



# Charlotte office market insights

Q4 2021

**AVISON  
YOUNG**

# Key office takeaways



## Economic conditions

- The Charlotte economy has rebounded sharply from the pandemic peak with December **unemployment reaching 3.3%**, continuously trending towards the prepandemic rate of 3.0%.
- Positive recovery, despite challenges created by COVID-19 variants, has enabled a **16.2% job growth rate since the height of the pandemic.**



## Recovery rate

- The Urban Land Institute ranked **Charlotte #6 in the U.S.** for real estate prospects in 2022.
- As office workers across the metropolitan area begin to their return-to-office, the office **workforce has grown by 3.9%** since the beginning of the pandemic in February 2020.



## Office demand

- **Office leasing activity totaled 2.8 msf in 2021**, with a notable increase demand in the second half of the year.
- **Charlotte's office market recorded more than 592,000 sf** of positive net absorption in 2021.
- Net absorption is trying to keep pace with new product as **Charlotte led the nation in total office space delivery in 2021.**

# Key office takeaways

## Office supply

- Charlotte's total **office vacancy reached 17.9% in Q4 2021**, an increase of 510 bps year-over-year. The increase in vacancy is not only attributable to tenant retractions, but also a record total of office space that delivered in 2021 (4.1 msf).
- Developers remain active in Charlotte as demand for new, Class A office product is at a premium with **2.9 msf currently under construction**. Activity is heaviest in the Midtown submarket with more than 1.2 msf currently underway.

## Pricing trends

- Rising vacancies and increased sublease offerings have attributed to **moderate rent softening in Charlotte** after a record high psf rate in 2020.
- Tightening leasing fundamentals have kept free rent concessions stable, but tenant improvement allowances have been more generous.
- New construction is commanding record high rates in Class A assets, particularly in CBD submarkets, **reaching \$37.70 psf in Q4 2021**.

## Capital markets

- Charlotte office investment sales **surged to \$2.7B in 2021**, indicating strong investor confidence.
- Investors continue capital deployment at a **rate that is 32% higher** than the prior five-year average.
- It also translated into higher valuations for Charlotte office assets, with a **34% higher psf rate** than the trailing five-year average, to \$337 psf in 2021.

# Let's review some key economic and demographic trends



# Employment and unemployment rate

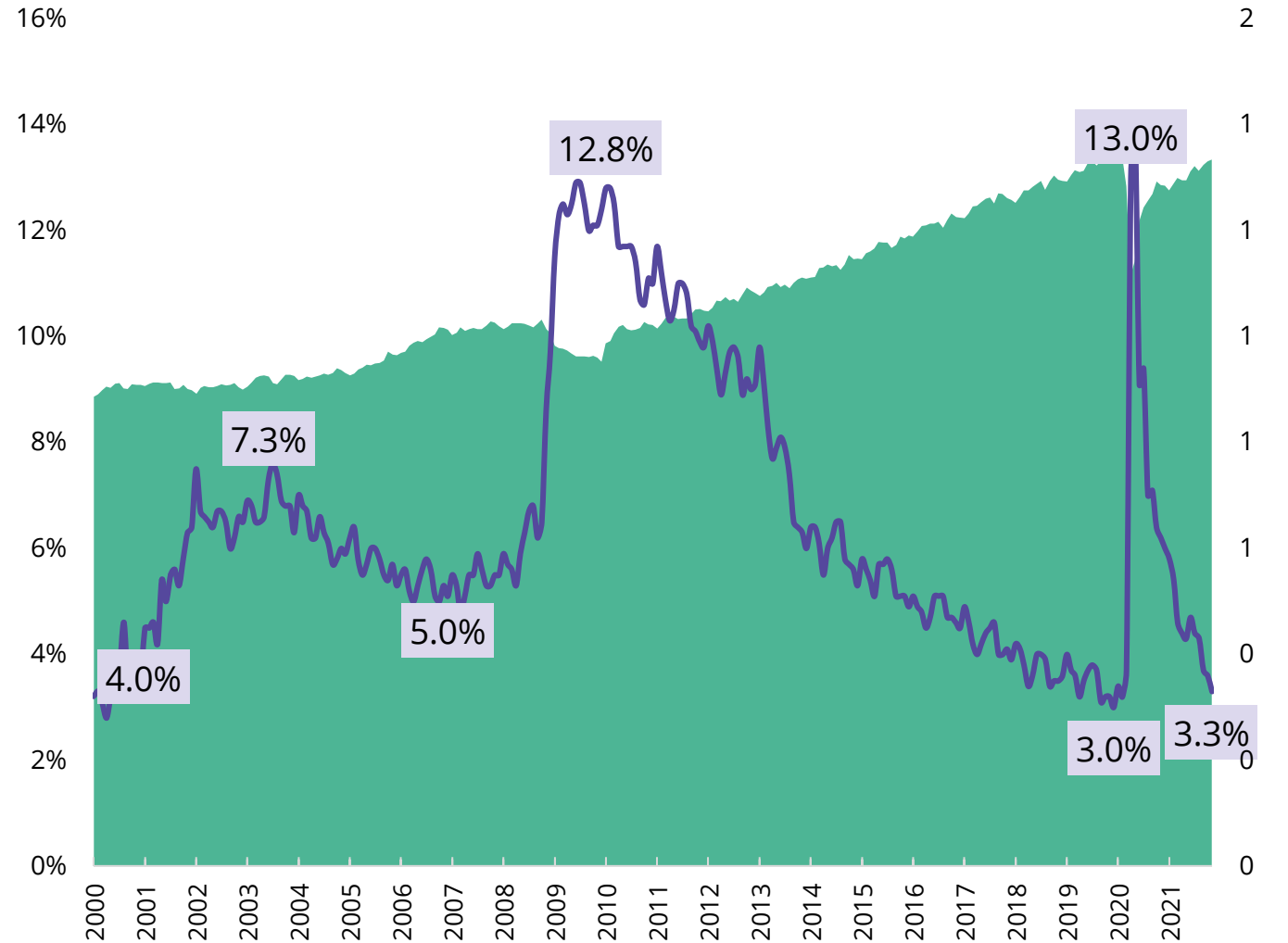
# 3.3%

Charlotte unemployment rate as of November 2021, nearing levels last experienced in 2019.

