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MARKET REPORT

Market Intelligence Report 2013 Charlotte

AUGUST 26, 2013

Average rates in Charlotte have shot up since 2011 and are climbing higher in 2013, piquing interest among hoteliers, developers, and lenders. How have increased employment and demand generation further affected prospects for the city's hotels?

With a widely acclaimed high quality of life and low cost of living, Charlotte, North Carolina ranks as one of the fastest-growing cities in the country. Charlotte also remains the second-largest financial center in the nation, and banking is still the city's top industry despite the negative impacts brought on by the recent recession. The 264 Fortune 500 companies with a presence in Charlotte—six of which are headquartered in Mecklenburg County—harness the might of the city's economy; these companies include Bank of America, Lowe's, Domtar, Duke Energy, Nucor, Family Dollar, Sonic Automotive, and SPX. The 2012 Democratic National Convention brought national attention to Charlotte and was the largest event in the city's history, with an economic impact of $163.6 million. With its solid pillars of commerce and finance, Charlotte is poised to continue its strong economic reign in the coming years.

Economy Update

The following table illustrates historical and projected employment, population, and income data for the overall Charlotte market.

HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2000	773,230	—	233,219	—	163,361	—	521,100	—	1,357,400	—	$86,734	—
2001	766,900	(0.8) %	232,666	(0.2) %	158,320	(3.1) %	533,570	2.4 %	1,390,270	2.4 %	87,051	0.4 %
2002	769,570	0.3	238,467	2.5	152,466	(3.7)	545,110	2.2	1,420,580	2.2	89,199	2.5
2003	766,130	(0.4)	241,167	1.1	141,973	(6.9)	557,000	2.2	1,452,300	2.2	91,895	3.0
2004	779,300	1.7	246,528	2.2	140,500	(1.0)	572,000	2.7	1,492,640	2.8	96,812	5.4
2005	802,230	2.9	256,308	4.0	139,806	(0.5)	593,270	3.7	1,549,290	3.8	98,589	1.8
2006	839,970	4.7	269,980	5.3	140,006	0.1	618,800	4.3	1,616,060	4.3	103,112	4.6
2007	869,270	3.5	280,353	3.8	141,513	1.1	642,540	3.8	1,677,340	3.8	104,732	1.6
2008	852,070	(2.0)	276,697	(1.3)	134,723	(4.8)	660,180	2.7	1,723,140	2.7	103,880	(0.8)
2009	799,200	(6.2)	263,882	(4.6)	119,364	(11.4)	671,940	1.8	1,752,420	1.7	97,409	(6.2)
2010	817,530	2.3	275,238	4.3	118,930	(0.4)	685,340	2.0	1,777,320	1.4	100,226	2.9
2011	830,030	1.5	279,137	1.4	122,663	3.1	700,200	2.2	1,813,490	2.0	104,675	4.4
2012	836,160	0.7	280,801	0.6	126,937	3.5	715,160	2.1	1,853,580	2.2	107,839	3.0
Forecasts												
2013	*851,000*	*1.8 %*	*285,728*	*1.8 %*	*127,583*	*0.5 %*	*734,290*	*2.7 %*	*1,896,140*	*2.3 %*	*$110,946*	*2.9 %*
2014	*876,100*	*2.9*	*294,548*	*3.1*	*130,082*	*2.0*	*754,830*	*2.8*	*1,940,140*	*2.3*	*116,384*	*4.9*
2015	*905,250*	*3.3*	*305,102*	*3.6*	*133,218*	*2.4*	*776,890*	*2.9*	*1,985,870*	*2.4*	*121,295*	*4.2*
2016	*931,370*	*2.9*	*315,258*	*3.3*	*135,850*	*2.0*	*800,510*	*3.0*	*2,033,650*	*2.4*	*125,325*	*3.3*
2017	*947,440*	*1.7*	*321,298*	*1.9*	*137,005*	*0.9*	*825,150*	*3.1*	*2,083,400*	*2.4*	*127,922*	*2.1*
Average Annual Compound Change												
2000 - 2012		0.7 %		1.6 %		(2.1) %		2.7 %		2.6 %		1.8 %
2000 - 2007		1.7		2.7		(2.0)		3.0		3.1		2.7
2007 - 2010		(2.0)		(0.6)		(5.6)		2.2		1.9		(1.5)
2010 - 2012		1.1		1.0		3.3		2.2		2.1		3.7
Forecast 2012 - 2017		2.5 %		2.7 %		1.5 %		2.9 %		2.4 %		3.5 %

