



MULTIFAMILY REPORT

# Charlotte's Solid Year

January 2023

**YoY Rent Growth Outpaces Nation**

**Employment Market Still Expanding**

**Investment Activity Keeps Momentum**

# CHARLOTTE MULTIFAMILY



## The Queen City Braces For Middling Year

After record gains in 2021, the Charlotte multifamily market cooled off last year but still posted solid performance. Year-over-year through November, rent growth stood at 8.1%, while the national rate was only 7.0%. Clocking in at \$1,610, the average rent in Charlotte remained more affordable than the \$1,719 U.S. figure. On a T3 basis, rent expansion entered negative territory in the metro, with rates contracting by 10 basis points after a long period of exceptional growth.

Charlotte employment expanded by 4.9% in the 12 months ending in September, adding 73,900 jobs. Professional and business services, along with leisure and hospitality, accounted for half of the gains. The financial services sector, which is a dominant one in Charlotte, also added 5,800 jobs. Bank of London announced it will be locating its second U.S. hub at One Independence Center in the metro's CBD. With so many financial companies calling Charlotte home, office developers have been busy. Based on CommercialEdge data, the metro ranked second in the Southeast region for office deliveries between January and October 2022.

Multifamily development activity was also consistent last year. As of November, almost 27,000 units were under construction, and 6,337 units were completed in 2022. Investment also held strong, with 2022 being the second-best year of the past decade for transaction volume.

## Market Analysis | January 2023

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### Recent Charlotte Transactions

#### MAA LoSo



City: Charlotte, N.C.  
Buyer: The Mid-America Management  
Purchase Price: \$140 MM  
Price per Unit: \$406,977

#### Century University City



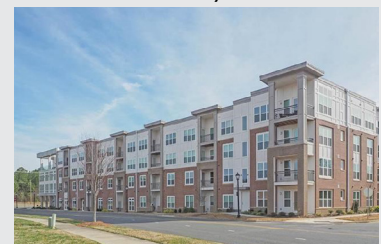
City: Charlotte, N.C.  
Buyer: Centennial Holding Co.  
Purchase Price: \$100 MM  
Price per Unit: \$284,091

#### Live at NoDa



City: Charlotte, N.C.  
Buyer: HHHunt  
Purchase Price: \$91 MM  
Price per Unit: \$348,659

#### Berkshire Ballantyne



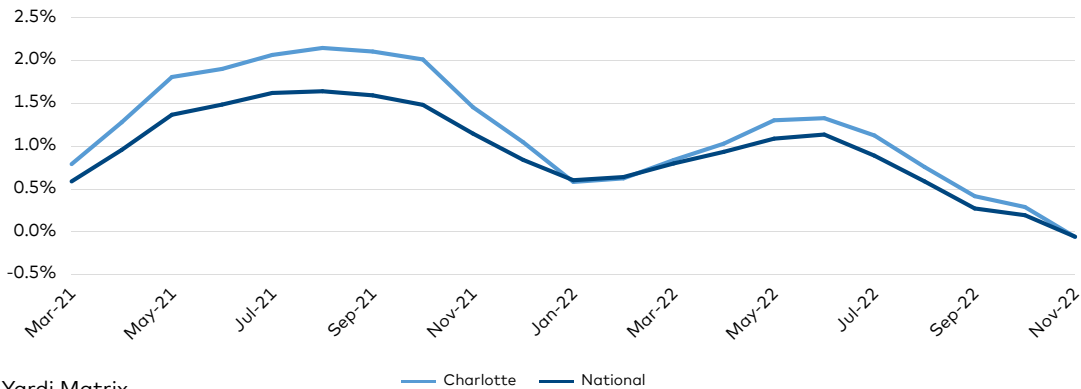
City: Charlotte, N.C.  
Buyer: Berkshire Residential Investments  
Purchase Price: \$78 MM  
Price per Unit: \$316,837



