Red-Hot Charlotte

Multifamily Report Fall 2018

Yardi® Matrix

Transactions Remain Elevated

Population Gains Fuel Demand

Developers Eye Upscale Segment

CHARLOTTE MULTIFAMILY

Yardi® Matrix

Market Analysis
Fall 2018

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Steady Job Gains Sustain Rent Growth

The Charlotte multifamily market is showing no sign of cooling off, despite a significant amount of new supply delivered during the past three years. Investor appetite is more robust than ever, while substantial demographic expansion and steady employment growth continue to prop up demand.

The metro added 30,800 jobs in the year ending in July, with the trade, transportation and utilities and government sectors accounting for nearly half of them. Several large-scale developments are underway, with Amazon expected to open its 1 millon-square-foot distribution center in Kannapolis by the end of the year. Moreover, the online retail giant received final approvals for its largest facility in the region—a 2.5 million-square-foot warehouse set to be built south of Interstate 85. Core areas are also in the midst of a growth spurt. Local authorities finally began work on a multimodal transportation hub in uptown Charlotte, estimated to cost roughly $80 million. Investors could see more opportunities following the implementation of the North Tryon Vision Plan, a car-free project spanning 60 acres in the metro's city center.

With the average rent $263 lower than the national figure, Queen City is still considered an affordable metro. However, rent growth is on an upswing and should continue on that path this year.

Recent Charlotte Transactions

Centric Gateway

City: Charlotte, N.C.
Buyer: TH Real Estate
Purchase Price: $69 MM
Price per Unit: $231,481

Junction at Antiquity

City: Cornelius, N.C.
Buyer: Spyglass Capital Partners
Purchase Price: $62 MM
Price per Unit: $189,252

Paces Pointe

City: Matthews, N.C.
Buyer: Starwood Capital Group
Purchase Price: $52 MM
Price per Unit: $155,952

The Vive at Kellswater

City: Kannapolis, N.C.
Buyer: Electra America
Purchase Price: $48 MM
Price per Unit: $154,054

Rent Trends

- Rents in Charlotte rose 3.0% year-over-year through September, on par with the U.S. rate. Despite the new supply brought on by robust construction activity in recent years, rent growth has been on an upward trajectory since the beginning of 2018. However, at $1,149, the average rent is still well behind the $1,412 national figure.

- Rent gains were consistent across asset types, with Renter-by-Necessity properties leading the way. Rates in the working-class segment rose by 3.5% year-over-year through September, to $906, while Lifestyle rents increased 2.6% to $1,289. Although developers added units in the upscale segment, demand remained strong due to the increase in higher-paying jobs and the positive demographic trend.

- Even though growth mostly occurred in Becton Park–Marlwood (up 8.4% to $971), Stonehaven–Lansdowne (up 6.9% to $1,085) and Northwest Charlotte (up 6.4% to $783), rents remained the most expensive in core areas such as Uptown ($1,976) and Myers Park ($1,692). At 95.3% as of August, just 10 basis points below the national average, occupancy rates remained high in Charlotte.

- Yardi Matrix expects the metro's rental market to continue its growth toward year's end.

Charlotte vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
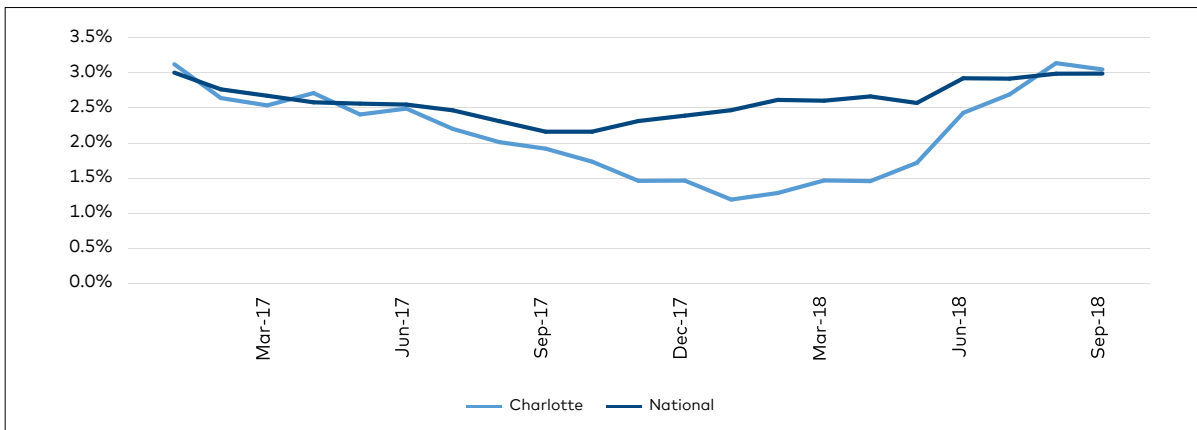
Source: YardiMatrix

