
3Q23

Charlotte Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked down by 50 basis points year over year to 3.1%, and remained well below the five-year average of 4.4%.
- Year over year, employment growth slowed by 122 basis points to 3.7%.
- All sectors, except manufacturing, reported employment growth, with leisure/hospitality leading job gains at 13.1% over the past 12 months.
- Office-using jobs in the market reached a new all-time high of 387,200 employees, reflecting 12.8% growth since 2019.

Major Transactions

- The United States Department of Justice renewed its 37,909-SF lease for the 16th and 17th floors of The Carillon.
- The majority of the largest transactions signed were new direct leases, with tenants including Katten Muchin Rosenman, Riverstone Logistics and IWG.
- Flight to quality continues to remain a central theme as tenants seek new spaces in high-quality, modern and well-equipped offices within urban areas.

Leasing Market Fundamentals

- Annual full-service asking rental rates marginally grew to \$33.51/SF, a 0.1% increase year over year.
- Occupancy declined, pushing overall vacancy rates to increase by 450 basis points year over year to a recent historical high, growing to 23.8%.
- The under-construction pipeline inched upward, with 1.7 MSF in progress.
- Total leasing activity closed the quarter at 650,420 SF, well below the 15-year average of 1.0 MSF.

Outlook

- The Charlotte office market will likely see continued suppressed growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The recent lower rent spread between Class A and Class B assets will likely push more tenants to seek smaller spaces in high-quality assets.
- The office market is expected to remain tenant-friendly with continued muted demand. As a result, overall asking rents are projected to flatten in the near term.

1. Economy
2. Leasing Market Fundamentals

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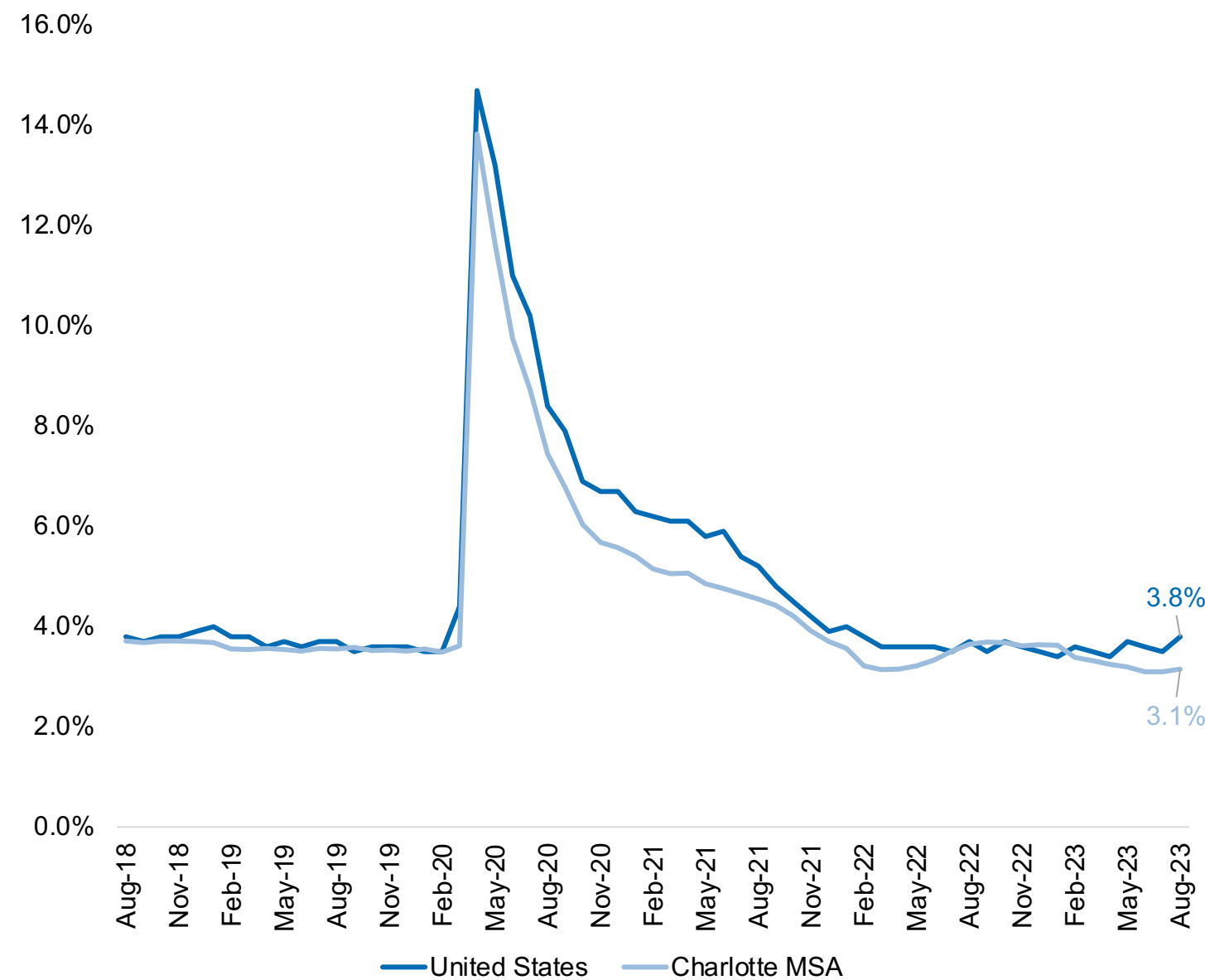
Economy



