
2Q23

Charlotte Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked down by 3 basis points year over year to 3.2% and remained well below the five-year average of 4.5%.
- Although job growth pace has slowed compared with recent highs to 3.1% year over year, employment growth continues to outpace pre-pandemic levels, with 2019 growth averaging only 2.6%.
- All sectors reported employment growth, with leisure/hospitality leading job gains at 11.1% over the past 12 months.
- Office-using jobs in the market reached a new all-time high of 381,100 employees, reflecting 13.3% growth since 2019.

Major Transactions

- Ameriprise Financial leased a new corporate office in Charlotte where it plans to fill 53,000 SF with approximately 400 new employees from various departments. This was the largest lease signed in the quarter.
- Snider Fleet Solutions relocated to a 50,388-SF space that will facilitate the creation of 167 new jobs.
- The East submarket continues to be a prevalent lower-cost alternative for smaller occupiers compared with South End.

Leasing Market Fundamentals

- Annual full-service asking rental rates decreased to \$33.48/SF, a 1.2% increase year over year and a decrease of 0.4% quarter over quarter.
- Occupancy declined, pushing overall vacancy rates to increase by 310 basis points year over year to an all-time historical high of 22.8%.
- The under-construction pipeline continued to shrink, with 1.5 MSF in progress.
- Total leasing activity closed the quarter at 677,591 SF, averaging 4,772 SF per deal and reflecting an increase in deal size of 19.2% quarter over quarter and a decrease of 1.4% year over year.

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 narrowed rent spread between Class A and Class B assets will likely lead tenants in Class B spaces to downsize and consolidate within higher-quality Class A spaces.
- 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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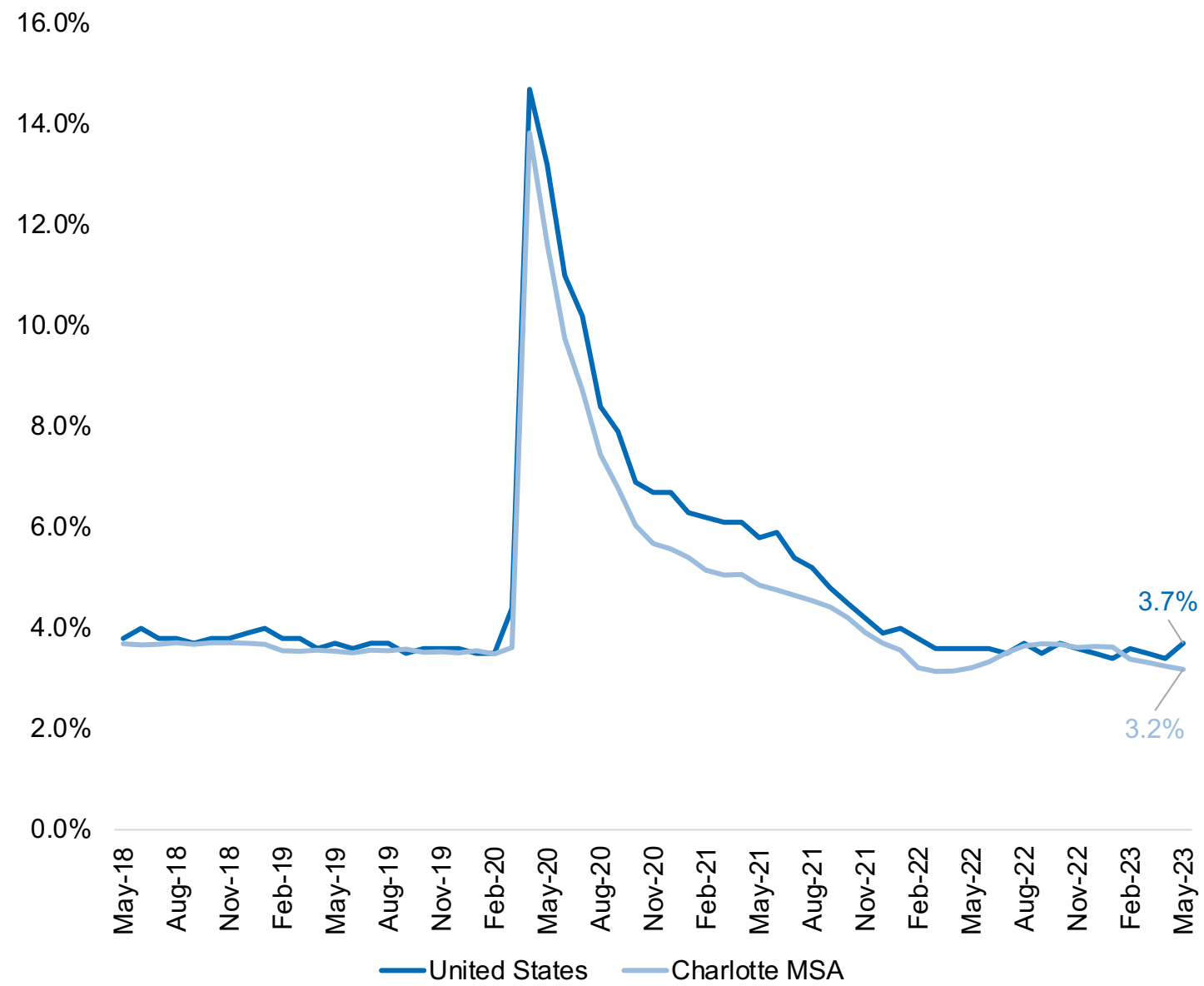
Economy



