



Yardi® Matrix

Charlotte's Dynamic Reign

Multifamily Report Summer 2018

Rent Growth Stays Moderate

Supply Targets Lifestyle Segment

Investor Interest Lingers

Market Analysis

Summer 2018

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Laura Calugar

Associate Editor

New Supply Softens Rent Growth

Charlotte's multifamily market is heading for a healthy 2018, with robust investor interest and solid employment, all backed by strong population gains. The significant amount of supply that came online in the past few years has not scared developers. With 2017's transaction volume among the highest in this cycle, the Charlotte market is expected to continue to be an attractive option for investors, despite decelerating rents.

The metro added 31,000 jobs in the year ending in February, as government (8,300 jobs), leisure and hospitality (5,100 jobs) and trade, transportation and utilities (4,500 jobs) spearheaded growth. In March, Charlotte's 9.3-mile light-rail extension launched. The \$1.1 billion investment worked as a catalyst for the development of transit-oriented projects. Two office towers—known as 10 Tryon—are being built by Centro Cityworks and Flagship Capital Partners just a block from the new Ninth Street Station, while Duke Energy will occupy the office space under construction at Tompkins Hall, a former mill. In 2018, local developer Flywheel Group plans to break ground on Greenway District, a 75-acre mixed-use development.

This year promises some 5,800 units by December, accommodating the metro's growth. With the average rent at \$1,114, Charlotte remains an affordable metro. Yardi Matrix forecasts 2.0% rent growth in 2018.

Recent Charlotte Transactions

Wren Northlake



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

Berkeley Place



City: Charlotte, N.C.
Buyer: Boston Capital
Purchase Price: \$52 MM
Price per Unit: \$142,527

Aurea Station



City: Charlotte, N.C.
Buyer: West Shore
Purchase Price: \$50 MM
Price per Unit: \$129,297

Brookson Resident Flats

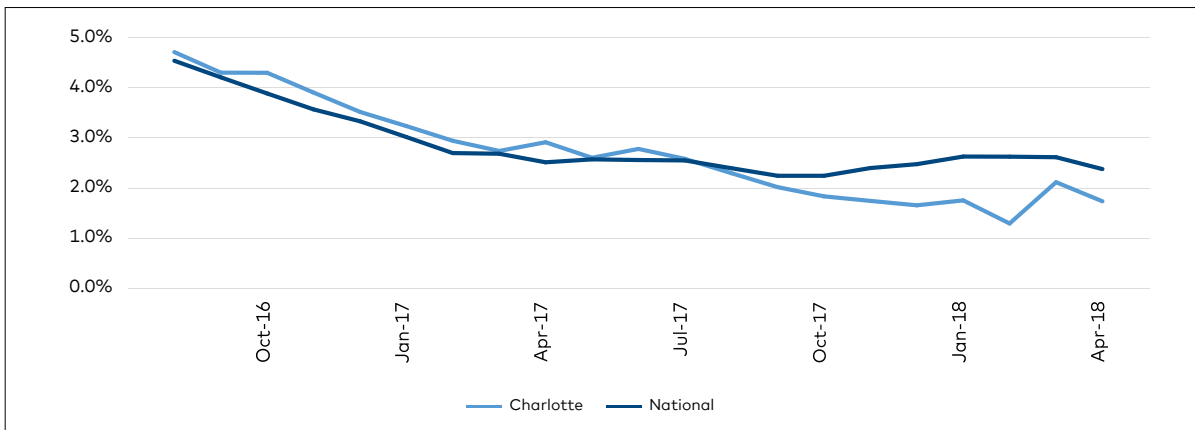


City: Huntersville, N.C.
Buyer: Carter-Haston Real Estate Services
Purchase Price: \$49 MM
Price per Unit: \$165,000

