

2Q'18

Charlotte Office Market Report



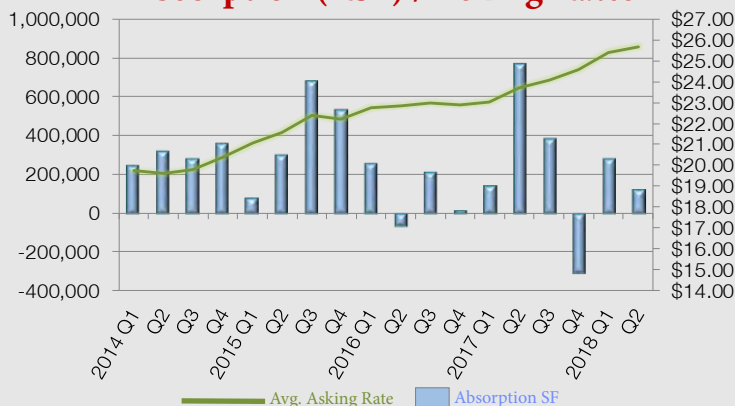
Charlotte's Economy Continues to Climb in 2018 with **Low** Unemployment and Increasing Home Values...

Charlotte, Mecklenburg County

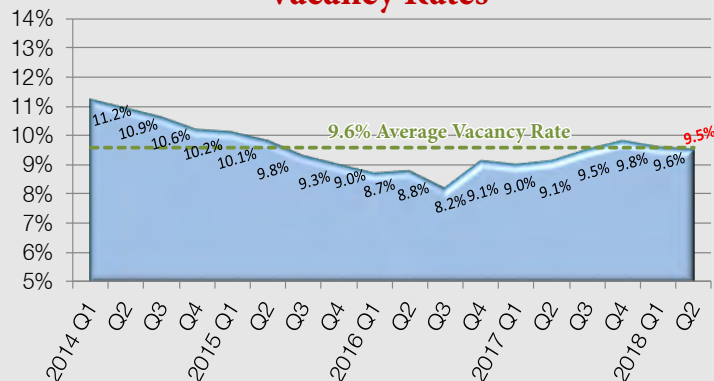
2018 2Q

Total Number of Buildings	3,264
Total Square Feet	85,539,008
Average Asking Rates	\$25.68
Overall Vacancy	9.5%
Net Absorption	118,545 SF
Deliveries	45,861 SF
Under Construction	3,460,590 SF

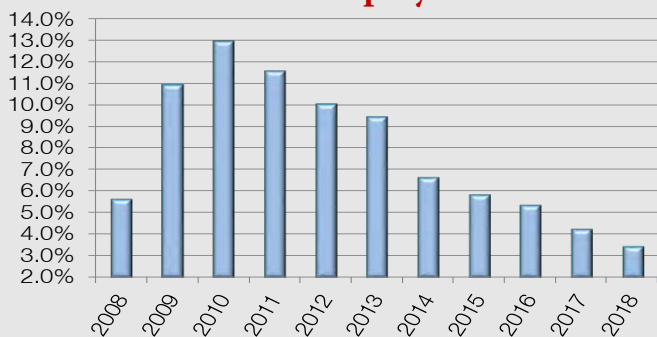
Absorption (RSF) / Asking Rates



Vacancy Rates



Charlotte Unemployment Rate



Charlotte's Local Economy

Charlotte's economy kept bounding ahead during the first half of 2018, driven by the combination of low unemployment and skyrocketing home values.

The unemployment rate for Charlotte's metro area fell to 3.4% during the second quarter, according to the U.S. Bureau of Labor Statistics. That marked its first journey below 4.0%. The Q2 figure was down from 4.0% at the end of the previous quarter and 4.3% a year earlier. Charlotte's rate compares favorably to both state and national figures.

The Charlotte Chamber reported that total employment in the Charlotte MSA rose to just less than 1.3 million during the second quarter from 1.26 million the prior year. Median home prices climbed to \$245,000 from \$226,500 a year earlier, while monthly retail sales rose to \$2 billion from \$1.8 billion, according to the Charlotte Chamber.

