



**AVISON  
YOUNG**

# Charlotte Office Insight Report

Q3 2021

**AVANT**  
by AVISON YOUNG

# Key takeaways



## Economic conditions

- Charlotte’s unemployment rate has dropped rapidly from a high of 13.9 percent in May of 2020 to **4.4 percent** in July 2021. Over the course of the pandemic’s recovery, employment has grown 16.2 percent since April 2020.
- Office-using job losses have totaled **2.8 percent** compared with 2.5 percent for other industries’ job losses. Charlotte’s healthy financial sector has already surpassed pre-pandemic levels growing by 14%.



## Recovery

- As the hybrid work concept accelerates, particularly in tech firms, the war for talent continues to intensify. Charlotte’s growing technology sector is gaining momentum and with North Carolina’s competitive grant and incentive programs companies are eager to invest and create jobs.
- Global fintech company, **Credit Karma**, will add **600 new jobs** and invest more than **\$13 million** in a new high-tech engineering headquarters in Mecklenburg County.



## Office demand

- Demand is beginning to rebound as YTD 2021 leasing activity reached **2.2 msf** in Charlotte.
- The “flight to quality” trend continues, with the Class A segment accounting for **72 percent** share of post-COVID leasing activity.
- Net absorption was pulled lower by sublet move-outs for Class A blocks that pushed negative absorption to 0.3% of overall supply.

# Key takeaways



## Office supply

- Sublease vacancy continues to surge straining aggregate fundamentals as the total amount of vacant sublease space rose to **2.0 msf** in the third quarter.
- Overall vacancy, including direct, now sits at **17.5 percent**, slightly below the Great Recession.
- Phase III of Legacy Union, a **287,000-sf** building in Charlotte's CBD submarket delivered in Q3 2021 at **97% preleased** to Honeywell.



## Pricing trends

- Average year-over-year rent growth of **1.7%** slowed year-over-year as base rents reached **\$31.81 psf** at the close of the third quarter.
- Recent delivery and new construction of Class A product continues to support rents in the segment. Class A asking rents ended the quarter at **\$33.97 psf**, up **1.6 percent** from the previous year
- Landlords continue to approach concessions and base rents with varying strategies across the Charlotte metro area, resulting in moderate shifts in pricing trends.



## Capital markets

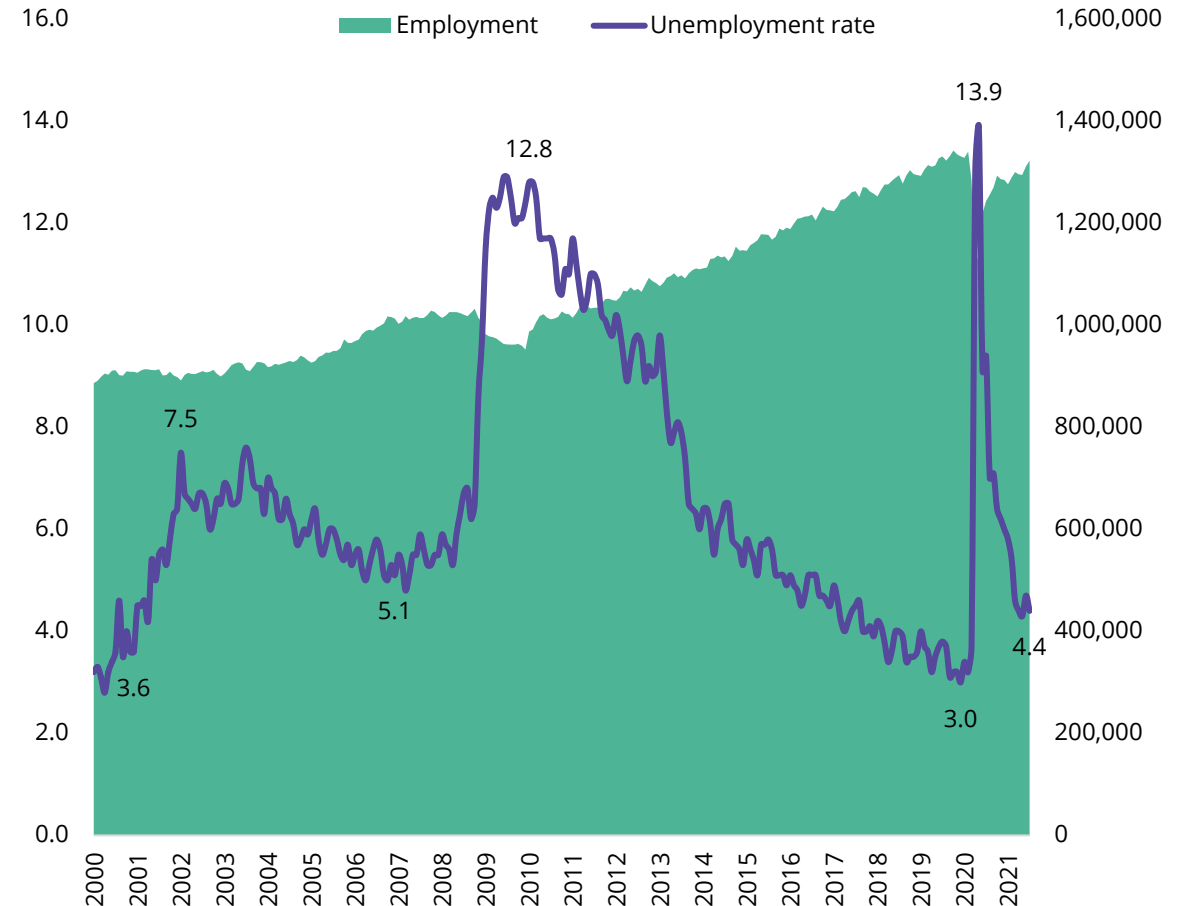
- Trailing-12-month sales volume totaled **\$1.8B**, an annualized decrease of **3.7 percent** compared with the five-year average.
- While asset pricing increased by **19.7%** year-over-year, average pricing has dipped to **\$315 psf** since 2Q 2021.
- Cap rates held steady and were reported at **5.8 percent** at the close of the quarter, up **10 bps** since 3Q 2020. Private investors continue to dominate, representing **52%** of total buyer composition.

# Employment and unemployment rate

# 4.4%

## Charlotte unemployment rate as of July 2021

Charlotte's regional economy has rebounded sharply from pandemic lows. Since April 2020, employment rolls have grown by over 180,000, recovering 80% of job losses incurred during the pandemic. In response, the unemployment rate has dropped to 4.4%.



