



Charlotte Office Market

Market Enters New Year on Positive Ground

The Charlotte office market entered the new year on strong ground. Tenant movement resulted in a gain of 174,840 square feet, a vast improvement from the space that was returned to the market last quarter. Absorption was also down from the same period one year ago but still resulted in positive net absorption. Notable lease terminations include 525 N. Tryon St., where Bank of America moved out of 204,000 square feet as of October 4, 2022. On the positive side, Bank of London moved into 44,000 square feet in the same submarket, further cementing Charlotte as a new banking hub. Overall vacancy ticked upwards by 30 basis points, to 20.2%. This is up from the preceding quarter at 19.9% and relative to 18.9% one year ago. By way of segmentation, Class A office buildings in Charlotte posted an average asking rental rate in the first quarter of 2023 at \$35.13/SF, up from \$34.70/SF the preceding quarter and relative to \$33.96/SF one year ago. For Class B office buildings, average asking rental rates posted \$30.65/SF, up from \$30.17/SF the preceding quarter, and relative to \$28.00/SF one year ago.

Current Conditions

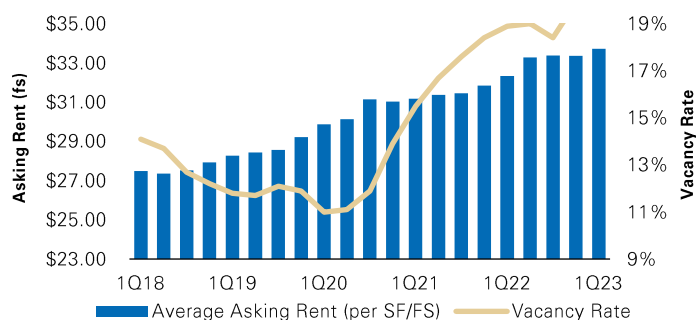
- Park Road leads in construction activity
- Asking rents rose to \$33.73/SF, a 4% increase year-over-year.
- Vacancy rates increased 30 basis points from the previous quarter and 130 basis points from one year ago.
- Leasing activity was down 26% year-over-year and Charlotte entered 2023 slightly quieter than 2022 but the positive moves in absorption still indicates the need for space.

Market Summary

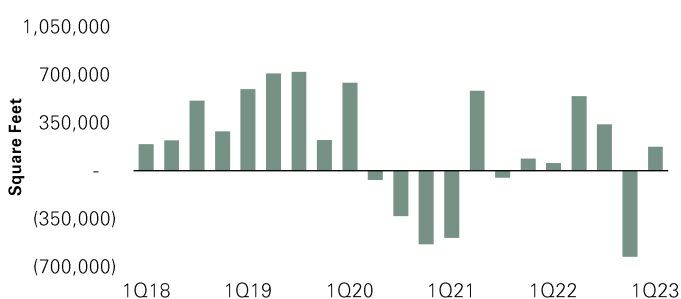
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	58.3M	56.9M	55.8M	↑
Vacancy Rate	19.6%	18.6%	18.5%	←
Quarterly Net Absorption (SF)	174,840	-627,364	55,251	←
Average Asking Rent/SF (FS)	\$33.73	\$33.37	\$32.33	↑
Under Construction (SF)	1.7M	2M	937K	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Construction Pipeline

The largest office construction project in the city is Phase IV of Legacy Union in the Central Business District submarket. It will span 411,000 square feet and is scheduled for completion in September 2024. A law firm, Robinson Bradshaw, have already leased the top three floors taking 101,000 square feet to occupy. The only deliveries to come out of the first quarter of 2023 were Buildings III and IV at The Station of LoSo in Midtown. Park Road boasts the highest amount of construction activity, with 560,000 square feet of development underway. Although construction has somewhat slowed because of economic factors, Charlotte will focus on the larger projects that will deliver within the next year.

