



Charlotte Office Market Report: Year-End 2012

STAT HIGHLIGHTS

DOWNTOWN

	Vacancy	Rents
Q1	14.11%	\$22.80
Q4	8.99%	\$23.83

First time in over four years direct vacancy has dipped below nine percent in Downtown.

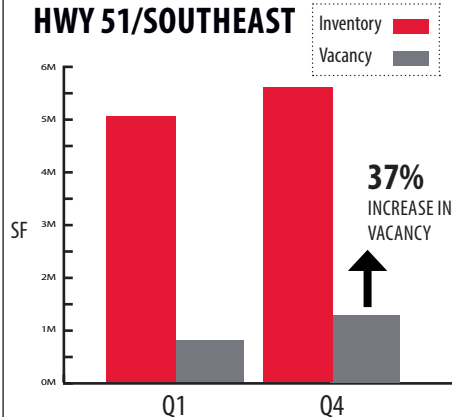
Full Floor Vacancies	Total Floors Available	Inventory/SF	Vacancy
7th & Up	32	713,009	4%
14th & Up	19	397,403	2%
20th & Up	11	261,663	1.4%
25th & Up	5	79,780	< 1%

SOUTHPARK

	Vacancy	Rents
Q1	14.84%	\$22.69
Q4	12.66%	\$23.21

Percent drop in vacancy with \$1.00+ increase in rents.

HWY 51/SOUTHEAST



Net increase in inventory of over 500,000 square feet. 37 percent increase in vacancy due to Bissell's delivery of 550,000 square feet of speculative Class A space in Ballantyne, the largest spec office delivery in America in 2012.

Q1 & Q2

2012 was forecasted by many to be the year when the pendulum would shift back into the landlords' courts. The first quarter started with a continued trend of positive net absorption. Submarkets such as Highway 51/Southeast had seen consecutive quarters of rent growth, mainly due to Ballantyne's lack of supply with moderate to increased Tenant demand. Large blocks of vacant space, however, were still available in the Airport, Central Business District (CBD) and University submarkets. Concessions in buildings or portfolios with vacancies were still prevalent, with the "one month free per year of term" benchmark still holding strong. By the end of the second quarter, it was apparent that SouthPark was improving for landlords. After 20,000-square-foot-plus leases were inked by the likes of Quicken, AGDATA, UBS and Turner Construction, a sense of momentum was felt in SouthPark, at least in the large block market. In Uptown, the city of Charlotte, and owners of Nascar Plaza, hit a home run by recruiting Chiquita Brands from Cincinnati. Chiquita ultimately leased 138,000 square feet at Nascar Plaza, helping to improve the net absorption numbers for the CBD. Up until Chiquita, most of the large leases transacted were great for one building, but left a large hole in another.

Q3 & Q4

The last two quarters were spotlighted by the wave of investment sale closings. In the CBD, Bank of America reduced its owned portfolio from 5.4 million square feet to 2.7 million square feet by selling two of its trophy towers. Hearst Tower was sold to Parkway Properties for \$250 million and Fifth Third Center to Parmenter Realty for \$163 million. Parkway also purchased Nascar Plaza for \$100 million, bringing its new CBD portfolio to 1,070,000 square feet. CBD rates increased on average by \$1.00/square foot over much of the Class A portfolio. Large new leases in the CBD also contributed to a 1 percent drop in vacancy in the last two quarters. The Charlotte School of Law proved to do the dirty work for building owner Hines at Charlotte Plaza, by leasing the lower elevator bank floors formerly occupied by Wachovia. The 243,000-square-foot lease represented almost 10 percent of the submarket's vacancy at the time. Other successes in lower elevator bank leases came from Ally Center's lease with Meineke/Driven Brands and Jeld-Wen, both taking full floors.

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In the suburbs, the Airport market saw signs of life not seen since pre-Ballantyne days. Landlords actually attempted, and in some cases succeeded, in raising rents. The catalyst for the perceived improvement was existing tenant expansion and renewal. United Technologies' expansion and renewal of 199,000 square feet at the Coliseum Centre, helped to fuel an occupancy rate of 95 percent in the complex. As Coliseum Centre stabilized, tenants seeking larger blocks of space in the suburbs turned to neighboring Lakepointe Office Park. As of December 31, 2012, Mainstreet Capital Partners had Lakepointe 1 and Lakepointe 2 under contract. Should the sale close, tenants can expect to see quoted rates for these particular buildings in Lakepointe starting in the \$18s, a big jump from the \$15.00/square-foot deals we saw not long ago.

University's Rebound

The year 2012 also marked the return of life to the University submarket. Plagued by continual high vacancy and flat to declining rents, the University has struggled since the creation of I-485. Known for its large blocks of contiguous space, demand for these blocks has been weak at best, mainly due to access issues and lack of amenities. In 2010, BECO South purchased the Meridian Corporate Center, a 1.9 million-

square-foot complex situated on 200 acres in the University Research Park, for \$42 million. The property had been valued at more than \$150 million while under previous ownership. The site was developed for IBM in 1979. As IBM's needs for the campus dwindled, finding tenants to backfill the space became tough. BECO picked it up for 35 percent of the outstanding loan amount and invested \$50 million to create an amenity-rich campus, including several structured parking decks. With recent leases signed by Wells Fargo (199,000 square feet), AXA Equitable (140,000 square feet) and Classic Graphics' expansion by 59,000 square feet to 240,000 square feet, the park has seen vacancy drop from 80 percent to 35 percent in two years. Quoted rental rates have increased at Innovation Park to as high as \$21.50. It will be surprising to see any tenant sign a lease at this rate, however, the large block supply and demand fundamentals are in BECO's favor. There is only one other option above 150,000 square feet in Charlotte, which happens to be the building AXA will vacate in Ballantyne. The lesson to learn is that office tenants do in fact like amenities and tenant-friendly perks. BECO's creation of its own campus dining experience, an on-site fitness center, on-site farmers market, living room think tanks, bicycles for tenants' enjoyment and charging stations for electric cars, are a few of the ideas that have created the drop in vacancy.

