

MARKET REPORT

Office
Charlotte Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

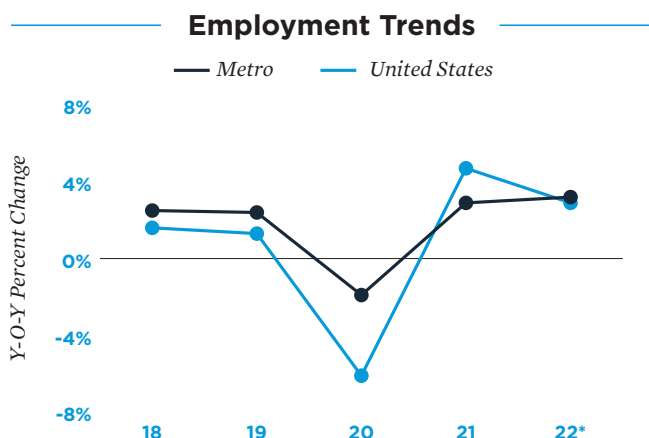
Pandemic-Era Shifts in Local Hiring to Materialize in Performance Improvements

Labor market composition to aid office property performance.

Charlotte's job base saw structural changes during the health crisis that have boosted the outlook for office assets in the metro. The first quarter of 2022 recorded the largest number of new job announcements in three years, highlighted by Fintech entrants like Robinhood and Credit Karma, as well as large traditional banks. The metro reported financial services job growth at a pace more than double the national rate during the yearlong stretch ended in March. Both financial services and life sciences employment figures were ahead of pre-pandemic levels, and technology-related job openings were at their highest measure in 12 months. These industries are major fillers of office space nationally in recent years, which should translate into heightened leasing once in-person operations return.

Vacancy climbs on large moves, but outlook still bright.

Net absorption fell negative in the first quarter of 2022, largely due to a major move-out by Wells Fargo, which is consolidating operations in the metro. Despite this, leasing activity is noteworthy, with at least 35 deals inked for sub-100,000-square-foot spaces since the start of 2022. These agreements from firms like Ingersoll Rand, Batson-Cook Construction and Guided Insurance Solutions suggest a return to positive net absorption in the coming quarters is likely. While construction activity is notable, the largest upcoming builds are built-to-suit, with the 770,000-square-foot Centene project and the 1 million-square-foot Duke Energy Tower the most sizable.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**40,000
JOBS**
will be created

EMPLOYMENT:

The gain of more than 9,000 traditionally office-using jobs in the first quarter aids the metrowide personnel count, which is expected to grow 3.2 percent by year-end. Labor supply concerns are one of the only pressures preventing future gains of this scale.



**3,700,000
SQ. FT.**
will be completed

CONSTRUCTION:

Construction is expected to moderate when compared to last year's 4.7 percent expansion, but the 3.3 percent rise in inventory in 2022 is still ahead of historic trends. This level of development is 1.2 million square feet above of the trailing five-year average.



**100
BASIS POINT**
increase in vacancy

VACANCY:

After rising 120 basis points in the first three months of this year, vacancy is expected to retreat 20 basis points over the final three quarters of 2022, ultimately reaching 15.2 percent by the end of December.

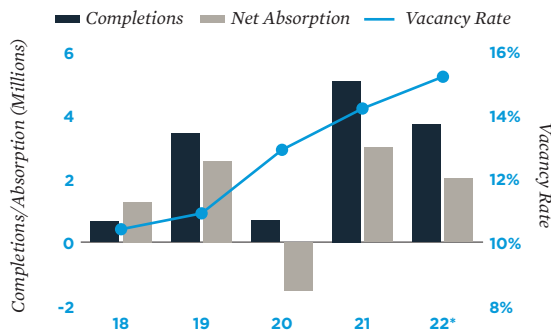


**2.5%
INCREASE**
in asking rent

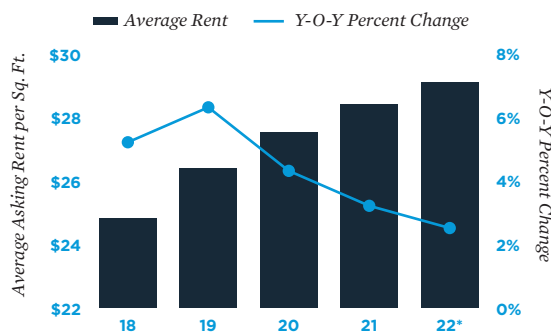
RENT:

A rise in the average asking rent to \$29.10 per square foot this year will be the 12th consecutive year office rents have increased in Charlotte. Since the onset of the pandemic, marketed rents have grown more than 10 percent in the metro.

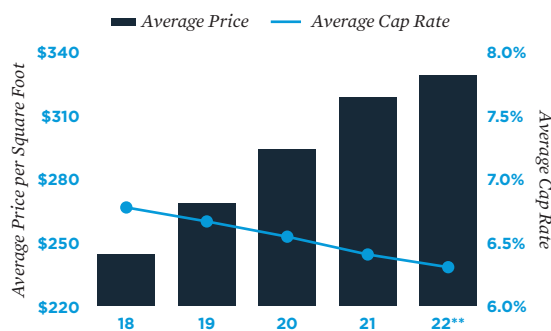
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics; Charlotte Business Alliance

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

4,070,000 sq. ft. completed

- Builders grew office stock by 3.8 percent in the 12 months preceding April, a figure more than 1.5 million square feet above the trailing five-year average for the metro.
- South Charlotte, Midtown and the CBD have added the most new space during this yearlong span, at a combined 2.7 million square feet.



VACANCY

230 basis point increase in vacancy Y-O-Y

- Despite vacancy rising on an annual basis to 15.4 percent in March, Midtown, Cabarrus County and York County all recorded vacancy compression of at least 80 basis points over the same 12-month interval.
- Due to consolidation from firms like Wells Fargo and Duke Energy, Class A vacancy has climbed at a more rapid pace than the Class B/C rate.



RENT

3.5% increase in the average asking rent Y-O-Y

- An influx of newer higher-end space available to lease contributed to the average asking rent climbing to \$28.75 per square foot at the end of March.
- Asking rents rising in 13 of the metro's 20 submarkets buoyed the metro-wide rate of rent growth. Above market annual gains in East Charlotte and Southeast Charlotte drove much of this increase.

Investment Highlights

- Transaction velocity reached a record high during the 12-month period ended in March, marking roughly a 15 percent increase in the number of office trades when compared to the 2019 level. Corporate entrances by notable firms like Robinhood have raised the visibility of office properties in Charlotte, resulting in stronger interest from institutions and out-of-state buyers. The majority of institutional grade stock is located in the CBD, SouthPark and Midtown, where per-square-foot pricing is the highest in the Charlotte metro.
- Class B/C properties change hands frequently in East and Northeast Charlotte, as well as near Charlotte Douglas International Airport. Sales pricing in Northeast Charlotte falls below the market average of \$329 per square foot, with trades commonly occurring along Interstate 77 and near the university. East Charlotte and the airport have lower entry costs, and institutions have been active here as well, even for smaller Class B assets.
- Local buyers have been most active when targeting buildings in more distant corners of the metro, like York and Carrabus counties. Cap rates here can vary from the high-5 percent to high-7 percent range, depending on tenant rosters and lease terms.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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