

Office Market Overview

The Charlotte area remains appealing to companies despite recent challenges in the market. Charlotte's fundamentals are strong with a low cost of living, high quality of life, great accessibility to the 6th busiest airport in the world, and a balanced economy that encompasses many sectors and companies. Mecklenburg County's unemployment rate in August was 4.7 percent - down 0.9 percent from last year.

Overall office building vacancy in the Charlotte metro declined 20 basis points to 9.8 percent. Vacancy has steadily declined over 5.8 percentage points since 2012. Direct vacancy moved to 9.1 percent – down 170 basis points versus a year ago. Overall net absorption was positive 189,473 square feet with the North and Airport submarkets experiencing the most space demand while Bank of America continued to consolidate leased office space Uptown moving out of four floors at 101 Independence Center. This is part of Bank of America's long term strategy to occupy more bank owned space.

The largest move-in of the quarter was the opening of the new Huntersville Health and Rehabilitation building in North Charlotte. The 70,000 square foot, Class B medical office building located at 13835 Boren Street was delivered in July and was fully occupied shortly after completion. The Airport submarket had three significant move-ins. MapAnything, Inc. moved into nearly 22,000 square feet at Vanguard Center in August, CalAtlantic Mortgage leased just over 18,000 square feet on the third floor at LakePointe Corporate Center Two, and Home Point Financial Corporation now occupies almost 24,000 square feet on the fifth floor of Whitehall Corporate Center VI. There were other significant absorptions around the Charlotte metro. MetLife exercised its option to expand and now occupies 57,000 square feet on the eighth and ninth floors at the Woodward Building in Ballantyne Corporate Park and TTI Floor Care moved into nearly 45,000 square feet in Building 301 located at 8405 IBM Drive at Innovation Park in the University area.

Several leases were signed during third quarter tightening future vacancy in buildings that are currently under construction. Portman Holdings' 615 S College Street is expected to deliver in March 2017 and Regions Bank announced that the company would be taking nearly 64,000 square feet on three floors upon completion. Regions Bank is the first tenant to sign a lease in the 370,000 square foot Class A office building and will have signage rights. Beacon Partners' 500 E Morehead Class A office development is also under construction with a March 2017 delivery date. The seven-story building has leased the top four floors. Chicago Bridge & Iron recently announced that the firm would be relocating from 121 West Trade into approximately 63,000 square feet on floors four and five. Elliott Davis Decosimo also signed a lease in June for over 58,000 square feet on the top two floors leaving just two full floors of office available and approximately 13,000 square feet of retail on the ground floor.

Both 615 S College and 500 E Morehead started construction as speculative office buildings. However, Spectrum Properties' 300 S Tryon began construction in first quarter 2015 with a solid commitment from Barings, formerly Babson Capital, to be the anchor tenant of the 630,000 square foot building. Barings signed a lease for nine full floors totaling over 200,000 square feet. The 1.6 acres of land is owned by Cornerstone Real Estate Advisers, a subsidiary of Barings, which is owned by MassMutual Financial Group. Barings anticipates that Charlotte will become its corporate headquarters after the company moves into the new building in 2017.

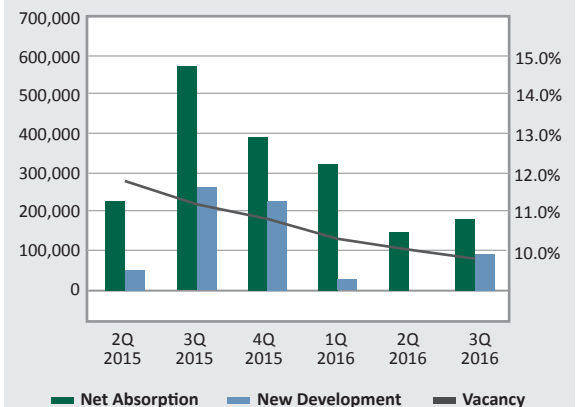
Class A direct asking rental rates in the Charlotte metro have increased over \$2.00 psf since the end of 2015 with Uptown and Midtown direct asking rental rates during third quarter at \$30.71 psf and \$31.83 psf respectively. The new office developments in Uptown and Midtown are demanding rents from \$34.50 to \$35.70 psf for a full service lease. Rental rates are expected to continue to climb through 2018. Equity groups are showing much more restraint with new developments creating a long-term strength in the market and less chance of an oversupply.