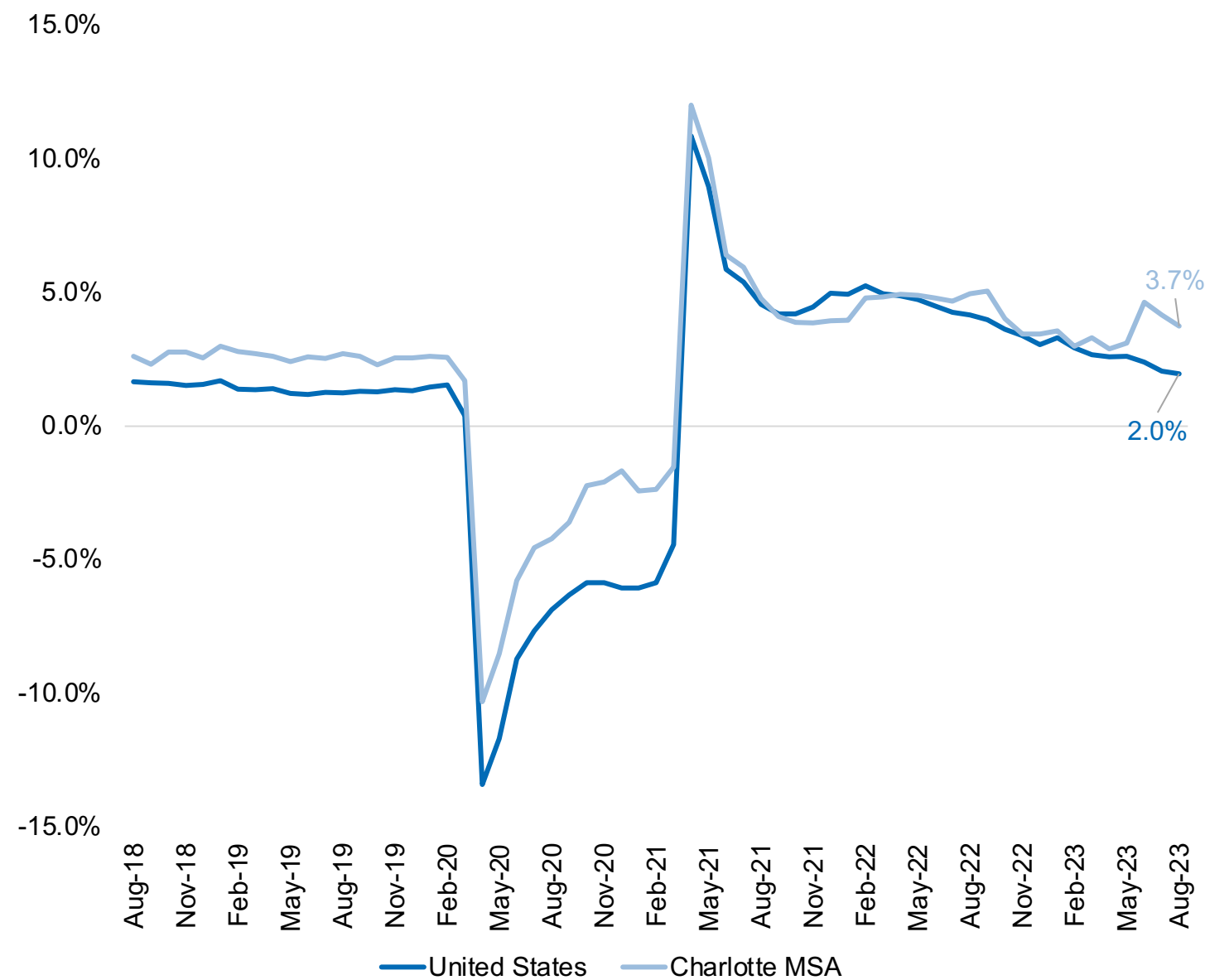
Metro Employment Trends Bucking National Trends

The Charlotte market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Unlike many markets, the region’s unemployment rate has decreased by 50 basis points year over year, while the employment year-over-year growth rate decreased by 122 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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



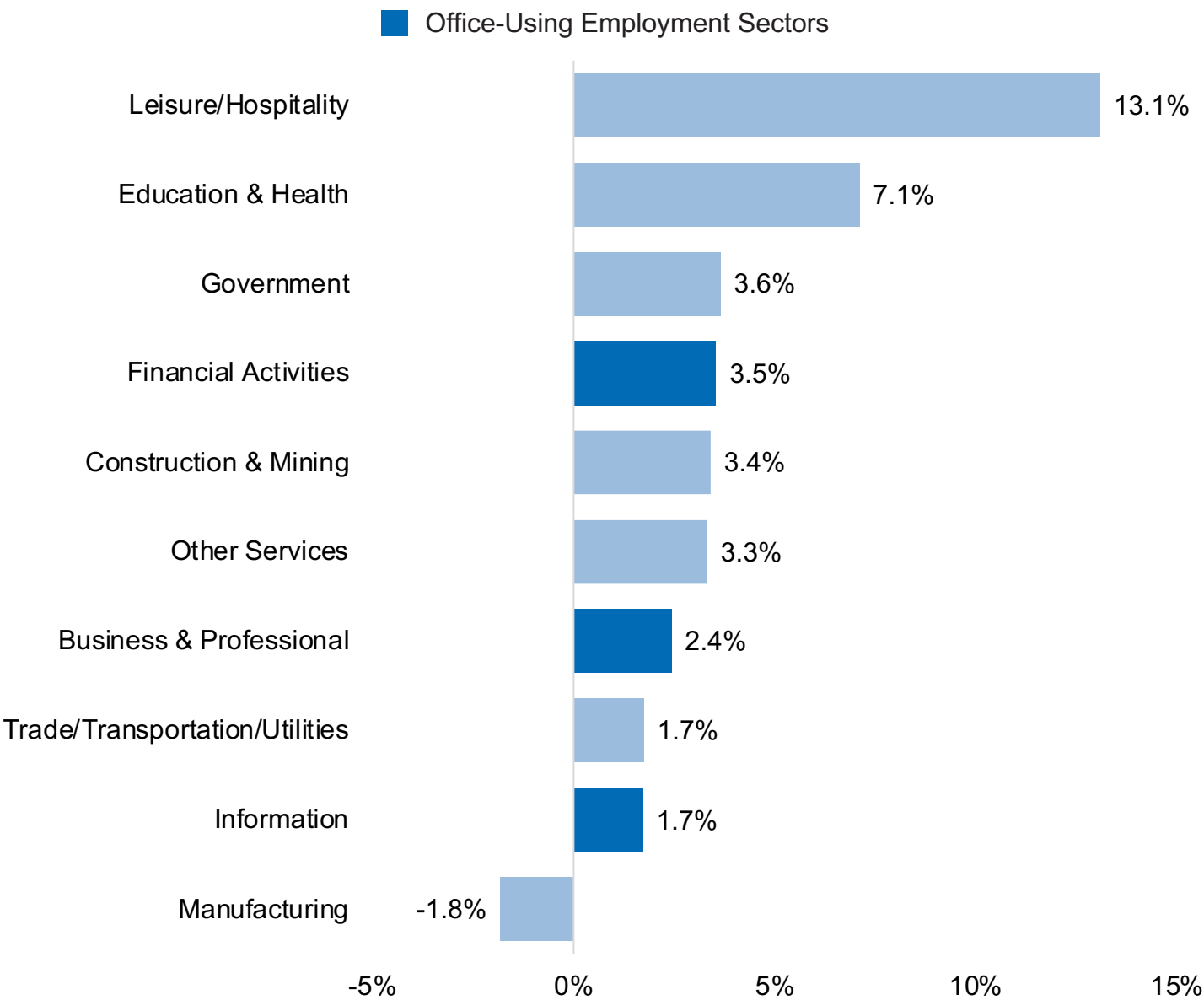
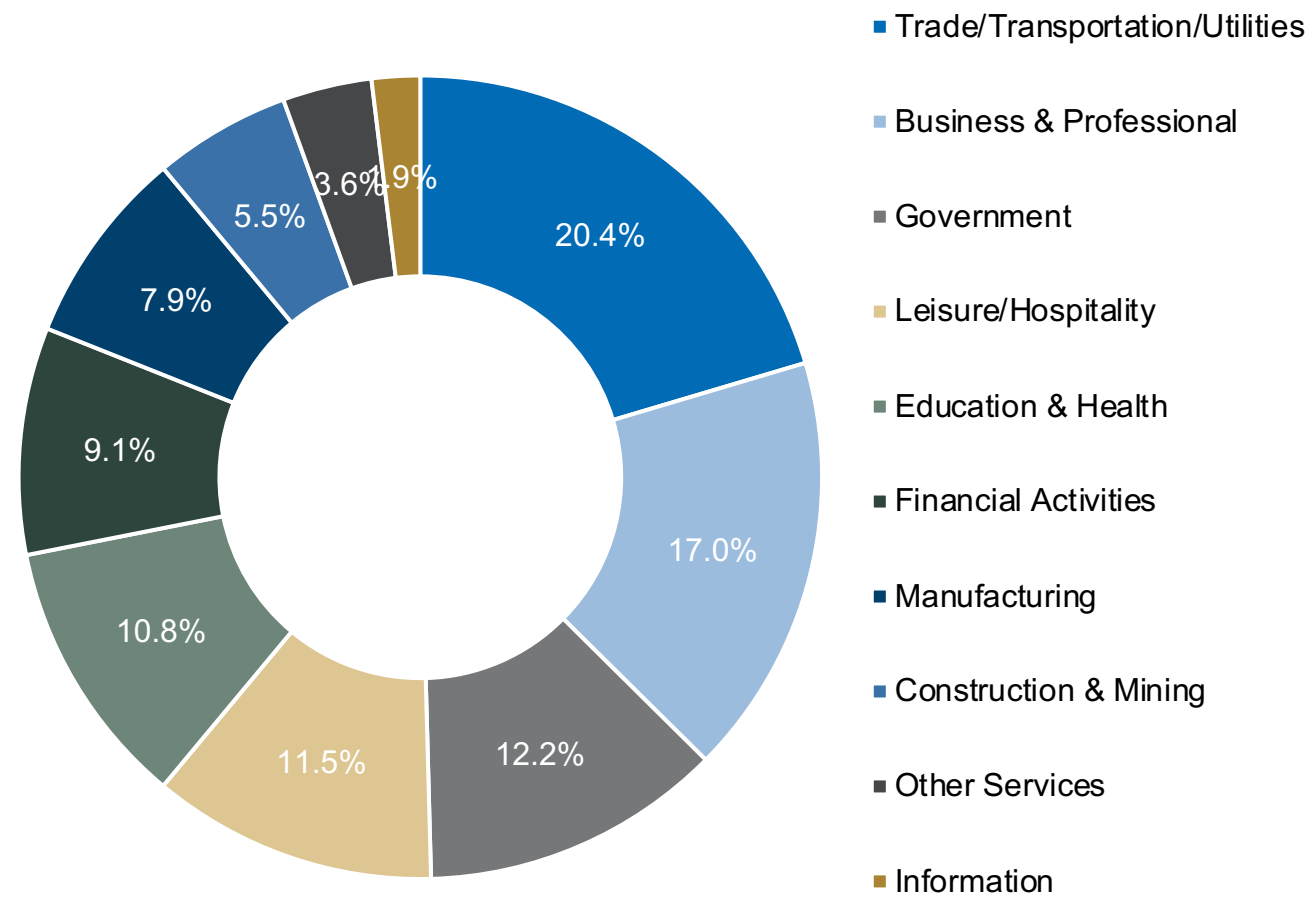
Source: U.S. Bureau of Labor Statistics, Charlotte MSA

