

# MARKETBEAT

## Charlotte

### Office Q4 2018



#### CHARLOTTE OFFICE

##### Economic Indicators

|                         | Q4 17  | Q4 18  | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Charlotte Employment*   | 1,182k | 1,221k | ▲                 |
| Charlotte Unemployment* | 3.9%   | 3.4%   | ▼                 |
| U.S. Unemployment       | 4.1%   | 3.7%   | ▼                 |

\* November 2018 data used to represent Q4 2018

##### Market Indicators (Overall, All Classes)

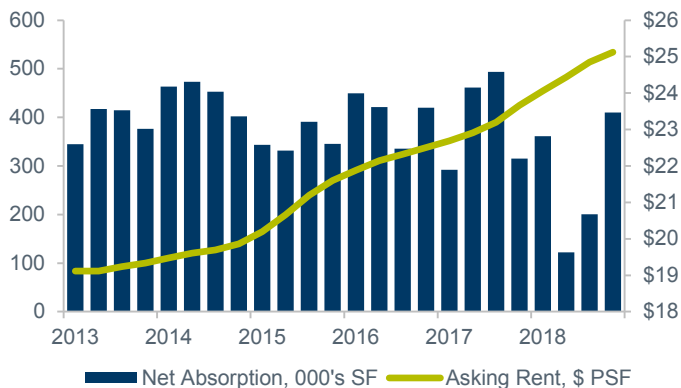
|                         | Q4 17   | Q4 18   | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy                 | 8.7%    | 7.9%    | ▼                 |
| Net Absorption (sf)     | -243k   | 600k    | ▲                 |
| Under Construction (sf) | 2.3M    | 4.3M    | ▲                 |
| Average Asking Rent*    | \$24.48 | \$25.56 | ▲                 |

\*Rental rates reflect gross asking \$psf/year

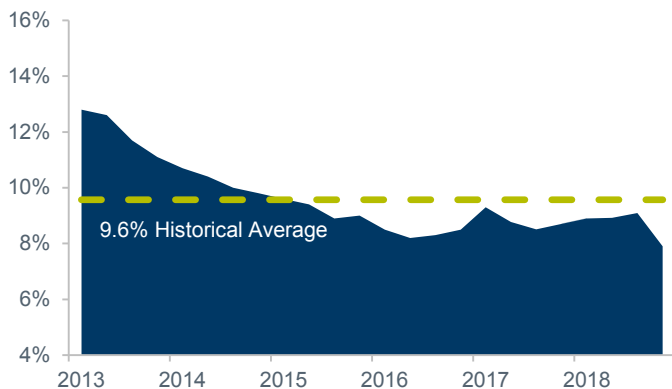
\*\*Stats above are not reflection of U.S. MarketBeat tables

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

This past November the Charlotte Chamber and the Charlotte Regional Partnership aligned and formed the Charlotte Regional Business Alliance, creating a much needed united front between the two organizations. Already, the union between the two has made significant headway, most notably in a recent announcement that Honeywell will be relocating its headquarters to Charlotte, bringing over 1,000 jobs to the area. Other significant wins include ServiceMac announcing it will add 1,000 jobs over the next five years, Movement Mortgage doubling the size of its HQ and Cognizant Technology Solutions adding 300 jobs as well. During 2018, the Charlotte MSA added 39,000 jobs and currently has a 3.4% unemployment rate, just below the 3.7% national average. Coming in 12<sup>th</sup> on the MagnifyMoney list of America's top millennial boomtowns, it is clear that young professionals and companies prefer working and doing business in the Queen City.

