



Market Research

OFFICE | FOURTH QUARTER | 2008



Recession Arrives in Charlotte

Charlotte Office Highlights

The effects of the national banking and financial services disarray are starting to be felt in the Charlotte office market. Though the fundamentals showed a flat fourth quarter, Charlotte's deal momentum and decision making by both landlords and tenants has slowed considerably.

With the recession catching up to Charlotte, uncertainty has been replaced by definitive market trends, leading landlords to brace for a weaker market in 2009 and tenants hesitant to commit to long-term space needs. Much of last fall's uncertainty about the stock market, future action by the Federal Reserve, the impact of Treasury's \$700 billion bail-out, and the lack of normal credit flow have yet to be resolved. However, the outcome of the national election in addition to the narrowing range of volatility in the stock market, has brought some stability going into 2009.

Charlotte's almost 75 million SF office market's citywide vacancy increased nominally to 10.4%, due to four consecutive quarters of new supply outpacing absorption and demand. Slow absorption and the pressure from new, class A, suburban deliveries is providing tenants leverage moving into 2009. Coming off its historical high, citywide asking rents decreased nominally to \$20.04 per SF. The traditional class A sub markets of Downtown/Midtown, Highway 51, South Park, and Airport continue to be favored by tenants, and they captured the lion's share of 2008's absorption. The amount of citywide sublease space increased rapidly in Q4 and with asking rents up to 30% below the market, they are putting pricing pressure on some landlords.

While the Downtown vacancy rate remained unchanged and should stay low, until new supply comes on-line in 2009 and 2010, landlords are closely watching the bank's and deal flow. So far, the effects of the Wells Fargo purchase of Wachovia and Bank of America's purchase of Merrill Lynch are slow and incremental. While the suburbs are feeling pressure from new deliveries and the resulting vacancy, most new construction is complete. Most of 2008's leasing occurred in the suburbs, and rents continued to marginally increase, even through the fourth quarter.

Supported by a strong local economy, Charlotte's residential and commercial real estate values have only slipped a few points, but new announcements for speculative construction have all but stopped. Parallel to the nation as a whole, cap rates are going up, appraisers are having difficulty determining value, and debt is difficult to secure. Both the investment and the user sale markets have slowed to only a handful of closings. But, many investors are sitting on the sidelines waiting for the "deals" to hit the market in 2009.

MARKET INDICATORS

	CBD	SUBURBAN
VACANCY	↑	↓
NET ABSORPTION	▬	↑
RENTAL RATES	▬	▬
SALE PRICES	↓	↓

2008 ACTIVITY AT A GLANCE

	VACANCY RATE	ABSORPTION	RENTAL RATE
1 st QTR.	9.3%	252,302 SF	\$19.61
2 nd QTR.	9.6%	365,076 SF	\$19.91
3 rd QTR.	10%	64,455 SF	\$20.08
4 th QTR.	10.4%	96,552 SF	\$20.04

