

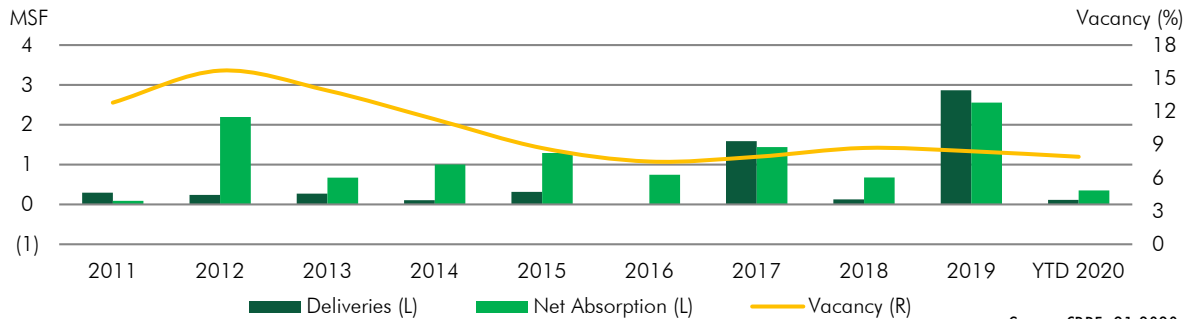
Charlotte Office, Q1 2020

Amidst economic turbulence Charlotte's market fundamentals remain stable

▼ Vacancy 7.9%
▲ Rental Rate \$30.62 FS
▲ Net Absorption 350,082 SF
▲ Under Construction 4.6 MSF
▲ Deliveries 115,000 SF
▼ Investment Sales \$715 Million

Figure 1: Historical Supply & Demand Dynamics

Indicates change from previous quarter.



Source: CBRE, Q1 2020

Q1 2020 Highlights

- Hearst Tower, located at 214 N. Tryon Street, was acquired by Truist from Cousins Properties for \$455.5 million or \$472 per sq. ft. The 966,000 sq. ft. office building set the record for largest single office transaction in Charlotte. Truist occupies 58% of the asset along with Bank of America and Hearst Communications. The building will be rebranded to the Truist Center and serve as an emblem in the emerging North Tryon corridor of Uptown Charlotte.
- Charlotte's Class A asking rates continue to escalate quarterly. In Q1 2020, average Class A asking rates reached \$33.69 while new construction rates exceeded \$43 per sq. ft. annum on a full service basis, a 40% premium to Charlotte's overall asking rates. Strong tenant demand driven by major corporate relocations has owners bullish on the market as they continue to increase rents.
- Ally Financial signed a second lease at their future location at 601 S. Tryon Street in the CBD. Ally expanded into 119,000 sq. ft. bringing their total sq. ft. to 712,000 sq. ft. The expansion will make Ally the fourth largest financial sector tenant in Charlotte behind Bank of America, Wells Fargo, and Truist.
- The Charlotte Douglas International Airport (CLT) has evolved into a major focal point of Charlotte's business community. CLT ranks sixth nationally based on operations and 10th busiest airport in the nation based on passenger totals. Further, the airport is undergoing a \$2.5 billion renovation which will expand concourses and improve terminals.

The Charlotte office market recorded 350,000 sq. ft. of occupancy growth in Q1 2020, the 16th consecutive quarter of positive net absorption. Subsequently, the overall vacancy rate dropped 40 basis points (BPS) from the prior quarter to 7.9%. CBD and Midtown/SouthEnd, Charlotte's highest growth submarkets, accounted for 54% of positive demand in Q1 2020. This was primarily driven by mid-size users relocating in the market, in particular in the CBD and an influx of smaller users taking occupancy this quarter.

Since Q1 2016, the Charlotte office market has recorded 5.7 million sq. ft. of positive net absorption, which accounts for 14% of Charlotte's occupied composition. Charlotte's favorable cost of business, low cost of living (72.4 Cost of Living Score), and highly educated workforce continues to attract both regional and national tenants to Charlotte. Further, Charlotte's largest Fortune 500 companies— Bank of America, Lowe's, Duke Energy, Truist and others continue to expand their footprint in the market. Since Q1 2018, Bank of America has increased their overall footprint by 34% bringing their total footprint to approximately 4.1 million sq. ft., 9.2% of Charlotte's occupied inventory.

