

An aerial photograph of the Charlotte, North Carolina skyline. The image shows a dense cluster of skyscrapers, including the prominent Bank of America Tower (the 'Prism') with its distinctive stepped, crystalline top. Other buildings of varying heights and architectural styles are visible, interspersed with green spaces and trees. The foreground shows a mix of urban development and lush greenery with some autumn-colored foliage. The sky is clear with a few wispy clouds.

**AVISON
YOUNG**

Charlotte Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Charlotte has emerged as a top-performing metro area economically as the unemployment rate has dropped rapidly from a high of 13.9 percent to **8.3 percent**. Over the course of the pandemic's recovery, employment has grown 16.2 percent since April 2020.
- Office-using job losses in have totaled **1.2 percent** compared with 4.5 percent for other industries' job losses. Charlotte's vibrant financial sector has already surpassed pre-pandemic levels while federal government payrolls have grown 2.9 percent.



Office demand

- Leasing activity remained subdued, decreasing by **52 percent** compared with the market's long-term historical averages.
- Year-to-date net absorption was pulled lower by sublet move-outs for Class A blocks that pushed negative absorption to **2.1%** of overall supply.
- The "flight to quality" trend persists, with the Class A segment accounting for **68%** share of post-COVID leasing activity.



Office supply

- Sublease vacancy has surged to a record high of **3.8 percent**, eclipsing the early 2000's recession. Overall vacancy including direct now sits at **17.1 percent**, slightly below the Great Recession.
- Sublease supply is focused heavily on the CBD submarket, where nine out of Charlotte's 16 large sublet blocks are located. **75 percent** of Charlotte's large sublet blocks are in Class A buildings.

Key takeaways



Pricing trends

- Base rents declined by **0.5 percent** over the past year, which contrasts with declines of early 2000s (-4.4%) and the global financial crisis (-1.7%).
- Landlords have approached concessions and base rents with varying strategies across the Charlotte metro area, resulting in modest shifts in market level pricing trends.



Capital markets

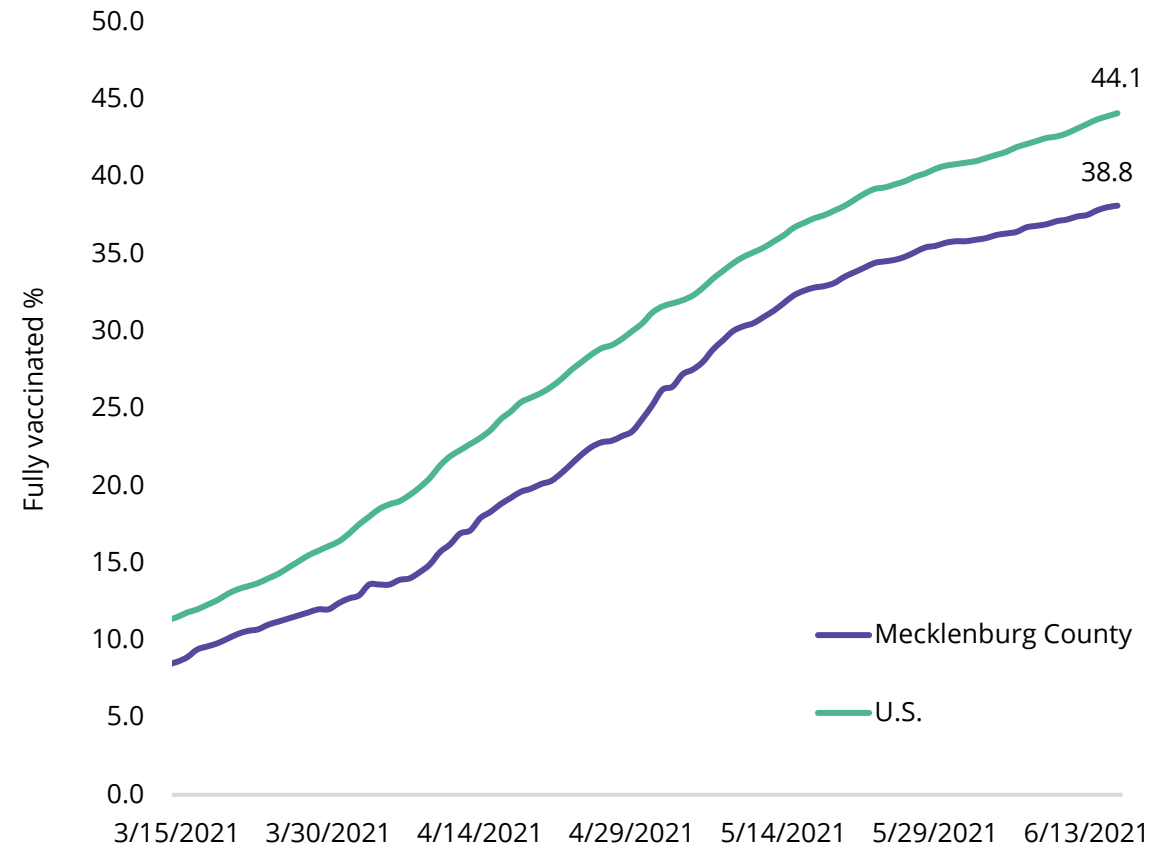
- Transaction volume remained depressed in 2021 as investors focused on Class A and upper-tier product, which skewed average asset pricing higher over the past 18 months.
- Attracting foreign capital targeting growth markets, single-tenanted 300 S Brevard Street traded for \$560 per sf early in the year, yielding a cap rate of **5.2 percent**.
- Capital markets activity is set to increase in the coming quarter as REIT Highwoods Properties anticipates closing in Q3 on Capitol Towers and Morrocroft Centre in SouthPark, which will double Highwoods' Charlotte portfolio.

Vaccination rates

38.8%

Share of total Mecklenburg County population that is fully vaccinated

Vaccination efforts in Mecklenburg County have steadily progressed, albeit falling below the national average of 44.1% by mid-June.



