

MARKETBEAT CHARLOTTE

Office Q3 2021



YoY
Chg

12-Mo.
Forecast

15.6%

Vacancy Rate



414K

YTD Net Absorption, SF



\$30.67

Asking Rent, PSF



(Direct, All Property Classes)

ECONOMIC INDICATORS Q3 2021

YoY
Chg

12-Mo.
Forecast

1.2M

Charlotte
Employment



4.3%

Charlotte
Unemployment Rate



5.2%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

Charlotte's current 4.3% unemployment rate has dramatically retracted and now aligns with the city's historical five-year average prior to COVID-19 pandemic levels. Year-over-year (YOY) Charlotte has added 45,400 jobs, a trend that is expected to continue as the Queen City continues to be a forerunner of economic development in the United States.

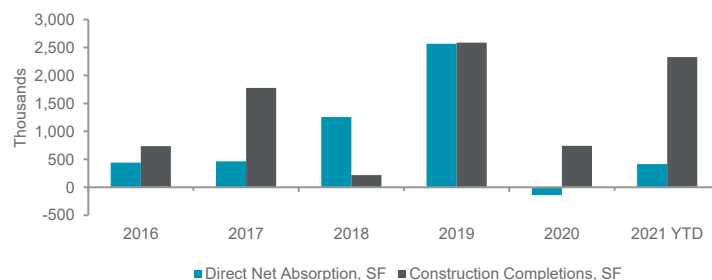
SUPPLY

The overall vacancy rate rose during the third quarter of 2021 from 16.5% to 18.7%, a 220-basis point (bp) increase quarter-over-quarter (QOQ). The number of newly listed sublet availabilities continued to decelerate across the MSA; possibly peaking, as total sublet square footage only increased 2.7% QOQ relative to 28.8% in Q2. The largest sublease availability added to the market was MetLife's former 33,887-square feet (sf) space at 11215 N Community House Rd in the South/485 submarket. Direct vacancy increased moderately during the quarter as well, increasing from 13.5% to 15.6%, a 210-bp rise QOQ. This increase was driven primarily by new construction and renovations which brought 957,000 sf of vacant space to market. The emergence of FreeMoreWest submarket accounted for 36.8% while the delivery of FNB Tower and The Commons at the Park totaled 57.0% of new product entering the market. Class A product in the CBD/Uptown submarket ended the quarter with a direct vacancy rate of 10.2%. Despite the uptick in vacancy, space options remain limited. For users seeking 100,000 sf or more, only 10 options exist across all of Metro Charlotte available for immediate occupancy.

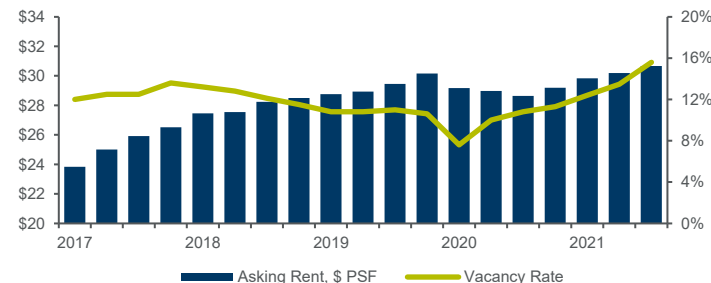
RENTAL RATES

At \$30.67 per square foot (psf) the direct average gross asking rent, which excludes sublease vacancies, rose 1.6% QOQ. Since the end of 2020, direct asking rents in CBD/Uptown increased 4.5% to an average of \$34.71 psf while asking rents in the suburban markets have similarly increased, climbing 4.3% to \$29.16 psf. Additional rent increases are anticipated in suburban submarkets in the coming quarters as the flight to value continues to accelerate especially in Midtown where direct average gross rents are \$39.04 psf, 12.5% higher than CBD/Uptown. Overall gross asking rents of all direct and sublease space on the market averaged \$30.63 psf at the end of Q3, up 1.8% QOQ as landlords opted to increase concessions to attract tenants while keeping rates stable.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT





DEMAND

Metro Charlotte recorded nearly 2.1 million square feet (msf) of new leasing activity year-to-date (YTD). The suburban market accounted for 87.9% of leasing activity during Q3, of which the Airport and South/485 were the most active submarkets accounting for 48.1% of total leasing activity. Of the total demand, 72.0% of leasing activity occurred in Class A assets, 28.0% of which was concentrated in the Midtown submarket. The largest transaction of the quarter occurred in South/485 where Credit Karma signed a 94,588-sf lease at Overlook for its east coast hub. The personal finance company plans to add 600 new jobs by 2026.

Charlotte recorded \$846 million in quarterly office sale volume during Q3 (\$1.3 billion YTD), the highest total since the COVID-19 pandemic began. At 40.7%, private investors comprised the largest share of 2021 YTD capital composition over past years. Notable sales transactions in the third quarter included CP Group and Siguler Guff's purchase of Harris Corners from Bridge Investment Group for \$78.0 million (\$214 psf) and Taurus Investment Holdings acquisition of Fairview Center I & II for \$46.3 million (\$253 psf) from CapRidge Partners.

