

INDUSTRIAL DEVELOPERS ARE BUILDING FOR THE LONG TERM IN CHARLOTTE



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As demand for e-commerce and corporate distribution space continues to drive supply chain expansion in the Southeast, many developers are designing facilities to accommodate the truck-dependent, labor-driven operations present today and for the near-term. While robotics and automated vehicles are exciting to dream about, the reality is that these innovations are not expected to impact industrial building design any time soon in the Southeast.

Modern industrial buildings that can support heavier than average employee parking needs while also providing abundant trailer storage are the standard for new projects. At the same time, these buildings need to support advanced technology, automation and extensive stacking and sorting operations. By building with an eye toward

long-term tenant needs, developers are working to differentiate themselves in this highly competitive environment.

These trends are particularly apparent in the Charlotte market, where developers have added 4.5 million square feet of industrial space over the past year. With a 5.3 percent vacancy rate in the first quarter of 2018, the market is well positioned to absorb the additional 4.7 million square feet of projects in the pipeline. Of that total, 62 percent is either preleased or set to be owner-occupied.

Modern Design Demands

At the core of these building design changes is the realization that the industrial sector is embracing a significant supply chain modernization. Many industrial businesses are part of global entities focused on streamlining their distribution process to achieve greater speed to market and improve operational efficiencies.

There continues to be a “flight to quality” with tenants relocating to modern high-bay facilities. In such a fast paced, e-commerce-driven world, these long-term facility changes are critical to success.

Recent enhancements implemented



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by developers in the Charlotte market include:

- Ceilings heights that stretch to 36 to 40 feet, instead of 24-, 30- or 32-foot heights, allowing for more efficient stacking and sorting
- Significantly more on-site truck storage
- Larger auto parking lots approaching a ratio of 1 spot per 1,000 square feet
- 60- to 65-foot loading bays
- Energy-efficient features, including LED lighting and beefed-up roof insulation

Industrial buildings in Charlotte are also growing in size. Historically, buildings averaged 120,000 to 175,000 square feet. Now buildings are 200,000 to 300,000 square feet on average to meet the needs of the market. In comparison, 1 million square feet is becoming the norm in sister markets such as Atlanta. It is harder to justify buildings smaller than 200,000 square feet due to the recent increase in construction costs, specifically steel due to the tariffs.

One significant exception is the 1 million-square-foot distribution center for Amazon in Cabarrus County. The facility, scheduled for completion in late 2018, is the largest project in the Charlotte market and will employ approximately 600 people. The region’s growing population base, extensive transportation network and strong business climate are among the factors driving industrial growth.

What’s Being Built

For the past several years, the Charlotte market has been attracting national development firms looking to gain a foothold in the growing Southeast region. Post downturn, the most prolific developer in the market has been New Jersey-based The Silverman Group. Since 2014, the firm has built over 1.7 million square feet of new industrial product.

Indianapolis-based Scannell Properties has been active as well with sev-

eral large projects. One notable project was Lakemont West, a two-building 558,000-square-foot project. Earlier this year, the Rockefeller Group acquired approximately 60 acres in the Lakemont Business Park along Interstate 77 in Fort Mill, South Carolina for a 370,000-square-foot speculative facility.

Leasing velocity has also been strong in the Charlotte market, and there is room for more. Net absorption totaled 571,552 square feet in the first quarter, bringing the 12-month total to 2.9 million square feet. The largest first-quarter industrial lease in the Charlotte market was a 431,035-square-foot deal at LegacyPark West, a master-planned industrial business park in Rock Hill, South Carolina. This came on the heels of JJ Haines’ long-term lease of a 500,000-square-foot building in Concord, North Carolina.

What’s Being Bought

Charlotte’s robust industrial market is also catching the attention of investors that have been in hot pursuit of industrial assets for several years. Vacant spec buildings are started trading as well, with the most recent being Hartz Mountain’s acquisition of Lakemont East, a 201,788-square-foot, Class A industrial building located at 194 Springhill Farms Road in Fort Mill.

In fact, industrial properties recently surpassed office and multifamily on a national basis as the preferred property type for investors. Industrial assets with institutional quality features, such as 36-foot ceiling heights, advanced technology, enhanced stacking capabilities and modern layout for truck parking and storage, are particularly well received.

With strong leasing, construction and investment activity, Charlotte’s industrial market is poised for continued growth. Developers that can deliver modern facilities that support e-commerce and corporate distribution needs will be at the forefront of this significant flow of activity.

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