CHARLOTTE WILL OUTPACE MOST MARKETS IN '17 (DESPITE THE LIKES OF HB2)

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The Charlotte real estate market is still strong, according to the speakers at our 7th annual State of the Market event held recently at 525 North Tryon. But it's facing some increasingly stubborn challenges like skittish lenders, the high cost of construction and HB2 hurting North Carolina's reputation around the world.

Charlotte real estate has a lot going for it, our speakers said. The local economy is still outpacing the nation in job creation, and the demographics of Charlotte are tilting toward growth in its Millennial population, both of which bode well for apartments and office space.

Multifamily absorption is still strong, though rent levels are moderating. High-end projects that command high rents will be challenged to maintain their occupancies since most of what's coming online this year is luxury product.

Office has single-digit vacancy across the market, and has enjoyed rent growth for the last four years with more to come this year. There's a moderation of supply as well, which will help maintain the fundamentals that favor office owners and landlords.

Pictured are CohnReznick partner Cristi Lewis, who moderated the market trends panel, and Selwyn Property Group founding partner Jensie Teague.

Pictured: City of Charlotte planning director Ed McKinney, Proffitt Dixon Partners managing director Wyatt Dixon and Childress Klein partner Paul Devine, all on the market trends panel.

No one had any kind words for HB2, and all say it's one of the most pressing issues right now. The law has to be repealed to keep the climate attractive for capital, investors and tenants, the speakers said. Though no one has compiled comprehensive data on how the law is impacting investment and site selection in North Carolina — and it might be difficult to do so — our speakers don't doubt the law is having an impact.

Anecdotal evidence suggests investors are steering clear of the state, businesses aren't considering it for relocation, and skilled Millennials are taking North Carolina off the list of places they'd move. The longer this goes on, the worse for the market. One speaker simply said, "HB2 is idiotic, and it's got to go."

Pictured is our capital markets panel: moderator Winstead shareholder Sayer Nixon, Grubb Properties SVP of investments Jonathan Nance, Crescent Communities SVP Jason LaBonte, Bank of America director Quentin Fogan and Cardinal Real Estate Partners president John Culbertson.

One important ace in the hole for the Charlotte market, our capital markets speakers said, is the infrastructure investments made locally, a process that's still ongoing because state and local governments and the private sector are all very much committed to its growth.

The completion and improvements to I-485 are one example, as are improvements to the airport. But light rail is the prime example, inspiring a lot of growth and interest among companies that are relocating. The extension of the Blue Line is a game-changer for submarkets all the way from Uptown to UNCC, and neighborhoods along the way will look a lot different 10 years from now, the speakers predicted.

Underwriting standards are getting tighter, and interest rates are going up, the capital market speakers also said. On the construction and development side, lenders are looking much harder now at the track record of the developer, their relationship with the developer and the point in the cycle — especially for apartments.

That's because the general feeling is there's going to be a plateau in occupancy and rent growth, to a more realistic 2% to 3% annual growth in the case of rents. On the other hand, the high cost of development is inspiring investors to look to Charlotte for properties they can get below replacement cost.

CoStar market analyst Erin Amon, who focuses on apartment markets in Charlotte and Raleigh, said deliveries have started to slow down a bit, and vacancy in higher-end apartments has been stable or even rising.

South Park and Uptown are receiving most of the new apartment units, and most of them are Class-A. Rent growth was 3% in 2016, a slowdown from previous years. Sales volume and pricing continued to rise in 2016, and cap rates are beginning to loosen a little bit, she said.

See Also: Growth Still Ahead For Charlotte Office, But So Are Stiffer Challenges

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