RESEARCH **1Q 2020**

Newmark Knight Frank

CHARLOTTE OFFICE MARKET

STRONG OFFICE GROWTH CONTINUES IN NEW YEAR

Charlotte's office market started the new decade on a strong note, but the narrative was overtaken by the ongoing impacts from the COVID-19 crisis around the country. Most investment and leasing activity paused throughout the market and country as tenants and owners try to assess the long-term impacts on a constantly-evolving situation.

Charlotte's office vacancy rate fell 90 basis points over the quarter to 11.3%, down 40 basis points from one year ago. After a jump to 14.4% at the end of 2017, the region's vacancy rate has steadily declined. Contributing to the rise was the completion of 801 E Arrowood Road, a 114,000-square-foot building in the Airport submarket that was 100% vacant. What will be important to watch throughout the year will be the sublease vacancy rate. At the end of the first quarter, the sublease availability rate was 1.7%, the highest it had been in more than five years. How much of the space gets vacated will be a telling indicator on the health of the market.

The average asking rate continued to rise, driven by additional new construction completed at 801 E Arrowood Road. The quarter's average of $29.77/SF was 2.7% higher than last quarter and 5.7% higher than the average one year ago. This was the first quarter the market's average crossed the $29.00/SF threshold. The Class A rate increased 6.0% over last year to reach $32.25/SF.

Net absorption for the quarter was 428,000 square feet. This was the second-highest quarterly total in 18 months, and was higher than the five-year quarterly average. This was the lowest first-quarter net absorption since 2018. Forecasts for the year ahead point to lower net absorption that that seen in the past two years as a result of the downturn in the economy from the coronavirus and global economic slowdown.

DEVELOPMENT PIPELINE OVER 5 MILLION SF

Construction activity in Charlotte remained robust at the end of the first quarter with more than 5.2 million square feet in the pipeline. This is the largest amount of new construction in more than five years. Three-quarters of the new space, totaling 4.0 million square feet, is concentrated in two submarkets: CBD and Midtown/Southend. Overall the pipeline was 59.3% pre-leased at the end of the quarter. The largest project in the pipeline is Duke Energy's 1.0 million-square-foot tower in the CBD, which is expected to be completed in mid-2022. The largest project being constructed on a speculative basis is 13146 Ballantyne Corporate Place, a 328,000-square-foot tower.

CURRENT CONDITIONS

The current construction pipeline totals 5.2 million square feet to be completed over the next two years, with 59.3% pre-leased.

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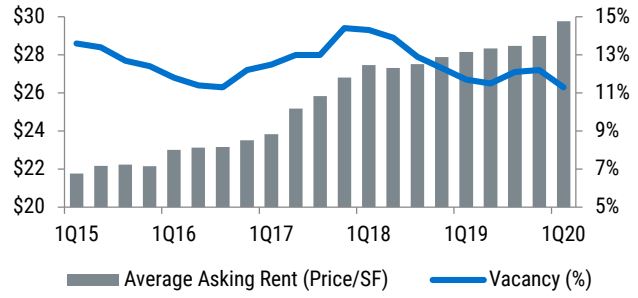
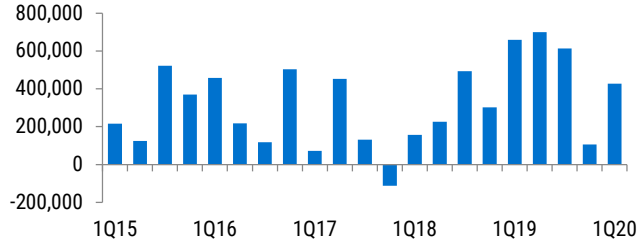
Net absorption for the quarter was 428,000 square feet, the second-highest quarterly total in 18 months and above the five-year quarterly average.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	50.2 M	50.2 M	48.3 M	↑
Vacancy Rate	11.3%	12.2%	11.7%	↑
Quarterly Net Absorption (SF)	428,219	105,698	659,528	↓
Average Asking Rent (FS/SF)	$29.77	$28.99	$28.16	↓
Under Construction (SF)	5.2 M	5.1 M	4.4 M	↓
Deliveries (SF)	114,469	88,000	217,829	↑

