

CHARLOTTE OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Charlotte Employment*	1,180k	1,216k	▲
Charlotte Unemployment*	3.8%	3.7%	▲
U.S. Unemployment	4.4%	3.9%	▼

* July 2018 data used to represent Q3 2018

Market Indicators (Overall, All Classes)

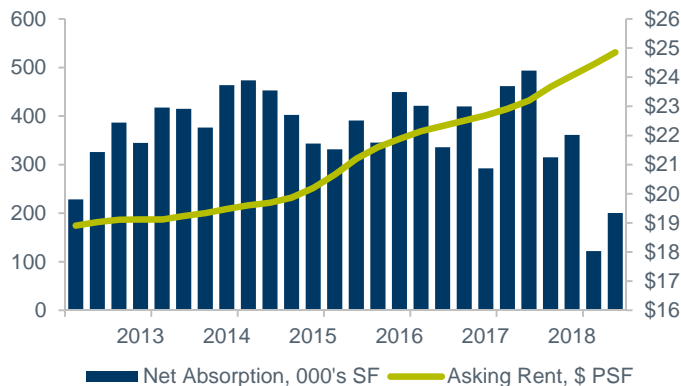
	Q3 17	Q3 18	12-Month Forecast
Vacancy	8.5%	9.1%	▼
Net Absorption (sf)	573k	1.0M	▲
Under Construction (sf)	2.4M	3.8M	▲
Average Asking Rent*	\$23.84	\$25.48	▲

*Rental rates reflect gross asking \$psf/year

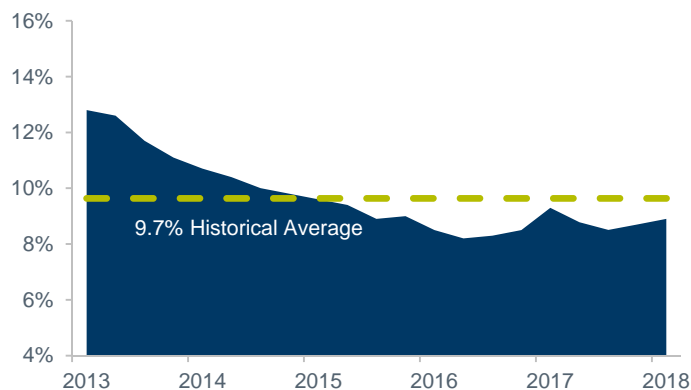
**Stats above are not reflection of U.S. MarketBeat tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Charlotte once again gained national recognition as the city's future continues to look bright. Earlier this quarter, Charlotte grabbed the number two spot on Business Facilities' annual ranking report for economic growth potential beating out Denver, Colorado and finishing behind Austin, Texas. All three cities are known for attracting a highly skilled, educated millennial workforce, that companies of all sizes are eager to tap into. Charlotte is also considered a leading fintech hub for startups that has become a huge catalyst for why Charlotte landed in the number 10 spot for startup growth. Year-over-year Charlotte's unemployment rate has decreased from 3.8% to 3.7% and is currently below the national average of 3.9%. During that same time frame, Charlotte has netted 36,700 jobs. Recent corporate announcements such as Dentsply, AXA, and Sitehands, support the notion that high paying job growth is anticipated to continue for the foreseeable future.

Market Overview

Vacancy increased slightly to 9.1% from 8.9% during the quarter. The majority of that increase can be explained by an old industrial building, now called "The Mill" in Iredell County. The 1.1 million square feet (msf) of newly converted office space has one anchor tenant (Concord Global Trading) and currently has 600,000 square feet (sf) of vacant office space. This building also accounts for most of the increase in delivered office space for the year, which is currently at just under 1.45 msf year-to-date and has only occurred in suburban submarkets. As of quarter end, there is 3.8 msf under construction in the Charlotte market, 36% of which is considered speculative development and 64% are build-to-suit projects. Absorption through the first half year was lagging behind the annual average, but in third quarter 2018, absorption shot up to just over 1.0 msf and is on track to hit Charlotte's annual average of 1.4 msf absorbed. Big block leases in the Uptown/CBD, Airport, South/485 and University suburban markets accounted for 74% of the third quarter 850,000 sf net absorption. Year-to-date Class A asking rents have risen 5.4% to \$29.89 per square foot (psf) gross and Class B asking rents have risen 12.2% to \$22.02 psf. 2018 has been a strong year for investment sales as Charlotte saw another record breaking sale in the third quarter. Year-to-date, a total of \$872.5 million of office space sold, with an average per-square-foot-price of \$220.