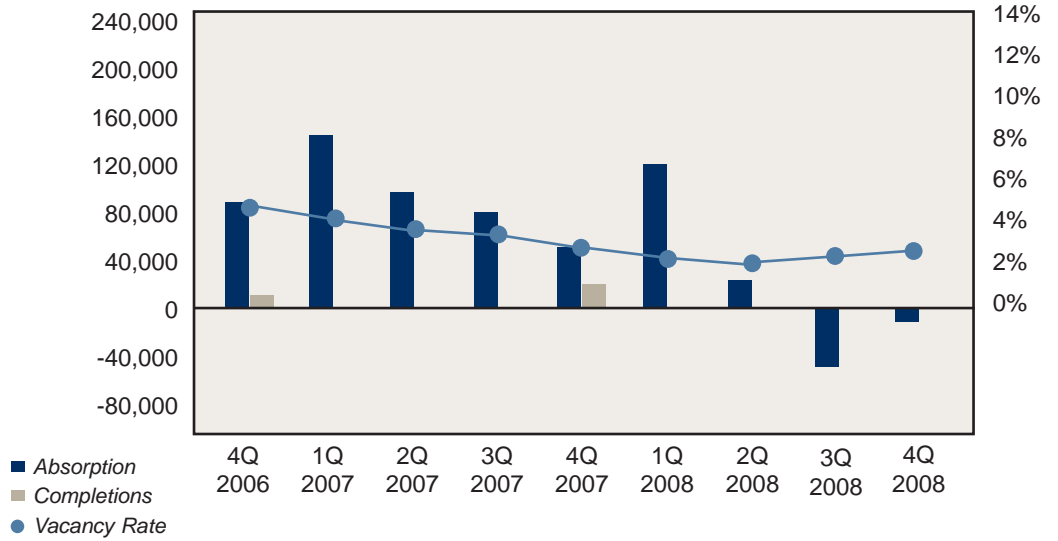
CHARLOTTE OFFICE MARKET OVERVIEW

	CBD	SUBURBAN	TOTAL
Total Inventory	20,077,501	54,490,210	74,567,711
Direct Vacant SF	411,220	6,853,124	7,264,344
Sublet SF Available	76,098	420,703	496,801
Vacancy Rate	2.0%	12.5%	9.7%
Vacancy Rate (w/sublet)	2.4%	13.3%	10.4%
New Product (2008)	0	1,873,048	1,873,048
Net Absorption (2008)	43,606	734,779	778,385
SF Under Construction	2,914,601	533,143	3,447,744
Average Rental Rates	\$28.85	\$18.75	\$20.04

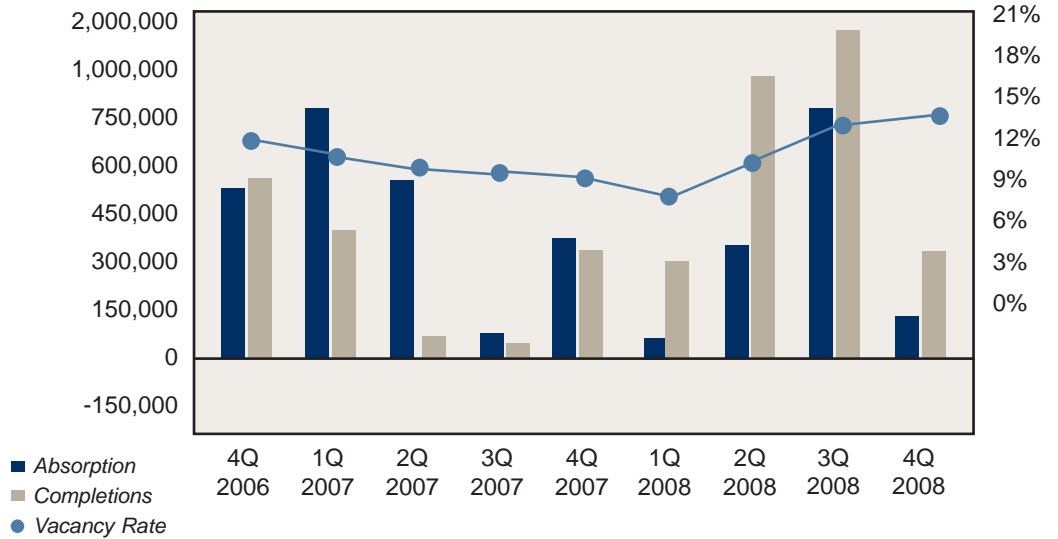


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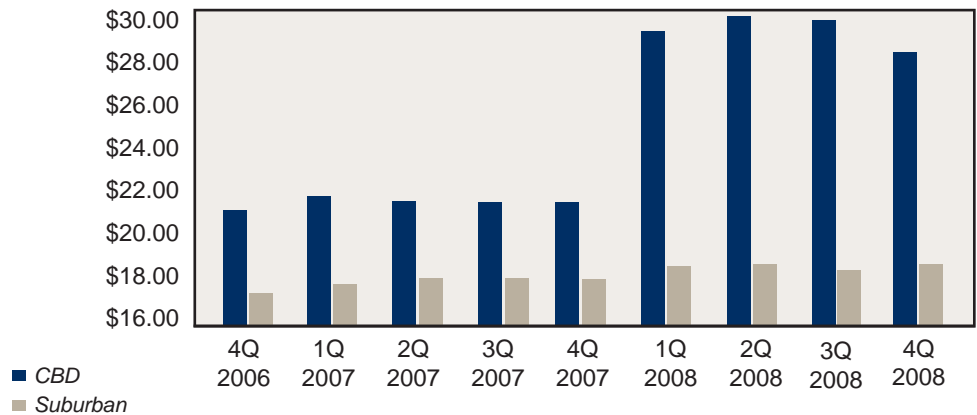
CBD HISTORIC TRENDS