Charlotte Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
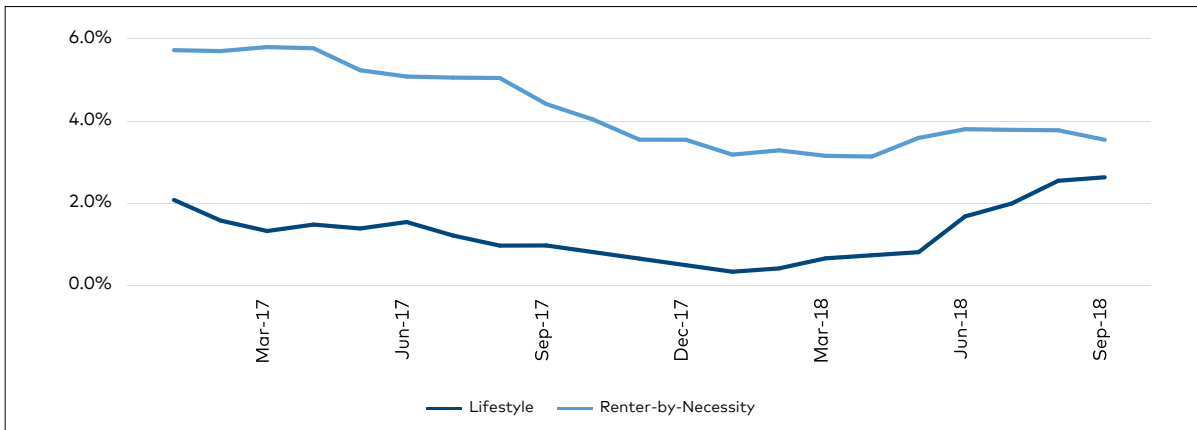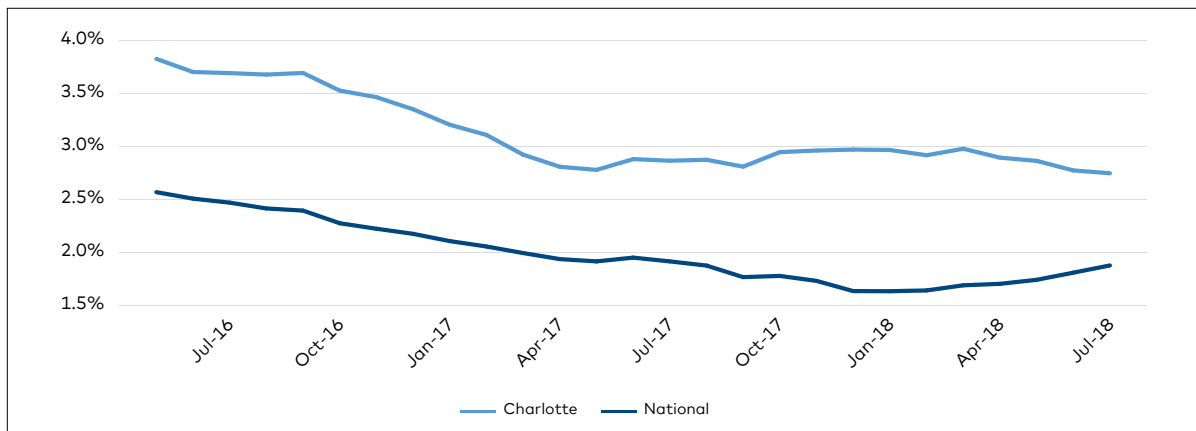