2Q17 vs. 2Q18



Charlotte Office Market Overview

Charlotte's office market showed continued strength at midyear, as average rental rates kept climbing and the amount of square footage under construction reached its highest point this decade. Rising vacancy rates are a concern, though rates remain well below those seen earlier in the decade, when they pushed above 15%.

The office market vacancy rate stood at 9.5% at the end of Q2, little changed from the previous quarter but up slightly from a year earlier.

Two office buildings totaling 45,861 square feet were delivered in Charlotte during Q2, down from six buildings totaling 160,323 square feet the previous quarter and six buildings totaling 1.1 million square feet the previous year.

The biggest delivery so far in 2018 was for 120,000 square feet at One Silver Crescent in the Southwest submarket's Ayrley development. The building is home to Jen-Weld's new headquarters and is fully leased. The top Q2 delivery was for 31,561 square feet at 4025 Yancey Road in the Southwest submarket.

The top lease signing at midyear was the 286,137-square-foot deal signed by Bank of America at Fifth Third Center in the Central Business District (CDB). Another large transaction inked in 2018 was Dimensional Fund Advisors' lease for 265,000 square feet in South End.

A total of 250 lease deals were struck during the second quarter, about the same as the prior quarter but down slightly from 265 deals a year earlier. The largest sales transaction for the quarter was CBRE Global Investors' \$222 million purchase of 615 South College in uptown Charlotte.

Net absorption for the quarter was a positive 185,545 square feet vs. positive 477,055 square feet the previous quarter and positive 764,651 square feet the previous year.

Average rental rates for the office market hit another record high during the second quarter, at \$25.68 per square foot. That compares to \$25.40 the previous quarter and 23.69 a year earlier. Rates have been on a steady rise for the past seven years.

A total of 22 buildings spanning 3.4 million square feet were under construction at the end of the second quarter. That's close to the total during Q1 and well up from the prior year, when 18 buildings totaling 2.2 million square feet were under construction.

The largest development under construction at the end of Q2 was Legacy Union, an 853,073-square-foot building in the CBD with 65% of its space pre-leased. Another major project underway was Ally Charlotte Center, a 742,000-square-foot facility in the CBD that is 81% pre-leased.

The biggest office project to break ground during Q2 was a 200,000-square-foot building at 3540 Toringdon Way in Ballantyne. It should deliver in the third quarter of 2019.

Central Business District

Los Angeles-based CBRE Global Investors spent \$222 million to acquire 615 South College, an office tower developed by Atlanta-based Portman Holdings that delivered in the spring of 2017. The final price for the 18-story, 375,865-square-foot office building came in at around \$590 per square foot. Tenants include WeWork, BDO, Regions Bank and Little Diversified Architectural Consulting.

Growth equity firm Frontier Capital more than doubled its office space at 525 North Tryon when it signed a lease for an extra 13,648 square feet on the building's 18th floor. Frontier had already occupied 12,600 square feet on the 19th floor. With that deal, 525 North Tryon is more than 85% leased.

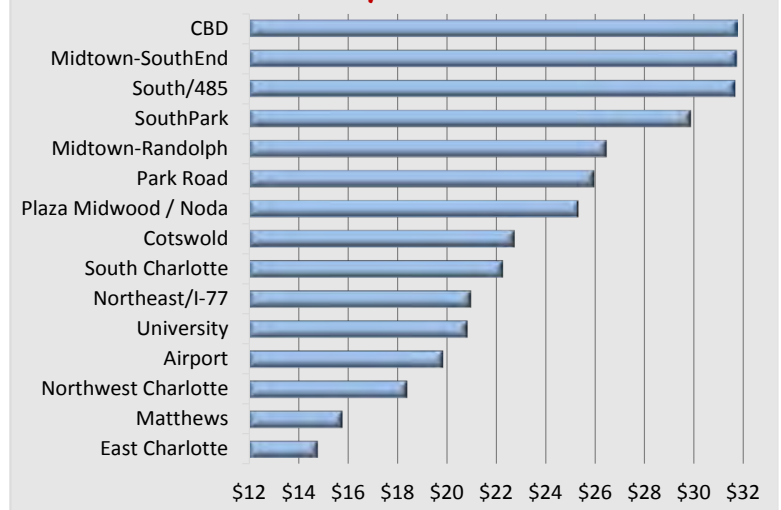
Funds managed by Los Angeles-based Oaktree Capital Group reportedly paid \$133.5 million for 400 South Tryon, an uptown office building. Charlotte's Trinity Capital will retain an ownership stake in the building, which it bought four years ago along with New York real estate investment firm DRA Advisors.

