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Charlotte, North Carolina Industrial Market

The demand and limited supply of quality freestanding buildings between 8,000 and 40,000 square feet in Charlotte's industrial market has drawn the attention of local developers that are constructing facilities on speculation, then offering the facilities for sale or lease. Beacon Partners has gained a level of success in this niche with buildings in Wilkinson Park, Northcross and, most recently, InnerLoop Park. Charlotte's industrial market has witnessed a steady increase in values of existing buildings due to demand outpacing supply. Developers continue to look for land in west Charlotte, close to the Charlotte Douglas International Airport, with easy access to an available employee pool in Gaston County.

Indianapolis-based Lauth, an active player in the Charlotte office market, has recently entered the Charlotte industrial market as well. Lauth developed Transpoint One, which is a modern 423,000-square-foot bulk distribution building with a 32-foot clear and excessive trailer storage. Lauth also assisted Prairie Packaging in its 240,000-square-foot build-to-suit industrial facility that serves as its East Coast manufacturing and distribution hub. North Carolina is witnessing its traditional manufacturing players in the textile and furniture business begin to move operations offshore. Therefore, the state has begun to target high-tech and bio-tech companies with its industrial offerings.

The fourth quarter of last year was marked by several large transactions including Shutterfly leasing 102,400 square feet at American Asset Corporation's Shopton Ridge, creating 230 new jobs in the process. Other transactions included Jason's Deli leasing 104,000 square feet at Nations West; and Childress Klein developing a 400,000-square-foot build-to-suit for DMSI in Charlotte's Southwest submarket.

The average rental rate for industrial properties in Charlotte is \$4.25 per square foot. Some of the older, and nearly functionally obsolete, properties are asking just more than \$2 per square foot. Meanwhile, the flex market average rental rate is \$8.40 per square foot. In addition, the Charlotte multi-tenant warehouse vacancy rate increased slightly to 11.5 percent in the fourth quarter of last year, but is still considerably lower than the 19.2 percent high at the end of 2003. The market continues to improve and the increased vacancy rate is attributed to the 614,750 square feet of new space delivered in the fourth quarter of last year. The market had a positive net absorption of 496,434 square feet.

Charlotte's biggest challenge for industrial development is the lack of available industrially zoned land at prices that allow developers to profit. The market for new industrial space remains priced in the mid \$4 per square foot range. Lease rates have not kept pace with land costs and construction costs. This creates opportunities for better rental rate growth for existing product.

— *A. Scott Hensley is a partner for Piedmont Properties/CORFAC/International in Charlotte, North Carolina.*

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