

Savills Studley Report

Charlotte office sector

Q4 2018



SUMMARY

Market Highlights

LEASING DROPS SLIGHTLY

Quarterly deal volume fell slightly, totaling less than 700,000 sf. Tenants leased 3.2 million square feet (msf) during 2018.

AVAILABILITY FALLS AGAIN

The market's overall availability rate fell for the second consecutive quarter, dropping by 50 basis points to 14.1%. Overall availability has increased by 150 basis points compared to year-end 2017. The Class A availability rate fell even more sharply, from 17.3% to 16.6%, but has increased by 60 basis points year-on-year.

STABLE RENT

Following a sharp jump in rent during the third quarter, asking rent was unchanged, remaining at \$27.54. The Class A asking rent inched up by 0.5% to \$30.31/sf. Average rent for both classes has spiked by more than 8.0% year-on-year.

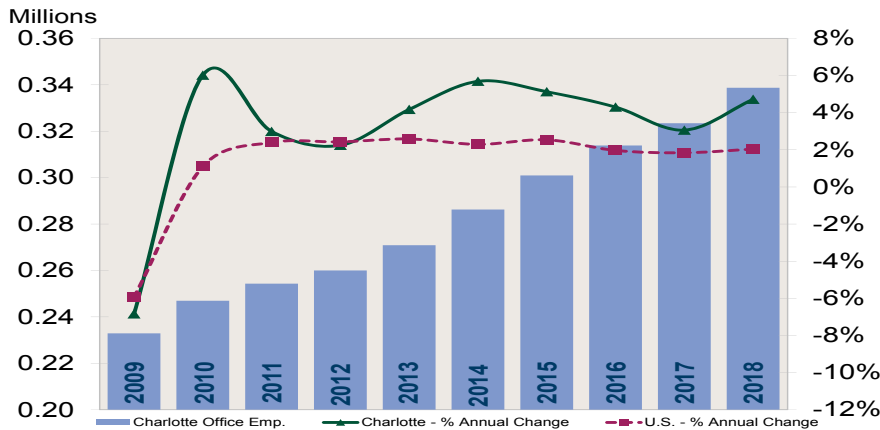
SALES DECREASE

Office property sales during the first eleven months of 2018 totaled \$1.2 billion, a 41% decrease compared to the first eleven months of 2017.

"Steady demand for prime office space is prompting more landlords to forge ahead with the next phase of new construction. Pedestrian-friendly and adaptive re-use projects remain popular with tech and creative firms."

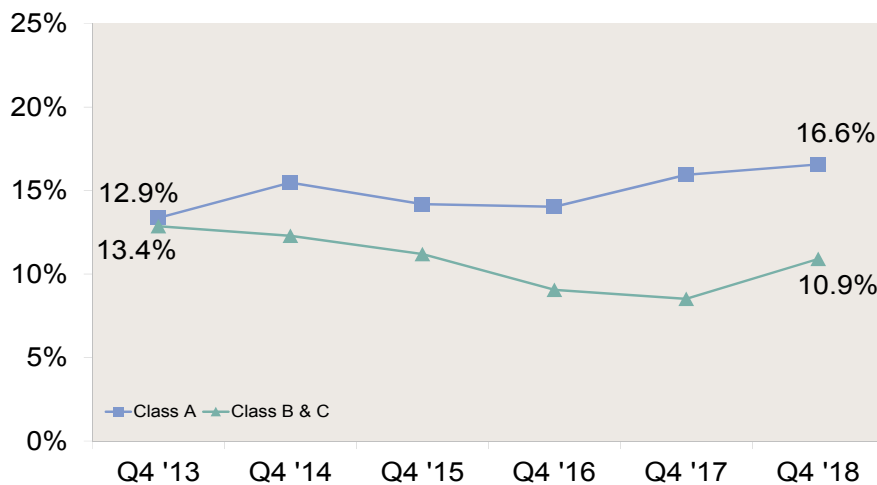
Mark Ayers,
Executive Vice President, Market
Leader

