INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Retail

Charlotte

2022

Corporate Arrivals Boost Household Income, Stimulating Retailer Expansion in the Queen City

Span of above-average population and retail sales growth continues. A healthy stream of arriving corporations that provide high-income opportunities for residents is bolstering Charlotte's retail outlook. Lucrative banking, fintech and technology jobs are being created by arrivals like Credit Karma and Robinhood, which together plan on hiring nearly 1,000 people by the end of this year. This job creation will draw more well-educated individuals to the region, bolstering household formation and consumer spending power. These factors will allow the metro to record substantial retail sales growth in 2022, with the expected increase trailing only Raleigh among major metros. Together, these circumstances will foster retailer expansions, supporting a rate of recovery that exceeds the nation as a whole and extending a stretch of positive absorption that dates back to fall 2020. Additionally, supply additions in the metro will moderate for a fourth consecutive year, leading the market to end 2022 with a vacancy rate beneath the 2019 level.

Investors undeterred by skyrocketing prices. Sales prices here have grown at nearly twice the national rate in the last decade, compressing cap rates nearly 200 basis points in the same time period, down to the mid-6 percent range. Due to rising incomes and population growth, however, 2021 registered the largest sales volume in at least four years. Investors are seeking out below-average entry costs in rapidly growing sections of the metro. The most targeted exterior submarkets are York and Iredell counties. In the latter locale, both single-tenant and multi-tenant assets trade at mid-7 percent to mid-8 percent cap rates. East and southeastern suburbs within Charlotte proper are also attracting buyers. Here, entry costs are at or above the market average of $360 per square foot. Single-tenant assets record cap rates in the low-5 percent range, with community and neighborhood center yields around 100 basis points higher. Well-leased properties with anchor tenants inked to mid or long-term leases account for most of the shopping center trades.

2022 Market Forecast

Employment up 2.8% — Payrolls grow by 35,000 jobs this year as the metro charges beyond the pre-pandemic peak by more than 25,000 positions.

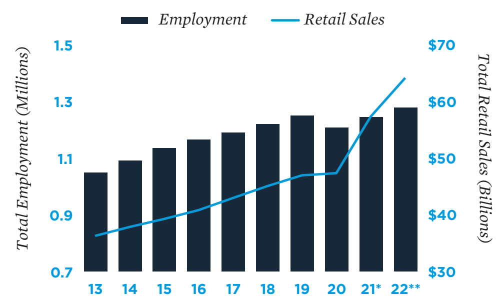
Construction 600,000 sq. ft. — Development will plunge to its lowest level since at least 2007 as construction costs spike. This year and last year have the two smallest quantities of additions in that time frame.

Vacancy down 40 bps — Net absorption outpaces completions by more than 500,000 square feet this year, lowering the metro's vacancy rate to 3.9 percent by year-end.

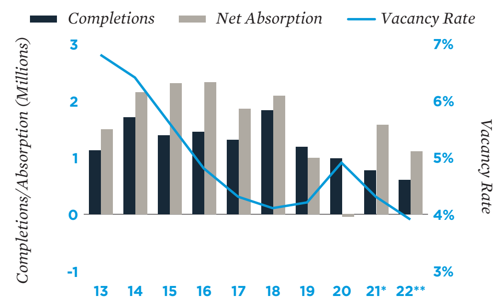
Rent up 3.9% — In line with last year's 3.8 percent increase in asking rents, the marketed rate will reach $18.65 per square foot in 2022. This represents the ninth consecutive year of positive growth.

Investment — While single-tenant, net-leased properties have been sought after by risk-averse investors, the retail recovery in 2022 will tighten the gap between these assets and shopping centers.

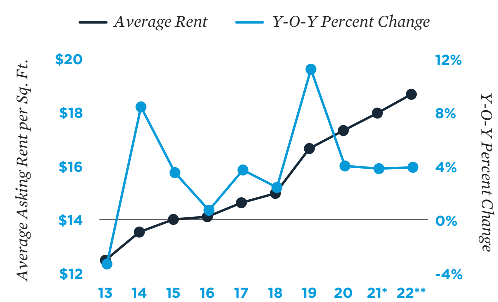
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.