

Charlotte Office, Q1 2016

Despite slow start to the new year, market fundamentals remained strong

▲ Direct Vacancy
8.5%

▲ Lease Rate
\$23.07 PSF

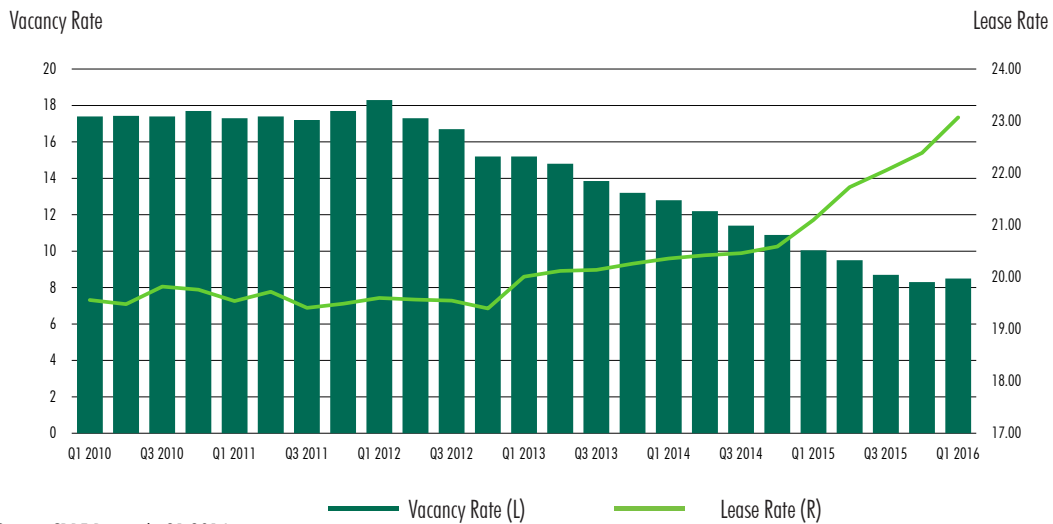
▼ Net Absorption
-48,990 SF

▶ Construction
1,307,222 SF

▼ Completions
0 SF

*Arrow indicates change from previous quarter.

Figure 1: Direct Vacancy Rate (%) vs. Average Direct Asking Lease Rate (\$/SF)



Source: CBRE Research, Q1 2016.

CHARLOTTE MARKET OVERVIEW Q1 2016

After a strong end to 2015, the Charlotte office market began the new year at a slower pace. The overall absorption rate for Q1 2016 was recorded at negative 48,990 sq. ft. Nearly all of the negatively absorbed sq. ft. can be attributed to one tenant, AT&T, vacating their building in the Central Business District (CBD). AT&T moved to a single-tenant building in the suburbs leaving more than 300,000 vacant sq. ft. behind. Despite the negative overall figure, ten out of eleven submarkets posted positive absorption during Q1 2016. The top performing submarkets were the I-77

Corridor with 67,328 sq. ft., the North submarket with over 37,000 sq. ft. and the Northeast submarket with over 24,000 sq. ft.

Total vacancy (vacancy including sublease space) is only 9.2%, indicating that there is very little sublease or “shadow” space available. Compared to 10.4% total vacancy in the same time period one year ago, this statistic indicates gradual but persistent improvement over a period of several years. Direct vacancy in the CBD, Charlotte’s largest submarket, increased slightly to 7.6%

