

FIGURES | CHARLOTTE INDUSTRIAL | Q2 2023

# Abundant quarterly absorption outpaced by strong delivery volume

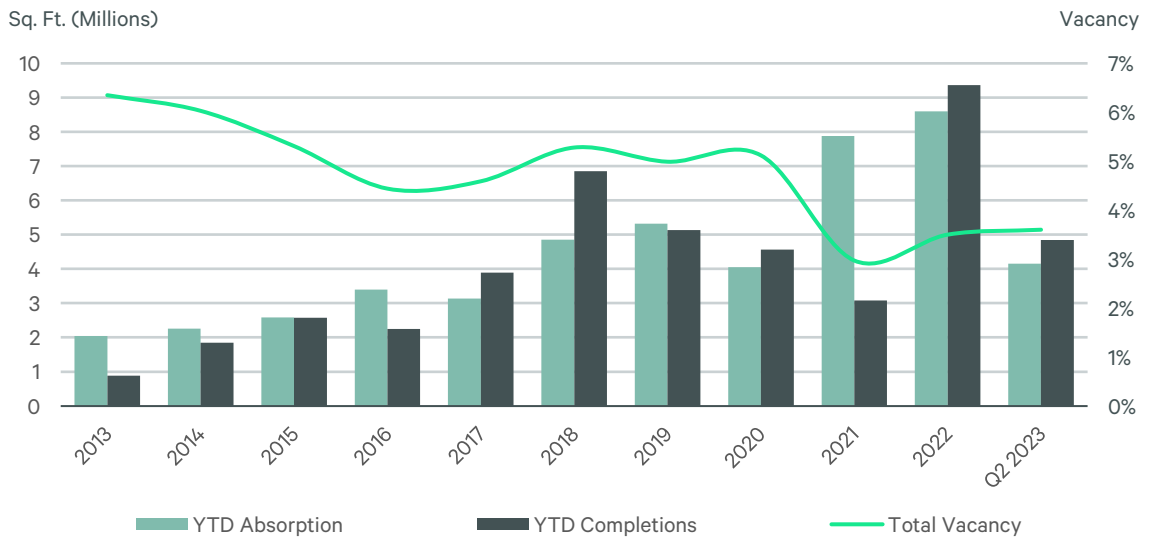


Note: Arrows indicate change from previous quarter.

## HIGHLIGHTS

- Over 3.0 million sq. ft. of positive net absorption was recorded in Q2 2023, bringing the year-to-date figure to 4.2 million sq. ft., 27.3% higher than the figure recorded this time last year.
- Development activity remained elevated with 18.2 million sq. ft. underway at the end of the quarter. 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.
- Over 4.2 million sq. ft. was completed in the second quarter, with 28.6% of the space pre-leased. Of the 18.2 million sq. ft. currently under construction, 30.2% is already pre-leased. Continued build-to-suit activity further supports confidence in Charlotte industrial.
- The overall average achieved rate increased 1.5% quarter-over-quarter to \$8.76 per sq. ft. NNN. Strong rent growth is expected to continue in the second half of the 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: Historic Supply & Demand



Source: CBRE Research Q2 2023

## Development Activity

Development activity continued at a record pace with 18,203,212 sq. ft. under construction at the end of the quarter. Of the total volume under construction, 5,500,890 sq. ft. (30.2%) has already been pre-leased. An established trend over the past several years, 27.2% of the volume currently under construction is 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.

New delivery volume totaled 4,210,809 sq. ft. in Q2 2023 with 1,202,388 sq. ft. (28.6%) preleased at the time of completion. Encouragingly, the added inventory was diversified across numerous submarkets—the West, Southwest, and several outlying counties. Notable completions included the 1,256,278-sq.-ft. Kings Mountain Corporate Center and the 878,104-sq.-ft. Delta Industrial Park, both in the Gaston County submarket. Best Buy’s 627,000-sq.-ft. build-to-suit delivered as well, contributing to this quarter’s positive net absorption total.

## Investment Trends

In the face of interest rate hikes, inflation and rising construction costs, Q2 2023 was active on the investment sales front. An overall volume of \$158.1 million was posted this quarter, pushing the year-to-date volume to \$332.3 million, 51.7% lower than the figure posted this time last year. Twelve properties traded hands in Q2, with an overall average price per sq. ft. of \$81.89. Following a near-record year in 2022 with \$1.0 billion in annual sales volume, 2023 has seen a relatively slower start. Despite general uncertainty in the capital markets space, industrial product continues to exhibit its value as one of the only asset classes that has consistently traded in recent quarters.

