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Development: Projects going into slow mode

By Doug Smith

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In developer lore, the first seven years of this decade might well be remembered as the good ol' days.

Business parks, office towers and mixed-use projects flourished as commercial growth followed the region's housing boom.

Now, the residential market's tailspin is having the exact opposite affect.

Slower job growth, tight credit and consumer anxiety could make 2009 a year the development industry would just as soon forget.

The region's job growth especially is important to the industry, real estate analysts say, because it supports office space occupancy and leasing activity for warehouses, apartments and shopping centers.

Building projects almost certainly will be fewer and smaller as financing remains scarce and developers cope with anemic demand, higher vacancies and declining rents.

For people in outlying subdivisions, goods and services and job opportunities will take longer to reach them while plans for innovative mixed-use villages and residential high-rises remain on hold.

During the early 1990s slowdown, many real estate companies shelved development plans, laid off employees and focused on management of their existing properties.

Real estate watchers say that's starting to happen again as real estate, architectural and construction firms tighten their belts, but it doesn't necessarily spell doom and gloom.

"I think folks who are well capitalized and are strategic with their opportunities will survive," said real estate analyst Frank Warren of Warren & Associates.

"It depends on your business model and whether you have successfully retained capital to get you through a down period," he said.

Industrial

Industrial specialist Jon Morris of Beacon Partners said, "Our game plan is to focus on leasing our existing space."

With no speculative construction underway, the supply of industrial properties – unlike office space – isn't expected to increase.

But troubled tenants could vacate, leaving landlords scrambling to lease empty space in a lackluster market. "Demand is a gigantic question mark: it scares us to death," Morris said.

Warren said many of his clients are devising strategies for completing projects, remaining flexible to quickly pounce on deals and preparing for a market rebound.

When recovery might occur, he couldn't predict, but he did say the majority of his real estate clients don't expect to

do much building in 2009.

Retail

Though a number of new shopping centers already under construction will proceed, they may open in phases and with more vacancies than they would have in the past. That's especially true for the smaller spaces generally filled by independent or franchise stores, which are finding it harder to take risks and obtain credit.

Other projects, including the proposed Bridges at Mint Hill open-air mall at Interstate 485 and Lawyers Road, will remain on hold until the economy improves. "Maybe you don't get a new Target every two miles down Rea Road right now," said Andrew Jenkins, a managing partner at Karnes Research, which studies commercial real estate across North Carolina.

More big-box vacancies are likely across the region if retailers join the ranks of Linens N Things and Steve & Barry's, which are shuttering all their stores.

However, though national chains have been curtailing expansion plans, Charlotte is still an attractive market that hasn't been as overbuilt as boom areas such as Las Vegas, said local Federal Reserve economist Matthew Martin. So the region is still likely to see some new arrivals.

Office

Real estate broker David Dorsch, who tracks the office market at Colliers Pinkard in Charlotte, doesn't anticipate improvement in the national economy before late 2009.

Even so, the local real estate market likely will face tough times beyond that.

Charlotte, with 3.9 million square feet of offices under construction, probably will see landlords offer deal incentives and rent concessions to cope with an oversupply.

And with Bank of America and Wells Fargo-Wachovia likely consolidating offices in their new towers, the uptown vacancy rate could rise from about 2 percent to more than 11 percent in 2010 as the countywide rate exceeds 15 percent.

On a positive note, Warren said, an increase in the availability of office space in the center city could create an opportunity for Charlotte to recruit new corporations.

"There are a lot of factors that make us competitive – a solid labor force, lower operating costs and the whole urban lifestyle," he said.

Staff writer Jen Aronoff contributed.

Doug Smith: 704-358-5174; dougsmith@charlotteobserver.com



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