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)
CBD	16,145,355	2,547,915	8.3 %	171,898	171,898	$35.48	$30.46	$34.55
CBD Total	**16,145,355**	**2,547,915**	**8.3 %**	**171,898**	**171,898**	**$35.48**	**$30.46**	**$34.55**
Airport	10,066,057	-	15.7 %	53,975	53,975	$26.70	$23.60	$25.12
Cabarrrus County	572,617	-	6.6 %	-16,686	-16,686	-	$13.00	$13.00
East Charlotte	614,509	42,250	22.9 %	8,163	8,163	$31.15	$15.99	$16.92
Iredell County	234,275	35,000	29.2 %	-1,750	-1,750	$34.00	$17.85	$28.27
Lancaster County	403,352	-	1.0 %	-	-	-	$21.00	$21.00
Matthews	606,802	-	20.5 %	-969	-969	-	$18.86	$17.46
Midtown/NoDa	511,091	648,162	3.8 %	-5,586	-5,586	$36.00	$18.00	$34.50
Midtown/Southend	1,968,128	1,462,894	6.2 %	40,274	40,274	$34.31	$31.87	$33.57
Northeast/I-77	1,518,244	-	15.4 %	-16,017	-16,017	$27.73	$24.42	$26.71
Park Road	811,204	-	17.9 %	27,226	27,226	-	$28.30	$27.30
South Charlotte	945,716	-	7.5 %	13,300	13,300	$25.83	$26.00	$25.85
South/485	5,107,529	328,000	11.3 %	183,445	183,445	$34.03	$28.74	$33.74
Southpark	4,215,714	-	9.4 %	-27,844	-27,844	$35.92	$31.06	$34.06
University	4,216,791	158,000	15.1 %	-5,522	-5,522	$24.89	$26.23	$25.72
York County	2,289,054	20,000	8.2 %	4,312	4,312	$32.50	$21.50	$22.40
Suburban Total	**34,081,083**	**2,694,306**	**12.8 %**	**256,321**	**256,321**	**$30.42**	**$24.67**	**$27.85**
Charlotte Market Total	**50,226,438**	**5,242,221**	**11.3 %**	**428,219**	**428,219**	**$32.25**	**$25.59**	**$29.77**

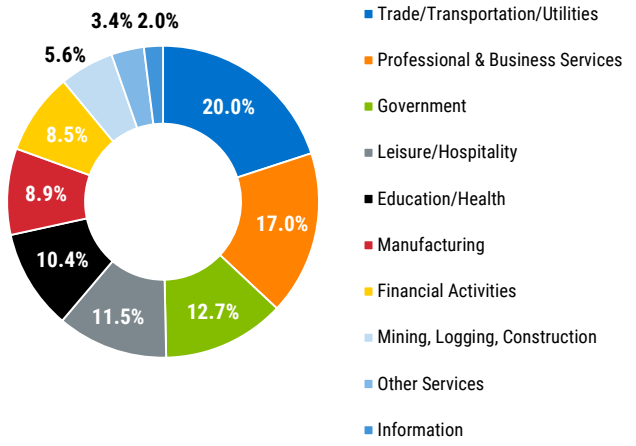
LOCAL ECONOMIC CONDITIONS

The end of the quarter was highlighted by the COVID-19 outbreak in the United States and the unfolding impacts on the region's economy. Telecommuting became more prevalent, public schools were closed and layoffs in the aviation and retail industries started to occur. Next quarter will provide the first real look at those impacts in Charlotte.

The first two months of 2020 highlighted continued growth for the region. Two of the four industries with the highest year-over-year employment growth were office-using, further supporting the expanded fundamentals. Payroll employment growth overall was 2.1% for the third consecutive month, 50 basis points higher than the national rate. The 27,000 jobs added in the 12 months leading to February 2020 will likely be the last at that level as layoffs related to COVID-19 take effect.

EMPLOYMENT BY INDUSTRY

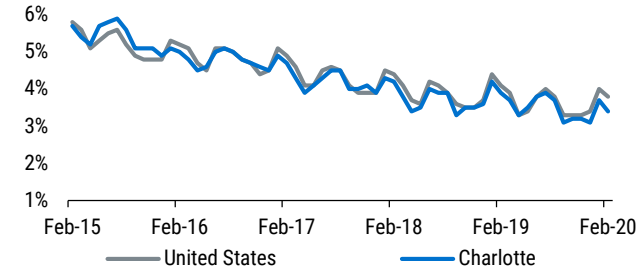
Charlotte, February 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

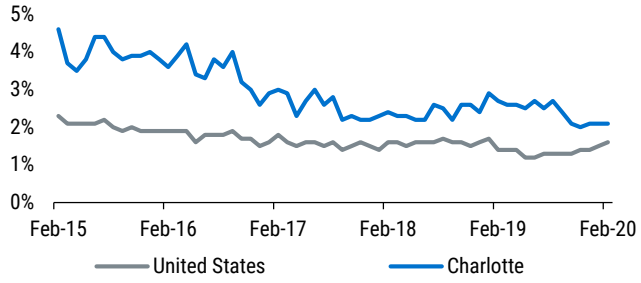
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

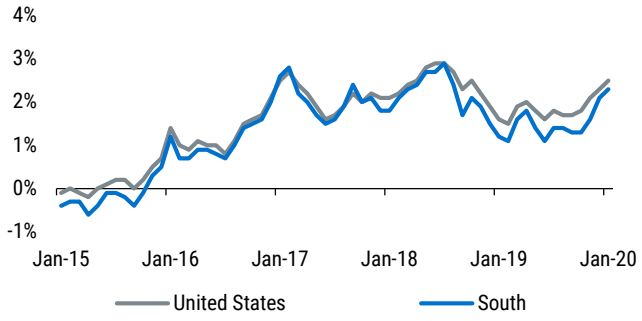
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