Leasing Activity

Charlotte's leasing activity reported 1.0 million square feet in the first quarter of 2023 over 331 transactions, down from the 1.4 million square feet and 353 transactions from the same period last year. This was up from the 840,000 square feet and 278 deals from the previous quarter. Charlotte's Class A properties averaged rent rates of \$35.13/SF in the first quarter of 2022, up from \$34.70/SF the preceding quarter and up from \$33.96/SF one year ago. Class B office properties averaged rental rates of \$30.65/SF, up from \$30.17/SF the preceding quarter and relative to \$28.00/SF one year ago. Park Road boasts the highest asking rate among the various submarkets at \$40.23/SF, followed by

Midtown at \$39.84/SF. Top lease transactions for the quarter include Hartford Insurance, which will occupy the 10th and 11th floors of 1120 S. Tryon St. in the Midtown/Southend submarket. In total, it will occupy 55,667 square feet. Availability now stands at 24.3% for the city, a decrease of 30 basis points and an increase of 320 basis points from the same period one year ago. In terms of the tenant industries, 86.0% of the leases signed this quarter were in the services industry, while 10.0% is in the financial services industry. Expect vacancy and rates to continue to rise as higher-priced spaces continue to enter the market.

Market Outlook

The Charlotte office market started 2023 with slightly higher rates and a small set of deliveries. Landlords are expected to offer concession packages and favorable incentives to attract new tenants. Vacancy is expected to remain stable without major movement, thanks to the previously mentioned set of new construction coming in the next 12 months. Charlotte fares better in terms of the economy averages, with payroll employment higher than the national average and the unemployment rate lower than the national average. The city is still in a solid position to outperform any challenges that may hit the commercial industry in 2023.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Confidential	Northeast/I-77	12125 Herbert Wayne Ct	New	34,391
Hartford Insurance	Midtown/Southend	1120 S Tryon St	New	27,929
Hartford Insurance	Midtown/Southend	1120 S Tryon St	New	27,738
ColeJenest & Stone	Midtown/NoDa	1801 N Graham St	New	24,600
Experis	Midtown/Southend	2151 Hawkins St	New	23,610

Select Sale Transactions

Property	Submarket	Sale Price	Square Feet	Price/SF
4822 Albemarle Rd	Airport	\$70,290,409	51,488	\$108.76
197 Piedmont Blvd	York County	\$35,060,552	31,222	\$126.83
1514 N Graham St	Midtown/NoDa	\$35,000,000	26,211	\$137.35
1111 Hawthorne Ln	Airport	\$24,000,000	9,120	\$334.43
1009 East Blvd	Midtown/Southend	\$16,493,500	4,500	\$624.00

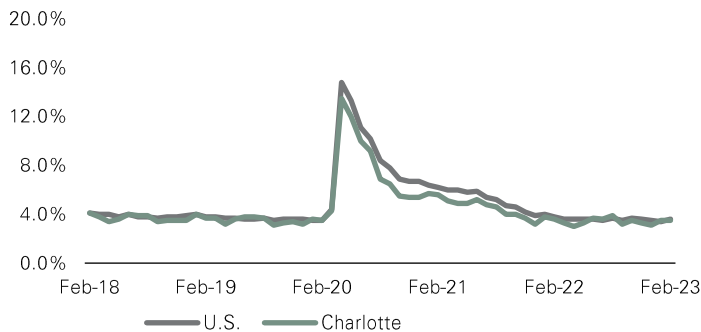
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)
CBD Total	17,816,207	504,000	19.6 %	-326,493	-326,493	\$37.89	\$32.88	\$36.96
Suburban Total	40,546,679	1,212,162	20.5 %	501,333	501,333	\$33.63	\$30.09	\$32.31
Airport	10,844,382	62,000	18.0 %	-24,146	-24,146	\$26.96	\$26.50	\$26.84
Cabarrus County	572,617	0	3.5 %	0	0	\$25.50	\$26.00	\$26.00
East Charlotte	723,441	150,000	23.3 %	20,424	20,424	\$37.00	\$17.70	\$18.01
Iredell County	54,547	0	19.0 %	0	0	0	0	0
Lancaster County	374,761	0	17.4 %	16,687	16,687	\$28.00	\$24.62	\$27.78
Matthews	523,352	0	36.4 %	0	0	\$32.74	\$25.00	\$31.69
Midtown/NoDa	816,194	0	13.6 %	-1,986	-1,986	0	\$20.81	\$19.22
Midtown/Southend	1,282,844	240,000	43.1 %	56,838	56,838	\$39.84	\$34.08	\$39.83
Northeast/I-77	44,120	0	26.1 %	-9,179	-9,179	0	0	0
Park Road	4,432,886	560,162	14.8 %	74,482	74,482	\$40.23	\$41.33	\$40.32
South Charlotte	1,632,112	0	23.8 %	-12,014	-12,014	\$29.90	\$27.48	\$29.20
South/485	50,480	200,000	65.5 %	0	0	0	0	0
Southpark	811,204	0	32.5 %	-4,121	-4,121	0	\$35.86	\$35.39
University	22,021	0	11.7 %	2,373	2,373	0	0	0
York County	966,276	0	14.9 %	-5,217	-5,217	\$28.59	\$25.60	\$27.78
Charlotte Market	58,362,886	1,716,162	20.2 %	174,840	174,840	\$35.13	\$30.65	\$33.73

