

Shifting production trends increase Charleston industrial demand

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Key Takeaways

- › The Charleston industrial market continues to post positive absorption; causing the vacancy rate to decrease to 9.14% this quarter.
- › There are 823,800 square feet of industrial construction in the Charleston pipeline.
- › Increased port capabilities, consolidated aerospace production, uptick in automotive manufacturing and an increase in e-commerce are shifting production demands to the Charleston industrial market.

Industrial production trends boost activity

There are several factors leading to increased demand within the industrial sector of Charleston. Increased port capabilities, consolidated aerospace production and an uptick in e-commerce are shifting production demands to the Charleston industrial market. Due to the deepening of the Port of Charleston, increased import and export shipping operations are moving to the East Coast, specifically South Carolina. In addition, the construction of the Inland Port of Dillon and record-breaking rail moves at the Inland Port of Greer are facilitating logistics to and from South Carolina. The consolidation of the Boeing 787 Dreamliner production to North Charleston will increase the demand for aerospace-related equipment and parts manufacturers and distributors in the area. Also, the Volvo plant in Ridgeville is planning to add a second car to the production line sometime in 2021; therefore, increasing automobile manufacturing and distribution. Due to the ongoing pandemic, the need for e-commerce has increased exponentially; thus, increasing the

Market Indicators

Relative to prior period	Q3 2020	Q4 2020*
VACANCY	↓	↑
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

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

Summary Statistics

Q3 2020 Charleston Industrial Market	Industrial
Vacancy Rate	9.14%
Change From Q3 2019 (basis points)	+106
Absorption (Thousand Square Feet)	561.25
New Construction (Square Feet)	240,000
Under Construction (Square Feet)	954,630

*New construction is newly delivered buildings

Asking Rents

Per Square Foot Per Year NNN	
Market	\$5.99
Change from Q3 2019	+10.52%
Flex	\$8.16
Warehouse	\$5.98
Manufacturing	\$5.82

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

demand for industrial space. Online grocery shopping is a expanding sector of e-commerce which, in turn, is increasing the need for cold storage to accommodate the vast amount of online grocery orders. Warehouse space close to major logistic pipelines is predicted to continue attracting interest from both investors and users as e-commerce growth increases. Therefore, due to these factors, the need for industrial space within the Charleston market is expected to rise and the vast amount of planned construction deliveries will likely be leased relatively quickly upon delivery.

Market Overview

Overall Charleston industrial market

The Charleston industrial market has 58.51 million square feet of industrial inventory with 954,630 square feet under construction. In addition, there are approximately 18 buildings proposed to be built within the Charleston market which would add an additional 4.69 million square feet to the industrial inventory. The Charleston submarkets absorbed 561,249 square feet during the third quarter of 2020 led by the North Charleston and Summerville submarkets. Due to the high amount of positive absorption, the overall market vacancy decreased from 9.28% last quarter to 9.14% this quarter. The overall market average triple net weighted rental rate increased this quarter to \$5.99 per square foot.

Warehouse/Distribution

The Charleston industrial market warehouse/distribution sector is comprised of 42.74 million square feet within 848 buildings and comprises 73% of the Charleston industrial market. There are six warehouses totaling 954,630 square feet under construction throughout the Charleston market, and an additional 16 warehouses totaling 4.15 million square feet are proposed to be built. During the third quarter of 2020 Charleston warehouses absorbed 579,075 square feet, 401,742 square feet occurred within the North Charleston submarket and 243,936 square feet was absorbed in Summerville. Positive absorption pushed the quarterly warehouse/distribution sector vacancy rate down from 10.39% last quarter to 10.14% during the third quarter of this year. The average triple net weighted warehouse rental rate averaged \$5.82 per square foot this quarter.

Manufacturing

Manufacturing is primarily used to assemble goods for sale and distribution. There are approximately 11.31 million square feet of manufacturing space within the Charleston market. There is one 520,000-square-foot building proposed to be built within the Summerville submarket. There are not many manufacturing spaces available in the Charleston market; the market posted no absorption

activity during the third quarter of 2020. Therefore, the overall manufacturing vacancy rate remained 6.56% this quarter. Triple net weighted rental rate during the third quarter of this year averaged \$5.98 per square foot.