Looking Ahead in 2013

With the revenue portion of the "fiscal cliff" somewhat solved for now, most business owners should have a better understanding of how their taxes will be affected in 2013. It is still unknown how the sequestration will affect Charlotte. While markets such as Washington, DC, St. Louis and Austin are much more exposed in the government

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contractor arena, our rapidly emerging energy sector could be impacted by spending cuts. As many as 29,000 employees work for energy related companies in the 16-county Charlotte region. While a handful of landlords have the luxury of raising rates due to high occupancy in their buildings, the majority of the market still has enough vacancy to keep rates flat. Most landlords realize that real estate needs are a by-product of overall job growth. Real GDP is expected to grow between 2 and 2.5 percent in 2013 (not stellar by any stretch), and 3 and 4 percent in 2014. This year will most likely be a repeat of 2012, with certain sectors and submarkets making headlines. A tenant-driven market will continue for the most part, until we see overall vacancies dip below 10 percent (currently 16.88 percent). That said, tenants can expect to pay top of the market for the trophy towers that traded in 2012, or Class A product in-demand markets such as SouthPark and Midtown, with 90 percent occupancy and above.

Advice

As we continue to say, find the vacancy, find the opportunity. Options are crucial, and will become even more crucial in the coming years. The luxuries of waiting six months until lease expiration to make a decision are no more. Companies need to understand that their space costs could increase well above inflation due to the tight supply in many submarkets. New construction will certainly bring supply relief, but will put upward pressure on rates across the board. As a rule of thumb for 2013-2015, tenants with 20,000 square feet and up should be actively engaged in their transaction process, no later than 12 months in advance of lease expiration. If you are 5,000 square feet and below, realize that you will have to work hard on the next one. Concessions are no longer free flowing for every tenant. Look for pockets of vacancy and consult with your advisor on future lease expirations in buildings you are considering. A sound strategy will generate more aggressive terms for your deal.

2012 NOTEWORTHY EXPANSIONS/RELOCATIONS

Company	RE Type	Job Growth	Submarket
Chiquita Brands	Headquarters	400 Jobs	Downtown
Lash Group	Operations Expansion	450 Jobs	Airport
United Technologies Corp.	Aerospace Systems HQ	325 Jobs	Airport
Infinisource	Headquarters	160 Jobs	Hwy 51/SE
Jeld-Wen	North American HQ	142 Jobs	Downtown
Odyssey Logistics & Technology	Operations Expansion	100 Jobs	Airport
SunTrust Bank	Lending Sales Center Expansion	100 Jobs	Airport
Time Warner	Regional Expansion	100 Jobs	Hwy 51/SE
LPL Financial	Operations Expansion	75-100 Jobs	Airport
Chobani Greek Yogurt	Sales HQ	43 Jobs	Downtown

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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	49,073,955	897,797	3,689,356	8,285,122	16.88%	481,043	8,766,165	17.86%	\$21.15	\$16.54	\$10.00- \$35.50	667,625
Submarkets												
Southpark	3,930,048	72,196	363,787	497,412	12.66%	62,841	560,253	14.26%	\$23.21	\$24.17	\$15.00- \$28.50	-
Downtown	18,236,798	501,355	1,191,321	1,640,130	8.99%	152,632	1,792,762	9.83%	\$23.83	\$15.83	\$17.00- \$35.50	-
Midtown	2,832,658	(25,396)	168,950	358,088	12.64%	30,093	388,181	13.70%	\$22.40	\$18.86	\$15.00- \$28.00	-
Airport	7,830,287	264,510	688,473	2,143,984	27.38%	0	2,143,984	27.38%	\$16.06	\$ —	\$11.00- \$25.25	117,625
Highway 51/ Southeast	5,591,190	96,440	420,686	1,285,668	22.99%	53,419	1,339,087	23.95%	\$24.09	\$16.53	\$15.00- \$28.00	550,000
North	2,830,778	6,862	267,921	473,627	16.73%	54,232	527,859	18.65%	\$19.47	\$16.67	\$12.50- \$25.00	-
University	3,795,633	3,746	306,978	1,035,074	27.27%	62,160	1,097,234	28.91%	\$18.69	\$12.03	\$14.00- \$21.50	-
Matthews/ Crownpoint	1,252,979	(43,735)	70,258	289,956	23.14%	32,580	322,536	25.74%	\$15.99	\$14.50	\$11.00- \$21.50	-
Cotswold	286,604	4,864	14,820	29,771	10.39%	23,534	53,305	18.60%	\$19.71	\$12.81	\$14.00- \$24.00	-
Park Road	898,939	(34,316)	56,215	239,459	26.64%	9,552	249,011	27.70%	\$15.90	\$15.33	\$14.50- \$18.00	-
East	1,588,041	51,271	139,947	291,953	18.38%	0	291,953	18.38%	\$14.00	\$ —	\$10.00- \$17.00	-
SC TOTALS	1,380,765	6,262	99,782	122,340	8.86%	128,237	250,577	18.15%	\$20.51	\$18.84	\$10.50- \$24.00	-
SC Border Submarkets												
Lancaster County	468,861	(23,141)	44,378	19,719	4.21%	46,607	66,326	14.15%	\$20.04	\$19.44	\$17.50- \$24.00	-
York County	911,904	29,403	55,404	102,621	11.25%	81,630	184,251	20.21%	\$20.75	\$18.50	\$10.50- \$24.00	-