Economic Conditions

Charlotte's unemployment rate started 2023 at 3.5%, unchanged from the previous month and down 10 basis points from the same month in February 2022. Charlotte's unemployment rate remains under the national average of 3.6%. Charlotte's current employment base is at 1.4 million. All industry sectors posted year-over-year employment growth in the 12 months ending in March 2023, with business-centered industries, like professional and business services increasing 3.3% and financial activities increasing 3.1% in a 12-month span. According to the Bureau of Labor Statistics, inflation eased nationally slowed in March to 5.0%, cooling off from 6.0% the previous month. Professional/business services remains the most prominent employment industry next to trade/transportation/utilities. Expect the business sector to potentially pass with more financial companies making their way to North Carolina.

Unemployment Rate

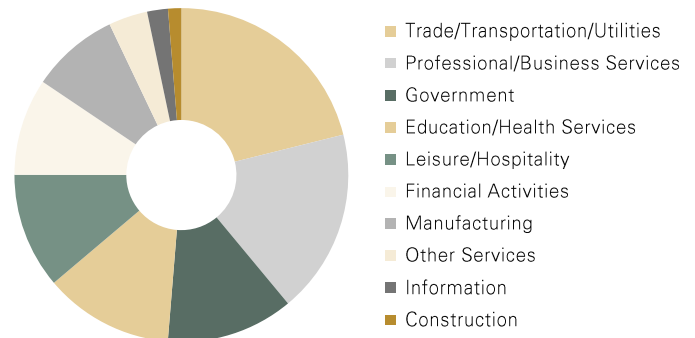
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, February 2023.

Employment by Industry

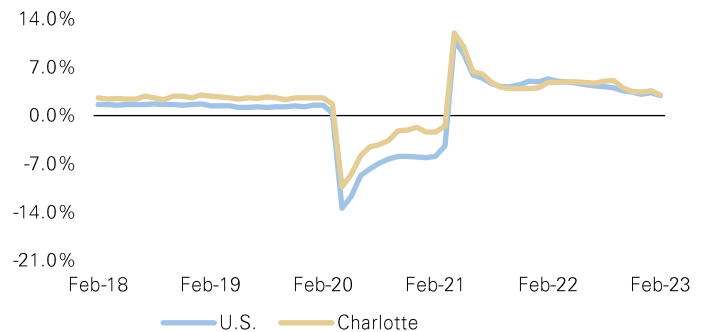
CHARLOTTE, March 2023



Source: U.S. Bureau of Labor Statistics, March 2023.

Payroll Employment

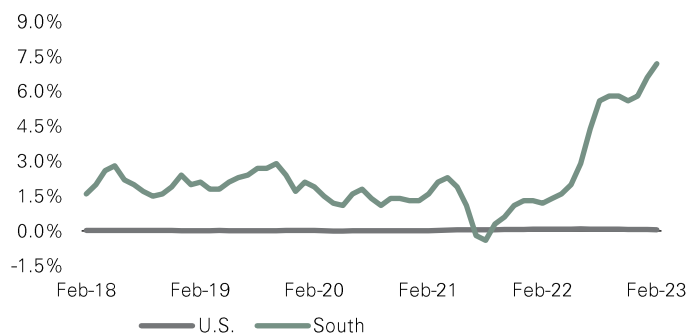
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, February 2023.

Consumer Price Index (CPI)

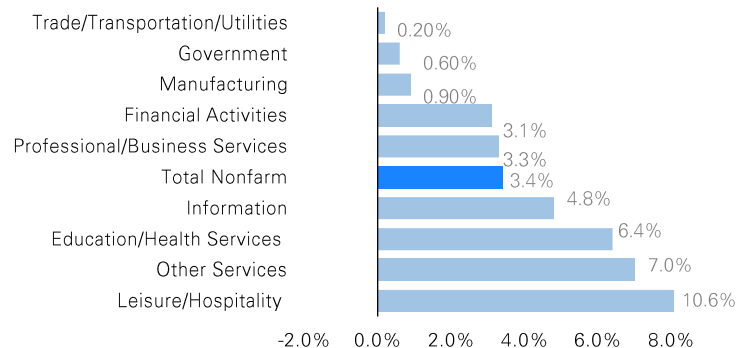
ALL ITEMS, 12-MONTH % CHANGE
NOT SEASONALLY ADJUSTED



