

FIGURES | CHARLOTTE INDUSTRIAL | Q3 2024

Absorption continues to be positive while vacancy rises

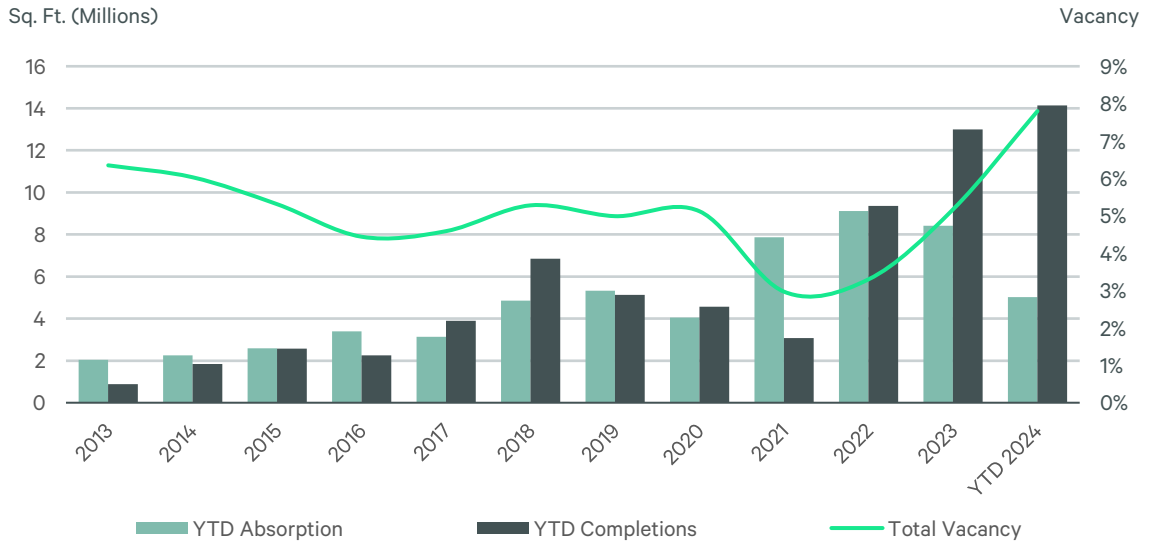


Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- 1.6 million sq. ft. of positive net absorption was recorded in Q3 2024.
- Steady development activity continued with 7.0 million sq. ft. underway at the end of Q3 2024, with 4.9 million sq. ft. of completions. Development has slowed down in comparison to Q3 2023 with a 55% decrease year-over-year.
- Total vacancy increased to 8.2% at the end of Q3 2024, still relatively low from a historical perspective despite the quarterly climb. The majority of vacant space can be found in newer projects that have delivered over the past several years.
- The overall average achieved rate increased 1.1% quarter-over-quarter and 1.8% year-over-year to \$9.77 per sq. ft. NNN. Rent growth is expected to continue throughout 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
Sq. Ft. (Millions)



Source: CBRE Research Q3 2024

Development Activity

Charlotte industrial development has been slowing throughout the year but remains active with 7,032,624 sq. ft. of space under construction at the end of the third quarter. Of the total volume under construction, 694,206 sq. ft. (9.9%) has already been pre-leased. Strong build-to-suit activity, an established trend over the past several years, has dwindled in recent quarters. Most of the development volume now lies in speculative projects, the majority of which is slated to deliver in the next three to six months. A slowdown in project groundbreakings could signal supply challenges on the horizon.

New delivery volume totaled 4,908,328 sq. ft. in Q3 2024, but failed to equal the record-breaking number the previous quarter showed. At the time of completion, 1,275,672 sq. ft. (26.0%) was preleased. Notable completions included the 729,872-sq.-ft. Overlook 85 – KC 100 in Rowan County, and the 712,574-sq.-ft. Innovation Logistics Center Building 1. DHL’s build-to-suits delivered as well, contributing 712,574 sq. ft. to this quarter’s positive net absorption total.

Investment Trends

In the face of interest rate hikes, inflation and rising construction costs, industrial sales activity dropped significantly this quarter. An overall volume of \$69.1 million was posted in Q3 2024, bringing YTD sales volume to \$496.6 million, 14.5% lower than the YTD figure posted in Q3 2023. With a near-record year in 2022 with \$1.0 billion in annual sales volume, 2024 started off slowly, and the pace has notably decreased in the second half of the year. Despite general uncertainty in the capital markets environment, industrial product continues to exhibit its value as one of the only asset classes that has consistently traded in recent quarters.

