

Savills Studley Report

Charlotte office sector

Q3 2017



SUMMARY

Market Highlights

LEASING SLOWS

Quarterly volume declined, falling to just under 525,000 sf. In contrast to the second quarter, which was dominated by a handful of larger deals in the banking sector, the third quarter brought a flurry of activity among a diverse set of smaller and mid-sized firms. Tenants were once again active in the CBD – 300 South Tryon, for example, signed leases with Winston & Strawn and King & Spalding.

AVAILABILITY RATES FALL

Charlotte's overall availability rate fell below 10.0% for the first time in this cycle, decreasing to 9.9%. The Class A rate

(11.9%) remains higher, but has decreased by 170 basis points compared to the third quarter of 2016.

RENTS INCREASE

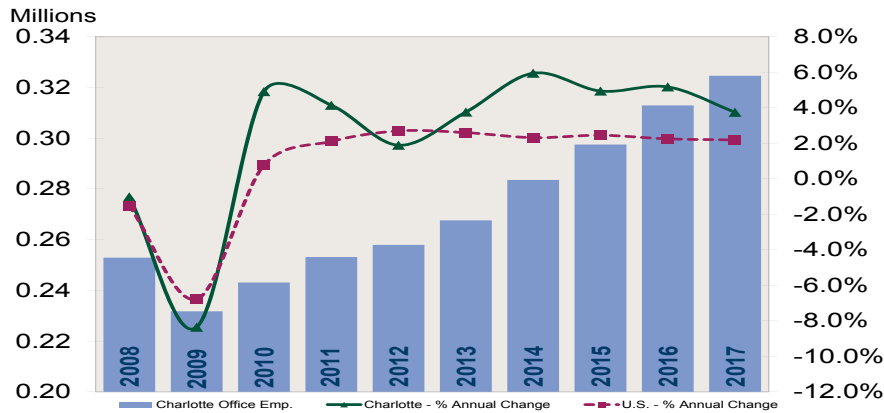
Overall asking rent increased by 0.8% quarter-on-quarter to \$25.23. Class A asking rent also increased by 0.3% to \$28.00.

SALES INCREASE

Office property sales in 2017 through July totaled \$1.6 billion, rising by 76% compared to the \$919 million sold during the same period in 2016.

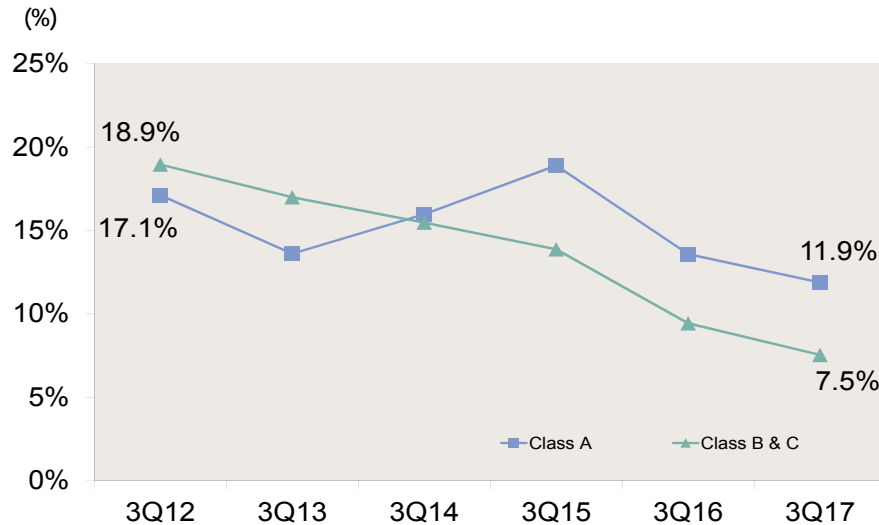
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"Hiring and leasing has moderated in several major U.S. markets in the last few quarters. Charlotte is not among them – corporate relocation activity has picked back up and leasing in Southend and Uptown has been very brisk, presenting tenants with a challenging environment."
 Mark Ayers,
 Executive Vice President