Note: Not seasonally adjusted data.  
Source: Bureau of Labor Statistics



# Office-using job gains and losses

# -2.8%

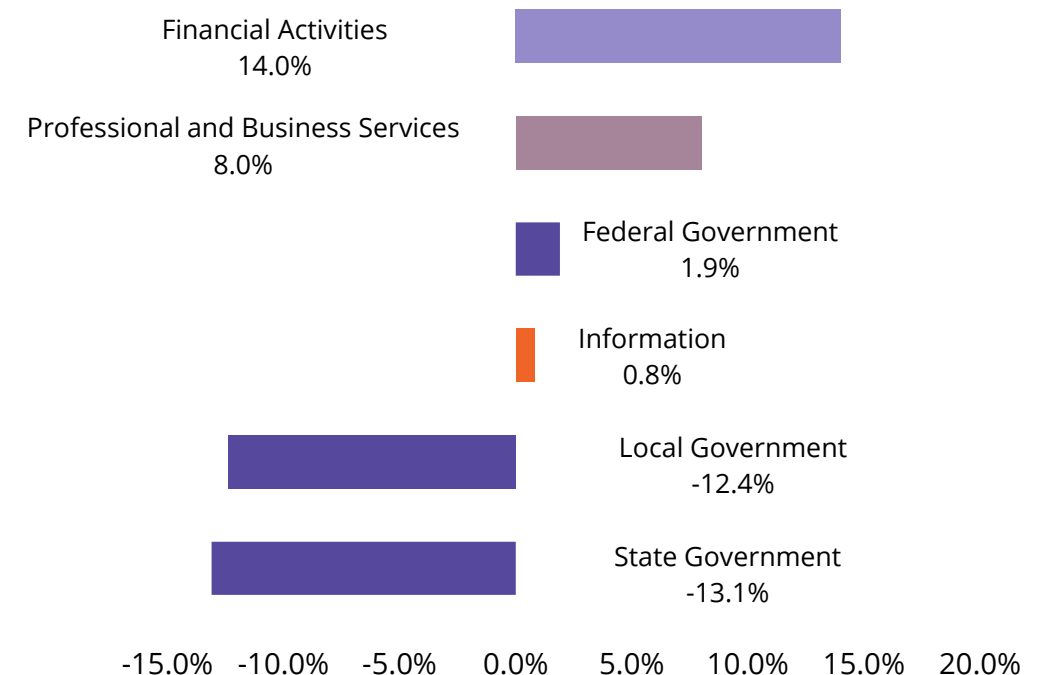
## Change in office-using employment from February 2020 to July 2021

Charlotte's overall employment base has declined 2.5% since the start of the pandemic, while office-using jobs contracted by 2.8%. The financial sector has surpassed pre-pandemic levels, rebounding by 14% since February 2020.

[VIEW DASHBOARD](#)

## Total change in Charlotte MSA\* job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

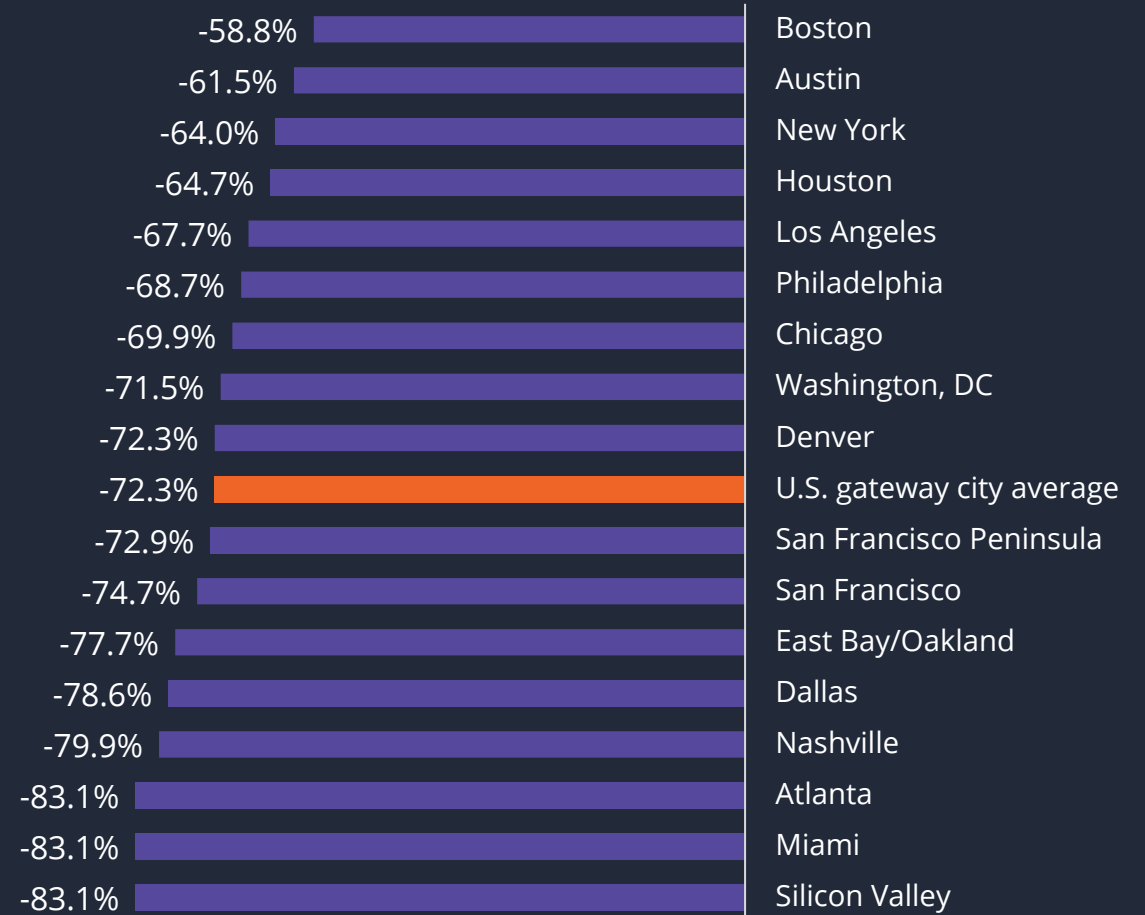
# U.S. return-to-work rates since start of COVID

# -72.3%

Average office visitor volumes across  
U.S. gateway cities, March 2, 2020 vs.  
September 20, 2021

Return-to-work efforts across cities have been influenced  
by governmental regulations (informed by infection and  
vaccination rates), office-using industry composition and  
employees' reliance on mass transit.