Historically tightened labor market conditions were halted by the pandemic with 225,414 job losses between February and April 2020. However, reopening efforts enabled the economy to increase job growth by 16.5% since April of 2020.

Unemployment %

Employment (millions)



Source: Bureau of Labor Statistics

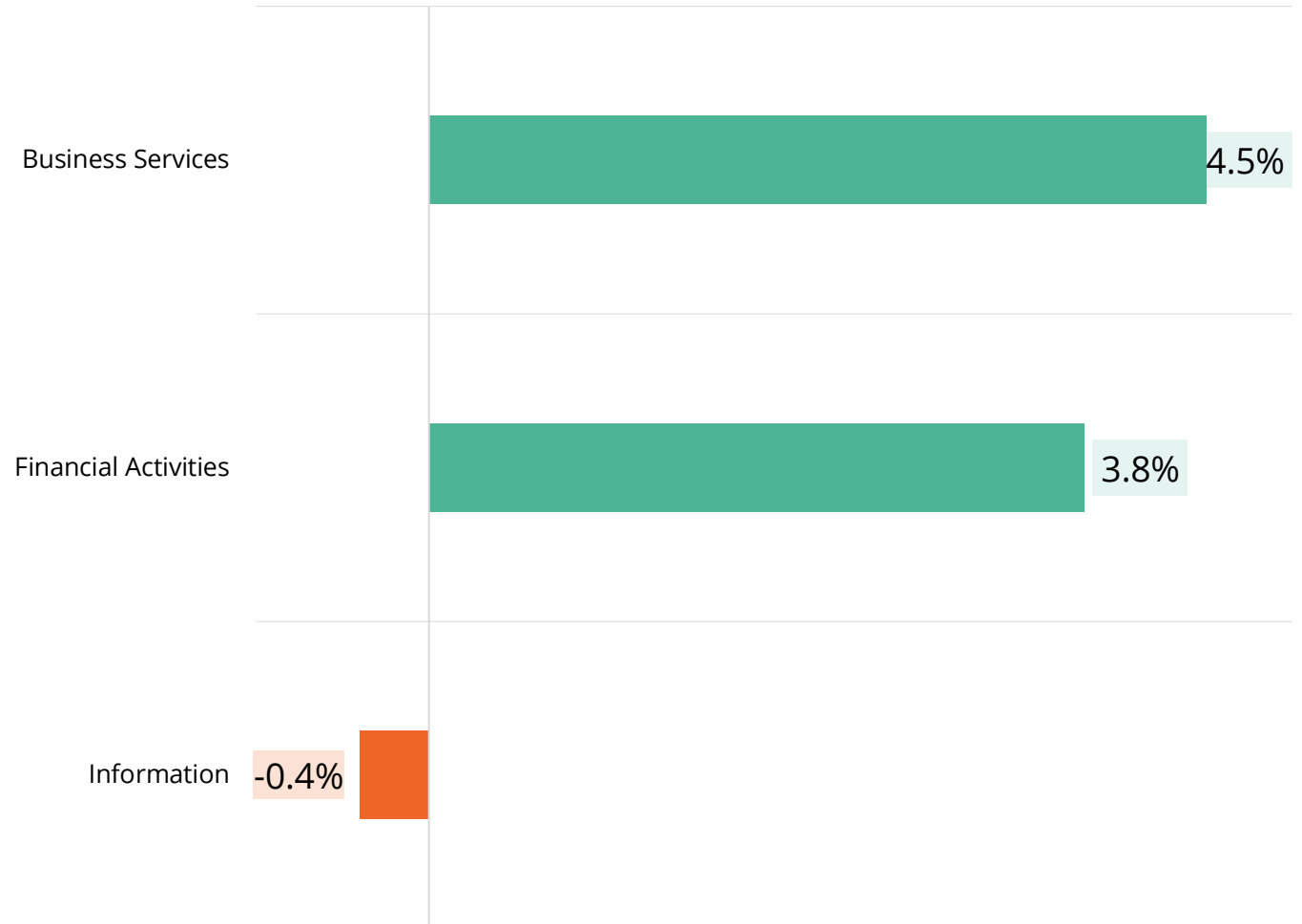
## Office-using job gains and losses

# +3.9%

change in Charlotte's office-using employment since February 2020.

The Charlotte MSA has seen strong job growth throughout 2021. Office-using employment is up 3.9% since February 2020 and continues to rise as new job announcements are reported at a rapid pace. The Professional and Business Services sector has seen the most growth at 4.5% with Financial Activities in second at 3.8%.

