



Charlotte Office Market Report: Mid-Year 2013

STAT HIGHLIGHTS

AIRPORT

	Vacancy	Rents
Q4 2012	27.38%	\$16.06
Q2 2013	24.09%	\$16.19

Vacancy decreased by 3.29 percentage points with a slight increase in average rents

UNIVERSITY

	Gross Absorption	Vacancy
Q4 2012	306,978 SF	27.27%
Q2 2013	672,066 SF	23.80%

Significant lease activity occurred in the first half of 2013, followed by a drop of almost 4 percentage points in vacancy

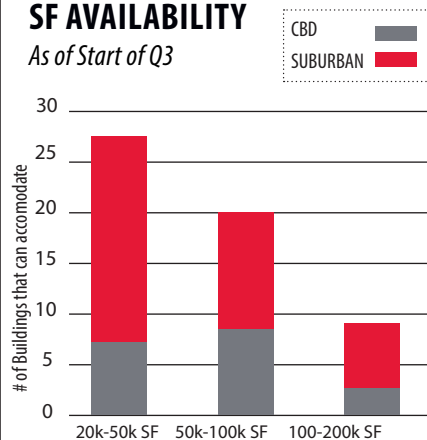
DOWNTOWN

	Vacancy	Rents
Q4 2012	8.99%	\$23.83
Q2 2013	9.22%	\$24.03

Vacancy increased by 23 basis points while rents increased by \$.20/SF

LARGE CONTIGUOUS SF AVAILABILITY

As of Start of Q3



Only two buildings in the CBD can accommodate 100,000 SF contiguous or more.

Q1 & Q2 Big Picture

The first half of 2013 proved to be a good market for both Tenants and Landlords. Aggressive lease transactions were seen from both viewpoints. From the Tenant's perspective, the market from January to April proved to offer higher concessionary packages and lower face rates. Leverage shifted a bit in May and June due to a decrease in vacancy in 5 out of the top 6 submarkets from Year End 2012. Face rates increased by \$1.00/SF or higher in several business parks from April to May. Free rent generally stayed flat at 1 month per year, with exception to a slight pull back in SouthPark, Midtown and Downtown. Tenant Improvement (TI) dollars continue to be more of a function of Landlord and Tenant creditworthiness, than market. Institutional owners generally have the money for TI. "Mom and Pops" generally do not. From the Tenant's perspective, IBM will negotiate top of the line TI's, whereas the small start-up with no history will see lower TI's offered, unless willing to secure the Landlord's investment with a sizeable security deposit or letter of credit.

The large wave of investment sales activity in the 3rd and 4th quarters of 2012 spurred differing receptions from the Tenant market during the first half of 2013. As the case in any highly competitive acquisition, the winning bidder is buying an income stream based on an assumed increase in Net Operating Income. To achieve this, rental rates must rise (or expenses must decrease, which is rarely the case). Two examples: (1) MainStreet Capital Partners' purchase of seven office buildings in the Lakepointe Office Park portfolio (Airport submarket) from TIAA-CREF/Childress Klein and (2) Parmenter's acquisition of the 654,533 SF Fifth Third Center from Bank of America (Downtown). Upon closing, both new owners immediately raised rates. During the 2nd quarter, MainStreet successfully leased over 60k SF with rents at 8-10% higher than prior to acquisition. Parmenter has yet to lease any of the 117,878 SF of contiguous vacancy it acquired, after raising rents \$1.50/SF to \$29.50/SF. Tenants have demonstrated their willingness to pay slightly higher for product in the high teens to mid \$20's. The core product, priced from the upper \$20's to mid \$30's is sitting on the market longer. This appears to be a direct reflection of the overall economy. While Tenants seem to be more confident today, they are still very price conscious.

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Vacancy Overall Down

From year end 2012 to Q2 2013, vacancy decreased in 8 out of the 12 suburban submarkets. Vacancy in the Central Business District (Downtown) increased over the same time period. The large positive net absorption creating transactions of late 2012 were absent in the CBD during the first half of 2013.

While a few expansions have taken place downtown, the majority of activity in the CBD this year has been from users within the submarket, relocating, downsizing and renewing. One such expansion was inked by Duke Energy at 400 South Tryon in the 2nd quarter. Duke renewed its lease for 320,177 SF and added an additional two floors for a total of 355,067 SF.

The suburban submarkets showing a decrease in vacancy from year end 2012 to Q2 2013 were SouthPark, Midtown, Hwy 51/SE, Airport, University, Cotswold, East and the South Carolina border markets. Vacancy increased in the North, Crownpoint/Matthews and Park Road. The Airport and University vacancies each decreased by 300 basis points or higher. Midtown was third in line with a decrease of 156 basis points.

Ballantyne & The University

Ballantyne (Hwy. 51/SE submarket) and Innovation Park (University submarket) continued to rule the roost in large

transaction news during the first two quarters of the year.

MetLife's lease of 340,000 SF was the largest new lease the Charlotte market has seen since Duke Energy leased 500,000 SF in 2009 in the former Wachovia HQ building, now known as The Duke Energy Center. MetLife's lease relieved 61% of the 550,000 vacancy created by the speculative delivery of the Woodward and Gragg Buildings. The lease has already fueled discussions at The Bissell Companies for the next phase of development at Ballantyne. The park has developed 4m SF of its 5m SF of zoned office space.

At the time of this report, Allstate announced it will consolidate its northeast Charlotte operations by relocating into 200,000 SF at Innovation Park. The new lease brings the business park to 93% occupancy. In April, Paris based nuclear giant Areva announced it would relocate its North American headquarters to Charlotte, bringing its occupied space to 230,000 SF at Innovation Park. Owner, BECO South, is already in discussions for a 45,000 SF build to suit and is considering pulling the trigger on a new speculative building. The park can accommodate an additional 2m SF of space.

