



AVISON
YOUNG

Charlotte industrial insight report

Q3 2021

AVANT
by AVISON YOUNG

U.S. industrial drivers

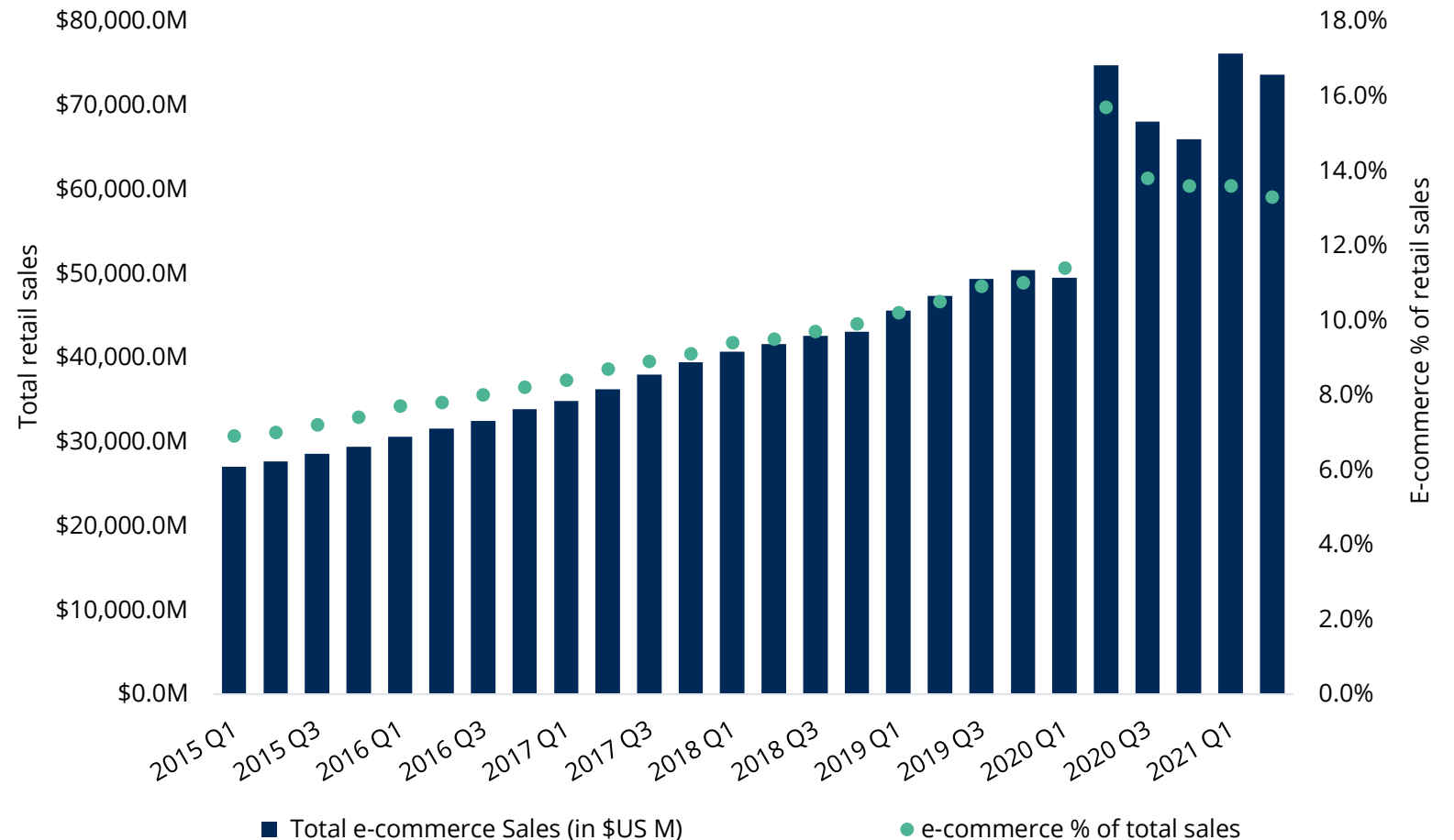
CHARLOTTE INDUSTRIAL INSIGHT REPORT
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



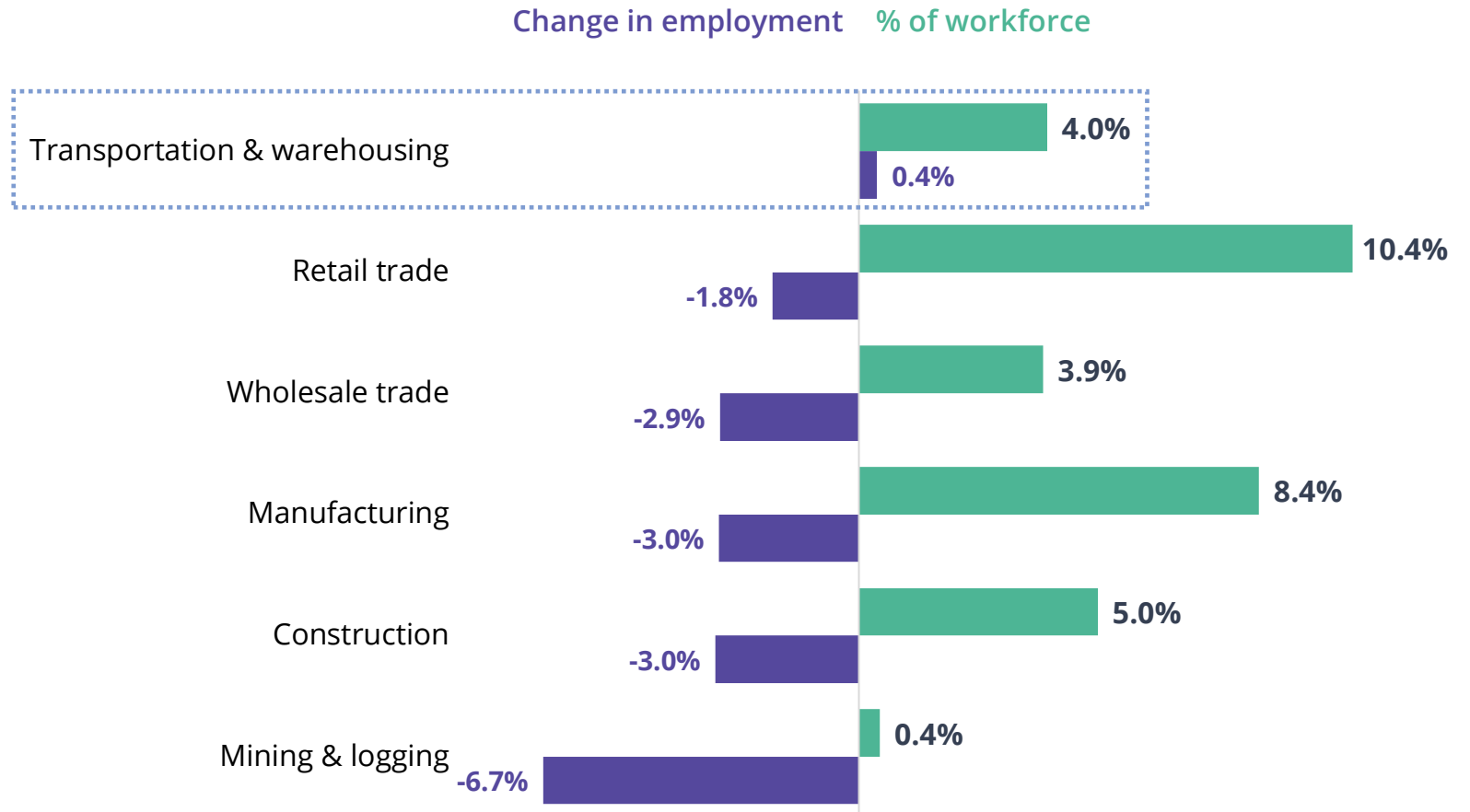
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



