

1Q24

Charlotte Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate declined by six basis points year over year to 3.3%, remaining below the five-year average of 4.4%.
- When compared to February 2023, employment growth declined by 133 basis points to 1.9%.
- Most sectors reported employment growth, with government leading job gains at 5.3% over the past 12 months.
- Office-using jobs in the market jumped to a record high of 379,720 as of the end of February 2024, reflecting 10.1% growth since 2019.

Major Transactions

- The largest lease signed for the first quarter of 2024 was Truist Insurance Holdings’s 69,271-SF sublease at 550 South.
- In keeping with Charlotte’s reputation as a financial services hub, two of the first quarter’s largest leases were signed by financial services companies Truist Insurance Holdings and Asana Partners.
- Most of the largest transactions were direct new leases as office users looked to take advantage of market conditions to downsize into smaller, better amenitized spaces.

Leasing Market Fundamentals

- Annual full-service class rental rates remain elevated at \$33.64/SF, a 0.8% increase year over year.
- Occupancy declined, causing overall vacancy rates to increase by 170 basis points year over year, to 25.3%.
- The under-construction pipeline continued to decline from the recent peak of 2.0 MSF recorded in the third quarter of 2022 and ended the first quarter of 2024 at 1.0 MSF currently in progress.
- Total leasing activity closed the quarter at 901,680 SF, below the 16-year fourth-quarter average of 1.0 MSF.

Outlook

- The Charlotte office market will likely see continued slower growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The increasing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly with continued muted demand. As a result, overall asking rents are projected to show lower growth or stay flat.
- Vacancy is expected to increase as the construction pipeline, which currently accounts for 1.8% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals

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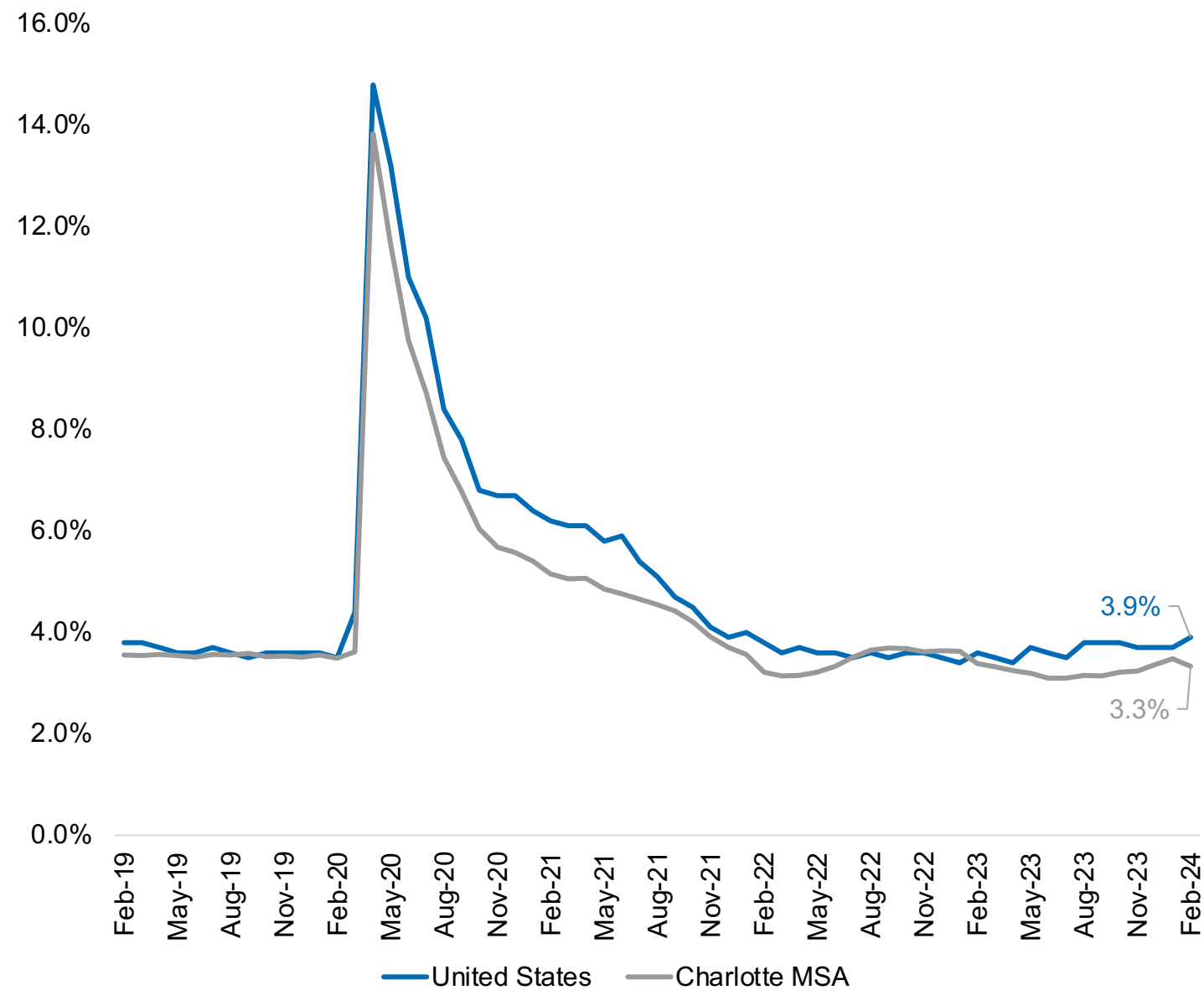
Economy



