



Charlotte office market report

Q1 2023

**AVISON
YOUNG**

Charlotte office market trends

34,591

Job postings on the rise

An uptick in job postings can signify a growing economy and an increased demand for office space as businesses expand. The metric in Charlotte has varied throughout the post-pandemic environment, and while 2022 job postings started high, the year held a downward trend throughout. 2023 opened with the first positive quarter in 15 months at a +5% increase in job postings from 4Q22. Additionally, 98% of 1Q23 advertised jobs were for in-office roles, up 16% from last year. These trends indicate an increased demand for employees, particularly for those operating from the office.

18.8%

Vacancy

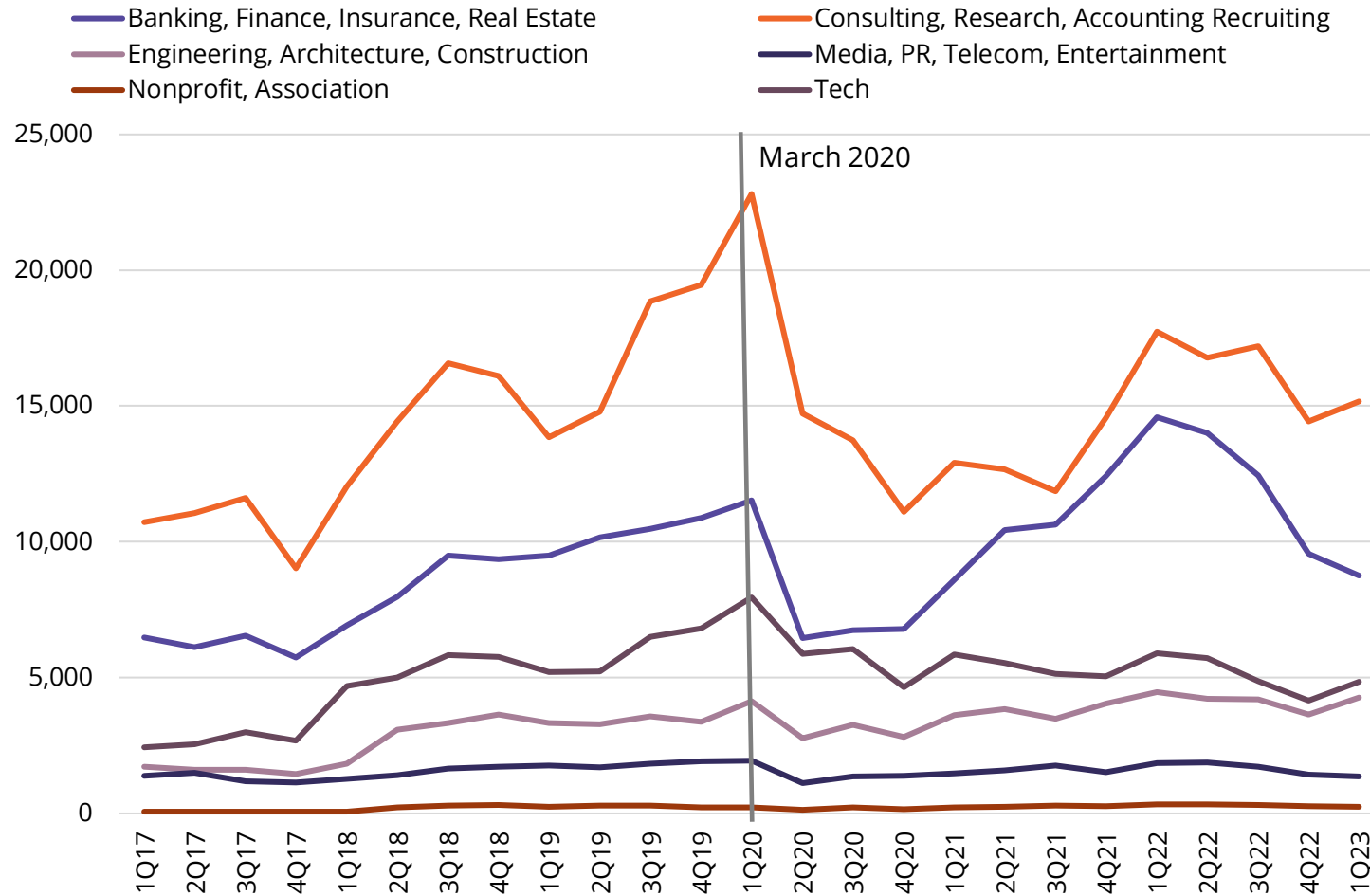
Vacancy rates for Charlotte office space have nearly doubled since the pandemic, jumping from 9.9% in '19 to 17.2% in '22. The first quarter of 2023 marked the slowest 12-month velocity in vacancies since March 2020, indicating a slight stabilization. Construction starts have slowed due to interest rate hikes and market uncertainty, leaving a 3.2msf development pipeline to meet any incoming demand for new office space. Leasing volume was down 27% from 1Q22, which is mainly attributed to economic instability, causing businesses to postpone entering into long-term lease agreements.