Office-Using Employment Trends

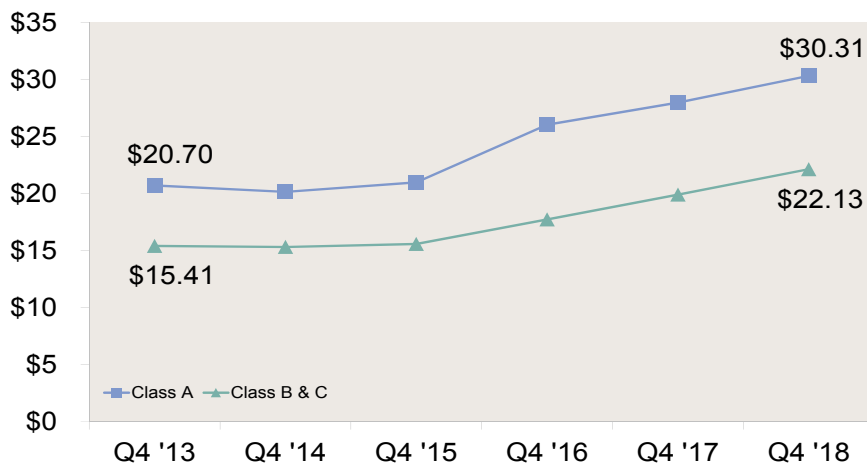


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Development Activity Intensifying

Businesses continued to grow and hire in Charlotte during 2018. The state of Charlotte has flourished over the course of the last 12 months. The year started with concerns about a sharp contraction in corporate relocations. These worries have been set aside in the wake of solid performance. Employment remained in positive territory. Local office-using hiring rose by 3.1%, well above the weaker growth nationally and a jump from the increase in the prior 12 months. Steady hiring and an influx of businesses have supported new construction activity, which has significantly intensified in recent quarters.

Corporate Relocations Continue

Charlotte lost out on the Amazon stakes, but other businesses are relocating to the Queen City. Businesses are attracted to the region's reasonable business and living costs as well as its growing and youthful population. Honeywell, for example, recently made its headquarters relocation from Morris Plains official, giving Charlotte its first Fortune 500 relocation since 2014. The electronics manufacturer will bring 750 jobs to Charlotte by 2024 as part of a \$45-million incentive package from the local government. Familiarity with the region was a factor. The company already has a presence in Atlanta and Charlotte and its safety and productivity solutions group is based in Fort Mill, South Carolina. A company spokesperson noted that "livability and access to talent" were among the top reasons it selected Charlotte.

Charlotte is also having success retaining key employers. LendingTree committed to adding 436 jobs over a seven-year period in exchange for \$10 million in state, city and county incentives. The company will now focus on finding a new headquarters building to replace the multiple locations it currently leases across the region. Potential sites include Ballantyne.

Leasing activity has been steady in Charlotte, averaging just under 1.0 msf three consecutive quarters. Sustained activity among larger tenants has made a slight dent in the quantity of big blocks of quality space. As of December there were only 18 existing Class A buildings offering a block of 50,000 sf or larger. Tenants seeking less than 20,000 sf have ample options to consider, particularly in suburban locations.

Healthcare as well as government agencies

and educational institutions have offset some of the volatility that is associated with the financial sector. Banks, law firms and general professional business services have also been active. During the fourth quarter All State topped leasing, signing a 140,000 sf lease at 1414 S Tryon Street.

With leasing slightly subpar and some new construction, availability rates have increased from a year ago. The region's overall availability rate ended 2018 at 14.1%, up from 12.7% at year-end 2017. SouthPark and the University/Northeast ended the year with higher rates of 15.2% and 18.6% respectively. Rent growth has moderated a bit, and was essentially flat compared to the prior quarter. The exception remains the newest amenity laden buildings in the CBD have pushed into the \$40/sf range.

Demand for new construction and reasonable pricing for suburban build-to-suit product puts landlords in a challenging position. Owners leasing space in older buildings will face pressure to update shared amenities and bring their product up to par, or otherwise face the potential loss of tenants to newer or substantially upgraded buildings.

