

New homes will enhance the need for retail

Crystal Baker Research Coordinator | South Carolina

Key Takeaways

- > Residential growth will lead to increased retail development.
- > Rental rates continue to rise across most regions.

Market Conditions

Shopping Center Retail

The Charleston shopping center retail market vacancy rose to 6.34% from last quarter and the non-core vacancy rate was 8.83%; however, the core shop space vacancy rate remained at 4.10%. The overall triple net average shop space rental rate rose to \$21.30 per square foot, 3.1% higher than the second quarter. The average triple net rental rate in non-core shop space was \$20.53 per square foot while core shop space rent average remained essentially unchanged at \$22.38 per square foot.

Berkeley

The Berkeley submarket is attracting many retailers due to the vast residential construction both underway and planned in this area. The core shop space vacancy rate is 0.71%; while non-core is 5.56%. The average triple net rental rate in this submarket is \$17.11 per square foot.

East Cooper

This submarket is the second largest, with 3.4 million square feet of shopping center retail space. The vacancy rate in the core areas dropped to 2.73% this quarter, while the non-core shopping center vacancy rate rose to 13.19%. Core space triple net rental rates remain unchanged from last quarter at \$24.16 per square foot, while the non-core average triple net rental rates rose considerably from last quarter's rate of \$21.96 per square foot to \$23.39 per square foot this quarter. The East Cooper submarket also had a positive annual absorption of 45,272 square feet.

Market Indicators

Relative to prior period	Q3 2017	Q4 2017*
VACANCY	↑	↓
NET ABSORPTION	-	+
CONSTRUCTION	↑	↑
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 2017 Charleston Retail Market	Shopping Centers	Urban Retail
Vacancy Rate	6.34%	10%
Change From Q3 2016 (basis points)	-	-
Absorption (Thousand Square Feet)	-114.7	5
New Construction (Thousand Square Feet)	-	-
Under Construction (Thousand Square Feet)	138.1	-

Asking Rents

Per Square Foot Per Year

Shop Space	\$21.30	\$58.33
Change From Q3 2016	6.93%	-

North Charleston

The largest submarket, comprising 27% of the entire shopping center market, had an overall vacancy rate of 8.90% in the third quarter. The core center triple net rental rate rose to \$18.86 per square foot and the core vacancy rate rose to 8.41%. Meanwhile, in non-core centers, 9.23% of space was vacant and the triple net rental rate was \$11.69 per square foot.

Summerville

The Summerville submarket is the third largest in the region with 2.3 million square feet of retail space. The overall market vacancy rate in Summerville was 3.59% which is 25% lower than last quarter. Likewise, the core vacancy rate fell to 2.26% and vacancy rates in the non-core areas dropped to 6.33%. Overall market average triple net rental rates were \$26.15 per square foot.

West Ashley

The average vacancy rate in West Ashley rose to 7.08% this quarter; the core vacancy rate was 5.24%, while non-core areas had 8.91% of vacant space. The average triple net shop space rental rates dropped a bit from last quarter to \$20.85 per square foot. Rent in core shopping centers was \$21.78 per square foot while non-core areas asking rent was \$20.32 per square foot.

Urban Retail

King Street

King Street, stretching from Line Street to Broad Street, is comprised of approximately 320 properties and 891,000 square feet. At the end of the third quarter, the vacancy rate remained 10%. The average triple net rental rate for shop space along the corridor is \$58.33 per square foot.

Recent Transactions

According to CoStar, during the third quarter there were 16 sale transactions of retail properties of 10,000 or more square feet and 2 executed leases.

Sales

- JCPenny, located at 2060 Sam Rittenberg Boulevard was traded for \$5,125,000. It was a high-vacancy property and, according to CoStar, it will most likely be redeveloped.
- In August, The Shoppes of Folly Road located at 907 Folly Road in Charleston traded for \$9.6 million.
- 332 King Street, a 18,600-square-foot downtown Charleston storefront retail building sold for \$9.5 million.
- The former upscale Cypress restaurant, located at 167 E. Bay Street in downtown Charleston, was purchased for \$6,650,000.

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.

Average Asking Rental Rates | Core Shop Space



Leases

- > In August, a 100,000-square-foot Lowe's lease was executed at 3265 North Highway 17 in Mount Pleasant.
- > Also in August, Harris Teeter signed a 50,000-square-foot lease at West Ashley Circle in Charleston.

Gross Retail Sales & Employment

Non-farm employment is growing within the Charleston Metropolitan Statistical Area (MSA). Per the Bureau of Labor Statistics' most recent data from September 2017, the Charleston MSA had 353,600 non-farm employees. Since September 2016, 4,200 non-farm jobs were added in the market. Data from the South Carolina Department of Revenue says gross retail sales in the Charleston MSA reached \$2.23 billion in August of 2017.