## RENT TRENDS

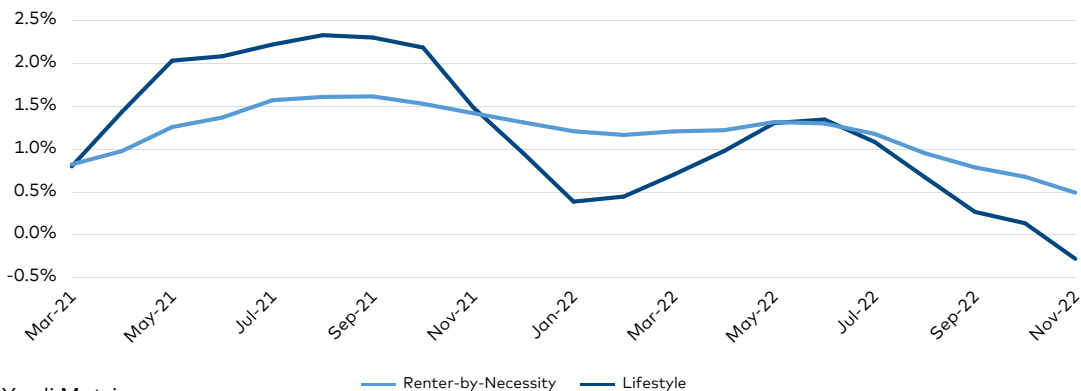
- ▶ Rent growth turned negative in Charlotte for the first time since June 2020. On a trailing three-month (T3) basis through November, rents contracted by 0.1%, on par with the national rate. The deterioration did not come as a surprise considering rent increases have been exceeding normal growth patterns for more than two years. On a year-over-year basis, rents rose by 8.1%, outperforming the U.S. rate by 110 basis points. However, at \$1,610, the metro's average rent remained below the \$1,719 national figure.
- ▶ The working-class Renter-by-Necessity segment led rent expansion, up 0.5% on a T3 basis to \$1,305. With deliveries in the past few years heavily targeting high-income renters and the market beginning to feel the effects of high inflation, rent gains in the Lifestyle segment started to steadily decelerate in mid-2022. Rent growth entered negative territory in November, contracting by 0.3% on a T3 basis, to \$1,753.
- ▶ The best-performing submarkets in the 12 months ending in November were located in the suburbs. Lancaster County (26.3% to \$1,680) led the way, followed by Statesville-North Iredell County (25.3% to \$1,135) and Rock Hill-West (16.7% to \$1,429). Four urban core submarkets—Uptown, Myers Park, Foxcroft and Second Ward—remained the most expensive, with average rates above the \$2,000 threshold.
- ▶ Mirroring multifamily trends, single-family rental rates also took a dive. The average SFR rent in Charlotte was \$2,162 in November, down from the \$2,264 peak in June 2022.

### 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 Charlotte rose to 3.7% in October, according to preliminary Bureau of Labor Statistics data, but remained in line with the national rate and 10 basis points below the state figure. However, Charlotte underperformed against North Carolina's other major metro, Raleigh-Durham (3.3%).
- ▶ The job market expanded by 4.9% in the year ending in September, which was 70 basis points ahead of the U.S. rate. Professional and business services accounted for a quarter of the total 73,900 jobs added. Leisure and hospitality, along with trade, transportation and utilities, also gained 29,500 positions combined.
- ▶ Charlotte is one of the country's fastest-growing economies, according to a recent study by the Kenan Institute of Private Enterprise at UNC Chapel Hill. In 2022 through August, the city ranked eighth among the 50 largest metro areas in the U.S. for GDP growth, at 2.5%.
- ▶ The city of Kannapolis announced that 236 acres—including part of the N.C. Research Campus land adjacent to downtown—will be transformed through a \$500 million-plus investment over the next decade. Castle & Cooke agreed to sell its land holdings to locally based Insite Properties, which plans to develop 800,000 square feet of office, medical and research space, 1,200 residential units, and commercial space.

### Charlotte Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	235	17.8%
70	Leisure and Hospitality	142	10.8%
40	Trade, Transportation and Utilities	274	20.8%
65	Education and Health Services	136	10.3%
55	Financial Activities	120	9.1%
80	Other Services	48	3.6%
15	Mining, Logging and Construction	74	5.6%
30	Manufacturing	108	8.2%
90	Government	156	11.8%
50	Information	25	1.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Charlotte grew by 1.2% in 2021, while the U.S. rate was a tepid 0.1%.
- ▶ In the 10 years ending in 2021, the metro's population expanded by 16.8%, below Raleigh's 21.9%. Growth across the state was mostly boosted by domestic in-migration.

