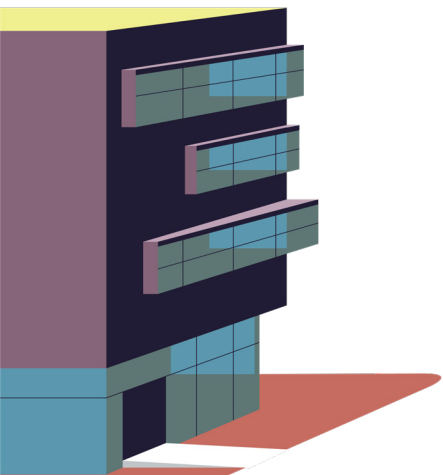


Charlotte

Sublease space

Available sublease space has risen by 168% in the last 12 months.



Near-term challenges tempered by longer-term optimism as tenants point toward re-entry

Charlotte office fundamentals softened further in the opening months of 2021 as tenant demand remained tepid while construction deliveries surged. Leasing activity is still well below pre-pandemic levels, but the market is beginning to show signs of thawing as vaccinations become widely available and children begin returning to in-person instruction, leading more office users to contemplate a return to the workplace.

Market Fundamentals

Net absorption crept back into positive territory in 1Q21 for the first time in a year. The activity was far outpaced, however, by first-quarter deliveries of 1.6 msf. Vacancy rose to 15.2%, up 530 bps year-over-year and the highest level registered since 2Q13. Office landlords are facing increased competition not only from new product, but also from a rising tide of sublease offerings. Year-over-year rent growth slowed but remained positive as construction costs soared and building owners held firm on rates in order to preserve value. Landlords have become more aggressive with concessions such as free rent and increased tenant improvement allowances.

Construction Activity

In the largest delivery of the first quarter, Crescent Communities completed construction of Ally Charlotte Center in the CBD. The building's 742,000 sf of office space is fully leased by Ally Financial. Elsewhere in the CBD, Lincoln Harris delivered phase two of Legacy Union. The 362,500-sf building was delivered 55% leased and is anchored by Deloitte and Cadwalader, Wickersham & Taft. In the Midtown/South End submarket, the first tower at Vantage South End was delivered with 74% of its 327,000 sf leased to Lending

Tree, and the 143,000-sf Square at South End was completed with no tenants committed. Projects totaling 4.4 msf are currently underway, with 40% of the space pre-leased. When Duke Energy's 1-msf build-to-suit is removed, the pre-leased figure falls to 23%. With most of this space scheduled for delivery in 2021, vacancies are likely to remain on an upward track through the balance of the year.

