

FIGURES | CHARLOTTE OFFICE | Q4 2022

Annual net absorption finishes in the positives despite rocky close to the year

▲ 20.3%

Vacancy Rate

▼ (231k)

SF Net Absorption

▲ \$32.81

FSG / Lease Rate

▲ \$35.29

Class A FSG / Lease Rate

▼ 2.6M

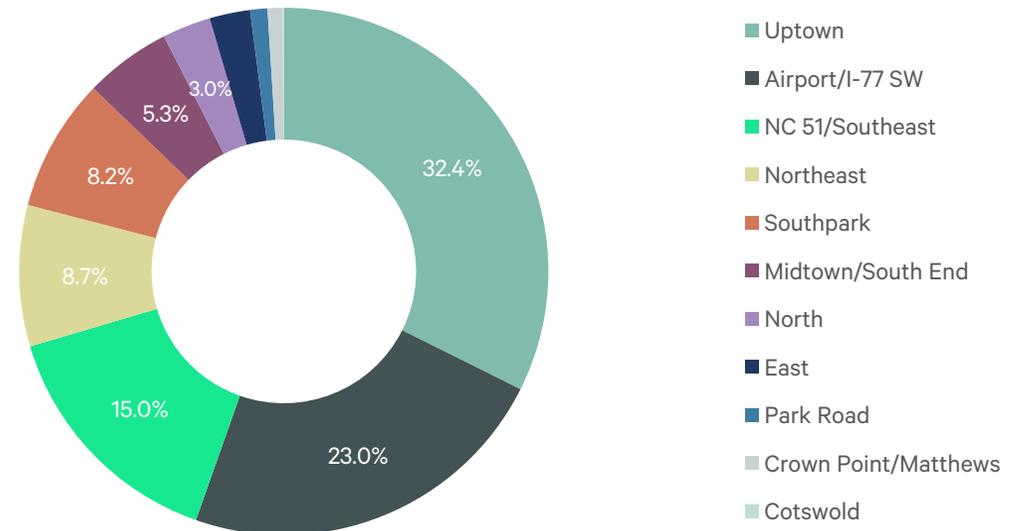
SF Under Construction

Note: Arrows indicate change from previous quarter.

MARKET SUMMARY

- Over 231,000 sq. ft. of negative net absorption was posted during Q4 2022, bringing the annual 2022 figure to 138,000 sq. ft. The Midtown/South End submarket showed resilience as one of the only submarkets to post positive quarterly activity.
- Overall average asking rents grew slightly quarter-over-quarter to \$32.81/per sq. ft. FSG. Midtown/South End continued to command the highest rates, where Class A average asking rents approached \$45.00/per sq. ft., highlighting flight-to-quality as a continued trend.
- Leasing activity slowed, with nearly 513,000 sq. ft. of volume transacted during the fourth quarter. This brings the annual 2022 volume to 3.6 million sq. ft., an encouraging figure in the face of rising vacancy.
- The development pipeline remained elevated, with just over 2.6 million sq. ft. of office space underway at the end of the year. Of the total, only 10.4% was pre-leased. Four projects delivered this quarter totaling 1.3 million sq. ft, with 84.4% of the space pre-leased.
- Despite relatively reduced investment sales activity in Q4 2022, annual sales volume reached over \$1.3 billion, which nearly mirrors the rolling ten-year average.

FIGURE 1: Submarket Availability by Sq. Ft.



Source: CBRE Research Q4 2022

Vacancy

Vacancy in metro Charlotte remained elevated as the market continued to adapt to occupier uncertainty. The total vacancy rate climbed to 20.3% in Q4 2022, 370 bps higher than the figure recorded at year-end 2021. This increase was largely driven by Duke Energy’s delayed occupancy of their newly delivered 1-million-sq.-ft. tower in Uptown. This space is expected to be fully occupied during the first quarter of 2023, which should contribute to a certain degree of vacancy stabilization. Vacancy rates are expected to remain elevated on a relative scale until return-to-work strategies are clarified and tenants occupy their committed spaces. This will be especially true in lower-class product. Nevertheless, reassuring signs of future vacancy compression have started to show with sustained leasing activity and absorption.

