



Colliers Keenan 2005 Mid-Year Industrial Market Charleston, SC



July 2005

Industrial Market Statistical Overview

Overall Surveyed Inventory (sf)	18,229,435
Overall Surveyed Vacancy (sf)	2,414,309
Overall Vacancy Rate	13.24%
Manufacturing	6,000,000
Average Industrial Land Cost (\$/ac)	\$72,000.00
Average Industrial Sales Price (\$/sf)	\$37.00
Proposed Development (sf)	1,993,500

Market Overview

The Greater Charleston, South Carolina industrial market covers urban, suburban and rural areas of Charleston, Berkeley and Dorchester counties and includes 18,229,435 square feet of space that is available for lease to third parties. Much of the market activity has been driven by the growth of the Port of Charleston, increases in defense contract work awarded by SPAWAR of the US Department of Defense, and a continuous growth in the area population. With growth in Asian traffic and distribution through rail, Charleston is beginning to attract larger distribution operators to the area. Defense contract work awarded by the Charleston office of SPAWAR has attracted numerous contractors to the area from around the country, increasing the demand for flex products. The demand has created opportunities for developers to bring new product to the market in areas where product has not existed before. As the port traffic and defense contractors grow, so does the population of the Greater Charleston area. Population growth is fueling retail development and putting pressure on retailers to restock merchandise quickly, demanding that housing

industry suppliers have showrooms and warehouses close to developing areas for product selection and distribution. The result has been a healthy industrial market for the last few years.

Bulk Warehouse

Bulk warehouse facilities are becoming more prevalent in the Charleston market, with the continuing development of industrial parks and the combined benefits of the seaport, the airport, railroads and the highway system. Although there are only 17 facilities in the market containing at least 200,000 square feet, less than half existed five years ago and five more are planned for 2006. First class industrial parks such as Charleston Regional Business Center, Palmetto Commerce Park and Mt. Holly Industrial Park are designated foreign trade zones and contain enough acreage for additional bulk space development. The Charleston Regional Development Alliance has also done a good job of assembling incentives and marketing the Charleston region to industrial users such as Vought Aviation and Alenia Aeronautica. Suppliers and vendors related to the aeronautics industry should create additional demand for space and be one of the market drivers over the next few years. In the first half of 2005, bulk inventory grew by 859,373 square feet, while vacancy dropped by 230,800 square feet to 14.24%. Rental rates for bulk space grew by only \$.18 per square foot to \$3.67, despite the fact that land and construction costs have increased drastically over the past 18 months. Significant activity in the bulk market included a 600,000 square foot commitment from Fruit of the Loom and more than 200,000 square feet by East Coast Molding. Current plans exist for 1,300,000 square feet of bulk space to be developed from late 2005 to third quarter 2006.

Product Type Statistics

Type	Inventory (sf)	Vacancy	Lease Rate/sf/yr
Bulk Warehouse 75,000 sf or greater	10,252,092	14.24%	\$3.67
Distribution 25,000 sf – 75,000 sf	5,268,341	11.83%	\$4.56
Flex 10,000 sf – 25,000 sf	2,709,002	12.22%	\$5.14

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Distribution

The inventory of distribution space available for lease by third parties decreased in the first half of 2005 by approximately 227,000 square feet. This decrease is reflective of several properties being purchased by former tenants and other vacant properties being sold to new users rather than being leased. Vacancy among distribution properties dropped with the assistance of some sales by 475,659 square feet to 11.83%. Absorption for the period was a positive 248,480 square feet. Average rental rates rose slightly from \$4.49 per square foot to \$4.56. The distribution product category was impacted by expansions of existing tenants in the market and the tremendous Charleston housing market. Many suppliers in the distribution market have found it convenient if not necessary to establish satellite distribution facilities to serve expanding development and avoid delivery delays and travel time. Much of the distribution product remains in older and established parks or areas, but new development among this product is being built around areas that are geared more to customer access than to highway and truck access. Growth of the distribution market should continue among most of the submarkets in parks and in free standing locations that are not in heavily congested areas. Market drivers in the near term should continue to be the housing industry, the aeronautic industry and existing distribution operations.

Flex

The flex product inventory decreased in the first half of 2005, much like the distribution product, due to previously lease properties being sold to users. Although vacancy decreased by 171,499 square feet, the decrease in inventory resulted in a negative absorption of 259,962 square feet. Average rental rates for flex space dropped slightly from \$5.20 per square foot to \$5.14. The cause of the drop in average rents was a result of newer products selling and older products remaining in the survey. Flex product in the Charleston market can be found in urban, suburban and rural locations. These smaller projects continue to be developed on the fringes of bulk and distribution parks, as well as in in-fill locations close to retail and residential corridors. Market drivers in the flex product have traditionally been suppliers and service vendors related to the construction industry, including sign companies, cabinet shops, floor covering contractors and other subcontractors. As land values continue to escalate, flex developments will be pushed more to suburban and rural locations.

Manufacturing

The manufacturing segment of the Charleston industrial market is dominated by chemical, fiber and aluminum producers and processors, most of which are located in Berkeley County along the banks of the Cooper River. Although all large manufacturers have struggled over the past few years nationally and most appear to have rebounded, the Charleston market has not been affected by the manufacturing sector. That stands to change for the better as Vought-Alenia pushes the construction of its manufacturing facility, which will cover roughly 300 acres of Charleston Aviation Authority property between the Charleston International Airport and the Charleston Air Force Base. Manufacturing activities should begin within two years and employment should reach 1,000. The presence of this

facility, coupled with the AAI facility for manufacturing F-17 trainers, will boost the Charleston region as an aeronautic base and help to attract related entities.

Forecast

The forecast for the Greater Charleston industrial market is positive. In the coming months, development will begin on several build-to-suit and speculative projects. Lease rates should remain firm then increase in light of decreased vacancy and sustained demand. There will be some turnover among larger tenants such as ICON, creating large blocks of space, but demand among large prospects currently in the market and a multitude of smaller ones should absorb the additional space in the relative short term. Looking further out, opportunities will exist to develop new product for suppliers and vendors affiliated with Boeing, as well as for refrigerated and traditional warehousing associated with the expansion of the Port of Charleston at the former Charleston Naval Base to accommodate a dedicated break bulk facility. All product categories should continue to see gains, led by bulk and flex properties.

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Charleston, SC Industrial Market
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