Broadstone Morehead LLC, affiliated with Phoenix-based developer Alliance Residential, paid nearly \$10 million to buy about 1.9 acres at the corner of South Tryon and West Morehead streets. The property includes commercial buildings and surface parking lots and will be converted into apartments.

Midtown

The Charlotte City Council approved a 20-story office tower and mixed-use project in Elizabeth that will include up to 512,500 square feet of office space, 30,000 square feet of ground-floor retail and a 240-room hotel. The project, being developed by NAI Southern Real Estate, is bounded by Baldwin Avenue and Third and Fourth streets and is located adjacent to the Lynx Gold Line streetcar system.

Rates by Submarket



Charlotte-based The Spectrum Cos. announced plans for a mixed-use project in South End that will likely include two midrise office buildings, ground-floor retail and restaurant space, a boutique hotel and a pedestrian plaza. The development is located over a five-acre block bounded by Carson Boulevard and Tryon, Catherine and Winnifred streets. It currently contains surface parking lots and a 58,500-square-foot office building at 1100 South Tryon Street. No delivery timeline has been announced.

American Security Mortgage signed a lease for 15,218 square feet at 150 Providence, a three-story office building currently under construction at the former site of the Novant Health Bradford Clinic. 150 Providence should deliver in late 2019. American Security Mortgage is the building's first tenant.

A pair of tenants signed office leases at 1515 Montford Park, a 122,940-square foot office building that is owned by Grubb Properties. Management consultant StoneLaurel took on 4,940 square feet at the building, while consumer show producer Marketplace Events will lease 2,347 square feet. Other tenants include Pfeiffer University, CoCoTiv and Benchmark Insurance Co. 1515 Montford Park, formerly known as Park Seneca, is undergoing a \$25 million renovation expected to wrap up by the end of the summer.

Spaces, a Dutch coworking company, said it will lease 27,400 square feet at 307 West Tremont in South End. The former warehouse building spans almost 50,000 square feet of office space and is owned by Asana Partners.

Southpark

Specialty chemicals maker Albemarle Corp. signed a lease for 141,500 square feet in the North Tower at Lincoln Harris' Capitol Towers office development in SouthPark. Albemarle's current headquarters is at the South Tower, where it leases about 50,000 square feet. All of its operations should be transferred into the North Tower by the end of the year. The company will take the top six floors at the North Tower.

South Charlotte

Trinity Capital Advisors announced plans to begin construction on Toringdon 7, part of a six-building office park off Interstate 485 in South Charlotte. Toringdon 7 will span eight stories and more than 198,000-square-foot. The building is expected to deliver in the summer of 2019.

Charlottesville, Va.-based Anchor Health Properties acquired the Harper Building at 14135 Ballantyne Corporate Place for close to \$20 million as The Bissell Cos. continued to divest its holdings in Ballantyne. Bissell sold most of Ballantyne Corporate Park to Northwood Investors last year for \$1.2 billion.

Charlotte-based technology consultant SeedSpark signed a seven-year lease for 10,435 square feet at Quail Plaza in south Charlotte. The company will move from its location at 5970 Fairview Road in SouthPark.

University

Cambridge Properties announced plans to redevelop the former Kohl's at Mallard Pointe Shopping Center in University City into 87,000 square feet of office space. The property will be rebranded as 9315 North Tryon.

