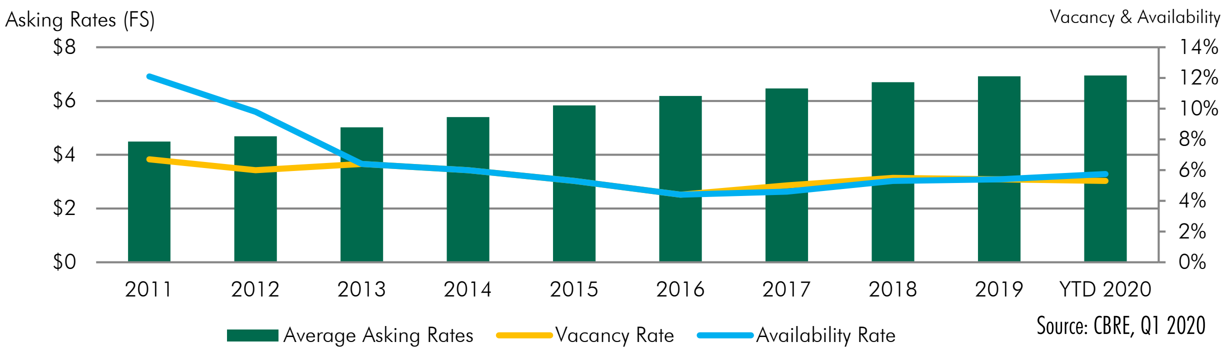
Charlotte Industrial, Q1 2020

Speculative warehouse leasing fuels demand as 451,000 sq. ft. was absorbed

Vacancy Rate	Availability Rate	Net Absorption	Asking Rate	Construction
5.3%	5.8%	597,324 SF	$6.95 PSF FS	3.4 MSF

Indicates change from previous quarter.

Figure 1. Industrial Asking Rates vs. Market Availability & Vacancy



Source: CBRE, Q1 2020

The Charlotte industrial market posted 597,324 sq. ft. of positive net absorption in Q1 2020. Since Q1 2016, the Charlotte industrial market has averaged approximately 1.0 million sq. ft. of occupancy growth quarterly. Demand remains robust and is primarily driven by e-commerce, logistics, and consumer goods companies as local population continues to steadily grow.

Charlotte's vacancy rate increased 30 basis points (BPS) from the previous quarter to 5.3%. The slight rise in vacancy was fueled by 1.4 million sq. ft. of new industrial product being delivered with no preleasing. The highest quarterly increase in the market was the Northwest Submarket, which increased 110 BPS to 4.3% in Q1 2020. However, the Southwest Submarket has the highest overall vacancy rate of any submarket at 7.4% due to an extensive development pipeline of 1,503,488 sq. ft.

Similar to Charlotte's vacancy rate, the availability rate, which tracks space (both vacant and occupied) that is available to lease or purchase, increased from 5.4% in Q4 2019 to 5.8% in Q1 2020.

A majority of industrial availability in the Charlotte market is recently completed speculative warehouse space and older warehouse space for lease. Further, there is noticeable scarcity of freestanding industrial buildings for sale for users.

COVID-19 PANDEMIC

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the US economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage, and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S. – mirroring China's experience – the U.S. government's fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

Figure 2. Market Statistics

Market	Building RBA (SF)	Vacancy Rate (%)	Availability Rate (%)	Q1 2020 Net Absorption (SF)	Q1 2020 Deliveries (SF)	Under Construction (SF)	Average Asking Rates ($)(NNN)
Central	19,627,343	4.6	4.9	23,817	-	-	6.83
East	8,486,686	5.6	5.9	12,424	-	-	6.28
North	26,566,383	2.9	3.4	37,354	136.080	97,650	7.23
Northeast	42,017,319	4.2	5.0	16,240	-	753,550	6.03
Northwest	38,040,075	4.3	4.3	199,629	566,800	1,027,193	5.98
Southeast	7,170,178	4.3	4.0	5,280	-	-	6.99
Southwest	82,068,655	7.4	7.8	302,580	660,898	1,503,488	6.96
MARKET TOTAL	223,976,539	5.3	5.8	597,324	1,363,778	3,381,881	6.95

Source: CBRE, Q1 2020

LEASING ACTIVITY

Industrial leasing activity remained robust as significant leases were executed in Charlotte. A number of notable leases, including one large build-to-suit deal and multiple deals in new speculative warehouse buildings, were signed in Q1 2020 stimulating market-wide growth. Some of the most notable industrial transactions to be executed in Q1 2020 include:

- Carolina Beverage | 216,275 sq. ft.
- Power Solutions | 198,101 sq. ft.
- Elgi and Pattons | 102,725 sq. ft.
- Colquimica Adhesives | 100,557 sq. ft.
- Custom Polymers | 100,000 sq. ft.
- Yandle Witherspoon | 99,052 sq. ft.

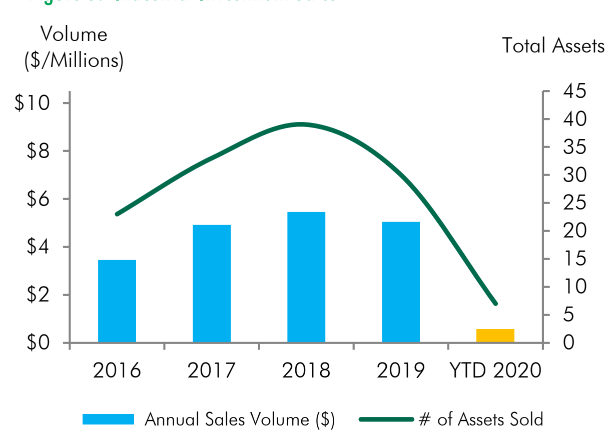
At the conclusion of Q1 2020, many significant lease transactions were pending. Therefore, it is anticipated that leasing activity will remain relatively healthy in Q2 2020, despite issues created by the COVID-19 Pandemic.