Charlotte Metropolitan Statistical Area  
February 2020 to December 2021



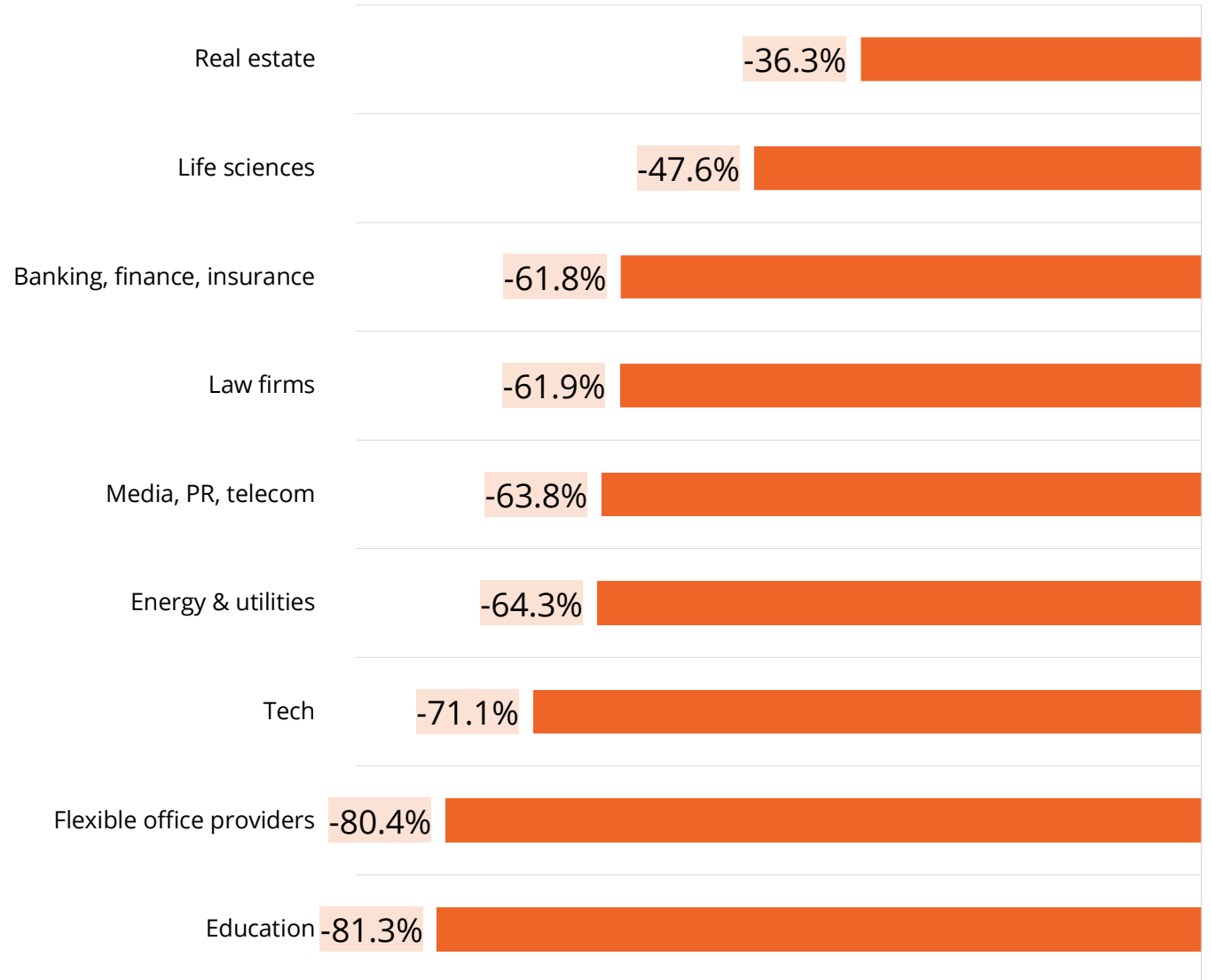
## U.S. return-to-work rates since COVID

# -71.1%

Tech office visitor volumes, week of December 13, 2021, vs. week of December 15, 2019.

Competitive labor market conditions and some employees' productivity outside of the office have caused many tech companies to adopt hybrid or remote work strategies.

[View vitality index](#)



Note: Representative office locations. Weekdays only.  
Source: Orbital Insight, AVANT by Avison Young

# Let's look at office occupier market conditions





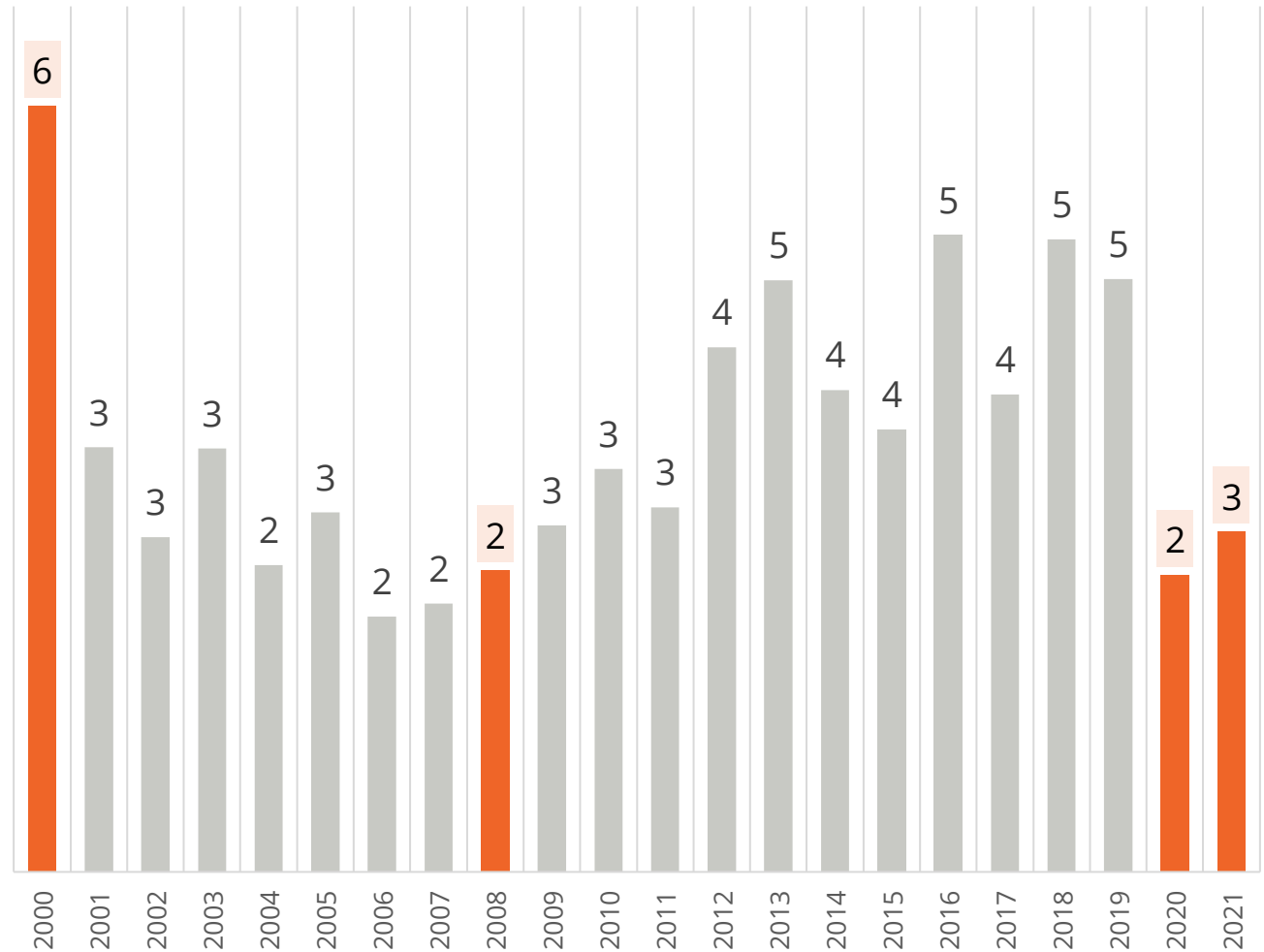
## Office leasing activity

# 2.8 msf

Total amount of leasing activity in 2021.