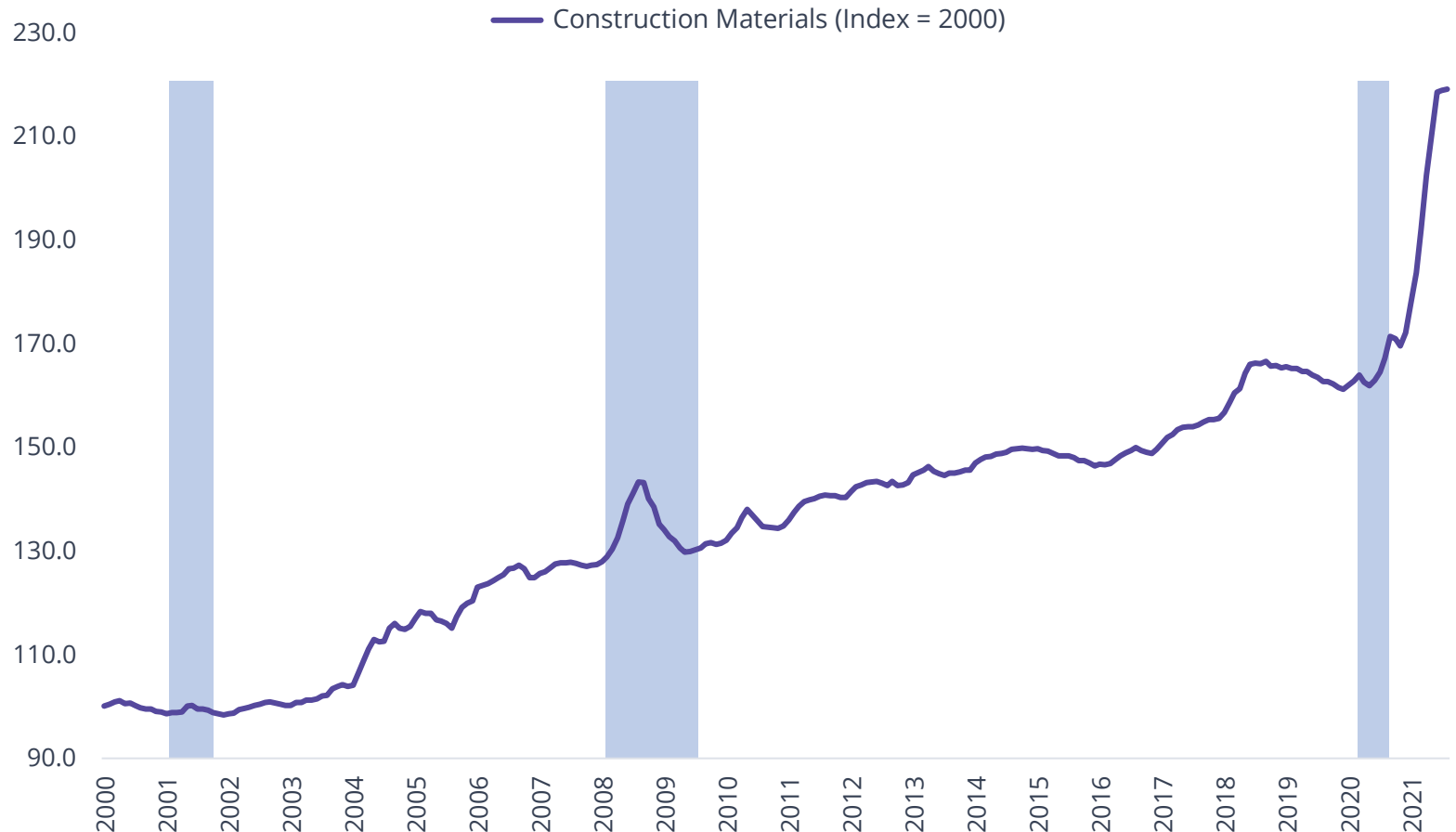
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

**Construction Material
Index cost from year-end
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



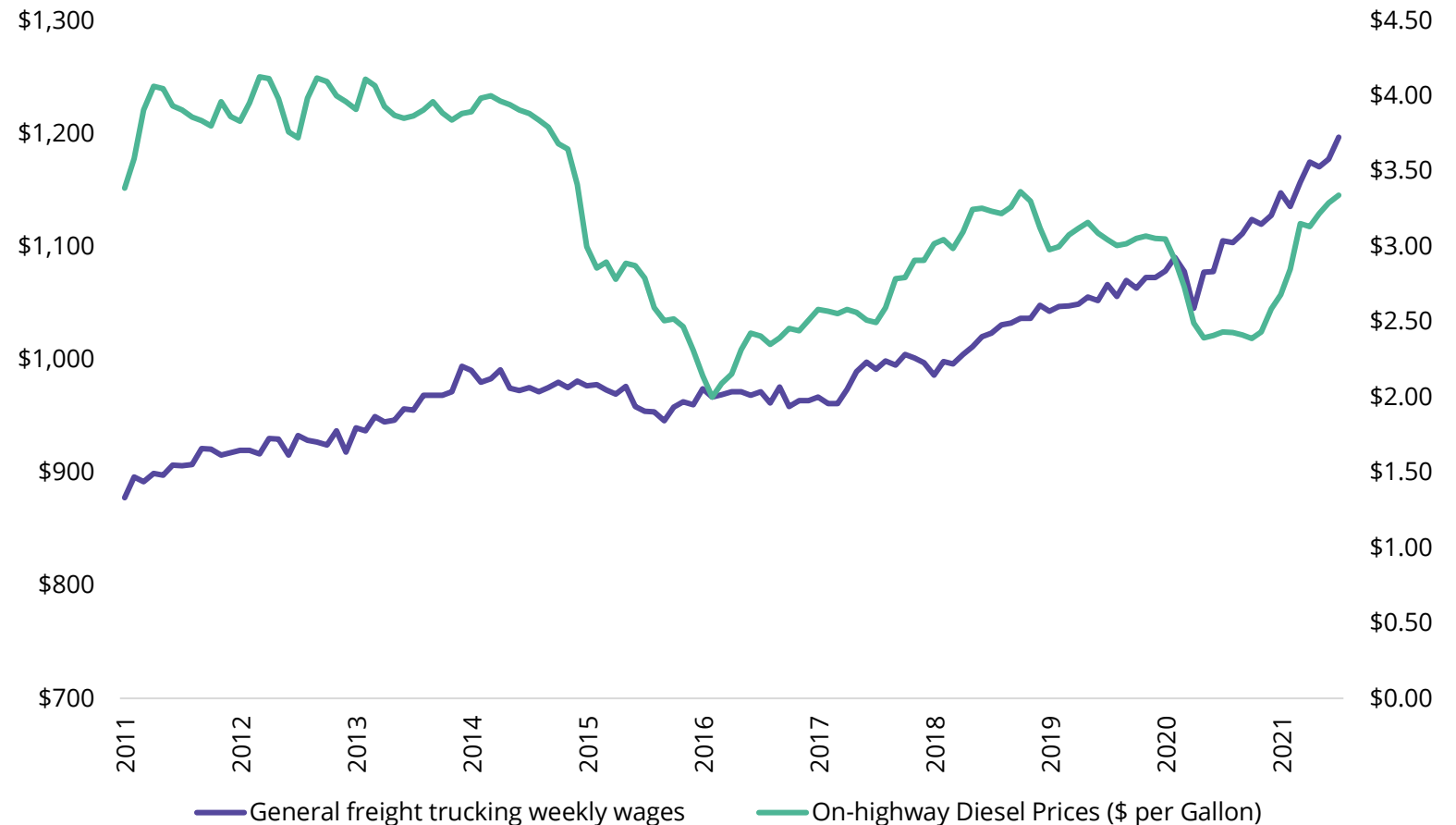
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Charlotte economic fundamentals