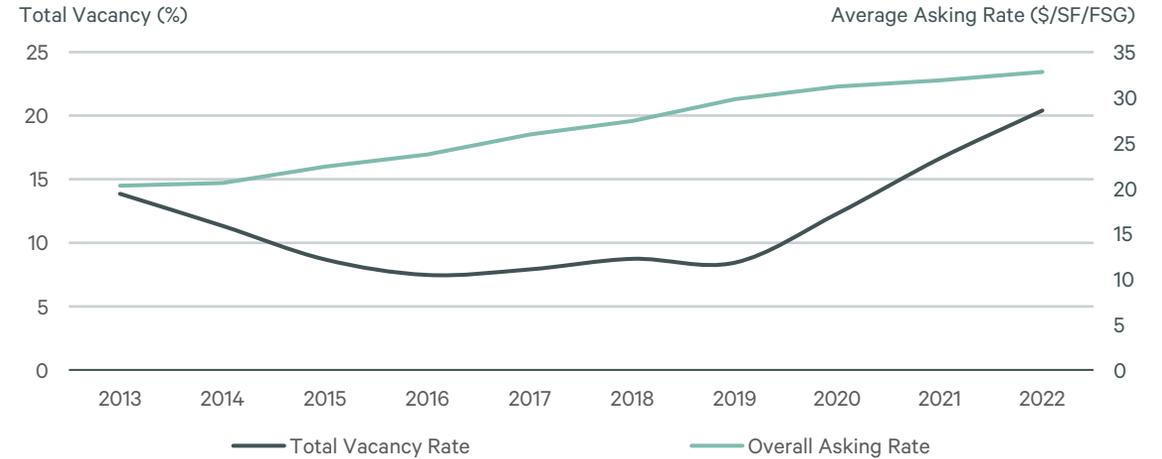
Consistently a bright spot in the Charlotte office market, the Midtown/South End submarket held on to one of the lowest vacancy rates in the metro area in Q4 2022 at 15.3%, a 465-bps decline year-over-year. In contrast, one of the most notable increases occurred in the University submarket, where vacancy climbed from 17.9% in Q4 2021 to 28.4% this quarter. South End has been the beneficiary of the flight-to-quality trend, as the migration into highly amenitized space continues to draw existing and new-to-market users to Charlotte’s most lively submarket.

Net Absorption

Over 231,000 sq. ft. of negative net absorption was posted in Q4 2022, keeping the annual total positive at 138,000 sq. ft. Despite a disappointing fourth quarter, there are optimistic signs to be drawn from a year of positive absorption in the current climate.

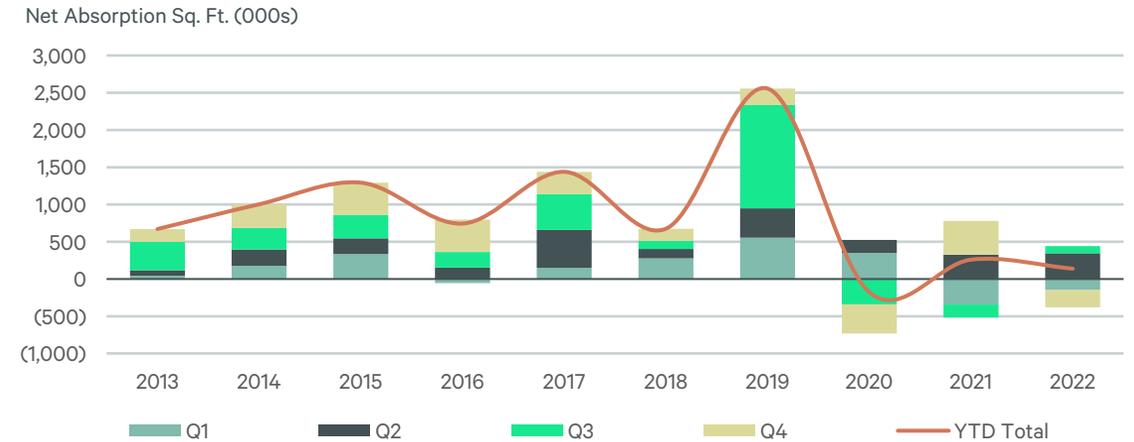
Truist vacating a combined 240,000 sq. ft. at LakePointe Corporate Center marked the most impactful move-out this quarter, but there were several notable move-ins in Q4 2022. Mayer Brown Rowe occupied their 54,000 sq. ft. space at 300 S Tryon St, CBRE moved into 24,000 sq. ft. at Vantage South End, and T-Mobile occupied 21,000 sq. ft. at 2801 Yorkmount Rd. Top notch, move-in-ready space remains a top priority for occupiers. However, increasing construction costs and supply constraints for materials and labor have continued to delay tenant build-outs, thus prolonging occupancy dates for tenants.

