Yardi® Matrix

Charlotte Goes Full Speed Ahead

Multifamily Report Winter 2019

Developers Target Luxury Segment

Transaction Volume Reaches Cycle Peak

Rent Growth Continues Despite Construction Boom

Market Analysis

Winter 2019

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

Economic Growth Props Up Demand

Multifamily continued to be a top-performing sector in Charlotte in 2018. The metro's long-established financial, energy and logistics businesses continued to thrive, prompting extended demand for multifamily product across asset classes. Above-average employment growth and positive demographic trends have also boosted investment activity in the market. At $2.5 billion in 2018, transaction volume reached a new cycle peak.

The metro added 27,300 jobs in the 12 months ending in November, with professional and business services accounting for more than one-third of new positions. A host of corporate extensions are taking place in the metro. LendingTree, Dimensional Fund Advisors and Honeywell have all announced significant relocations or expansions. North Carolina's low-tax policy—coupled with its warm weather, strategic location and diversified education options—keeps fueling investments. Furthermore, Millennials see Charlotte as an affordable alternative to larger coastal cities where rents are prohibitive.

Although on an upward trajectory, the average rent of $1,138 as of January was still $282 lower than the U.S. average. Developers continue to build, especially for the upscale segment. More than 14,000 units were under construction as of the first month of 2019, but due to sustained demand, Yardi Matrix expects rents in Charlotte to rise another 2.5% this year.

Recent Charlotte Transactions

SkyHouse Uptown

City: Charlotte, N.C.
Buyer: CBRE Global Investors
Purchase Price: $190 MM
Price per Unit: $282,738

Solis Waverly

City: Charlotte, N.C.
Buyer: Lantower Residential
Purchase Price: $84 MM
Price per Unit: $225,000

The Retreat at McAlpine Creek

City: Charlotte, N.C.
Buyer: Waterton
Purchase Price: $60 MM
Price per Unit: $151,149

Solis Ballantyne

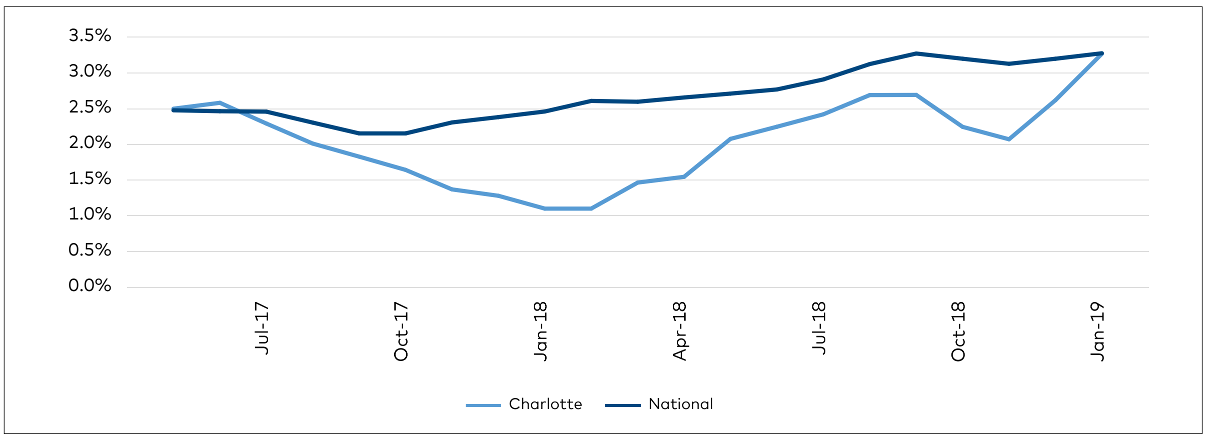
City: Charlotte, N.C.
Buyer: Continental Realty
Purchase Price: $44 MM
Price per Unit: $228,000

