

4Q24

Charlotte Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate increased by 24 basis points year over year to 3.6%, still below the five-year average of 4.4%.
- Employment growth decelerated by four basis points year over year in November 2024 to 2.3%.
- Most sectors experienced yearly employment growth, with education and healthcare leading job gains at 5.7% over the past 12 months.
- Office-using jobs reached a record high of 386,890 as of the end of November 2024, reflecting a 12.2% increase since 2019.

Major Transactions

- Freight logistics provider RXO, taking 150,000 SF at the Woodward Building, signed the largest lease of the fourth quarter. RXO had previously sublet space in this building.
- A key leasing trend seen throughout the quarter was diversity of tenants signing leases. A notable shift given Charlotte's reputation as a financial hub. Only one notable transaction, Capital One's lease at The Line, was signed by a financial institution during the quarter.
- Most notable transactions were direct new leases, highlighting healthy demand for space as office users took advantage of favorable market conditions to relocate into smaller, better-amenitized spaces.

Leasing Market Fundamentals

- Annual full-service rental rates inched 1.9% higher on a yearly basis to \$33.99/SF but remain below the record high reached during the second quarter of 2024.
- Occupancy declined, pushing overall vacancy rates up by 280 basis points year over year to a record high of 28.3%.
- The under-construction pipeline inched higher for the first time since the fourth quarter of 2022 to 247,977 SF of office space currently in progress. However, under-construction activity remains significantly below the peak of 2.1 MSF recorded in the first quarter of 2023.
- Total leasing activity closed the quarter at 780,958 SF, falling short of the 16-year fourth-quarter average of 1.1 MSF.

Outlook

- The Charlotte office market is projected to experience slower growth this year, with office investment activity expected to remain subdued in the near term due to elevated inflation and higher debt costs.
- The increasing rent spread between Class A and Class B assets will likely continue to widen as Class B office landlords lower asking rates to compete with higher-quality properties.
- With demand continuing to lag, the market is expected to remain tenant-friendly, and overall asking rates may see little to no growth.
- Vacancy is expected to remain elevated and stagnant in the near term as the market absorbs the historically high deliveries that occurred throughout the year and tenants shed excess space.

1. Economy
2. Leasing Market Fundamentals

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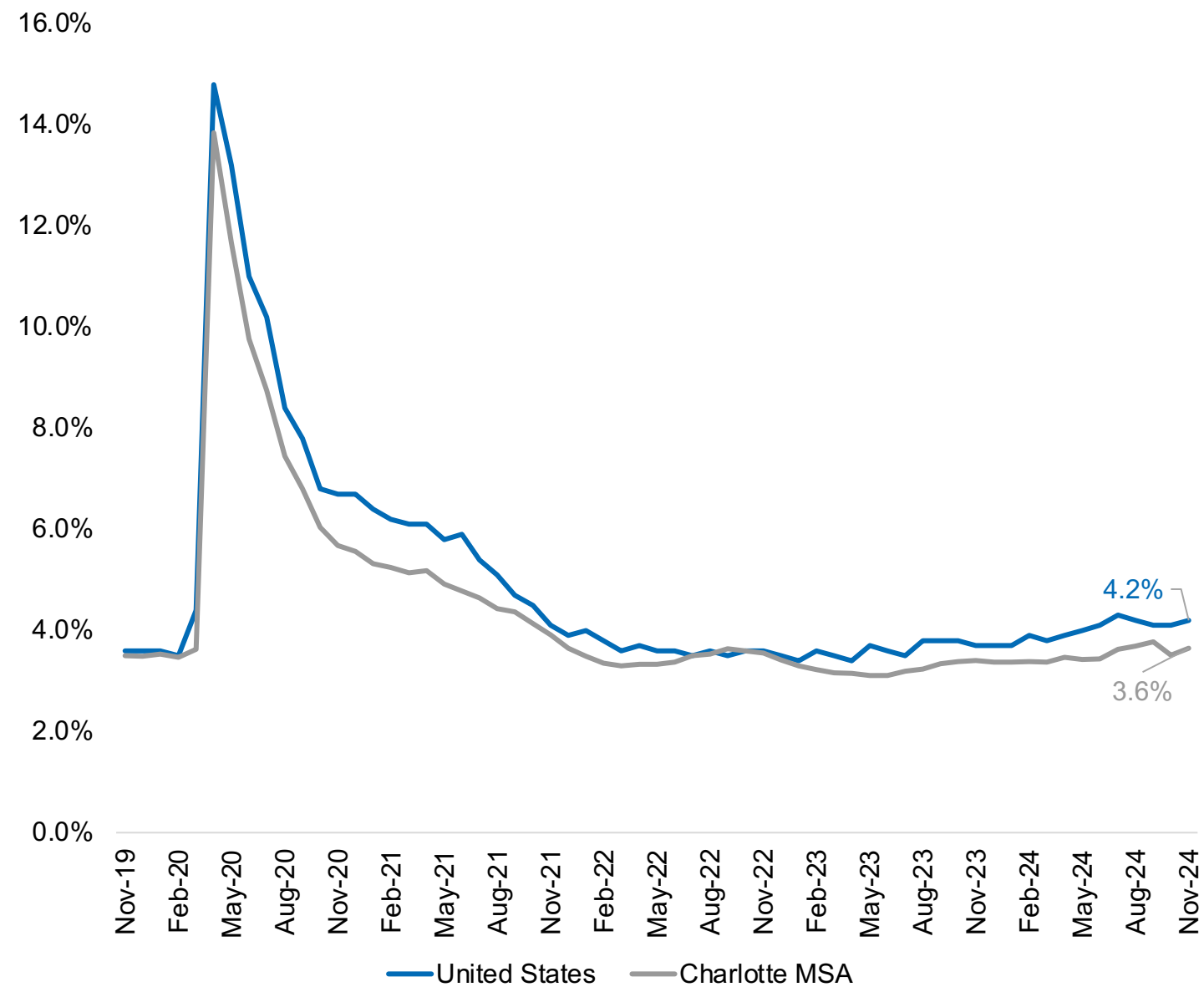
Economy



