



Office Market Overview

Vacancy in the overall Charlotte office market continues to decline. Direct vacancy fell to 11.6 percent during second quarter 2015 – down 20 basis points from the previous quarter and down 1.3 percentage points from 12.9 percent compared to second quarter 2014. Direct net absorption was positive 154,626 square feet during second quarter – the ninth consecutive quarter of positive net absorption in the market. Class B office buildings were responsible for 94.0 percent of the direct net absorption with a gain of 145,682 square feet.

The University submarket showed the largest gain when compared to the other areas due to the delivery of the three-story, Off Broadway Shoe Warehouse Corporate Headquarters building located at 8310 Technology Drive that was completed in April and totals 50,186 square feet. The building is now fully occupied by the retailer and was the largest move-in of the quarter. In addition, Allstate moved into nearly 24,000 square feet at 8209 IBM Drive, Building 102 at Innovation Park in May. In the CBD, where over 44,000 square feet of direct space was absorbed during second quarter, CNL Commercial Real Estate moved into nearly 16,000 square feet at 121 W. Trade Street in April, Mystic Advertising now occupies 10,220 square feet on the ninth floor at 200 S. Tryon, and U.S. Bank expanded into almost 24,000 square feet on the thirty-fifth floor at Hearst Tower. U.S. Bank now occupies 81,424 square feet on four floors in the tower.

Nearly 800,000 square feet of leases were signed during second quarter in the Charlotte metro area and four submarkets were responsible for approximately 75.0 percent of those leases - Airport, CBD, Ballantyne/Highway 51, and SouthPark. Walmart was involved in the largest lease transaction of the quarter as the retailer signed a 12 year lease on the entire 107,545 square foot Three Water Ridge building located at 2118 Water Ridge Parkway near the airport. Walmart will move into the space in November. Similarly, at Six Coliseum Center, Compass expanded into approximately 26,000 square feet on the third floor and American City Business Journals signed a lease for 17,000 square feet at 4824 Parkway Plaza Boulevard at Airport Overlook. In the CBD, it was announced that Dimensional Fund Advisors would be opening a regional headquarters in Charlotte and leased nearly 50,000 square feet temporarily at Fifth Third Center while they finalize plans on a build-to-suit that could be ready as early as the end of 2018. Kimley-Horn and Associates Inc. also leased 22,500 square feet on the second floor of the 200 S. Tryon building as they plan to relocate this summer from Atherton Mill in South End. Shumaker, Loop and Kendrick will relocate to nearly 23,000 square feet at Bank of America Plaza from First Citizens Bank Plaza in the fall of 2016 and Clifton Larson Allen leased 22,000 square feet in the Carillon building. Moving into the Ballantyne/Highway 51 submarket, Heartland Payment Systems signed a 30,000 square foot lease in the Toringdon 1 building at 3420 Toringdon Way and MetLife exercised its option to lease the sixth floor at the Woodward building which totals 28,371 square feet. Lastly, in SouthPark, leasing at Capitol Towers is in full swing. Sterling Capital signed a lease for the top floor totaling over 22,000 square feet during second quarter and, recently, the accounting firm Dixon Hughes Goodman announced that the company would be taking approximately 40,000 square feet on the eighth and ninth floors. (The Dixon Hughes Goodman transaction will be reflected in third quarter leasing activity.) In addition to the activity at Capitol Towers, ZAPATA signed a renewal for over 15,000 square feet at Fairview Center One.

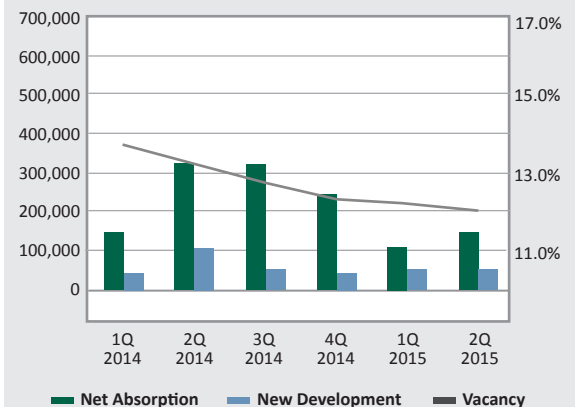
Direct average asking rental rates in the Charlotte metro have now reached \$23.00 per square foot - up \$0.51 per square foot when compared to first quarter. Both Class A and Class B direct average asking rental rates have both experienced significant increases - Class A building rates have increased \$2.64 per square foot since second quarter 2014 and Class B rates have broken the barrier and are now at \$19.43 per square foot. There are a few reasons for the push. The market is continuing to tighten. Overall vacancy rates during second quarter 2015 were at 11.6 percent. Five years later, vacancy rates have hit 12.0 percent with very minimal new development. Other important factors are construction costs and land costs. With regard to construction, there is a lack of skilled construction workers and the shortage is driving costs up and lengthening the schedules on new development. It is also becoming harder to identify parcels of land to purchase as the multi-family boom continues to grab prime real estate.