FIGURE 2: Total Vacancy and Lease Rate



Source: CBRE Research Q4 2022

FIGURE 3: Historical Net Absorption



Source: CBRE Research Q4 2022

Sublease Availability

Sublease availability in metro Charlotte has increased steadily each quarter since Q1 2020. Behind the Airport submarket, the Uptown submarket has emerged as a hotbed for sublease activity. Between the two, more than half of the sublease availability in metro Charlotte can be accounted for. With only a handful of currently available sublease spaces listed before March 2020, almost 100% of Charlotte’s current sublease inventory has become available since the onset of COVID-19.

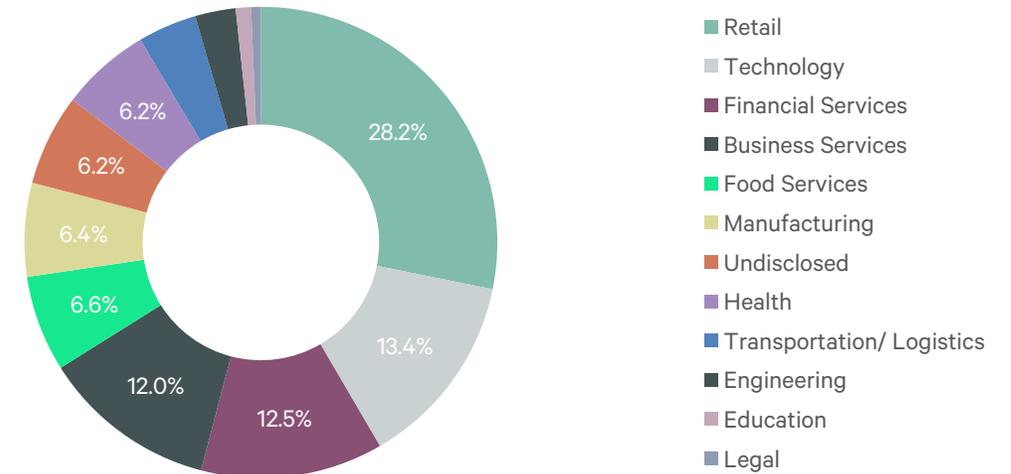
Charlotte is beginning to see a second wave of sublease spaces hitting the market after overall volume reached its peak during the height of the pandemic. With spaces like Belk’s 474,000-sq.-ft. sublease still on the market, as well as CompuCom’s 151,503-sq.-ft. space and Lowes’ 150,367-sq.-ft. space, rising sublease availability will be a story to keep an eye on in coming quarters.

Average Asking Lease Rates

Overall average asking rates recorded minimal change from last quarter, reaching \$32.81 per sq. ft. FSG in Q4 2022. Although there wasn’t much movement over the past three months, overall average rates grew 2.7% year-over-year. The Midtown/South End submarket continued to command the highest rates in the Charlotte metro area, where Class A average asking rents reached nearly \$45.00/per sq. ft., highlighting tenants’ continued preference towards newer, amenity-rich spaces. Class A average asking rates in South Park remain north of \$40.00 per sq. ft. as well, supporting the quarterly climb in overall average Class A rates to \$35.29 per sq. ft.

A clear difference has emerged between Uptown, the largest submarket in Charlotte, and Midtown/South End, the fastest growing submarket in Charlotte, emphasizing a shift in the local office market that has taken place over the past several years. While average asking rates in Uptown rose slightly from Q3 2022 to \$36.21 per sq. ft., the rate recorded this quarter remains unchanged from the figure posted this time last year. On the other hand, Midtown/South End has shown continual rent growth over the same period, climbing 8.9% year-over-year to \$43.86 per sq. ft. Though leasing activity is relatively healthy in both submarkets, landlords in Uptown are starting to concede a bit on rates for second-generation spaces.