[VIEW VITALITY INDEX](#)



Note: Representative full-building office occupiers only.  
Weekdays only. Data as of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young

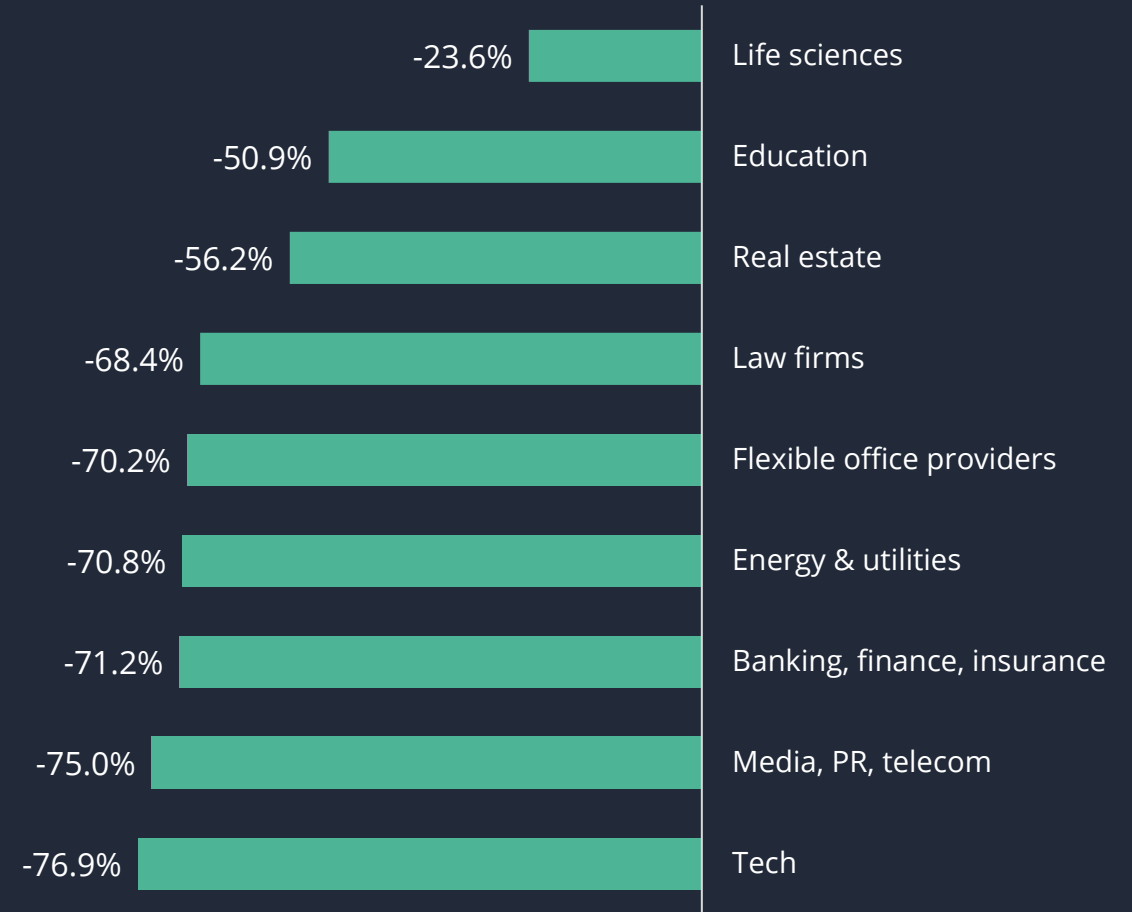
# U.S. return-to-work rates since start of COVID

# -76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

[VIEW VITALITY INDEX](#)



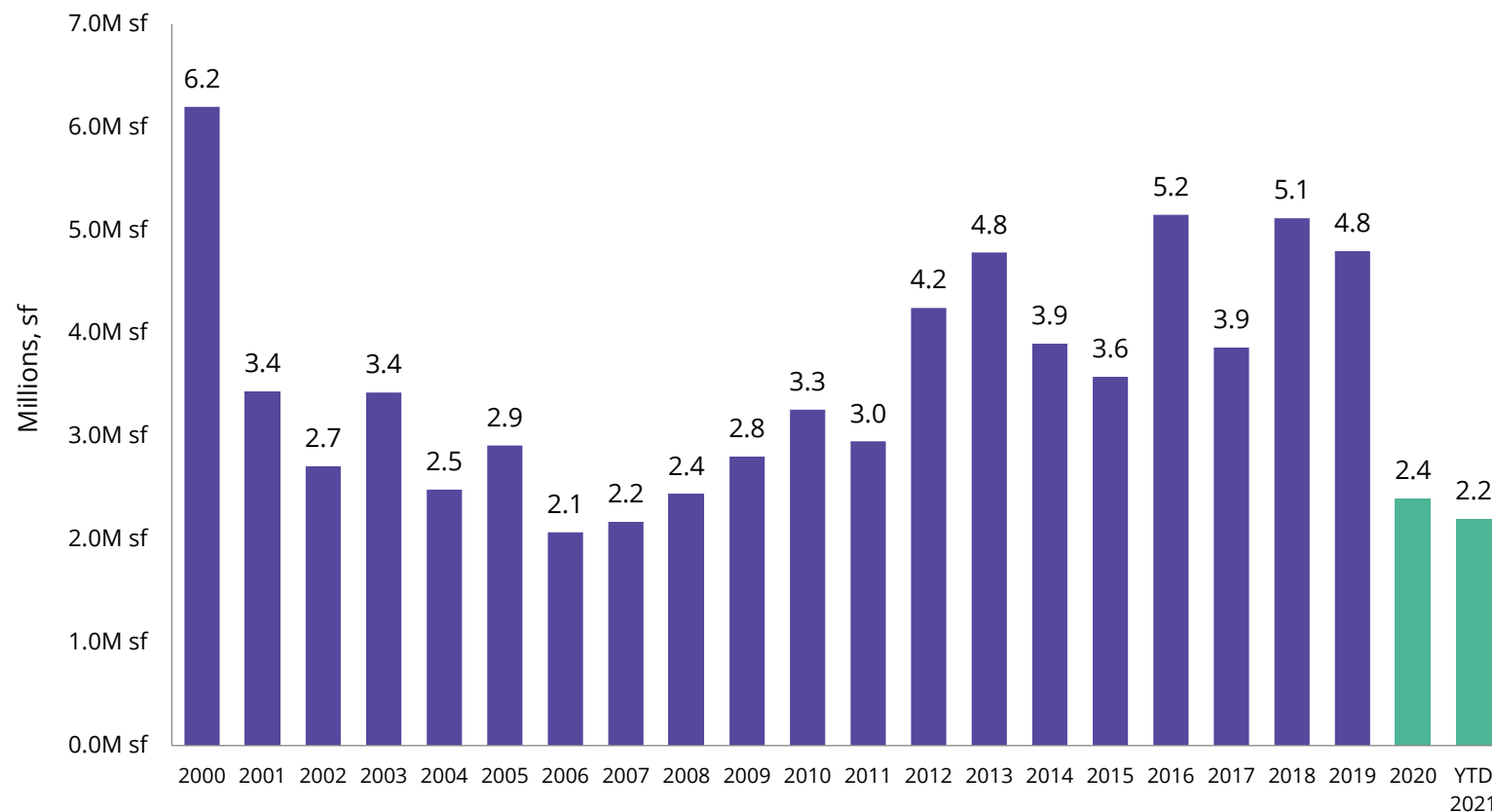
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

