CBRE

MARKETVIEW

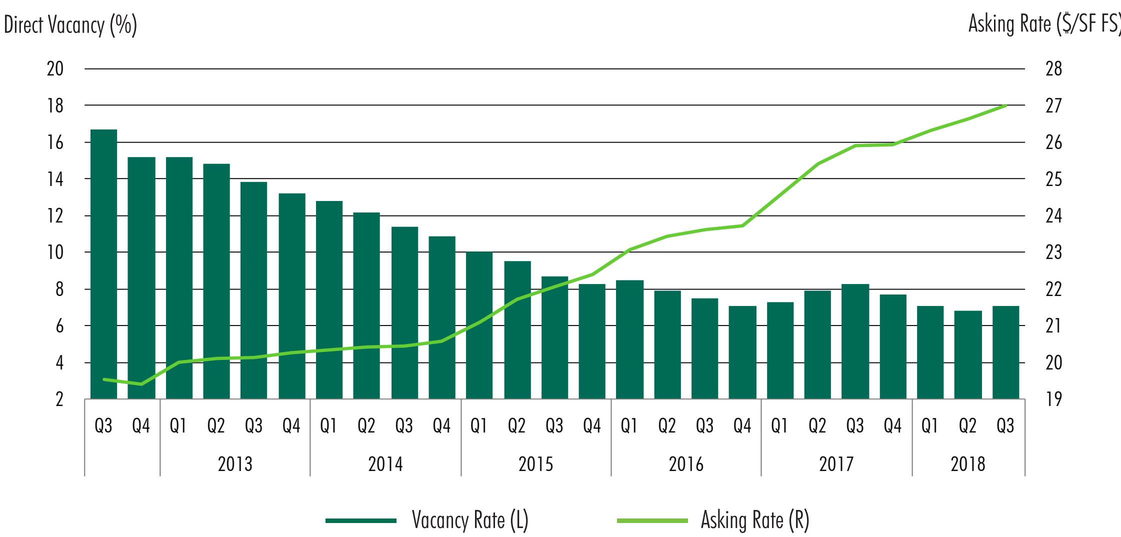
Charlotte Office, Q3 2018

Upcoming deliveries set office market up for record high absorption in 2019

Direct Vacancy	Lease Rate	Net Absorption	Construction	Completions
7.1%	$27.00 PSF	108,191 SF	2,714,839 SF	0 SF

*Arrow indicates change from previous quarter.

Figure 1: Direct Vacancy Rate vs. Asking Rate



Source: CBRE Research, Q3 2018.

With nearly 2.7 million sq. ft. of office space under construction and over 1.5 million of that delivering in 2019, developers are very active in Charlotte. When these large blocks deliver, absorption is projected to reach record highs. During Q3 leasing activity in the Charlotte office market increased in volume and tenants are actively looking for an additional 2.5 million sq. ft., indicating a capacity for significant growth in coming quarters. Despite modest absorption of just over 108,000 sq. ft., activity was robust.

The third quarter marks the tenth consecutive quarter of positive absorption. Nine out of eleven submarkets experienced positive absorption during the quarter with top performing submarkets being SouthPark with 33,000 sq. ft., the CBD with 32,000 sq. ft. and the Airport-I-77 Corridor with 15,000 sq. ft. These three submarkets accounted for approximately 75% of total net absorption for the quarter.

Nine of Charlotte's eleven office submarkets are in the single-digits with market-wide direct vacancy at 7.1%. Total vacancy (vacancy including sublease space) was 7.3%, indicating that sublease space is almost non-existent. Compared to 8.6% total vacancy in the same time period a year ago, this statistic indicates consistent improvement in overall market conditions.

Figure 2: Market Statistics

Submarket	Building (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Last 4 Qtrs Net Absorption (sq. ft.)	Q3 2018 Net Absorption (sq. ft.)	Weighted Avg Rent ($/SF/YR)	Under Construction (sq. ft.)
CBD	17,017,143	8.4	8.6	277,344	31,941	32.81	1,715,073
Midtown/Southend	1,982,707	1.9	1.9	10,037	1,205	32.06	522,039
Cotswold	177,412	0.0	0.0	2,602	0	24.50	0
SouthPark	4,472,998	5.7	5.9	192,528	33,443	31.23	0
Park Road	625,184	12.7	12.7	11,540	6,906	23.60	0
I-77 Corridor/Airport	6,593,695	8.3	8.5	124,357	15,266	21.13	124,896
East	1,044,688	10.3	10.3	(40)	1,019	15.25	0
I-485/South	5,133,932	4.1	4.2	128,602	11,810	27.38	352,831
Crownpoint	649,761	19.9	19.9	10,005	2,556	15.98	0
NE/University	3,399,951	5.0	5.1	52,390	5,205	21.98	0
North	1,254,185	5.6	5.6	13,206	(1,160)	24.35	0
Market Total	**42,340,280**	**7.1**	**7.3**	**822,571**	**108,191**	**27.00**	**2,714,839**

Source: CBRE Research, Q3 2018.

