



Yardi® Matrix

# Charlotte's Strength

Multifamily Report Winter 2018

**Rent Growth Stays Steady**

**Investor Competition Heats Up**

**Multifamily Leads Real Estate Market**

## Market Analysis

Winter 2018

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## Thriving Economy Fuels Dynamic Market

Charlotte's multifamily market continues to thrive. The city's robust growth is attributable to its thriving economy, low cost of living and high quality of life. The Southeast's booming financial, logistics and energy center is a prime destination for investors, developers and residents alike. Steady employment growth has made the city an attractive target for expanding businesses, ensuring long-term demand for new inventory. Job growth is accelerating faster than the national average and is expected to remain strong throughout 2018.

Employment growth in 2017 was led by professional and business services (9,400 new jobs), followed by government (4,500); trade, transportation and utilities (3,500 jobs); and manufacturing (2,600). Universities in the area feed the talent pool of young workers for growing tech and fintech firms, thus expanding the financial technology scene. In addition, the presence of the Federal Bureau of Investigation's Charlotte field office has had a positive impact on the continued increase in public sector jobs.

The top-performing real estate sector in Charlotte continued to be multifamily. Last year, about \$1.6 billion in assets traded, while 5,200 units came online. Another 12,000 units were under construction as of December. Reaching \$1,099, rents were up 2.4%, 10 basis points below the U.S. average. Expecting more apartment deliveries, Yardi Matrix forecasts 2.2% rent growth in 2018.

## Recent Charlotte Transactions

Wren Northlake



City: Charlotte  
Buyer: Cortland Partners  
Purchase Price: \$57 MM  
Price per Unit: \$184,677

Wesley Village



City: Charlotte  
Buyer: Bluerock Real Estate  
Purchase Price: \$57 MM  
Price per Unit: \$188,987

Rock Creek at Ballantyne Commons



City: Charlotte  
Buyer: Harlan Enterprises  
Purchase Price: \$55 MM  
Price per Unit: \$165,303

The Vinoy at Innovation Park



City: Charlotte  
Buyer: Eaton Vance Investment Managers  
Purchase Price: \$53 MM  
Price per Unit: \$148,174

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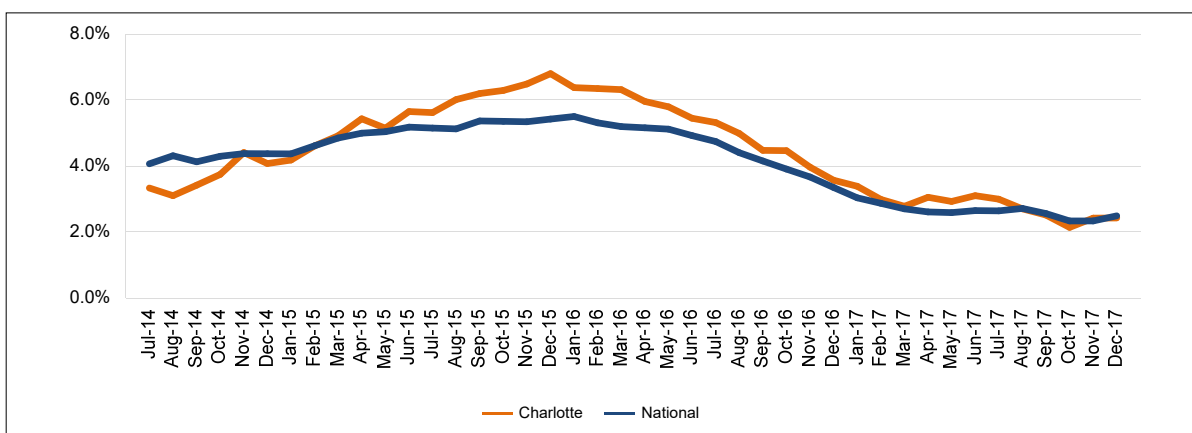
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## Rent Trends

