

MARKETBEAT

Charlotte, NC

Office Q4 2017



CHARLOTTE OFFICE

Economic Indicators

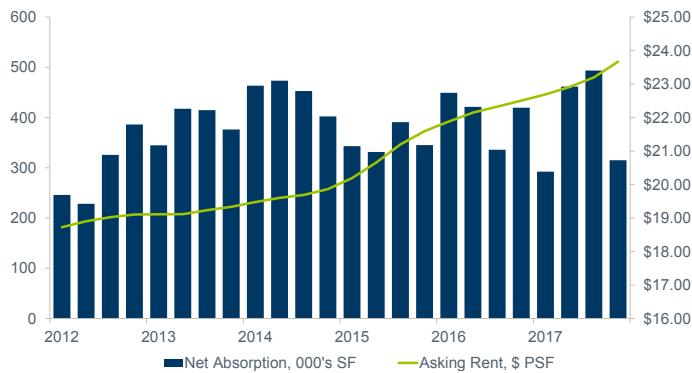
	Q4 16	Q4 17	12-Month Forecast
Charlotte MSA Employment	1,164k	1,182k	▲
Charlotte MSA Unemployment	4.6%	3.9%	▼
U.S. Unemployment	4.7%	4.1%	▼

Market Indicators (Overall, All Classes)

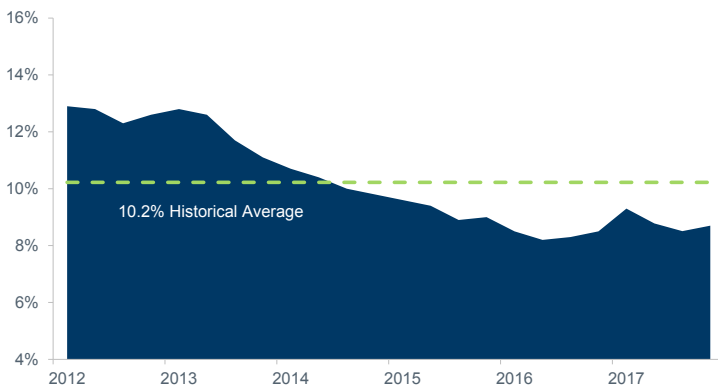
	Q4 16	Q4 17	12-Month Forecast
Vacancy	8.5%	8.7%	▼
Net Absorption SF	472k	-243k	▲
Under Construction SF	2.2M	2.3M	■
Asking Rent*	\$22.60	\$24.48	▲

*Overall stats are not reflective of U.S. Overview
 **Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4QTR TRAILING AVERAGE



Overall Vacancy



Economy

Charlotte's economy continues to strengthen mirroring national trends. The U.S. as a whole saw a decrease in unemployment for 2017, even after job growth suffered slightly due to hurricane season. Charlotte still remains below fourth quarter's national unemployment average of 4.1%. The Charlotte MSA added just under 18,500 new jobs in 2017 ending with a 3.9% unemployment rate.

Market Overview

Charlotte's strong economic foundation continues to foster a healthy demand for office space. Charlotte saw almost 2.0 million square feet (msf) of new office space delivered in 2017 including a total of over 1.0 msf delivered in the CBD. Though Q4 absorption was slightly negative, Charlotte's 2017 absorption year total is just under Charlotte's 10-year historical average of 1.3 msf. Citywide vacancy increased to 8.7% from 8.5% year-over-year, due to new building deliveries. Citywide rental rate growth has continued with 8.1% for 2017. Currently, there is 2.3 msf under construction which will increase inventory by 2.2%. New, high quality buildings should push rental rates higher, especially in the CBD along the Stonewall corridor where Legacy Union and Ally are being developed with delivery in spring of 2019. Office investment sales activity in 2017 has reached a historic high with over \$2.0 billion sold (properties selling for more than \$5.0 million each). This amount includes Charlotte's largest real estate transaction of all time, Ballantyne Corporate Park that sold earlier this spring for a record \$1.2 billion (\$267 psf). Sales volume should rise in 2018 as occupancy numbers increase and owners monetize their assets.

Suburban

The majority of Charlotte's office demand has been suburban over the past few years. In 2017 the suburban markets outpaced Charlotte's CBD by absorbing a total of just over 1.4 msf compared to the negative 96,000 sf absorption of the CBD. The difference can be primarily attributed to the bulk of new 2017 buildings in the CBD, which are counted as negative absorption until they lease up. Average suburban rental rates increased by 8.2% in 2017. As suburban absorption and rental rates continue to increase, developers are beginning to construct speculative buildings. This is a clear sign of Charlotte's healthy suburban market.