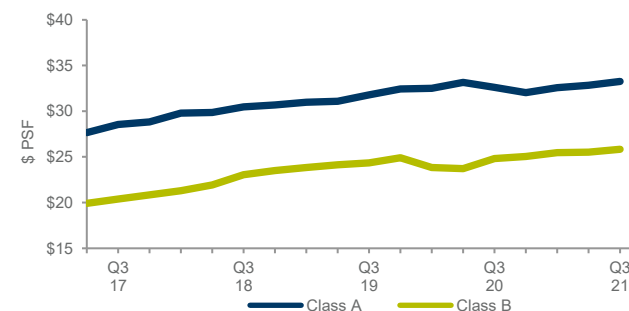
DEVELOPMENT PIPELINE

New deliveries slowed during Q3, as 434,000 sf of new product delivered, bringing the YTD total to 2.3 msf, while another 1.0 msf completed renovation. Speculative construction comprised 55.8% of new deliveries of which 46.4% has already been leased. Notable Q3 deliveries include Honeywell's 156,000-sf build-to-suit and Dominion Realty Partners' FNB Tower in the CBD/Uptown submarket. Despite the pandemic-induced slowdown, Charlotte's development pipeline remains robust. Across the metro, 3.6 msf is currently under construction of which 692,000 sf is anticipated to deliver in Q4. Two notable projects expected to deliver are Portman Holdings' "The Line" and Lowe's build-to-suit in Midtown/South End. The surge of new supply does not place Charlotte at great risk of being overbuilt, as 59.0% of all properties currently under construction have been preleased.

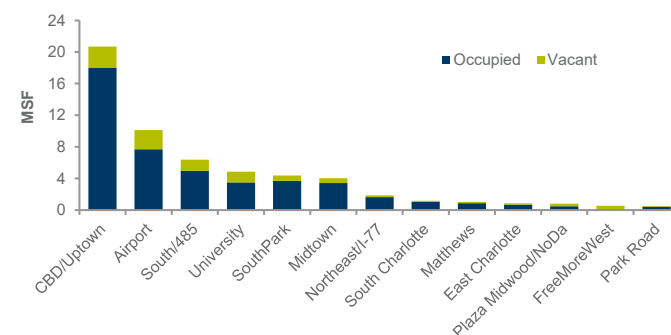
Outlook

- Charlotte's suburban submarkets will continue to flourish as real estate investors and tenants flock to value, affordability and convenience.
- As national and global investors continue to chase yields at this stage in the cycle, secondary markets like Charlotte should remain attractive and enjoy higher investment volumes than gateway markets.
- Developers will focus on highly sought-after urban infill (Midtown) areas.
- Recent large leases and their forthcoming occupancy can be expected to begin driving the vacancy rate downward once again in the coming quarters.

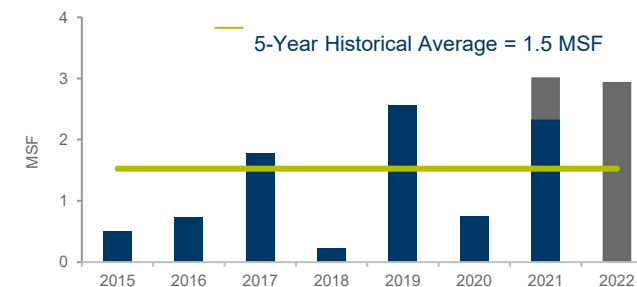
DIRECT ASKING RENT BY CLASS



SUBMARKET COMPARISON



NEW SUPPLY





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD DELIVERIES (SF)	AVG DIRECT ASKING RENT (ALL CLASSES)*	DIRECT AVG ASKING RENT (CLASS A)*
CDP/CLINTON	20,687,621	2,217,510	10.7%	502,872	13.1%	2,274	422,954	302,072	1,000,000	1,185,415	\$34.71	\$36.04
Airport	10,117,991	1,716,823	17.0%	720,439	24.1%	-112,710	-221,584	503,951	200,000	0	\$24.27	\$26.48
East	855,651	161,168	18.8%	0	18.8%	-536	30,155	22,138	0	0	\$16.06	N/A
Matthews	1,031,707	158,140	15.3%	0	15.3%	-22,903	-24,003	21,293	0	0	\$18.12	\$18.46
Midtown	4,026,434	568,240	14.1%	31,146	14.9%	37,602	290,981	447,998	1,264,183	465,597	\$39.04	\$40.09
Northeast / I-77	1,861,379	138,924	7.5%	91,666	12.4%	33,949	106,542	149,939	0	0	\$26.86	\$27.80
FreeMoreWest	541,680	384,964	71.1%	29,950	76.6%	23,649	65,488	0	289,000	0	\$33.00	\$33.00
Park Road	506,133	84,403	16.7%	8,208	18.3%	565	-7,141	32,237	0	0	\$32.84	\$32.00
Plaza Midwood / NoDa	809,104	328,378	40.6%	0	40.6%	8,953	66,082	20,989	109,972	53,020	\$30.99	\$33.34
South	1,168,364	117,855	10.1%	0	10.1%	-3,237	-20,393	64,444	0	0	\$26.65	\$26.97
South / 485	6,376,662	1,281,511	20.1%	147,061	22.4%	-94,565	-178,971	270,966	0	463,966	\$35.29	\$35.66
SouthPark	4,366,937	597,661	13.7%	66,841	15.2%	-8,428	-55,124	160,985	0	0	\$34.60	\$36.49
University	4,856,444	1,196,319	24.6%	155,350	27.8%	-63,896	-60,841	82,694	770,000	159,487	\$26.16	\$27.29
SUBURBAN TOTALS	36,518,486	6,734,386	18.4%	1,250,661	21.9%	-201,557	-8,809	1,777,634	2,633,155	1,142,070	\$29.16	\$31.88
Class A	40,696,247	5,947,880	14.6%	882,471	16.8%	-120,076	431,629	1,496,826	3,344,155	2,274,465	\$33.25	\$33.25
Class B	16,509,860	3,004,016	18.2%	871,062	23.5%	-79,207	-17,484	582,880	289,000	53,020	\$25.83	N/A
CHARLOTTE TOTALS	57,206,107	8,951,896	15.6%	1,753,533	18.7%	-199,283	414,145	2,079,706	3,633,155	2,327,485	\$30.67	\$33.25