Source: YardiMatrix

Economic Snapshot

- Charlotte added 30,800 jobs year-over-year through July, up 2.8% and 90 basis points above the national growth rate. Employment has been consistently outperforming national averages for the better part of the cycle. The trade, transportation and utilities and government sectors accounted for almost half of the new jobs, with the addition of 14,700 positions combined.

- Amazon may have excluded Charlotte from its HQ2 shortlist, but the metro still has a lot to offer to the online retail giant. The Conlan Co. and Seefried Industrial Properties received permits to move forward with Amazon's largest distribution center in the area. The $200 million project located just north of Charlotte Douglas International Airport will join the company's upcoming 1 million-square-foot distribution center in Kannapolis. Furthermore, local authorities broke ground this fall on a long-awaited, multimodal transportation hub for uptown Charlotte: Gateway Station.

- The metro's growing population and pool of STEM workers are expected to lure more employers to the area, which, in turn, will fuel economic growth and create appetite for office-using jobs, according to the Urban Land Institute and PricewaterhouseCoopers' 2019 Emerging Trends in Real Estate report. In the thriving South End area just outside of Uptown, Spectrum and Invesco announced a five-acre mixed-use development that includes two nine-story buildings with 440,000 square feet of office space.

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	%
40	Trade, Transportation and Utilities	249	20.8%	7,900	3.3%
90	Government	139	11.6%	6,800	5.1%
65	Education and Health Services	124	10.4%	5,400	4.5%
60	Professional and Business Services	207	17.3%	4,200	2.1%
70	Leisure and Hospitality	144	12.0%	2,800	2.0%
55	Financial Activities	94	7.8%	1,700	1.8%
80	Other Services	41	3.4%	1,500	3.8%
50	Information	29	2.4%	1,100	3.9%
15	Mining, Logging and Construction	63	5.3%	-200	-0.3%
30	Manufacturing	107	8.9%	-400	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics
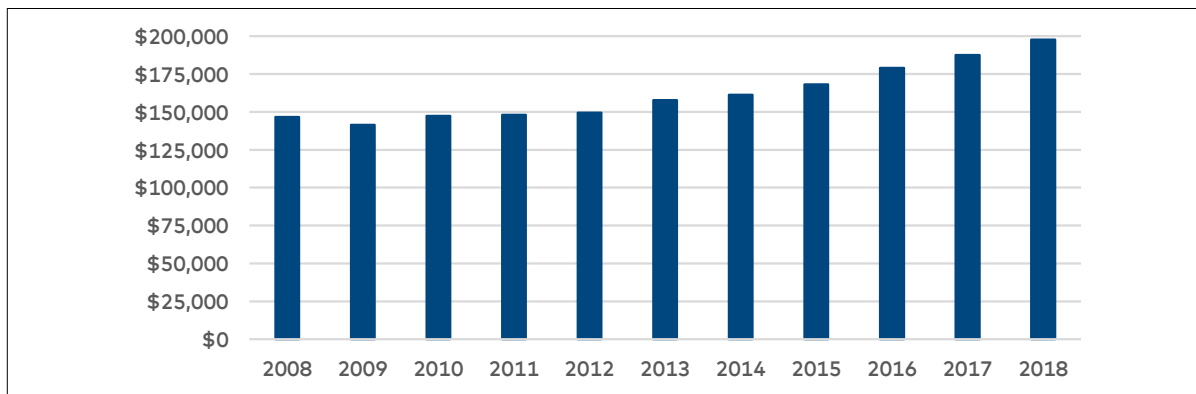
Demographics

Affordability

- The median home price in Charlotte rose to $197,711 in 2018, a new cycle high, up 39.6% from the 2009 trough. Owning a house in the metro remains more affordable than renting one, as the average mortgage comprised 15% of the area's median income, while rent accounted for 21%.

