

MARKETBEAT

Charlotte, NC

Industrial Q3 2018



CHARLOTTE INDUSTRIAL

Warehouse Market Indicators*

| | Q3 17 | Q3 18 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Overall Vacancy | 4.7% | 4.6% | ▼ |
| Net absorption (sf) | 419k | 923k | ▲ |
| Under Construction (sf) | 3.66M | 5.22M | ■ |
| Asking Rent** | \$4.85 | \$4.85 | ▲ |

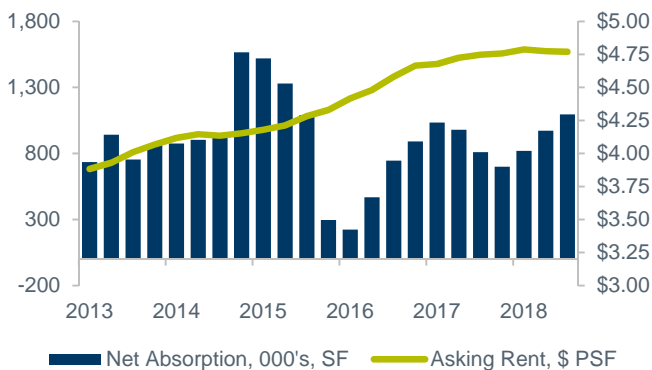
Flex Market Indicators*

| | Q3 17 | Q3 18 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Overall Vacancy | 6.3% | 6.0% | ▼ |
| Net Absorption (sf) | 187k | 98k | ▲ |
| Under Construction (sf) | 341k | 0k | ■ |
| Asking Rent** | \$8.24 | \$9.48 | ▲ |

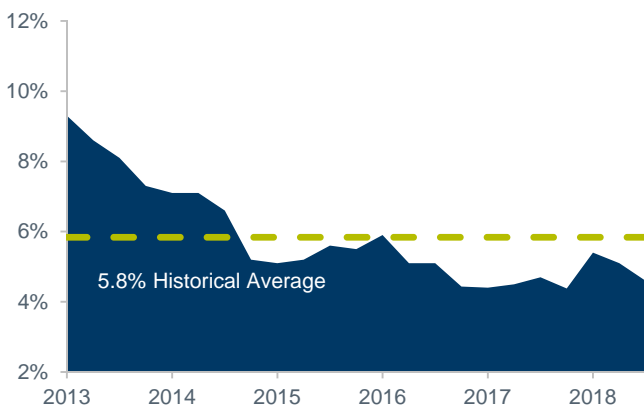
*Overall stats are not reflective of U.S. Overview
 ** Rental rates reflect net asking \$psf/year

Warehouse Net Absorption/Asking Rate

4-QTR TRAILING AVERAGE



Overall Warehouse Vacancy



Economy

Charlotte once again gained national recognition as the city's future continues to look bright. Earlier this quarter, Charlotte grabbed the number two spot on Business Facilities' annual ranking report for economic growth potential beating out Denver, Colorado and finishing behind Austin, Texas. All three cities are known for attracting a highly skilled, educated millennial workforce, that companies of all sizes are eager to tap into. Charlotte is also considered a leading fintech hub for startups that has become a huge catalyst for why Charlotte landed in the number 10 spot for startup growth. Year-over-year Charlotte's unemployment rate has decreased from 3.8% to 3.7% and is currently below the national average of 3.9%. During that same time frame, Charlotte has netted 36,700 jobs. Recent corporate announcements such as Dentsply, AXA, and Sitehands, support the notion that high paying job growth is anticipated to continue for the foreseeable future.

Warehouse Market Overview

Year-over-year warehouse weighted average asking rents have remained constant at \$4.85 per square foot (psf) triple net (NNN), but should increase as newer high-quality industrial buildings deliver. Vacancy slightly increased to 4.6% from 4.4% during that time frame. The root cause for the slight uptick is the 4.1 million square feet (msf) of newly constructed warehouse space that has delivered so far in 2018. However, demand is keeping pace. Year-to-date, 3.6 msf of warehouse space has been absorbed, giving a clear signal to developers that speculative development is still an enticing endeavor predicated on high demand from logistics users and the rise of "last-mile" distribution. Though deliveries slowed in the third quarter to about 560,000 square feet (sf), there is currently 3.2 msf of warehouse space under construction, 68% of which is speculative development (2.7 msf). One of the more notable warehouse sales in the third quarter was Exeter purchasing the RiverOaks Corporate Center from Beacon Partners for \$31 million (\$68 psf).

