

# MARKETBEAT

## Charlotte

### Office Q2 2019



#### CHARLOTTE OFFICE

##### Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Charlotte Employment*	1,204k	1,231k	▲
Charlotte Unemployment*	3.7%	3.7%	▼
U.S. Unemployment	3.9%	3.6%	▼

\* May 2019 data used to represent Q2 2019

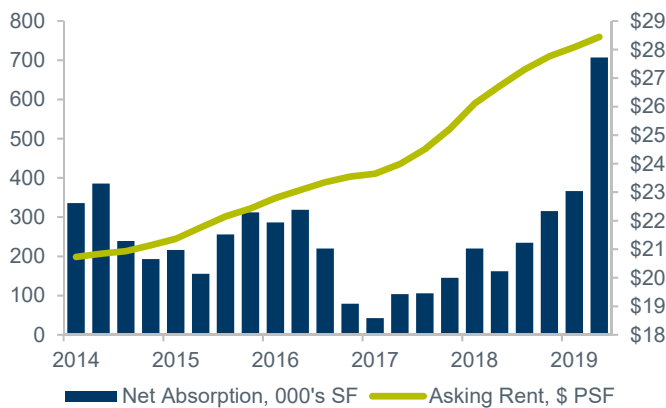
##### Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	8.9%	12.2%	▼
Net Absorption (sf)	-42k	2.1M	▲
Under Construction (sf)	3.6M	3.1M	▲
Average Asking Rent*	\$24.98	\$28.81	▲

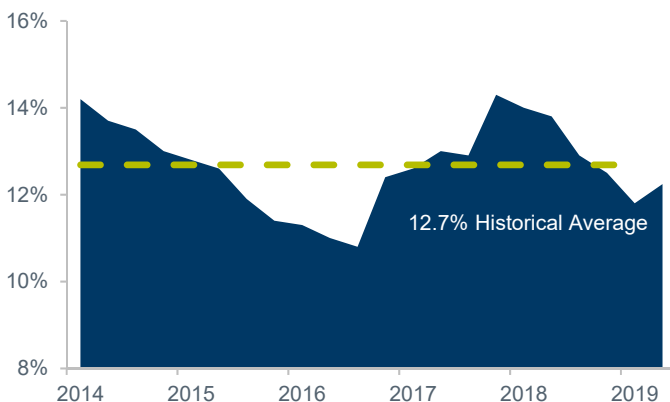
\*Rental rates reflect gross asking \$psf/year

\*\*Stats above are not reflection of U.S. MarketBeat tables

##### Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

The recent merger between the Charlotte Chamber and Charlotte Regional Partnership to form the Charlotte Regional Business Alliance has created an efficient mechanism for economic development, one that appears to be firing on all cylinders. Halfway through 2019, Charlotte has won the headquarters of newly formed Truist Bank (bank merger between BB&T and SunTrust) as well as large corporate office centers that include esteemed companies such as Lowe's, Honeywell, Lending Tree and a Chewy.com distribution center that amount to more than 5,000 new jobs to the Queen City. Year-over-year Charlotte added 26,700 new jobs and stayed at a low unemployment rate of 3.7%. With a growing tech workforce, a booming financial industry and a strong millennial growth rate, Charlotte is poised to be a forerunner of economic expansion not only in the Southeast but in the United States.

## Market Overview

2019 is forecasted to be a record year as Charlotte has delivered 2.1 million square feet (msf) of office space midway through the year. Of the 3.1 msf currently under construction, 444,000 square feet (sf) is scheduled to deliver in 2019. That would be the highest amount of delivered office space Charlotte has had since 2008. Net absorption at the end of the second quarter was a positive 2.1 msf, which is already the highest net absorption Charlotte has ever seen in a given year. New construction has been 60% preleased and with a high net absorption, the vacancy rate has decreased from 13.8% to 12.2%. Low vacancy and new construction have contributed to the rise in asking rents. The overall gross asking rate increased 5.2% year-over-year to \$28.81 per square foot (psf). At mid-year 3.8 msf of office assets sold totaling \$892.6 million (\$248/sf). At this pace, the market is on track to surpass last year's total of \$1.6 billion of office building sales. The average office cap rate is 6.3% and continues to compress in Uptown and the more urban submarkets as investors strive to acquire properties in Charlotte's stable, high growth market.