Investment Sales

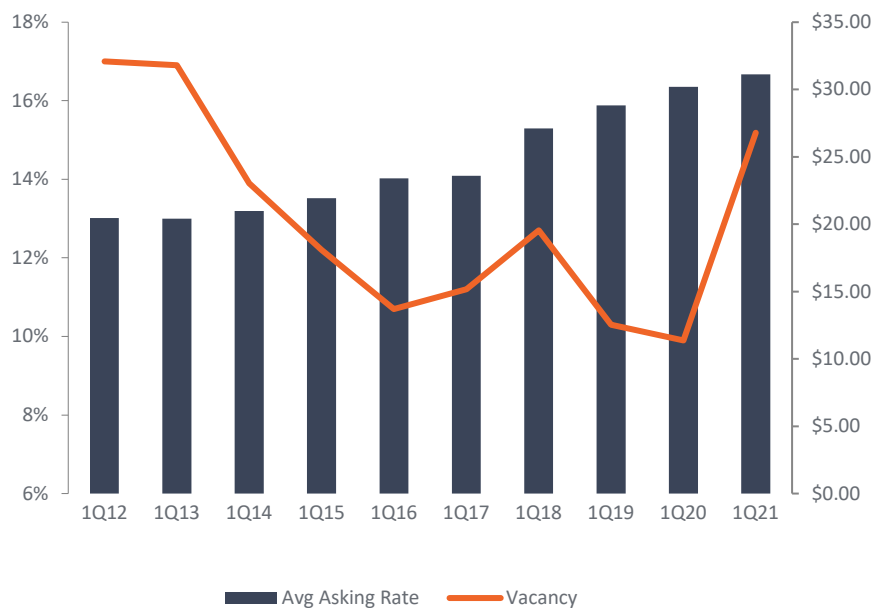
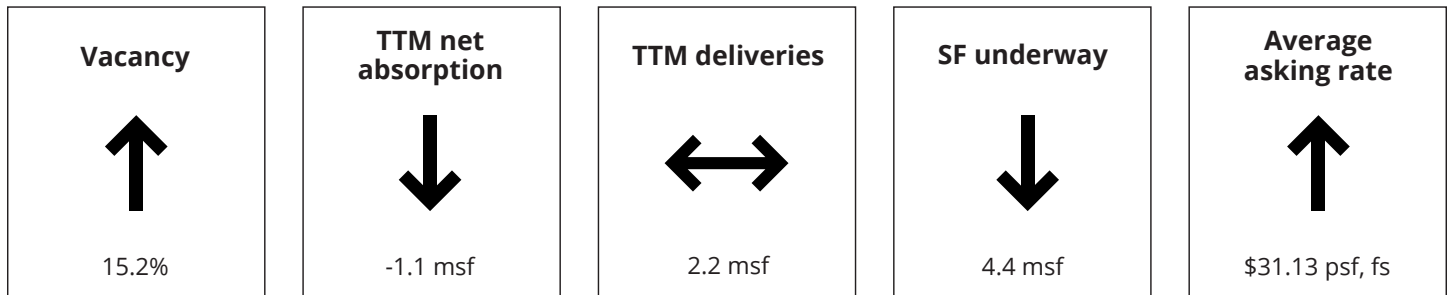
Charlotte office sales continued to be light in the first quarter, coming in at \$345.7 million. The two largest sales took place in Uptown Charlotte. South Korea-based Hana Alternative Asset Management entered the North Carolina market with the \$201-million acquisition of 300 South Brevard, which was fully occupied by Wells Fargo at closing. New York-based Opal Holdings paid \$115 million for BB&T Center. The property is 85% leased, but anchor tenant Truist has placed its 114,000 sf on the market for sublease as it consolidates to a new headquarters location elsewhere in the CBD.

Outlook

While Charlotte's office market will continue to be challenged in the near term, the long-term outlook is positive. After more than a year of working remotely, many tenants are eager to execute re-entry plans, and leasing activity is expected to rebound in the second half of the year. A recent KPMG study found that only 17% of CEO's plan to cut back on offices, down 67% from the last survey conducted in August. A hybrid work model may be a viable option for many occupiers as employees seek increased flexibility, but the last year has also underscored the importance of the office for collaboration and culture.

Office market year-over-year trends

Vacancy continues to climb as new construction is delivered and sublease offerings surge. Year-over-year rent growth has slowed but remains positive, while landlords have become more aggressive with concessions such as free rent and increased tenant improvement allowances.

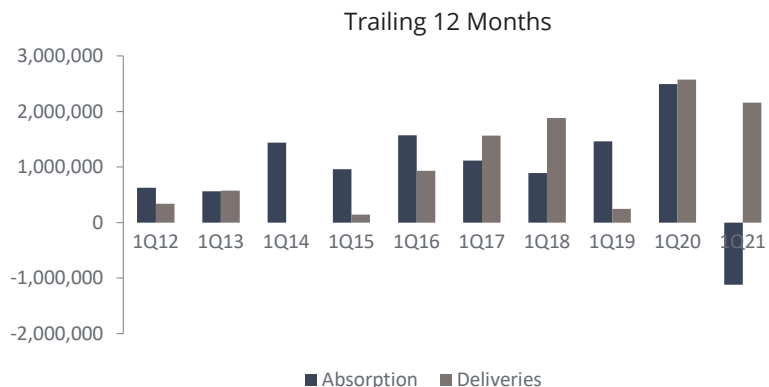


Vacancy and rental rates

Charlotte office vacancy rose 530 bps during the last 12 months. The average asking rental rate rose to \$31.13 psf, up 3% year-over-year.