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Figure 2: Market Statistics

Submarket	Building (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Last 4 Qtrs Net Absorption (sq. ft.)	Q1 Net Absorption (sq. ft.)	Weighted Avg Rent (\$/SF/YR)	Under Construction (sq. ft.)
CBD	15,997,421	7.6	8.9	-34,901	-228,545	27.49	1,019,722
Midtown	1,847,848	1.5	1.6	96,157	7,962	25.29	0
Cotswold	224,611	6.2	6.2	11,913	5,243	17.70	0
SouthPark	4,241,998	7.8	8.4	245,141	2,833	27.97	0
Park Road	625,184	6.5	6.5	68,954	4,700	17.72	0
I-77 Corridor	6,593,695	12.3	12.8	230,828	67,238	19.28	0
East	1,044,688	9.3	10.9	31,717	5,696	14.62	0
51 Perimeter	4,692,425	7.2	7.3	89,727	19,828	23.77	287,500
Crownpoint	508,896	26.1	26.1	17,383	4,849	14.66	0
Northeast	3,397,252	7.4	8.1	97,027	24,019	19.08	0
North	1,237,559	12.8	12.9	64,194	37,187	20.89	0
Market Total	40,411,577	8.5	9.2	918,140	-48,990	23.07	1,307,222

Source: CBRE Research, Q1 2016.

CBD by Class

Class A	13,719,233	7.2	8.6	-35,113	-226,006	28.67	1,019,722
Class B	2,036,511	10.2	10.7	212	-2,539	23.46	0
Class C	241,677	9.4	9.4	0	0	20.37	0

Source: CBRE Research, Q1 2016.

from last quarter’s figure of 6.2%. Despite the slight uptick in the vacancy rate, 7.6% still represents a very healthy market and the newly available space provides additional incoming relocation opportunities for new tenants.

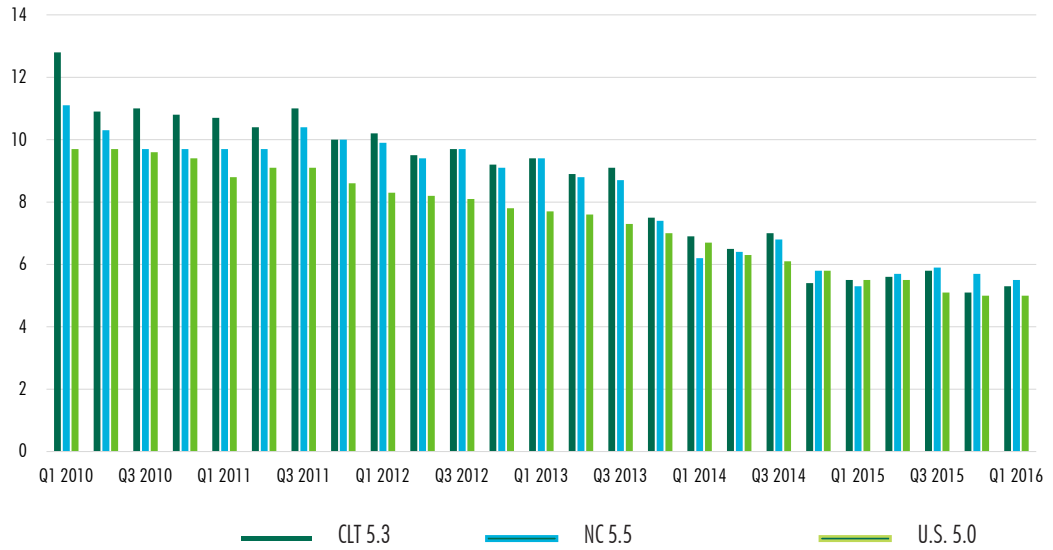
Weighted average asking rental rates were significantly higher in the first quarter, but more importantly, actual lease comps are showing an equal increase as expiring/expanding tenants and new entries to the market are faced with today’s rental terms. This was the fourteenth consecutive quarter that rental rates have increased in the Charlotte office market. Overall rates increased 3% to \$23.07 per rentable sq. ft. compared to \$22.39 at the end of Q4 2015. Year-over-year, overall rates have increased by 9.3%. Rental rates in the CBD experienced similar growth, increasing 9.2% year-over-year and 4.4% from Q4 2015 to Q1 2016. The market will likely continue to see gradual rate

increases throughout the remainder of 2016.

