

# Charleston retail rents are climbing, as vacancy is low

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## Key Takeaways

- > The overall market vacancy is steadily declining each quarter. The Charleston retail market absorbed 52,408 square feet during the third quarter of 2018.
- > Average triple net market rental rates have risen to \$20.51 per square foot this quarter.
- > Fast casual dining accelerates.

## Fast Food Evolves to Fast Casual

The lines between full service, casual and fast food dining are blurred into a trend called fast casual dining. Due to a faster pace of living, fewer diners are interested in long four- to six-course meals, although the high quality of full service restaurants is still appealing. Fast casual dining offers fast service through counter ordering with a higher quality of food than traditional fast food venues. In addition, customers may return to see an updated seasonal menu, which is another popular aspect of fast casual dining; often, fresh, local ingredients are used in dishes when in season so the menu options remain fresh and choices are customized throughout the year. In addition, many menus offer low-carb, vegan, gluten-free or superfood options. By ordering at a counter with fresh options, customers are able to customize their orders with chef-inspired dishes and extras that are often higher in nutritional value. The counter-style restaurant reduces the need for wait staff and instead uses a process-driven model where each counter employee only needs to learn how to operate a section of the counter line in order to assist every customer. This efficient model is quick and specialized. Also, less square feet are needed for each restaurant because there is less room used for food preparation – the preparations happen as the customer orders each meal. These trendy restaurants are able to squeeze into a smaller footprint and still remain highly successful. While Charleston is often a destination spot and a hot vacation region, people may have more time for a quality dining experience; however, fast casual dining growth is accelerating. Charleston locals may welcome the fast casual trend into the region and can anticipate these restaurants popping up throughout the market as they already are throughout the U.S.

### Market Indicators

Relative to prior period	Q3 2018	Q4 2018*
VACANCY	↓	↑
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
WEIGHTED RENTAL RATE**	↑	↑

Note: Construction is the change in Under Construction.

\*Projected

\*\*Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

### Summary Statistics

Q3 2018 Charleston Retail Market	Core	Non-core
Vacancy Rate	3.98%	6.94%
Change From Q3 2017 (basis points)	-12	-173
Quarterly Absorption (Thousand Square Feet)	7.34	45.01
New Construction (Thousand Square Feet)	-	-
Under Construction (Thousand Square Feet)	161.83	752.28

### Asking Weighted Rents

Per Square Foot Per Year

Shop Space	\$20.74	\$20.38
Change From Q3 2017	+6.52%	+33.29%

## Market Conditions

The Charleston retail market consists of 14.32 million square feet of retail space. The market absorbed 52,408 square feet this quarter. The core shopping centers absorbed 7,335 square feet, while non-core absorbed 45,073 square feet, and no new construction was delivered to the Charleston retail market during the third quarter of 2018. The overall market vacancy rate dropped from 5.74% last quarter to 5.38% during the third quarter of this year. Also, the rental rate for the remaining shop space availabilities averaged \$20.43 per square foot, up 2.71% above the average shopping center space of \$19.89 per square foot during the second quarter of 2018.

### Berkeley

The Berkeley retail submarket has almost 13.14 million square feet of retail space within its submarket and has relatively equal amounts of core and non-core shopping center spaces. This submarket posted a net negative absorption of 20,900 square feet, with most of the negative absorption occurring within core shop spaces. Likewise, the vacancy rate rose from 1.97% during the second quarter of 2018 to 3.58% this quarter. The average weighted shopping center rental rate rose from \$12.84 per square foot during last quarter to \$15.99 per square foot during the third quarter of 2018 and this may be attributed to higher quality retail space becoming available.