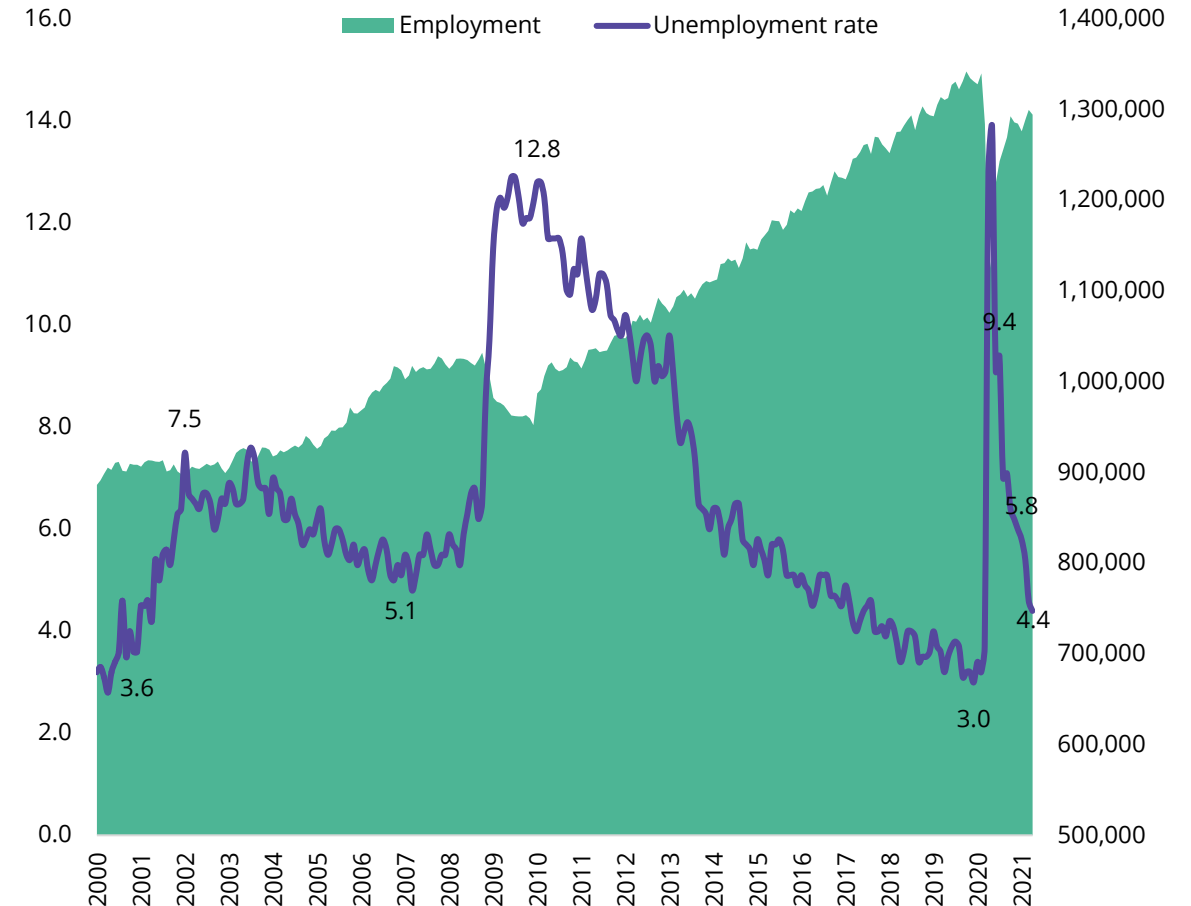
Source: CDC

Employment and unemployment rate

4.4%

Charlotte unemployment rate as of April 2021

Charlotte's regional economy has rebounded sharply from pandemic lows. Since April 2020, employment rolls have grown by over 180,000, recovering nearly 80% of job losses incurred during the pandemic. In response, the unemployment rate has rapidly dropped and now sits well below the national average of 5.8%.



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

Office-using job gains and losses

-1.2%

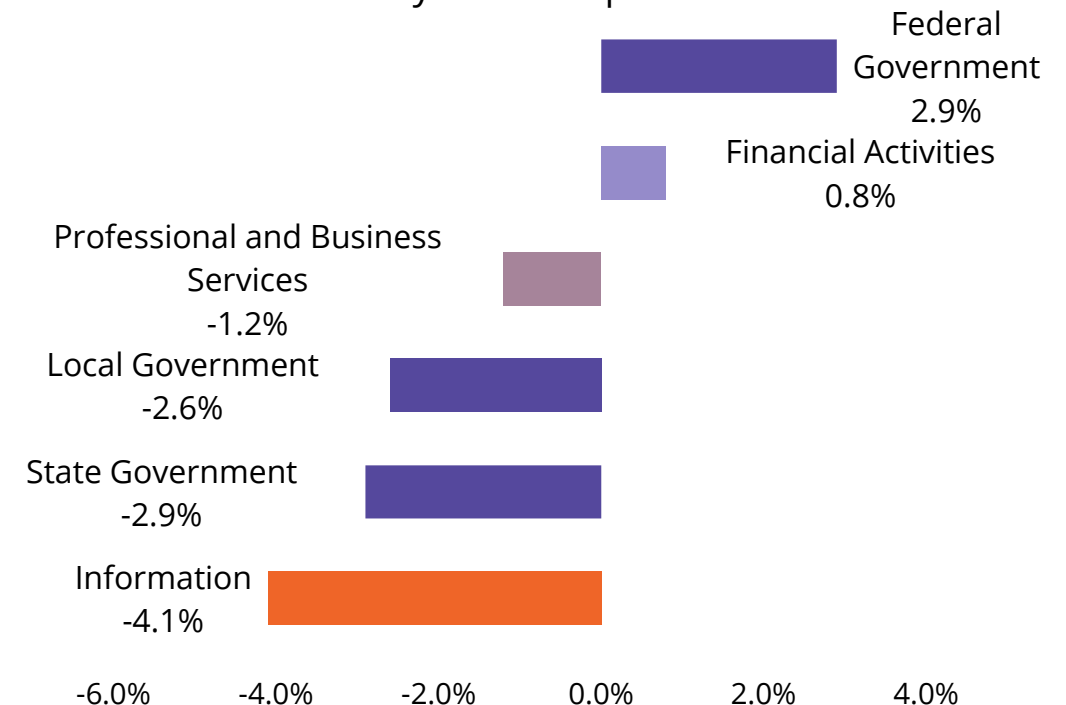
Change in office-using employment during the pandemic

Charlotte's overall employment base has declined 3.5% since the start of the pandemic, though office-using jobs contracted by just 1.2%. Growth in federal government payrolls has helped offset contractions in state government while the financial sector has surpassed pre-pandemic levels.