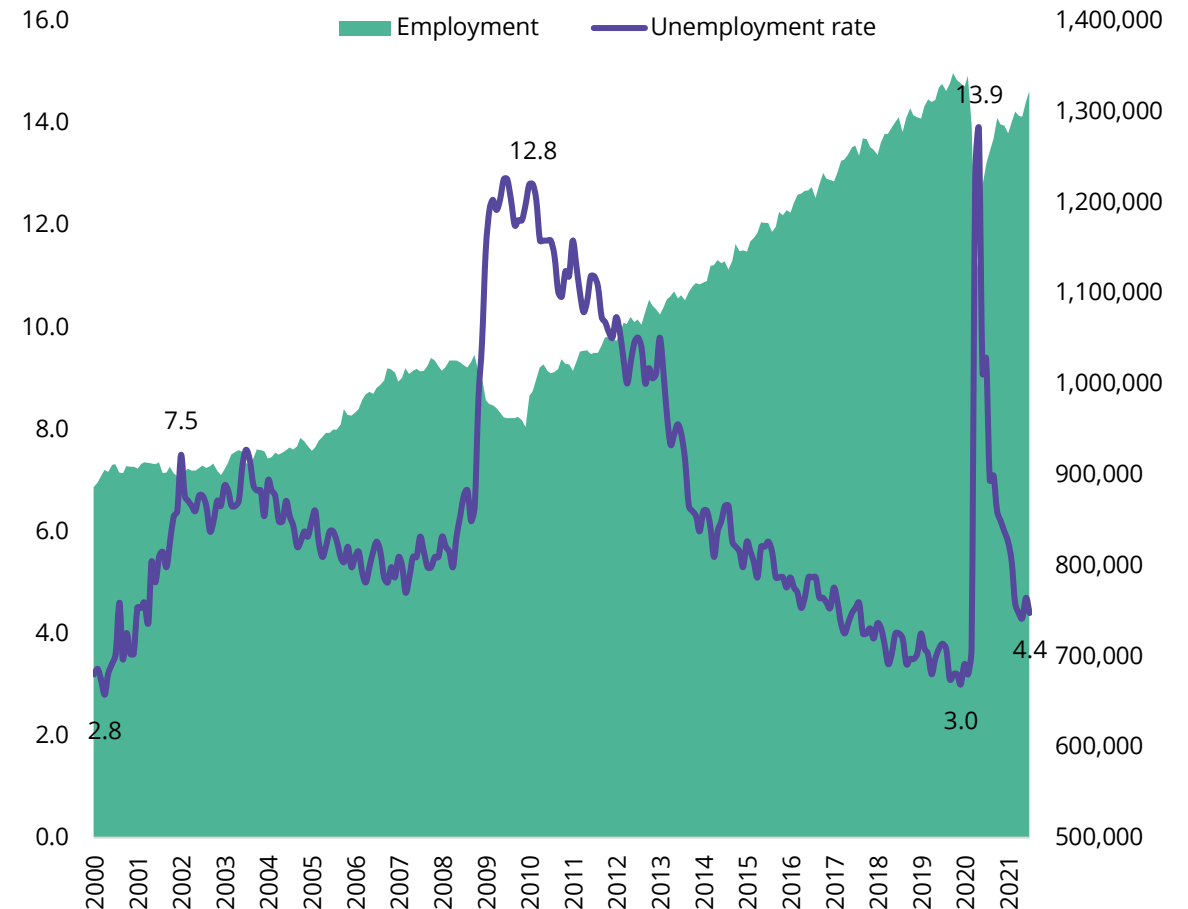
CHARLOTTE INDUSTRIAL INSIGHT REPORT
Q3 2021

Employment and unemployment rate

4.4%

Charlotte unemployment rate as of July 2021

Before the pandemic, unemployment was at historical lows dipping to 3.0%. Since April 2020, employment rolls have grown by over 180,000, recovering 80% of job losses incurred during the pandemic.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

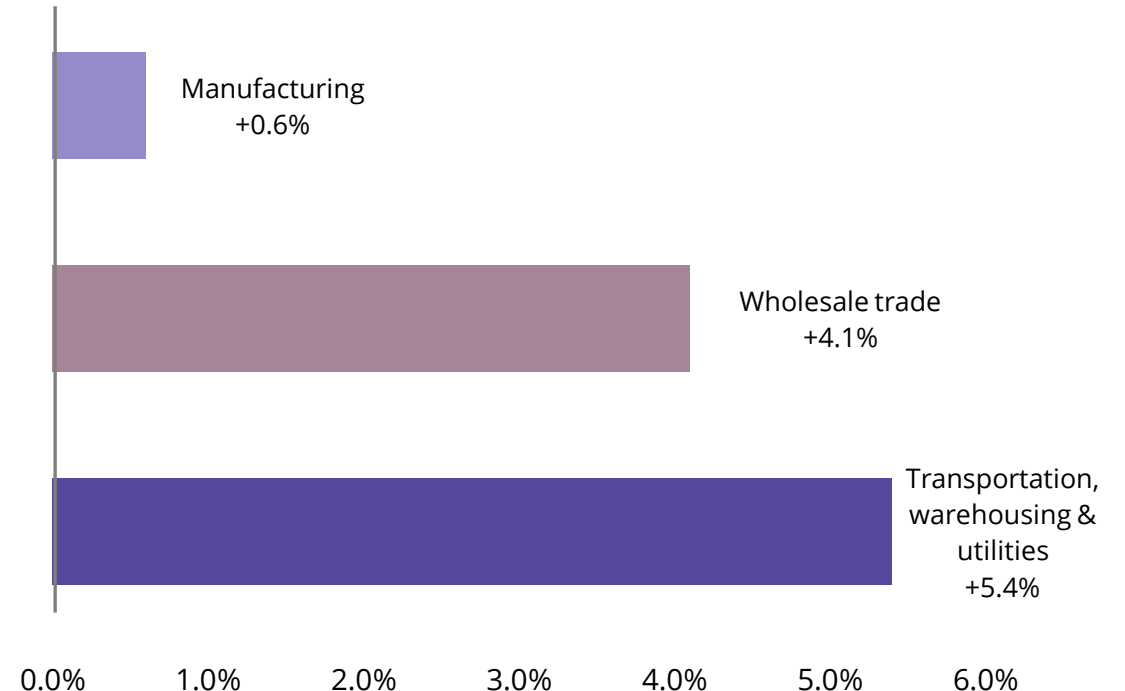
+2.7%

Change in industrial employment from July 2020 to July 2021

The Charlotte metro area has experienced job additions totaling 3.2% in the last year, especially in the critical areas of transportation and logistics. These job gains have persisted this year, with the transportation, warehousing & utilities sector up 5.4% year-to-date.

