

Demand and new construction on the rise

Crystal Baker Research Coordinator | South Carolina

Key Takeaways

- › Quarter-over-quarter the Charleston industrial market continues to post positive absorption; during the second quarter of 2019 the market absorbed 632,810 square feet.
- › The manufacturing sector has few availabilities remaining and this quarter the vacancy rate dropped to 6.37%; likewise, the flex/R&D vacancy rate dropped to 4.18%.

Decentralized distribution hubs drive South Carolina demand

The decentralization of distribution hubs is a direct result of suppliers meeting the delivery demands of consumers within hours to one day of their orders, rather than having one main hub that delivers within a few days. This shift has driven the industrial demand up throughout South Carolina because the entire state has access to logistical suppliers such as the Port of Charleston and the Inland Ports of Dillon and Greer. It follows then that industrial occupiers desire a location within regions with the highest population growth and, according to the most recent U.S. Census data, South Carolina's population is expected to increase to 5.46 million by the year 2020.

Rising industrial demand is evidenced through the absorption numbers over the past year and a half. Last year, the South Carolina industrial market absorbed 12.84 million square feet and already this year that number has been surpassed; 13.47 million square feet have been absorbed across the state. Absorption is expected to continue trending upward throughout the year as demand rises and more manufacturers and distributors locate across the state.

Market Indicators

Relative to prior period

	Q2 2019	Q3 2019*
VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↓	↑

Note: Construction is the change in Under Construction.

* Projected

Summary Statistics

Q2 2019 Charleston Industrial Market

Industrial

Vacancy Rate	7.83%
Change From Q2 2018 (basis points)	-43
Absorption (Thousand Square Feet)	632.81
New Construction (Thousand Square Feet)	470.63
Under Construction (Million Square Feet)	4.05

*New construction is newly delivered buildings

Asking Rents

Per Square Foot Per Year NNN

Market	\$5.95
Change from Q2 2018	+33.10%
Flex	\$8.27
Warehouse	\$6.22
Manufacturing	\$3.88

Market Overview

Overall Charleston industrial market: Positive absorption and new construction expected

The Charleston industrial market has 55.64 million square feet of industrial inventory with approximately 4.05 million square feet under construction within 23 buildings. In addition, there are approximately 3.78 million square feet of buildings proposed to be built within the Charleston market. There were three new buildings delivered to the market this quarter which added 470,630 square feet to the Charleston industrial inventory. The Charleston industrial market absorbed 632,810 square feet during the second quarter of 2019; three submarkets: North Charleston, Berkeley County and Clements Ferry absorbed a net total of 540,875 square feet. However, the overall market vacancy rate increased slightly from 8.15% during the first quarter of this year to 8.71% this quarter. The overall market average triple net weighted rental rate dropped slightly this quarter to \$5.95 per square foot.

Warehouse/Distribution: Consistent growth quarter-over-quarter

The Charleston industrial market warehouse/distribution sector is comprised of 40.21 million square feet within 834 buildings and comprises 72.27% of the Charleston industrial market. There are 20 warehouses totaling 3.18 million square feet under construction throughout the Charleston market, and an additional 11 warehouses totaling 3.26 million square feet are proposed to be built. Warehouses throughout Charleston absorbed 431,715 square feet this quarter; however, the vacancy rate rose to 9.85% because three warehouses were delivered to the market adding 458,530 square feet of direct vacancies. The average triple net weighted warehouse rental rate dropped slightly from \$6.47 per square foot during the first quarter of this year to \$6.22 per square foot this quarter.

Manufacturing: Positive absorption and construction underway

Manufacturing is primarily used to assemble goods for sale and distribution. There are approximately 11.03 million square feet of manufacturing space within the Charleston market. Excluding the remaining square feet under construction at the Volvo manufacturing facility, there are two buildings under construction which, upon completion, will add 851,997 square feet of inventory to the market. In addition, there is one 520,000-square-foot building proposed to be built. The overall Charleston manufacturing sector absorbed 109,712 square feet during the second quarter of 2019 and the manufacturing vacancy rate dropped from 7.37% during the first quarter of 2018 to 6.37% during this quarter. The average triple net weighted rental rate decreased during the second quarter of this year to \$3.88 per square foot.