\$32.5M

1Q23 sales activity

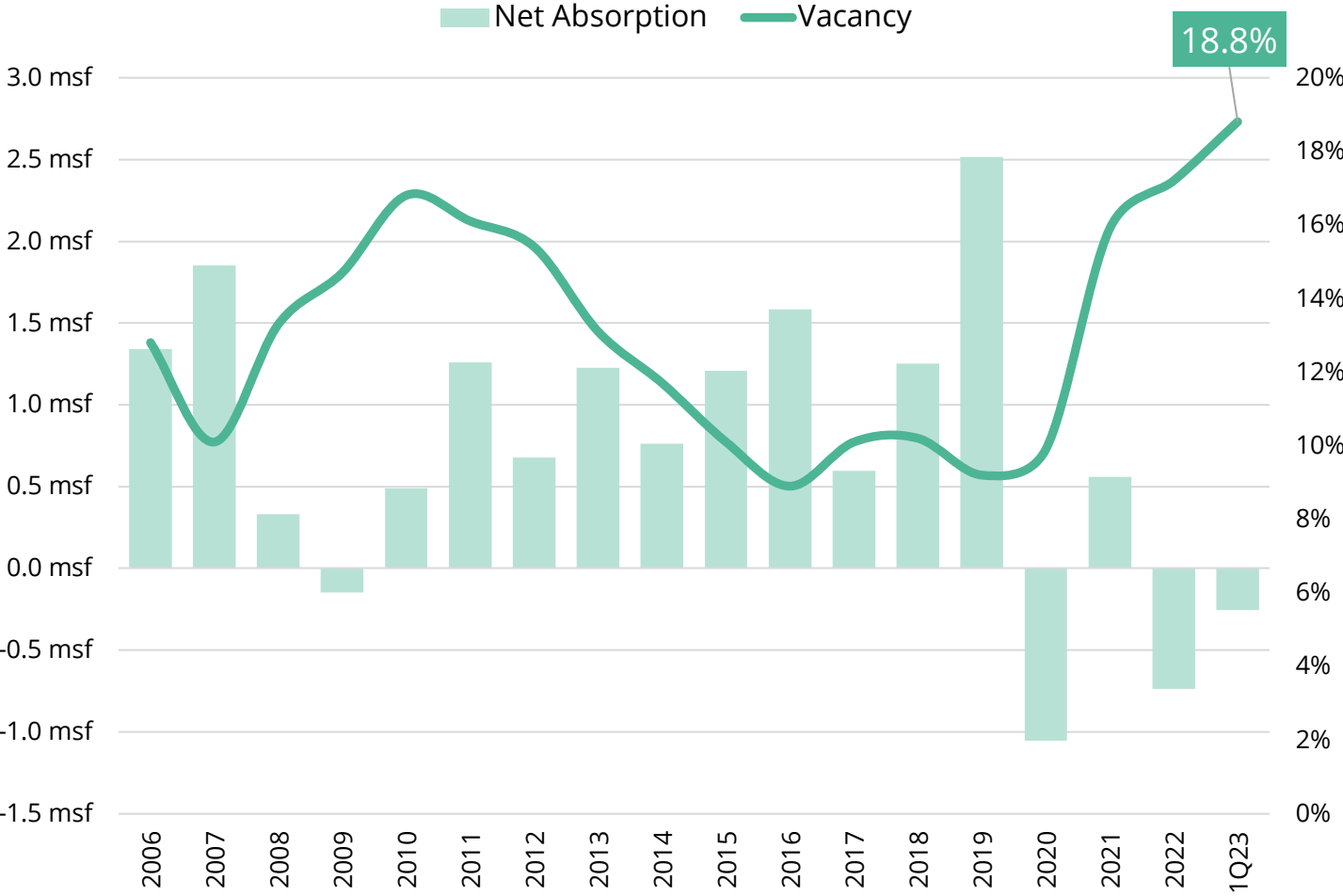
2023 opened with the lowest Charlotte office sales volume in ten years, bringing the trailing 12-month investment total to \$1.4b. The Fed's action to raise the price of federal funds has significantly impacted capital markets, as elevated interest rates are driving up costs to borrow money, and office users are slowing expansion efforts. However, it's safe to expect volume to recover as landlords with adjustable rates on highly leveraged assets seek options for disposition. Pricing in this situation will become more attractive as at-risk landlords seek buyer interest.

