

Charlotte Office, Q3 2017

# Office market on pace for record high absorption in 2017

▲ Direct Vacancy  
8.3%

▲ Lease Rate  
\$25.90 PSF

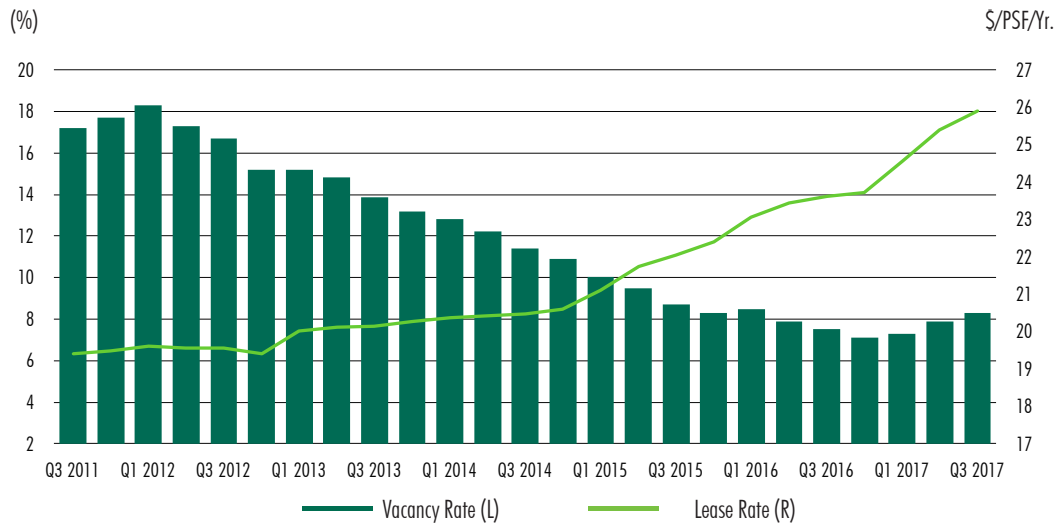
▲ Net Absorption  
484,632 SF

▲ Construction  
917,073 SF

▲ Completions  
792,459 SF

Figure 1: Direct Vacancy Rate (%) vs. Average Direct Asking Lease Rate (\$/SF)

\*Arrow indicates change from previous quarter.



Source: CBRE Research, Q3 2017.

The Charlotte office market is on pace to set a record for absorption in 2017. Absorption reached 484,632 sq. ft. for the quarter, marking the sixth consecutive quarter of positive absorption. Ten out of eleven submarkets recorded positive absorption during this quarter with the top performing submarkets being the CBD with 385,093 sq. ft. and I-485 South with 46,818 sq. ft. These two submarkets accounted for approximately 88% of total net absorption during the quarter. Absorption is typically higher when new buildings are delivered, and this quarter is no exception

with the deliveries of 300 S Tryon in the CBD submarket and The Hub at Waverly in the I-485 South submarket, both with significant pre-leasing.

Eight of Charlotte's eleven office submarkets currently report single-digit vacancy rates. Market-wide direct vacancy was recorded at 8.3%, a slight increase of 40 bps from last quarter. This increase can mostly be attributed to the vacant space that was added to the market from the two newly delivered buildings.

Figure 2: Market Statistics

Submarket	Building (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Last 4 Qtrs Net Absorption (sq. ft.)	Q3 2017 Net Absorption (sq. ft.)	Weighted Avg Rent (\$/SF/YR)	Under Construction (sq. ft.)
CBD	17,017,143	8.7	8.9	622,098	385,093	31.16	853,073
Midtown	1,982,707	2.4	2.4	159,369	8,339	30.09	64,000
Cotswold	177,412	1.5	1.5	3,437	0	26.24	0
SouthPark	4,478,248	9.8	10.1	113,014	17,147	30.74	0
Park Road	625,184	4.7	4.7	9,012	2,500	18.22	0
I-77 Corridor	6,593,695	10.2	10.4	61,518	11,430	20.14	0
East	1,044,688	10.3	10.3	3,027	436	15.28	0
I-485 South	5,133,932	6.6	6.6	408,687	46,818	26.32	0
Crownpoint	649,761	21.5	21.5	27,553	4,158	15.72	0
Northeast	3,399,951	5.5	6.6	20,304	3,334	21.00	0
North	1,237,559	6.5	6.7	67,509	5,377	23.18	0
<b>Market Total</b>	<b>42,340,280</b>	<b>8.3</b>	<b>8.6</b>	<b>1,495,528</b>	<b>484,632</b>	<b>25.90</b>	<b>917,073</b>

Source: CBRE Research, Q3 2017.