Figure 2: Notable Q1 2020 Lease Transactions

Tenant	Building Name	Submarket	Type	SF	Class
Ally Financial	Ally Charlotte Center	CBD	Prelease/Expansion	119,000	A
Cadwalader, Wickersham & Taft	Legacy Union II	CBD	Prelease	72,000	A
AmeriGas	Six Yorkmont Plaza	I-77/Airport	New Lease	41,000	B
Quicken Loans	Two SouthPark Center	SouthPark	Renewal	39,000	A
Willis Towers Watson	Forest Park IV	I-77/Airport	New Lease	22,000	B
Collett & Associates	Metropolitan Plaza	Midtown/SouthEnd	Renewal	16,000	A
Confidential GSA User	121 W Trade St	CBD	New Lease	16,000	A
Community Association Management	McAlpine's Centre	Crownpoint	New Lease	14,000	B
OneMagnify	300 W Summit Ave	Midtown/SouthEnd	New Lease	12,000	A
James Scott Farrin	301 Midtown	CBD	New Lease	11,000	B

Source: CBRE, Q1 2020.

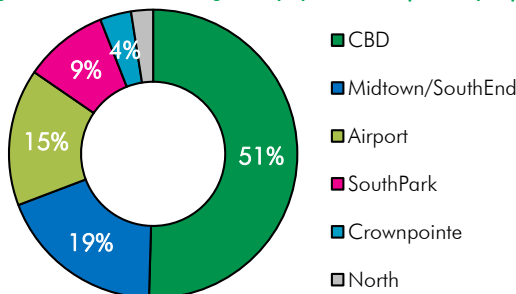
LEASING ACTIVITY

Twelve leases above 10,000 sq. ft. were signed in Charlotte in Q1 2020 totaling 409,000 sq. ft. Further 76% of the transactions executed in Q1 2020 occurred in Class A assets. Two notable Q1 2020 lease transactions include:

- Cadwalader, Wickersham & Taft, an AM 100 Law Firm, signed a 72,000 prelease at Legacy Union II. Lincoln Harris and Goldman Sachs' Class A development is now 45% preleased bringing the Legacy Union complex to 79% leased.
- OneMagnify, a marketing firm, inked a 12,000 sq. ft. lease at 300 W. Summit Avenue in Midtown/SouthEnd. The creative office building delivered 100% vacant and is now 80% occupied a year after delivery.

Although the financial sector has the largest occupied footprint in Charlotte at approximately 50%, the market has diversified. Tenants such as Honeywell (technology), Lowe's (retail), AvidXchange (technology), Krispy Kreme (retail), and AllState (insurance) all expanded their office footprint in Charlotte.

Figure 3: 2020 Gross Leasing Activity by Submarket(Share by SF)



Source: CBRE, Q1 2020.

ASKING RATES

Overall asking rates increased 1.4% over the prior quarter to \$30.62 per sq. ft. annum on a full service basis. Class A asking rates have increased 26% in the last five years reaching \$33.69 per sq. ft. annum on a full service basis.

Figure 4: Year-Over-Year Rent Growth by Asset Class

Asset Class	Rent Per SF (\$) (FS)	Y-o-Y Change (%)
Class A	\$33.69	4.9%
Class B	\$25.24	7.6%
Overall	\$30.62	6.2%

Source: CBRE, Q1 2020.

COVID-19 PANDEMIC

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the US economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S. – mirroring China's experience – the U.S. government's fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

DEVELOPMENT ACTIVITY

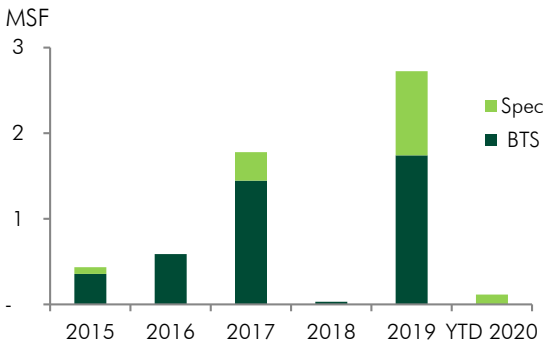
Arrowood South at 801 E. Arrowood Road delivered in Q1 2020. The 115,000 sq. ft. Class A creative office development broke ground in Q4 2018 on a speculative basis. The delivery of Arrowood South marks the third consecutive delivery of an 100% vacant building in the Airport/I-77 submarket as Two Silver Crescent and The Edison Arrowood delivered in 2019 100% unoccupied.

After a record year of development activity, deliveries are expected to slow in 2020. Six developments are expected to deliver in 2020 totaling 1.1 million sq. ft. of Class A office space at 45% preleased. Further, an additional 11 projects are slated to deliver by the end of Q4 2022 totaling 4.4 million sq. ft. at 53% preleased.

Development activity has surged in Charlotte over the last five years. Since Q1 2016, 5.2 million sq. ft. has delivered in Charlotte, accounting for 12% of the market's total office inventory. Further, the attractiveness of the Charlotte office market continues to incentivize significant build-to-suit requirements. 3.3 million sq. ft. of build-to-suit office space is currently under construction, accounting for 71% of Charlotte's total development pipeline.

