Charlotte Industrial Projected Vacancy

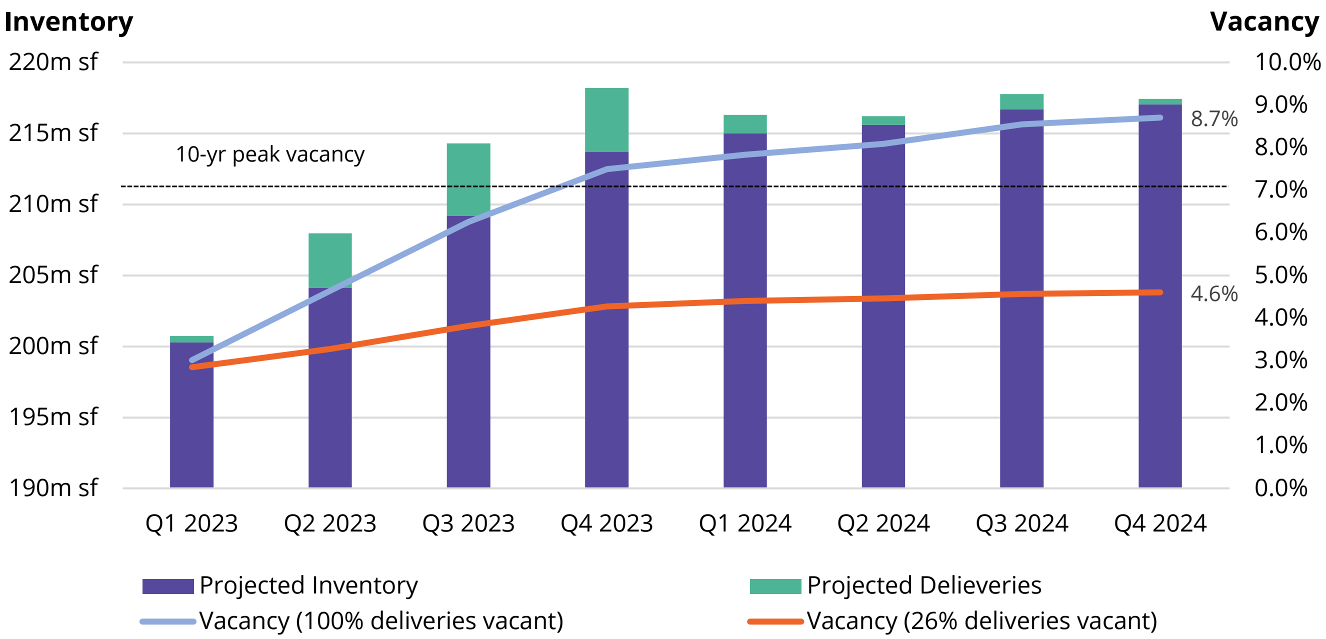
Summary Analysis

Industrial vacancy rates have maintained a strong position YTD and throughout 2022, fluctuating between 2.1% and 3.5% since Q1 of last year. Direct vacancy hit an unprecedented low of 2.1% to close the year, raising the conversation of when, and at what pace, will vacancy start to ease up. If we consider that all existing inventory remains occupied within a minimal delta, and the only variables impacting vacancies are new deliveries and demand, we can begin to predict future vacancy rates.

Historically, the average occupancy for new product is 74%, or 26% vacancy within the first two months following project delivery; tenant demand for new space is an indicator of whether that figure will hold going forward. Today's demand for industrial space exceeds 10m sf, covering nearly 60% of Charlotte's industrial pipeline under construction. Given the frequent trends we're seeing around additional landlord concessions, it's reasonable to assume that preleasing will not slow, and new product vacancy at delivery will continue the trend around 26%, even among higher market rents. It's important to note that new buildings don't stay vacant for long – 100% of inventory delivered in Q1 & Q2 2022 is now leased.

Using the variables below, we can expect the vacancy rate to reach a maximum of 5% by year end 2024, given that demand occupies at least 74% of the pipeline within two months of project delivery, and all deliveries gain full occupancy within 12 months of completion. Interestingly, this projection will never exceed Charlotte industrial's 10-year peak vacancy of 7.1%, which we saw at the onset of the pandemic. On the flip side, if zero new deliveries are leased, we will reach 8.0% vacancy by year-end 2023, given the same constant of 2.8% direct vacancy for existing inventory. However, this scenario is highly unlikely, as the additional tenant demand for new space currently exceeds 10m sf and rising.