## Suburban

Charlotte's Midtown submarket continues to thrive and is viewed as a viable alternative to CBD/Uptown for large corporate relocations. Lowe's has recently announced that it will be relocating 2,000 employees to Charlotte in a new office tower named the Design Center Tower. Lending Tree announced it will be taking 175,000 sf in the West Tower at the newly announced

Spectrum Site. In Ballantyne, a new master plan was announced that will bring more mixed-use to the 535-acre office park. Developer Northwood Investors recently begun construction on a 328,000-sf office building located at 13146 Ballantyne Corporate Place. Year-to-date Charlotte's suburban submarkets absorbed 1.1 msf of office bringing the vacancy rate down from 14.4% to 13.6% year-over-year. As of the end of Q2 2019, the suburban submarket delivered 1.3 msf of new office space, while maintaining a strong under construction pipeline of 1.9 msf. Average gross asking rents rose 6.6% year-over-year, increasing to \$27.13 psf. Notable sales for the quarter included the Rexford I and II purchase by Childress Klein (\$24.5 million at \$166 psf) and Park Abbey, which traded hands from Dilweg to Foundry Commercial for \$19.5 million at \$175 psf.

## CBD/Uptown

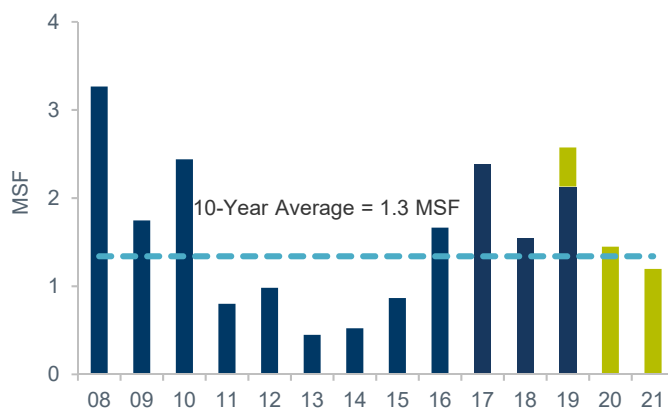
Two of the largest lease transactions in 2019 occurred in the CBD/Uptown submarket. Truist bank announced that it will be occupying 561,000 sf at Hearst Tower and Honeywell will be moving into 280,000 sf at Legacy Union - Phase III, after the mid 2021 expected delivery date. The 853,000-sf Bank of America Tower has been the only completed construction year-to-date and CBD/Uptown currently has 1.2 msf under construction. Year-over-year the vacancy rate decreased from 12.7% and is at a low point of 9.8%. Average gross asking rents increased to \$33.11 psf and are expected to climb as the market tightens with no new deliveries scheduled until next year. The largest sale transaction of 2019 occurred in Charlotte's CBD/Uptown submarket with LRC Properties and Barrings selling 101 N Tryon St to Nuveen and Crescent Communities for \$132.3 million at \$252 psf.

## Outlook

- With 1.2 msf of supply currently under construction in CBD/Uptown, rental growth may begin to slow until these Class A trophy buildings deliver along the Stonewall corridor.
- As new "spec" supply is delivered in the urban core markets, vacancy rates could start to increase temporarily in 2019.
- As space is leased and rental rates continue to rise, owners are expected to sell properties for record high amounts as Charlotte demonstrates it is a viable and highly sought after investment market.