Office-Using Employment Trends

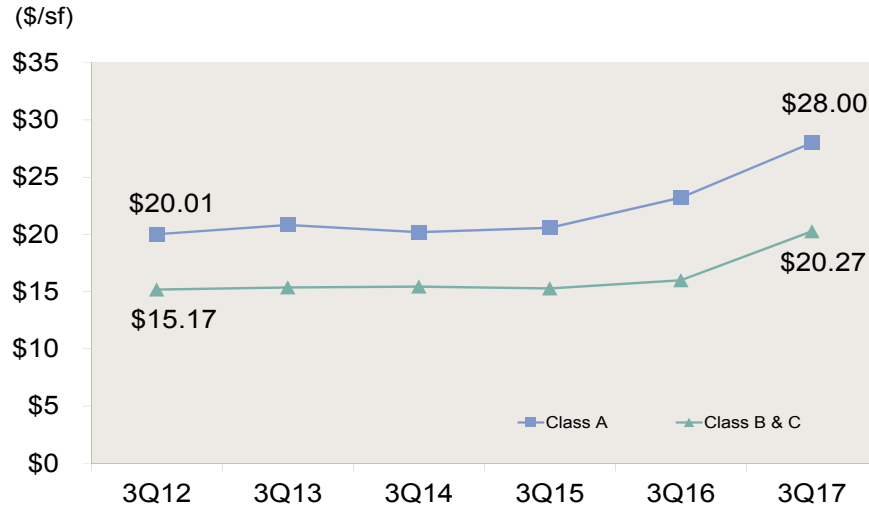


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Tenants Big and Small

Some markets around the country have clearly lost some momentum so far this year – both in terms of hiring and leasing activity. Charlotte is not one of them – leasing has picked up in the last two quarters as expansion among both local firms and businesses based in other markets has fueled demand for space. The local economy and office market seem to be in for a stretch of smooth sailing thanks in part to having put HB2 in the rearview mirror. Companies from a wide array of industries are growing, including financial services, software and engineering.

Charlotte recently won several major site selection contests. In August, Allstate Corp unveiled plans to invest \$22.6 million in an expansion that will bring 2,250 more jobs to the region. Allstate underscored the region’s skilled and educated workforce as a primary reason for the selection. The Economic Development Partnership of North Carolina noted that the firm will be eligible for \$17.8 million in reimbursement over 12 years. Allstate currently employs about 1,400 people in the region – most of them located at Innovation Park in University City.

Both Carolinas are in the running for a \$1.6 billion Toyota-Mazda electric car plant that will employ 4,000 people. In a recent article regarding the pursuit of the plant, Chris Chung, the CEO of the Economic Development Partnership of North Carolina, said they have 280 active projects with companies – “an all-time high.” Volvo recently announced a significant expansion and investment at its plant in Berkeley, South Carolina that will add 1,900 jobs.

AllState’s announcement made a big splash. Smaller and mid-sized firms are also boosting demand. A fair number of software firms are rapidly expanding their payrolls, fueling a need for larger spaces. Integration Point signed a seven-year renewal and expansion at Providence Park in South Charlotte, growing from 32,700 sf to 48,000 sf. In South End, Passport Inc., leased 26,986 sf at First Citizens Bank Plaza (128 S. Tryon Street) more than tripling from the 8,000 sf it currently leases in the Textile Mill Building. Passport Inc. – which develops mobile payments software for parking agencies, transit systems and government agencies – has grown from 52 employees roughly a year ago, to 85 employees currently. Finally, TM Floyd & Company completed a 5,373-sf lease at Ayrley Arcade building. The IT consulting firm based in Columbia, South Carolina plans to increase its payroll from 20 to 35 employees over the next six months.

Flight to Quality

Many of the expanding tenants are demonstrating a clear preference for quality Class A product. Buildings constructed in

the last year or so, as well as those poised to deliver in the next few quarters, have registered steady leasing. Charlotte currently has 2.9 msf of new construction underway, with just under two-thirds of it pre-leased. The Spectrum Companies, for example, has pushed the leased rate at 300 South Tryon past the 50% mark. The building, scheduled to be completed in October 2017, recently secured full-floor leases, both approximately 27,000 sf, with King & Spalding and Winston & Strawn.

Sitehands leased 13,524 sf at 615 South - Portman Holdings' recently delivered building in Uptown's Stonewall corridor. They will move from Ballantyne as part of a plan to hire 200 new employees in Charlotte over the next five years. The firm designs, engineers, constructs and manages IT infrastructure for large companies and recently received a \$25 million equity investment from FTV Capital.

