Mapping the outlook for corporate real estate and Charlotte

January 2019
Agenda

1. Building the Future of Work

2. Market Observations and Outlook

3. Market Drivers: Fintech
Driving Corporate
Real Estate Change

Macro-environment

Fourth Industrial Revolution: technology-driven disruption

Future of work and the human experience
Navigating a complex macro landscape

- Amazon’s $15 minimum wage
- $80+/barrel oil
- Rising debt and deficit
- Trade wars
- 18-year high consumer confidence
- Unemployment dips to 3.9%
- Emerging market risks
- Synchronized global growth
- Yield curve flattening
- Stock market near all-time highs
- Brexit inching closer
REAL ESTATE
game changers

Blockchain
Internet of Things
Virtual and Augmented Reality
Ecommerce and Online Marketplaces
Sharing Economy / Coworking
Autonomous Vehicles
Artificial Intelligence
Future of work model

Human Experience
Enhance user experience through engagement, empowerment and fulfillment.

Digital Drive
Harness digitization and rich data to enhance people and enterprise performance.

Continuous Innovation
Combine new thinking, solutions and processes to drive value creation and accelerate transformation.

Financial Performance
Manage spending to enable growth and enhance return on investment (ROI).

Operational Excellence
Optimize enterprise resources and service delivery to increase productivity, mitigate risks and ensure high performance.

JLL (2017)
Future of Work – Where ambition thrives  www.futureofwork.jll
Workplace: Powered by Human Experience

Engagement must come first

Empowerment will drive change

Trust, above all, has the largest impact on people:
1. Trust
   Feeling trusted by the management team
2. Kindness
   Being able to reply on a kind management team
3. Taking Initiatives
   Being encouraged to take initiative

Fulfillment is the new happiness

Top five ingredients to create a unique experience:
- Happiness: 69%
- Recognition: 60%
- Personal learning and development: 54%
- Creativity: 53%
- Inspiration: 43%

40% of the respondents feel very engaged at work:
- % Yes, very engaged
- % Yes, somewhat engaged
- % Not, engaged
- % Cannot say
Top 3 enjoyed spaces
1. Coworking spaces
2. Telecentres
3. Spaces for shared community interests

Top 3 desired spaces
1. Spaces for health and well-being
2. Community spaces
3. Spaces for small children
Case Study: Optimist Hall
The Future is Now

What’s going on:

• Disruption and uncertainty
• People, technology and workplace
• Data and advanced analytics
• People at the core of the workplace
• Workplace as a service
• Operational and financial performance

What you can do about it:

• Elevate the dialogue
• Inspire executive management to take action
• Stretch your thinking to develop a future-state vision
• Expand the scope of corporate real estate
• Change the landscape
Market Snapshot

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Inventory</th>
<th>Average Asking Rent</th>
<th>Total Vacancy</th>
<th>Under Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>21,544,854</td>
<td>$33.29</td>
<td>12.0%</td>
<td>2,514,079</td>
</tr>
<tr>
<td>Suburban</td>
<td>29,458,380</td>
<td>$25.40</td>
<td>14.6%</td>
<td>823,891</td>
</tr>
<tr>
<td>Total</td>
<td>51,003,234</td>
<td>$28.79</td>
<td>13.5%</td>
<td>3,337,970</td>
</tr>
</tbody>
</table>

- **Total Vacancy**: 13.4%
- **Class A Rents**: $30.88
- **Class B Rents**: $23.11

Source: JLL Research
Employment growth: Charlotte MSA

Unemployment Rate
3.2%

2010-2018
Employment Growth
28.5%

2019-2024 Forecast
Employment Growth
8.4%

Source: JLL Research, EMSI
Charlotte employment and unemployment

32,000 jobs were added over the past 12 months, while unemployment levels closed at near record-level lows, causing a talent crunch across the region.

Source: JLL Research, QCEW
The Charlotte economy has grown increasingly diversified since the Great Recession, outpacing the U.S. unemployment rate in 2018.

Occupy gains across the region have been more consistent over the past 12 months as the technology sector expands.

Key suburban markets healthy

New product is driving up rental rates while vacancies remain stable

Source: JLL Research
Leasing activity through Q3 is on pace to be about 5% lower than overall 2017 levels.
Class A asking rents experienced a slight uptick in Q4, while Class B remains stable.