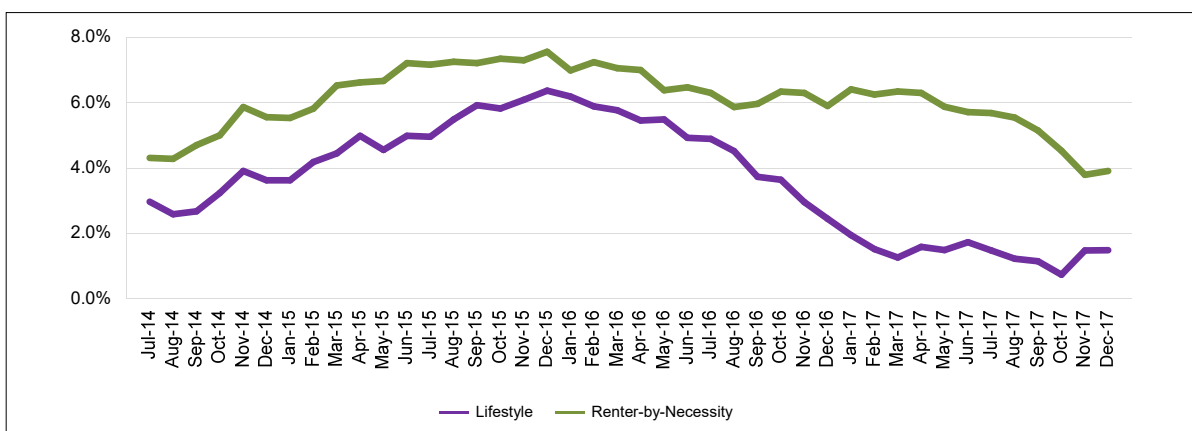
- Rents in Charlotte rose 2.4% year-over-year in December, 10 basis points below the national rate. At \$1,099, rents were way below the \$1,359 U.S. average. Growth in the metro has been steadily decelerating since the end of 2015, in line with national trends.
- Gains were led by the working-class, Renter-by-Necessity segment, which rose to \$877, up 3.9% year-over-year. The upscale Lifestyle segment grew by 1.5%, to \$1,232. The large gap between Lifestyle and RBN rent growth is a result of increased market-rate rental demand and developers' preference for upscale projects. As this trend continues, affordability issues are likely to worsen.
- Submarkets driving rent growth were Monroe (up 8.2% year-over-year), Stonehaven–Lansdowne (7.5% increase), Mount Holly (6.9%), Eastland–Windsor Park (6.5%) and Briarcreek–Oakhurst (5.8%). Six submarkets saw contraction in 2017, with Uptown's rents decreasing the most, at 2.4%. However, Uptown remains the most expensive submarket in the metro.
- Charlotte's rental market will continue its moderate progression in 2018, now that the metro has stabilized from robust apartment deliveries. Yardi Matrix expects 2.2% rent growth for the year.