- This summer, Charlotte's City Council established a new housing framework. According to the document, the metro needs 24,000 more units for residents earning 50% or less of the median income. Demand from retirees looking to downsize from single-family homes is also affecting the affordable housing market. Charlotte could add 500,000 residents in the next 12 years, many of them seniors.

Charlotte Rent vs. Own Affordability as a Percentage of Income
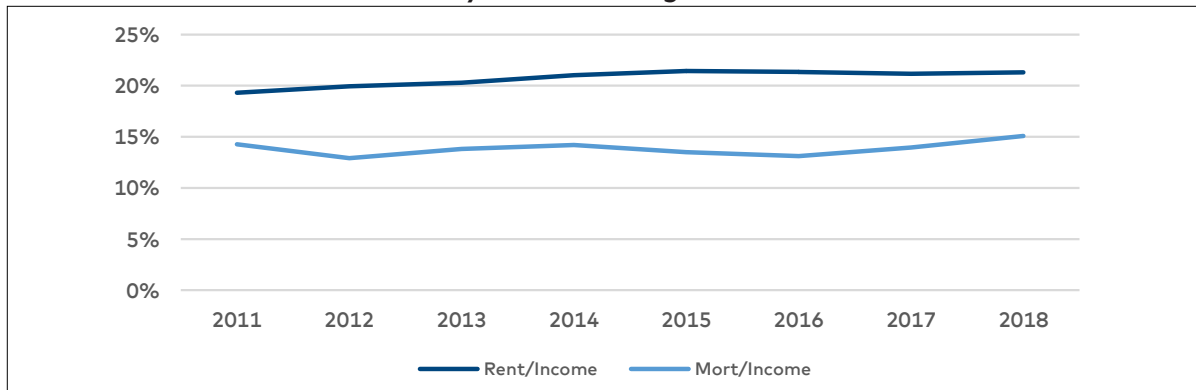
Sources: YardiMatrix, Moody's Analytics

Charlotte Median Home Price

Source: Moody's Analytics

Population

- Charlotte added almost 50,000 residents in 2017, a 2.0% demographic expansion, nearly three times the national rate of 0.7%.

- Between 2013 and 2017, the metro added roughly 190,000 residents, an 8.2% uptick.

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

- Thirteen properties totaling 3,386 units were delivered this year through September in Charlotte, 2.0% of total stock. The bulk of incoming stock targeted the Lifestyle segment, with only one community—the 98-unit Rodden Square developed by Connelly Builders—serving residents earning lower incomes. Although some developers worry about how much runway there is left in the luxury market, the Charlotte upscale segment is strongly underpinned by above-average employment growth in white-collar jobs. Moreover, positive demographic trends also bolster apartment demand in the metro.

- As of September, about 13,500 units were underway in the metro and more than 38,000 others were in the planning and permitting stages. Developers target both urban and suburban submarkets, with Second Ward (1,588 units), Southwest Charlotte (1,337 units) and Ballantyne–Providence (1,257 units) leading the way for units in the works.

- Woodfield Investments and Simpson Housing are building The Links at Rea Farms, a 455-unit community set to be delivered by mid-2019. The largest project underway is part of a 188-acre mixed-use development that includes retail, office, hotel, senior living and single-family components.

