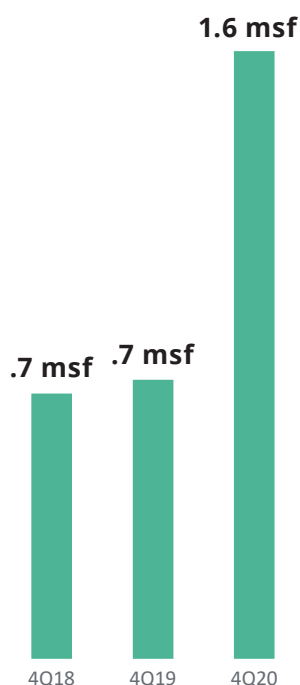


Charlotte

Sublease space

Available sublease space has risen by 120% in the last 12 months.



As tenants contemplate returning to the office, investors signal confidence in Charlotte's future

Charlotte's office market ended 2020 with leasing activity anemic and offices still largely vacant as rising COVID-19 cases late in the year led most companies to delay their re-entry plans. While the sector has undoubtedly taken a beating in recent months, the outlook for the region remains positive, as evidenced by continued strong demand from investors.

Leasing Fundamentals

Charlotte entered the pandemic from a position of substantial strength, with vacancy at just 10.6% at year-end 2019. Net absorption fell into the red by 926,940 sf in 2020, sending vacancy up by 270 bps. Sublease offerings increased dramatically, rising 120% year-over-year to 1.6 msf. Rent growth slowed notably but remained positive in 2020, and landlords became more aggressive with economic incentives and lease-term flexibility. The average asking rental rate stood at \$31.40 psf in the fourth quarter, up 4% year-over-year. This rate of growth was down from the 6% gain registered in 2019 and a 9% increase in 2018.

Construction Activity

Office deliveries totaled 671,491 sf in 2020, down significantly from the 2.7 msf delivered in 2019. The construction pipeline remains full, however, with 5.7 msf underway in the fourth quarter. Fifty-two percent of this space has been reported as pre-leased, and 4.4 msf is scheduled for completion in 2021.

Investment Sales

Charlotte office sales volume totaled \$1.4 billion in 2020, down 58% versus 2019's record-setting performance but in line with volume witnessed in 2016, 2017

and 2018. The \$201 million sale of The RailYard, set a new per-unit pricing record for the market at \$611 psf.

