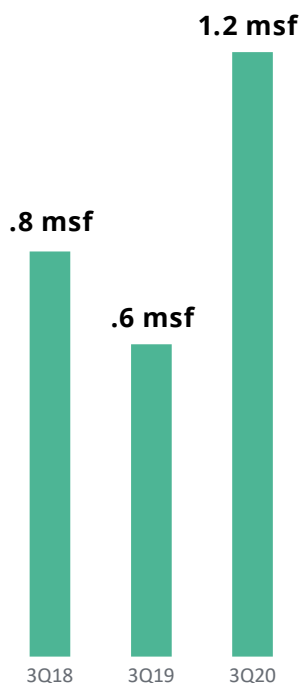


Charlotte

Sublease space

Available sublease space has risen notably in the last 12 months.



Stalled tenant activity has pushed office vacancy higher, but the long-term outlook remains positive

A majority of Charlotte's office tenants remain in a holding pattern, with many employees continuing to work remotely amid sharply rising COVID-19 cases across North Carolina. Net absorption fell deeply into the red in 3Q20 as anemic leasing activity in the first half of the year resulted in minimal tenant move-ins. Faced with a protracted period of uncertainty surrounding the economy and future space needs, most tenants are kicking the can down the road, seeking short-term leases and renewals where possible. Landlords in most instances are working with tenants to meet these requests.

Vacancy

Working in the market's favor, deliveries have been modest thus far in 2020, and the office sector entered the current crisis from a position of substantial strength. While vacancy has crept higher since the beginning of the year, it remains in healthy territory at 11.7%. This figure is up 90 bps year-over-year. Recent increases in vacancy have been driven primarily by Class B product, where vacancy rose 370 bps in the last 12 months to end 3Q20 at 14.4%. Class A vacancy ended the quarter at 10.9%, down 20 bps year-over-year. Available sublease space has increased notably in recent months, rising 80 bps year-over-year to 1.9% of inventory. With many companies delaying re-entry until spring 2021 or later, this figure is likely to climb in the near term. While increased flexibility for remote work is likely to persist in some measure in the long term, companies are increasingly recognizing the importance of the physical office, particularly for building culture and mentoring new talent.

Construction

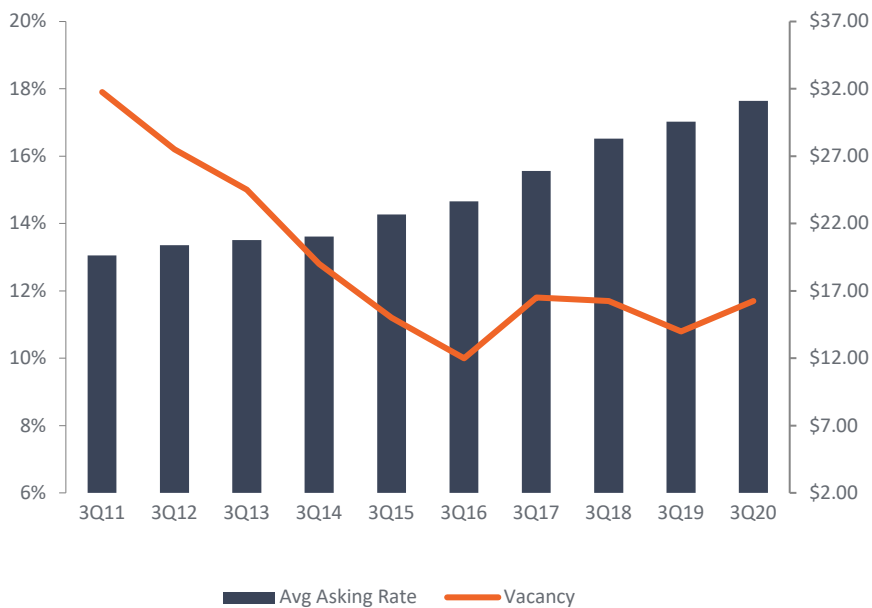
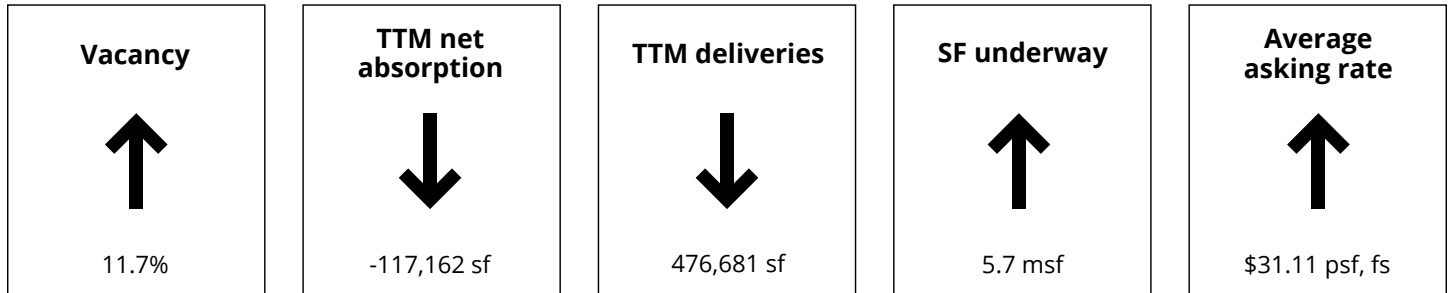
Construction deliveries were light for the quarter at just 155,249 sf, bringing the 12-month total to 476,681 sf. Construction starts are down notably as COVID-19 and economic uncertainty lead developers to press pause on most projects. Construction was already considered to be largely in line with demand pre-COVID, and a slowdown in building activity will aid the market in absorbing space once demand resumes.