[VIEW DASHBOARD](#)

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

February 2020 to April 2021



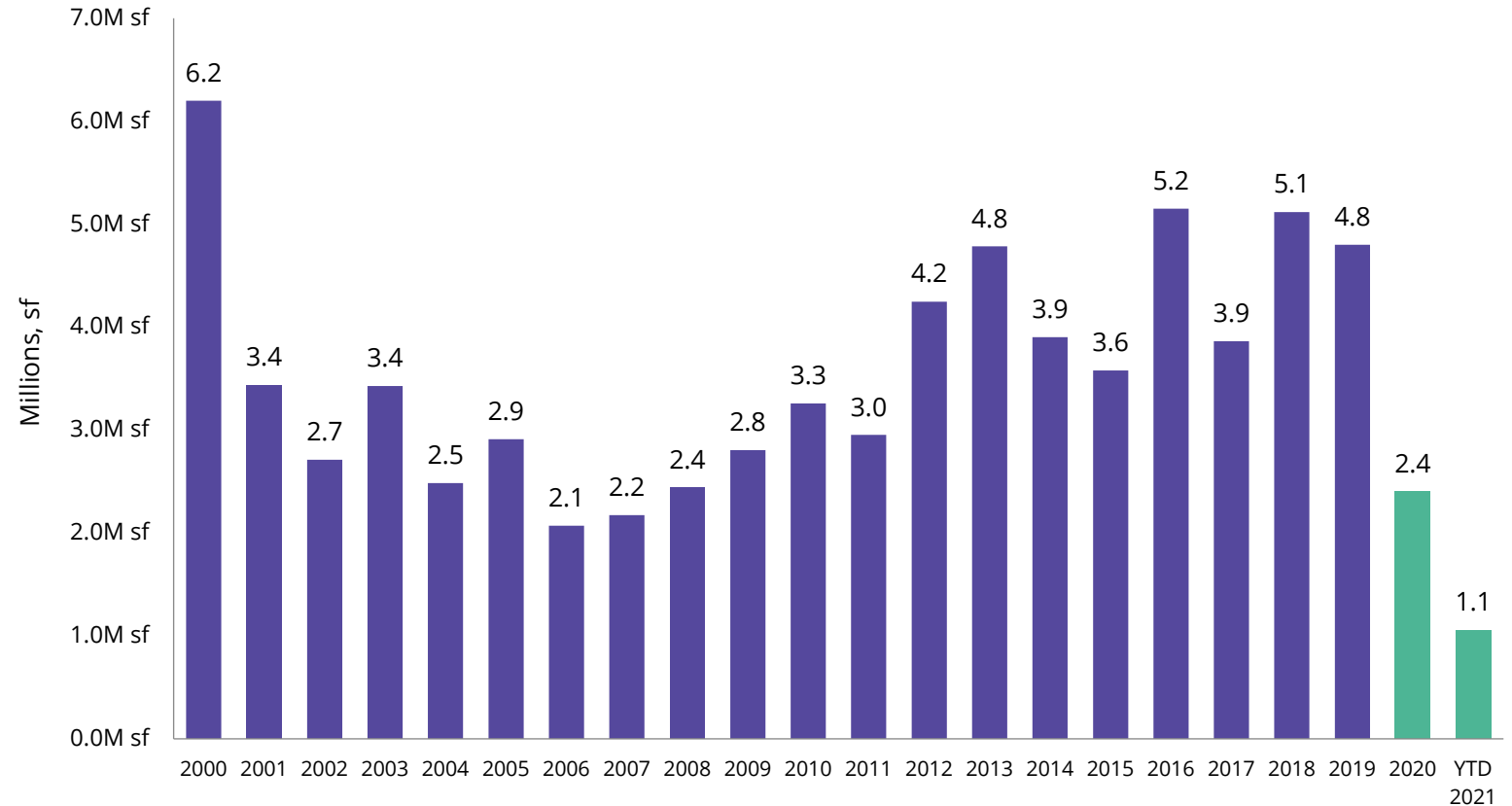
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

1.1 msf

2021 YTD leasing activity

Leasing activity plummeted 50% in 2020 and has remained depressed through the first half of 2021. As reopening and return-to-work plans progress, leasing volume should begin to recover in the coming quarters.

