

FIGURES | CHARLOTTE INDUSTRIAL | Q4 2022

Record annual absorption keeps up with unprecedented development

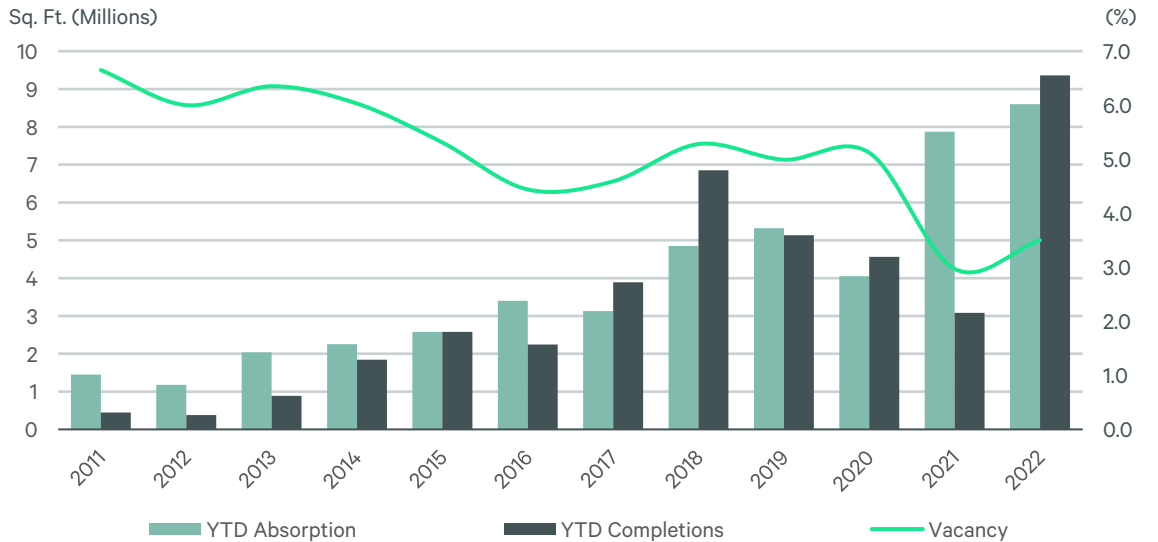


Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- Quarterly net absorption of 2.5 million sq. ft. was recorded in Q4 2022, pushing the annual total to 8.6 million sq. ft., both record figures.
- Development activity remained elevated with 12.4 million sq. ft. underway to close the year. Most of the projects consist of bulk warehouse space outside Mecklenburg County or shallow bay buildings located in the core Charlotte market area. Material shortages and long lead times continue to cause delays in construction for base building and interior upfit work.
- Nearly 2.5 million sq. ft. was completed in the fourth quarter, with 67.6% of the space pre-leased. Of the 12.4 million sq. ft. currently under construction, 42.8% is already pre-leased. Continued build-to-suit activity further supports confidence in Charlotte industrial.
- The overall average asking rate increased 5.8% quarter-over-quarter to \$8.38 per sq. ft. NNN, up 13.7% compared to the figure posted at year-end 2021. Strong rent growth is expected to continue into the new year.
- Capital markets activity has slowed over the last several months due to interest rate increases and overall uncertainty. However, pricing remains strong for the projects that have traded.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q4 2022

Net Absorption

Nearly 2.5 million sq. ft. of positive net absorption was recorded in the fourth quarter, 14.6% higher than the figure posted last quarter. The Q4 2022 total pushes annual net absorption to just under 8.6 million sq. ft., exceeding the record amount posted last year (7.9 million sq. ft.). In the midst of unprecedented development activity in the greater Charlotte area, net absorption figures keeping pace with the abundance of new product coming to market is significant. Substantial build-to-suit activity is expected to continue to fuel net absorption numbers in the coming quarters, with several large users slated to deliver sizable projects.