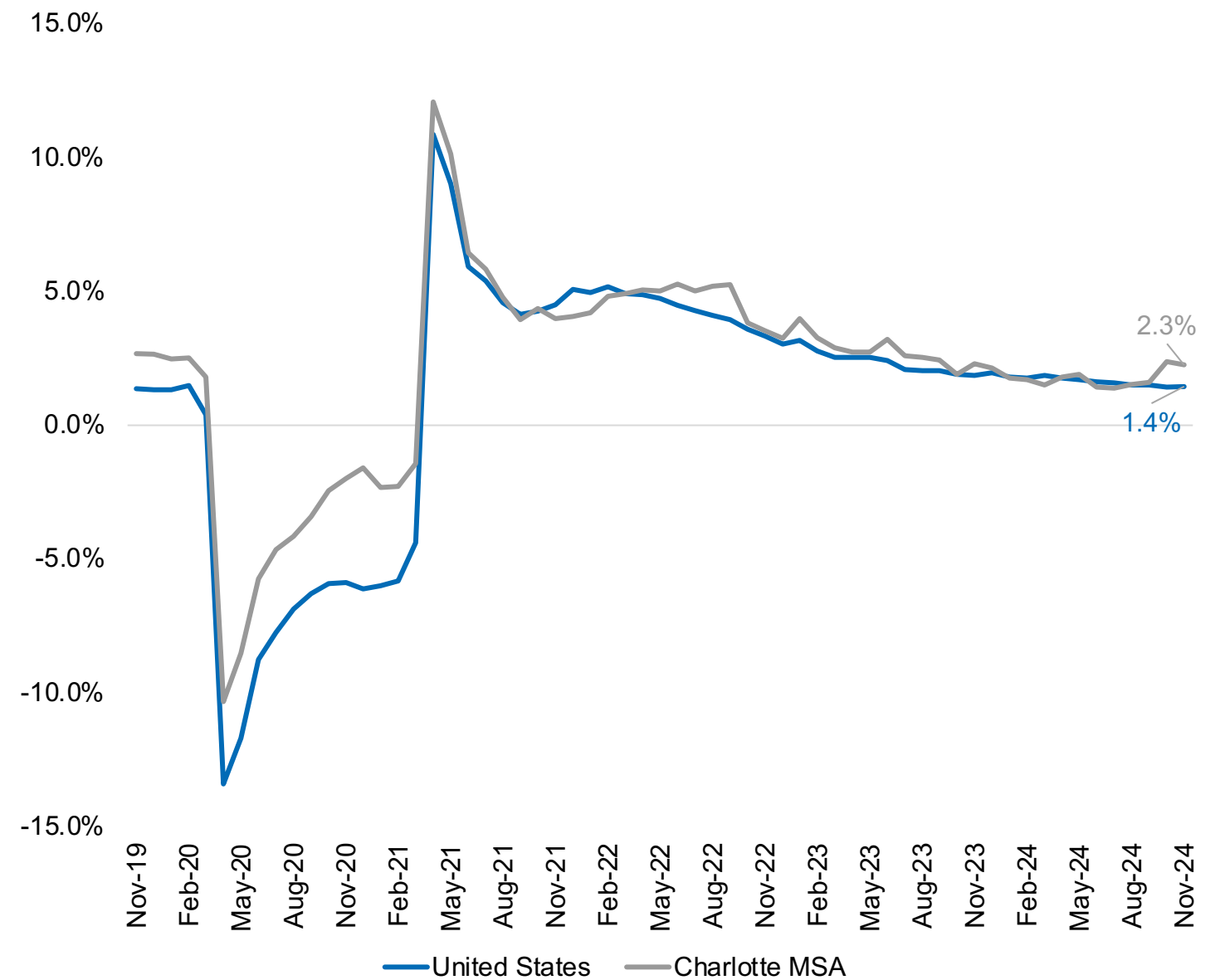
Annual Nonfarm Payroll Growth Outperforms United States

Charlotte, traditionally a leader in both employment growth and low employment, outperformed the United States again during the fourth quarter of 2024. The city's seasonally adjusted unemployment rate climbed 24 basis points year over year to 3.6%, well below the national average of 4.2% and Charlotte's 5-year average of 4.4%. While nonfarm payroll growth marginally decelerated by 4 basis points on a yearly basis, it still outperformed the United States annual growth rate by 80 basis points.