Job postings by industry type



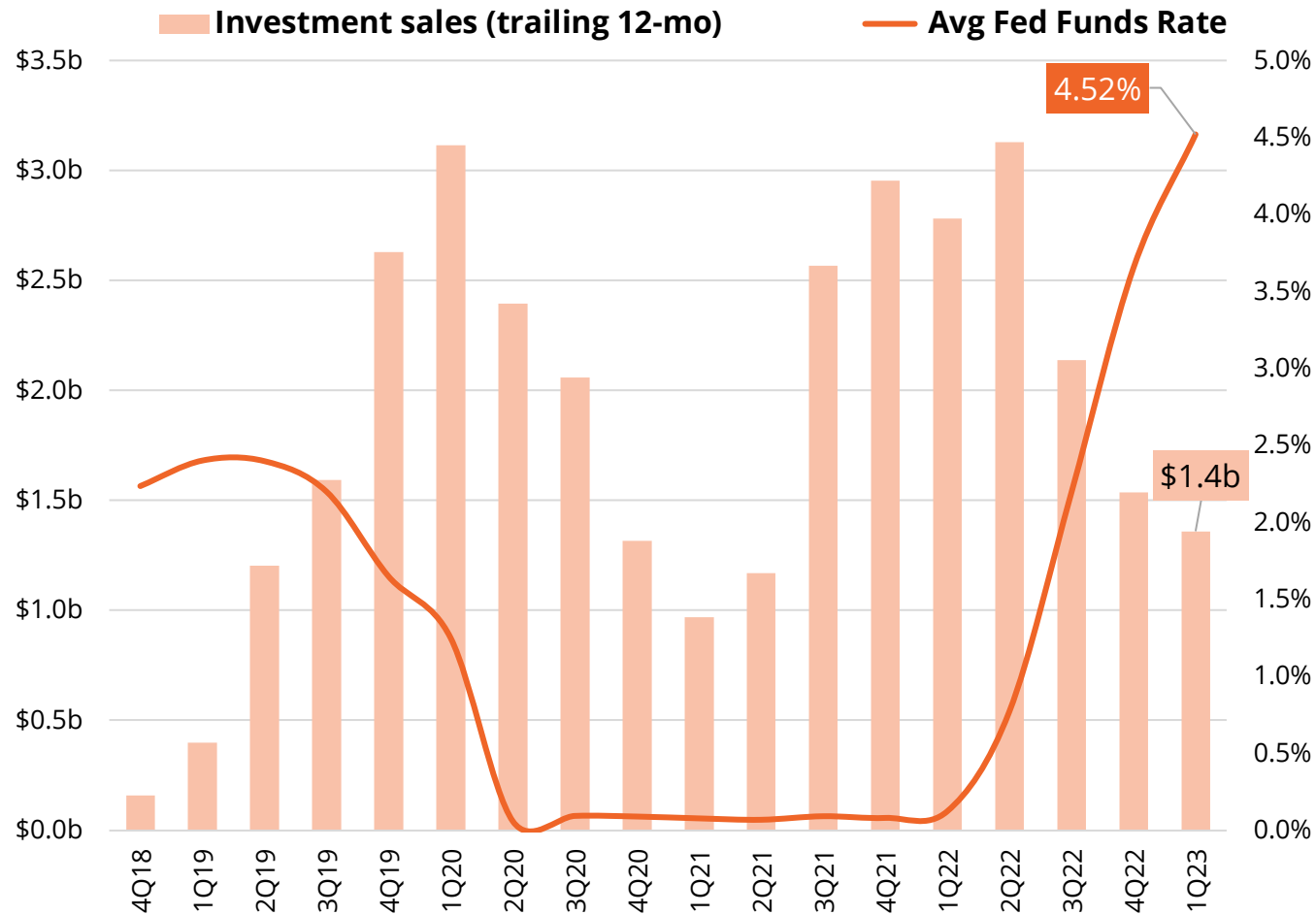
Job postings are down 23% since the post-pandemic high in 1Q22. However, activity is improving from year end '22, signaling potential expansion efforts to start the year.

