

The cover image is a composite of two scenes. The upper portion shows a city skyline at dusk or dawn, with several skyscrapers illuminated against a sky of purple, pink, and blue. The lower portion shows a highway interchange with long-exposure light trails from cars, set against a green grassy area with bare trees.

Yardi[®] Matrix

MULTIFAMILY REPORT

Charlotte's Banner Year

Winter 2020

Transactions Hit Cycle Peak

Development Remains Robust

Job Growth Rivals National Rate

Yardi® Matrix

Strong Job Gains Keep Demand Healthy

Charlotte's sustained economic growth has encouraged in-migration, generating steady rental demand last year and into this year. The market was one of the nation's top performers in 2019. Housing demand stayed on a high note, with rents up 3.8% for the year, despite almost 21,000 units coming online since 2017.

The diversifying local economy continued to draw new employers and skilled workers to the area. Charlotte gained 28,800 jobs in the 12 months ending in November, with many of those positions in high-paying sectors. Due to the state's low-tax policy, affordable housing and appealing quality of life, the Queen City is attractive for both investors and businesses. And to accommodate growth, several infrastructure projects are underway. The North Carolina Department of Transportation began construction on the \$346 million Interstate 485 corridor improvement project and Charlotte Douglas International Airport kicked off a \$600 million expansion.

Total multifamily investment volume reached a new cycle peak last year, with more than \$2.8 billion in assets trading across the metro. Charlotte kicked off 2020 holding its place as one of the top markets for real estate investment and development across the U.S. and Canada, according to PwC and the Urban Land Institute's latest Emerging Trends in Real Estate report. The metro ranked fourth for overall real estate prospects, climbing five spots in one year.

Market Analysis | Winter 2020

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Recent Charlotte Transactions

Inspire South Park



City: Charlotte, N.C.
Buyer: Northland Investment Corp.
Purchase Price: \$145 MM
Price per Unit: \$392,954

Cascades at Northlake



City: Charlotte, N.C.
Buyer: Starwood Capital Group
Purchase Price: \$110 MM
Price per Unit: \$192,281

Laurel View



City: Concord, N.C.
Buyer: Gamma Real Estate
Purchase Price: \$30 MM
Price per Unit: \$169,540

Axiom

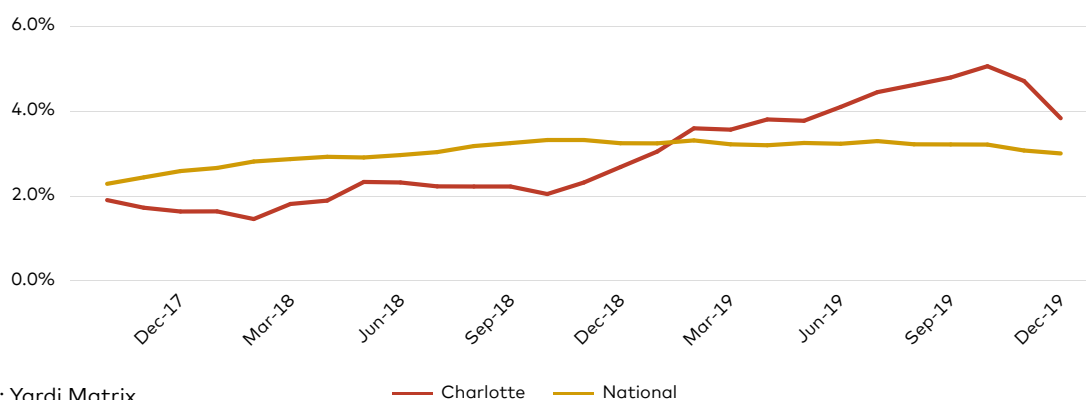


City: Charlotte, N.C.
Buyer: One Real Estate Investment
Purchase Price: \$23 MM
Price per Unit: \$113,092

