

Yardi® Matrix

# Charlotte: Full Steam Ahead

Multifamily Report Summer 2017

**High Sales Volume**

**Robust Population Growth**

**Lifestyle-Focused New Supply**



## Market Analysis

Summer 2017

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## Charlotte Teems With Demand Drivers

Charlotte's housing market is displaying one of the strongest recoveries among U.S. metros this cycle, with growth attributable to the city's thriving economy, low cost of living and high quality of life. Among the nation's top destinations for immigration, Charlotte also boasts steady employment growth, which has made the city an attractive target for new and expanding businesses, while supporting long-term demand for new units.

Increases in population, development and public projects boosted employment in professional and business services, along with trade and construction. The \$977 million LYNX Blue Line extension running from uptown to UNC Charlotte and the \$150 million Gold Line Streetcar project have significantly contributed to strengthening both of these sectors. Moreover, universities in the area feed a talent pool of highly sought-after young workers for new and expanding tech firms. fintech (financial technology) is an important source of tech growth in Charlotte, building on the region's notoriety as a top financial services hub.

Roughly \$769 million in assets traded this year through July. Following last year's cycle high in deliveries, some 6,800 units are slated for completion in 2017, about 2,000 fewer than in 2016. With developers focusing on upscale assets, high demand for working-class units is pushing rents up. However, we expect rent growth to remain steady, keeping appreciation at 2.5% in 2017.

### Recent Charlotte Transactions

Marquis at Morrison Plantation



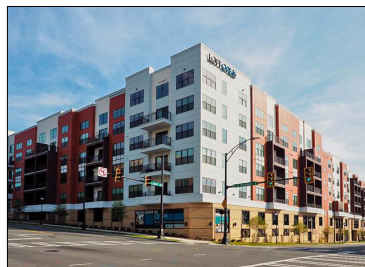
City: Mooresville, N.C.  
Buyer: CWS Capital Partners  
Purchase Price: \$87 MM  
Price per Unit: \$309,609

Cascades of Northlake



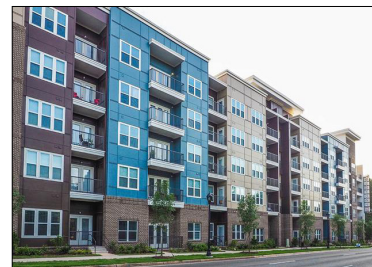
City: Charlotte, N.C.  
Buyer: Cortland Partners  
Purchase Price: \$83 MM  
Price per Unit: \$145,000

Loft 135



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

Midtown 205



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

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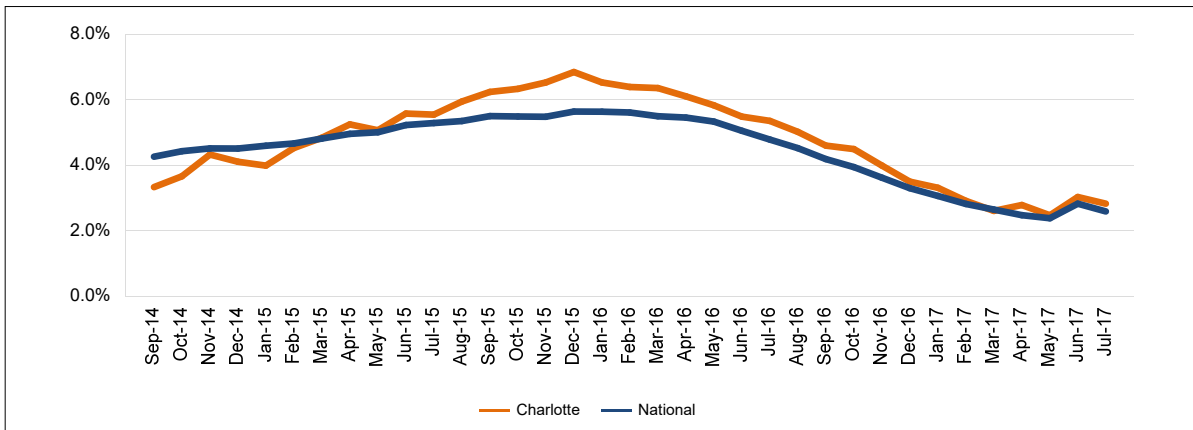
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## Rent Trends