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Spec buildings such as the Railyard, the Hub at Waverly, the Edison at Arrowood and 300 W Summit Avenue are clear indicators that the Charlotte suburban market is flourishing. While South End has greatly benefited from the LYNX Blue Line, the new, North End submarket is already seeing positive momentum from the anticipated March 16, 2018 opening of the LYNX North Line. The new, North LYNX Line has spurred new redevelopment like CAMP North End, a \$13.5-million acquisition by ATCO. CAMP North End will add approximately 1.3 msf of office space and has already begun to sign retail tenants.

Uptown/CBD

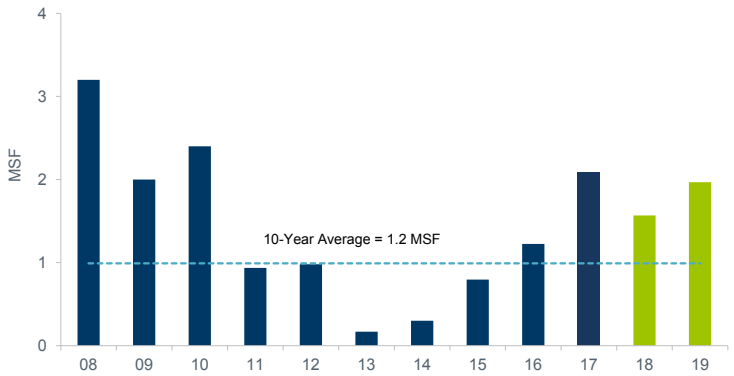
Large spec deliveries require a lease up period that distorts the actual health of the Uptown office picture. In addition to these new availabilities, several Class B buildings with longtime planned renovations are underway. These renovations should generate more demand for Class B buildings and catalyze absorption from Fintech and TAMI users in Uptown. With the high volume of new deliveries, average asking rates in Uptown increased by 6.7% year-over-year while the vacancy rate rose to 11.9% in the short term. With the construction of Legacy Union and Tryon Place underway the market will continue to tighten as both buildings are primarily preleased resulting in high rental rates for years to come.

Outlook

- Vacancy in the suburbs will decrease over the next year due to high demand and constricted speculative construction, spurring increased rental growth, particularly in the Airport, South 485, and University submarkets.
- As more supply is under construction in the CBD, rental growth may begin to slow until delivery. Charlotte remains a lower cost option, compared to other cities, with relocations fueling demand.
- Net absorption in 2018 is predicted to be above historical averages and should push vacancy down in suburban markets. With more tenants moving towards higher density occupancy, required parking needs are increasing. As new “spec” supply is delivered in the urban core markets, vacancy rates could start to increase in 2019.
- As newly delivered buildings in the suburbs and Uptown begin to stabilize, they are expected to sell for record high amounts, supported by the growing rental rates.

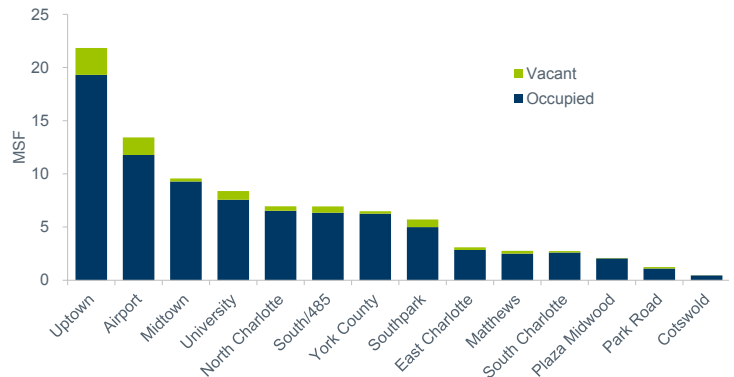
New Supply

NEW SUPPLY IS PROJECTED TO BE 20% ABOVE THE HISTORICAL AVERAGE.