Source: REIS Report, 4th Quarter, 2012

Similar to other areas of North Carolina, Charlotte reduced its dependence on the manufacturing industry in the early part of the last decade. The textile industry has been downsized statewide; the outsourcing of labor and production facilities to other countries and the high-tech mechanization of plants that require fewer workers have also led to a reduction in industrial employment. Despite this, Charlotte noted generally positive trends in total and office employment until the onset of the recession in 2008/09. The banking industry lost approximately 15,000 jobs over 18 months, which significantly affected the market. Other mainstays of Charlotte's economy and the city's allure as a tourism destination helped it weather the downturn, and both households and population have realized annual increases since 2001.

The following table illustrates unemployment statistics for Mecklenburg County, the MSA, the state of North Carolina, and the U.S. from 2002 through 2011.

UNEMPLOYMENT STATISTICS

Year	County	MSA	State	U.S.
2002	5.8 %	4.6 %	6.6 %	5.8 %
2003	5.8	5.3	6.5	6.0
2004	5.1	5.4	5.5	5.5
2005	5.0	5.4	5.3	5.1
2006	4.5	5.1	4.8	4.6
2007	4.6	4.4	4.8	4.6
2008	6.1	5.6	6.3	5.8
2009	10.5	9.6	10.5	9.3
2010	11.2	9.3	10.9	9.6
2011	10.7	8.4	10.5	9.0
Recent Month - Dec				
2011	10.1 %	7.7 %	10.2 %	8.5 %
2012	9.3	7.1	9.5	7.8

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

Although Charlotte's unemployment rate is still higher than the national level, the city is poised to lead the state in job and income growth in 2013. Banking, energy, and healthcare are the primary industries in Charlotte. Wells Fargo's East Coast operations are centered in Charlotte, and Bank of America is headquartered in the city. In July of 2012, Duke Energy completed a $32-billion merger with Progress Energy, making Duke Energy the nation's largest regulated utility. CNN Money cited Charlotte as one of the five fastest-growing cities for tech jobs, with companies in this sector ramping up technical recruiting by 22% since March of 2012. Charlotte's healthcare sector employs more than 78,000, making it the largest employment segment in Mecklenburg County; Carolinas HealthCare System, Charlotte's only teaching hospital, and Presbyterian Healthcare, one of the largest non-profit regional medical centers in the state, are two of the county's largest employers.

In addition, the Charlotte Douglas International Airport serves as a major economic engine for the area, generating more than $10 billion annually for the region's economy. The airport realized nearly 540,000 takeoffs and landings in 2011, making it the sixth-busiest airport in the world; international travel through the airport reached an all-time high in 2012. Charlotte's economy is also bolstered by the presence of the University of North Carolina at Charlotte, NBA and NFL teams, and Lowe's Motor Speedway. As of March of 2013, more than 3,200 new jobs have been announced for the Charlotte area; these new jobs come from AREVA's moving of its U.S. headquarters from Bethesda, Maryland to Charlotte; the expansion of Charlotte's MetLife offices by 1,300 jobs; and Convergys' addition of 1,600 jobs at its two Charlotte facilities.

Office Space Market Update

The following table details Charlotte's office space statistics, which are important indicators of the market's propensity to attract commercial hotel demand.

OFFICE SPACE STATISTICS – MARKET OVERVIEW

	Submarket	Inventory Buildings	Inventory Square Feet	Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
1	Uptown	54	15,392,000	13,545,000	12.0 %	$25.77
2	I-77	54	3,690,000	2,878,200	22.0	16.19
3	Medical/Randolph	34	813,000	740,600	8.9	22.09
4	Midtown	28	1,055,000	849,300	19.5	21.46
5	Park Road	13	985,000	709,200	28.0	18.82
6	Cotswold	45	2,117,000	1,708,400	19.3	16.12
7	East	27	1,131,000	938,700	17.0	13.36
8	North/University	101	4,787,000	3,518,400	26.5	17.57
9	SouthPark	47	4,254,000	3,845,600	9.6	25.03
10	NC 51	69	5,103,000	3,893,600	23.7	21.95
11	Airport/Parkway	44	4,183,000	3,350,600	19.9	18.14
	Totals and Averages	**516**	**43,510,000**	**35,977,600**	**17.3 %**	**$21.68**

