

Charlotte's office availability climbs to historic high as new Class A projects continue to deliver

In Q4 2022, the Queen City's availability rate reached a record-setting 22.2%, up 550 basis points (bps) from 16.7% reported in Q4 2021. Despite this spike in availability, sublease space decreased slightly from last quarter to 2.7 million square feet (msf) but remains higher than a year ago when 2.3 msf was reported. The rise in available space is due in part to a swell of Class A office buildings under construction with 2.0 msf now underway, of which only 6.1% is currently preleased. Construction continues to ramp up in desirable areas such as the Charlotte Central Business District (CBD) and South End as developers respond to the overall flight to quality from existing tenants. The most substantial delivery on the horizon is the new Duke Energy Plaza located at 525 S Tryon Street. This 40-story, 1.0 msf office tower, which is nearing completion, will house approximately 4,400 employees and allow the company to reduce its existing real estate footprint with plans to sell the Duke Energy Center located at 550 South Tryon Street, subsequently adding 1.5 msf of available office space to the market.

Asking rental rate growth slows while concessions rise in value

After a steep incline of rental rate increases during the beginning of 2022, when inflation started to spike, rental rate growth has steadily slowed. Charlotte's overall average asking rental rate declined for the first time in a year and a half to \$32.39 per square foot (psf). However, this is still up 6.3% from a year ago. Landlords are currently offering substantial concession packages in exchange for tenants willing to commit to longer-term leases. Looking towards 2023, expect tenant-favorable market conditions to remain as landlords aggressively compete for occupancy.

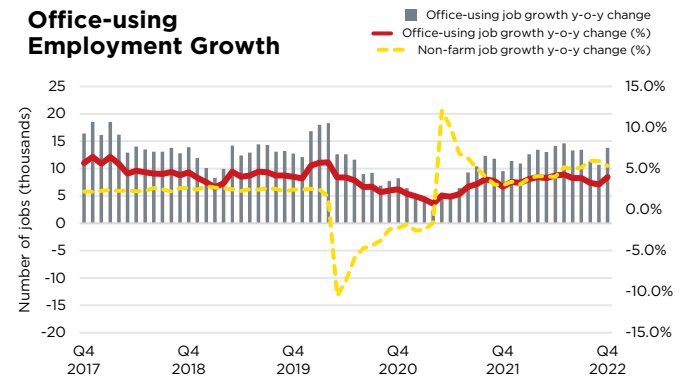
Uptown reignites leasing activity as occupiers install long-term return-to-office plans

In Q4 2022, six of the top ten leases were signed in the CBD. A total of 164,000 sf was leased in the heart of Charlotte, which is an increase of 44,000 sf year-over-year. The CBD's sublease inventory also decreased by 60,000 sf quarter-over-quarter, as a large sublease space from Robinhood was partially leased by Trinity Partners. According to Center City Partners, in-person office work in the CBD has recovered to 70% at the end of 2022, which remains significantly higher than in other metropolitan areas. This is largely due to large corporations putting in place finalized return-to-office plans. At year-end 2022, three of the six largest financial services firms in Charlotte have decided to no longer offer 100% remote work as an option to their employees with more occupiers expected to do the same in 2023.

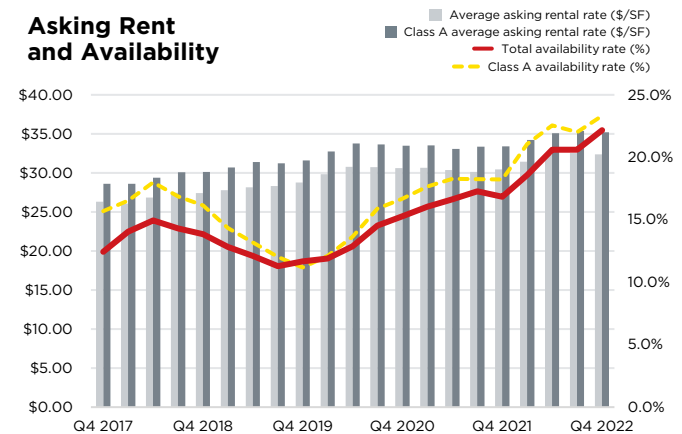
Key Statistics

	Q4 2021	Q4 2022	y-o-y Change
Inventory	64.3 MSF	66.2 MSF	▲
Availability Rate	16.7%	22.2%	▲
Asking Rental Rate	\$30.47	\$32.39	▲
Class A Asking Rental Rate	\$33.42	\$35.20	▲
Quarterly Leasing Activity	0.6 MSF	0.5 MSF	▼
Available Sublease Space	2.3 MSF	2.7 MSF	▲