FIGURE 4: Sublease Industry Composition



Source: CBRE Research Q4 2022

FIGURE 5: Average Asking Lease Rates



Source: CBRE Research Q4 2022

Development Activity

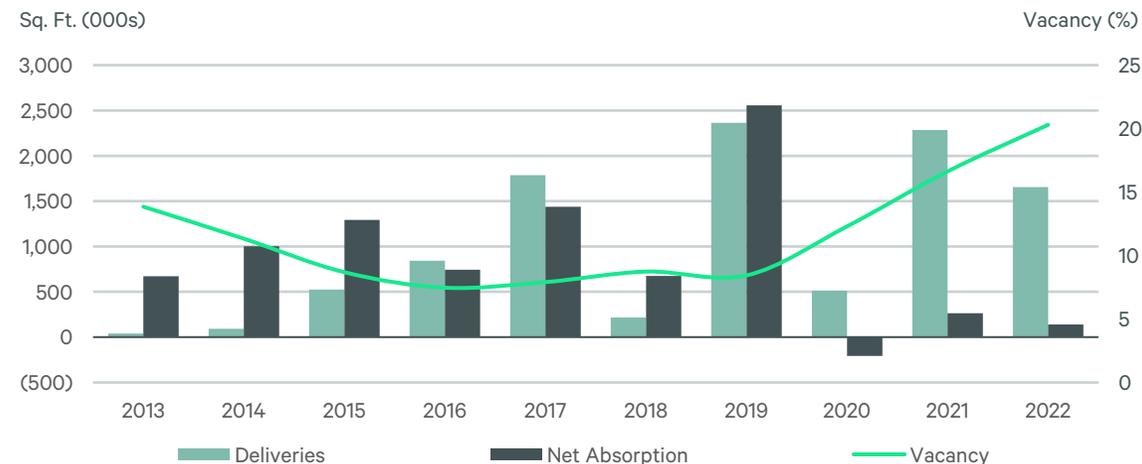
The office development pipeline remained elevated with just over 2.6 million sq. ft. under construction at the end of Q4 2022, 273,000 sq. ft. of which is currently preleased (10.4%). Although no notable new projects broke ground this quarter, several sizable properties are slated to break ground in the coming months, further backing the confidence in the Charlotte office market. The largest speculative project currently underway is Legacy Union Phase IV, a 411,000-sq.-ft. building in the Uptown submarket. The project is scheduled to deliver in 2024 and is already over 25.0% preleased. Midtown/South End is home to a number of significant projects under construction as well. East West Station, 2825 South, LoSo Station and The Quarter South End are all underway in the vibrant submarket, totaling nearly 760,000 sq. ft.

Following just one office delivery in Q3 2022, four projects delivered this quarter – most notably the 1-million-sq.-ft. Duke Energy Tower in the Uptown submarket. Of the 2.6 million sq. ft. currently under construction, 1.6 million sq. ft., or 65.0%, is currently scheduled to deliver in the next six months. With spec office development being a key topic of conversation in recent quarters, preleasing figures will be something to keep an eye on as projects near completion. The current economic climate will likely limit spec office development in 2023, which will give the market an opportunity to absorb existing supply. Office vacancy rates could continue to compress with sustained leasing activity in brand new, Class A space, and with numerous lease expirations on the horizon, flight-to-quality is expected to amplify in Uptown and beyond.

Leasing Activity

Office leasing activity in Q4 2022 fell by more than 50.0% compared to last quarter’s figure. In total, 513,000 sq. ft. was signed during the fourth quarter, bringing the annual total to nearly 3.6 million sq. ft. As numerous speculative office projects are slated to deliver over the next two years, vacancy stabilization will lean on accelerated leasing activity. Significant lease transactions executed this quarter include Columbus McKinnon inking a 55,000-sq.-ft. lease at the SPX Building in the I-485 South submarket, UBS Financial Services renewing their 19,000-sq.-ft. space at South Park Towers, and M/I Homes of Charlotte renewing for roughly 16,000 sq. ft. at thExchange in the Airport/I-77 SW submarket.

FIGURE 6: Deliveries, Net Absorption & Vacancy



Source: CBRE Research Q4 2022

FIGURE 7: Notable Projects Under Construction

Property Name	Submarket	Property Size (SF)	Preleased (SF)	Spec/BTS	Est. Completion
2405 Governor Hunt Rd	Northeast	770,000	-	BTS	Q1 2023
Legacy Union - Phase IV	Uptown	410,880	103,915	Spec	Q3 2023
East West Station	Midtown/South End	360,382	-	Spec	Q1 2024
Savona Mill	North	200,000	-	Spec	Q2 2023
Commonwealth	Northeast	150,000	14,843	Spec	Q1 2023

Source: CBRE Research Q4 2022

Investment Trends

Investment sales activity pushed on as the Charlotte office market recorded a total sales volume of \$121.1 million (average price per sq. ft. of \$200.43) across three transactions in Q4 2022. While this marks a 49.9% decrease compared to last quarter’s volume, the fourth quarter’s total brings annual sales volume to over \$1.3 billion, which is right on par with the average annual volume over the past ten years. After spiking in 2021, the overall price per sq. ft. for 2022 more accurately reflected the steady annual increase since 2013. Investment sales activity is expected to remain slow throughout the start of the new year due to recent interest rate hikes and general investor uncertainty.