Net negative absorption pushing vacancy



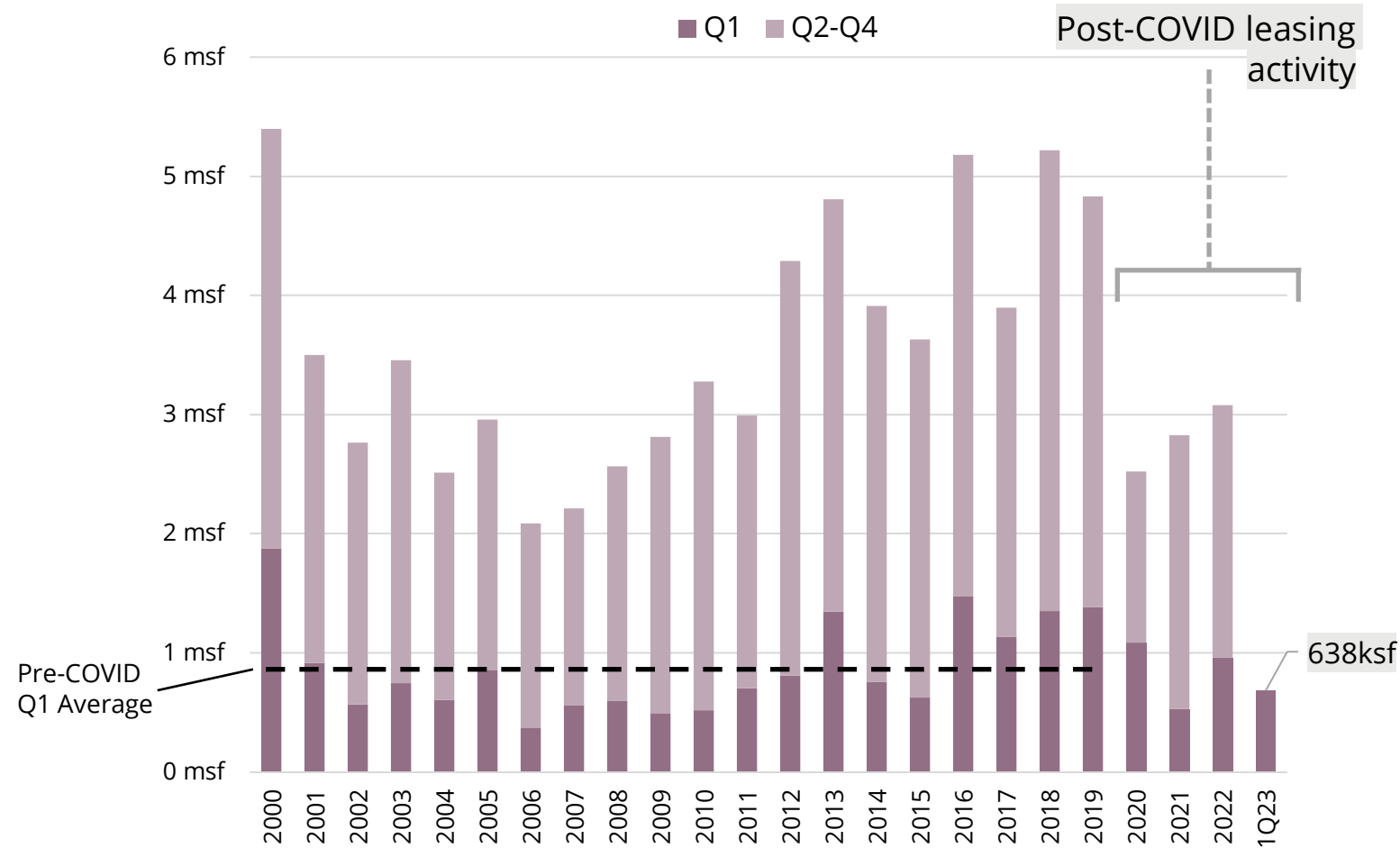
Combined net absorption over the previous three years is negative, while office vacancy reaches the highest point in two decades.