Flex Market Overview

Through the third quarter asking rents have increased by a remarkable 9.3% and are currently \$9.48 psf NNN. The flex market is extremely tight with 6.0% vacancy. And, with no buildings currently under construction, asking rents are expected to increase further over the next several quarters.

Year-over-year the Charlotte flex market has had a net absorption of 66,000 sf. With only 1.4 msf of available space, absorption can only increase so much due to the tightness of the market. This quarter 15030 Choate Circle delivered (45,600 sf) and has been the only flex building built in 2018. The most notable sale in the quarter was Exeter's purchase of Shopton Ridge Industrial Flex Park from Adler Kawa for \$42.7 million (\$100 psf).

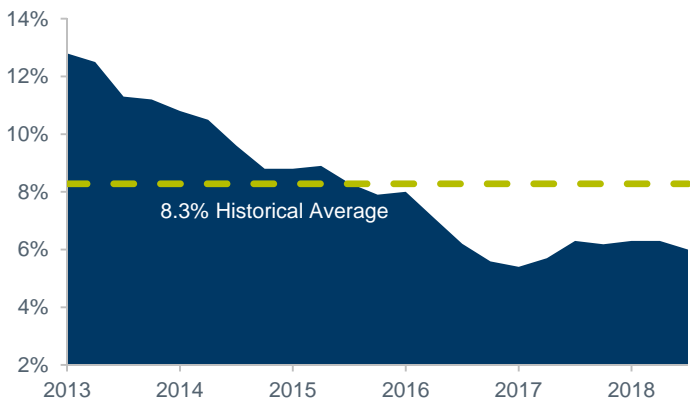
Investment Overview

Investment activity continues to be strong for industrial product as institutional investors seek properties along I-85 that cater to logistics service provider's needs. Year-to-date, 9.5 msf of industrial space sold for a total of \$670.7 million. In the third quarter alone, \$241.6 million of warehouse space sold for average per-square-foot price of \$73.9. The strong quarter brought the year-to-date total to \$531.2 million with an average sale price of \$67.5 psf. Most of the per-square-foot price increase is due to TPA Group selling a 1.0 msf Amazon Distribution Center in Concord to Morgan Stanley. The property, currently under construction, sold for \$78 million (\$77psf). Flex product has also been highly sought after with 1.6 msf sold for \$139.5 msf (\$85 psf) year-to-date. Investment activity is expected to remain high as the large quantity of speculative developments attain credit worthy logistics tenants.