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Overlook – 13146 Ballantyne Corporate Pl	South/485	Credit Karma	94,588	New Deal
Ten Water Ridge – 2725 Water Ridge Pky	Airport	Dentsply Sirona	61,549	New Deal
Overlook – 13146 Ballantyne Corporate Pl	South/485	Sompo International	43,123	New Deal

MARKETBEAT

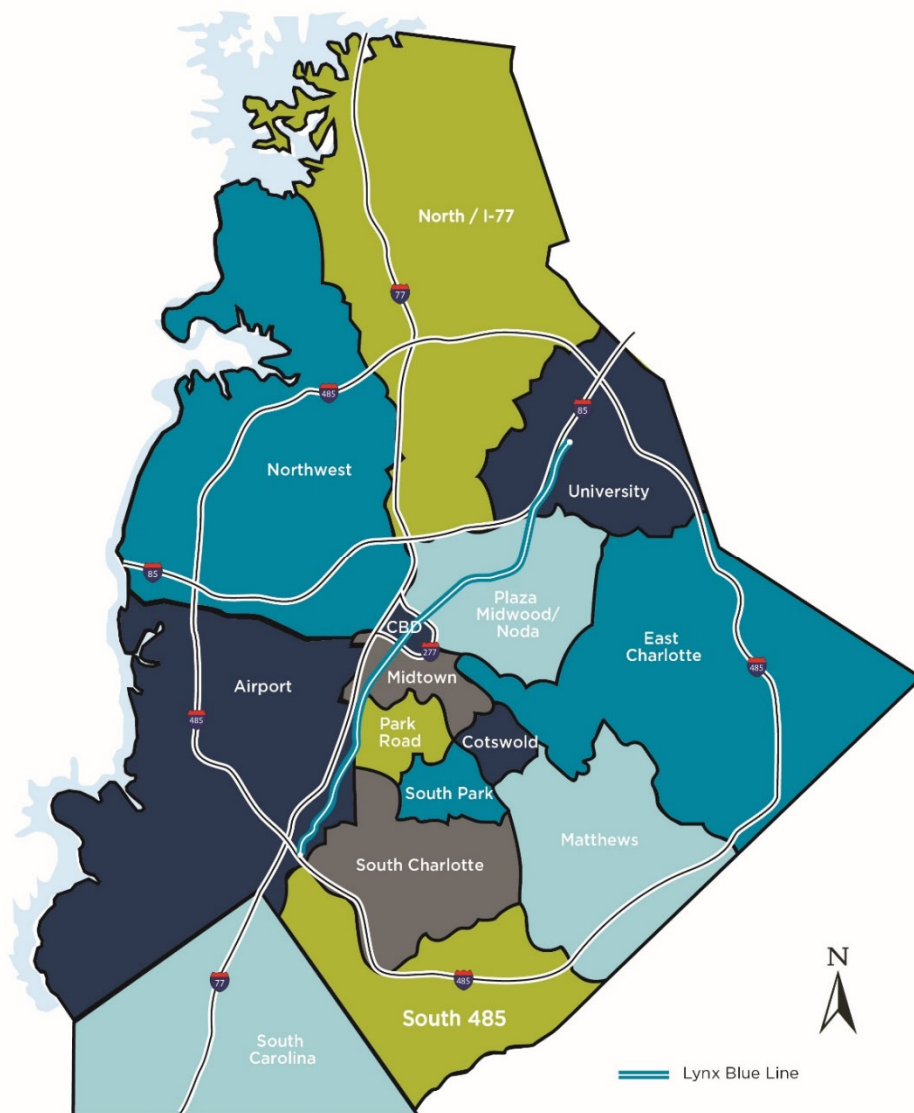
CHARLOTTE

Office Q3 2021



CUSHMAN &
WAKEFIELD

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