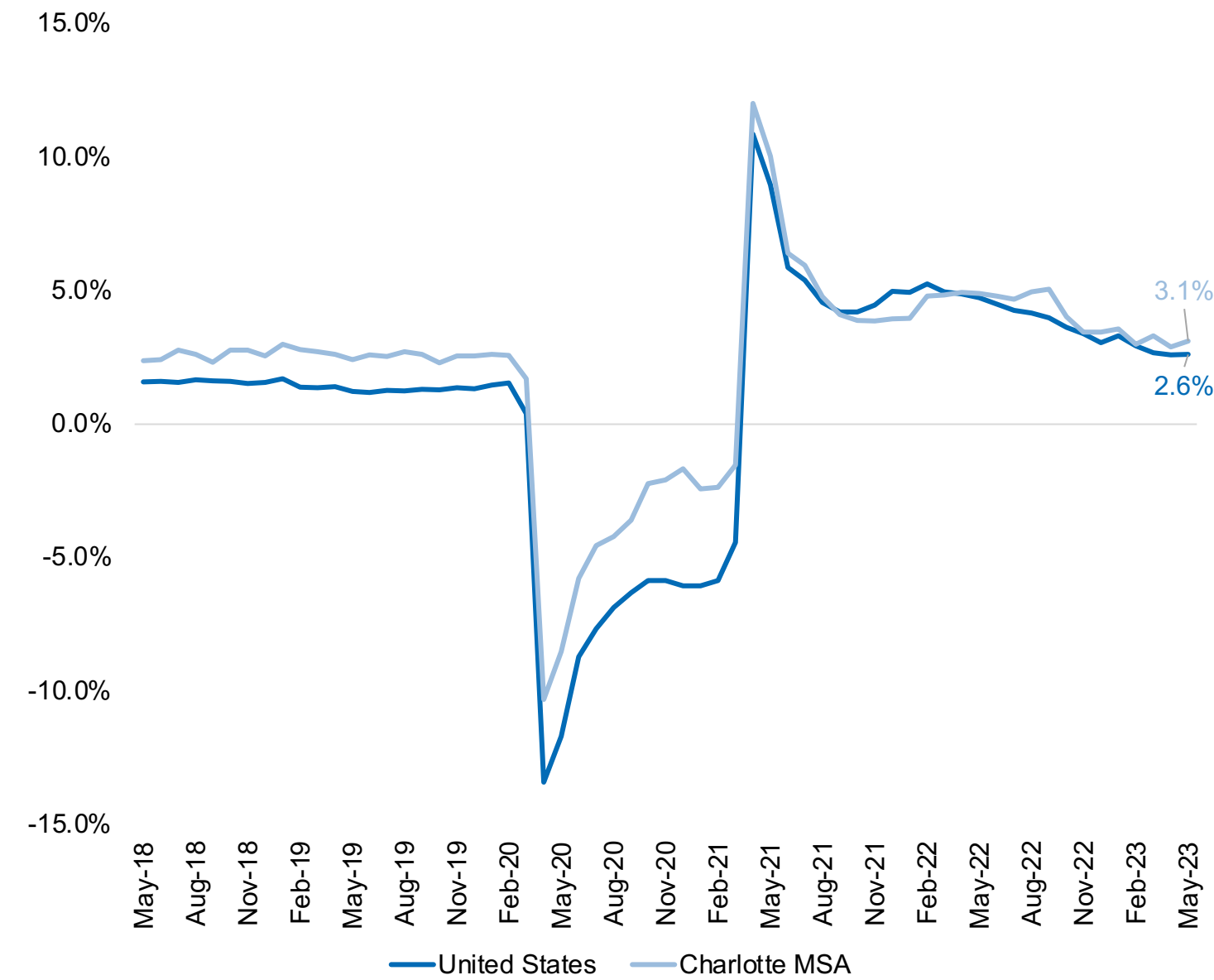
Metro Employment Trends Signal a Slowing Economy

The Charlotte market has recently 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 three basis points year over year, while the employment year-over-year growth rate decreased by 180 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