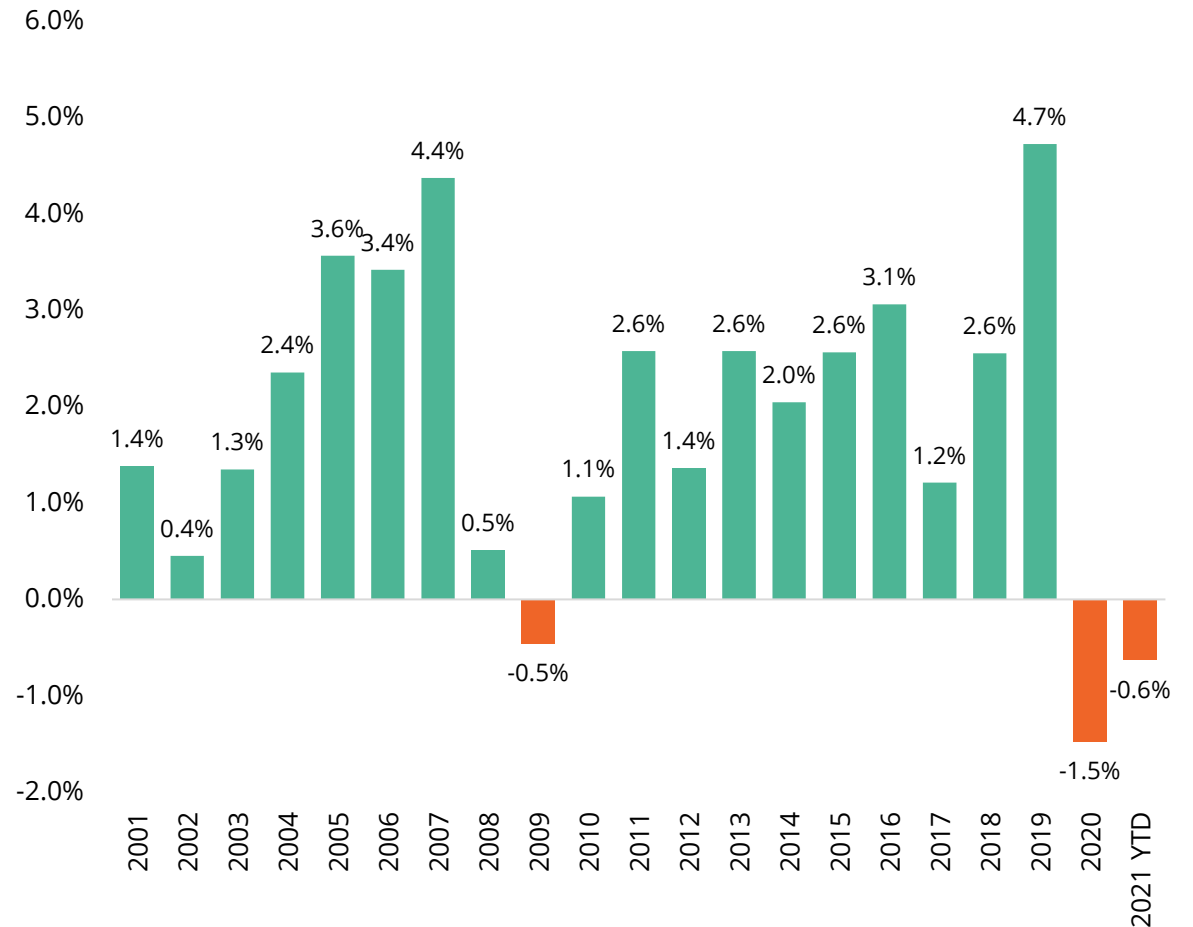


Source: AVANT by Avison Young

-2.1%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled 1.2 million sf, totaling -2.1% of the existing inventory. This negative absorption surpasses the lows of the global financial crisis (-0.5%).



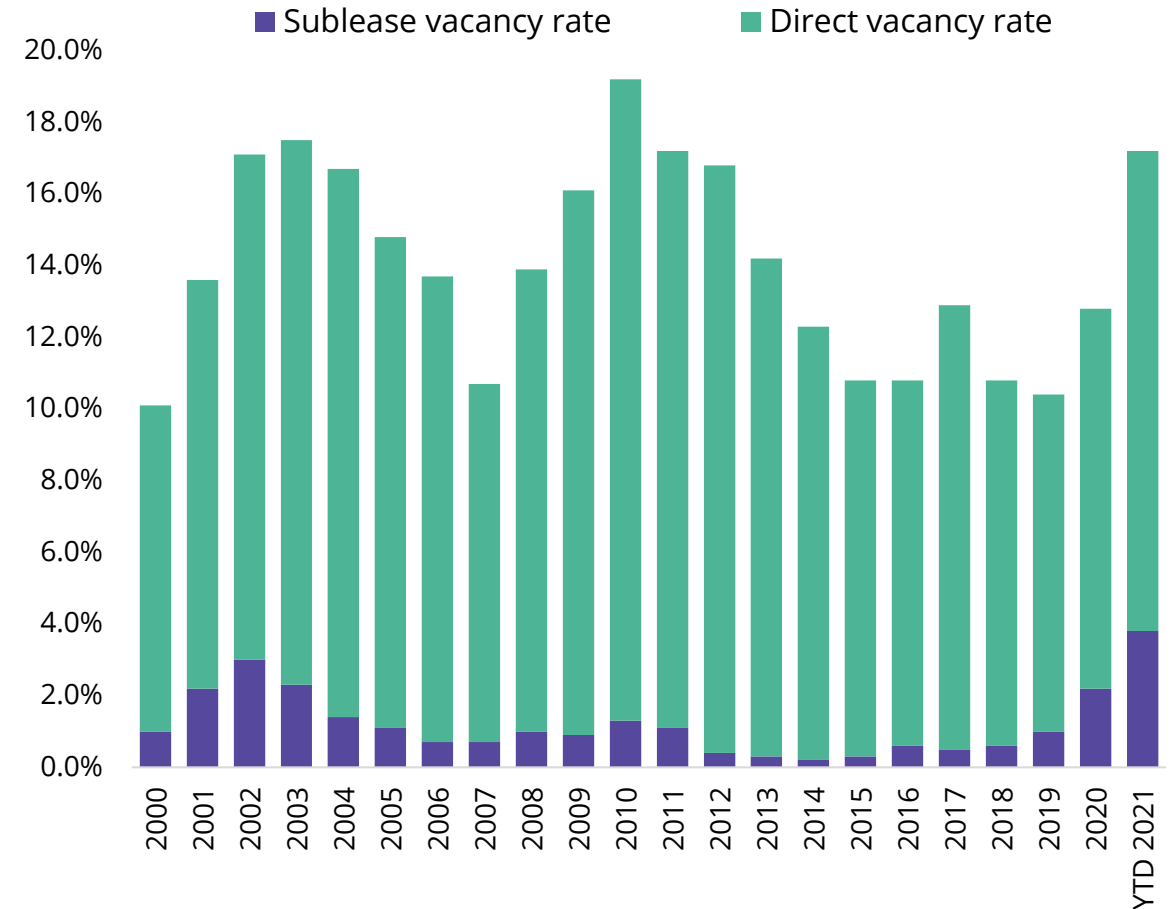
Source: AVANT by Avison Young

Vacancy rate

17.1%

Charlotte vacancy as of 2Q 2021

The 2Q21 vacancy rate reached record highs of sublease, direct and total percentages. The significant bump in vacancy is not only due to the effects of the pandemic, but also a significant amount of new product that has delivered year-to-date (2.5 msf).



