Charlotte Re-Emerges As One of the Nation’s Fastest Growing Metropolitan Areas

The Queen City Continues to Lead North Carolina Forward

More than a decade has passed since Charlotte emerged from the Great Recession, which was centered in the financial sector and sent the Queen City’s banking industry reeling. Employment in Charlotte’s financial services sector plunged 14% from 2006 to 2010, a loss of 12,000 jobs directly and thousands more in related industries and among contract workers. The unemployment rate topped out at 12.6% in December 2009, up from just 4.7% prior to the onset of the downturn.

Few would have guessed the destruction wrought by the financial crisis would sow the seeds of Charlotte’s revival. Even as financial firms were slashing workers, others were fervently setting up shop in the Charlotte area, hiring many of the displaced. New arrivals such as U.S. Bancorp, Ally Financial and MetLife brought needed diversity to the region’s financial sector, and their presence, as well as that of other new arrivals, has grown as the economy recovered. Dimensional Fund Advisors set up shop in 2015 in Uptown while they built their East Coast headquarters in South End, which they recently moved into. Barings, which has long had Charlotte ties, consolidated much of its operations in a new 25-story tower bearing its name on South Tryon Street. At the time that marked the tallest office tower completed in the region since the Great Recession. Charlotte’s latest addition is Truist, formed by the merger of BB&T and SunTrust. Truist expects to employ at least 2,000 in Charlotte, and has purchased one of the city’s most distinctive buildings—the former Hearst Tower—a 47-story tower one block north of the Square on North Tryon Street which has been renamed the Truist Center.

The renewed influx of financial services firms reestablished Charlotte’s position as the nation’s second largest banking center, passing San Francisco. The thrust of the region’s economy is shifting, however, with much of the recent growth, even within banking, now in technology services. The shift is evident in the types of operations locating in Charlotte as well as the people moving there. Overall, employment likely rose at a pace more than twice the nation in 2019, while the unemployment rate has fallen to 3.6%.

Figure 1

Charlotte MSA Employment Growth
Year-over-Year Percent Change of 3-MMA

Charlotte: Oct @ 2.4%
North Carolina: Oct @ 2.2%
United States: Nov @ 1.5%

Source: U.S. Department of Labor and Wells Fargo Securities

Figure 2

Charlotte MSA Unemployment Rate

Charlotte: Oct @ 3.6%
North Carolina: Oct @ 4.0%
United States: Nov @ 3.5%
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Charlotte Attracting New Businesses and Residents

The shift in Charlotte’s economic drivers is evident in the ongoing transformation of the city’s skyline and constant construction. The number of rental apartments in Charlotte has grown 16% over the past three years, the strongest growth in the apartment stock of any major metro area. Most of that growth has been in South End and Uptown, which continue to absorb an influx of young, well-educated workers and job-seekers. Net domestic migration to Charlotte has totaled 202,000 since 2010, which ranks seventh among the nation’s largest MSAs, just behind Atlanta. The influx of new residents has deepened the talent pool and strengthened Charlotte’s ability to land corporate relocations and expansions.

Net migration is primarily driven by quality of life considerations. Quality of life is a nebulous term that means different things to different people, but employment conditions are a key component and the metro areas enjoying the strongest net migration have typically also seen the strongest job growth. Employment growth in Charlotte appears to be on pace for one of the strongest years ever. Nonfarm employment has risen 2.4% over the past year, reflecting a gain of 30,000 jobs. However, data from the Quarterly Census of Employment and Wages, which reflect an actual count of jobs but lag a bit, suggest job growth has been even stronger and put the metro area on pace to add more than 32,000 jobs in 2019.

Regardless of which measure is used, job growth remains extraordinarily broad-based. Banking and finance remain the linchpin of Charlotte’s economy and the recent arrival of Truist is certain to boost employment as the new headquarters fill up. Employment in the financial services industry has benefitted from the long and durable economic expansion, now in its eleventh year. Financial services firms have created a net 4,600 jobs over the past year, reflecting a 4.6% increase. Much of the growth in the financial sector today is occurring in technology functions, while traditional banking is growing somewhat more moderately. Lower interest rates are forcing financial firms to become more nimble, and the internet presents a whole host of opportunities and challenges.

Charlotte is a growing tech hub.

Strong Tech Growth Despite Lack of Major Research University

Charlotte’s tech sector is also growing rapidly outside the traditional banking sector. Much of the growth is in fintech, particularly at firms innovating new business models for handling payments and financial transactions, lending platforms and the interaction between businesses and clients. Some of the fastest growing tech firms include payments software provider AvidXchange, online lending marketplace LendingTree, parking and transportation software provider Passport, independent coffee shop app Cloosiv, data analytics firm Stratifyd and digital marketing provider Red Ventures.

