Mecklenburg County Commercial Office Market

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Second Quarter 2019
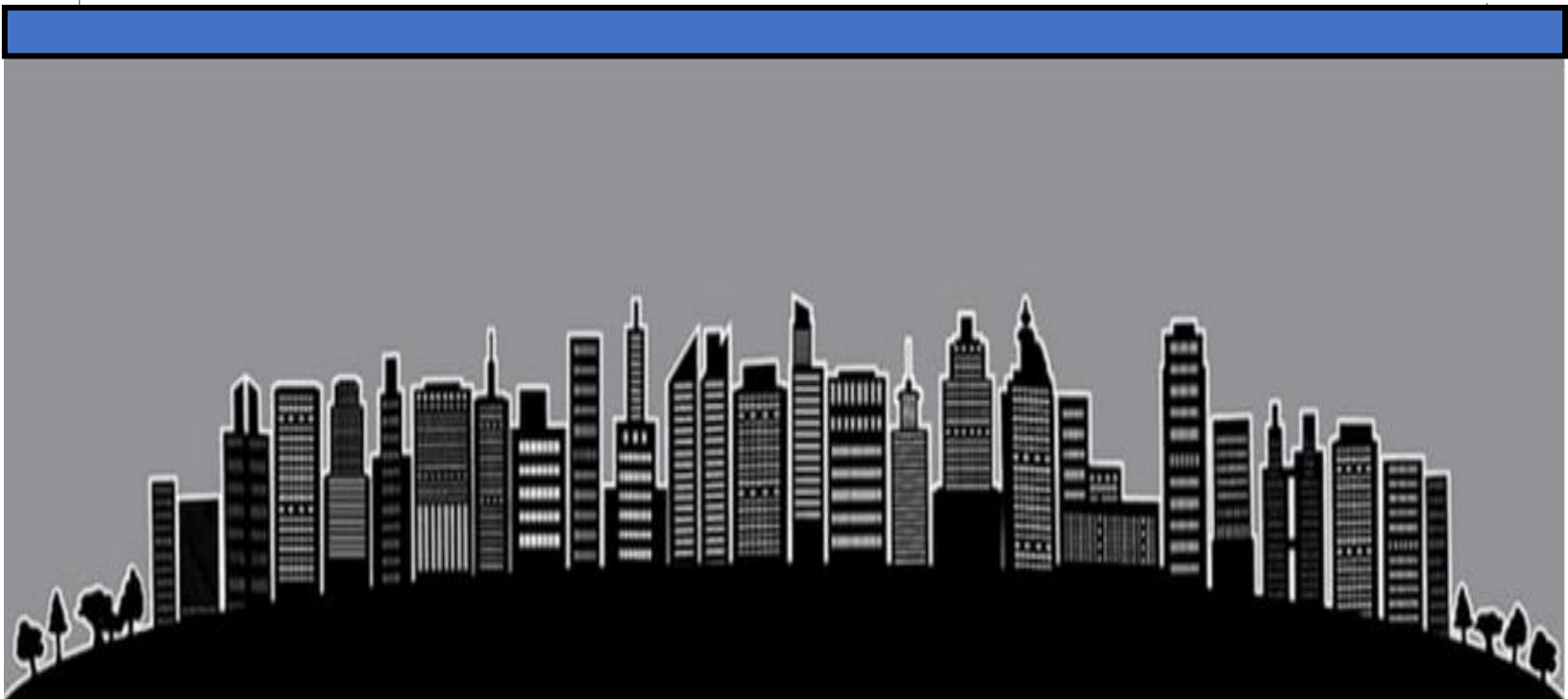
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About this report

The following report contains information on the commercial office market for Mecklenburg County. The report focuses on office markets in two urban markets and twelve suburban markets. The report contains a primer on commonly used terms and definitions. Following that a summary of market conditions is provided. Finally, statistics on the current quarter and the same quarter from the prior year are listed in tables, as well as their year-over-year variances and percentage changes. This report will be released quarterly as the data becomes available.