Source: REIS Report, 4th Quarter, 2012

Charlotte's Uptown submarket has the largest available supply of square footage and realized a significant spike in demand in 2012. With limited availability and higher average asking rates in the popular and amenity-rich Uptown, Medical/Randolph, Midtown, SouthPark, and NC 51 submarkets, many potential tenants have opted for space in suburban submarkets. Driven Brands announced it will relocate to the Ally Center in Uptown in 2013, where it will occupy almost 27,000 square feet of office space. SunTrust also announced it will relocate two of its offices in 2014 to the new Sharon Square development in the SouthPark submarket.

The following table illustrates a trend of office space statistics for the overall Charlotte market.

HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET

	Charlotte Market						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2000	34,562,000	—	31,883,000	—	7.8 %	$20.40	—
2001	37,351,000	8.1 %	31,394,000	(1.5) %	15.9	19.95	(2.2) %
2002	38,409,000	2.8	32,369,000	3.1	15.7	20.00	0.3
2003	38,808,000	1.0	32,083,000	(0.9)	17.3	19.47	(2.7)
2004	39,456,000	1.7	32,922,000	2.6	16.6	19.48	0.1
2005	39,590,000	0.3	33,238,000	1.0	16.0	19.54	0.3
2006	40,401,000	2.0	35,186,000	5.9	12.9	20.10	2.9
2007	40,409,000	0.0	35,600,000	1.2	11.9	21.12	5.1
2008	40,678,000	0.7	35,552,000	(0.1)	12.6	21.84	3.4
2009	42,379,000	4.2	35,859,000	0.9	15.4	21.53	(1.4)
2010	42,660,000	0.7	36,202,000	1.0	15.1	21.33	(0.9)
2011	42,960,000	0.7	35,759,000	(1.2)	16.8	21.34	0.0
2012	43,510,000	1.3	35,978,000	0.6	17.3	21.68	1.6
Forecasts							
2013	*43,510,000*	*0.0 %*	*36,066,000*	*0.2 %*	*17.1 %*	*$22.02*	*1.6 %*
2014	*43,782,000*	*0.6*	*36,609,000*	*1.5*	*16.4*	*22.54*	*2.4*
2015	*44,180,000*	*0.9*	*37,236,000*	*1.7*	*15.7*	*23.16*	*2.8*
2016	*44,759,000*	*1.3*	*37,935,000*	*1.9*	*15.2*	*23.87*	*3.1*
2017	*45,385,000*	*1.4*	*38,457,000*	*1.4*	*15.3*	*24.56*	*2.9*
Average Annual Compound Change							
2000 - 2012		1.9 %		1.0 %			0.5 %
2000 - 2007		2.3		1.6			0.5
2007 - 2010		1.8		0.6			0.3
2010 - 2012		1.0		(0.3)			0.8
Forecast 2012 - 2017		*0.8 %*		*1.3 %*			*2.5 %*

Source: REIS Report, 4th Quarter, 2012

In 2012, Charlotte's office market showed strong growth, reflecting that the market was in the midst of a full-scale recovery. Forecasts show an increase in available and occupied office space, with increases in average asking lease rate and positive absorption. Current construction includes the 105,500-square-foot Class A building in the SouthPark submarket, the first building start in SouthPark since the start of the recession.

Hotel Construction Update
According to HVS research, the following two hotels are under construction in Charlotte:

- Hyatt Place Hotel At SKYE Condominiums in Uptown
- Holiday Inn Express Northlake

In addition, several hotels are in various planning stages, including an independent hotel near the new Charlotte Knights baseball field. While many new hotels are anticipated to enter the market in the coming years, the percentage increase to the overall market supply will be minimal. Furthermore, given expected increases in demand for Charlotte hotels, any new supply should be quickly absorbed.

Outlook on Market Occupancy and Average Rate
Charlotte was one of the best-performing lodging markets in the nation in 2012. Average daily rate increased almost ten percentage points over 2011. Regardless of tier, local brokers believe there is further potential for rate growth, with potential increases of up to another ten points in 2013. As the market continues to expand and little confirmed new room supply is expected, occupancy should continue to increase at area hotels.

