

INVESTMENT FORECAST

Office
Charlotte

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Uncertainty Not Discouraging Builders or Buyers; Arrivals and Cutbacks Engender Clashing Effects

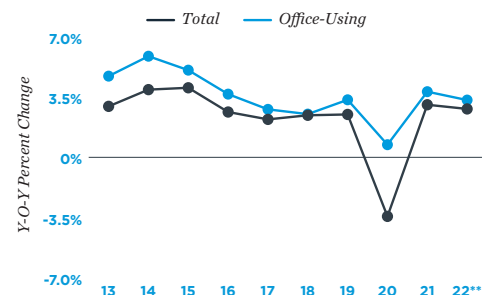
Developers amplify speculative construction, noting a plethora of firm relocations. Over the past several years, multiple companies have established regional headquarters in Charlotte, including Centene Corporation and Credit Karma most recently. Restrictions elsewhere are prompting additional firms to consider lower-cost, smaller floorplans in Charlotte, where businesses such as Honeywell are bringing employees back on a hybrid basis. This corporate in-migration is inciting developers to ramp up completions this year, building on last year's sharp rise. The robust construction pipeline will apply upward pressure to vacancy and limit Class A rent growth in the short term despite high levels of employment growth. Aside from the fully leased, 1 million-square-foot Duke Energy Tower, many of the next-largest projects slated for delivery in 2022 are speculative, with the Duke property representing a 60 percent reduction in the company's footprint.

Investors eagerly target office properties after pandemic-era retreat. Trade volume strengthened in late 2021 after investment activity slowed sharply in 2020. Transactions in the second half of last year point toward increased investor interest. Numerous trades involving high-end buildings have pushed office prices higher in recent months. Hotspots for Class A transactions besides Central Charlotte and adjacent Midtown-South End include the SouthPark neighborhood and the Interstate 77 corridor between Henderson Circle and Huntersville. These areas provide urbanlike amenities and nearby retail to those working in either locale. Cap rates are reported between 5 percent and 6 percent in these locations, usually involving buildings that are more than 90 percent leased. In other portions of the metro, investors looking to pay below the market's average price point of \$290 per square foot are targeting Class B and Class C assets around Charlotte Douglas International Airport and in east and northeast sections of Charlotte proper.

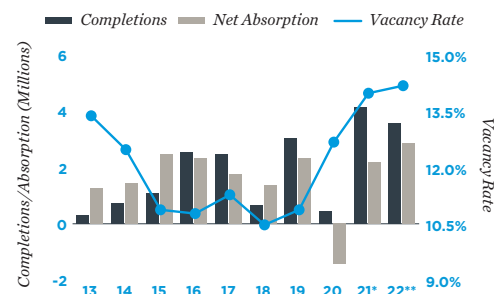
2022 Market Forecast

- Employment** ↑
 up 2.8% Firms will add 35,000 jobs to payrolls in 2022. This includes 12,000 traditional office-using positions.
- Construction** ↔
 3,566,000 sq. ft. Completions for 2022 are well above the annual average of 1.8 million square feet recorded between 2016 and 2020 but still trail 2021's high point of 4.1 million square feet.
- Vacancy** ↑
 up 20 bps Net absorption of nearly 3 million square feet is the highest tally since at least 2000. However, this comes short of supply additions, causing a minor uptick in vacancy to 14.2 percent.
- Rent** ↑
 up 1.6% Strong leasing velocity will push the average asking rent to \$28.55 per square foot. The pace of growth, however, is down significantly from the trailing-five-year average of 5.5 percent.
- Investment** ○
 Positive absorption in the CBD last year bolsters out-of-state and institutional buyers' confidence in Downtown Charlotte, potentially heightening competition for listings in 2022.

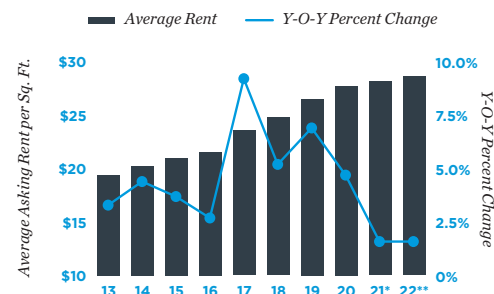
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.