Yardi® Matrix

Unstoppable Charlotte

Multifamily Report Fall 2019

Rent Growth Remains Lofty

Professional, Business Services Lead Job Growth

Occupancy Stays Above U.S. Level Despite Construction Surge

Market Analysis

Fall 2019

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Prolonged Demand Propels Market

Charlotte's diversifying economy and increasing Millennial population continue to drive housing demand, leading to a spike in rent growth of 4.7% year-over-year through August. Despite aggressive development that brought online almost 29,000 units since 2015, demand is still soaring.

Of the 29,800 jobs that the metro gained in the 12 months ending in June, professional and business services accounted for almost one-third. The welcoming business climate and the deep talent pool fostered by Charlotte's higher education institutions attract companies, which boost demand for office space in the region. Dentsply, Lending Tree and other service-based companies extended their footprint in the metro, and several infrastructure projects are bound to support Charlotte's expansion. The $90 million first phase of the proposed Gateway Station mixed-use project is underway, with completion expected by 2022. A $346 million toll lane project along Interstate 485 is also under construction.

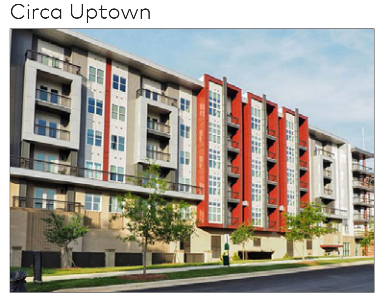
Almost 4,500 units came online in Charlotte during the first eight months of 2019, with an additional 13,700 apartments underway. The investment volume for this year is likely to surpass the $2 billion mark, spurred by population gains and the state's low-tax policy. Yardi Matrix expects rents to rise 3.3% this year.

Recent Charlotte Transactions

Novel NoDa

City: Charlotte, N.C.
Buyer: AEW Capital Management
Purchase Price: $90 MM
Price per Unit: $261,628

Circa Uptown



City: Charlotte, N.C.
Buyer: Eaton Vance Investment Managers
Purchase Price: $66 MM
Price per Unit: $272,500

Lantower Garrison Park

City: Charlotte, N.C.
Buyer: Lantower Residential
Purchase Price: $63 MM
Price per Unit: $195,006

Arbor Steele Creek

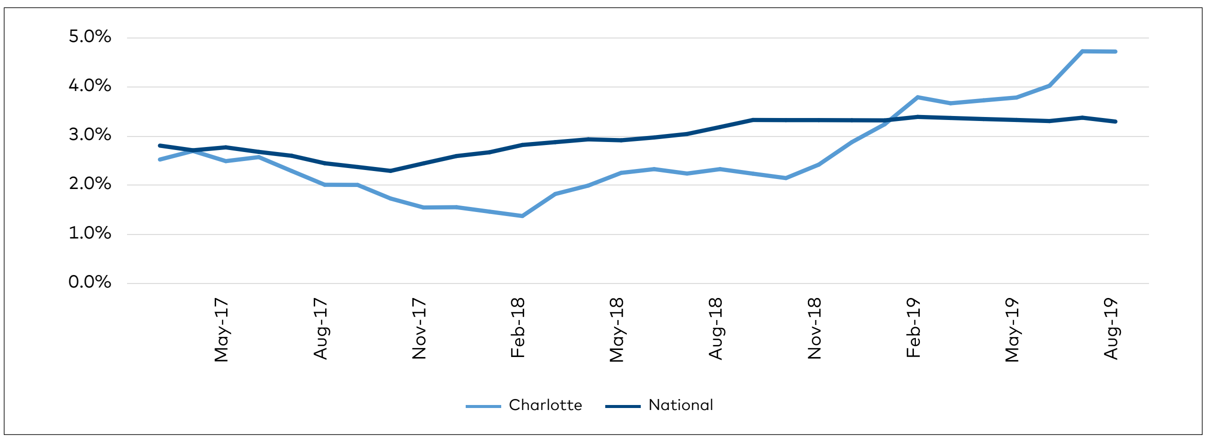
City: Charlotte, N.C.
Buyer: Acre Valley Real Estate
Purchase Price: $57 MM
Price per Unit: $148,000

