CHARLOTTE

EXECUTIVE SUMMARY

- Strong in-migration and robust local economic growth are benefitting all sectors of Charlotte's commercial real estate market.
- The region added 27,900 non-farm payroll jobs between October 2018 and October 2019 for a growth rate of 2.3%.
- Charlotte's rapidly growing population and strategic location along key East Coast transportation corridors make it a prime target for industrial users.
- The greater Charlotte region scored multiple corporate relocation and expansion wins in 2019, with major job announcements from companies such as Microsoft, Better.com, Chime Solutions, AvidXchange, Truist Financial and Lowe's.
- Charlotte's retail sector is holding its own in the face of ongoing structural changes, with big-box vacancies being readily absorbed or repurposed for alternative use.

Charlotte witnessed record-setting investment activity in 2019, with sales of office, industrial, retail and multi-family properties topping $6 billion. In the largest single-asset office sale in North Carolina's history, Highwoods Properties re-entered the Charlotte market with its $441.6 million acquisition of the recently completed first tower at Legacy Union in the CBD.

Charlotte office vacancy is likely to rise in 2020 as new construction lures tenants out of older product, but overall conditions will continue to favor landlords. Completions are projected to total approximately half the amount witnessed in 2019, giving tenants a chance to absorb new supply. The average Class A asking rate rose 6% in 2019, and soaring construction costs and tight vacancy will keep upward pressure on rental rates in 2020. With its eclectic mix of new office and multi-family high-rises and edgy adaptive re-use projects, Charlotte's Midtown/South End area will be a hotbed of activity, offering tenants an amenity-rich alternative to the traditional CBD location. As companies place increasing importance on the physical environment and nearby amenities as a talent recruiting and retention tool, the market will witness increased densification of suburban nodes as creative office space and mixed-use environments spread beyond the urban core.

Record low vacancy of just 4% in Charlotte's industrial market in 2017 fueled a surge in speculative construction. Completions of more than 13 msf since that time pushed vacancy close to 7% in 2019, providing much needed new leasing options to tenants. The market is likely to see a drop-off in construction in 2020, giving demand a chance to catch up with new supply by late in the year. Average asking rates will rise at a more moderate pace, and tenants are likely to achieve increased concessions. Sustained demand should drive steady leasing activity over the next 12 months.

While additional high-profile store closures are expected in 2020, the impact on Charlotte retail vacancy will be mitigated by the region's strong demographics and disciplined construction activity. Large-box availabilities will be sought-after options for expanding value brands and experiential retailers, and shifting market dynamics present owners with the opportunity to re-purpose properties for higher and better use. In one such example, EB Arrow announced plans to redevelop University Place, a largely vacant 300,000-sf power center, into a mixed-use community.

Charlotte will remain a top target for investors in 2020, with multi-family and office driving demand. The rapidly growing region offers an attractive destination for abundant capital seeking yield in a volatile global environment. Multi-family rent control legislation recently passed in markets such as New York and California is likely to drive increased apartment sales and development activity in Charlotte as investors seek opportunities in secondary markets with fewer regulatory hurdles. An abundance of newly delivered product will present investors with new opportunities to acquire high-quality office and industrial assets.

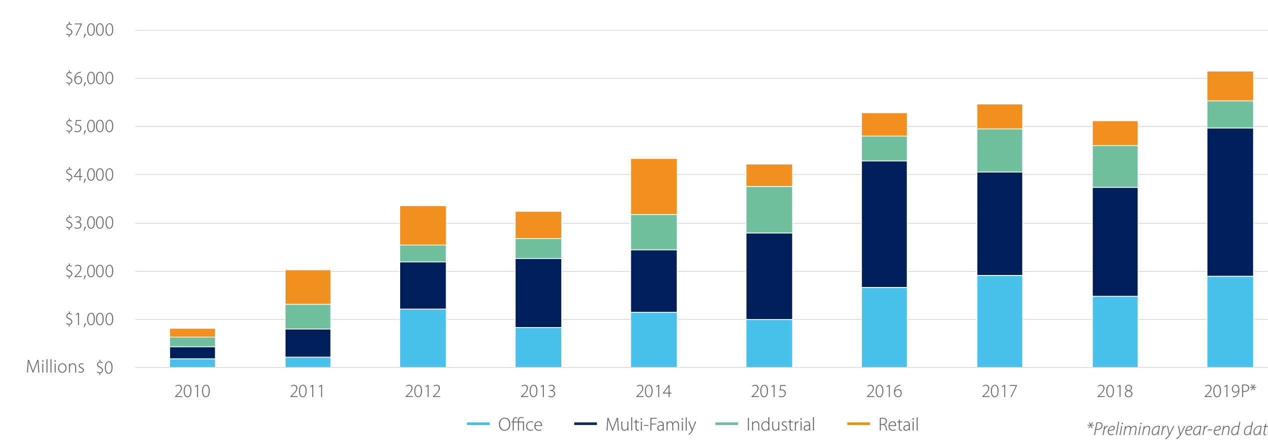
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual Growth Rates, Estimated for Year-End 2020 vs Year-End 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑	→
Vacant Space	↑	→	→
Construction Levels	↓	→	↓
Leasing Volume	→	→	→
Investment Volume	→	→	↑

Healthy leasing fundamentals, combined with affordability compared to larger gateway cities, are creating significant investor interest in the Charlotte region. In their 2020 Emerging Trends in Real Estate report, the Urban Land Institute and PwC named Charlotte the number four U.S. market to watch for overall real estate prospects.

HISTORICAL INVESTMENT VOLUME



*Preliminary year-end data
Source: Real Capital Analytics