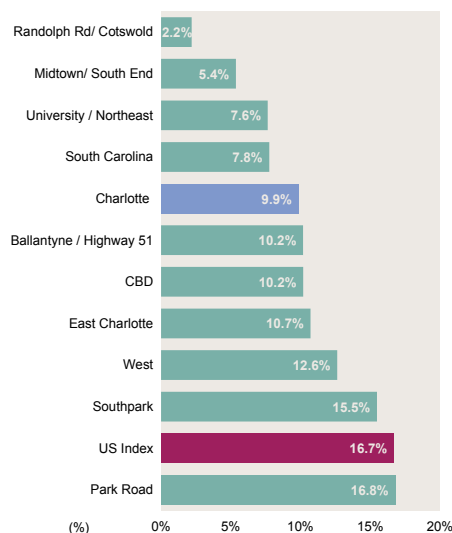
Investors are looking for other opportunities in the Stonewall Corridor micro-market. Asana Partners paid \$6.4 million for a 44,000-sf office building at 600 S. College Street. The building is located on the same block as Tryon Place, Crescent Communities' long-planned mixed-use development. Asana has been on a buying spree, acquiring more than \$70 million in Charlotte real estate. Goldman Sachs' activity at 201 South Tryon (they acquired the building for \$69.5 million earlier this year) is adding to the appeal of this corridor. An undisclosed buyer paid \$33.8 million for 200 South Tryon through an online auction held on Ten-X.

Amenity "Arms Race"

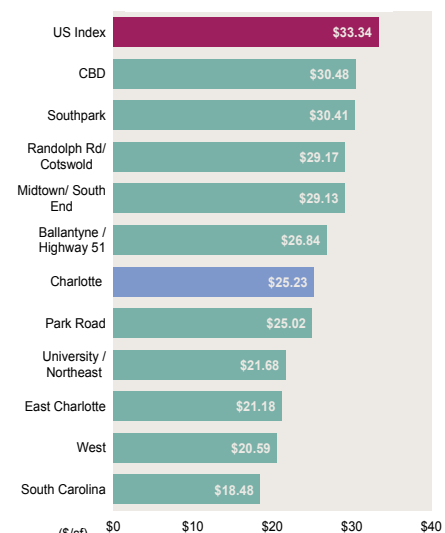
A strong preference among tenants for quality space is freeing up space in Class B assets in the CBD. As tenants tour new buildings, or see blueprints for those in the pipeline, their expectations regarding space buildout are growing. Class B landlords are in a bit of an "arms race" to bring amenities and floor layouts to par with tenants' rising expectations. Landlords who do not upgrade may have to adjust their rent, expand concessions, or lose key tenants. The same is true of older Class A buildings. Construction costs have not yet soared to the degree seen in Chicago or Atlanta. Even so, tenant improvement allowances do not cover out-of-pocket expenditures. Depleted supply and elevated cost of labor is the problem – some contractors are turning down jobs. Getting build-out completed on time and to specs is a challenge and can cause serious disruptions to operations. In turn, some firms are opting to stay put and try to secure a few dollars for improvements.

Not all tenants are willing to pay top dollar,

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Charter Communications	145,611	9300 Arrowpoint Blvd	West
NN.Inc	51,332	6210 Ardrey Kell Rd	Ballantyne / Highway 51
Sirona Dental	28,525	13320 Ballantyne Corporate Pl	Ballantyne / Highway 51
King & Spalding	27,204	300 S Tryon St	CBD
Passport, Inc	26,986	128 S Tryon St	CBD
The Regus Group plc	26,982	2015 Ayrley Town Blvd	West
Winston & Strawn	26,500	300 S Tryon St	CBD
Charlotte Radiology	22,133	700 E Morehead St	Midtown/South End
BDP International	10,518	8701 Red Oak Blvd	West
Black & Decker	8,662	9930 Kincey Ave	University / Northeast
Sum of Top 10 Leases	374,453		

though. Companies looking for value-plays have shown increased interest in the Airport and River District. Landlords in these buildings were seeing demand go to other areas such as University, but of late companies have pursued space in Airport/River District. Tenants are looking in these areas due to its proximity to the CBD, new construction in the area, and general availability in the market.

Activity in South and North End

Developers are responding to sustained demand for space from tech and creative sector firms in the South End. Stiles Corp started work on 300 West Summit. The 64,000-sf boutique office building is catering to creative sector firms and will have two 25,500-sf floorplates, two and half levels of subterranean parking and a 2,000-sf rooftop terrace. Tech and startup firms have traditionally accounted for much of the demand for converted properties. Corporate tenants are also taking a look at these projects. Duke Energy signed

a 83,000-sf lease at Tompkins Hall. The adaptive reuse project located at East 16th Street and Parkwood Avenue in Optimist Park is currently underway with an expected completion in early 2018. Charlotte-based White Point Partners and Atlanta-based Paces Properties are teaming up on the \$40-million conversion of the textile mill into 135,000 sf of retail, restaurant and office space that will include a large food hall

Tompkins Hall is an integral component in the North End Smart District – a city-led initiative to use data and technology to address community needs such as transportation, safety, energy, efficiency community service and education. Duke is likely to have a big impact on this area in the coming years. Earlier this year it acquired a 2.1-acre lot on South Tryon and South College for \$27.5 million – speculation is growing that the energy giant, which employs nearly 6,000 local employees and contractors, may be planning an office building on the site.