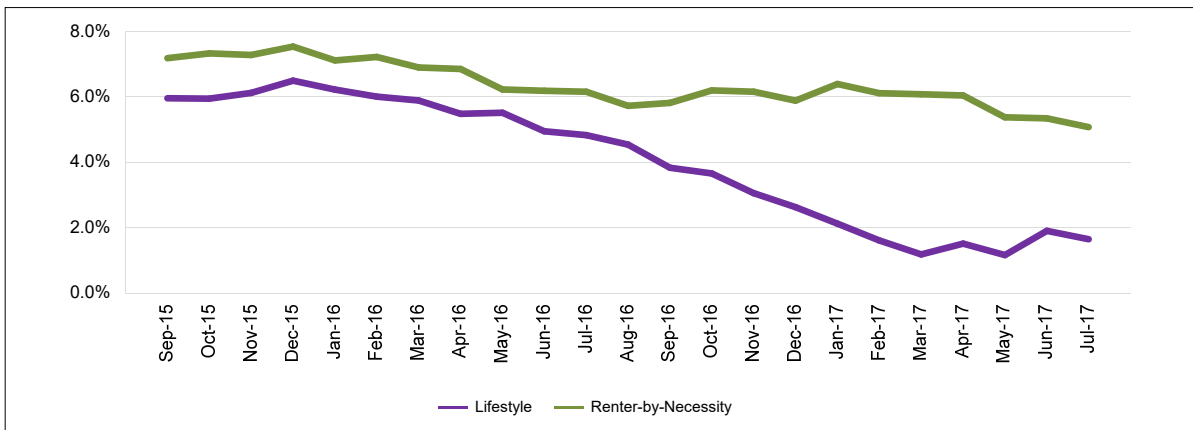
- Rents in Charlotte were up 2.8% year-over-year through June, 20 basis points above the national growth rate. At \$1,094, rents fell below the \$1,350 U.S. average. Rent growth in the metro has been steadily decelerating since the end of 2015, following nationwide trends.
- The affordability gap between Lifestyle rents and the working-class Renter by Necessity segment continues to widen. Rent growth was led by RBN, which rose to \$869, up 5.1% year-over-year through July. The Lifestyle segment was up just 1.6%, to \$1,234. As more than three quarters of the metro's new supply is geared toward the Lifestyle segment, affordability problems are likely to mount.
- Working-class submarkets close to the city core are driving rent growth, the list including Briarcreek–Oakhurst (7.9%) and Eastland–Windsor Park (7.6%). At the same time, rents in the most expensive submarkets are contracting, including Uptown (\$1,866 average rent; -2.5%) and Myers Park (\$1,539; -1.1%).
- The occupancy rate for stabilized properties was 95.6% as of July, down 60 basis points in 12 months. However, healthy population gains and job growth are pushing up demand: As long as the outpouring of new supply is absorbed, rent appreciation is likely to remain steady. We expect rent growth to reach 2.5% in 2017.