Unemployment Rate, Seasonally Adjusted



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

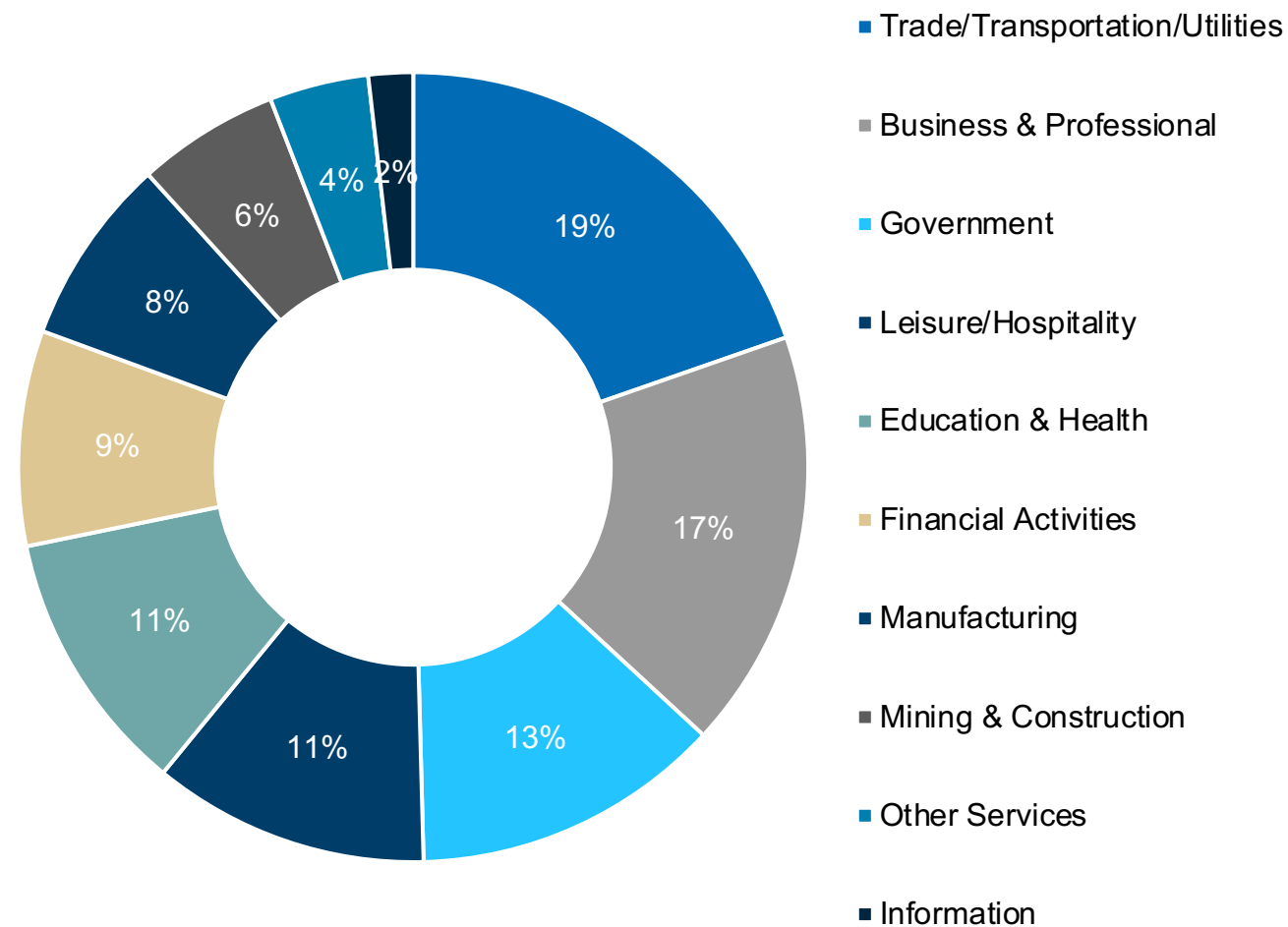


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

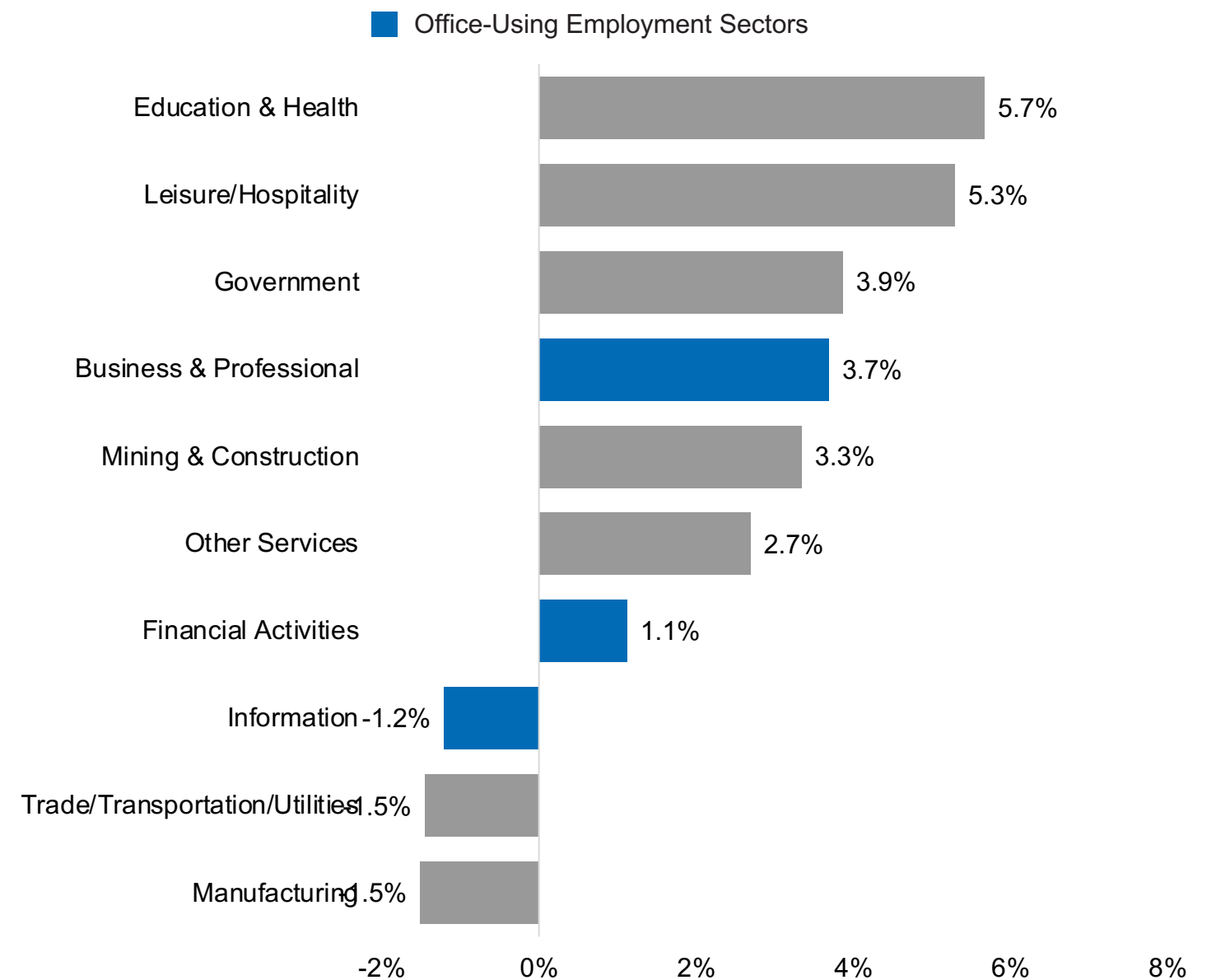
Most Office-Using Employment Sectors Continue to Grow

Charlotte, known for its strength in the financial sector, has its top two employment industries—trade/transportation/utilities and business/professional services—making up 36.9% of total jobs. The business and professional services sector is the largest office-using employment sector, representing 17.2% of total employment. Most industries saw year-over-year job growth, except for information, trade/transportation/utilities and manufacturing. The office-using business and professional services and financial activities sectors reported growth of 3.7% and 1.1%, respectively. Meanwhile, the information sector declined by 1.2% on a yearly basis.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024