Vacancy & Availability

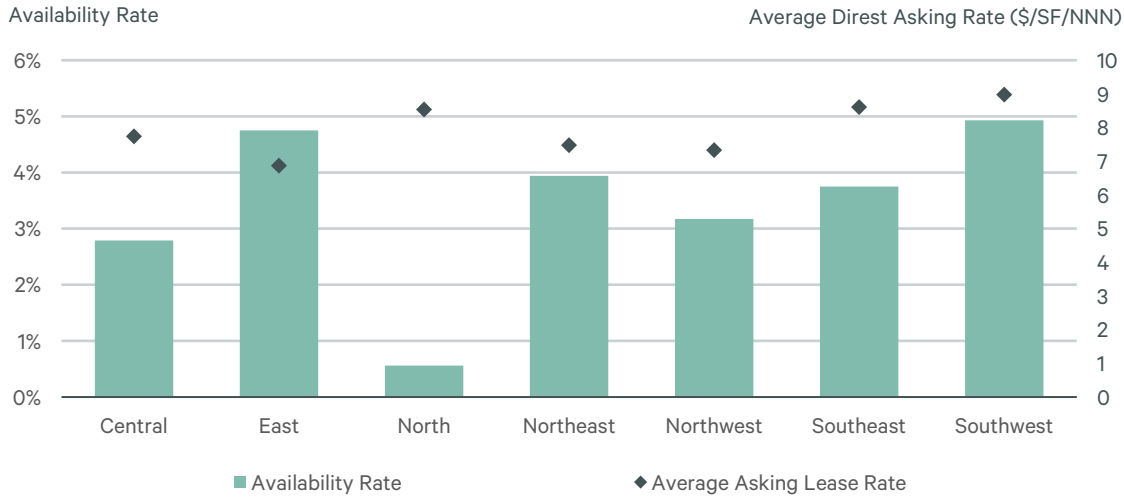
With nearly 2.5 million sq. ft. of new industrial product delivering to the market, 794,000 sq. ft. of which was vacant, the overall vacancy rate rose a marginal 30 bps to 3.5% in Q4 2022. The total availability rate climbed 30 bps as well to 3.7%. Both year-end vacancy and availability figures were not far from the numbers posted this time last year despite nearly 10 million sq. ft. of added inventory over the same period. Relatively speaking, industrial vacancy in Charlotte is still at a historically low level, highlighting robust activity across all lines of business in recent years. Among other indicators, seeing only slight increases in both availability and vacancy quarter-over-quarter and year-over-year points to Charlotte industrial’s sustained demand.

Due to significant spec completions in recent quarters, the vacancy rate for the Southwest submarket, Charlotte’s largest and most active submarket, remained elevated on a relative scale at 4.5%, just 10 bps higher than the figure posted last quarter. All of Charlotte’s seven major submarkets have vacancy rates at or below 4.5%, and three submarkets are at or below 3.0%.

Average Lease Rates

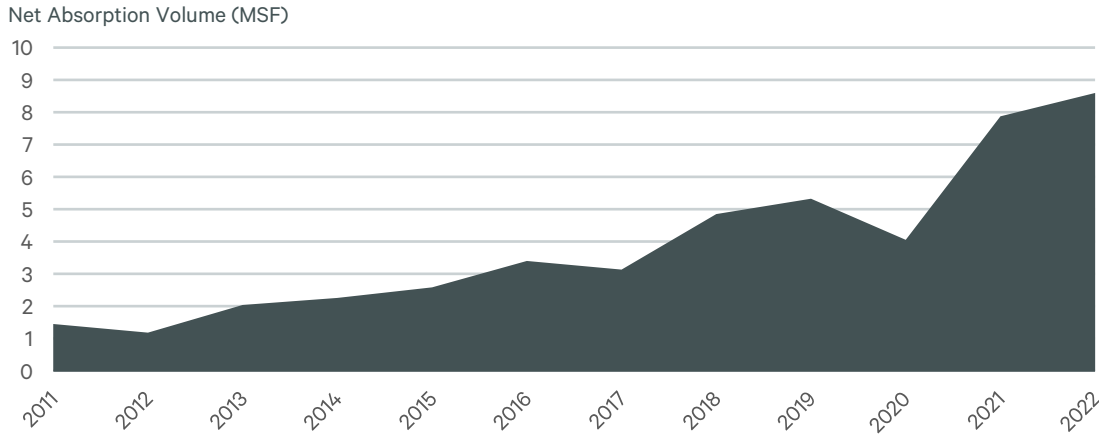
The overall average asking rate for all product types (office/warehouse, manufacturing, flex and distribution) increased to \$8.38 per sq. ft. NNN in Q3 2022, up 5.8% compared to the figure in Q3 2022 and up 13.7% year-over-year. Rates for all product types are projected to increase steadily throughout the balance of the new year. As a result, many landlords have begun to quote annual rental rate increases above 3.0%, which has become the market standard over recent years.

