

CHARLOTTE | OFFICE

Q2 2018

Historical Rental Rates Are On The Horizon

Key Takeaways

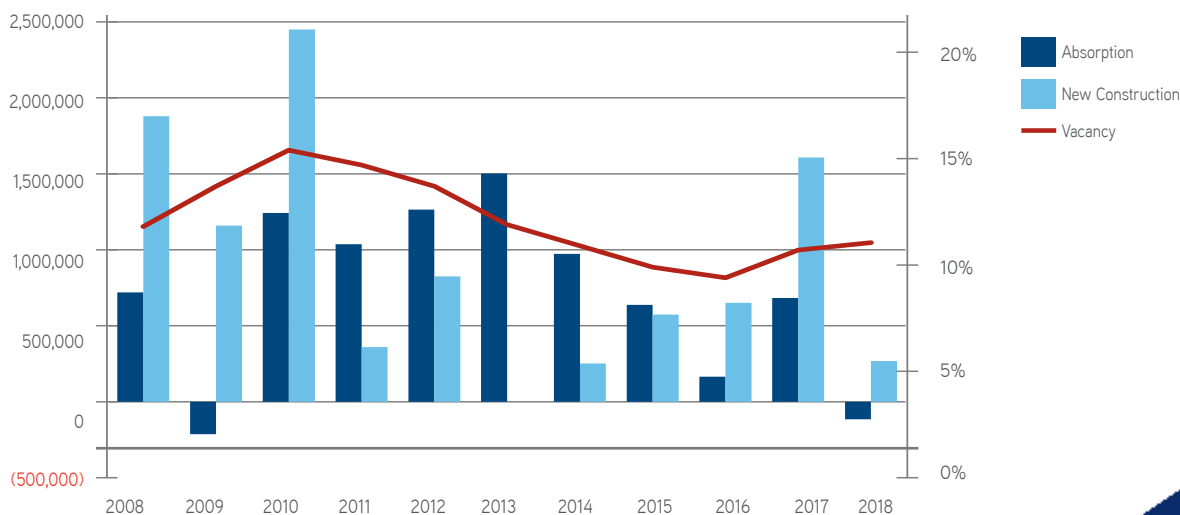
- Rental rates show no sign of slowing down as marquee CBD towers should reach \$40 per square foot in the not so distant future. This would be the first time Charlotte has reached this milestone.
- Absorption dipped in the red in Q2 2018 due to new deliveries and several tenants moving out of large blocks of space. Some movement to note is Lash Group moving out of 93,000 SF at 2320 Cascade Pointe Blvd. and Little Diversified Architectural Consultants moving out of 66,787 SF at 5815 Westpark Drive.
- Development continues to stay active with a handful of speculative projects breaking ground this quarter. Notable ground breaking's include: Trinity Capital Adviors 200,000 square foot project at Toringdon 7 and Childress Klein's 154,000 square foot project, The Nexus, which is the second phase of their office development in Waverly.
- Charlotte saw a record breaking office sale in the Q2 2018. 615 S. College Street sold for \$222 Million (\$590 per square foot) which shattered the previous record of \$308 per square foot held by the sale of Carillon Towers in 2016.

Q2 2018 Office Market Summary

Charlotte continues to stay active in both the Downtown and Suburban submarkets. Absorption fell into the negative for the short term, but it is expected to level out in the third quarter 2018. Although some large blocks were vacated, the second quarter saw some large lease signings as well. Albemarle Corp expanded into 141,500 square feet at Capitol Towers and Bank of America renewed/expanded in Fifth Third Center for a total of 318,000 square feet.

Vacancy will likely dip in the latter part of the year as new developments begins to deliver. There is currently around 3.3 million square feet under construction with the bulk of these deliveries occurring mid-2019. Some developments that will affect 2018 vacancy rates are TPA Group's 120,000 square foot "The Edison Arrowood" project, Insite Properties 108,000 square foot "The Refinery" and the 63,000 square foot 300 W. Summit development by STILES. All three of these are expected to deliver by year end, likely driving vacancy up in the near term, as the market expectation is that these developments will lease up quickly.