Employment Growth Continues across All Office Sectors

Known for its trade and transportation sector, the Charlotte market’s top two employment industries account for 37.4% of market share. The office-using employment’s business and professional sector is the second-largest industry sector in the metroplex at 17.0%. All industries in the metroplex, except manufacturing, reported growth. Office-using industries reported year-over-year growth ranging from 1.7% to 3.5%.

Employment by Industry, August 2023

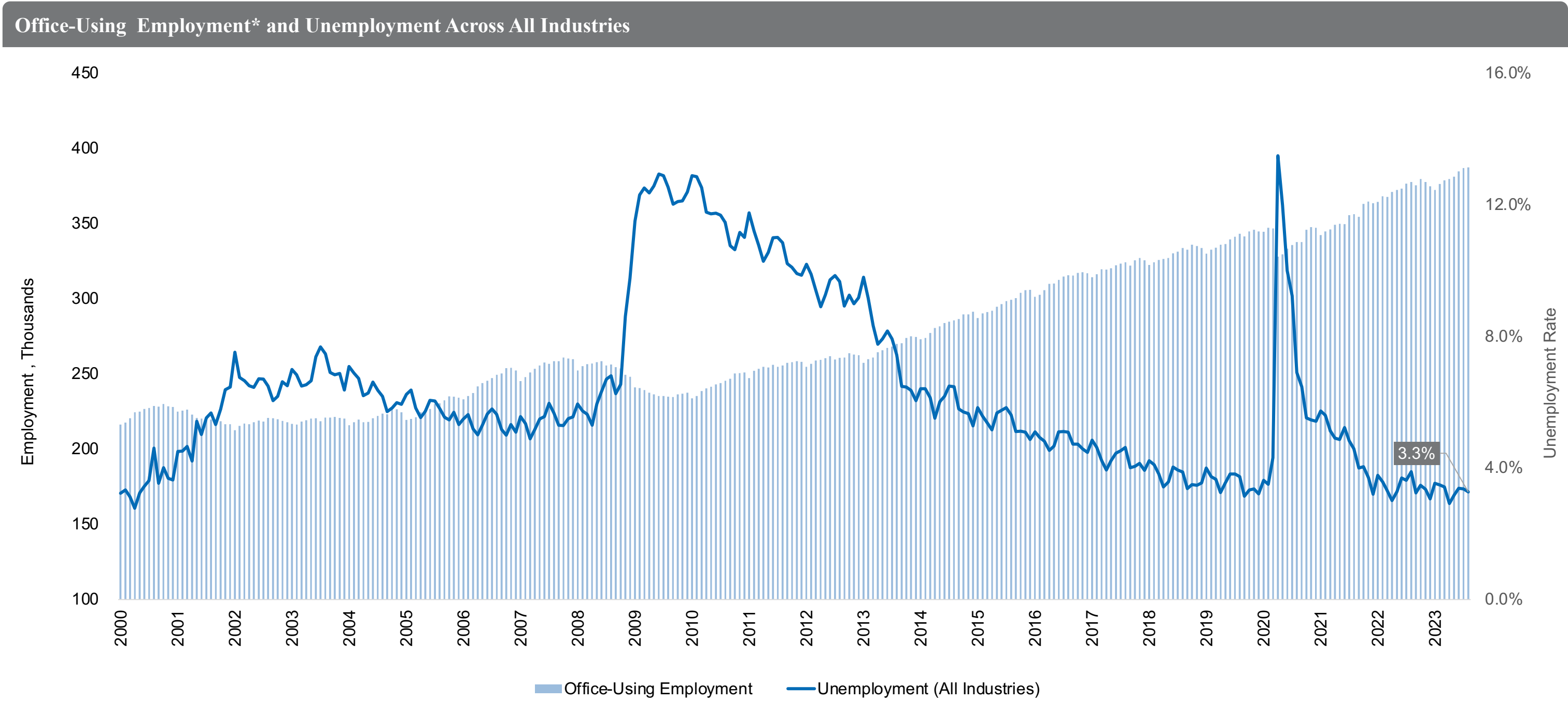
Employment Growth by Industry, 12-Month % Change, August 2023



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

Office-Using Employment Reaches New Historical High

Office-using employment in the Charlotte market reached an all-time historical high of 387,200 employees as of the end of August 2023, up 0.1% from the month prior. Currently, the non-seasonally adjusted unemployment rate is 3.3%, below the 3.5% average levels reported in 2019, indicating that other industries outside of office-using jobs likely contribute to most of the unemployment rate.