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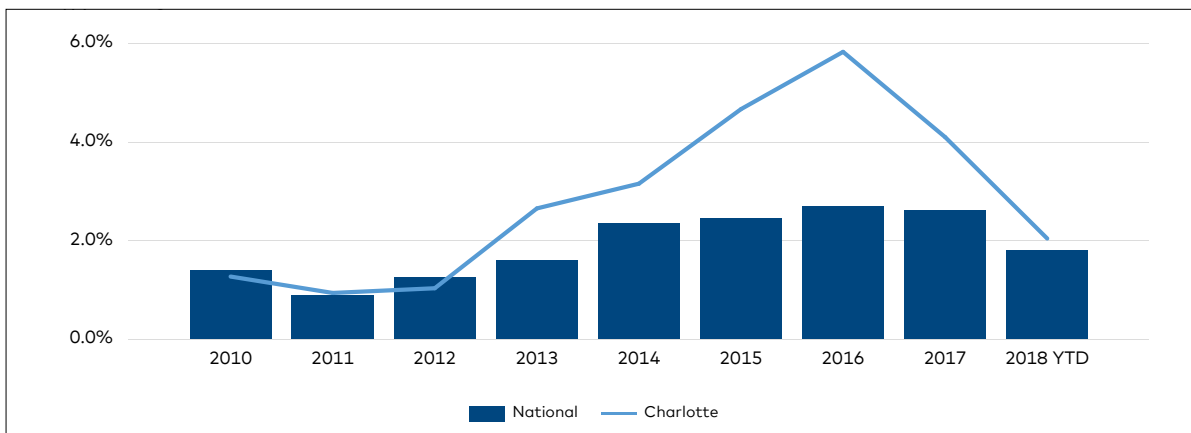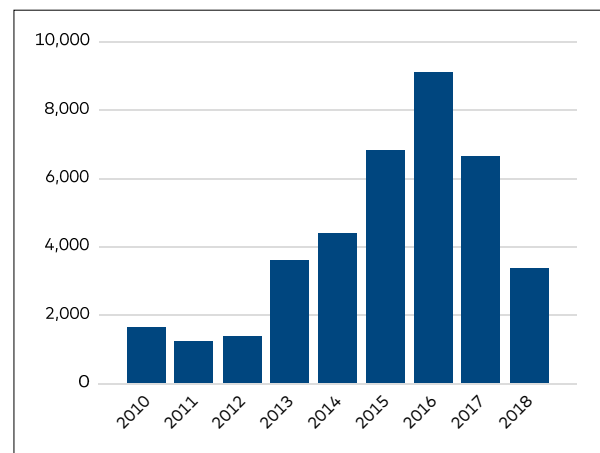

Source: YardiMatrix

Development Pipeline (as of September 2018)
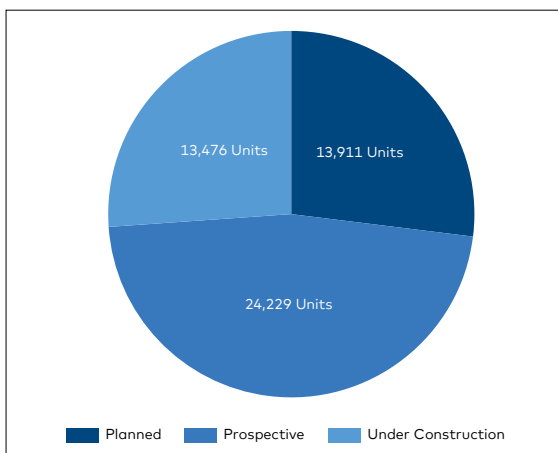
Source: YardiMatrix

**Charlotte Completions** (as of September 2018)

Source: YardiMatrix

Transactions

- Roughly $1.4 billion in multifamily assets changed hands in Charlotte in the year's first nine months, as investor appetite has remained high. The metro continues to be one of the most appealing secondary markets in the U.S., with 54 transactions completed as of September. Per-unit prices hit $123,574 in 2018, a new cycle high, but remained well below the $151,135 national figure. During the first half of the year, acquisition yields for stabilized Class A properties were in the 5% range and between 5.0% and 5.5% for Class B assets. With property values relatively low compared to other major cities and yields still at a strong level, investors equally targeted upscale and value-add stock.

- Colonial Village–Montclaire ($229 million) and Matthews ($178 million) were among the most sought-after submarkets in the 12 months ending in September. The largest deal during that interval was TH Real Estate's acquisition of the 297-unit Centric Gateway from Dominion Realty Partners for $68.8 million.

