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Lack of supply to help industrial sector survive slump

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Charlotte's industrial market is facing some dark clouds.

But developers and brokers have found a silver lining: The local market is entering the economic nosedive from a relative position of strength.

The numbers say it all. According to CB Richard Ellis, nearly 600,000 square feet was absorbed in the third quarter after a negative absorption of about 179,000 square feet in the second. The third-quarter vacancy rate dropped markedly to 10.9% from the second quarter's 12.2%. Absorption totals 808,033 square feet through the first nine months of the year.

That's not to say such activity is expected to continue, especially after recent, dramatic economic shocks.

"The market bounced back quickly after the second quarter, and that's good news," says Ann Johnson, CBRE senior vice president for industrial properties. "But after the sky fell in late September and early October, things went into a standstill. I think we'll see fairly limited activity through the end of the year."

Johnson

But vacancy isn't apt to drop precipitously because there is so little new product coming on line. Only 703,777 square feet has been completed this year, well below the total of 2 million in 2007 and 2006.

Greg Copps, a principal at Clarus Properties, says there is just 50,000 square feet available at Perimeter West, thanks to three deals that closed in August and September. But don't expect to see any dirt moving soon. "We're considering — just considering — a 160,000-square-foot building there. We'll at least do the design and pricing. We'll move forward very cautiously."

He'd also like to see a new building go up at Gateway Distribution, "but we need to do more leasing."

Johnson predicts a final absorption rate of 1 million square feet for the year. That's down significantly from last year's record 3 million square feet but still represents a year that will be "between average and good." Charlotte's conservative developers have not overbuilt, making the city "better off than similar markets. We're seen as a steady, consistent market," she says.

"We're in a heckuva lot better position than a lot of other places," Copps says. "We're still seen as a good place to invest."

With little new supply in the wings, some landlords are downright upbeat. "I'm not pessimistic, I'm optimistic," says Ned Austin, director of leasing at Crescent Resources. "We're still busy, we have product and there is still a fair amount of growth in the Southeast."

"We've had some tenants in housing-related fields that have talked to us about needing less space."

Chris Daly
Childress Klein Properties

But no one is expecting leasing activity to be steady. "I expect demand to drop, and there may be some consolidation of space among tenants," Austin says. "And while we'd like to build at Airport West, we're not planning anything. We've got to be more cautious on the development side."

Copps agrees. "Uncertainty is the issue. People are not jumping to make real estate decisions right now. Even if they may need space, there's an attitude of wanting to hunker down."

The stock market's sell-off has made "people nervous — if they can put off a decision, they will," Johnson says. "Next year will be a very slow year — people are going to be more cautious than usual."

The market is vulnerable to a drop in consumer spending. Distribution space won't be in demand if production of consumer goods drops. "If consumer confidence is down and people are making fewer purchases, it will eventually mean less business for people in distribution," says Chris Daly, Childress Klein Properties industrial partner.

Landlords are also worried about the impact of the purchase of Wachovia Corp. by Wells Fargo & Co. Widespread layoffs — as well as a drop in job creation and population growth — would hit the already ailing residential construction market. That, too, affects the need for warehouse space.

"If we see layoffs and a significant reduction in new jobs, there will be ripple effects," Daly says. "We're already seeing it — we've had some tenants in housing-related fields for floors, cabinetry and countertops that have talked to us about needing less space."

Predicts Johnson: "Warehousing for retail, consumer goods and residential construction is going to be hit really hard."

Market observers generally expect leasing rates to remain flat as diminishing demand and lack of new product will balance each other out. "Landlords might make a few more concessions to push the deal along," Copps says.

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