Construction activity remains strong and steady. There are currently three new office buildings under construction in the Charlotte market totaling over 1.3 million sq. ft. Two buildings in the CBD, and one in Ballantyne Corporate Park in the 51-Perimeter submarket. All three are scheduled to deliver between late 2016 and early 2017. The second phase of Capitol Towers in SouthPark was just finishing up site work at the end of the quarter and should be under construction in the 2nd quarter. Multiple buildings are proposed and planned in Charlotte, most needing significant preleasing to come out of the ground and 1000 South Tryon Street, a 14-story 300,000 sq. ft. office building planned for the Midtown submarket has been withdrawn. With the high cost of land and construction in all of these submarkets,

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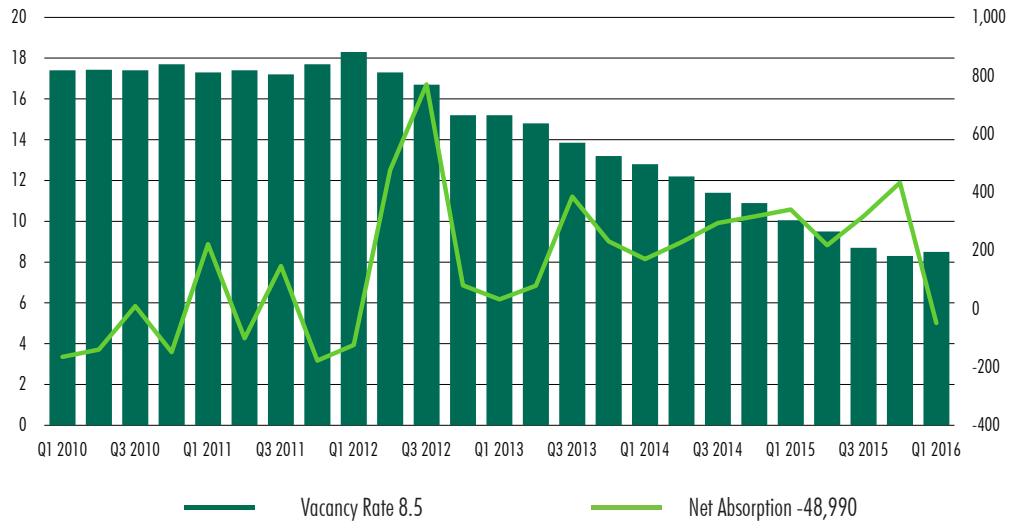
Figure 3: Unemployment Rate (%)



Source: CBRE Research, Q1 2016.

The Charlotte unemployment rate experienced a slight uptick, finishing Q1 2016 at 5.3%. This is an increase of 20 bps from Q4 2015. North Carolina’s overall unemployment rate experienced a decrease from Q4 2015 to Q1 2016, dropping 20 bps from 5.7% to 5.5%. The Charlotte metro area and North Carolina continue to lag behind the overall national unemployment rate, which stayed flat and was recorded at 5.0%.

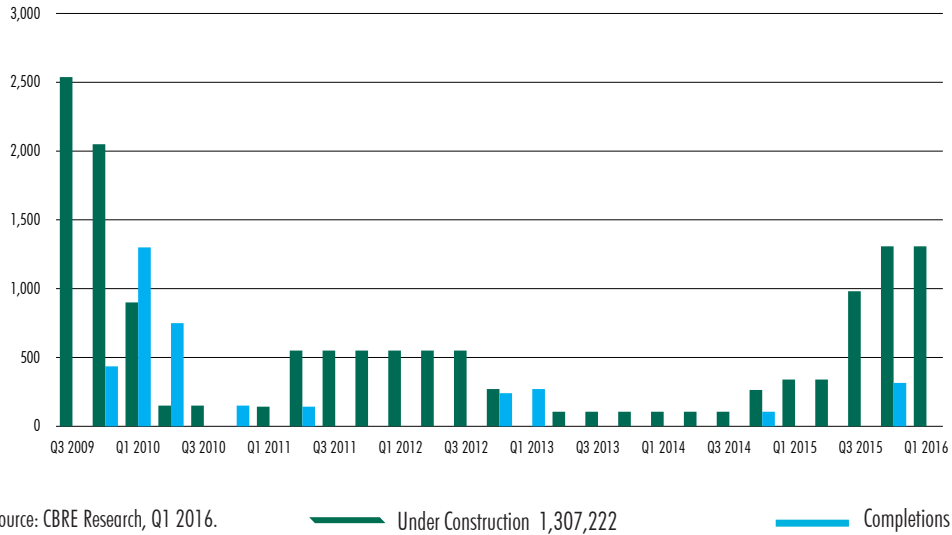
Figure 4: Direct Vacancy Rate (%) vs. Net Absorption (SF)



Source: CBRE Research, Q1 2016.

