

New construction delivery increases weighted rental rates

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Key Takeaways

- > Three new buildings totaling 157,000 square feet were added to the market this quarter, and 2.97 million square feet are under construction.
- > The overall average weighted market rental rate continues to rise quarter-over-quarter.

2018 Market Recap

During 2018, the Charleston industrial market absorbed 3,307,801 square feet of industrial space, one-third of which was within the Summerville submarket. There were 23 new property deliveries this year, adding approximately 4.02 million square feet to the market. Thus, the Charleston industrial vacancy rate rose from 8.52% during the fourth quarter of 2017 to 9.20% during the fourth quarter of this year. Due to the new construction delivery throughout 2018, the overall average weighted rental rate increased from \$4.97 per square foot during the fourth quarter of last year to \$5.73 per square foot this quarter.

Market Overview

The Charleston industrial market has 54.02 million square feet of industrial inventory within 1,062 buildings. There were three new buildings delivered to the Charleston market this quarter, which added 157,000 square feet. There are also 18 buildings currently under construction totaling 2,970,758 square feet. The Charleston industrial market absorbed 17,783 square feet during the fourth quarter of 2018, and the market vacancy rate rose from 8.97% during the third quarter of this year to 9.20% this quarter. The average triple net market weighted rental rate increased again this quarter to \$5.73 per square foot up from \$5.18 per square foot during the third quarter of this year.

Warehouse/Distribution

Seventy-three percent of the Charleston industrial market is considered warehouse/distribution space and is comprised of 39.04 million square feet within 822 buildings. Two new warehouses were

Market Indicators

Relative to prior period	Q4 2018	Q1 2019*
VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

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

Summary Statistics

Q4 2018 Charleston Industrial Market	Industrial
Vacancy Rate	9.20%
Change From Q4 2017 (basis points)	+68
Absorption (Thousand Square Feet)	17.78
New Construction (Thousand Square Feet)	157.00
Under Construction (Million Square Feet)	2.97

*New construction is newly delivered buildings

Asking Rents

Per Square Foot Per Year NNN	
Market	\$5.73
Change from Q4 2017	+15.29%
Flex	\$9.26
Warehouse	\$5.89
Manufacturing	\$4.03

delivered to the market this quarter which added 62,000 square feet to the overall warehouse market. There are currently 16 warehouses totaling 2,323,081 square feet under construction. This sector posted a net negative absorption of 30,312 square feet this quarter; Leeds Park Building One posted a net negative absorption of 302,146 square feet, causing the overall Charleston warehouse absorption to be negative. Likewise, the warehouse vacancy rate rose from 9.64% during the third quarter of this year to 9.87% this quarter. The average triple net weighted warehouse rental rate rose from \$5.19 per square foot during the third quarter of 2018 to \$5.89 per square foot during the fourth quarter of this year.

Manufacturing

Manufacturing is primarily used to assemble goods for sale and distribution. There are approximately 10.71 million square feet of manufacturing space within the Charleston market. There is currently one 622,677-square-foot manufacturing building under construction at 479 Trade Center, excluding the remaining square feet under construction at the Volvo manufacturing facility. In addition, there is also one 520,000-square-foot building proposed to be built, and one new 95,000-square-foot manufacturing plant was delivered to the Charleston market at 1662 Bushy Park Road. The Bushy Park manufacturing plant is one hundred percent occupied, which led to high absorption within the Goose Creek/Moncks Corner submarket. The overall Charleston manufacturing sector absorbed 67,700 square feet during the fourth quarter of this year. The manufacturing vacancy rate rose from 7.29% during the third quarter of this year to 7.48% during the fourth quarter of 2018. The average triple net weighted rental rate increased this quarter from \$3.96 per square foot during the third quarter of 2018 to \$4.03 per square foot this quarter for the remaining available manufacturing space.

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 4.27 million square feet. While no new construction was delivered to the flex/R&D sector this quarter, there is one 25,000-square-foot building under construction at 1270 Drop Off Drive. This sector posted a net negative absorption of 19,605 square feet during the fourth quarter of this year, and the vacancy rate increased from 7.00% last quarter to 7.46% this quarter. The average triple net weighted rental rate decreased slightly this quarter to \$9.26 per square foot, down from \$9.30 per square foot during the third quarter of 2018.