FIGURE 2: Submarket Availability and Lease Rates



Source: CBRE Research Q4 2022

FIGURE 3: Historical Annual Net Absorption



Source: CBRE Research Q4 2022

Development Activity

Development activity continued at a record pace with over 12.4 million sq. ft. under construction across thirty-one buildings to end the year. Of the total volume under construction, approximately 5.3 million sq. ft. (42.8%) has already been pre-leased. An established trend over the past several years, 38.7% of the overall volume is currently tied up in build-to-suit projects. A number of notable BTS projects scheduled to deliver in the near-term are expected to strengthen net absorption totals.

During the fourth quarter, approximately 2.5 million sq. ft. of new space delivered to the market with nearly 1.7 million sq. ft. (67.6%) preleased at the time of completion. Encouragingly, the added inventory was diversified across several submarkets – the Southwest, Northeast, and Northwest, including Gaston. Notable completions included the 1.5 million-sq.-ft. Newell Brands BTS in Gaston County, the 755,928-sq.-ft. Metro 63 in the Northeast, and fully leased I-485 Logistics Center in the Northwest, totaling 145,800 sq. ft. Over 9.3 million sq. ft. has been completed in the Charlotte metro area in 2022.

Employment

Consistent with last quarter, economic conditions have changed considerably from just a few months ago. Despite showing signs of heading in the right direction, persistently high inflation has greatly impacted current conditions. The Federal Reserve’s continual interest rate hikes have put pressure on all aspects of the economy. Despite falling for several months, the U.S. remains vulnerable to volatile gasoline prices which directly impact consumption. Meanwhile, consumer sentiment has declined to levels reminiscent of periods of economic stress, suggesting consumers are concerned in spite of a tight labor market and wage growth.

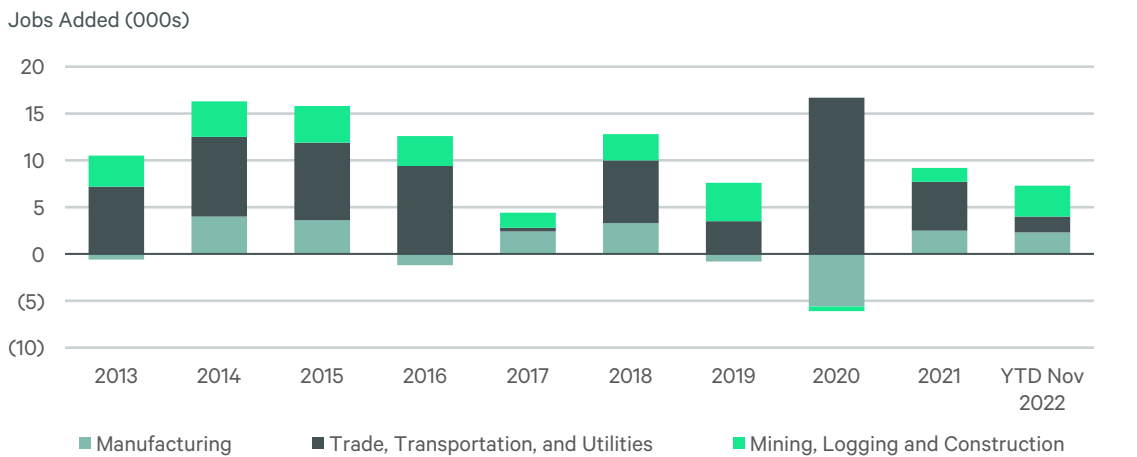
Charlotte’s unemployment rate continued to outperform the national average, reaching 3.5% as of November 2022, 20 basis points lower than the U.S. unemployment rate during the same time period. According to the Bureau of Labor Statistics, total nonfarm employment in Charlotte is up by 85,200, or 6.8%, from its pre-pandemic level in February 2020, and up 5.3% compared to November 2021. Employment in the manufacturing sector continued to grow, up 2.2% compared to this time last year.

