

# Charleston Market Drivers Align with Successful Primary Markets

Crystal Baker Research Coordinator | South Carolina

## Key Takeaways

- > Charleston's attributes of employment, business climate and income growth mirror that of successful primary markets.
- > 12 new apartment complexes were completed from January 2017 through July 2017, which added 2,835 new units.
- > Multifamily occupancy rate is still high at 95.4% despite robust apartment development.

## Successful Market Environment

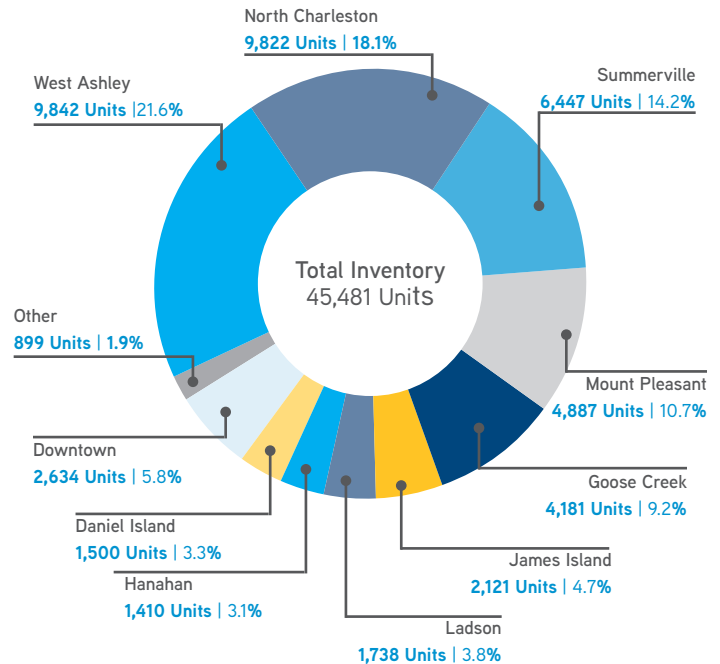
While Charleston is generally classified as a tertiary market in the investment realm, it has similar attributes and economic drivers to that of a much larger, successful primary market and can therefore expect multifamily success to continue into 2018. According to Jeff Adler, Vice President of Yardi Matrix, successful multifamily primary markets are driven by three intellectual capital nodes: employment, business climate and income growth. Charleston has the perfect storm of the three necessary factors to continue the multifamily boom currently underway.

First, according to the 2nd Quarter 2017 Realpage MPF Report, Charleston's employment base grew 1.9% with the addition of 6,700 jobs from May 2016 through April 2017. While this expansion rate was the slowest it has been over the last four years, it is still expanding. The nature of Charleston's employment is diverse and has the capability to sustain international companies within its market, such as Boeing's manufacturing center which contributes 7,320 jobs, while Volvo and Daimler-Benz boost the automotive sector with 3,700 jobs added to the Charleston market. Construction employment is also growing to support the robust demand for new residential and commercial developments. In addition, the channel-deepening construction of the Port of Charleston promises to grow employment in the coming years as it will create the deepest harbor on the Atlantic Coast and able to expand its inland port capacity. These stable drivers are expected to create employment and thus renters within the Charleston market.

Market Indicators	H1 2017	H2 2017*
Relative to prior period		
VACANCY	↓	↔
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

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

## Charleston Multifamily Inventory | 1H 2017



Source: YardiMatrix, Colliers International

Secondly, the business climate is ripe for success, Charleston's businesses have become better equipped to interact and compete on a global scale due to import/export opportunities, and additional jobs are constantly being created to sustain the ongoing growth within the advanced manufacturing, aerospace, automotive and construction sectors. According to the Charleston Regional Development Alliance, Charleston is "the preferred destination for international business and discerning travelers. It's why this community consistently appears on the World's Best Cities lists, and why Condé Nast Traveler readers voted Charleston the #1 city in the U.S. for five years in a row." This combination of international interest and steady growth have made Charleston the ideal environment for new and growing businesses to prosper.

Finally, Charleston's income levels tend to be on the upper end of the spectrum in comparison with other coastal cities such as Savannah and Jacksonville. The Charleston median household income is currently \$55,266, higher than Jacksonville at \$54,772 and Savannah at \$51,912, and the median net worth is \$83,062, similar to Jacksonville at \$83,100 and much higher than Savannah at \$58,491. Income levels and the capacity for income growth are often directly correlated with the level of education within a region, and this holds true for Charleston. Currently, 34% of the Charleston population holding some type of a professional college degree and 31% who have some college education; this number will continue to grow as Charleston meets the primary market needs of the college graduate pool of renters and young professionals who prefer a live-work-play lifestyle. Currently, 63% of Charleston employees are classified as white collar professionals and 65% have some college education, with 34% earning bachelor's degrees or higher. With a low unemployment rate of 3.6% as of June 2017, the income growth is expected to increase as the tight labor market places upward pressure on wages, which, per Moody's Analytics, are already growing at their fastest pace since 2011.