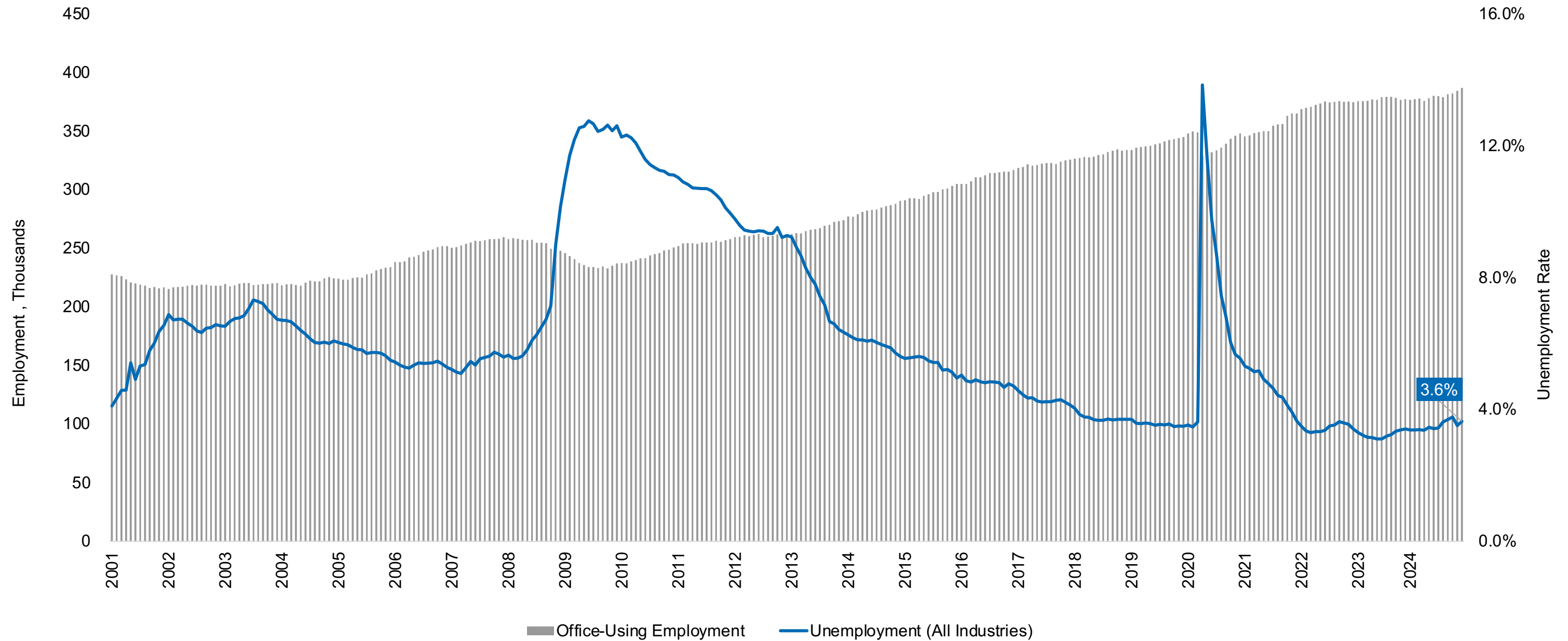


Source: U.S. Bureau of Labor Statistics, Charlotte MSA

Office-Using Employment Records Historic High

Office-using employment in the Charlotte market reached a record high of 386,890 jobs in November 2024. While the information sector saw year-over-year job losses, gains in financial activities and business/professional services more than offset these declines. The seasonally adjusted unemployment rate, which stands at 3.6%, is eight basis points above the 2019 average. This increase reflects weakness in non-office-using sectors such as manufacturing and trade/transportation/utilities, will continue to drive the regional unemployment rate higher.

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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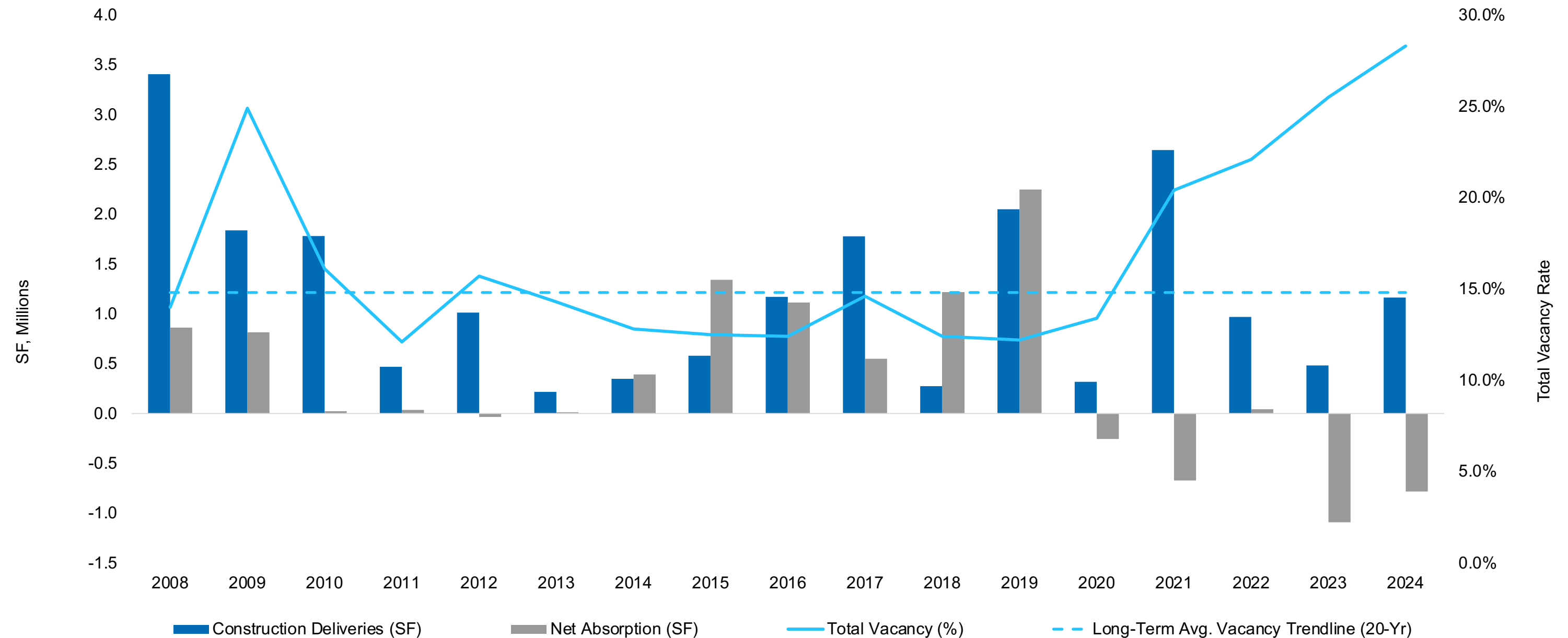
Leasing Market Fundamentals



Elevated Deliveries & Continued Negative Absorption Drive Record High Vacancy

The Charlotte office vacancy rate rose by 280 basis points year over year to 28.3% in the fourth quarter of 2024, well above the 20-year average of 14.8%. Since the first quarter of 2020, vacancy rates have trended upward, with a 40-basis-point increase quarter over quarter reported for the fourth quarter of 2024. This rise can be attributed to several factors, including continued historically high levels of direct and sublet availability, elevated deliveries of new office space, and ongoing recent negative yearly absorption. The pandemic era shift to hybrid and remote work, coupled with corporate reticence to lease more space than necessary, due to the impacts of restrictive fiscal policy and economic uncertainty, has further exacerbated this trend.