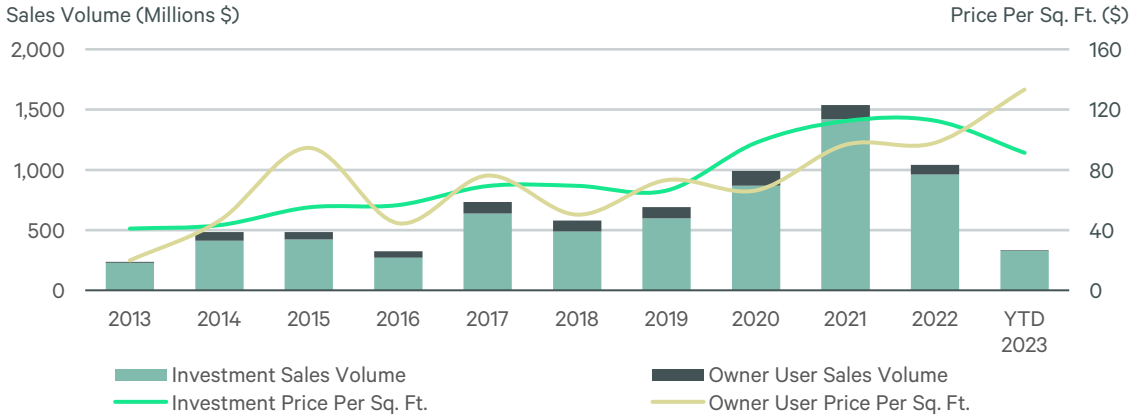
Investment sales accounted for 91.7% of the overall transaction activity in Q2 2023, with one owner user sale. The largest single building transaction recorded this quarter was the sale of the Britax Building in Fort Mill for \$42.5 million (\$88.84 per sq. ft.). Other notable transactions in the second quarter included the sale of Patriot Pioneer Park, which Bluerock Real Estate bought for \$26.2 million (\$108.45 per sq. ft.), and Mooresville Business Park East, which Old Republic Exchange bought for \$16.7 million (\$150.00 per sq. ft.).

FIGURE 2: Top Build-to-Suit Projects Under Construction

Property Name	Submarket	City	Developer	Size (SF)	Est. Completion
Macy's Distribution Center	Rowan County	China Grove	Silverman Group	1,412,980	Q3 2023
Grounds at Concord – Eli Lilly BTS	Cabarrus County	Concord	Eli Lilly	800,000	Q2 2024
Larkin Industrial Park - Sherwin Williams BTS	Iredell County	Statesville	Keith Corporation	798,000	Q4 2023
The Concourse - Home Depot BTS	Southwest	Charlotte	Childress Klein	603,200	Q4 2023
Carolina Logistics Park - Carolina Foods BTS	Southwest	Pineville	Beacon Partners	423,000	Q3 2023
13333 Sam Neely Road - Home Depot BTS	Southwest	Charlotte	Keith Corporation	403,200	Q3 2023

Source: CBRE Research Q2 2023

FIGURE 3: Investment Trends



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

Source: CBRE Research Q2 2023

## Employment

Consistent with last quarter, economic conditions remain volatile. While the labor market is objectively tight, it is softer than recent quarters that experienced higher quit rates and stronger wage growth. In spite of an improving inflation picture, the sharpest rise in interest rates in 40 years has put pressure on all aspects of the economy and has caused real estate values to drop across all sectors. Meanwhile, consumer sentiment has faded to levels reminiscent of periods of economic stress, suggesting consumers are concerned.