On the cover: Photo by ZekaG/iStockphoto.com

Rent Trends

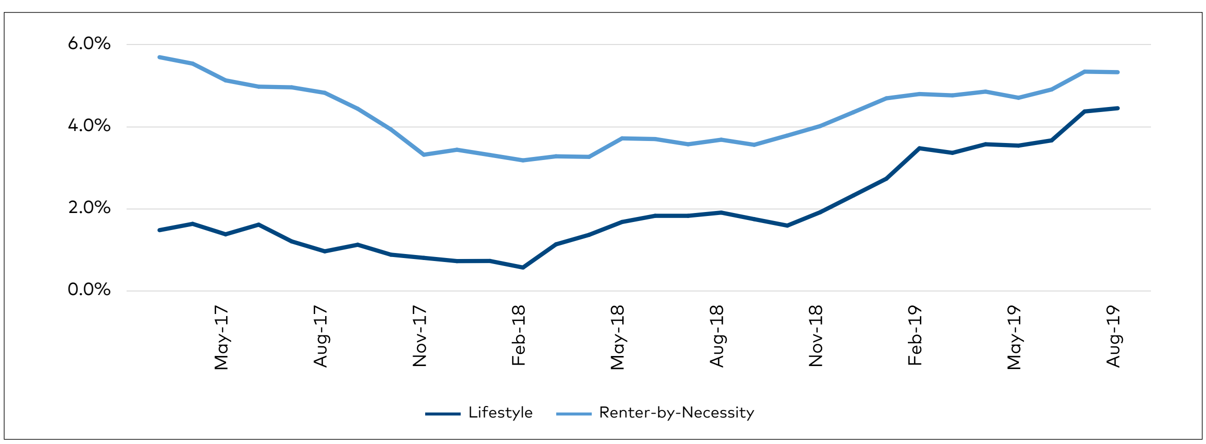
- Charlotte rents rose 4.7% year-over-year through August, surpassing the national rate by 140 basis points. Since the beginning of this year, rent growth has begun to outperform the U.S. rate, backed by strong demand coming from an increasing Millennial workforce. With rents rising by 4.6% in Raleigh, 3.0% in Asheville and 2.8% in Greenville, Charlotte leads the state for rent growth. However, the $1,197 average is still well below the $1,472 U.S. figure.
- Recent completions and multifamily projects under construction are mainly geared toward high-income residents, propelling rent growth in the working-class Renter-by-Necessity segment to 5.3%, and an average of $948. Despite the surge in high-end completions, rent in the upscale Lifestyle segment also rose significantly, reaching $1,337, up 4.5% year-over-year through August.
- Rents in traditionally lower-priced submarkets such as Mooresville (10.7%) and Hidden Valley–Oak Forest (10.0%) saw the strongest increases in the year ending in August, due to high demand for their large Renter-by-Necessity stock. Urban core submarkets such as Uptown ($1,971), Myers Park ($1,733), Foxcroft ($1,515) and Second Ward ($1,504) remained the most expensive. With the metro's consistent development pipeline and its sustained demographic and economic expansions, Yardi Matrix expects rents in Charlotte to rise 3.3% in 2019.