Investment sales downtrend



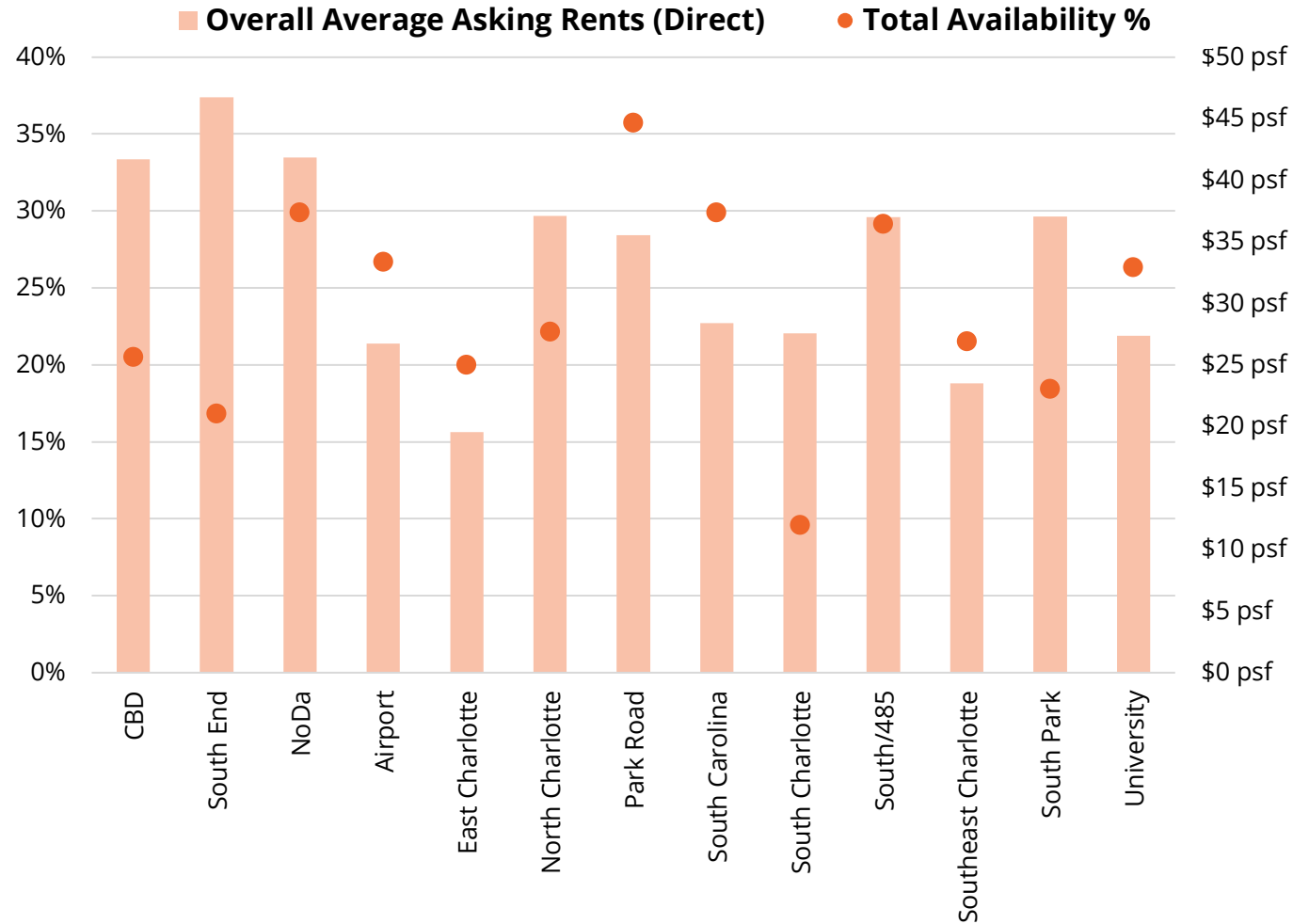
Treasuries and remote work trends continue to cause question for office assets as a reliable investment tool in a changing market.