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Commonly Used Terms

Class A Office Space

These buildings represent the newest and highest quality buildings in their market. They are generally the best looking buildings with the best construction, and possess high-quality building infrastructure. Class A buildings also are well located, have good access, and are professionally managed. As a result of this, they attract the highest quality tenants and also command the highest rents.


Class B Office Space

Class B buildings are generally a little older, but still have good quality management and tenants. These offices have dated facades, and common areas relative to Class A offices. Class B buildings should generally not be functionally obsolete and should be well maintained.

Class C Office Space

The lowest classification of office building and space is Class C. These are older buildings, located in less desirable areas, and are often in need of extensive renovation. Architecturally, these buildings are the least desirable, and building infrastructure and technology is outdated. As a result, Class C buildings have the lowest rental rates, take the longest time to lease, and are often targeted as re-development opportunities. Only Class A and B are shown in this report.
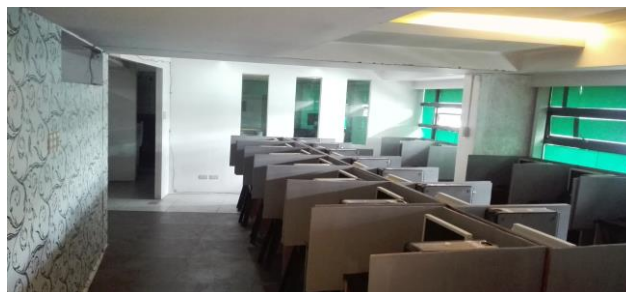
Definition & Map

Total Buildings: The number of commercial buildings in a geographic area.

Inventory (SF): Square footage of office space.

Direct Vacant (SF): Vacant space available for lease by the landlord divided by the total space inventory.

Total Vacant (SF): Vacant space available for lease both directly and through sublease divided by the total space inventory.

Overall Vacancy rate: Total vacant as a percentage of the total inventory square footage.

Absorption: The change in warehouse space over the quarter. Absorption = Total Space Leased - Vacated Space - New Space. If the number is positive it means more space was leased than vacated or brought online by new construction.

YTD Deliveries: Total new inventory built available to the market.

Under construction: Square footage of new space that is currently being built.

Weighted Average Rent: The average rent paid per square foot for a given market.
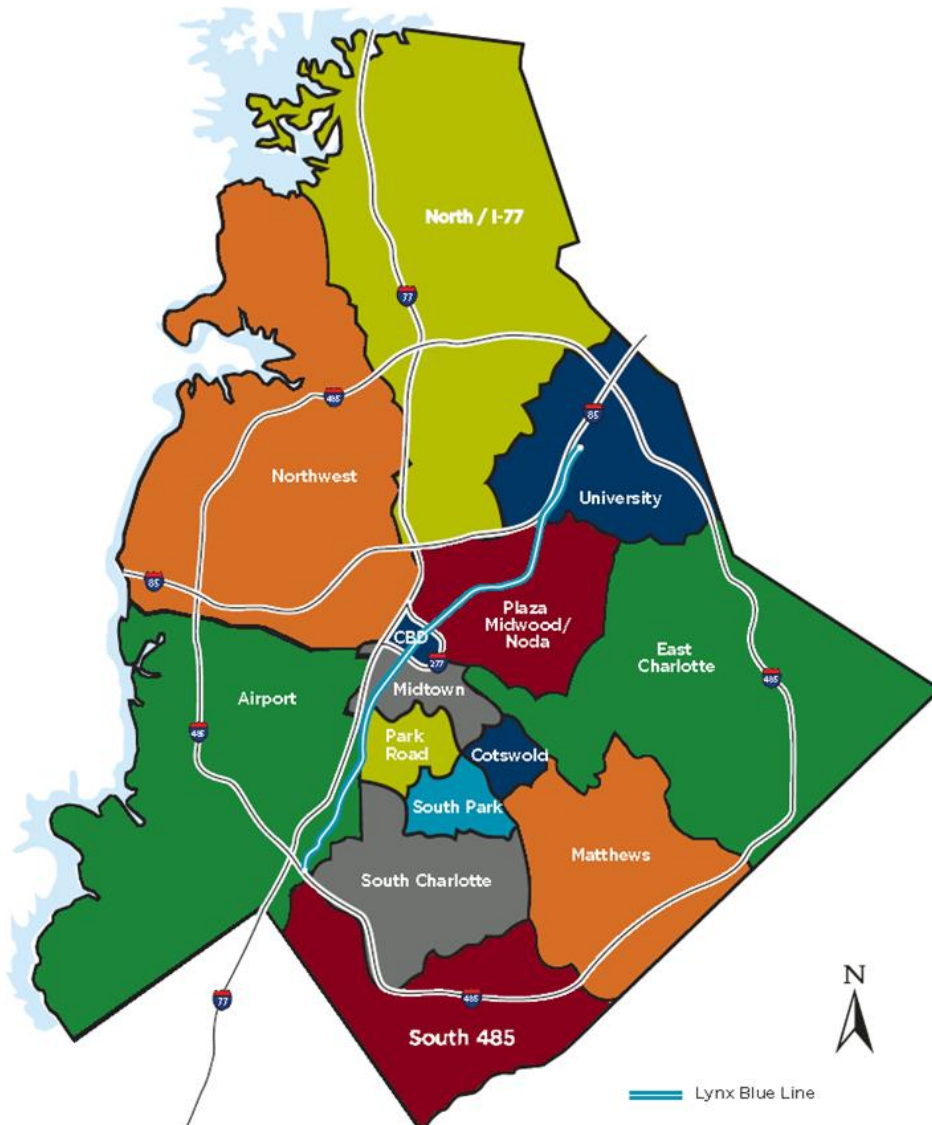
Summary