On the cover: Photo by Kruck20/iStockphoto.com

Rent Trends

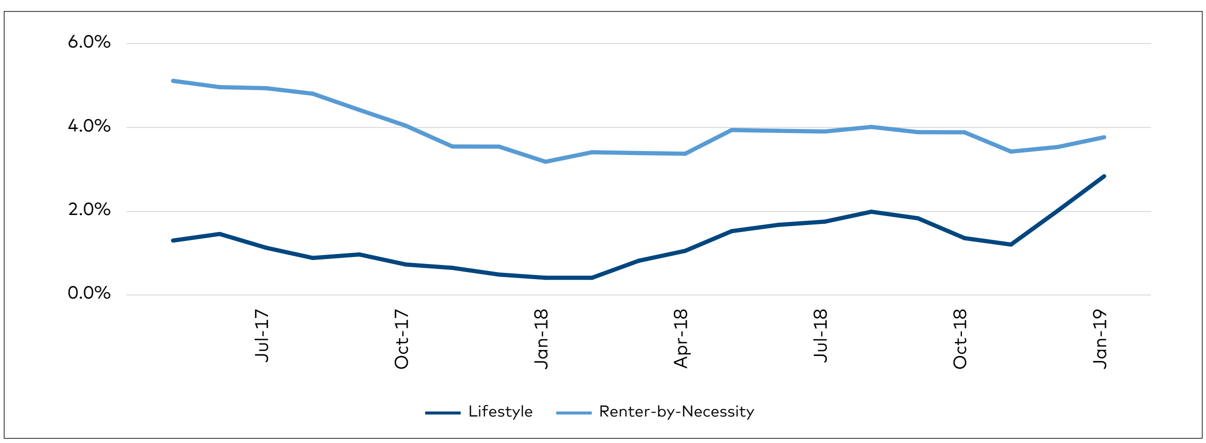
- Rent growth in Charlotte accelerated to 3.3% year-over-year through January, in line with the national rate. However, the metro's overall average rent of $1,138 is still significantly below the $1,420 U.S. average. Despite a stock increase of more than 21,500 units since 2016, rents have continued their rise, indicating a rapid absorption of new multifamily product.
- The working-class Renter-by-Necessity segment led growth, with rents rising 3.8% to $909. Although developers mainly focused on delivering upscale units, Lifestyle rents continued to rise, reaching $1,270, a 2.8% year-over-year uptick. The positive demographic trends and the fast addition of high-paying jobs have maintained demand for upscale assets.
- Although rents in core areas such as Uptown ($1,841) and Myers Park ($1,579) contracted by 2.9% and 4.6%, the two submarkets claimed the highest rents in the metro. Rents increased at the fastest rates in Stonehaven–Lansdowne (8.2% to $1,037) and Hidden Valley–Oak Forest (6.4% to $867). The 9.3-mile extension of the LYNX Blue Line light-rail, which connects Uptown Charlotte to the University of North Carolina–Charlotte campus, also stimulated rental demand in the northeastern part of the metro. The continued housing inventory expansion in Queen City leads Yardi Matrix to expect rents to rise a further 2.5% by 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)

