

Savills Studley Report

Charlotte office sector

Q2 2017



SUMMARY

Market Highlights

TENANTS REMAIN ACTIVE

After leasing nearly 700,000 sf in the first quarter, Bank of America yet again accounted for the top lease in the second quarter - taking 140,929 sf in Ballantyne Corporate Park. Additionally, Verizon completed a 92,259 sf lease at 2401 Sardis Road N in East Charlotte.

AVAILABILITY RATES FLAT

Charlotte's overall availability rate declined 60 basis points to 10.5%. The Class A availability rate fell by 40 basis points to 12.8%.

RENTS INCREASE

Overall asking rent increased by 6.2% quarter-on-quarter to \$24.37, and has spiked by 19% year-on-year. Class A asking rent also increased by 5.3% to \$27.50, and has jumped by 18.5% year-on-year.

SALES INCREASE

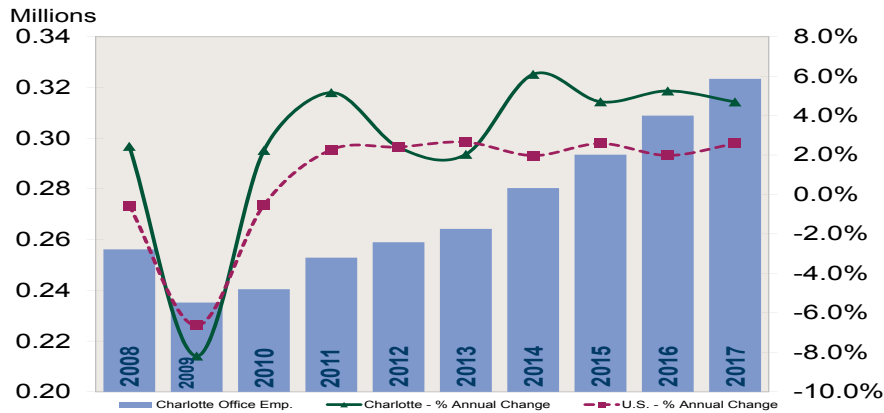
Year-to-date office property sales totaled \$1.3 billion, rising by 53% compared to the \$841 million sold during the same period in 2016.

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"The second quarter brought some highs and lows. The Carolinas gained jobs from financial services firms, banks and other employers capitalizing on lower costs and strong local talent. On the other hand, the quest to optimize efficiency and cut costs is starting to take the form of layoffs locally as well."

Mark Ayers,
Executive Vice President

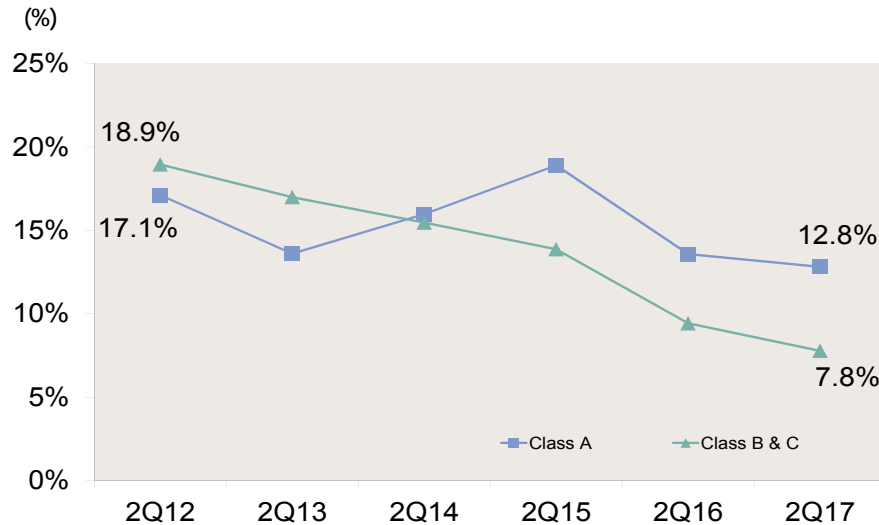
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Office-Using Employment Trends