Rent Trends

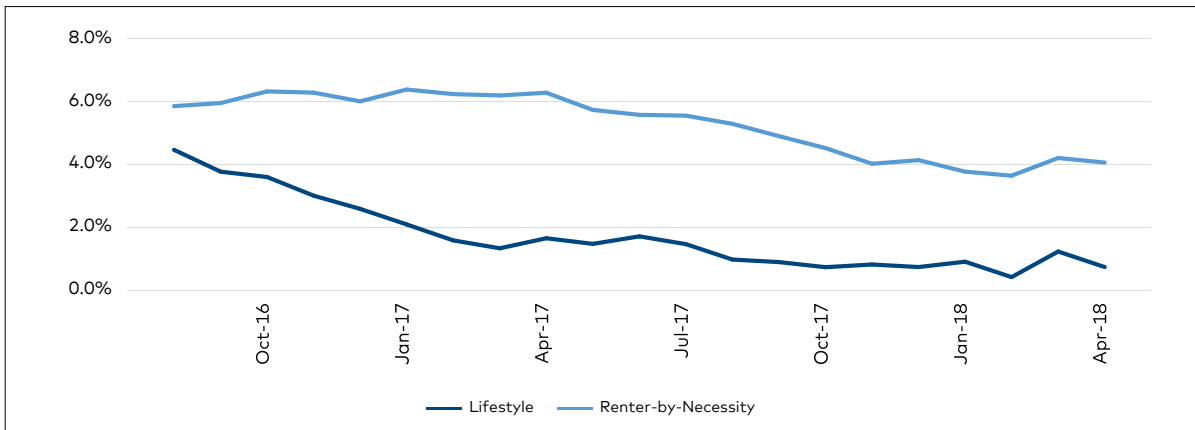
- Rent growth in Charlotte slowed down to 1.7% year-over-year as of April, 70 basis points below the national rate. The average monthly rent was \$1,114, far behind the national figure of \$1,377. The apartment inventory boost of more than 22,000 units over the past three years has tempered rent growth across the metro. The occupancy rate for stabilized properties was 94.9% as of March, in line with the national average.
- The working-class Renter-by-Necessity segment led gains, rising 4.1% to an average of \$897, while Lifestyle rents rose only 0.7% to \$1,241. New supply has been geared toward upscale renters, limiting rent growth in Lifestyle assets. As developers continue to focus on high-end projects, demand for workforce housing is increasing. The widening gap between the two segments is putting additional pressure on residents in search of affordable housing.
- Rents grew at the fastest rates in Hidden Valley–Oak Forest (7.9%), Outlying Gaston County (7.5%) and Eastland–Windsor Park (7.3%). Although contracting by 1.5% and 3.2%, respectively, core areas such as Uptown and Myers Park remain the most expensive submarkets, with average rents above the \$1,600-mark. Yardi Matrix expects Charlotte's rental market to continue its moderate growth, with rents slated to gain another 2.0% in 2018.

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)