Source: CoStar data pulled 10.7.16; Real Capital Analytics; Charlotte Business Journal; Lincoln Harris Research

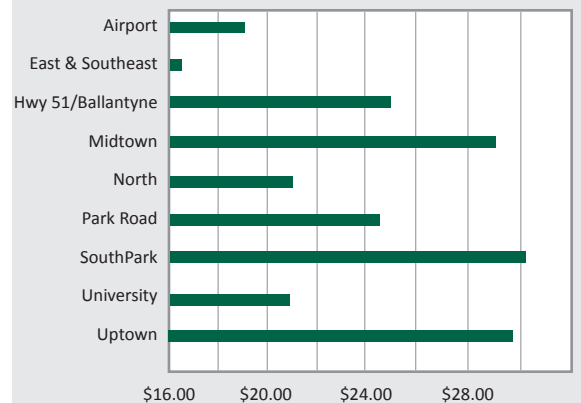
MARKET STATISTICS

	3Q 2016	2Q 2016	FORECAST
Market Supply (SF)	55,987,228	55,890,728	▲
Under Construction (SF)	2,623,777	2,566,277	▲
Direct Vacancy (%)	9.1%	9.4%	▼
Total Vacancy (%)	9.8%	10.0%	▼
Total Net Absorption (SF)	189,473	153,890	▲
YTD Net Absorption (SF)	665,354	475,881	▲
Direct Asking Rent	\$24.59	\$24.37	▲
Class A Direct Asking Rent	\$27.63	\$27.39	▲
Class B Direct Asking Rent	\$19.64	\$19.44	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET DIRECT ASKING RATES - 3Q 2016



OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	3Q 2016 Absorption	YTD 2016 Absorption	Completions	Construction	Direct Asking Rate
UPTOWN	18,715,585	1,324,066	7.1%	-80,242	137,492	0	1,213,461	\$29.75
MIDTOWN	4,498,823	178,742	4.0%	-2,893	73,036	0	249,259	\$29.02
URBAN TOTALS	23,214,408	1,502,808	6.5%	-83,135	210,528	0	1,462,720	\$29.64
AIRPORT	10,080,466	1,309,836	13.0%	87,121	116,108	0	483,300	\$19.11
EAST & SOUTHEAST	2,700,708	333,824	12.4%	19,749	52,977	26,500	154,000	\$16.44
HWY 51/BALLANTYNE	6,734,329	729,845	10.8%	25,958	12,796	0	287,507	\$24.96
NORTH	3,452,985	352,133	10.2%	74,279	183,093	70,000	0	\$20.99
PARK ROAD	511,590	48,451	9.5%	511	10,969	0	0	\$24.43
SOUTHPARK	4,617,739	517,719	11.2%	22,826	58,257	0	236,250	\$30.19
UNIVERSITY	4,675,003	677,805	14.5%	42,164	20,626	0	0	\$20.90
SUBURBAN TOTALS	32,772,820	3,969,613	12.1%	272,608	454,826	96,500	1,161,057	\$22.06
CHARLOTTE TOTALS	55,987,228	5,472,421	9.8%	189,473	665,354	96,500	2,623,777	\$24.59

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2016 Absorption	Direct Asking Rent (PSF)
Class A	212	33,526,060	2,998,892	8.9%	253,968	\$27.63
Class B	316	22,461,168	2,473,529	11.0%	411,386	\$19.64
MARKET TOTALS	528	55,987,228	5,472,421	9.8%	665,354	\$24.59

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
2118 Water Ridge Parkway	Airport	108,714	\$35,000,000	\$322
201 S Tryon Street	Uptown	236,697	\$69,500,000	\$294
6101 Carnegie Boulevard	SouthPark	106,246	\$24,500,000	\$231
3315 Springbank Lane	Highway 51	25,458	\$5,400,000	\$210
901 W Trade Street	Uptown	310,745	\$30,500,000	\$98

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
Regions Bank	615 S College	Uptown	64,375	New
Chicago Bridge & Iron	500 E Morehead	Midtown	63,120	New
Belk	Three Coliseum Centre	Airport	35,233	Renewal
PNC Financial Services Group	One Piedmont Town Center	SouthPark	41,000	Renewal
Circle K	Three Coliseum Centre	Airport	9,480	New

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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