Recent Hotel Transactions
The following table details hotel transactions in North Carolina since March of 2011.

REVIEW OF HOTEL TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm
Quality Inn Warsaw	Warsaw, North Carolina	Dec-12	$1,500,000	61	$24,590
Econo Lodge Whiteville	Whiteville, North Carolina	Dec-12	1,268,000	90	14,089
Comfort Suites Raleigh Durham Airport RTP	Durham, North Carolina	Nov-12	5,600,000	125	44,800
Sheraton Raleigh	Raleigh, North Carolina	Sep-12	28,700,000	353	81,303
Residence Inn by Marriott Pinehurst Southern Pines	Southern Pines, North Carolina	Aug-12	7,275,000	80	90,938
Clarion Hotel State Capital Raleigh	Raleigh, North Carolina	Aug-12	9,350,000	202	46,287
Hilton Garden Inn Winston-Salem Hanes Mall	Winston-Salem, North Carolina	Aug-12	12,794,768	112	114,239
Comfort Suites North Raleigh	Raleigh, North Carolina	May-12	3,225,000	114	28,289
DoubleTree by Hilton Guest Suites Raleigh Durham	Durham, North Carolina	May-12	13,692,959	203	67,453
Deerfield Inn	Hayesville, North Carolina	May-12	590,000	20	29,500
Home2 Suites by Hilton Jacksonville	Jacksonville, North Carolina	May-12	12,000,000	105	114,286
Hilton Raleigh Durham Airport	Durham, North Carolina	Mar-12	16,500,000	249	66,265
Quality Suites Hickory	Hickory, North Carolina	Feb-12	1,500,000	116	12,931
Hyatt House Charlotte Airport	Charlotte, North Carolina	Feb-12	10,543,824	144	73,221
Holiday Inn Express Pineville	Pineville, North Carolina	Feb-12	5,339,000	95	56,200
Outer Banks Inn	Kill Devil Hills, North Carolina	Feb-12	800,000	40	20,000
Holiday Inn Charlotte University	Charlotte, North Carolina	Feb-12	3,600,000	174	20,690
Ramada Charlotte Hotel & Conference Center	Charlotte, North Carolina	Dec-11	2,660,000	215	12,372
Fairfield Inn & Suites by Marriott High Point Archdale	Archdale, North Carolina	Nov-11	2,900,000	74	39,189
Raleigh Inn	Raleigh, North Carolina	Oct-11	1,270,000	110	11,545
Hampton Inn & Suites Charlotte Arrowood	Charlotte, North Carolina	Sep-11	10,000,000	100	100,000
Red Roof Inn Greensboro Airport	Greensboro, North Carolina	Aug-11	2,200,000	112	19,643
Sea Ranch Hotel	Kill Devil Hills, North Carolina	Jul-11	2,840,000	50	56,800
Crowne Plaza Charlotte	Charlotte, North Carolina	Jun-11	7,500,000	193	38,860
Days Inn Wilmington Market Street	Wilmington, North Carolina	Jun-11	4,000,000	122	32,787
Innkeeper High Point Archdale	High Point, North Carolina	Jun-11	3,000,000	117	25,641
Hampton Inn Eden	Eden, North Carolina	May-11	4,775,000	72	66,319
Quality Inn Jacksonville	Jacksonville, North Carolina	Apr-11	4,500,000	82	54,878
Scottish Inn Greensboro	Greensboro, North Carolina	Apr-11	1,250,000	148	8,446
Greenleafe Inn Charlotte	Charlotte, North Carolina	Mar-11	602,000	67	8,985

Brokers' Outlook
Local brokers note that hotel transaction volume in the Charlotte area is likely to increase in 2013, and with average rate increases realized across all tiers, upside exists for both buyers and sellers. Most budget-oriented to midscale properties are trading near a room revenue multiplier (RRM) of 3.0. In addition, while interest rates have been low in recent years, finding a willing lender has been difficult for investors across the nation following the recession. That is not the case in Charlotte at this time, with numerous lenders reportedly looking to help make deals happen.

Conclusion
Charlotte is moving full-steam from the depths of the recession, with numerous expansions and corporate relocations

helping bolster the city’s economy and hotel market. With hotel transaction volume expected to increase and an investment market warming to the prospects of financing new hotel projects in Charlotte, the city is poised for additional growth in the near term.