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.

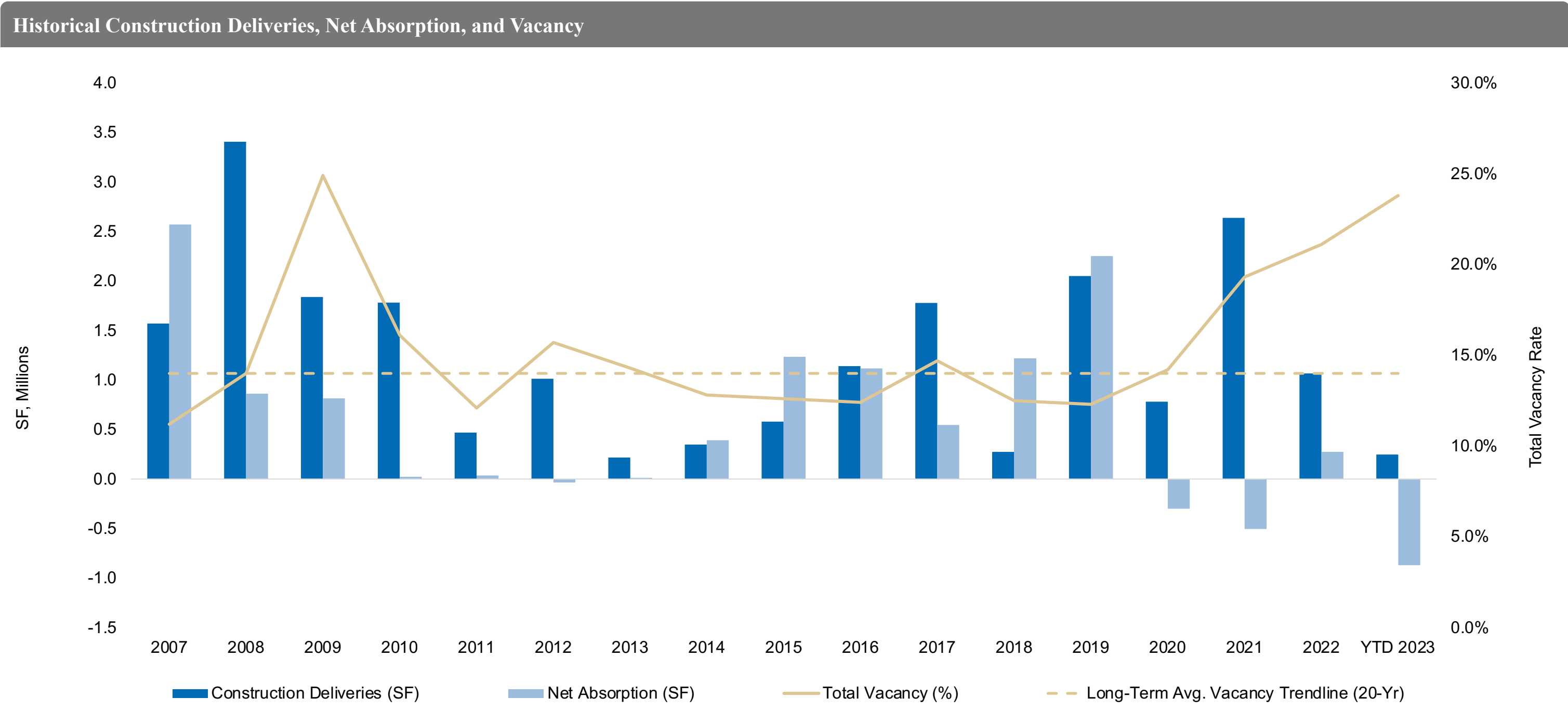
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Leasing Market Fundamentals



Vacancy Increases to Recent High as Construction Deliveries Decline

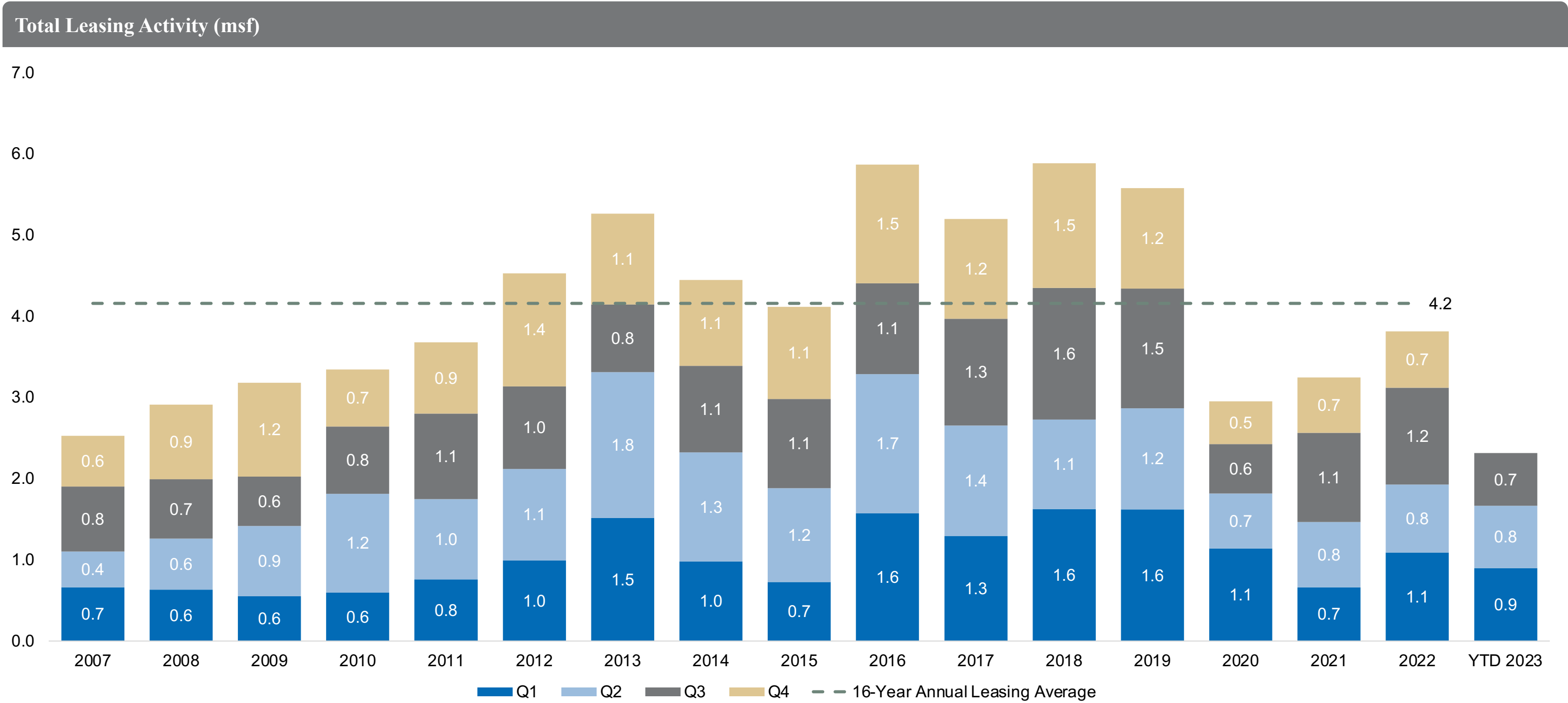
The Charlotte office vacancy rate increased by 450 basis points year over year to 23.8% in the third quarter of 2023. Since the pandemic, office occupancies have turned negative in the market, with continued new office supply delivering, although at a more muted pace. Vacancy rates have increased following the pandemic and, as of the third quarter of 2023, reached a recent high.