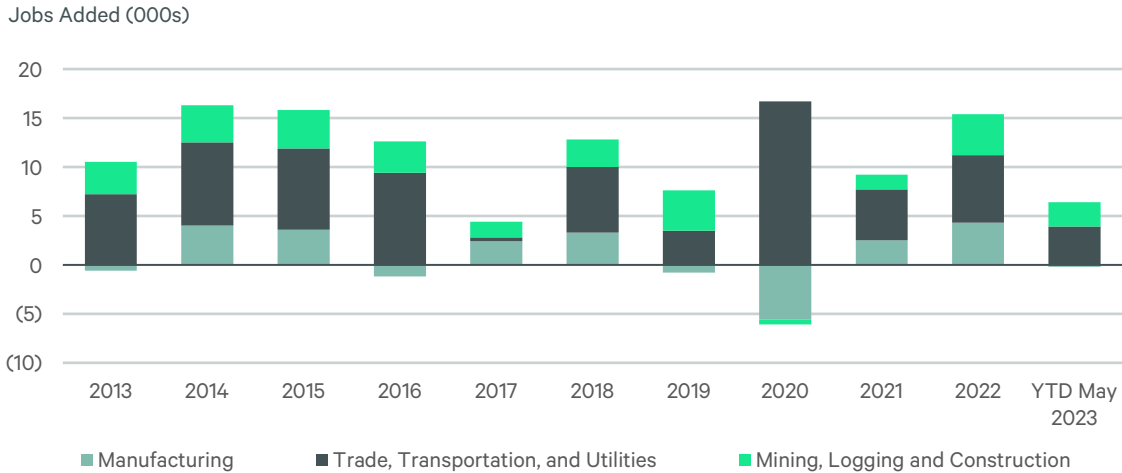
Charlotte’s unemployment rate continued to outperform the national average, reaching 3.2% as of May 2023, 50 basis points lower than the US unemployment rate during the same time period. According to the BLS, total nonfarm employment in Charlotte is up 10.5% compared to its pre-pandemic level in February 2020, and up 3.2% compared to May 2022. Alongside encouraging office-using employment growth, industrial industries have seen thousands of jobs added over the past year, specifically in the transportation and construction sectors.

## Leasing Activity

Leasing activity pushed on with 2,802,168 sq. ft. of volume recorded in the second quarter. Notable deals signed during Q2 2023 included Silfab Solar signing a 785,991-sq.-ft. lease at 7149 Logistics Ln in Fort Mill, Grainger signing for 525,624 sq. ft. at 11925 Carolina Logistics Dr in Pineville, Boxman Studios leasing 177,000 sq. ft. at 1310 Charles R Jonas Hwy in Mt Holly, and DNP Imagingcomm inking a 146,563-sq.-ft. lease at 8475 Automation Dr in Concord.

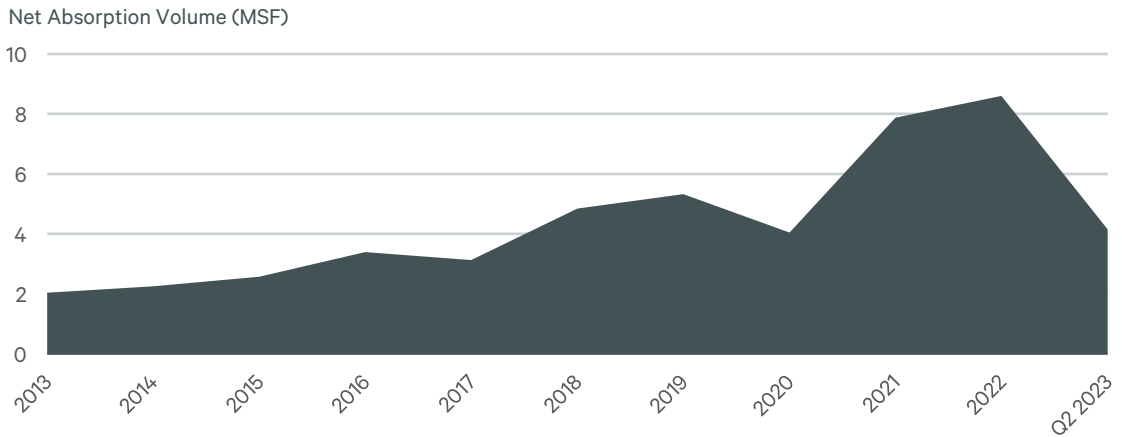
An influx of heavy and light manufacturing uses are beginning to flow into the state of North Carolina, and the greater Charlotte region has benefited. New requirements paired with historically low vacancy illustrates the need for new industrial space is stronger than ever. The market will be challenged with a relative slowdown in groundbreakings in the near-term, but leasing activity is expected to remain strong due to sustained demand from both existing and new-to-market users in the Charlotte metro area. The slowdown in new construction will also provide the market an opportunity to absorb existing supply. With a considerable sum of vacant space delivering to the market this quarter, attractive new opportunities are available.