Outlook

While vacancy is expected to increase and rent growth will likely slow over the next several months, the long-term outlook for the region remains positive. In the midst of the pandemic, Charlotte has logged notable economic development wins. Most recently, healthcare company, Centene Corp., chose Charlotte for its East Coast headquarters and will create more than 3,200 jobs over 10 years. The company has purchased 132 acres in the University submarket for the development of a \$1 billion campus. Fintech company, Retirement Clearinghouse, announced it will expand in Charlotte, adding 300 new jobs. London-based electric vehicle manufacturer, Arrival, chose Charlotte for its North American headquarters and is reportedly in lease negotiations for 45,000 sf in the Midtown/South End area. In its recently released Emerging Trends in Real Estate report, the Urban Land Institute ranked Charlotte the number five U.S. market to watch for overall real estate prospects in 2021.

Office market year-over-year trends

The sudden collapse in tenant demand has led landlords to become aggressive with concessions such as free-rent and tenant improvement allowances. The average asking rental rate of \$31.11 psf was down slightly for the quarter but still up 5% year-over-year.

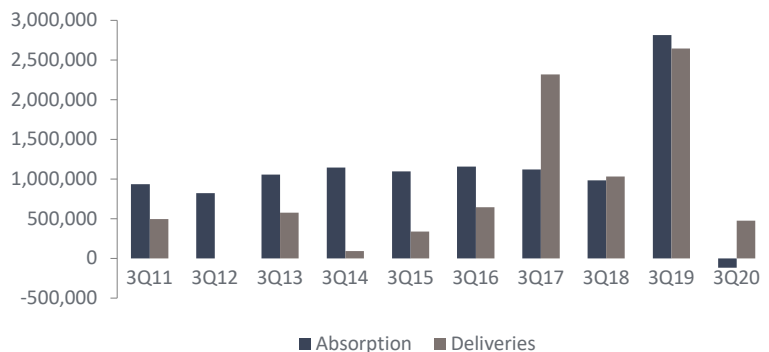


Vacancy and rental rates

Charlotte office vacancy rose 90 bps during the last 12 months. The average asking rental rate fell by 0.3% for the quarter but remains up on a year-over-year basis.

Absorption and deliveries

Charlotte office deliveries have been modest in the last 12 months, helping to offset a sharp decline in net absorption.



