

High Demand and Low Vacancy Drives Institutional Activity

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Key Takeaways

- › Institutional investors and developers are expanding within the Charleston market because of high demand and low vacancy.
- › Growing demand for two-day delivery is causing a shift from West Coast to East Coast shipping.

Institutional Owners Expand

Charleston is seeing demand for larger warehouse and distribution facilities between 200,000 and 700,000 square feet. Driving the demand is low vacancy, expansion of the e-commerce market, demand for faster customer fulfillment and expansion of major manufacturers in the region. To capitalize on this, institutional investors and developers are expanding into the Charleston market, building and investing in these facilities.

The market vacancy rate is 4.2%, down from 8.5% at the start of 2016. The vacancy rate in the market continues to decrease and the scarcity of suitable land is driving an increase in price. These market fundamentals are attracting institutional developers and investors.

To meet the demand of the e-commerce market, retailers need larger distribution centers capable of holding a larger supply of product to fulfill customer orders quickly. Many of the distribution centers need 36- to 40-foot clearance heights and more than one entry point to allow products to be stored and moved in or out of the facility efficiently. Charleston's access to a deep-water port, an inland port and several major interstates attract these types of companies to the area. With access to more than 69.7% of the nation's population within a 16-hour truck drive, Charleston provides a strong opportunity to e-commerce platforms and other distributors to fulfill customer orders and provide last-mile delivery in a much shorter time frame.

Additionally, the recent Volvo announcement, Daimler's expansion and Boeing's manufacturing facility have attracted tier one and two suppliers and other manufacturers in related industries to the Charleston market. Volvo is constructing a 2.3 million-square-

Market Indicators

Relative to prior period

	Q4 2016	Q1 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

Q4 2016 Charleston Industrial Market

Industrial

Vacancy Rate	4.2%
Change From Q3 2016 (basis points)	170
Absorption (Thousand Square Feet)	573.8
New Construction (Thousand Square Feet)	442.5
Under Construction (Million Square Feet)	3.2

*New construction is newly delivered buildings

Asking Rents

Per Square Foot Per Year NNN

Market	\$3.72
Change From Q3 2016	-2.2%
Change From Q4 2015	-2.4%

foot facility, Daimler a 1.1 million-square-foot expansion to an existing 409,000-square-foot facility and Boeing just completed a paint hangar, bringing their presence in Charleston to 4 million square feet. These investments are creating a wave of demand for industrial buildings in the region from automotive and aerospace suppliers and distributors. This demand, coupled with low vacancy, has increased the need for new development.

Institutional developers like Clarius Partners, Rockefeller Group, CenterPoint Properties, SunCap, Exeter and Gramercy Property Trust are most active in Charleston. Clarius is developing a 587,700-square-foot speculative building with 36-foot clearance height in Omni Industrial Campus. SunCap Property Group and WestRock recently completed a speculative building in the North Pointe Business Campus.

These investors are also acquiring well-positioned assets that will return yields. CenterPoint Properties purchased three buildings at 1125 Newton Way, a total of 615,000 square feet, in Summerville this quarter. Gramercy Property Trust purchased a 1.1 million-square-foot building occupied by TBC in the Rockefeller-MeadWestvaco Foreign Trade Zone, while Exeter purchased a 278,700-square-foot building in the Charleston Regional Business Center. These investors are expanding their Charleston portfolios, thereby attracting new institutional developers and increasing activity from regional investors, as well. The trend is expected to continue through 2017.

West Coast to East Coast Shift

The expansion of the Panama Canal has shifted attention to the nation's East Coast ports. Supporting the shift is the large population on the East Coast and a growing e-commerce market. An upturn in activity at East Coast ports has several racing to be the first to accommodate the post-Panamax ships traveling through the Panama Canal. Charleston is competitive with other East Coast ports because of its central location, and has already begun several capital improvements.

