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Illustration WASH HATEM NELSON ARCHITECTS

Replico Corp. leased all of a 125,400-square-foot building at M. David Properties' SilverLanding development, shown here in a rendering.

## Industrial market enjoys improving fundamentals

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After more than two years in a recessionary spiral, participants in Charlotte's industrial market are upbeat. But they talk about its prospects with their fingers crossed.

"There's a decent amount of activity and deals getting done. That puts smiles on people's faces," says Greg Copps, principal at Clarus Properties.

Then he adds, "But it's still tenuous and bumpy — it wouldn't take much to take the smiles off people's faces."

Chris Daly, partner at Childress Klein Properties, agrees: "I see signs things are getting better. The first half of 2010 has been better than the first half of 2009. That's a consolation."

Then comes the but. "But we're definitely still in challenging times."

The guarded optimism is a reflection of the numbers. According to CB Richard Ellis, the second-quarter vacancy rate dropped to 15.2% from the first-quarter figure of 15.9%. The vacancy rate was 16.1% a year ago. More significantly, absorption jumped to 381,344 square feet in the second quarter from a mere 446 square feet in the first.

Brokers report seeing local firms expanding and new companies entering the market, all needing space. "There is a fair amount of foreign firms expanding," Copps says.

The second-quarter absorption is a far cry from the negative absorption of 964,164 square feet during all of 2009 and the gain of 920,548 square feet in 2008. About 3 million square feet were absorbed in 2007. Development added product in 2007 and 2008. Little new space has been added in the last 18 months.

"The second-quarter figures represent a real significant shift," says Anne Johnson, CBRE senior vice president. "We're gaining momentum, but we'll still see some bumps. It won't keep shooting up. People are anticipating one last little dip — certainly by the end of the year — before things take off for good."

One of the second quarter's largest deals was Atlas Copco USA taking 131,000 square feet at the Westlake Corporate Campus.

Another was Replico Corp.'s leasing all 125,400 square feet in M. David Properties' new building at SilverLanding.

It was an expansion of local operations for the firm, which specializes in supply-chain outsourcing services.

Lorin Stiefel, M. David manager, is relieved to have the building fully leased after having it on the market for about a year. But she's realistic about assessing what it says about the state of the market.

"It's a good win for us and for Charlotte that Replico decided to stay here," she says. "No one could say we had an overwhelming number of prospects — but enough to feel good."

M. David went ahead with the spec building due to some unusual tax considerations. The company is not planning to build again anytime soon. "It seems that things are getting better, but the market is so tenant-friendly now, it doesn't behoove us to build a spec property," Stiefel says. "We'll want the market to tighten up more."

The industrial market is widely expected to continue favoring tenants through the end of next year, be neutral in 2012 and then work to the benefit of landlords in 2013.

In Charlotte, Johnson says, lease rates are trending down, but vary greatly between submarkets and a building's quality and age. "We are seeing some unprecedented lows," she says. "But those leases tend to be for the short term, and tenants are not expecting a lot of upfits."

Daly says the Charlotte market might see spec building by this time next year. But developers will face hurdles beside lower lease rates. "For the foreseeable future, any building loan is going to require more cash up front and more equity from the owner," he says. "That will slow down the pace of construction."

Says Copps: "Right now, the rates are flat and don't justify new construction. I'm happy with the direction trends are taking, but there's still a lot of uncertainty, and unemployment is a concern, as is the global credit crunch. People are still asking themselves if they really should expand. We need to create more jobs and see housing get back on its feet."

Johnson says there has been little sales activity for more than a year, but she expects that to pick up soon. "Some lenders are taking buildings back, and some companies are going to go ahead and sell buildings they don't need anymore after downsizing. There will be some real bargains coming on to the market."

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