

Savills Studley Report

Charlotte office sector

Q3 2018



SUMMARY

Market Highlights

STABLE OFFICE LEASING

Quarterly deal volume reached just under 800,000 sf – slightly below its long-term historical average. Tenants have leased 3.6 million square feet (msf) in the four most recent quarters.

AVAILABILITY SLIDES LOWER

The market's overall availability rate continued to drift lower, sliding by 70 basis points to 14.5%, its lowest mark since the fourth quarter of 2015. The Class A availability rate fell even more sharply, from 18.8% to 17.4%.

RENT PUSHES HIGHER

Overall asking rent posted its sharpest quarter-on-quarter increase since the second quarter of 2017, jumping by 2.7% to \$27.45. The Class A rent broke the \$30.00 mark, rising by 2.8% to \$30.08.

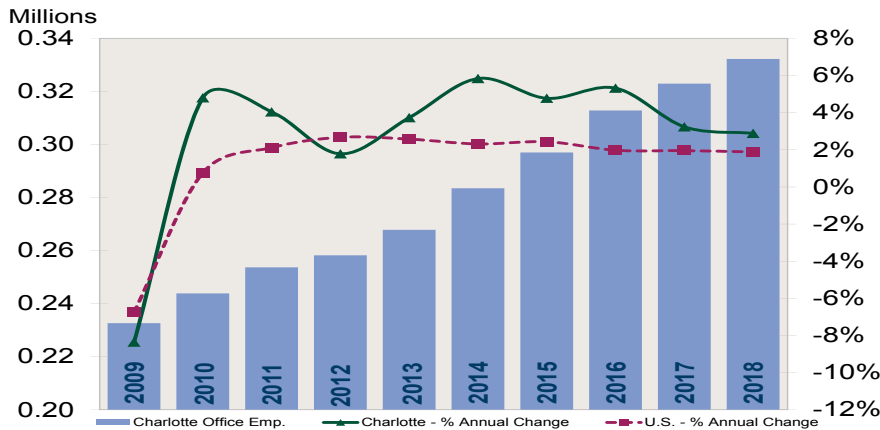
SALES DECREASE

Office property sales during the first seven months of the year totaled \$734 million, a 56% decrease compared to the first seven months of 2017.

"Employment growth and leasing activity appear to be moderating slightly across the region. Nevertheless, availability is at its lowest point in three years and rent continues to rise, presenting larger tenants with challenging conditions."

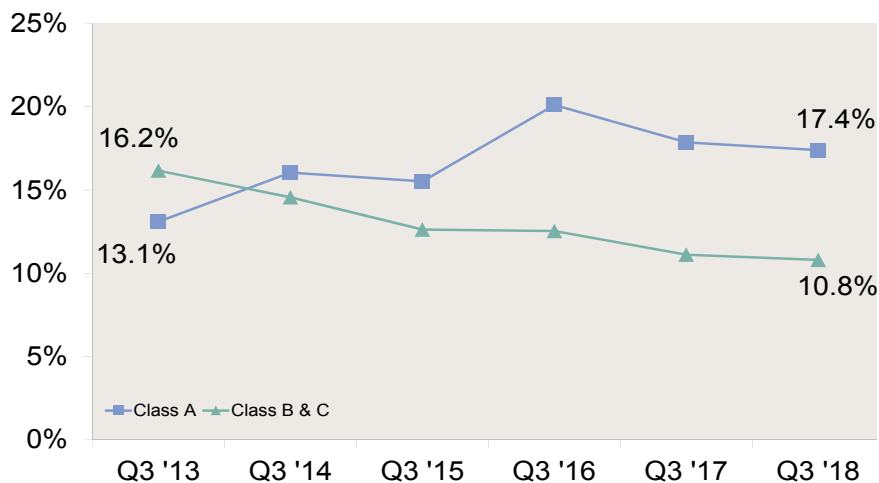
Mark Ayers,
Executive Vice President, Market Leader