# Office leasing activity

# 2.2 msf

## YTD 2021 leasing activity

Leasing activity is beginning to rebound after weakening in the first half of 2021. YTD 2021 leasing activity reached 2.2 msf, yet the annualized pace of closed deals remains feeble.



Source: AVANT by Avison Young

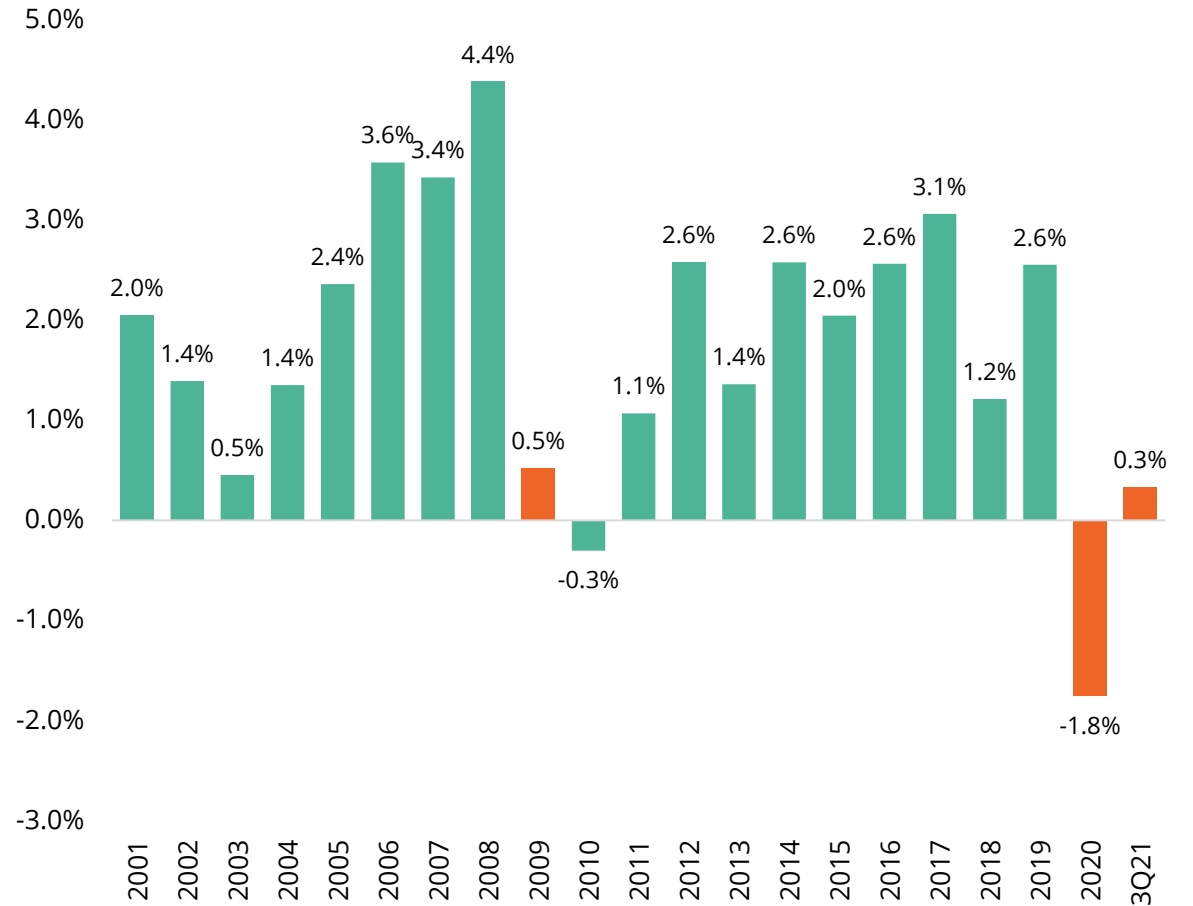


# Absorption

# -1.3%

**Net absorption as a percentage of inventory, 2020 through Q3 2021**

Negative absorption from 2020 to 3Q 2021 has totaled 781,339 sf, totaling -1.3% of the existing inventory. Net absorption in the 3Q 2021 trended positive, resulting in 197,609 sf of physically occupied space.