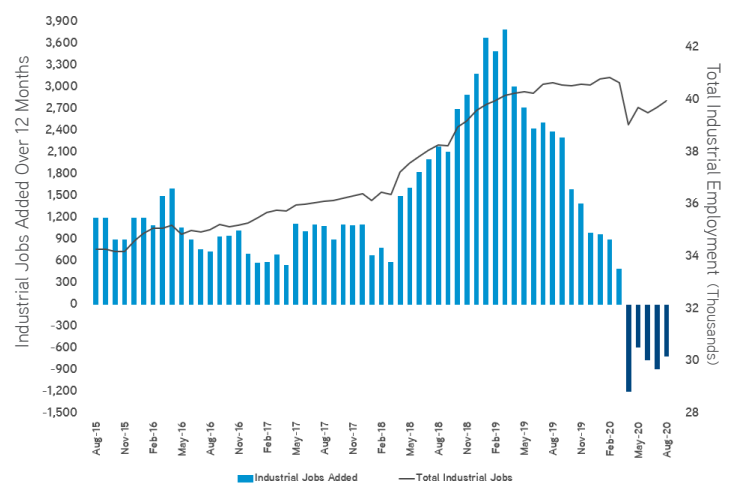
Flex/R&D

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 4.46 million square feet. One 17,500-square-foot flex building is currently proposed to be built within the Clements Ferry submarket. The flex/R&D sector posted a negative 17,826 square feet during the third quarter of 2020 and the vacancy rate within the flex/R&D sector increased from 5.67% last quarter to 6.07% this quarter. The average triple net weighted rental rate decreased slightly to \$8.16 per square foot during the third quarter of 2020.

Capital Investment & Employment

There have been approximately \$425.91 million in capital investments within the Charleston industrial market from the third quarter of 2019 through the third quarter of 2020. Companies new to the market produced 1,684 jobs, while expansions created 1,020 jobs. The types of investors include cold storage, automotive and lawn equipment manufacturing, software services and various distribution and logistics centers. Also, according to the Federal

Industrial Employment | Charleston MSA



Source: Bureau of Labor Statistics, Colliers International

Reserve data over the past 12 months due to the temporary shut-downs caused by the Coronavirus, there were 27,200 less jobs in the Charleston metropolitan statistical area, 715 of which were industrial jobs. However, that number has improved from 48,200 jobs lost in April when the affects of the pandemic were first realized. Jobs are predicted to continue being restored as temporary closings and Coronavirus restrictions are lifted, then employment numbers will likely normalize. The Charleston employment rate is still strong at 93.2%; however, the numbers are expected to continue fluctuating due to the effects of COVID-19.

Significant Transactions

There were 15 Charleston industrial sales reported by CoStar during the third quarter of 2020. Leasing activity also increased slightly this quarter and according to CoStar there were 39 industrial leases executed this quarter.

Leases (+50,000 SF)

- Walmart Distribution Center leased 3 million square feet at 440 Ridgeville Road in Ridgeville.
- 3G Distribution leased 316,140 square feet at the Clarius Omni 1 building located at 537 Omni Industrial Boulevard in Summerville.
- Daye North America leased 310,128 square feet at Ladson Industrial Park Building 1 located in Ladson.

Sales

- For \$4.94 million, Capitol Peak Partners purchased a 95,750-square-foot food processing center at 5001 Lacross Road in Charleston for a sale-leaseback with Borden Dairy Company.
- For \$2.94 million, Brookwood Capital Partners purchased a 36,000-square-foot warehouse at 9516 Hamburg Road in Ladson.

Market Forecast

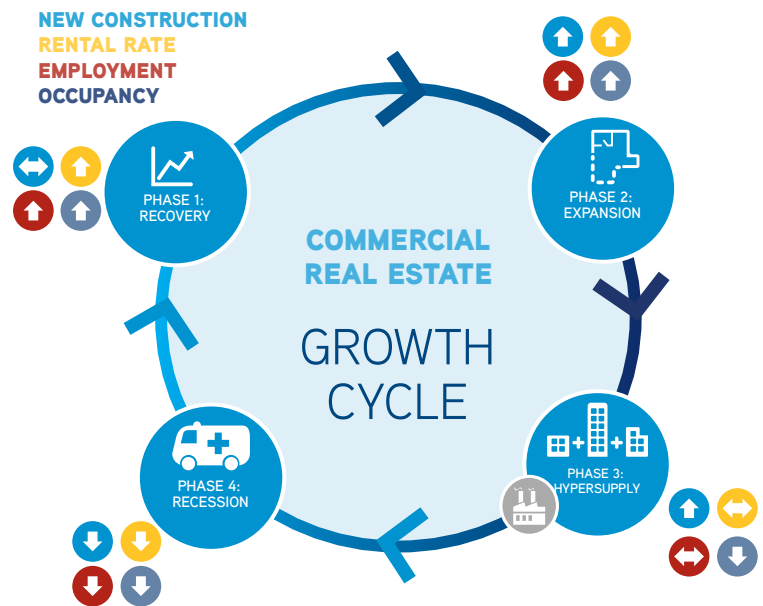
Construction of speculative industrial buildings is anticipated to increase the vacancy rate throughout the Charleston market; however, demand is expected to eventually catch up to the new deliveries. High quality construction completions will lead to a rise in rental rates over the next few quarters with the vacancy rate eventually trending downward in 2021. Positive port activity and enhanced logistics continue to shift toward the East Coast from the West Coast; therefore, an increase in new companies to the Charleston region will likely absorb vacant buildings. In addition, an escalation of e-commerce due to pandemic shopping trends are boosting the need for cold storage space near logistic pipelines. Thus, South Carolina is a prime spot for growth leading to increased activity throughout the state into next year. Finally, the boom in aerospace and automotive manufacturing and distribution will be a major contributor to the increased need for industrial space in Charleston as new production plans begin. The industrial outlook in Charleston is positive and even being boosted by several factors which will increase industrial productivity within the region.

