

MARKETBEAT

Charlotte, NC

Industrial Q2 2018



CHARLOTTE INDUSTRIAL

Warehouse Market Indicators*

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	4.5%	5.1%	▼
Net absorption (sf)	1.15M	1.75M	▲
Under Construction (sf)	3.20M	3.23M	■
Asking Rent**	\$4.74	\$4.69	▲

Flex Market Indicators*

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	5.7%	6.3%	▼
Net Absorption (sf)	57k	-11k	▲
Under Construction (sf)	267k	46k	■
Asking Rent**	\$8.28	\$8.89	▲

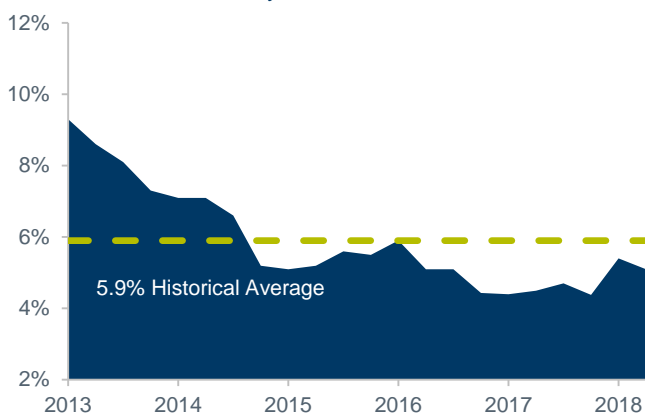
*Overall stats are not reflective of U.S. Overview
 ** Rental rates reflect net asking \$psf/year

Warehouse Net Absorption/Asking Rate

4-QTR TRAILING AVERAGE



Overall Warehouse Vacancy



Economy

The Southeast region of the US is continuing to see a trend of job migration with Charlotte being one of the forerunners. Much of this growth can be attributed to Charlotte's strong economy, affordability, millennial labor growth and hub airport that makes it an ideal location for employers and job seekers. These attributes had a huge impact on why Charlotte landed fifth on Forbes list for "best cities for jobs". Year-over-year Charlotte has added 30,400 jobs and has an unemployment rate of 4% as of May. Though in the past Charlotte was known for being the third largest banking hub in the nation, Tech job growth is currently outpacing financial services roles in the city with no signs of slowing down. The US unemployment rate has decreased to 3.8% and the economy is forecasted to continue its nine year economic expansion for the foreseeable future.

Warehouse Market Overview

Industrial warehouse space continues to be in high demand especially by third party logistics (3PL) tenants. Year-over-year the Charlotte industrial market has absorbed an astounding 3.6 million square feet (msf) bringing the vacancy rate down to 5.1%. A large percentage of the space absorbed has occurred along the I-77 corridor, in submarkets such as Cabarrus County and Southwest Charlotte submarkets. Much of that can be attributed to the rise of Ecommerce and the logistical need to have quick and easy interstate access to transport goods throughout the Southeast region. Speculative development has not slowed as there continues to be tenant demand for Class A product. Recently, delivered and preleased speculative developments such as 845 Paragon Way and 1020 Derita Road demonstrate market strength for landlords entering the market. As of the end of the second quarter there is currently 3.2 msf under construction. One msf of under construction is an Amazon distribution center that is expected to deliver in early 2019, located in the North submarket. Asking rents have slightly dipped temporarily to \$4.69 per square foot (psf) but are expected to increase steadily as new buildings deliver and stabilize.

Flex Market Overview

Midway through 2018 the Charlotte flex market's vacancy rate has continued its two year trend of staying relatively flat at 6.3%. That translates to only 1.4 msf of vacant inventory in the entire Charlotte market. And, with only one flex building under construction (45,600 sf), vacancy may soon reach its floor. As supply continues to stay stagnant, asking rents continue to

increase. The current flex triple net asking rate is \$9.12 psf a 10.1% increase year-over-year. Limited supply is forecasted to hit the market as developers concentrate their efforts on building warehouse space. Flex space does not offer the same profit margins and is much more difficult to build relative to the large industrial warehouse buildings.

