

# MARKET REPORT

Retail  
Charlotte Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

3Q/22

## Employment Gains Pave Way for Record-Low Retail Vacancy; Rising Visitations Fuel Leasing

**Exceptional job creation facilitates historical tightening.** Retail fundamentals are on the upswing in Charlotte, thanks to a robust labor market and mild pipeline in recent periods. Local firms added jobs during the yearlong span ending in June at more than twice the pace of the metro's long-term average. These employment gains correlated with vendors absorbing a net of 1.7 million square feet through that frame, which, alongside a record-low completion volume, tightened vacancy by 100 basis points — the largest magnitude in 15 years. Looking forward, Charlotte's relatively small and strongly pre-leased pipeline will likely help facilitate further compression in the near term. Barring any drastic changes to the metro's job market, vacancy should reach a new record-low rate at year-end.

**Hotel recovery bears fruitful retail outlook.** Tourism-related activity is on the rise in Charlotte, with the full-capacity return of popular attractions stoking consumer spending tailwinds for local retailers. Hotel demand during the first half exceeded the equivalent span in 2019 by 2 percent. The elevated level of visitations contributed to vendors absorbing a net of 700,000 more square feet of retail space relative to the first half of 2019. Demand for leasing notably improved in Iredell County, with proximity to Lake Norman State Park, Zoo-tastic Park and Civil War-era historic sites emphasizing the appeal of retail spaces in the area. As regional travel continues to remain sturdy alongside subsiding health concerns, visitor-related consumer spending should hold strong in Charlotte.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**48,000  
JOBS**

*will be created*

### EMPLOYMENT:

Charlotte's job count expands by 3.8 percent, led by gains in the leisure and hospitality and professional and business service sectors. A relatively-low unemployment rate, at 3.2 percent in August, suggests firms will recruit more often from outside the metro.



**350,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Builders complete the lowest year-end construction volume on record, marking four consecutive years of slowing development. The metro's stock expansion, at 0.3 percent, will tie for the lowest rate among major southern markets.



**70  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

A record-low delivery volume during 2022 will direct vendors toward existing available inventory, pushing vacant stock to a 15-year low in December. This activity will bring the year-end vacancy rate to 3.6 percent.



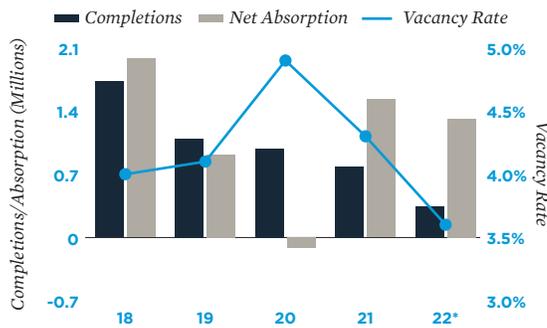
**7.3%  
INCREASE**

*in asking rent*

### RENT:

This year's rent growth will more than double the pace observed in 2021, lifting the mean marketed rent to \$19.08 per square foot. Southwest Charlotte is likely to lead these gains, with the local average asking rate rising 16 percent in the first half.

### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**316,000** sq. ft. completed

- Cleveland and York counties had the most development during the yearlong frame ending in June, at 70,000 and 56,000 square feet, respectively.
- The North Charlotte submarket had the largest active pipeline as of September at 101,000 square feet, with the Cain Center for the Arts project in Cornelius accounting for a significant chunk of this volume.



### VACANCY

**100** basis point decrease in vacancy Y-O-Y

- Availability fell to 3.8 percent in June, as 11 out of 20 submarkets recorded triple-digit year-over-year declines. Leading this, local vacancy fell as much as 190 basis points in the Inner and Outer Southeast areas.
- As single-tenant absorption improved by 582,000 square feet over the prior yearlong period, subsector vacancy fell to a record low at 3.3 percent.



### RENT

**7.5%** increase in the average asking rent Y-O-Y

- This past year's low deliveries sharpened demand for existing available stock, pushing the average asking rate up to \$19.08 per square foot in June.
- The mean marketed rent in the multi-tenant segment increased 8.2 percent to \$18.78 per square foot. Exhibiting a similar pace of growth, the single-tenant average asking rate rose 7.3 percent to \$18.28 per square foot.

## Investment Highlights

- Charlotte observed the fastest retail sales price growth among major Sun Belt markets during the 12-month period ending in June, rising 12 percent to an average of \$448 per square foot. Buyer demand for listings has surged in response to the metro's robust job gains and historically-outperforming retail fundamentals, driving entry costs up. As such, higher valuations compressed the overall mean cap rate 10 basis points, to 6.4 percent.
- Shopping centers between the respective downtown districts of York and Fort Mill are driving a significant share of multi-tenant dealflow. Entry costs for these assets are among the lowest in the metro, almost exclusively trading for less than \$200 per square foot. Prices, however, have been higher on average for assets closer to the North Carolina state line.
- Fast food establishments are trading at high-4 to low-5 percent yields, with entry costs mostly ranging from \$425 to \$740 per square foot. Restaurants, on the other hand, are transacting with cap rates in the mid-5 percent band, and are often fetching prices between \$220 and \$330 per square foot.
- Out-of-state buyers are driving a sizable number of trades, paying an average of \$200 more per square foot for Charlotte assets than local investors.

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

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