### 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)

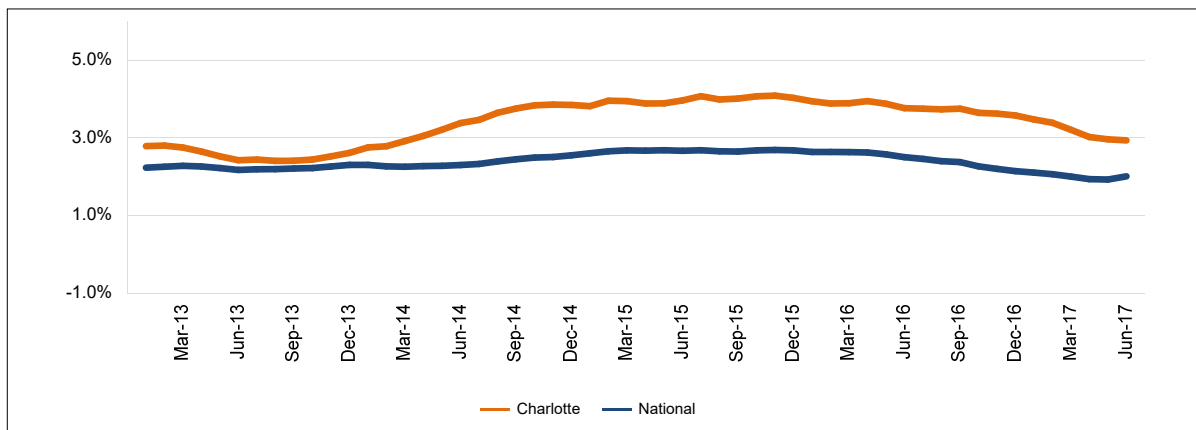


Source: YardiMatrix

## Economic Snapshot

- The metro added 33,500 jobs in the 12 months ending in June, up 2.9%, 90 basis points over the national average. Job additions have been consistent in Charlotte, with the growth rate last dipping below the 2.5% mark in 2013. Albeit at slower rate for the past few quarters, all signs point toward continued employment expansion.
- Second-quarter activity reinforced Charlotte’s emerging status as a fintech hub. Professional and business services is leading growth, having added 14,000 jobs, representing a 7.2% uptick. Insurance company AXA made one of the largest job announcements recently in the Charlotte area—550 new workers by 2022—an increased that would nearly double its local presence. Aldi’s plan to invest \$48 million in renovating its 31 Charlotte-area grocery stores has contributed to a boost in the trade, transportation and utilities sector, which added 4,800 jobs in the year ending in June. Strong population growth, increased residential and commercial development and several public works projects—such as the \$977 million LYNX Blue Line extension or the \$150 million Gold Line Streetcar Phase II project—impacted the construction sector, which added 2,900 jobs.
- The metro’s strong economic foundation continues to create appetite for office space. Lincoln Harris and Goldman Sachs began construction on an 853,073-square-foot tower on the former Charlotte Observer site in the CBD. The building is already 65% preleased to Bank of America, one of the largest employers in the metro.

### 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	%
60	Professional and Business Services	209	17.7%	14,000	7.2%
90	Government	153	12.9%	6,700	4.6%
40	Trade, Transportation and Utilities	238	20.1%	4,800	2.1%
65	Education and Health Services	118	10.0%	3,100	2.7%
15	Mining, Logging and Construction	65	5.5%	2,900	4.7%
55	Financial Activities	90	7.6%	1,500	1.7%
30	Manufacturing	105	8.9%	1,000	1.0%
80	Other Services	39	3.3%	400	1.0%
50	Information	27	2.3%	-200	-0.7%
70	Leisure and Hospitality	137	11.6%	-700	-0.5%

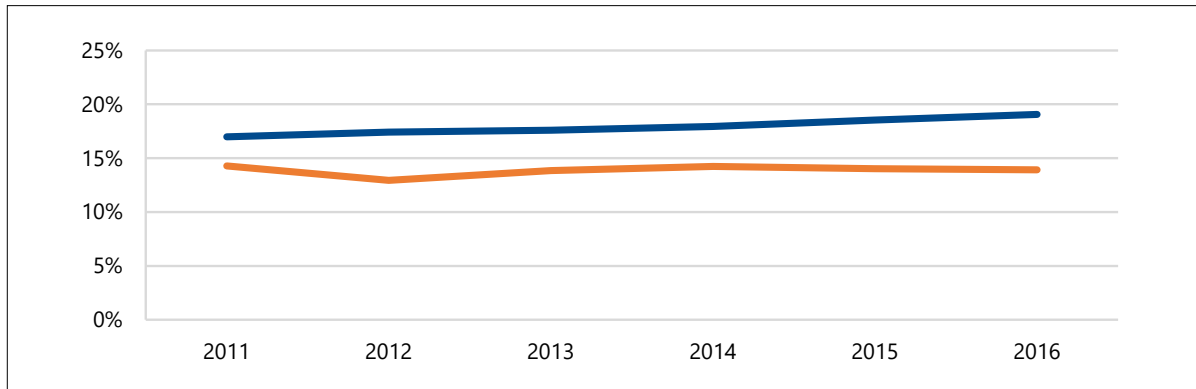
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