Airport

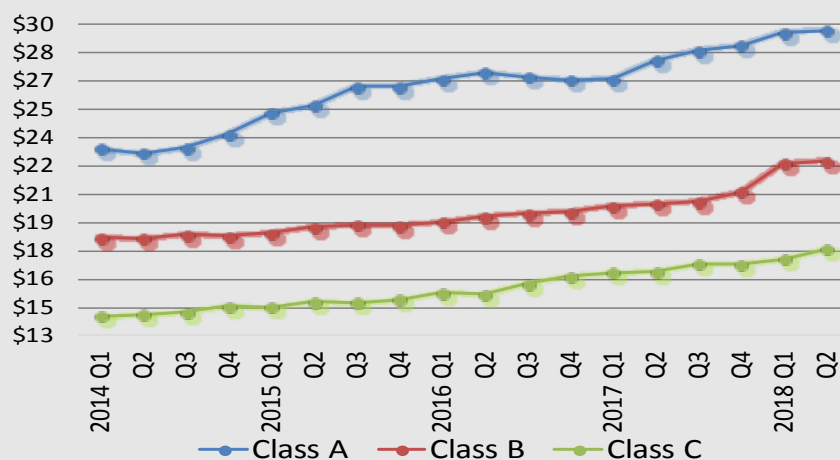
Durham-based The Dilweg Cos. spent just less than \$46 million to buy a portfolio of buildings at Vanguard Center in the Airport submarket. The development features 563,504 square feet of office space. All but one of the buildings was sold by True North Management Group of White Plains, N.Y. Vanguard Center was about 65% leased at the time of the transaction, with major tenants such as National Welders, M/I Homes and The Home Depot. BB&T Corp. purchased LakePointe Corporate Center One and Two in a pair of deals valued at \$52.8 million. BB&T paid \$29 million for LakePointe One and \$23.8 million for LakePointe Two. The sellers were a joint venture between Childress Klein and Artemis Real Estate Partners. The buildings were occupied at the time of the transaction, but as those leases expire, BB&T will move some its operations in.

Outlook

You'd be hard pressed to find a more bustling market for office space than what Charlotte has seen over the past few quarters, with rental rates and construction soaring to record levels. Rising vacancy rates are a potential worry, and the Queen City has missed out on a couple of major corporate investments, including the Amazon HQ2 earlier in the year. But most metrics remain positive. One thing to keep an eye on is the recent boom in office construction, which could create fierce competition for tenants down the road and lead to a softening of rental rates. The macro outlook remains robust in both Charlotte and North Carolina. Speaking at a mid-year Economic Outlook forum, Charlotte economist John Connaughton said the state should add 113,000 net jobs in 2018. He also forecast that North Carolina's GDP growth rate will accelerate to 2.8% this year from 1.6% the previous eight years.

Charlotte, North Carolina 2Q 2018 Office Market Report

Asking Rates by Building Class



Class A, B & C Office Submarket Statistics

	Total SF	Total # of Buildings	Total Available SF	Vacancy Rate %	Net Absorption	Building Deliveries	Under Construction End of 2Q	Average Rental Rate
Class A / (4 & 5 Star)	40,630,227	254	6,837,391	15.7%	241,806	2	2,935,358	\$29.16
Class B / (3 Star)	29,740,007	1,114	3,260,781	10.8%	(61,061)	0	525,232	\$22.25
Class C / (1 & 2 Star)	15,168,774	1,896	1,496,798	7.5%	(62,200)	0	0	\$17.62
CBD	21,785,950	121	3,323,874	10.9%	140,236	0	1,595,073	\$31.74
Midtown-SouthEnd	6,272,959	397	964,861	4.6%	37,128	0	777,456	\$31.70
South/485	6,812,172	173	942,671	8.5%	(34,467)	0	409,320	\$31.64
SouthPark	5,694,863	100	835,061	13.1%	(818)	0	0	\$29.85
Midtown-Randolph	3,470,008	252	212,366	4.7%	(3,937)	0	7,500	\$26.44
Park Road	1,230,687	84	110,626	8.3%	1,307	0	0	\$25.94
Plaza Midwood / Noda	2,135,360	279	193,334	3.0%	(1,135)	0	169,730	\$25.30
Cotswold	490,271	37	11,927	0.4%	932	0	0	\$22.73
South Charlotte	2,730,881	174	211,031	5.0%	4,008	0	0	\$22.25
Northeast/I-77	5,645,415	390	624,613	7.9%	(16,332)	0	42,000	\$20.97
University	8,480,769	152	1,137,175	10.2%	24,227	0	0	\$20.82
Airport	13,455,499	347	2,231,904	13.3%	(56,004)	2	391,591	\$19.84
Northwest Charlotte	1,329,115	193	95,382	3.3%	4,388	0	67,920	\$18.38
Matthews	2,814,099	241	322,257	9.9%	25,897	0	0	\$15.77
East	3,200,960	324	377,888	8.5%	(6,885)	0	0	\$14.77