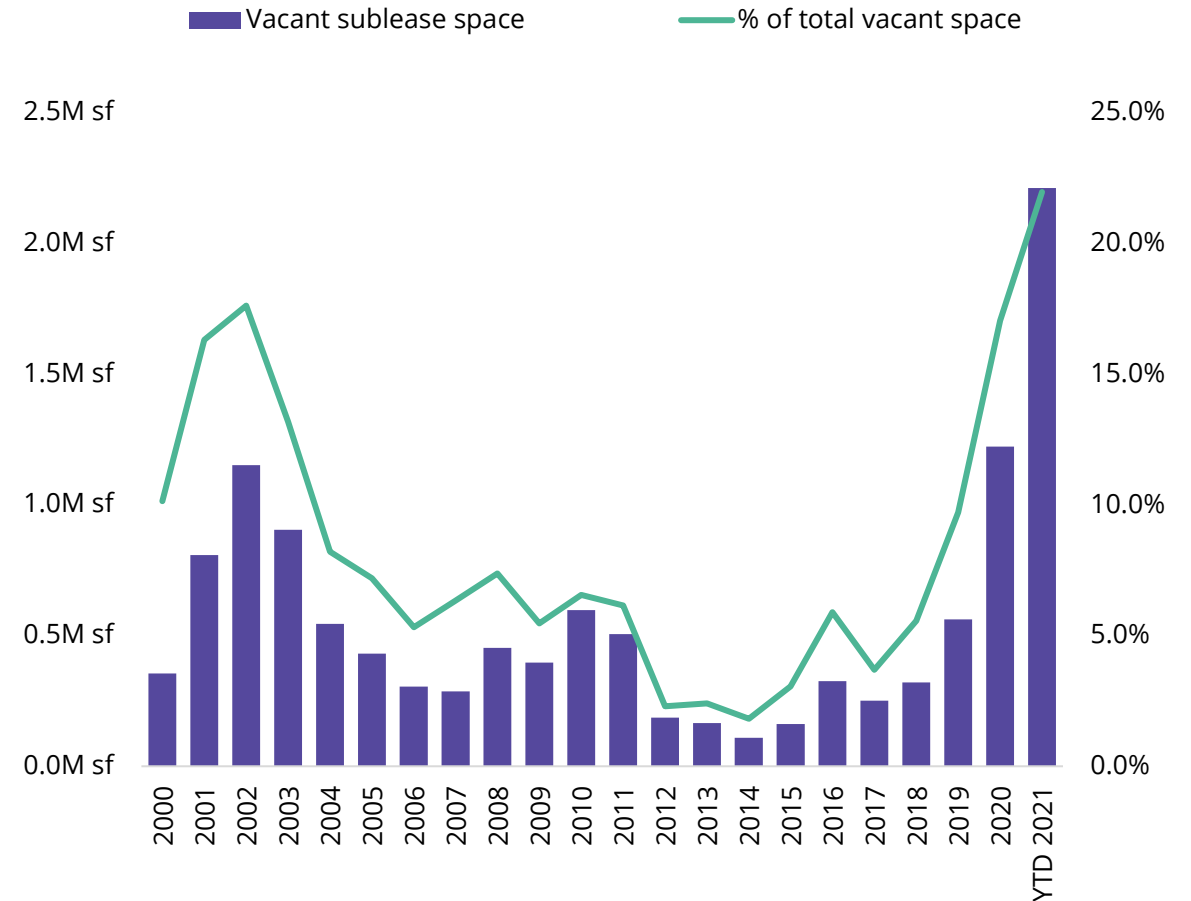
Source: AVANT by Avison Young

Vacant sublease space

2.2 msf

Record levels of sublease vacant space

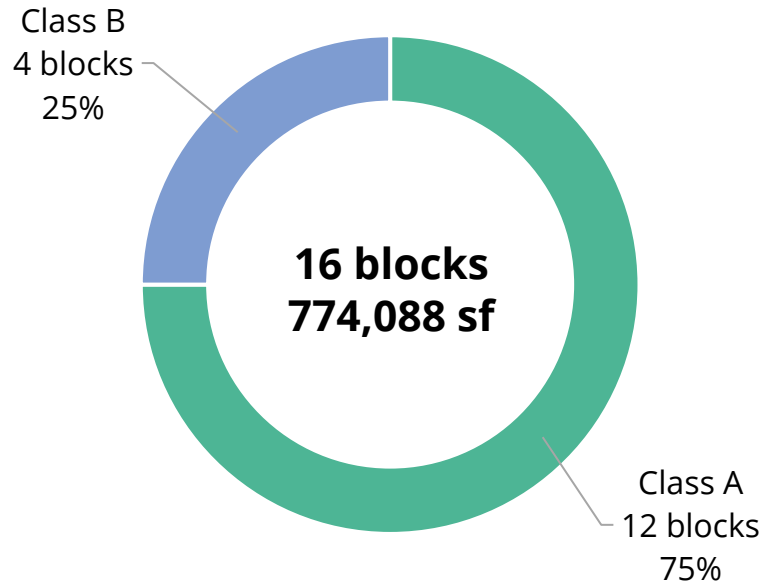
The share of sublease-to-total vacant space of 22% has hit an all-time high.



