

An aerial photograph of the Charlotte, North Carolina skyline. The image shows a dense cluster of skyscrapers, including the Bank of America Corporate Center, the Duke Energy Center, and the Wells Fargo Center. The foreground features a multi-lane highway with traffic, green spaces, and parking lots. The sky is clear and blue.

Yardi® Matrix

Charlotte: At Peak Velocity

Multifamily Report Summer 2019

Developers Target Urban Core

Occupancy Remains Above U.S. Average

Population Gains Maintain Demand High

Market Analysis

Summer 2019

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Tar Heel State Braces for More Growth

Charlotte's strong business climate, substantial demographic expansion and attractive employment opportunities have continued to boost housing demand across the metro. With rents increasing by 3.4% year-over-year through April, growth is still above the national average, despite inflating deliveries over the past five years.

The metro gained 29,200 jobs in the 12 months ending in March, a 2.3% increase, well above the 1.6% U.S. rate. Professional and business services and trade, transportation and utilities accounted for nearly half of the new jobs. Several key infrastructure projects are underway: The first phase of a new multimodal transit hub is advancing in Uptown, with the facility likely to stimulate additional mixed-use development nearby. Additionally, Charlotte International Airport's \$2.5 billion renovation entered a new phase at the beginning of 2019. In contrast, the government sector lost 2,000 jobs. The North Carolina Department of Public Instruction was one of the most severely affected by the state's budget cuts last year.

Multifamily investment stayed strong in Charlotte at the start of 2019, following 2018's cycle-high transaction volume of \$2.5 billion. With 13,000 units underway, stock should expand further, alleviating rental demand. Yardi Matrix expects rents to rise 2.4% in 2019.

Recent Charlotte Transactions

Mercury NoDa



City: Charlotte, N.C.
Buyer: Carter-Haston Real Estate Services
Purchase Price: \$56 MM
Price per Unit: \$232,459

The Addison at South Tryon



City: Charlotte, N.C.
Buyer: LivCor
Purchase Price: \$54 MM
Price per Unit: \$168,690

The Gibson



City: Charlotte, N.C.
Buyer: Blaze Partners
Purchase Price: \$53 MM
Price per Unit: \$213,200

Canopy at Baybrook

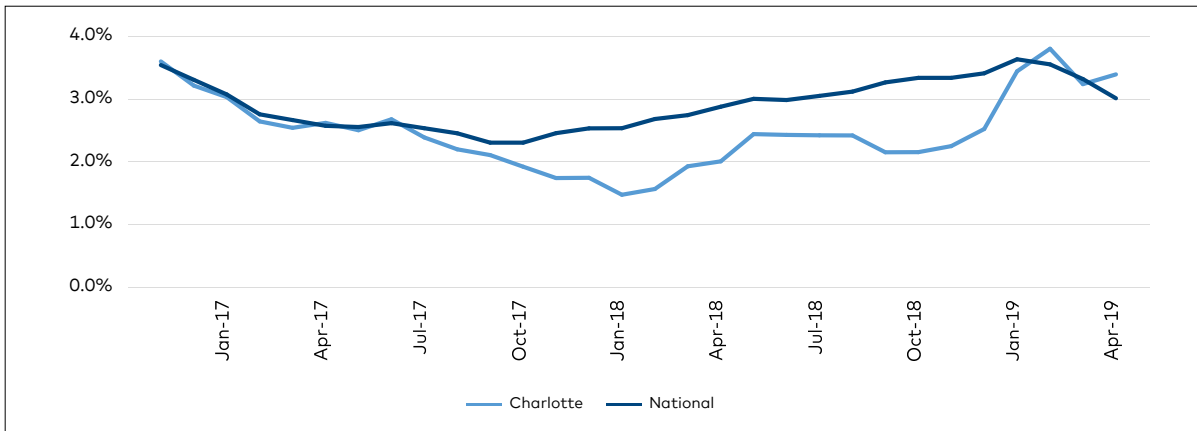


City: Charlotte, N.C.
Buyer: Investors Management Group
Purchase Price: \$46 MM
Price per Unit: \$140,432

