

Demand is keeping pace with construction

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Key Takeaways

- > The demand for Charleston industrial space is high and the market absorbed 923,455 square feet this quarter.
- > Construction is increasing with 2.93 million square feet of industrial buildings under construction; 1.5 million square feet of new product was delivered to the market during the third quarter of 2018.
- > Due to 11-hour drive-time regulations, secondary markets are attractive for the location of new industrial centers.

Secondary market growth is feasible due to new ELD regulations

Due to e-commerce, the industrial market is booming throughout the U.S. and manufacturers and distributors are searching for new places to locate industrial facilities. Primary cities such as Boston, Chicago, New York, Los Angeles, San Francisco and Washington D.C. used to be among the first considered when choosing a location for manufacturing and distribution. However, many secondary markets such as Charleston, Greenville, Spartanburg, Cincinnati, Indianapolis, Memphis, Orlando, Phoenix and Las Vegas are emerging as a logical choice for new locations. The Charleston region will be a prime secondary market within the logistics chain due to access to logistics components such as close proximity to the deepest seaport in the U.S., ease of access to the inland ports in Greer and Dillon, access to major airports and convenient accessibility to multiple highways. In addition, this region has an increasing number of industrial jobs, close proximity to other primary and secondary markets, capital investment interest and rapid population growth.

The trucking industry is a focal point within the industrial logistics chain and as trucking regulations are switched from Automatic On-Board Recording Devices (AOBRDs) to Electronic Logging Devices (ELDs), secondary markets will become more attractive than primary markets for new manufacturing and distribution centers. ELDs are intended to create a safer work environment for truck drivers. The most pressing factor of the new rule, which will affect the supply chain, is the 11-hour drive time regulation. The current primary

Market Indicators

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

Note: Construction is the change in Under Construction.
* Projected

Summary Statistics

Q3 2018 Charleston Industrial Market	Industrial
Vacancy Rate	8.02%
Change From Q3 2017 (basis points)	+110
Absorption (Thousand Square Feet)	923.46
New Construction (Million Square Feet)	1.5
Under Construction (Million Square Feet)	2.93

*New construction is newly delivered buildings

Asking Rents

Per Square Foot Per Year NNN	
Market	\$5.34
Change from Q3 2017	+3.29%
Flex	\$9.59
Warehouse	\$5.45
Manufacturing	\$3.29

market locations were acceptable when there were no regulations on trucking drive-time using the AOBDR system; however, most primary distribution and manufacturing centers are located too far from one another for truck drivers to reach them under this new regulation time frame. Conversely, secondary markets are not spread as far away from one another and are feasible for locating new manufacturing and distribution hubs. The new ELD regulations have many positive aspects, and once everyone is in compliance- secondary markets are the most logical place to build new industrial centers so they may be safely reached within the 11-hour drive-time and truck drivers will be in compliance under the new regulations while still meeting client needs.

Market Overview

The Charleston industrial market has 51.43 million square feet of industrial inventory within 1,046 buildings. There were four new buildings delivered to the Charleston market this quarter, which added 325,147 square feet. There are also 17 buildings currently under construction totaling 2,925,338 square feet. The Charleston industrial market absorbed 923,455 square feet, and the market vacancy rate dropped from 9.24% during the second quarter of this year to 8.02% this quarter. The average triple net market weighted rental rate increased slightly to \$5.34 per square foot during the third quarter of 2018 up from \$5.08 per square foot during the second quarter of this year.

Warehouse/Distribution

Seventy-three percent of the Charleston industrial market is considered warehouse/distribution space and is comprised of 37.64 million square feet within 813 buildings. Three new warehouses were delivered to the market this quarter which added 65,167 square feet to the overall market. There are currently 13 warehouses totaling 1,522,661 square feet under construction. This sector absorbed an astounding 522,534 square feet this quarter, causing the vacancy rate to drop from 9.65% during the second quarter to 8.42% this quarter. Warehouse sublease space decreased during the third quarter by 111,680 square feet, and now only 225,092 square feet of sublease space is available. The average triple net weighted warehouse rental rate rose from \$5.16 per square foot during the second quarter of 2018 to \$5.45 per square foot this quarter.