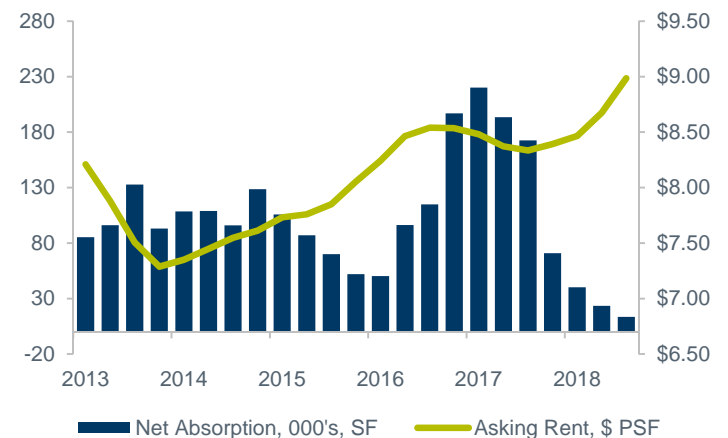
Outlook

- 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

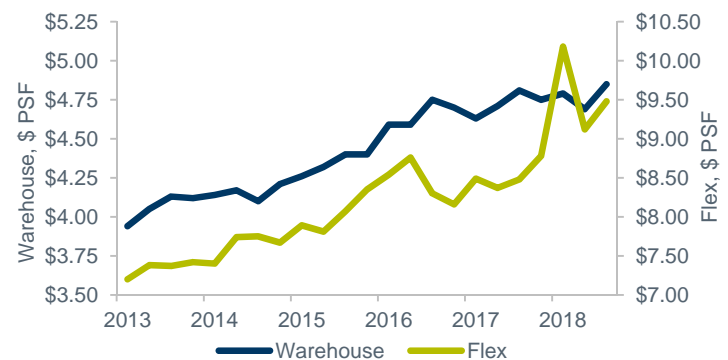


Flex Net Absorption/Asking Rate
4-QTR TRAILING AVERAGE



Asking Rent Trend NNN

WAREHOUSE RENTS DECREASED 0.83% 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 | 154 | 4,389,778 | 128,042 | 2.9% | -33,472 | -29,232 | 0 | 0 | \$11.52 |
| East | 227 | 10,265,368 | 220,961 | 2.2% | 21,895 | 437,445 | 0 | 0 | \$4.09 |
| North | 587 | 31,612,516 | 933,094 | 3.0% | 76,751 | 554,219 | 135,105 | 449,937 | \$5.35 |
| Northwest | 225 | 13,439,239 | 1,352,174 | 10.1% | 49,836 | -205,222 | 0 | 0 | \$3.82 |
| Southwest | 473 | 41,778,529 | 1,834,803 | 4.4% | 11,873 | 733,837 | 0 | 1,007,694 | \$4.72 |
| West Airport | 477 | 20,139,251 | 721,125 | 3.6% | 235,955 | 720,902 | 172,000 | 905,925 | \$5.30 |
| York County | 254 | 26,144,612 | 1,390,673 | 5.3% | 602,012 | 653,277 | 0 | 908,056 | \$4.83 |
| Cabarrus County | 246 | 20,766,978 | 1,249,426 | 6.0% | -41,567 | 678,415 | 252,000 | 1,949,814 | \$4.95 |
| Flex | | | | | | | | | |
| Central | 14 | 590,333 | 17,131 | 2.9% | 7,411 | -11,061 | 0 | 0 | \$23.23 |
| East | 76 | 3,037,698 | 41,933 | 1.4% | 11,036 | 9,369 | 0 | 0 | \$7.37 |
| North | 116 | 4,803,814 | 357,639 | 7.4% | 29,124 | 7,290 | 0 | 0 | \$9.23 |
| Northwest | 12 | 448,593 | 15,015 | 3.3% | 5,900 | -13,015 | 0 | 0 | \$9.60 |
| Southwest | 121 | 4,720,823 | 414,504 | 8.8% | 9,790 | 67,990 | 45,600 | 0 | \$9.54 |
| West Airport | 135 | 4,608,235 | 212,387 | 4.6% | 77,287 | 167,144 | 0 | 0 | \$8.71 |
| York County | 65 | 1,941,730 | 118,595 | 6.1% | -56,817 | -114,038 | 0 | 0 | \$9.20 |
| Cabarrus County | 72 | 2,664,143 | 201,720 | 7.6% | 14,730 | -48,035 | 0 | 0 | \$11.34 |
| By Property Type | | | | | | | | | |
| Total Warehouse | 2,643 | 168,536,271 | 7,830,298 | 4.6 | 923,283 | 3,543,641 | 559,105 | 5,221,426 | \$4.85 |
| Total Flex | 611 | 22,815,369 | 1,378,924 | 6.0 | -98,461 | 65,644 | 45,600 | 0 | \$9.48 |
| CHARLOTTE TOTALS | 3,254 | 191,351,640 | 9,209,222 | 4.8% | 1,021,744 | 3,609,285 | 604,705 | 3,277,589 | \$5.33 |

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

Key Lease Transactions Q3 2018

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|-----------------|---------|-----------------------------|------------------|-------------|
| 845 Paragon Way | 507,000 | NFI | New | York County |
| 1001 Bond St | 200,000 | DHL | New | Northwest |
| 1040 Derita Rd | 157,812 | Translate Equipment Company | New | North |
| 1001 Bond St | 100,000 | H&H | New | Northwest |

Key Sales Transactions Q3 2018

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|--|-----------|----------------------------|----------------------|-----------------|
| Amazon Distribution Center (Macedonia Church Rd) | 1,015,740 | TPA Group / Morgan Stanley | \$78,000,000 / \$77 | North |
| RiverOaks Corporate Center | 453,236 | Beacon Partners / Exeter | \$31,000,000 / \$68 | Cabarrus County |
| Shopton Ridge Industrial Park | 428,014 | Adler Kawa / Exeter | \$42,719,000 / \$100 | Southwest |