Notable Lease Transactions

* Renewal

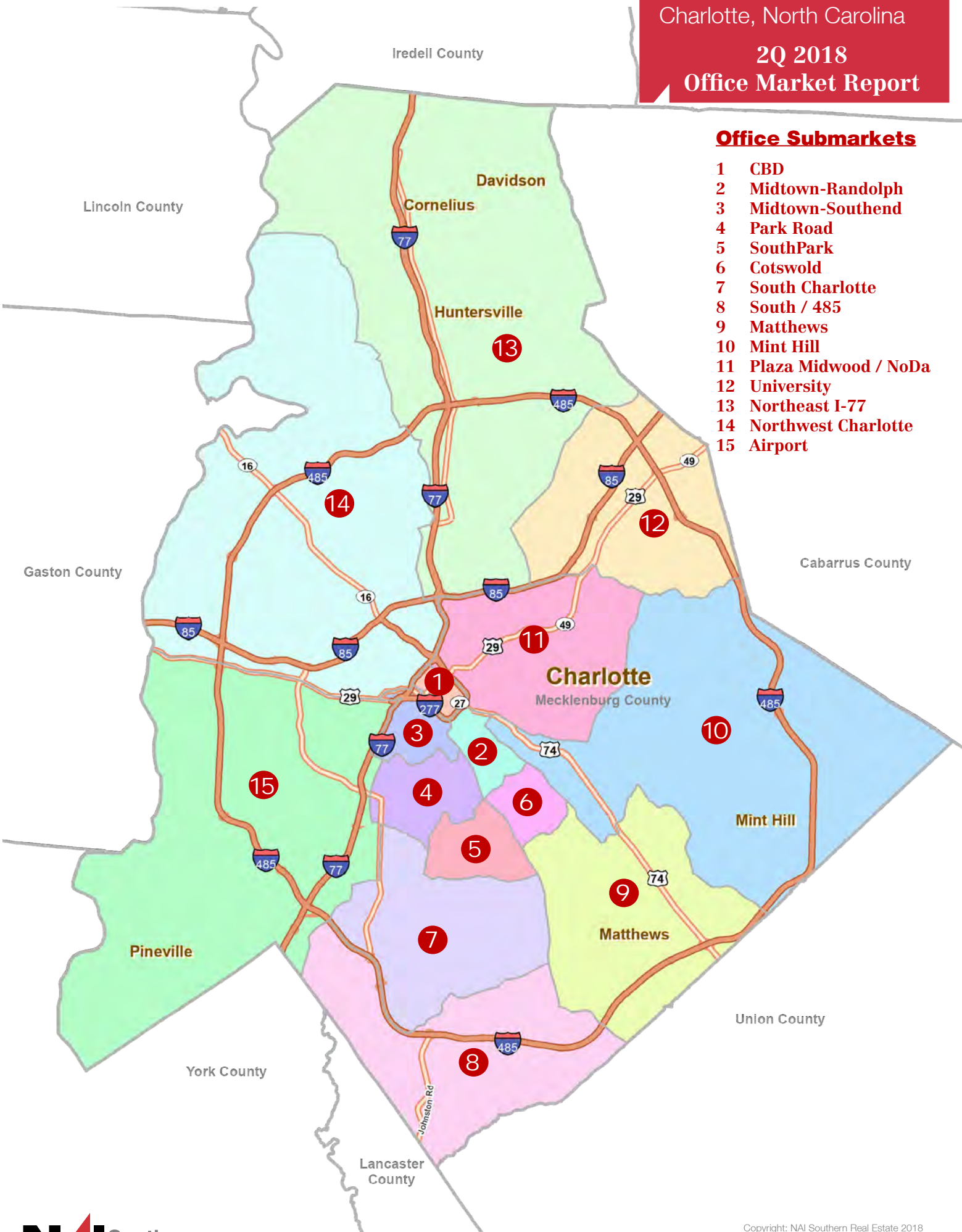
	Building	Submarket	SF	Qtr	Tenant Name
1	201 N Tryon St*	CBD	286,137	1st	Bank of America
2	4250 Congress St	SouthPark	141,500	1st	Albemarle
3	615 S College St	CBD	52,289	1st	Little Diversified Architectural
4	6060 Piedmont Row Dr S	SouthPark	43,494	2nd	N/A
5	4828 Parkway Plaza Blvd	Airport	31,726	2nd	N/A
6	4828 Parkway Plaza Blvd	Airport	30,891	2nd	N/A
7	16833 Marvin Rd	South/485	30,320	1st	N/A
8	307 W Tremont Ave	Midtown/Southend	30,000	1st	N/A
9	521 E Morehead St	Midtown/Southend	24,698	2nd	Charter Communications
10	550 S Tryon St	CBD	24,211	1st	N/A
11	8215 Forest Point Blvd	Airport	22,943	1st	Paychex, Inc
12	4250 Congress St	SouthPark	21,000	2nd	N/A
13	2116 Hawkins St	Midtown/Southend	20,549	1st	N/A
14	4250 Congress St	SouthPark	18,831	1st	Citizens Bank
15	400 S Tryon St	CBD	18,828	2nd	N/A
16	6302 Fairview Rd*	SouthPark	17,213	2nd	ZAPATA
17	13620 Reese Blvd E	Northeast/I-77	15,895	1st	Ensemble
18	130 Harbour Place Dr	Northeast/I-77	15,524	1st	Curtiss-Wright Corporation
19	3735 Glen Lake Dr	Airport	15,340	1st	N/A
20	5275 Parkway Plaza Blvd	Airport	15,168	2nd	Maser
21	8530 Cliff Cameron Dr	University	15,000	1st	Q3M
22	150 Providence Rd	Midtown/Randolph	14,082	2nd	American Security Mortgage
23	6210 Ardrey Kell Rd	South/485	13,852	1st	Horizon Investments
24	7510 E Independence Blvd	Matthews	13,013	2nd	Casa de Avivamiento
25	11405 N Community House Rd	South/485	12,640	1st	N/A
26	6210 Ardrey Kell Rd	South/485	12,000	1st	ESRI
27	1001 Morehead Square Dr	Midtown/Southend	11,817	1st	Time Warner
28	9713 Northcross Center Ct	Northeast/I-77	11,717	1st	N/A
29	550 S Tryon St	CBD	11,234	1st	Thurman, Wilson, Boutwell & Galvin Law
30	9335 Harris Corners Pkwy	Northeast/I-77	11,116	1st	Hepaco LLC
31	4250 Congress St	SouthPark	10,655	1st	Eagle Marsh Holdings
32	7621 Little Ave	South Charlotte	10,435	1st	Seedspark
33	101 S Tryon St	CBD	10,427	1st	N/A
34	11030 Golf Links Dr	South/485	10,366	1st	N/A
35	205 Regency Executive Park Dr	Airport	10,290	2nd	Indecomm