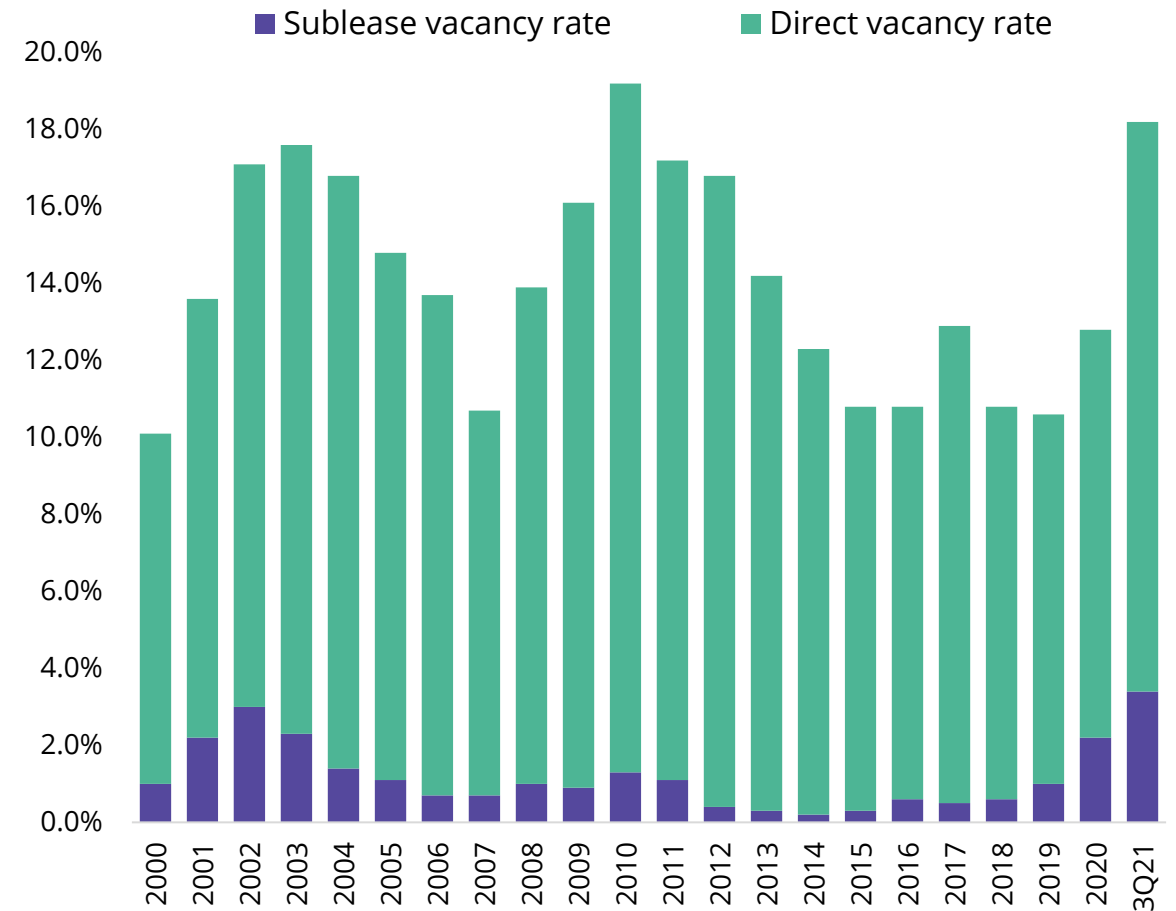
Source: AVANT by Avison Young

# Vacancy rate

# 17.5%

**Total vacancy as of 3Q 2021**

Charlotte's total vacancy rate reached a high of 17.5% in 3Q 2021. Sublease vacancy spiked to 3.5%, up 190 bps since 3Q 2019. Sublease supply is heavily focused in the CBD submarket, where nine out of Charlotte's 16 large sublet blocks are located.