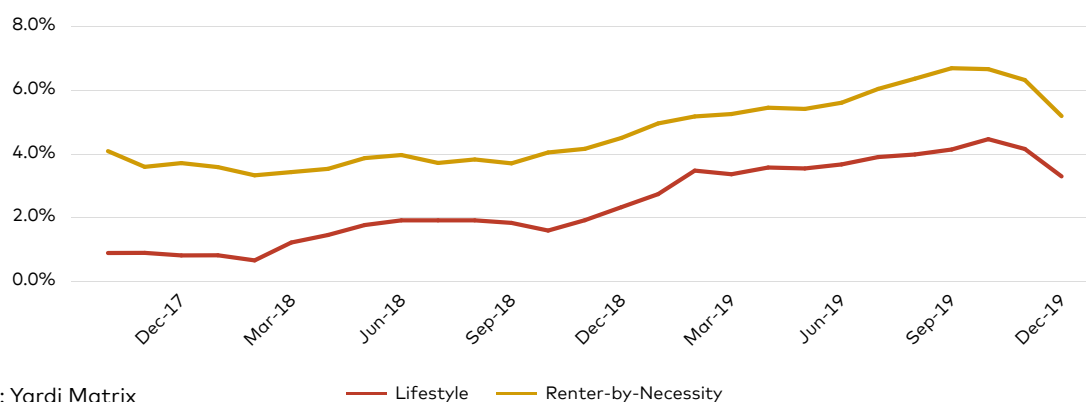
RENT TRENDS

- ▶ Charlotte rents were up 3.8% in 2019, 80 basis points above the national average. The market outperformed the nation for the better part of the year, peaking at 5.1% in October. However, at \$1,191 as of December, the average rent stood well behind the \$1,474 national figure.
- ▶ With rates rising 5.2% to \$953, the working-class Renter-by-Necessity segment led rent growth, as developers focused mainly on upscale assets. Of the 32 projects delivered in 2019, 30 catered to high-income residents. Despite the surge in high-end deliveries, demand for upscale assets remained robust, with Lifestyle rents improving 3.3% to \$1,319, sustained by the addition of high-paying jobs and above-trend demographic expansion.
- ▶ Urban core submarkets such as Uptown (3.1% to \$1,988) and Myers Park (5.6% to \$1,714) remained the most sought after. However, the largest rent increases were recorded in Morning-side (7.1%), Wessex Square (6.6%) and Coventry Woods–East Forest (6.3%).
- ▶ Although the metro’s pipeline remained strong, multifamily demand was still one step ahead of supply last year, with the occupancy rate in stabilized properties at 95.0% as of November 2019, flat over 12 months and 10 basis points above the national figure. And while construction is slated to stay healthy in 2020, we expect Charlotte rents to continue advancing in the foreseeable future, fueled by the city’s rapid population gains.

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



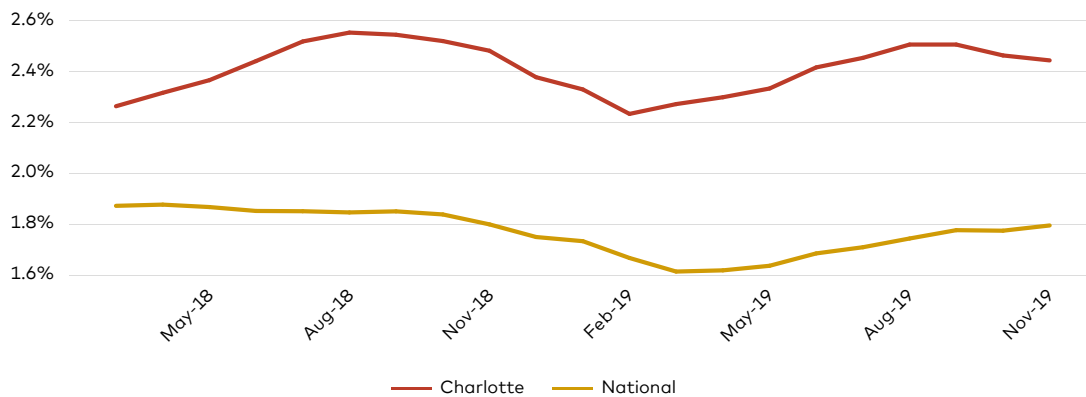
Charlotte Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



ECONOMIC SNAPSHOT

- ▶ Charlotte gained 28,800 jobs in the 12 months ending in November, a 2.4% uptick and 60 basis points above the national rate. The area's low taxes and affordable housing have maintained it as an attractive option for doing business.
- ▶ Office-using sectors such as professional and business services and financial activities led job growth with the addition of 13,900 positions combined. Honeywell, a Fortune 100 company that relocated from New Jersey in 2019, broke ground on its headquarters in Uptown. Truist Financial Corp.—the result of the merger between BB&T Corp. and SunTrust Bank—also chose to house its headquarters in Charlotte after purchasing the 970,000-square-foot Hearst Tower for \$455.5 million at the end of last year.
- ▶ Established as one of the country's major financial centers, Charlotte is also emerging as a tech cluster. Home improvement retailer Lowe's chose the metro for its new 357,000-square-foot tech hub, where it intends to employ nearly 2,000 tech professionals. These high-wage positions are likely to fuel demand for upscale housing across the metro. Other corporations are also zeroing in, drawn by the state's business-friendly climate. Microsoft announced its plans to create 430 jobs and invest \$23.9 million to expand its operations in the city.