Source: JLL Research
Rents continue to climb, reaching $28.70 in the fourth quarter of 2018.
Strong construction pipeline

The Charlotte market has 3.3 million square feet currently under development

Source: JLL Research
Net absorption slowed in Q4 to 386,321, bringing the YTD total to 4,480,566 square feet.

Source: JLL Research
A tightening market has developers keen on going vertical. As a result, Class B owners are enhancing their properties, delivering product that is prime for increased tenant activity.
Since 2010, Charlotte has added 625,844 square feet of flexible office space, with WeWork, Spaces and Serendipity Labs increasing their footprint.

Source: JLL Research
Compared to other CBD’s, Charlotte is the fifth largest concentration of new construction in the United States, far outpacing our peer markets.
North Carolina is home to two of the top five markets in terms of construction as a percent of inventory in the central business district.
Since 2010 Class A rental rates have risen to $33.91, while Class B rates have reached $27.75
Market Driver: FinTech
Eleven occupations, experienced growth of 53 percent from 2012-2018, reaching over 42,300, GDP Increased by 28 percent during this period.
How big is the IT Services industry?

From 2010-2017 IT Services grew from a $2.1 Billion industry to $3.9 Billion or 83% in the Charlotte Region.

Source: JLL Research, Bureau of Labor Statistics, Bureau of Economic Analysis, EMSI 2018
Across the board employment growth, Software Developers, Applications grew by 82%, followed by Information Security Analysts at 81%.
Location Quotient: Employment

**LQ measures the relative concentration of an industry when compared to a base region, Charlotte has 2.6X the Information Security Analysts when compared to the US**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>LQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Security Analysts</td>
<td>2.6</td>
</tr>
<tr>
<td>Computer Systems Analysts</td>
<td>2.1</td>
</tr>
<tr>
<td>Computer User Support Specialists</td>
<td>1.3</td>
</tr>
<tr>
<td>Software Developers, Applications</td>
<td>1.2</td>
</tr>
<tr>
<td>Computer Programmers</td>
<td>1.2</td>
</tr>
<tr>
<td>Computer Network Architects</td>
<td>1.2</td>
</tr>
<tr>
<td>Web Developers</td>
<td>1.2</td>
</tr>
<tr>
<td>Database Administrators</td>
<td>1.2</td>
</tr>
<tr>
<td>Network and Computer Systems Administrators</td>
<td>1.1</td>
</tr>
<tr>
<td>Software Developers, Systems Software</td>
<td>1.0</td>
</tr>
<tr>
<td>Computer Network Support Specialists</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: JLL Research, Bureau of Labor Statistics, Bureau of Economic Analysis, EMSI 2018
Information Technology: Wages

Peer Regions: Range $125,351 to $88,313

Source: JLL Research, Bureau of Labor Statistics, EMSI 2018
Office Observations

**Rents continue to rise in growing market**
- Rental rates continue to climb in Midtown/South End, with Class A average asking rates reaching $34.84 per square foot.
- There is 3.2 million square feet of new construction in the market, 2.5 million is concentrated in the Central Business District.
- All eyes are on Midtown/South End as four key development projects move closer to completion. The Refinery and 300 W Summit topped out, while The RailYard and Dimensional Place progress further as well.

**Coworking, creative space, and conversions continue into 2019**
- Coworking companies continue to expand their footprint in the Queen City, with Midtown/South End next in line. Earlier this year Spaces leased 27,400 s.f. at 307 W Tremont, and now Serendipity Labs and WeWork have entered this booming submarket. Serendipity Labs leased 22,941 sf at The Refinery, while WeWork added to it’s footprint and leased two floors at Beacon’s RailYard development.
- WeWork, headquartered in New York, has grown their presence in Uptown leasing 141,081 across seven floors at 128 South Tryon.
- 9315 N. Tryon St. is an 87,730 square foot office conversion located adjacent to the J.W. Clay Blvd light rail station. This Cambridge Properties owned conversion is one example of the opportunities the University submarket can expect to see as the Blue Line Extension connects the submarket to the CBD.

**Investment moving into the Queen City**
- Three buildings in the urban core traded hands in Q3, totaling a combined $167,000,000. Those buildings include; in Uptown, the 458,158 sf Wake Forest University Charlotte Center at 200 N College St, and 129 W Trade St while in Midtown/South End Beacon Partners sold their asset at 500 E Morehead St.
- Lincoln Harris has announced it will move forward with the construction of Capitol Towers II after getting a rezoning position approved on Carnegie Blvd. Also, Capitol Towers I & II are for sale after both buildings are close to full occupancy.
Office Observations

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