## Market Overview

With speculation surrounding the possibility of an economic slowdown it has been reassuring for landlords, tenants and investors alike to see Charlotte's office market keep up with demand. In 2018, Charlotte absorbed more than 1.6 million square feet (msf) of office space which is above its historical average. Currently, there is 4.3 msf of office space under construction, of which 3.2 msf is expected to deliver in 2019. This highly sought after new Class A product will sustain and keep absorption numbers high in 2019. On the other hand, vacancy is likely to increase temporarily due to this large quantity of expected deliveries. In 2018, there was limited new supply that delivered, which allowed the vacancy rate to decrease 100 basis points (bps) to 7.9%. 2018 was also a good year for rents. Overall asking rents for the year rose 4.4% to \$25.56 per square foot (psf) gross, whereas Class A asking rents rose 6.3% to \$30.13 psf. The office sales volume for the year was \$1.6 billion, finishing slightly above Charlotte's five-year average of \$1.5 billion. Average office cap rates for the year were 6.9%, and the average sales price was \$236 psf, a 15.9% increase for the year.

### Suburban

In Q3 2018, Charlotte's second highest value sales transaction psf occurred right outside the CBD, located at 500 E Morehead (Midtown submarket) for \$496 psf. Shortly after, another historic sale occurred in Midtown with 2151 Hawkins selling for \$470 psf. This trend will likely not stop anytime soon as Midtown and Uptown begin to slowly converge and property is more highly sought after in Midtown. This trend is ever more prevalent with the recent approval by the Charlotte City Council in favor of Spectrum's mixed-use 440,000-sf office building located near similar developments such as Dimensional Place and the Railyard. This trend does not only pertain to the south side of Charlotte, but also north, where speculative sites such as CAMP North End and the General Assembly have been announced. Absorption for the year was 1.1 msf and the vacancy rate is currently 7.5%. Asking rates are currently \$23.68 psf and should increase early 2019 as properties deliver.

### CBD/Uptown

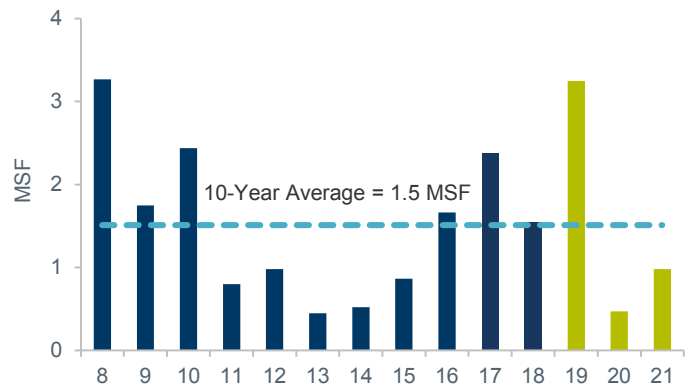
Exciting new development is also occurring Uptown. Construction has just started on the 156,000-sf FNB tower, which is expected to be completed in early 2021. Also announced was the approved second phase of Legacy Union located at 650 S Tryon. Lincoln Harris and Goldman Sachs announced that this 363,500-sf Class A office building will be anchored by Deloitte, who will take 90,000 sf on the top floors. Combined with Phase I, Legacy Union will deliver over 1.0 msf of total office space, bridging the gap between Uptown and Midtown. The average asking rent for Uptown is currently \$32.78 psf. with prime rents reaching \$40.00 psf. 2018 ended with a vacancy rate of 9.4% and absorption for the year totaled 554,000 sf.

#### Outlook

- With 2.0 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 space is leased 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.