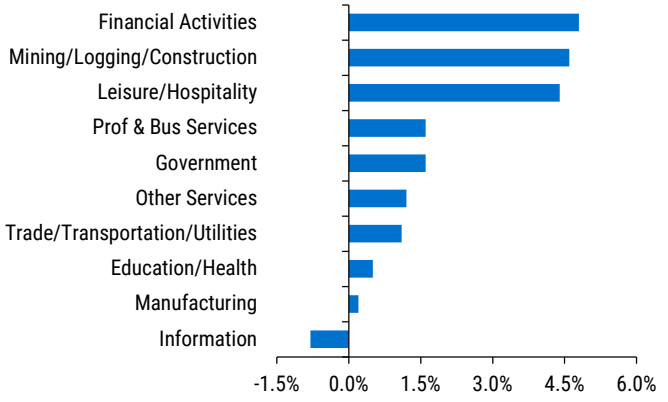
All Items, 12-Month % Change, Not Seasonally Adjusted



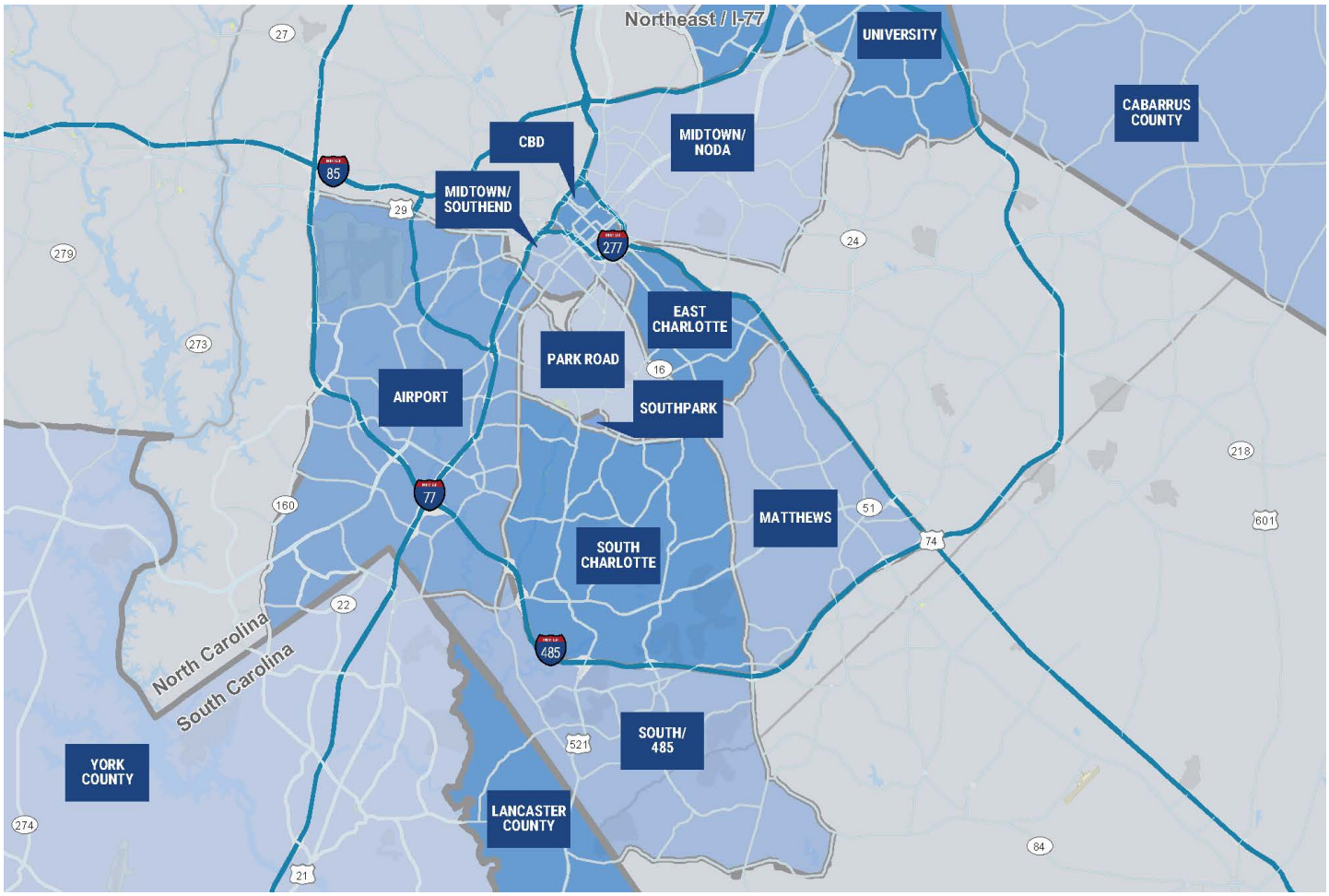
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Charlotte, Feb 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research