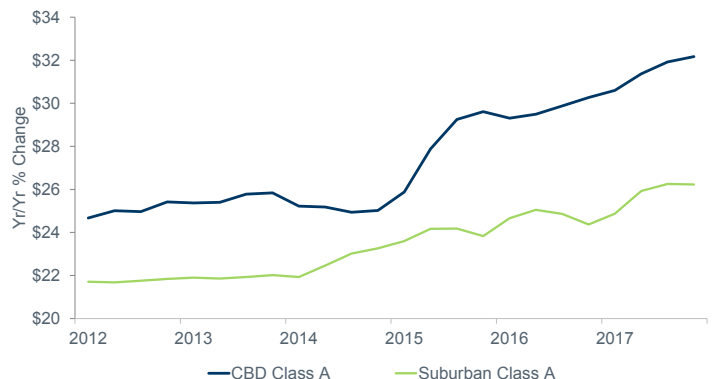
Sublease & Direct Trend

SUBLEASE SPACE RECEDING



CLASS A Asking Rent Trend

CBD RENTS HAVE INCREASED 6.28% YEAR-OVER-YEAR



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SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	TOTAL VACANT SF	VACANCY RATE	YTD NET ABSORPTION	YTD DELIVERIES	UNDER CONSTRUCTION	AVERAGE ASKING RENT
Airport	345	13,433,069	1,650,497	1,701,049	12.7%	48,789	23,000	376,000	\$19.86
CBD/Uptown	124	21,841,050	2,527,352	2,599,599	11.9%	(95,732)	1,017,402	853,073	\$31.14
Cleveland County	267	1,823,947	62,841	62,841	3.4%	60,419	15,147	10,901	\$13.48
Cotswold	37	457,231	2,582	2,582	0.6%	8,339	0	0	\$23.79
East Charlotte	320	3,097,796	250,387	250,387	8.1%	45,878	80,000	0	\$15.18
Gaston County	692	4,072,498	180,181	180,181	4.4%	35,181	0	0	\$14.14
Iredell County	448	4,389,382	217,234	240,185	5.5%	85,763	18,000	22,492	\$18.07
Matthews	237	2,768,013	271,324	273,130	9.9%	177,772	0	0	\$17.57
Midtown	644	9,566,418	281,566	366,747	3.8%	196,107	230,316	648,371	\$28.63
Northeast/I-77	388	5,636,759	368,428	405,642	7.2%	(33,229)	0	25,114	\$22.06
Northwest Charlotte	191	1,313,534	56,444	56,444	4.3%	22,839	0	10,834	\$15.04
Park Road	86	1,242,057	144,892	144,892	11.7%	(85,176)	0	0	\$24.74
Plaza Midwood/NoDa	278	2,092,555	34,394	34,394	1.6%	358,468	201,067	0	\$16.30
South Charlotte	173	2,742,442	139,223	139,223	5.1%	144,400	0	0	\$22.65
South/485	171	6,942,204	593,797	643,405	9.3%	357,257	164,000	30,000	\$29.14
Southpark	100	5,709,311	710,208	789,869	13.8%	(98,639)	231,000	0	\$30.08
Union County	393	2,485,724	160,490	160,490	6.5%	32,976	3,972	0	\$18.28
University	152	8,390,824	827,494	833,243	9.9%	(37,925)	0	0	\$22.18
York County	560	6,480,619	219,999	221,971	3.4%	37,006	0	330,504	\$21.51
SUBURBAN MARKET TOTALS	5,482	82,644,383	6,171,981	6,506,675	7.9%	1,356,225	966,502	1,454,216	\$22.44
CBD/UPTOWN MARKET TOTAL	124	21,841,050	2,527,352	2,599,599	11.9%	(95,732)	1,017,402	853,073	\$31.14
Class A	265	41,246,814	4,900,075	5,191,759	12.6%	832,649	1,815,718	2,209,298	\$28.35
Class B	2,089	43,321,300	3,069,669	3,184,926	7.4%	335,428	168,186	97,991	\$20.17
Class C	3,252	19,917,319	729,589	729,589	3.7%	92,416	0	0	\$17.31
CHARLOTTE METRO TOTAL	5,606	104,485,433	8,699,333	9,106,274	8.7%	1,260,493	1,983,904	2,307,289	\$24.48

* Office asking rents converted to Full Service * Overall stats are not reflective of U.S. Overview

Key Lease Transactions Q4 2017

Property	SF	Tenant	Transaction Type	Submarket
6201 Ardrey Kell Rd	76,000	NNINC	New	Highway 51-Ballantyne
615 S College St	52,000	WeWork	New	CBD
Coliseum Centre V	40,000	Curvature	New	Airport
300 S Tryon St	36,357	RSM	New	CBD
Latta & Reed Building	34,957	Black & Decker	New	Northeast/I-77
201 Regency Executive Park Dr	31,600	Citizenship and Immigration Services	New	Airport
101 N Tryon St	31,516	Spaces	New	CBD
440 S Church St	26,753	Driven Brands	New	CBD
Three South Executive Park	22,963	Wyndham Capital Mortgage	New	SouthPark
200 Southside Dr	20,035	DPR Construction	New	Airport

