CUSHMAN & WAKEFIELD

SOUTHEAST CLASS C ASSETS:

KNOW WHEN TO HOLD 'EM, KNOW WHEN TO FOLD 'EM

As a follow-up to April's Southeast Multifamily Research piece, "Private Capital Assets: Where Did the Deals Go?," this article briefly illustrates which multifamily markets in the Southeast are ripe for long-term holders versus value-add investors at this point in the real estate cycle.

The article in April addressed how Southeast markets have begun to experience a slowdown in deal activity in the Private Capital space due to a lack of available deals for sale. This is a natural progression, as many of these deals have traded multiple times during this real estate cycle.

While this remains true, there are certain Southeast markets that will still demonstrate growth in the next five years and are therefore prime for long-term holders. These are classified as mature, but positive markets. There are others that have greater runway in this cycle as they can be considered late bloomers with more rent growth ahead and lower rent-to-income ratios in the Class C space. These markets are referred to in this article as runway, value-add markets. To classify these markets into the different categories, we analyzed past and future rent growth specifically in the Class C space, median household incomes, renter household growth in the next five years, and rent-to-income ratios in each market.

The following table illustrates basic fundamental indicators in each market including Class C historical rent growth, projected renter household growth, average and median incomes, and rent-to-income ratios.

SOUTHEAST MARKETS CLASS C SPACE

Metro	Class C % Eff. Rent Growth 2013 - 2018 YTD	% Renter HH Growth 2017 - 2022	Class C Average Annual Eff. Rent	Average HH Income	Metro Median HH Income	Class C Average Rent-to-Median Income Ratio
Huntsville, AL	11%	7%	$6,948	$ 80,988	$ 60,174	12%
Raleigh, NC	17%	12%	$8,004	$ 89,927	$ 65,047	12%
Louisville, KY	12%	4%	$7,848	$ 73,085	$ 53,679	15%
Montgomery, AL	5%	5%	$7,608	$ 68,378	$ 49,595	15%
Charleston, SC	21%	9%	$8,748	$ 77,702	$ 55,961	16%
Gulfport-Biloxi, MS	2%	4%	$7,032	$ 59,701	$ 44,774	16%
Memphis, TN	11%	5%	$7,836	$ 70,113	$ 48,360	16%
Pensacola, FL	16%	6%	$9,228	$ 68,601	$ 52,388	18%
Birmingham, AL	10%	3%	$9,108	$ 72,128	$ 50,609	18%
Greensboro, NC	12%	7%	$8,208	$ 64,790	$ 44,705	18%
Chattanooga, TN	14%	5%	$9,156	$ 68,543	$ 49,555	18%
Atlanta, GA	24%	11%	$10,992	$ 85,409	$ 59,362	19%
Lexington, KY	13%	7%	$10,044	$ 73,254	$ 52,900	19%
Savannah, GA	15%	8%	$10,536	$ 74,460	$ 55,256	19%
Charlotte, NC	22%	10%	$10,980	$ 82,533	$ 57,437	19%
New Orleans, LA	8%	1%	$9,120	$ 71,488	$ 47,064	19%
Jacksonville, FL	21%	9%	$10,296	$ 74,718	$ 52,564	20%
Panama City, FL	13%	9%	$8,844	$ 62,027	$ 45,057	20%
Baton Rouge, LA	10%	3%	$10,404	$ 74,324	$ 52,859	20%
Nashville, TN	21%	8%	$11,616	$ 81,499	$ 57,585	20%
Tallahassee, FL	15%	7%	$9,540	$ 64,927	$ 45,254	21%
Greenville, SC	18%	6%	$11,688	$ 65,628	$ 47,431	25%