Source: Newmark Research, CoStar

Leasing Activity Continues to Slow

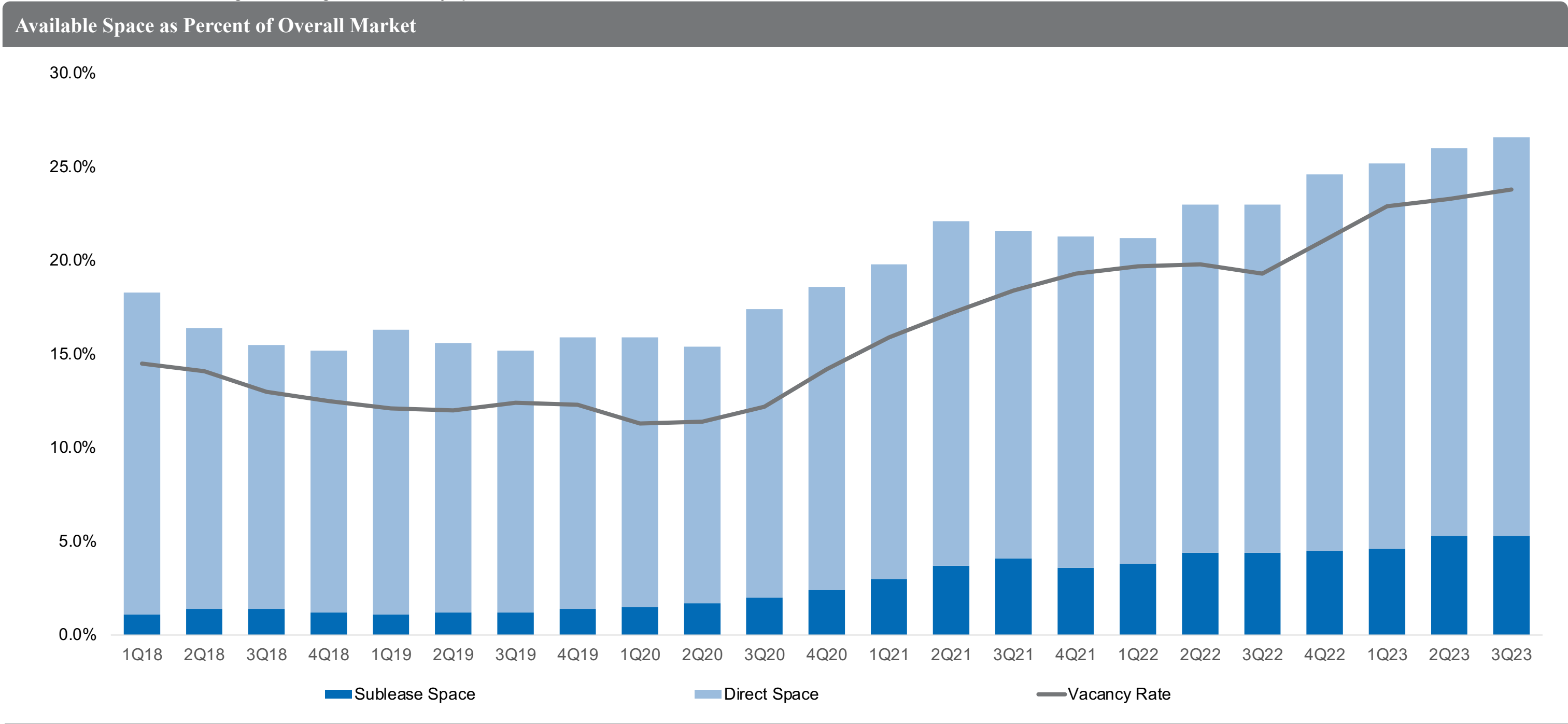
Leasing activity in the market remains slower than previous years, with the first three quarters of 2023’s leasing activity at its lowest level since 2009 at 2.3 MSF. Since 2007, third-quarter leasing activity averaged 1.0 MSF, with the third quarter of 2023 below historical averages at 650,420 SF. The 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 and adoption of hybrid and remote work by office-using industries.



Source: Newmark Research, CoStar

Availability Increases to New All-Time High

Sublease availabilities in the Charlotte market have increased since the start of the pandemic and remain at an all-time high. As of the end of the third quarter of 2023, sublease availabilities in the market were flat quarter over quarter at 5.3%. Direct availabilities have continuously increased since the second quarter of 2022 and an all-time high was recorded at the end of the third quarter of 2023 at 21.3%, ahead of the previous all-time high of 20.7% recorded in the second quarter of 2023. Vacancies have continued to increase alongside direct availabilities, reaching a new high of 23.8% by quarter-end.