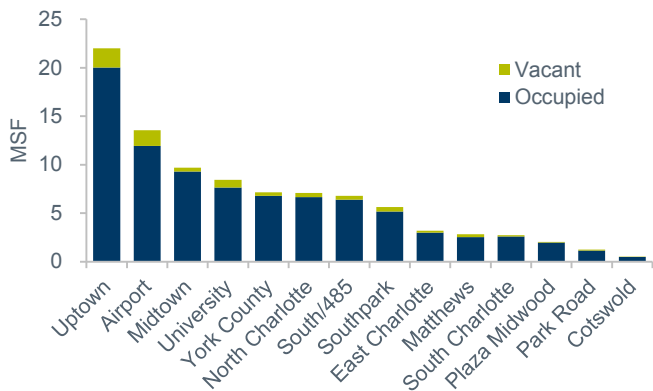
### New Supply

PROJECTED TO BE 115% ABOVE THE HISTORIC AVERAGE IN 2019



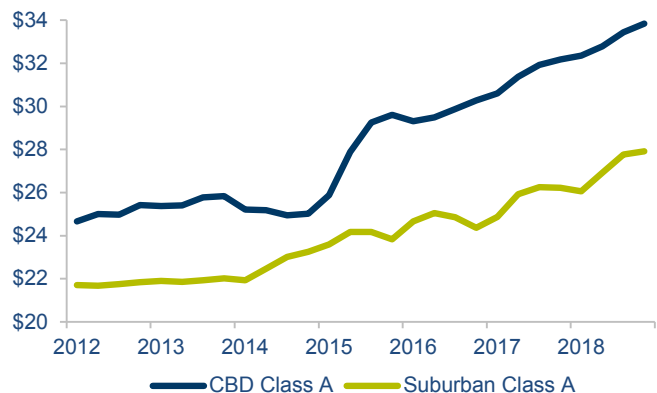
### Sublease & Direct Trend

SUBLEASE SPACE RECEDING



### Class A Asking Rent Trend

CBD RENTS INCREASED 5.2% IN 2018



**MARKETBEAT**  
**Charlotte**  
**Office Q4 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                        | 348          | 13,570,502         | 1,619,748          | 1,678,484         | 12.4%             | 289,911                 | 331,357             | 347,469          | \$22.62              |
| CBD/Uptown                     | 123          | 22,018,329         | 1,980,079          | 2,070,431         | 9.4%              | 554,810                 | 0                   | 1,957,573        | \$32.78              |
| Cleveland County               | 277          | 1,834,297          | 56,595             | 56,595            | 3.1%              | 25,314                  | 10,901              | 0                | \$13.10              |
| Cotswold                       | 37           | 490,816            | 3,253              | 3,253             | 0.7%              | -671                    | 0                   | 0                | \$23.10              |
| East Charlotte                 | 323          | 3,200,941          | 221,540            | 221,540           | 6.9%              | 40,110                  | 0                   | 0                | \$15.93              |
| Gaston County                  | 713          | 4,202,385          | 231,514            | 240,238           | 5.7%              | -6,982                  | 0                   | 0                | \$14.04              |
| Iredell County                 | 467          | 5,431,245          | 390,419            | 405,323           | 7.5%              | 31,341                  | 1,122,492           | 6,636            | \$18.55              |
| Matthews                       | 240          | 2,813,609          | 274,004            | 275,810           | 9.8%              | 20,388                  | 13,810              | 0                | \$18.54              |
| Midtown                        | 650          | 9,698,078          | 408,238            | 416,080           | 4.3%              | -92,939                 | 0                   | 927,935          | \$32.27              |
| Northeast/I-77                 | 394          | 5,746,928          | 401,986            | 471,019           | 8.2%              | 3,802                   | 42,093              | 0                | \$21.62              |
| Northwest Charlotte            | 195          | 1,335,695          | 24,187             | 24,187            | 1.8%              | 38,594                  | 10,834              | 67,920           | \$19.38              |
| Park Road                      | 85           | 1,233,092          | 80,890             | 80,890            | 6.6%              | 64,002                  | 0                   | 0                | \$25.50              |
