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## 'Good times aren't over' in Charlotte commercial real estate — but caution is in play

Jun 1, 2017, 2:53pm EDT Updated Jun 1, 2017, 3:10pm EDT

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"In 2003 and 2011, investors were anticipating good times ahead and pouring money into real estate," said Gary Chesson, a partner at Trinity Capital Advisors. "We think that last year and in late 2015, office investors in particular were anticipating a downturn. They started pulling back, specifically domestic investors."

Chesson sat on a panel at InterFace Carolinas' conference that examined the state of commercial real estate across North and South Carolina, and a look at what's ahead.

"The easy money has been made in this cycle but the good times aren't necessarily over," Chesson said. "We're having to be very, very selective about where we invest."

Jon Morris, a partner at Beacon Partners, said his firm is also being very picky about where to develop. Because land and construction costs are so high, firms are developing and buying at nearly the same price as what an asset will ultimately sell for, creating a yield squeeze.

[Steve McClure](#), COO at [The Spectrum Cos.](#), said his company is developing an office building in Cary and while demand is high — Spectrum could potentially develop a second building if more land were available — they are having to justify the exit numbers in relation to current comps.

"We finally broke through some of those sales marks that had been benchmarks for so long," McClure said.

James Black, vice president of AIG Global Real Estate Investment Corp., said there's good leasing appetite in speculative office product but echoed other panelists in that exit pricing is becoming more difficult to justify.

"Until you get trades on newer product, the sticker shock is going to be hard," Black said. "It makes it really hard for highly-institutional groups. You need private capital to take more risk for deals like that."

Other topics covered during the panel:

### **Leasing activity, rent growth continue**

Many major office projects under construction, especially in the urban core, have delivered or soon will. The largest among them: Portman Holdings' 615 South College, which opened weeks ago, and 300 South Tryon by Barings (NYSE:MCI) and The Spectrum Cos., expected to open later this summer.

Brian Leary, president of commercial and mixed use at Crescent Communities, noted that rents continue to grow and commitments to large chunks of space by Barings at 300 South Tryon and Bank of America (NYSE:BAC) at the former *Charlotte Observer* site are signs of the market's strength.

Crescent has long planned a mixed-use project with an office tower on Stonewall Street, called Tryon Place. The project has yet to break ground but Leary said traction is good — about 150,000 square feet is accounted for on the pre-leasing side and "a bunch more" deals are sitting on the edge.

"(House Bill 2) is gone," Leary said. "You don't have to work your way around that. We're seeing people responding positively."

Chris Schaaf, managing director at JLL who moderated the panel, said there's been an uptick in inquires and general activity since the repeal of HB 2. At last year's InterFace Carolinas conference, Schaaf had estimated the number of inquires from out-of-state companies dropped about 90% after HB 2 was passed.

### **War for talent is on**

Competition for talent among companies has ramped up, compelling landlords and owners to invest in amenities and make their real estate more competitive to draw in tenants looking to attract a high-skill labor pool.

"Talent is so fungible and it wants to go where it's happy," Leary said. "Jobs are chasing the talent. Twenty to 40 years ago, your day was broken into hard eight-hour segments. Those lines are completing blurring now."

"I think places like NoDa and Plaza Midwood are good opportunities for office over time because they have the amenities that people want," he continued.

McClure said equally as important is to consider how amenity-rich office and apartment buildings are connected to one another and what type of synergy is created as a result.

"People want to be where other people are," McClure said. "What is the city about and what are those companies about? What is the bigger purpose and the story of that city?"

### **Challenges ahead**

But even with the good news in the local commercial real estate market, challenges remain.

Leary said North Carolina as a whole should compete more aggressively, and infrastructure should become a bigger priority in Charlotte to support the area's growth.

"Atlanta didn't see it coming and lost a whole decade and is still playing catch-up," he said. "It's coming to Charlotte and we're not ahead of it."

McClure said rising costs and a diminished labor pool in construction continue to be a problem.

"It's put more weight on the developers to oversee (general contractors), which is putting weight on them to oversee (subcontractors)," he said, adding that high construction costs will continue to drive up rental rates and impact affordability.

Black said the pipeline is "a little spooky" on the multifamily side but that the Carolinas market is overall strong and should continue to be robust — as long as the state stays out of national headlines, he added.