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)

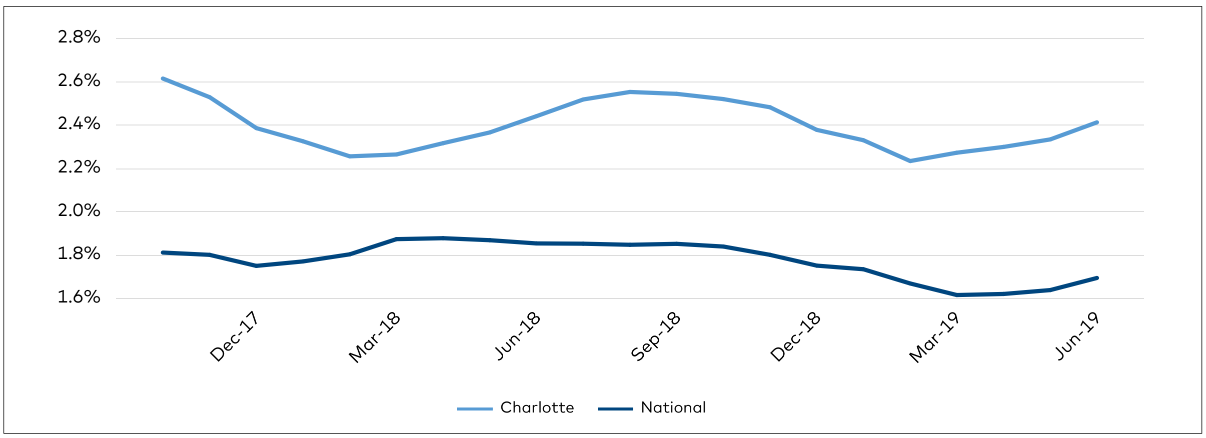


Source: YardiMatrix

Economic Snapshot

- Charlotte gained 29,800 jobs in the 12 months ending in June, up 2.4% and 70 basis points above the U.S. rate. At the mid-point of 2019, the metro's economy continued to expand at a healthy pace due to its favorable demographics, attractive logistics infrastructure, a strong talent pool and a relatively low cost of living.
- Professional and business services, which led job growth with the addition of 9,400 positions, is bound to continue to expand. Accommodating growth in office-using sectors, The Spectrum Cos. broke ground on a 577,000-square-foot, mixed-use development, in partnership with Invesco Real Estate. Home improvement giant Lowe's chose Charlotte for its new innovation center, leasing up the entire 357,000-square-foot office portion of an upcoming tower, where it plans to hire as many as 2,000 workers—from software engineers to data scientists. Furthermore, Charlotte has begun to emerge as a tech hub, with the total number of technology jobs in the region increasing by 30% over the past five years, twice as fast as the U.S. rate, according to a Charlotte Regional Business Alliance report.
- Another strong sector was leisure and hospitality, which added 8,000 jobs. The NBA All-Star Game was held in Charlotte earlier this year in February, and the metro has also been selected to host the Republican National Convention in 2020. Therefore, the sector is likely to continue to perform well.

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	217	17.5%	9,400	4.5%
70	Leisure and Hospitality	155	12.5%	8,000	5.4%
40	Trade, Transportation and Utilities	249	20.0%	5,800	2.4%
65	Education and Health Services	128	10.3%	4,700	3.8%
55	Financial Activities	98	7.9%	2,600	2.7%
80	Other Services	43	3.5%	1,600	3.9%
30	Manufacturing	112	9.0%	1,100	1.0%
50	Information	30	2.4%	700	2.4%
90	Government	149	12.0%	-1,700	-1.1%
15	Mining, Logging and Construction	63	5.1%	-2,400	-3.7%