Outlook

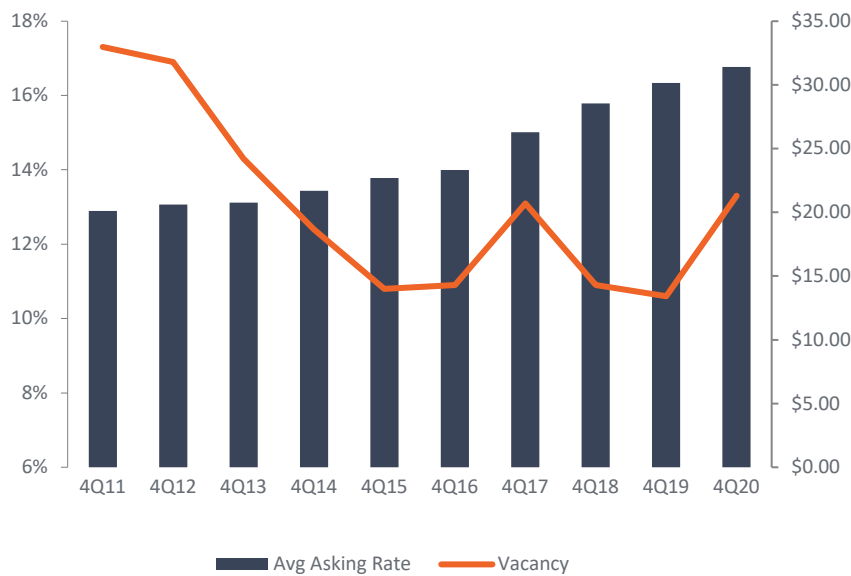
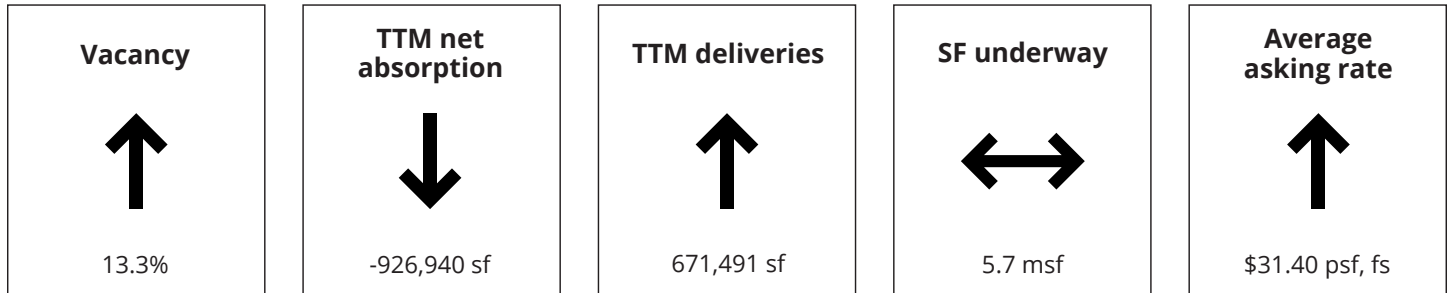
A new wave of construction deliveries will place additional upward pressure on vacancy in 2021, and landlords will remain aggressive with concessions as they face heightened competition from both new construction and sublease space. For tenants, the next six to 12 months present an opportunity to secure more favorable lease terms than have been available for several years. Tenant demand should begin to come back in the second half of the year, and is likely to rebound sharply in 2022. The recent dramatic decline in COVID-19 cases, hospitalizations and deaths, increasing availability of vaccines and a growing weariness of working from home full time could lure employees back to the office earlier than anticipated.

With workplace flexibility expected to remain in place long term, it will take some time for tenants to fully assess their real estate needs, and the long-term implications for space usage remain to be seen. Duke Energy announced plans in early 2021 to adopt a hybrid remote work model that will likely result in a reduction of its real estate footprint. The exact impacts are yet to be determined, but the utility has stated that its planned occupancy of a 1-msf building currently underway in Uptown Charlotte will not be affected. Charlotte's desirability as a place in which to live and do business has been enhanced by the pandemic, and the region is well positioned to capture displaced demand from dense gateway markets as the economy recovers.



Office market year-over-year trends

The sudden collapse in tenant demand and sharp increase in sublease space has led landlords to increase concessions and lease-term flexibility. Rent growth has slowed notably but thus far remained positive, due in part to significantly elevated construction costs.

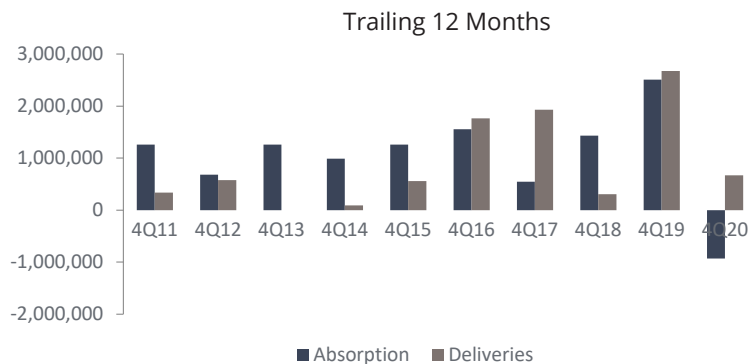


Vacancy and rental rates

Charlotte office vacancy rose 270 bps during the last 12 months. The average asking rental rate rose to a record high of \$31.40 psf, up 4% year-over-year.