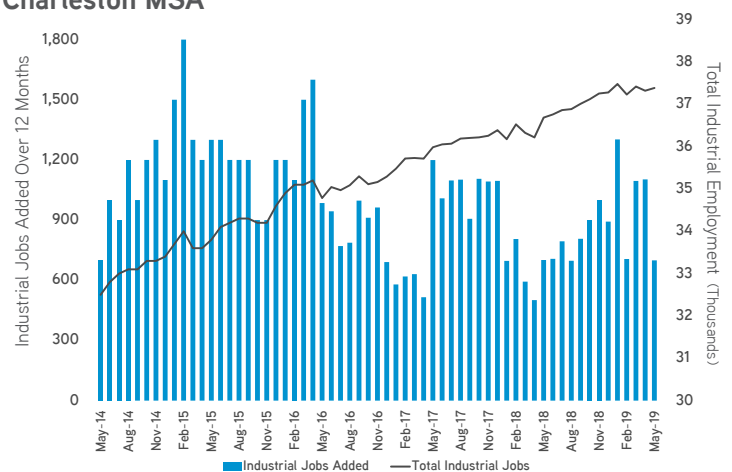
Flex/R&D: Limited space is available

Flex/R&D space is defined as industrial space where more than 30% of the building is utilized for office space. The Charleston flex/R&D market is comprised of approximately 4.40 million square feet. One 10,783-square-foot flex building is under construction at 2467 Charleston Highway and no additional flex buildings are currently proposed to be built. This sector absorbed 91,383 square feet this quarter and the vacancy rate decreased from 6.25% during the first quarter of this year to 4.18% during the second quarter of 2019. The average triple net weighted rental rate dropped to \$8.27 per square foot this quarter.

Capital Investment & Employment

During the first two quarters of 2019, there have been \$118.5 million of new capital investments within the Charleston industrial market. The capital investments produced 537 jobs, with the types of investors including varied manufacturing, shipping and logistics, and distilleries of craft beers. Also, according to the Federal Reserve data through May of 2019, there have been 9,500 jobs added in the Charleston metropolitan statistical area, 699 of which were industrial jobs. The manufacturing sector of industrial employment added 600 jobs and while the number of jobs being added is less than it previously was, the employment rate is 97%. Overall non-farm employment totals 372,700 and has increased 1.9% from May 2018 through May 2019.

Industrial Employment | Charleston MSA



Source: Bureau of Labor Statistics, Colliers International

Significant Transactions

There were 25 Charleston industrial sale transactions reported by CoStar during the second quarter of 2019. Leasing activity increased during the second quarter and, according to CoStar, there were 33 industrial leases executed from April 2019 through June 2019. The two leases greater than 100,000 square feet were signed by undisclosed tenants: one unnamed tenant at 7410 Magi Road leased 302,400 square feet and another undisclosed tenant at 4500 Goer Drive leased 100,000 square feet.

Sales

- STAG Industrial, Inc. purchased 6 Corporate Boulevard, a 526,316-square-foot Class A distribution facility in Goose Creek, for \$40.4 million.
- For \$5.95 million, GFI Partners LLC purchased a 106,300-square-foot distribution building located at 7240 Cross Park Drive in North Charleston.

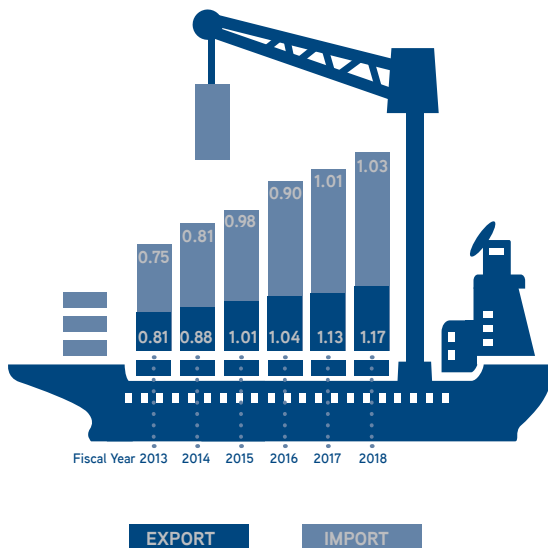
Market Forecast

Absorption is expected to continue trending upward as the demand for distribution hubs to locate in Charleston, and all of South Carolina, increases. There are currently 4.05 million square feet of industrial buildings under construction and they are expected to be leased quickly upon completion. As new construction delivers to the market, the rental rates will increase; however, the high demand will drive the vacancy rate lower despite the new deliveries. Industrial users will also purchase new buildings or contract for a build-to-suit in order to meet their distribution and warehouse needs. Industrial market activity in Charleston will be positive throughout 2019 in both the manufacturing and warehouse sectors.