2019 is forecasted to be a record year as Mecklenburg County has delivered 2.1 million square feet (msf) of office space midway through the year. Of the 3.1 msf currently under construction, 444,000 square feet (sf) is scheduled to come available in 2019. That would be the highest amount of delivered office space the County has brought online since 2008.
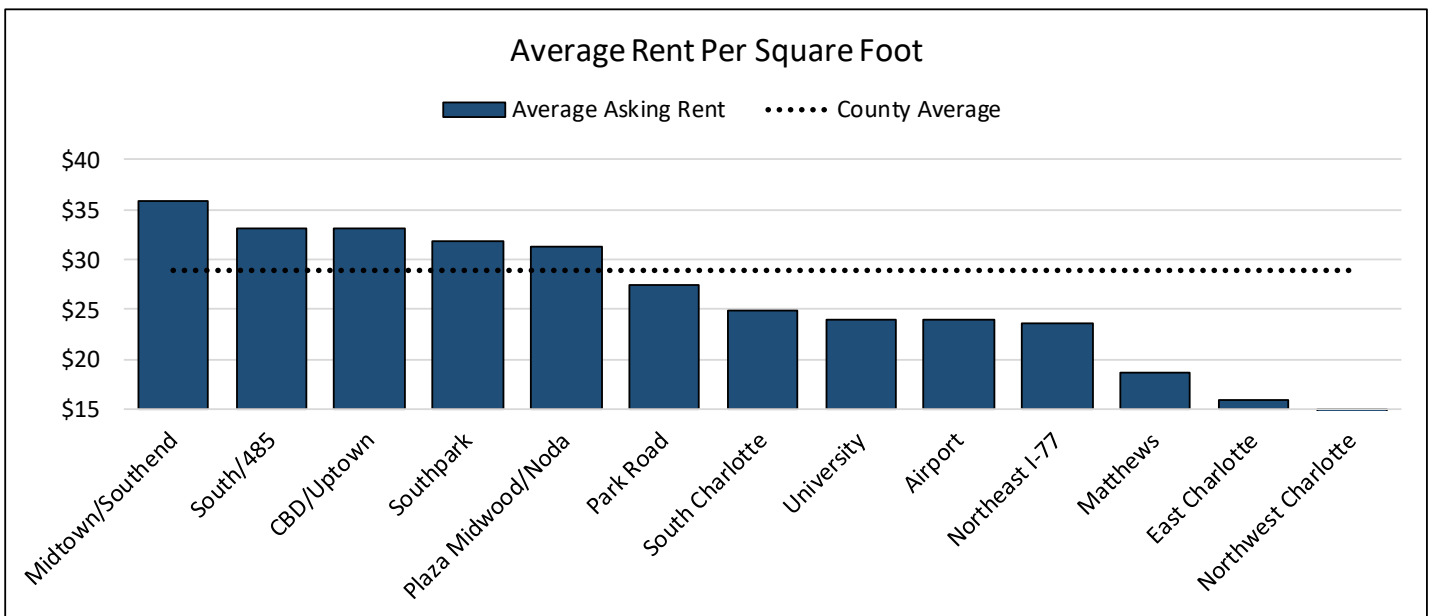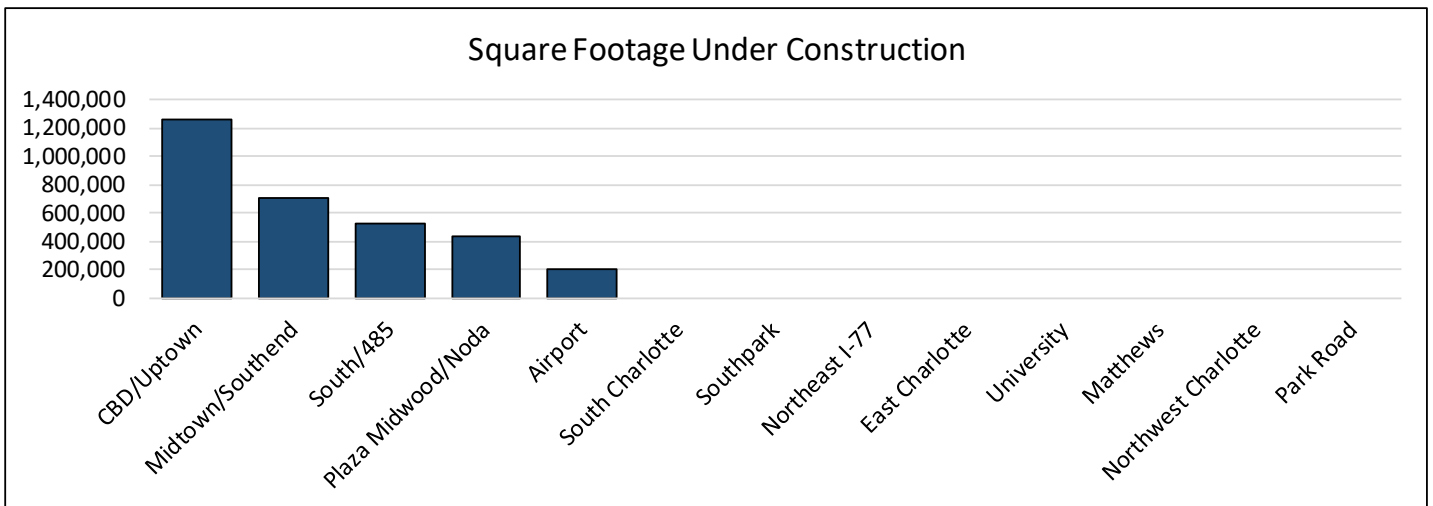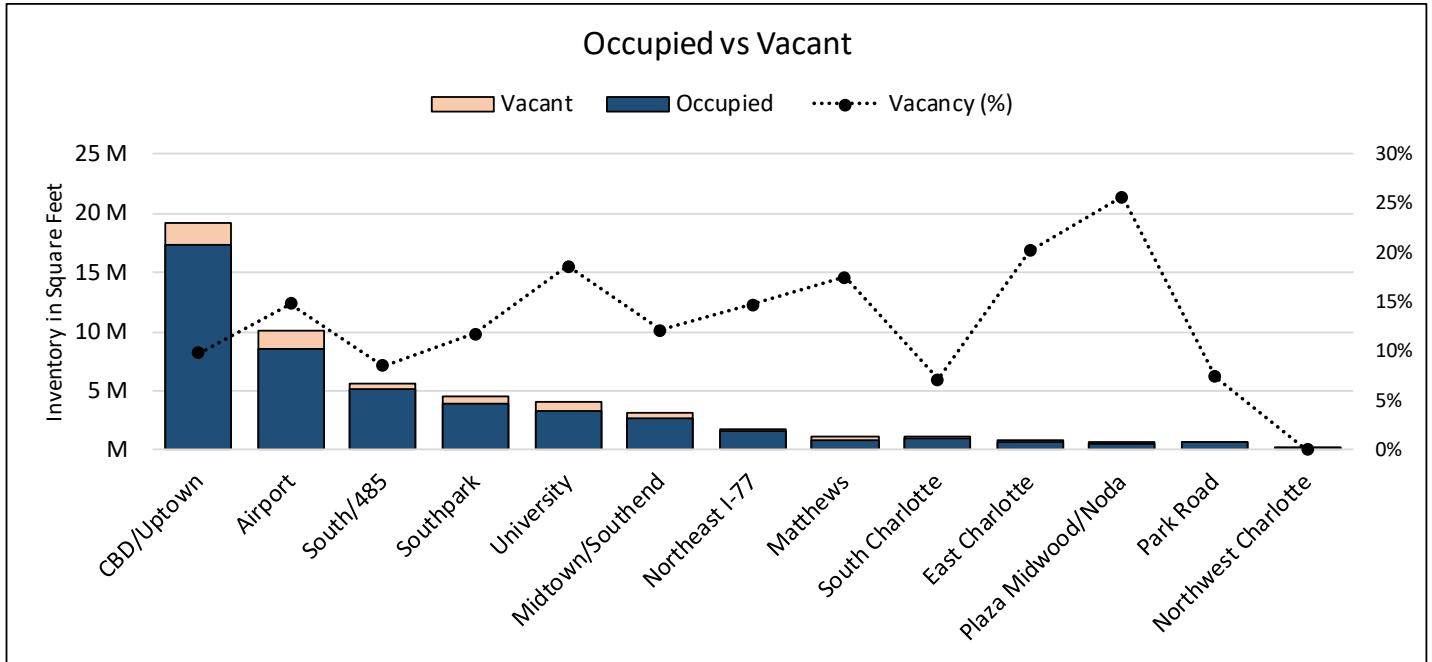
Urban Market

