



Charlotte Office Market Report: Mid-Year 2014

STAT HIGHLIGHTS

DOWNTOWN

	Vacancy	Rents
Q1 2013	9.49%	\$24.05
Q2 2014	9.44%	\$25.21

Rates are up over \$1.00/SF from Q1 2013.

SOUTHPARK

	Vacancy	Rents
Q1 2013	14.8%	\$23.83
Q2 2014	13.56%	\$24.85

Rates are up over \$1.00/SF from a year ago.

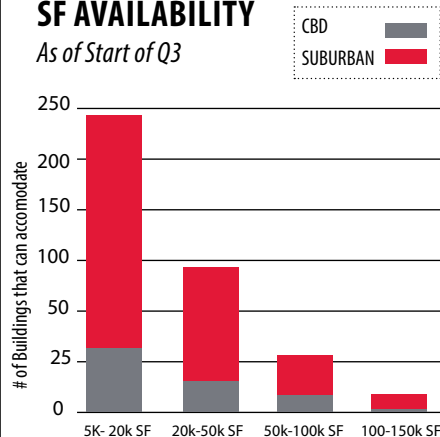
AIRPORT

	Vacancy	Rents
Q1 2013	26.4%	\$16.09
Q2 2014	18.72%	\$16.73

Vacancy has fallen by over 7 percentage points in one year.

LARGE CONTIGUOUS SF AVAILABILITY

As of Start of Q3



Who's on First?

Tenants surrender, your time is up. The lease deals of the past three years are over. Landlords hold all of the cards now! Is this the truth? Not exactly.

In Charlotte, our office market is in fact seeing a decline in vacancy and an overall increase in rental rates. Supply side on the larger blocks (and even on the smaller blocks in certain submarkets) is tighter today than a year ago. From the stat highlights, submarkets such as SouthPark and even the Class A product in the Airport have been leaders in rental rate growth and falling vacancies. It is hard to deny that Landlords in certain cases have more negotiating power than they did a year ago. This said, our market is still a long way from being characterized as a landlord dominated market. In most submarkets, there is healthy competition between buildings. In SouthPark, if your company requires a full floor of 20,000 SF, you currently have 7 buildings to choose from, 3 Class A and 4 Class B. Even in the most Landlord weighted submarket in town, that is still good news for Tenants. The other good news is what's on the horizon. New Development. Currently in SouthPark, 660,000 SF of new office buildings are on the drawing board. To clarify, that is 16% of the existing inventory. Phase I of the Capitol Towers (235,000 SF) has broken ground and should expect to see tenant occupancy by September 2015. With exorbitant land costs and high construction costs, Class A new construction in SouthPark will be marketed in the \$30/SF to \$34/SF range full service. In the CBD, 1.9m SF of office development is on the drawing board. Rates will be in the \$32/SF to high \$30's. We could even see a \$40/SF number marketed. So how is this good news for Tenants?

While the rates will be on the highest end of all suburban and CBD office buildings, the newly added supply will increase competition. Short of new- to- market tenants such as MetLife leasing 100% of the space, we're likely to see existing well capitalized tenants jump ship for the new car smell. So what then happens to the vacated space? It creates opportunity for other Tenants and forces Landlords to become pragmatic. In reality, there are only a few buildings in the suburbs that have gotten really proud. The rest have inched upwards so as to not get left out of the race. In the CBD, the core product (AAA) is leasing consistently in the \$29-\$30/SF range. The rest of the pack is still competitive.

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As evidenced by the chart on page one, over 16 buildings in the CBD have 20k SF of contiguous space. 34 Buildings can accommodate 5k- 15k SF contiguous. In the suburbs, 57 buildings offer 20k SF to 50k SF of contiguous space. 17 buildings can accommodate 50k to 100k SF. Even without new supply, these options alone represent leverage. As stated earlier, we are not in a Landlord dominated market. Rates may be up for the time being, but it is the net effective rate we're after. There is plenty of opportunity to find strong tenant favored deals. You just have to know how to play and who to play with.

Checking the Pulse

As of Mid-July, overall leasing activity has been up and down. The University continues to churn sizeable leases due to its availability of large blocks of space. TIAA-CREF is under negotiations to backfill 90,000 SF at Three Resource Square. Allstate is vacating this space as it heads to 200,000 SF at Innovation Park. In the CBD, activity through July has been decent, but Landlords seem to feel things have "slowed". One notable transaction was Ally Financial's expansion at Ally Center (440 S. Church St.), taking down an additional 90k SF. The Airport Class A parks such as Whitehall, Lakepointe and Coliseum Centre have all raised rental rates from a year ago. With the newsworthy announcements of The Lash Group and LPL Financial vacating a total of 540,000 SF to head to York

County, it should provide for healthy competition between Coliseum Centre and Lakepointe over the next 24 months. Activity has been strong at Whitehall over the last six months with rates climbing from \$18.00/SF a year ago, to asking rates of near \$20.00/SF today. The class B market of the Airport is still 30% vacant, creating ample opportunity for value seeking Tenants. Midtown remains extremely tight with very few quality spaces available. Class A landlords along the E. Morehead corridor have bumped rates as much as 10% over the past year. SouthPark has been very active with smaller tenants in the 2,500- 5,000 SF range. The Towers (6000 & 6100 Fairview) have bumped asking rates to \$28.00/SF. As a comparison, we were seeing strike rates at The Towers in early 2013 near \$23.00/SF. This increase can be classified on the extreme side, as most of the submarket has followed suit raising rents by 5%-10% over the past year. Hwy. 51/SE has also been active, both on the smaller leases and the full floor plus leases. On the Class A front, healthy competition remains between Toringdon and Ballantyne. Competition even exists within Toringdon, given LNR owns two of the six existing buildings and Trinity Capital/Starwood owns the other four. We have seen lease rates differ by \$1.50/SF between the two ownership groups. The difference is LNR is a special servicer, whose main objective is to lease it quickly and sell it. Trinity is looking to improve on investor returns through NOI growth. A classic example of differing strategies creating differing lease deals for Tenants.

