

Savills Studley Report

Charlotte office sector

Q1 2018



SUMMARY

Market Highlights

LEASING UP SLIGHTLY

Following a strong quarter of activity, with 749,742 sf leased – quarterly activity inched down to 438,500 sf. A 42% decrease quarter-over-quarter.

AVAILABILITY RATES DECLINES

The market's overall availability rate decreased by 50 basis points from 14.7% to 14.2%. The Class A availability rate fell by 70 basis points to 17.2%.

RENT PUSHES HIGHER

Overall asking rent increased by 1.8% quarter-over-quarter to \$25.87/SF. Class A asking rates also increased, rising by 1.7% to \$28.56/SF.

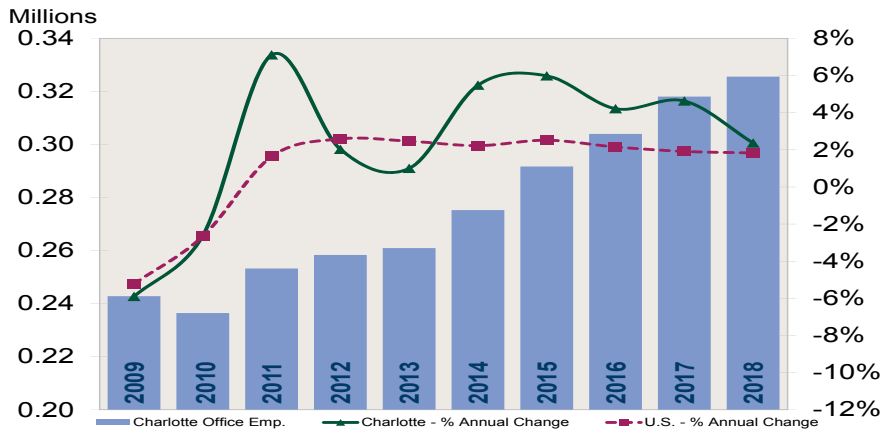
SALES DECREASE

Office property sales in the last six months through February 2018 totaled \$550 million, declining by 66% compared to the \$1.6 billion sold during the previous six months.

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"Despite some recent pullback in hiring by financial firms, demand for newer and quality corporate office product in Charlotte has been relatively steady. At the same time, activity in Charlotte's emerging startup scene is also supporting leasing in converted warehouses."

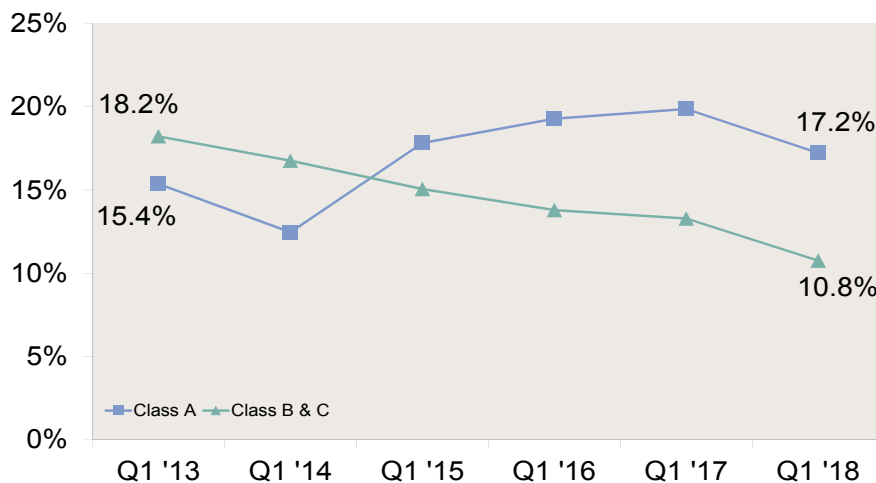
Edwin Yarborough,
Executive Vice President
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Office-Using Employment Trends