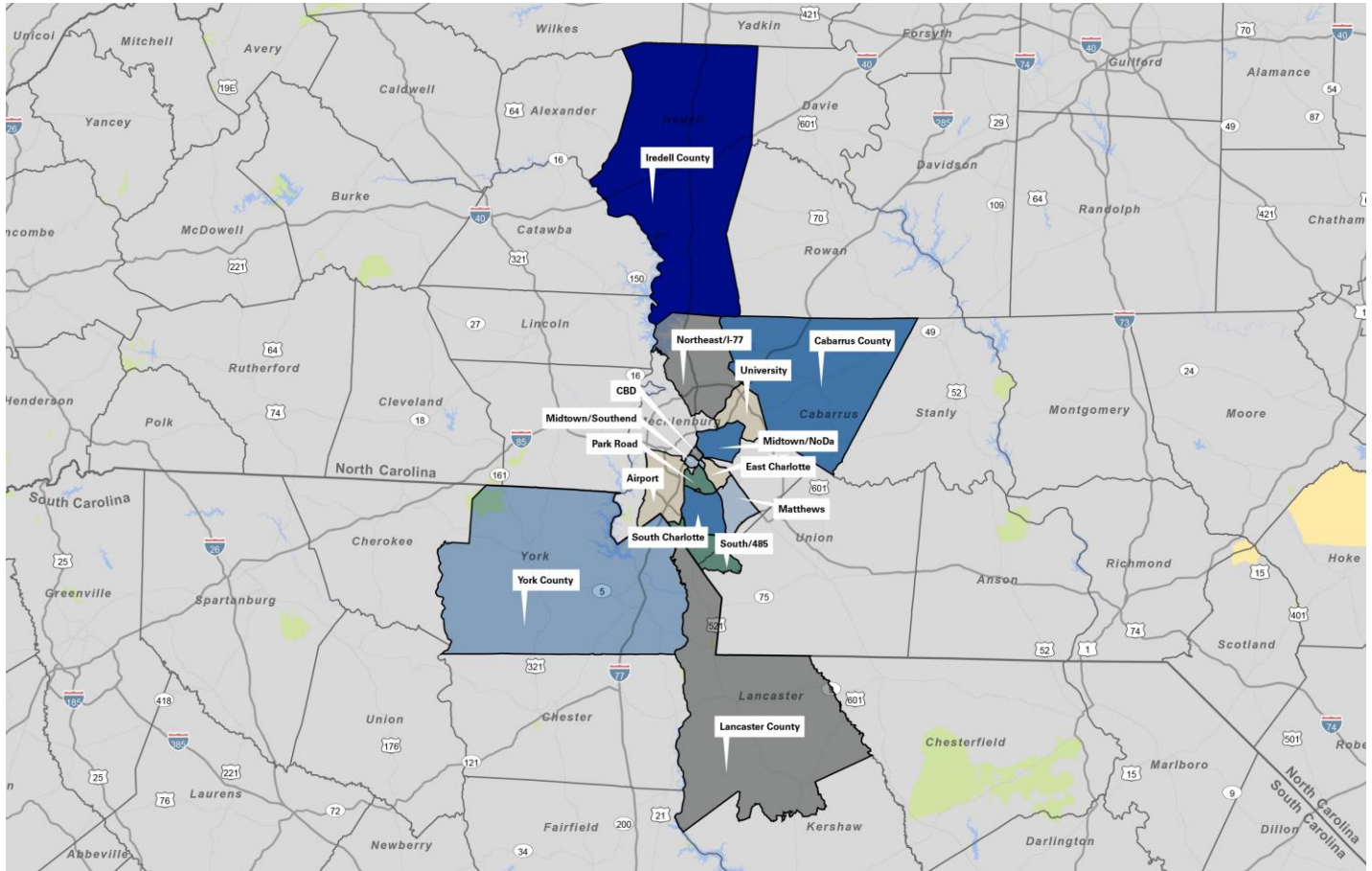
Source: U.S. Bureau of Labor Statistics, February 2023.

Employment Growth by Industry

CHARLOTTE, March 2023, 12-MONTH % CHANGE
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2023.



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