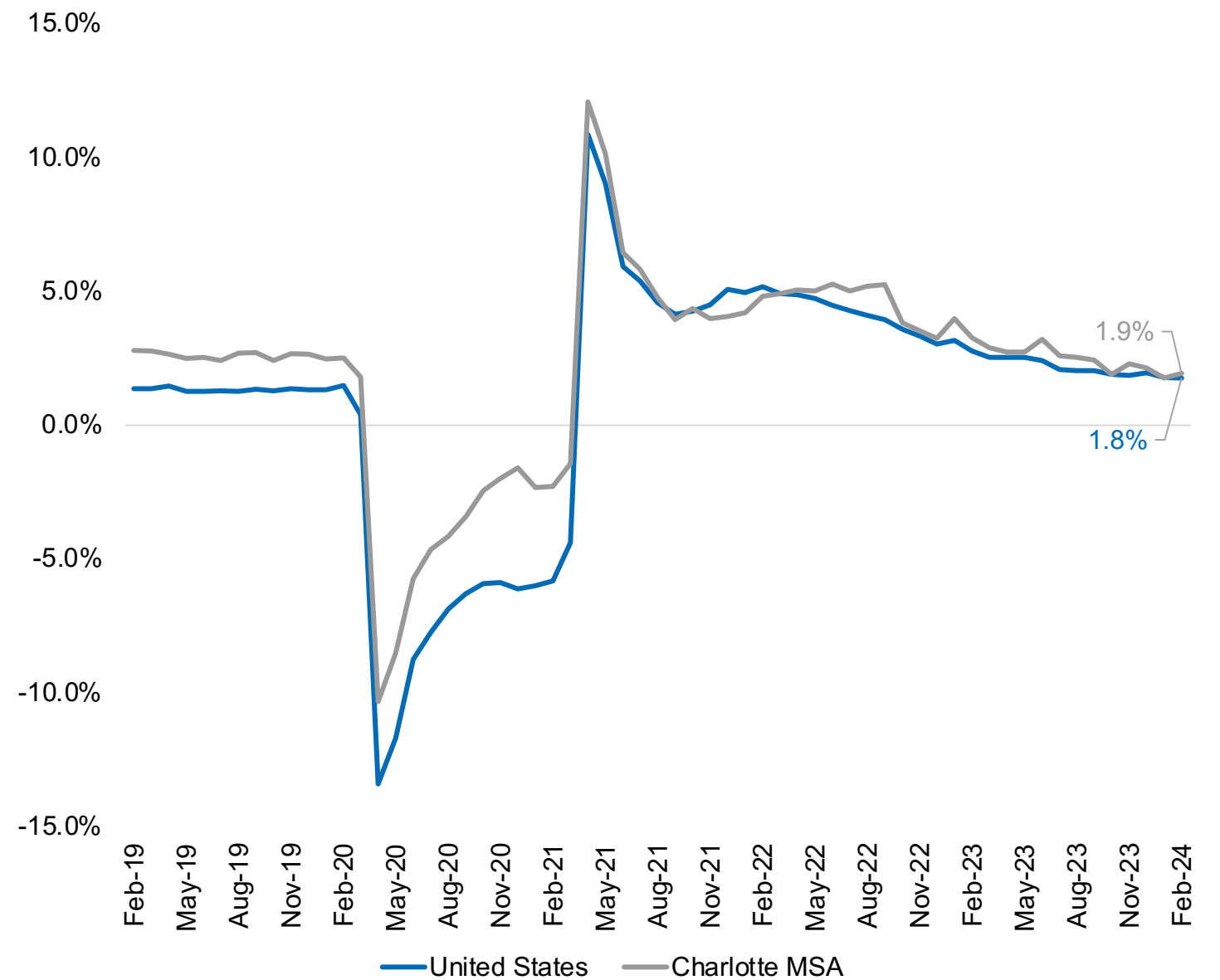
Employment Trends Signal a Slowing Economy

Charlotte has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. This trend has continued into the first quarter of 2024, with the market's unemployment rate dropping by 15 basis points year over year to 3.2%, well below the U.S.'s unemployment rate of 3.9%. Seasonally adjusted nonfarm payrolls reported a 133-basis-point year-over-year decline to 1.9%, marginally outperforming the U.S.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