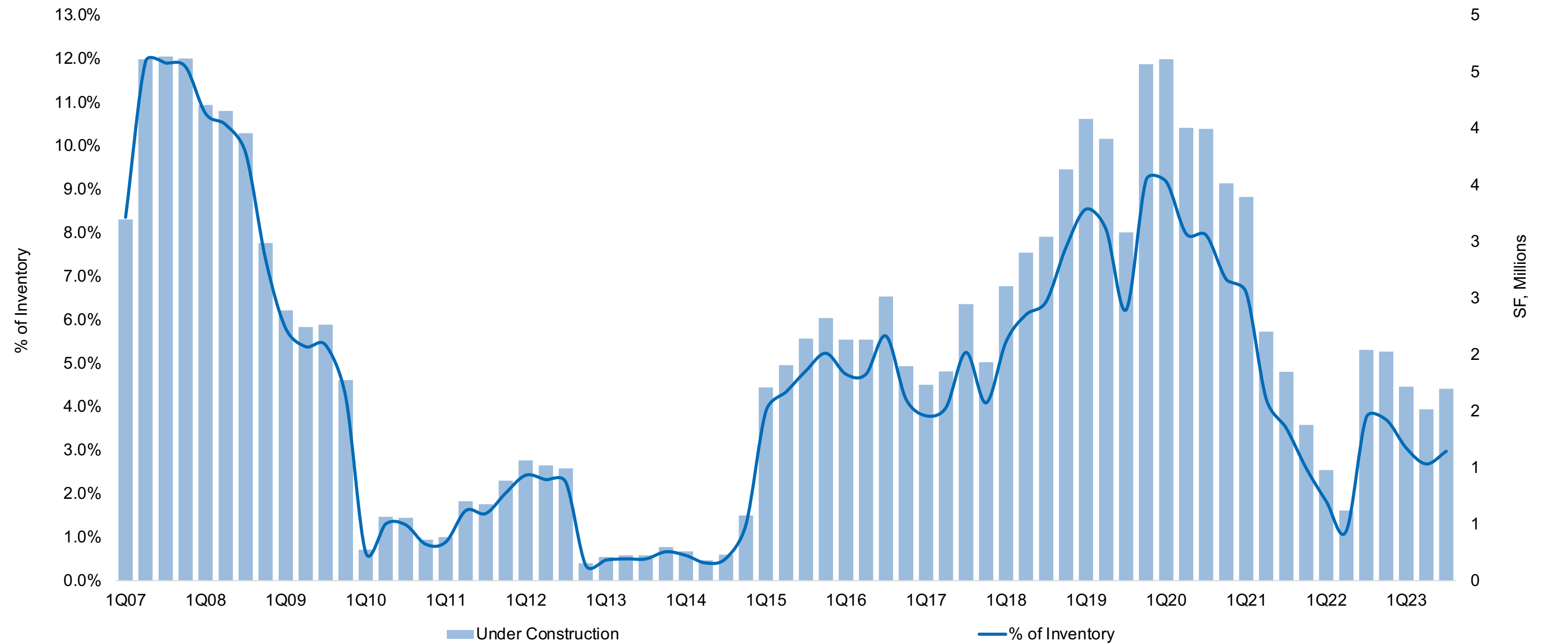


Source: Newmark Research, CoStar

Construction Activity Inches Up

Construction activity has recently begun to inch up again. This broke the trend of a diminishing construction pipeline seen from the third quarter of 2022 through the end of the second quarter of 2023. This recent increase in construction activity could be driven by companies' willingness to pay more to lease space in new facilities that provide amenities that appeal to getting employees back into the office. As of the end of third quarter of 2023, the market had 1.7 MSF under construction, accounting for 3.0% of the market's inventory, a 10.9% increase in the percentage of inventory under construction from the previous quarter.