Office-Using Employment Trends

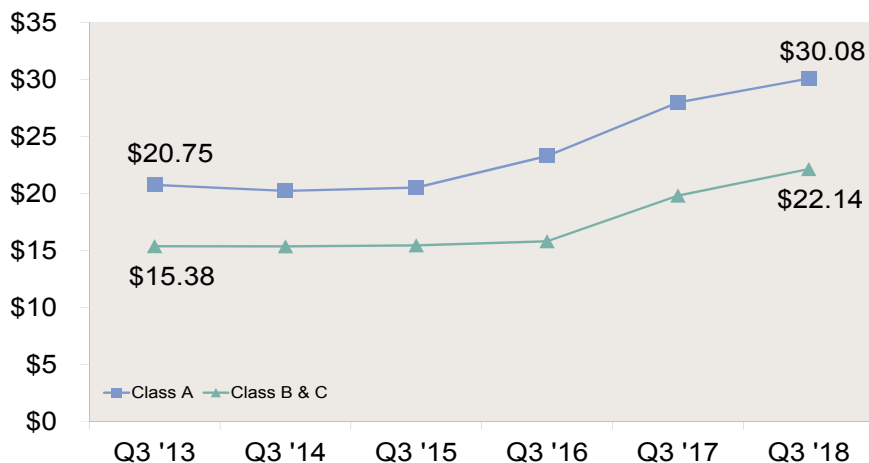


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Real Estate & Coworking Keep Leasing Steady

Charlotte's economy is following the pattern seen in most U.S. office markets. Over the last 12 months, Charlotte has added 6,300 office-using jobs, a 2.0% increase – well below the 3.4% jump in Raleigh/Durham, but on par with the 1.9% gain at the national level. Office-using employment growth has clearly been slowing of late. A year ago the annual gain in Charlotte was 3.1%.

Construction Activity Intensifies

Even as employment growth decelerates, Charlotte continues to attract businesses from other markets eager to tap into its growing population. Steady population growth supports construction of housing, retail and office buildings. Compared to the multi-family and industrial sectors, development in the office market has been more restrained in this cycle, but the office sector is starting to catch up. As of mid-September, Charlotte had 2.4 msf in speculative properties under construction; 48% of the space was pre-leased. The largest project underway is Legacy Union in Uptown (620 S. Tryon Street). The Lincoln Harris project delivers in early 2019, with just under 300,000 sf still available for lease.

In addition to these larger properties, a fair number of smaller, boutique-style buildings are popping up across the region, particularly in the South End. The list includes 300 West Summit, a 64,000-sf building that recently completed vertical construction. No tenants have signed leases yet. Also in the South End, Beacon Partners topped out The RailYard. This 300,000-sf project includes two eight-story buildings, 30,000 sf of retail and 100 micro-apartments. The office component is expected to be completed in early 2019.

Rent for new product in South End has exceeded the \$30.00/sf benchmark. These smaller properties will test the level of demand from tenants in the South End. Dimensional Fund Advisor's East Coast headquarter building, being developed by Cousins Properties, will have a bigger impact. The 229,000-sf, eight-story building will have 15,000 sf of retail on the ground level.

Coworking Onslaught

Coworking, led by WeWork, has been spreading across nearly every major market and more recently secondary markets as

well. Charlotte has seen its share of local and national providers open centers in the last few quarters, but this summer brought an unprecedented onslaught. WeWork added two locations – including the top lease of the quarter, a 141,000-sf lease across seven floors at First Citizens Plaza. The center will accommodate more than 2,500 desks, and is expected to open in November. WeWork also committed to 40,000 sf at The Railyard. Additionally, New York-based Serendipity Labs signed a 22,649-sf lease at The Refinery for its first Charlotte location.

Extensive residential and commercial development is attracting contractors and engineers to the region. Fort Worth, Texas-based Freese and Nichols, for example, recently opened an office at Toringdon 3 in South Charlotte. The engineering company designs and manages infrastructure projects. Consumer product companies and retailers are also attracted to the region's growing consumer base. South Carolina-based Spirit Communications is reportedly considering a move to Charlotte. The telecom company headquartered in Columbia recently merged with Waynesboro, Virginia-based Lumos Network Corp. The combined firm has 900 employees maintaining a fiber bandwidth network and on-net locations that cover nine states in the mid-Atlantic and Southeast.