| Plaza Midwood/NoDa             | 280          | 2,035,100          | 59,759             | 59,759            | 2.9%              | 12,510                  | 0                   | 552,717          | \$28.25              |
| South Charlotte                | 174          | 2,734,909          | 150,032            | 153,802           | 5.6%              | -10,809                 | 0                   | 0                | \$22.84              |
| South/485                      | 175          | 6,796,737          | 412,107            | 458,657           | 6.7%              | 217,160                 | 0                   | 383,151          | \$32.96              |
| Southpark                      | 99           | 5,640,435          | 466,604            | 558,261           | 9.9%              | 237,441                 | 0                   | 0                | \$31.61              |
| Union County                   | 404          | 2,533,649          | 121,619            | 121,619           | 4.8%              | 62,557                  | 17,030              | 9,000            | \$18.85              |
| University                     | 154          | 8,431,113          | 770,114            | 778,237           | 9.2%              | 92,466                  | 0                   | 0                | \$23.21              |
| York County                    | 587          | 7,156,072          | 363,538            | 383,443           | 5.4%              | 61,235                  | 0                   | 27,103           | \$20.25              |
| <b>SUBURBAN MARKET TOTAL</b>   | <b>5,602</b> | <b>84,885,603</b>  | <b>6,056,177</b>   | <b>6,387,197</b>  | <b>7.5%</b>       | <b>1,085,430</b>        | <b>1,548,517</b>    | <b>2,321,931</b> | <b>\$23.68</b>       |
| <b>CBD/UPDOWN MARKET TOTAL</b> | <b>123</b>   | <b>22,018,329</b>  | <b>1,980,079</b>   | <b>2,070,431</b>  | <b>9.4%</b>       | <b>554,810</b>          | <b>0</b>            | <b>1,957,573</b> | <b>\$32.78</b>       |
| Class A                        | 277          | 41,997,018         | 4,194,987          | 4,509,798         | 10.7%             | 1,309,804               | 297,388             | 3,963,577        | \$30.13              |
| Class B                        | 2,170        | 44,929,839         | 3,131,135          | 3,222,024         | 7.2%              | 298,368                 | 1,251,129           | 315,927          | \$22.51              |
| Class C                        | 3,278        | 19,977,075         | 710,134            | 725,806           | 3.6%              | 32,068                  | 0                   | 0                | \$17.09              |
| <b>CHARLOTTE METRO TOTAL</b>   | <b>5,725</b> | <b>106,903,932</b> | <b>8,036,256</b>   | <b>8,457,628</b>  | <b>7.9%</b>       | <b>1,640,240</b>        | <b>1,548,517</b>    | <b>4,279,504</b> | <b>\$25.56</b>       |