Total change in Charlotte MSA* job gains/(losses)

July 2020 to July 2021



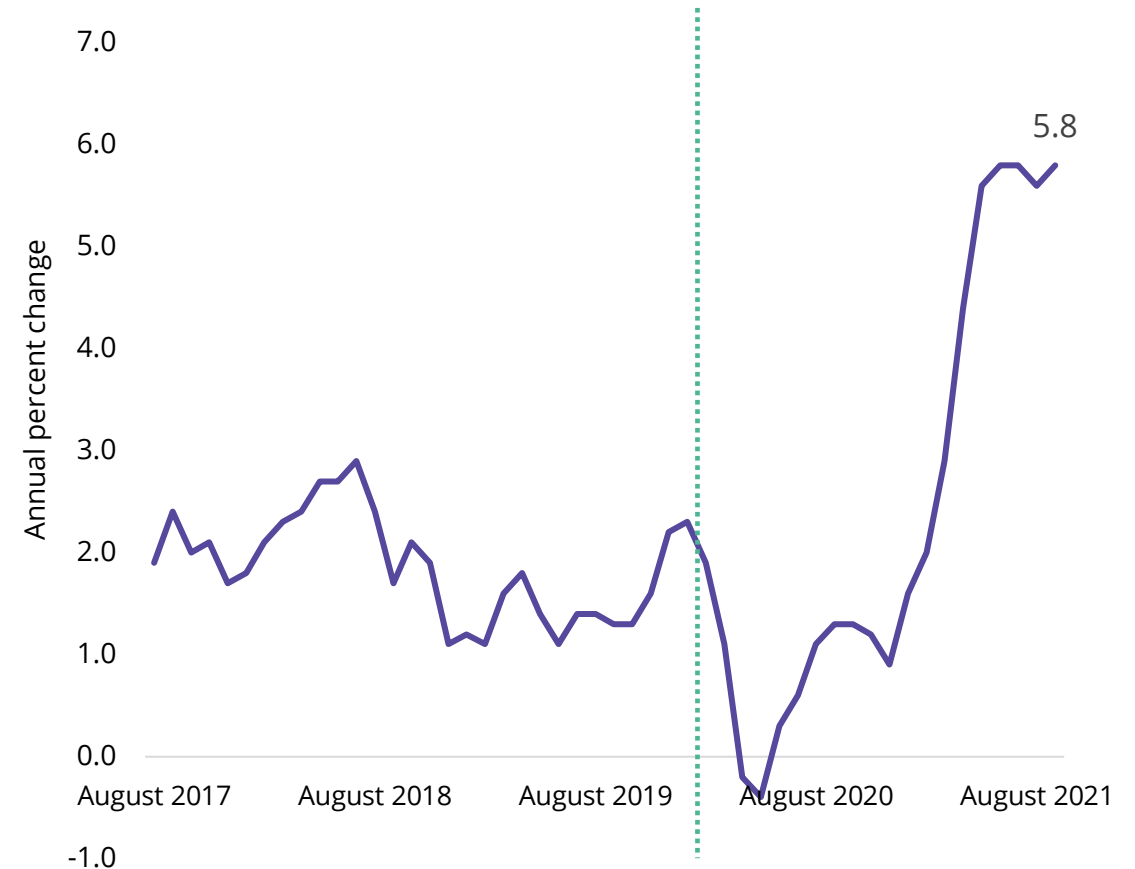
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Inflation rates

+5.8%

Year-over-year change in Consumer Price Index for South Region, all items

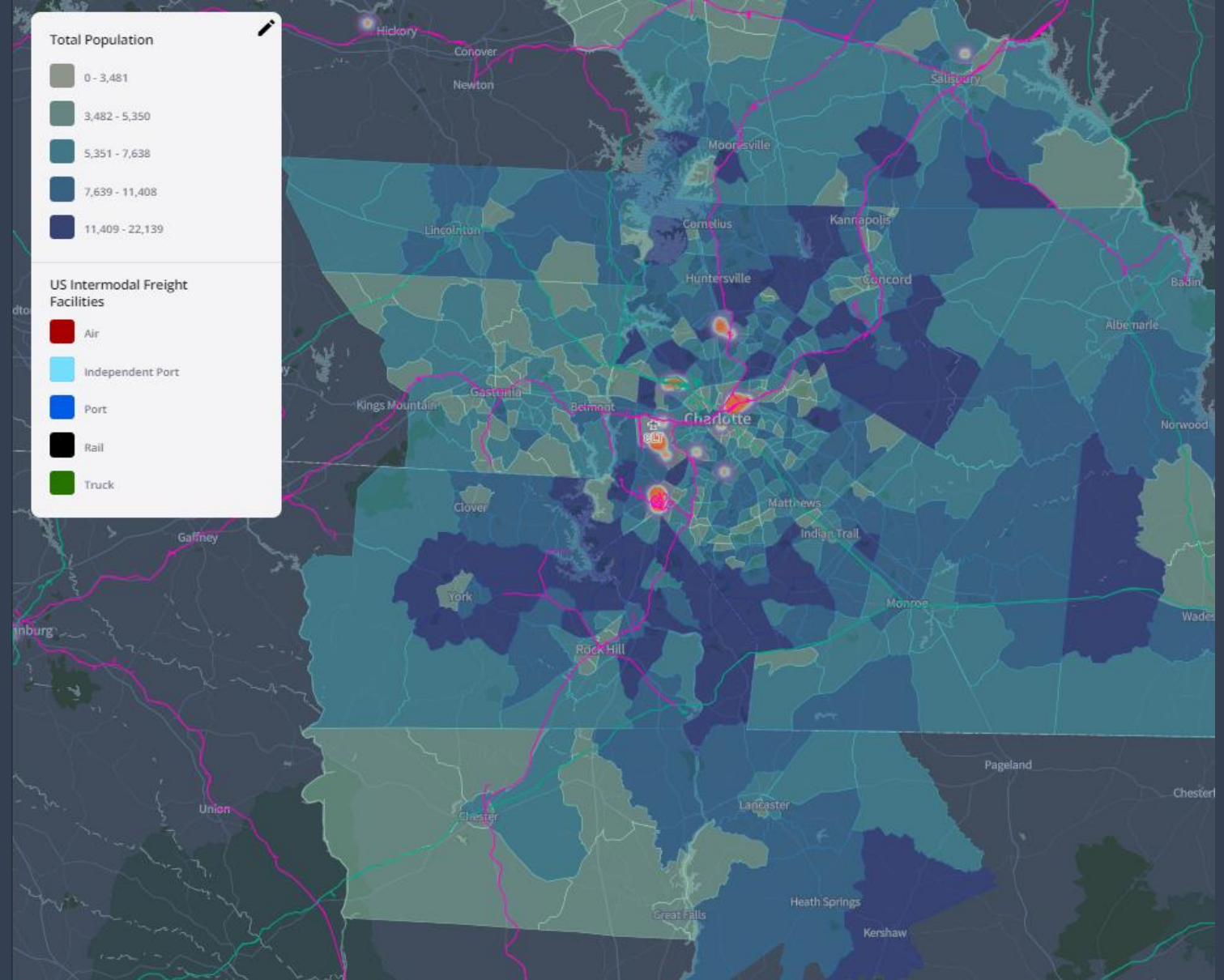
The CPI index in the South region has been increasing sharply as local economies have reopened. Despite stabilizing this summer, lingering supply chain disruptions have impacted many sectors and could keep inflation at higher-than-normal levels. CPI less food & energy increased by 4.5%, while the energy index rose 23.6% for the 12 months ending in September, reflecting a 43.0-percent rise in the gasoline index.