SUBURBAN HISTORIC TRENDS



OFFICE RENTAL RATE TRENDS

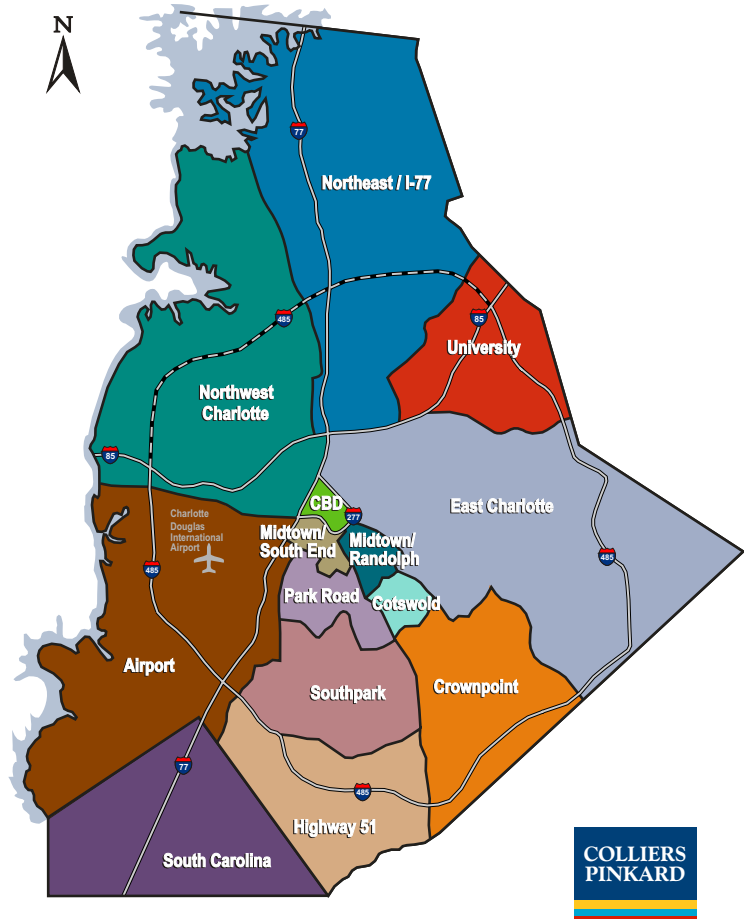


SUBMARKET STATISTICS

SUBMARKET	INVENTORY	TOTAL VACANT SF	VACANCY %	NET ABS. (YTD)	UNDER CONST.	AVG RATE
CBD	20,077,501	487,318	2.4%	43,606	2,914,601	\$28.85
Airport	12,427,014	2,086,521	16.8%	359,860	0	\$16.56
Cotswold	465,497	73,662	15.8%	33,204	0	\$21.84
Crownpoint	2,776,597	345,555	12.4%	83,966	18,700	\$16.93
East Charlotte	3,228,781	474,006	14.7%	69,882	15,043	\$14.43
Highway 51	7,679,046	1,194,451	15.6%	177,968	277,000	\$21.40
Midtown/Randolph	3,223,082	232,285	7.2%	130,113	0	\$24.37
Midtown/South End	4,741,768	469,744	9.9%	(58,804)	23,000	\$21.47
Northeast/I-77	4,449,788	792,060	17.8%	(23,083)	50,400	\$20.38
Northwest Charlotte	591,286	63,704	10.8%	(3,942)	100,000	\$13.54
Park Road	1,333,610	161,303	12.1%	13,411	0	\$18.64
Southpark	6,032,805	642,237	10.6%	(37,708)	0	\$23.13
University	7,540,936	738,299	9.8%	(10,088)	49,000	\$17.59