Manufacturing

Manufacturing is primarily used to assemble goods for sale and distribution. There are approximately 9.56 million square feet of manufacturing space within the Charleston market. Currently, three manufacturing buildings totaling 1,377,677 square feet are under construction, excluding the remaining square feet under construction at the Volvo manufacturing facility. There is also one 520,000-square-foot building proposed to be built. This sector absorbed 77,900 square feet this quarter, mostly due to absorption within two buildings at 5 Corporate Parkway in the Goose Creek/Moncks Corner submarket and 3270 Benchmark Drive in the

Summerville submarket. Thus, the vacancy rate dropped from 7.69% during the second quarter of this year to 6.87% during the third quarter of 2018. The average triple net manufacturing weighted rental rate dropped again this quarter from \$3.64 per square foot during the second quarter of 2018 to \$3.29 per square foot this quarter for the remaining available square feet. This drop in rental rate is likely due to a lower quality of manufacturing space remaining in the tight Charleston manufacturing market.

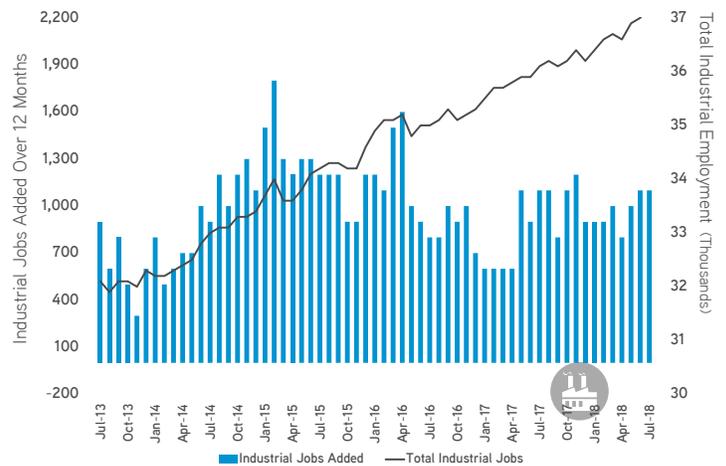
Flex/R&D

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 4.23 million square feet; one building totaling 260,000 square feet was added to the market this quarter at 330 Omni Drive. There is also one 25,000-square-foot building currently under construction at 1270 Drop Off Drive. This sector absorbed 323,021 square feet during the third quarter of 2018 and the vacancy rate dropped to 7.07%. The average triple net weighted rental rate increased this quarter to \$9.59 per square foot from \$9.03 per square foot during the second quarter of 2018.

Capital Investment & Employment

Through the third quarter of 2018, there have been \$933.63 million of new capital investments within the Charleston industrial market. The capital investments produced 1,001 jobs, with the types of investors including the automotive sector/ specialty military vehicle production, supply chain management and varied manufacturing. Also, according to the Federal Reserve data through July of 2018, industrial employment accounts for 10.3% of the total Charleston employment, a 3.0% increase over the past 12 months. There have also been 1,100 industrial jobs added from July 2017 through July 2018.

Industrial Employment | Charleston MSA



Source: Bureau of Labor Statistics, Colliers International

Significant Transactions

Sale activity was steady, with 28 sale transactions occurring during the third quarter. Leasing activity slowed a bit during the third quarter and, according to CoStar, there were 28 industrial leases executed from July 2018 thru September 2018, several by undisclosed tenants.

Sales

- › Monmouth Real Estate Investment Corporation purchased 6850 Weber Boulevard in the Palmetto Commerce Park in Ladson for \$47.17 million.
- › Dr. Robert D. Calcote purchased a 135,221-square-foot distribution center at 4400 Arco Lane in Charleston for \$12.2 million.
- › 2453 King Street Extension is a 121,400-square-foot, Class B manufacturing building which sold for \$7.65 million.
- › A 13,278-square-foot, Class C Charleston warehouse was purchased for \$2.95 million by 551 Meeting Street LLC.