Source: ushman & Wakefield Research, CoStar, Alteryx

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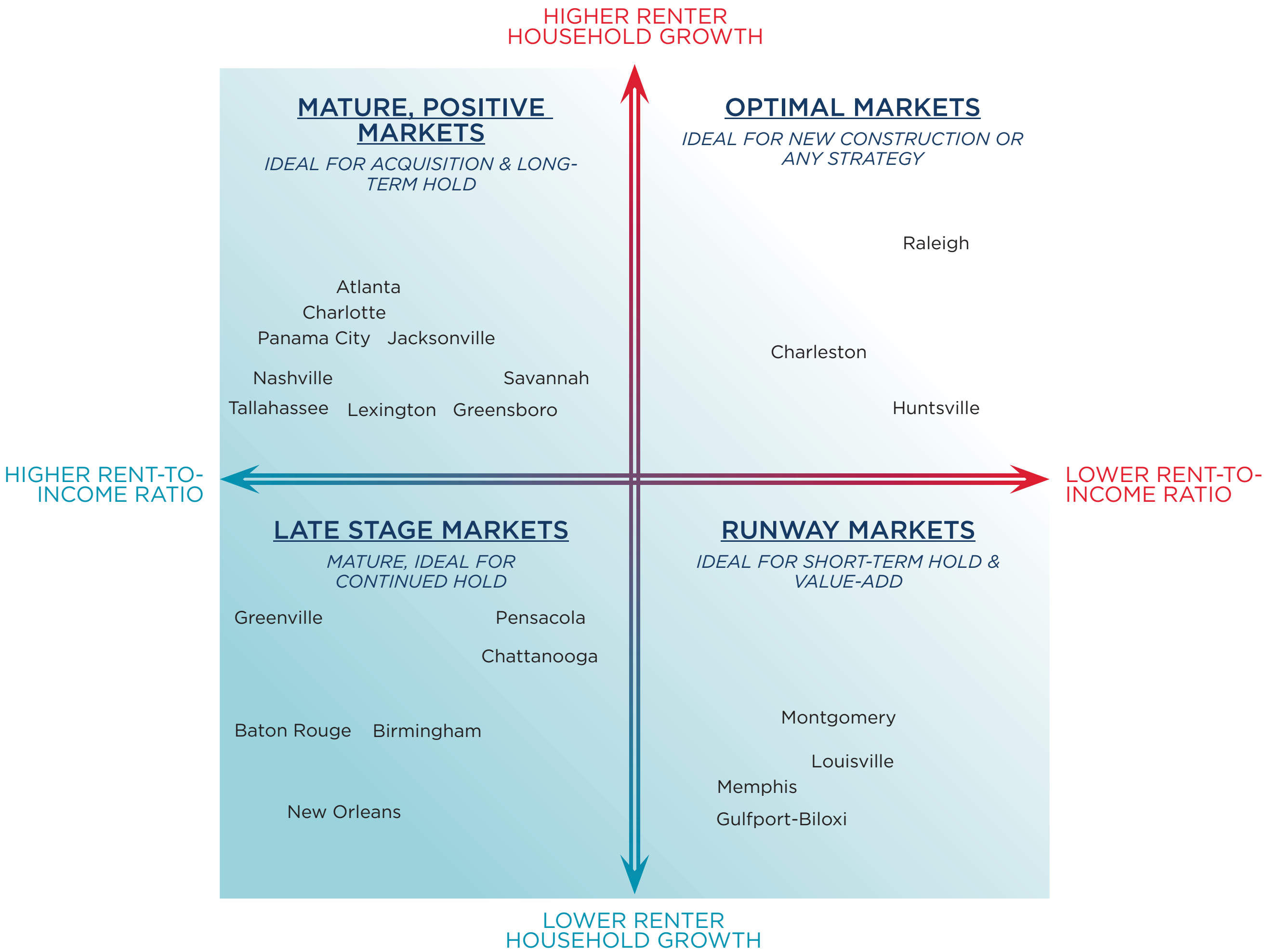
The following graph illustrates where Southeast multifamily markets fall in terms of Class C assets and whether the climate is ideal for long-term holding periods or a value-add investment approach. The data demonstrates that average Class C multifamily rents in the various Southeast markets still remain well below the 30% rent-to-income affordability standard. In the major Southeast markets (Atlanta, Charlotte, and Nashville), average Class C rents remain in the 19% to 20% range. Tertiary markets in the such as Charleston, SC; Huntsville, AL; Montgomery, AL; Memphis, TN; and, Louisville, KY demonstrate the lowest rent-to-income ratios in the 12% to 16% range. This data point demonstrates that there is greater room for rent growth in the Class C space in these particular markets going forward.

Markets such as Atlanta that have already experienced tremendous rent and job growth are prime for owners to sell now and capture that value. These markets are also still ideal for owners who take the long view and will hold assets for longer periods in order to take advantage of normalized, but still positive, projected employment and rent gains.

CLASS C MULTIFAMILY MARKET CLASSIFICATIONS



Source: Cushman & Wakefield Research

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