

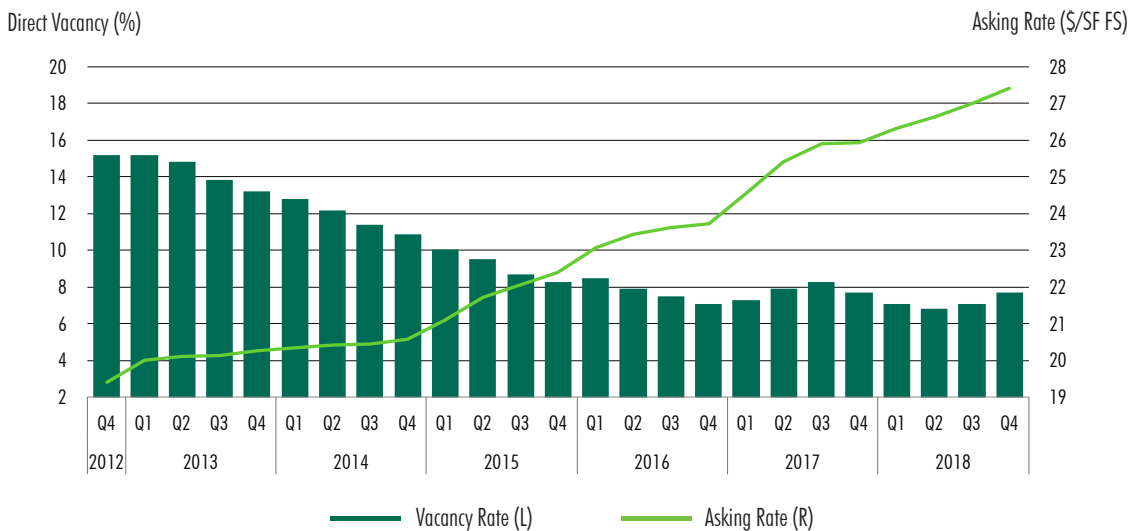
Charlotte Office, Q4 2018

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

▲ Direct Vacancy 7.7%
▲ Lease Rate \$27.41 PSF
▲ Net Absorption 162,213 SF
▼ Construction 2,469,943 SF
▲ Completions 124,896 SF

Figure 1: Direct Vacancy Rate vs. Asking Rate

*Arrow indicates change from previous quarter.



Source: CBRE Research, Q4 2018.

With nearly 2.5 million sq. ft. of office space under construction and over 1.9 million sq. ft. scheduled to deliver in 2019, developers are very active in Charlotte. When these large blocks deliver, absorption is projected to reach record highs. During the fourth quarter, leasing activity in the Charlotte office market increased in volume and tenants are actively looking for an additional 2.7 million sq. ft., indicating a capacity for significant growth in coming quarters. Despite modest absorption of just over 160,000 sq. ft., activity was robust.

The fourth quarter marks the eleventh consecutive quarter of positive absorption. Nine out of eleven submarkets experienced positive

absorption during the quarter with the top performing submarkets being the CBD with 60,000 sq. ft., the Airport-I-77 Corridor with 36,000 sq. ft. and SouthPark with 36,000 sq. ft. These three submarkets accounted for approximately 80% 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 7.7%. Total vacancy (vacancy including sublease space) was 7.9%, indicating that sublease space is almost non-existent. Compared to 8.7% total vacancy in the same time period a year ago, this statistic indicates consistent improvement in overall market conditions. Direct vacancy in the CBD, Charlotte's largest submarket, was recorded at 8.2%.