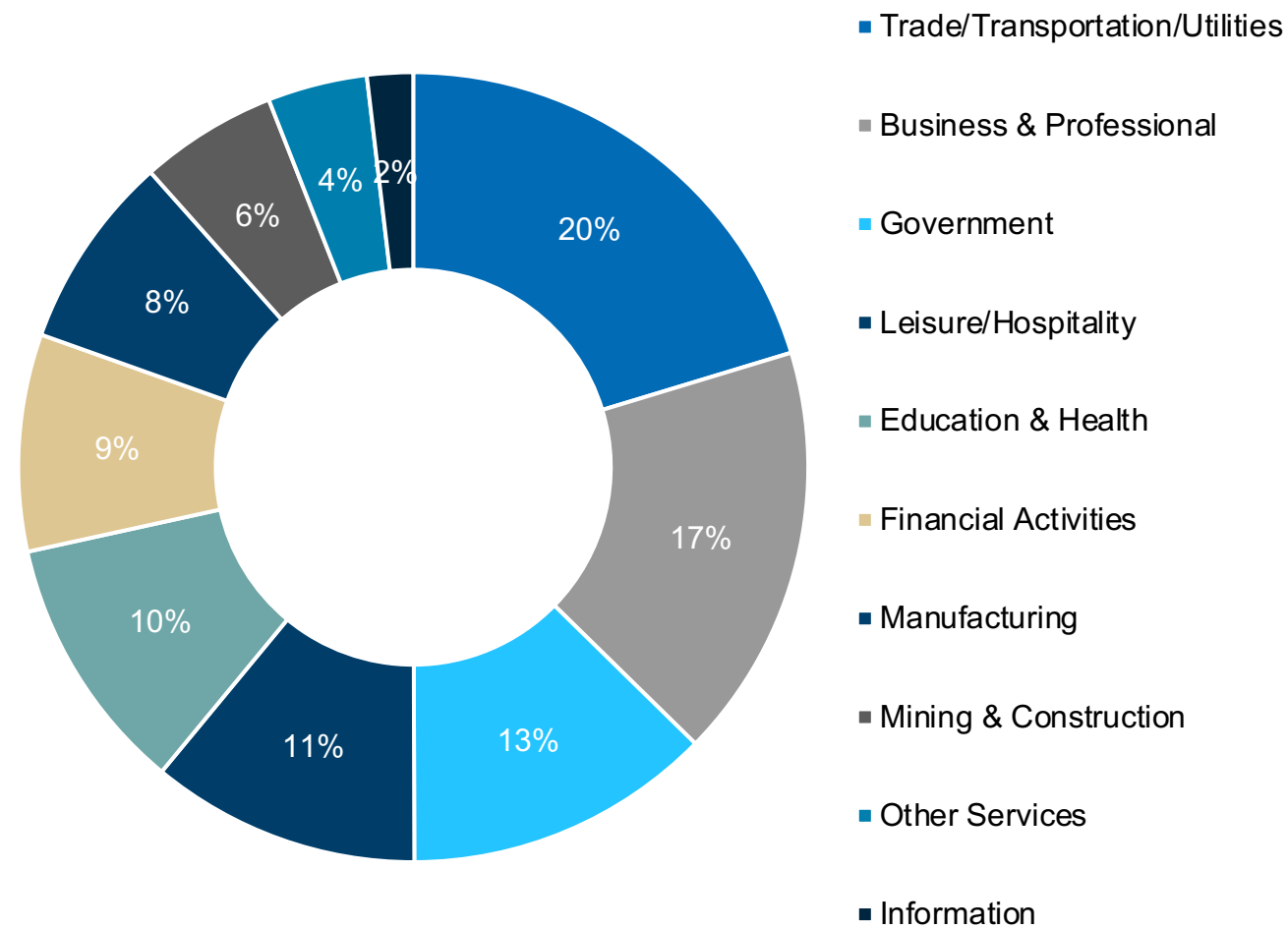


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

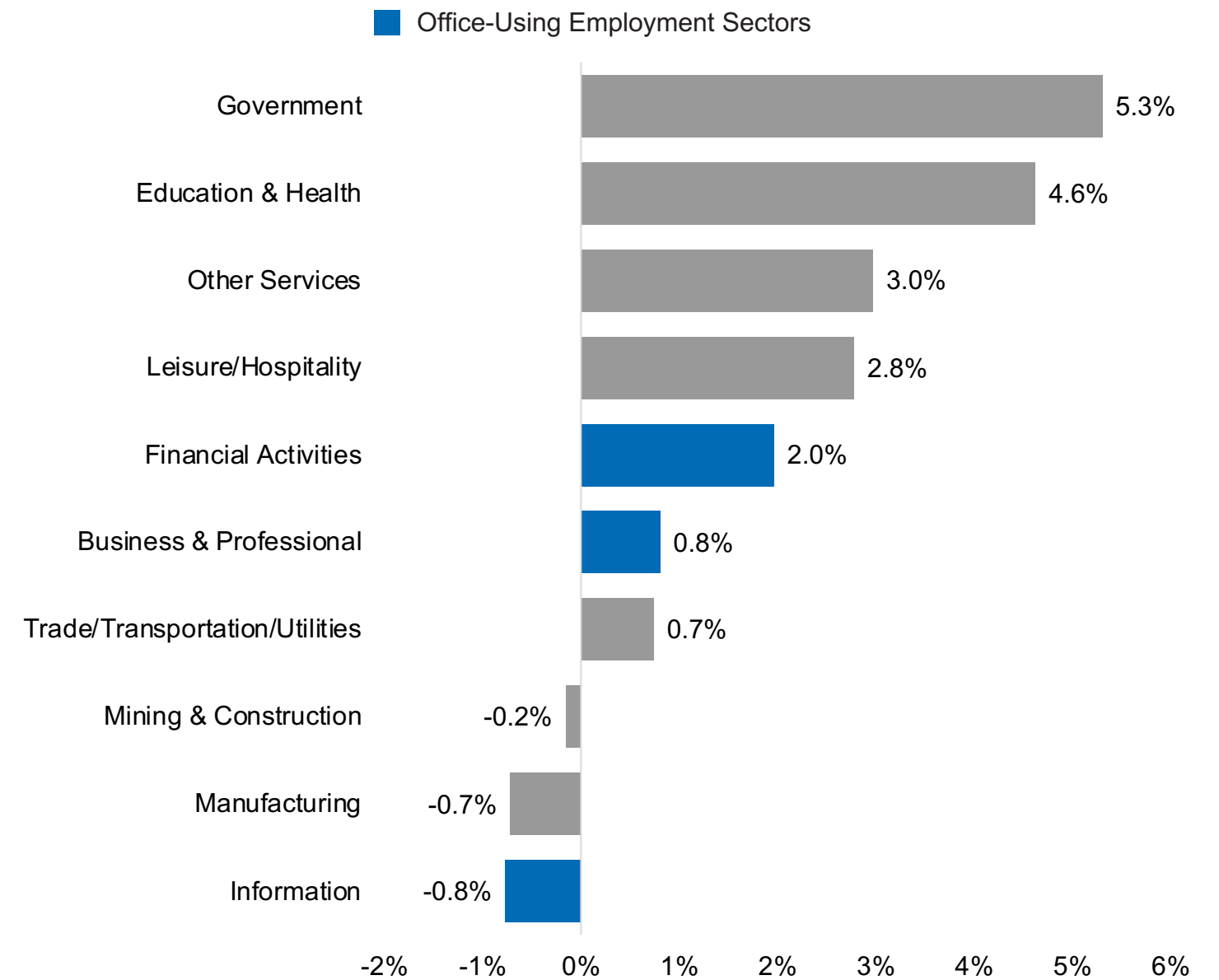
Employment Growth Continues across Most Office-Using Sectors

Known for its financial activities sector, the Charlotte market's top two employment industries, trade/transportation/utilities and business and professional, account for 37.3% of jobs. The manufacturing employment's trade/transportation/utilities sector is the largest industry sector at 20.3%. Most industries, except mining and construction and information and manufacturing, reported year-over-year job growth. Office-using industries, including the financial activities and business and professional activities sectors, reported 2.0% and 0.8% year-over-year growth, respectively. Meanwhile, the information sector reported a decline of 0.8% year over year.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