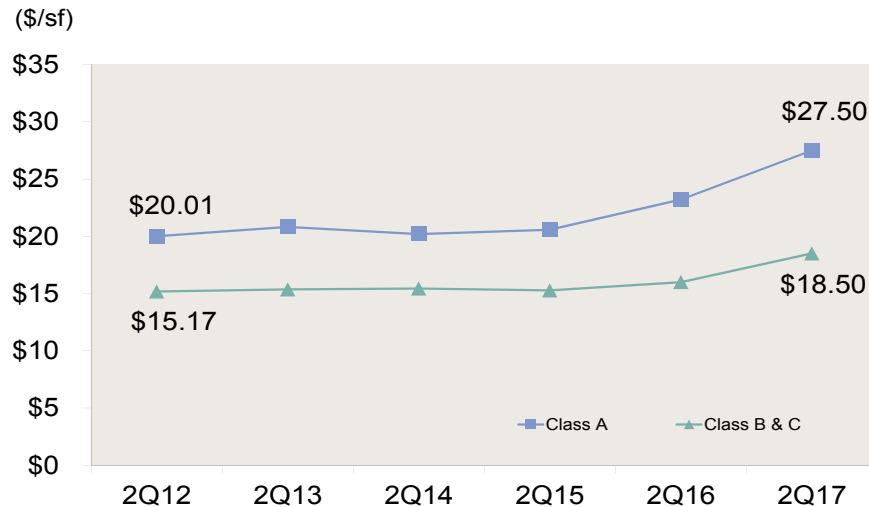


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Mixed Signals

The Carolinas continue to benefit from expansion among businesses headquartered in other markets. As companies in New York, Boston, San Francisco and Chicago seek out talent and space at a price that won't break their bottom line, their search has led many of them to Charlotte. Most companies have been trying to keep costs under control. At the same time, companies are well aware that talent does not come cheaply. All of the metro areas in the Carolinas offer a good balance of talent and lower-costs of living and doing businesses. The surge in back office and technological support jobs are a positive for the region, but these divisions are sometimes the first to take a hit when companies look for inefficiencies or areas to cut expenses.

Gains

LPL Financial was among the latest to announce a major expansion, saying they will add 157 jobs at their campus in Fort Mill, South Carolina. The wealth management company already has about 1,500 jobs in Fort Mill. LPL received \$2 million from South Carolina to offset some of the costs associated with the construction of the new facilities, and could qualify for additional tax credits based on how many new jobs it creates. The new positions will replace jobs primarily based in San Diego as well as several in Boston. A company spokesperson pointed to Fort Mill's high quality of life, strong pool of financial services talent and lower living costs.

A wide variety of financial services companies and banks have been very active across the Carolinas in the last two years, ranging from alternative lenders such as LPL Financial, to regional banks. US Bank, for example, recently added 24,124 sf at 201 South Tryon in Uptown. The New York based bank has seen its payroll jump from 400 employees in early 2016 to 650 as of mid-2017.

Some wealth management firms and alternative lenders seem to be gaining ground, perhaps at the expense of larger banks. Lending Tree, for example, has been on a tear. They recently acquired the parent company for MagnifyMoney. Com, a website enabling consumers to compare financial products. Last fall, Lending Tree announced plans to add more than 300 workers in Charlotte over the next five years after receiving an incentive package of nearly \$5 million from the state. They recently leased 30,051 sf at 2115 Rexford Road in SouthPark.

And Losses

On the other hand, many of the largest banks are engaged in a protracted process of

streamlining operations and some of the cuts have found their way to Charlotte. Bank of America announced that it will lay off an undisclosed number of employees in their global technology and operations unit, which resides in Charlotte. The bank did not provide a specific reason for the cuts, but technological enhancements could be partially to blame. Since 2014, the company has been undertaking a program called Simplify and Improve. The program is part of a long-term efficiency initiative

Other industries are implementing cost-cutting measures. A more efficient and less costly operating model spurred 500 layoffs by Kellogg's at their production plant in Charlotte. The cereal producer is no longer shipping directly to retailers. Lowe's recently announced 125 layoffs in Mooresville due to modernization.