Major Sales Transactions

Building(s)	Price	SF	Seller	Buyer
615 S College Street	\$222,000,000	375,865	Portman Holdings	CBRE Global Investors
200 S College Street	\$148,500,000	570,601	CIM Group, LP	The Arden Group, Inc
400 S Tryon Street	\$133,500,000	583,911	DRA Advisors	Oaktree Capital Management, LP
1400 Highway 160 E	\$130,000,000	450,000	Childress Klein	Griffin Capital Corp
128 S Tryon Street	\$79,000,000	476,987	Osprey Management Company	The Dilweg Companies
10115 Kinsey Avenue	\$62,500,000	395,586	Bank of America Pension Plan	OA Development, Inc
4201 Congress Street	\$60,000,000	230,790	RREEF Management	Equus Capital Partners, Ltd
9335 Harris Corners Pkwy	\$58,500,000	357,654	New Boston Fund, Inc	Bridge Investment Group Partners
2359 Perimeter Pkwy	\$51,797,000	331,611	Childress Klein	BB&T

Office Submarkets

- 1 CBD
- 2 Midtown-Randolph
- 3 Midtown-Southend
- 4 Park Road
- 5 SouthPark
- 6 Cotswold
- 7 South Charlotte
- 8 South / 485
- 9 Matthews
- 10 Mint Hill
- 11 Plaza Midwood / NoDa
- 12 University
- 13 Northeast I-77
- 14 Northwest Charlotte
- 15 Airport



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