**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)

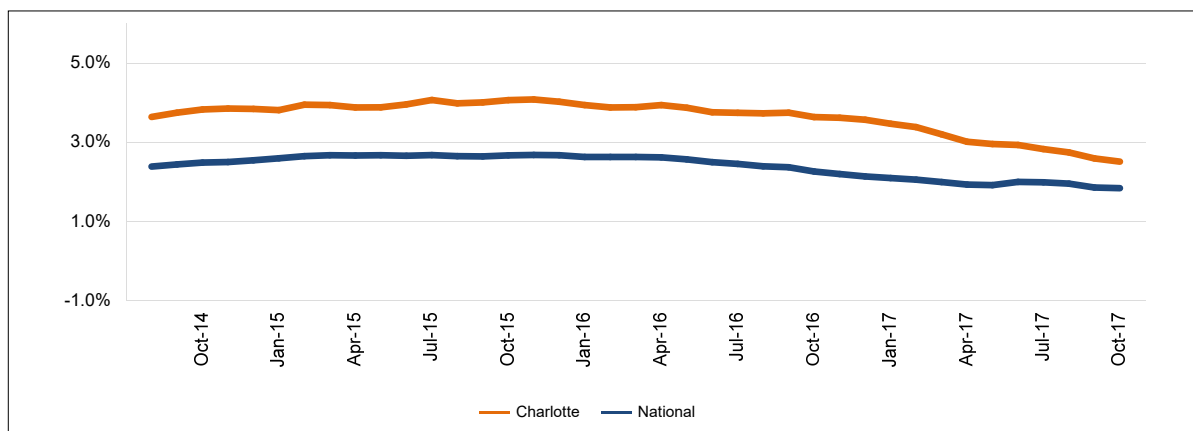


Source: YardiMatrix

## Economic Snapshot

- Charlotte added 23,200 jobs in the 12 months ending in October 2017, a 2.5% increase, 70 basis points higher than the 1.8% national average. Employment growth has somewhat moderated, but remained healthy overall.
- Professional and business services led the surge with 9,400 new positions. The uptick in this sector is underpinned by the large number of companies occupying their space at new office projects that came online this year. These include 615 South College, an 18-story office tower, the 25-story 300 South Tryon and 500 East Morehead, all located in or near downtown. Regions Bank, investments management firm Barings and energy infrastructure firm CB&I are some of the most high-profile tenants.
- Last year saw a strong office development pipeline with more than 1.3 million square feet in completions and 1.9 million square feet under construction, according to JLL. Rents reached \$26 per square foot, a 9.3% increase compared to 2016's fourth quarter. Total vacancy was at roughly 11%.
- The 9.3-mile, \$1.2 billion light-rail project that links Uptown to UNC Charlotte and the University City area made its debut in August, fueling growth in the trade, transportation and utilities sector (3,500 new jobs). Tennessee manufacturer NN Inc. recently announced plans on moving its headquarters to Charlotte, which will further broaden the city's manufacturing sector, which added 2,600 new jobs added in 2017.

### 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	208	17.4%	9,400	4.7%
90	Government	165	13.8%	4,500	2.8%
40	Trade, Transportation and Utilities	240	20.1%	3,500	1.5%
30	Manufacturing	106	8.9%	2,600	2.5%
65	Education and Health Services	121	10.1%	2,500	2.1%
15	Mining, Logging and Construction	66	5.5%	1,700	2.7%
70	Leisure and Hospitality	133	11.1%	300	0.2%
80	Other Services	39	3.3%	100	0.3%
50	Information	27	2.3%	-200	-0.7%
55	Financial Activities	88	7.4%	-1,200	-1.3%

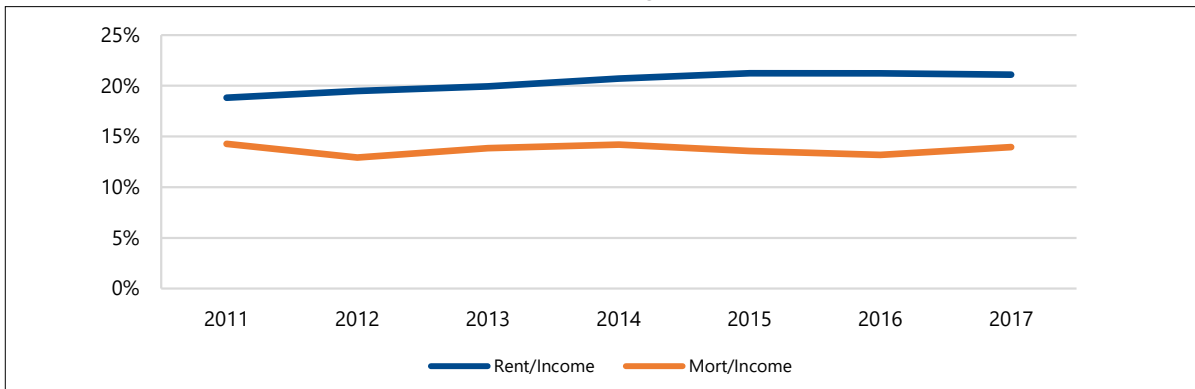
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

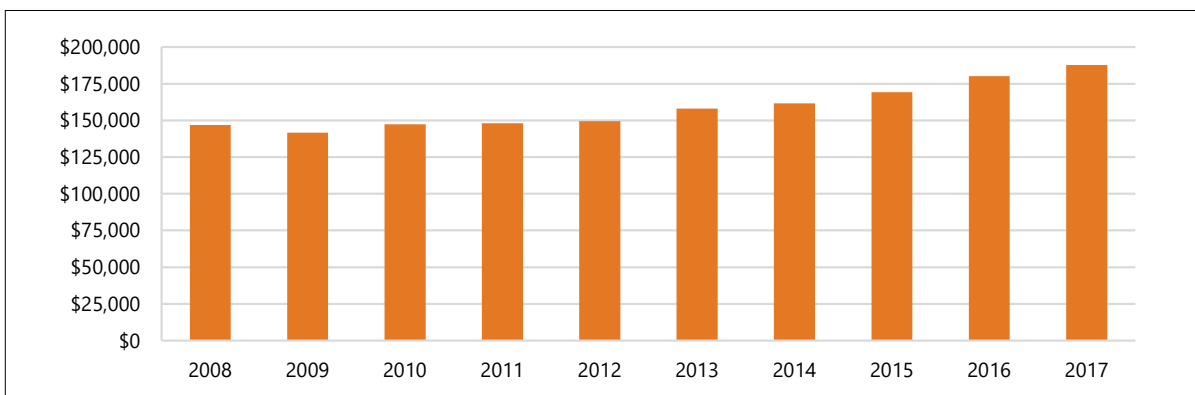
- Median home values in Charlotte hit \$187,665 in 2017, a new cycle-high and roughly \$7,600 more than in 2016. However, owning is considerably more affordable than renting, as the average mortgage payment accounts for 14% of the area's median income, while rents take up 21%.
- Compared to other major metropolitan areas, Charlotte is rather affordable, although home prices are rising faster than wages. Low-cost units are scarce, while middle-income options the city are ample. In Charlotte, low-income renters struggle, but the city is taking large steps to mitigate these issues, such as recently approving a \$20.8 million grant for five upcoming affordable developments.