Source: CoStar Group

Office Submarkets



Wells Fargo Update

Wells Fargo's \$15 billion purchase of Wachovia closed December 31, officially establishing Wells Fargo's East Coast Headquarters here. Though Charlotte has made peace with the acquisition, there is an emotional loss of pride that only time will heal. Wells Fargo is expected to reduce Charlotte's 20,000 employees by 10%. Adding related vendors, the effect on the market equals 600,000 SF, increasing overall vacancy by 0.5% and down-town by 1.7%, assuming job losses are evenly distributed between the suburbs and down-town.

Charlotte is entrenched as a permanent retail banking hub, providing lower operating costs and the in-place intellectual capital and workforce for Bank of America (\$3 trillion in assets) and Wells Fargo (\$1.4 trillion in assets). With the financial services industry downsizing, CitiGroup's continuing troubles, and the yet to be seen effects of the \$700 billion bail-out, what will the big 3 national banks look like in 2010?

Charlotte by the Numbers

Charlotte's housing market is struggling with Q4 seeing a 9% drop in average sale prices and sales volume continuing to slide. Charlotte's housing market decline is fairing better than most of the country, along with Dallas and Seattle. Charlotte's economy is resilient, even during a recessionary cycle, as evidenced by Charlotte's annual Total Employment Growth of 1.7% and Charlotte's annual Office Employment Growth of 1%. Charlotte is keeping pace with Dallas and Seattle as the highest Office job growth rate cities in the U.S. Charlotte's job growth rate stands in stark contrast to the U.S., which is negative for both Office and Total. The big Charlotte question is what happens now with Wells Fargo and Bank of America's purchase of Merrill Lynch?

Market Trends

Whether based on perceptions or fundamentals, fear is driving decisions by both tenants and landlords. Many leases are delaying or "dying on the vine", as a result of tenants indecision or retreating from new commitments. The result is many landlords are granting short-term renewals at favorable rents and terms. 2009's deals will be driven by tenant's short-term needs for cash flow and flexibility.

At the end of 2008 and this bull cycle, the suburbs delivered 1.9 million SF of new office buildings with a final 500,000 SF in the pipeline. Downtown has 2.9 million square feet under construction, starting delivery now and finishing by the Summer of 2010. Downtown's new space is in Wells Fargo's and Bank of America's new projects, plus two speculative towers, NASCAR Plaza and 440 South Church. Most new suburban development is concentrated along I-485 (Ballantyne and Whitehall). Although not widely publicized, significant portions of the third party space in the new bank towers is pre-leased. However this may change with the effects of Wells Fargo and the recession.

Market Trends - *Continued*

Though there are no big blocks, the overall amount of sub-lease space is increasing and should reach 1% of the market in the first half of 2009, with 85% of this space located in the suburbs. As subleasing companies look to mitigate their costs, these subleases will put limited rent pressure on landlords for some deals but should not affect the overall market yet.

The market is resetting recession expectations, so many suburban and downtown landlords are increasing deal incentives, resulting in aggressive market competition for a limited number of tenants. Asking rents are expected to hold for the time being, though 2009's effective rents will probably erode by 3-7%, working against the market's rental rates increase of 7.2% since 2007.

Forecast

Coming out of the bull cycle, which started in 2005, Charlotte's office rents, absorption, and new office building construction had the strongest trends in its history. If we look to the last recession (2001 through 2004), then Charlotte's Office market will lag the national cycle by 12-18 months, resulting in softening market for 2009 and 2010, with 2011 seeing improving fundamentals. With continued new supply, the citywide vacancy rate should peak close to 14% in the next 18 months, but the market's historical, citywide average absorption is 1.3 million SF per year will start to bring this back into balance thereafter.

Through 2010, Downtown will see major banks consolidate and return blocks of non-core building space to the market. Adding this "shadow vacancy" to direct space in new towers and Wells Fargo downsizing, could drive the Downtown vacancy rate to 12% by the middle of 2010. Downtown rents have flattened and effective rents could decline 3-5% in 2009. While there were several new Midtown projects "on boards", problems in the debt market and leasing trends have put these on hold for now.