Free Rent

While free rent does possess some level of "market" characteristics, it is important to note that free rent is a variable in the net effective outcome for both parties. It is a function of the amount of TI, escalations, rental rate and term of a particular transaction. While the "market" may suggest a pullback in free rent across the top performing submarkets, each transaction is individual in itself. Depending on the economic (and sometimes non-economic) variables, free rent of 1 month per year and a combination of inside and outside of the term can still be achieved.

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MARKET EXTRAS

Whitehall Buildings Emerge from Bankruptcy

American Asset Corporation, developer of the Class A Whitehall Corporate Center in Southwest Charlotte, settled a two year dispute with lender Bank of America for Whitehall Corporate Center IV, V and VI. The three buildings totaling 440,000 SF have been under Chapter 11 protection since 2011. Rental rates during bankruptcy hovered in the \$17's full service, hitting \$18.00 just prior to the settlement. Upon settlement, the park successfully secured sizeable leases with Retirement Clearinghouse and Carolinas Healthcare System. Rates were pushed to \$19.50 full service.

One Wells Fargo Center Sold

One Wells Fargo Center, the former headquarters for First Union/Wachovia, was sold for \$245m in the 2nd quarter to a partnership between Starwood Capital Group & Vision Equities. Wells remains the largest tenant, with 686,834 SF under lease through 2021.

1ST HALF 2013 NOTABLE LEASE TRANSACTIONS

Company	Type	Building	SF	Submarket
Duke Energy	Renewal/Expansion	400 S. Tryon	355,067	Downtown
STV Ralph Whitehead	Relocation/Expansion	900 W. Trade	35,409	Downtown
Horack Talley	Relocation/Expansion	Carillon	28,000	Downtown
MetLife	New	Woodward/Gragg	340,000	Hwy. 51/SE
Allstate	Relocation/Consolidation	Innovation Park	200,000	University
AREVA	HQ Relocation	Innovation Park	20,000	University
Wells Fargo Insurance Services	Renewal	6100 Fairview	57,228	SouthPark
Campus Crest	Renewal/Expansion	Rexford I	43,570	SouthPark
SunTrust	Relocation/Consolidation	Sharon Square	43,500	SouthPark
Hedrick Gardner	Renewal	6100 Fairview	43,150	SouthPark
Regions Bank	Renewal / Expansion	One Morrocroft	25,234	SouthPark
Carolinas Healthcare System	Expansion	Whitehall Corporate	63,287	Airport
Retirement Clearinghouse	Relocation/Expansion	Whitehall Corporate	19,974	Airport
Publix Supermarkets, Inc.	New	Two Lakepointe	16,200	Airport
TriNet	Expansion	Edgewater Corporate	21,085	SC/Lancaster County

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Charlotte Office Market Report 2nd Quarter 2013

MARKET	Inventory/SF	Net Absorption YTD (SF)	Gross Absorption YTD (SF)	Direct Vacant SF	Direct Vacant %	Sublet Available SF	Total Available SF	Total Available %	Direct Gross Average Rent	Sublet Gross Average Rent	Gross Quoted Rents (Range)	SF Delivered YTD
CHARLOTTE	49,922,023	612,306	2,767,246	8,050,806	16.13%	354,131	8,404,937	16.84%	\$21.18	\$16.10	\$10.00- \$35.50	-
Submarkets												
Southpark	4,142,910	(20,278)	174,400	510,699	12.33%	72,602	583,301	14.08%	\$22.95	\$22.20	\$15.00- \$28.50	-
Downtown	18,227,629	38,930	488,722	1,680,869	9.22%	107,394	1,788,263	9.81%	\$24.03	\$14.14	\$17.00- \$34.00	-
Midtown	2,857,849	36,155	54,820	316,678	11.08%	27,379	344,057	12.04%	\$22.34	\$17.23	\$15.00- \$28.75	-
Airport	8,364,858	157,032	518,988	2,014,905	24.09%	53,751	2,068,656	24.73%	\$16.19	\$12.33	\$11.00- \$25.25	-
Highway 51/ Southeast	5,673,754	137,887	537,198	1,247,639	21.99%	15,807	1,263,446	22.27%	\$24.25	\$18.46	\$15.00- \$28.00	-
North	2,840,738	(1,443)	164,639	531,708	18.72%	36,741	568,449	20.01%	\$19.26	\$16.49	\$12.50- \$25.00	-
University	3,797,850	203,876	672,066	903,807	23.80%	21,127	924,934	24.35%	\$18.67	\$12.74	\$14.00- \$23.50	-
Matthews/ Crownpoint	1,258,892	(1,945)	66,550	334,406	26.56%	0	334,406	26.56%	\$15.39	\$-	\$10.50- \$22.00	-
Cotswold	286,604	15,280	21,791	25,695	8.97%	12,330	38,025	13.27%	\$19.81	\$12.81	\$11.00- \$25.00	-
Park Road	856,305	(290)	13,486	233,324	27.25%	7,000	240,324	28.07%	\$16.14	\$16.00	\$14.50- \$18.00	-
East	1,614,634	47,102	54,586	251,076	15.55%	0	251,076	15.55%	\$14.21	\$-	\$10.00- \$17.00	-
SC TOTALS	1,582,476	42,143	94,251	111,804	7.07%	0	229,282	14.49%	\$20.20	\$-	\$10.50- \$24.00	-
SC Border Submarkets												
Lancaster County	552,245	35,674	49,667	30,652	5.55%	0	30,652	5.55%	\$19.21	\$-	\$14.50- \$24.00	-
York County	1,030,231	6,469	44,584	81,152	7.88%	0	198,630	19.28%	\$20.73	\$-	\$10.50- \$24.00	-