### Charlotte vs. National Population

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

Source: U.S. Census

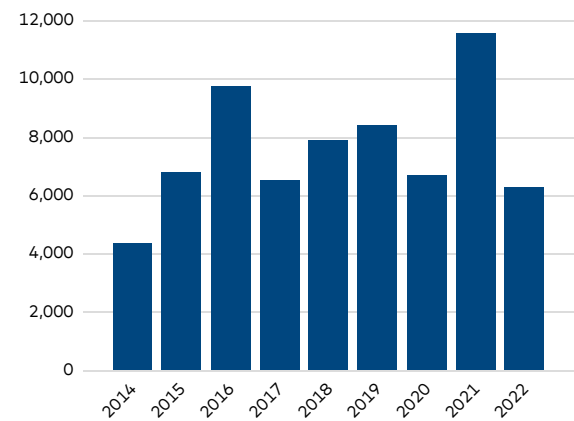
## SUPPLY

- ▶ Charlotte had 26,924 units under construction as of November, with only 13.5% of them in projects that target low-income residents. Tryon Hills (3,479 units underway) led construction activity, followed by North Charlotte, Colonial Village-Montclair and UNC at Charlotte, each with more than 2,000 units in the pipeline.
- ▶ Even though rising construction costs and increasing interest rates have been weighing down many developers' plans, construction activity remained robust. After starting work on 11,382 units between January and November 2021, developers broke ground on 13,589 apartments over the same period in 2022. This is an indicator of confidence in the sector, stemming from sustained demand.
- ▶ Following the record-breaking 11,592 units that came online in 2021, the pace of completions moderated. However, developers delivered 6,337 apartments last year through November, which was more than the 6,071 units they brought online over the same interval in 2020.
- ▶ Despite slipping throughout last year, the occupancy rate in stabilized Charlotte assets hit a steady 95.0% in October. The rate was 10

basis points above the one recorded in Raleigh-Durham, but lower than the national average, which clocked in at a solid 95.6%.

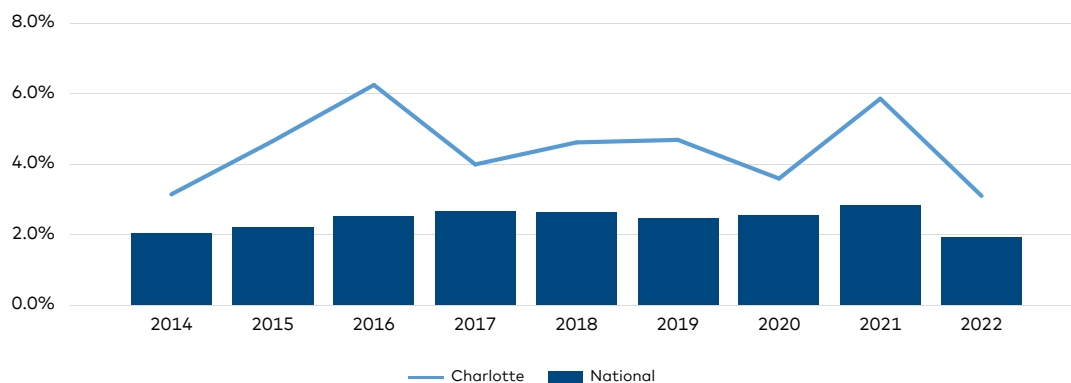
- ▶ The 352-unit Century University City in the Hidden Valley-Oak Forest submarket was the largest property that came online last year. The luxury asset was refinanced with a \$60 million Fannie Mae loan in October, when Centennial Holding Co. purchased it from developer Arlington Properties.

