



SOUTHEAST SNAPSHOT, SEPTEMBER 2008

### Charlotte Industrial Market

The strength of Charlotte's industrial market ironically corresponds with the local housing market. The housing sector for metropolitan Charlotte has remained one of the best performing markets in the country and has drawn a lot of attention to the Queen City from out-of-state investors looking for industrial product. Charlotte's housing market has not seen the double-digit appreciation in the past few years that other regions have experienced, and therefore, precipitous declines in home values are less likely to occur. For employers seeking a stable and affordable workforce, the relative constancy of the housing market in terms of business recruitment cannot be overstated.

Industrial rental rates have been relatively stable for many years, with rental rate growth occurring in the past few years. Average rents for older industrial products range from \$3.25 to \$3.40 per square foot, while lease transactions on newer industrial facilities have closed for more than \$4 per square foot. According to the Karnes Report, the vacancy factor for leasable multi-tenant warehouse space at the close of the second quarter was 12.6 percent, compared to 11.7 percent a year ago.

Recent notable acquisitions include KBS Realty Advisors' purchase of Crossroads Distribution Center for \$26 million. The 496,000-square-foot center was 70 percent occupied at the time of the sale. In another investment sale, GID Investment Advisers paid Levine Properties \$57 million for the 648,156-square-foot Greyllyn Business Park.

The demand for single tenant facilities remains strong, and several local developers are capitalizing on this by developing small business parks designed for buildings less than 50,000 square feet in size. Beacon Partners is currently developing 77 OverLook in Mecklenburg County, LakeField Corporate Center in Iredell County, International Corporate Center in Cabarrus County and SouthCross Corporate Center in York County. Within these developments, approximately 500,000 square feet is either complete or nearing completion with an additional 100,000 square feet planned. Buildings in the properties range in size from 14,000 square feet to 100,000 square feet. JKH Properties is another local developer taking advantage of this demand. The company recently announced the Steele West Business Center development in Southwest Charlotte. JKH plans to construct four, 12,000-square-foot buildings and is marketing the space for sale or lease in 6,000-square-foot increments. This development is unique in that an owner-occupant can purchase a stand-alone building of 12,000 square feet and occupy half of it while leasing out the other half until his own business needs the additional space.

Charlotte's biggest challenge is the limited availability of debt and tightening lender requirements, a problem shared with every other market in the country. The local and regional banks are still lending on owner-user buildings but have lost their appetite for investor deals as have the national lenders. Established companies with good track records and earnings are still able to secure attractive terms. The lack of available debt is one the biggest threats to the health of Charlotte's industrial market. If developers and users are unable to secure financing for new projects, the momentum Charlotte has enjoyed for so long will be endangered.

— A. Scott Hensley is a partner at Charlotte, N.C.-based Piedmont Properties/CORFAC International.

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