Key Sales Transactions Q4 2017

Property	SF	Seller / Buyer	Price / PSF	Submarket
LPL Financial I & II	450,000	Childress Klein / Griffin Capital Corp	\$130,000,000 / \$289	South 485
Harris Corners Pky	357,654	New Boston Fund, Inc. / Bridge Investment Group Partners, LLC	\$58,500,000 / \$164	Northeast/I-77
University East Professional Center	118,056	Southhart Properties / Legacy Commercial Property	\$17,400,000 / \$147	University
Aivone	92,481	Aivone Investments / Mohr Capital	\$11,400,000 / \$123	University
301 S Brevard	13,500	United Way of Central Carolinas / Linden Thomas & Co	\$10,500,000 / \$778	CBD

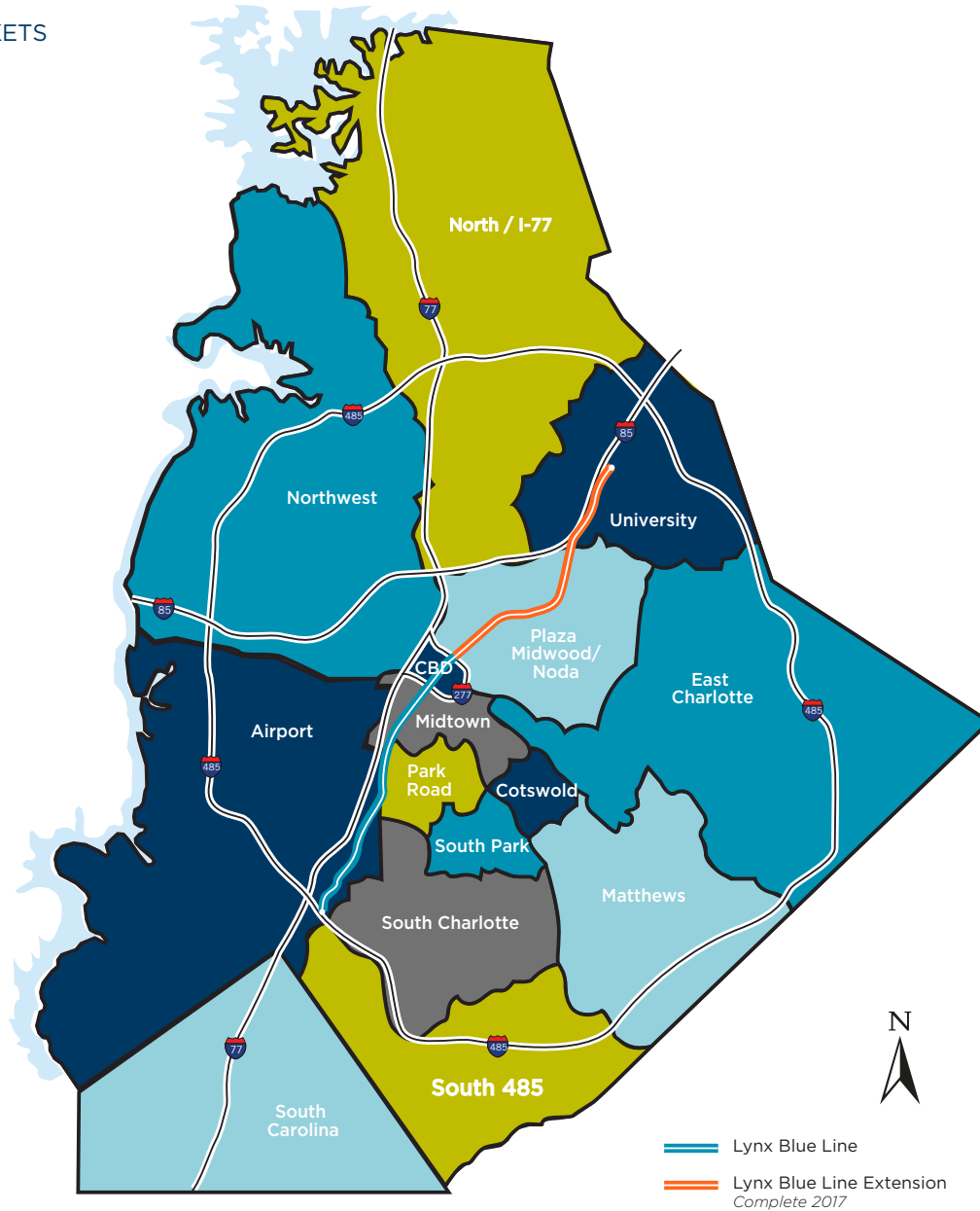
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OFFICE SUBMARKETS CHARLOTTE, NC



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