Suburban

The second highest per-square-foot office sale ever to happen did not occur in Uptown/CBD but just outside the core business district in the Midtown submarket. Zurich Alternative Asset Management acquired 500 E Morehead from Beacon Partners for \$88.5 million (\$496 psf). Only 615 S College, which sold earlier this year for \$598 psf was more expensive. The sale shows how extremely sought after newly delivered, Class A office space in Midtown is and will continue to be. Other speculative developments in Midtown such as the Refinery and Railyard should also reach similar pricing levels when they inevitably sell upon to lease up. Year-to-date there has been 572,000 sf of absorbed office space and 1.45 msf of newly delivered space. The current vacancy rate has slightly increased to 9.0% and the current asking rents have increased 5.7% to \$23.71 psf.

CBD/Uptown

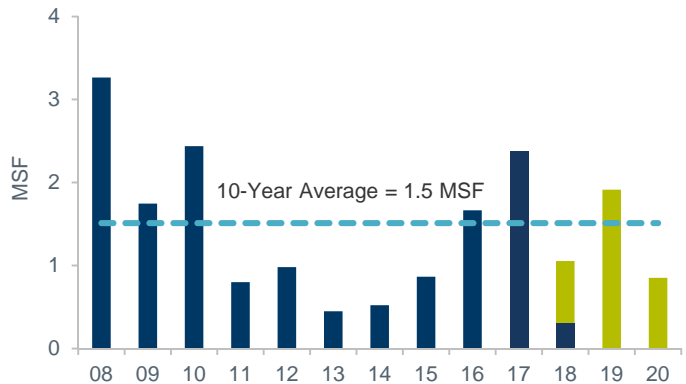
Overall asking rents in the CBD/Uptown increased 4.0% year-to-date to an average of \$32.39 psf. Currently, there is 1.6 msf under construction which should lead to a decrease in vacancy (9.8%) as the properties are heavily preleased. Year-to-date, the CBD/Uptown submarket has absorbed 473,000 sf of office space. Investment activity in Charlotte's CBD has not slowed as third quarter saw two significant transactions. Triangle Capital sold 129 W Trade Street to Somerset Properties for \$24 million (\$156 psf) and Gramercy Property Trust purchased 200 N College Street from Shidler Group for \$54.5 million (\$120 psf). Institutional capital investments have been extremely strong in 2018, accumulating to a total of \$440 million, with no signs of slowing as investors view Charlotte as a viable and stable secondary market with growth potential.

Outlook

- With 1.6 msf of supply currently under construction in the CBD/Uptown, rental growth may begin to slow until these Class A trophy buildings deliver along the Stonewall corridor.
- As new "spec" supply is delivered in the urban core markets, vacancy rates could start to increase temporarily in 2019.
- As vacancy decreases and rental rates continue to rise, owners are expected to sell properties for record high amounts as Charlotte demonstrates it is a viable and highly sought after investment market.