Figure 2: Market Statistics

Submarket	Building (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Last 4 Qtrs Net Absorption (sq. ft.)	Q4 2018 Net Absorption (sq. ft.)	Weighted Avg Rent (\$/SF/YR)	Under Construction (sq. ft.)
CBD	17,121,001	7.9	8.2	211,365	60,909	32.95	1,595,073
Midtown/Southend	1,982,707	2.1	2.1	9,189	1,836	32.41	512,523
Cotswold	177,412	0.0	0.0	0	0	24.50	0
SouthPark	4,472,998	6.5	6.7	186,631	36,070	31.50	0
Park Road	625,184	12.3	12.3	12,094	1,062	23.81	0
I-77 Corridor/Airport	6,593,695	9.4	9.6	124,487	36,235	21.28	0
East	1,044,688	10.8	10.8	(4,620)	(4,340)	15.25	0
I-485/South	5,183,880	4.6	4.7	87,516	20,654	27.73	352,831
Crownpoint	649,761	18.2	18.7	8,255	1,551	16.08	0
NE/University	3,403,725	7.8	7.8	35,720	5,763	22.48	0
North	1,247,884	6.3	6.3	11,831	2,473	24.72	0
Market Total	42,502,935	7.7	7.9	682,468	162,213	27.41	2,469,943

Source: CBRE Research, Q4 2018.

CBD by Class

Class A	13,957,720	8.0	8.3	166,446	46,249	33.83	1,595,073
Class B	2,921,604	10.9	11.1	44,919	14,660	30.38	0
Class C	241,677	2.9	2.9	0	0	19.50	0

Source: CBRE Research, Q4 2018.

Weighted average asking rental rates increased for the twenty-fifth consecutive quarter to \$27.41 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 5.7%. Rental rates in the CBD experienced similar growth, increasing 5.3% 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.

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.

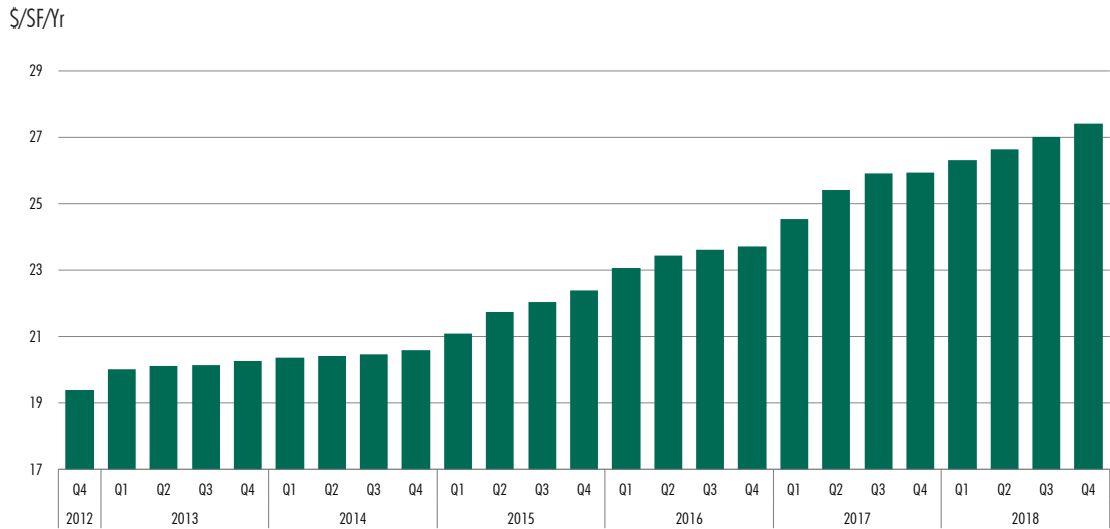
Eight multi-tenant buildings are under construction in the Charlotte market, two in the CBD and six in the suburbs. Cumulatively, these buildings are approximately 64% pre-leased. The delivery and lease-up of these new modern Class A buildings with high-end amenities will continue to push rental rates to new highs throughout the market.

Larger national and multi-national companies have been attracted to Charlotte and have announced expansions in the area, with significant new jobs with higher than average salaries attached.

The local economy continues to diversify and although banking is still a significant segment - and continues to grow – the trio of real estate, insurance and finance, now comprise only 10.4% of the total economy. Fintech and insurance have now emerged to become the high growth business categories.