### 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% increase, 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

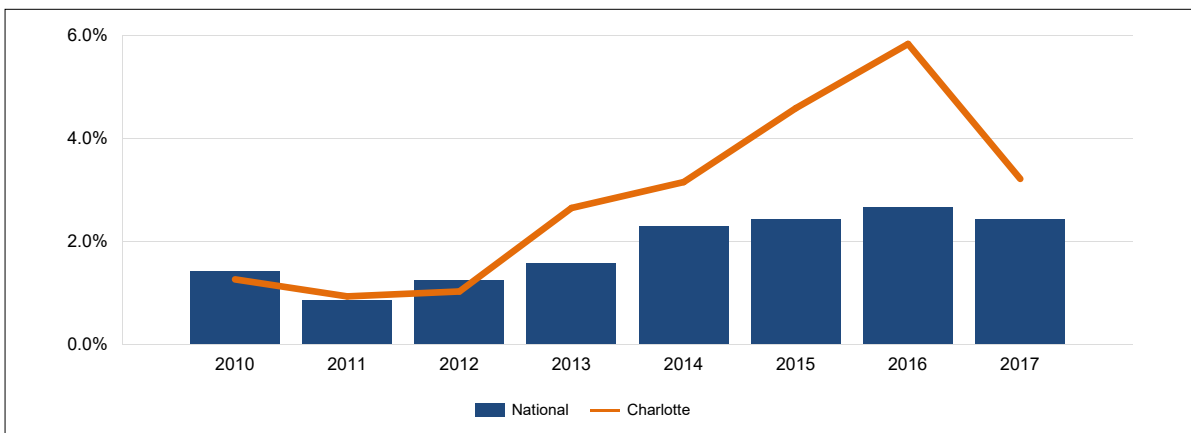
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Charlotte Metro	2,294,642	2,334,781	2,377,378	2,424,643	2,474,314

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

## Supply

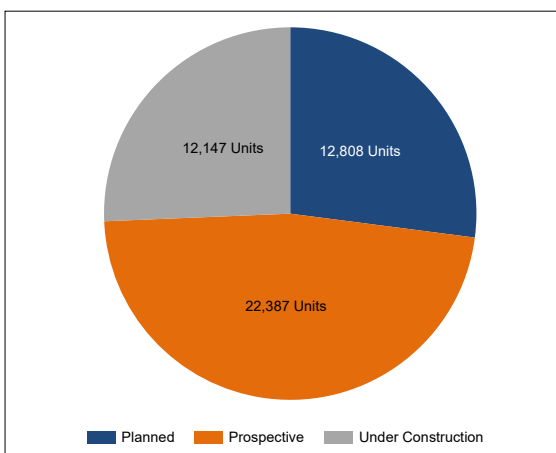
- Roughly 5,200 units came online by year-end, a healthy multifamily delivery rate but still a steep drop from 2016's cycle peak, when developers delivered 9,000 units.
- Approximately 12,000 units were under construction and about 13,000 were in the planning phase. As of December 2017, the metro's construction pipeline encompassed a total of 47,000 units in all stages of development.
- Despite the high number of deliveries and overall construction, occupancy in the multifamily sector was strong, with developers striving to meet demand. Occupancy rate for stabilized properties stood at 95.4% as of November 2017.
- Construction is widespread throughout Charlotte, with developers targeting both urban and suburban locations. Ballantyne-Providence (1,664 units underway), Second Ward (1,588 units), Southwest Charlotte (1,209) and Tryon Hills (1,106) are leading construction activity. The 459-unit Novel Stonewall Station in Uptown is the largest project under construction. Crescent Communities' high-rise will boast a wide array of luxury amenities, with a convenient downtown location.