Charlotte vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	219	17.5%	8,600	4.1%
55	Financial Activities	102	8.1%	5,300	5.5%
65	Education and Health Services	131	10.5%	4,800	3.8%
70	Leisure and Hospitality	145	11.6%	4,600	3.3%
40	Trade, Transportation and Utilities	255	20.4%	3,500	1.4%
80	Other Services	43	3.4%	1,500	3.6%
30	Manufacturing	111	8.9%	1,400	1.3%
50	Information	31	2.5%	1,000	3.4%
90	Government	155	12.4%	-	0.0%
15	Mining, Logging and Construction	63	5.0%	-1,900	-2.9%

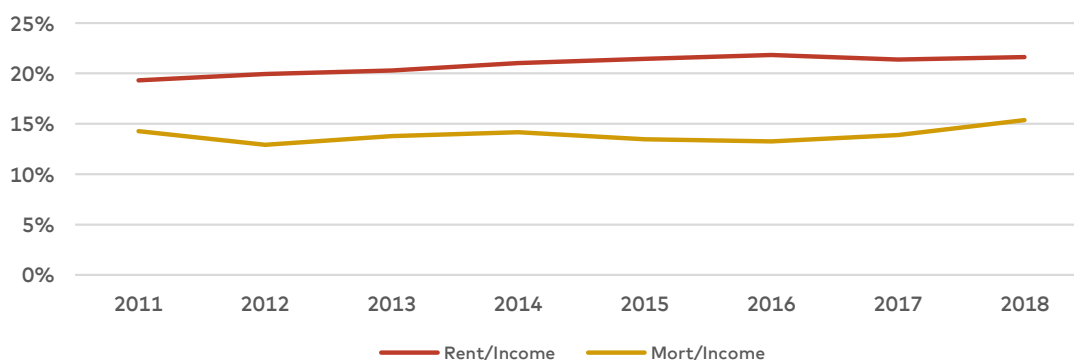
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

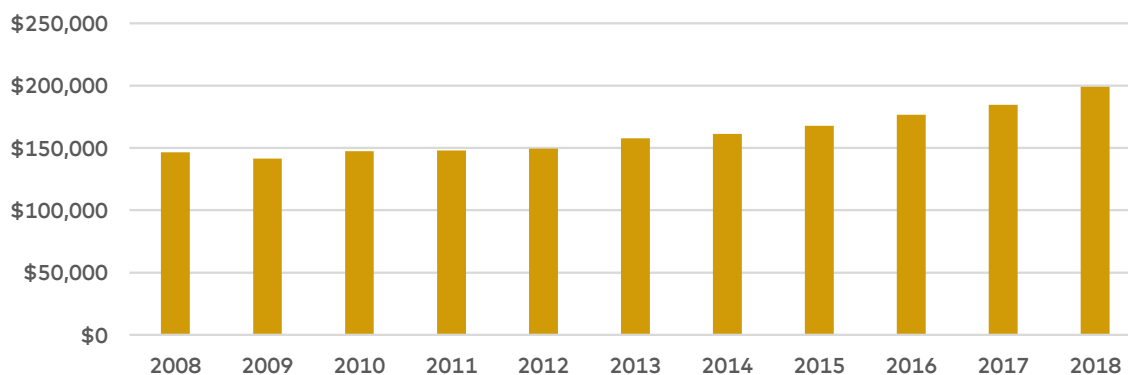
- ▶ Charlotte's median home price rose 7.8% to \$198,971 in 2018. Although the figure has increased by 40.6% since 2009, the metro is still considerably more affordable than other financial and banking hubs such as New York City or Dallas. In 2018, the average rent accounted for 22% of the area median income, while the average mortgage payment equated to just 15%.
- ▶ Despite the metro's affordability, according to a report released at the end of last year by Mecklenburg County and the UNC Charlotte Urban Institute, the county has a deficit of 50,000 units for residents earning less than 80% of the area median income.