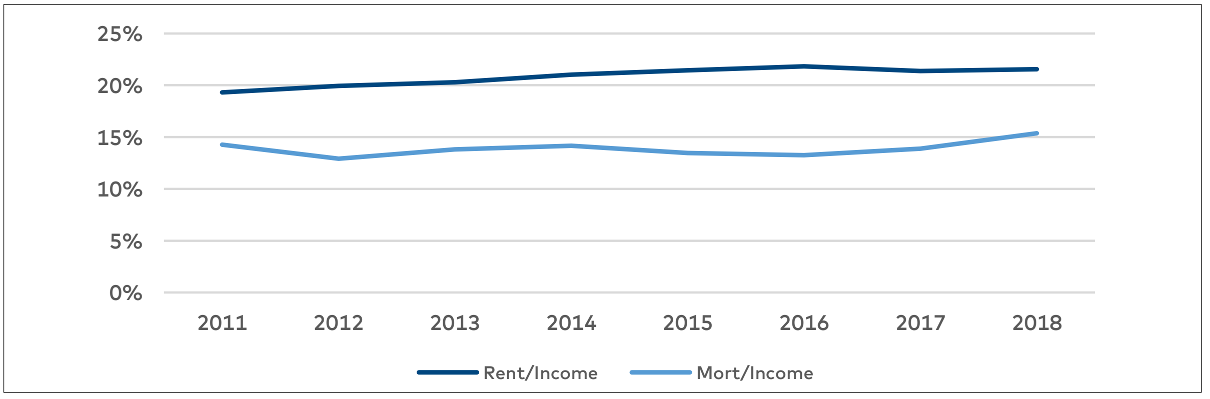
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

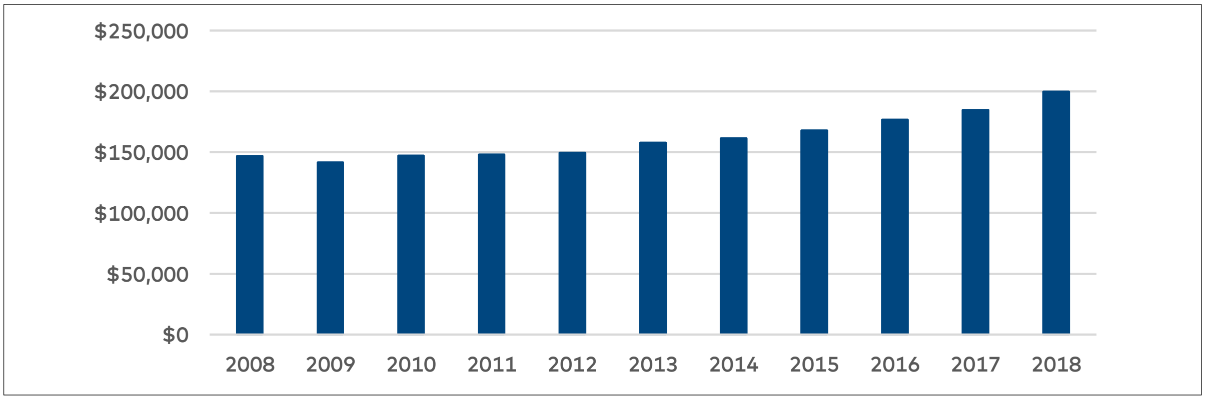
- Housing costs in Charlotte continued to rise. In 2018, the median home value hit $199,708, a peak for the past decade and up 8.1% from the prior year. Owning remained more affordable, with the average mortgage payment accounting for 15% of the area median income and rents equating to 22%.
- Consistent deliveries over the past few years have not hindered rent growth. Mecklenburg County approved $22 million for affordable housing, including $11 million for rental subsidies. Some 34,000 more units of affordable housing are still needed to meet demand across the metro, mostly for those making less than $25,000 a year, according to a city report.

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-Concord-Gastonia gained some 50,000 residents in 2017, up 2.0% and almost triple the 0.7% U.S. rate.
- North Carolina is a top destination for Millennials, according to a SmartAsset study based on Census data.