Note: Not seasonally adjusted data.
The South region is comprised of Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia
Source: Bureau of Labor Statistics

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Intermodal facilities are clustered around major interstate corridors, with Class I rail lines providing connectivity throughout the country



A photograph of two industrial workers, a man and a woman, wearing white hard hats and high-visibility yellow and blue jackets. They are looking at a tablet held by the woman. The background is a blurred industrial setting with large pipes and lights.

Charlotte market fundamentals

CHARLOTTE INDUSTRIAL INSIGHT REPORT
Q3 2021

Key industrial takeaways



Economic conditions

- Charlotte unemployment figures have dipped to **4.4 percent** as of July 2021. Supply chain disruptions felt throughout 2021 have done little to slow growth in leasing fundamentals, particularly in Class A product.
- As of July, the highest job growth of **5.4 percent** occurred in the transportation, warehousing & utilities sector, followed by the wholesale trade industry, which increased by 4.1%.



Recovery

- As office workers across the region still grapple with return-to-work policies, the industrial workforce has grown by **2.7 percent** in the last 12 months.
- In ULI's latest Emerging Trends in Real Estate Report, Charlotte ranks **6th** in **top real estate markets to watch** in 2022. The ULI report classifies Charlotte as a "magnet market," for people and companies, with populations and jobs growing more quickly than the U.S. average.



Industrial demand

- Charlotte industrial leasing activity remains overwhelmingly positive. Activity currently sits at **47 percent** of the long-term annual average of the last 20 years of historical data. Momentum in leasing activity is expected to continue in an upward trajectory with the delivery of multiple new Class A developments currently in the pipeline.
- Several big-name tenants, including **Frito-Lay, FedEx and XPO Logistics** helped pushed year-over-year absorption to **2.3 msf** in the third quarter.

Key industrial takeaways



Industrial supply

- As national and regional logistics and e-commerce businesses continue to expand in Charlotte, developers are striving to meet demand. At the close of the third quarter, **7.3 msf in 21 properties** are currently underway.
- Even as the market expands in larger speculative industrial buildings, owners have been able to find tenants rapidly. The overall vacancy rate for the Charlotte industrial market continued to show resilience with vacancy at **6.3%**, a 90 bps decrease from 3Q 2020.



Pricing trends

- Asking rents have increased by **3.0 percent** since the start of the pandemic and have continued a steady upward trajectory since 2015.
- Lack of available space, particularly large block availability, continue to push rental rates up across the market. The upward pressure on direct rates is expected to continue into 2022.



Capital markets

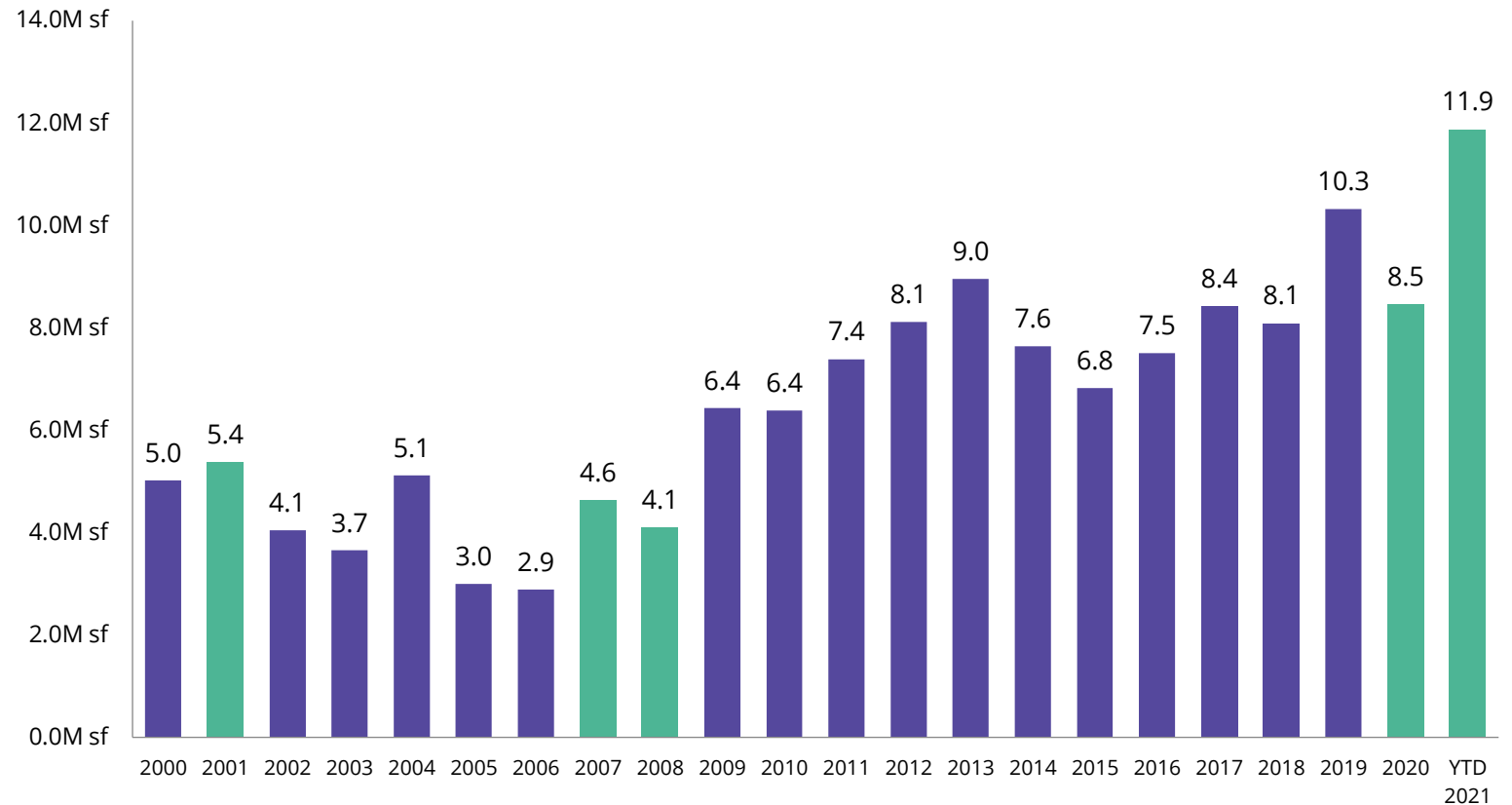
- Charlotte's investment activity has totaled **\$2.1B since 2020** as investors deploy capital in the warehouse and logistics sector at a rate that is **8.5 percent** higher than the prior five-year average.
- The market's level of supply coupled with limited investment offerings and a highly competitive land market have led to a flood of forward speculative sales. Investors are increasingly utilizing the forward purchase structure to acquire assets in early development phases.

Industrial leasing activity

+47%

**YTD 2021 vs. prior 20-year
annual average leasing
activity**

Leasing activity in Charlotte has not let up during the pandemic, reaching a record-high of 11.9 msf year-to-date.