The East Coast is home to 55.4% of the nation's 323.6 million people. Charleston is centrally located along the East Coast between New York and Miami and has an estimated population

Clarius Rendering | Omni Industrial Campus



Source: Ware Malcomb

of 739,000 people. The population is rapidly growing in the area, and over the next five years is expected to grow at a rate of 39 people per day. Additionally, within 500 miles of Charleston are major markets like Miami, Atlanta, Nashville, Charlotte, Richmond, Cincinnati and Pittsburgh. This is valuable to companies with e-commerce platforms or manufacturing suppliers that must deliver their products just-in-time to larger manufacturers.

The Panama Canal Expansion opened in June 2016, allowing for larger and heavier post-Panamax ships to travel through the locks. Prior to the expansion, only Panamax ships, which can hold up to 5,000 Twenty-foot Equivalent Units (TEUs), could use the canal. Today, new Panamax and post-Panamax ships, with a capacity to hold 12,000 TEUs and 16,000 TEUs, respectively, can access East coast ports. To prepare for this change, ports along the East coast have started planning deeper port channels and new infrastructure in a race to capture this business.

The Port of Charleston is one such port. At 48 feet deep, it is one of the Nation's deepest ports. In December 2016, the Water Resources Development Act was enacted, allowing the Charleston Harbor Deepening Project to move forward. Once deepened in 2020, the entrance to the harbor will be 54 feet deep and the harbor will be 52 feet deep. The project will allow larger ships to access the port at any time, making Charleston the only East Coast port able to accept calls from post-Panamax ships at full capacity (16,000 TEUs).

The expansion of the e-commerce market across the country has created a demand for consumer products on a faster timeline. Distributors are searching for larger distribution centers along the East Coast to fill consumer orders within two-three days. The Port of Charleston provides companies an efficient logistics system by train, truck or container ship that can deliver products on time.

Market Conditions

The Charleston industrial market continues to tighten. During 2016, more than 2.5 million square feet were absorbed, bringing the market vacancy rate to 4.2% from 8.5% at the start of 2016. The Charleston industrial market has the highest average asking rental rate for industrial space in South Carolina. At the end of the fourth

North Pointe Spec | North Pointe Business Campus



Source: SunCap Property Group

Q4 2016 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)
INDUSTRIAL SPACE							
Clements Ferry	42	4,994,193	500,760	-	500,760	10.0%	211,465
Goose Creek/Moncks Corner	14	1,891,757	-	-	-	-	-
Hanahan/N. Rhett	31	4,116,668	231,000	-	231,000	5.6%	239,000
North Charleston	180	14,323,543	699,811	-	699,811	4.9%	-35,681
Peninsula	24	1,541,266	-	-	-	-	-
Summerville	62	8,075,973	65,535	-	65,535	0.8%	159,022
West Ashley	12	598,670	12,400	-	12,400	2.1%	-
Market Total	365	35,542,070	1,509,506	-	1,509,506	4.2%	573,806

quarter, the average asking rental rate was \$4.77 per square foot per year triple net (PSF/YR NNN) for industrial space. Only two years ago, the average asking rental rate was \$4.16 PSF/YR NNN, a 14.7% increase.

The Hanahan submarket ended 2016 strong, with a vacancy rate of 5.6%, down from 17.4% at the beginning of the year. The Hanahan submarket saw a total of 485,800 square feet in absorption in 2016. In 2015, the submarket saw just 11,000 square feet of absorption. The AmerCare and Premier Logistics leases this quarter contributed 250,800 square feet to the 2016 annual absorption.

North Charleston is the largest industrial submarket in Charleston, comprising 40% of the total market inventory. Due to nearly 269,000 square feet of positive net absorption this year, the vacancy rate at the end of 2016 was 4.9% in the North Charleston submarket. At the start of the year, the vacancy rate was 5.5%.

The vacancy rate in the Summerville submarket was 0.8% at the end of the fourth quarter, a decrease from 10.4% at the start of 2016. The large shift in occupancy is due to the positive net absorption of 1.3 million square feet. The majority of this can be attributed to Zinus leasing 473,000 square feet in the former Piggly Wiggly distribution center in the third quarter and the delivery of the 477,000-square-foot Gerber Childrenswear facility at full occupancy in the first quarter.

Significant Transactions

Strong activity from institutional investors in the market at the end of 2016 is expected to continue throughout 2017.