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

**Key Lease Transactions Q4 2018**

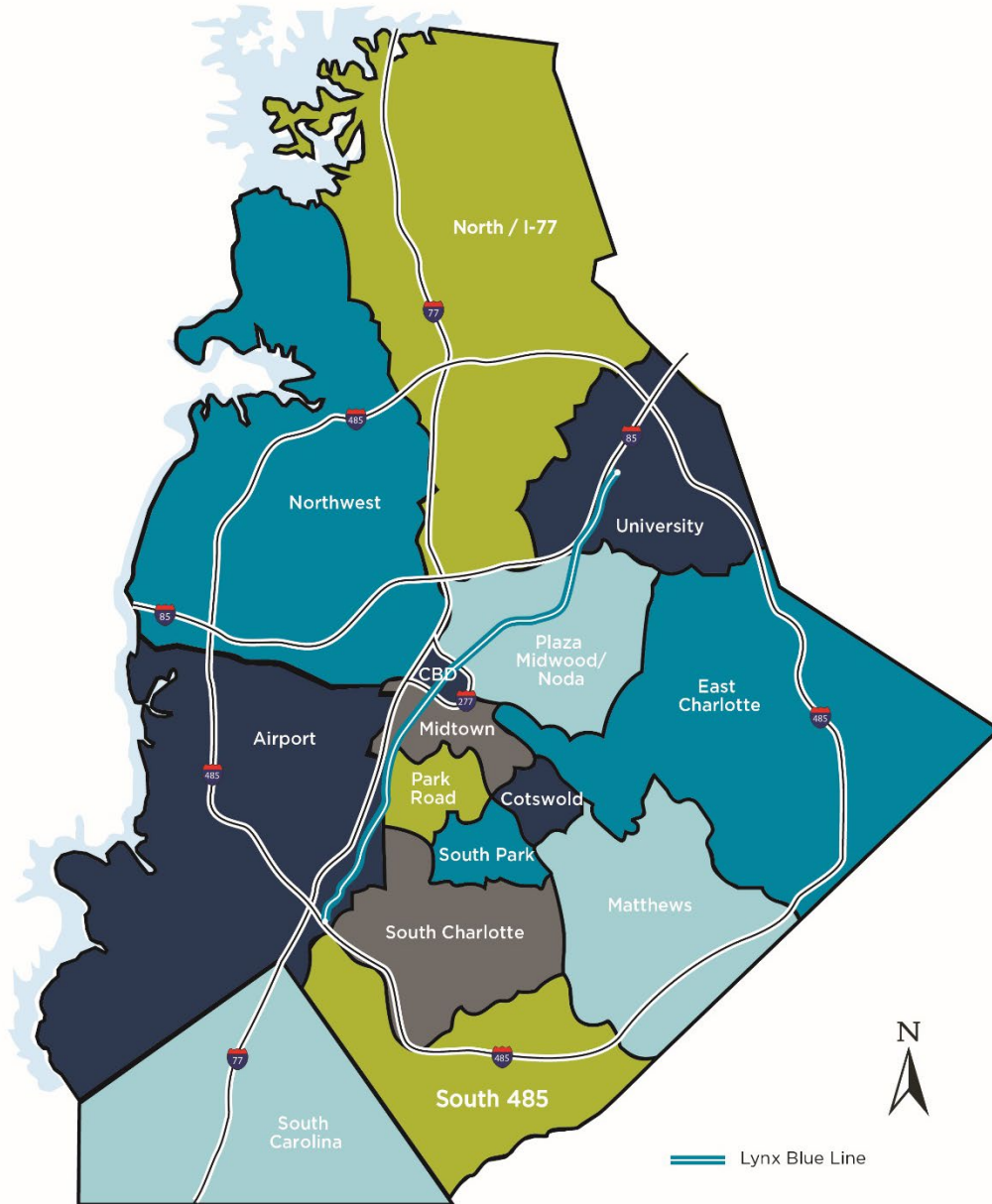
| PROPERTY                      | SF      | TENANT          | TRANSACTION TYPE | SUBMARKET        |
|-------------------------------|---------|-----------------|------------------|------------------|
| 901 W Trade St                | 242,820 | Bank of America | Renewal          | CBD              |
| 650 S Tryon                   | 90,000  | Deloitte        | New              | CBD              |
| 9626 Old Bailes Rd            | 32,000  | ServiceMac      | New              | Lancaster County |
| 3600 Arco Corporate Dr        | 31,500  | GSA             | New              | Airport          |
| 13320 Ballantyne Corporate Pl | 28,525  | Dentsply Sirona | New              | South/485        |

**Key Sales Transactions Q4 2018**

| PROPERTY                   | SF      | SELLER/BUYER                                      | PRICE / \$PSF         | SUBMARKET        |
|----------------------------|---------|---|-----------------------|------------------|
| Capitol Towers             | 480,000 | Goldman Sachs & Lincoln Harris / Preferred Office | \$208,800,000 / \$435 | Southpark        |
| Cambridge Corporate Center | 349,815 | Origin & ACREP / Stream Realty & Arch Companies   | \$63,000,000 / \$180  | University       |
| CompuCom Headquarters      | 150,000 | Keith Corp & MPV Prop. / Capital Square           | \$39,000,000 / \$260  | Lancaster County |
| Three Resource Square      | 124,767 | Torchlight Investors / CREMAC                     | \$18,470,000 / \$148  | University       |
| 2151 Hawkins               | 27,045  | Southend Ventures / Portman Holdings              | \$12,720,000 / \$470  | Midtown          |

## OFFICE SUBMARKETS

CHARLOTTE, NC



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