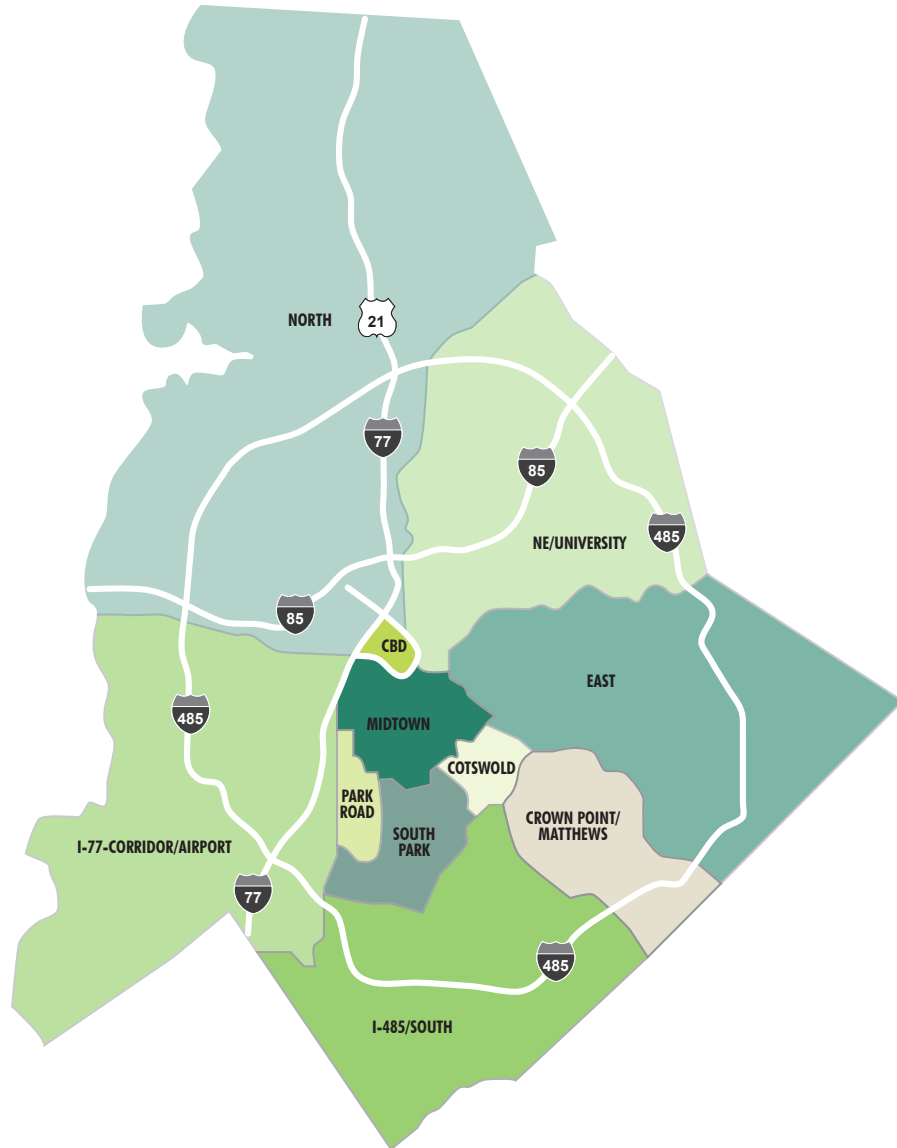
Tenants are in growth mode, but are attempting to do so in a tight labor market. To attract talent, they need to have the most in-demand amenities. This tends to make newer buildings more attractive, but older (1980’s and 1990’s) more conservative styles can be converted with high rates of return. Rates have begun to exceed \$40 per sq. ft. on a full service basis.

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



Source: CBRE Research, Q4 2018.

For the twenty-fifth consecutive quarter, overall full service asking rates (weighted average) in Charlotte have increased. Rates increased to \$27.41 per rentable sq. ft., the highest market rent ever recorded. Average rental rates in the CBD climbed to \$32.95, up from \$32.53. Full service rental rates in the suburbs closed the quarter at \$24.30. The market will likely continue to see gradual rate increases extending through 2019 as new speculative product is delivered.



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