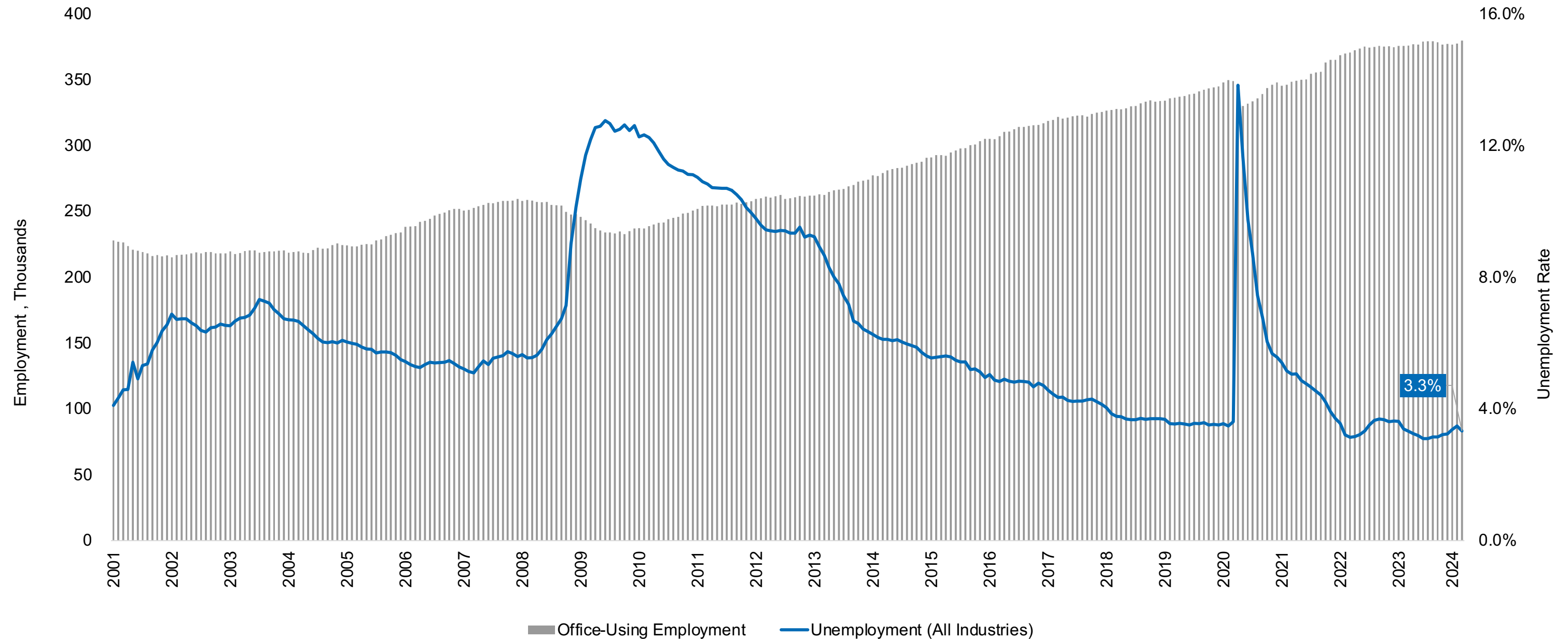


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

Overall Office-Using Employment Increases to Record High

Office-using employment in the Charlotte market recorded an all-time historical high of 379,720 office-using jobs in February of 2024. Currently, the seasonally adjusted unemployment rate is 3.3%, better than the 3.6% average levels reported in 2019. The biggest year-over-year job losses were found in the office-using information sector, accompanied by year-over-year losses in the manufacturing and construction and mining sectors. Meanwhile, losses in the information sector were offset by gains in the office-using financial activities and business and professional sectors. These gains likely were the leading contributors to the gains in overall office-using employment.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Charlotte MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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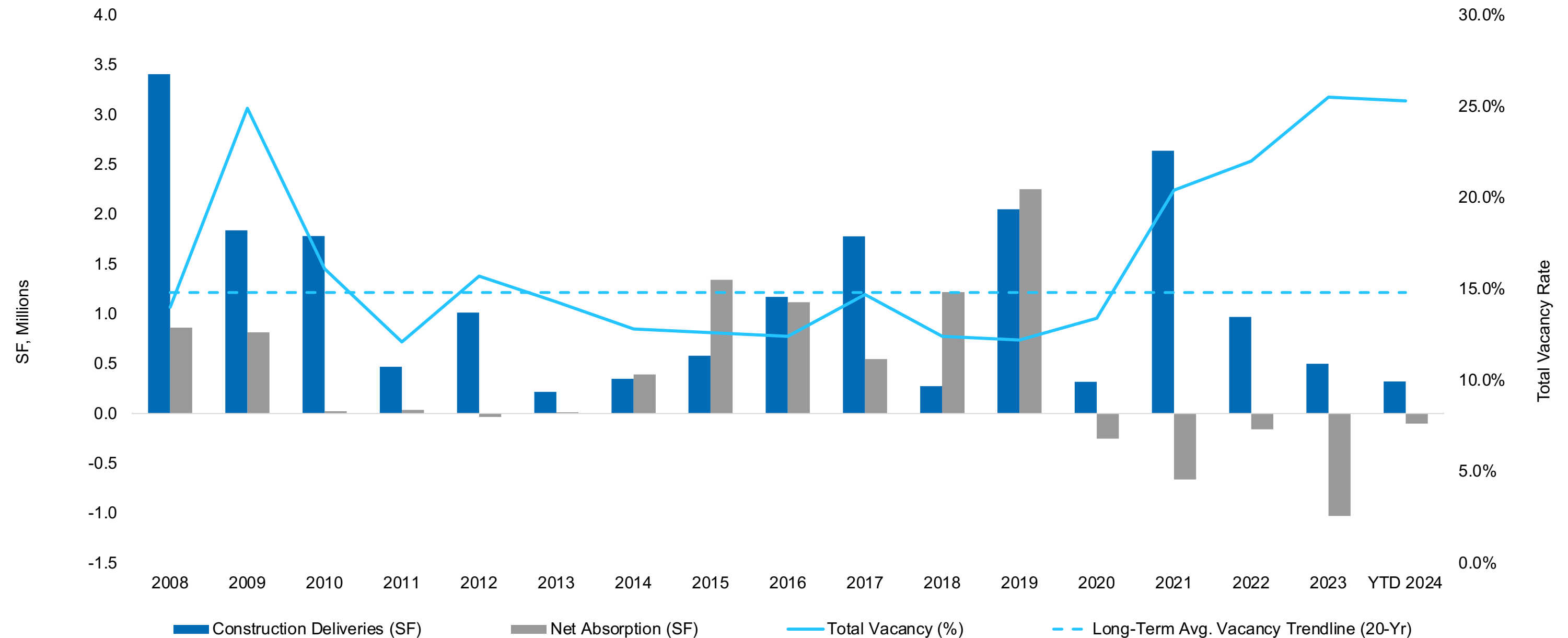
Leasing Market Fundamentals



Vacancy Marginally Drops from Historic High; Net Absorption Remains Negative

The Charlotte office vacancy rate increased by 170 basis points year over year to 25.3% in the first quarter of 2023, well above the 20-year vacancy average of 14.8%. Since the first quarter of 2020, vacancy rates have generally increased in the market. This trend was broken this quarter, as the vacancy rate marginally dropped by 20 basis points quarter over quarter. This can be attributed to a few factors, including continued historically high levels of direct and sublet availability, continued delivery of new office buildings and several years of negative yearly absorption. The pandemic era shift to hybrid and remote work has only exacerbated this trend.

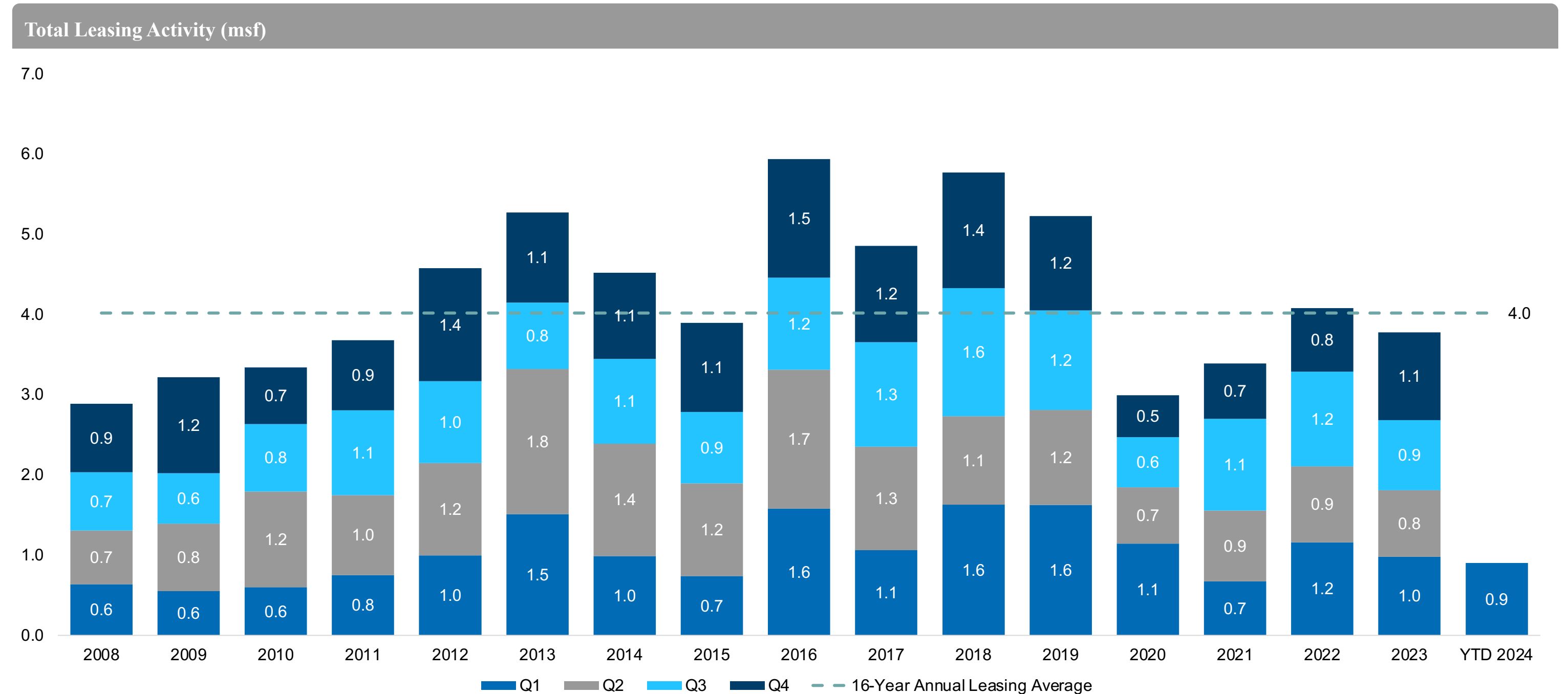
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Economic Uncertainty Results in Slowing Leasing Activity