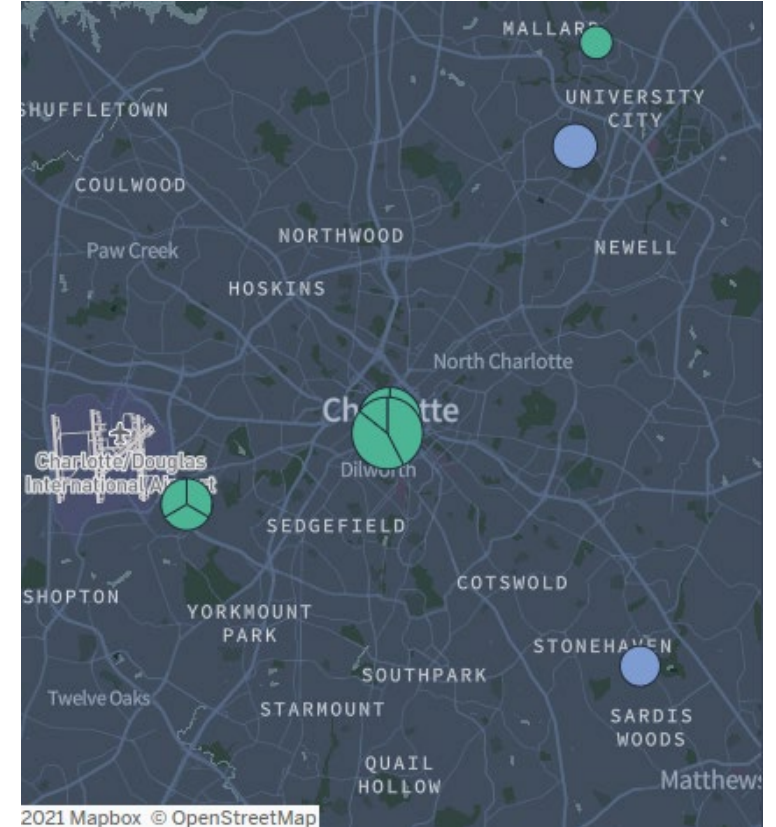
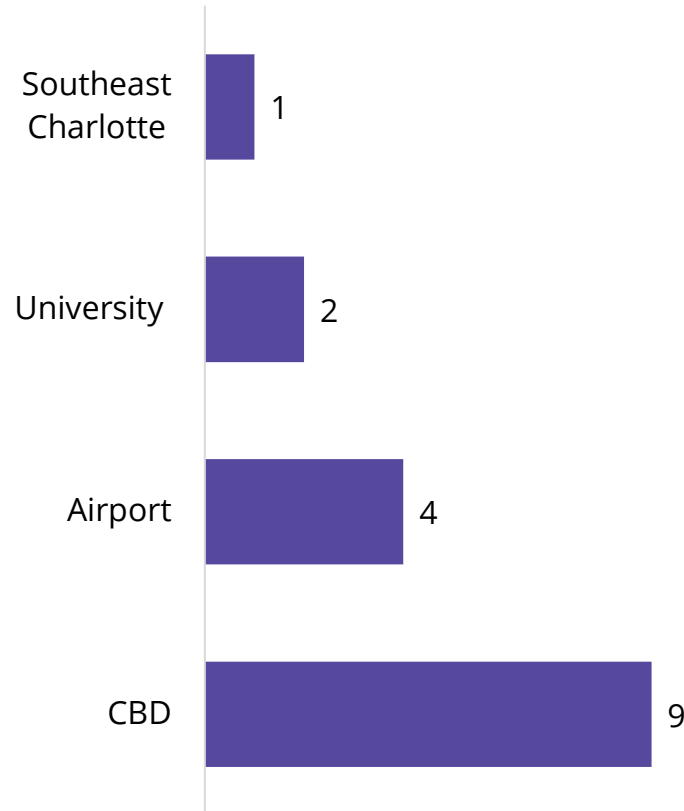
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Submarket availability by # of blocks



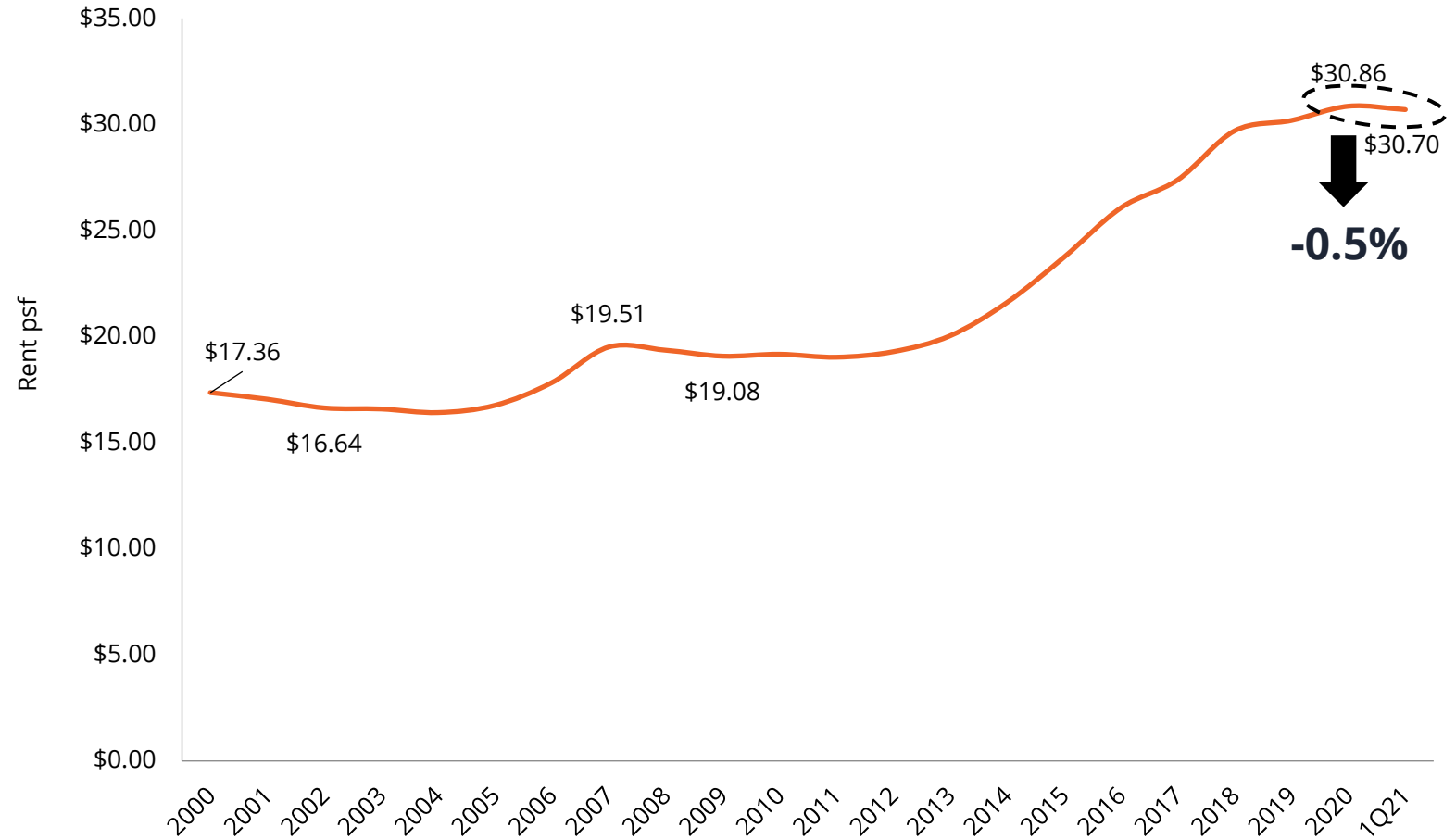
Source: AVANT by Avison Young

Base rents

-0.5%

Decrease in rents year-over-year

A record amount of available office space in the market has resulted in rent growth softening. However, the current rent decline has not reached levels last witnessed in the early 2000s (-4.4%) or the global financial crisis (-1.7%).