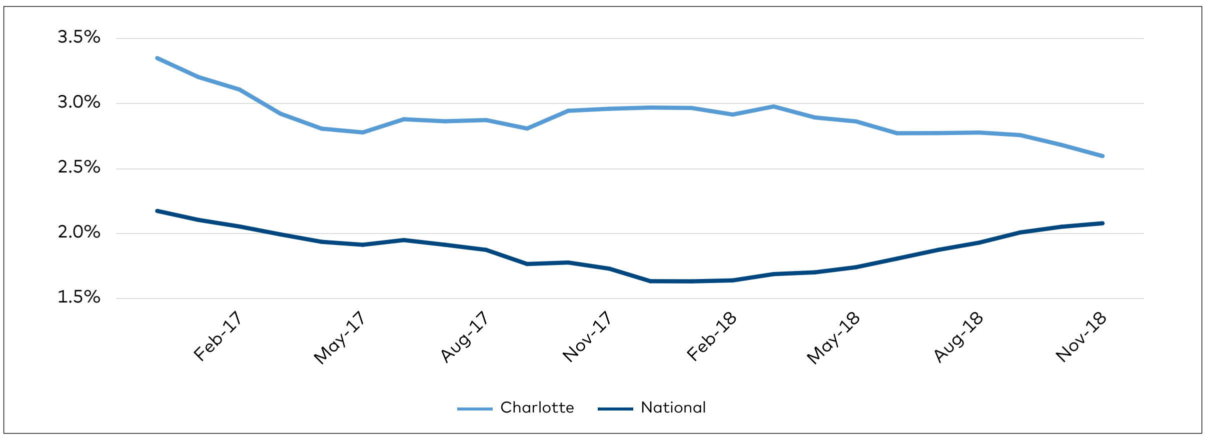


Source: YardiMatrix

Economic Snapshot

- Charlotte added 27,300 jobs in the year ending in November, a 2.6% uptick year-over-year and 50 basis points above the U.S. rate. The professional and business services sector accounted for more than one-third of the new jobs, adding 10,000 positions.
- As the third-largest banking center in the U.S.—behind only New York City and San Francisco—Charlotte attracts a large swath of highly skilled financial professionals. Technology company Honeywell has announced the relocation of its global headquarters from New Jersey to Charlotte, along with the creation of more than 750 jobs by 2024. Furthermore, fintech firm LendingTree intends to expand its headquarters in Charlotte and add approximately 400 positions over the next seven years. Keeping up with infrastructure needs is one of the metro's challenges. The Charlotte Douglas International Airport is undergoing a $2.5 billion overhaul to support the city's economic growth.
- On the other end of the spectrum, leisure and hospitality contracted by 2,200 jobs. The sector will likely continue to slide as The Central Intercollegiate Athletic Association, the oldest African-American conference in the nation, is moving its annual basketball tournament to Baltimore between 2021 and 2023, following 12 years of annual events in Charlotte. However, the sector's losses might be mitigated by the upcoming 2020 Republican National Convention.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	214	17.4%	10,000	4.9%
40	Trade, Transportation and Utilities	255	20.7%	7,900	3.2%
65	Education and Health Services	128	10.4%	4,800	3.9%
90	Government	167	13.5%	3,200	2.0%
55	Financial Activities	96	7.8%	3,000	3.2%
50	Information	29	2.4%	900	3.2%
15	Mining, Logging and Construction	64	5.2%	600	1.0%
80	Other Services	41	3.3%	100	0.2%
30	Manufacturing	106	8.6%	-1,000	-0.9%
70	Leisure and Hospitality	135	10.9%	-2,200	-1.6%

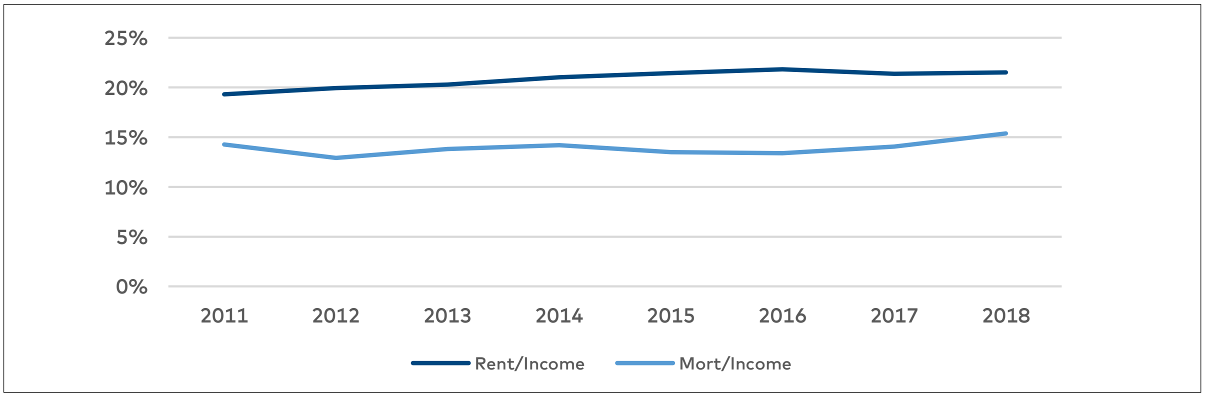
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

