

MARKET REPORT

Retail
Charlotte Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

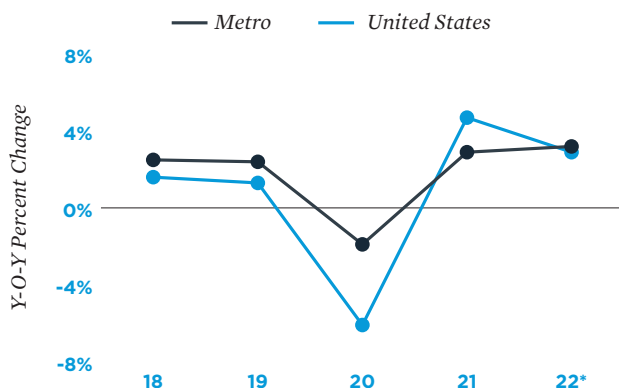
2Q/22

Consumers Elevate Spending as Development Falls to Decade-Plus Low

In-migration aiding retailers. Skilled job creation in the metro has bolstered local rates of population growth and household formation. Over the past five years, Charlotte's resident count has expanded by nearly 185,000 people, ranking the metro among the nation's top growth markets while showing no signs of slowing down. More high-skill job creation stemming from corporate relocations has also aided budgets in a market with a relatively low cost of living. Increased discretionary spending as a result of these new job opportunities has resulted in additional leasing from retailers, as more than 1.8 million square feet was absorbed in the 12-month period ended in March.

Conditions elicit expanding supply, despite easing construction. Entering April, single-tenant vacancy sat 20 basis points below the 2019 level, while multi-tenant vacancy matched the pre-pandemic rate. Residential submarkets like Southwest Charlotte, where the household count has nearly doubled in the past decade, mostly report vacancy between 1 percent and 3 percent, well below pre-pandemic norms. Many of the largest employers have signaled imminent return-to-office dates, which should aid performance in places like Downtown, Uptown and South End. Tight conditions warrant increased development, but builders have yet to increase activity. Additionally, several malls in the area are in the planning stage of redevelopment. This is something that will alleviate pressure on remaining multi-tenant space upon fruition, while also potentially creating a demand overhang as retailers lose mall space.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**40,000
JOBS**
will be created

EMPLOYMENT:

After surpassing the pre-pandemic job tally last year, job creation will continue at a heightened pace moving forward. The 3.2 percent expansion projected for 2022 is elevated compared to last year, and is roughly 80 basis points ahead of the 2019 rate.



**400,000
SQ. FT.**
will be completed

CONSTRUCTION:

Construction activity continues to shrink in 2022, with inventory expected to rise by just 0.3 percent on an annual basis. This level of development trails the prior 10-year average by more than 900,000 square feet of space.



**50
BASIS POINT**
decrease in vacancy

VACANCY:

After last year's 60-basis-point retreat, retail vacancy is set to drop to 3.8 percent in 2022. Single-tenant availability is likely to hold below this mark as the segment entered the second quarter with a 3.3 percent vacancy rate.

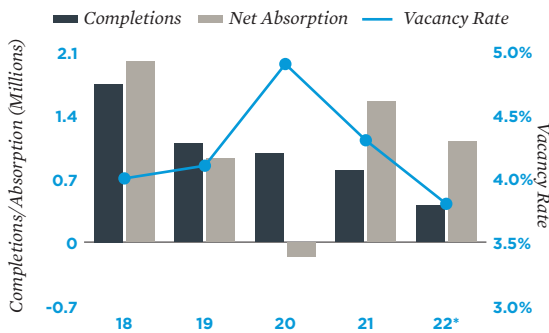


**4.4%
INCREASE**
in asking rent

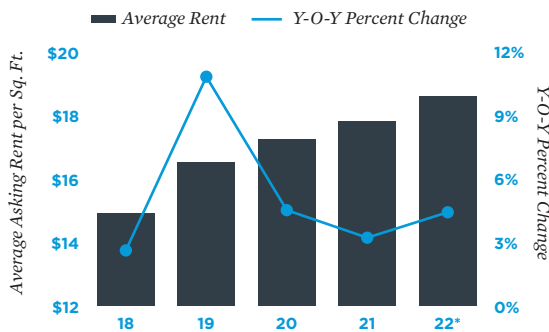
RENT:

Following a 5.3 percent increase last year, the average asking rent will rise to \$18.60 per square foot in 2022. Multi-tenant marketed rents have recently grown more rapidly than single-tenant rates, and this trend held in the first quarter of 2022.

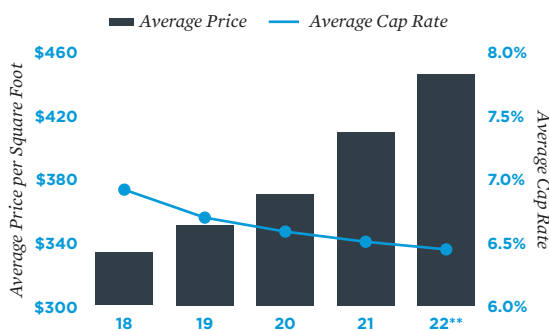
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

490,000 sq. ft. completed

- Development of new retail properties stalled greatly toward the end of last year, resulting in the lowest annual total since at least 2007.
- Most space being added to urban locales is ground floor retail in mixed-use projects, mainly in North and Northeast Charlotte. In outlying areas, construction is following population growth in York and Lancaster counties.



VACANCY

100 basis point decrease in vacancy Y-O-Y

- Limited speculative building in the metro, in concert with a top-10 rate of population growth among major U.S. metros, resulted in retailers eagerly filling space, compressing vacancy to 4.0 percent in the first quarter.
- Vacancy fell in 16 of the metro's 20 submarkets, with Downtown and Lancaster County the only submarkets recording climbs above 20 basis points.



RENT

5.2% increase in the average asking rent Y-O-Y

- Driven by an acceleration at the end of last year and in the first quarter of 2021, the average asking rent reached \$18.09 per month in March.
- Rents have climbed the most for multi-tenant assets in the metro, at 8.1 percent year-over-year. The gap between multi-tenant and single-tenant asking rates has been growing since 2018.

Investment Highlights

- Last year was a high for transaction velocity, with more properties changing hands here over the last 12 months than in 2020 and 2019 combined. Sales involving single-tenant assets rose, but the multi-tenant segment registered the larger gain following six consecutive quarters of positive absorption in the segment. Increased interest contributed to average multi-tenant pricing rising 21 percent to \$377 per square foot, while the mean single-tenant price point elevated 15 percent to \$519 per square foot.
- Strong property performance throughout the pandemic resulted in single-tenant cap rates remaining flat at 6 percent in the last 12 months. Still, returns can go as low as 4 percent for buildings with credit-worthy and national tenants within or near the Interstate 485 beltway. First-year yields are roughly 50 basis points higher for similar assets in exterior areas like Cabarrus and Lancaster counties.
- Union County and the Outer Southeast submarket recorded the most multi-tenant trades in recent months, with additional volume in Cabarrus, Gaston and Iredell counties. Cap rates for fully-leased and grocery-anchored neighborhood centers can fall to 5 percent, while the average first-year return for a power center with vacant space is around 6.5 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com