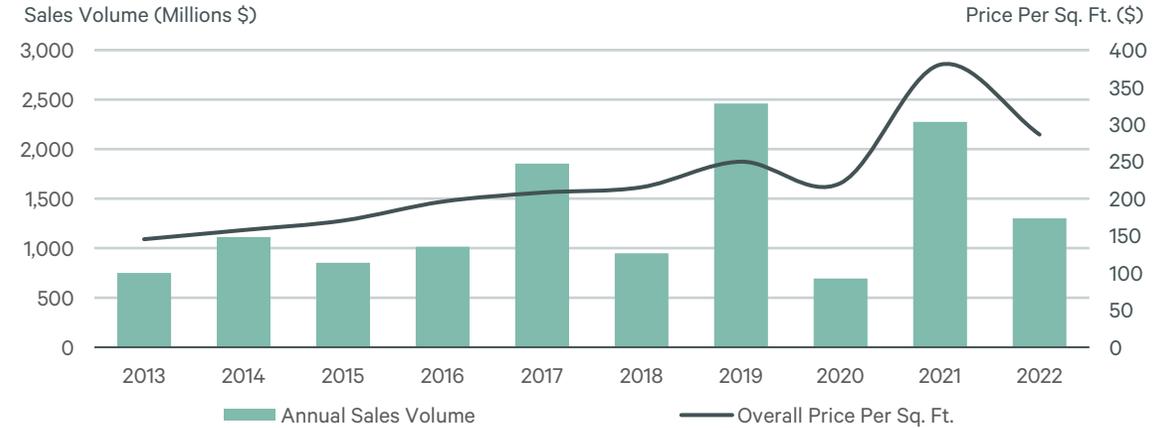
The most notable sales this quarter based on price included: 6800 Solectron Dr in the Northeast submarket which sold for \$70.3 million (\$165.33 per sq. ft.) to Albemarle US Inc, and the two-building Carnegie/Roxborough portfolio in the South Park submarket which traded for \$50.9 million (\$283.69 per sq. ft.).

Employment

Consistent with last quarter, economic conditions have changed considerably from just a few months ago. Despite showing signs of heading in the right direction, persistently high inflation has greatly impacted current conditions. The Federal Reserve’s continual interest rate hikes have put pressure on all aspects of the economy. Despite falling for several months, the U.S. remains vulnerable to volatile gasoline prices which directly impact consumption. Meanwhile, consumer sentiment has declined to levels reminiscent of periods of economic stress, suggesting consumers are concerned in spite of a tight labor market and wage growth.

Charlotte’s unemployment rate continued to outperform the national average, reaching 3.5% as of November 2022, 20 basis points lower than the U.S. unemployment rate during the same time period. According to the Bureau of Labor Statistics, total nonfarm employment in Charlotte is up by 85,200, or 6.8%, from its pre-pandemic level in February 2020, and up 5.3% compared to November 2021. Employment in the financial activities sector continued to grow, up 6.7% compared to this time last year.