Historical Construction Deliveries, Net Absorption, and Vacancy

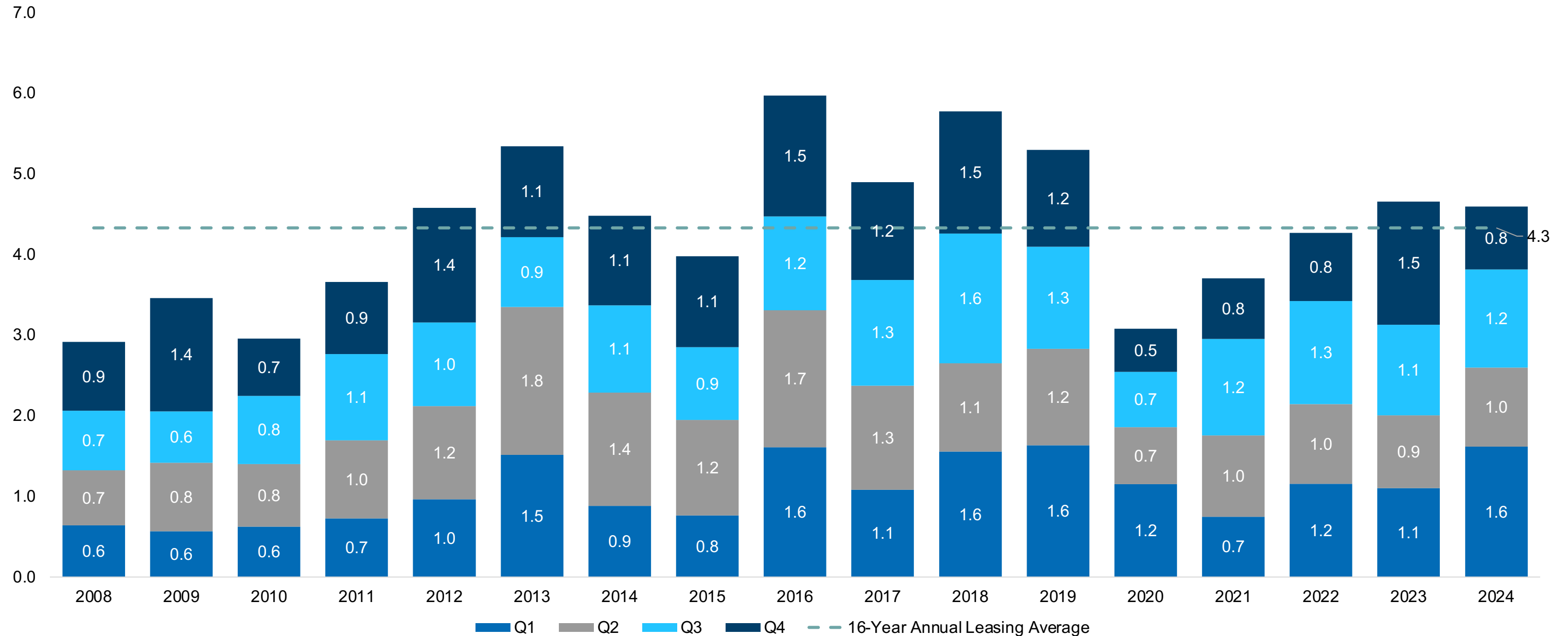


Source: Newmark Research, CoStar

Leasing Activity Closes Year Slightly Above Long-Term Yearly Average

Leasing activity in the Charlotte market declined both quarterly and annually, with the fourth quarter of 2024's leasing activity totaling 780,958 SF, below the 16-year quarterly average of 1.1 MSF. This reflects quarterly and annual decreases of 35.8% and 48.8%, respectively. The decline in leasing activity is likely due to companies taking a measured approach until after the election occurred during the quarter and assessing potential impacts of economic policy announced by the incoming Trump administration. Leasing activity will likely increase as more companies, like J.P. Morgan Chase, phase out work-from-home policies and require employees to work from office five days per week and the resultant need for more office space for employees.

Total Leasing Activity (msf)

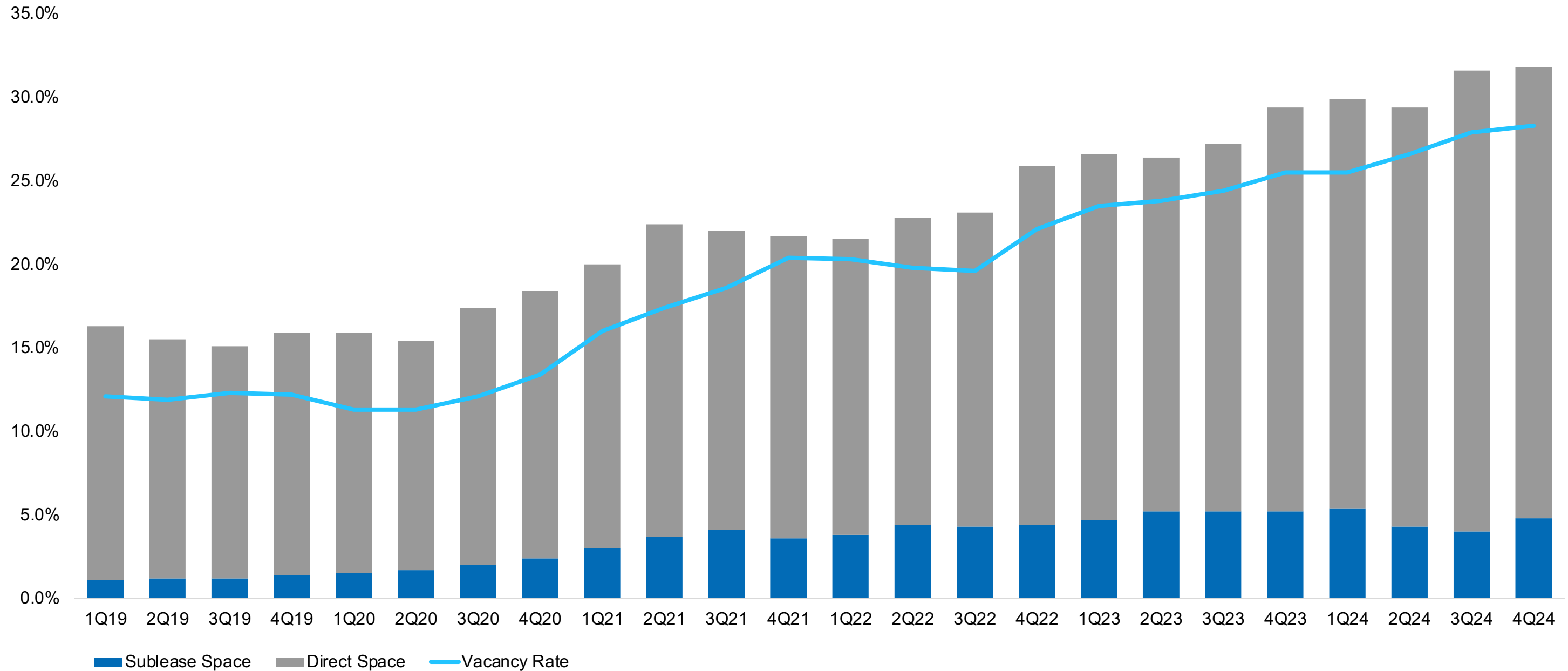


Source: Newmark Research, CoStar

Rising Direct Availability Pushes Overall Vacancy to Record High

Sublease availability in the Charlotte market increased 80 basis points quarter over quarter and decreased 40 basis points year over year to 4.8% in the fourth quarter of 2024. Meanwhile, direct availability fell 60 basis points quarter over quarter but increased 280 basis points year over year to 27.0%. Overall, vacancy climbed to a historic high of 28.3%. The decline in direct availability is likely attributable to tenants capitalizing on tenant-friendly market conditions in desirable office buildings to lock-in favorable lease terms as they pare back work from home policies. Meanwhile, the increase in overall vacancy stems from the delivery of new office product and corporate downsizing as pre-pandemic leases expire.