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



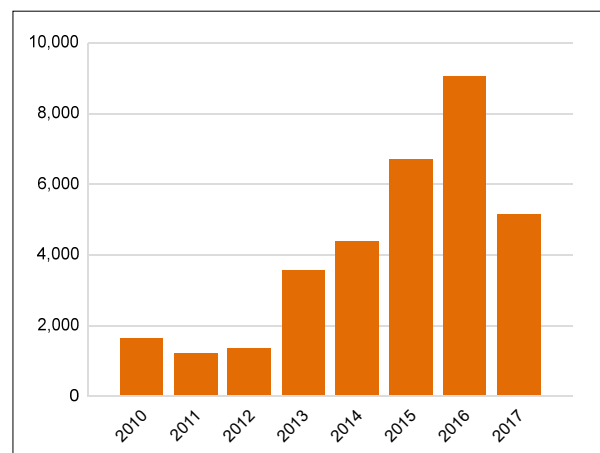
Source: YardiMatrix

**Development Pipeline** (as of December 2017)



Source: YardiMatrix

**Charlotte Completions** (as of December 2017)

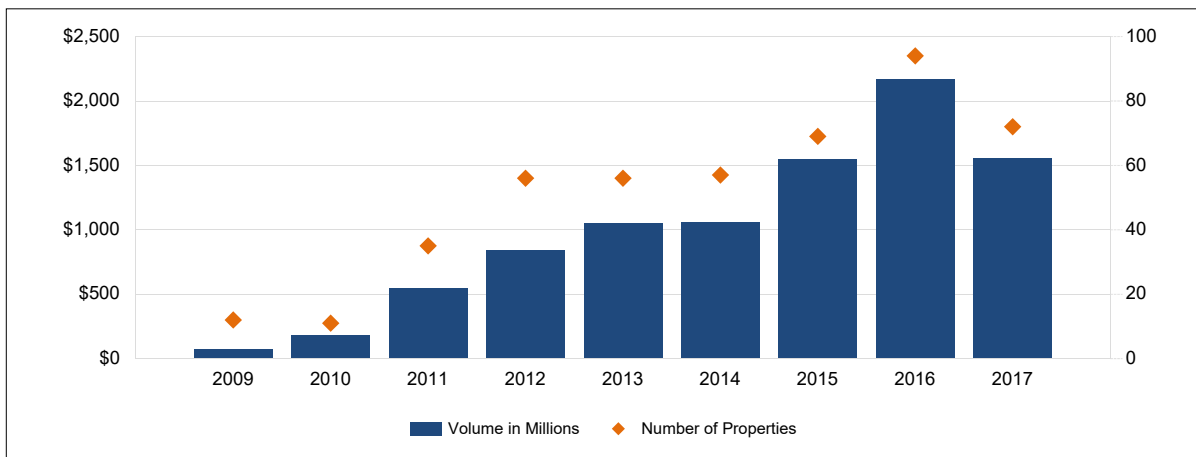


Source: YardiMatrix

## Transactions

- Multifamily investment was solid throughout 2017, although lagging behind 2016 levels. By year-end, a total of \$1.6 billion in properties had traded hands. As Charlotte continues the above-national-average growth trend, investor interest remains high.
- The average price per unit stood at \$115,115. Throughout the year, investors eyed secondary markets, as acquisition yields for stabilized Class A properties in these locations were 5.3%, while B/C Class communities yielded 5.5-6.3%. Investor competition was intensified by limited for-sale properties in the market's core and opportunities to garner higher returns in the suburbs.
- UNC at Charlotte was the busiest submarket and the 310-unit Wren Northlake, in Wedgewood, stood out as the largest deal. Woodfield Investments sold the amenity-rich asset to Cortland Partners for \$57 million.

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



Source: YardiMatrix

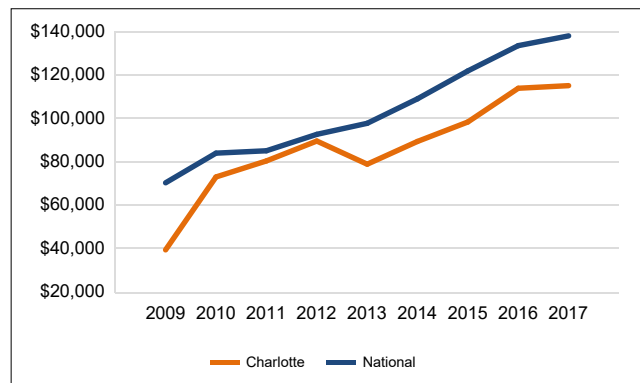
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
UNC at Charlotte	269
Southwest Charlotte	196
North Charlotte	184
Wedgewood	113
Colonial Village–Montclair	96
Third Ward–Lakewood	90
Matthews	85
Eastland–Windsor Park	71