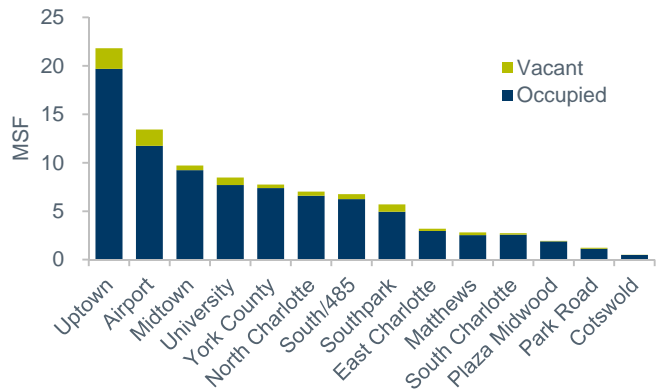
New Supply

PROJECTED TO BE 27% ABOVE THE HISTORIC AVERAGE IN 2019



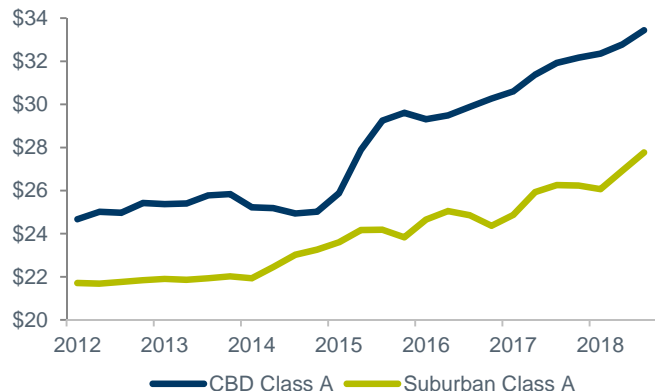
Sublease & Direct Trend

SUBLEASE SPACE RECEDING



Class A Asking Rent Trend

CBD RENTS INCREASED 3.95% YEAR-OVER-YEAR



MARKETBEAT
Charlotte
Office Q3 2018



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	TOTAL VACANT (SF)	OVERALL VACANCY %	YTD NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT*
Airport	344	13,424,299	1,666,397	1,681,508	12.5%	139,520	186,426	384,365	\$22.25
CBD/Uptown	123	21,817,133	2,078,683	2,133,886	9.8%	473,250	0	1,595,073	\$32.39
Cleveland County	274	1,830,593	66,875	66,875	3.7%	15,034	10,901	0	\$12.64
Cotswold	37	490,271	1,341	1,341	0.3%	1,241	0	0	\$23.31
East Charlotte	323	3,199,701	242,236	242,236	7.6%	16,549	0	0	\$15.81
Gaston County	708	4,137,982	231,502	244,702	5.9%	-23,170	0	0	\$14.54
Iredell County	467	5,432,180	1,315,185	1,330,089	24.5%	26,575	1,100,000	6,636	\$19.32
Matthews	241	2,817,480	283,802	287,008	10.2%	10,590	13,810	0	\$18.44
Midtown	649	9,712,229	452,186	474,579	4.9%	-77,072	0	804,016	\$32.48
Northeast/I-77	393	5,683,071	360,077	423,520	7.5%	45,711	42,093	6,000	\$21.81
Northwest Charlotte	194	1,333,022	44,482	44,482	3.3%	18,299	10,834	67,920	\$23.75
Park Road	84	1,230,376	96,243	96,243	7.8%	48,649	0	0	\$26.10
Plaza Midwood/NoDa	278	1,941,929	48,208	48,208	2.5%	21,561	0	552,717	\$28.49
South Charlotte	174	2,730,881	154,013	156,513	5.7%	-14,790	0	0	\$23.28
South/485	172	6,762,019	438,645	511,514	7.6%	165,622	0	408,151	\$33.00
Southpark	100	5,694,863	712,161	749,762	13.2%	-4,570	0	0	\$30.40
Union County	405	2,537,939	155,249	155,249	6.1%	24,327	12,430	4,600	\$18.53
University	152	8,470,750	757,332	767,825	9.1%	104,478	0	0	\$23.05
York County	576	7,755,805	340,845	362,714	4.7%	53,021	78,732	18,000	\$20.38
SUBURBAN MARKET TOTAL	5,571	85,185,390	7,366,779	7,644,368	9.0%	571,575	1,455,226	2,252,405	\$23.71
CBD/UPDOWN MARKET TOTAL	123	21,817,133	2,078,683	2,133,886	9.8%	473,250	0	1,595,073	\$32.39
Class A	278	41,711,663	4,552,744	4,777,822	11.5%	866,048	214,862	3,616,033	\$29.89
Class B	2,138	45,460,314	4,155,020	4,260,234	9.4%	183,461	1,240,364	231,445	\$22.02
Class C	3,260	19,830,546	737,698	740,198	3.7%	-4,684	0	0	\$18.25
CHARLOTTE METRO TOTAL	5,694	107,002,523	9,445,462	9,778,254	9.1%	1,044,825	1,455,226	3,847,478	\$25.48

*Office asking rents converted to full service gross ** Stats above are not reflection of U.S. MarketBeat tables