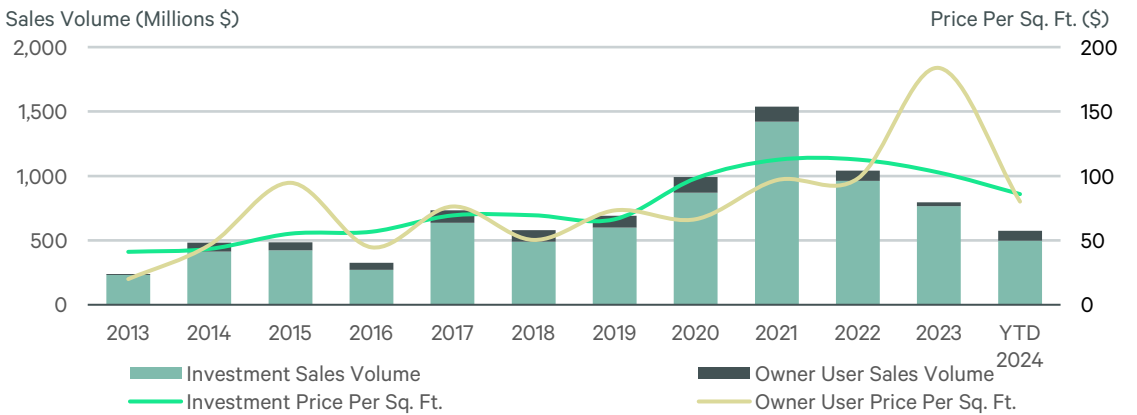
The largest transaction recorded this quarter was the sale of 8501 Westmoreland Dr NW in Charlotte, which STERID Corp. bought for \$9.9 million (\$290.15 per sq. ft.). Other notable transactions included the sale of 200 Beltway Blvd for \$9.0 million (\$180.76 per sq. ft) and 4535 Enterprise Rd for \$8.6 million (\$140.52 er sq. ft). Union West LLC bought the Beltway Blvd property, while Invesco Limited purchased the Enterprise Rd building.

FIGURE 2: Top Projects Under Construction

Property Name	Submarket	City	Developer	Size (SF)	Est. Completion
Innovation Logistics Center Building 2	Rowan County	Salisbury	Crow Holdings	472,890	Q4 2024
Rusher Farms - Building 1	Rowan County	Salisbury	Tectonic	451,806	Q4 2024
Kings Mountain Exchange	Gaston County	Kings Mountain	Tectonic	282,640	Q2 2025
Landis Ridge Industrial Park Building 2	Rowan County	China Grove	Jackson Shaw	269,700	Q2 2025
Carolina Logistics Park, Building 8D	Southwest	Pineville	Beacon Development Co.	234,706	Q4 2024

Source: CBRE Research Q3 2024

FIGURE 3: Investment Trends



Note: Tracked sales volume consists of transactions \$5.0m and greater

Source: CBRE Research Q3 2024

Net Absorption

Positive net absorption remains constant this year with Q3 2024 reporting 1,606,347 sq. ft. While current absorption falls short the previous quarters absorption by 900,000 sq. ft., this marks the thirteenth quarter that we have seen absorption above 1.5 million since Q1 2020. Build-to-suits were the driver behind this quarter’s strong activity. After last year’s comparatively slow start, 2023 ended up marking one of the largest annual absorption totals ever posted in Charlotte. Now, following three years of unprecedented absorption, 2024 has followed suit. Pre-leasing within buildings that delivered in the third quarter has adequately added to absorption with 1,275,672 sq. ft. documented.

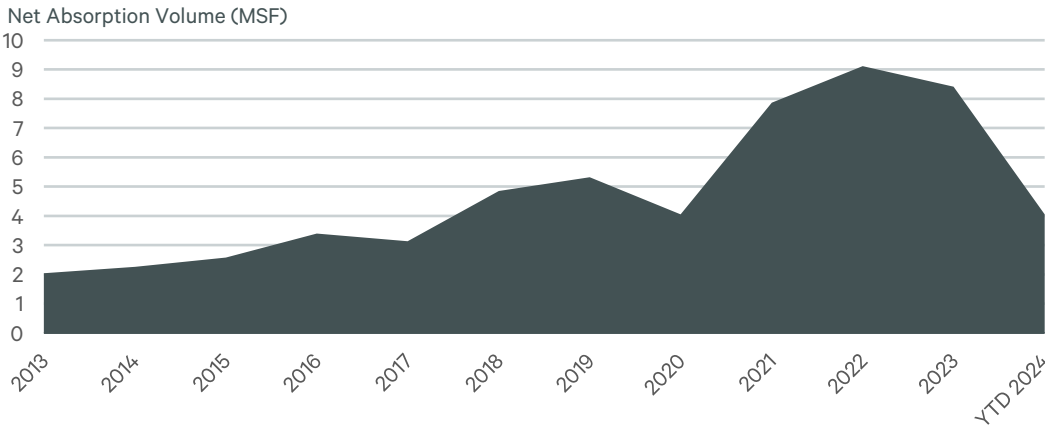
Amid unprecedented construction activity in the greater Charlotte area, net absorption figures have fallen short of delivery volume in recent quarters, attributing to the uptick in vacancy. The substantial development volume is expected to continue to fuel net absorption numbers throughout the balance of the year with several speculative projects slated to deliver. Strong pre-leasing in the speculative pipeline will contribute as well. With the slowdown in new construction, stronger absorption totals will begin to lean more on existing supply.