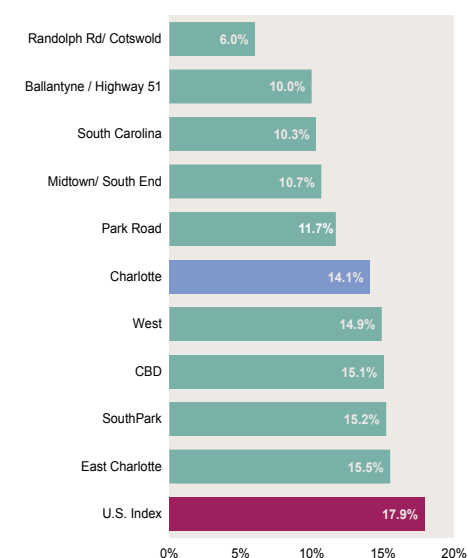
Ample Construction on the Horizon

New construction is also boosting availability rates and expanding the pool of quality space options for tenants to consider. The fourth quarter brought a few more leases at the latest set of properties underway in. As of year-end 2018, Charlotte had 2.2 msf underway, 60.3% pre-leased.

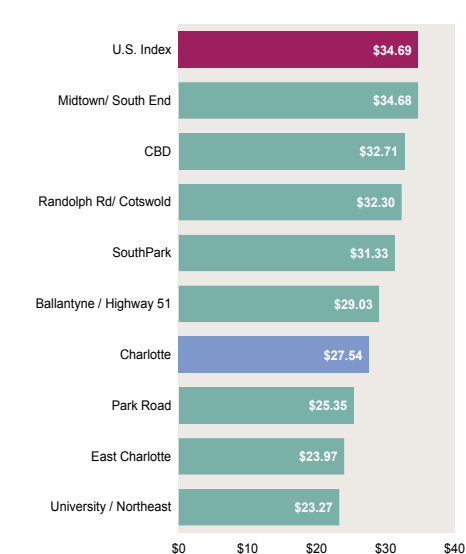
Several developers are ramping up plans for their next big project. Construction is reaching a new stage in South End. Initially a spot for creative startups, employers have been eager to get a foothold in the South End. Businesses want to tap into the neighborhood's growing pool of millennials. According to statistics in the 2018 South End Vision plan, young adults comprise nearly 40% of South End residents, compared to 25% of Charlotte overall.

In October, Spectrum Companies announced a partnership with Invesco Real Estate on a major mixed-use project on South Tryon Street. Located one block from the Carson light rail stop and two blocks from Uptown, the developers see the project as a link between South End and the Uptown business district. Plans for the site include two nine-story office buildings totaling 220,000 sf, a 200-room

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
All State	140,000	1414 S Tryon St	Midtown/ South End
Compass	40,000	2550 W Tyvola Rd	West
Slalom	20,787	1422 S Tryon St	Midtown/ South End
WeWork	21,206	1422 S Tryon St	Midtown/ South End
LendLease	25,507	2320 Cascade Pointe Blvd	West
Cushman & Wakefield	15,579	300 S Tryon St	CBD
Levvel	24,169	101 N Tryon St	CBD
DCLI	20,000	Whitehall Corporate Center	West
Philips Pet Food	9,910	2815 Coliseum Centre Dr	West
PMA Companies	9,003	2815 Coliseum Centre Dr	West
Sum of Leases	326,161		

boutique hotel as well as event space and restaurants.

Much of the proposed development remains within the Charlotte City confines. West End Investments recently filed a rezoning request for a five-story, 97,000-sf building for the next phase of Mosaic Village west of Uptown Charlotte. Additionally, CitiSculpt hopes to start the 90,438-sf office building in Midtown at Kenilworth Avenue and Harding Place. The building is part of a larger mixed-use development that would include 255 apartments and a parking deck.

Duke Energy's plan for a new 39-floor office tower in Uptown Charlotte will add to the activity in this already vibrant submarket. Duke will consolidate employees that are currently based in older buildings across Uptown, and ultimately reduce its occupancy in Uptown from 2.0 msf to 1.5 msf.

Investment activity is also steady in

Charlotte. Newly constructed buildings continue to command much higher pricing. Sentinel Real Estate Corporation, on behalf of sovereign wealth fund Kingdom of Bahrain, paid \$136 million for the Lash Group Headquarters in York County. The two-building complex constructed in 2016 is 100% leased to the Lash Group. Lakestar Properties and Arch Companies acquired 10101 Claude Freeman Drive in the University submarket in early October for \$63 million (\$180.10/sf). The 349,815-sf office building located within the University Research Park was fully leased at the time of sale.