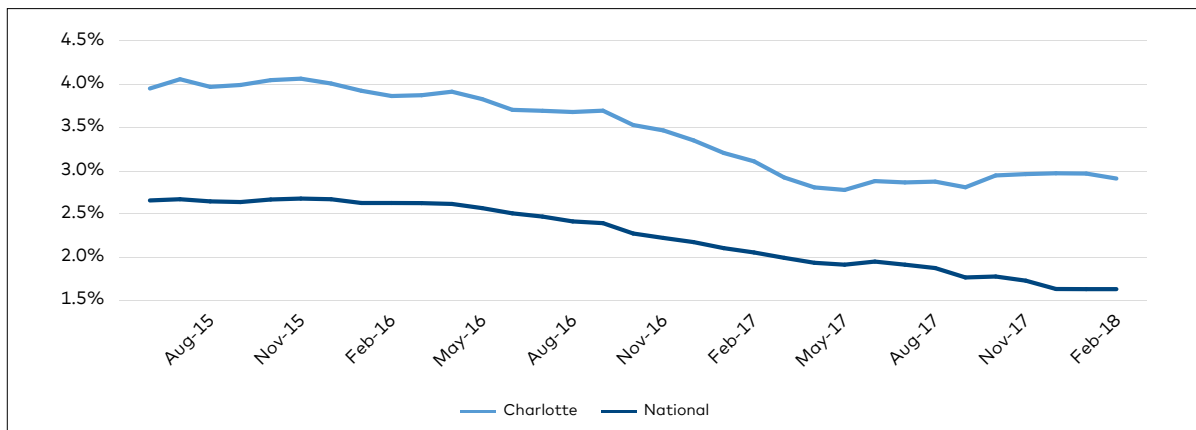


Source: YardiMatrix

Economic Snapshot

- Charlotte added 31,000 jobs in the 12 months ending in February, up 2.9% and 130 basis points above the national growth rate.
- The metro's government sector is expanding, with 8,300 jobs added year-over-year through February. The leisure and hospitality and trade, transportation and utilities sectors also added almost 10,000 jobs combined. Professional services and technology firms continued to grow, especially in Mecklenburg County, where AvidXchange added more than 400 jobs following a major deal with MasterCard. More growth is expected in all of these sectors, but also in construction, since the southern edge of uptown—Stonewall Street—continues its building boom. The number of STEM workers is also increasing in the metro, driven partly by the needs of sectors such as health care and environmental technology.
- Charlotte's residents can now use the 9.3-mile extension of the metro's light-rail route, which opened in March following a \$1.1 billion investment. The expansion has given developers the opportunity to invest in several projects along the railway, including the repurposing of outdated assets. Duke Energy will lease 83,000 square feet of office space underway at Tompkins Hall, a former textile mill, while Cambridge Properties is converting a former Kohl's store into office space. The construction pipeline reached 3 million square feet of office space in the first quarter of 2018, according to JLL.

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	%
90	Government	163	13.7%	8,300	5.4%
70	Leisure and Hospitality	133	11.2%	5,100	4.0%
40	Trade, Transportation and Utilities	242	20.3%	4,500	1.9%
65	Education and Health Services	124	10.4%	3,100	2.6%
60	Professional and Business Services	200	16.8%	3,000	1.5%
55	Financial Activities	93	7.8%	2,700	3.0%
80	Other Services	41	3.4%	1,400	3.6%
15	Mining, Logging and Construction	61	5.1%	1,300	2.2%
50	Information	29	2.4%	1,000	3.6%
30	Manufacturing	105	8.8%	600	0.6%

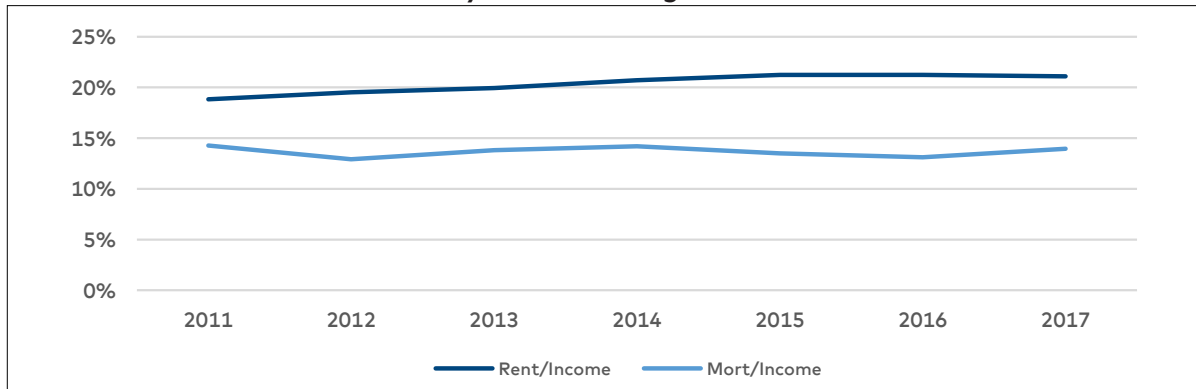
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