**CBD by Class**

Class A	13,853,862	8.8	9.0	600,003	384,178	31.97	853,073
Class B	2,921,604	8.9	9.1	21,084	915	29.46	0
Class C	241,677	2.9	2.9	1,011	0	19.50	0

Source: CBRE Research, Q3 2017.

Total vacancy (vacancy including sublease space) was 8.6%, indicating that there is still very little sublease space available. Compared to 9.2% total vacancy in the same time period one year ago, this statistic indicates gradual but consistent improvement over a period of several years. Direct vacancy in the CBD, Charlotte’s largest submarket, was recorded at 8.7%.

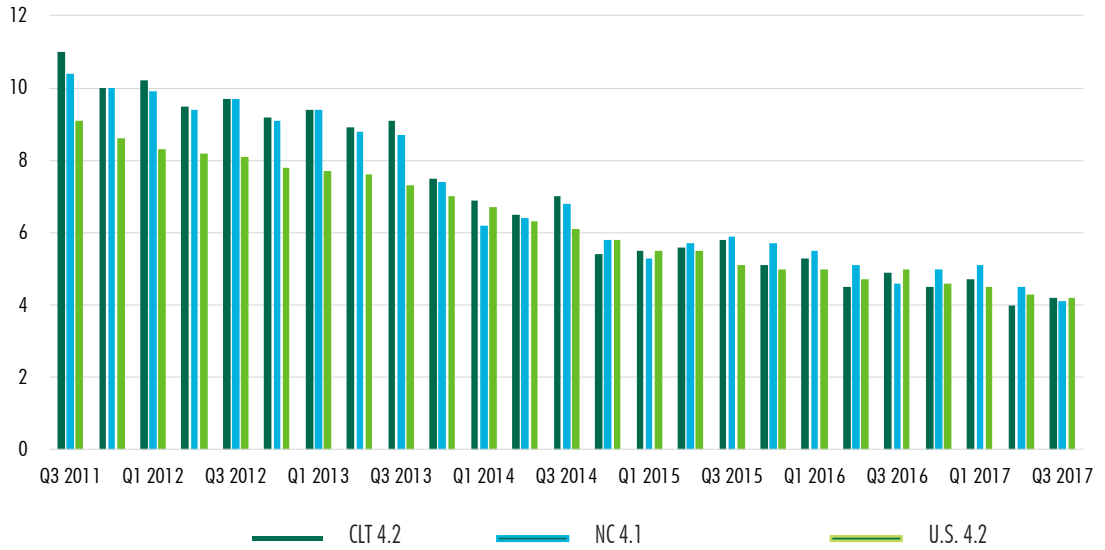
Weighted average asking rental rates increased for the twentieth consecutive quarter, increasing to \$25.90 per rentable sq. ft., a record high for the Charlotte office market and a 3.5% increase since last quarter. Year-over-year, overall rates have increased by 8.4%. Rental rates in the CBD experienced similar growth, increasing 12.1% year-over-year and 3.6% from last quarter. More importantly, actual lease comparables are showing

a similar increase as expiring and expanding tenants and new entries to the market are faced with today’s rental terms.

The cost of ground up construction and tenant improvement construction has risen dramatically since the last development cycle. Assuming economic conditions remain stable, low vacancy and high construction costs will cause rental rates to maintain their upward trend.

Weighted average asking rates are calculated based on available space. Immediately after delivery, speculative construction often arrives with a substantial amount of available space, meaning it can have a significant impact on reported asking rates.