The emergence of Charlotte as a tech center is also being fueled by existing companies that are choosing to locate technology hubs in the Queen City. Duke Energy set up a customer experience center at Optimist Hall—located just north of Uptown in Optimist Park—earlier this year, leasing 83,000 square feet to house just over 400 employees. Ally Financial operates a smaller innovation center nearby at Camp North End, a massive adaptive project repurposing a former manufacturing facility and distribution center into creative space. In addition, Lowe’s announced it would locate its Global Technology Center in a new 23-story building now under construction in South End. The 375,000-square foot building will house 2,000 tech workers.
Tech occupations such as software developers, network administrators and data scientists grew 11% and accounted for 9.4% of job growth from 2016 to 2018, and growth likely strengthened this past year. CompTIA ranked Charlotte as the top tech market in 2018, ahead of behemoths like Austin, San Francisco, Seattle and Raleigh. Charlotte slipped to #6 for 2019, which is likely still surprisingly high to many people that view Charlotte as merely a financial center. The new ranking in the Tech Town Index projects tech jobs to grow 9% a year in Charlotte over the next five years. Charlotte’s success has flown somewhat under the radar because much of the growth in tech jobs has occurred at companies outside the tech industry, most notably banking, utilities, logistics, retailing and healthcare. But conventional tech employers are also growing. Microsoft announced a major expansion and plans to add 430 jobs at its East Coast hub in South Charlotte.

Another reason Charlotte’s tech sector success has kept under the radar—most of the nation’s rapidly growing tech centers are anchored by a large, established research university. While Charlotte lacks the marquee research institutions of Silicon Valley, Boston or Research Triangle Park, we believe this perceived shortcoming understates the region’s potential to create jobs in knowledge-based industries. For starters, UNCC, located 10 miles north of Uptown, continues to grow in both size and stature, with undergraduate enrollment growing an incredible 40% this past decade to 29,615 students. That increase accounts for more than half the entire UNC System’s growth and makes UNCC the system’s third largest university. Moreover, the growth has come in all the right places, with some of the largest gains coming in STEM fields, including the College of Computing and Informatics. In addition, Winthrop University, Wingate, Davidson College, Johnson C. Smith University, Queens University, Belmont Abbey and Johnson & Wales educate a combined 18,326 students in the Charlotte area.

**Figure 5**

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<th>CompTIA 2019 Tech Town Index</th>
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**Source:** CompTIA, U.S. Department of Labor and Wells Fargo Securities

The perception that Charlotte lacks a marquee research university was identified as a key competitive shortcoming back in the late 1980s. Former UNCC Chancellor Jim Woodward and city leaders lobbied the North Carolina General Assembly to grant UNCC authority and funding to grant doctoral degrees and alter the University’s mission toward research, allowing it to partner with large and emerging industry clusters. Today UNCC has more than 140 graduate degree programs, including 24 doctoral programs. In addition to universities in the surrounding area, UNC-Chapel Hill, Duke, Wake Forest, North Carolina State, the University of South Carolina and Clemson are all approximately two hours or less from Charlotte and provide a steady stream of graduates to Charlotte area employers.

Charlotte’s political and economic leaders are continuing to work to attract more higher education institutions to the region. Following an unsuccessful effort to add a medical school at UNCC, Wake Forest Medical School announced plans to build a second campus in Charlotte in partnership with Atrium Health. Wake has long operated an MBA program in Uptown Charlotte, as do the University of South Carolina and Northeastern University. UNCC has branded itself as “North Carolina’s urban research university,” and opened its Center City location near First Ward Park in 2011, now directly connected to the main campus via the LYNX Blue Line light rail.

**Figure 6**

* Charlotte lacks a major research university.

* Charlotte continues to pursue higher education.
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December 18, 2019

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Charlotte’s Infrastructure Needs & Opportunities

As Charlotte expands, the need for infrastructure investment becomes more acute. Historically, the city’s trolley system allowed close-in neighborhoods such as Myers Park, Plaza Midwood and Dilworth to flourish. As it evolved, the Metropolitan Transit Commission (MTC) was formed in 1994 to develop long-term solutions to the region’s increasing infrastructure needs. The initial leg of the light rail system was a resounding success, with ridership exceeding expectations and leading to extensive development along South Boulevard. The second leg, which extends north from Center City to UNCC, has proven less successful in terms of ridership but is fueling a similar boom in residential and commercial development.

The 2030 Transit Corridor System Plan released in 2006 envisions substantial rapid transit improvements. The past decade and a half has posed some challenges for the fulfillment of the initial vision. Construction and design work on the LYNX Gold and Silver Lines is ongoing, while the Red Line—meant to extend towards Davidson, Cornelius and Huntersville—has hit major roadblocks. The Gold Line will link Central Avenue, on Charlotte’s east side, with Novant Health Presbyterian Medical Center, Central Piedmont Community College and Johnson & Wales and Johnson C. Smith Universities on the west side. The new generation street car will be similar to a light rail train rather than the historic trolley that operated previously and is scheduled to open in 2021.