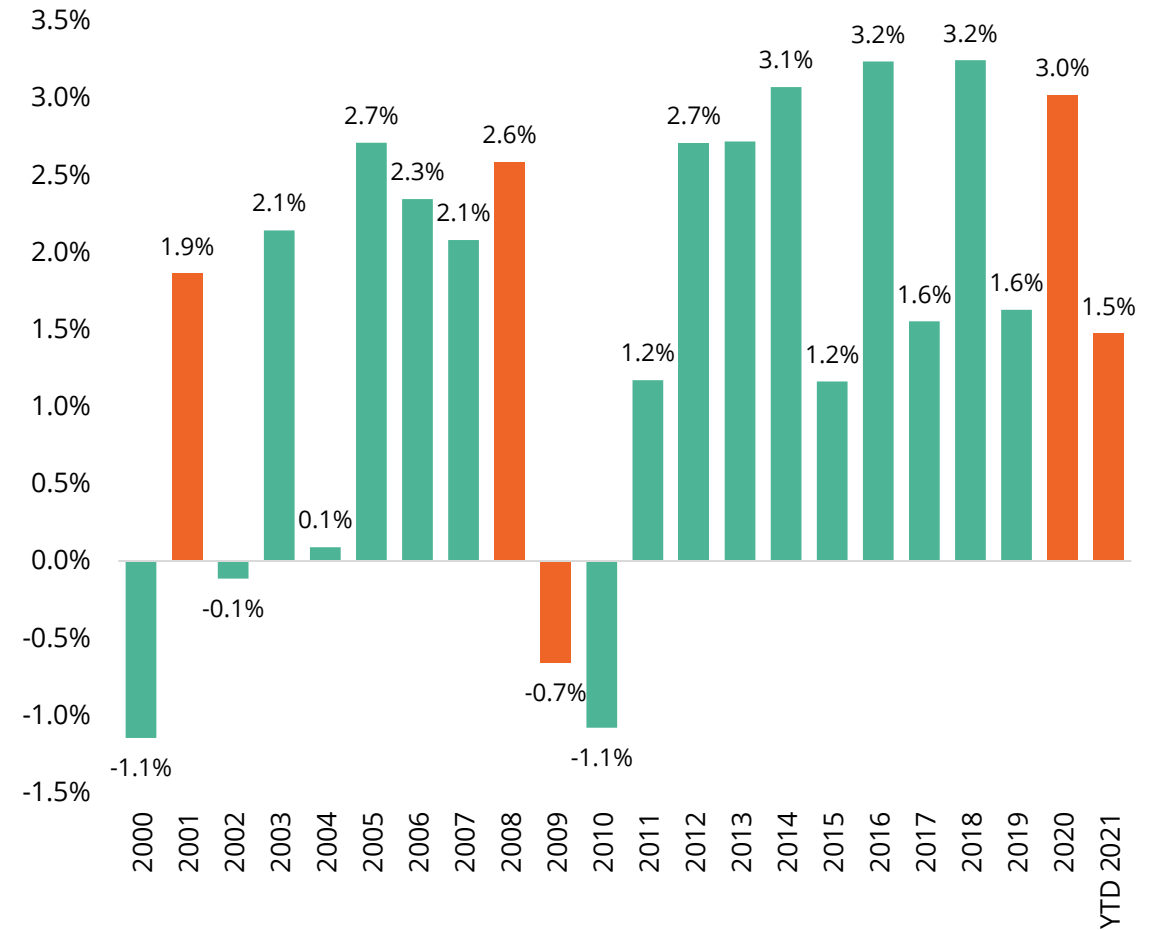
Source: CoStar
Green represents recession years

Industrial net absorption

1.5%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through mid-year remains quite healthy and on pace with levels throughout the prior decade. Total net absorption, measured as year-over-year change in physically occupied space, resulted in 2.3 msf at the close of the third quarter.



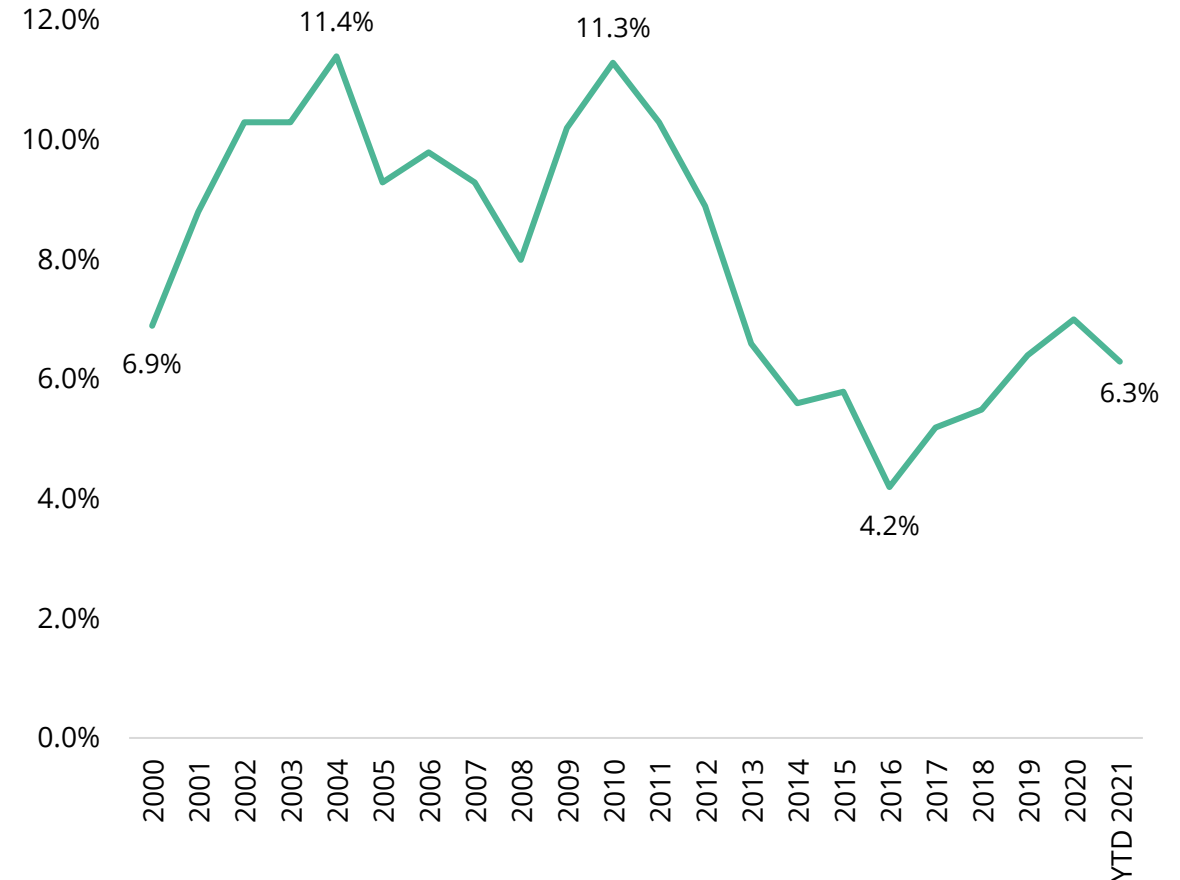
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

6.3%

Overall vacancy rate as of Q3 2021

The Q3 2021 total vacancy rate reached 6.3%, a low not seen in Charlotte since 2016. Average asking rents have increased 14.2% over that same time period, emphasizing that industrial demand has outstripped supply in Charlotte.