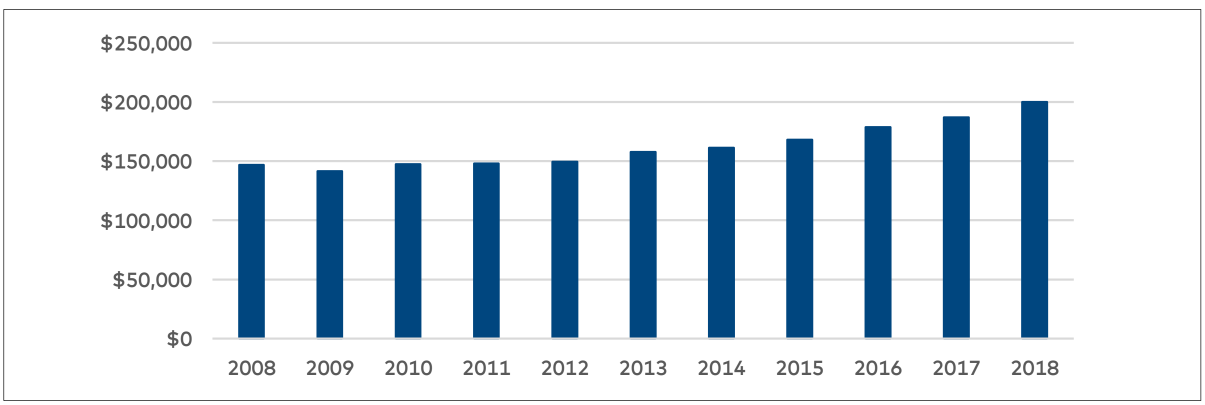
- The Charlotte median home value was just $61 shy of the $200,000 mark in 2018, with the housing market reaching a new cycle high. Homeownership remained the more affordable option, with the average mortgage payment accounting for 15% of the area's median income. Rents comprised 21%.
- According to the Charlotte City Council's new housing framework, the metro needs 24,000 more units for residents earning 50% or less of the area's median income. Three of Charlotte's largest financial corporations—Ally Financial, Bank of America and Barings—have taken a $70 million pledge to increase the metro's affordable housing stock in coming years.

Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Charlotte Median Home Price



Source: Moody's Analytics

Population

- Between 2013 and 2017, Charlotte added 191,269 residents, an 8.2% uptick, 520 basis points above the national rate.
- In 2017, the metro's population rose by 49,786 residents, a 2.0% increase.

Charlotte vs. National Population

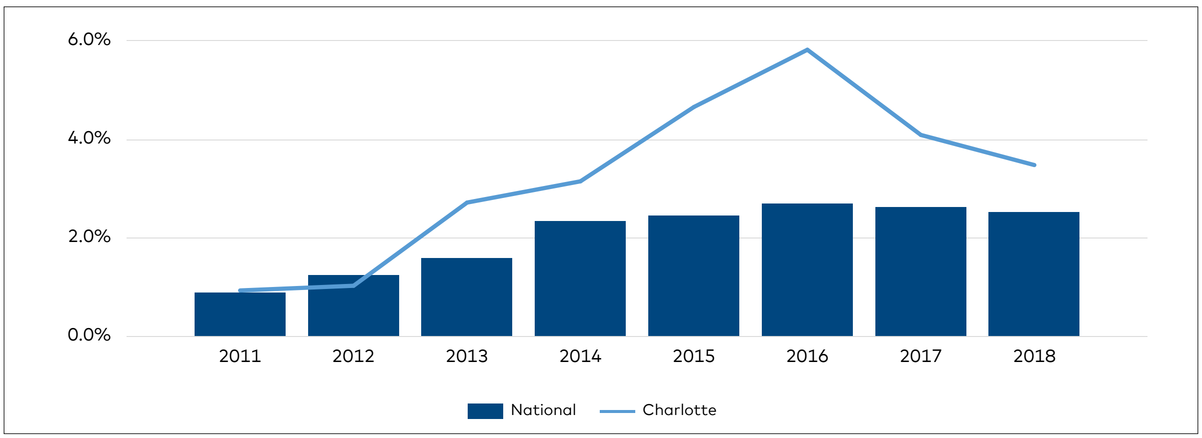
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Charlotte Metro	2,334,036	2,376,148	2,424,115	2,475,519	2,525,305

