

# INVESTMENT FORECAST

OFFICE  
Charlotte Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS


2020


## Company Expansions Redrawing Skyline; Rent Growth Potential Motivates Investors


**Charlotte's growing corporate presence bolsters office demand.** The metro's status as the second largest financial hub in the nation is drawing banking and fintech firms. Truist Financial, the renamed company from the BB&T/SunTrust merger, is moving its headquarters to Charlotte and Ally Financial is expanding its footprint. The firm will move into the underway Ally Charlotte Center next year. This 26-story tower and Duke Energy's 40-story headquarters are the largest of six buildings due in the core between 2020 and 2022. Although downtown will dominate construction activity during that time, a growing number of businesses are moving into the city's burgeoning South End neighborhood to attract young professionals and be closer to transit options including light rail access. LendingTree is one company that will be shifting its staff from Ballantyne to the new Vantage South End development. To accommodate these firms, builders have more than 1 million square feet of office space underway in the neighborhood with almost half due in 2020. Metrowide, fundamentals will improve this year, although multiple buildings beginning leasing efforts and companies moving out of older space into new offices may push vacancy up and restrain rent growth in select areas.


**Strong fundamentals capture investor interest.** Over the past two years, the metro has produced some of the most robust rent gains in the nation, drawing a wider range of buyers. Institutions are targeting newer Class A assets with more than 100,000 square feet. In 2019, these often traded above \$400 per square foot at an average cap rate in the 5 percent span. Buyers interested in value-add potential have been finding opportunities near the airport in Southwest Charlotte where one of the highest vacancy rates in the metro is found. Leasing activity, especially by logistics firms, has lowered vacancy 440 basis points since 2016, boosting rents 28 percent during the same period. Older buildings in the submarket typically sell below the metro average of \$231 per square foot.


## 2020 Market Forecast

- Employment**  Employers will create 28,000 jobs during 2020, including 10,000 office-using positions. This year's pace of hiring will be more than twice the national level.
 

up 2.2%
- Construction**  Deliveries will retreat from the 3.0 million square feet completed in 2019. This year's total includes 300,000 square feet of medical offices.
 

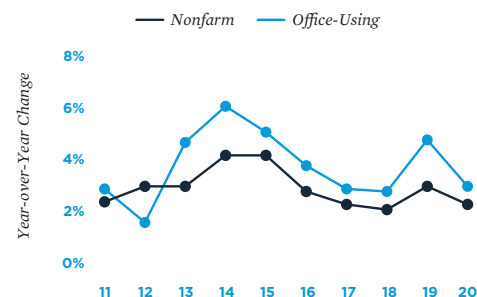
2.2 million sq. ft.
- Vacancy**  After a 20-basis-point rise last year, vacancy dips to 10.5 percent in 2020 as absorption climbs above completions.
 

down 20 bps
- Rent**  Demand for offices boosts the average asking rent to \$29.19 per square foot in 2020, following a 7.1 percent surge last year.
 

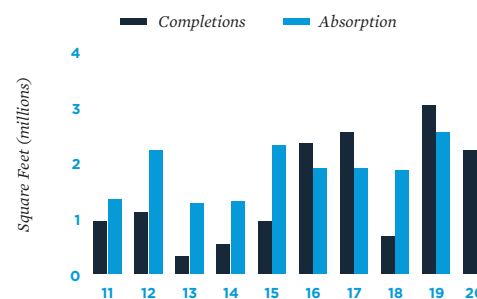
up 6.0%
- Investment**  Medical office assets are also attracting more buyers to the metro. During 2019, buildings in the \$1 million to \$10 million price tranche traded at an average of \$287 per square foot.
 

up 6.0%

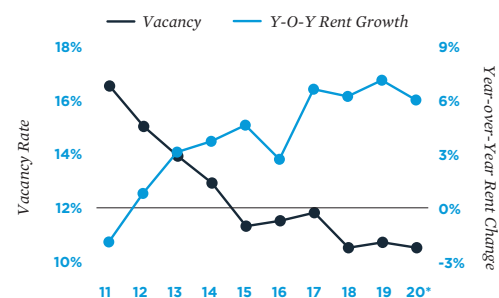
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



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

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Metrol-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.