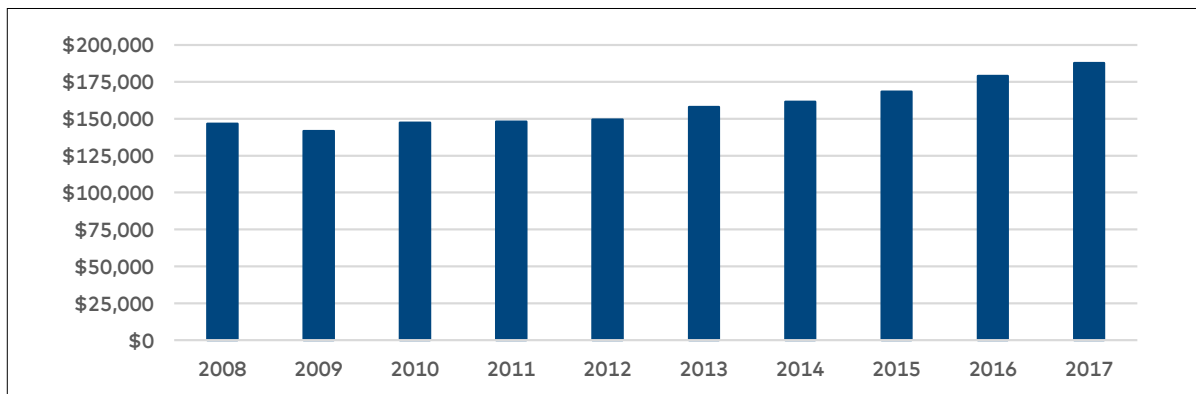
- The median home value in Charlotte hit a cycle high in 2017, increasing by 21% during the past five years, to \$226,773. Homeownership remains the most affordable option, as the average mortgage payment accounted for only 14% of the metro's median income last year while rent equated to 21%.
- Driven by a huge influx of population, home prices have risen in the metro much faster than wages, putting pressure on low-income residents. In April, the Charlotte City Council approved 11 new affordable housing projects that could receive money from the Housing Trust Fund. In order to alleviate the 34,000-unit deficit of affordable homes, authorities might reevaluate incentives for developers.

Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Charlotte Median Home Price



Source: Moody's Analytics

Population

- During the past five years, the metro's population rose by 8.2%, significantly more than the U.S. growth rate of 3.0%.
- Charlotte added about 50,000 residents in 2017, a 2.0% uptick, almost triple the 0.7% national rate.

Charlotte vs. National Population

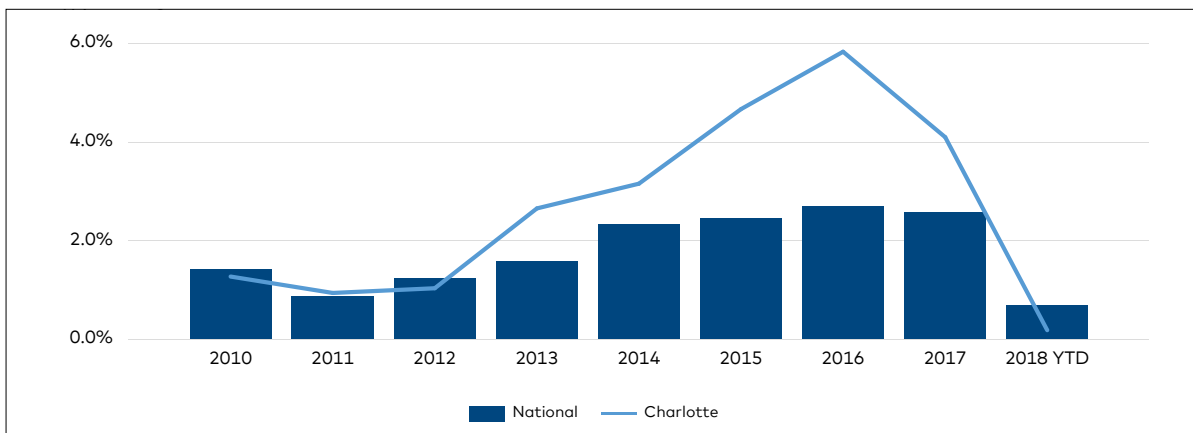
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Charlotte Metro	2,334,036	2,376,148	2,424,115	2,475,519	2,525,305

