

MARKET REPORT

Office
Charlotte Metro Area

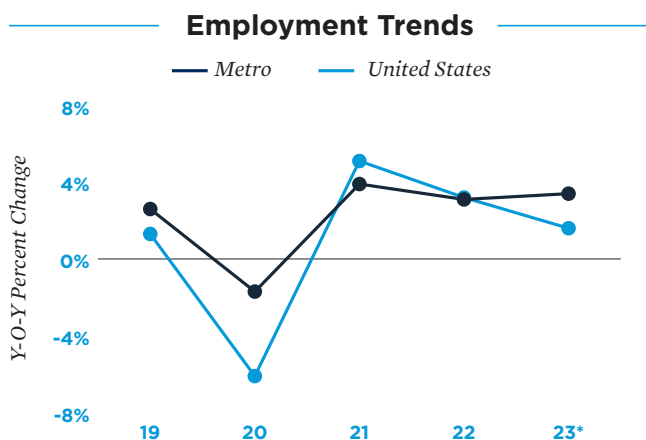
IPA
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4Q/23

Charlotte's Transforming Commuter Environment is Shaping the Nature of Local Office Needs

Demand in transit-oriented areas remains strong. A preference for newer builds is underscoring leasing activity in Charlotte's office sector. Through September, nearly one-third of the year's 25 move-ins over 10,000 square feet were to spaces delivered after 2017. Charlotte's lack of amenities outside the Interstate 277 loop has challenged managers of office-using companies in retaining in-person attendance. Some firms are addressing this by committing to newer, highly-amenitized spaces — many of which are transit-oriented. This shift fueled demand in Midtown, where over 60 percent of the submarket's Class A stock was delivered after the Blue Line extension was completed here in 2018. Companies absorbed more than 700,000 square feet on net here in each of the prior four years, aside from 2020. This trend is also on pace to repeat in 2023, outstripping the 539,000 square feet opening here this year.

Developers still bullish on Midtown. In September, the submarket accounted for 40 percent of the metro's 10.6 million-square-foot pipeline. Vacancy here fell by 140 basis points over the past year to 10 percent, which should steer tenants to new builds and limit supply-side pressures. Meanwhile, over in the CBD, nominal deliveries are slated for 2023. This should mitigate rises in local vacancy near-term, after already reaching a record of 19 percent in June. Still, 411,000 square feet is slated for the area in 2024, which could cause operators to ease asking rates next year to preserve occupancies.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**45,000
JOBS**
will be created

EMPLOYMENT:

Companies in traditionally office-using sectors added roughly 8,700 personnel through the first seven months of the year. This hiring has placed the metro's overall headcount on track to grow by 3.4 percent through 2023.



**1,920,000
SQ. FT.**
will be completed

CONSTRUCTION:

At 1.6 percent, inventory growth in 2023 will land under the long-term pace. Alongside Midtown, Northeast and Northwest Charlotte receive the bulk of space deliveries, at a combined 1.1 million square feet.



**130
BASIS POINT**
increase in vacancy

VACANCY:

Amid large local delivery slates, Northeast and Northwest Charlotte may lead the metro in vacancy increases near-term. The marketwide rate will close out 2023 at an all-time high of 17.0 percent.

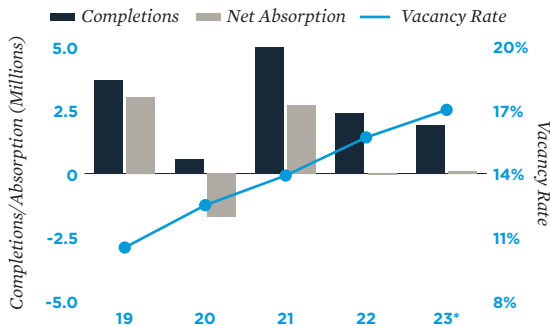


**0.5%
DECREASE**
in asking rent

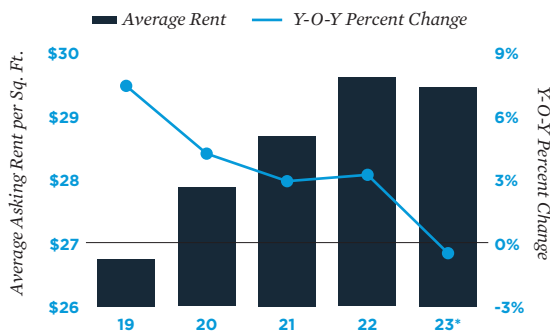
RENT:

By year-end, the mean asking rent in Charlotte will tick down to \$29.45 per square foot. The Class B/C rate fell by 0.3 percent during the second quarter, suggesting that the near-term decline could materialize from this sector.

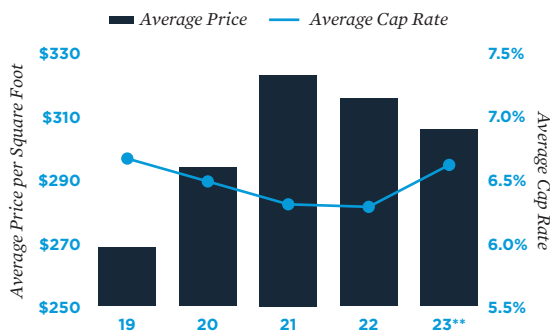
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

1,986,000 sq. ft. completed

- Charlotte's marketwide inventory expanded by 1.7 percent over the year ended in June. Delivered last December, the 1-million-square-foot Duke Energy Plaza in the CBD comprised the majority of the metro's growth.
- Midtown-Southend had the highest number of new builds, as roughly 451,000 square feet was completed here during the last 12 months.



VACANCY

120 basis point increase in vacancy Y-O-Y

- Three of the four largest submarkets noted local vacancy increases higher than 120 basis points, propelling the marketwide rate up to 16.1 percent.
- Midtown noted a 140-basis-point vacancy decrease, making it the largest submarket to note a fall in the metric over the past year. East Charlotte and Cabarrus County similarly noted declines of 40 and 20 basis points.



RENT

1.2% increase in the average asking rent Y-O-Y

- Mean asking rents tapered 0.3 and 0.7 percent respectively in the CBD and South Charlotte, the two largest submarkets. Despite limited growth in these areas, the marketwide rate still nudged up to \$29.65 per square foot.
- Aided by its record yearlong net absorption of 149,000 square feet, South-east Charlotte noted double-digit percentage rent growth.

Investment Highlights

- Office trading activity in Charlotte has rallied as of late, despite persistent financing hurdles. The number of deals that were completed during the second quarter surpassed the long-term three-month average, with the vast majority of these being for Class B assets located along Charlotte's outlying suburbs. Most of these buildings have commanded prices well-below the market's per-square-foot average pricing of \$306 over the year ended in June, as local investors capitalized on limited buyer competition.
- In the first half, the deal count in East Charlotte already surpassed the entirety of 2022. Investor interest should remain, especially in the southern portions of the submarket, as demand for Class B/C space here has recently stood out on the national scale. The absorption of 140,000 square feet of Class B/C offices here from March to June 2023 was the strongest among major southeastern submarkets during the second quarter.
- In general, Class B offices in Midtown have garnered the most competitive pricing in Charlotte. Deals for mid-tier options here in 2023 have generally been completed above \$285 per square foot, a mark hardly reached anywhere else in the metro this year, even for top-tier assets.