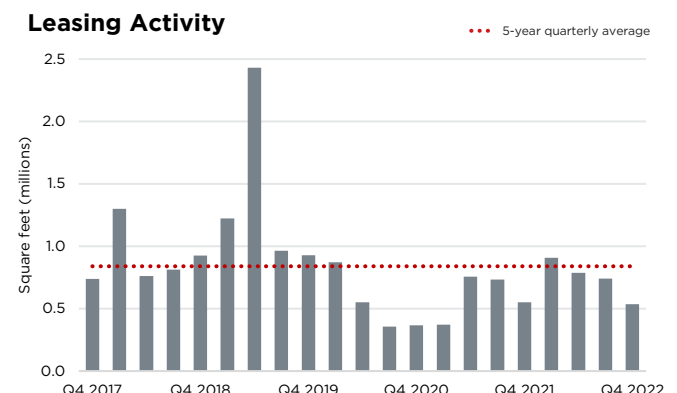
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Outlook

- While the labor market remains tight and unemployment continues to be low, expect continued economic uncertainty to act as a headwind to higher leasing activity over the short-term
- Despite a post-Labor Day increase in office occupancy according to Kastle Systems, expect availability levels to remain high as the record level of sublease space sits on the market longer
- With interest rates increasing and office fundamentals soft, the long-awaited expectation of distressed properties could now be imminent leading to continued tenant-favorable leasing conditions

By the Numbers

3.5%

Charlotte unemployment rate (as of November 2022)

5.9%

Office-using employment growth year-over-year (as of November 2022)

2.0 msf

Office space currently under construction

Top Transactions

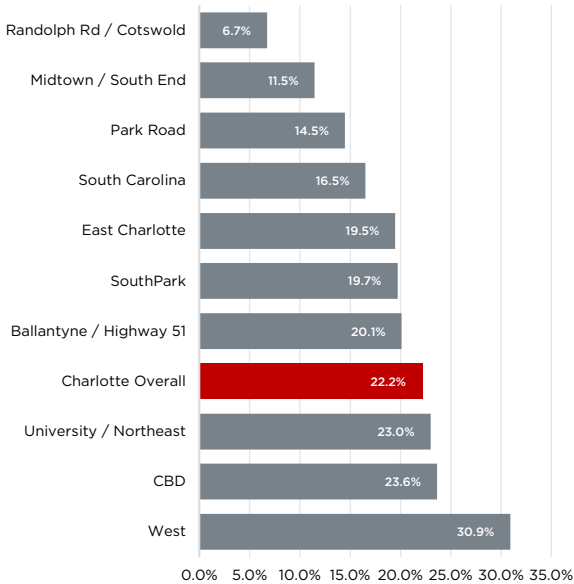
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
The Hartford	55,000	1120 S Tryon Street	New Location	South End	Insurance
Kimley-Horn and Associates	40,856	200 S Tryon Street	Renewal and Expansion	CBD	Engineering
Trinity Partners	23,854	650 S Tryon Street	New Location*	CBD	Real Estate
Spot Freight	21,091	128 S Tryon Street	New Location	CBD	Transportation
Seyfarth Shaw LLP	17,829	300 S Tryon Street	New Location*	CBD	Legal Services
Optomi	14,419	101 S Tryon Street	New Location	CBD	Business Services
WFEA	12,400	301 E 7 th Street	New Location*	CBD	TAMI
Samet	11,000	2825 South Boulevard	New Location	South End	Engineering
Great American Insurance Co.	10,005	3436 Toringdon Way	New Location	Ballantyne / Hwy 51	Insurance
Undisclosed	9,266	6700 Fairview Road	New Location	SouthPark	Undisclosed

*Sublease

Source: Savills Research

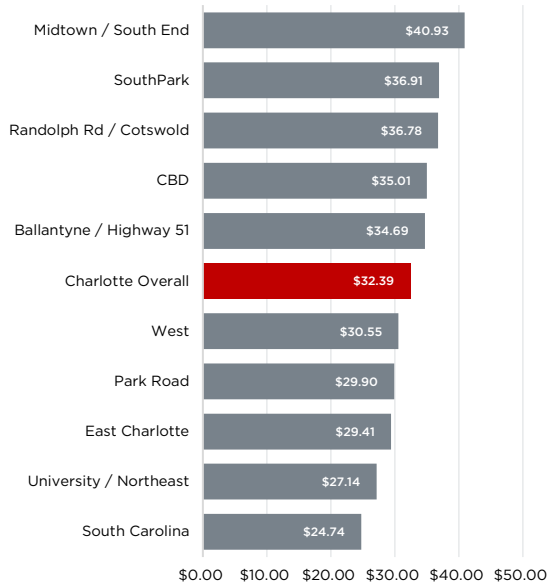
Availability Rate Comparison (%)

Charlotte Submarkets



Rental Rate Comparison (\$/SF)

Charlotte Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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