FIGURE 4: Industrial-Using Employment Growth



Source: U.S. Bureau of Labor Statistics, May 2023

FIGURE 5: Historical Annual Net Absorption



Source: CBRE Research Q2 2023

## Net Absorption

Positive net absorption of 3,009,242 sq. ft. was recorded in the second quarter, pushing the year-to-date total to 4,154,850 sq. ft. Following two consecutive years of record absorption totals, 2023 got off to a slightly slower start comparatively. Through Q2, however, total net absorption volume is now outpacing the figure recorded this time last year. The volume posted through the second quarter is 27.3% higher than the total posted through the first half of 2022.

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, but a slowdown in project groundbreakings could signal supply issues on the horizon.

## Vacancy & Availability

With 3,008,421 sq. ft. of newly delivered vacant space added to the market, the total vacancy rate climbed 69 bps quarter-over-quarter to 3.6% in Q2 2023, with total availability increasing 59 bps to 4.4%. Both second quarter vacancy and availability figures matched the numbers posted this time last year despite nearly 9.0 million sq. ft. of added inventory over the same period. Strong preleasing in the development pipeline and continued leasing activity in existing projects helped soften the quarterly climb in rates. Relatively speaking, industrial vacancy in Charlotte is still at an historically low level, highlighting robust activity across all lines of business in recent years. Among other indicators, seeing only slight increases in availability and vacancy amid the market's unprecedented development streak points to Charlotte industrial's sustained demand.

Although the Southwest submarket, the Charlotte region's largest and most active submarket, has seen significant spec completions in recent quarters, the vacancy rate only rose slightly quarter-over-quarter to 2.8%. Despite minimal movement over the past three months, Southwest vacancy sits 91 bps lower than the figure posted this time last year. With four exceptions, all of the Charlotte region's sixteen major submarkets have vacancy rates at or below 3.5%, and seven submarkets are at or below 2.1%.

## Average Lease Rates

The overall average achieved rate across all product types (warehouse, manufacturing, flex and distribution) increased to \$8.76 per sq. ft. NNN in Q2 2023, up 1.5% over last quarter's \$8.63. The achieved rate represents an average of all executed lease rates signed throughout the quarter. 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 4.0% annual rental rate increases, which has become the market standard over recent years.

## Regional Performance

Charlotte's 279.1-million-sq.-ft. industrial market reached the midway point in 2023 with robust activity across the board. With strong 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 pushes on at a record pace, the second quarter saw 4.2 million sq. ft. of added inventory nearly matched by solid absorption activity. Twelve properties across the Charlotte region delivered in Q2, accounting for 1.2 million sq. ft. of positive net absorption.

Numerous projects delivering over the past three months contributed to a slight increase in total vacancy, but a slowdown in groundbreakings will encourage absorption in existing supply. Based upon strong leasing activity, healthy pre-leasing in projects under construction, and current market momentum, absorption figures are expected to remain elevated throughout the balance of the year. Vacancy rates are expected to compress further as a result, backing the confidence in a consistently active development pipeline.