Total leasing activity in 2021, was 13% ahead of the pace of activity seen in 2020. As companies finalize their return-to-office (RTO) plans for 2022 in Charlotte it is anticipated that activity will continue to increase.

Avg. leasing activity (msf)



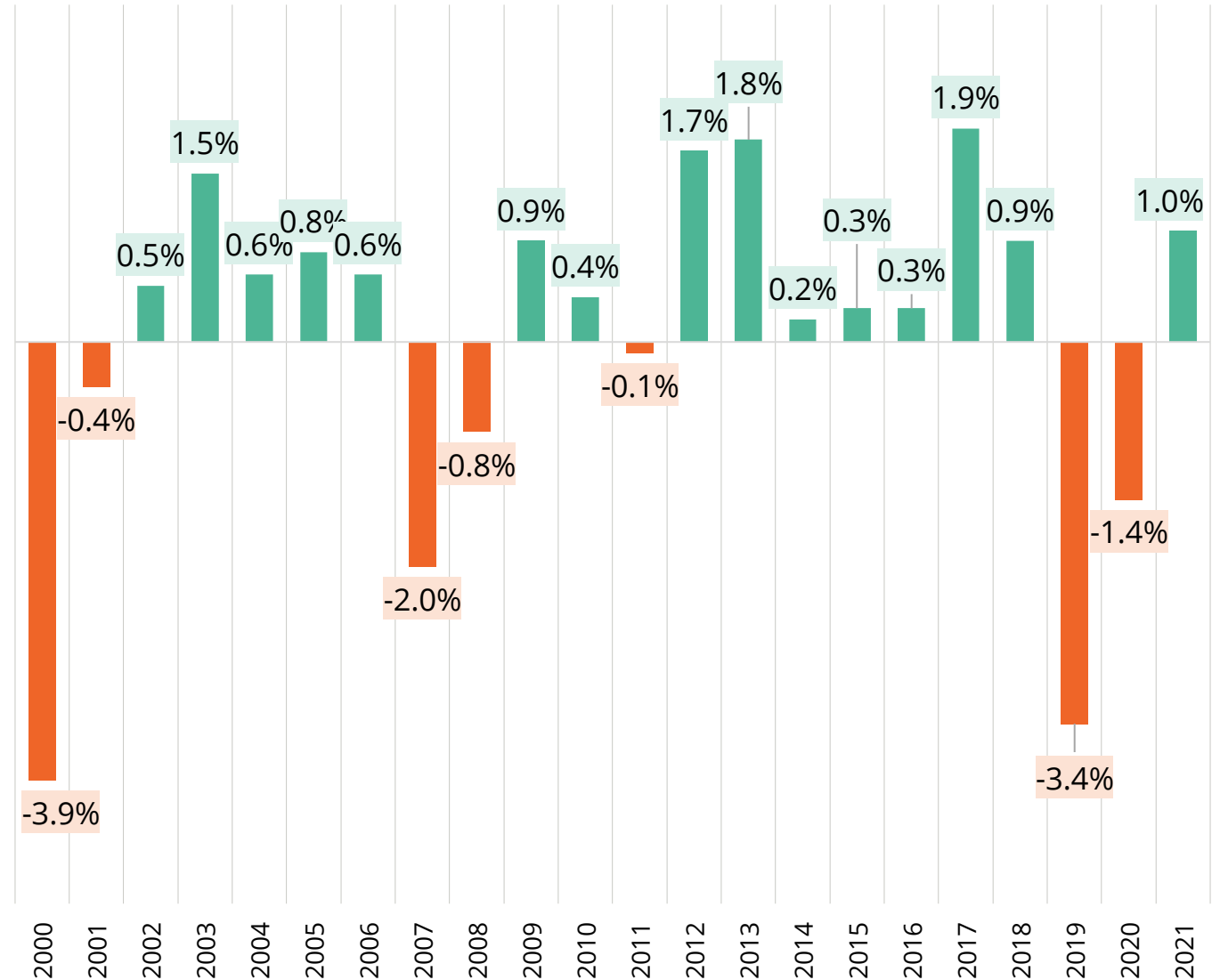
Source: CoStar

# Absorption as a share of inventory

# + 1.0%

Net absorption as a percentage of inventory in 2021.

Positive net absorption in 2021 totaled 593,000 sf pushing the percentage of inventory back into the positive at 1.0% of the existing stock.