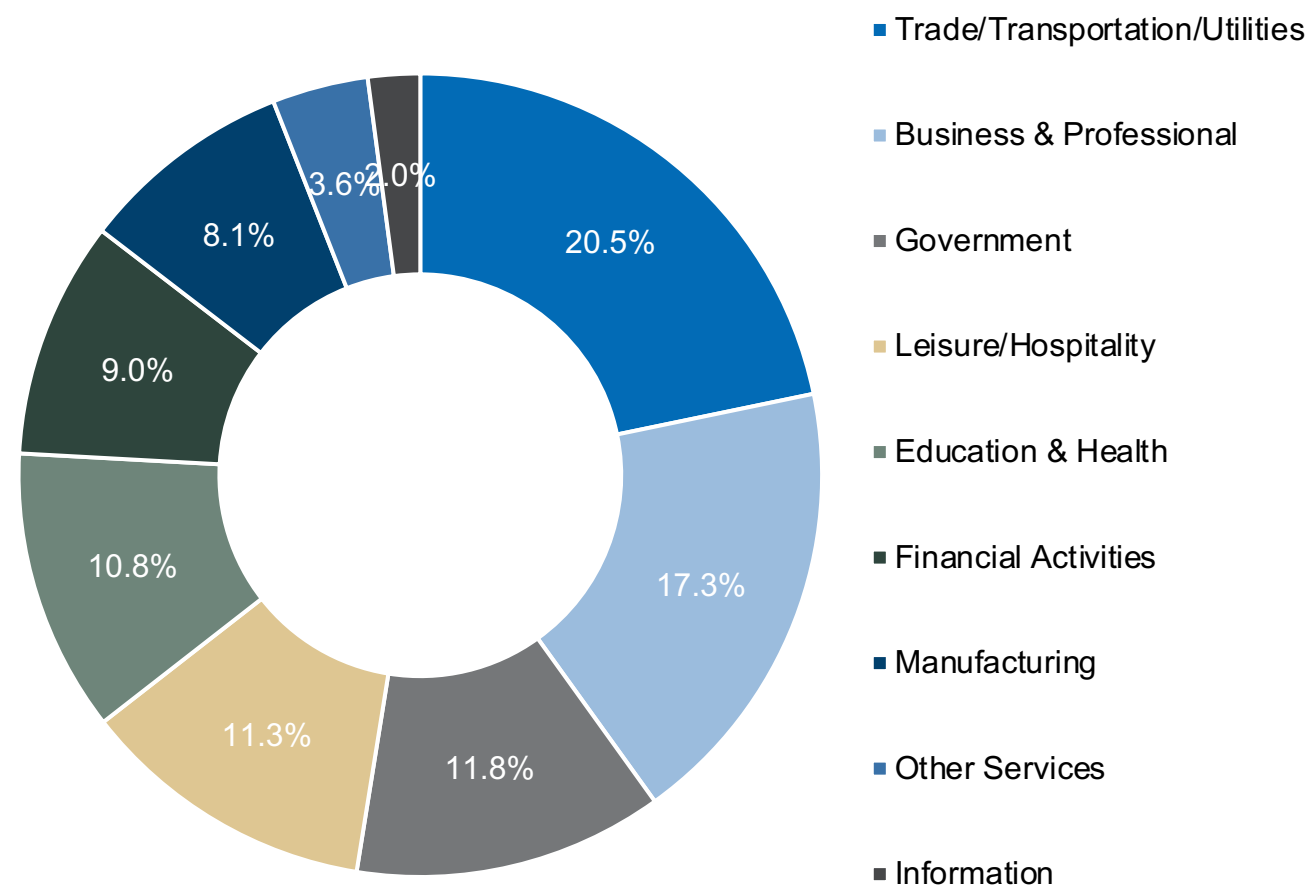


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

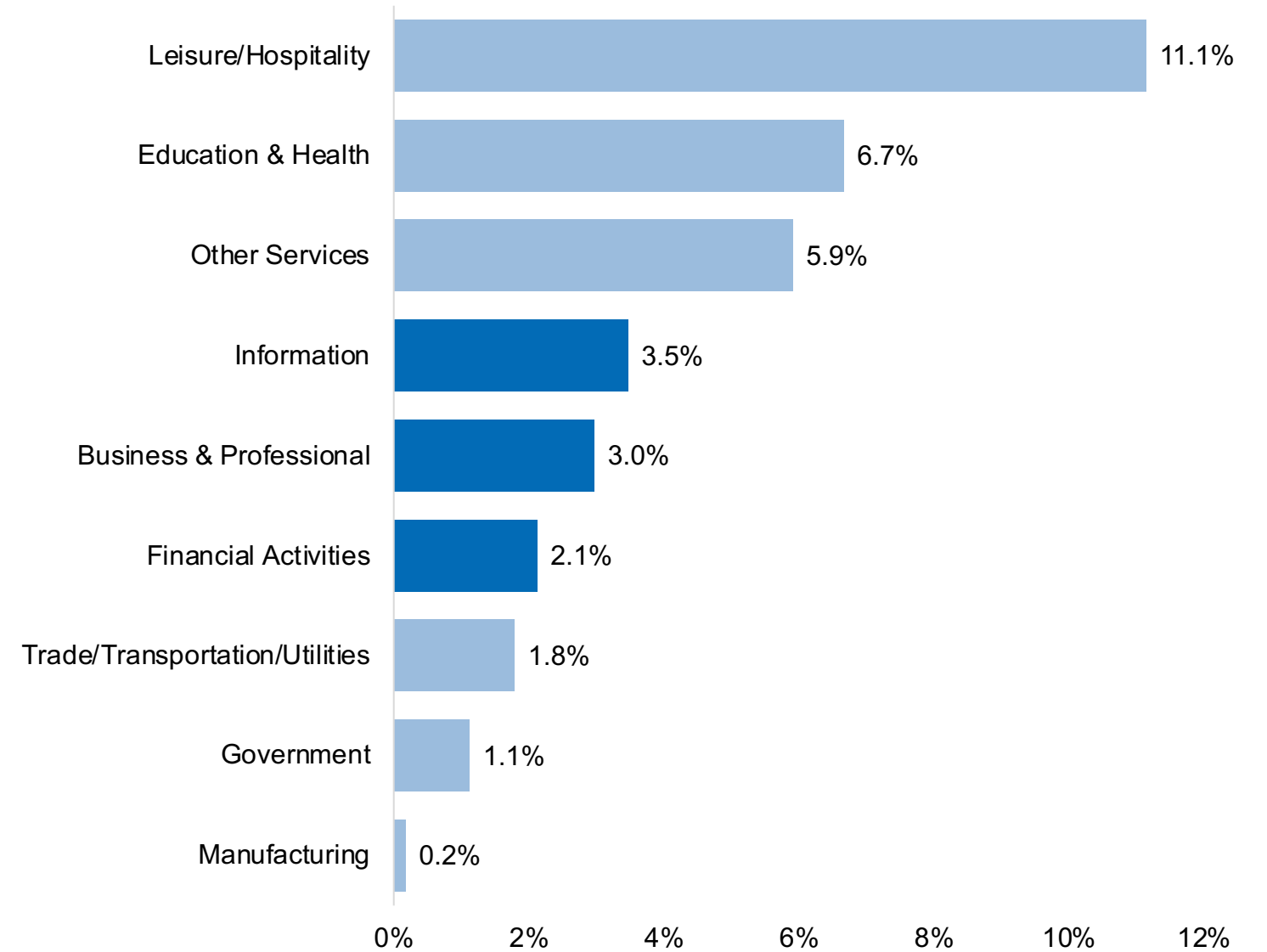
Employment Growth Continues Across All Sectors

Known for its trade and transportation sector, the Charlotte market's top two employment industries account for 37.8% of market share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 17.3%. All industries in the metroplex reported growth, with office-using industries reporting year-over-year growth ranging from 2.1% to 3.5%.

Employment by Industry, May 2023



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

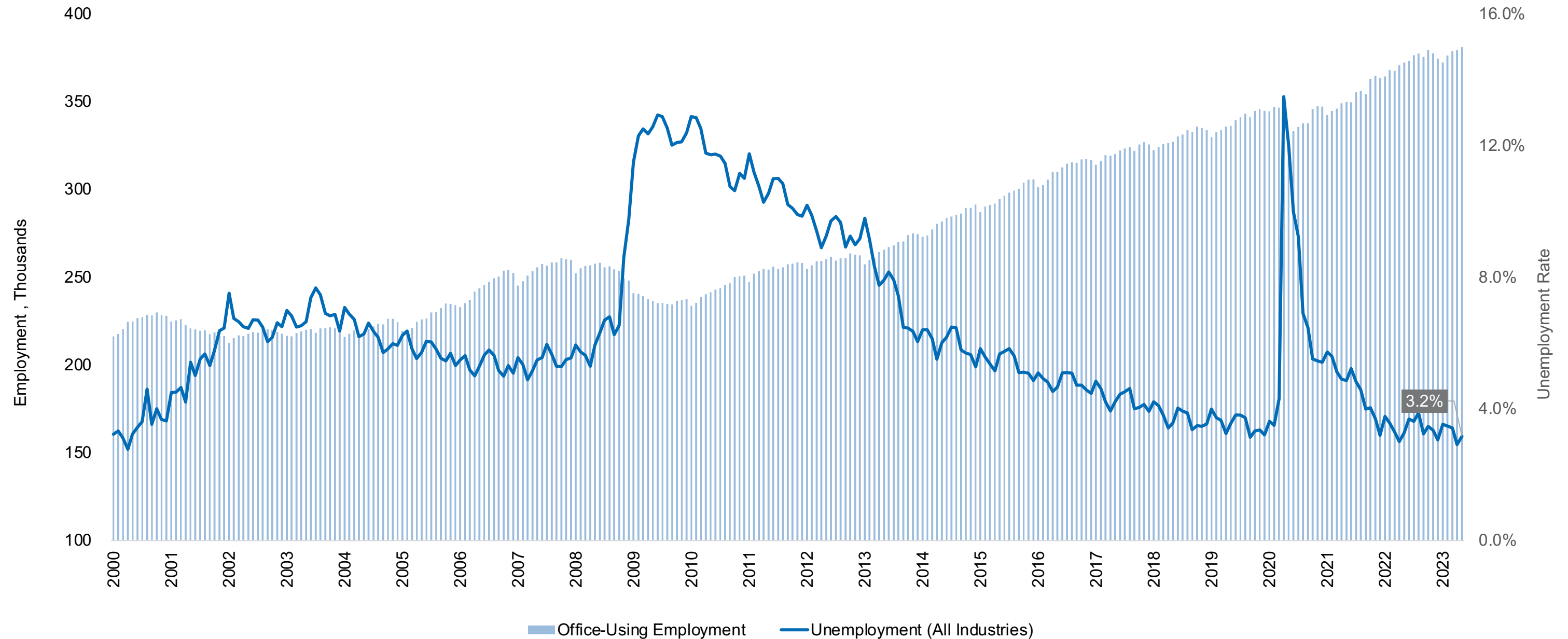


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

Overall Office-Using Employment Reaches New Historical High

Office-using employment in the Charlotte market reached an all-time historical high of 381,100 employees as of the end of May 2023, up from 379,600 the month prior. Currently, the non-seasonally adjusted unemployment rate is 3.2%, below the 3.6% average levels reported in 2019, indicating that other industries outside of office-using jobs likely contribute to most of the unemployment rate.