Charlotte vs. National Population

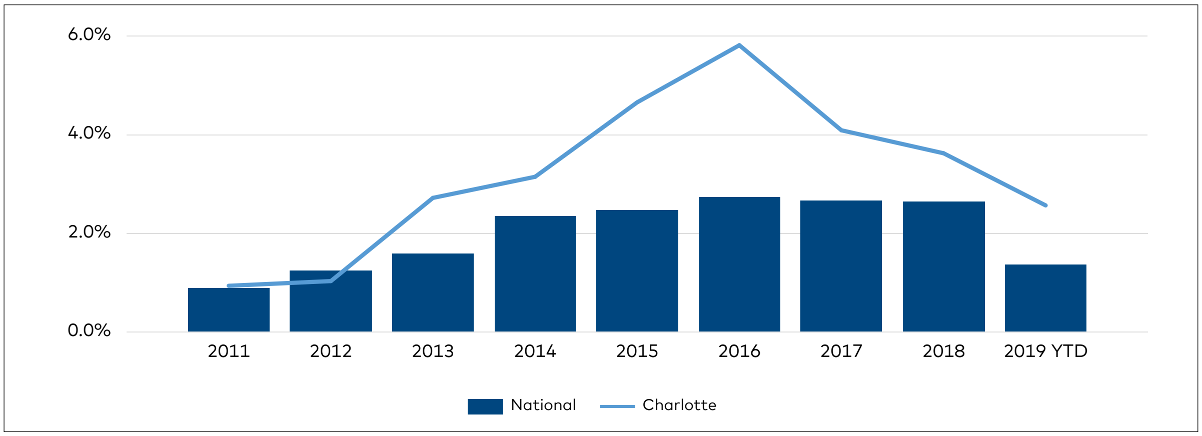
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Charlotte Metro	2,334,036	2,376,148	2,424,115	2,475,519	2,525,305

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

Supply

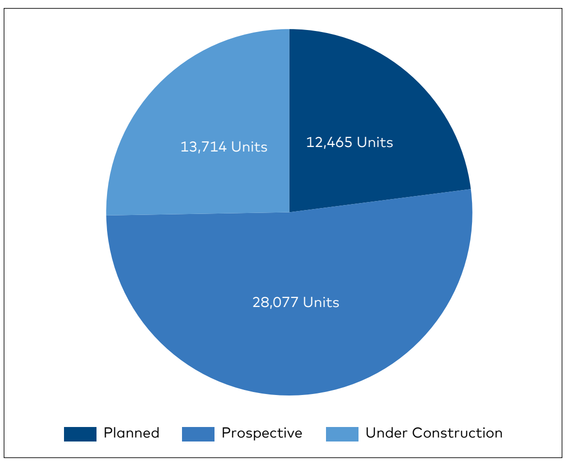
- As of August, 13,714 units were under construction in Charlotte, with most of the upcoming supply geared toward the Lifestyle segment. Core and southern submarkets continue to dominate the pipeline. Tryon Hills, Colonial Village-Montclaire, Third Ward-Lakewood and Lancaster County each had more than 1,000 units underway. Additionally, with much of west Charlotte sitting in an Opportunity Zone, developers have started to take advantage of the incentives. Yardi Matrix expects a total of 7,206 units to come online this year in the metro.
- Charlotte added 4,446 units to its inventory in 2019 through August, following four years of accelerated supply that totaled 28,680 units. Backed by population and employment growth, rental demand continued to be strong, despite a robust development pipeline. At 95.2% as of July, the average occupancy rate in stabilized properties remained 10 basis points above the national rate.
- The area near Uptown Charlotte, where a new multimodal transit hub is underway, is one of the metro's most appealing. LMC began work on The Ellis, a 549-unit project set to be delivered late next year. Bank of America originated a $99.4 million construction loan for the mixed-use development.

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



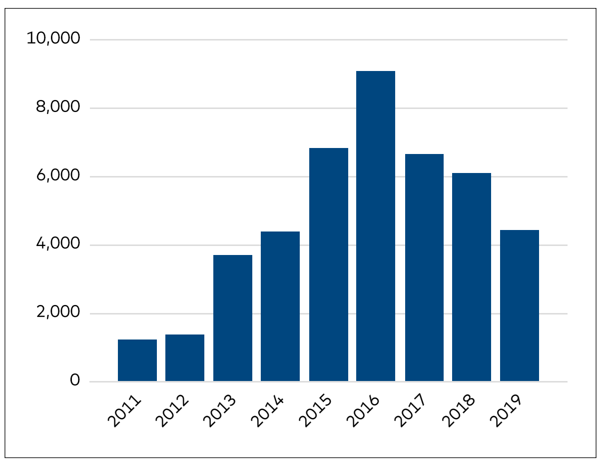
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