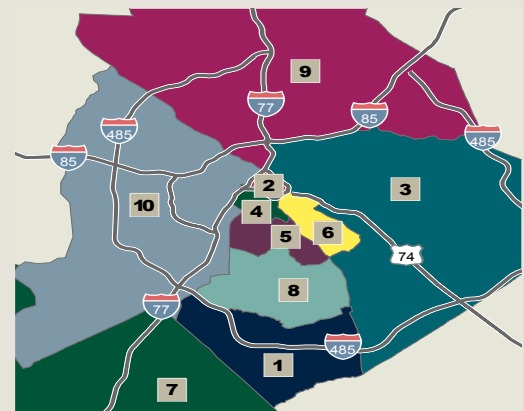
Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	This Quarter (1000's)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Ballantyne/Highway 51	6,956	102	708	-8.8%	1,018	10.2%	-1.0%	14.6%	\$26.84	-0.9%	\$23.82
	Ballantyne / Highway - Class A	4,788	57	553	2.3%	804	11.5%	0.3%	16.8%	\$28.01	-2.6%	\$24.95
2	CBD	24,453	93	2,492	-4.6%	2,721	10.2%	-0.5%	11.1%	\$30.48	-0.8%	\$24.84
	CBD - Class A	18,386	92	2,127	-10.2%	2,288	11.6%	-1.3%	12.4%	\$31.52	0.5%	\$25.72
3	East Charlotte	5,898	8	632	2.0%	831	10.7%	0.2%	14.1%	\$21.18	-1.0%	\$12.24
	East Charlotte - Class A	733	0	264	2.9%	340	36.0%	1.0%	46.4%	\$29.75	1.0%	\$10.79
4	Midtown/South End	5,182	24	278	-7.0%	402	5.4%	-0.4%	7.8%	\$29.13	1.0%	\$25.95
	Midtown / South - Class A	1,888	0	113	-16.6%	230	6.0%	-1.2%	12.2%	\$30.84	-2.9%	\$30.36
5	Park Road	1,085	0	182	26.2%	151	16.8%	3.5%	13.9%	\$25.02	7.7%	\$17.66
	Park Road - Class A	63	0	10	0.0%	12	16.3%	0.0%	18.7%	\$32.50	0.0%	\$31.00
6	Randolph Rd/ Cotswold	3,284	0	72	-16.2%	144	2.2%	-0.4%	4.4%	\$29.17	-3.1%	\$13.15
	Randolph Rd / Cotswold - Class A	1,047	0	46	-0.4%	3	4.4%	0.0%	0.3%	\$34.50	0.9%	\$27.90
7	South Carolina	8,663	2	672	-2.6%	810	7.8%	-0.2%	9.4%	\$18.48	-1.5%	\$16.73
	South Carolina - Class A	4,247	0	398	-3.1%	486	9.4%	-0.3%	11.4%	\$22.60	0.5%	\$20.70
8	Southpark	5,666	25	877	2.5%	932	15.5%	0.4%	16.5%	\$30.41	-0.1%	\$26.31
	Southpark - Class A	3,468	15	669	1.3%	535	19.3%	0.2%	15.4%	\$32.40	0.7%	\$29.93
9	University / Northeast	14,749	32	1,128	-3.4%	1,156	7.6%	-0.3%	7.8%	\$21.68	-0.5%	\$17.10
	University / Northeast - Class A	5,568	26	520	2.4%	424	9.3%	0.2%	7.6%	\$22.29	0.7%	\$20.08
10	West	15,822	231	1,998	-15.0%	2,516	12.6%	-2.2%	15.9%	\$20.59	1.2%	\$17.44
	West - Class A	8,695	221	1,107	-16.6%	1,515	12.7%	-2.5%	17.4%	\$22.18	-0.4%	\$19.45
1-12	Charlotte Total	91,758	517	9,040	-5.8%	10,681	9.9%	-0.6%	11.6%	\$25.23	0.8%	\$20.48
	Charlotte - Class A	48,882	411	5,807	-7.3%	6,638	11.9%	-0.9%	13.6%	\$28.00	0.3%	\$23.21

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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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