FIGURE 4: Top Build-to-Suit Projects Under Construction

Property Name	Submarket	City	Developer	Size (SF)	Est. Completion
Macy's Distribution Center	Northeast	China Grove	Silverman Group	1,400,000	Q2 2023
Larkin Ind Pk - Sherwin Williams BTS	North	Troutman	Keith Corporation	798,000	Q4 2023
Best Buy BTS	Southwest	Charlotte	Crow Holdings	627,000	Q3 2023
The Concourse - Home Depot BTS	Southwest	Charlotte	Childress Klein	603,200	Q2 2023
Carolina Logistics - Carolina Foods BTS	Southwest	Pineville	Beacon Partners	424,000	Q3 2023
12933 Sam Neely Road - Home Depot BTS	Southwest	Charlotte	Keith Corporation	403,200	Q1 2023

Source: CBRE Research Q4 2022

FIGURE 5: Industrial-Using Employment Growth



Source: U.S. Bureau of Labor Statistics, November 2022

Investment Trends

In the face of interest rate hikes, inflation and rising construction costs, industrial sales activity finished strong in 2022, recording an overall volume of \$266.1 million in the fourth quarter. Unable to match the record volume posted last year, annual 2022 sales volume reached just under \$1.0 billion. Fifteen properties traded hands in Q4, with an overall average price per sq. ft. of \$133.69. Despite recent uncertainty in the capital markets world, the annual sales volume posted in 2022 remains higher than all previous years on record aside from 2021.

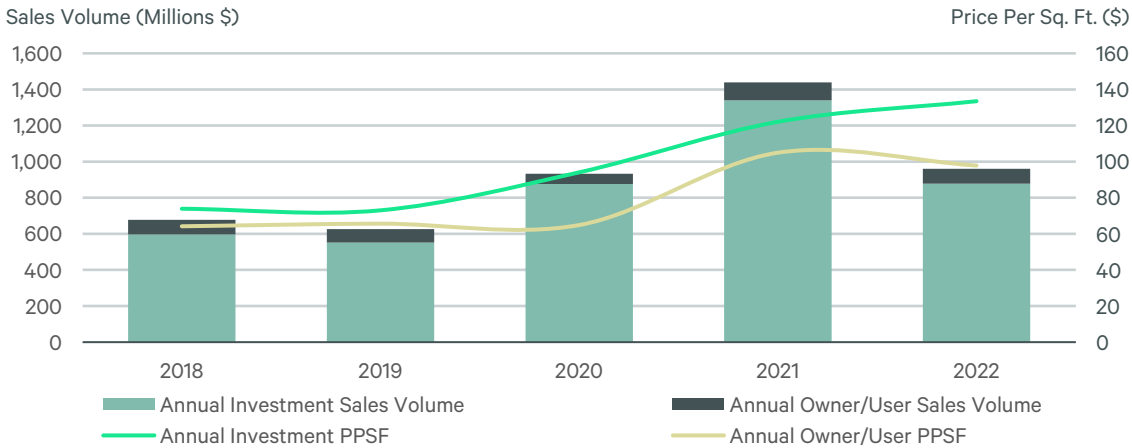
Investment sales accounted for 100% of the overall transaction activity in Q4 2022, bringing annual 2022 investment sale volume to \$877.5 million, 34.5% lower than 2021's total. The largest single building transaction recorded this quarter was the sale of 800 Food Service Dr in Fort Mill for \$76.4 million (\$127.99 per sq. ft.). Other notable transactions in the fourth quarter included the sale of 13359 Reese Blvd, which Edgewater Ventures sold for just over \$32.0 million (\$200.64 per sq. ft.), and the 4-building Airpark West portfolio, which Lincoln Property Company bought for \$80.5 million (\$128.35 per sq. ft.).