Charlotte Completions (as of August 2019)

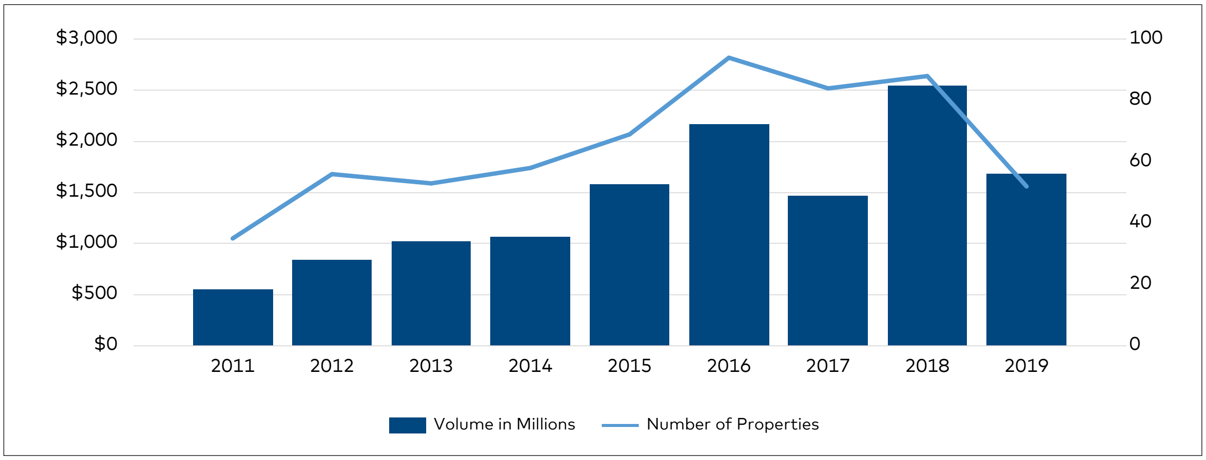


Source: YardiMatrix

Transactions

- Following last year's record transaction volume of $2.5 billion, investor appetite continues to be solid in Charlotte. Roughly $1.7 billion in multifamily assets traded year-to-date through August, with the investment volume for the full year likely to surpass $2 billion. Although per-unit prices in 2019 were just $41 shy of the $150,000 mark, the figure was still $9,052 below the U.S. average. Multifamily properties in urban neighborhoods continue to draw capital, with investors mostly eyeing upscale properties. Acquisition yields for stabilized Class A assets in infill locations range between 4.8% and 5.3% and can go as high as 6.5% for value-add Class C suburban properties.
- In the year ending in August, a total of 52 communities traded for $2.8 billion combined. Southwest Charlotte ($342 million) was the most coveted submarket, followed by Ballantyne–Providence ($283 million). Chicago-based LivCor payed more than $271 million for four assets across the metro.

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



Source: YardiMatrix

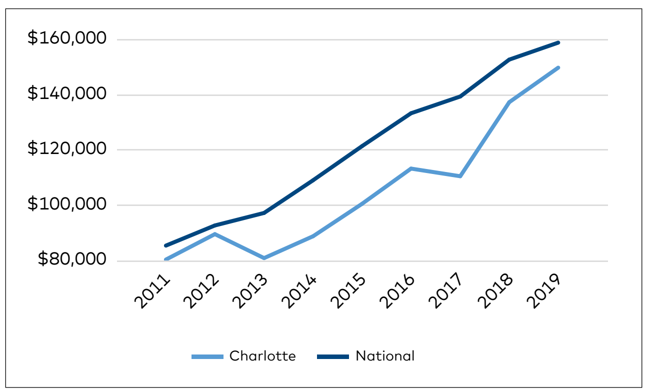
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Southwest Charlotte	342
Ballantyne—Providence	283
Colonial Village—Montclaire	239
North Charlotte	231
Fort Mill	215
Uptown	190
UNC at Charlotte	186
Tryon Hills	185