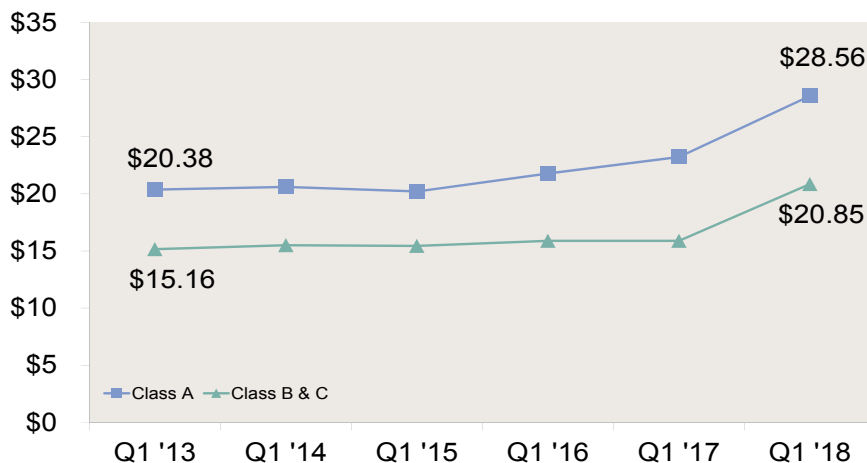


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Availability Declines as Development Remains Controlled

Now in the eighth year of a recovery, growth is showing few signs of slowing in Charlotte. Hiring has lost momentum of late, but leasing activity has been relatively steady, and with the new construction pipeline still relatively controlled, availability rates have pushed lower. The overall availability rate dropped by 50 basis points to 14.2% at the end of the first quarter. New construction totals just over 2.1 msf, but only 1.1 msf of the space currently underway is still available for lease.

Job growth in Charlotte has decelerated from a pace that is out in front of other markets, to one that is stuck in the middle of the pack. Office-using job growth dropped, falling to 2.4% during the last 12 months, still exceeding the national increase of 1.7%, but well under the 4.4% growth posted locally in the prior 12 months.

Banking Sector Pursues Efficiency

Job growth has slowed in recent months, in part due to weaker hiring in the financial sector. Charlotte added fewer than 700 jobs in financial services during 2017. This runs contrary to a jump in financial employment in many markets during 2017, including the costliest ones such as Manhattan and lower-cost back office markets such as Tampa Bay. Fintech innovation and the automation of banking processes and transactions is creating thousands of jobs in some markets, but is a drag on growth in others such as Charlotte.

Nevertheless, the banking sector remains critical to space demand and new construction activity in Charlotte. Most recently, Pittsburgh-based financial services firm F.N.B. Corp, 'FNB', signed a 30,000-sf lease at Dominion Realty Partners' 401 S. Graham Street. Scheduled to deliver in 2020, the FNB Tower-Charlotte will have more than 160,000 sf of office space, street-level retail and 215 apartments. The president and CEO of FNB said the property will give "local teams a centralized base to collaborate, share experiences and engage with the community." Dominion is also constructing a similar tower to be anchored FNB in Downtown Raleigh.

Some banks are renewing rather than taking on the cost of relocation. Bank of America renewed its 294,000-sf lease and expanded by 24,000 sf at Fifth Third Center, extending its lease until 2025. Additionally, Dimensional Fund Advisors leased 265,000 sf at 1515 S Tryon Street, boosting deal volume totals in the CBD.

Even though in some sectors are not hiring as aggressively as recent months, household

income is rising – stimulating local demand for housing. In turn, some contractors are setting up local operations. Atlanta-based Fortune-Johnson General Contractors, for example, recently opened a regional office in SouthPark at 5950 Fairview Road. Real estate firms are also expanding. RE/MAX Executive leased 7,000 sf at 12104 Copper Way in Ballantyne, moving just across the street from its old office at 3426 Toringdon Way. The owner of RE/MAX Executive cited the increased space, better parking, signage and an employee lounge as reasons for the move.

Building Upgrades

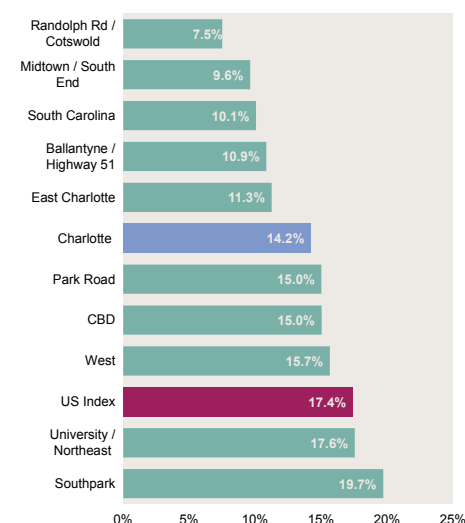
New construction raises the bar for building standards across the entire market and pressures landlords in existing properties to make renovations. The owners of 525 North Tryon have added a fitness center, bike storage and repair facilities, as well as a larger conference facility. CohnReznick recently leased 16,800 sf at the building. The Fallon Company is about to start renovations at 301 S. McDowell Street later this spring. This Boston-based investor acquired the 184,144-sf building, which will be renamed 301 Midtown, for \$24.5 million last summer. Plans call for renovations to the outdoor plaza space, exterior lighting, as well as the addition of a new fitness center, café, concierge, and security service throughout the building.