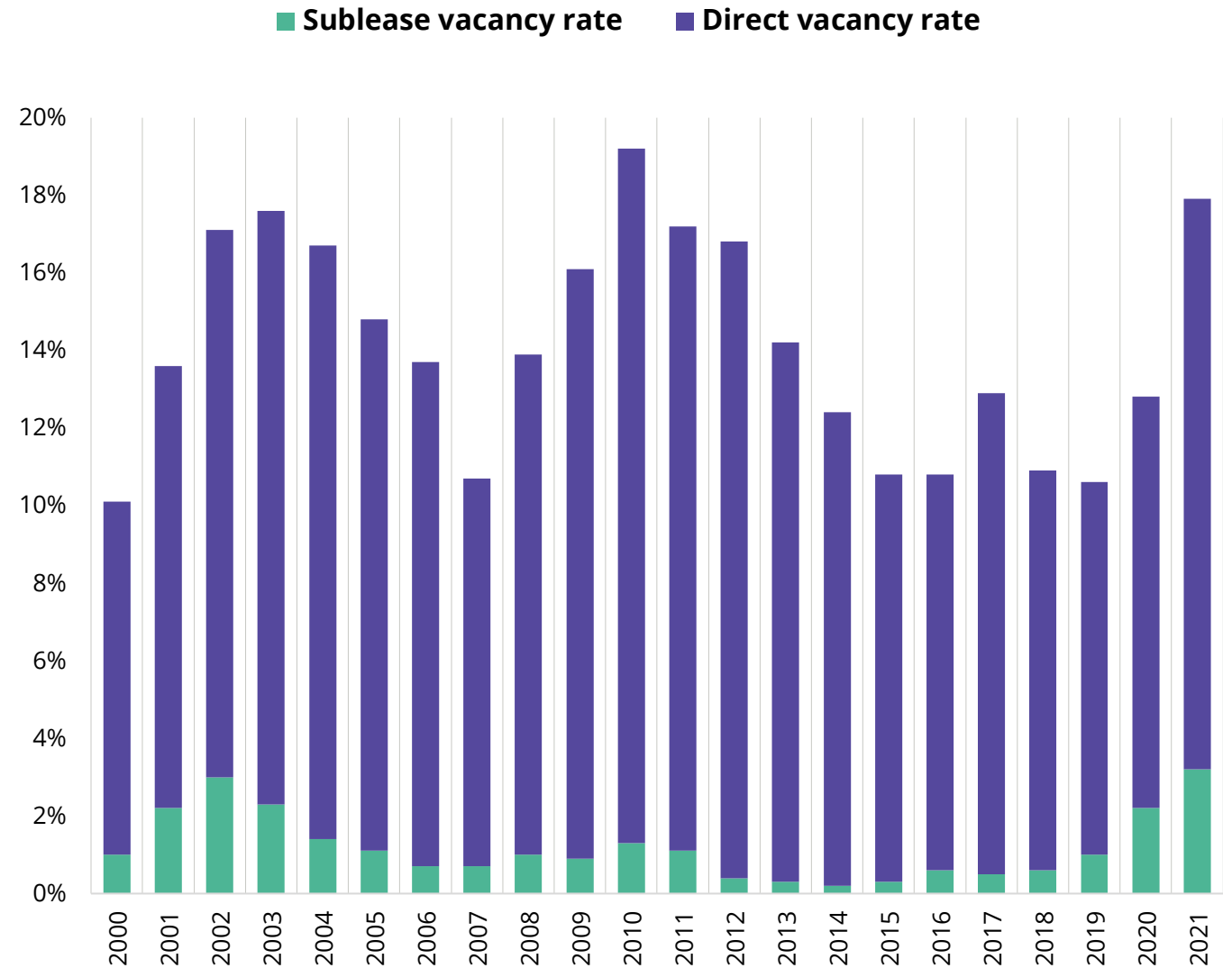
Source: CoStar

## Office market vacancy rate

# 17.9%

Record high Charlotte office vacancy rate as of Q4 2021.

Charlotte's total office vacancy reached 17.9% in Q4 2021, an increase of 510 basis point (bps) year-over-year. Direct vacancy rose 100 bps year-over-year, ending the quarter at 3.2%.



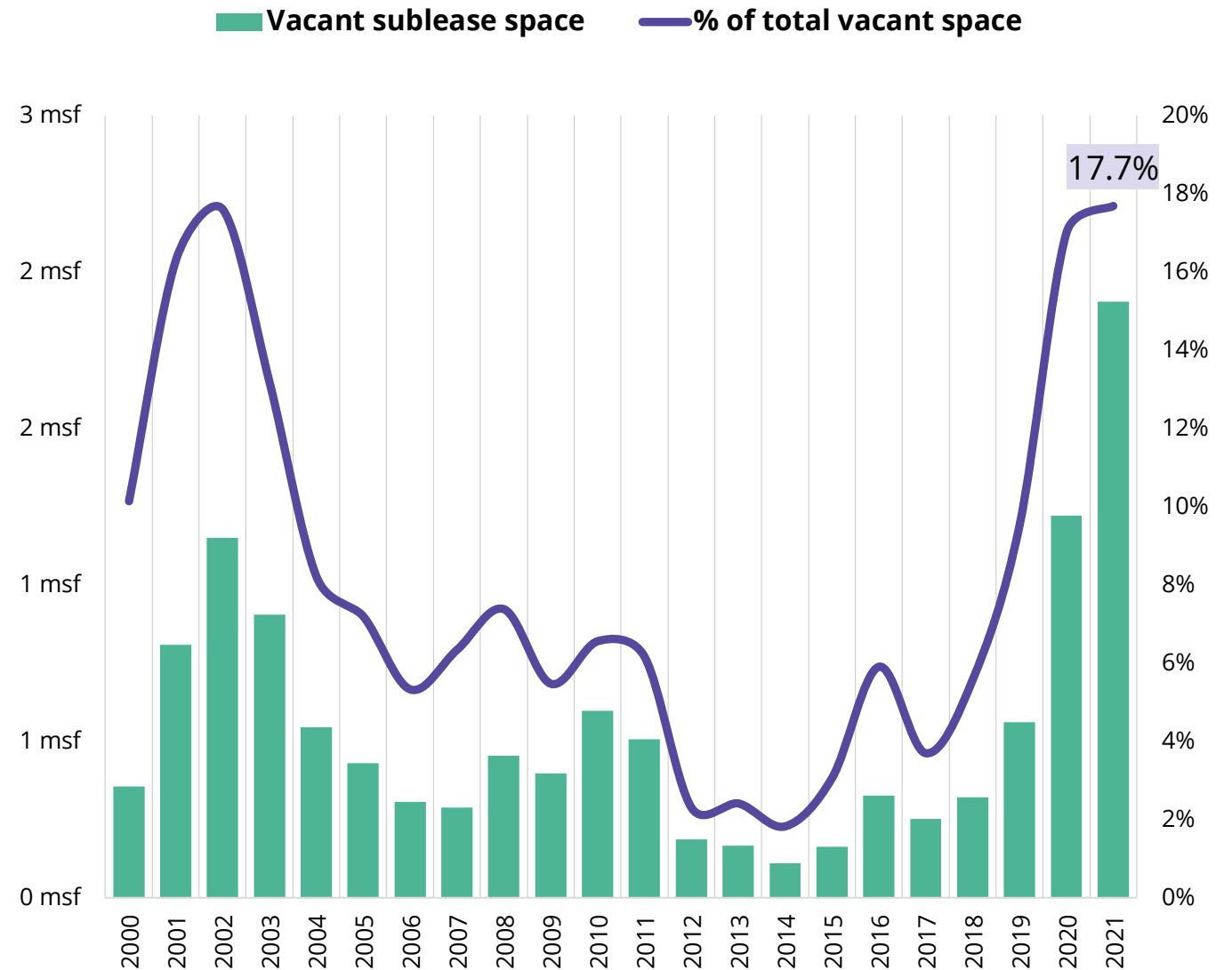
Source: CoStar

## Vacant sublease space

# 1.9 msf

Record levels of vacant sublease space in Charlotte.