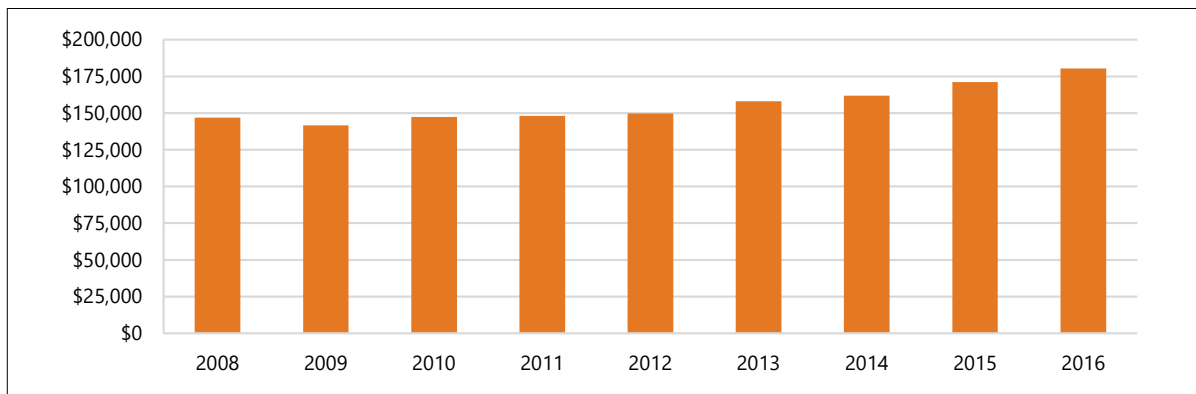
- Amid healthy employment growth and continued population increase, home prices in Charlotte have more than rebounded from the last downturn. Median home values hit \$180,435 in 2016, a new cycle high, up 27.4% from the 2009 trough. The steady increase in home prices is pushing many residents toward renting, but the insufficient housing supply—especially in market-rate communities—has made renting more unaffordable. The average mortgage accounts for just 14% of the area’s median income, while rent comprises 19%.
- Creating affordable options for rent- and mortgage-burdened families is among the thorniest debates in the city. The Charlotte Housing Authority has a significant wait list for people seeking subsidized units.

### Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody’s Analytics

### Charlotte Median Home Price



Source: Moody’s Analytics

### Population

- Charlotte added almost 50,000 residents last year, a 2.0% gain, almost triple the 0.7% U.S. rate.
- The metro’s population has risen by more than 250,000 residents since 2010, a robust 11.3% increase.