Rent Trends

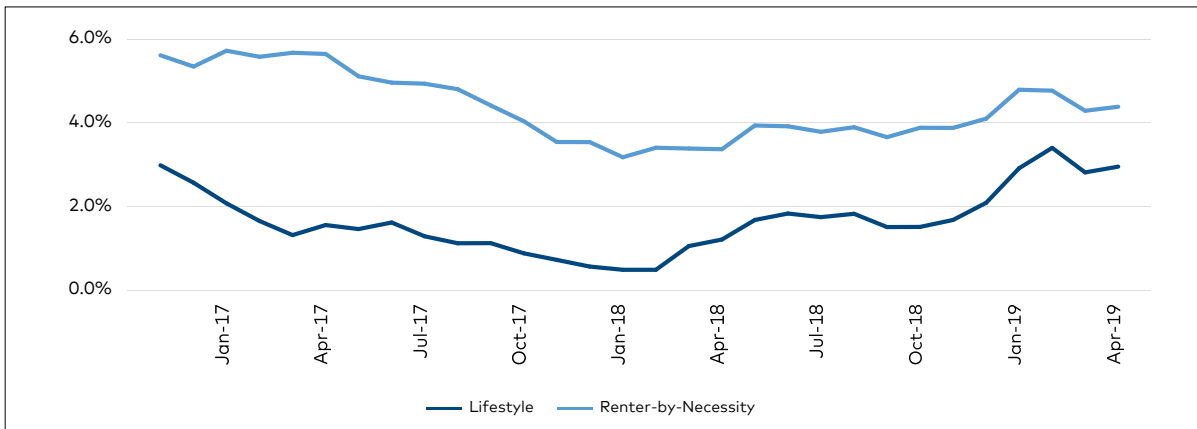
- Charlotte rents were up 3.4% year-over-year through April, surpassing the national rate by 40 basis points. However, the \$1,157 average rent continues to be significantly below the \$1,436 U.S. figure. High demand coming from Millennials and Empty Nesters shifting from single-family homes to rentals is likely to maintain good absorption going forward. North Carolina metros Raleigh and Charlotte emerged as the fastest-growing rental markets in recent months, with rents increasing by 0.5% in April on a trailing three-month basis.
- With developers mainly delivering upscale assets, the working-class Renter-by-Necessity segment led rent growth. Rates rose 4.4% in the 12 months ending in April, to \$928. Although demand for RBN assets remained robust, Lifestyle rents also improved by 3.0%, to \$1,289, bolstered by high-paying jobs and strong demographic trends. At 95.0% as of March, occupancy rates in Charlotte were 20 basis points above the national average.
- Rents grew at the fastest rates in Charlotte's northwestern submarkets, such as Mooresville (10.3% to \$1,104), Gastonia–North (9.7% to \$852) and Outlying Gaston County (8.5% to \$846). Nevertheless, the urban core is still the most expensive area of the metro, with rents in Uptown and Myers Park at \$1,953 and \$1,671. Yardi Matrix expects rents in the metro to advance 2.4% this 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)