Leasing activity in the market remains slow, with the first quarter of 2024's total leasing activity of 901,680 SF being below the 16-year average of 1.0 MSF. Overall, the first quarter of 2024 had the lowest first-quarter leasing activity since the first quarter of 2022. The slowing leasing activity pace is largely attributed to fewer deals being done, likely impacted by a more challenging debt liquidity environment preventing larger deals from occurring as easily, the adoption of hybrid and remote work by office-using industries and general uncertainty stemming from current economic conditions.

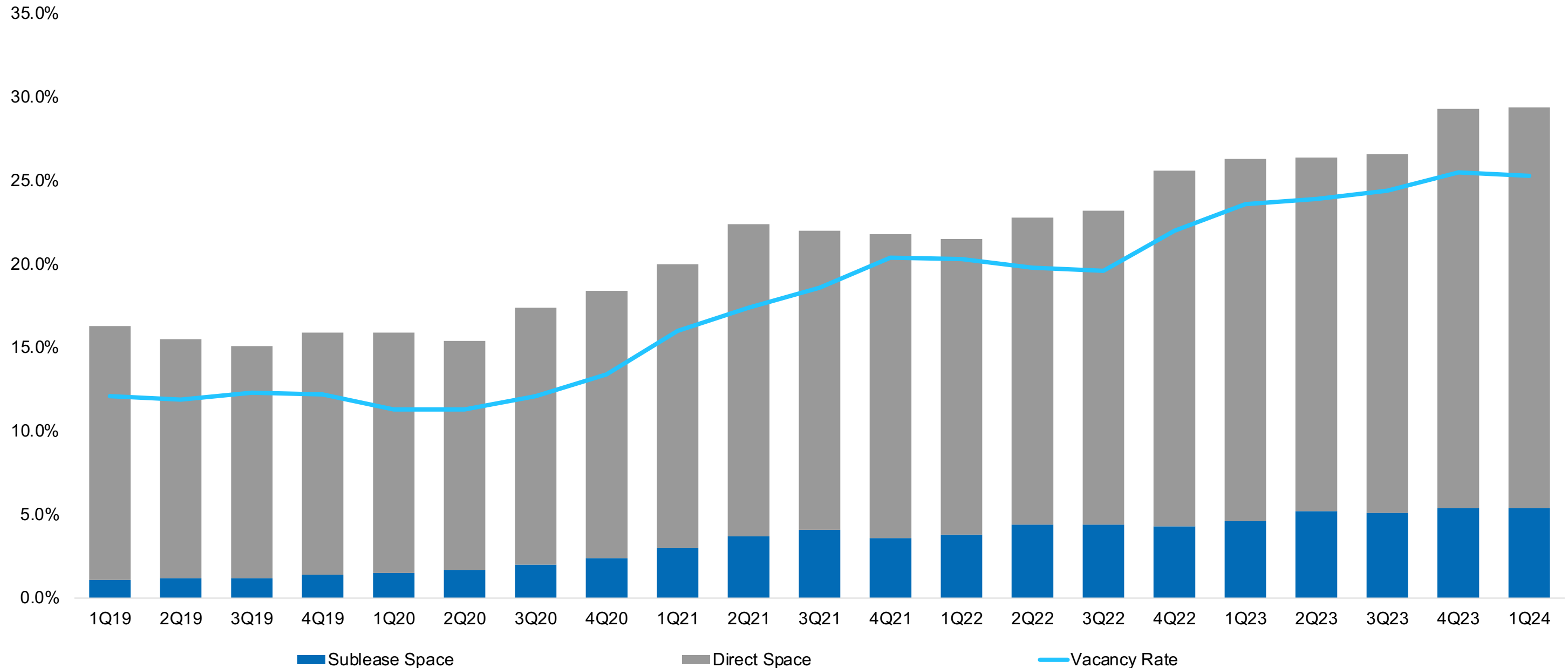


Source: Newmark Research, CoStar

Vacancy Inches Lower from Record High

Sublease availabilities in the Charlotte market maintained their all-time high of 5.4% in the first quarter of 2024, remaining unchanged quarter over quarter and reflecting an 80-basis-point year-over-year increase. Direct availability increased 10 basis points quarter over quarter and 230 basis points year over year to 24.0%. Overall, the vacancy rate marginally dropped from the historic high of 25.5% recorded in the fourth quarter of 2024 to 25.3% at the end of the first quarter of 2024. The stability of sublease availability can likely be attributed to the expiration of leases that were signed before the onset of the pandemic which has allowed office users to shed excess space and the conversion of such space to direct available space.