Capital Investment & Employment

Through October of 2018, there have been \$969.63 million of new capital investments within the Charleston industrial market. The capital investments produced 1,116 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 October of 2018, there have been 7,500 jobs added in the Charleston MSA,

1,400 of which were industrial jobs. The manufacturing sector of industrial employment added 1,200 jobs. Overall non-farm employment totals 362,700 and has increased 2.11% from October 2017 through October 2018.

Significant Transactions

There were 26 Charleston industrial sale transactions reported on CoStar during the fourth quarter of 2018, many of which were with undisclosed buyers or part of a portfolio sale. Leasing activity was steady during the fourth quarter and, according to CoStar, there were 26 industrial leases executed from October 2018 through December 2018; the two largest leases were executed by undisclosed tenants.

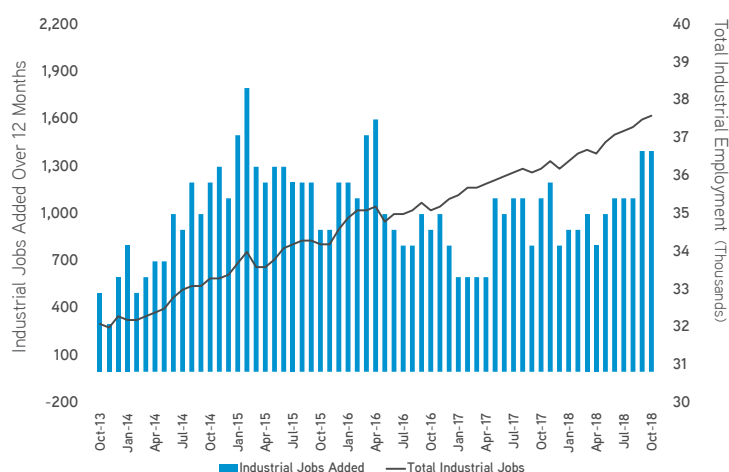
Sales

- Within the Pepperdam Industrial Park, a 101,500-square-foot Class C warehouse located at 7391 Pepperdam Avenue was purchased for \$5.15 million by RCB Development.
- For \$2.6 million, Sabs Safari LLC purchased a 15,625-square-foot warehouse located at 9040 Palmetto Commerce Parkway.

Leases

- Ability Trimodal executed a 55,000-square-foot lease at 328 Deming Way in Summerville.
- A 20,000-square-foot lease was signed by Moulton Fulfillment at the distribution center located at 2440 Clements Ferry Road in Charleston.

Industrial Employment | Charleston MSA



Source: Bureau of Labor Statistics, Colliers International

Construction Pipeline

Delivered

- > In Berkeley County, a 95,000-square-foot manufacturing plant was delivered to the Charleston market at 1662 Bushy Park Road.
- > The Worldwide Equipment building is a 51,800-square-foot warehouse located at 780 Jedburg Road in Summerville.
- > 218 Howle Avenue in Charleston is the site of a completed 10,200-square-foot warehouse within the South Islands submarket.

Under Construction *(including specialty industrial space)*

- > The IFA Rotorion Building located at 479 Trade Center currently has 622,677 square feet under construction.
- > At 1334 Drop Off Road – Building 1 in Summerville, there is currently a 561,600-square-foot warehouse under construction.
- > Ladson Industrial Park, which is in the North Charleston submarket, has a 420,888-square-foot warehouse under construction.
- > There is a 262,080-square-foot Class A industrial building under construction on Patriot Boulevard in Ladson.
- > The Summerville Distribution Complex on Deming Way is the site of a 250,000-square-foot warehouse currently under construction.
- > The Palmetto Trade Center is in Phase 1 of construction on a 142,700-square-foot warehouse within the North Charleston submarket.
- > Construction continues on a 100,000-square-foot warehouse at Omni Samet Building 5, located on Omni Industrial Drive.
- > North Charleston has a 65,000-square-foot warehouse under construction at 2144 Melbourne Street.
- > Landmark Business Park, Building 500 is the site of a 55,000-square-foot warehouse located at 9571 Palmetto Commerce Parkway.
- > A 48,000-square-foot warehouse is under construction on Biedler Street in the North Charleston submarket.
- > 1270 Drop Off Road is the site of a 25,000-square-foot flex building under construction within the Summerville submarket.
- > Landmark Business Park, Building 300, located at 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.
- > 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.
- > 1 Cross Park Drive in North Charleston is the future site of a 10,000-square-foot Class B warehouse.