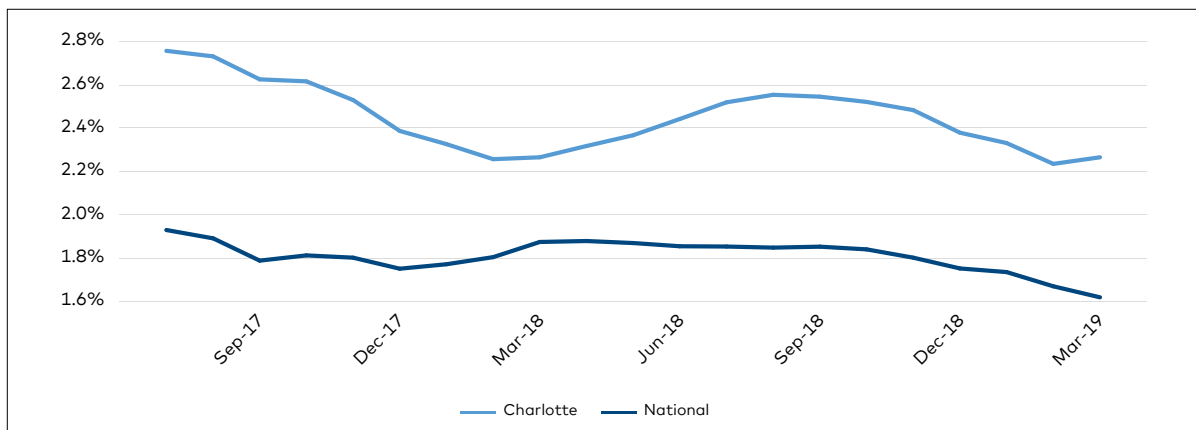


Source: YardiMatrix

Economic Snapshot

- Charlotte gained 29,200 jobs in the 12 months ending in March, a 2.3% increase year-over-year and 70 basis points above the U.S. rate.
- Employment has outperformed national averages for the past few years, backed by the area's penchant for producing a strong talent pool and relatively low living costs.
- Professional and business services led job growth, with the addition of 8,300 positions, buoyed by Charlotte's growing fintech industry, with significant job announcements from AvidXchange and LendingTree. Office-using sectors are expanding in the metro, with Northwood—the company that paid \$1 billion for the 535-acre Ballantyne Corporate Park in 2017—breaking ground on an 11-story, 328,000-square-foot office building in Charlotte's Ballantyne district. This is the first new office tower to be built under Northwood's ownership.
- Projects boosting trade, transportation and utilities are also underway: They include the first phase of the 19-acre Charlotte Gateway Station District is underway, which will provide a new multimodal transit hub when complete in 2022. Moreover, Charlotte International Airport's 10-year, \$2.5 billion renovation entered a new phase at the beginning of 2019, as the revamp process started at the airport's third concourse.

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	211	17.2%	8,300	4.1%
40	Trade, Transportation and Utilities	245	20.0%	5,600	2.3%
70	Leisure and Hospitality	142	11.6%	5,400	3.9%
65	Education and Health Services	127	10.4%	4,100	3.3%
30	Manufacturing	112	9.2%	3,900	3.6%
80	Other Services	43	3.5%	2,400	5.9%
55	Financial Activities	96	7.8%	1,700	1.8%
50	Information	30	2.5%	700	2.4%
15	Mining, Logging and Construction	62	5.1%	-900	-1.4%
90	Government	155	12.7%	-2,000	-1.3%

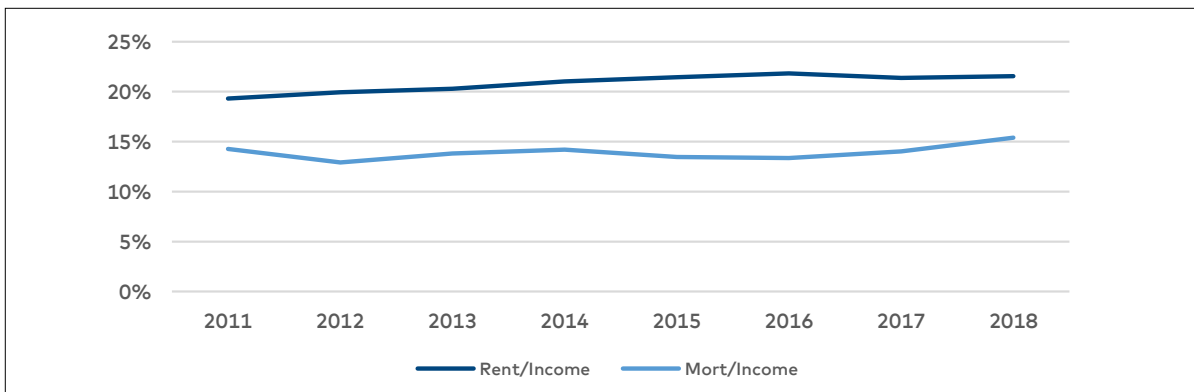
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