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

Supply

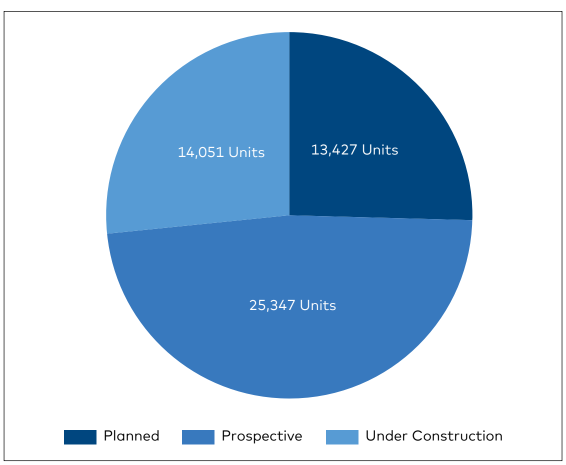
- Twenty-two properties totaling 5,861 units came online in 2018, 3.5% of total stock. Roughly 85% of the assets cater to the Lifestyle segment. Although significant, last year's deliveries indicate a slowdown following 2016's 9,072 units—the metro's cycle peak—and 2017's 6,651 units. Even though prices in the luxury market have started to drop in some U.S. cities, Charlotte developers continue to rely on the metro's above-average employment growth, especially in the banking and tech sectors.
- As of January, 14,051 units were under construction across the metro, with most of the upcoming supply geared toward high-income earners. Additionally, another 38,800 units were in the planning and permitting stages. The occupancy rate in stabilized properties was 95.1% as of December, remaining flat year-over-year and reflecting continued rental demand and rapid absorption of new stock.
- Construction in Charlotte is concentrated in core submarkets, which are home to the city's growing business district. Second Ward (1,476 units) and Colonial Village–Montclaire (1,419 units) have the largest development pipelines. Woodfield Investments and Simpson Housing's 455-unit The Links at Rea Farms and Grubb Properties' 450-unit Link at Park Road are among the largest projects underway.

Charlotte vs. National Completions as a Percentage of Total Stock (as of January 2019)



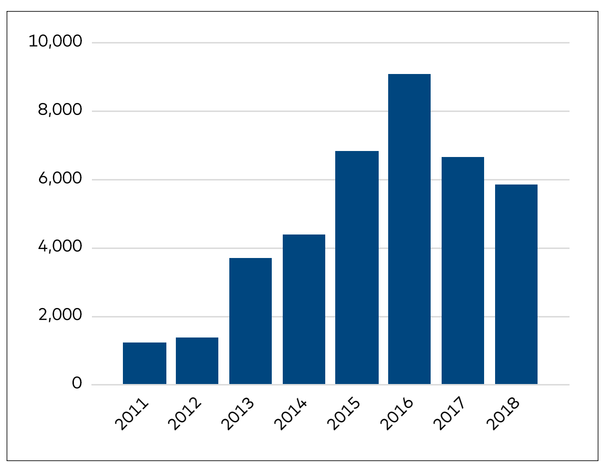
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Charlotte Completions (as of January 2019)