Office-Using Employment* and Unemployment Across All Industries



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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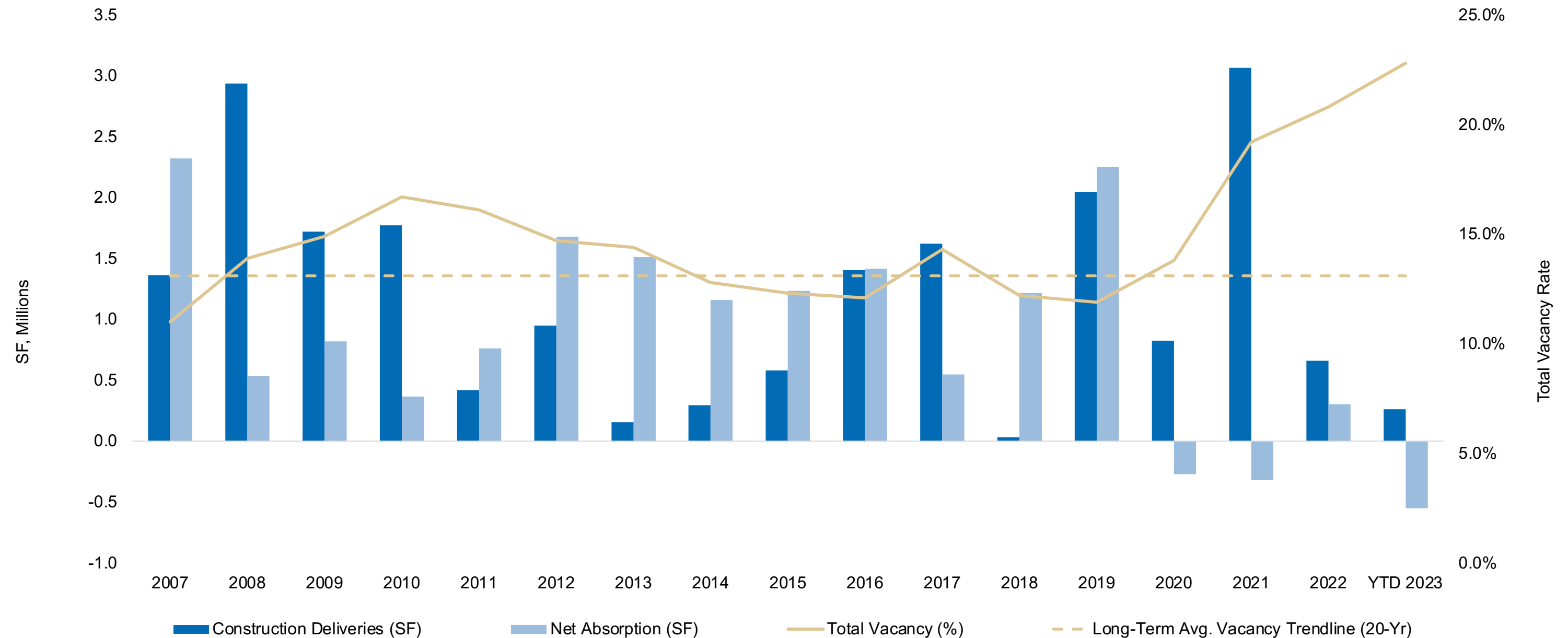
Leasing Market Fundamentals



Vacancy Increases to Record High as Construction Deliveries Decline

The Charlotte office vacancy rate increased by 310 basis points year over year to 22.8% in the second 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 second quarter of 2023, reached a new record high.

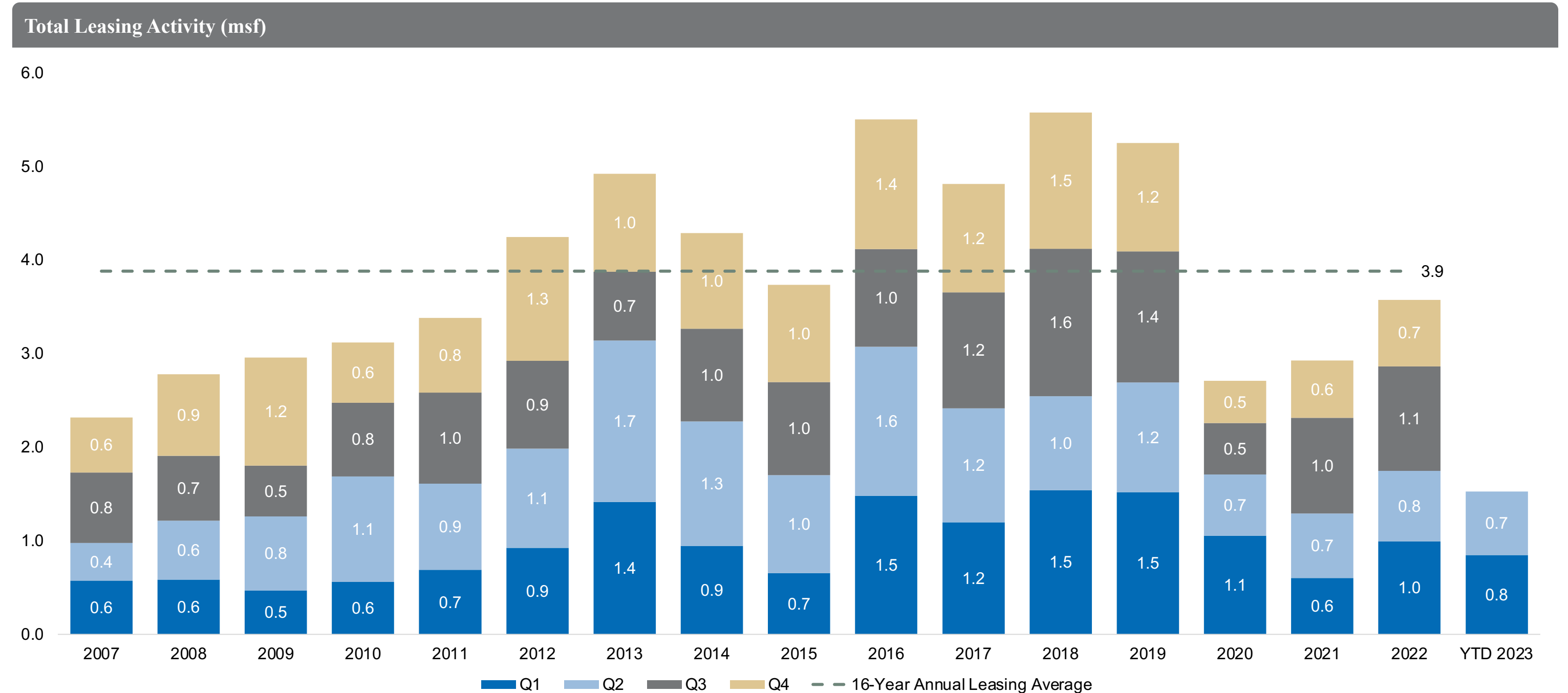
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Declining Deal Activity Results in Slowing Leasing Activity