Charlotte-Douglas International Airport (CLT) is the second largest hub for American Airlines and the nation’s 11th busiest passenger airport. The airport has been one of the nation’s fastest growing, with passenger volume surging to over 46 million last year from 28 million in 2005. Recognizing this growth, the airport is in the midst of its ‘Destination CLT’ project, the first phase of a roughly $3 billion capacity expansion and upgrade. Norfolk Southern also operates a large container yard between the runways at CLT, which has supported nearby industrial development.

North Carolina has the nation’s second largest state-owned highway system, with over 90,000 miles of road. With almost half the U.S. population within a day’s drive, the state’s road network is likely an underutilized asset. Maintaining the existing highway network is costly, however, and funds for upgrades are hard to come by. Plans to widen I-77 south of Uptown, which is gridlocked for much of the day seven days a week, were recently pushed back to 2032 from 2030. I-77 north of Uptown has recently been widened, adding HOV and variable toll lanes. The toll road runs 26 miles north from the I-77 interchange just outside of Uptown to the Lake Norman area.

The region’s extraordinary run of growth has opened a lot of doors for Charlotte residents but has also presented a host of challenges for existing residents. Traffic has worsened, housing has become more expensive and economic mobility for some of the region’s poorer residents is a persistent challenge. Charlotte received some rare negative press when it ranked dead last out of the 50 largest U.S. metro areas in a ranking of economic mobility by the Equality of Opportunity Project, led by economist Raj Chetty. While there are some issues with the methodology of this study, it has served as the impetus of finding ways to improve economic mobility across the area. The city is currently in the early stages of developing its ‘2040 Comprehensive Plan,’ which has ‘equitable development’ as one of its cornerstones and improving economic mobility as an explicit goal.

**Figure 7**

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<thead>
<tr>
<th>Industry</th>
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<td>Total Nonfarm</td>
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<td>Educ. &amp; Health Services</td>
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<td>Financial Activities</td>
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<td>Other Services</td>
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**Figure 8**

North Carolina Regional Job Recovery

Source: U.S. Department of Labor and Wells Fargo Securities
A New City Is Being Built on the Southern Edge of Uptown

We expect the annual revisions to the annual employment to show even stronger job growth in Charlotte this year. Revisions are often larger in rapidly growing areas, as the statistics can oftentimes miss jobs added at new businesses and in industries that have high turnover, such as construction. Charlotte fits the bill on both counts. On an overall basis, the latest QCEW show nonfarm employment rising 2.6% from June 2018 to June 2019, compared to 2.4% growth in the monthly Current Employment Statistics (CES) survey. One of the largest swings is in construction employment, where the CES data show Charlotte posting a 4% job loss, which would be one of the largest declines in the country. The more accurate QCEW data, however, show construction employment rising a much more believable 5.6%.

The minute you step off the plane in Charlotte you know that construction employment is not falling. Building activity is apparent nearly everywhere, including the airport. Uptown is seeing activity on nearly every block, but the bulk of activity is along South Tryon Street. Bank of America’s capital markets and client-facing operations, recently relocated to the just-opened Bank of America Tower, which anchors Legacy Union development. The project is one of many that are dramatically reshaping the southern edge of Uptown, which faces bustling South End. Work is also underway on an 18-story building anchored by Deloitte, as well as Honeywell’s new 23-story headquarters, which will face Bank of America Stadium. Across Tryon Street from Legacy Union, the 26-story Ally Charlotte Center recently topped out and work is continuing feverishly on a new 21-story J.W. Marriott Hotel. Across Stonewall Street from there, work has begun on a new 40-story tower for Duke Energy, and major renovations are also underway at the Convention Center.

All this development closely follows delivery of several apartment projects along Stonewall Street, which stretches along the southern edge of Uptown from Bank of America Stadium down to Midtown. Novel Stonewall Station is a mixed developments that opened a little more than a year ago, bringing apartments, a Whole Foods grocery store, office space and a hotel to the Convention Center light rail stop. A half dozen other apartment developments have also been completed along that street over the past couple of years, and a major redevelopment of the surrounding area is slated to kick off early in the coming decade. The energy from the Stonewall development has driven projects in neighboring Midtown, as well as across the I-277 beltway in Dilworth.

The recent wave of commercial and residential projects highlights the continuous evolution of Charlotte from its humble beginnings as a trading outpost to its role as a leader in the textile industry, a major banking and transportation center and now a burgeoning tech hub and corporate headquarters address. One of the more striking aspects of this evolution is how much of it is occurring in a relatively small footprint. Charlotte is one of the last major cities to have built a beltway expressway, which has kept much of its businesses and residents fairly close to the city center, Uptown. Charlotte’s large banks have largely located there, while much of today’s growth in the tech sector is taking place in refurbished former textile mills, many of which are located along a light rail line that stretches from about 10 miles south of the city through Uptown and up north to UNCC.