Source: AVANT by Avison Young

Construction Pipeline

12

properties under
construction

3.1 msf

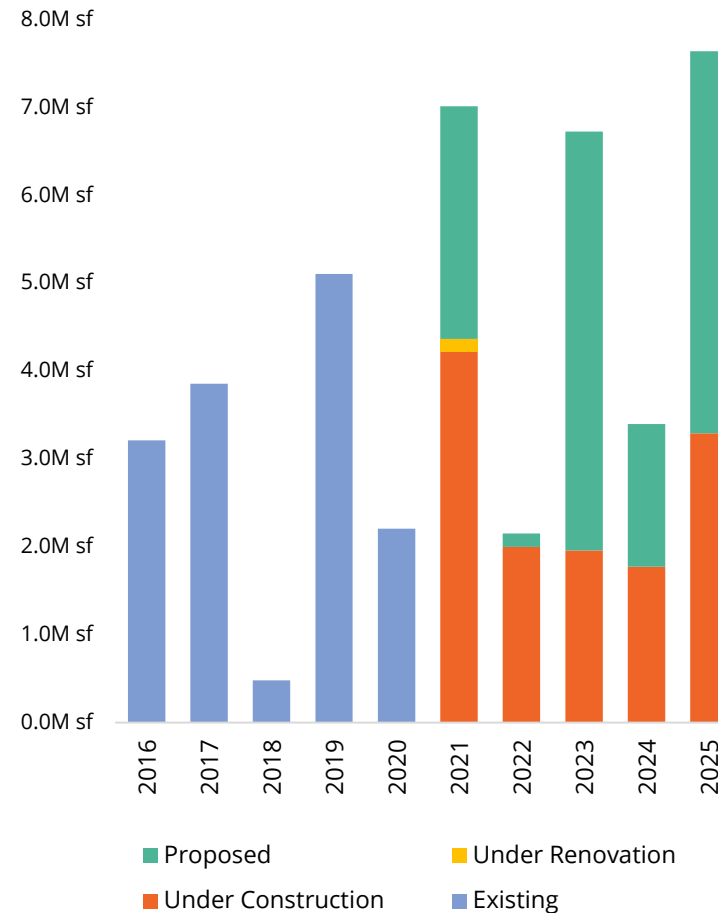
under construction

5.3%

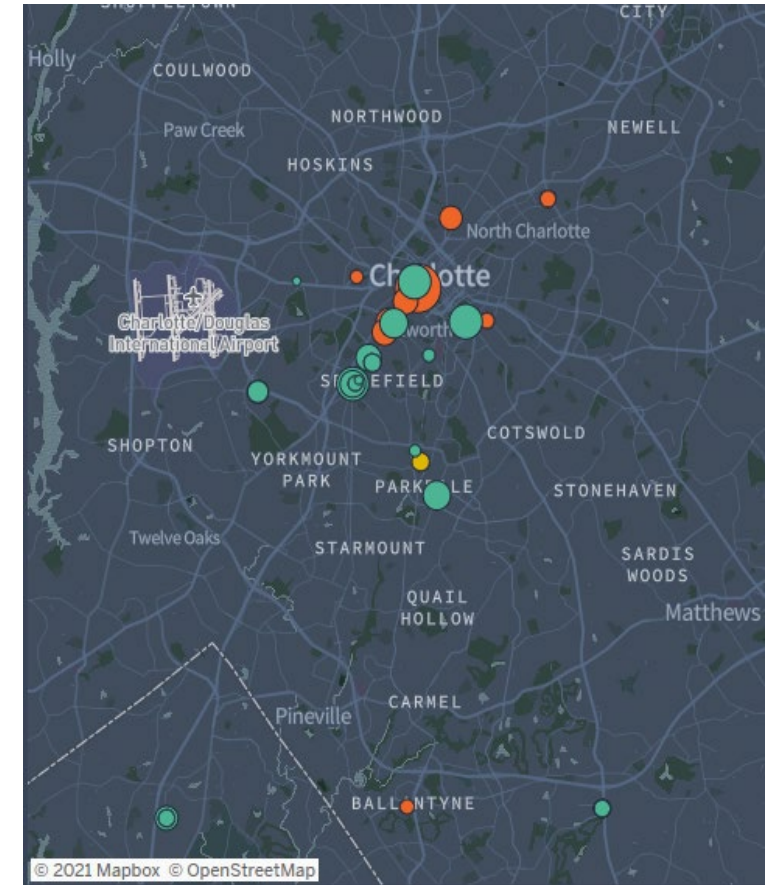
Share of office inventory

4.8 msf

proposed



Source: AVANT by Avison Young

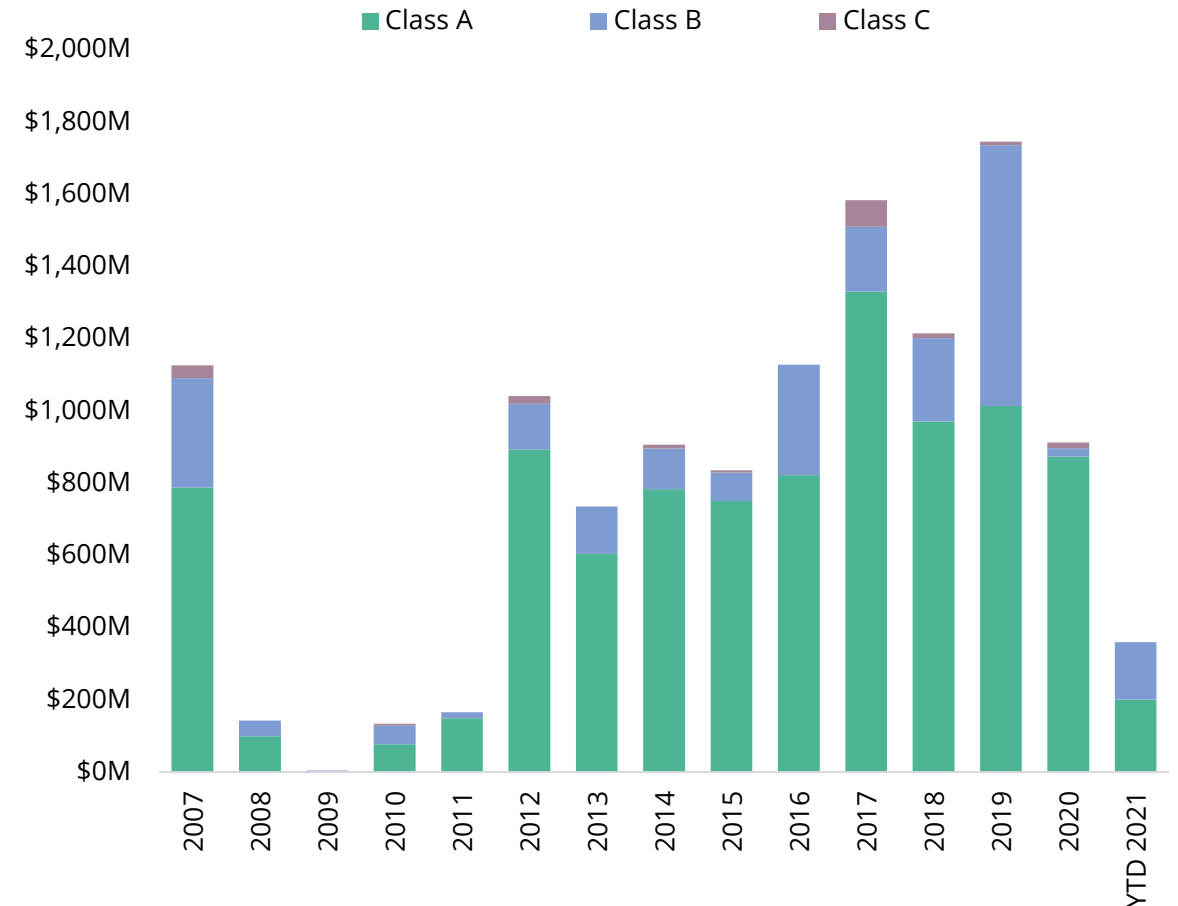


Office investment dollar volume

\$360M

Charlotte office dollar volume 2020 to present

After sales activity centered almost exclusively on Class A buildings in 2020, transactions YTD 2021 have spread to Class B as well. Overall volume, however, is set to again fall well short of a record \$1.7 billion reach in 2019.



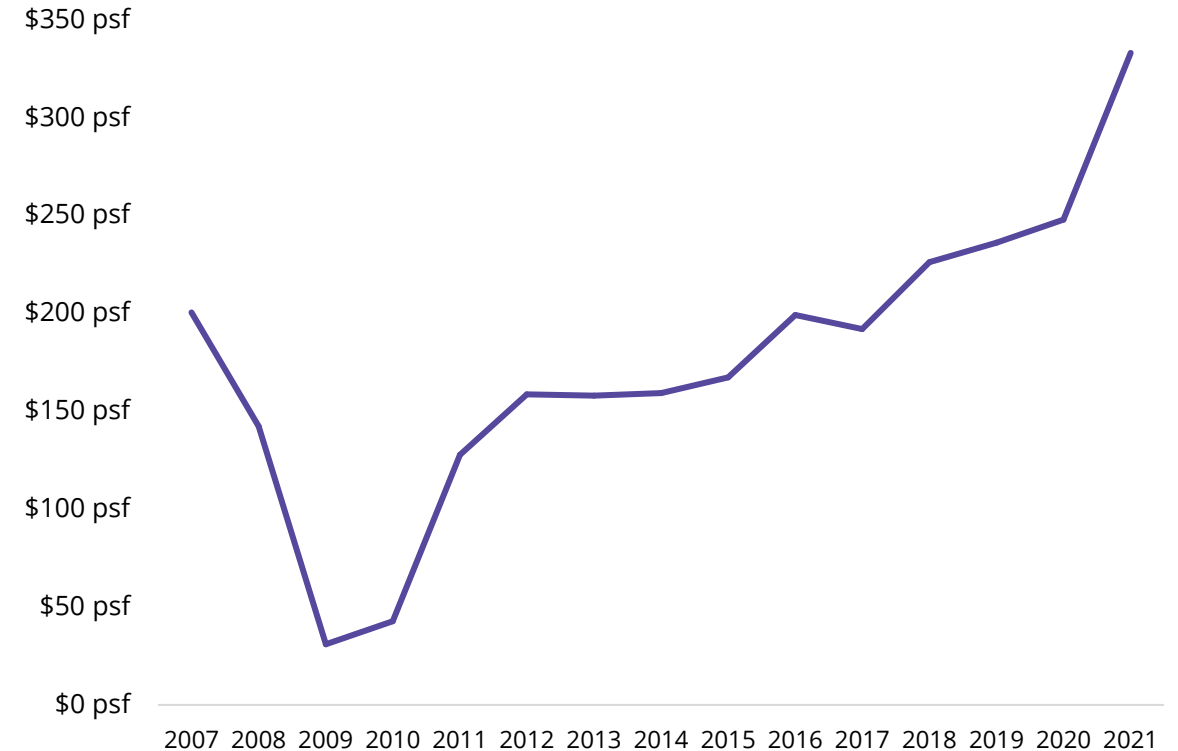
Source: AVANT by Avison Young, RCA

Office asset pricing

34.3%

Charlotte office pricing from November 2019 to present

Limited transaction volume has focused on higher-quality, well leased properties, and as a result average office asset pricing has skewed higher over the past 18 months.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- As reopening efforts continue, **Charlotte's economy has started to see recovery** in 2021. Many companies are embracing a hybrid work model as they begin to return to the office.
- Reimagining the workplace may become a "best practice" in order to retain talent, particularly in Charlotte's tight labor market.
- **Leasing activity is expected to trend upwards** in the second half of the year and into 2022 as companies continue to expand or relocate into Charlotte at a healthy pace.
- **Over 1.2 msf is expected to deliver by the end of the year**, with 59% preleasing in place. This will continue to put upward pressure on vacancy.
- As construction costs rise, owners are expected to remain firm on top of the market rental rates upon product delivery, resulting in long term **positive rent growth**.



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Let's talk