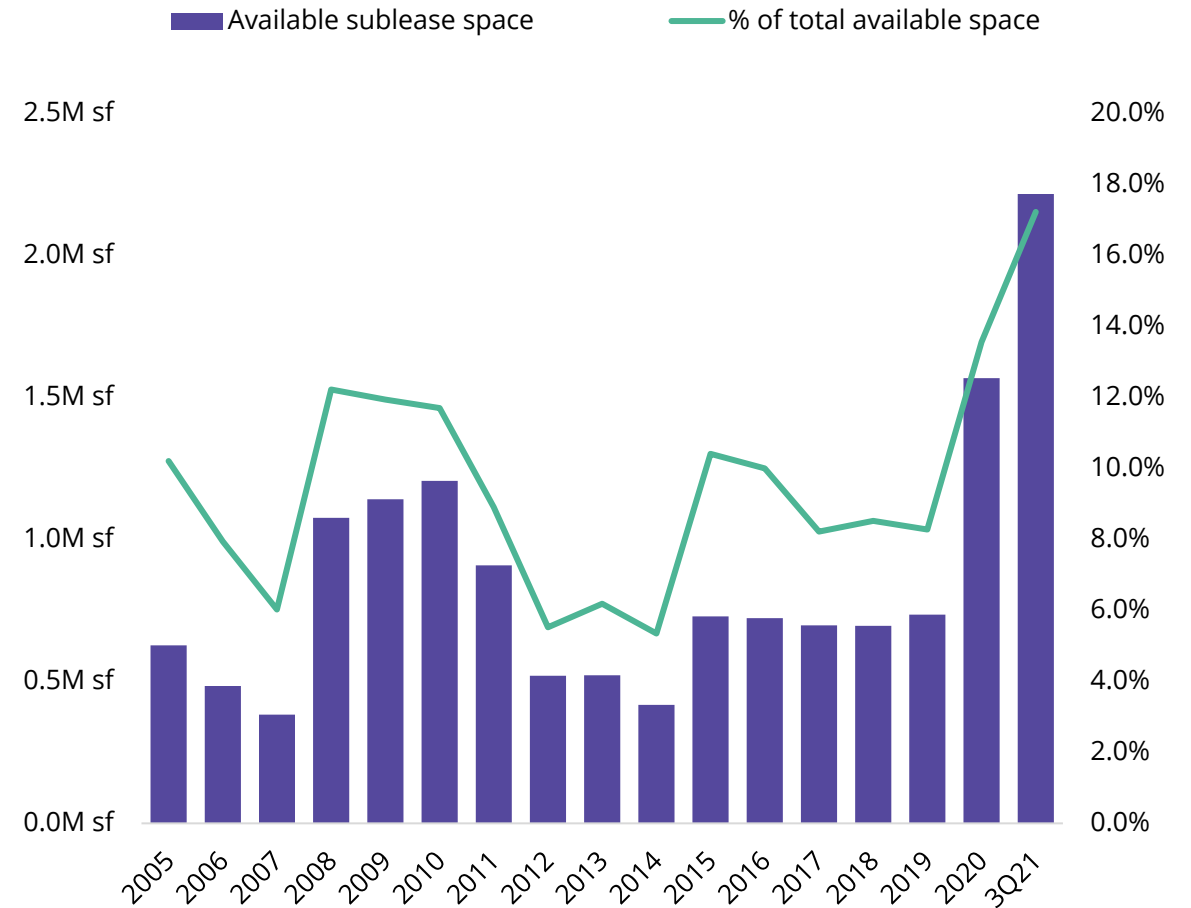
Source: AVANT by Avison Young

# Available sublease space

# 2.2 msf

## Available sublease space as of Q3 2021

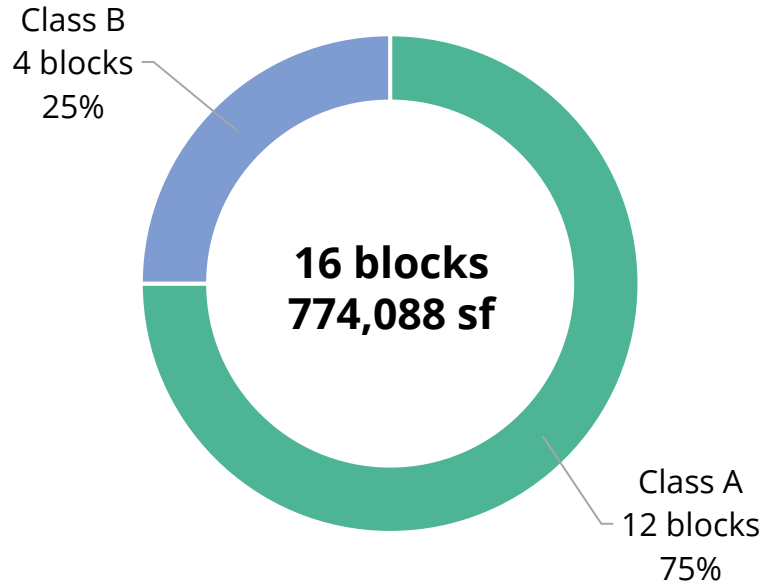
Available sublease space spiked to 2.2 msf in Q3 2021, pushing the share of sublease-to-total vacant space to 17.2%, the highest the Charlotte office market has experienced as return-to-work strategies slowed during the third quarter.



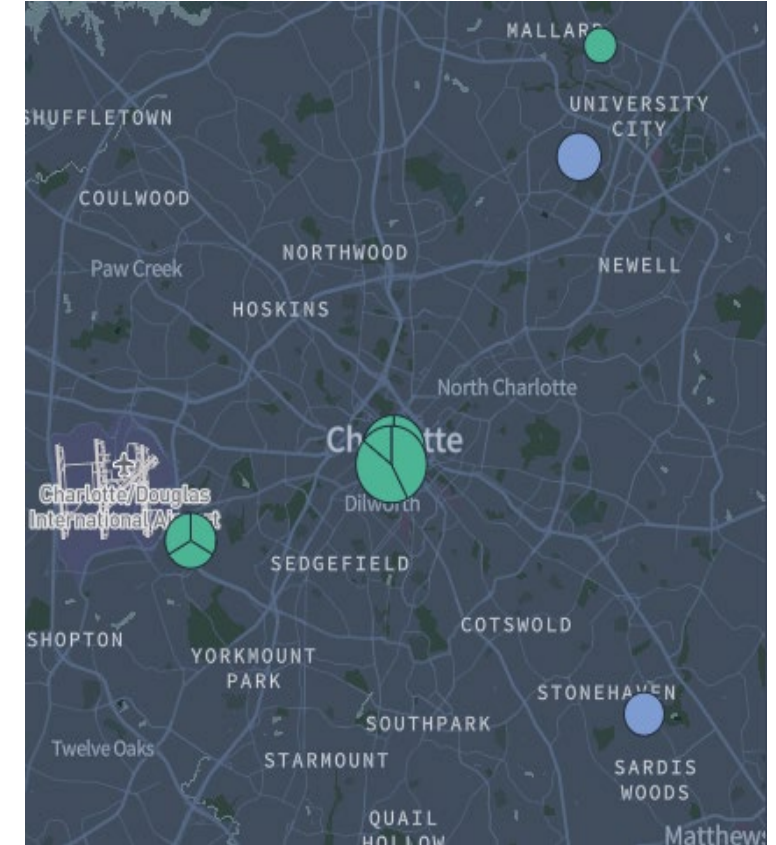
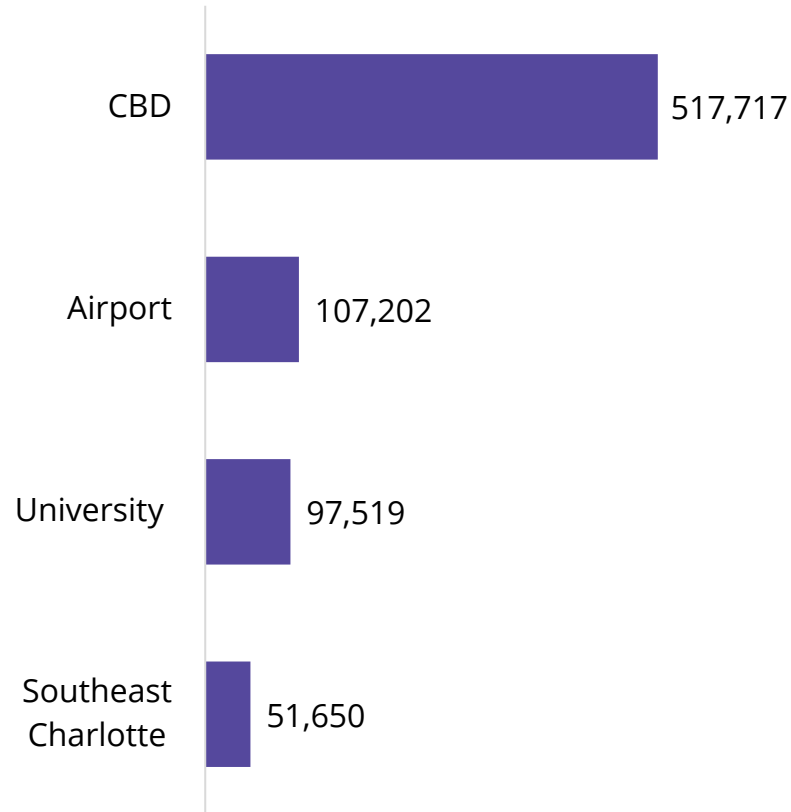
Source: AVANT by Avison Young

# Sublease supply pipeline

Building classification



Submarket availability by total size (sf)