CBD by Class

Class A	13,853,862	8.6	8.8	257,126	13,105	33.61	1,715,073
Class B	2,921,604	8.2	8.4	20,218	18,836	30.34	0
Class C	241,677	2.9	2.9	0	0	19.50	0

Source: CBRE Research, Q3 2018.

Direct vacancy in the CBD, Charlotte's largest submarket, was recorded at 8.4%.

Weighted average asking rental rates increased for the twenty-fourth consecutive quarter to $27 per sq. ft. on a full-service basis, a record high for the Charlotte office market. Year-over-year, overall rental rates have increased by 4.1%. Rental rates in the CBD experienced similar growth, increasing 4.5% year-over-year. More importantly, actual lease comparables are showing a similar increase as expiring and expanding tenants and new entries to the market accept today's pricing. Compared to similar markets in the Southeast, Charlotte remains a rental rate bargain, which indicates the possibility of additional movement.

The cost of construction and tenant improvements continue to rise. Assuming economic conditions remain stable, low vacancy and higher construction costs will cause rental rates to maintain their upward trend. Weighted average asking rates are calculated based on available space, not the overall market. 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.

Nine multi-tenant buildings are under construction in the Charlotte market, two in the CBD and seven in the suburbs. Cumulatively, these buildings are approximately 65% pre-leased.

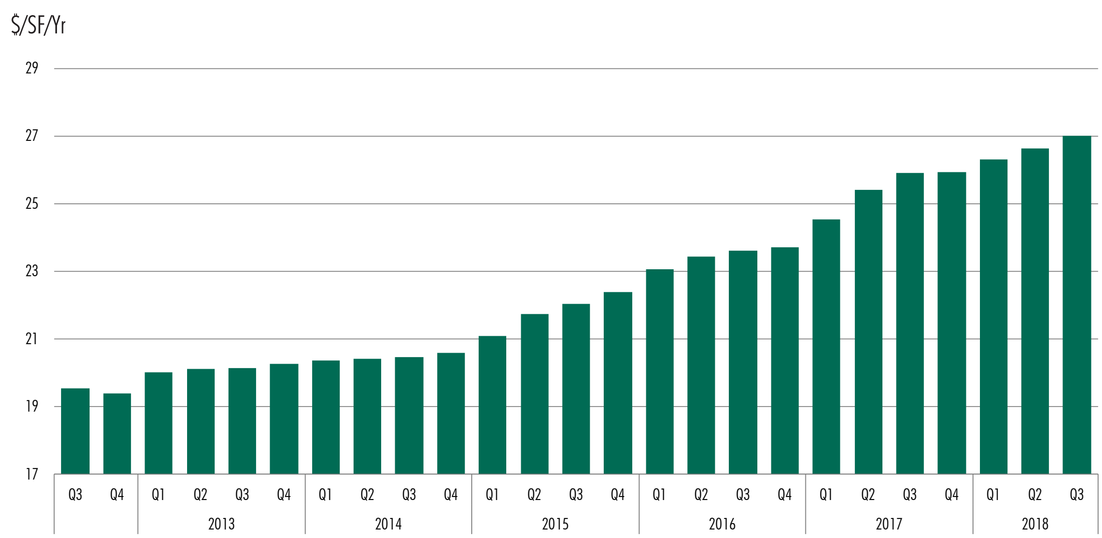
The delivery and lease-up of these new modern Class A buildings with high-end amenities will continue to push rental rates to new highs throughout the market.

Midtown/SouthEnd remains Charlotte's tightest and most desirable location. On the periphery of the CBD but still considered suburban, this submarket has multiple light rail stops, entertainment venues, and thousands of new and updated single and multifamily residential units. This area is particularly attractive to a younger millennial workforce.