Charlotte Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Charlotte Median Home Price



Source: Moody's Analytics

Population

- ▶ Charlotte-Concord-Gastonia gained 44,350 residents in 2018, a 1.8% up-tick and triple the 0.6% national rate.
- ▶ Immigration and natural growth remained positive this cycle, but domestic net migration was the metro's main booster, pushing population gains high above national figures.

Charlotte vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Charlotte Metro	2,422,408	2,474,478	2,524,863	2,569,213

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

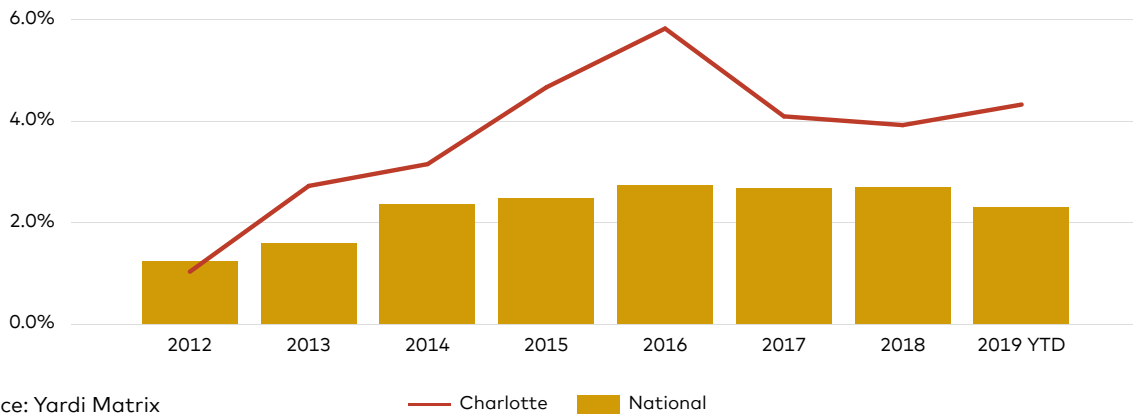
SUPPLY

- ▶ The Queen City had 11,578 units under construction at the end of last year, with three-quarters of those geared toward high-income residents. Due to a healthy job market and strong demographic gains, the metro should have no problem absorbing upcoming stock.
- ▶ In 2019, 7,646 units came online in Charlotte, representing 4.3% of total stock and 200 basis points above the national rate. Since 2015, annual deliveries have consistently surpassed the 6,500 threshold.
- ▶ Many developers are targeting areas within or close to the city core, with four submarkets—Colonial Village—Montclaire, Third Ward—Lake-

wood, Uptown and Second Ward—accounting for one-third of the total pipeline as of December. In fact, half of the units underway across the metro were located in projects within 5 miles of Uptown.

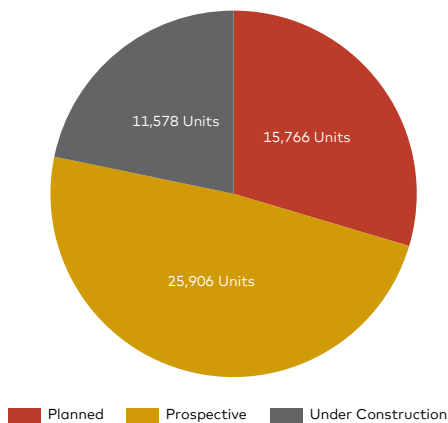
- ▶ Uptown, the metro's central business district, also holds the largest multifamily project underway—a luxury mixed-use project including 549 rental units. Lennar Multifamily Communities broke ground on The Ellis last year after receiving a \$99.4 million loan from Bank of America. The upcoming high-rise—adjacent to Charlotte's light rail line—is set to also include almost 20,000 square feet of retail space and is expected to be completed this fall.

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



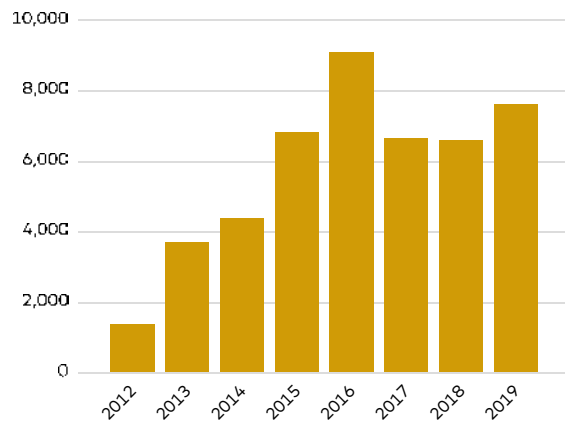
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Charlotte Completions (as of December 2019)