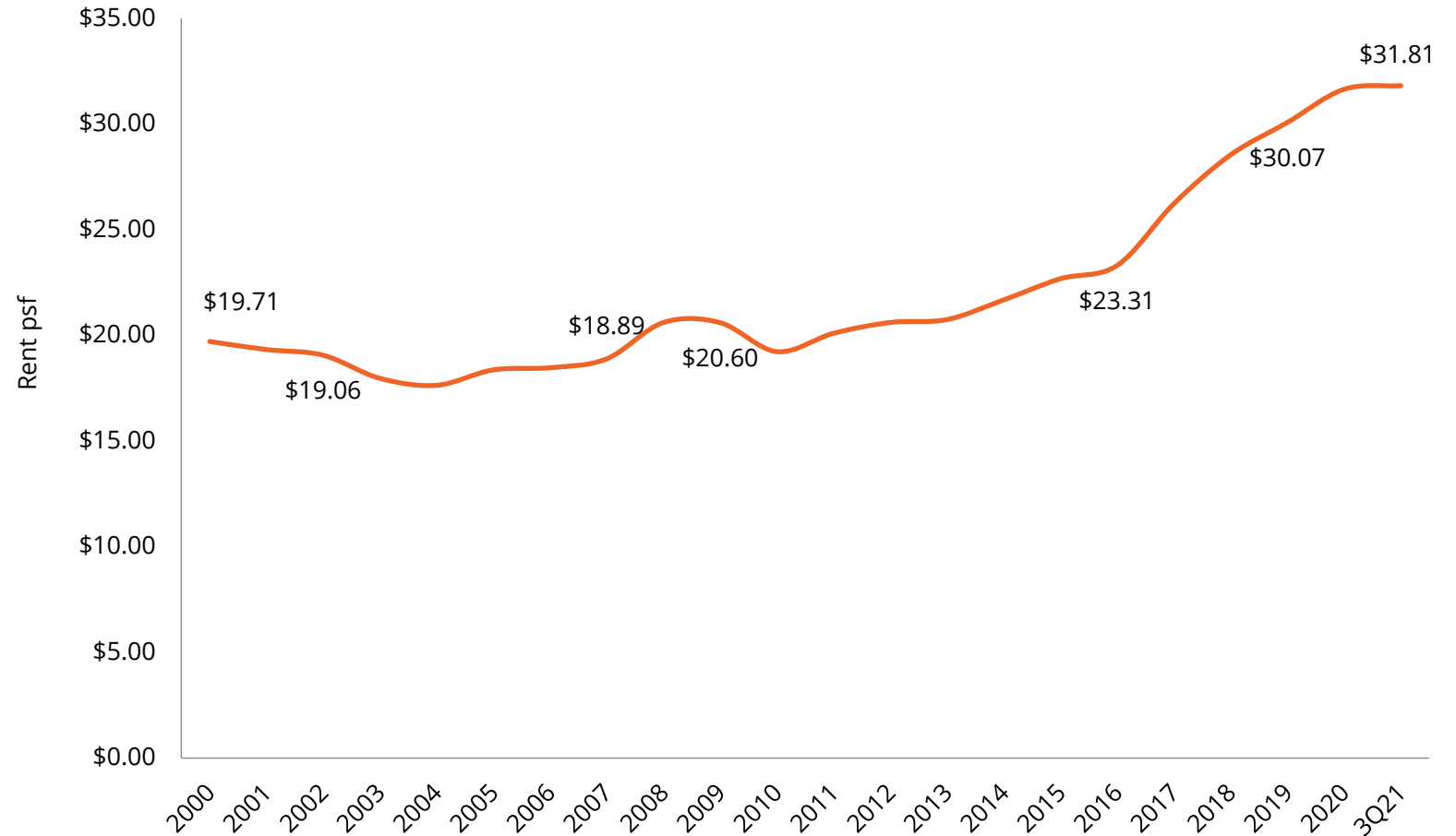
Source: AVANT by Avison Young

# Base rents

# 1.7%

## Average rent growth year-over-year

Charlotte's average rent growth slowed in the last 12 months but remains positive at 1.7% as overall base rents reached \$31.81 psf at the close of 3Q21.