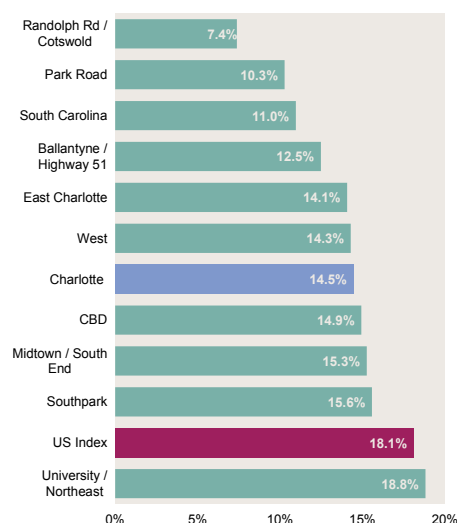
Firms Stick with Space Efficiency

Many professional/business services firms are still being efficient in their space use demands. Relocation to a new building or recently constructed property is often the best way for a company to reduce its lease obligations. LaBella Associates leased 18,828 sf at 400 South Tryon and will merge four different offices spread across North Carolina in the one floor at the Uptown property. The Rochester, New York-based architecture and engineering firm currently has offices in Gastonia, Davidson, Winston-Salem and Greensboro. Many law firms and banks continue to densify as they renew, but a few are making modest expansions. Fisher Phillips signed an 8,388-sf renewal and expansion at 227 W. Trade Street. Additionally, South Street Bank completed a 35,000 sf-renewal and expansion at the Morrison Building.

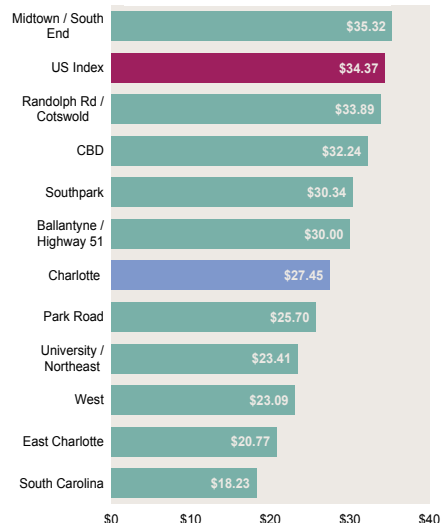
Investors Remain Active

Office sales have cooled a bit in the Charlotte market. The region has very few trophy assets on the market. More investors are pushing into secondary markets such as

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
WeWork	141,000	128 S Tryon St	Uptown
WeWork	40,000	1414 S Tryon St	Midtown/South End
South Street Bank	35,000	6525 Morrison Blvd	SouthPark
Archroma	31,335	5435 & 5445 77 Center Dr	Airport
Serendipity Labs	22,694	1213 W Morehead St	Midtown/South End
Lockton Companies	19,695	4725 Piedmont Row Dr	SouthPark
LaBella Associates	18,828	400 S Tryon St	CBD
Global Solutions Business Firm Inc	4,702	4801 Chastain Ave	West
Remi	3,571	6325 Ardrey Kell Rd	Ballantyne / Highway 51
Apex	3,380	13620 Reese Blvd E	University / Northeast
Sum of Top 10 Leases	320,205		

Charlotte, and a few are taking a chance on value-add and opportunistic investments.

Buildings in Uptown continue to garner a lot of attention. Pennsylvania-based Somerset Properties paid \$24 million (\$156.40/sf) for 129 West Trade. The 15-story, 153,498-sf building was 63% leased at time of sale. The new owners plan to spend at least \$10 million to renovate and rebrand the property. In addition to building a new lobby, Somerset plans to make renovations to common areas and add shared amenities. The lender took the property back in 2016 via a deed in-lieu-of foreclosure.

Suburban Parks Urbanizing

Several suburban office parks are also in the midst of extensive repositioning. The Dilweg Companies is spending nearly \$30 million to renovate Vanguard Center. The suburban office park off Tyvola Road (in the Airport submarket) includes 14 buildings totaling 563,504 sf. The park, which will

be called thExchange is just three miles from SouthPark and South End and offers proximity to I-77 and the Airport. Dilweg purchased the park for \$45.6 million (\$80.90/sf). The complex was 65% leased at the time. Dilweg has hired architect firm Perkins & Will to head up the rebranding and design of the park into what is described as a "village environment." Tenants will have access to new shared amenities such as a dog park and retail space. The site includes an undeveloped 17-acre parcel that could be used to add retail or other attractions to draw traffic. Dilweg may reposition the one-story buildings as "co-locational" properties with a mix of coworking and creative office space. Finally, walking trails and a central boulevard will help enhance the walkability of the complex. The park recently completed a 31,335-sf lease with Archroma. The specialty chemicals company will relocate from 4000 Monroe Road.