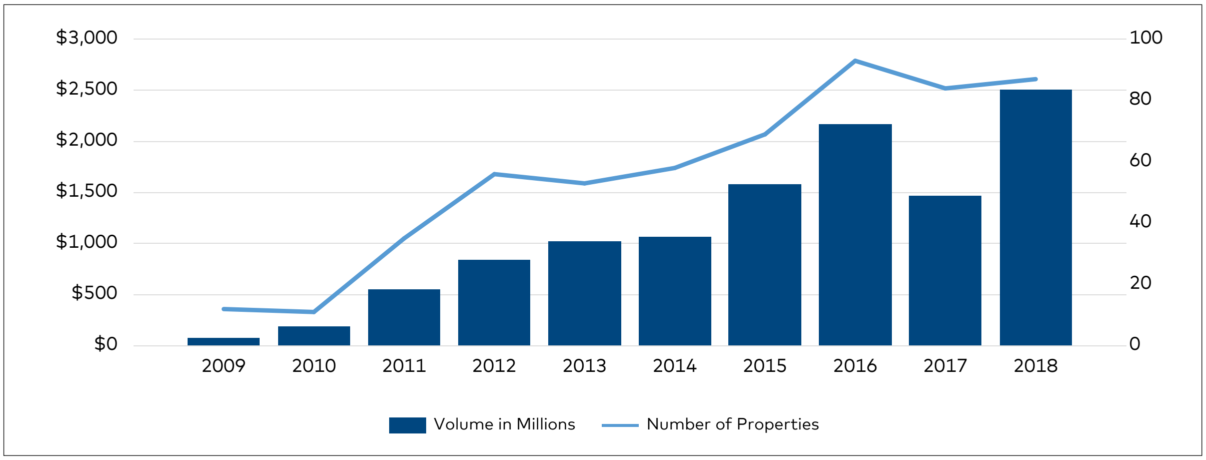
Source: YardiMatrix

Transactions

- Multifamily investment activity reached $2.5 billion in 2018, a new cycle high. Charlotte continues to be one of the most appealing secondary markets in the U.S. In a trend-defying turn, the market's Lifestyle assets saw more interest from investors, driving the per-unit price to $137,047. The figure rose 24.0% from 2017, hitting a cycle peak, although still trailing the $154,634 U.S. average. Acquisition yields for stabilized Class A infill assets were in the 5.0% range, and between 5.0% and 6.0% for Class B/C assets.

- Southern and core areas attracted the most capital last year, with Ballantyne–Providence ($227 million) leading the way. Colonial Village–Montclaire ($194 million) and Uptown ($190 million) rounded out the top three. CBRE Global Investors' purchase of the 672-unit SkyHouse Uptown was the largest transaction of 2018. The 24-story towers in the Fourth Ward neighborhood traded for $190 million. Sellers Novare Group and Batson-Cook Development Co. handled development of the asset.

Charlotte Sales Volume and Number of Properties Sold (as of January 2019)



Source: YardiMatrix

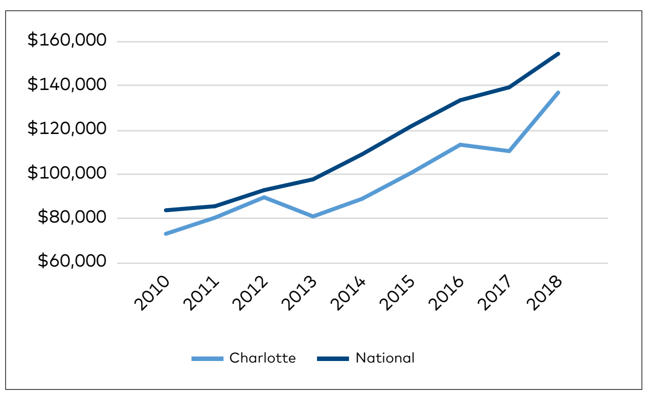
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Ballantyne–Providence	227
Colonial Village–Montclaire	194
Uptown	190
Matthews	178
Huntersville	166
Southwest Charlotte	147
North Charlotte	127
Pineville	114