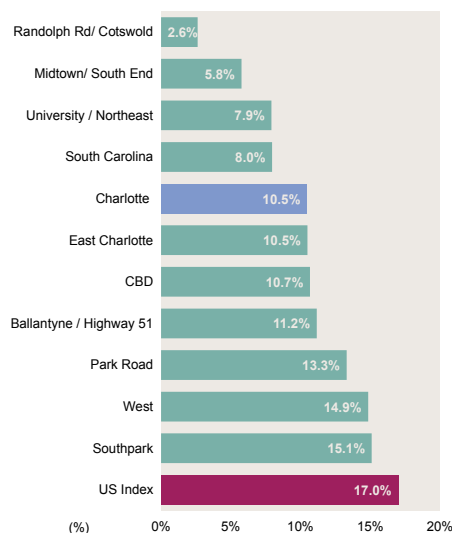
On balance, office-using employment is still increasing in the region. As of May, office-using employment had increased by 14,500 jobs, a 5.0% gain. Employers are attracted to Charlotte's growing and younger workforce and its reasonable cost of living. Housing costs are unquestionably on the increase, but they are a fraction of costs in top metros such as New York City, San Francisco and Washington, the average cost for a single-family home in Charlotte (\$263,000) is well below the \$800,000 in the Bay Area of California.

Buyers Remain Bullish as Fundamentals Are Strong

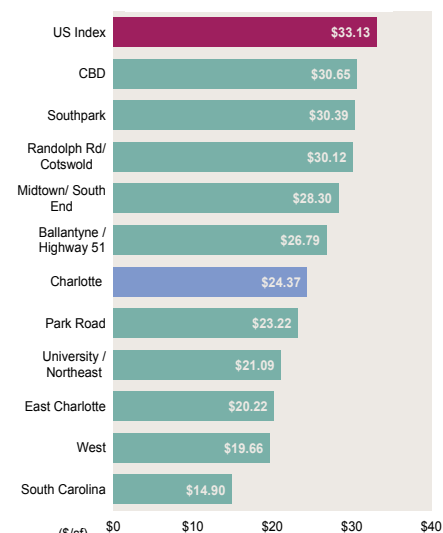
Investors, much like major employers, are also taking a close look at Charlotte's office market. This includes buyers that are unwilling to accept \$500/sf-plus pricing and sub-5.0% cap rates in gateway markets such as New York City and Washington, DC. Earlier this year, the region captured its largest transaction on record. Local developer and investor Northwood Ravin paid \$1.2 billion for Ballantyne Corporate Park, snaring one of Charlotte's premier assets. The 535-acre park includes 4 million sf of prime office space, the Ballantyne Golf club and four hotels with 588 rooms.

Investors are also attracted to the strong fundamentals of Charlotte's office market. Availability rates have fallen steadily in recent quarters. The region's Class A availability rate fell by 40 basis points to 18.3% in the second quarter. Tenants have started to make a dent in newly constructed space, just as the development pipeline is starting to slow. As of mid-year, Charlotte had just over 2 million sf of non owner-user properties (speculative development) under construction; with

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Bank Of America	140,929	13510 Ballantyne Corporate Pl	Ballantyne / Highway 51
Verizon Wireless	92,259	2401 Sardis Rd N	East Charlotte
Empowered Benefits	32,123	525 N Tryon St	CBD
Lending Tree	30,051	2115 Rexford Rd	SouthPark
ALS Resolution	15,523	10815 David Taylor Dr	University / Northeast
Brock & Scott PLLC	8,700	8757 Red Oak Blvd	West
VOCA Corporation	4,077	10150 Mallard Creek Rd	University / Northeast
Cardinal Innovations Healthcare	3,517	121 W Trade St	CBD
Lead Vision LLC	2,854	325 Arlington Ave	Midtown/ South End
Bottomline Technologies	2,354	10800 Sikes Pl	East Charlotte
Sum of Top 10 Leases	332,387		

nearly 800,000 sf remaining available for lease. Lincoln Harris' 620 South Tryon, scheduled to deliver in 2019, still has nearly 300,000 sf left to lease. Insite Properties and Northridge Capital unveiled plans for The Refinery at 1213 West Morehead. The building will include a parking deck, a rooftop deck and bike storage. New construction activity has boosted average rent in the last few quarters. Average Class A rent in Charlotte's CBD has increased by 6% year-on-year, from \$29.93/sf to \$31.37/sf.

Existing properties in Midtown and Uptown continue to capture steady demand, particularly when it comes to tech firms eager to recruit millennials. Benefits software provider Empowered Benefits recently signed a 32,123 sf lease at 525 N Tryon Street. Even though many smaller and mid-sized firms are focusing almost exclusively on the CBD, other major employers still prefer the corporate campus. Asking rent in Southpark is rivaling top buildings in CBD.

Some of the newly constructed buildings in Southpark have rent approaching \$40/sf. Existing Class A building stock is pushing just above \$30.00/sf, about 5.0% to 10.0% less than in the CBD. Of note, the North Office Tower at Capitol Towers, which delivered earlier this year has yet to secure any tenants.