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

Supply

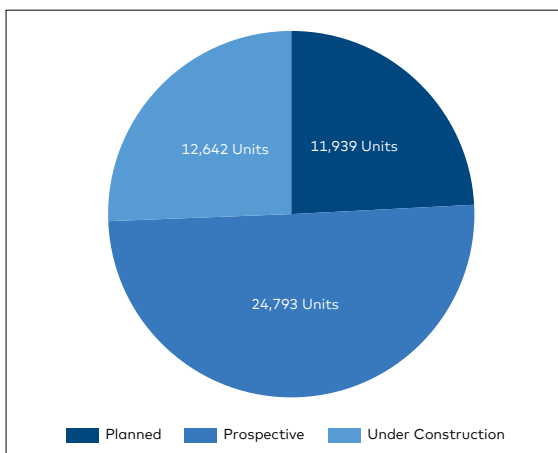
- Roughly 300 units came online this year through April, indicating a slowdown after 2016's cycle high, when more than 9,000 units were delivered. However, the supply pipeline is still consistent and demand is supported by employment growth and healthy demographics. Yardi Matrix expects 5,800 units to be completed in 2018.
- As of April, more than 12,500 units were under construction in Charlotte. The metro has an additional 36,000 units in the planning and permitting stages. Development sites are sprouting along the city's Blue Line rail system, which was recently extended from Uptown to UNC Charlotte. Southern submarkets such as Southwest Charlotte and Ballantyne-Providence, as well as downtown Charlotte areas such as Second Ward and Tryon Hills, continue to feature the bulk of upcoming inventory, with more than 5,600 units underway in these areas.
- Local developer Crescent Communities is building a mixed-use, transit-oriented development in Charlotte's North Davidson Arts and Entertainment District. Crescent Stonewall Station is the largest project underway and includes 459 luxury apartments and a 39,000-square-foot Whole Foods.

Charlotte vs. National Completions as a Percentage of Total Stock (as of April 2018)



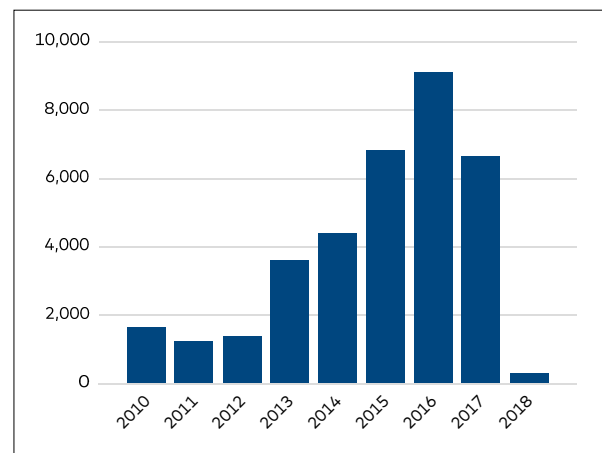
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Charlotte Completions (as of April 2018)