Shorenstein, a San Francisco based private equity fund, and Stiles, a Ft. Lauderdale based developer, announced the future development of East West Station at 1812 South Boulevard in the Midtown/SouthEnd submarket in Q1. The 370,000 sq. ft. project is slated to break ground in Q3 2020 depending on delays due to the COVID-19 Pandemic. The Class A development is currently being marketed at \$45.00 plus electric, the highest rates in the market.

Figure 5: Historical Spec vs. BTS Development Analysis



Source: CBRE, Q1 2020.

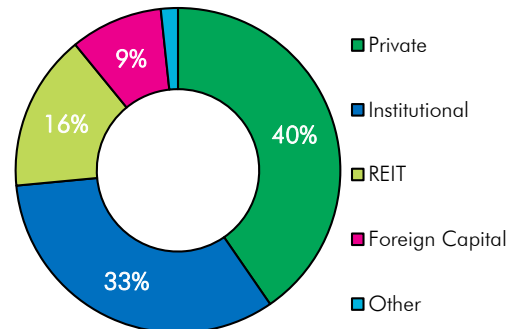
INVESTMENT SALES

Investment sales in 2019 reached new heights as \$1.7 Billion of transactional volume occurred. As of Q1 2020, 8 office assets have sold totaling \$715 million. The I-77/Airport Submarket, Charlotte's second largest submarket, accounted for 21% of all transactions in Q1 2020. Limited new construction and strong market fundamentals have allowed investors in the I-77/Airport Submarket to remain bullish and increase rental rates annually. However, asking rates in the I-77/Airport Submarket are significantly lower than rates in Charlotte's core submarkets. This makes the submarket an attractive alternative to cost sensitive tenants who value the submarket's proximity to Charlotte's urban core. Two notable Q1 2020 sales transactions in the I-77/Airport Submarket include:

- America's Capital Partners sold Coliseum Center 3, 5, and 6 to South Street Partners for \$102 million or \$208 per sq. ft. The three Class A assets total 490,000 sq. ft. and were 87% occupied at time of sale.
- LakePointe Corporate Center 3 & 5 sold for \$46.3 million or \$204 per sq. ft. The two Class A assets total 227,000 sq. ft. and were purchased by Bridge Investment Group, a Utah based equity fund.

Since Q1 2016, 205 assets have traded hands in Charlotte totaling \$7.2 Billion. Further, 61% of Charlotte's transactional volume has occurred in the suburban markets while 39% has occurred in the CBD. Although a majority of Charlotte's commercial real estate investment capital is provided by private institutions, capital diversification has grown. In 2019, 24% of all investment sales were executed by foreign capital, a 53% increase from 2018 of 15.7%

Figure 6: 5-Year Capital Composition Comparison (Share by \$)