Source: YardiMatrix

[1] From September 2018 to August 2019

Charlotte vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

The Beach Co. Catches Some Sun in the Carolinas

By Laura Calugar

Backed by substantial demographic expansion, attractive employment opportunities and a diversifying economy, multifamily demand in the Carolinas is showing no signs of cooling off. Due to its accessible cost of living and alluring lifestyle, the region remains one of the fastest growing in the country.

The Beach Co. Senior Vice President of Development Dan Doyle discusses housing demand across the Carolinas. With more than 16 years of experience in multifamily management and development, Doyle also talks about the area's attractiveness and his expectations for the future of the industry.

How would you describe the multifamily market in the Carolinas nowadays?

Overall, the markets continue to perform well. We are experiencing strong demand/absorption in our new lease-up communities and increased occupancies in our stabilized assets. This is fairly indicative of the Carolinas market in general.

Which cities/metros in the Carolinas are now the hottest for multifamily development?

Just about all cities and metros are candidates for new development. The Southeast U.S., particularly the Carolinas, has an ever-increasing in-migration of population. People are moving to the region, given its significant job growth, relatively lower cost of living and overall better quality of life. This generates increased demand for housing and thus the need for new development to meet that demand.

What are the main differences between North and South Carolina in terms of multifamily development?

The primary differences between developing in North Carolina versus South Carolina are market size and the cost to develop. Markets such as Charlotte or Raleigh-Durham, N.C., are significantly larger than Greenville or Charleston, S.C., and there are different risk profiles associated with each in terms of rent growth, absorption, lease-up timing and development cost.

How do you decide the location of your next multifamily project? What do you take into consideration?

The Beach Co. has targeted markets where we focus our search for development sites. These are determined based on current and projected demand and the potential for future job and population growth.

What is the main challenge that developers face nowadays when constructing new multifamily projects in the Carolinas?

The No. 1 challenge facing developers today is cost. Expenses for building materials and labor continue to increase significantly. These higher construction costs are making it more difficult to get new projects to underwrite at current market rents.

How do you expect the multifamily markets in the Carolinas to perform in the next couple of years?

The Carolinas region is one in which people want to live and work, resulting in excellent job and population growth. With no signs of slowing down, the area's multifamily market will continue to perform well for the foreseeable future.

News in the Metro

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FCP Pays $18M For Charlotte Community

The acquisition included the assumption of a $10.3 million CMBS, Fannie Mae-issued loan, set to mature in 2024. EB Real Estate Group sold the 240-unit Somerset, which is close to the LYNX Light Rail Blue Line extension.

Charlotte Community Scores $40M Recap

Acre Valley Real Estate Capital has joined Blaze Partners as equity partner on the 384-unit apartment community. CBRE secured a $39.7 million Freddie Mac loan for the recapitalization deal.

Spectrum Sells Apartments For $63M

The sale of the 322-unit Class A community is the seller's second disposition of a newly built asset in the Carolinas this summer.

Panorama Breaks Ground on Charlotte TOD Project

JLL Carolinas will manage the development of the 309-unit Lumeo Apartments, located near the University City Boulevard station on the LYNX Blue Line extension.