With a slow close to the year, annual 2022 owner/user numbers fell short of 2021's volume by 17.4%. Though there weren't any notable owner/user sales in the second or fourth quarters of 2022, the annual volume of \$82.6 million in 2022 is still the second largest on record.

Leasing Activity

Healthy leasing activity continued through Q4 2022, with over 3.3 million sq. ft. transacted. Notable deals signed during the fourth quarter included Solve Industrial Motion Group signing for 282,134 sq. ft. at 3935 Westinghouse Blvd in Charlotte, Kizer Energy signing a 228,890-sq.-ft. lease at 192 Woodlawn St in Gaston County, TJ Maxx inking a 216,615-sq.-ft. lease at 782 Paragon Way in Rock Hill, and Chadwell Supply committing to 148,654 sq. ft. at 3115 Sam Wilson Rd in Charlotte. Build-to-suit project announcements continued into the fourth quarter as well, with SunCap Property Group announcing Bosch Rexroth's expansion with a 227,500-sq.-ft. facility set to break ground in mid-2023. With new product coming to market in the near-term, leasing activity is expected to remain strong due to continued demand from both existing and new users in the Charlotte metro area.

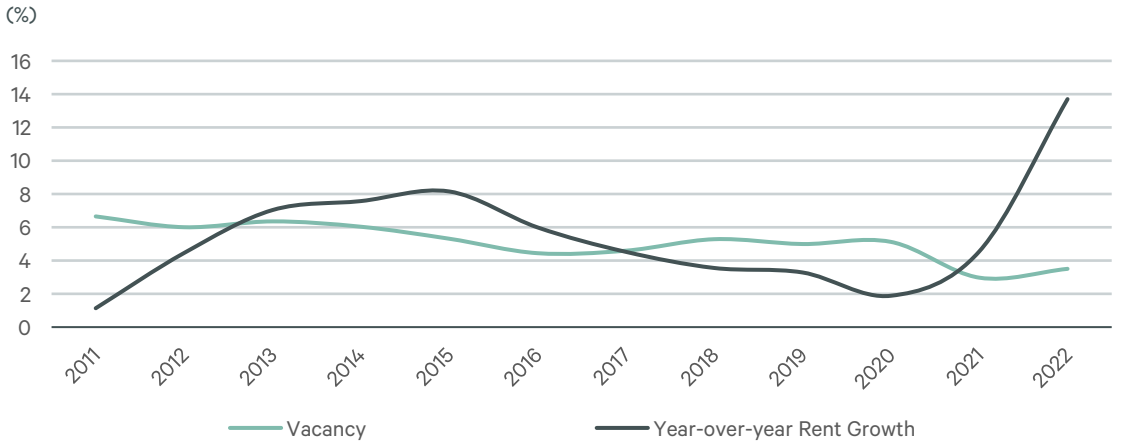
FIGURE 6: Investment Trends



Note: Tracked sales volume consists of transactions \$5m and greater

Source: CBRE Research Q4 2022

FIGURE 7: Vacancy vs. Year-over-year Rent Growth



Source: CBRE Research Q4 2022

Regional Performance

Charlotte's 239-million-sq.-ft. industrial market finished strong to close out an impressive year, posting excellent overall activity across the board. With record absorption totals, climbing rental rates, and a development pipeline that ranks among the largest ever recorded, industrial users and investors alike continue to bet on the Charlotte metro. As construction activity continues at an unprecedented pace, Q4 2022 saw another 2.5 million sq. ft. of added inventory, keeping pace with strong absorption activity. Four sizable properties across metro Charlotte's seven submarkets delivered in the fourth quarter, accounting for 1.7 million sq. ft. of positive net absorption. The balance between vacant new delivery volume and net absorption this quarter was one factor that contributed to a slight increase in overall market vacancy. However, based upon current market momentum, leasing activity in existing product and pre-leasing activity in the development pipeline, absorption figures are expected to remain elevated throughout the new year. Vacancy rates are expected to compress as a result.