### East Cooper

The East Cooper submarket is the second largest submarket, with 3.41 million square feet of shopping center retail space. The submarket posted a net negative absorption of 1,733 square feet; conversely, the core shop spaces absorbed 7,750 square feet. In addition, the East Cooper submarket vacancy rate rose to 3.83%; however, very little shop space is available, and in core retail spaces the vacancy rate is 1.07% with only 21,270 square feet of core retail space remaining. The triple net weighted rental rates in the East Cooper submarket are on the rise; during the third quarter of 2018, they averaged \$25.96 per square foot. Triple net core weighted rental rates averaged \$28.38 per square foot, and the average triple net weighted rental rate in non-core retail space was \$25.67 per square foot during the third quarter of 2018.

### North Charleston

North Charleston is the largest submarket, comprised of 3.91 million square feet. This submarket overall vacancy rate dropped to 8.16% this quarter and the submarket absorbed 43,353 square feet of shopping center space during the third quarter of 2018. Both divisions of this submarket performed well this quarter. The core shops absorbed 5,487 square feet, while non-core retail absorbed 37,866 square feet. The triple net average North Charleston shop space rental rates dropped from \$14.18 per square foot during the second quarter of 2018 to \$13.73 per square foot this quarter. This quarter's rental rates within core shop space rose slightly to \$14.61 per square foot, 2.53% over the second quarter rental rate of \$14.25 per square foot.

## Definitions

This report includes two distinct types of data.

**Shopping Center Retail** is defined as all retail shopping centers except for regional shopping centers that are 20,000 square feet or larger, designed to accommodate at least one anchor or junior anchor tenant. This is further divided into core and non-core retail nodes.

A **core retail** center is in an amalgamation that draws shoppers from across the region. It will have a mix of anchor, junior anchor and shop space tenants and will include a variety of food service and soft goods retailers that exist only in core retail markets.

A **non-core** retail center will be one that is located at the edge of a submarket. It is generally designed with a single retail anchor and attracts shoppers from the surrounding neighborhoods only.

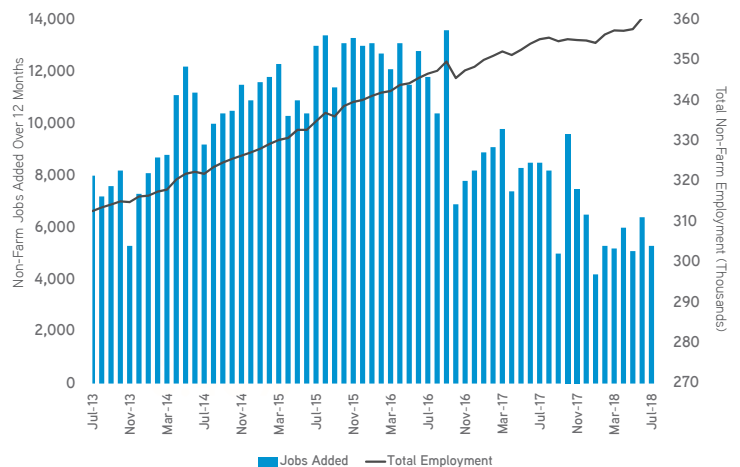
Anchor space is typically 25,000 square feet or greater and is designed to accommodate a single tenant.

Junior anchor space is typically 10,000 to 25,000 square feet and is designed for a single tenant. It can anchor a shopping center but is generally paired with an anchor and shop space.

Shop space is typically less than 10,000 square feet and is generally attached to a center with an anchor, junior anchor or both.

**Urban Retail** is defined as a street-oriented retail district where the primary way the tenant approaches the property is as a pedestrian. It typically has a mix of luxury retailers not found in traditional shopping centers and is found in urban locations. It is usually the street level or first level of a multistory building in a highly urbanized area.

Charleston, SC MSA Employment Trends



Source: South Carolina Bureau of Labor Statistics

## Summerville

The Summerville submarket has over 2.34 million square feet of retail space, and its overall vacancy rate during the third quarter of 2018 dropped from 4.33% during the second quarter of 2018 to 3.25% during the third quarter. The Summerville submarket absorbed 25,429 square feet during the third quarter of 2018, with 30,405 square feet of non-core shop space absorption. The triple net average weighted rental rate in Summerville rose to \$21.42 per square foot, up from \$20.15 during the second quarter of this year.