Leasing activity in the market remains slower, with the first half of 2023's leasing activity at its lowest level since 2021 at 1.5 MSF. Since 2007, second-quarter leasing activity averaged 989,043 SF, with the second quarter of 2023 below historical averages at 677,591 SF. Deal size averaged 4,772 SF in the second quarter of 2023, an average of 70 SF less than a year ago and 768 SF more than the previous quarter. 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.

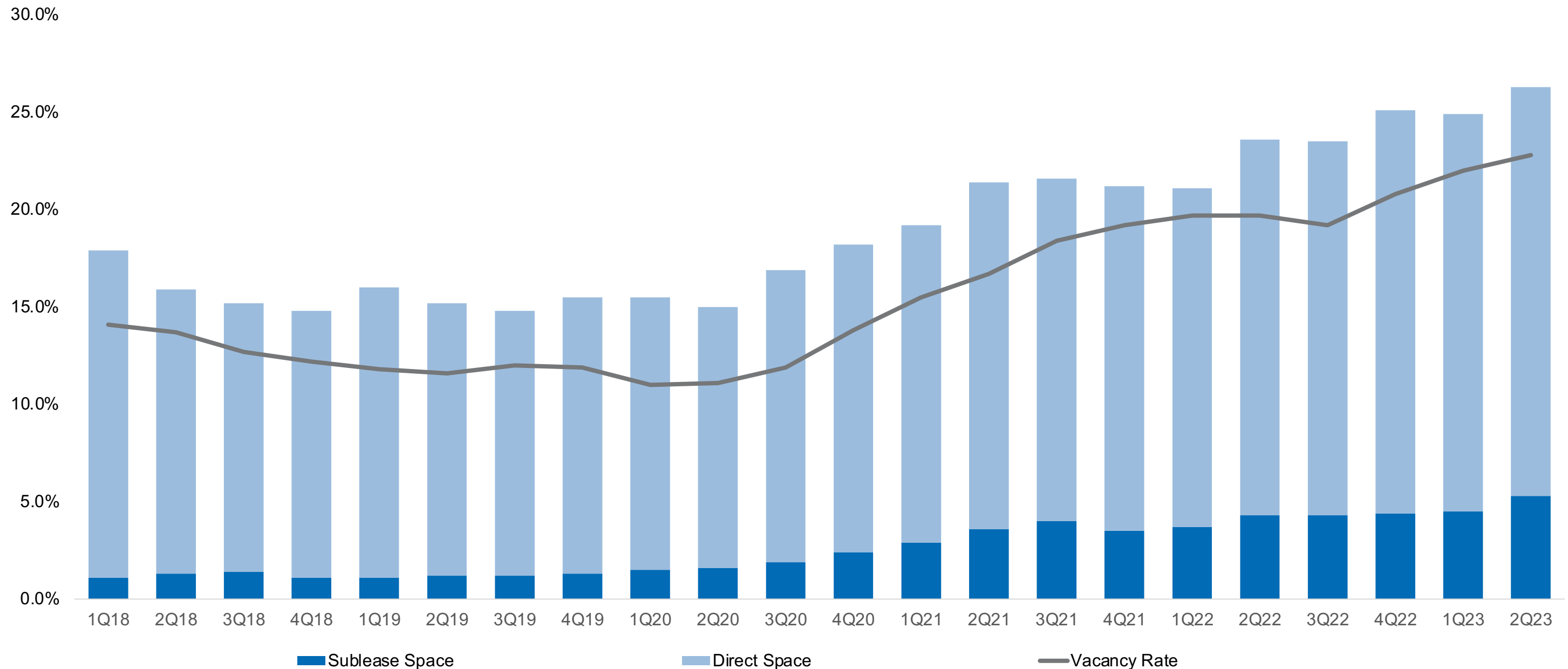


Source: Newmark Research, CoStar

Availability Increases to All-Time High

Sublease availabilities in the Charlotte market have increased since the start of the pandemic and are now at an all-time high. As of the end of the second quarter of 2023, sublease availability in the market was at 5.3%. Direct availabilities have increased since the pandemic and have increased to a new all-time high in the second quarter of 2023 at 21.0%, higher than the previous all-time high of 20.7% in the fourth quarter of 2022. Vacancies continue to increase alongside sublease availabilities, reaching a new high at 22.8%.