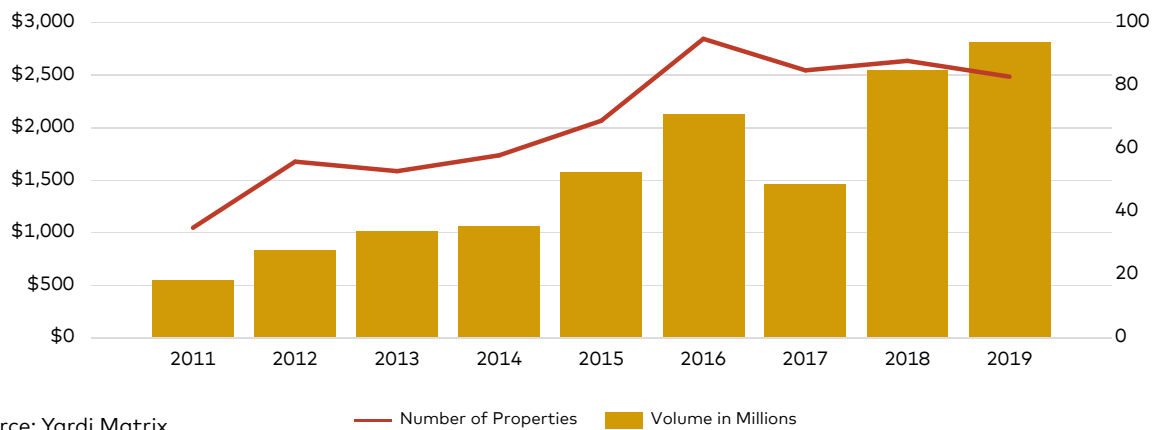
Source: Yardi Matrix

TRANSACTIONS

- ▶ A total of more than \$2.8 billion in multifamily assets traded last year in Charlotte, marking a new cycle peak. The average per-unit price reached \$162,704, the highest value this decade and only 2.4% below the national average. The metro's appeal led to a flurry of transaction activity, with investors drawn to both Renter-by-Necessity and Lifestyle properties.
- ▶ Assets in urban areas continued to attract the most capital in 2019, with Southwest Charlotte

(\$300 million) leading the way, followed by North Charlotte (\$252 million) and Tryon Hills (\$244 million). The largest multifamily deal last year was Lennar Multifamily Communities' \$171 million acquisition of Novel Stonewall Station, a 459-unit luxury asset in the metro's Uptown submarket. Deutsche Bank provided a \$112.3 million loan to the buyer of the 19-story, recently built property.

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



Source: Yardi Matrix

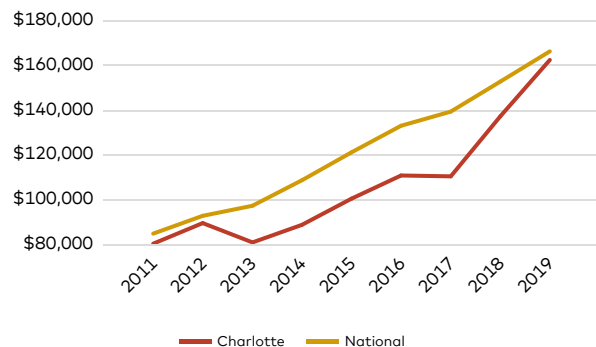
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Southwest Charlotte	300
North Charlotte	252
Tryon Hills	244
Colonial Village-Montlcaire	224
Foxcroft	212
UNC at Charlotte	187
Uptown	171

Source: Yardi Matrix

¹ From January 2019 to December 2019

Charlotte vs. National Sales Price per Unit



Source: Yardi Matrix



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Blaze Partners Buys Fourth Property

The new owner intends to invest additional capital into interior upgrades and amenity improvements at the 229-unit property.



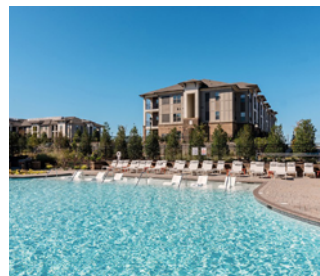
Luxury Asset Sells for \$145M

Northland Investment Corp. acquired the 369-unit property in the SouthPark neighborhood.