Source: CoStar

Industrial development pipeline

21 properties

under construction

7.1 msf

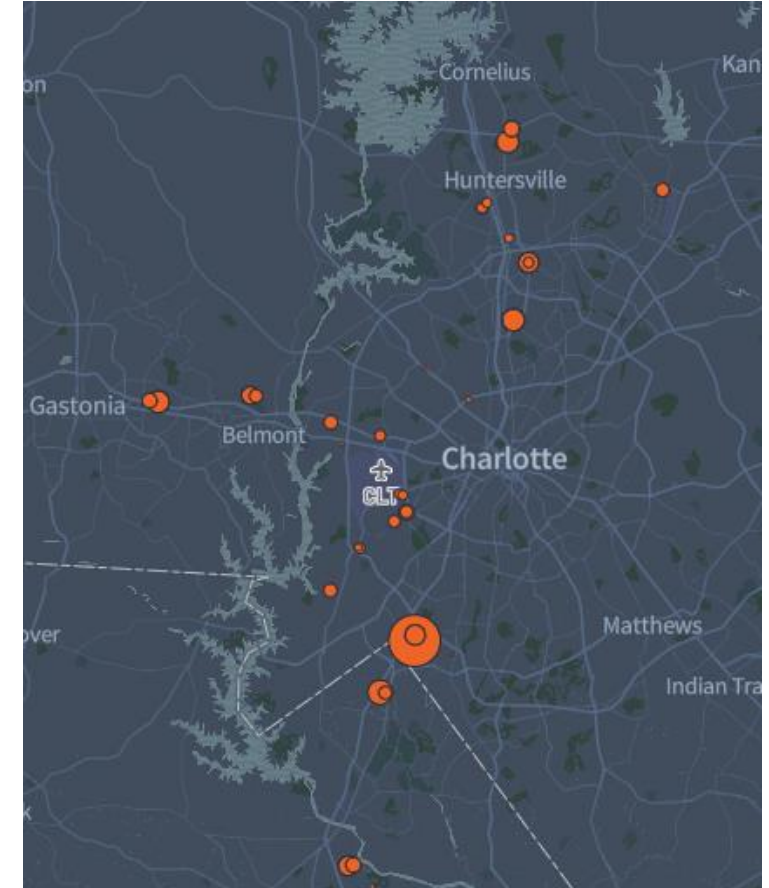
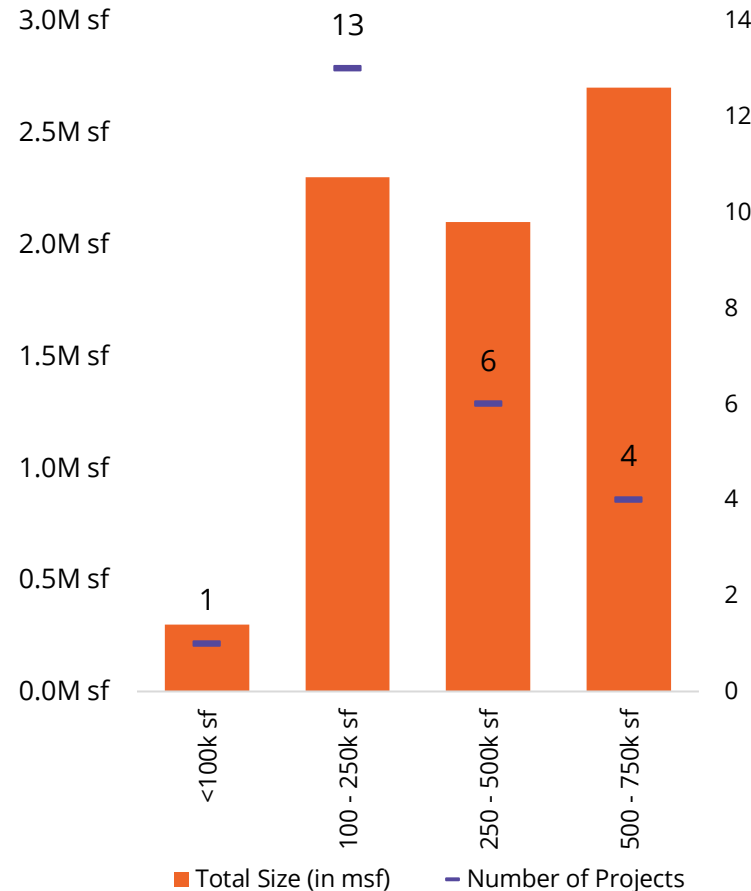
under construction

3.9%

share of industrial
inventory

Gaston

Submarket with most
ground-broken projects at 5



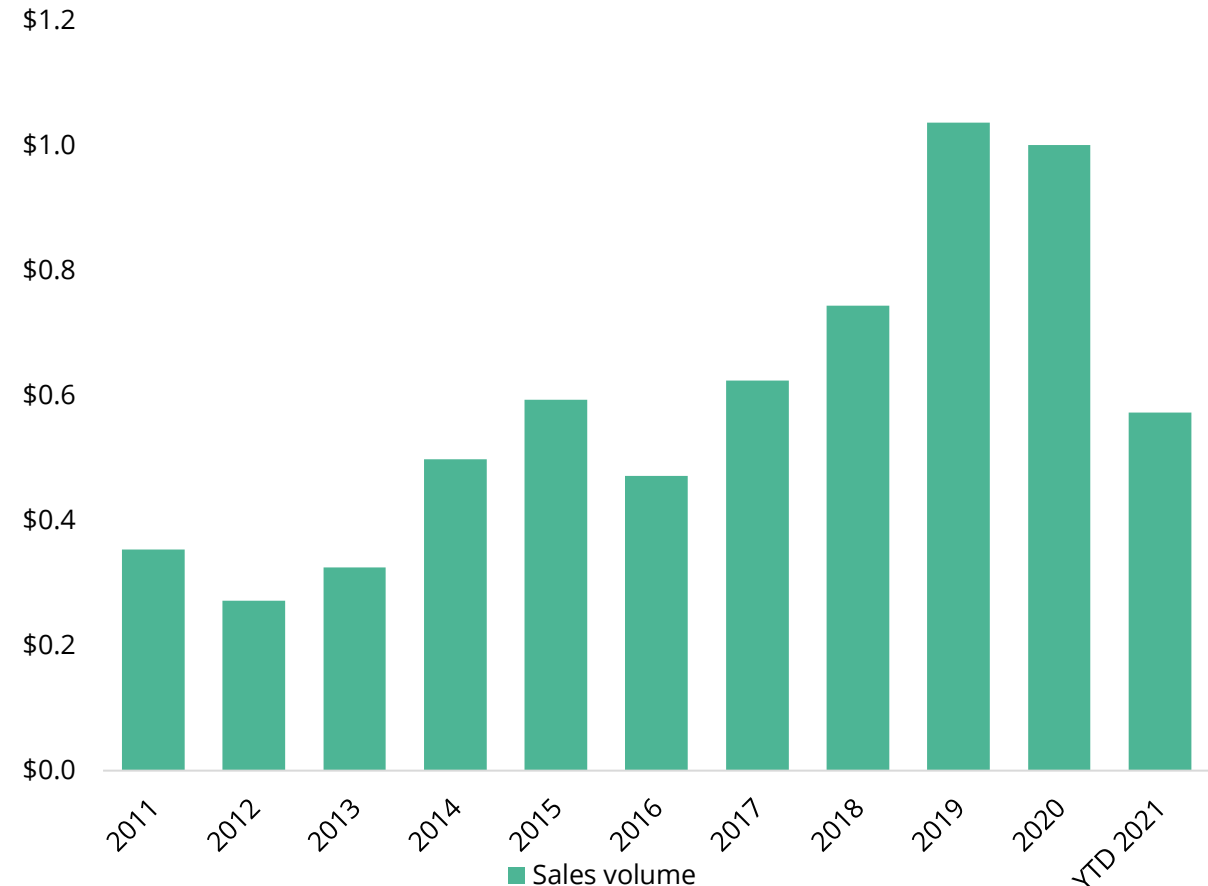
Source: AVANT by Avison Young

Investment dollar volume

\$573M

YTD 2021 sales volume

Year-to-date 2021 investment totals were reported at \$573M in Charlotte. Sales volume in the warehouse & logistics sector outpaced the five-year average for mid-year activity by 8.5%. In the largest transaction of the quarter, Cabot Properties purchased Arrowridge Business Park for \$32.5M (\$167 psf). The property was 93% occupied at the time of sale.