Available Space as Percent of Overall Market

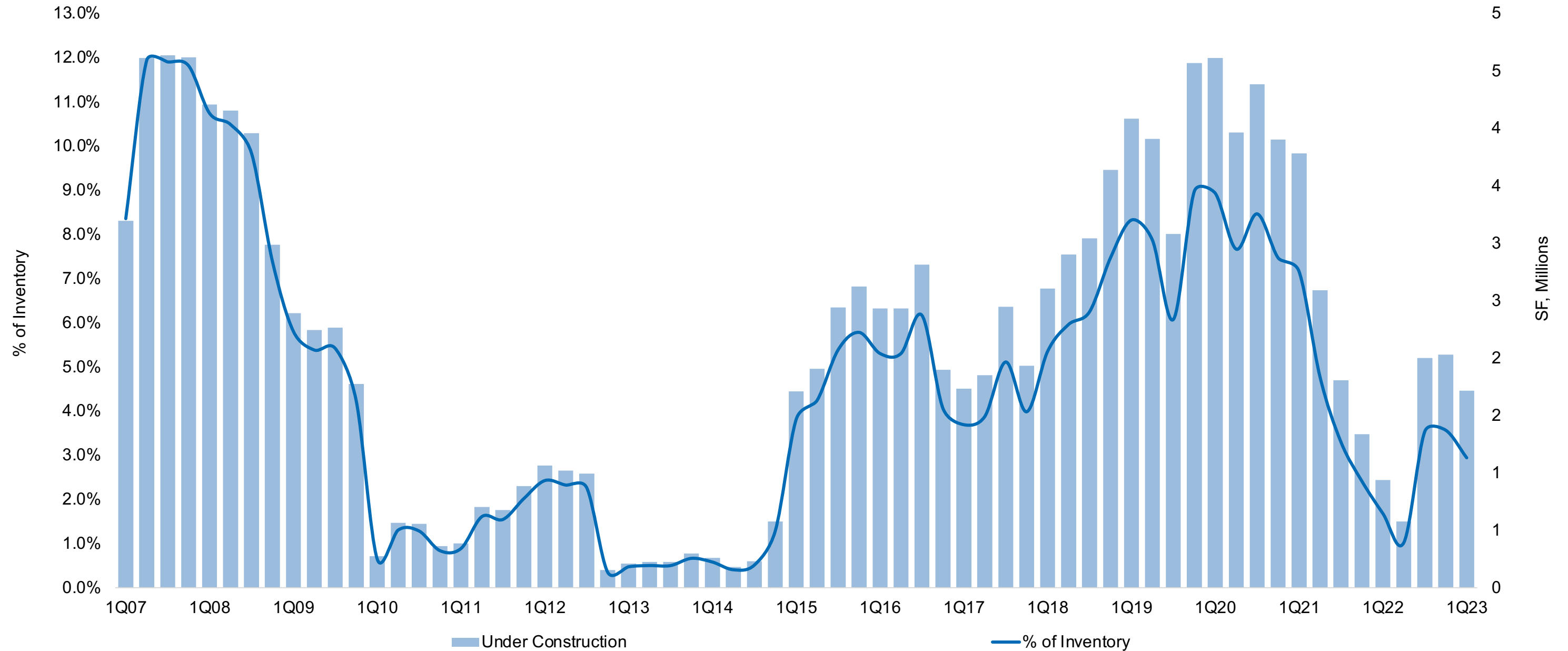


Source: Newmark Research, CoStar

Construction Activity in Decline

Construction activity has tapered since the start of the fourth quarter of 2022, impacted in part by the work from home policies implemented during the pandemic, the increased cost of capital for new development, and the lack of deal volume to justify new space. As of the second quarter of 2023, the market had 1.5 MSF under construction, accounting for 2.6% of the market's inventory.