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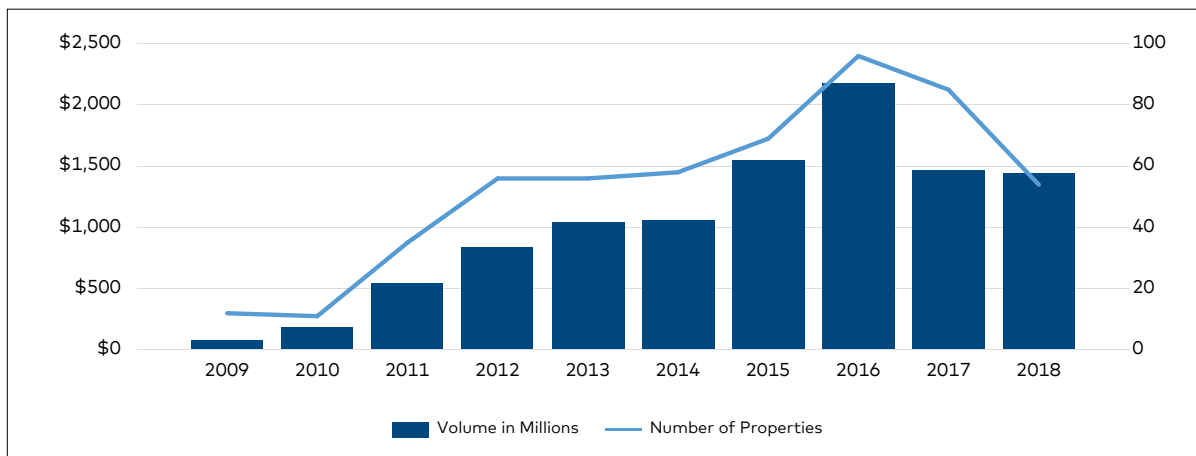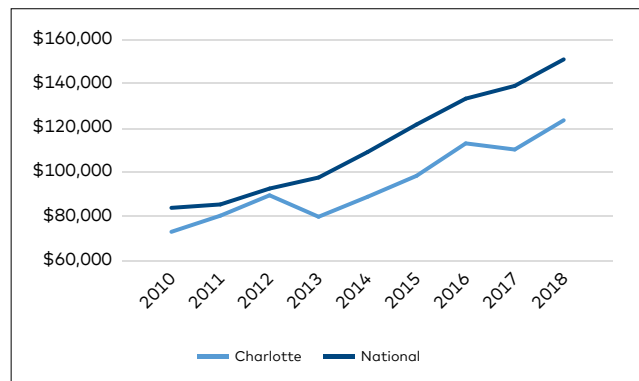

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Colonial Village–Montclaire	229
Matthews	178
Southwest Charlotte	138
Huntersville	113
Hidden Valley–Oak Forest	106
Wedgewood	94
Third Ward–Lakewood	93
Foxcroft	85

Source: YardiMatrix
[1] From October 2017 to September 2018

Charlotte vs. National Sales Price per Unit

Source: YardiMatrix

Geller Associates Buys $23M Charlotte Apartments

Hunt Real Estate Capital provided an $18.3 million Fannie Mae DUS loan to finance the acquisition of Fields at Archdale, a 243-unit garden-style community.

CBRE Facilitates $14M Loan For Recently Built NC Community

Kristen Reilley and Nate Sittema led capital markets efforts to secure a 10-year, fixed-rate acquisition financing for Beaucatcher Flats in Asheville.

CBRE Secures $33M Acquisition Loan For SC Community

Vice Presidents Nate Sittema and Kristen Reilley represented the buyer in the transaction. The Apartments at Brayden is a recently built asset southeast of Charlotte, N.C.

NC Community Lands $39M Refi

Chaucer Creek Capital, Richardson Properties and Kassinger Development Group will use the loan to refinance Audubon Place, a 342-unit property in Arden.