Employment

Economic conditions remain volatile, but a soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. More fed rate cuts are downstream of disinflation and are a welcome outcome amongst the real estate distress triggered by higher financing costs and devaluations. The first rate cut earlier this year helped spark excitement for the future, but until we have a more aggressive rate cut there will be a continuation in the disillusion of recovery.

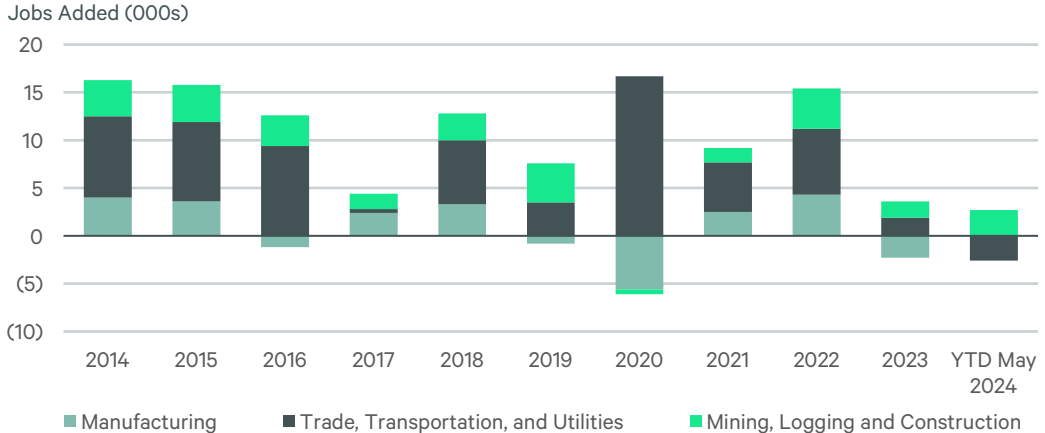
Charlotte’s unemployment rate rose to 4.3% as of Aug 2024, 20 basis points higher than the US unemployment rate during the same period. According to the BLS, total nonfarm employment in Charlotte is up 9.7% compared to its pre-pandemic level in February 2020, and up 1.8% compared to August 2023. The mining, logging and construction sector has seen the largest number of industrial-using jobs added over the past year with a 7.9% increase year-over-year.

FIGURE 4: Historical Annual Net Absorption



Source: CBRE Research Q3 2024

FIGURE 5: Industrial-Using Employment Growth



Source: U.S. Bureau of Labor Statistics, August 2024

Leasing Activity

Leasing activity of 2,336,576 sq. ft. was recorded in the third quarter, down 18.9% from the 2.7 million sq. ft. recorded this time last year. The most notable leases signed included Green New Energy Materials signing a new 534,087-sq.-ft. lease at the Lincoln Commerce Center in Denver, Graybar Electric renewing for 256,000 sq. ft. at Carolina Logistics Park in Pineville, and Prime Beverage signing a new lease for 208,000 sq. ft. at 6104 Glen Afton Blvd in Concord.

An influx of transportation and manufacturing uses have begun to flow into the state of North Carolina, and the greater Charlotte region has been a beneficiary. The market has been confronted 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 substantial sum of vacant space delivering to the market this quarter, attractive new opportunities are available.

Vacancy & Availability

With 3,632,656 sq. ft. of newly delivered vacant space added to the Charlotte market, the total vacancy rate increased 90 bps to 8.2%, with total availability climbing 111 bps to 9.6%. With over 14.1 million sq. ft. of newly added inventory to the market within the last year, the vacancy and availability totals have increased at an expected rate. Strong preleasing in the development pipeline and continued leasing activity in existing projects have softened the gradual climb in rates that have come with heightened construction activity. Relatively speaking, industrial vacancy in Charlotte is still at an historically low level, highlighting healthy activity across all lines of business in recent years.

In several cases, elevated submarket vacancy can be attributed to as few as one or two vacant buildings driving up the submarket average. The bulk of vacant square footage throughout the market can be found in new construction projects completed in the past several years. Among other indicators, seeing only slight increases in availability and vacancy given the market’s record development streak points to Charlotte industrial’s sustained demand.