Two of the largest lease transactions in 2019 occurred in the CBD/Uptown submarket Truist bank announced that it will be occupying 561,000 sf at Hearst Tower and Honeywell will be moving into 280,000 sf at Legacy Union - Phase III, after the mid 2021 expected delivery date. The 853,000-sf Bank of America Tower has been the only completed construction year-to-date and CBD/Uptown currently has 1.2 msf under construction. Year-over-year the vacancy rate decreased from 12.7% and is at a low point of 9.8%. Average gross asking rents increased to $33.11 per sf and are expected to climb as the market tightens with no new deliveries scheduled until next year. The largest sale transaction of 2019 occurred in Charlotte's CBD/Uptown submarket with LRC Properties and Barrings selling 101 N Tryon St to Nuveen and Crescent Communities for $132.3 million at $252 per sf.

Suburban Market

Charlotte's Midtown submarket continues to thrive and is viewed as a viable alternative to CBD/Uptown for large corporate relocations. Lowe's has recently announced that it will be relocating 2,000 employees to Charlotte in a new office tower named the Design Center Tower. Lending Tree announced it will be taking 175,000 sf in the West Tower at the newly announced Spectrum Site. In Ballantyne, a new master plan was announced that will bring more mixed-use to the 535-acre office park. Developer Northwood Investors recently begun construction on a 328,000-sf office building located at 13146 Ballantyne Corporate Place. Year-to-date Mecklenburg County's suburban submarkets absorbed 1.1 msf of office bringing the vacancy rate down from 14.4% to 13.6% year-over-year.