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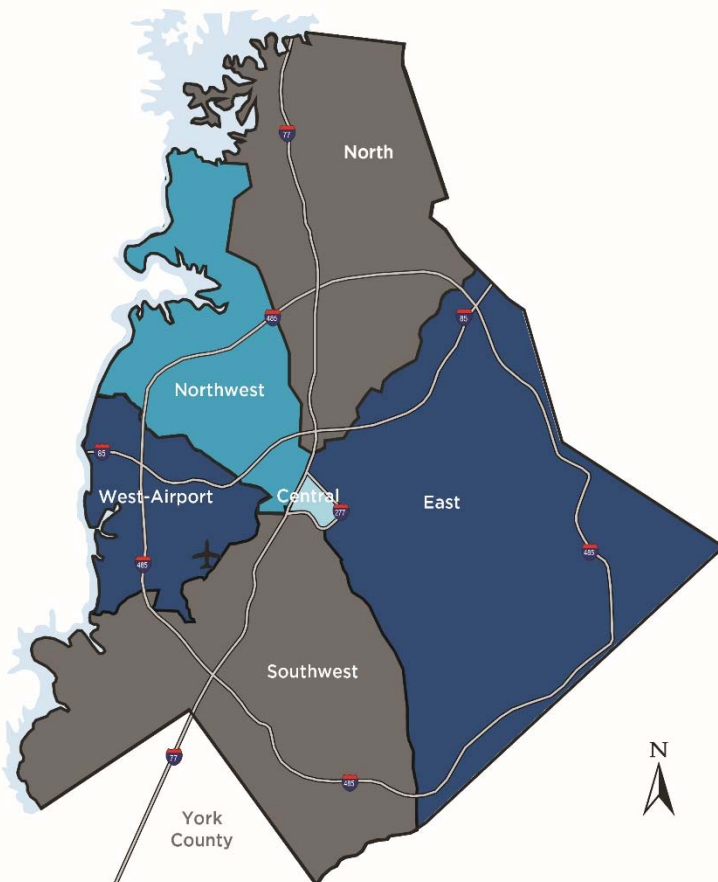


Significant Under Construction Q3 2018

| PROJECT | SF | DEVELOPER | ESTIMATED COMPLETION | SUBMARKET | TYPE |
|---|-----------|---------------------------|----------------------|----------------------------|-----------|
| Geneva I | 353,216 | Childress Klein | Q4 2018 | State Line Industrial | Warehouse |
| 1858 Kannapolis Parkway | 300,000 | Foundry Commercial | Q4 2018 | Cabarrus County Industrial | Warehouse |
| John Price Rd & Westinghouse Blvd | 220,683 | Beacon Partners | Q4 2018 | State Line Industrial | Warehouse |
| 547 Kings Ridge Dr | 217,606 | Childress Klein | Q4 2018 | York County Industrial | Warehouse |
| Legacy Park East – Phase I | 193,750 | Scannell | Q4 2018 | York County Industrial | Warehouse |
| Wilkinson Commerce Center – Building C | 172,000 | Scannell | Q4 2018 | West Airport | Warehouse |
| Steele Creek Commerce Park 9 | 125,400 | EastGroup Properties | Q4 2018 | State Line Industrial | Warehouse |
| Amazon Distribution Center | 1,000,000 | TPA Group | Q1 2019 | Cabarrus County Industrial | Warehouse |
| Legacy Park East – Phase II | 460,800 | Scannell | Q1 2019 | York County Industrial | Warehouse |
| 980 Derita Rd | 410,814 | Silverman Group | Q1 2019 | Cabarrus County Industrial | Warehouse |
| Steele Creek Commerce Park 11 | 225,000 | EastGroup Properties | Q1 2019 | State Line Industrial | Warehouse |
| Bryton Corporate Center – Building A | 125,937 | Foundry Commercial | Q1 2019 | North Industrial | Warehouse |
| Commerce Station Rd | 324,000 | Foundry Commercial | Q2 2019 | North Industrial | Warehouse |
| Airport South Logistics Park – Building 200 | 148,466 | McCraney Property Company | Q2 2019 | West Airport | Warehouse |

INDUSTRIAL SUBMARKETS

CITY/COUNTY



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