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## Charlotte's commercial building boom has run into a wall

Permits for new office and retail projects dropped sharply in second half of 2008.

By Doug Smith

dsmith@charlotteobserver.com

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Slideshow



(11/11/08) Cranes work on multiple sites around uptown Charlotte including these four (red ones at Wachovia tower and blue at Catalyst site) Who is responsible for protecting the safety of pedestrians and drivers traveling past skyscraper construction sites? \_State safety officials are investigating an accident Monday at the Wachovia tower construction site in which a crane dropped a load of steel beams, sending at least one hurtling onto a school bus.\_The mishap, with no reports of serious injuries, was the second in less than a week to send broken glass shards raining down on busy uptown streets.\_In the Monday accident about 1:30 p.m., several steel beams, each weighing about 75 pounds, fell from a crane hoisting them up the 48-story Wachovia tower under construction between South Tryon and South Church streets. As the 7-foot beams fell, they smashed about six glass panels on the Tryon side of the tower, said Curt Rigney, the project's manager for Batson-Cook Construction, the general contractor\_JOHN D. SIMMONS - jsimmons@charlotteobserver.com

The development engine that propelled a surge in Charlotte skyscrapers, mixed-use projects and shopping centers over the past five years has slowed to a crawl.

Mecklenburg County commercial building permits issued during 2008 fell nearly 44 percent in the second half of the year compared with the first half, confirming fears that the recession has arrived on the doorstep of office and retail developers.

The value of the projects fell 47 percent in that time frame.

Charlotte real estate experts – noting that stores and offices typically follow residential subdivisions – have anticipated the slump since housing sales began falling more than 11/2 years ago.

Still, the drop was swift and steep in a market that had appeared to be winding down gradually. And now, as projects vanish, so too will the goods, services and job opportunities that they typically created.

Activity still is under way – 20 commercial permits were issued in December. People still are seeing cranes swinging uptown and buildings rising in the suburbs, mainly because towers and shopping complexes take longer to build than houses. Those projects were started before the downward spiral.

“You’re not going to see anybody start a new speculative office building in Charlotte before the end of 2010,” said David Dorsch, who analyzes commercial real estate at Colliers Pinkard in Charlotte.

For the past five years, the trend in Charlotte real estate has been up, up, up. The growth surge cemented Charlotte’s status as an up-and-coming urban center – even billionaire Donald Trump expressed interest – and spilled over into neighboring counties, helping fuel a population and jobs boom.

Major projects pushed building permit values to new highs. They ranged from Time Warner Cable Arena to Wachovia’s 48-story tower in the center city, from a pair of 10-story office towers in Ballantyne to the Blakeney mixed-use community in the south Charlotte suburbs, as well as Northlake Mall on the county’s north end.

The value of commercial permits issued in the second half of last year declined nearly 47 percent compared with the first half, ending 2008 at \$690.76 million. That’s down about 14 percent from \$803.3 million in 2007 – the peak year for commercial permit values in Mecklenburg’s five-year climb.

There are no nationwide comparable permit figures, but Jim Haughey, chief economist at Reed Construction Data, said the trend is consistent with what he is seeing.

During the fourth quarter, he said, the value of commercial projects to be started nationally fell 9.6 percent from the fourth quarter of 2007.

Among commercial building, office development – especially in the center city – is causing much of the concern in the real estate industry.

Four new center city office towers expected to be completed by mid-2010 will add about 2.9 million square feet of leased space. That’s about 14 percent of the existing uptown total.

Dorsch said the upswing in new space likely will cause vacancy rates to rise and send rental rates tumbling.

Also, real estate analysts say, office space occupancy and employment will take a hit as the Wachovia-Wells Fargo and Bank of America-Merrill Lynch mergers play out.

“People want to stand back and see what happens with the banks and what happens with the financial sector,” said senior economist Mark Vitner of Wachovia, now part of Wells Fargo.

Developers don’t expect significant commercial activity to resume until the nation’s economy stabilizes.

Economist Haughey sees it this way: “The world has been divided into two types of people – those who can get credit and those who can’t. Those who can’t is much larger.”

Developer Tommy Norman of Norcom Properties said tighter lending standards are making it difficult for developers to move forward, even on long-planned projects such as his company’s Huntersville Town Center.

Also, a rise in retail and restaurant closings is signaling to retail developers that consumers are holding back.

Norman had expected to break ground last year, but now it probably will be March before Norcom will apply for permits to construct 48,000 square feet of mixed-use office, retail and residential space in partnership with the town of Huntersville and Discovery Place.

The company has commitments on 60 percent of the office space, but will have to increase that to 70 percent to secure financing, Norman said.

The project also was slowed, he said, by a shift in the office market that favors purchase over lease of office space in the project. He's revising plans to accommodate buyers while completing a land swap with Huntersville.

Uptown, Center City Green was one of the few projects to be started last year and is to be completed late this year, but on a smaller scale.

The original plan was to open the 12-story, 1,400-space parking deck with ground level retail and 88 condos across Fifth Street from Time Warner Cable Arena.

The retail space is "definitely a go" but the condos will be deferred until market conditions improve, said Darryl Dewberry, CEO of the developer, Spectrum Properties.

The parking deck will serve employees working in Bank of America's new 32-story tower to open in 2010.

Economist Vitner believes the recession could be over by the end of 2009, but "it may be 2010 before we recognize it and start feeling better."

And in the long run, he said, Charlotte is in a position to take advantage of the recovery.

"I really believe we are going to see more financial services jobs move outside New York, and Charlotte is an attractive place for those services to locate," Vitner said.

Doug Smith: 704-358-5174



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