Source: YardiMatrix

[1] From January 2018 to December 2018

Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:

MULTI-HOUSING NEWS

Get the latest in local real estate news by going to Multi-HousingNews.com

Industry Veteran To Co-Lead Carolinas Greysteel Office

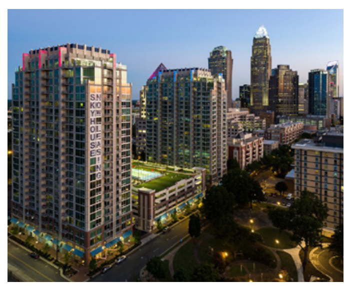
Michael Hehir will join Ari Firoozabadi in managing the firm's Southeast expansion. He will be based in Charlotte, where Greysteel launched its second practice this year.

PRG Group Buys Luxury Charlotte Community for $49M

The Miller-Valentine Group finished work on the 280-unit property in late 2017, following a year and a half of construction. Capital One provided a $32.4 million Freddie Mac acquisition loan to the buyer.

Charlotte-Area Community Secures $20M Financing

The 162-unit mixed-use property is located in a walkable area near downtown Davidson, N.C., and was completed in 2016. An HFF team arranged the acquisition financing.



JLL Negotiates Historic NC Multifamily Deal

The firm worked on behalf of Novare Group to handle the $200 million sale of a two-tower community encompassing 672 units in Charlotte's coveted Fourth Ward Uptown district.

Somerset Partners Buys Charlotte Community

The 155-unit multifamily asset changed hands for more than $15 million, with Capital Bank providing the buyer with $11.6 million in acquisition financing.

Waterton Purchases NC Portfolio For $169M

The properties include Ashford Green and The Retreat at McAlpine Creek in Charlotte, Atria at Crabtree Valley in Raleigh, and Audubon Parc in Cary.

Executive Insight

Brought to you by:

Soaking Up Opportunities in the Sun Belt

By Keith Loria

American Landmark Apartments specializes in the acquisition, repositioning and management of multifamily communities, mostly in the Sun Belt region, which has a strong population and job growth.

As CEO of the company, Joe Lubeck led ALA to approximately $1.3 billion in multifamily asset acquisitions in 2018. The company invests heavily in markets such as Charlotte, N.C., Atlanta and Orlando.

What are the trends you saw in the multifamily investor market in 2018?

More people are renting today than ever before, and as a result, rents are rising. With this dynamic, we're continuing to see more players entering the value-add multifamily space in secondary market locations. ... Core-plus is becoming as attractive as—if not more attractive than—value-add opportunities at this stage in the cycle.

What's happening in the sectors you follow? What's on your radar?

We continue to look at job growth in and around Southern secondary market areas like Houston and Orlando. Rising interest rates are obviously on our radar, but it's not impacting our deals so much because rates are still relatively low and there are a lot of different sources of capital. One thing we are seeing right now is that builders are overextended, which obviously has an impact on value-add players who, like us, complete in-place renovations in a compressed period of time.

What are the locations you are most interested in?

We're investing heavily in metro areas such as Charlotte, N.C.; Orlando, Fla.; Atlanta; Houston; and San Antonio. Last year (2017), we were probably one of the largest buyers in the country.