The share of sublease-to-total vacant space of 17.7% has surpassed the peak from the global financial crisis levels. Sublease space that is currently on the market has not subsided as quickly as anticipated, keeping overall vacancy elevated. Sublease vacancy rose 100 bps year-over-year, ending the quarter at 3.2%.



Source: CoStar

# Office development pipeline

**16 properties**

under construction

**2.9 msf**

under construction

**4.8%**

share of office inventory

**42% pre-leased**



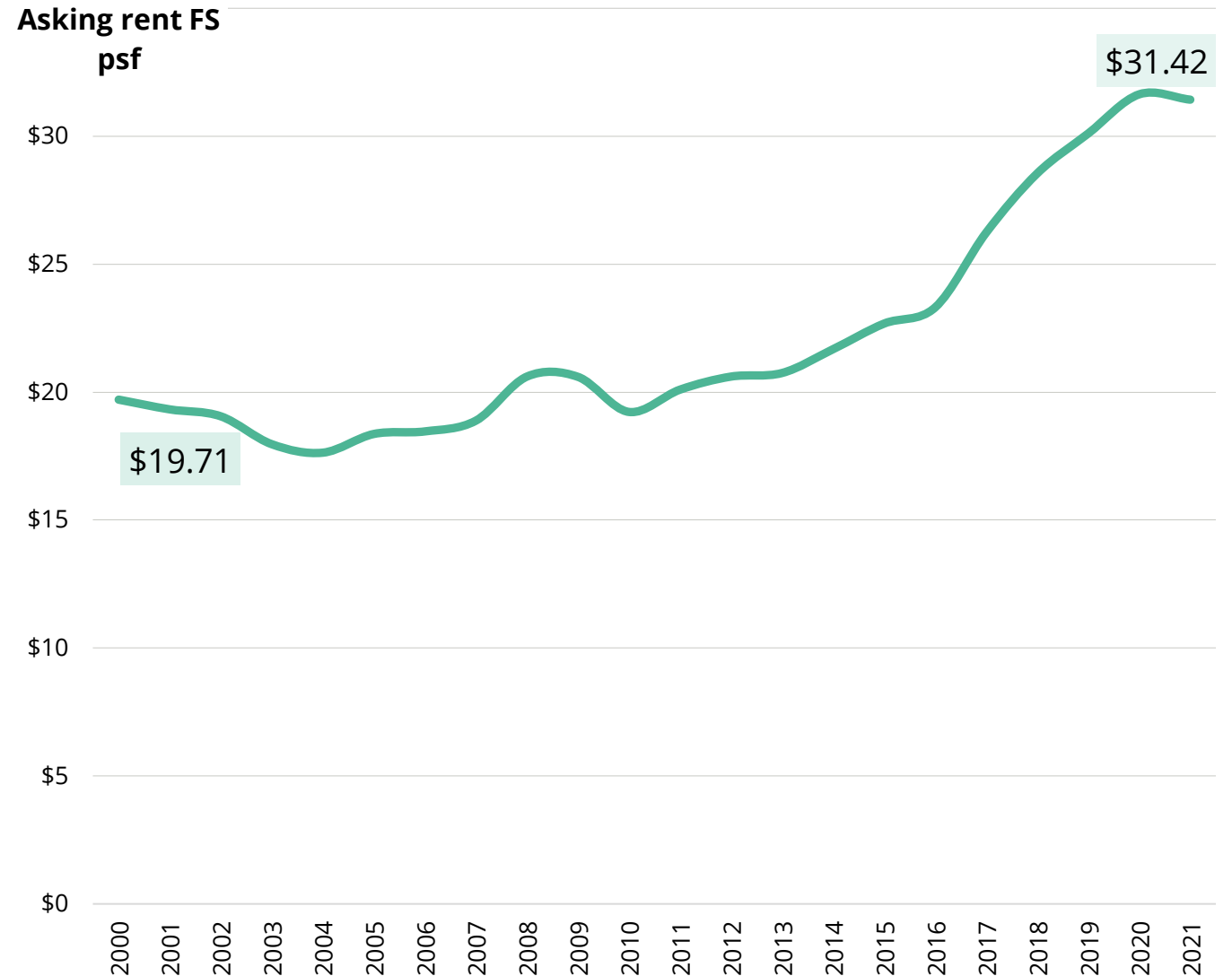
Future two-acre park at Amazon's HQ2 National Landing Campus in Arlington, VA.

## Office asking rental rates

# -0.7%

Change in asking rental rates, year-over-year.

Rising vacancies and increased sublease offerings have attributed to moderate rent softening in the Charlotte market overall. As new construction is commanding record high rates, Class A rents will continue in an upward trajectory.