Market Forecast

A robust business climate, efficient logistic systems within the region and a prosperous economy will continue to place Charleston at the top of desirable industrial market locations. The convenient location will eventually draw new tenants to Charleston, who place importance on the need to be located near the inland and coastal ports. However, construction delivery is swift; the Charleston market demand will have difficulty keeping pace, and the overall vacancy rate is expected to rise in 2019. Weighted rental rates will also increase due to the high quality of prime industrial properties expected to deliver to the market.

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



Charleston Trade Center 180 Trade Center Parkway | Charleston, SC



Source: CoStar

Q4 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	177,609	-	177,609	73.48%	-	\$1.50
Berkeley County Total	10	337,056	177,609	-	177,609	52.69%	-	\$1.50
CLEMENTS FERRY								
Flex/R&D	17	410,086	78,401	8,731	87,132	21.25%	-40,552	\$9.37
Manufacturing	10	472,980	23,532	-	23,532	4.98%	-	-
Warehouse	79	4,810,798	205,583	50,000	255,583	5.31%	107,600	\$5.63
Clements Ferry Total	106	5,693,864	307,516	58,731	366,247	6.43%	67,048	\$6.90
GOOSE CREEK/ MONCKS CORNER								
Flex/R&D	15	1,452,694	-	-	-	0.00%	1,520	-
Manufacturing	11	2,618,049	254,800	-	254,800	9.73%	80,200	\$1.80
Warehouse	44	1,890,028	42,791	-	42,791	2.26%	25,431	-
Goose Creek / Moncks Corner Total	71	5,960,771	297,591	-	297,591	4.99%	107,151	\$1.80
HANAHAN/ NORTH RHETT								
Flex/R&D	3	71,379	25,847	-	25,847	36.21%	-310	\$10.02
Manufacturing	6	753,309	-	-	-	0.00%	-	-
Warehouse	37	3,838,184	344,846	-	344,846	8.98%	42,925	\$6.02
Hanahan / North Rhett Total	46	4,662,872	370,693	-	370,693	7.95%	42,615	\$6.30
NORTH CHARLESTON								
Flex/R&D	41	1,169,143	61,473	-	61,473	5.26%	11,640	\$10.28
Manufacturing	48	2,583,100	325,368	28,245	353,613	13.69%	-	\$5.08
Warehouse	408	16,678,400	1,799,155	105,276	1,904,431	11.42%	-271,568	\$7.09
North Charleston Total	497	20,430,643	2,185,996	133,521	2,319,517	11.35%	-259,928	\$6.79
SUMMERVILLE								
Flex/R&D	7	426,654	61,569	-	61,569	14.43%	-	-
Manufacturing\$5.03	36	2,337,421	162,568	-	162,568	6.96%	-12,500	\$5.40
Warehouse	132	9,225,810	1,011,870	-	1,011,870	10.97%	65,100	\$4.96
Summerville Total	175	11,989,885	1,236,007	-	1,236,007	10.31%	52,600	\$5.03
OTHER SUBMARKETS								
Flex/R&D	21	727,021	81,412	-	81,412	11.20%	6,400	\$8.37
Manufacturing	13	750,729	7,150	-	7,150	0.95%	-	-
Warehouse	114	2,079,272	104,327	-	104,327	5.02%	10,400	\$16.00
Other Submarket Total	148	3,557,022	192,889	-	192,889	5.42%	16,800	\$8.54
MARKET TOTALS								
Flex/R&D	104	4,256,977	308,702	8,731	317,433	7.46%	-21,302	\$9.26
Manufacturing	131	9,610,937	773,418	28,245	801,663	8.34%	67,700	\$4.03
Warehouse	818	38,764,199	3,686,181	155,276	3,841,457	9.91%	-20,112	\$5.89
Market Total	1,053	52,632,113	4,768,301	192,252	4,960,553	9.42%	26,286	\$5.73

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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