The historical demand for class A, suburban space in the Ballantyne/I-485 south sub market bolstered developers to deliver over 800,000 SF. This delivery positions Ballantyne as one of only a few large blocks of existing square feet for a major corporate relocation which Charlotte traditionally sees especially during recessionary cycles.

MARKET ACTIVITY

LEASE ACTIVITY

ADDRESS	TENANT	SQUARE FEET	SUBMARKET
Rotunda Building	Consolidated Planning, Inc.	22,805	Southpark
Torington II	Metso Power	25,361	Highway 51

INVESTMENT SALE ACTIVITY

ADDRESS	SUBMARKET	DATE	SALE PRICE	SQUARE FEET	PRICE/SF
4100 South Stream Blvd	Airport	October 2008	\$19,368,000	125,262 SF	\$154.62/SF
Medical Office Portfolio	Multiple	December 2008	\$162,100,000	786,293 SF <i>(in 14 properties)</i>	\$206.16/SF

UNDER CONSTRUCTION

ADDRESS	SUBMARKET	DEVELOPER	TYPE	SQUARE FEET	DELIVERY
Wachovia Corporate Center	Downtown	Childress Klein	High-Rise	1,300,000	Q4 2009
Bank of America Center	Downtown	Bank of America	High-Rise	750,000	Q1 2010
NASCAR Plaza	Downtown	Lauth	High-Rise	390,000	Q1 2009
440 S. Church	Downtown	Trinity Capital	High-Rise	363,000	Q3 2009
Boyle Building Ballantyne	Highway 51	Bissell Companies	High-Rise	250,000	Q1 2009
EpiCentre	Downtown	The Ghazi Co.	High-Rise	85,000	Q1 2009

COMPLETIONS

ADDRESS	DEVELOPER	TYPE	SQUARE FEET	DELIVERY
Harris Building Ballantyne	Bissell Companies	High-Rise	250,000	Q4 2008
Hayes Building Ballantyne	Bissell Companies	Mid-Rise	150,000	Q4 2008
The Park Medical Plaza	O'Shaughnessy Realty	Mid-Rise	58,400	Q4 2008

Featured Transaction

The fourth quarter's featured transaction is Oldcastle Materials' new seven year, 14,900 square foot office lease at Regency Executive Park in the Airport submarket of Charlotte. Oldcastle Materials is relocating their IT division and expecting to create 45 new jobs for the local economy. The Tenant was represented by CB Richard Ellis, with Brad Grow and Maxwell Hanks of Colliers Pinkard representing the landlord, Pizzagalli Properties.



OFFICE SERVICES GROUP

**Rob Cochran, SIOR**

Executive Vice President / Principal
704.335.4444
rcochran@collierspinkard.com

**Maxwell Hanks, CCIM, SIOR**

Senior Vice President / Principal
704.335.4443
mhanks@collierspinkard.com

**Mike Dean**

Senior Vice President
704.335.4446
mdean@collierspinkard.com

**Tom Kelly**

Senior Vice President
704.335.4434
tkelly@collierspinkard.com

**Mike Kemmet, SIOR**

Vice President / Principal
704.335.4438
mkemmet@collierspinkard.com

**David Dorsch, CCIM, SIOR**

Vice President / Principal
704.335.4441
ddorsch@collierspinkard.com

**Brad Grow**

Vice President / Principal
704.887.3034
bgrow@collierspinkard.com

**Keith Bell, CCIM**

Office Specialist
704.887.3033
kbell@collierspinkard.com

**Tra Kelly**

Office Specialist
704.887.3026
tra.kelly@collierspinkard.com

**Joe Franco**

Office Specialist
704.887.3035
jfranco@collierspinkard.com

**Mercedes Merritt**

Office Specialist
704.887.3038
mmerritt@collierspinkard.com

**John Ball**

Office Specialist
704.887.3029
jball@collierspinkard.com

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CONTACT INFORMATION

330 S. Tryon St., Suite 301
Charlotte, NC 28202
Tel: 704.375.7771
Fax: 704.347.0793

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