# Let's look at capital markets conditions



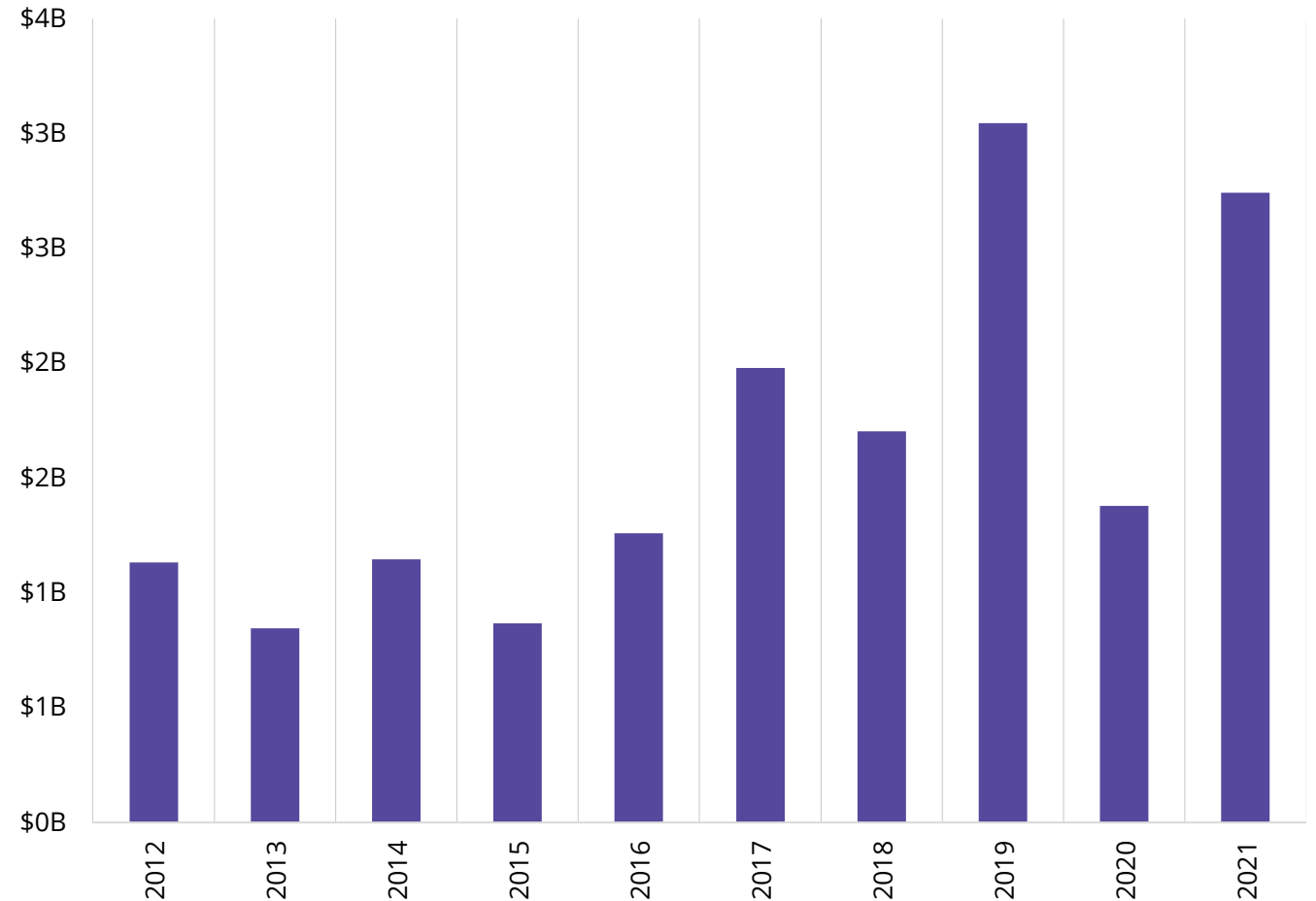
## Office investment dollar volume

# \$2.7B

Charlotte office dollar volume 2020 to present.

Investors continue to deploy capital in Charlotte at a rapid pace, signaling confidence in the future of the office sector. Office investment volume totaled \$2.7B in 2021, up 50% year-over-year.