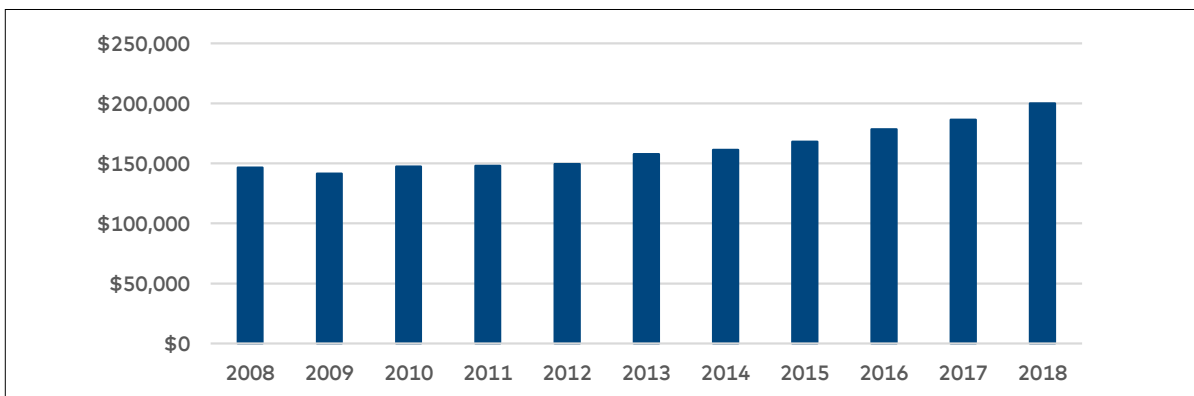
- Home prices in Charlotte crossed the \$200,000 mark in 2018 for the first time this cycle. The average mortgage payment accounted for 15% of the area's median income, while rents equated to 22%.
- A recent UNC Charlotte report found that the city's population is growing faster than its housing supply, which is jeopardizing one of its main economic drivers: the low cost of living. Last year, \$50 million in bond funding for Charlotte's housing trust fund was approved, and authorities have a new approach to support affordable housing. The city council decided to spend \$2.1 million on revamping a multifamily asset owned by private investors. In return, they agreed to deed restrictions for 15 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

- Charlotte gained 49,786 residents in 2017, a 2.0% demographic expansion.
- Between 2010 and 2017, the metro added 302,000 residents, a 13.6% uptick, more than double the national rate through that interval.

Charlotte vs. National Population

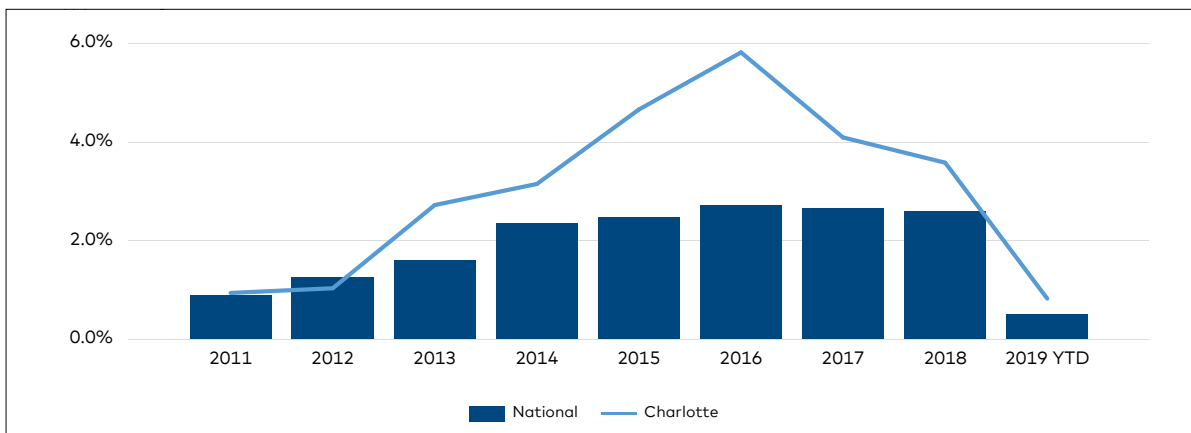
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Charlotte Metro	2,334,036	2,376,148	2,424,115	2,475,519	2,525,305