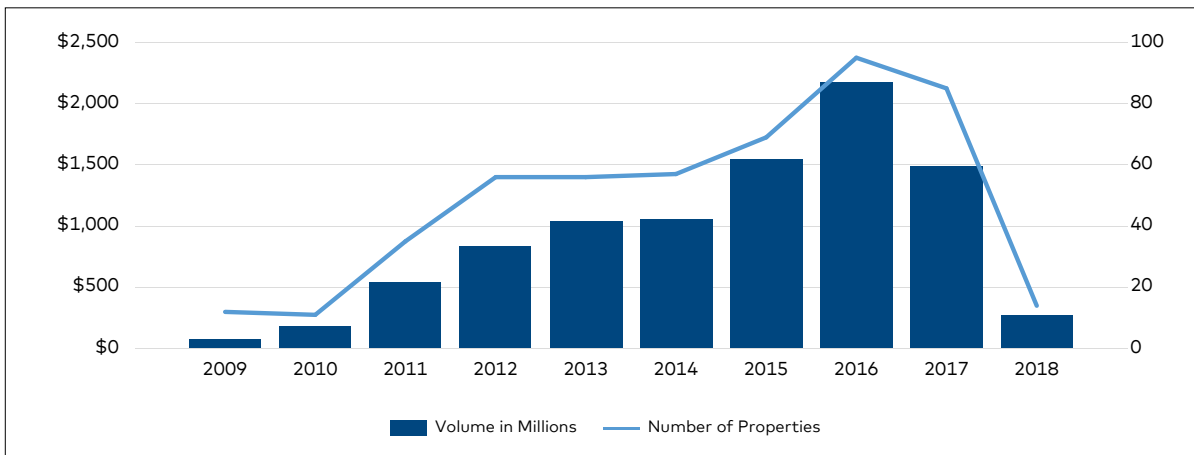


Source: YardiMatrix

Transactions

- Investor appetite has stayed high in Charlotte, as roughly \$272 million in multifamily properties changed hands this year through April. In 2017, about \$1.5 billion in assets were sold, following the previous year's cycle peak of \$2.2 billion. The metro has established itself as one of the most attractive secondary markets in the country.
- The average price per unit fell to \$101,951 this year, almost \$45,000 below the national average. Acquisition yields for stabilized Class A infill properties were in the 5.0% range and between 5.3% and 5.8% for Class B assets. Buyers generally targeted northern and core areas of the metro. UNC at Charlotte led the way with \$204 million in total transactions in the 12 months ending in April, followed by Colonial Village–Montclair (\$110 million) and Wedgewood (\$94 million). Cortland Partners' \$57 million acquisition of the 310-unit Wren Northlake marked the largest transaction through that interval.

Charlotte Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

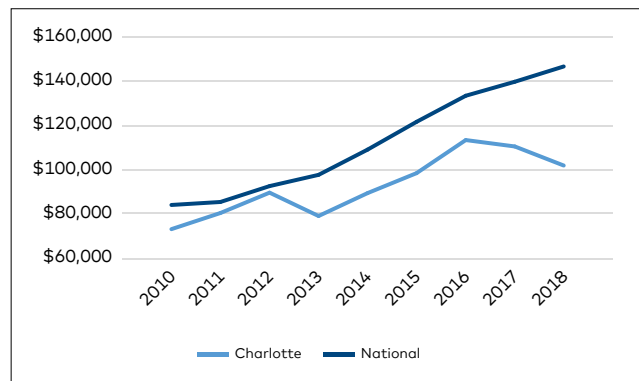
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
UNC at Charlotte	204
Collonial Village–Montclair	110
Wedgewood	94
Rock Hill–East	81
North Charlotte	81
Southwest Charlotte	76
Coventry Woods–East Forest	74
Matthews	56

Source: YardiMatrix

¹ From May 2017 to April 2018

Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Vesper Buys \$40M NC Student Housing Asset

The transaction marks Vesper's fifth student housing acquisition in recent months. The company plans to implement a \$1 million value-add renovation to modernize the features of the property.



Rivergate KW Residential Expands Charlotte Portfolio

The 11 two-, three- and five-story buildings were developed in two stages between 1992 and 2001. The community offers a mix of units averaging 1,109 square feet.



FCP Snaps Up Charlotte Asset for \$60M

The Reserve at Providence is a 574-unit garden-style community that includes a dog park, a picnic area and three pools.



Senior Housing Breaks Ground in Master-Planned NC Community

Construction has commenced on the 108-unit senior housing component of the 1,070-acre Berewick master-planned community in Charlotte.