Current vacancy (3/1/23)	**2.8%**
Projected vacancy (12/31/24)	**5.0%**
Historical New Delivery vacancy	**26.6%**
Tenant Demand (3/1/23)	**+10m sf**
Pipeline Under Construction	**21.5m sf**
Peak 10-year vacancy	**7.1%**



Richard Toal
Insight Analyst
rich.toal@avsionyoung.com

Chris Skibinski, SIOR
Managing Director
Chris.Skibinski@avisonyoung.com

Charlotte Industrial Projected Vacancy

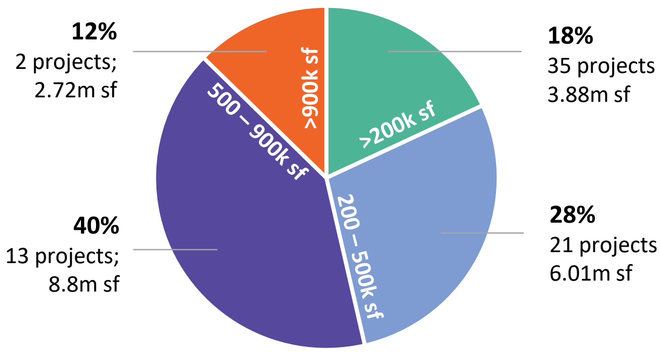
Pipeline Overview

Charlotte's construction pipeline has broken ground on an additional 21.5m sf of industrial inventory that is slated to deliver over the next two years. In 2023 alone, we're tracking 13.3m sf of deliveries over 31 projects across nine submarkets in Mecklenburg, Iredell, Rowan, York, Catawba, and Gaston County. These projects are a mix of speculative development and built-to-suit sites that will cater to general warehousing, manufacturing, logistics, and distributors seeking new, class A space to operate from, all within a 20-mile radius of the city.

Weighted Vacancy

A common mistake when analyzing vacancy rates occurs when we overlook the product type and size that comes to market, rather than assuming a vacancy hike is being caused by less tenant activity. We should instead consider additional space being added to a market before jumping to conclusions about demand volatility. Once we understand this concept, short-term vacancy changes become less alarming. Chart 2 summarizes Charlotte projects currently under construction by size and count.

Pipeline Share by Size & Count



In terms of incoming square footage, 52% of inventory is located on 11 total projects exceeding 500k sf spanning across the Charlotte market. Three of these buildings exceed 900k sf, and five exceed 700k sf. Gaston County is boasting 3.22m sf in development set to deliver this year, however, three of the five exceed 700k sf. Similarly, Rowan County has broken ground on 2.18m sf, all of which is located on two sites, 85 North Logistics Center and the Innovation Logistics Center.

Pipeline SF, Preleased SF, Project Count

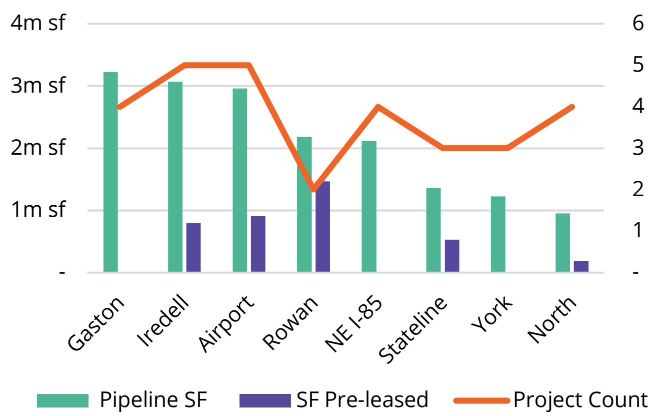


Chart 3 summarizes new development sf, preleased sf, and the project count within each submarket. Tracking project counts and size allows us to rationalize any spikes in vacancies, given that some of these sites are built to lease +700k sf occupiers. The prospect pool for larger, single tenant buildings is selective and the space is necessary, however, when these sites deliver vacant, they add bulk amounts of square footage to market inventory that temporarily drives up vacancy rates until occupied. Of the inventory set to deliver this year, 20% of the sites are being built for single tenant, +700k sf occupiers, none of which has been preleased as of Q1 2023. Due to this, we can anticipate some short-term increase in market vacancy rates. However, it is important to note that this is only a fraction of the total inventory set to deliver, and the remaining 80% of sites are likely to be developed for smaller tenants or preleased to larger tenants. Additionally, the increase in market vacancy rates is likely to be temporary and should stabilize as demand catches up with supply. Overall, while the single tenant, +700k sf occupiers may contribute to a slight increase in vacancy rates, it is unlikely to have a significant impact on the overall health of the market.

The demand for industrial space has been driven by e-commerce, last-mile delivery, and the growth of distribution centers. This trend is expected to continue as consumers increasingly rely on these services. Investors remain bullish and are actively seeking out investment opportunities in the sector.

Richard Toal
Insight Analyst
rich.toal@avsionyoung.com

Chris Skibinski, SIOR
Managing Director
Chris.Skibinski@avisonyoung.com