2020 Q3 Industrial Construction Pipeline | Charleston (+100,000 SF)

PROPERTY NAME LOCATION	BUILDING SF	COUNTY
CONSTRUCTION DELIVERIES		
Portside Distribution Center Trade Center Parkway	190,000	Berkeley
Port City Centre Port City Centre & Jedburg Road	50,000	Berkeley
UNDER CONSTRUCTION (+100,000 SF)		
A&R Logistics Gaillard Road	615,000	Berkeley
Berkeley Charleston Tradeport	247,830	Berkeley

Source: Colliers International, CoStar

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



Q3 2020 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								
Flex/R&D	1	48,000	24,000	-	24,000	50.00%	-	\$12.00
Manufacturing	6	95,349	-	-	-	0.00%	-	-
Warehouse	8	844,262	190,000	-	190,000	22.50%	-	-
Berkeley County Total	15	987,611	214,000	-	214,000	21.67%	-	\$12.00
CLEMENTS FERRY								
Flex/R&D	17	406,596	27,740	5,500	33,240	8.18%	-7,500	\$10.78
Manufacturing	10	472,980	22,297	-	22,297	4.71%	-	-
Warehouse	79	4,816,105	118,245	206,760	325,005	6.75%	-66,675	\$2.11
Clements Ferry Total	106	5,695,681	168,282	212,260	380,542	6.68%	-74,175	\$2.78
GOOSE CREEK/ MONCKS CORNER								
Flex/R&D	15	1,452,694	-	-	-	0.00%	-	-
Manufacturing	13	2,883,367	-	-	-	0.00%	-	-
Warehouse	45	1,905,028	15,000	-	15,000	0.79%	-	-
Goose Creek / Moncks Corner Total	73	6,241,089	15,000	-	15,000	0.24%	-	-
HANAHAN/ NORTH RHETT								
Flex/R&D	3	71,379	39,778	-	39,778	55.73%	-4,215	\$8.17
Manufacturing	6	753,309	305,423	-	305,423	40.54%	-	\$5.80
Warehouse	37	3,838,184	206,143	-	206,143	5.37%	-	\$5.45
Hanahan / North Rhett Total	46	4,662,872	551,344	-	551,344	11.82%	-4,215	\$5.81
NORTH CHARLESTON								
Flex/R&D	44	1,237,092	41,311	7,611	48,922	3.95%	-6,111	\$8.20
Manufacturing	50	3,034,731	265,320	-	265,320	8.74%	-	\$9.00
Warehouse	423	18,498,486	1,855,499	-	1,855,499	10.03%	401,712	\$7.50
North Charleston Total	517	22,770,309	2,162,130	7,611	2,169,741	9.53%	395,601	\$7.57
RIDGEVILLE								
Manufacturing	1	660,000	-	-	-	0.00%	-	-
Ridgeville Total	1	660,000	-	-	-	0.00%	-	-
SUMMERVILLE								
Flex/R&D	9	463,354	1,715	-	1,715	0.37%	-	-
Manufacturing	37	2,473,301	117,568	-	117,568	4.75%	-	-
Warehouse	137	10,348,910	1,216,696	13,600	1,230,296	11.89%	243,936	\$5.00
Summerville Total	183	13,285,565	1,335,979	13,600	1,349,579	10.16%	243,936	\$4.95
OTHER SUBMARKETS								
Flex/R&D	23	779,804	123,062	-	123,062	15.78%	-	\$6.84
Manufacturing	15	932,742	30,777	-	30,777	3.30%	-	\$7.38
Warehouse	119	2,493,644	511,710	-	511,710	20.52%	102	\$6.45
Other Submarket Total	157	4,206,190	665,549	-	665,549	15.82%	102	\$6.61
MARKET TOTALS								
Flex/R&D	112	4,458,919	257,606	13,111	270,717	6.07%	-17,826	\$8.16
Manufacturing	138	11,305,779	741,385	-	741,385	6.56%	-	\$5.98
Warehouse	848	42,744,619	4,113,293	220,360	4,333,653	10.14%	579,075	\$5.82
Market Total	1,098	58,509,317	5,112,284	233,471	5,345,755	9.14%	561,249	\$5.99

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 or 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
68 countries on
6 continents

\$3.5

billion in
annual revenue

2

billion square feet
under management

18,000+

professionals
and staff



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