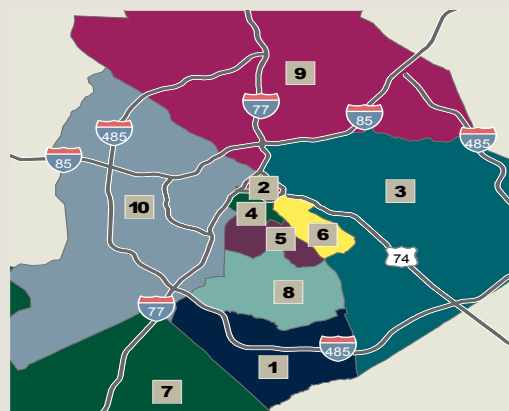
Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	This Quarter (1000's)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Ballantyne / Highway 51	6,900	92	864	8.7%	708	12.5%	1.0%	10.3%	\$30.00	1.6%	\$27.08
	Ballantyne / Highway - Class A	4,731	71	734	10.1%	553	15.4%	1.3%	11.7%	\$31.11	1.0%	\$28.76
2	CBD	18,124	168	2,691	-11.2%	2,520	14.9%	-1.8%	13.9%	\$32.24	1.7%	\$30.74
	CBD - Class A	13,858	138	2,403	-10.3%	2,155	17.3%	-2.0%	15.5%	\$33.00	1.7%	\$31.37
3	East Charlotte	4,739	23	650	-0.9%	632	14.1%	0.2%	13.3%	\$20.77	1.7%	\$21.39
	East Charlotte - Class A	737	4	245	-3.8%	264	33.2%	-1.3%	35.8%	\$27.83	3.1%	\$29.44
4	Midtown / South End	3,940	66	611	1.5%	704	15.3%	0.0%	17.9%	\$35.32	4.5%	\$28.83
	Midtown / South - Class A	1,785	56	503	-1.2%	538	27.2%	-1.3%	30.2%	\$36.69	5.6%	\$31.77
5	Park Road	1,082	11	106	-33.1%	182	10.3%	-4.4%	16.8%	\$25.70	-0.9%	\$23.22
	Park Road - Class A	63	2	0	-100.0%	10	0.0%	-2.8%	16.3%	\$0.00	0.0%	\$32.50
6	Randolph Rd / Cotswold	1,057	3	78	-2.1%	72	7.4%	-0.2%	6.8%	\$33.89	1.0%	\$30.12
	Randolph Rd / Cotswold - Class A	237	2	56	-3.4%	46	23.6%	-0.8%	19.5%	\$34.86	0.5%	\$34.19
7	South Carolina	4,807	4	521	-1.4%	642	11.0%	0.0%	13.4%	\$18.23	0.4%	\$18.75
	South Carolina - Class A	1,919	0	279	-1.5%	368	14.5%	-0.2%	19.2%	\$23.28	0.3%	\$22.48
8	Southpark	4,797	155	747	-6.1%	877	15.6%	-1.0%	18.3%	\$30.34	0.3%	\$30.43
	Southpark - Class A	3,205	116	512	-11.9%	669	16.0%	-2.2%	20.9%	\$32.67	1.1%	\$32.18
9	University / Northeast	6,719	30	1,256	2.6%	1,116	18.8%	0.6%	16.6%	\$23.41	4.9%	\$21.78
	University / Northeast - Class A	2,457	12	566	0.1%	520	23.0%	0.0%	21.2%	\$23.55	0.9%	\$22.13
10	West	12,385	214	1,750	-9.1%	2,118	14.3%	-1.3%	17.1%	\$23.09	5.7%	\$20.34
	West - Class A	6,566	139	897	-17.0%	1,227	13.7%	-2.7%	18.7%	\$23.51	2.7%	\$22.27
1-12	Charlotte Total	64,551	767	9,274	-5.3%	9,572	14.5%	-0.7%	14.8%	\$27.45	2.7%	\$25.06
	Charlotte - Class A	35,557	539	6,193	-7.3%	6,351	17.4%	-1.4%	17.9%	\$30.08	2.8%	\$27.99

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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