Source: YardiMatrix

<sup>1</sup> From January 2017 to December 2017

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



Source: YardiMatrix

# Read All About It!



New Creative Office Building  
Going Up in NC



CBRE Arranges \$57M Financing  
For 837-Unit Portfolio



10 Federal Expands  
NC Storage Portfolio



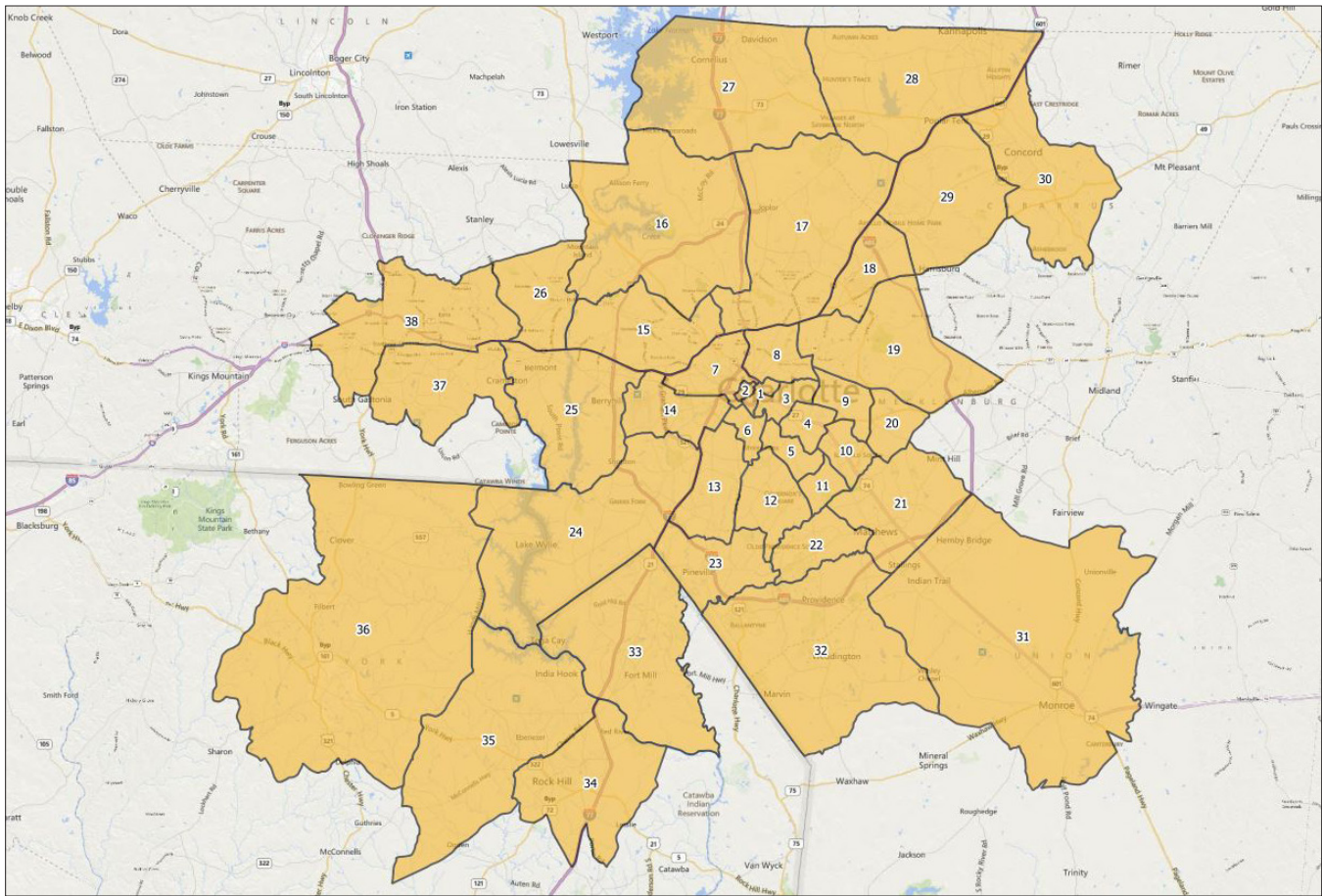
KWK Architects to Design  
Student Housing  
At UNC Charlotte

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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	Mount 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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