### Charlotte vs. National Population

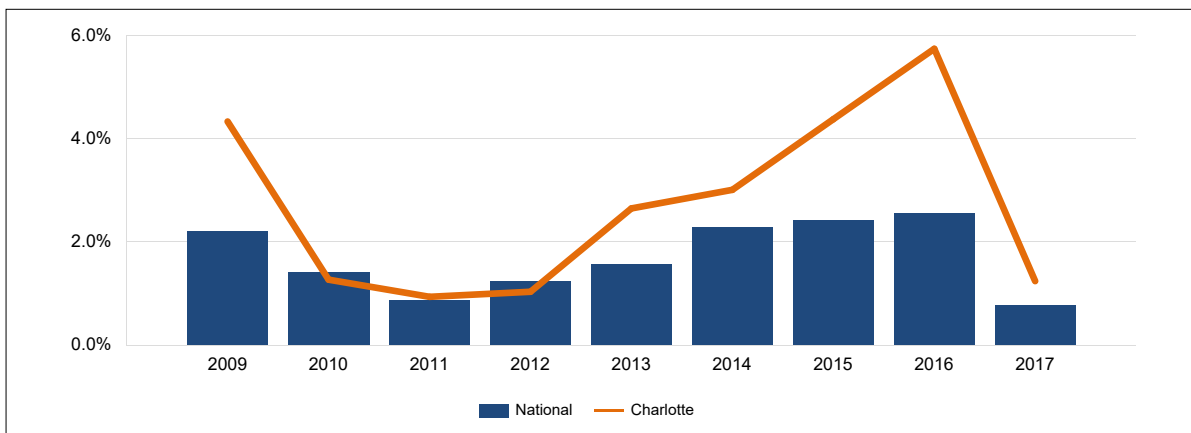
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Charlotte Metro	2,294,642	2,334,781	2,377,378	2,424,643	2,474,314

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

## Supply

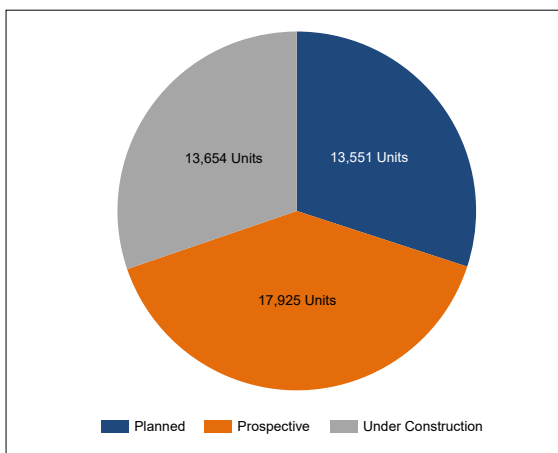
- Only 595 units came online this year through July, marking a slowdown after 2016's cycle peak, when almost 9,000 units were delivered. However, as developers are keen on meeting demand, the supply pipeline is bound to remain strong and Yardi Matrix expects a total of 6,810 units to be delivered in 2017.
- There were 13,654 units under construction in the metro as of July. Housing demand is likely to remain strong, especially since the city's Blue Line light rail extension, running nine miles from Uptown to UNC Charlotte, is stimulating new development. When adding planned and prospective units, the city's pipeline adds up to more than 45,000 units.
- Downtown Charlotte and several southern submarkets continue to feed the bulk of the pipeline. Developers are focusing on core areas, where almost 4,000 units are underway, most of which are aimed at high-income residents. There is also significant construction in the Ballantyne-Providence submarket, with 1,500 units in the works, all part of upscale communities.
- The largest project underway is Crescent Stonewall Station, a 459-unit property in Uptown. The community is part of a large mixed-use project located between Interstate 277 and Charlotte Convention Center.