■ Total Charlotte Office Sales Volume



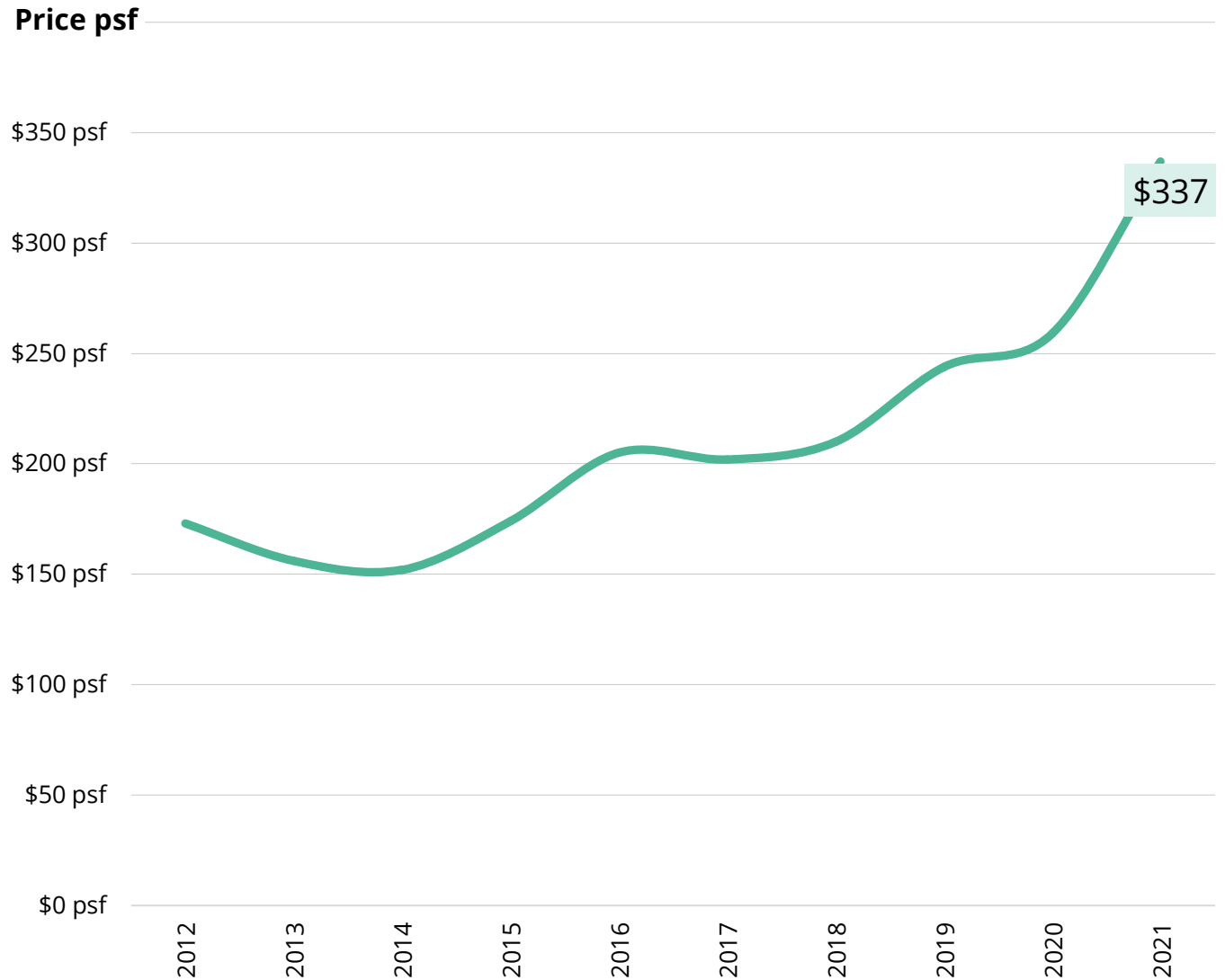


## Office asset pricing

# +23%

Charlotte office pricing growth from 2020 to 2021.

Low interest rates and pent-up demand have created a pricing surge in Charlotte's office market, where asset pricing has grown by 23% year-over-year. Class A new construction continues to achieve record psf pricing, with Apollo Global's purchase of Lowe's Technology Center for \$318M in the fourth quarter for \$840 psf.



Source: RCA

**Now, let's see what we  
can expect looking  
forward**



# Here's what we can expect looking forward

- Leasing activity is expected to continue to increase, and in turn will bump net absorption totals higher in 2022.
- While year-over-year rent growth moderated slightly in 2021, rent growth will remain positive as landlords modify their concession rates and Class A construction costs rise.
- The supply of sublease space in the market should decrease as companies take advantage of the pricing points these spaces offer.
- Charlotte led the nation in office deliveries in 2021. While record amount of space has recently delivered, construction activity is not expected to slow in 2022.
- Low interest rates and ample liquidity among institutional investors will keep investor demand high and cap rates steady for top-of-the market product that is well leased with credit tenants.



**You have questions.  
We have answers.**



## Get in touch



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# 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

- **Office inventory:** existing office properties that are 20,000+ square feet, excluding owner-occupied properties and government owner-occupied properties
- **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

## Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across cities with dwell times of two minutes or more; for the Office Vitality Index, 8-10 representative, single-occupier properties are chosen to represent visitor volumes across cities and industries and data was captured

# Explore the latest data and insights

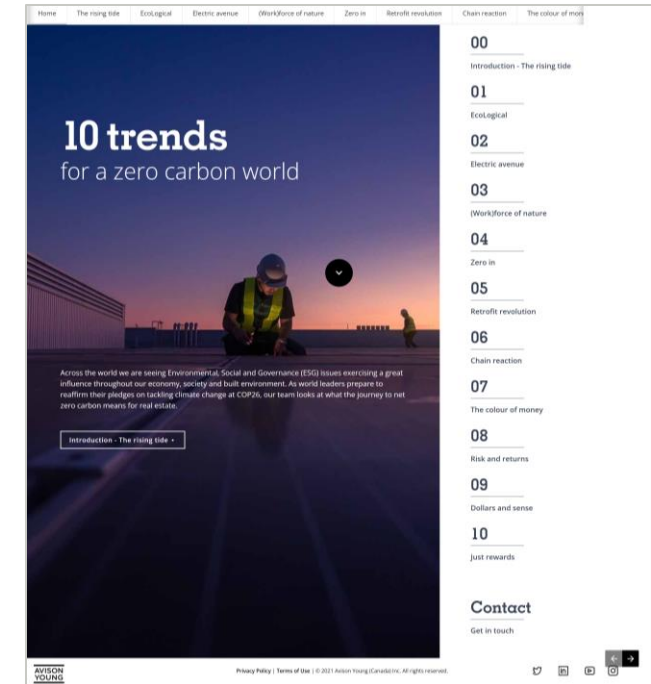
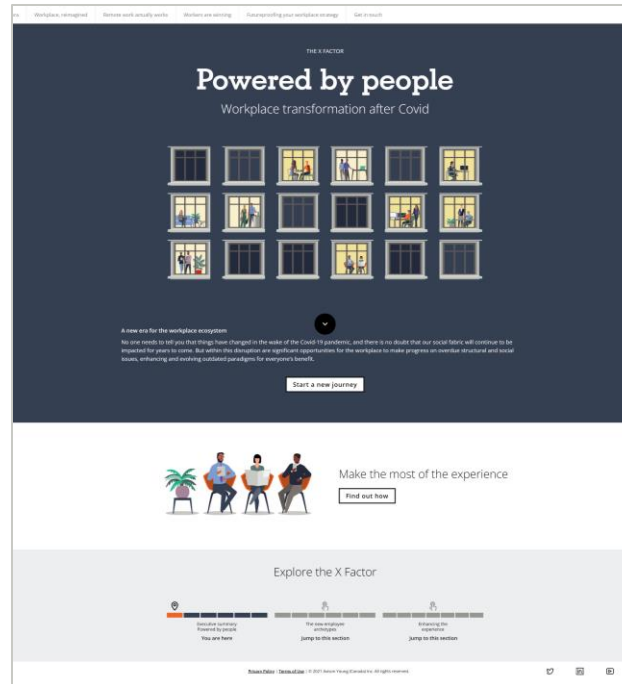
## The office vitality index

Measuring the pace of our return to downtowns  
Our team analyzes how return-to-office efforts have evolved across cities and industries across North America

## U.S. employment overview

Tracking trends in real-time  
Employment data of U.S. metropolitan statistical areas and industries are analyzed across cycles for a real-time and historical look at economic conditions

# Deep-dive into the thought capital shaping real estate



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