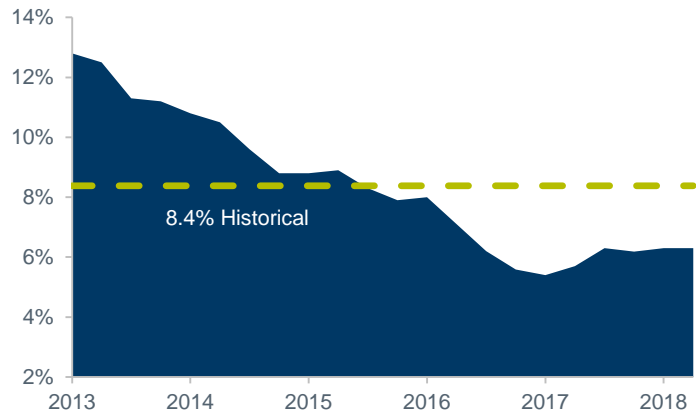
Warehouse Market Overview

Industrial investment activity for the first half of 2018 totaled \$322.6 million, an average of \$67 psf. Activity was much greater than the first half of 2017, which saw \$201.9 million in total acquisitions at \$63 psf. The 6% increase in sales price psf is an indicator of the strong landlord environment that is anticipated to continue. Warehouse acquisitions accounted for the majority at 3.9 msf with an average sale price of \$64 psf and 932,000 sf of flex buildings sold for an average sale price of \$78 psf. The largest transaction that occurred in the second quarter was the sale of the Staples Distribution Facility (599,000 sf) on 3725 Westinghouse Blvd to GLP from the Keith Corporation for a total of \$54 million (\$90 psf).

Outlook

- High levels of new construction for warehouse will increase the vacancy rate in the short term until new deliveries are leased or existing space is backfilled. The lack of new construction for flex product will continue to drive down vacancy
- Rental rates for warehouse space will increase further over the next year. New product coming to the market will demand a higher price. Flex rates will likely remain stable until more quality product becomes available.
- Absorption levels will remain high for warehouse product, fueled by strong user demand. Absorption of flex space will stay positive in 2018, but in lower volumes due to a lack of quality product.
- Continued emergence of eCommerce will impact future redevelopment and development of larger warehouse facilities as demand increases for "last mile" distribution centers.

Overall Flex Vacancy



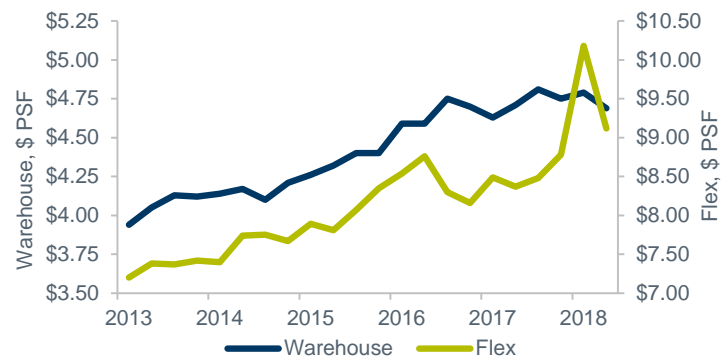
Flex Net Absorption/Asking Rate

4-QTR TRAILING AVERAGE



Asking Rent Trend NNN

WAREHOUSE RENTS DECREASED 0.42% YEAR OVER YEAR



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	TOTAL VACANT (SF)	OVERALL VACANCY RATE	QTR ABSORPTION (SF)	PAST FOUR QTR ABSORPTION (SF)	QTR COMPLETIONS (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse									
Central	156	4,434,446	94,570	2.1%	3,000	27,710	0	0	\$10.32
East	227	10,265,058	242,856	2.4%	440,806	4,184	0	0	\$3.65
North	584	30,982,512	796,751	2.6%	15,912	176,999	0	1,071,705	\$5.64
Northwest	225	13,422,081	1,402,010	10.4%	-168,075	-308,170	0	0	\$3.72
Southwest	474	42,434,787	1,846,676	4.4%	1,139,456	1,527,900	758,760	205,400	\$4.50
West Airport	475	19,913,251	784,480	3.9%	186,460	631,191	202,148	314,420	\$5.18
York County	255	26,259,239	2,190,558	8.3%	-75,113	213,172	507,512	229,650	\$4.66
Cabarrus County	241	20,451,121	1,196,495	5.9%	213,139	1,175,502	300,000	1,410,814	\$4.83
Flex									
Central	14	590,333	24,542	4.2%	-3,487	-22,092	0	0	\$18.90
East	76	3,037,683	52,969	1.7%	-7,214	5,323	0	0	\$7.23
North	117	4,822,930	391,063	8.1%	896	20,030	0	0	\$9.60
Northwest	12	448,593	20,915	4.7%	-17,140	-14,950	0	0	\$10.27
Southwest	117	4,574,705	376,714	8.2%	21,302	155,873	0	45,600	\$9.69
West Airport	134	4,598,285	289,674	6.3%	4,912	126,150	0	0	\$8.39
York County	65	1,941,730	61,778	3.2%	-8,000	-50,200	0	0	\$7.32
Cabarrus County	73	2,674,143	216,450	8.1%	-2,000	-53,098	0	0	\$11.3
By Property Type									
Total Warehouse	2,637	168,162,495	8,554,396	5.1	1,755,585	3,448,488	1,768,420	3,231,989	\$4.69
Total Flex	608	22,688,402	1,434,105	6.3	-10731	167,036	0	45,600	\$8.89
CHARLOTTE TOTALS	3,245	190,850,897	9,988,501	5.2%	1,744,854	3,615,524	1,768,420	3,277,589	\$5.20