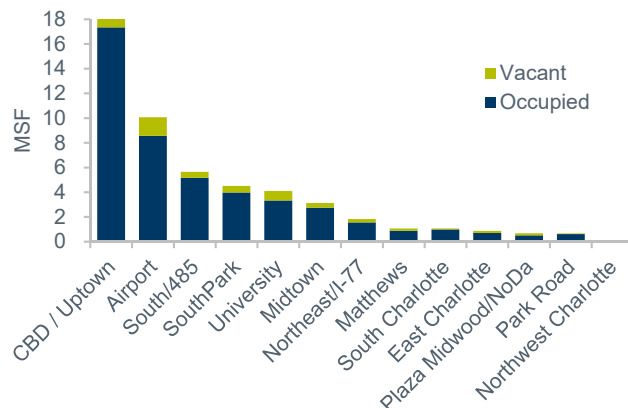
## New Supply

PROJECTED TO BE 194% ABOVE THE HISTORIC AVERAGE IN 2019



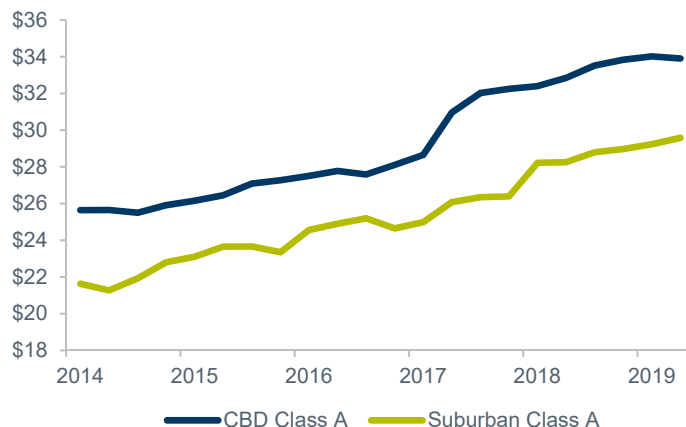
## Sublease & Direct Trend

SUBLEASE SPACE RECEDING



## Class A Asking Rent Trend

SUBURBAN RENTS INCREASED 4.7% YEAR-OVER-YEAR



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	TOTAL VACANT (SF)	OVERALL VACANCY %	YTD NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT*
Airport	117	10,055,895	1,427,542	1,493,005	14.8%	214,062	63,933	202,469	\$23.88
CBD/Uptown	45	19,231,596	1,771,766	1,890,211	9.8%	1,028,647	853,073	1,260,915	\$33.11
East Charlotte	16	870,346	175,671	175,671	20.2%	-23,411	0	0	\$15.90
Matthews	25	1,065,780	186,631	186,631	17.5%	19,140	0	0	\$18.64
Midtown/South End	50	3,121,390	361,898	378,644	12.1%	555,427	813,220	708,713	\$35.77
Northeast/I-77	28	1,827,698	224,383	269,538	14.7%	18,043	0	0	\$23.67
Northwest Charlotte	1	23,278	0	0	0.0%	0	0	0	N/A
Park Road	7	658,415	49,107	49,107	7.5%	14,865	0	0	\$27.38
Plaza Midwood/NoDa	6	669,585	171,731	171,731	25.6%	113,620	245,351	437,322	\$31.23
South Charlotte	19	1,060,386	74,431	76,179	7.2%	19,342	0	0	\$24.89
South/485	51	5,647,289	453,616	483,422	8.6%	83,470	154,000	526,831	\$33.16
SouthPark	38	4,506,613	418,477	533,010	11.8%	46,632	0	0	\$31.84
University	42	4,094,321	718,480	761,447	18.6%	-6,344	0	0	\$24.02
<b>SUBURBAN MARKET TOTAL</b>	<b>400</b>	<b>33,600,996</b>	<b>4,261,967</b>	<b>4,578,385</b>	<b>13.6%</b>	<b>1,054,846</b>	<b>1,276,504</b>	<b>1,875,335</b>	<b>\$27.13</b>
<b>CBD/UPTOWN MARKET TOTAL</b>	<b>45</b>	<b>19,231,596</b>	<b>1,771,766</b>	<b>1,890,211</b>	<b>9.8%</b>	<b>1,028,647</b>	<b>853,073</b>	<b>1,260,915</b>	<b>\$33.11</b>
Class A	209	37,022,095	4,034,392	4,422,960	11.9%	1,858,765	1,987,880	2,970,068	\$31.07
Class B	236	15,810,497	1,999,341	2,045,636	12.9%	224,728	141,697	166,182	\$23.81
<b>CHARLOTTE METRO TOTAL</b>	<b>445</b>	<b>52,832,592</b>	<b>6,033,733</b>	<b>6,468,596</b>	<b>12.2%</b>	<b>2,083,493</b>	<b>2,129,577</b>	<b>3,136,250</b>	<b>\$28.81</b>

\*Office asking rents converted to full service gross \*\* Stats above are not reflection of U.S. MarketBeat tables

#### Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Hearst Tower	561,000	BB&T & SunTrust (Truist)	New	CBD
Design Center Tower	357,000	Lowe's	New	Midtown
Legacy Union – Phase III	280,000	Honeywell	New	CBD
West Tower – Spectrum Site	176,000	Lending Tree	New	Midtown
University Highlands	97,596	United Rentals	New	University
The Nexus at Waverly	53,580	Crown Castle	New	South/485
One Piedmont Town Center	53,347	PNC Bank	Expansion	SouthPark
The Live Oak Building	18,529	Cedar Fair	Expansion	Airport
300 S Tryon St	18,265	InTapp / Deal Cloud	New	CBD
Woodfield II	16,257	Shea Homes	Renewal	South/485

#### Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
101 N Tryon	526,000	LRC Properties & Barings / Nuveen & Crescent Communities	\$132,300,000 / \$252	CBD
Rexford I & II	147,074	Lending Tree / Childress Klein	\$24,500,000 / \$166	SouthPark
Park Abbey	111,436	Dilweg / Foundry	\$19,500,000 / \$175	Park Road
Quail Plaza	89,730	TriGate Capital / Adler Real Estate Partners	\$15,900,000 / \$177	South Charlotte
8601 University East Dr	67,287	Marr Development / Tryon Capital Ventures	\$13,550,000 / \$201	University