Available Space as Percent of Overall Market

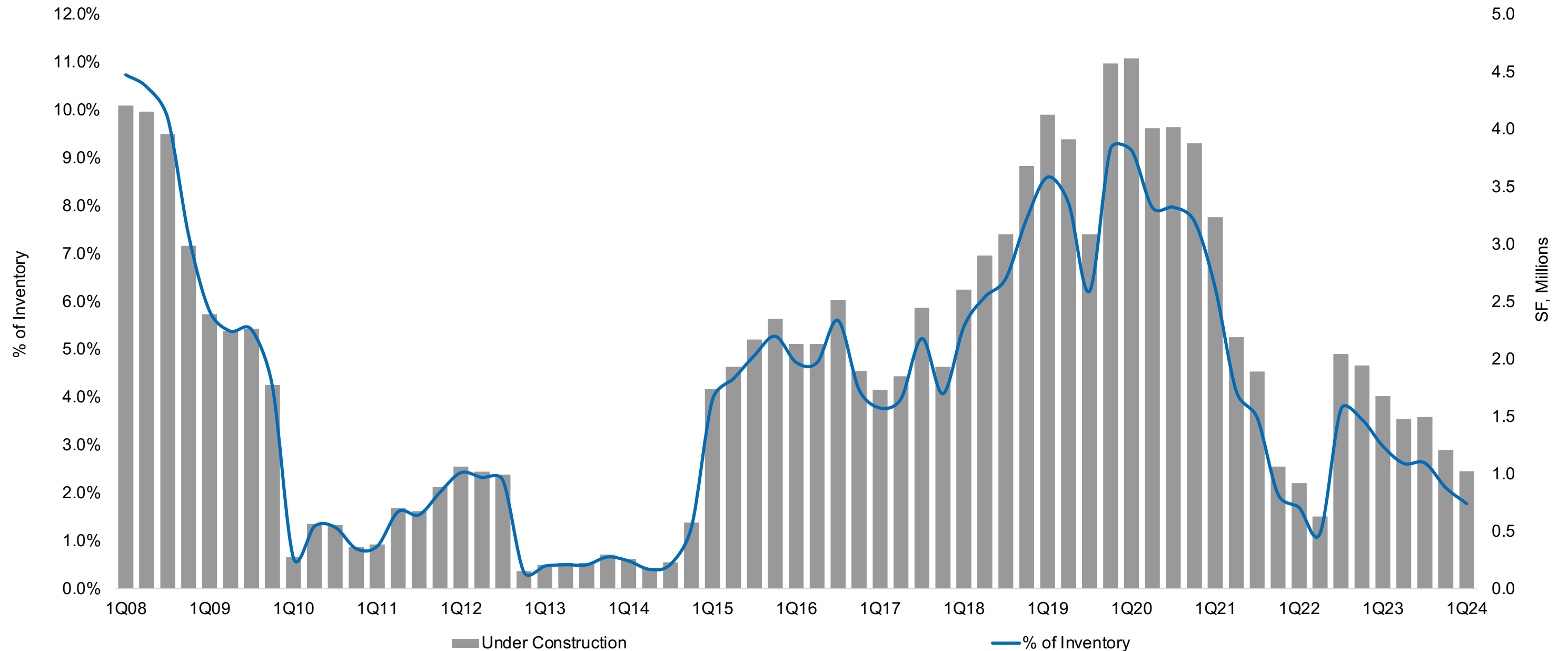


Source: Newmark Research, CoStar

Construction Activity Continues Declining

Construction activity rapidly increased during the third quarter of 2022, impacted by the financial sector's office usage. However, the construction pipeline has continuously been on the decline since the most recent peak at 2.0 MSF in the third quarter of 2022. As of the first quarter of 2024, the market had 1.0 MSF under construction, accounting for 1.8% of the market's inventory.