Key Lease Transactions Q3 2018

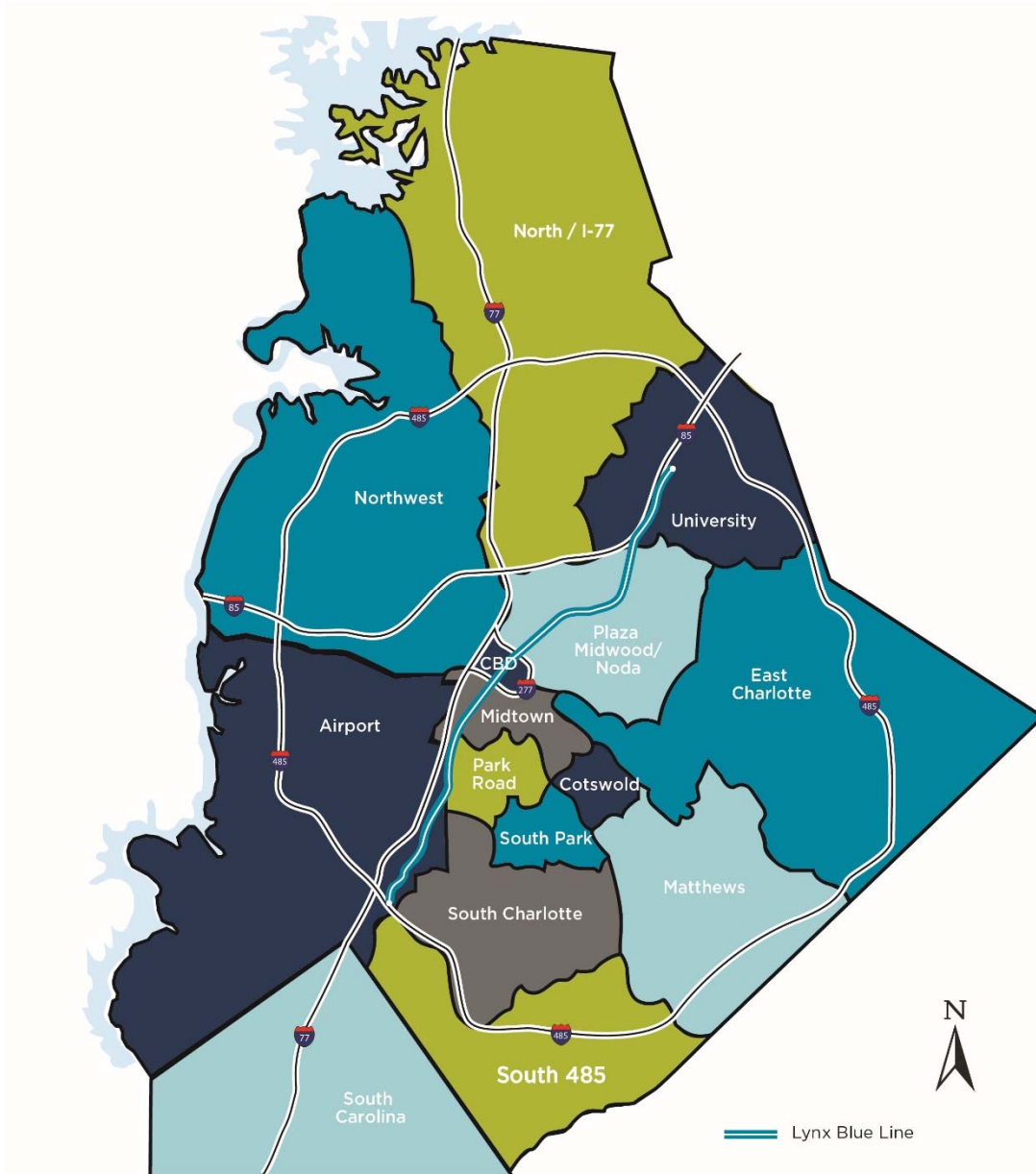
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Deerfield Dr	120,000	RoundPoint Mortgage	New	York County
3540 Toringdon Way	77,141	Heartland Payment Systems	New	South/485
1422 S Tryon St	44,768	WeWork	New	Midtown
1422 S Tryon St	34,000	Ernst & Young	New	Midtown
3435-5445 77 Center Dr	31,355	Archroma	New	Airport

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
200 N College St	455,749	Shidler Group / TPG	\$54,500,000 / \$120	CBD
1210 Avidxchange Ln	201,450	Lexington Realty / Davidson Kempner	\$39,600,000 / \$197	Plaza Midwood/NoDa
500 E Morehead St	187,000	Beacon Partners / Zurich Alternative	\$88,500,000 / \$473	Midtown
129 W Trade St	163,742	Triangle Capital / Somerset	\$24,000,000 / \$147	CBD
10130 Perimeter Pkwy	125,000	Agellan / Albany Road RE Partners	\$22,650,000 / \$181	Northeast/I-77

OFFICE SUBMARKETS

CHARLOTTE, NC



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