Leasing activity



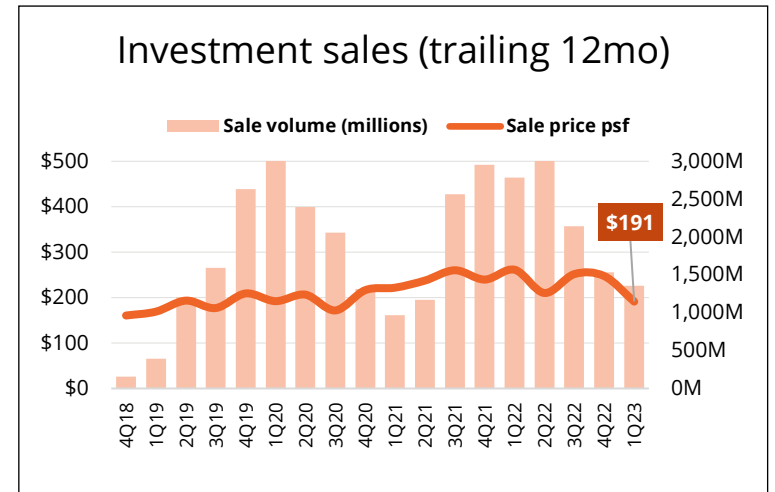
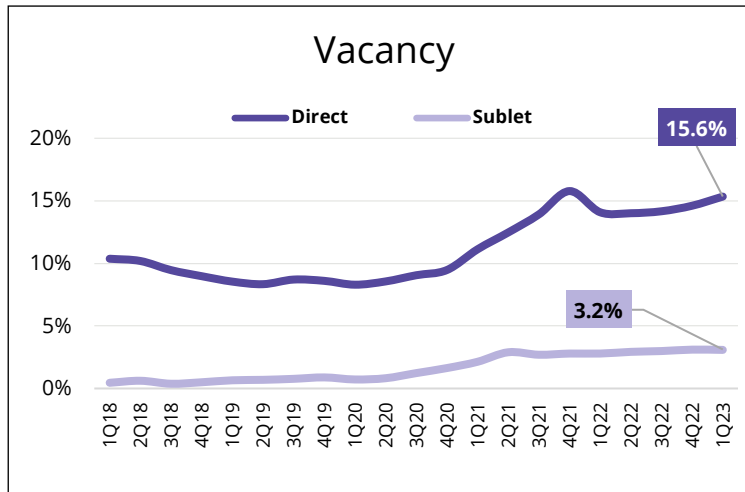
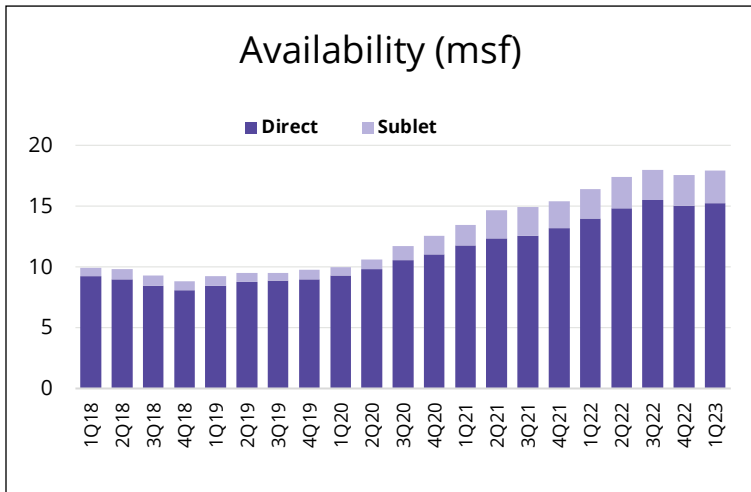
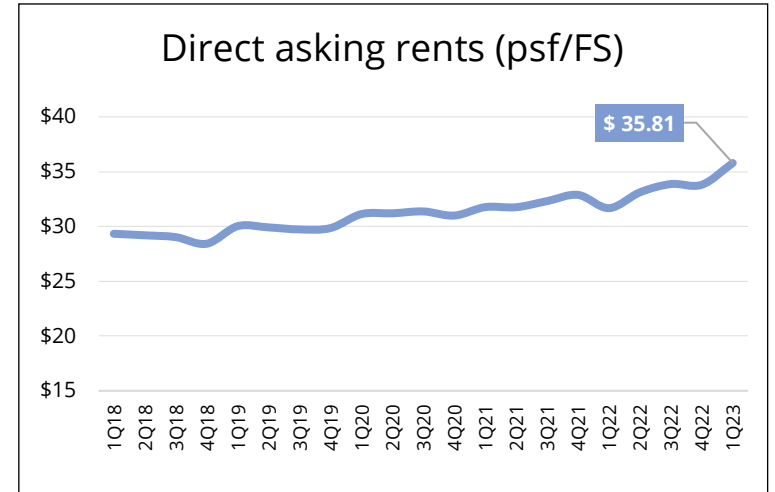