Adaptive Re-Use on the Rise

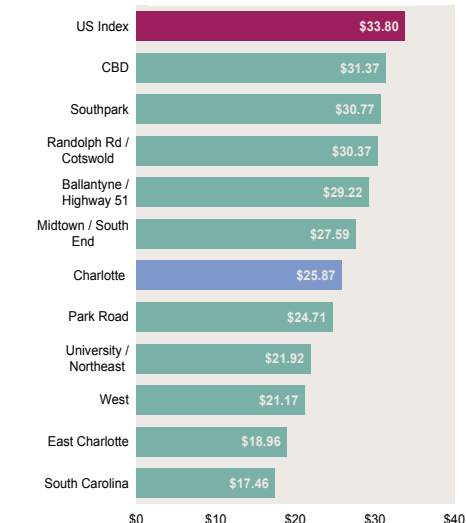
Top banks, such as Bank of America, and large tech firms have an outsized impact on leasing, particularly newer buildings in Uptown and the CBD. In contrast, smaller creative and tech sector firms continue to display strong demand for repurposed warehouse space. ATCO is pushing ahead with the redevelopment of the 75 acre Camp North End. The New York-based developer bought the complex for \$15.6 million in 2016.

The sprawling facility, just North of the Fourth Ward, has seen a lot of different uses in the last century. Originally a Ford Model T factory at the beginning of last century, it was a WWII army base before becoming a Hercules missile site. Most recently it was used as a Rite Aid distribution center. One of the next buildings to be redeveloped, the Gama Goat Building (1701 N. Graham Street), will have 140,000 sf of office and retail space. Future plans call for 1,500 new apartments, a hotel, 200,000 sf of shops and restaurants, and as much as 1.5 msf of office space. Notable professional/business service firms and banks are setting up innovation centers in these hubs as a way to attract younger talent, such as

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Bank Of America	318,000	201 N Tryon St	CBD
Dimensional Fund Advisors	265,000	1515 S Tryon St	Southwest Charlotte
Curvatura	41,716	2810 Coliseum Centre Dr	CBD
RSM	36,357	300 S Tryon St	CBD
FNB	30,000	401 S St	CBD
Spaces	32,000	101 N Tryon St	CBD
CohnReznick	16,800	525 North Tryon	CBD
Q3M	15,000	8530 Cliff Cameron Dr	University / Northeast
Horizon Investments	13,852	6210 Ardrey Kell Rd	East Charlotte
ESRI	12,000	6210 Ardrey Kell Rd	East Charlotte
Sum of Top 10 Leases	780,725		

Ally Financial, for example, which recently leased 2,200 sf at Camp North End. This outpost is just a small part of Ally's big expansion in Charlotte. The Detroit-based bank has leased 400,000 sf at Ally Charlotte Center. The 742,000-sf tower is slated to be completed in 2021.

Tight Conditions for Tech

Tech tenants look for options in alternative locations such as Camp North End for a couple of reasons. They have either been priced out of SouthPark or they think these areas have become too corporate. As of early March, SouthPark only had four buildings offering a block of 25,000 sf or more. This submarket does not have any buildings currently in the development pipeline.

A few tech firms are moving to suburban buildings. Curvatura decided to move from North Charlotte to Coliseum Five in the Airport submarket. The IT support firm

completed a 41,716-sf lease at the building in the Airport submarket formerly occupied by LPL Financial, a deal Savills Studley facilitated.

Other entrepreneurial firms are opting for a growing set of options within the co-working sector. Spaces (the co-working division of executive space for Regus) signed a 32,000-sf lease at 101 North Tryon. The space will have 269 dedicated desks and three meeting rooms. The owners of 101 North Tryon have been renovating the common areas, lobby and exterior.

