year-over-year through June, rent growth was also strong in submarkets that are relatively close to downtown, including Foxcroft (21.7% to \$1,951) and Colonial Village-Montclaire (21.7% to \$1,527).

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

- ▶ The unemployment rate in the Queen City was 3.2% in April—slightly lower than pre-pandemic levels—according to data from the Bureau of Labor Statistics. Backed by in-migration, a diversifying economy and a plethora of banking and fintech entities in the area, the metro's employment rate has been steadily improving. In the 12 months ending in May, Charlotte added 50,800 jobs, with growth led by leisure and hospitality (14,700 jobs) and professional and business services (11,400 jobs).
- ▶ Financial activities, one of the metro's economic backbones, also added 6,900 jobs, for a 6.2% expansion. Credit Karma opened its \$13 million East Coast headquarters in Ballantyne, with plans to create 600 new jobs by 2026. Meanwhile, financial services company Truist Financial Corp. debuted its Innovation and Technology Center, a 100,000-square-foot facility dedicated to innovation in financial services.
- ▶ To meet the metro's growing population, construction is underway on phase one of the Charlotte Gateway Station project, a future intermodal transit station in Uptown Charlotte. More than \$86 million will be invested in the project, which is scheduled to be completed next year. Another major infrastructure project underway is the addition of express lanes to Interstate 485, south of the city. The estimate for this project is \$346 million, with completion expected in 2024.

Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	140	10.8%
60	Professional and Business Services	226	17.5%
55	Financial Activities	118	9.1%
65	Education and Health Services	132	10.2%
40	Trade, Transportation and Utilities	269	20.8%
30	Manufacturing	110	8.5%
80	Other Services	48	3.7%
15	Mining, Logging and Construction	73	5.6%
90	Government	157	12.1%
50	Information	25	1.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Charlotte's population grew by 1.2% last year, which was significantly above the 0.1% U.S. figure, but below Raleigh's 2.0% rate.
- ▶ Cities in the metro's southern area—such as Fort Mill and Waxhaw—recorded the highest growth rates, according to Census data.

Charlotte vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Metro Charlotte	2,571,717	2,616,579	2,647,635	2,678,986

Source: U.S. Census

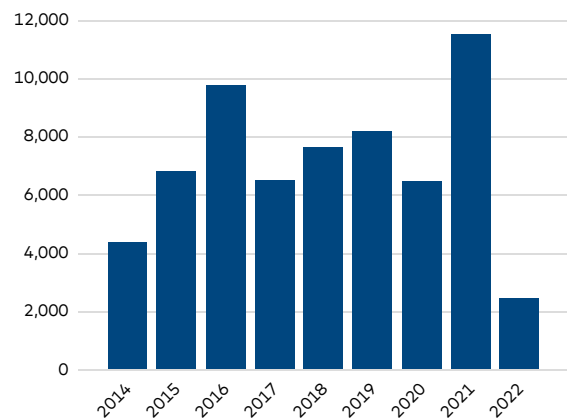
SUPPLY

- ▶ As of mid-2022, the development pipeline in Charlotte consisted of 21,470 units under construction and another 84,000 apartments in the planning and permitting stages. Near the urban core, construction is concentrated around areas near recent light rail extensions, such as Tryon Hills (2,360 units underway). In the suburbs, developers are most active in northern submarkets such as North Charlotte (3,141 apartments under construction) and UNC at Charlotte (1,961 units).
- ▶ Developers delivered only 2,497 units in the first half of 2022, well below the 6,319 units that came online over the same period last year. Labor shortages and increasing construction costs, coupled with the overall volatile economic environment, have pushed some developers to hit the brakes. This comes on the heels of a record 11,533 units delivered in 2021 and a total of 38,696 apartments during the previous five years. The pace of completions is expected to slow down, but Yardi Matrix still expects 8,732 units to come online by year-end.
- ▶ Construction starts are also moderating. After breaking ground on 5,791 apartments across 21 projects in the first half of 2021, developers

started work on only 4,272 units across 17 projects this year through June.