Office Under Construction and % of Inventory

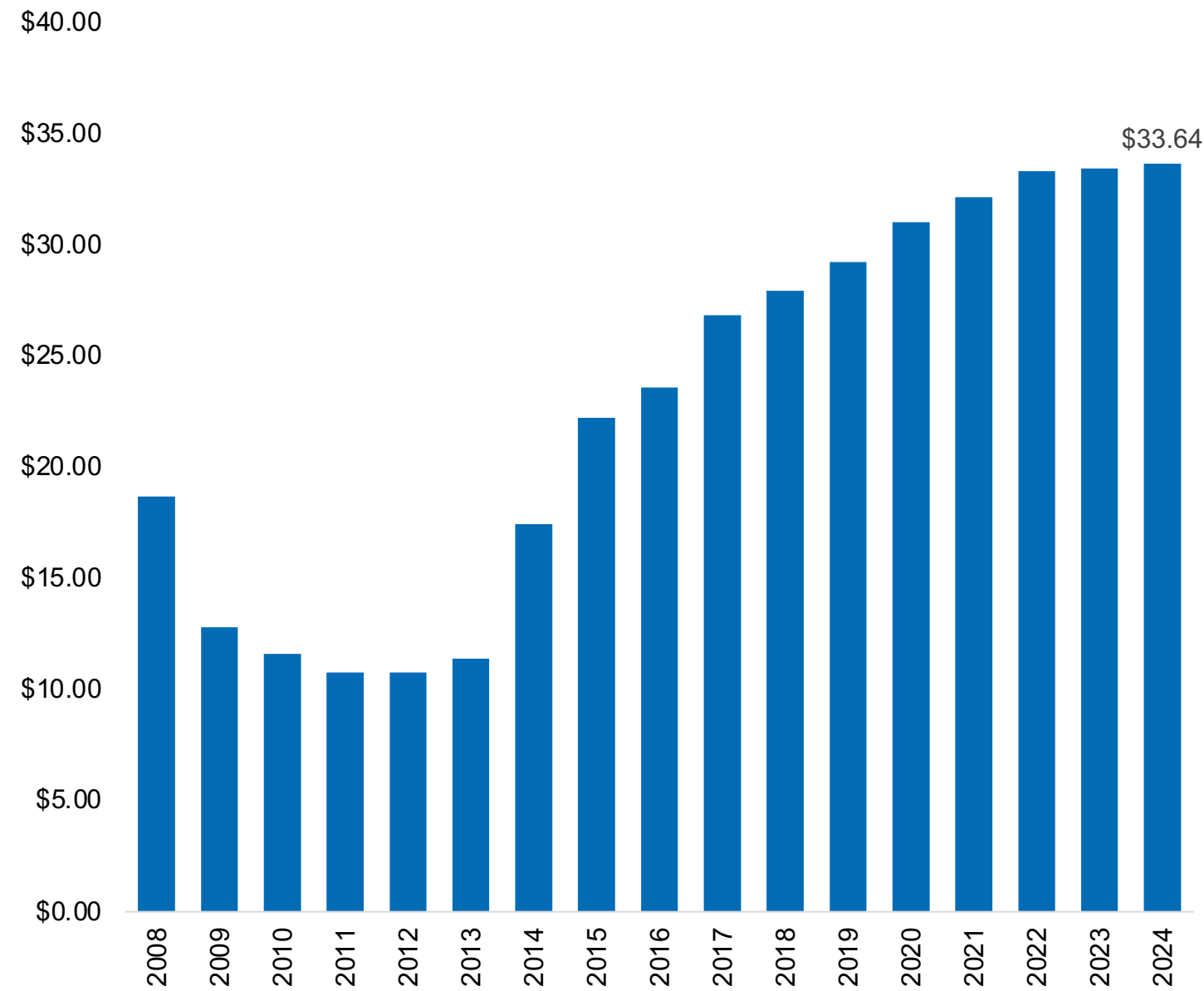


Source: Newmark Research, CoStar

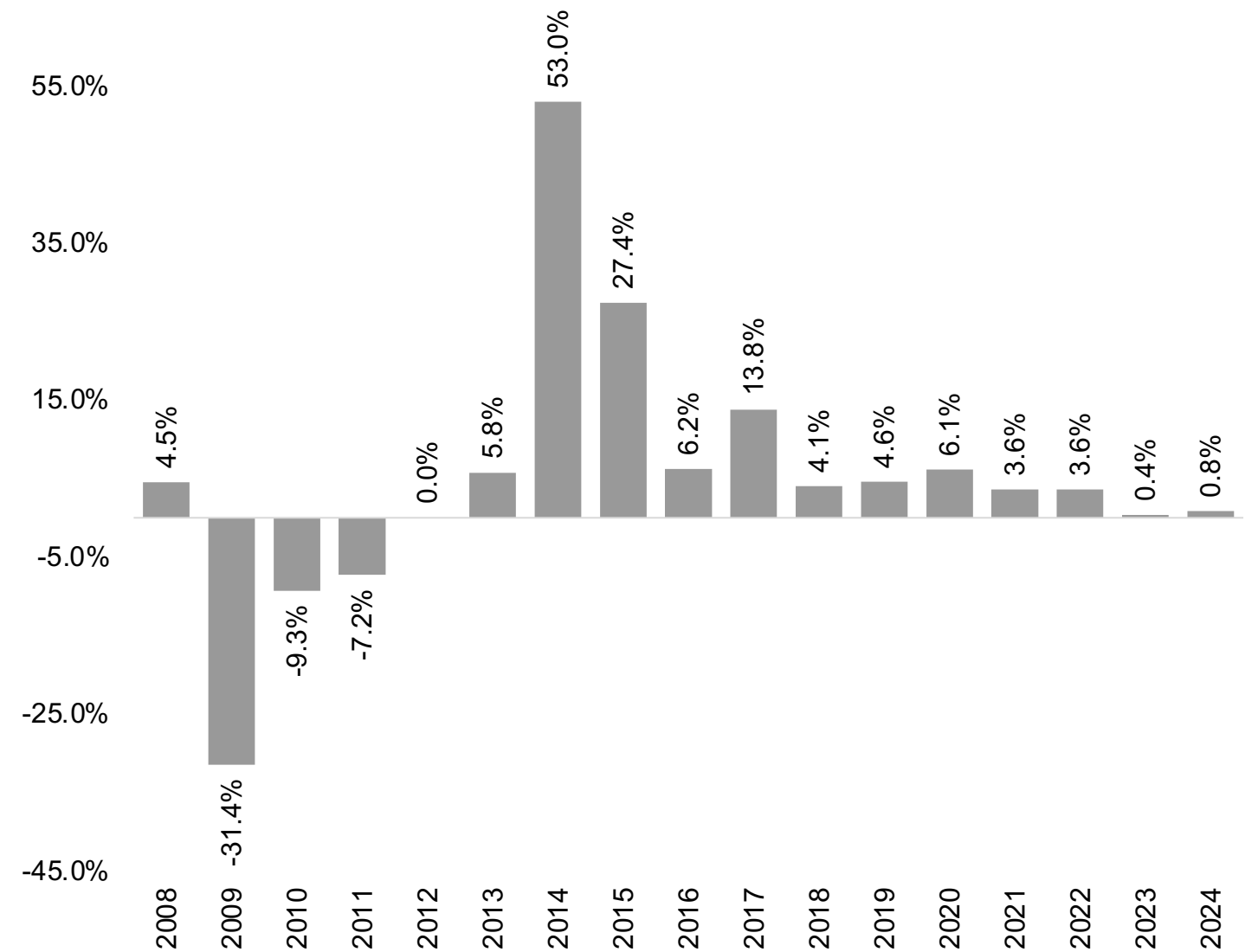
Rents Attain All-Time High

Rents increased by 0.7% quarter over quarter and 0.8% year over year. The flattening of asking rent growth can be attributed to several factors, including rising vacancy, slower leasing activity and continued negative absorption.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