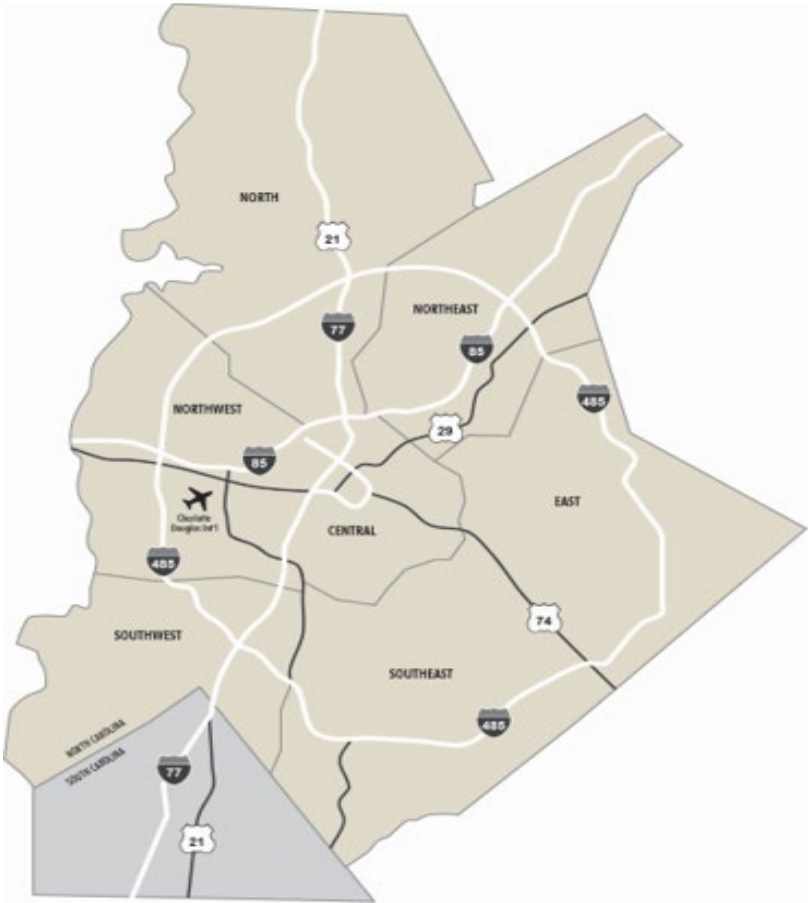
Many regions outside of Mecklenburg County have become an integral part of the overall Charlotte regional industrial market in recent years. Perhaps the greatest amount of activity lately has occurred in Gaston County, which is located along the I-85 corridor south of Charlotte. York County, which is located south along I-77, has been another meaningful contributor. Significant projects are also underway in Iredell County (I-77 to the north) and Rowan County (I-85 to the north). Activity has slowed slightly in nearby Cabarrus County (I-85 to the north) due to water/sewer capacity constraints, but local government officials are quickly working to address issues and allow limited new development to take advantage of historic regional growth.

FIGURE 8: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q3 2022 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (NNN/\$/SF/YR)	Total Availability Rate (%)	Total Vacancy Rate (%)
Central	19,627,343	12,498	78,243	-	7.74	2.8	2.7
East	8,486,586	11,714	61,633	-	6.87	4.8	4.4
North	28,458,720	34,710	1,029,517	3,155,064	8.54	0.6	0.2
Northeast	44,134,986	16,453	644,770	2,100,912	7.48	3.9	4.5
Northwest	42,936,199	2,023,344	3,756,687	4,183,902	7.33	3.2	2.8
Southeast	7,170,178	12,732	23,479	-	8.61	3.8	3.6
Southwest	88,779,169	372,970	3,003,434	2,995,244	8.98	4.9	4.5
METRO TOTAL	239,593,181	2,484,421	8,597,763	12,435,122	8.38	3.7	3.5

Source: CBRE Research Q4 2022

Market Area Overview



CBRE Offices

South End Charlotte
1120 South Tryon St, Suite 200
Charlotte, NC 28203

Survey Criteria

Includes all industrial and flex buildings 10,000 sq. ft. and greater in size in Mecklenburg, York and Cabarrus counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

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