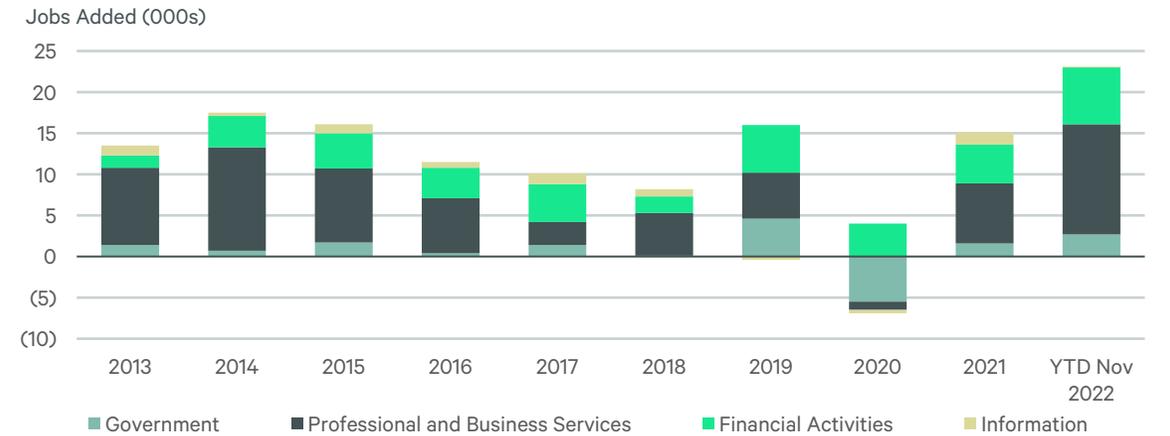
FIGURE 8: Investment Sales



Note: Tracked sales volume consists of transactions \$5m and greater

Source: CBRE Research Q4 2022

FIGURE 9: Office-Using Employment Growth



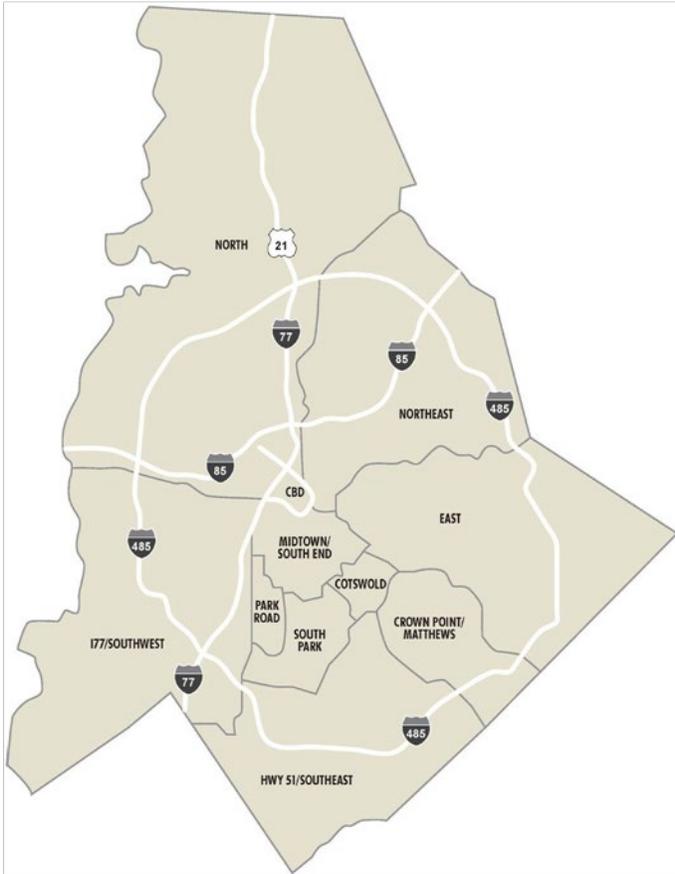
Source: U.S. Bureau of Labor Statistics, Nov 2022

FIGURE 10: Market Statistics by Submarket

Submarket	NRA (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Under Construction (SF)	Average Lease Rate (\$/SF/YR FSG)	Q4 2022 Net Absorption (SF)	2022 Annual Net Absorption (SF)
Cotswold	154,198	1.9	1.9	-	32.00	-	(2,928)
Crown Point/Matthews	623,008	13.6	13.6	-	19.47	(34,563)	1,055
Uptown	21,013,862	19.5	24.4	410,880	36.21	(10,852)	(316,644)
East	826,137	20.3	28.7	-	17.51	(3,932)	31,263
Airport/I-77 SW	7,330,054	20.1	30.5	-	25.91	(132,977)	(16,143)
Midtown/South End	4,423,053	15.3	16.9	759,895	43.86	52,589	602,188
NC 51/Southeast	5,684,177	24.2	25.4	-	34.82	(119,431)	(165,761)
North	1,221,384	22.5	31.0	287,000	28.52	22,604	(38,152)
Northeast	4,515,605	28.4	38.1	1,180,288	27.63	41,332	122,138
Park Road	535,917	19.9	27.0	-	34.86	11,700	(30,541)
South Park	4,333,936	17.5	20.9	-	35.54	(57,813)	(48,150)
METRO TOTAL	50,661,331	20.3	25.7	2,638,063	32.81	(231,343)	138,325

Source: CBRE Research Q4 2022

Market Area Overview



CBRE Offices

South End Charlotte

1120 S Tryon St, Suite 200
Charlotte, NC 28203

Survey Criteria

Includes all office buildings 20,000 sq. ft. and greater in size, excluding owner-user, in Mecklenburg county. Buildings which have begun construction as evidenced by site excavation or foundation work.

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