Absorption and deliveries

Following modest deliveries in the second half of 2020, Charlotte office completions jumped to 1.6 msf in 1Q21, far outpacing both quarterly and trailing-12-month net absorption.



Market by the numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION			AVERAGE ASKING RENT		
		Total	Class A	Class B	1Q21	Last 12 Mos.	SF Underway	Total	Class A	Class B
CBD	20,800,127	11.3%	10.2%	18.3%	380,954	95,366	1,443,415	\$36.28	\$37.58	\$29.76
Midtown	3,999,157	19.2%	22.1%	13.3%	193,997	223,409	1,273,771	\$39.26	\$40.44	\$31.51
Plaza Midwood/NoDa	593,595	47.3%	61.3%	4.1%	(38,400)	131,193	483,874	\$33.47	\$33.56	\$17.94
Urban Total	25,392,879	13.4%	12.9%	16.9%	536,551	449,968	3,201,060	\$36.97	\$38.15	\$30.14
Airport	9,537,189	19.2%	17.1%	24.9%	(201,070)	(557,860)	-	\$24.99	\$26.11	\$23.74
East Charlotte	831,597	24.4%	-	25.4%	2,509	(4,492)	-	\$16.00	-	\$16.02
North Charlotte	2,023,825	16.0%	17.2%	13.7%	(40,525)	(46,460)	92,000	\$27.12	\$27.72	\$24.90
Park Road	723,651	34.3%	45.9%	26.1%	(12,912)	(41,163)	-	\$34.81	\$36.61	\$31.61
South/485	5,430,442	15.3%	15.6%	12.9%	(48,343)	(231,129)	436,500	\$33.54	\$33.92	\$30.06
South Charlotte	918,401	11.4%	13.3%	7.4%	(7,244)	(30,784)	-	\$25.97	\$26.03	\$25.76
Southeast Charlotte/Matthews	881,237	15.6%	4.2%	16.2%	(12,290)	(41,332)	-	\$17.60	-	\$18.63
Southpark	4,603,423	15.8%	13.6%	22.7%	(56,586)	(353,057)	-	\$34.02	\$36.33	\$31.08
University	4,642,234	12.7%	19.9%	9.4%	(36,807)	(93,643)	588,648	\$26.16	\$26.55	\$24.64
South Carolina	2,862,153	13.6%	12.5%	18.0%	-	(169,069)	120,000	\$26.09	\$26.31	\$21.95
Suburban Total	32,454,152	16.6%	16.2%	18.1%	(413,268)	(1,568,989)	1,237,148	\$27.73	\$29.39	\$24.77
Total Market	57,847,031	15.2%	14.5%	17.8%	123,283	(1,119,021)	4,438,208	\$31.13	\$33.16	\$25.84