Berkadia Arranges \$19M Financing For Acquisition

Senior Director Brad Williamson and Senior Managing Director Mitch Sinberg secured the three-year loan for the asset.



Cortland's New Class A Community

The firm purchased The Adley at Bryton in the Huntersville neighborhood, and renamed the property Cortland Huntersville.



FriedLam Partners Acquires North Carolina Portfolio

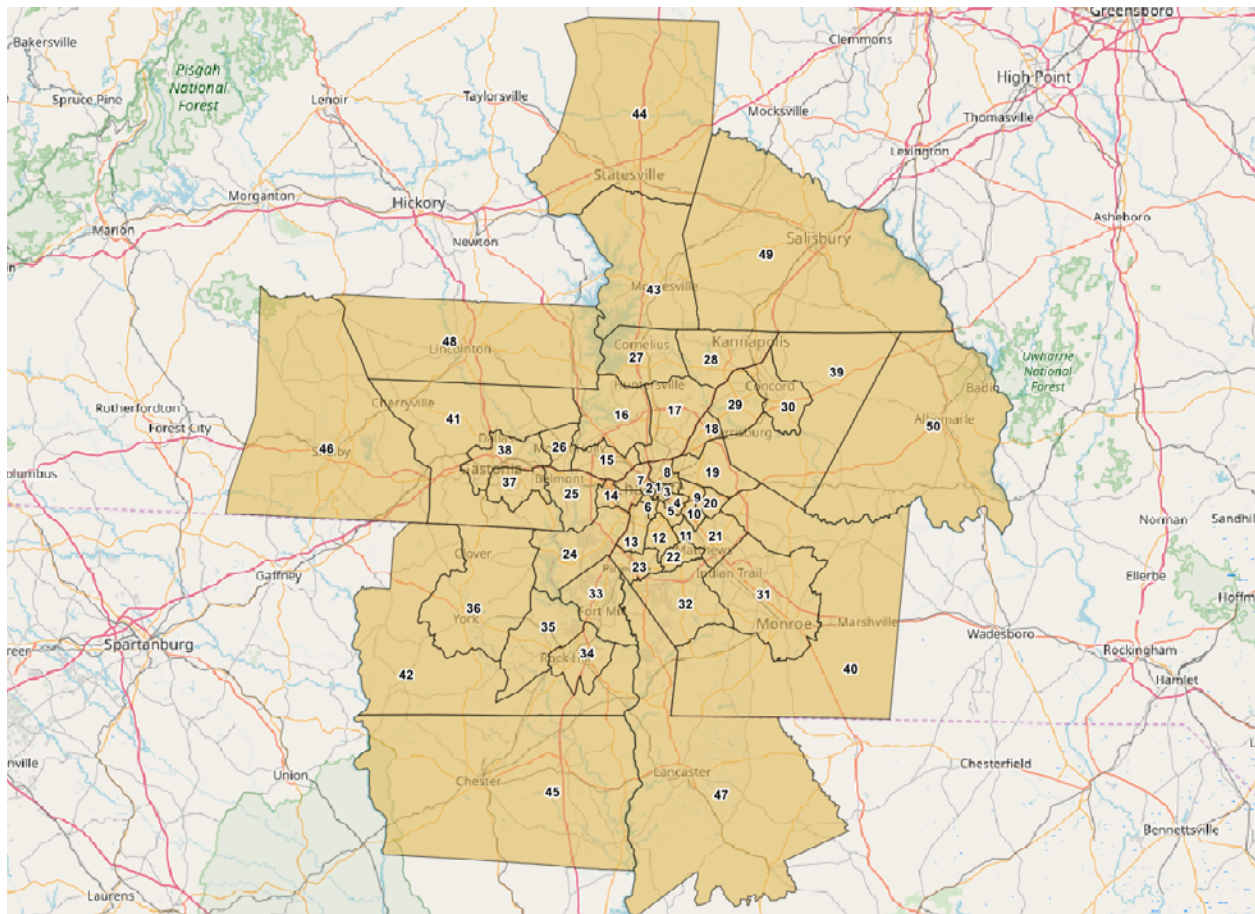
The 895-unit sale marked the largest portfolio transaction in the Charlotte market in 2019.



Waterton Buys Value-Add Asset In Arts District

The company has grown its portfolio with the acquisition of a 166-unit community for \$39 million.

CHARLOTTE SUBMARKETS



Area No.	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

Area No.	Submarket
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
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

Area No.	Submarket
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.

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