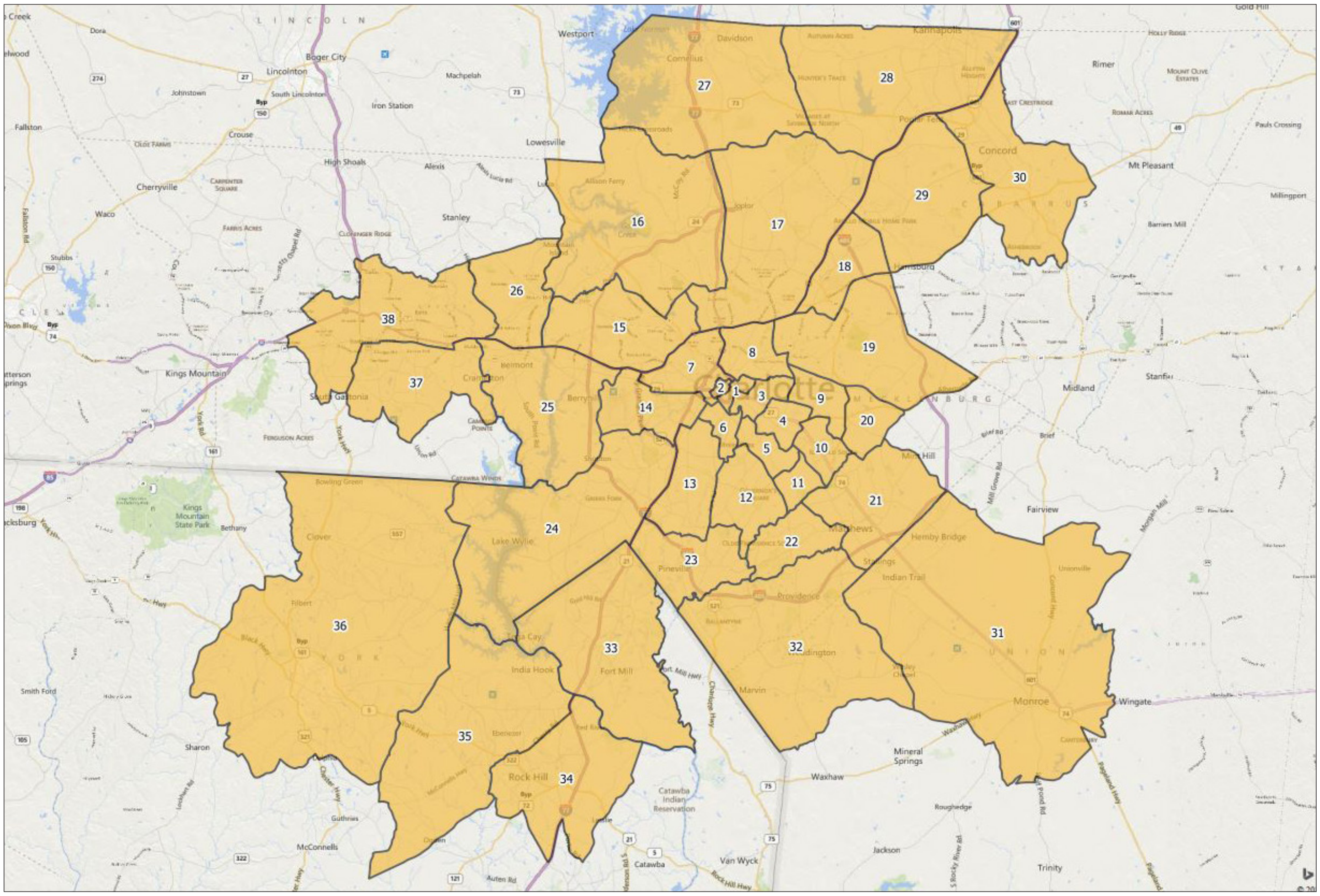
What is the most important thing that investors need to be aware of in today's multifamily environment?

I think investors need to be cautious of overpaying for a property in today's "auction" environment. We've been able to dodge that a bit because our 30-year track record gives us a competitive edge and access to a lot of off-market deals. It's extremely important to stay disciplined when buying.

What's your key to planning a successful strategy?

There's product, process and service. On the product side, we focus on well-located, nicely built properties in high job growth areas. All of our properties have to meet certain criteria. On the process side, we have a very fine-tuned repositioning approach to meet the demands of today's renters. This usually entails adding new flooring, stainless steel kitchen appliances and, sometimes, washers and dryers—but we also invest a lot in amenities. ... Lastly, we deliver exceptional customer service. Our management professionals are hands down the most well trained in the industry, and that's critical in today's market to attract and retain residents.

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.