Leases

- › A 117,000-square-foot lease was executed by an undisclosed tenant at 4136 Carolina Commerce Parkway in Ladson.
- › SiteOne Landscaping Supply, LLC leased a 30,000-square-foot warehouse in Ladson.

Construction Pipeline

Delivered

- › The Thorne Building, located at 330 Omni Drive within the Summerville submarket; and consisting of 260,000 square feet, was completed during the third quarter of 2018.
- › 4301 Dorchester Road has a 30,000-square-foot warehouse in North Charleston.
- › The Landmark Building located at 9551 Palmetto Commerce Parkway is a completed 24,978-square-foot warehouse in the North Charleston submarket.
- › Construction was completed on a 17,500-square-foot, Class B warehouse at 4551 Carolina Commerce Parkway in North Charleston.

Under Construction

- › Volvo continues the second phase of construction. Approximately 600,000 square feet of its 2.1 million-square-foot facility is still under construction.
- › Mercedes Sprinter Van continued construction of its 1.2-million-square-foot manufacturing facility in North Charleston.
- › Sundarum Clayton continues construction a 660,000-square-foot manufacturing building in the Summerville market.
- › The IFA Rotorion Building located at 479 Trade Center currently has 622,677 square feet under construction.

- › Charleston Logistics Center in Summerville has a 343,150-square-foot Class A industrial warehouse currently under construction and it is expected to be completed during the spring of 2018.
- › There is a 262,080-square-foot Class A industrial building under construction on Patriot Boulevard in Ladson.
- › A Federal Express sorting facility has a 255,000-square-foot warehouse currently under construction.
- › Hanahan is the site of a Class A, 247,000-square-foot warehouse located at 1017 Northpointe Industrial Boulevard.
- › The Samet Building 1 at 635 Omni Industrial Drive in Summerville is the site of a 117,568-square-foot warehouse currently under construction.
- › Samet Building 4 located on Omni Industrial Drive in Summerville is the location of a 100,000-square-foot warehouse under construction.
- › A 95,0000-square-foot manufacturing facility is being constructed at 1662 Bushy Park Road in the Goose Creek/Moncks Corner submarket.
- › North Charleston has a 65,000-square-foot warehouse under construction at 2144 Melbourne Street.
- › In Summerville, 780 Jedburg Road is the future site of a 51,800-square-foot warehouse which is currently under construction.
- › 1270 Drop Off Road is the site of a 25,000-square-foot flex building under construction within the Summerville submarket.
- › 9551 Palmetto Commerce Parkway in North Charleston has a 24,300-square-foot warehouse under construction.
- › The North Charleston submarket has a 20,250-square-foot, Class B warehouse under construction at 7035 Cross Country Road, which is expected to deliver at the end of 2018.

Charleston Regional Business Center II | Charleston, SC



Source: CoStar

- > Jet Industrial Park in North Charleston has a 16,313-square-foot warehouse under construction that is expected to deliver during the fourth quarter of 2018.
- > The South Islands submarket has a 10,200-square-foot, Class C warehouse being constructed at 218 Howle Avenue.
- > 1 Cross Park Drive in North Charleston is the future site of a 10,000-square-foot, Class B warehouse.

Market Forecast

The Charleston industrial market is vibrant with activity and it is expected to continue through the next few quarters. While construction is being built at a rapid pace, demand is rising with it and positive absorption is predicted to continue through 2018. While 2.93 million square feet of construction is underway and another 4.33 million square feet of proposed construction is in the works; the Charleston vacancy rates are expected to decline as more employers move to the area. Rental rates will be on the rise in the coming quarters while high-quality new construction continues to be delivered to the market. In the near future, secondary market locations will become more attractive to owners and investors looking for new industrial sites, due to new ELD regulations and 11-hour drive-time rules. Close proximity to efficient logistics, a healthy business climate and a robust economy will put the Charleston market in the forefront of selected locations for new industrial sites and growth through 2019.