## West Ashley

The West Ashley submarket has over 2.21 million square feet of retail space, and the overall vacancy rate during the third quarter of 2018 dropped slightly to 7.07%. This submarket also absorbed 20,119 square feet; the core shops absorbed 28,534 square feet. In addition, the average triple net shop space rental rate was \$21.28 per square foot, which is lower than the second quarter average triple net shop space rental rate. However, since this submarket is tight, the lower rate may be attributable to the lack of quality space remaining in the market.

## Urban Retail

King Street, stretching from Line Street to Broad Street, consists of approximately 320 properties and 844,058 square feet. In the third quarter of 2018, the vacancy rate remained 9.8%. The average triple net asking rental rate for shop space along the corridor is \$58.33 per square foot.

## Significant Transactions

According to CoStar, there were 48 retail sales from July through September of 2018, many of which were included in portfolio sales. There were also 58 leases signed, many were with undisclosed tenants and due to scarce large retail availabilities, none of the leases were for retail space over 10,000 square feet.

## Sales

- > An 87,788-square-foot wholesale store in Summerville was purchased for \$16.71 million by Paum Sales Corp.
- > A 3,500-square-foot fast food restaurant in Mount Pleasant was purchased by Odom Southern Investments LLC for \$4.12 million.
- > The Horlbeck Building located at 190 King Street in Charleston was purchased by Carriage Properties LLC for \$2.9 million.

## Leases

- > Spirit Halloween leased 8,000 square feet in Summerville at 975 Bacons Bridge Road.
- > In North Charleston at 5101 Ashley Phosphate Road, the Charleston Animal Society leased 6,093 square feet.

## Gross Retail Sales & Employment

Per the Bureau of Labor Statistics' most recent data from July 2018, non-farm employment has increased 21.1% and 5,300 non-farm jobs were added within the Charleston Metropolitan Statistical Area (MSA) within the last 12 months. Also, the Charleston MSA had a total of 360,500 non-farm employees. Data from the South Carolina Department of Revenue states gross retail sales in the Charleston MSA reached \$29.64 billion, a 3% increase over the last 12 months, which spans from June 2017 through June 2018.

## Market Forecast

The Charleston region can expect positive absorption and declining vacancy rates into 2019, especially in the areas of Summerville, West Ashley and North Charleston. Due to high residential activity in Summerville and West Ashley, more businesses will continue to be drawn to those submarkets. The average market rental rates continue to increase quarter over quarter. Core shopping center vacancy is low; therefore, until new retail construction is delivered to the Charleston market, most absorption is expected within non-core areas where there are more availabilities. Most of the retail currently under construction within the Charleston market are within non-core areas. Even though Charleston is a destination area for vacationers, the fast casual trend may reach the Charleston residents and become a popular retail option in the near future.