Office Under Construction and % of Inventory

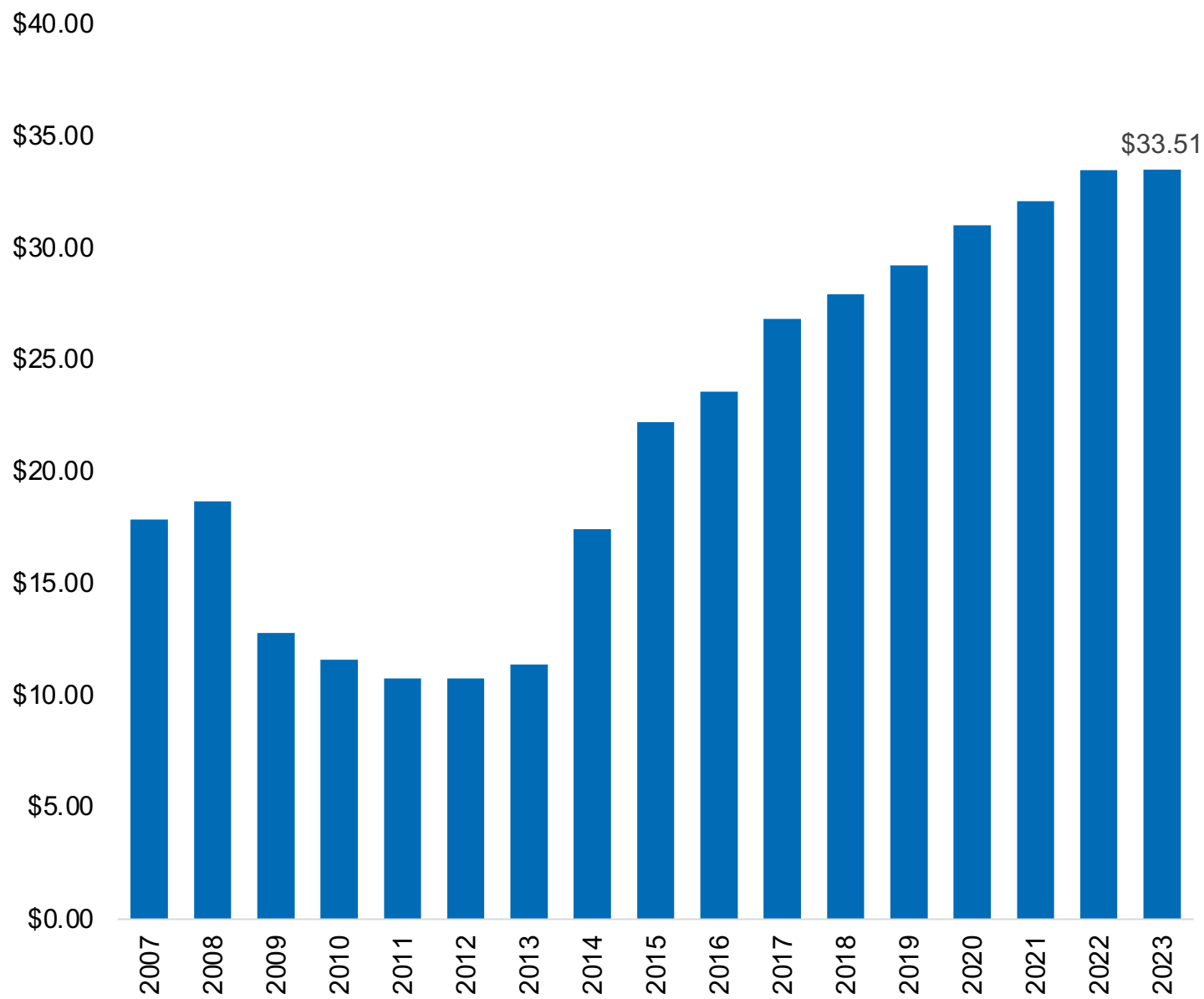


Source: Newmark Research, CoStar

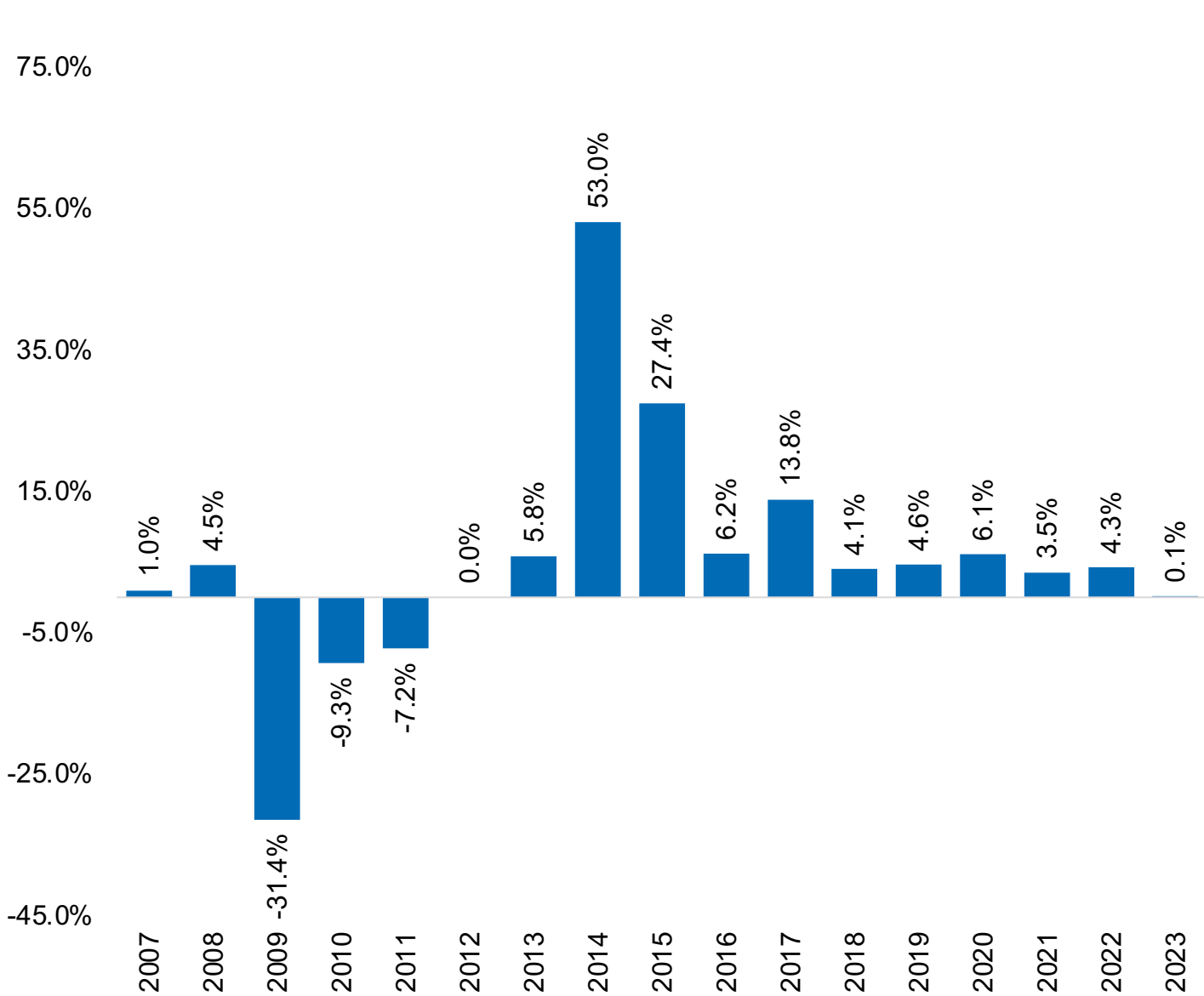
Rents Remain Near All-Time Highs

Rents increased by 0.1% in the third quarter of 2023 when compared with the previous quarter and 0.1% year over year; however, rents remain below the historical high of \$33.65/SF set in the first quarter of 2023. This increase follows a decline reported last quarter, which recorded a 0.5% decrease in rents quarter over quarter. Asking rents are likely to flatten over the next year when available supply outstrips demand as the elevated development pipeline continues to deliver.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