Available Space as Percent of Overall Market

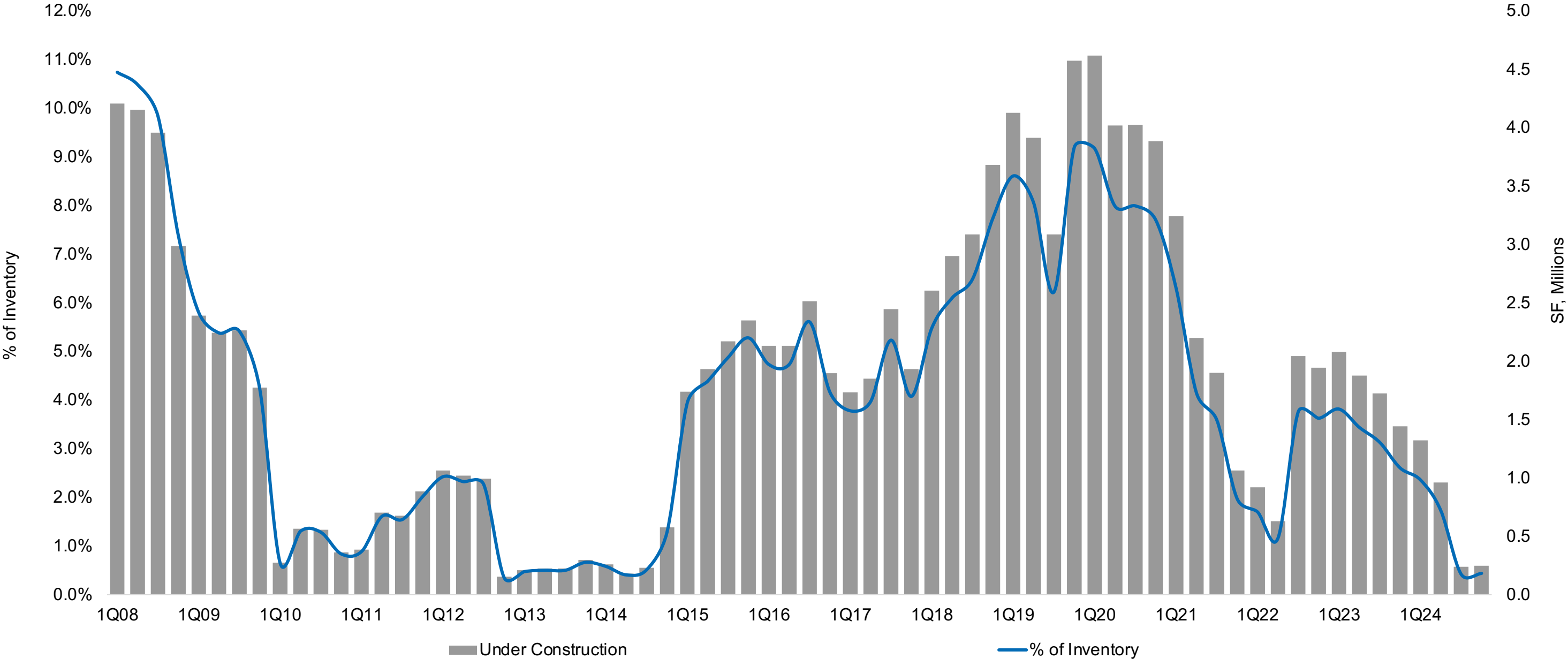


Source: Newmark Research, CoStar

Construction Activity Levels Off

Construction activity more than tripled quarter over quarter to 2.0 MSF in the third quarter of 2022, driven largely by demand from the financial sector, but has steadily declined in most quarters since. This slowdown can be attributed to rising capital costs and elevated construction expenses, both influenced by persistent inflationary pressures. As of the fourth quarter of 2024, the market had 247,977 SF under construction, representing 0.4% of the market's inventory – the lowest percentage of inventory under construction since the third quarter of 2014 and unchanged from the third quarter of 2024.