Sales

- > 4500 Goer Drive at Montague Commerce Park, totaling 346,000 square feet, sold to GFI Partners for \$8.5 million.
- > Gramercy Property Trust purchased the 1.1 million-square-foot building in the Rockefeller-MeadWestvaco Foreign Trade Zone.

- > The 615,000-square-foot former Piggly Wiggly facility at 1125 Newton Way sold to CenterPoint Properties. The total sale was \$41 million, or \$66.60 PSF.
- > Building four at the Charleston Regional Business Center delivered in August 2015. This quarter, the 278,700-square-foot building sold to Exeter, an institutional investor, for \$16 million, or \$57.41 PSF.
- > Mercedes-Benz Vans purchased the 75,000-square-foot building occupied by Streit USA Armoring at 8449 Palmetto Commerce Parkway for \$6.8 million, or \$90.27 PSF in December.

Leases

- > North American Wholesale Logistics (NAWL) leased 94,500 square feet at 320 Deming Way.
- > AmerCare leased 145,800 square feet in the North Pointe Industrial Park.
- > Premier Logistics, a third party logistics company, leased 105,000 square feet at 904 Commerce Circle.

4500 Goer Drive | Montague Commerce Park



Source: Larry Workman Photography

Construction Pipeline

Construction activity remains high in the Charleston market with 3.2 million square feet under construction, 1.7 million of which is build-to-suit projects. Build-to-suits are becoming more common as large manufacturers and suppliers move to the market. The remainder is speculative buildings, several of which are set to deliver in the first half of 2017.

Delivered

- > The 360,000-square-foot paint hangar for The Boeing Company is now complete.
- > The 82,500-square-foot expansion of the Google Data Center is complete.

Under Construction

- > A 270,000-square-foot build-to-suit for Thorne Nutraceuticals is under construction in Omni Industrial Campus.
- > Clarius has begun construction on a 587,000-square-foot speculative building in Omni Industrial Campus.
- > There is currently 500,000 square feet under construction at the Volvo Cars of North America factory. The facility is expected to deliver in 2018.
- > Construction is progressing on Daimler’s 1.1 million-square-foot expansion to their existing facility.
- > Building 2 in Atlas Commerce Center is nearly complete. The speculative building will be 67,500 square feet and is expected to deliver in the first quarter of 2017.
- > Crosspoint Building 5 at Palmetto Commerce Park in the North Charleston submarket is expected to deliver in the first quarter of 2017. The building is being developed by Childress Klein and will be 273,000 square feet.

Statewide Logistics

South Carolina’s logistics network is efficient, providing companies quick access to suppliers and customers through its ports, rail lines and interstates. South Carolina ports play a vital role in the continued success of the companies investing in the Midland’s industrial market by expediting delivery of imports and exports, as well as reducing the cost on the transportation of goods.

Total volume for the Port of Charleston at the fiscal year to date (July 2016 - December 2016) shows a 5.4% increase over the 2015 fiscal year to date (July 2015 - December 2015). The Port of Charleston continues to grow with no signs of slowing down, as it undergoes the construction of a new terminal in North Charleston and a recently funded deepening of its harbor to 52 feet by 2019. Inland Port Greer is connected to the Port of Charleston via a Norfolk Southern rail line, extending the reach of the port and its customers beyond South Carolina’s borders. Inland Port Greer recorded 9,465 rail lifts in November 2016, a 55.8% increase from a year ago. The combined success of the Inland Port and increased demand within South Carolina markets has led the South Carolina Ports Authority (SCPA) to announce plans for a second inland port facility in Dillon County.