Regional Absorption & Vacancy Rates



Market Indicators

Relative to prior period	Charlotte Q2 2018	Charlotte Q3 2018*
VACANCY	↑	↔
NET ABSORPTION	↓	↑
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

Note: Construction is the change in Under Construction.
*Projected

Summary Statistics

Q2 2018 Charlotte Office Market	Overall	Class A
Vacancy Rate	11.1%	13.6%
Absorption	(115,654)	(129,335)
New Construction	267,864	210,438
Under Construction	3,274,918	3,142,529

Asking Rents

Per Square Foot Per Year

Downtown	\$32.29	\$33.43
Suburban	\$24.15	\$27.12

LEASES – Q2 2018

TENANT	PROPERTY NAME	SUBMARKET	SIZE	TYPE
Albemarle Corp.	Capitol Towers	SouthPark	141,500 SF	Lease
Charter Communications	Morehead Place	Midtown	24,698 SF	Lease
ZAPATA Inc.	One Fairview Center	SouthPark	17,213 SF	Lease Renewal
*iNetwork Auto Group	2219 Freedom Drive	Northwest	16,263 SF	Lease
American Security Mortgage	150 Providence	SouthPark	15,218 SF	Lease
Maser	5275 Parkway Plaza Blvd.	Airport	15,168 SF	Lease
SeedSpark	Quail Plaza	SouthPark	10,435 SF	Lease
*Indecomm Holdings Inc.	Regency Executive Park	Highway 51/Bal.	10,290 SF	Lease Renewal
Neteffect Technologies	Aysley in Steele Creek	Airport	10,045 SF	Lease Renewal