INVESTMENT SALES

In Q1 2020, $56.7 million of industrial transaction volume sold in the Charlotte Metro, a 12% decrease from Q1 2019. In the last five years, $1.9 billion of industrial assets have sold in the Charlotte Metro. Two notable sales transactions include:

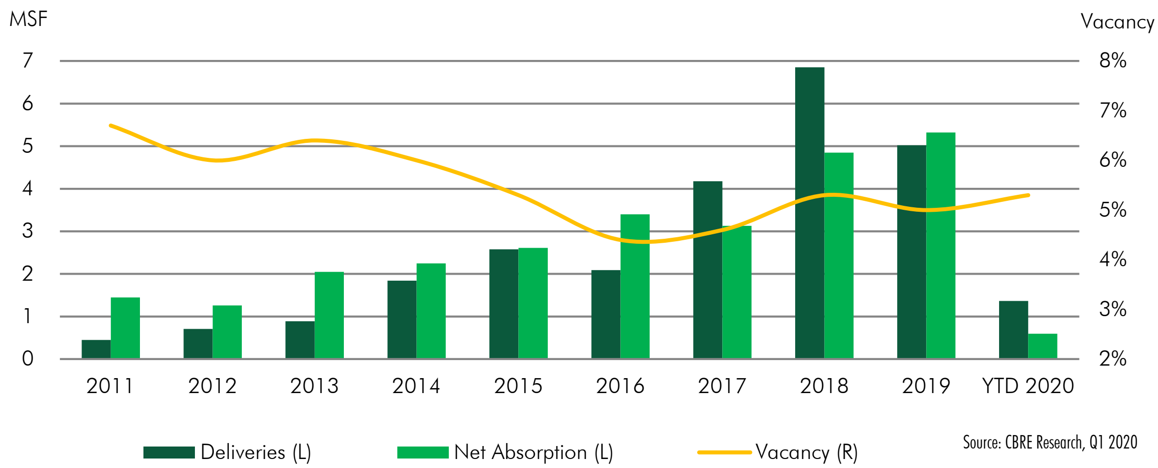
- 1200 Vanstory Drive in Huntersville, NC, located in the North Submarket, sold for $16.4 million or $97 per sq. ft. The 168,480 sq. ft. asset was purchased by Cabot Properties from Scannell Properties. The building is 100% occupied by the Big Beverage Company.
- 1000 Exchange Street, a build-to-suit occupied by AmeriCold Logistics was purchased by Weston for $6.8 million. The 211,784 sq. ft. building was part of a 32-asset portfolio sold by Reger Holdings.

Figure 3: Industrial Investment Sales



Source: Real Capital Analytics, Q1 2020

Figure 4. Industrial Market Fundamentals



Source: CBRE Research, Q1 2020

SPECULATIVE WAREHOUSE

As of Q1 2020, the vacancy rate for multi-tenant warehouse space increased from 14.6% to 15.7%. Development activity remains robust, as 1,387,670 sq. ft. was completed during Q1 2020 and an additional 3,047,676 sq. ft. is under construction. Net absorption for the quarter in speculative warehouse space was 450,614 sq. ft., which accounts for 75% of Charlotte's overall demand in Q1 2020.

ASKING RATES

Charlotte's industrial asking rates for all product classes increased by a mere 0.4% to $6.95 per sq. ft. in Q1 2020. This marks the 36th consecutive quarter of overall rental growth in the market. Rental rate growth in the industrial market is projected to remain steady through 2020, in particular in the market's highest growth submarkets such as the Southwest Submarket and Northwest Submarket.

DEVELOPMENT ACTIVITY

The Charlotte industrial market remains stable and continues to grow as both regional and national owners and developers pursue both speculative and build-to-suit developments in the market. Since Q1 2018, 13.3 million sq. ft. of new inventory has been added to the Charlotte Industrial market increasing the inventory 5% to 224 million sq. ft.

DEVELOPMENT ACTIVITY CONTINUED

In Q1 2020, 1.4 million sq. ft. of new industrial space delivered at 100% unoccupied. Although the 1.4 million sq. ft. of newly added vacant space increased Charlotte's vacancy rate to 5.3%, Owners and Developers remain bullish on the Charlotte Market due to strong market fundamentals.

In addition to the 1.4 million sq. ft. of delivered product in Q1, 3.4 million sq. ft. is slated to deliver in 2020 hindering any construction delays from COVID-19. The Southwest industrial submarket, the largest submarket at 82.1 million sq. ft. is expected to increase its inventory by 1.4% by the end of year as 1.2 million sq. ft. is slated to deliver by Q4 2020. Two notable developments in Southwest include:

- Creekside Commerce 1-3 are expected to deliver in Q2 2020. Black Creek Group's 572,000 sq. ft. distribution facility is 0% preleased.
- 12115 Downs Road is slated to deliver in the second half of 2020. Beacon Partners' Class A development is 100% preleased to Empire Distributors, Inc. based out of Atlanta, GA.

In addition to the Southwest Submarket, there is an abundance of new development activity near the Charlotte Douglas International Airport (CLT), as availability space inside the I-485 loop is in high demand. CLT ranks sixth nationally based on operations and 10th busiest airport in the nation based on passenger totals. Future emerging corridors in Charlotte include Pineville and Gaston County.

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