Office Under Construction and % of Inventory

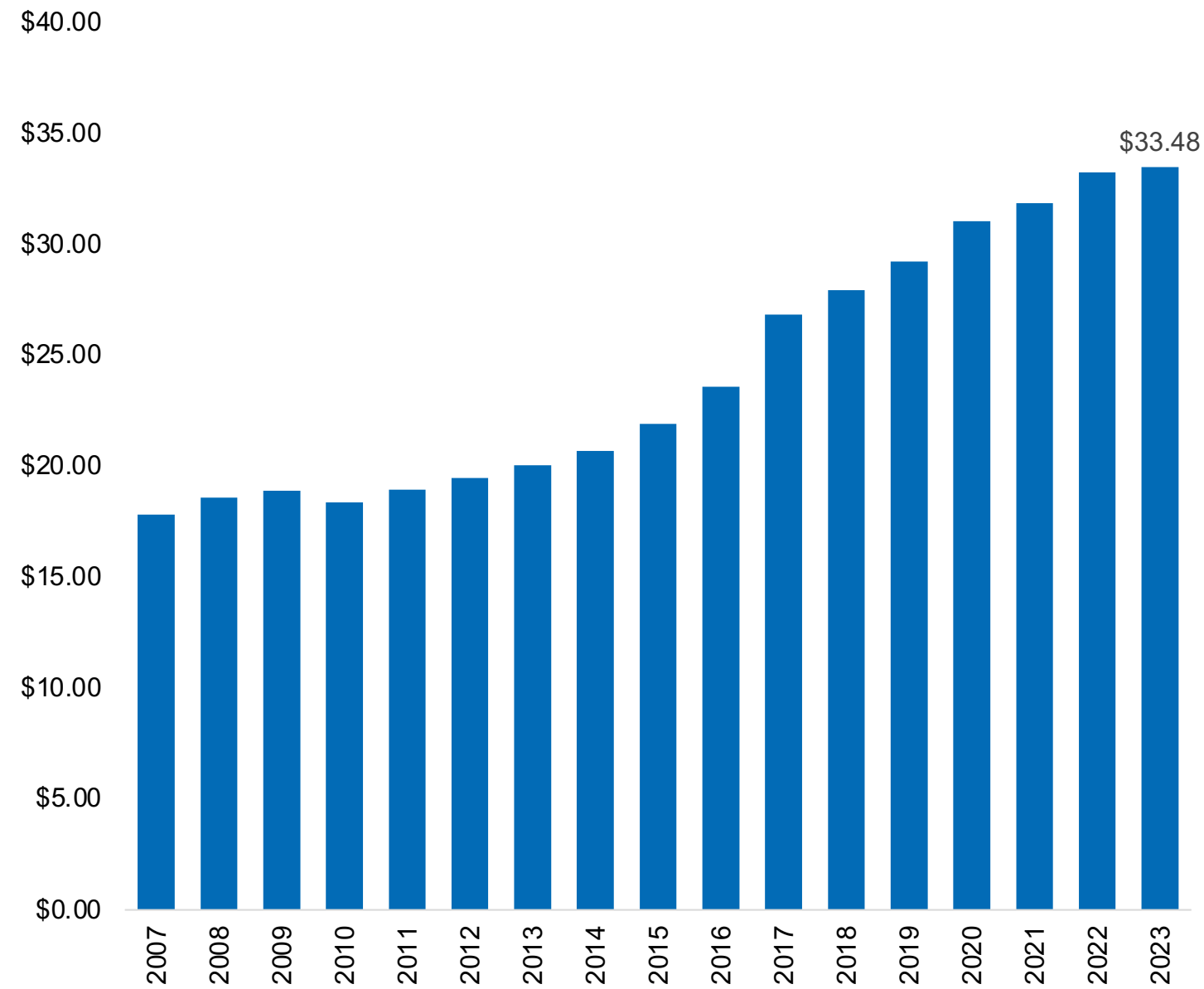


Source: Newmark Research, CoStar

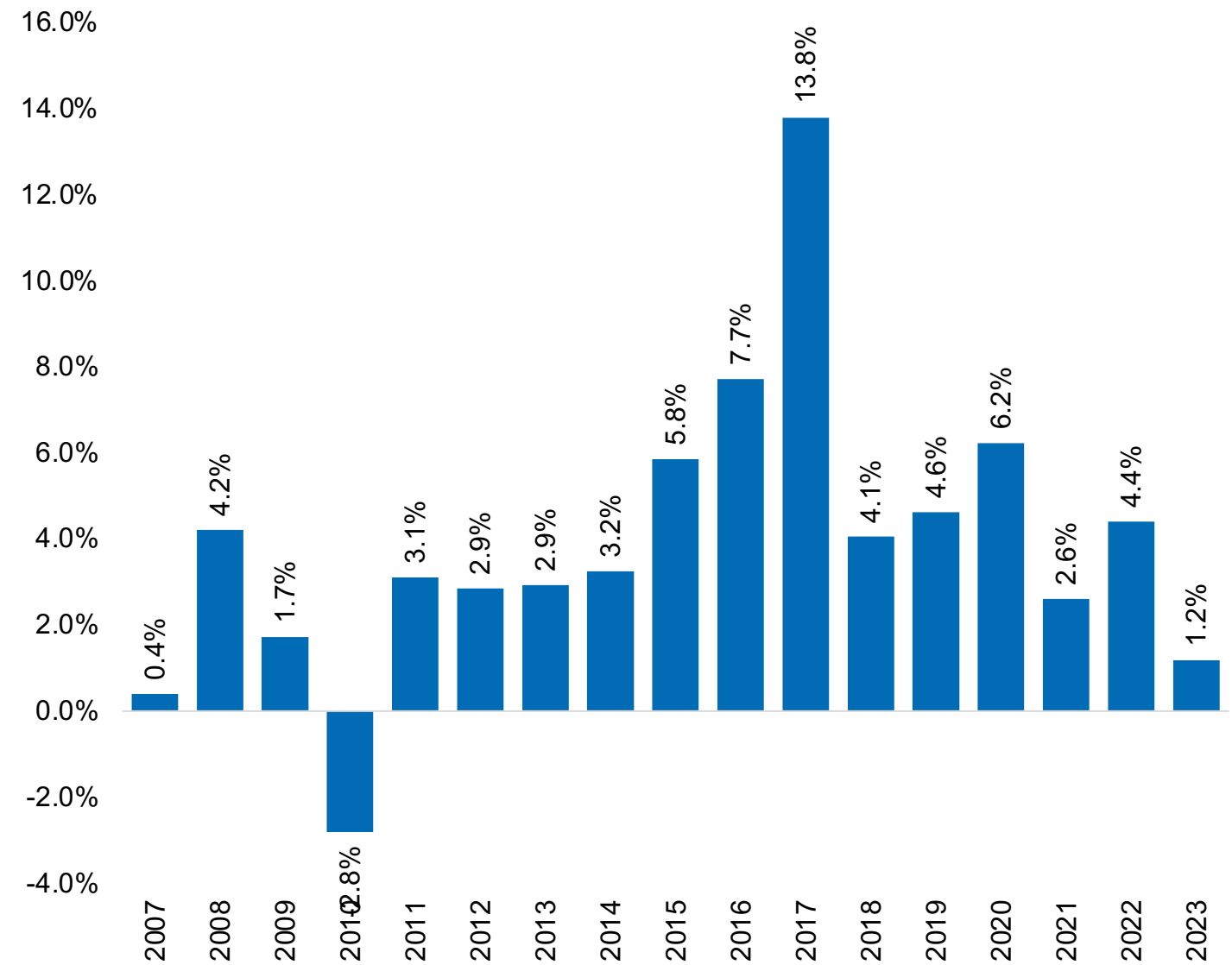
Rents Remain Near All-Time Highs

Rents decreased in the second quarter of 2023, but increased by 1.2% year over year to \$33.48/SF. This decrease follows the all-time high from last quarter at \$33.60/SF. Generally, asking rents are likely to flatten due to the elevated development pipeline, rising vacancy, a recent decline in leasing activity, and three quarters of negative absorption.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