**Charlotte Completions** (as of November 2022)



Source: Yardi Matrix

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

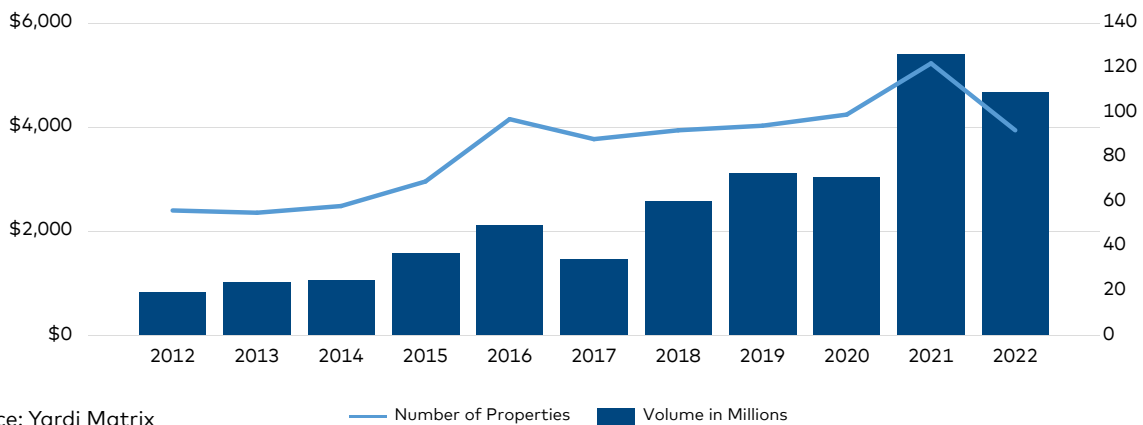


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Last year through November, some \$4.7 billion in multifamily assets changed hands in the metro. There were eight \$100 million-plus deals, with half of them even surpassing the \$130 million threshold. Overall, investment activity was intense, with 2022 being the second-best year for transaction volume in the past decade.
- ▶ Of the 92 sales that closed in the first 11 months of last year, 57 involved high-end properties. This pushed the per-unit price to \$245,536, marking a 10.7% increase from the previous year. Meanwhile, the average U.S. price rose 12.0% to \$215,443.
- ▶ In the 12 months ending in November, Mecklenburg County accounted for three-quarters of the \$5.9 billion total transaction volume recorded in metro Charlotte. Atlanta-based GVA Real Estate Investments was, by far, the most active investor. The company spent a combined \$775.1 million on 18 assets across the metro, encompassing a total of 4,016 units.

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



Source: Yardi Matrix

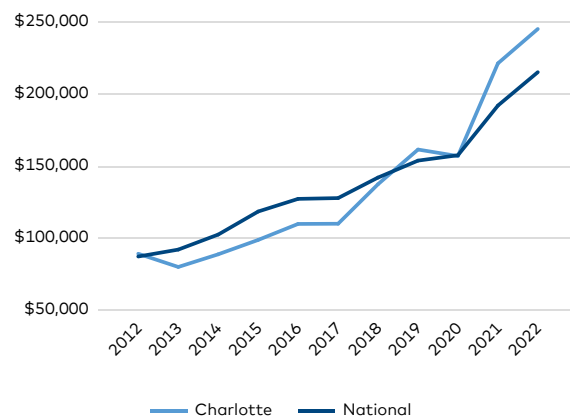
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Colonial Village-Montclair	761
UNC at Charlotte	700
Southwest Charlotte	535
North Charlotte	359
Myers Park	333
Morningside	260
Kannapolis	249