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

Supply

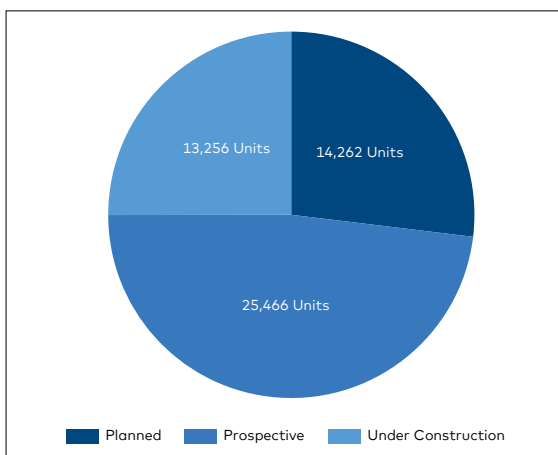
- Some 13,000 units were underway in the metro as of April, largely in response to local population growth. Most of the upcoming inventory is in desired neighborhoods around the downtown core and in southern submarkets such as Colonial Village–Montclair (1,419 units), the Second Ward (1,407) and Ballantyne–Providence (1,012). A recent report from UNC’s Childress Klein Center for Real Estate found that costs for construction parcels in Charlotte are rapidly increasing, particularly in Lancaster County, where 1,165 units are underway despite land prices rising by 37% between 2012 and 2017.
- The metro added 1,400 units to its housing inventory in the first four months of 2019, with more than 6,000 units coming online last year. A study by the National Multifamily Housing Council and the National Apartment Association showed that the Charlotte region is expected to need at least 72,000 more apartments by 2030, which is part of the reason why the building surge shows no sign of stopping and rents are still on an upward trajectory. Most of the upcoming supply targets high-income earners.
- Grubb Properties’ 450-unit Link Apartments Montford Park is one of the largest projects under construction. The company also plans to build Link at Elizabeth, a 550-unit property in Morningside.

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



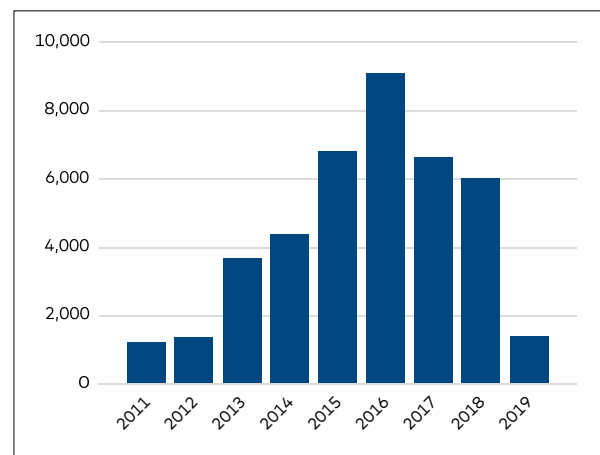
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Charlotte Completions (as of April 2019)