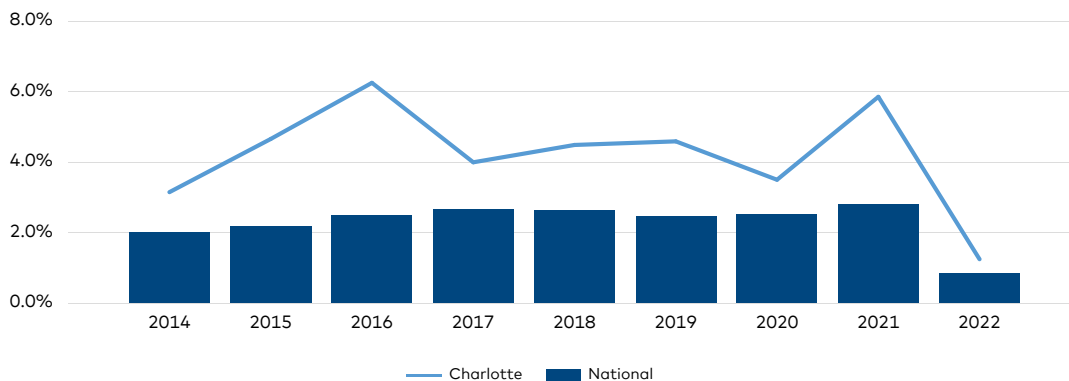
- ▶ Tapestry University City is the largest project that developers delivered this year. The 352-unit community in Charlotte's Hidden Valley-Oak Forest submarket was built by Arlington Properties using a \$45.2 million construction loan funded by Valley National Bank. The luxury development is adjacent to the Lynx Blue Line rail station.

Charlotte Completions (as of June 2022)



Source: Yardi Matrix

Charlotte vs. National Completions as a Percentage of Total Stock (as of June 2022)



Source: Yardi Matrix

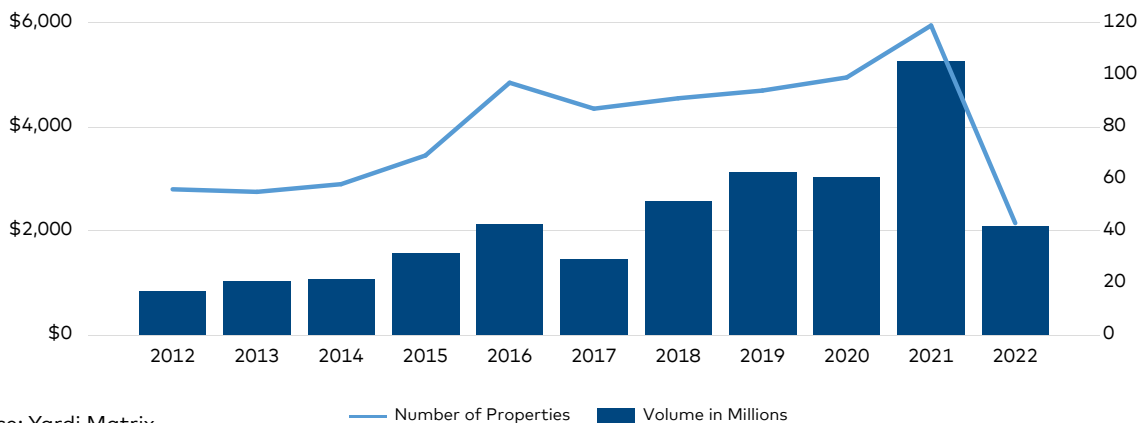
TRANSACTIONS

- ▶ Some \$2.1 billion in multifamily assets changed hands in the first two quarters of 2022, significantly above the \$1.4 billion recorded for the same time frame last year. Considering the growing uncertainty generated by rising interest rates and inflation, it remains to be seen if investors will break last year's \$5.3 billion peak.
- ▶ Investors favored upscale assets in the first half of 2022, which pushed the average per-unit price to \$246,061, above the \$217,310 U.S. figure. Of the 43 single-asset deals closed

this year through June, five commanded prices above the \$100 million threshold.

- ▶ In the 12 months ending in June, two neighboring areas—UNC at Charlotte and North Charlotte—that act as resident magnets due to their easy access to top universities, were the most sought-after, accounting for a sixth of the \$5.9 billion total volume. However, the largest transaction closed in Myers Park, where DWS paid \$176 million for the 346-unit The Atherton.

Charlotte Sales Volume and Number of Properties Sold (as of June 2022)



Source: Yardi Matrix

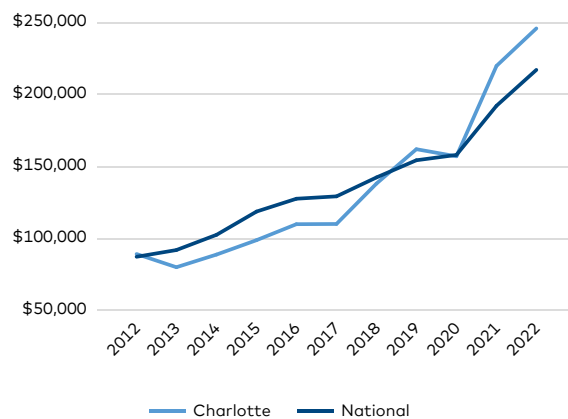
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
UNC at Charlotte	496
North Charlotte	451
Colonial Village-Montclair	444
Southwest Charlotte	438
Foxcroft	393
Matthews	357
Morningside	346