2019 Q2 Industrial Construction Pipeline | Charleston (+100,000 SF)

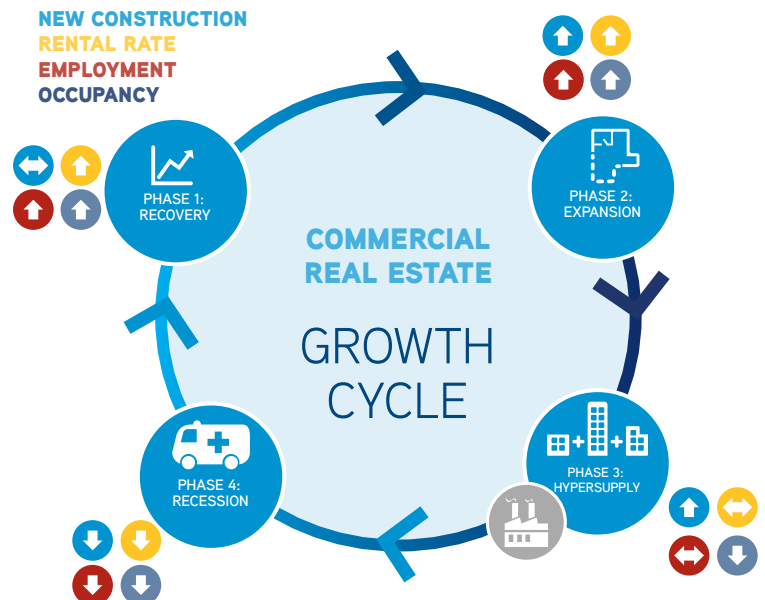
PROPERTY NAME LOCATION	BUILDING SF	COUNTY
COMPLETIONS		
Xebec Building Patriot Boulevard	262,080	Charleston
7770 Palmetto Commerce Parkway	196,450	Charleston
UNDER CONSTRUCTION (+100,000 SF)		
IFA Rotorion Building 479 Trade Center	622,677	Berkeley
Camp Hall Building 3 Volvo Car Road & Fish Road	504,010	Berkeley
Highway 78	425,000	Dorchester
Ladson Industrial Park Ladson & Stoney Road	420,888	Charleston
4289 Crosspoint Drive	364,000	Charleston
Summerville Distribution Complex Deming Way	250,000	Dorchester
Palmetto Trade Center Phase II 7755 Palmetto Commerce Parkway	229,320	Berkeley
Camp Hall Building 1 Volvo Car Road & Fish Road	220,775	Berkeley
Camp Hall Building 2 Volvo Car Road & Fish Road	220,775	Berkeley
Portside Distribution Center Trade Center Parkway	189,418	Berkeley
Palmetto Trade Center Phase I 7755 Palmetto Commerce Parkway	142,700	Berkeley
180 Trade Center Parkway	136,500	Berkeley
Eastport Commerce Center 104 Pinnacle Way	128,000	Dorchester
Summerville Distribution Complex Building B Deming Way	125,000	Berkeley
Port City Centre Port City Centre & Jedburg Road	117,000	Berkeley
7771 Palmetto Commerce Parkway	106,500	Charleston

Port of Charleston Annual Twenty-foot Equivalent Unit Volume (in Millions)