Absorption and deliveries

Charlotte office deliveries have been modest in the last 12 months, helping to mitigate the impact of a sharp decline in net absorption on vacancy.



Market by the numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION			AVERAGE ASKING RENT		
		Total	Class A	Class B	4Q20	TTM	SF Underway	Total	Class A	Class B
CBD	19,692,807	8.2%	7.2%	14.5%	(287,879)	(150,269)	2,547,915	\$36.44	\$37.81	\$29.82
Midtown/South End	3,436,274	14.5%	15.3%	14.8%	24,534	1,676	1,578,406	\$38.99	\$39.86	\$32.10
Urban Total	23,129,081	9.2%	8.2%	14.5%	(263,345)	(148,593)	4,126,321	\$37.22	\$38.47	\$30.28
Airport	9,479,593	17.3%	15.4%	22.5%	(222,713)	(275,939)	80,000	\$25.45	\$26.29	\$24.22
East Charlotte	831,597	24.7%	-	25.8%	(10,722)	(13,389)	-	\$15.96	-	\$15.97
North Charlotte	1,925,790	14.7%	15.3%	13.7%	33,138	4,316	92,000	\$26.69	\$27.52	\$24.62
Park Road	723,651	32.5%	47.0%	22.2%	(3,663)	(79,302)	-	\$34.70	\$36.54	\$30.88
Plaza Midwood/NoDa	679,499	48.3%	59.5%	4.1%	42,006	174,303	386,816	\$33.36	\$33.46	\$17.94
South/485	5,430,442	14.6%	15.5%	4.5%	(29,289)	23,932	436,500	\$33.51	\$33.90	\$30.06
South Charlotte	918,401	10.6%	13.2%	5.2%	(8,407)	(6,749)	-	\$25.51	\$25.63	\$25.07
Southeast Charlotte/Matthews	881,237	14.2%	4.2%	15.2%	(11,261)	(27,919)	-	\$17.95	-	\$18.87
Southpark	4,742,144	15.0%	12.6%	22.5%	(142,365)	(353,792)	-	\$33.86	\$35.78	\$31.18
University	4,642,234	11.9%	20.1%	8.2%	(37,957)	(54,750)	588,648	\$26.10	\$26.48	\$24.61
South Carolina	2,862,153	13.6%	12.5%	18.0%	(56,885)	(169,058)	-	\$27.60	\$27.60	\$21.95
Suburban Total	33,116,741	16.2%	16.6%	16.5%	(448,118)	(778,347)	1,583,964	\$28.13	\$29.70	\$24.91
Total Market	56,245,822	13.3%	12.5%	16.0%	(711,463)	(926,940)	5,710,285	\$31.40	\$33.29	\$26.07