Source: Yardi Matrix

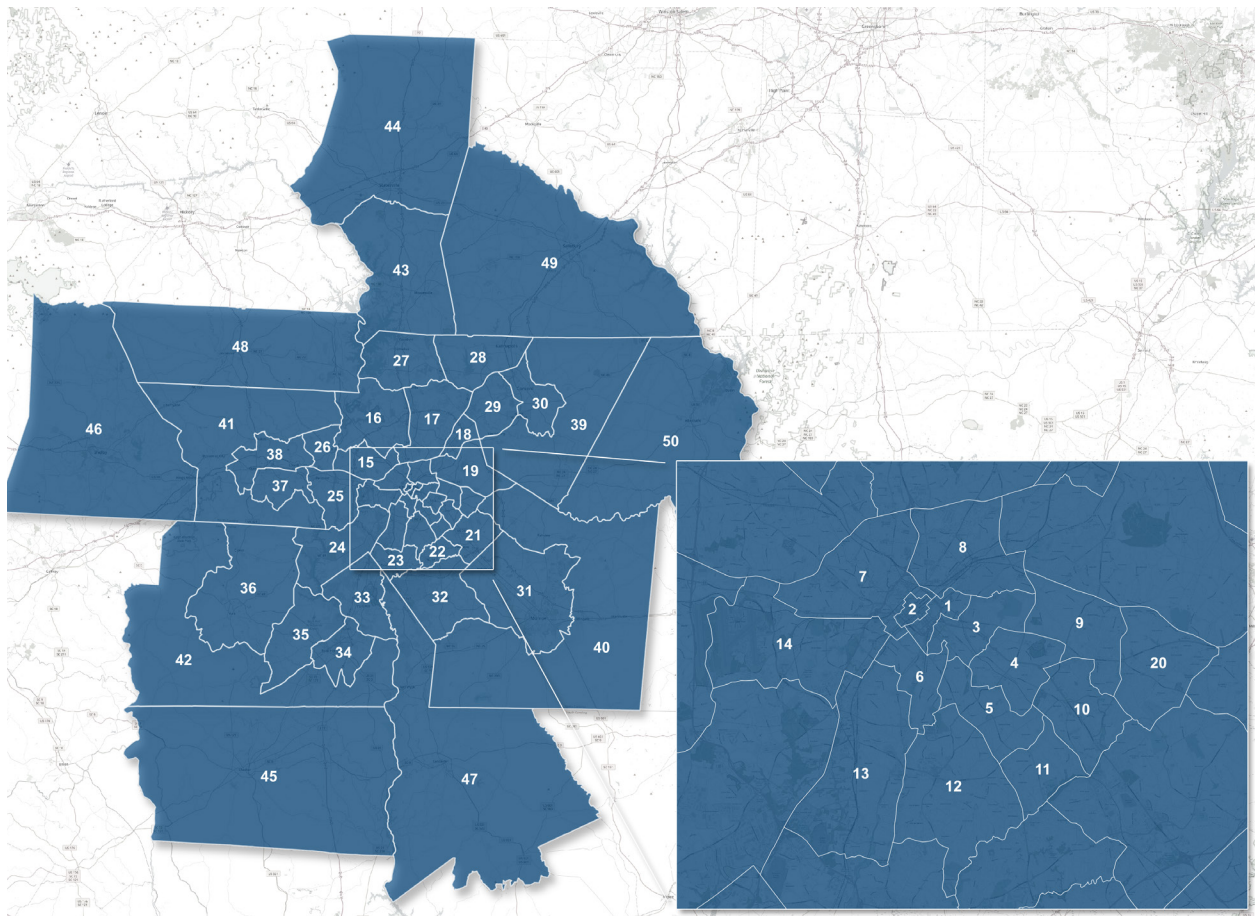
¹ From July 2021 to June 2022

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix

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 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 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, 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.



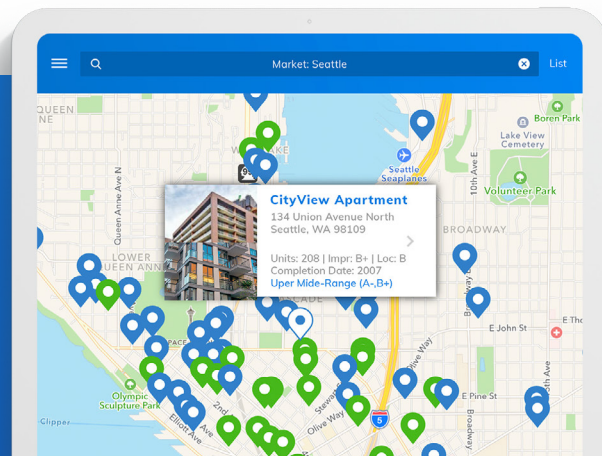
Yardi Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
92% of the U.S. population.



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