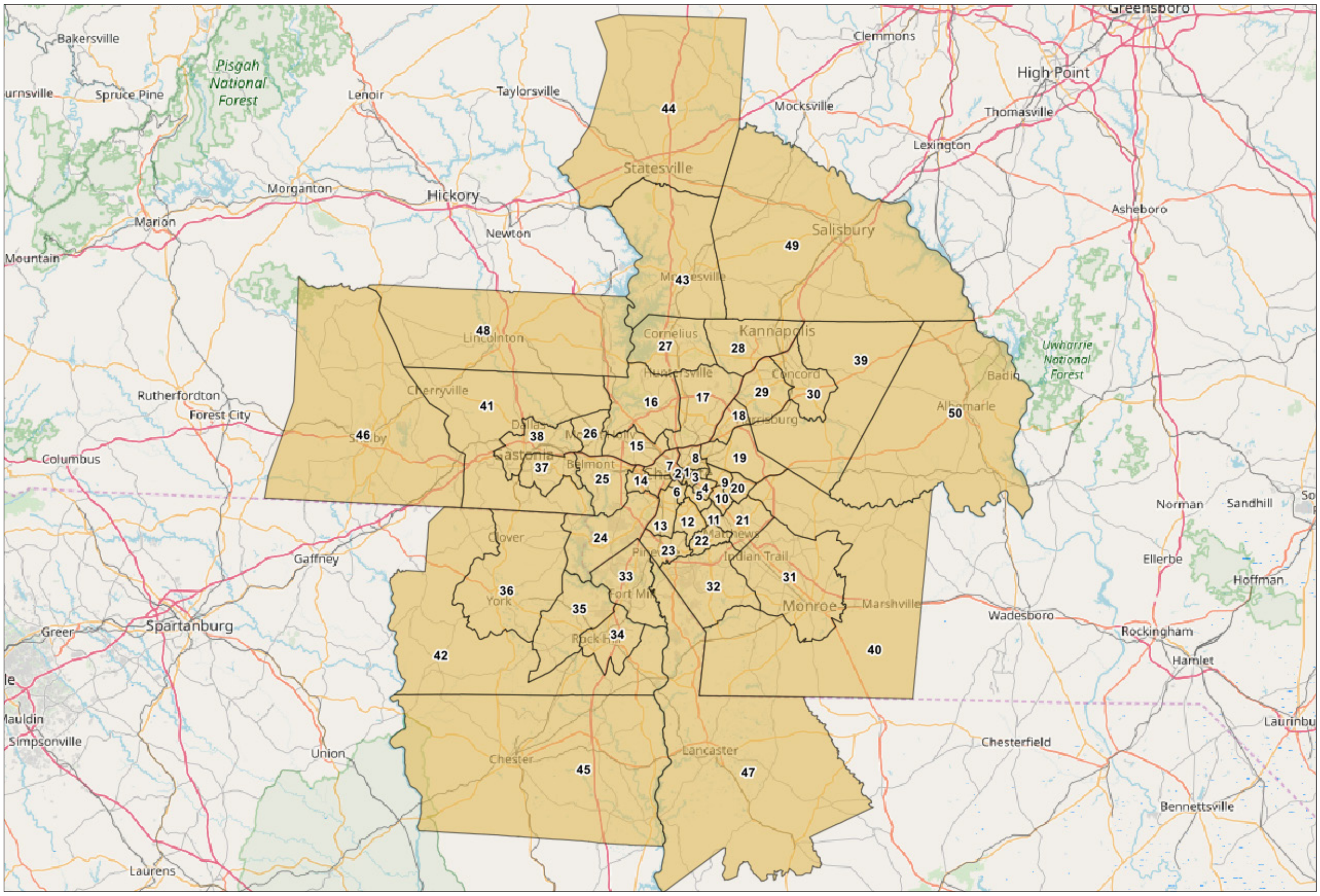
Cushman & Wakefield Brokers $22M Deal in SC

Upstate Property Rentals sold the 22-building asset to Nakash Family Land Trust and Mendel Fischer. The asset is located along the I-85 corridor.

Bucci Development Sells South Carolina Apartments

Cushman & Wakefield represented the seller in its disposition of The Village at Lake Wylie, a 392-unit property in Charlotte's Lake Wylie submarket.

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
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	Lincoln County
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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