Office Under Construction and % of Inventory

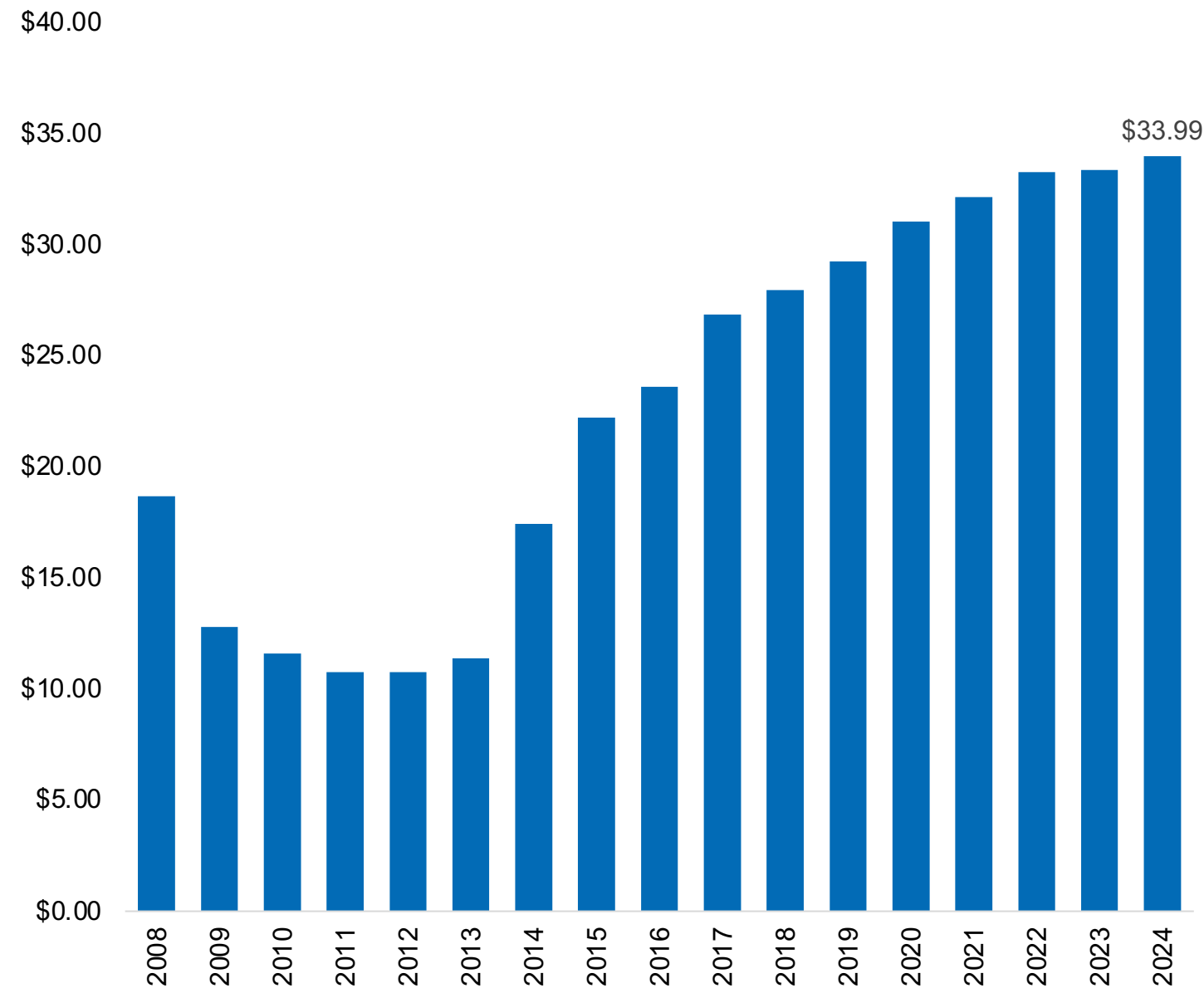


Source: Newmark Research, CoStar

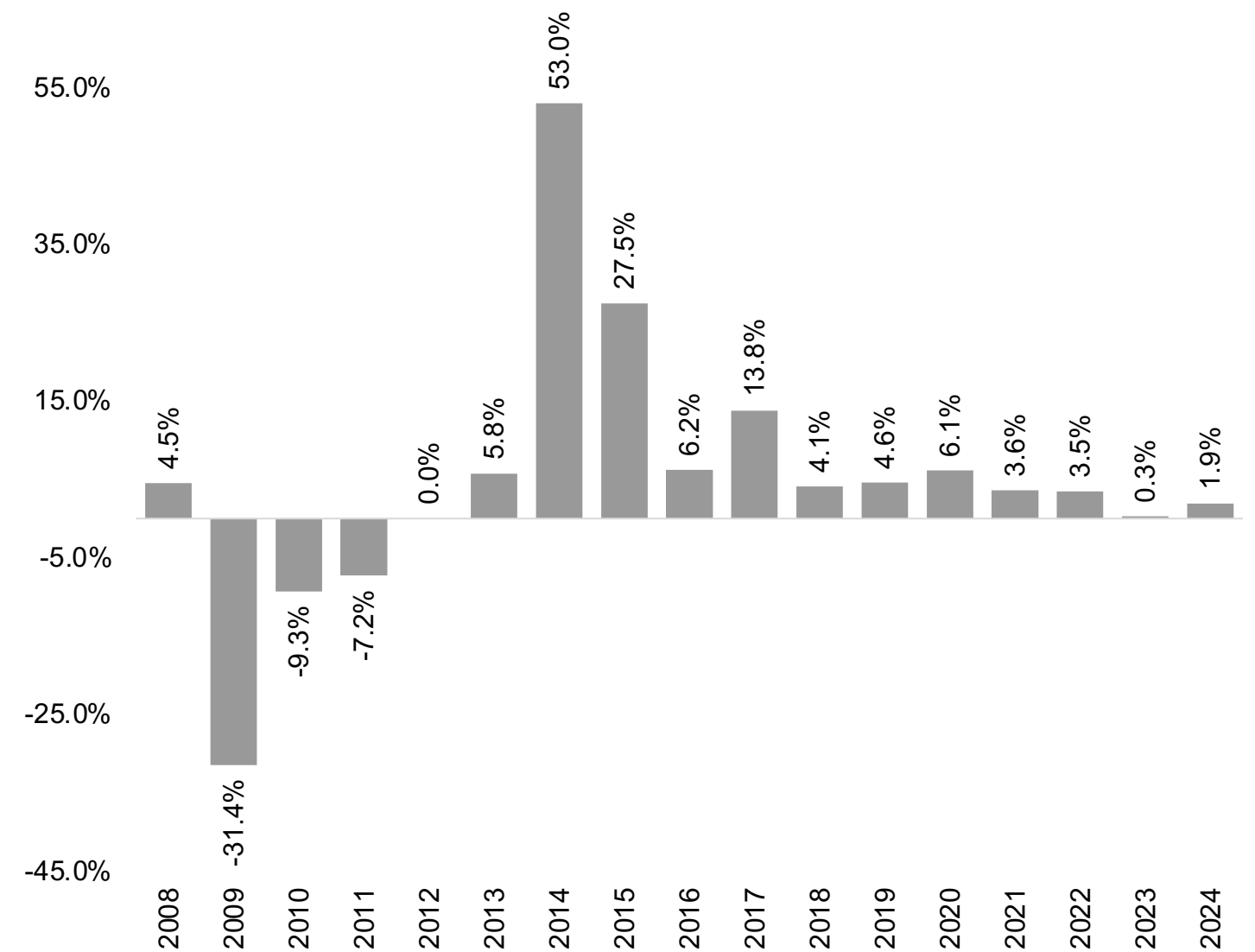
Rents Inch Higher; Remain Below Record High Set During Second Quarter

Charlotte's average asking rents closed out the year at \$33.99. The market has seen positive annual rent growth every year since 2013. However, the fourth quarter of 2024 posted one of the lowest annual growth rates at 1.9%, slightly above the rate recorded in 2023. Rents remain elevated but have declined by 0.8% from their record high recorded during the second quarter of 2024. The slow down in asking rent growth can be attributed to several factors, including rising vacancy rates and slower leasing activity.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