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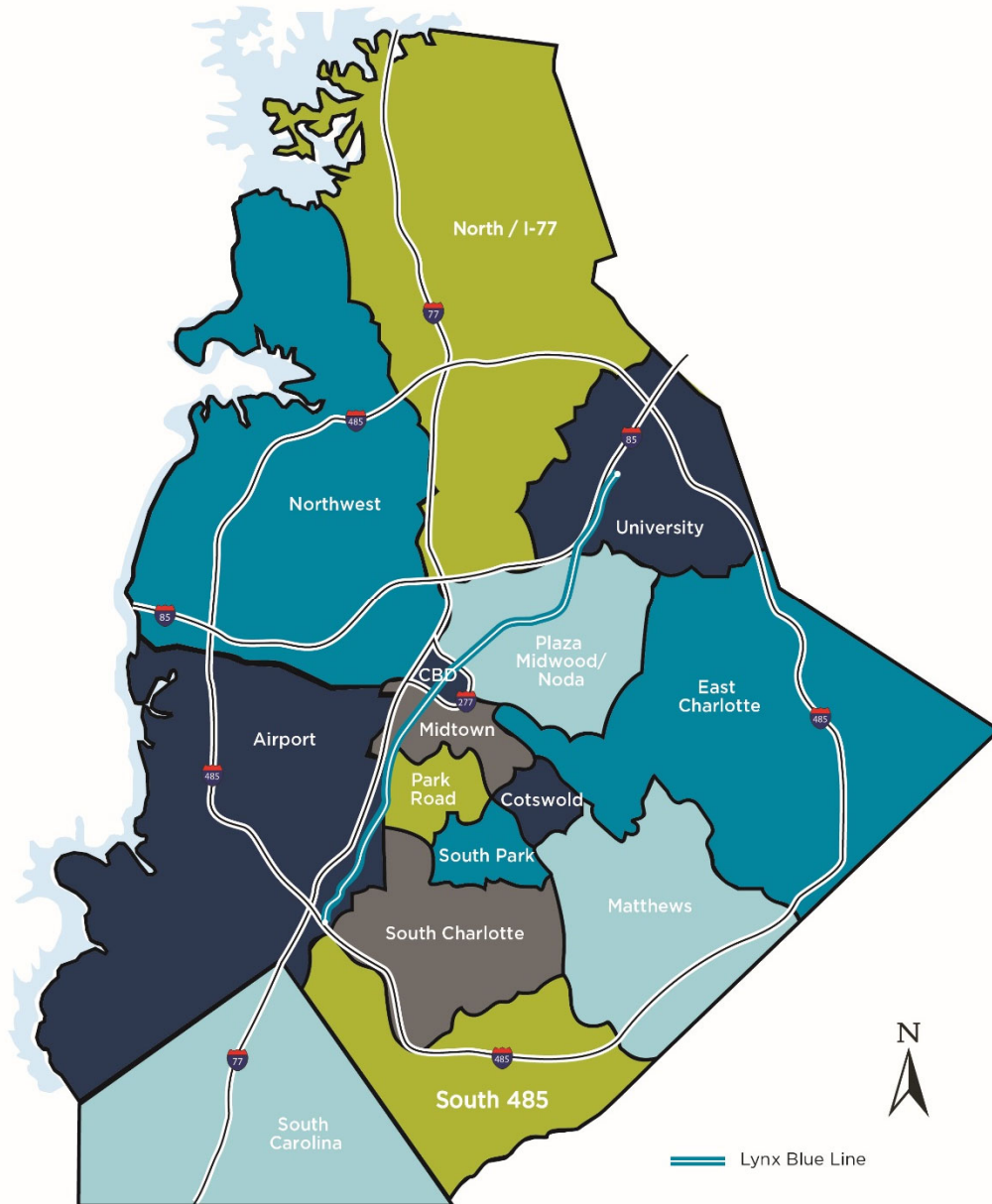
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### OFFICE SUBMARKETS

CHARLOTTE, NC



Cushman & Wakefield  
300 S. Tryon St. Ste. 1110  
Charlotte, NC 28202  
[cushmanwakefield.com](http://cushmanwakefield.com)

For more information, contact:  
Brett Gray, Managing Principal  
Tel: +1 704 335 4442  
[brett.gray@cushwake.com](mailto:brett.gray@cushwake.com)

#### About Cushman & Wakefield

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