Figure 9
Charlotte Office Supply & Demand

Vacancy Rate; Millions of Square Feet

- Office Net Absorption: Q3 @ 0.5M (Right Axis)
- Office Completions: Q3 @ 1.3M (Right Axis)
- Office Vacancy: Q3 @ 7.3% (Left Axis)

Source: CoStar, Inc. and Wells Fargo Securities

Figure 10
Charlotte CRE Asking Rents

Year-over-Year Percent Change

- Apartment: Q3 @ 4.4%
- Office: Q3 @ 6.6%
- Retail: Q3 @ 6.0%
- Industrial: Q3 @ 5.3%

Source: CoStar, Inc.
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**Office rent growth in Charlotte is the strongest in the nation.**

**Charlotte Office Market the Strongest in the Nation**

The concentration of new jobs this cycle in office-using industries has clearly been a boon for the Charlotte office market, which has posted the strongest rent growth in the nation, despite the recent wave of new supply. Charlotte is currently tied with Austin for the national lead in office stock growth, and yet rents are still soaring.

While Uptown and South End have received much of the fanfare, suburban markets are quietly on a bit of a tear themselves. Outside of those two submarkets, office leasing has been particularly strong near the airport and in the Ballantyne area in South Charlotte. The airport area has seen very strong industrial property growth, with a heavy concentration of logistics and distribution facilities. City Council last year approved a major incentives package for a new 1,500-worker Amazon distribution center in West Charlotte, joining an existing facility also near the airport and another in Concord. Meanwhile, demand for office space remains exceptionally strong in Ballantyne. Construction of a new 11-story tower with office and apartment space should be completed by 2021. The Ballantyne Corporate Park is also looking at a major upgrade that would make the area more walkable and replace the golf course that runs through the area with a series of parks and new residential development.

Further to the south, Charlotte’s suburbs are seeing some of the fastest growth in the region. Fort Mill in South Carolina is home to a number of corporate offices, including some that have migrated over the state line from Charlotte. The region’s residential development has been fueled by lower taxes and top notch schools. Rock Hill is also seeing strong growth and recently landed the corporate headquarters and training facilities for the Carolina Panthers, which will continue to play in Uptown Charlotte. Retirees are moving to the region in great numbers, particularly in Lancaster County, which is home to a massive Sun City development. Since 2010, Charlotte’s strongest population growth has come just across the state line in York and Lancaster counties in South Carolina, followed by Mecklenburg, Cabarrus and Union Counties in North Carolina.

Charlotte will host the Republican National Convention in August 2020, becoming only the second city to host both the Democratic and Republican conventions within a decade of each other. The city hosted the Democratic National Convention in 2012, offering an interesting point of comparison to see how much Charlotte has changed in just two presidential election cycles. Hotel inventory in Uptown will have risen by over 60%, while more than 100 new restaurants have opened across Uptown and South End. The number of craft breweries, meanwhile, has exploded from just two to more than 40. Such upgrades allowed Charlotte to secure the 2019 NBA All-Star game, which it hosted in February. Just this week Charlotte, was awarded the newest Major League Soccer (MLS) franchise.

**2020 Outlook**

Charlotte has strong momentum heading into the New Year. The metro area remains one of the most affordable large, rapidly growing areas, which is attracting a host of new businesses and residents. We estimate the metro area’s population added between 50,000 and 60,000 new residents this past year and look for a similar gain in 2020. The addition of all of those new residents is fueling residential development throughout the city, with younger arrivals preferring to live close to Uptown, in either South End, Noda or Plaza Midwood. The late year addition of Major League Soccer is a plus for the city and should reinforce the city’s attractiveness to young, college-educated workers that are increasingly moving to the area. Hosting the Republican National Convention is another major plus. While we doubt that the convention will unleash a huge windfall of investment or spending, the national media exposure and influx of private and public sector decision-makers will likely pay off in increased investment and some additional corporate relocations to the region.

The greatest risk for Charlotte is that the region’s extraordinary growth chokes off new development, as the area becomes too crowded and too expensive. We doubt this will present a hurdle in the next few years, however, when Charlotte should see strong, broad-based economic gains that will rank among the best in the nation. One of the most encouraging aspects of Charlotte’s growth is that it has broadened well beyond its well-known financial sector. While economic mobility for some poorer residents remains a challenge, the city’s political and business leadership is striving to improve this situation and is well ahead of most other metro areas. The city’s expanding transportation network and redevelopment of neighborhoods close to the city should help in these efforts, particularly along the North Line of the light rail where development is still in its early stages.