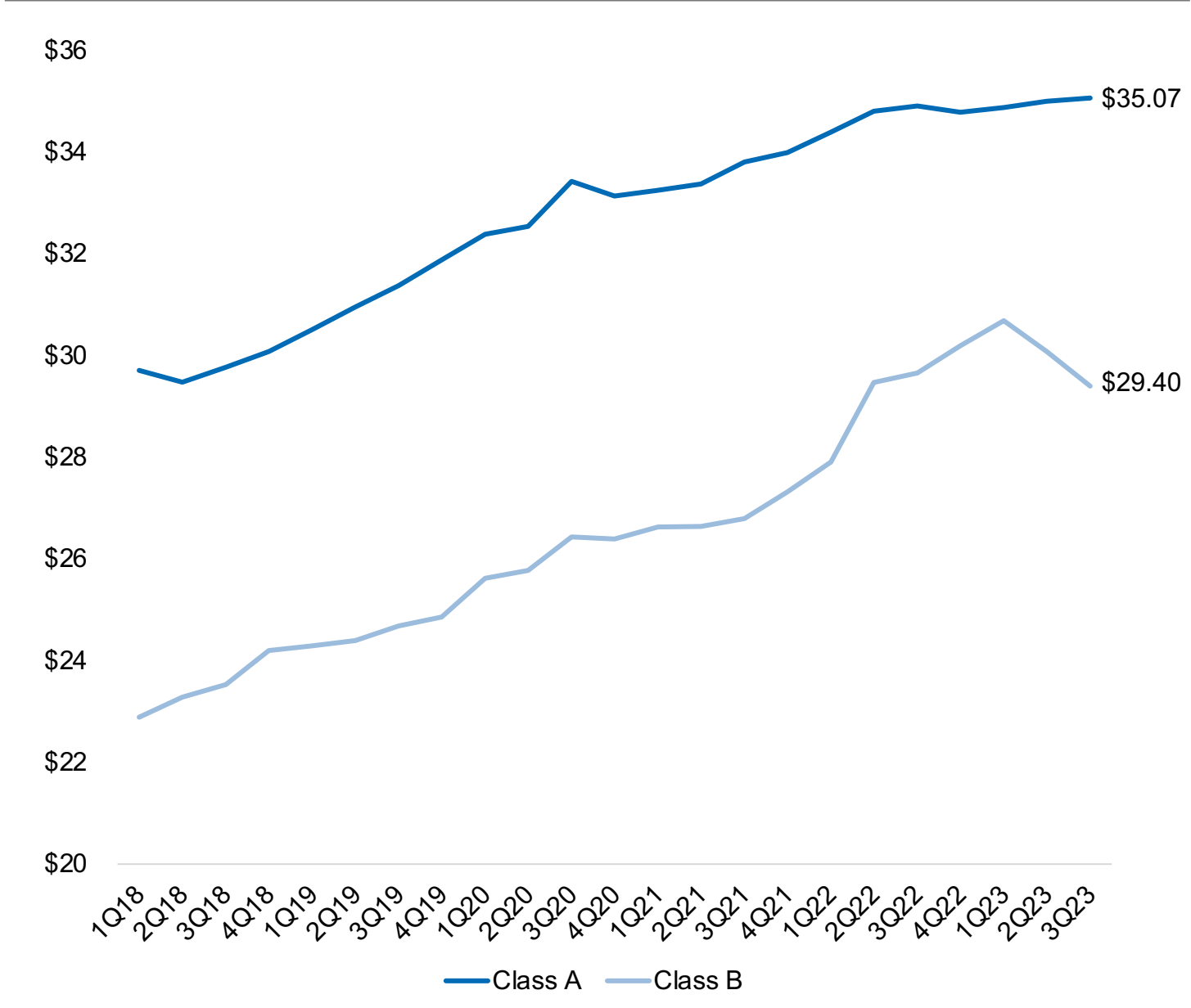


Source: Newmark Research, CoStar

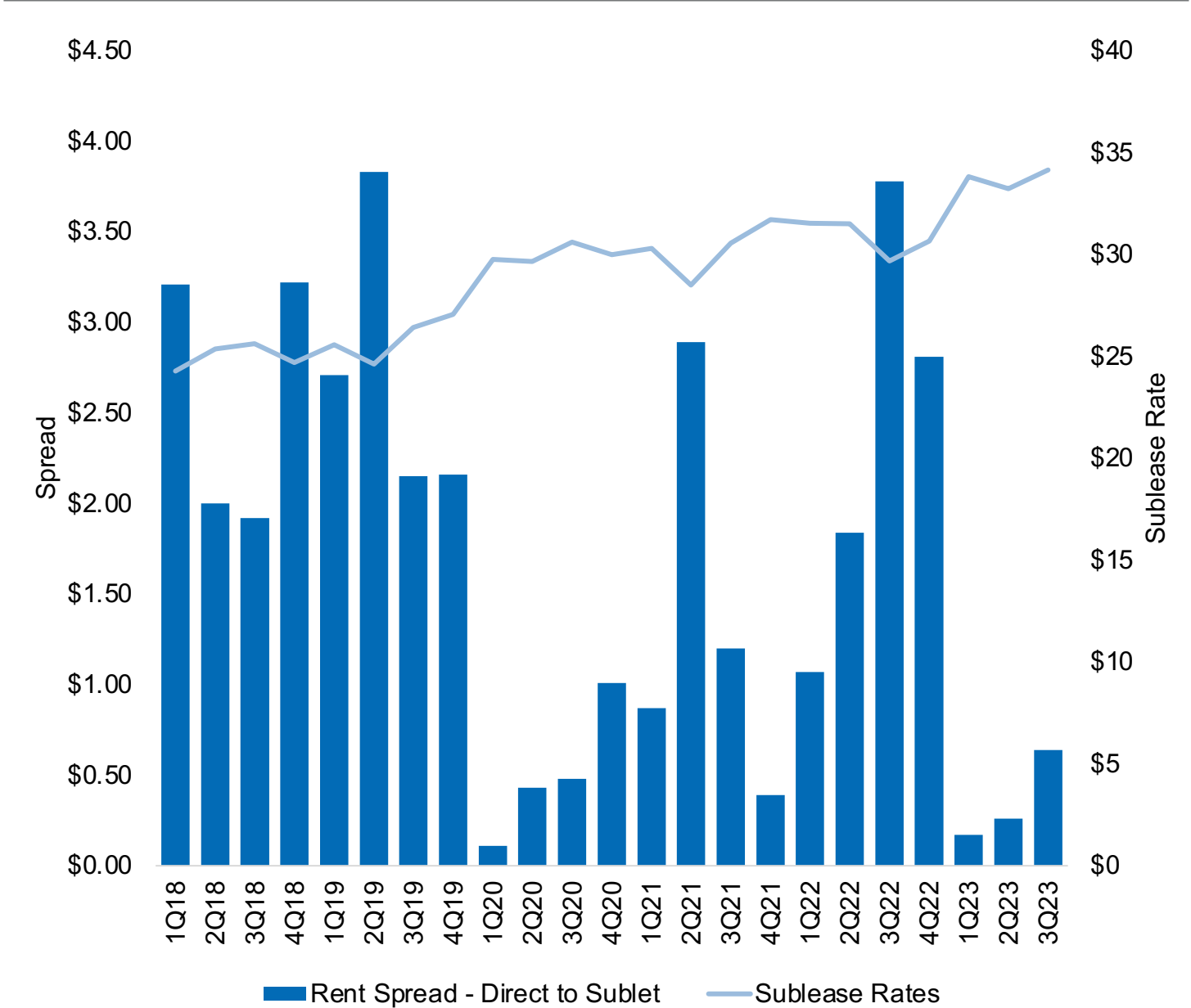
Rent Spread on Class A Assets Inches Up

As of the end of the third quarter of 2023, Class A rents reported \$35.07/SF, while Class B reported \$29.40/SF. The rent difference between the two assets is at \$5.67/SF, an 8.0% increase from the previous year. Despite the yearly spread increase, the spread remains well below the \$6.38/SF average reported from 2018 through 2022. The historically lower spread between Class A and Class B assets will likely cause more tenants to seek smaller spaces in higher-quality assets. Sublease rates have increased both 2.8% quarter over quarter and year over year by 15.1%.

Class A and Class B Asking Rents



Sublease Rates (Charlotte Office All Market Total Used)



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

As of the end of the third quarter of 2023, Class A space accounted for 62.4% of the market’s leasing activity by SF, but only 40.0% of the market’s deal volume. Average leases signed in Class A space were 5,639 SF and continue to remain larger than the average market deal size at 3,613 SF.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
United States Department of Justice	Carillon Tower	CBD	Renewal	37,909
The United States Department of Justice has renewed its lease on the sixteenth and seventeenth floors of 227 W. Trade St.				
Messer Financial	INQ @ 2401	Matthews	Sublease	31,475
Messer Financial has subleased the space that Maestro Health previously occupied on the first floor of 2401 Sardis Rd. N.				
Katten Muchin Rosenman	Regions 615	CBD	Direct Lease	31,368
Chicago-based Katten Muchin Rosenman, a multinational law firm, signed a lease for the seventeenth and eighteenth floors of 615 S. College St.				
Riverstone Logistics	Gragg Building	South/485	Direct Lease	28,421
Riverstone Logistics has leased the space previously occupied by Brighthouse Financial on the eighth floor of 11225 N. Community House Rd.				
IWG	The Ervin	East Charlotte	Direct Lease	20,000
IWG (International Workplace Group), formerly known as Regus, has leased the first floor of The Ervin to establish new coworking space at 4037 E. Independence Blvd.				

Source: Newmark Research, CoStar

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Charlotte Office Submarket Map



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