4500 Leeds Avenue | North Charleston, SC



Source: CoStar

175 McQueen Boulevard | Summerville, SC



Source: CoStar

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



Winding Woods Commerce Park | Saint George, SC



Source: CoStar

Q3 2018 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	4	241,707	177,000	-	177,000	73.23%	-	-
Berkeley County Total	10	337,056	177,000	-	177,000	52.51%	-	-
CLEMENTS FERRY								
Flex/R&D	17	410,086	37,849	8,731	46,580	11.36%	53,892	\$11.76
Manufacturing	10	472,980	23,532	-	23,532	4.98%	-	-
Warehouse	79	4,810,798	363,183	-	363,183	7.55%	65,808	\$5.40
Clements Ferry Total	106	5,693,864	424,564	8,731	433,295	7.61%	119,700	\$6.00
GOOSE CREEK/ MONCKS CORNER								
Flex/R&D	15	1,437,299	1,520	-	1,520	0.11%	5,593	-
Manufacturing	11	2,523,049	240,000	-	240,000	9.51%	40,000	\$1.50
Warehouse	44	1,890,028	68,222	-	68,222	3.61%	-	\$6.24
Goose Creek / Moncks Corner Total	70	5,850,376	309,742	-	309,742	5.29%	45,593	\$2.55
HANAHAN/ NORTH RHETT								
Flex/R&D	3	71,379	25,537	-	25,537	35.78%	-	\$9.99
Manufacturing	6	753,309	-	-	-	0.00%	-	-
Warehouse	36	3,591,184	140,771	-	140,771	3.92%	-91,720	\$6.23
Hanahan / North Rhett Total	45	4,415,872	166,308	-	166,308	3.77%	-91,720	\$6.80
NORTH CHARLESTON								
Flex/R&D	40	1,160,642	76,448	-	76,448	6.59%	-1,556	\$9.42
Manufacturing	49	2,743,100	325,368	28,245	353,368	12.89%	-	\$4.45
Warehouse	407	16,281,784	1,407,771	225,092	1,632,863	10.03%	248,152	\$5.73
North Charleston Total	496	20,185,526	1,809,587	253,337	2,062,924	10.22%	246,596	\$5.63
SUMMERVILLE								
Flex/R&D	7	426,654	61,569	-	61,569	14.43%	260,000	-
Manufacturing	35	2,219,853	32,500	-	32,500	1.46%	34,000	\$4.50
Warehouse	130	8,830,860	682,020	-	682,020	7.72%	299,294	\$4.76
Summerville Total	172	11,477,367	776,089	-	776,089	6.76%	593,294	\$4.75
OTHER SUBMARKETS								
Flex/R&D	21	727,021	87,812	-	87,812	12.08%	5,092	\$8.64
Manufacturing	13	750,729	7,150	-	7,150	0.95%	3,900	\$12.50
Warehouse	113	1,994,450	104,527	-	104,527	5.24%	1,000	\$16.00
Other Submarket Total	147	3,472,200	199,489	-	199,489	5.75%	9,992	\$9.08
MARKET TOTALS								
Flex/R&D	103	4,233,081	290,735	8,731	299,466	7.07%	323,021	\$9.59
Manufacturing	130	9,558,369	628,550	28,245	656,795	6.87%	77,900	\$3.29
Warehouse	813	37,640,811	2,943,494	225,092	3,168,586	8.42%	522,534	\$5.45
Market Total	1,046	51,432,261	3,862,779	262,068	4,124,847	8.02%	923,455	\$5.34

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 of 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
69 countries on
6 continents

\$2.7

billion in
annual revenue

2

billion square feet
under management

15,400

professionals
and staff

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