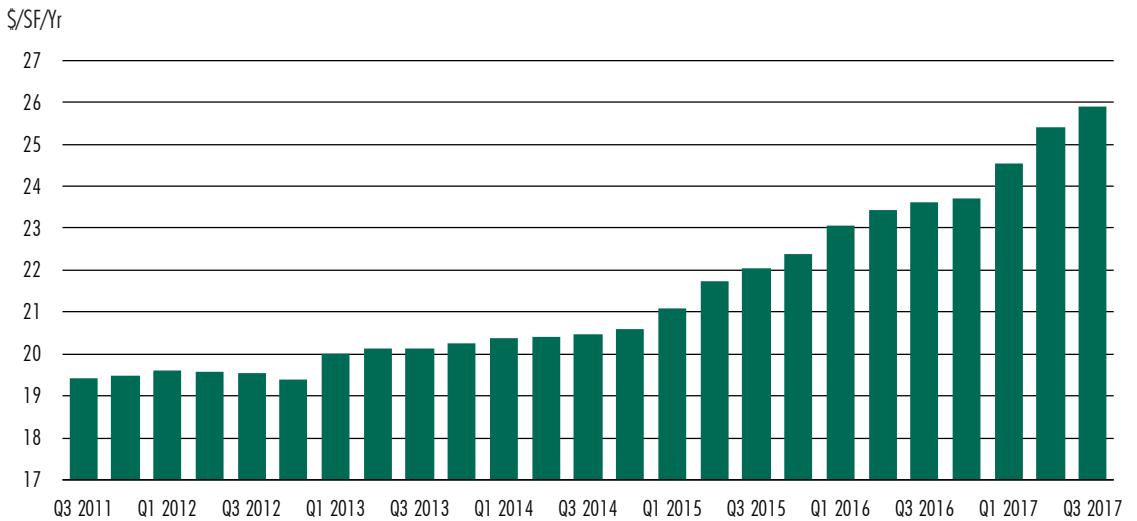
Figure 3: Unemployment Rate (%)



Source: CBRE Research, Q3 2017, Bureau of Labor Statistics.

The Charlotte unemployment rate increased by 20 bps, recorded in August 2017 at 4.2%. North Carolina's overall unemployment rate decreased by 40 bps to 4.1%. North Carolina continues to slightly outpace the overall national unemployment rate, which decreased slightly and was recorded at 4.2%.

Figure 4: Direct Asking Lease Rate (\$/SF)



Source: CBRE Research, Q3 2017.

For the twentieth consecutive quarter, overall full service asking rates (weighted average) in Charlotte have increased. Rates increased to \$25.90 per rentable sq. ft. vs. \$25.40 per sq. ft. at the end of Q2 2017, the highest market rent ever recorded. Average rental rates in the CBD climbed to \$31.14, up from \$30.08. Full service rental rates in the suburbs closed the quarter at \$23.26. The market will likely continue to see gradual rate increases throughout the remainder of 2017 as new speculative product is delivered.

Construction activity remained steady during this quarter. Two multi-tenant office buildings are under construction in the Charlotte market, one in the CBD and one in the suburbs. Cumulatively, these buildings are approximately 70% pre-leased. Bank of America has signed on to take approximately 500,000 sq. ft. in the under-construction CBD tower, elevating their already prominent presence in the CBD but potentially vacating space in older buildings.

Historically the CBD, with 40% of the overall market, has been Charlotte's main attraction. After the delivery of 1.5 million sq. ft. of multi-tenant office space in the CBD in the second and third quarter, vacancy remains in the single digits at a healthy 8.7%.