SUBMARKET- CBD

Full Floor Vacancies	Total Floors Available	Inventory / SF	Vacancy
12th Floor & Up	25	698,029 SF	4%
20th Floor & Up	19	355,684 SF	2%
35th Floor & Up	7	153,936 SF	0.008%
40th Floor & Up	0	-	0%

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MARKET EXTRAS

Cousins Properties to Buy Fifth Third Center:

Cousins Properties has agreed to purchase the Fifth Third Center office tower, formerly known as 201 N. Tryon Street, for a Charlotte office space record of \$308/SF. The previous record per square foot for office space was held by Hines, in the purchase of the Carillon Building in uptown, for \$298/SF.

Ally Center Has a Buyer:

Real estate investment firm Epic UK is under contract to purchase the Ally Center in uptown Charlotte for \$296/SF, or \$109 million. Ally was developed in 2009 by Trinity Capital and Novare Partners. The Building is now owned by Trinity and Principal Financial. Ally Financial recently expanded in the building and extended its lease, allowing for the building to be positioned for sale.

MID-YEAR 2014 NOTABLE LEASE TRANSACTIONS

Company	Type	Building	SF	Submarket
Ally Financial	Expansion	Ally Center	90,000 SF	CBD
AIG	New	BB&T Center	32,000 SF	CBD
PWC	Renewal	Hearst Tower	64,139 SF	CBD
Thinkgate	Relocation/Expansion	201 S. Tryon Square	21,210 SF	CBD
Irongate	New	First Citizens Plaza	21,000 SF	CBD
Lash Group	New	Kingsley Park	250,000 SF	York County
LPL Financial	New	Kingsley Park	450,000 SF	York County
Troutman Sanders	New	One Wells Fargo	18,000 SF	CBD
McGuire Woods	Renewal/Consolidation	Fifth Third Center	144,293 SF	CBD
Winstead	New	Fifth Third Center	24,681 SF	CBD
Sonic Automotive	New	Hayes/ Ballantyne	40,000 SF	Hwy. 51/SE
SABIC Polymershapes	Renewal/Contraction	Latta/ The Park	75,000 SF	North
Time Warner Cable	New	2910 Whitehall Park	57,000 SF	Airport
Accenture Credit Services	Renewal	Forest Park XI	60,477 SF	I-77

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MARKET	Inventory/SF	Net Absorption YTD (SF)	Gross Absorption YTD (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	50,245,131	769,570	2,270,197	12.91%	461,408	6,945,564	13.82%	\$21.73	\$17.69	\$10.00-\$34.00	93,346
Submarkets											
Southpark	4,147,057	96,982	206,746	12.15%	66,516	570,479	13.76%	\$24.85	\$23.93	\$15.00-\$32.00	93,346
Downtown	18,422,234	47,265	549,624	8.45%	183,540	1,739,762	9.44%	\$25.21	\$17.18	\$17.00-\$34.00	-
Midtown	2,791,053	72,075	180,983	6.24%	13,133	187,161	6.71%	\$22.41	\$16.70	\$15.00-\$28.75	-
Airport	8,807,636	116,729	370,858	17.90%	71,937	1,648,675	18.72%	\$16.73	\$11.40	\$11.00-\$25.25	-
Highway 51/ Southeast	5,563,381	181,038	343,461	14.37%	16,625	815,982	14.67%	\$22.72	\$19.80	\$15.00-\$28.00	-
North	2,777,365	26,126	117,023	17.23%	43,453	522,038	18.80%	\$20.23	\$17.71	\$12.50-\$25.00	-
University	3,823,958	187,387	378,340	17.39%	29,237	694,260	18.16%	\$18.56	\$16.61	\$14.00-\$21.50	-
Matthews/ Crownpoint	1,276,816	(2,057)	39,951	24.83%	9,171	326,153	25.54%	\$16.41	\$20.00	\$10.00-\$23.00	-
Cotswold	286,604	(3,334)	8,072	10.77%	1,254	32,111	11.20%	\$20.59	\$-	\$11.00-\$25.00	-
Park Road	856,305	21,544	36,678	21.24%	1,695	183,607	21.44%	\$16.66	\$28.00	\$14.50-\$24.00	-
East	1,492,722	25,815	38,461	13.43%	24,847	225,336	15.10%	\$14.19	\$12.00	\$10.00-\$17.00	-
SC TOTALS	1,535,826	121,720	183,289	7.45%	21,233	135,593	8.83%	\$19.86	\$26.50	\$10.50-\$26.50	-
SC Border Submarkets											
Lancaster County	512,946	6,170	6,170	4.08%	-	20,917	4.08%	\$19.80	\$-	\$14.50-\$25.50	-
York County	1,022,880	115,550	177,119	9.14%	21,233	114,676	11.21%	\$19.88	\$26.50	\$10.50-\$26.50	-