American Landmark Continues NC Expansion

The company has acquired the 339-unit Sterling Town Center in Raleigh and the 312-unit Integra Springs at Kellswater in Charlotte. Both communities will undergo extensive renovations.
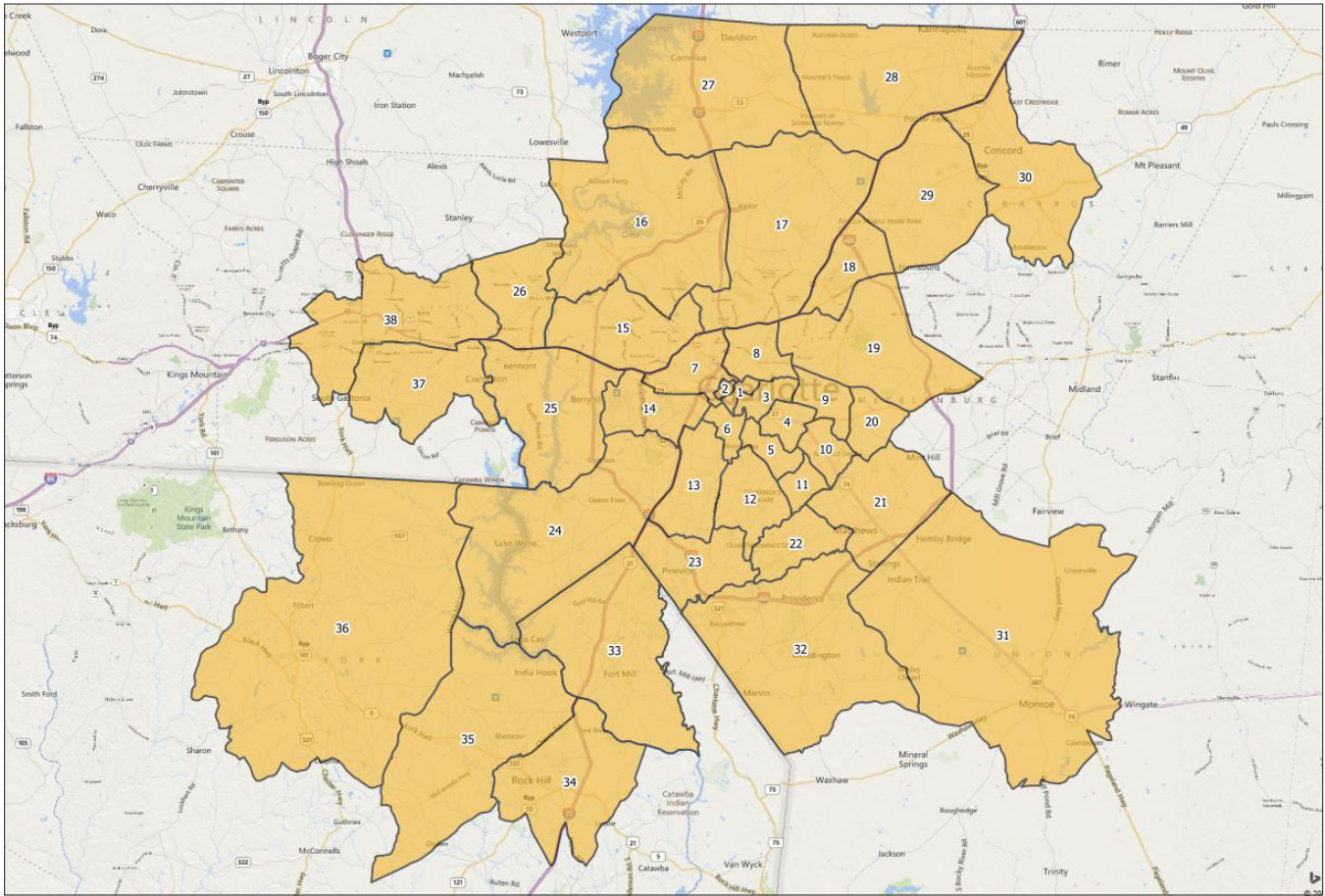
C&W Brokers $33M Charlotte-Area Sale

Jordan McCarley, Marc Robinson and Watson Bryant of the company's Southeast Multifamily Advisory Group arranged the sale of Fountains at Mooresville Town Square, a 227-unit asset.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

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–Montclaire
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.

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