Market Forecast

With the tightening retail market and the length of time to develop new sites, creative retail redevelopment will increase over the next year. While the lack of suitable development sites is a hinderance, the increase of retail is inevitable due to several residential developments that are already underway or are planned in the Berkeley and Summerville submarkets. King Street retail remains a hot spot and retailers will continue to pay higher-than-market rates to locate there. Overall, the retail rental rates will continue to rise as the vacancy drops over the next few quarters.

Around South Carolina

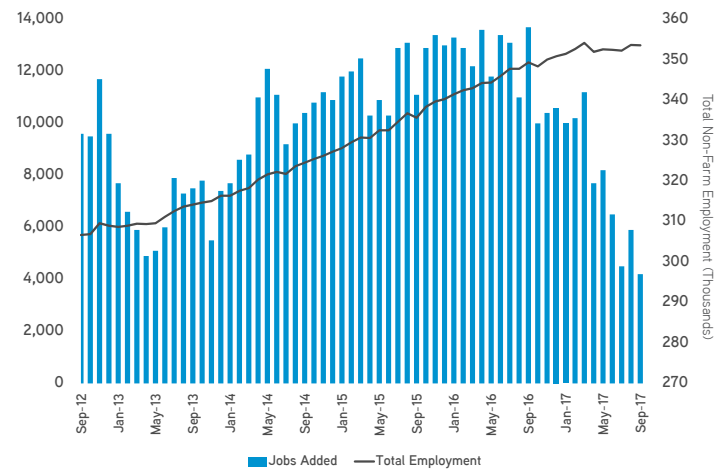
Columbia, South Carolina

- > The Lexington retail submarket is gaining steam as residential development comes online, the need for additional retailers will follow. The core retail areas across all sectors continue to outperform non-core areas.

Greenville, South Carolina

- > Retailers are slowly changing as personal service and "unique-experience" shops lease more spaces and create a memorable ambiance for clients. National retailers will be interested in leasing and redeveloping in core areas across the market. South Carolina Department of Revenue says gross retail sales in the Charleston MSA reached \$2.23 billion in August of 2017.

Charleston, SC MSA Employment Trends



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



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167 E. Bay Street | Charleston, SC



Source: CoStar

975 Savannah Hwy | Charleston, SC



Source: CoStar

Q3 2017 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)
Shopping Center Retail								
Berkeley	1,299,055	3.03%	-	-	-	-	39,323	\$16.55
Non-Core	620,597	5.56%	-	-	-	-	34,498	\$17.19
Core	678,458	0.71%	-	-	-	-	4,825	\$11.95
East Cooper	3,406,605	7.10%	111,781	\$20.45	20,270	\$30.37	109,869	\$23.70
Non-Core	1,422,655	13.19%	111,781	\$20.45	10,270	\$21.00	65,661	\$23.39
Core	1,983,950	2.73%	-	-	10,000	\$40.00	44,208	\$24.16
North Charleston	3,908,074	8.90%	105,093	\$6.39	61,286	\$15.52	181,335	\$15.86
Non-Core	2,321,673	9.23%	64,768	-	40,015	-	109,443	\$11.69
Core	1,586,401	8.41%	40,325	\$12.50	21,271	\$15.52	71,892	\$18.86
Peninsula	165,647	0.0%	-	-	-	-	-	-
Non-Core	165,647	0.0%	-	-	-	-	-	-
South Islands	989,734	3.83%	-	-	-	-	37,938	\$26.20
Non-Core	367,406	3.90%	-	-	-	-	14,321	\$26.53
Core	622,328	3.79%	-	-	-	-	23,617	\$25.92
Summerville	2,344,925	3.59%	-	-	10,000	\$16.00	74,184	\$26.15
Non-Core	766,668	6.33%	-	-	-	-	48,520	\$25.96
Core	1,578,257	2.26%	-	-	10,000	\$16.00	25,664	\$26.46
West Ashley	2,209,996	7.08%	32,000	-\$12.00	33,800	\$16.24	90,697	\$20.85
Non-Core	1,108,137	8.91%	32,000	\$12.00	10,200	\$13.00	56,569	\$20.32
Core	1,101,859	5.24%	-	-	23,600	\$17.75	34,128	\$21.78
Shopping Center Total Market	14,324,036	6.34%	248,874	\$14.25	125,356	\$19.39	533,346	\$21.30
Non-Core	6,772,783	8.83%	208,549	\$14.64	60,485	\$17.01	329,012	\$20.53
Core	7,551,253	4.10%	40,325	\$12.50	64,871	\$20.14	204,334	\$22.38
Urban Retail								
King Street	844,058	9.8%	40,000		11,488		30,817	\$58.33

396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **79**

EMEA: **111**

FOR MORE INFORMATION:

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

David C. Lockwood, III, CCIM, SIOR
Executive Vice President & COO
+1 803 401 4211
David.Lockwood@colliers.com

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

\$2.6

billion in
annual revenue

Colliers International | Charleston
25 Calhoun Street, Suite 220
Charleston, South Carolina | USA
+1 843 723 1202

2

billion square feet
under management



15,000

professionals
and staff

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