## Commercial Real Estate Growth Cycle: Where the market stands and where it is going.



## Q3 2018 Retail Market Summary Statistics | Charleston, SC

MARKET	INVENTORY (SF)	VACANCY RATE (%)	ANCHOR SPACE (GREATER THAN 25,000 SF)		JR. ANCHOR SPACE (10,000-25,000 SF)		SHOP SPACE (LESS THAN 10,000 SF)	
			VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)
<b>Berkeley</b>								
Non-Core	620,597	4.71%	-	-	-	-	29,243	\$15.76
Core	678,458	2.54%	-	-	14,000	\$25.00	3,200	\$18.00
<b>Berkeley Total</b>	<b>1,299,055</b>	<b>3.58%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,443</b>	<b>\$15.99</b>
<b>East Cooper</b>								
Non-Core	1,422,655	7.68%	46,000	\$30.00	10,270	\$21.00	53,003	\$25.67
Core	1,983,950	1.07%	-	-	-	-	21,270	\$28.38
<b>East Cooper Total</b>	<b>3,406,605</b>	<b>3.83%</b>	<b>46,000</b>	<b>\$30.00</b>	<b>10,270</b>	<b>\$21.00</b>	<b>74,273</b>	<b>\$25.96</b>
<b>North Charleston</b>								
Non-Core	2,321,673	8.51%	97,015	\$5.00	-	-	100,538	\$13.18
Core	1,586,401	7.66%	31,280	-	46,171	\$12.29	44,041	\$14.61
<b>North Charleston Total</b>	<b>3,908,074</b>	<b>8.16%</b>	<b>128,295</b>	<b>\$5.00</b>	<b>46,171</b>	<b>\$12.29</b>	<b>144,579</b>	<b>\$13.73</b>
<b>Peninsula</b>								
Non-Core	165,647	0.00%	-	-	-	-	-	-
<b>Peninsula Total</b>	<b>165,647</b>	<b>0.00%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>South Islands</b>								
Non-Core	367,406	0.68%	-	-	-	-	2,487	\$41.00
Core	622,328	6.35%	-	-	-	-	39,493	\$21.99
<b>South Islands Total</b>	<b>989,734</b>	<b>4.24%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,980</b>	<b>\$23.21</b>
<b>Summerville</b>								
Non-Core	766,668	1.64%	-	-	-	-	12,610	\$29.00
Core	1,578,257	4.02%	28,100	\$7.50	-	-	35,393	\$20.87
<b>Summerville Total</b>	<b>2,344,925</b>	<b>3.25%</b>	<b>28,100</b>	<b>\$7.50</b>	<b>-</b>	<b>-</b>	<b>48,003</b>	<b>\$21.42</b>
<b>West Ashley</b>								
Non-Core	1,108,137	10.74%	31,762	-	22,200	\$13.54	65,024	\$20.24
Core	1,101,859	3.38%	-	-	28,544	\$20.41	8,712	\$28.23
<b>West Ashley Total</b>	<b>2,209,996</b>	<b>7.07%</b>	<b>31,762</b>	<b>-</b>	<b>50,744</b>	<b>\$17.40</b>	<b>73,736</b>	<b>\$21.28</b>
<b>Market Total</b>								
Non-Core	6,772,783	6.94%	174,777	\$18.32	32,470	\$15.90	262,905	\$20.38
Core	7,551,253	3.98%	59,380	\$7.50	88,715	\$17.70	152,109	\$20.74
<b>Market Total</b>	<b>14,324,036</b>	<b>5.38%</b>	<b>234,157</b>	<b>\$15.66</b>	<b>121,185</b>	<b>\$17.16</b>	<b>415,014</b>	<b>\$20.51</b>
<b>Urban Retail</b>								
King Street	844,058	9.8%	40,000	-	11,488	-	30,817	\$58.33

## Around South Carolina

### Columbia, SC

› The Columbia retail market should expect positive non-core absorption through year-end; however, there are few remaining availabilities within core shop space. Core retail absorption causes the market vacancy rate to drop to 10.09% during the third quarter of 2018. Core rental rates averaged \$19.91 per square feet and non-core shop space rental rates were \$11.76 per square foot. In addition, fast casual restaurants are becoming hot spots in Columbia.

### Greenville-Spartanburg-Anderson, SC

› The Greenville-Spartanburg-Anderson market absorbed 12,098 square feet this quarter and the overall vacancy rate dropped to 10.16% during the third quarter of 2018. The vacancy in core retail space remained basically unchanged this quarter at 4.25%, while the non-core vacancy rate dropped from 12.85% last quarter to 12.74% during the this quarter. The Greenville-Spartanburg-Anderson retail market is performing well with consistently dropping vacancy rates; however, due to lower quality availabilities remaining, rental rates are also declining. Downtown Greenville retail can expect to pick up through the holidays due to a terrific variety of shops and thriving restaurants in a walkable and naturally beautiful location to shop.

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