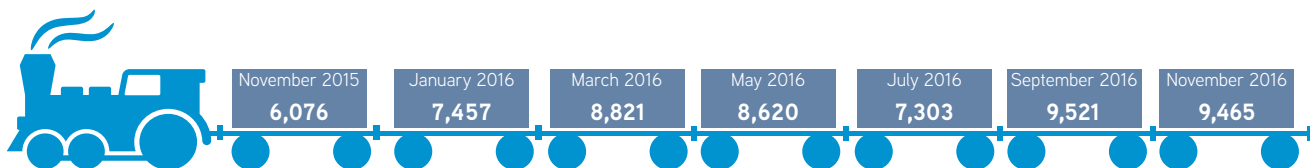
South Carolina is crossed by five interstates: I-95, I-85, I-26, I-20 and I-77, creating heavy traffic that impacts the quality of the road infrastructure. A recent legislative bill signed by the government will commit \$4 billion to fix the most heavily trafficked sections of South Carolina’s interstates, including the intersection of I-26 and I-20 in Columbia. The completion of the improvements along these interstates will be key in the expansion of companies reliant on these routes for distribution of goods.

Port of Charleston | Fiscal Year-to-Date TEU Volume



Source: South Carolina Ports Authority, Colliers International

Inland Port Greer | Monthly Rail Moves



Sources: South Carolina Ports Authority, Colliers International

Industrial Employment

Industrial employment, those jobs related to the manufacturing and whole sale trade sectors, are growing in the Charleston-North Charleston Metropolitan Statistical Area (MSA), despite a slight drop in total non-farm employment in the MSA. According to the most recent data from the Bureau of Labor Statistics, since November of 2015, 1,700 industrial jobs have been added to the MSA, 16.0% of the total number of jobs added over the same time period. Industrial employment has seen a growth from 33,300 jobs in November 2014 to 35,900 jobs in November 2016, a 7.8% growth. Robust interest in the Charleston industrial market, coupled with new capital investments, is expected to continue this upward trend for industrial employment.

Market Forecast

The coming quarters are expected to see continued healthy absorption as activity from new and expanding tenants and institutional investors increases. The Charleston industrial market has been limited to small industrial spaces in past quarters, but prospective tenants will begin to see more large speculative space come to market over the next six months. Additionally, continued economic development and infrastructure improvements will attract new prospects to the market. The Charleston Harbor Deepening Project will play a key role in the movement of goods throughout regional and global markets and in leveraging South Carolina as a strong industrial market to investors, developers and national and global companies.

Around South Carolina

Statewide investments from major employers and infrastructure improvements continue to improve the South Carolina industrial market.

Columbia, South Carolina

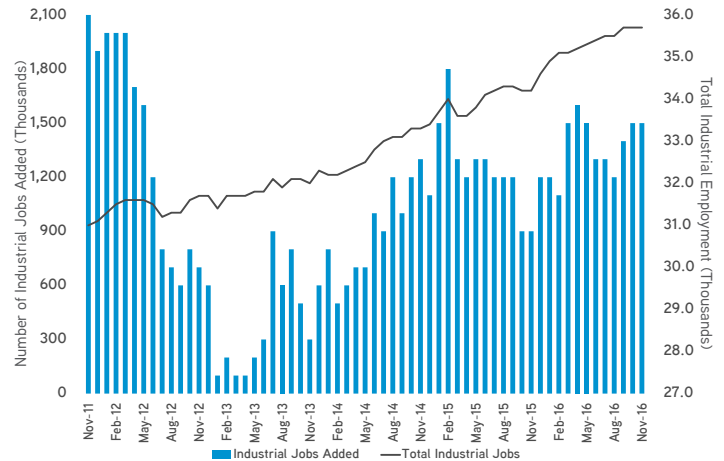
- › The expansion of e-commerce has led Amazon to lease the newly built, 120,000-square-foot Saxe Gotha Speculative building in Lexington County. The building sold in December to STAG Industrial for \$5.7 million, or \$47.71 PSF.

Greenville, South Carolina

- › The Upstate industrial market has seen a record year, with 30 new buildings delivered and nearly 8 million square feet absorbed. Three major industrial drivers are pushing the demand for industrial space in the market: advanced materials manufacturing, logistics and automotive.
- › The market is now maturing to a point sustainable for development of speculative buildings over 200,000 square feet.

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Industrial Employment | Charleston-N. Charleston MSA



Source: Bureau of Labor Statistics, St. Louis Federal Reserve, Colliers International

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



Saxe Gotha Building 2 | Lexington County



Source: LCK, LLC

554 offices in
66 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue

2

billion square feet
under management

16,000

professionals
and staff

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