Recent leases

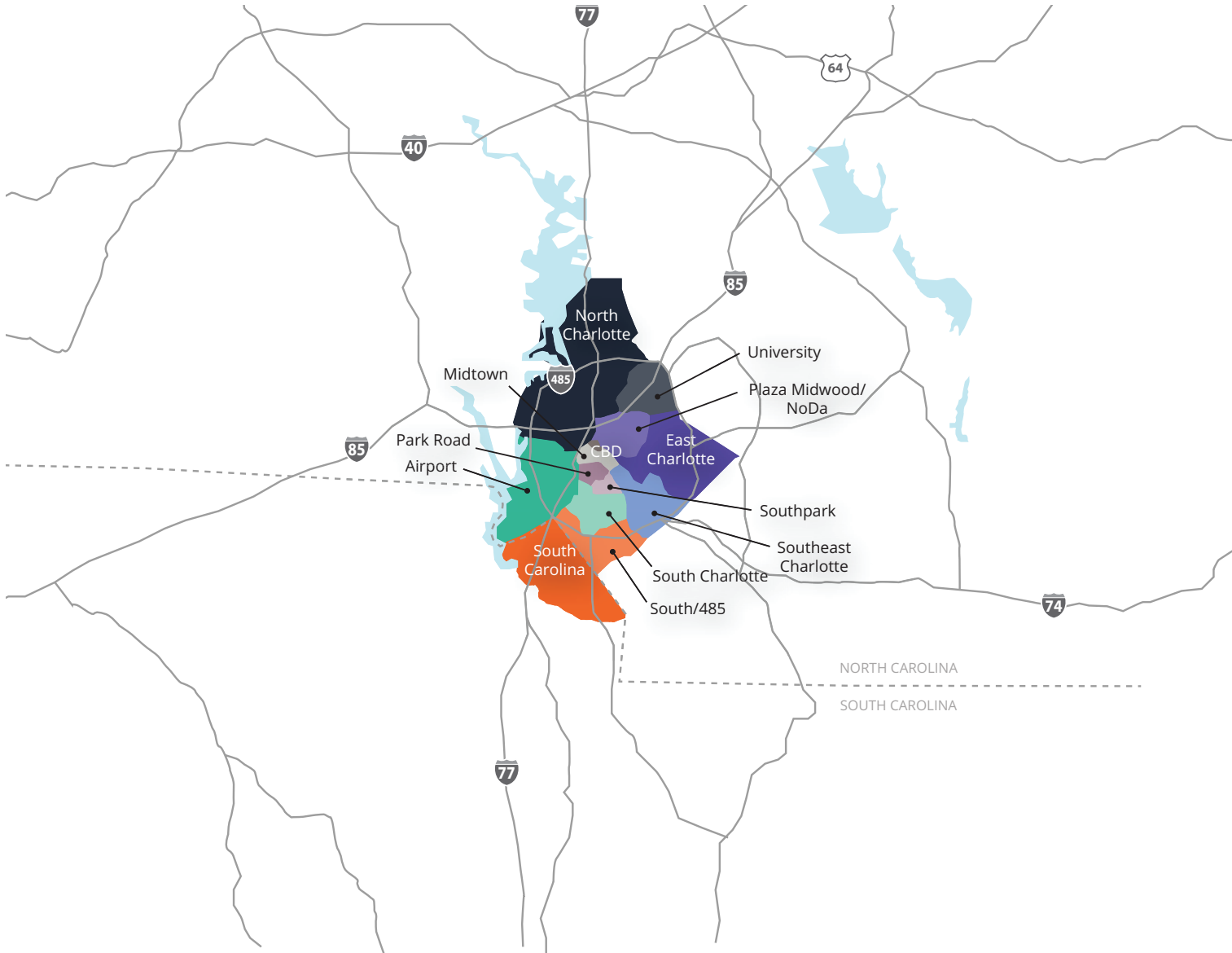
Tenant	Property	Type	Submarket	SF
Arrival	Three30Five	New Lease	Midtown	45,000
Centene Corp.	Camp North End	New Lease	Plaza Midwood	37,202
Redline Design	Switch Yard	New Lease	North Charlotte	11,200
TPV	Morrison Building	New Lease	Southpark	10,000

Recent sales

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
The RailYard	Midtown/South End	Cousins Properties	328,985	\$201 million	\$611
Metropolitan Midtown	Midtown/South End	Northwood Investors	170,589	\$37.8 million	\$222
RoundPoint Mortgage Headquarters	South Carolina	Office Properties Income Trust	150,000	\$35.1 million	\$234
300 West Summit	Midtown/South End	Zurich Alternative Asset Management	64,000	\$28.8 million	\$450

Top five buildings underway by size

Property	Submarket	Anchor Tenant(s)	SF	% Leased
Duke Energy Tower	CBD	Duke Energy	1,000,000	100%
Ally Charlotte Center	CBD	Ally Financial	742,000	97%
Design Center Tower	Midtown/South End	Lowe's	375,000	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%



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Sources and methodology

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