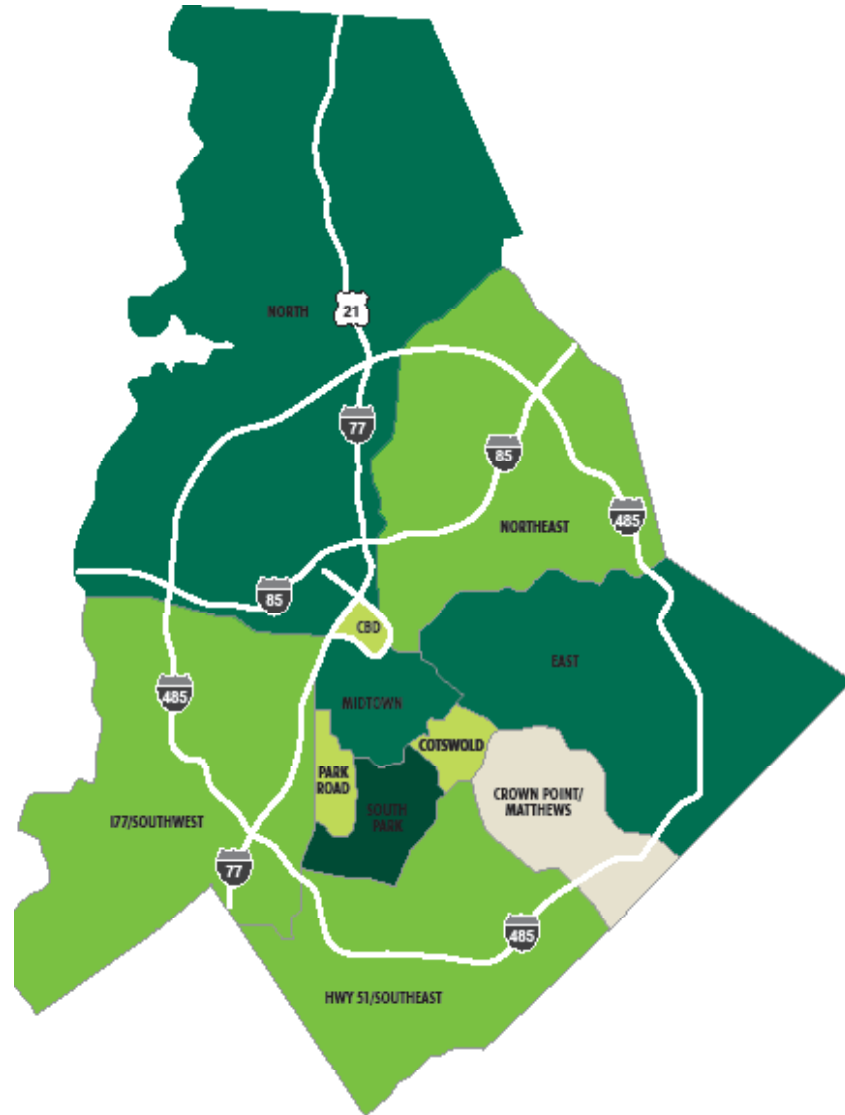
In the past, the CBD has not often competed with the suburbs; however, large users, both relocating and expanding, are now considering both CBD and suburban options. Charlotte's CBD is "user friendly," with a multitude of amenities, easy vehicle access, residential areas and light rail connectivity. This area often appeals to users who might otherwise be strictly suburban. The entertainment venues help to bring people to the CBD who might never have considered it otherwise.

As is often the case in the CBD, vacancy is concentrated in a few large blocks rather than being spread out over the submarket. The two new towers, 300 South Tryon and 615 South College, cumulatively have about 500,000 sq. ft. available. The remaining vacancy is primarily in four well-located but older towers that have all traded in the past two years. Several of these buildings are undergoing major renovations with significant cosmetic upgrades to appeal to today's tenants and compete with the modern amenities and infrastructure offered by the newer towers.

In anticipation of future moves, the Ally Building and 121 West Trade in the CBD submarket are pre-marketing space that will come available in future years. Although not currently on the market, the 250,000 sq. ft. formerly occupied by the Charlotte School of Law should also be coming available in the near future. Given historical absorption in the CBD, this inventory will be welcomed by tenants looking for existing space.

As a whole, the suburban office submarkets have never been more sound. There is no scarcity of activity in the suburbs, with vacancy in the single digits in seven of ten suburban submarkets. There are only a handful of large blocks of space available.

Our projection for the remainder of 2017 for the Charlotte office market includes a brisk pace for leasing with exciting new projects on the horizon.



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