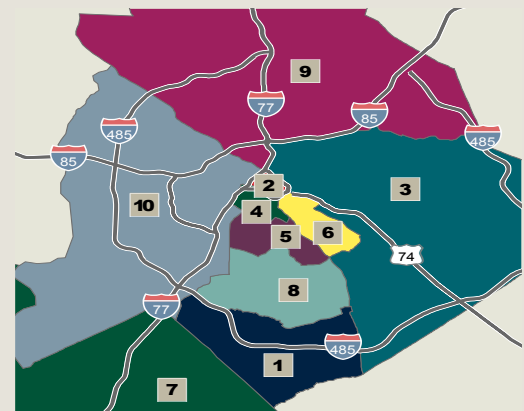
Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	This Quarter (1000's)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Ballantyne/Highway 51	6,956	325	777	-4.6%	1,018,117	11.2%	-0.5%	14.6%	\$26.79	7.3%	\$23.82
	Ballantyne / Highway - Class A	4,788	312	541	-4.4%	804,455	11.3%	-0.5%	16.8%	\$28.49	4.2%	\$24.95
2	CBD	24,453	291	2,612	-5.4%	2,721,031	10.7%	-0.6%	11.1%	\$30.65	4.4%	\$24.84
	CBD - Class A	18,386	276	2,368	-3.0%	2,287,726	12.9%	-0.4%	12.4%	\$31.37	3.4%	\$25.72
3	East Charlotte	5,898	10	619	-24.4%	830,898	10.5%	-3.4%	14.1%	\$20.22	37.0%	\$12.24
	East Charlotte - Class A	733	10	257	-30.4%	340,346	35.0%	-15.3%	46.4%	\$27.48	69.6%	\$10.79
4	Midtown/South End	5,182	31	299	12.0%	402,077	5.8%	0.6%	7.8%	\$28.30	-0.3%	\$25.95
	Midtown / South - Class A	1,888	11	135	13.4%	230,165	7.2%	0.8%	12.2%	\$31.77	-1.7%	\$30.36
5	Park Road	1,085	5	144	0.9%	150,630	13.3%	0.1%	13.9%	\$23.22	29.8%	\$17.66
	Park Road - Class A	63	5	10	-25.4%	11,737	16.3%	-5.6%	18.7%	\$32.50	4.1%	\$31.00
6	Randolph Rd/ Cotswold	3,284	2	86	-62.8%	144,299	2.6%	-4.4%	4.4%	\$30.12	58.0%	\$13.15
	Randolph Rd / Cotswold - Class A	1,047	2	46	-9.3%	2,703	4.4%	-0.5%	0.3%	\$34.19	17.0%	\$27.90
7	South Carolina	8,663	9	690	-14.1%	810,223	8.0%	-1.3%	9.4%	\$14.90	3.1%	\$16.73
	South Carolina - Class A	4,247	9	411	-10.7%	486,216	9.7%	-1.2%	11.4%	\$17.65	-3.3%	\$20.70
8	Southpark	5,666	158	856	-4.9%	932,124	15.1%	-0.8%	16.5%	\$30.39	11.9%	\$26.31
	Southpark - Class A	3,468	144	661	10.5%	535,445	19.1%	1.8%	15.4%	\$32.13	4.2%	\$29.93
9	University / Northeast	14,749	75	1,168	-1.6%	1,156,191	7.9%	-0.1%	7.8%	\$21.09	5.2%	\$17.10
	University / Northeast - Class A	5,568	62	508	-5.2%	424,092	9.1%	-0.5%	7.6%	\$22.13	6.0%	\$20.08
10	West	15,822	33	2,350	3.7%	2,515,549	14.9%	0.5%	15.9%	\$19.66	3.1%	\$17.44
	West - Class A	8,695	20	1,328	1.2%	1,515,376	15.3%	0.2%	17.4%	\$22.27	2.9%	\$19.45
1-12	Charlotte Total	91,758	906	9,602	-5.8%	10,681,139	10.5%	-0.6%	11.6%	\$24.37	6.2%	\$20.48
	Charlotte - Class A	48,882	841	6,265	-3.1%	6,638,261	12.8%	-0.4%	13.6%	\$27.50	5.3%	\$23.21

Please contact us for further information

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(1) Percentage point change for availability rates.
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information.
 Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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