*Industrial asking rents converted to NNN **Overall stats are not reflective of U.S. overview

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
365 E Springdale Rd	432,000	Ross Stores	New	York County
11515 Granite St	121,600	Georgia Pacific	New	Southwest
1020 Derita Rd	100,000	TrakMotiv	New	Cabarrus County
4715 Entrance Dr	80,256	Best Buy	New	Southwest
11107 S Commerce Blvd	66,464	TWT Distributing	New	Southwest

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
194 State Rd	201,788	Crescent Communities / Hartz Mountain	\$12,712,000 / \$63	York
4001 Performance Rd	184,319	Trinity Capital & SilverCap / Railto Capital	\$11,200,000 / \$61	West Airport
8610 Air Park W Dr	100,286	Kershaw Investments / Meritex Enterprises	\$7,150,000 / \$72	West Airport

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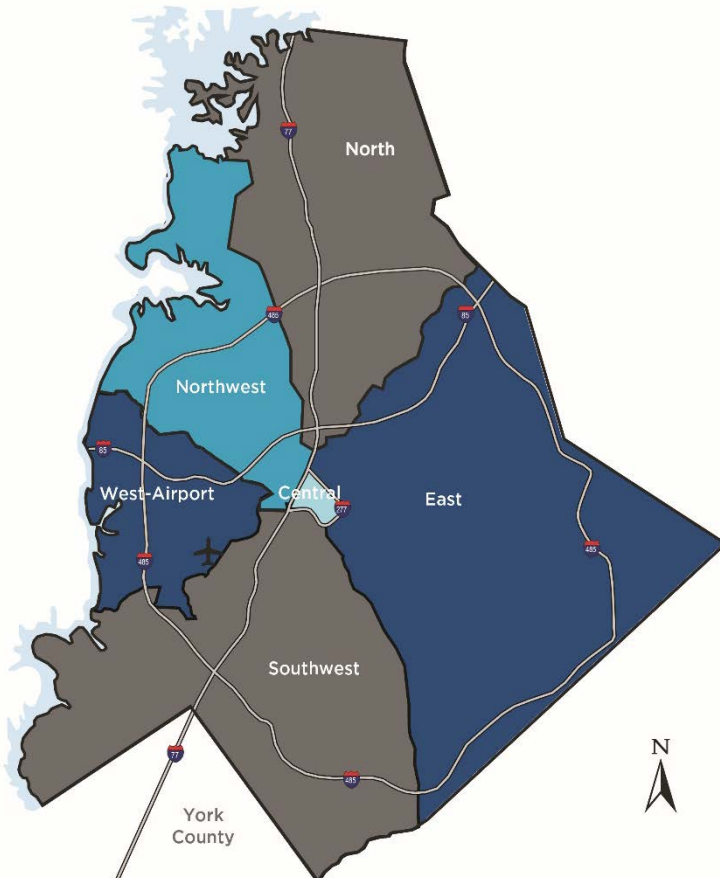


Significant Under Construction Q2 2018

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET	TYPE
Amazon Distribution Center	1,000,000	TPA Group	Q1 2019	Cabarrus County Industrial	Warehouse
980 Derita Rd	410,814	Silverman Group	Q1 2019	Cabarrus County Industrial	Warehouse
Commerce Station Rd	324,000	Foundry Commercial	Q3 2018	North Industrial	Warehouse
Legacy Park East – Phase I	193,750	Colliers International	Q3 2018	York County Industrial	Warehouse
Wilkinson Commerce Center – Building C	172,000	Scannell	Q3 2018	Airport Industrial	Warehouse
Metrolina Park – Building 4	137,360	Beacon Partners	Q3 2018	North Industrial	Warehouse
Metrolina Park – Building 3	135,105	Beacon Partners	Q3 2018	North Industrial	Warehouse
Bryton Corporate Center – Building A	125,937	Foundry Commercial	Q1 2019	North Industrial	Warehouse
Stanley Black & Decker	345,000	Crescent Communities	Q3 2018	York County Industrial	Manufacturing
Steele Creek Commerce Park 9	125,400	EastGroup Properties	Q3 2018	State Line Industrial	Warehouse
Beltway Blvd – Building B	220,000	Foundry Commercial	Q3 2020	Airport Industrial	Warehouse

INDUSTRIAL SUBMARKETS

CITY/COUNTY



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