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FROM CONCEPT TO REALITY

The Spec Suite Revolution in Charlotte's Commercial Real Estate Market

CUSHMAN & WAKEFIELD

The Spec Suite Revolution

The leasing landscape in Charlotte is undergoing a TRANSFORMATIVE SHIFT with the increasing prevalence of *speculative suites*, or *spec suites*, marking a departure from traditional leasing methods.

Unlike the conventional model where landlords provide bare shell spaces and passing build-out costs to tenants, spec suites offer a turnkey solution, *streamlining the leasing process* and introducing a *cost-effective* and *time-efficient* alternative.

Previously, tenants faced the arduous task of transforming raw floorplates into functional workspaces, relying on Tenant Improvement Allowances (TIAs) to ease financial burdens. However, the emergence of spec suites shifts the dynamics by placing construction costs and build-out timeframes back in the hands of landlords. This innovative approach not only enhances the overall efficiency and profitability for landlords, but also eliminates significant barriers for tenants, enabling them to occupy these designed spaces within a short timeframe, typically ranging from **30 to 90 days** post-lease agreement.

This report thoroughly examines the multifaceted advantages of spec suites in the Charlotte market, shedding light on how they redefine the leasing experience by providing **move-in-ready spaces**, **reducing upfront tenant improvements**, offering **flexibility in lease terms**, and ultimately **accelerating the overall lease-up process**.

KEY TENANT ADVANTAGES

Spec suites let companies move in within 30-90 days of signing a lease by shifting construction costs and build-out responsibilities to the landlord.

As spec suites are move-in ready by nature, this removes additional upfront tenant improvements, reducing out-of-pocket cost for the tenant.

These spaces also allow flexibility for tenants by providing shorter lease term options.

Spec suites give prospective tenants the opportunity to tour a physical, occupiable space, enabling them to paint a picture of how it could work for their office needs.

SHELL SPACE

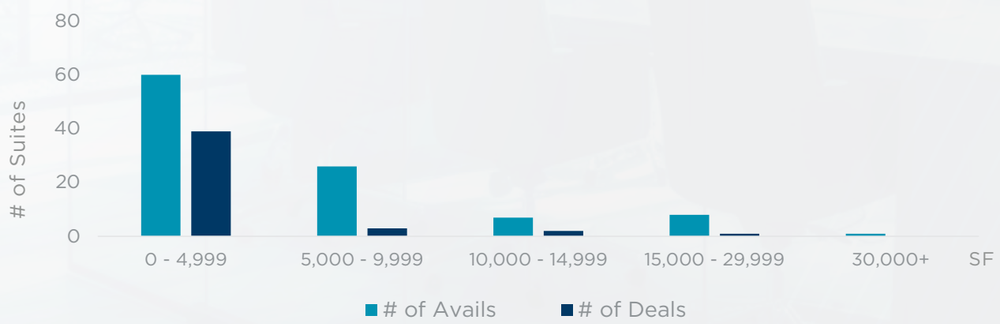
Spec Suite Analysis

CONSTRUCTION COST BREAKDOWN PSF

	<5,000 sf	5,000 sf - 15,000 sf	15,000 sf - 25,000 sf
Low	**$103.75**	**$100.70**	**$96.00**
Medium	**$130.00**	**$126.00**	**$120.00**
High	**$216.83**	**$210.67**	**$201.00**

- With flight to quality remaining a common trend across U.S. office markets, spec suite development cost varies across quality of build-out finishes. On average, the cost comes in around **$120 psf** to complete a spec suite.

SPEC SUITES AVAILS VS LEASES BY SIZE



- Dissecting 2023 spec suite availabilities and signed leases by size shows the current supply and demand was concentrated primarily within spaces **5,000 sf** and smaller.

DEFINITIONS

Quality of Space — Build Outs

LOW

Paint, carpet and rubber base with finish upgrades at reception area. Limited plastic laminate millwork and glass. Building standard doors, frames and hardware, lighting and ceiling grid and tile.

MEDIUM

Selective use of upgraded finishes in client spaces, limited design and ceiling enhancements with selective use of specialty lighting. Introduction of more glass and branding.

HIGH

Upgraded finishes throughout the space. Glass office fronts, specialty ceilings and lighting upgrades.