Source: South Carolina Ports Authority

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



Q2 2019 Industrial Market Summary Statistics | Charleston, SC

MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	NET ABSORPTION (SF)	RENTAL RATE (NNN)
BERKELEY COUNTY								
Manufacturing	6	95,349	-	-	-	0.00%	-	-
Warehouse	5	264,707	-	-	-	0.00%	177,609	-
Berkeley County Total	11	360,056	-	-	-	0.00%	177,609	-
CLEMENTS FERRY								
Flex/R&D	18	422,086	18,180	9,731	27,911	6.61%	56,101	\$11.99
Manufacturing	10	472,980	4,000	-	4,000	0.85%	19,532	-
Warehouse	79	4,810,798	84,000	-	84,000	1.75%	94,863	\$5.45
Clements Ferry Total	107	5,705,864	106,180	9,731	115,911	2.03%	170,496	\$6.61
GOOSE CREEK/ MONCKS CORNER								
Flex/R&D	15	1,452,694	-	-	-	0.00%	-	-
Manufacturing	13	2,883,367	240,000	-	240,000	8.32%	-	\$1.50
Warehouse	44	1,890,028	7,210	-	7,210	0.38%	35,581	-
Goose Creek / Moncks Corner Total	72	6,226,089	247,210	-	247,210	3.97%	35,581	\$1.50
HANAHAN/ NORTH RHETT								
Flex/R&D	3	71,379	6,923	-	6,923	9.70%	619	-
Manufacturing	6	753,309	-	-	-	0.00%	-	-
Warehouse	37	3,838,184	344,846	-	344,846	8.98%	-6,070	\$6.02
Hanahan / North Rhett Total	46	4,662,872	351,769	-	351,769	7.54%	-5,451	\$6.02
NORTH CHARLESTON								
Flex/R&D	44	1,237,992	40,037	-	40,037	3.23%	-5,371	\$12.12
Manufacturing	50	2,759,049	340,959	-	340,959	12.36%	12,654	\$5.42
Warehouse	418	17,474,281	1,815,426	-	1,815,426	10.39%	185,487	\$7.02
North Charleston Total	512	21,471,322	2,196,422	-	2,196,422	10.23%	192,770	\$6.83
SUMMERVILLE								
Flex/R&D	8	451,654	9,661	-	9,661	2.14%	61,569	-
Manufacturing	37	2,473,301	117,568	-	117,568	4.75%	62,376	\$5.75
Warehouse	133	9,787,410	1,560,913	-	1,560,913	15.95%	-68,443	\$4.95
Summerville Total	178	12,712,365	1,688,142	-	1,688,142	13.28%	55,502	\$5.01
OTHER SUBMARKETS								
Flex/R&D	22	769,021	99,506	-	99,506	12.94%	-21,535	\$6.85
Manufacturing	16	1,590,729	-	-	-	0.00%	15,150	-
Warehouse	118	2,141,479	149,959	-	149,959	7.00%	12,688	\$30.16
Other Submarket Total	156	4,501,229	249,465	-	246,465	5.54%	6,303	\$14.65
MARKET TOTALS								
Flex/R&D	110	4,404,826	174,307	9,731	184,038	4.18%	91,383	\$8.27
Manufacturing	138	11,028,084	702,527	-	702,527	6.37%	109,712	\$3.88
Warehouse	834	40,206,887	3,962,354	-	3,962,354	9.85%	431,715	\$6.22
Market Total	1,082	55,639,797	4,839,188	9,731	4,848,919	8.71%	632,810	\$5.95

Source: CoStar, Colliers International

In January 2017, Colliers International benchmarked its industrial data set statewide. The new standard for collection is all industrial buildings 10,000 square feet or larger that can be readily adapted to an alternative industrial use. All properties were placed into a revised set of markets and submarkets and divided into three categories. **Warehouse/Distribution**, a facility primarily used for the storage or distribution of both materials, goods and merchandise. **Manufacturing**, a facility used for the conversion, fabrication or assembly of raw or partly wrought materials into products or goods. **Flex/R&D**, a building designed to be used in a variety of ways with at least 30% of the rentable building area used as office. It is usually located in an industrial park setting. Specialized flex buildings can include service centers, showrooms, offices, warehouses and more. **Due to the adjustments of the building inventory, comparison of data included in previously published market reports should be avoided.**

400 offices in
68 countries on
6 continents

\$3.3

billion in
annual revenue

2

billion square feet
under management

17,000+

professionals
and staff



FOR MORE INFORMATION:

Liz H. McCary
Vice President, Marketing | South Carolina
+1 803 401 4269
Liz.McCary@colliers.com

James R. (Jim) Garrett, Jr., MCR
Market President | Charleston
+1 843 723 1202
James.Garrett@colliers.com

Crystal Baker
Research Coordinator | South Carolina
+1 803 401 4230
Crystal.Baker@colliers.com

CHARLESTON INDUSTRIAL PROFESSIONAL:

Mark Erickson, SIOR
Vice President
+1 843 720 7501
Mark.Erickson@colliers.com

Matt Pickard
Brokerage Associate
+1 843 720 7506
Matt.Pickard@colliers.com

Ian J. Webster
Brokerage Associate
+1 843 720 7508
Ian.Webster@colliers.com

Colliers International | Charleston
40 Calhoun Street, Suite 460
Charleston, South Carolina | USA
+1 843 723 1202

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