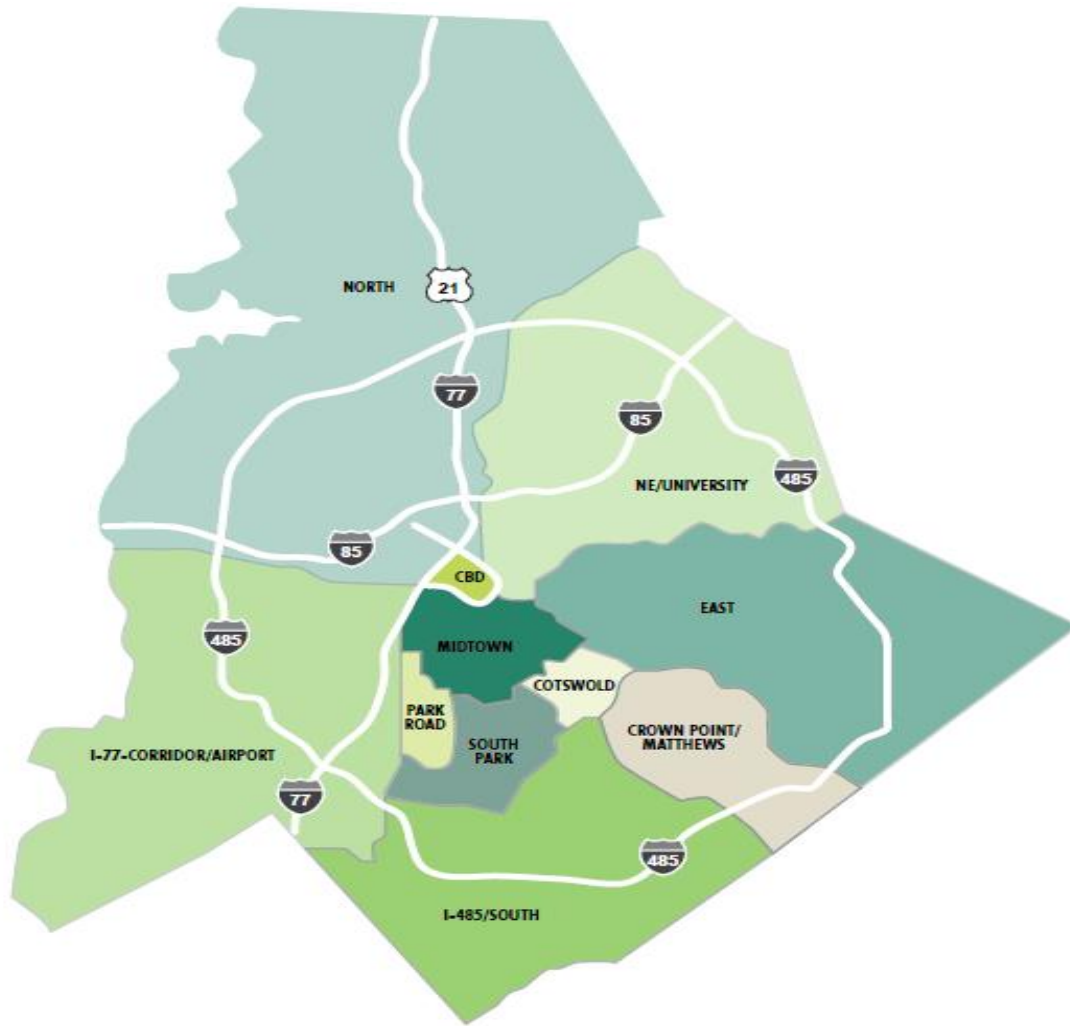


Source: Real Capital Analytics, Q1 2020.

Figure 8: Key Indicators

Submarket	Building Class	Inventory (SF)	Overall Vacancy Rate (%)	Q1 2020 Net Absorption (SF)	2019 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
CBD	A	15,363,390	4.6	91,669	1,419,943	37.44	2,547,915
	B	2,921,604	11.1	31,204	801	32.74	-
	C	205,156	8.5	2,647	7,011	29.00	-
	Overall	18,490,150	5.7	125,520	1,427,755	36.47	2,547,915
Cotswold	A	154,198	1.3	-	-2,029	27.76	-
	C	23,214	-	-	-	-	-
	Overall	177,412	1.1	-	-2,029	27.76	-
Crownpoint	B	623,008	22.5	-2,866	-1,366	16.50	-
	Overall	623,008	22.5	-2,866	-1,366	16.50	-
East	B	743,841	20.1	8,211	22,312	16.07	-
	C	82,296	5.5	-3,137	175	13.50	-
	Overall	826,137	18.7	5,074	22,487	16.01	-
I-485/South	A	4,129,425	7.6	2,062	317,462	35.43	328,000
	B	1,089,752	4.8	10,793	47,384	31.39	-
	C	67,000	-	-	-	-	-
	Overall	5,286,177	6.9	12,855	364,846	33.08	328,000
I-77/Airport	A	4,269,546	14.1	65,928	137,963	26.47	-
	B	2,438,190	16.4	32,997	32,864	22.57	-
	C	148,620	12.8	-	65,820	10.27	-
	Overall	6,856,356	14.9	98,925	236,647	24.34	-
Midtown/SouthEnd	A	1,565,002	3.6	55,133	330,223	35.43	1,264,137
	B	608,807	5.1	7,774	-7,327	31.39	-
	C	142,190	17.7	-721	-23,658	29.59	-
	Overall	2,315,999	4.9	62,156	299,238	34.11	1,264,137
North	A	798,233	10.0	357	-22,423	28.24	-
	B	423,151	4.7	13,690	8,173	25.05	-
	Overall	1,221,384	8.2	14,047	-14,250	26.98	-
Northeast/University	A	1,184,005	12.8	8,435	130,523	25.09	158,000
	B	2,265,571	4.4	-4,943	-20,581	21.89	-
	C	21,340	-	-	-	-	-
	Overall	3,470,916	7.2	3,492	109,942	23.93	158,000
Park Road	A	123,973	17.9	-	33,220	30.25	146,459
	B	294,743	6.9	1,726	-21,147	28.70	-
	C	80,001	-	-	-	-	-
	Overall	498,717	8.5	1,726	12,073	29.10	146,459
SouthPark	A	2,637,693	5.5	20,024	47,115	36.77	-
	B	1,594,934	6.5	8,984	39,591	31.50	-
	C	188,480	9.3	-855	14,012	27.28	-
	Overall	4,421,107	6.1	29,153	100,718	33.91	-
Overall Market	A	30,225,465	6.9	243,608	2,391,997	33.69	4,621,701
	B	13,026,815	10.3	108,540	100,704	25.24	-
	C	935,083	8.9	-2,066	63,360	23.02	-
	Overall	44,187,363	7.9	350,082	2,556,061	30.62	4,621,701

Source: CBRE, Q1 2020.



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