Source: RCA, AVANT
Note: pricing includes flex properties

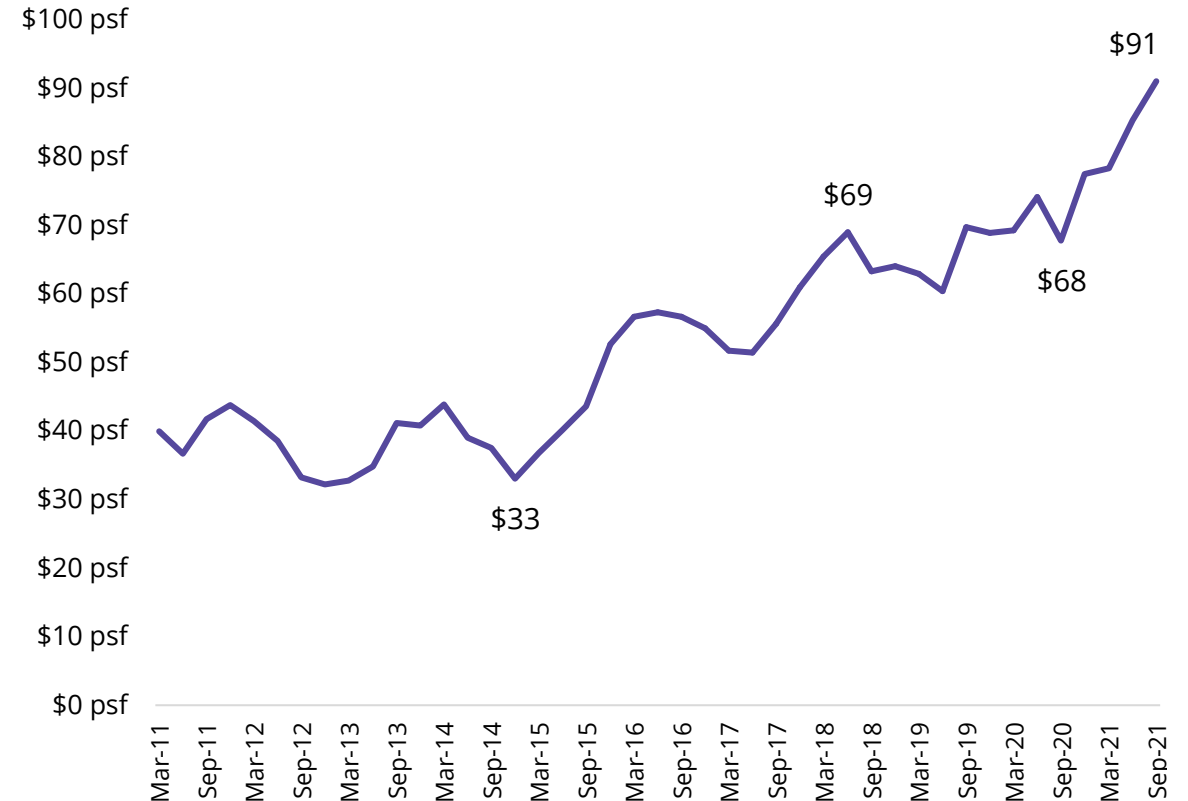
Industrial asset pricing

+24%

Charlotte industrial pricing March 2020 to June 2021

Stakeholder demand in Charlotte has outpaced the market's supply of investment offerings, leading to a significant bump in industrial asset pricing.

Anticipated delivery of supply and a competitive land market have led to a flurry of forward speculative sales – a trend that shows no signs of slowing in the near term.



Source: AVANT by Avison Young
RCA

Core submarkets totals

[View submarket map](#)

	Airport	Cabarrus County	Charlotte Infill	East	Gaston County	Iredell County	Lancaster County	Lincoln County
Total RBA	15,395,141	17,928,182	16,539,310	3,503,955	12,798,027	18,988,022	2,481,260	6,842,893
Vacancy %	6.7%	6.7%	5.2%	11.2%	7.4%	4.5%	4.2%	19.0%
YTD Leasing Activity (sf)	934,155	1,179,945	1,036,720	307,125	-	902,788	82,050	452,000
TTM Net Absorption (sf)	1,137,917	483,707	266,595	(181,660)	57,356	688,143	82,050	(1,178,085)
Under Construction	432,421	1,003,000	44,930	-	1,804,512	-	-	-
Whs/Dist Rate (NNN)	\$7.09	\$7.07	\$5.18	\$8.75	\$4.21	\$3.80	\$5.57	\$4.74
Flex Rate (NNN)	\$9.80	\$9.85	\$11.47	\$8.85	\$9.75	\$13.09	\$13.50	-

Core submarkets totals (Contd.)

	Mecklenburg Line	North	Northwest/ Chemway	Rowan County	South	State Line	Union County	York County
Total RBA	1,357,992	21,893,171	8,287,910	6,736,281	54,018	46,473,292	8,885,941	13,747,839
Vacancy %	-	6.1%	5.8%	3.7%	-	9.3%	1.5%	3.8%
YTD Leasing Activity	-	1,045,987	141,175	-	-	4,052,549	275,600	1,255,337
TTM Net Absorption	-	324,773	277,542	-	-	1,009,153	(110,660)	1,450,662
Under Construction	-	1,092,235	-	-	-	765,000	688,368	0
Whs/Dist Rate (NNN)	-	\$6.38	\$3.98	\$3.75	-	\$4.91	\$5.73	\$7.40
Flex Rate (NNN)	-	\$15.36	-	-	-	\$14.12	-	-

Looking forward and contacts

CHARLOTTE INDUSTRIAL INSIGHT REPORT
Q3 2021

Looking forward



Here's what we can expect

- **Industrial leasing demand** is expected to remain solid throughout 2021 and even into 2022. Heavy levels of activity, particularly along Charlotte's interstate corridors, show no signs of slowing.
- **Third-party logistics companies** will continue to grow, competing for warehouse space. As many 3PLs are currently at full capacity in their current spaces, demand for available space will be at a high.
- **New lease structures** and preemptive approaches around space planning will continue to occur for users in pursuit of warehouse space.
- In the near-term, **e-commerce tenants** may have the capacity to not only identify markets that have the most availabilities and feasible rent rates, but also have the capacity to leverage deal terms that would allow tenants to occupy space rapidly.
- Charlotte's **construction pipeline** may moderate due to skyrocketing construction costs and a slight uptick in overall vacancy rates in the market.



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Let's talk

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