* See Construction Cost Breakdown (pg.3)

** Cost does not include Low Voltage, Audio/Visual, FF&E, Branding or Relocation

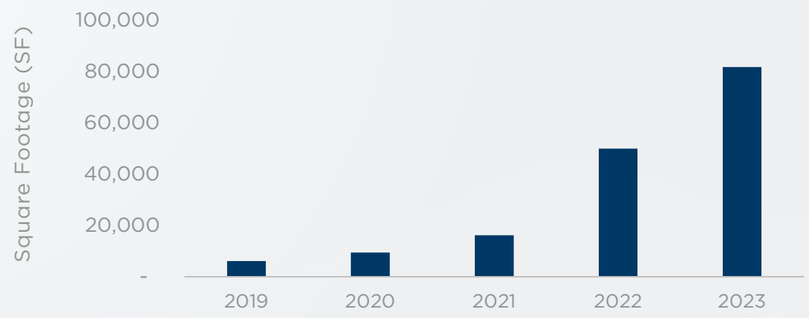
The Sell on Spec Suites

SPEC SUITE VS TRADITIONAL

	SPEC SUITE	TRADITIONAL
Avg. Lease Term (Months)	**55.6**	**69.3**
Avg. Advertised Rate	**$35.35**	**$32.93**
Avg. Lease Size	**3,800**	**5,042**
Avg. Time to Lease (Months)	**3.2 - 4.0**	**4.9 - 6.4**

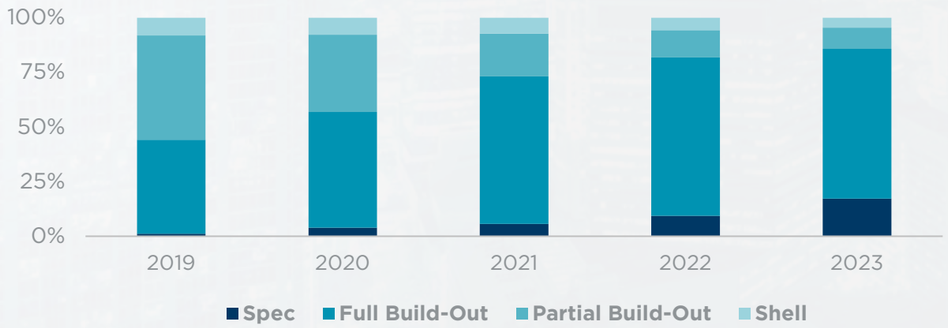
- Typically, landlords are able to bump lease rates **5% - 10%** for premium spec space.
- In 2023 spec suites leased, on average, **36.3%** faster than traditional availabilities.

SPEC SUITE DEAL VOLUME BY SF



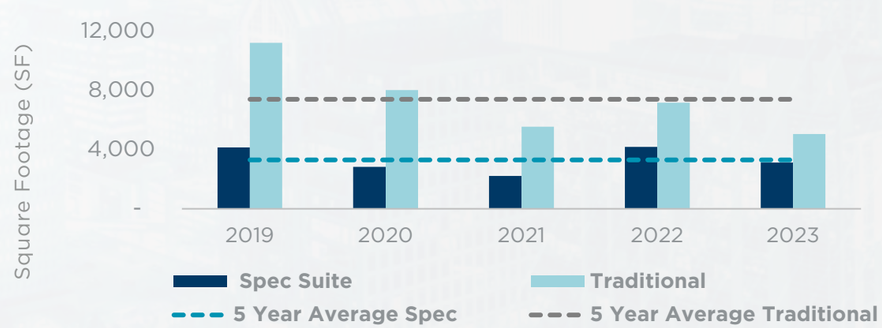
- Spec suite deal volume **increased substantially** in Charlotte, nearly **doubling** each year over the past **five** years.
- More than **23,000 sf** of spec suite transactions are imminent, expected to close in early 2024.

HISTORIC DEAL BREAKDOWN



- Of new 2023 leases in which build-out status is tracked, **85.7%** are made up from either spec suites or full build-outs.
- In 2023, **17.3%** of new leases signed were in spec suites, representing a **790-basis-point** increase year-over-year.

AVG SPEC SUITE VS TRADITIONAL DEALS BY SF



- While traditional leases in Charlotte during 2023 averaged **5,042 sf**, **31.8%** below the historical norm, spec suites held steady with their historic trend with an average lease size of **3,800 sf**.

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