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



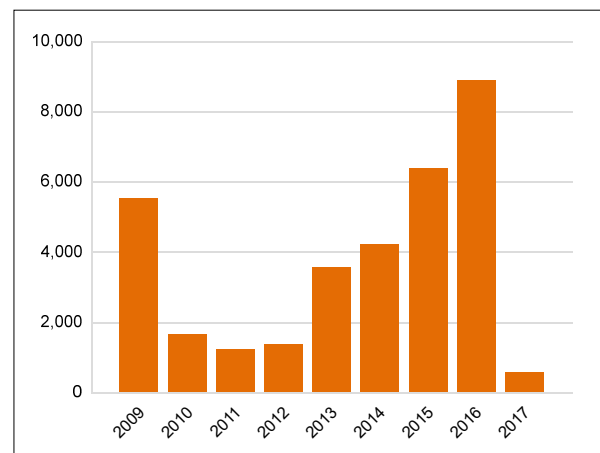
Source: YardiMatrix

### Development Pipeline (as of July 2017)



Source: YardiMatrix

### Charlotte Completions (as of July 2017)

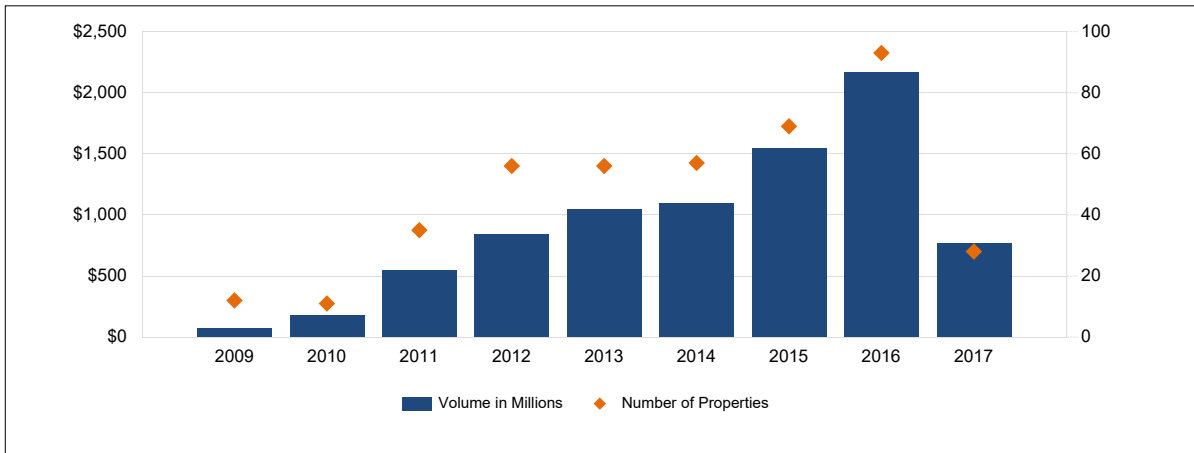


Source: YardiMatrix

## Transactions

- Investor appetite is high in Charlotte as roughly \$769 million in multifamily assets traded this year through July. This comes after transaction volume hit a new cycle high last year, at \$2.2 billion. Out-of-state investors want to increase their exposure to Charlotte due to its prospects for growth.
- The average price per unit was \$118,926 in 2017 through July, slightly above last year's \$114,138. According to CBRE, acquisition yields for stabilized Class A infill properties range from 4.8-5.3%.
- In the 12 months ending in July, several companies stood out as major buyers in Charlotte, including Eaton Vance Investment Managers (four assets for \$174.2 million); Starwood Capital Group (six properties, \$166.4 million); CWS Capital Partners (two assets, \$150.4 million); and Threshold Capital (seven properties, \$48 million).

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



Source: YardiMatrix

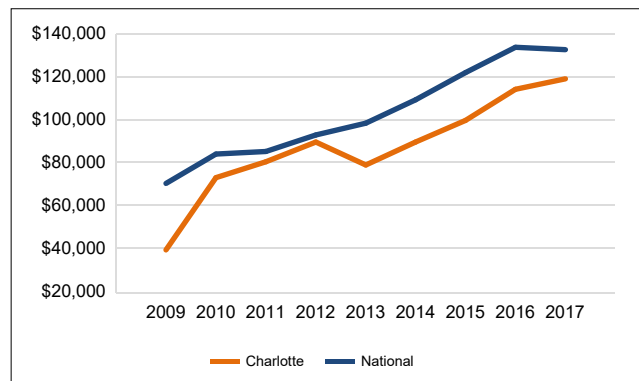
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
UNC Charlotte	266
Mooresville	206
Southwest Charlotte	191
North Charlotte	137
Wedgewood	134
Third Ward–Lakewood	88
Uptown	79
Morningside	63