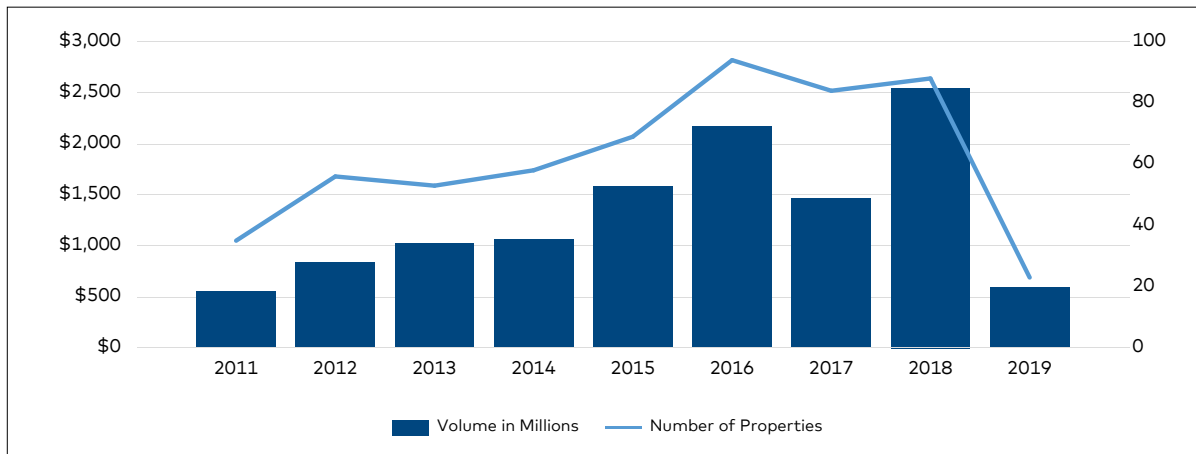


Source: YardiMatrix

Transactions

- Following 2018's cycle peak transaction volume of \$2.5 billion in Charlotte, another \$590 million in multifamily assets traded in the metro during the first four months of 2019. Investor appetite for urban multifamily properties remained healthy as investors targeted upscale assets. That dynamic drove per-unit prices to a new cycle high of \$142,934, only \$7,612 below the national average. Property values in Charlotte are lower than in other major cities, but yields are still strong and rents are increasing, which is a positive sign for investors.
- Urban core and southern submarkets were the most coveted, with Southwest Charlotte, Ballantyne-Providence, Matthews and Uptown accounting for one-third of the total capital invested in multifamily assets across the metro in the year ending in April. The largest transaction was CBRE Global Investors' purchase of the 672-unit SkyHouse Uptown in December for \$190 million.

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



Source: YardiMatrix

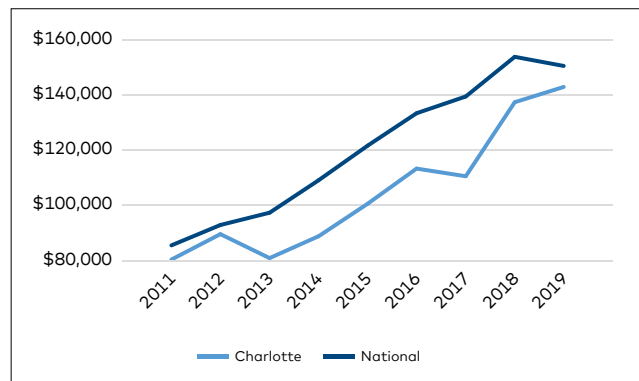
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Southwest Charlotte	265
Ballantyne-Providence	227
Matthews	212
Uptown	190
Huntersville	172
Colonial Village-Montclair	159
North Charlotte	156
Fort Mill	154

Source: YardiMatrix

¹ From May 2018 to April 2019

Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Charlotte Affordable Housing Property Underway

Developed by the NRP Group, Platform Lofts is one of the first affordable housing communities located on a new extension of the city's light-rail system. The 198-unit community spreads over six buildings.



