

MARKET REPORT

Office
Charlotte Metro Area

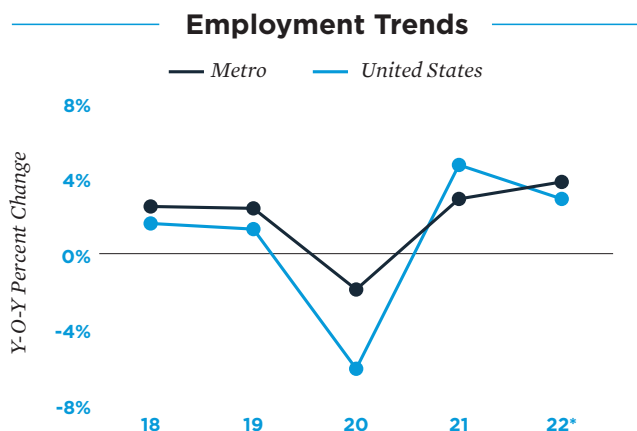
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4Q/22

Large-Scale, In-Metro Relocations Shake up the Office Landscape; Builders Bullish on Midtown

Charlotte firms upgrade via consolidation. A flight-to-quality underscores overall demand for offices in Charlotte, with a number of the metro's cornerstone employers vacating outdated offices for newer-built, highly-amenitized spaces. Preliminary leasing data from the third quarter reflects this. Locally-based firms Robinson Bradshaw and the Atlantic Coast Conference announced they will relocate their respective headquarters to the Legacy Union project in the CBD. These organizations will join Honeywell and Service Logic, who consolidated operations in the area over the past year. While these moves have put a substantial amount of space back on the market, some vacated stock is undergoing significant property upgrades to attract new tenants, or is being redeveloped. The One Wells Fargo Center, for example, is receiving more than \$10 million in renovations to help lease the space vacated by previous tenants.

Speculative builds emerge in first-ring suburb. Development is elevated in Midtown, with builders confident in future demand for office space here. Local leasing has been notably robust as of late, with area vacancy falling 370 basis points since 2020, despite rapid development. As such, builders are underway on more speculative space here than anywhere else in the metro, with roughly 80 percent of its 1 million-square-foot pipeline unaccounted for as of October. Local vacancy may edge up if these spaces struggle to secure tenants, though a six-quarter stretch of positive Class A absorption suggests that pent-up demand exists in Midtown.




* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook


**48,000
JOBS**
will be created


EMPLOYMENT:

Charlotte employers expand the total job tally by 3.8 percent during 2022, moderating the pace of hiring after surpassing the pre-pandemic peak in December of last year. Of these positions, nearly 40 percent will be in traditional office-using fields.


**2,240,000
SQ. FT.**
will be completed

CONSTRUCTION:

For the fifth time in seven years, developers expand metro inventory by at least 2 percent. Nevertheless, supply additions in 2022 notably trail last year, when nearly 5 million square feet of space was finalized.


**110
BASIS POINT**
increase in vacancy

VACANCY:

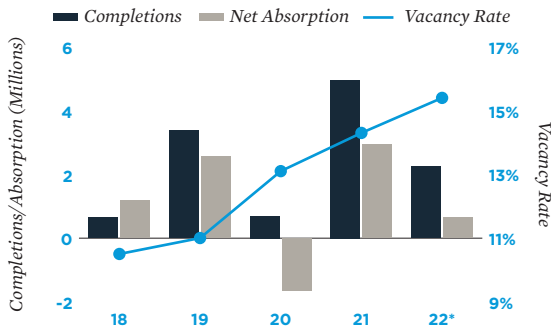
Availability reaches 15.4 percent, as the metro's vacant stock swells by more than 1.5 million square feet this year. While this rate represents a decade-high, vacancy is still 60 basis points lower than the 2008-2011 average.


**3.8%
INCREASE**
in asking rent

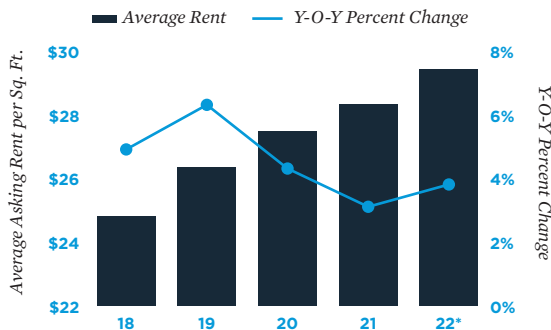
RENT:

The average asking rate in Charlotte sustains its upward momentum, despite rising vacancy, reaching \$29.41 per square foot by year-end. The Class B/C segment will likely lead the way, as the sector recorded a 5.1 percent rent increase during the first half.

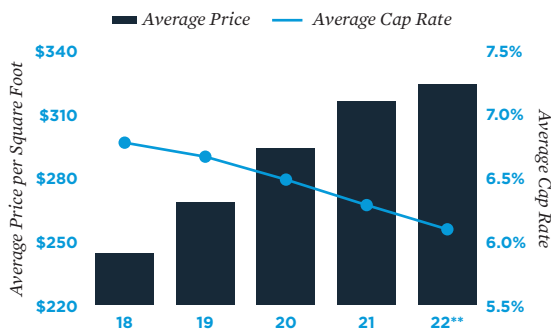
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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2Q 2022 - 12-Month Period

CONSTRUCTION

2,643,000 sq. ft. completed

- Northwest Charlotte and Midtown both ranked among the top major U.S. submarkets for stock expansion during the 12-month span ending in June, as local inventories grew by 11.1 and 10.8 percent, respectively.
- Builders are underway on 1.4 million square feet in the CBD, with Duke Energy Plaza accounting for the bulk of this volume.

VACANCY

90 basis point increase in vacancy Y-O-Y

- After vacancy was unchanged during the last six months of 2021, tenants put a net of roughly 550,000 square feet back onto the market during the first half of 2022. This placed availability at 15.2 percent in June.
- Suburban vacancy fell 10 basis points to 14.4 percent. In contrast, availability in the CBD jumped up 490 basis points to 18.3 percent.

RENT

5.1% increase in the average asking rent Y-O-Y

- The pace of rent growth nearly doubled relative to the prior 12-month span, as the average asking rate advanced to \$29.24 per square foot in June.
- Charlotte's mean Class B/C marketed rate reached \$25.16 per square foot in June following a 6.4 percent yearlong gain, the largest lower- to mid-tier rent growth recorded among major markets east of the Mississippi River.

Investment Highlights

- Class A office trading more than doubled over the past year ending in June when compared to the prior 12-month period. This increase played a role in Charlotte's average price point rising 6 percent to \$324 per square foot. Upper-tier deal flow also lowered the mean cap rate 30 basis points to 6.1 percent, the largest contraction over a yearlong stretch in 15 years.
- Demand for top-tier space was the strongest in Midtown over the past year. Despite accounting for the most development activity in the metro, the submarket's Class A vacancy rate fell 330 basis points over the last 12 months, signaling robust demand for high-quality offices. As a result, these properties are commanding pricing that ranges from \$430 to \$620 per square foot, with some buyers paying premiums for offices within walking distance of the Charlotte Rail Trail.
- Locales north of the CBD, between Interstate 77 and Interstate 85, are recording an increase in mid-tier trading, as local competition for these listings has elevated. Class B assets in these areas almost exclusively transact with cap rates in the high-6 percent band, dropping from last year amid a deeper pool of out-of-state buyers. Still, entry costs here often fall between \$130 to \$190 per square foot, below the metro's average for the subsector.