Growing employment, improving business climate and a capacity for income growth make Charleston the ideal environment for ongoing multifamily housing creation. These three necessary elements not only provide a formula for success, they are a draw for millennials and their preference for a live-work-play environment and a propensity to rent. According to Moody's Analytics March 2017, technology firms and advanced manufacturers are fueling growth in high-wage industries, and rising incomes will boost consumption. College graduates (a.k.a. renters) fit the bill for the type of employees needed to grow these high-wage businesses and can fill the positions within the professional job market. However, for Charleston to maintain this growth while avoiding a plateau due to an apartment surplus, the future developed housing needs to appeal to these college graduates and millennial renters who will continue to generate multifamily demands and create households. If properly capitalized upon, the synergy of these components creates a recipe for ongoing Charleston multifamily success.

## Construction

There are at least 11 apartment complexes under construction and

as many as 3,133 additional multifamily units planned for completion by March of next year. With these completions, the Charleston market will rise to 49,485 units during the first quarter of 2018.

## Investment Sales

Five apartment communities sold in North Charleston and Summerville during the first half of 2017. The price per square foot in the North Charleston complexes ranged from \$42 per square foot for the Rivers Edge up to \$108 per square foot in the Plantation Flats. Likewise, the Summerville prices varied from a low of \$57 per square foot in Boone West up to \$100 per square foot in Westbury Mews. Conditions remain favorable for multifamily investment sales in Charleston due to rising occupancy and rental rates, a strong local economy, a millennial preference for renting and low borrowing rates for investors.

## Market Statistics

### Inventory

Charleston's multifamily market inventory is up 3% from this time last year and is currently composed of more than 45,481 units across 238 properties, according to Yardi Matrix. There were 12 new apartment complexes completed from January through August of 2017 which added 2,835 new units to the Charleston market. Lastly, as many as 11 complexes are currently under construction and planned for completion before March 2018, which will add an additional 3,133 units.

### Occupancy

The current occupancy rate is at 95.3%. The net absorption for the second quarter of 2017 was a positive 688 units, which is rather incredible despite the inventory addition of 2,835 units during the first half of 2017. Of note, the James Island submarket captured 85% of that net absorption.

### The Passage | Summerville



Source: CF Real Estate Services

Charleston Multifamily Construction Pipeline					
PROJECT NAME / ADDRESS	SUBMARKET	SIZE (UNITS)	CONSTRUCTION STATUS	DELIVERY DATE	DEVELOPER
Wharf 7   515 Robert Daniel Drive	Daniel Island	312	Completed	Feb-17	Greystar Real Estate
Centre Point   4986 Wetland Crossing Road	North Charleston	172	Completed	Apr-17	A.G. Spanos Companies
Sky Garden   24 Woolfe Street	Downtown	110	Completed	May-17	South City Partners / Seine
The Lively at Carolina Forest   107 Village Center Blvd.	James Island	305	Completed	May-17	C. F. Evans
Ashley River Residences   1871 Ashley River Road	West Ashley	174	Completed	May-17	Trident Construction
Waters at Magnolia Bay   10765 Hwy 78	Ladson	300	Completed	Jun-17	Armada Development, LLC
Atlantic on the Avenue   6880 Rivers Avenue	North Charleston	202	Completed	Jun-17	Middle Street Partners
Proximity Residences   2021 Proximity Drive	West Ashley	199	Completed	Jul-17	RK Investors
Crowne at Live Oak Square   3112 Maybank Hwy	Southwest	281	Completed	Jul-17	Crowne Partners Inc.
Oyster Park   1025 Rifle Range Road	Mount Pleasant	269	Completed	Jul-17	Dewberry Capital Corporation
The Passage   Woodfield at Carnes Crossroads	Summerville	240	Completed	Aug-17	Woodfield Investments
Factory at Garco Park   4993 O'Hear Avenue	North Charleston	271	Completed	Aug-17	The Beach Company
Sweetwater Charleston   170 Rebellion Farms Place	Daniel Island	320	Under Construction	Sep-17	Kassinger Development Group
99 WestEdge   Lockwood Dr. & Fishburne St.	Downtown	208	Under Construction	Sep-17	Gateway Development Services
The Heyward   1000 Bonieta Harrold Drive	West Ashley	260	Under Construction	Nov-17	Woodfield Investments
Bluewater at Bolton's Landing   1680 Bluewater Way	West Ashley	194	Under Construction	Nov-17	Sterling Development
The Guild at Courier Square   465 Meeting Street	Downtown	226	Under Construction	Dec-17	Greystar Real Estate
The Waters at St. James   1053 St. James Avenue	Goose Creek	336	Under Construction	Dec-17	Armada Development, LLC
Central Island Square   864 Island Park Drive	Daniel Island	317	Under Construction	Jan-18	Faison & Associates, LLC
10 West Edge   382 Spring Street	Downtown	350	Under Construction	Feb-18	The Preston Partnership
Comet Creek   100 Comet Creek Lane	Goose Creek	264	Under Construction	Feb-18	Undisclosed
The Haven at Indigo Square   6000 James Nelson Road	Mount Pleasant	438	Under Construction	Mar-18	Johnson Development Assoc.
17 South   NEC Marginal Road & Ponderosa Drive	West Ashley	220	Under Construction	Mar-18	EYC Companies