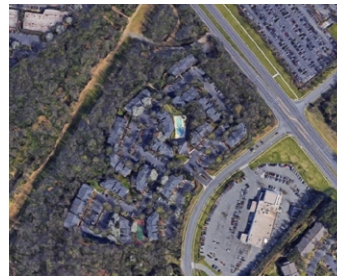
Wood Partners Begins Construction Of Charlotte Community

The developer is building the 238-unit luxury asset with more than \$26 million in construction financing from First Citizens Bank. The 238-unit Alta Croft is set to open in April 2020.



Laurel Street Residential Expands NC Footprint

Bellwether Enterprise provided the buyer of the 98-unit multifamily asset with more than \$6 million in acquisition financing through Fannie Mae. Sharon Oaks Apartments traded for \$8.2 million.



Charlotte Community Trades for \$34M

Greystone provided the buyer, Dasmien Residential, with a 10-year Freddie Mac acquisition loan for the Class B, 320-unit multifamily property. Safire at Matthews Apartments changed hands for \$34 million.



Blaze Partners Acquires NC Luxury Asset

The Gibson was built in 2015 on the site of a historic recording studio in the Plaza Midwood neighborhood of Charlotte.



JV Secures Construction Loan For Charlotte Development

A Walker & Dunlop team arranged the financing for Mosby University City, a 309-unit community built by Middleburg and The Mattoni Group.



Executive Q&A: Blazing a Trail in Sunbelt Multifamily

By Keith Loria

Steven Shores and Marc Pollack joined together in 2006 to create Pollack Shores Real Estate Group, an Atlanta-based firm investing in multifamily communities across the Southeast. Over the past 13 years, the company has amassed a portfolio of more than \$1.6 billion in assets throughout the Sunbelt.

Multi-Housing News interviewed Shores, who was named CEO of Pollack Shores in January 2018, about the company's current projects and plans for the future, including the markets that are part of the firm's expansion strategy.

What is the company's strategy for 2019 when it comes to development and investment?

Our strategy on the development side will continue to focus on value development in high-growth suburban areas that have favorable demographics and proximity to walkable, mixed-use environments. We are going into areas that haven't had new multifamily product in a while and trying to be the first movers into those locations. The other strategy entails building more cost-effective units in emerging neighborhoods and cities.

Besides the Atlanta area, where else is the strategy coming into play?

We're doing this in other cities, such as Charleston, S.C.; Charlotte, N.C.; Denver; and Dallas.

What makes a location a strong one? What do you look for and when do you know it's time to spread out?

Jobs and retail, specifically entertainment retail, are good



geographic guideposts for where we scout and set up shop. We go where people want to go and spend time, and we identify those opportunities ahead of the pack.

Right now, we believe the majority of good opportunities exist in suburbs that are seeing an influx of new jobs and residents. We're building and redeveloping communities that are adjacent to vibrant areas that offer a wide array of unique dining, retail and entertainment experiences and appeal to today's Class A renter.

What defines a Pollack Shores Real Estate Group property? Are there any common denominators?