UNDER CONSTRUCTION



***THE EDISON AT ARROWOOD**
 Airport | 120,000 SF | Spec. Dev.
 Delivery Q3 2018

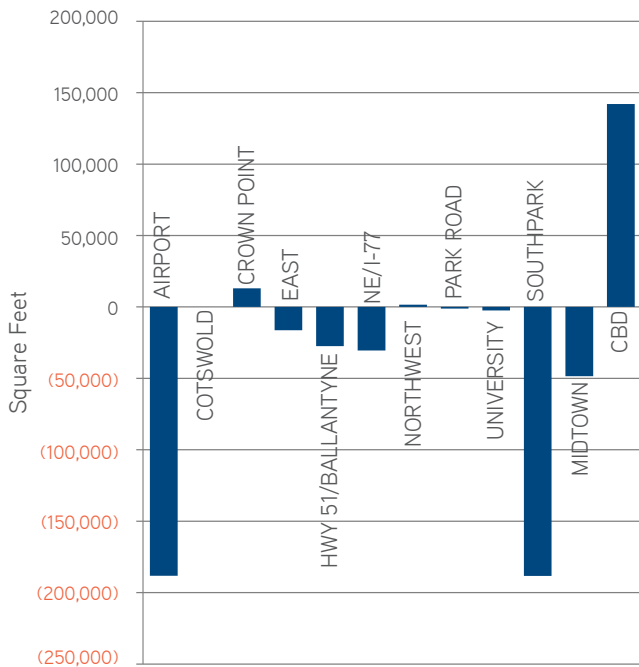


CAMP NORTH END - GAMMA GOAT
 East | 169,730 SF | Spec. Dev.
 Delivery Q1 2019

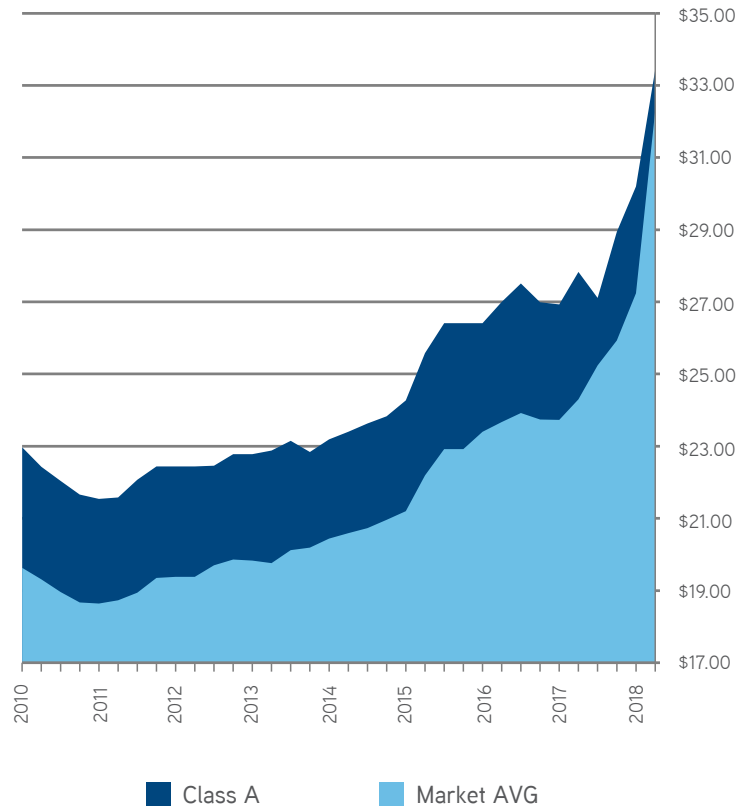


TORINGDON 7
 Hwy.51/Bal. | 200,000 SF | Spec. Dev.
 Delivery Q3 2019

2ND QUARTER 2018 | NET ABSORPTION BY SUBMARKET



2ND QUARTER 2018 | CHARLOTTE RENTAL RATES



CHARLOTTE - OFFICE MARKET

SUBMARKET	BLDGS	TOTAL INVENTORY SQ FT	TOTAL VACANT SQ FT	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	NET NEW SUPPLY CURRENT QTR SF	NET NEW SUPPLY YTD SF	UNDER CONSTRUCTION SQ FT	AVG RENTAL RATE
URBAN											
CBD	92	21,658,935	22,361,797	10.9%	11.6%	142,069	232,273	-	-	1,595,073	\$31.94
MIDTOWN	167	5,05,261	376,798	6.8%	6.0%	(48,523)	(116,473)	-	90,438	777,456	\$33.31
TOTAL	259	27,164,196	2,738,595	10.1%	10.4%	93,546	115,800	-	90,438	2,372,529	\$32.29
SUBURBAN											
AIRPORT	198	12,772,320	1,870,975	14.6%	12.9%	(188,192)	(58,886)	45,861	177,426	475,469	\$21.04
COTSWOLD	7	259,123	251	0.1%	0.1%	-	(251)	-	-	-	\$22.64
CROWNPOINT	58	1,639,385	204,778	12.5%	13.3%	13,077	1,733	-	-	-	\$18.20
EAST	44	1,971,209	233,924	11.9%	11.0%	(16,295)	(16,106)	-	-	-	\$15.75
HWY. 51/BALLANTYNE	165	8,665,818	689,912	8.0%	7.6%	(27,428)	83,266	-	-	379,000	\$30.94
NORTHEAST/I-77	96	3,302,430	307,439	9.3%	8.4%	(30,493)	(39,768)	-	-	30,000	\$22.27
NORTHWEST	24	610,414	29,311	4.8%	5.1%	1,532	7,999	-	-	17,920	\$21.94
PARK ROAD	20	965,840	100,247	10.4%	10.3%	(1,194)	(4,915)	-	-	-	\$26.13
SOUTHPARK	58	5,186,363	741,071	14.3%	14.2%	(2,404)	23,865	-	-	-	\$30.21
UNIVERSITY	64	7,428,631	816,315	10.0%	8.5%	(188,326)	(228,391)	-	-	-	\$23.02
TOTAL	734	42,801,533	4,994,223	11.7%	10.9%	(439,723)	(231,454)	45,861	177,426	902,389	\$24.15
CHARLOTTE											
TOTAL	993	69,965,729	7,732,818	11.1%	10.7%	(346,177)	(155,654)	45,861	267,864	3,274,918	\$27.24



INVESTMENT SALES - OFFICE

PROPERTY NAME	ADDRESS	TRANSACTION VALUE	RSF	PRICE PER RSF	BUYER
400 S. Tryon	400 S. Tryon Street	\$133,500,000	583,911 SF	\$229	Oaktree
Vanugard Center	5250 77 Center Drive	\$42,800,000	530,316 SF	\$81	Dilweg Companies
615 S. College	615 S. College Street	\$222,000,000	371,000 SF	\$598	CBRE Global Investors
Corporate Center One	2320 Cascade Pointe Blvd.	\$29,000,000	183,030 SF	\$159	BB&T
Corporate Center Two	2359 Perimeter Pointe Pkwy.	\$23,800,000	152,800 SF	\$156	BB&T
Vanguard Center	5501 77 Center Drive	\$2,900,000	33,600 SF	\$85	Dilweg Companies

Investment Update

Office sales activity increased significantly in both the suburbs and CBD during the second quarter 2018 compared to the previous quarter. The second quarter 2018 office sales volume exceeded \$453.3 million totaling over 1,943,549 square feet at an average price of \$250 PSF. The volume is up compared to last year to date the average cap rate is 6.6%.

One notable transaction of the second quarter 2018 include CBRE Global Investors' acquisition of 615 S. College located in the CBD submarket, for \$222 million or \$598 per square foot, which set a new price per square foot record for Charlotte's CBD submarket. Another notable transaction is Oaktree's purchase of 400 S. Tryon also located in the CBD submarket, for \$133 million or \$229 per square foot.



FOR MORE INFORMATION

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