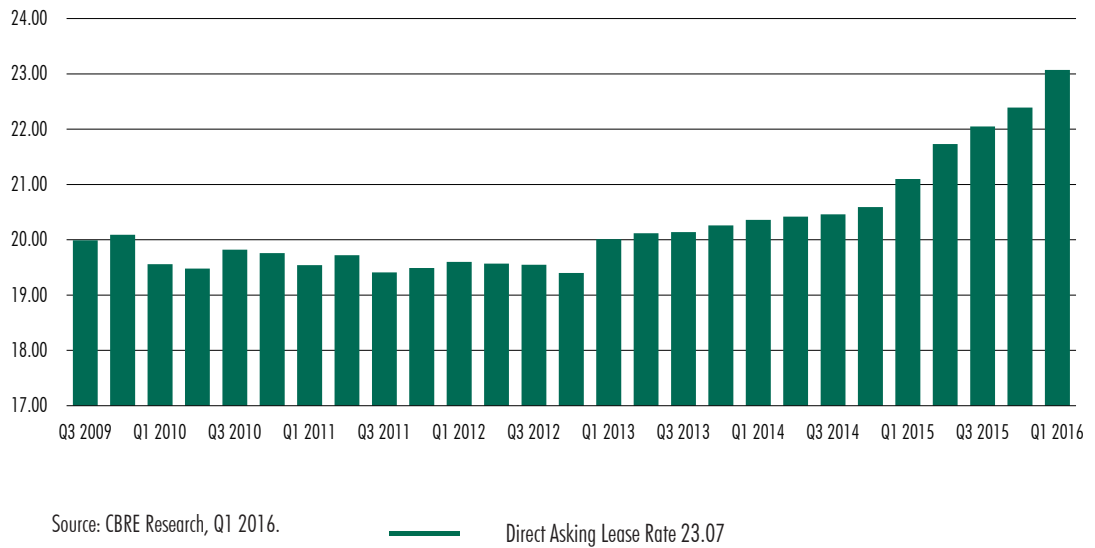
Direct vacancy in the Charlotte office market experienced a slight uptick from 8.3% to 8.5%. Direct vacancy in the CBD increased slightly to 7.2% from last quarter’s figure of 6.2%. The overall absorption rate for Q1 2016 was recorded at negative 48,990 sq. ft. Nearly all of the negatively absorbed sq. ft. can be attributed to one tenant, AT&T, vacating their building in the CBD. AT&T moved to a single tenant building in the suburbs leaving more than 300,000 vacant sq. ft. behind. Despite the negative overall figure, ten of eleven submarkets posted positive absorption during Q1 2016.

Figure 5: Construction Activity (MSF)



Construction activity in the Charlotte market remains strong and steady. There are currently three new office buildings under construction in the Charlotte market totaling over 1.3 million sq. ft. Two buildings in the CBD, and one in Ballantyne Corporate Park in the 51-Perimeter submarket. All three are scheduled to deliver between late 2016 and early 2017. Multiple buildings are proposed and planned in Charlotte, most needing significant preleasing to come out of the ground.

Figure 6: Direct Asking Lease Rate (\$/SF)



For the fourteenth consecutive quarter, overall full service asking rates (weighted average) in Charlotte have increased. Rates increased to \$23.07 per rentable sq. ft. vs. \$22.39 per sq. ft. at the end of Q4 2015, the highest market rent since Q1 2009. Average rental rates in the CBD climbed to \$27.49, up from \$26.33. Full service rental rates in the suburbs closed the quarter at \$21.05. The market will likely continue to see gradual rate increases throughout the remainder of 2016.