Recent leases

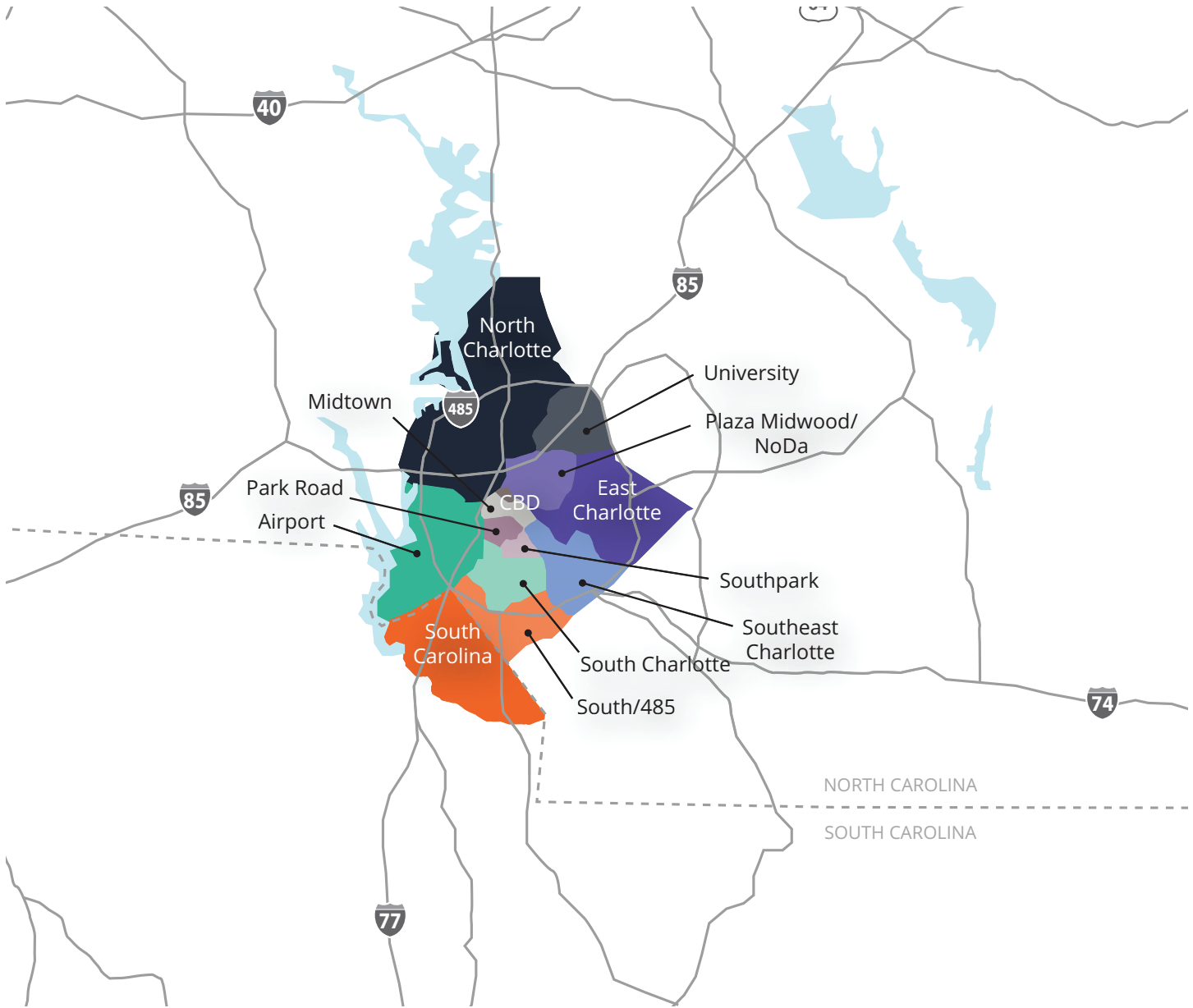
Tenant	Property	Type	Submarket	SF
Spectrum	Forest Park XI	New Lease	Airport	60,447
Grant Thornton	Vantage South End	New Lease	Midtown/South End	31,600
BSI Solutions	201 South Tryon	New Lease	CBD	27,568
Skookum	Charlotte Plaza	Sublease	CBD	25,150
Baseware	1245 Rosemont Drive	Renewal	South Carolina	12,495

Recent sales

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
300 South Brevard	CBD	Hana Alternative Asset Management	358,855	\$210.0 million	\$560
BB&T Center	CBD	Opal Holdings	553,000	\$115.0 million	\$208

First-quarter construction deliveries

Property	Submarket	Anchor Tenant(s)	Office SF	% Leased
Ally Charlotte Center	CBD	Ally Financial	742,000	100%
Legacy Union Phase II	CBD	Deloitte, Cadwalader Wickersham & Taft	362,500	55%
Vantage South End - West Tower	Midtown/South End	Lending Tree	326,887	74%
The Square at South End	Midtown/South End	N/A	143,000	0%



Charlotte Office Team

Nick Claudio
Vice President
704.512.0231
nick.claudio@avisonyoung.com

Zach Simpson
Vice President
703.315.5091
zach.simpson@avisonyoung.com

Ryan Kendall
Associate
704.612.0395
ryan.kendall@avisonyoung.com

Emily Bostic
Research Manager
919.866.4274
emily.bostic@avisonyoung.com



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