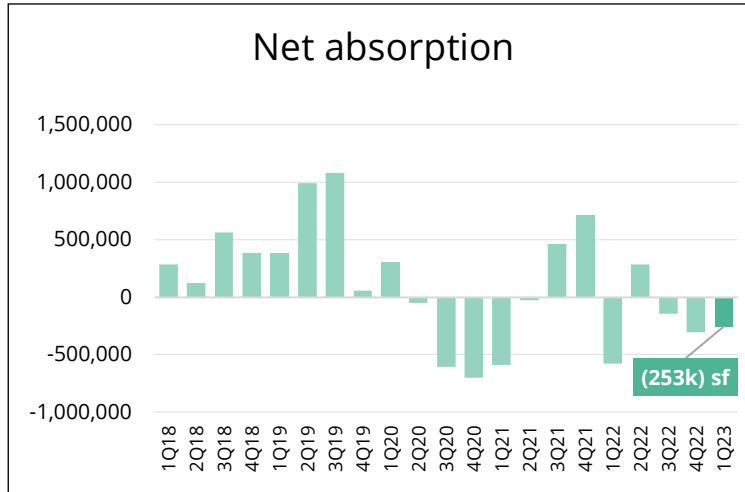
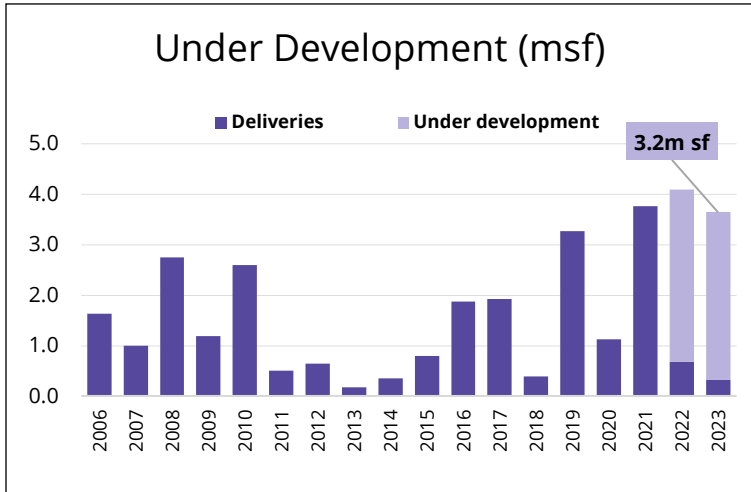
Q1 2023 leasing activity at 638k sf falls just shy of the pre-COVID Q1 average of 884k sf.