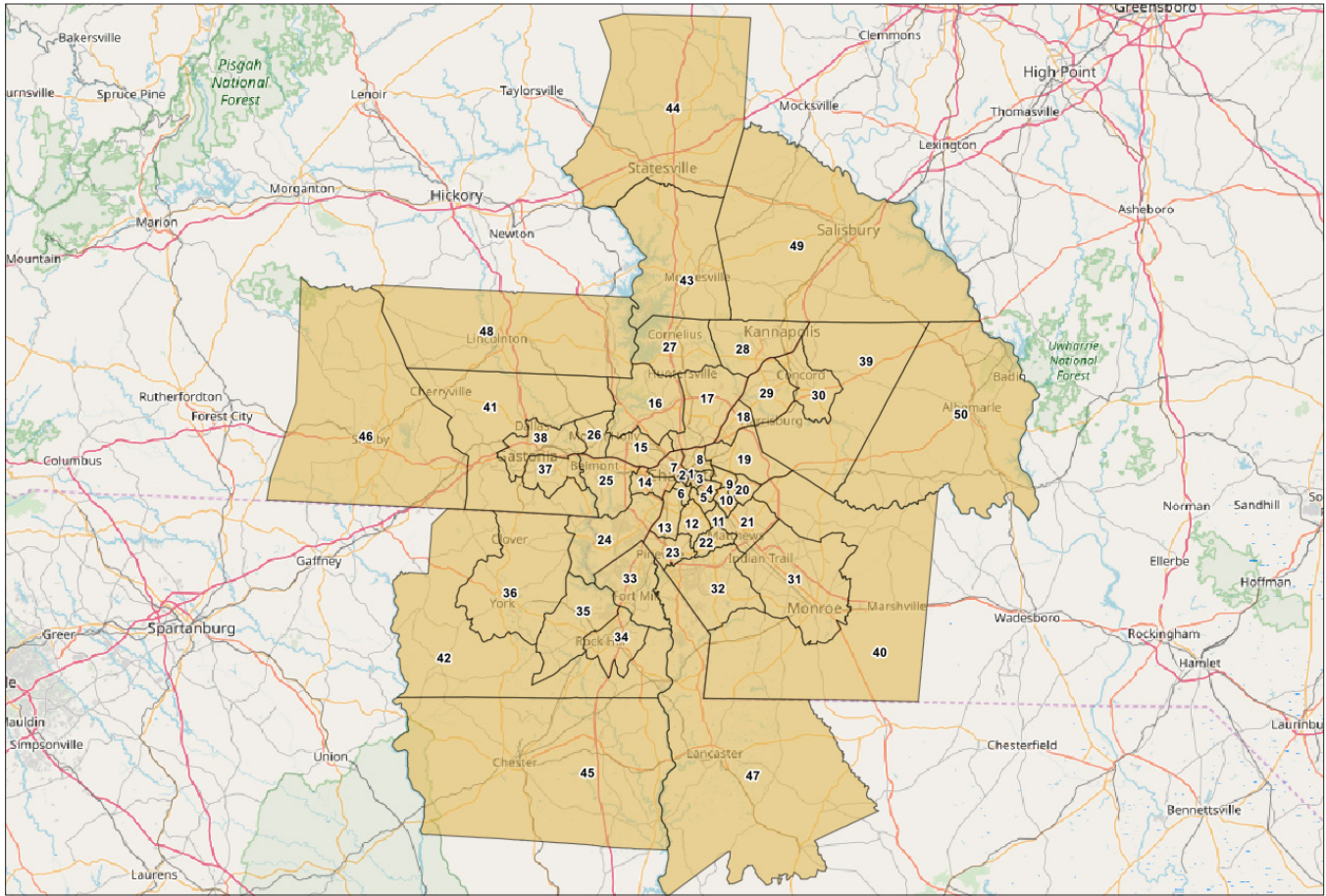
We focus on the living experience of our residents. Everything we do is designed to enhance that experience and provide a higher level of service. To support that core focus, we train and coach our people in a manner that is very similar to what you find in the hotel industry.

We want our residents to consistently feel that level of service when they live in our community. From a design perspective, we've also incorporated aspects of hospitality by creating vibrancy in our lobbies and common spaces.

What growth initiatives are planned for 2019?

Pollack Shores will continue to expand in the Southwest. We will break ground on new projects in Colorado and Texas this year, with hopes of being in Phoenix by the end of 2019. We're also getting into the age-targeted/active adult side of the business, which is separate and distinct from the traditional senior living category.

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
20	Becton Park-Marlwood
21	Matthews
22	Wessex Square
23	Pineville
24	Southwest Charlotte
25	Belmont

Area #	Submarket
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
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	Lincolnton
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 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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