Graphs and Comparisons

Occupied vs Vacant

Legend: Vacant | Occupied | ···● Vacancy (%)

Y-axis (left): Inventory in Square Feet — 25 M, 20 M, 15 M, 10 M, 5 M, M
Y-axis (right): 30%, 25%, 20%, 15%, 10%, 5%, 0%

X-axis categories: CBD/Uptown, Airport, South/485, Southpark, University, Midtown/Southend, Northeast I-77, Matthews, South Charlotte, East Charlotte, Plaza Midwood/Noda, Park Road, Northwest Charlotte

Square Footage Under Construction

Y-axis: 1,400,000, 1,200,000, 1,000,000, 800,000, 600,000, 400,000, 200,000, 0

X-axis categories: CBD/Uptown, Midtown/Southend, South/485, Plaza Midwood/Noda, Airport, South Charlotte, Southpark, Northeast I-77, East Charlotte, University, Matthews, Northwest Charlotte, Park Road

Average Rent Per Square Foot

Legend: Average Asking Rent | ···· County Average

Y-axis: $40, $35, $30, $25, $20, $15

X-axis categories: Midtown/Southend, South/485, CBD/Uptown, Southpark, Plaza Midwood/Noda, Park Road, South Charlotte, University, Airport, Northeast I-77, Matthews, East Charlotte, Northwest Charlotte

MECKLENBURG COUNTY QUARTERLY STATISTICS

OFFICE MARKET STATISTICS - SECOND QUARTER 2019									
Submarket	Total Buildings	Inventory (SF)	Direct Vacant (SF)	Total Vacant (SF)	Overall Vacancy	YTD Net Absorbtion	YTD Deliveries (SF)	Under Construction	Average Asking Rent
CBD/Uptown	45	19,231,596	1,771,766	1,890,211	9.8%	1,028,647	853,073	1,260,915	$33.11
Midtown/Southend	50	3,121,390	361,898	378,644	12.1%	555,427	813,220	708,713	$35.77
Urban Market Total	**95**	**22,352,986**	**2,133,664**	**2,268,855**	**10.2%**	**1,584,074**	1,666,293	**1,969,628**	**$33.48**
Northeast I-77	28	1,827,698	224,383	269,538	14.7%	18,043	-	-	$23.67
Northwest Charlotte	1	23,278	-	0	0.0%	0	-	-	$0.00
University	42	4,094,321	718,480	761,447	18.6%	-6,344	-	-	$24.02
Plaza Midwood/Noda	6	669,585	171,731	171,731	25.6%	113,620	245,351	437,322	$31.23
Airport	117	10,055,895	1,427,542	1,493,005	14.8%	214,062	63,933	202,469	$23.88
Park Road	7	658,415	49,107	49,107	7.5%	14,865	-	-	$27.38
Matthews	25	1,065,780	186,631	186,631	17.5%	19,140	-	-	$18.64
South/485	51	5,647,289	453,616	483,422	8.6%	83,470	154,000	526,831	$33.16
South Charlotte	19	1,060,386	74,431	76,179	7.2%	19,342	-	-	$24.89
East Charlotte	16	870,346	175,671	175,671	20.2%	-23,411	-	-	$15.90
Southpark	38	4,506,613	418,477	533,010	11.8%	46,632	-	-	$31.84
Suburban Market Total	**350**	**30,479,606**	**3,900,069**	**4,199,741**	**13.8%**	**499,419**	**463,284**	**1,166,622**	**$26.63**
Class A	**209**	**37,022,095**	**4,034,392**	**4,422,960**	**11.9%**	**1,858,765**	**1,987,880**	**2,970,068**	**$31.07**
Class B	**236**	**15,810,497**	**1,999,341**	**2,045,636**	**12.9%**	**224,728**	**141,697**	**166,182**	**$23.81**
Charlotte Metro Total	**445**	**52,832,592**	**6,033,733**	**6,468,596**	**12.2%**	**2,083,493**	**2,129,577**	**3,136,250**	**$28.81**