Looking Forward

Despite some weakening in financial sector job growth in the last 12 months, Charlotte's status as the financial center for the MidSouth should keep leasing and demand for newly constructed buildings relatively strong for the rest of 2018.

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	6,930	52	752	12.0%	1,064	10.9%	1.2%	15.4%	\$29.22	9.2%	\$21.80
	Ballantyne / Highway - Class A	4,749	30	598	13.8%	794	12.6%	1.5%	16.7%	\$29.13	3.9%	\$23.01
2	CBD	17,339	144	2,608	-1.4%	2,839	15.0%	-0.2%	16.4%	\$31.37	0.5%	\$25.80
	CBD - Class A	13,063	136	2,261	-1.5%	2,517	17.3%	-0.3%	19.3%	\$32.14	0.3%	\$26.26
3	East Charlotte	4,569	48	514	-8.2%	843	11.3%	-1.0%	18.4%	\$18.96	0.6%	\$12.28
	East Charlotte - Class A	567	35	133	-19.7%	367	23.4%	-5.7%	64.7%	\$27.11	-3.3%	\$10.78
4	Midtown / South End	3,285	36	316	-5.0%	318	9.6%	-0.5%	9.7%	\$27.59	-3.1%	\$23.26
	Midtown / South - Class A	1,119	23	161	-11.8%	162	14.4%	-1.9%	14.5%	\$29.26	-2.3%	\$30.11
5	Park Road	1,082	3	163	4.6%	149	15.0%	0.7%	13.7%	\$24.71	0.3%	\$17.01
	Park Road - Class A	63	0	0	-100.0%	14	0.0%	-2.0%	21.9%	\$0.00	-100.0%	\$31.00
6	Randolph Rd / Cotswold	1,083	2	81	3.0%	237	7.5%	0.2%	21.9%	\$30.37	-1.6%	\$22.10
	Randolph Rd / Cotswold - Class A	237	0	56	0.0%	51	23.6%	0.0%	21.6%	\$34.86	0.5%	\$29.75
7	South Carolina	5,253	5	529	-21.2%	857	10.1%	-2.7%	16.3%	\$17.46	-10.4%	\$17.74
	South Carolina - Class A	2,282	2	280	-31.0%	495	12.3%	-5.5%	21.7%	\$22.36	-2.8%	\$21.43
8	Southpark	4,797	34	946	1.7%	949	19.7%	0.3%	19.8%	\$30.77	1.2%	\$24.97
	Southpark - Class A	3,205	13	724	4.9%	604	22.6%	1.1%	18.8%	\$32.37	0.2%	\$26.25
9	University / Northeast	6,839	69	1,201	-5.3%	1,058	17.6%	-1.0%	15.5%	\$21.92	0.5%	\$18.11
	University / Northeast - Class A	2,457	34	571	-6.8%	413	23.3%	-1.7%	16.8%	\$22.07	1.0%	\$20.57
10	West	12,145	46	1,903	-5.4%	2,341	15.7%	-0.9%	19.3%	\$21.17	2.8%	\$17.24
	West - Class A	6,326	19	1,082	-8.3%	1,351	17.1%	-1.6%	21.4%	\$22.99	3.1%	\$19.41
1-12	Charlotte Total	63,322	438	9,013	-3.4%	10,655	14.2%	-0.5%	16.8%	\$25.87	1.8%	\$20.68
	Charlotte - Class A	34,068	292	5,866	-4.1%	6,767	17.2%	-0.7%	19.9%	\$28.56	1.7%	\$23.23

Please contact us for further information

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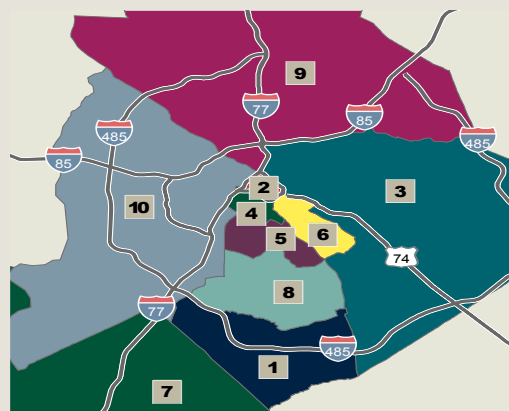
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(1) Percentage point change for availability rates.

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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