In October, New York-based Arch Cos and Lakestar Properties (based in New Jersey) paid \$63 million (\$180/sf) for Cambridge Corporate Center in Mecklenburg County. The sellers paid \$43.5 million for the 339,544-sf property in 2014.

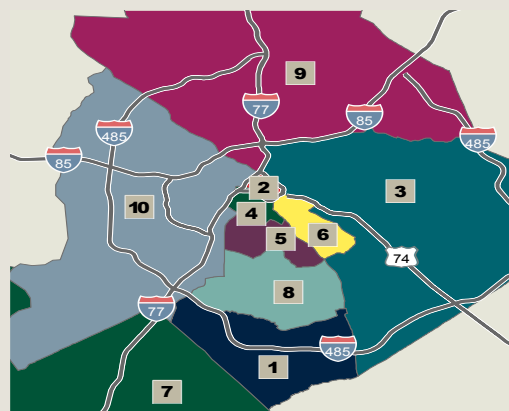
Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	This Quarter (1000's)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Ballantyne / Highway 51	6,705	52	670	-8.2%	491	10.0%	-0.9%	7.3%	\$29.03	0.6%	\$26.84
	Ballantyne / Highway - Class A	4,633	41	526	-13.8%	373	11.4%	-1.8%	8.1%	\$30.22	1.8%	\$28.09
2	CBD	17,945	45	2,702	0.4%	2,372	15.1%	0.1%	13.9%	\$32.71	0.9%	\$31.41
	CBD - Class A	13,858	31	2,415	0.5%	2,055	17.4%	0.1%	15.8%	\$33.24	0.7%	\$32.25
3	East Charlotte	4,726	34	733	-5.4%	537	15.5%	-0.9%	12.3%	\$23.97	2.5%	\$17.94
	East Charlotte - Class A	976	20	364	-1.2%	160	37.3%	-0.5%	26.3%	\$31.41	1.5%	\$25.09
4	Midtown / South End	3,973	230	424	-30.5%	343	10.7%	-4.7%	10.2%	\$34.68	-1.2%	\$30.05
	Midtown / South - Class A	1,880	192	346	-31.2%	270	18.4%	-8.3%	21.5%	\$36.06	-1.7%	\$30.98
5	Park Road	919	4	107	1.2%	90	11.7%	0.1%	9.8%	\$25.35	-1.4%	\$24.60
	Park Road - Class A	63	0	0	N/A	0	0.0%	0.0%	0.0%	\$0.00	0.0%	\$0.00
6	Randolph Rd / Cotswold	1,044	5	63	-19.6%	74	6.0%	-1.5%	7.1%	\$32.30	0.4%	\$30.98
	Randolph Rd / Cotswold - Class A	237	1	49	-12.2%	56	20.8%	-2.9%	23.6%	\$35.29	1.2%	\$34.68
7	South Carolina	4,678	1	482	-7.2%	447	10.3%	-0.8%	9.6%	\$17.58	-5.3%	\$17.42
	South Carolina - Class A	1,919	0	222	-20.5%	336	11.5%	-3.0%	17.5%	\$22.79	-2.1%	\$18.50
8	Southpark	4,797	75	730	-2.3%	760	15.2%	-0.4%	15.9%	\$31.33	2.5%	\$30.47
	Southpark - Class A	3,205	16	522	2.1%	568	16.3%	0.3%	17.7%	\$33.28	1.9%	\$32.47
9	University / Northeast	6,717	65	1,247	-0.7%	999	18.6%	-0.1%	14.8%	\$23.27	-0.6%	\$21.13
	University / Northeast - Class A	2,487	25	569	0.4%	519	22.9%	0.1%	20.9%	\$23.73	0.7%	\$21.92
10	West	12,152	50	1,812	3.6%	1,667	14.9%	0.6%	13.6%	\$23.07	0.5%	\$20.54
	West - Class A	6,533	20	918	2.4%	1,065	14.0%	0.3%	16.4%	\$24.01	2.1%	\$22.53
1-12	Charlotte Total	63,656	560	8,969	-3.1%	7,782	14.1%	-0.5%	12.6%	\$27.54	0.0%	\$25.50
	Charlotte - Class A	35,791	346	5,930	-4.3%	5,404	16.6%	-0.7%	15.9%	\$30.31	0.5%	\$27.97

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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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