OFFICE MARKET STATISTICS - FIRST QUARTER 2019									
Submarket	Total Buildings	Inventory (SF)	Direct Vacant (SF)	Total Vacant (SF)	Overall Vacancy (%)	YTD Net Absorbtion (SF)	YTD Deliveries (SF)	Under Construction (SF)	Average Asking Rent
CBD/Uptown	44	18,381,025	1,584,175	1,710,329	9.3%	381,967	-	1,957,573	$33.16
Midtown/Southend	45	2,389,070	211,838	224,546	9.4%	-28,733	-	843,220	$35.96
Urban Market Total	**89**	**20,770,095**	**1,796,013**	**1,934,875**	**9.3%**	**353,234**	**-**	**2,800,793**	**$31.11**
Northeast I-77	28	1,827,698	232,198	279,077	15.3%	10,228	-	-	$23.63
Northwest Charlotte	1	23,278	-	0	0.0%	0	-	50,000	$0
University	42	4,094,321	722,393	730,820	17.8%	-10,257	-	-	$23.73
Plaza Midwood/Noda	3	424,234	40,000	40,000	9.4%	0	-	597,717	$31.23
Airport	116	9,988,124	1,582,859	1,642,583	16.4%	-5,188	-	422,817	$23.52
Park Road	7	656,979	53,264	61,094	9.3%	10,708	-	-	$27.45
Matthews	25	1,065,780	188,109	188,109	17.6%	17,662	-	-	$18.61
South/485	50	5,493,289	337,951	370,658	6.7%	45,135	-	352,831	$33.24
South Charlotte	19	1,060,386	88,643	89,913	8.5%	5,130	-	-	$23.66
East Charlotte	16	859,420	191,088	191,745	22.3%	-22,759	-	-	$15.85
Southpark	38	4,504,171	525,859	600,736	13.3%	-60,750	-	-	$32.09
Suburban Market Total	**345**	**29,997,680**	**3,962,364**	**4,194,735**	**14.0%**	**(10,091)**	**-**	**1,423,365**	**$25.99**
Class A	**199**	**35,025,111**	**3,459,554**	**3,772,979**	**10.8%**	**445,723**	**-**	**4,050,992**	**$30.95**
Class B	**235**	**15,742,664**	**2,298,823**	**2,356,631**	**15.0%**	**-102,580**	**-**	**173,166**	**$23.40**
Charlotte Metro Total	**434**	**50,767,775**	**5,758,377**	**6,129,610**	**12.1%**	**343,143**	**0**	**4,224,158**	**$28.65**

MECKLENBURG COUNTY QUARTERLY STATISTICS

OFFICE MARKET STATISTICS - VARIANCE (CURRENT - PRIOR)

Submarket	Total Buildings	Inventory (SF)	Direct Vacant (SF)	Total Vacant (SF)	Overall Vacancy (%)	YTD Net Absorbtion (SF)	YTD Deliveries (SF)	Under Construction (SF)	Average Asking Rent
CBD/Uptown	1	850,571	187,591	179,882	0.5%	646,680	853,073	-696,658	-$0.05
Midtown/Southend	5	732,320	150,060	154,098	2.7%	584,160	813,220	-134,507	-$0.19
Urban Market Total	6	1,582,891	337,651	333,980	0.8%	1,230,840	1,666,293	(831,165)	$2.37
Northeast I-77	0	0	-7,815	-9,539	-0.5%	7,815	0	0	$0.04
Northwest Charlotte	0	0	0	0	0.0%	0	0	-50,000	$0.00
University	0	0	-3,913	30,627	0.7%	3,913	0	0	$0.29
Plaza Midwood/Noda	3	245,351	131,731	131,731	16.2%	113,620	245,351	-160,395	$0.00
Airport	1	67,771	-155,317	-149,578	-1.6%	219,250	63,933	-220,348	$0.36
Park Road	0	1,436	-4,157	-11,987	-1.8%	4,157	0	0	-$0.07
Matthews	0	0	-1,478	-1,478	-0.1%	1,478	0	0	$0.03
South/485	1	154,000	115,665	112,764	1.8%	38,335	154,000	174,000	-$0.08
South Charlotte	0	0	-14,212	-13,734	-1.3%	14,212	0	0	$1.23
East Charlotte	0	10,926	-15,417	-16,074	-2.1%	-652	0	0	$0.05
Southpark	0	2,442	-107,382	-67,726	-1.5%	107,382	0	0	-$0.25
Suburban Market Total	10	14,736,942	1,601,246	1,843,110	-1.2%	601,999	463,284	993,456	$3.23
Class A	10	67,833	-299,482	-310,995	-2.0%	327,308	141,697	-6,984	$0.41
Class B	1	2,064,817	275,356	338,986	0.2%	1,740,350	2,129,577	-1,087,908	$0.16
Charlotte Metro Total	11	2,064,817	275,356	338,986	0.2%	1,740,350	2,129,577	(1,087,908)	$0.16