Like other markets around the country, landlords in Charlotte are amenitizing existing buildings to meet the demands of today's tenants and to compete with newer product. Many are using this injection of capital as an impetus for lifting asking rates.

Occupiers may be planning to reduce their leased square footages on a per-person basis and landlords may be footing the bill to build out those spaces, but the construction and operating costs associated with the amenities is passed back to tenants in higher rental rates and increased operating expenses. The net impact of these changes are an improvement in the buildings and an associated increase in value.

Figure 3: Direct Asking Lease Rate ($/SF)



Source: CBRE Research, Q3 2018.

For the twenty-fourth consecutive quarter, overall full service asking rates (weighted average) in Charlotte have increased. Rates increased to $27.00 per rentable sq. ft., the highest market rent ever recorded. Average rental rates in the CBD climbed to $32.81, up from $32.00. Full service rental rates in the suburbs closed the quarter at $23.91. The market will likely continue to see gradual rate increases extending through 2019 as new speculative product is delivered.

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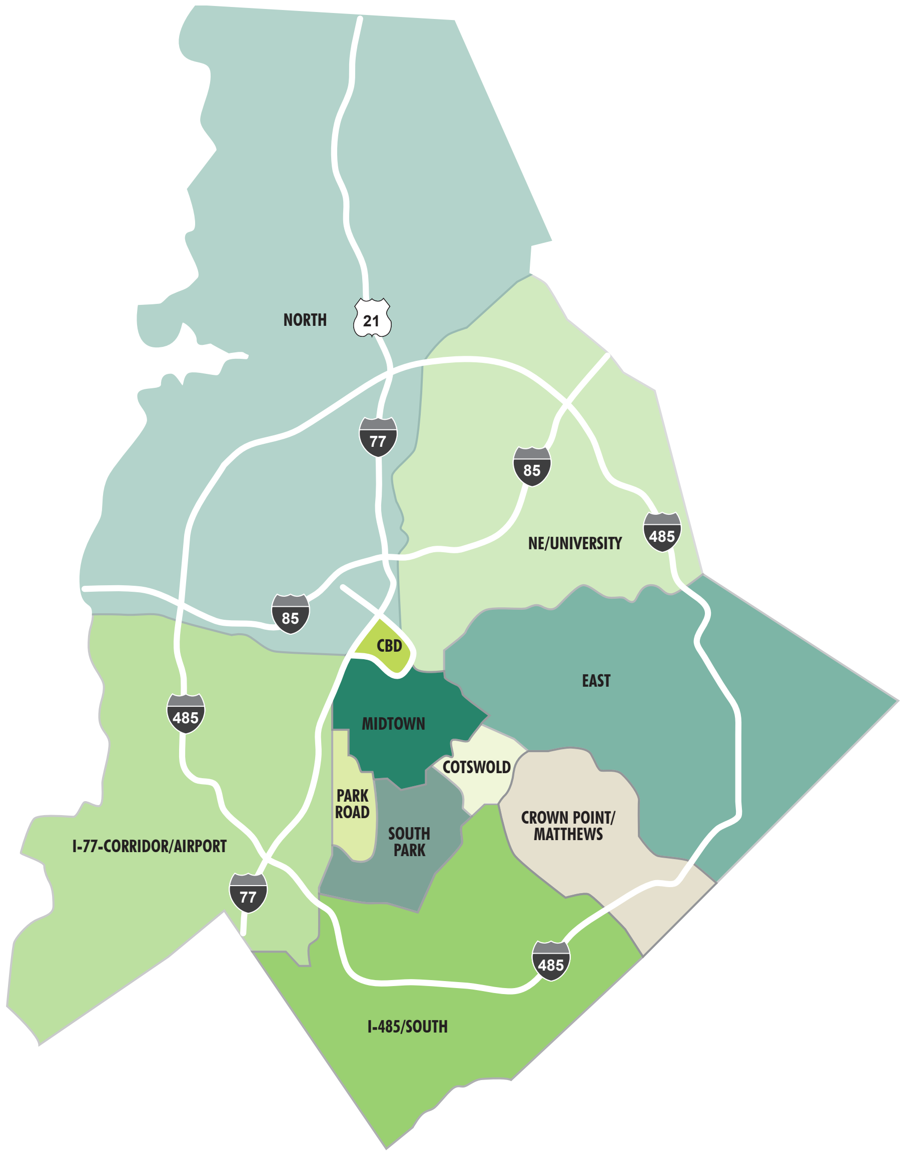

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