Market by the numbers

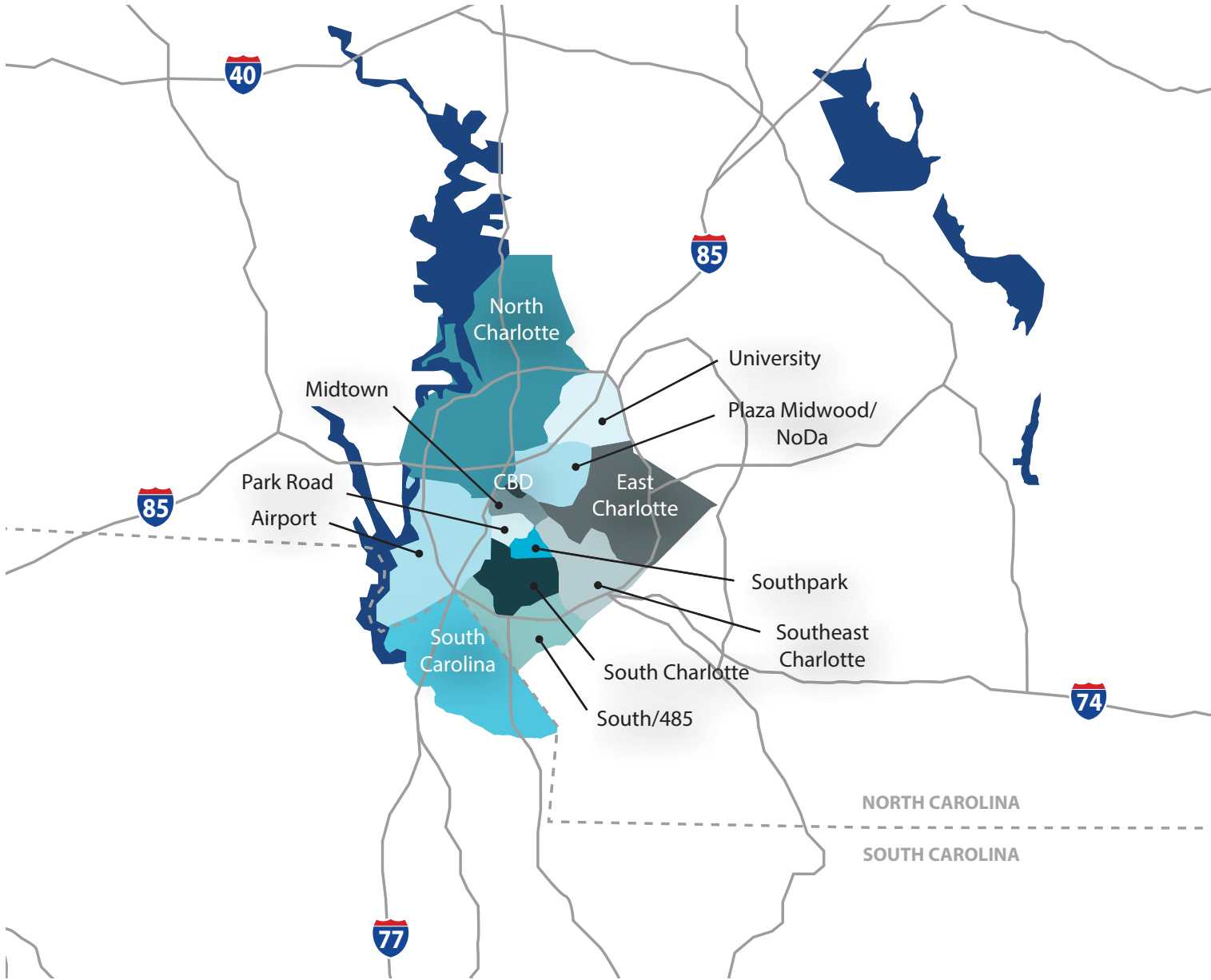
BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION			AVERAGE ASKING RENT		
		Total	Class A	Class B	3Q20	TTM	SF Underway	Total	Class A	Class B
CBD	19,690,117	6.8%	6.0%	11.4%	(96,172)	243,958	2,547,915	\$36.56	\$37.75	\$30.10
Midtown	3,424,382	12.5%	13.3%	12.6%	12,968	27,186	1,415,062	\$37.14	\$38.33	\$31.32
Urban Total	23,114,499	7.6%	6.9%	11.7%	(83,204)	271,144	3,962,977	\$36.70	\$37.89	\$30.38
Airport	9,401,874	15.1%	13.1%	20.2%	(144,738)	34,644	95,000	\$25.35	\$26.19	\$24.18
East Charlotte	831,597	23.4%	-	23.7%	1,725	(15,758)	-	\$15.96	-	\$15.97
North Charlotte	2,017,479	15.7%	13.5%	19.8%	(19,035)	(36,806)	92,000	\$26.62	\$27.35	\$24.61
Park Road	723,651	32.0%	48.6%	20.3%	(27,926)	(132,691)	-	\$34.85	\$36.39	\$31.38
Plaza Midwood/NoDa	502,584	51.8%	69.8%	4.1%	43,524	70,519	469,972	\$33.53	\$33.62	\$17.94
South/485	5,424,703	14.1%	14.9%	4.5%	(102,634)	(17,240)	423,040	\$33.70	\$33.99	\$28.94
South Charlotte	918,401	9.7%	11.4%	6.0%	(22,881)	17,889	-	\$25.44	\$25.53	\$25.08
Southeast Charlotte/Matthews	879,467	13.0%	4.2%	13.3%	(35,477)	(9,715)	-	\$17.94	-	\$18.85
Southpark	4,740,507	12.0%	11.3%	15.0%	(106,854)	(126,217)	-	\$34.00	\$35.77	\$31.48
University	4,642,234	11.1%	14.1%	9.7%	8,999	7,471	588,648	\$26.07	\$26.51	\$24.51
South Carolina	2,804,987	11.9%	10.9%	15.8%	(111,049)	(180,402)	-	\$28.02	\$28.15	\$19.50
Suburban Total	32,887,484	14.6%	14.6%	15.3%	(516,346)	(388,306)	1,668,660	\$28.14	\$29.77	\$24.79
Totals	56,001,983	11.7%	10.9%	14.4%	(599,550)	(117,162)	5,631,637	\$31.11	\$32.96	\$25.99

Recent leases

Tenant	Property	Type	Submarket	SF
Cadwalader Wickersham & Taft	Legacy Union II	New Lease	CBD	71,570
Retirement Clearinghouse	Two Silver Crescent	New Lease	Airport	44,000
Conterra Networks	thExchange	New Lease	Airport	20,962

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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