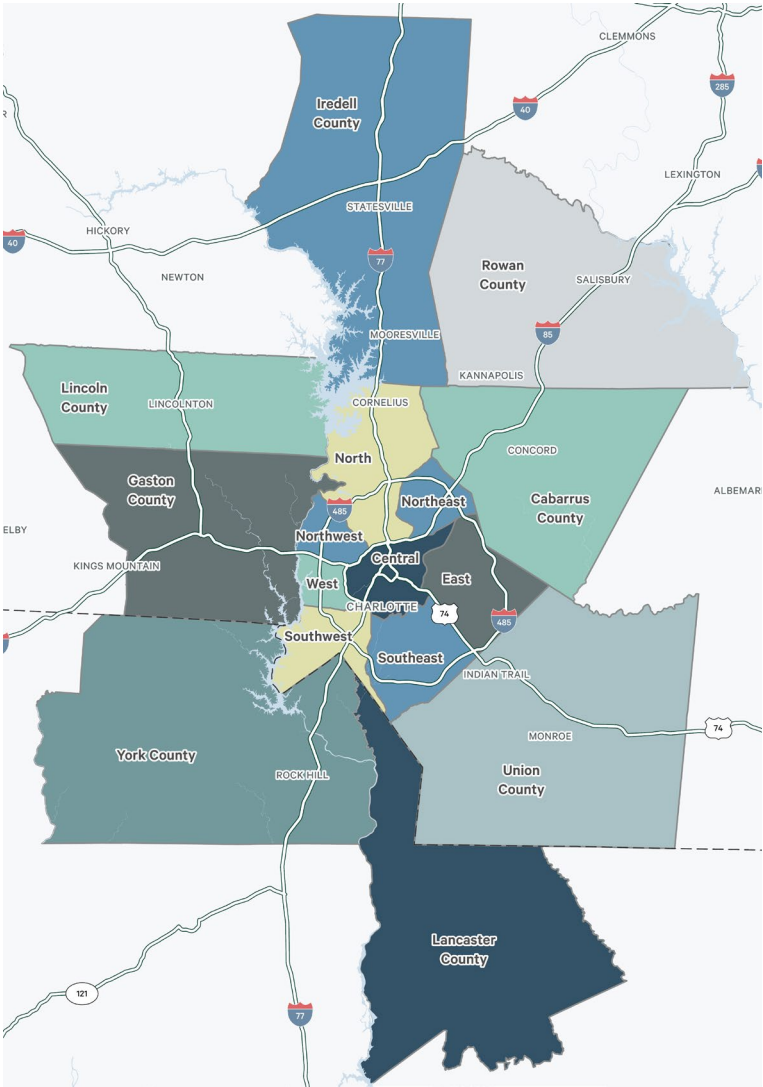
Many areas outside of Mecklenburg County have become an integral part of Charlotte's regional industrial market in recent years. Perhaps the greatest amount of activity lately has occurred in Gaston County, which is located along the I-85 corridor west of Charlotte. York County, just over the South Carolina border, has been another meaningful contributor. Significant projects are also underway in nearby Iredell and Rowan Counties. Activity has slowed slightly in nearby Cabarrus County 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 6: Market Statistics by Submarket

Submarket	Inventory (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Under Construction (SF)	Q2 2023 Net Absorption (SF)	YTD 2023 Net Absorption (SF)
Cabarrus County	20,260,686	2.1	1.5	1,816,357	208,274	310,198
Central	20,452,708	3.3	3.5	-	12,728	102,310
East	1,636,141	2.1	0.1	-	3,700	5,606
Gaston County	30,332,365	8.3	10.5	3,030,443	385,427	503,437
Iredell County	29,171,075	2.1	2.4	2,593,590	440,288	605,622
Lancaster County	5,475,925	0.0	0.0	-	-	-
Lincoln County	10,879,084	2.2	5.7	1,067,173	96,500	108,760
North	26,145,498	2.6	4.0	1,846,506	67,372	130,151
Northeast	2,911,182	9.2	9.6	-	-	(249,150)
Northwest	12,196,528	2.7	3.1	112,980	-	(13,529)
Rowan County	15,448,557	9.6	10.2	2,853,986	117,725	525,754
Southeast	4,366,317	0.8	0.7	-	10,995	19,887
Southwest	43,570,436	2.8	2.0	2,502,626	201,800	765,958
Union County	13,631,064	1.0	0.3	270,000	(78,910)	(96,303)
West	11,151,058	5.8	7.3	234,578	603,493	584,221
York County	31,442,376	2.8	5.1	1,874,973	939,850	851,928
METRO TOTAL	279,071,000	3.6	4.4	18,203,212	3,009,242	4,154,850

Source: CBRE Research Q2 2023

Market Area Overview



CBRE Offices

South End Charlotte

1120 S Tryon St, Suite 200  
Charlotte, NC 28203

Survey Criteria

Includes all industrial and flex buildings 20,000 sq. ft. and greater in size, excluding data centers, showrooms, and service properties, in Mecklenburg, Gaston, Lincoln, Iredell, Rowan, Cabarrus, Union, York and Lancaster counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

Note

In the first quarter of 2023, CBRE Charlotte updated and expanded its tracked market area in order to more accurately portray dynamics and fundamentals within the local and regional industrial real estate market. In addition to general submarket boundary adjustments, surrounding counties were added to better track growth throughout the region. Certain statistical calculation methodologies were adjusted as well. As a result, previously reported historical statistics have changed in some instances.

Contacts

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