Source: YardiMatrix

<sup>1</sup> From August 2016 to July 2017

**Charlotte vs. National Sales Price per Unit**



Source: YardiMatrix

# Read All About It!



HFF Secures \$10M Financing  
For NC Industrial Portfolio



SunCap Property Breaks Ground  
On NC High-End Community



Dual-Branded Hilton Hotel  
Comes to Charlotte



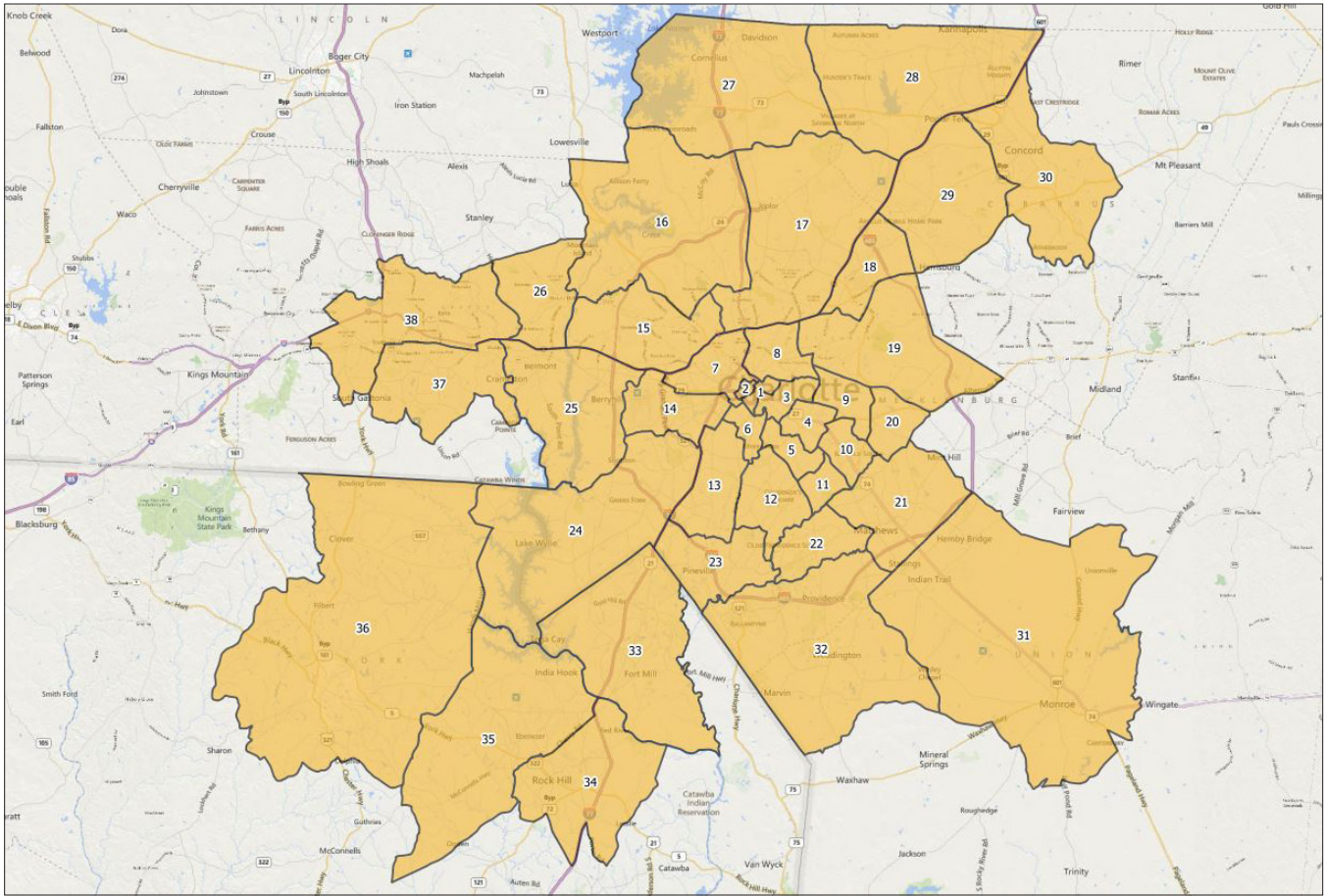
Miller-Valentine Unveils  
Beckett Farms  
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# Charlotte Submarkets



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

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## 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.

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