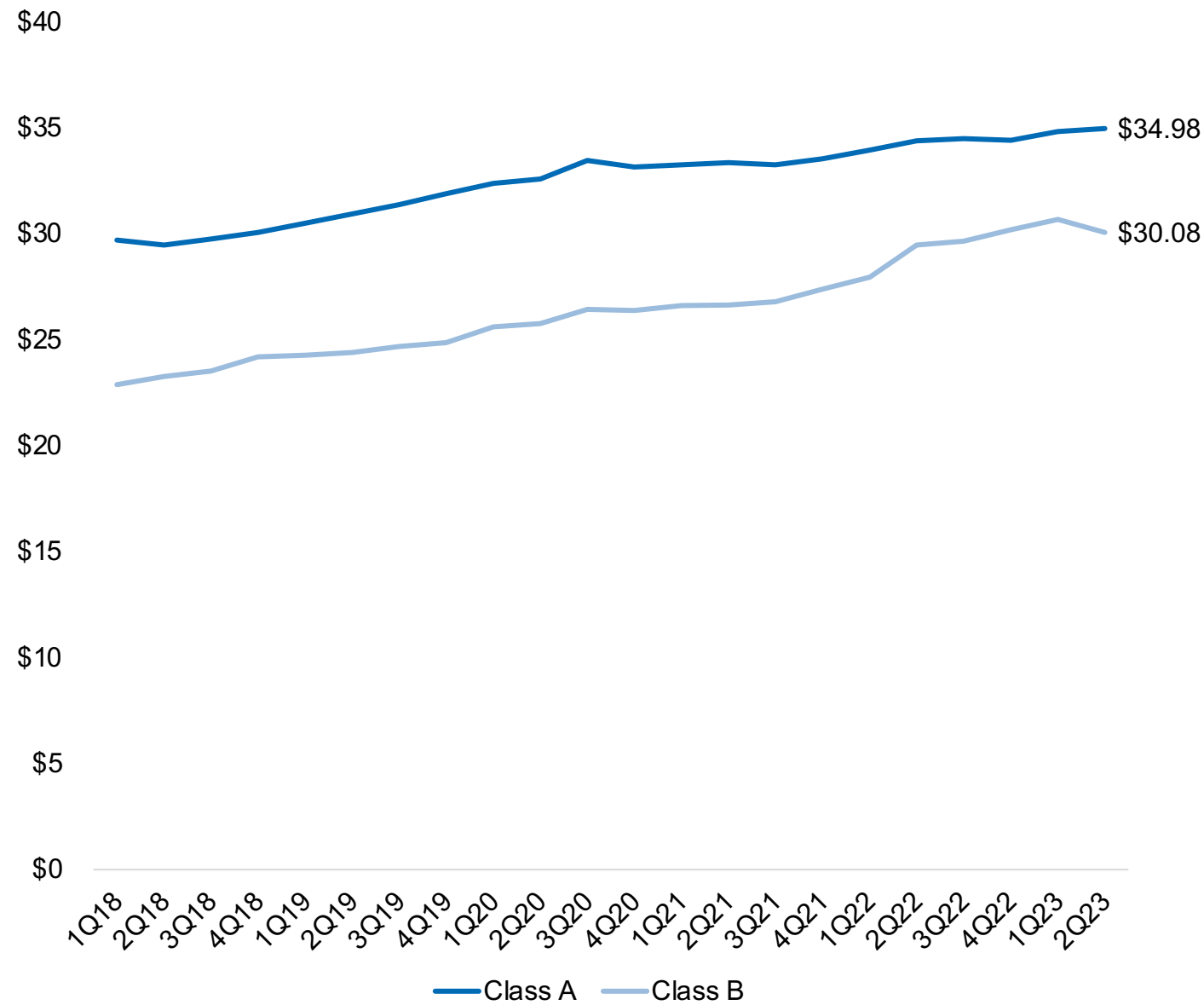


Source: Newmark Research, CoStar

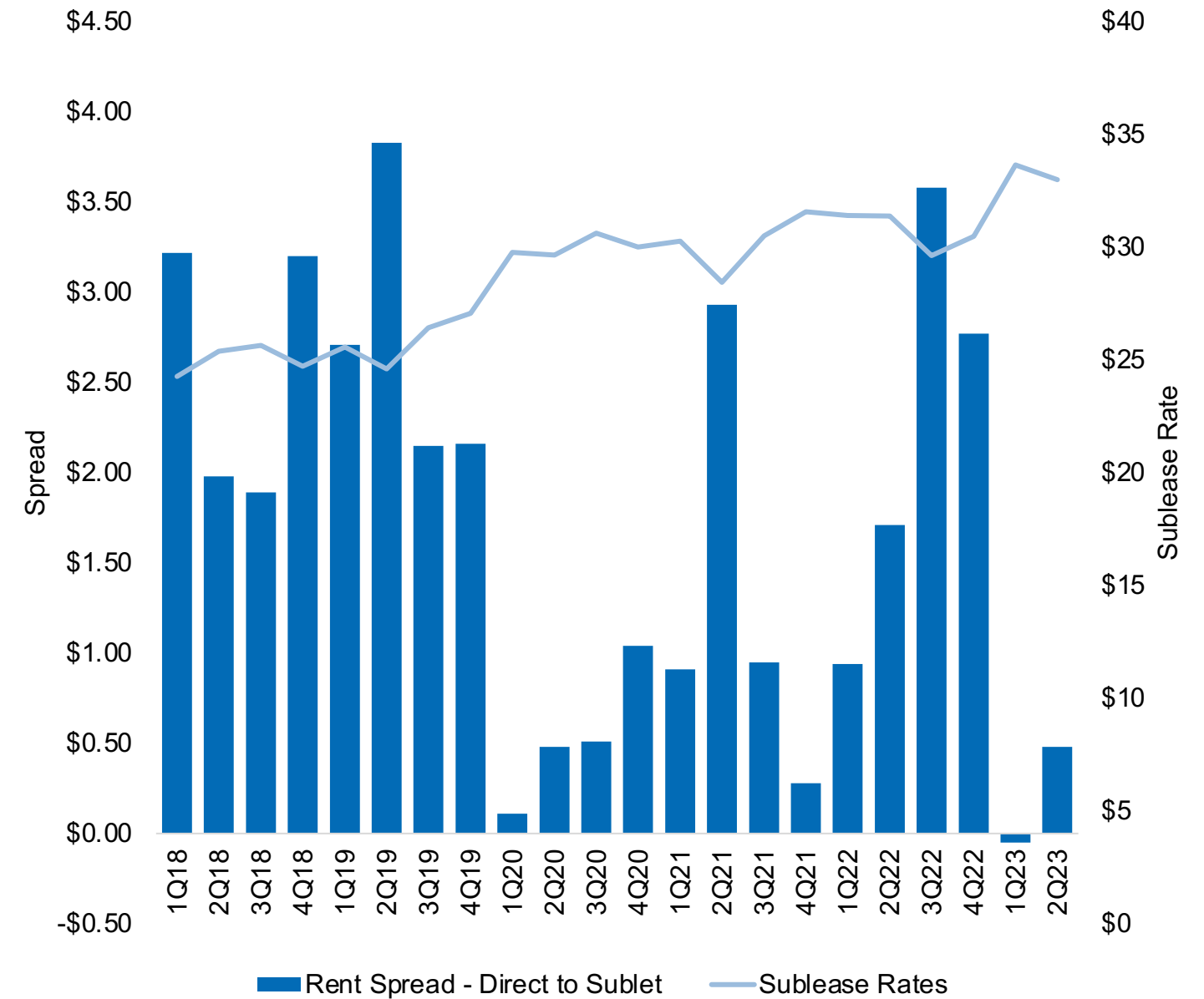
Rent Spread on Class A Assets Begins Increasing

As of the end of the second quarter of 2023, Class A rents ended at \$34.98/SF, while Class B reported \$30.08/SF. Rent difference between the two assets are at \$4.90/SF, a 25.3% spread decrease since 2019. The spread increased 18.1% quarter over quarter. Nevertheless, there is still a narrowed spread between Class A and Class B assets which will likely lead tenants in Class B spaces to downsize and consolidate within higher-quality Class A spaces. Sublease rates have increased year over year by 5.2% but have decreased by 1.9% quarter over quarter.

Class A and Class B Asking Rents



Sublease Rates (Charlotte Office All Market Total Used)



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Abates

As of the end of the second quarter of 2023, Class A space accounted for 61.9% of the market's leasing activity by SF, but only 44.1% of the market's deal volume. Average leases signed in Class A space were 6,943 SF and continue to remain larger than the average market deal size at 4,772 SF.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Ameriprise Financial	300 S Tryon	CBD	Direct Lease	53,000
<i>This two-story lease represents a new corporate office for Ameriprise in Charlotte, where it plans to gradually fill approximately 400 positions from various departments.</i>				
Snider Fleet Solutions	1081 Red Venture Dr	York County	Direct Lease	50,388
<i>This lease represents a corporate relocation from a neighboring state in a \$6.9M investment that will create 167 jobs.</i>				
Newell	Birkdale Point 4	NE / I-77	Direct Lease	49,916
<i>Newell Brands signed a 5-year lease for the entire office building.</i>				
Skyla Credit Union	Station 3	Midtown/Southend	Direct Lease	46,989
<i>Skyla Credit Union relocated its Charlotte HQ to a new lower South End development. This move was in lieu of building a previously planned new headquarters.</i>				
Haynes & Boone	SIX50 at Legacy Union	CBD	Direct Lease	23,766
<i>Haynes & Boone's relocation was a strategic move within Legacy Union in Charlotte Center City in order to grow and provide better accessibility for their clients.</i>				
Palmetto Solar	1616 Center	Midtown/Southend	Direct Lease	17,963
<i>Palmetto Solar will occupy the third floor of 1616 Camden Rd.</i>				

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