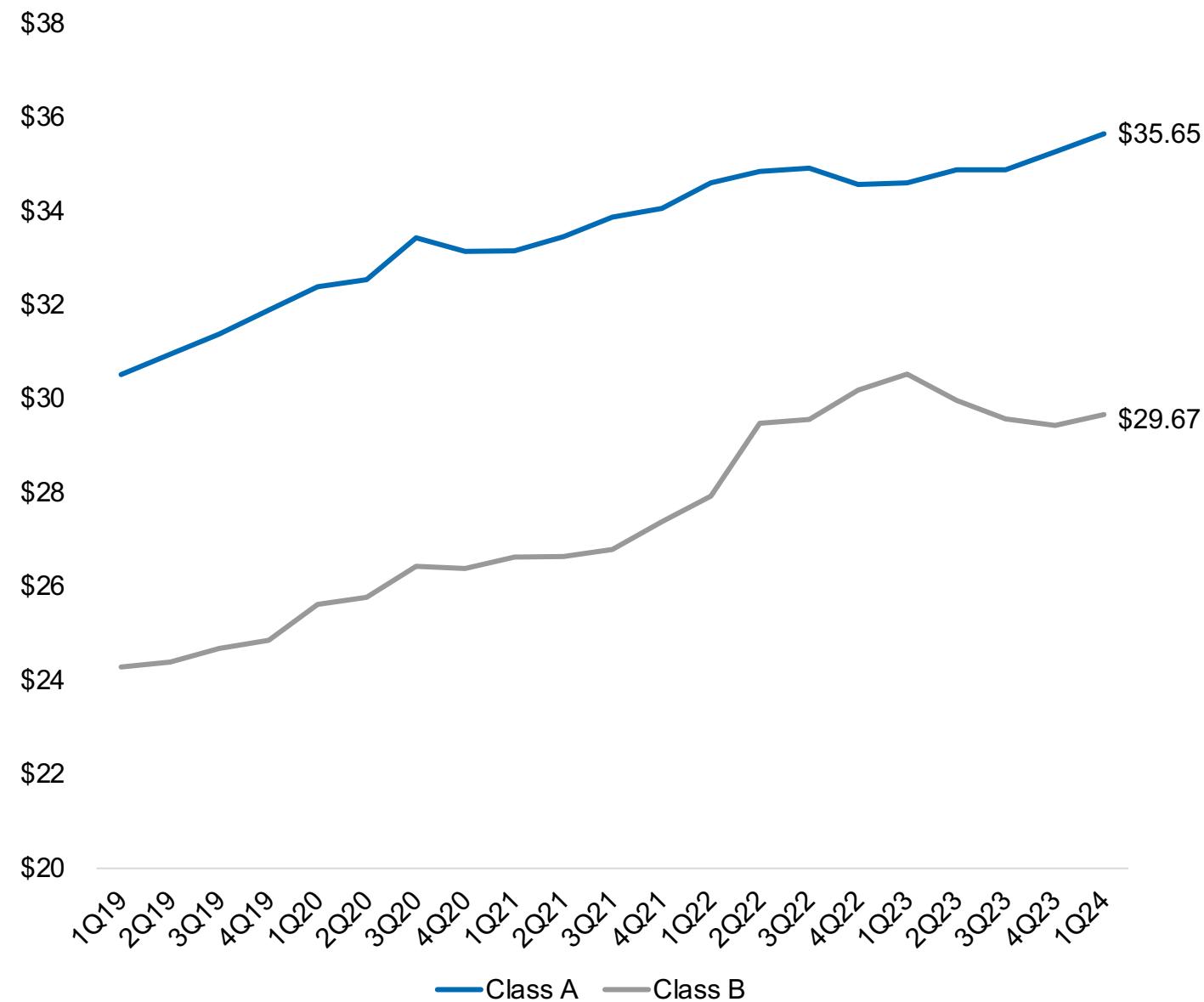


Source: Newmark Research, CoStar

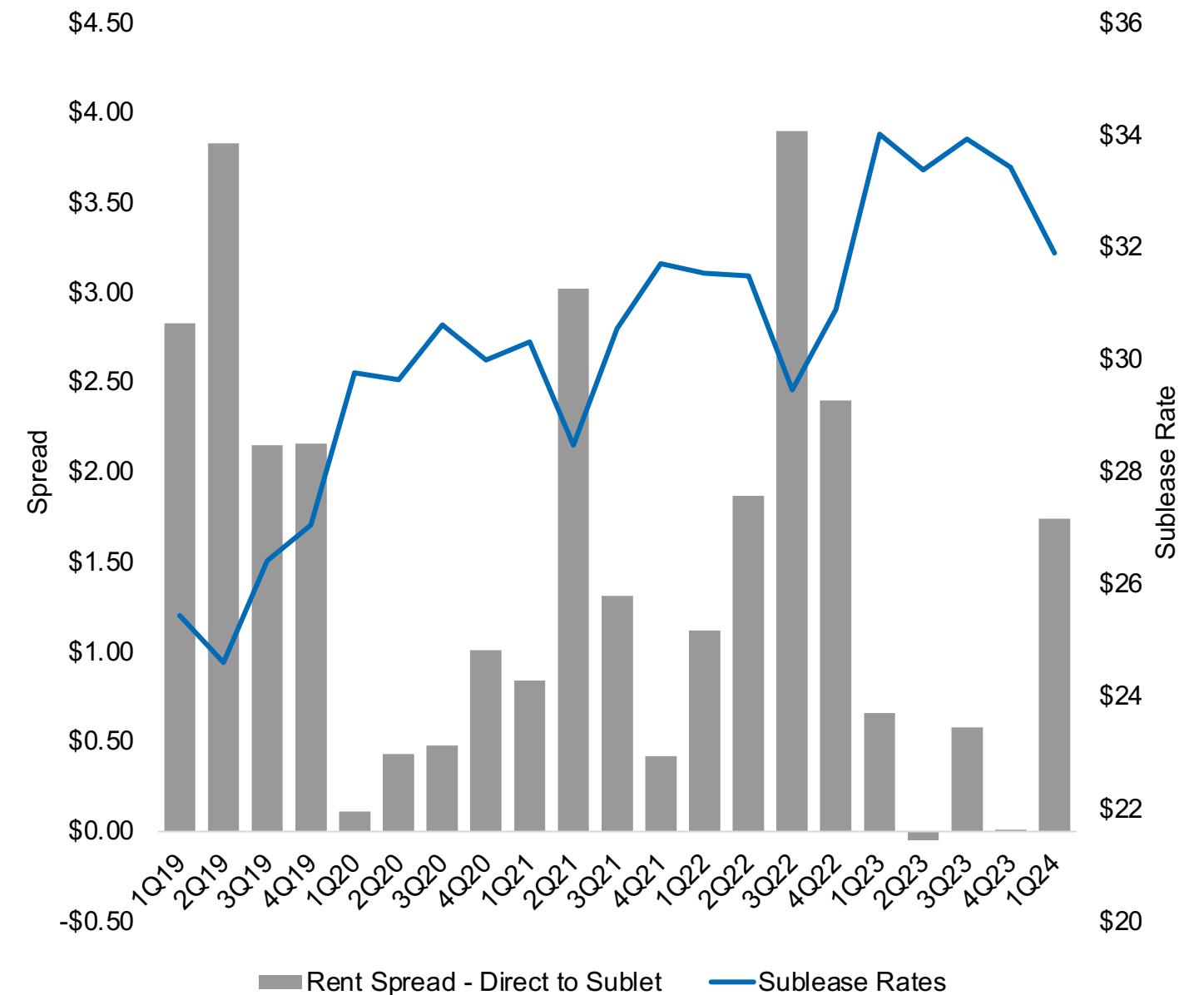
Rent Spread Between Class A and Class B Remains Historically Elevated

As of the end of the first quarter of 2024, Class A rents ended at \$35.65/SF, while Class B reported \$29.67/SF. The rent difference between the two assets is \$5.98/SF, a 14.9% spread decrease since the fourth quarter of 2019. Quarter over quarter, the rent spread increased by 2.7%. The recent increasing divergence between Class A and Class B assets will likely drive more tenants to shed unused space in less desirable assets and lease smaller footprints in higher-quality assets. As more sublease space has entered the market, asking rents for sublease space have declined. Fourth-quarter asking sublease rates have decreased by 4.6% quarter over quarter and increased 6.2% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues in the Charlotte office market. Charlotte's reputation as a major hub for financial activities sector was bolstered this quarter as financial services companies, namely Truist Insurance Holdings and Asana Partners, signed two of the largest leases in the first quarter of 2024. Truist, subleasing 69,271 SF of space at 550 South, signed the largest lease of the quarter. Most of this quarter's largest deals were new direct leases as organizations looked to downsize and take advantage of increasing rent spreads to downsize and relocate into higher-quality assets.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Truist Insurance Holdings	550 South	CBD	Sublease	69,271
<i>Truist Insurance Holdings signed the largest lease of the quarter when it sublet the fourteenth, fifteenth, and sixteenth floors of 550 S Caldwell Street.</i>				
Novant Health	14215 Ballantyne Corporate Place	South/485	Direct New	49,105
<i>Healthcare provider Novant Health leased the first and second floors of 14215 Ballantyne Corporate Place.</i>				
Regus	First Citizens Bank Plaza	CBD	Direct New	40,802
<i>Coworking space provider Regus leased the eighteenth and nineteenth floors of 128 S Tryon Street.</i>				
Asana Partners	The Line	Midtown/Southend	Direct New	23,382
<i>Real estate investment fund manager Asana Partners has leased space on the eleventh floor of 2151 Hawkins Street.</i>				
SHI International	One Independence Center	CBD	Sublease	22,990
<i>Information technology infrastructure company SHI International has signed a lease on the fifth floor of 101 North Tryon Street.</i>				



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