Alliance Residential Starts Work on Charlotte Development

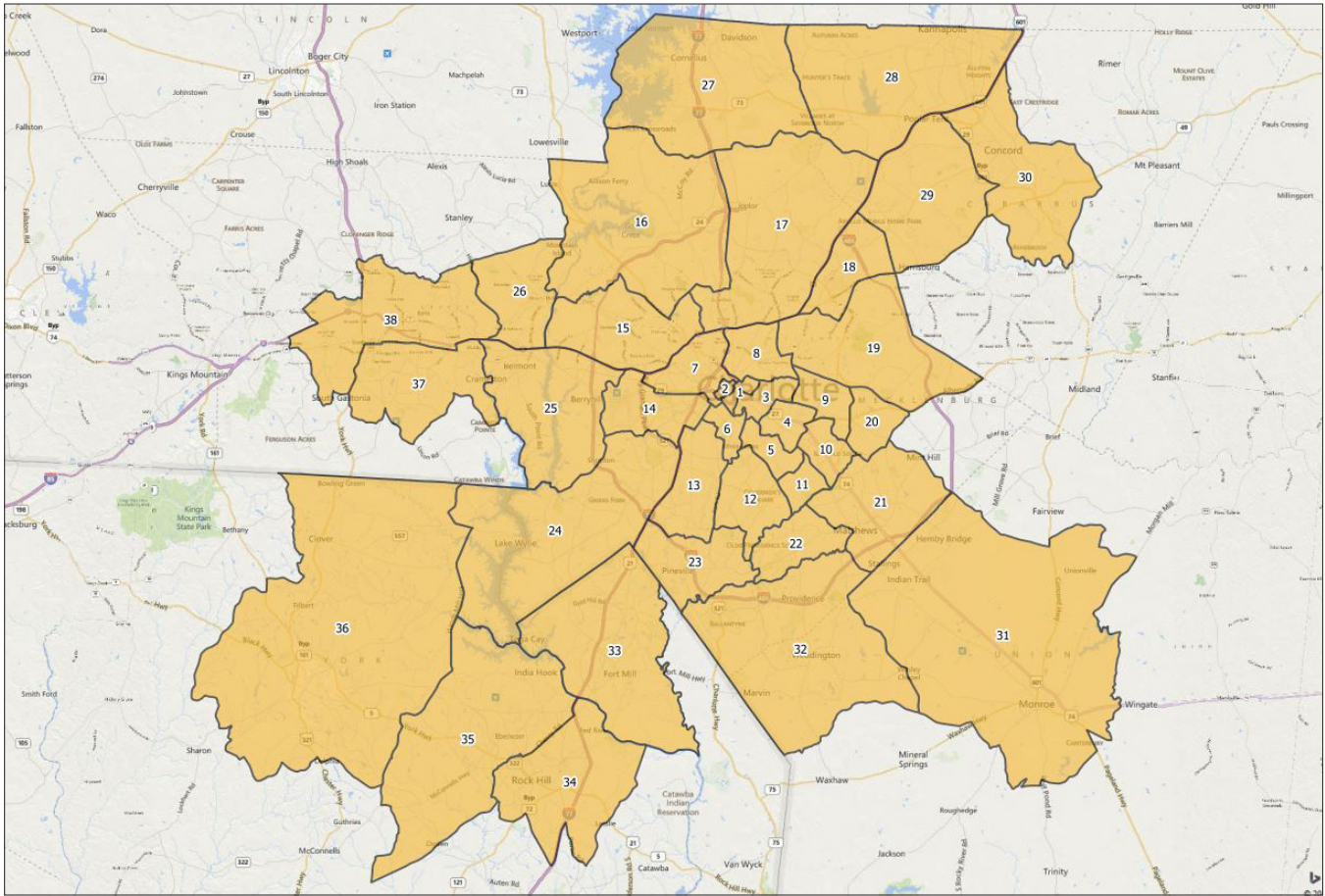
The company broke ground on Broadstone Bryant Park, a 345-unit property that is its first project in the city.



Peak Campus Increases Southern Management Portfolio

The firm will manage two student housing communities featuring a combined 1,429 beds in Tampa, Fla., and Charlotte, N.C.

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

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.

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

800.866.1144
YardiMatrix.com



Energized for Tomorrow

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2018 Yardi Systems, Inc. All Rights Reserved.