Source: AVANT by Avison Young

# Construction Pipeline

**14**

properties under  
construction

**3.9 msf**

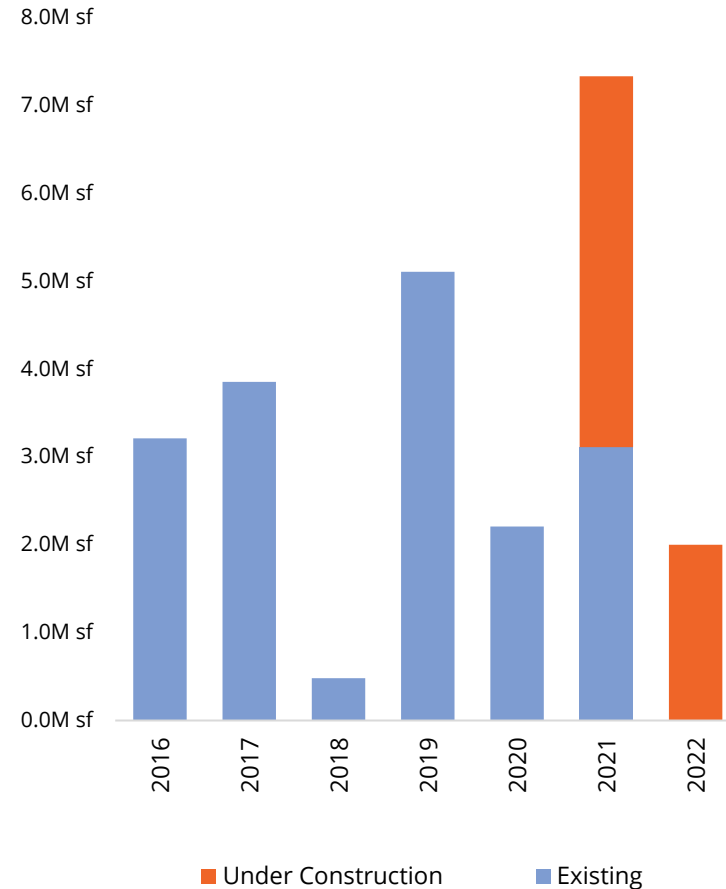
under construction

**6.5%**

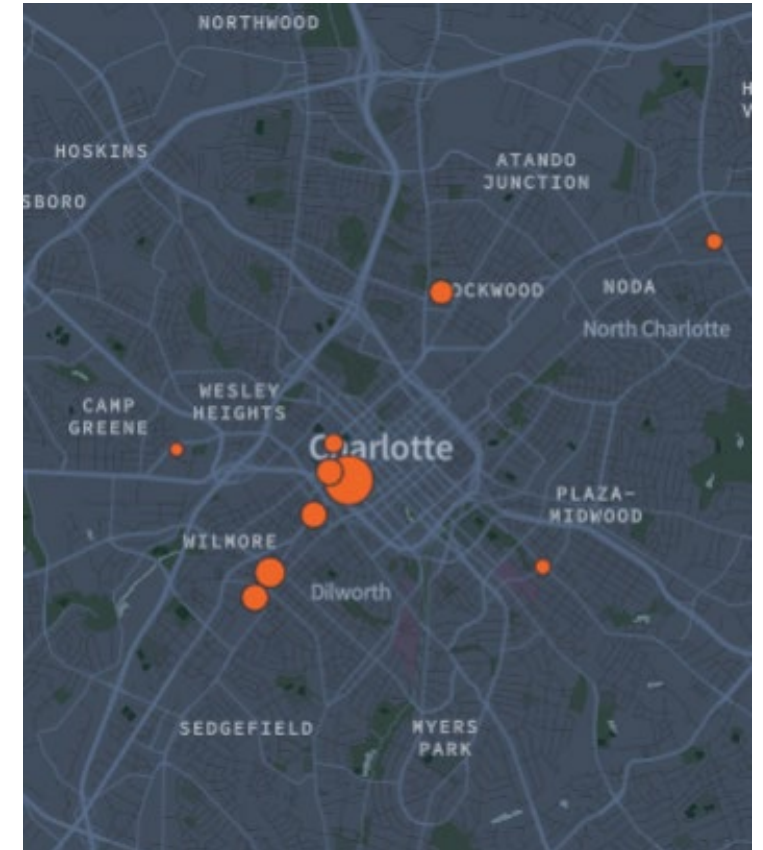
Share of office  
inventory

**37%**

preleased



Source: AVANT by Avison Young



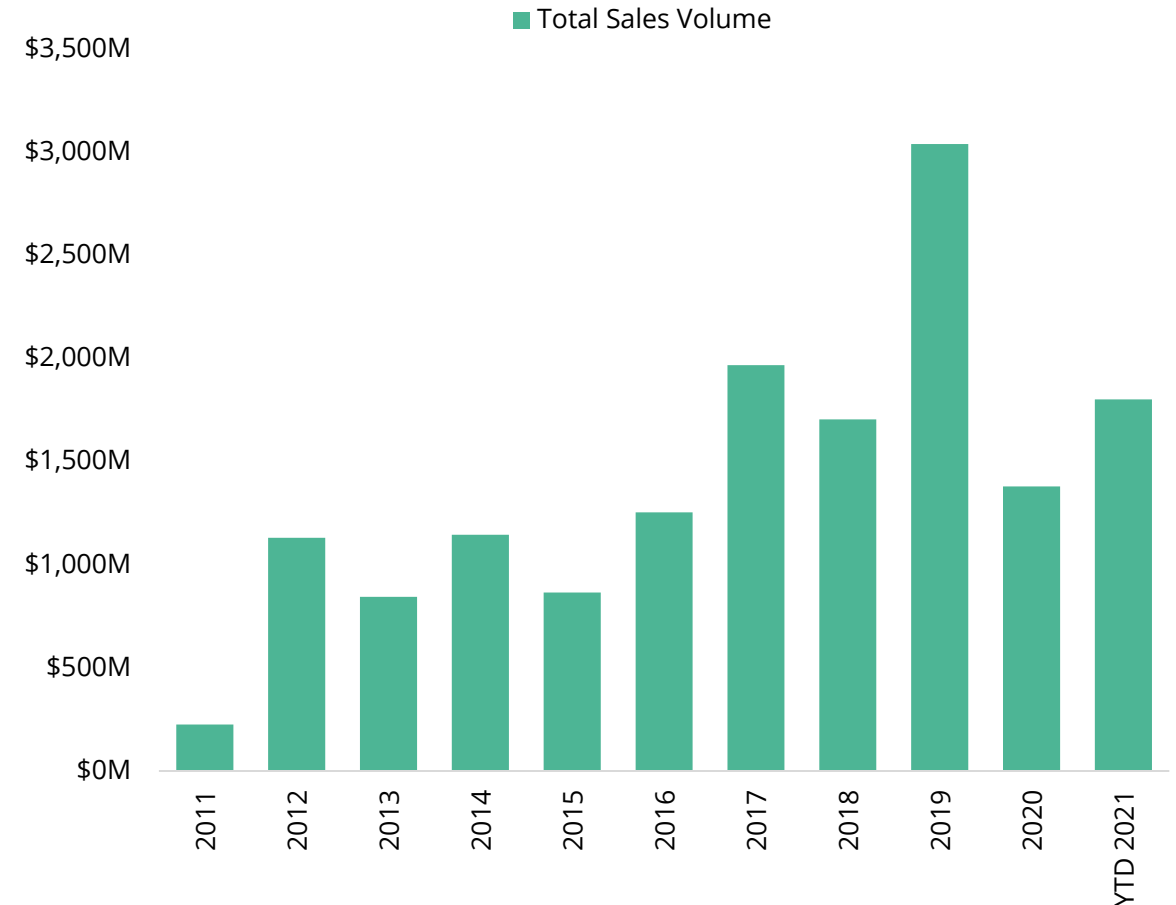


# Office investment dollar volume

# \$2.7B

## Charlotte office dollar volume 2020 to present

Trailing-12-month office sales totaled \$2.7B, down 35% since the time period in 2020. One South at the Plaza traded hands for \$272 million, or \$305 psf, in the largest transaction of the third quarter. Cousins Properties sold the 40-story Class A tower, formerly known as Bank of America Plaza.



Source: AVANT by Avison Young, RCA

# Office asset pricing

# 19.7%

## Office pricing from Q3 2019 to present

While asset pricing increased by 19.7% year-over-year, average pricing dipped to \$315 psf since 2Q 2021 as a result of investors adopting more conservative underwriting approaches since onset of the pandemic.



Source: AVANT by Avison Young, RCA

# Looking forward



## Here's what we can expect

- Office demand continues to be tested in Charlotte as the Delta variant has dampened the anticipated arrival of return-to-work strategies post Labor Day. **Tenant activity and interest have increased** but have yet to return to pre-pandemic levels.
- **Leasing activity is expected to trend upwards** in 2022 as companies look to expand or relocate into Charlotte at a healthier pace.
- **Over 1.5 msf is expected to deliver by the end of the year**, with 25% preleasing in place. This will continue to put upward pressure on vacancy.



# Get in touch



## Emily Bostic

Insight Analyst, South Region  
Innovation and Insight Advisory, U.S.  
+1 919 866 4247  
emily.bostic@avisonyoung.com



## Zach Simpson

Vice President  
+1 703 315 5091  
zach.simpson@avisonyoung.com



## Nick Claudio

Senior Vice President  
+1 704 512 0231  
nick.claudio@avisonyoung.com



## Ryan Kendall

Associate  
+1 704 612 0395  
ryan.kendall@avisonyoung.com



AVISON  
YOUNG

# Let's talk

© 2021 Avison Young – North Carolina, LLC. All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

**AVANT**  
by AVISON YOUNG