Average Lease Rates

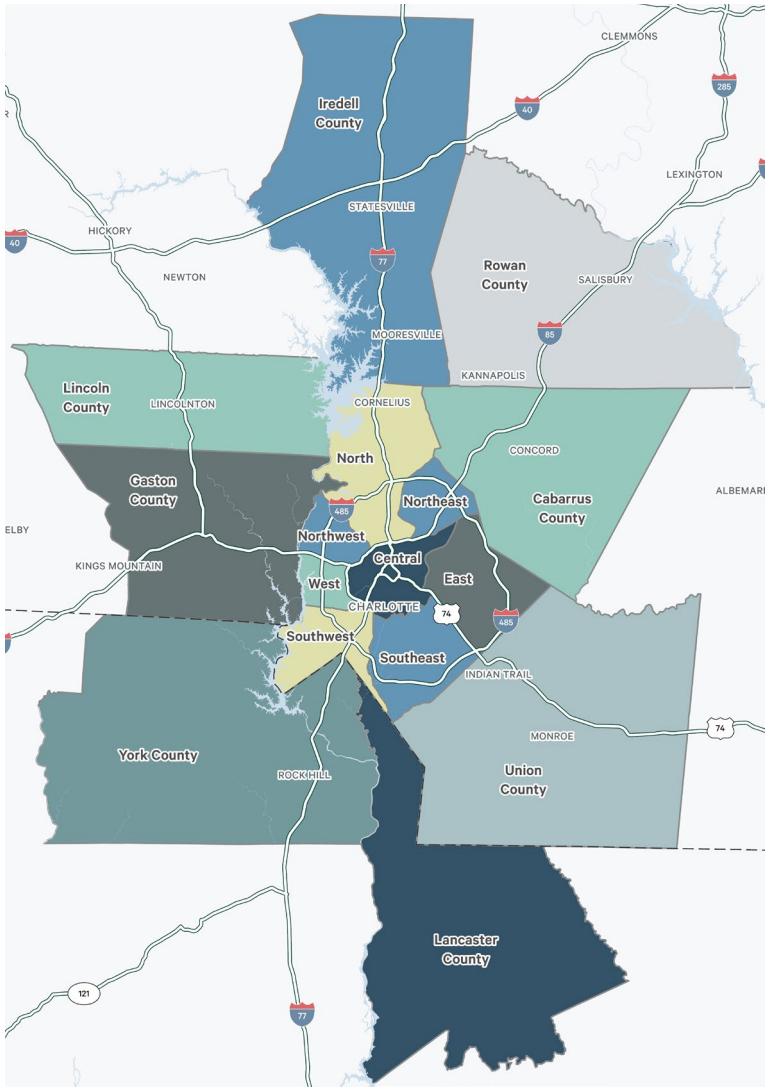
The overall average achieved rate increased to \$9.77 per sq. ft. NNN in Q3 2024, up 1.1% quarter-over-quarter and 1.8% year-over-year. The achieved rate represents an average of all executed lease rates signed throughout the quarter. Rates for all product types are projected to increase steadily throughout the balance of the new year. Many landlords are quoting 4.0% annual rental rate increases, particularly for infill properties.

FIGURE 6: Market Statistics by Submarket

Submarket	Inventory (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Under Construction (SF)	Q3 2024 Net Absorption (SF)	YTD 2024 Net Absorption (SF)
Cabarrus County	23,553,520	9.1%	8.6%	329,637	493,353	1,840,453
Central	19,875,502	4.6%	5.0%	-	(42,387)	(371,149)
East	1,656,141	4.8%	13.7%	-	16,853	18,683
Gaston County	34,556,974	16.9%	18.0%	497,640	114,794	39,267
Iredell County	31,897,754	5.7%	6.2%	609,000	(38,161)	1,151,966
Lancaster County	5,475,925	0.9%	0.9%	-	-	(47,362)
Lincoln County	11,685,557	5.2%	10.4%	402,796	534,087	692,446
North	27,849,437	9.1%	10.4%	961,403	(239,156)	(210,269)
Northeast	2,861,483	13.9%	6.0%	-	(1,591)	(154,334)
Northwest	11,568,092	6.4%	8.6%	-	(168,664)	(117,644)
Rowan County	19,090,366	15.2%	15.7%	1,842,454	655,574	624,798
Southeast	4,138,317	2.1%	5.8%	95,400	(50,881)	(54,375)
Southwest	48,184,779	4.1%	6.4%	1,471,058	181,244	1,137,382
Union County	14,206,178	3.4%	3.3%	60,000	39,193	(293,078)
West	11,682,659	13.5%	17.1%	334,857	58,503	(330,651)
York County	33,132,317	8.1%	10.5%	428,379	51,986	124,200
METRO TOTAL	301,425,001	8.2	9.6	7,032,624	1,606,347	4,050,333

Source: CBRE Research Q3 2024

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, Lancaster and York 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.

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