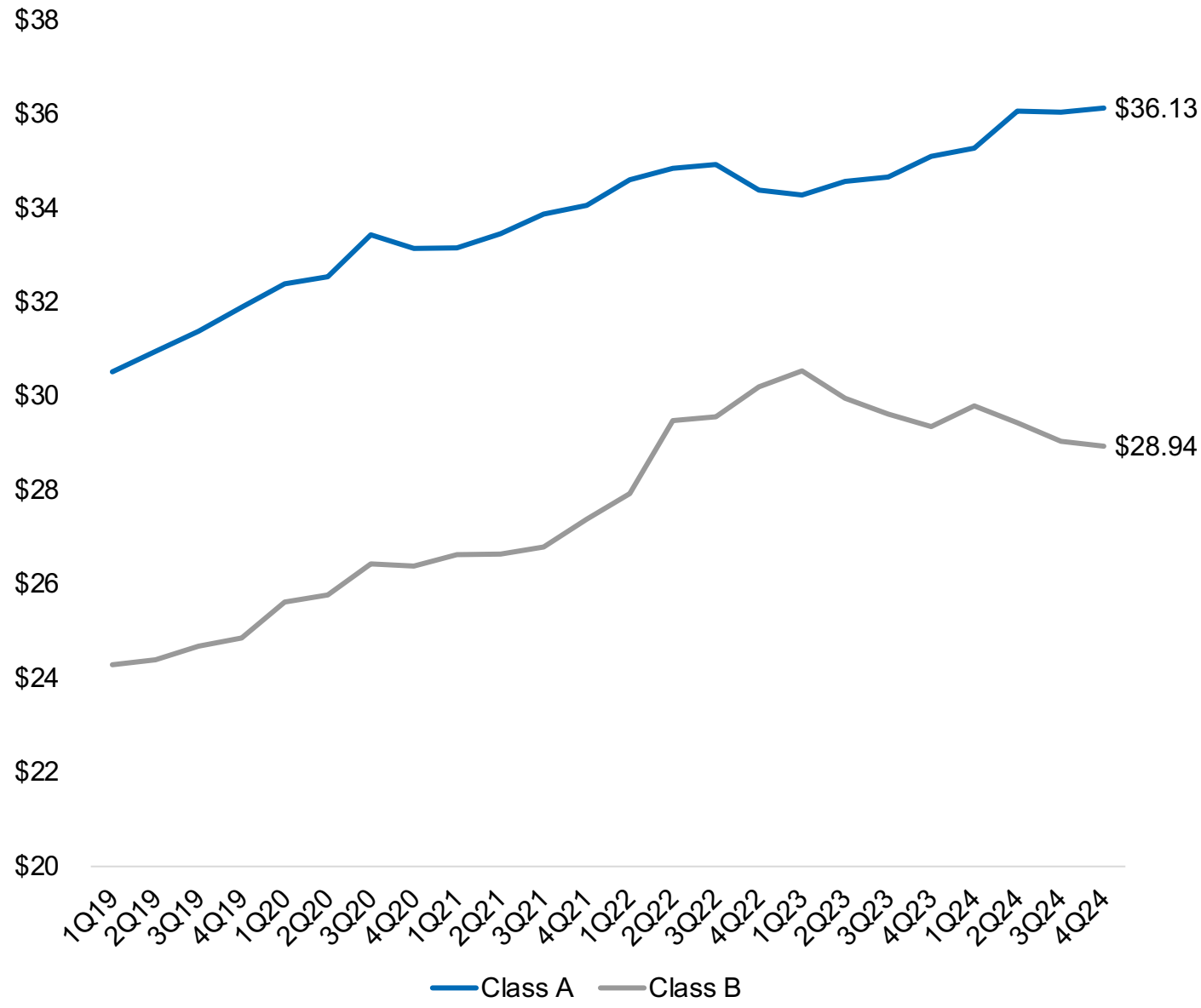


Source: Newmark Research, CoStar

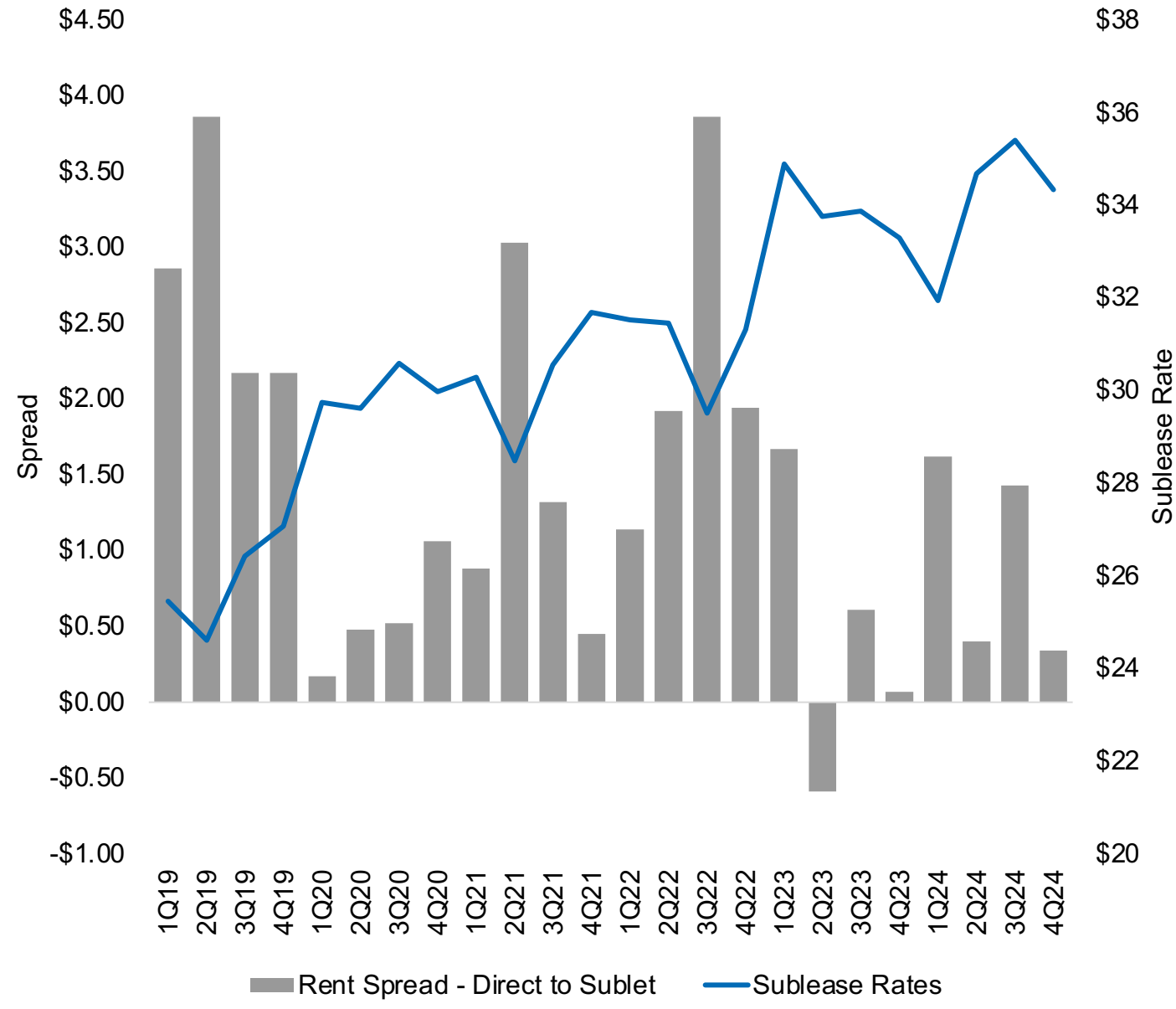
Declining Class B Rates Pushes Rent Spread to Historic High

As of the end of the fourth quarter of 2024, Class A rents stood at \$36.13/SF, while Class B were \$28.94/SF, reflecting a record \$7.19/SF gap. This marks a 2.3% increase in the spread since the fourth quarter of 2019 and a 2.7% quarterly increase. The widening gap is likely driven by declining Class B rates, as landlords lower asking rents to make their assets more competitive with Class A properties. Fourth-quarter asking sublease rates decreased by 3.0% quarter over quarter but remained 3.1% higher than the previous year. The recent decline in rental spreads has not enticed occupiers to take on subleases and sublease availability remains near record highs.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

“Flight to Quality” Continues Driving Leasing Decisions

RXO signed the largest notable lease of the fourth quarter, securing 150,000 SF at the Woodward Building. Reflecting a shift from Charlotte’s reputation as a financial hub, the fourth quarter of 2024 saw greater diversity in major leases, with only one of the fourth quarter of 2024’s largest leases signed by a financial institution – Capital One’s lease at The Line. All of fourth quarter’s notable leases were direct new leases, signaling that companies are looking to capitalize on market conditions to lock in favorable lease terms. The South/485 and University submarkets emerged as the most popular locations for large transactions this quarter.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
RXO	Woodward Building	South/485	Direct New	150,000
<i>Freight logistics provider RXO signed the largest lease of the quarter for 150,000 square feet at 11215 North Community House Road. The company had previously sublet space at the same building.</i>				
FEMA	10101 David Taylor	University	Direct New	66,774
<i>The Federal Emergency Management Agency signed a 66,774-SF lease at 10101 David Taylor Drive to assist with recovery from Tropical Storm Helene.</i>				
R.E. Mason	Resource Square Three	University	Direct New	64,000
<i>Valve manufacturer R.E. Mason leased the third and fourth floors of 10815 David Taylor Drive. The company is expected to move in by June 2025.</i>				
Snap One Holdings	Panorama Tower	South/485	Direct New	42,000
<i>Smart home solution provider Snap One will be moving into the twelfth and fifteenth floors of 14819 Ballantyne Village Parkway, one of Charlotte’s newest mixed-use developments.</i>				
Capital One	The Line	Midtown/Southend	Direct New	34,811
<i>American financial giant Capital One is expected to move into 34,811 SF at 2151 Hawkins Street by August 2025.</i>				



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