Source: CoStar data pulled 7.9.15; Real Capital Analytics; Charlotte Business Journal; Lincoln Harris Research

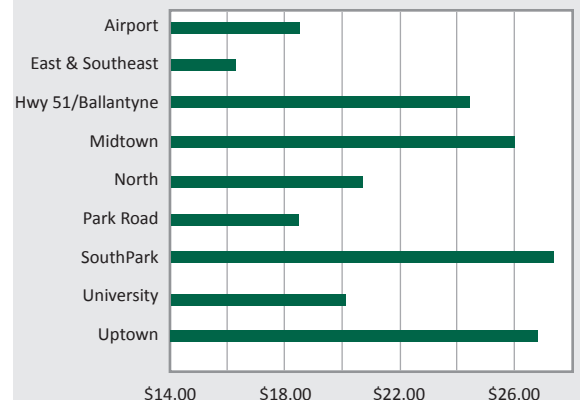
MARKET STATISTICS

	2Q 2015	1Q 2015	FORECAST
Market Supply (SF)	56,267,604	56,217,418	▲
Under Construction (SF)	1,438,928	1,137,614	▲
Direct Vacancy (%)	11.6%	11.8%	▼
Total Vacancy (%)	12.0%	12.2%	▼
Total Net Absorption (SF)	166,149	111,493	▲
YTD Net Absorption (SF)	277,642	111,493	▲
Direct Asking Rent	\$23.00	\$22.49	▲
Class A Direct Asking Rent	\$25.78	\$25.28	▲
Class B Direct Asking Rent	\$19.43	\$18.88	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET DIRECT ASKING RATES - 2Q 2015



OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	2Q 2015 Absorption	YTD 2015 Absorption	Completions	Construction	Direct Asking Rate
UPTOWN	19,638,612	1,782,081	9.1%	52,806	15,355	0	0	\$26.87
MIDTOWN	4,331,173	191,683	4.4%	-2,072	40,857	0	0	\$26.01
URBAN TOTALS	23,969,785	1,973,764	8.2%	50,734	56,212	0	0	\$26.76
AIRPORT	9,926,669	1,618,856	16.3%	-73,833	-45,520	0	0	\$18.51
EAST & SOUTHEAST	2,636,475	385,379	14.6%	25,945	15,626	0	0	\$16.39
HWY 51 / BALLANTYNE	6,713,499	953,919	14.2%	-1,431	42,401	0	0	\$24.57
NORTH	3,249,945	499,746	15.4%	42,667	51,457	0	0	\$20.88
PARK ROAD	624,546	96,633	15.5%	8,765	7,818	0	0	\$18.55
SOUTHPARK	4,466,537	533,681	11.9%	26,549	1,182	0	0	\$27.60
UNIVERSITY	4,680,148	682,382	14.6%	86,753	148,466	1	50,186	\$20.16
SUBURBAN TOTALS	32,297,819	4,770,596	14.8%	115,415	221,430	1	50,186	\$21.22
CHARLOTTE TOTALS	56,267,604	6,744,360	12.0%	166,149	277,642	1	50,186	\$23.00

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2015 Absorption	Direct Asking Rent (PSF)
Class A	202	33,040,902	3,478,341	10.5%	101,853	\$25.78
Class B	315	23,226,702	3,266,019	14.1%	175,789	\$19.43
MARKET TOTALS	517	56,267,604	6,744,360	12.0%	277,642	\$23.00

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
101 Independence Center	Uptown	526,000	\$107,800,000	\$205.00
Charlotte School of Law	North	112,928	\$16,000,000	\$142.00
Arrowpoint One	Airport	66,864	\$11,400,000	\$170.00
Acosta Charlotte Building	Airport	48,000	\$9,300,000	\$194.00
Park Seneca Building	Park Road	109,674	\$8,200,000	\$74.00
8701 Mallard Creek Road	University	51,110	\$3,800,000	\$75.00

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
Walmart	2118 Water Ridge Parkway	Airport	107,609	New
Dimensional Fund Advisors	Fifth Third Center	Uptown	49,744	New
Heartland Payment Systems	Toringdon 1	Highway 51	29,976	New
Associate Staffing	Corporate Center One	Airport	29,234	New
MetLife	Woodward Building	Highway	28,371	Expansion

About Lincoln Harris

Lincoln Harris, an affiliate of Lincoln Property Company, is a full-service corporate real estate company focused on development, commercial brokerage, corporate real estate services, retail services, land services, project services, property management and asset management. Based in Charlotte, NC, Lincoln Harris has twenty-three service offices across the country.

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