Average asking rent by submarket



South End maintains an avg asking rent of \$47psf, while accounting for the second lowest availability rate in Charlotte.

Charlotte office market indicators



Charlotte office market stats

Recent leasing activity

Tenant	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Hartford Insurance	1120 S Tryon St	Jan 2023	55,667	Direct	New	Midtown/South End
Colejenest & Stone	1801 N Graham St	Feb 2023	24,600	Direct	New	Plaza Midwood/Noda
Experis	2151 Hawkins St	Feb 2023	23,610	Direct	New	Midtown/South End
Withheld	6135 Park South Dr	Feb 2023	19,200	Direct	New	SouthPark
JE Dunn	227 Southside Dr	Jan 2023	18,033	Direct	New	Midtown/South End

Recent sales activity

Buyer	Address	Sale date	Building Size (sf)	Sale price	Sale price psf	Seller
Mecklenburg County	4822 Albemarle Rd	Jan 2023	51,488	\$5,600,000	\$109	McVeigh Magnum Engineering
Piedmont MOB Partners	197 Piedmont Blvd	Feb 2023	31,222	\$3,959,000	\$127	Flagship Healthcare Properties
Graham-Overlook LLC	1514 N Graham St	Jan 2023	26,211	\$3,600,000	\$137	Donald Lancaster

Largest projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
Legacy Union – Phase IV	600 S Tryon St	Q3 2024	410,880	25%	Lincoln Harris	CBD
The Thread	220 W White St	Q4 2023	400,000	10%	The Keith Corporation	South Carolina
East West Station	110 East Blvd	Q1 2024	370,000	0%	Stiles Corporation	Midtown/South End

Charlotte office market stats

Submarket	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Preleased sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Direct asking rent FS
CBD	23,542,816	-	1,504,000	1,473,335	15.3%	2.2%	17.5%	(835,118)	\$41.69
Midtown/South End	7,190,215	199,780	533,340	137,670	10.4%	0.7%	11.2%	153,569	\$46.73
Plaza Midwood/Noda	1,673,695	150,000	296,000	87,065	36.8%	0.1%	37.9%	24,551	\$41.85
Urban Subtotal	32,406,726	349,780	2,333,340	1,692,070	15.3%	1.8%	17.1%	(656,998)	\$42.82
Airport	11,106,364	190,000	300,000	-	16.1%	6.7%	22.8%	101,953	\$26.72
East Charlotte	1,807,987	-	-	-	14.0%	0.0%	14.0%	1,887	\$19.55
North Charlotte	4,082,059	200,000	287,000	25,000	14.6%	2.8%	17.4%	5,493	\$37.11
Park Road	845,731	-	-	-	29.3%	3.4%	32.7%	(8,831)	\$35.53
South Carolina	3,556,336	-	400,000	43,443	11.6%	8.2%	19.8%	45,233	\$28.39
South Charlotte	1,795,691	-	-	-	9.2%	0.4%	9.7%	(18,633)	\$27.57
South/485	6,327,308	-	-	-	24.0%	2.6%	26.6%	(62,214)	\$36.98
Southeast Charlotte	1,194,797	-	-	-	10.5%	2.9%	13.3%	(16,171)	\$23.52
SouthPark	4,270,223	-	-	-	14.0%	2.6%	16.6%	(46,481)	\$37.07
University	6,992,261	-	-	-	14.0%	4.0%	18.0%	401,403	\$27.34
Suburban Subtotal	42,428,757	390,000	987,000	68,443	15.9%	4.2%	20.1%	403,639	\$30.46
Market total	74,835,483	739,780	3,320,340	1,760,513	15.6%	3.2%	18.8%	(253,359)	\$35.81

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

Nick Claudio

Senior Vice President

+ 1 704 512 0231

nick.claudio@avisonyoung.com

Lem Doss

Associate

+1 804 658 6138

lem.doss@avisonyoung.com

Zach Simpson

Vice President

+1 704 315 5091

zach.simpson@avisonyoung.com

Richard Toal

Research

+1 704 891 9382

rich.toal@avisonyoung.com