Source: Yardi Matrix

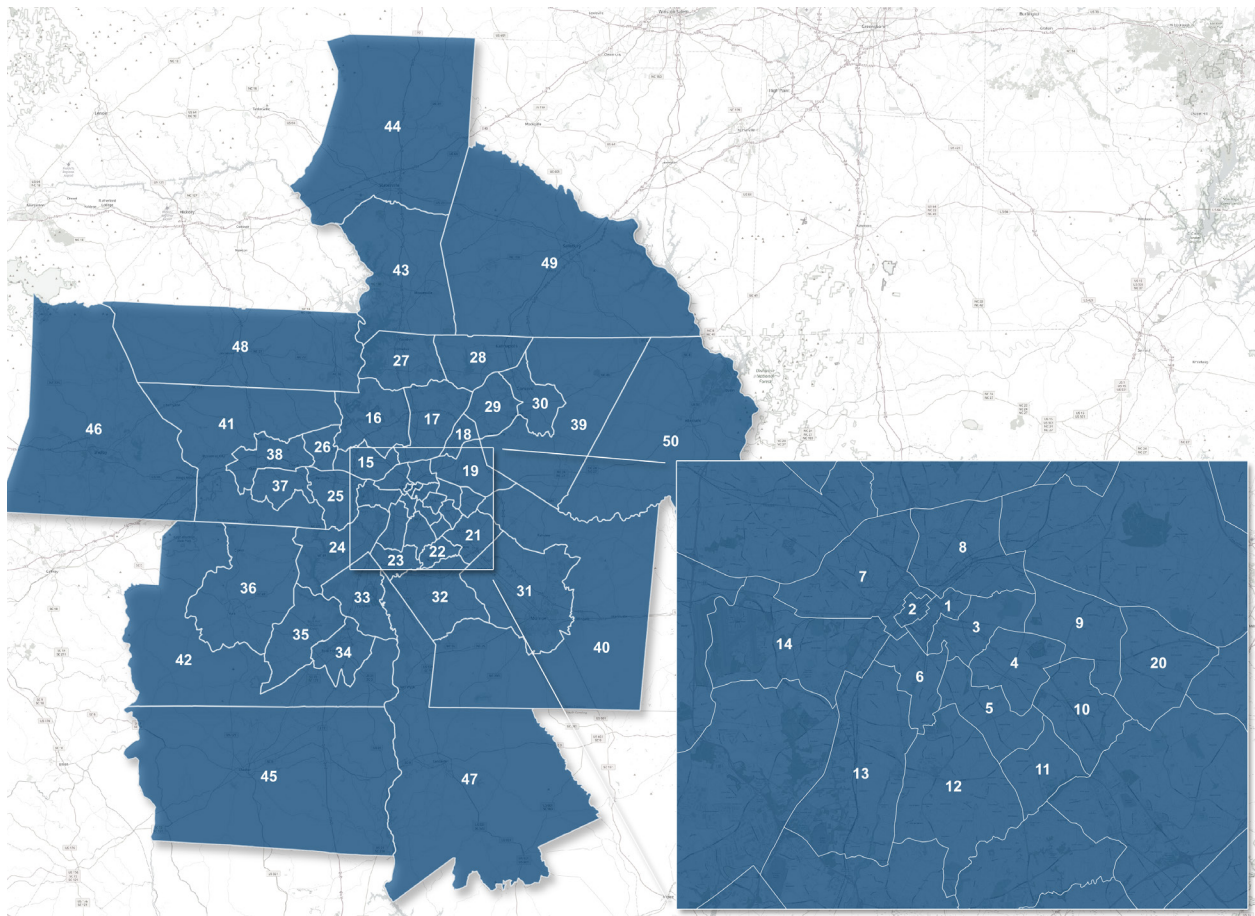
<sup>1</sup> From December 2021 to November 2022

### 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	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 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.

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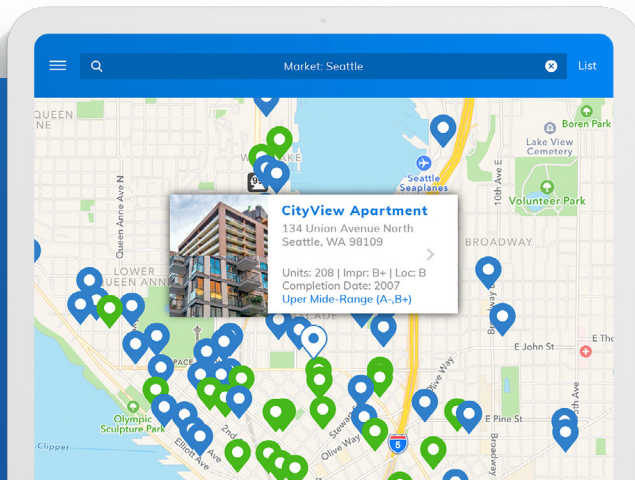
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- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects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



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