OFFICE MARKET STATISTICS - PERCENTAGE CHANGE

Submarket	Total Buildings	Inventory (SF)	Direct Vacant (SF)	Total Vacant (SF)	Overall Vacancy (%)	YTD Net Absorbtion (SF)	YTD Deliveries (SF)	Under Construction (SF)	Average Asking Rent
CBD/Uptown	2.3%	4.6%	11.8%	10.5%	5.6%	169.3%	0.0%	-35.6%	-0.2%
Midtown/Southend	11.1%	30.7%	70.8%	68.6%	29.1%	-2033.1%	0.0%	-16.0%	-0.5%
Urban Market Total	6.7%	7.6%	18.8%	17.3%	9.0%	348.4%	0.0%	-29.7%	7.6%
Northeast I-77	0.0%	0.0%	-3.4%	-3.4%	-3.4%	76.4%	0.0%	0.0%	0.2%
Northwest Charlotte	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-100.0%	0.0%
University	0.0%	0.0%	-0.5%	4.2%	4.2%	-38.1%	0.0%	0.0%	1.2%
Plaza Midwood/Noda	100.0%	57.8%	329.3%	329.3%	172.0%	0.0%	0.0%	-26.8%	0.0%
Airport	0.9%	0.7%	-9.8%	-9.1%	-9.7%	-4226.1%	0.0%	-52.1%	1.5%
Park Road	0.0%	0.2%	-7.8%	-19.6%	-19.8%	38.8%	0.0%	0.0%	-0.3%
Matthews	0.0%	0.0%	-0.8%	-0.8%	-0.8%	8.4%	0.0%	0.0%	0.2%
South/485	2.0%	2.8%	34.2%	30.4%	26.9%	84.9%	0.0%	49.3%	-0.2%
South Charlotte	0.0%	0.0%	-16.0%	-15.3%	-15.3%	277.0%	0.0%	0.0%	5.2%
East Charlotte	0.0%	1.3%	-8.1%	-8.4%	-9.5%	2.9%	0.0%	0.0%	0.3%
Southpark	0.0%	0.1%	-20.4%	-11.3%	-11.3%	-176.8%	0.0%	0.0%	-0.8%
Suburban Market Total	2.9%	49.1%	40.4%	43.9%	-8.5%	-5965.7%	0.0%	69.8%	12.4%
Class A	5.0%	0.2%	-8.7%	-8.2%	-18.9%	73.4%	0.0%	-0.2%	1.3%
Class B	0.4%	13.1%	12.0%	14.4%	1.1%	-1696.6%	0.0%	-628.2%	0.7%
Charlotte Metro Total	2.5%	4.1%	4.8%	5.5%	1.4%	507.2%	0.0%	-25.8%	0.6%

Note: Green highlighting and green up arrows in the totals represent favorable statistics. Red highlighting and red down arrows in the totals represent unfavorable statistics.