Charleston Multifamily Investments						
PROPERTY NAME / ADDRESS	SUBMARKET	SIZE (UNITS)	YEAR BUILT	PRICE / PRICE PER SF	BUYER	SALE DATE
Bradley Square 6600 Rivers Avenue	North Charleston	160	1971	\$79,844 \$97 PSF	Toro Real Estate Partners	Jan-17
Boone West 1310 Boone Hill Road	Summerville	62	1974	\$41,935 \$57 PSF	James P. Wu	Mar-17
Westbury Mews 1425 Old Trolley Road	Summerville	132	1988	\$89,773 \$100 PSF	The Burling Capital Group	Apr-17
Rivers Edge 4301 Beam Road	North Charleston	51	1969	\$52,941 \$42 PSF	Joseph Biggins	May-17
Plantation Flats 2181 Dunlap Street	North Charleston	226	1984	\$95,575 \$108 PSF	Monument Real Estate Services	Aug-17

First Half 2017 Multifamily Market Summary Statistics									
MARKET	INVENTORY (UNITS)	VACANT UNITS	OCCUPANCY RATE (%)	AVERAGE RENT (UNIT/MONTH)	AVERAGE RENT (SF/MONTH)	NET NEW SUPPLY (UNITS)	2017 NET ABSORPTION (UNITS)	UNDER CONSTRUCTION (UNITS)	PROPOSED (UNITS)
Downtown	2,634	134	94.9%	\$2,031	\$2.51	110	0	784	246
James Island	2,121	112	94.7%	\$1,488	\$1.52	305	585	-	132
Southwest	321	6	98.1%	\$1,305	\$1.38	281	8	-	-
West Ashley	9,842	394	96.0%	\$1,070	\$1.11	373	51	674	204
North Charleston	10,093	606	94.0%	\$968	\$1.01	645	-46	-	760
Hanahan	1,410	49	96.5%	\$912	\$0.92	-	-4	-	-
Summerville	6,687	334	95.0%	\$1,087	\$1.06	240	59	-	267
Goose Creek	4,181	230	94.5%	\$1,028	\$0.95	-	47	600	60
Daniel Island	1,500	85	94.3%	\$1,542	\$1.56	312	3	637	514
Mount Pleasant	4,887	254	94.8%	\$1,454	\$1.57	269	-10	438	243
Ladson	1,738	94	94.6%	\$1,028	\$1.10	300	-5	-	-
Berkeley	278	10	96.6%	\$859	\$0.79	-	0	-	300
<b>Market Total</b>	<b>45,481</b>	<b>2,287</b>	<b>95.3%</b>	<b>\$1,151</b>	<b>\$1.18</b>	<b>2,835</b>	<b>688</b>	<b>3,133</b>	<b>2,726</b>

Source: Yardi Matrix; MPF Charleston; CoStar

## Rental Rates

The average rental rate for multifamily units in Charleston is \$1,151 per unit in the second quarter of 2017, only slightly lower than \$1,149 from the fourth quarter of 2016. The average rent per square foot remains unchanged at \$1.18 per square foot.

## Concessions

Of 192 Charleston multifamily properties surveyed, only 25 reported the practice of providing tenant concessions. The average concessions of those being provided range from 2.0% of the annual rental rate on the low end in Ladson up to 8.3% found in southwest Charleston, with the average concessions being 5.28% of the annual rental rate. However, concessions are used as more of a draw to a specific property rather than a necessity to complete a deal. With the occupancy in Charleston of 95.4% and demand on the rise, concessions should wane as long as job creation continues.

## Employment

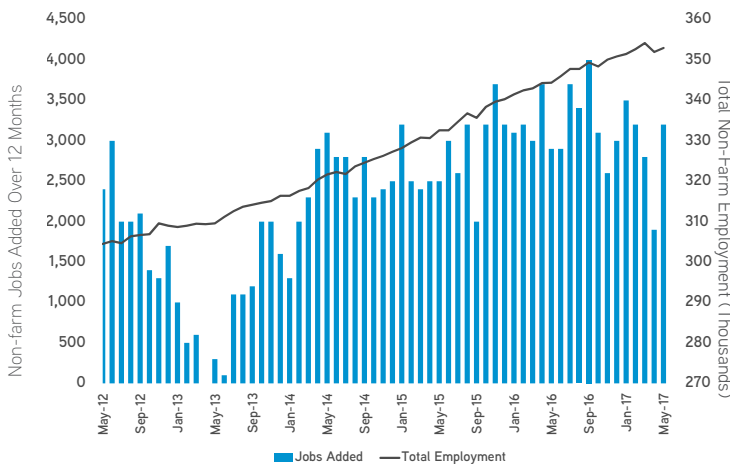
According to Moody's Analytics from March 2017, Charleston's employment growth is up almost 3% from last year, which is more than a full percentage point better than both the state and national averages. The unemployment rate is low at 4.1% and there are currently a total of 368,134 employees working for 27,123 businesses. White collar professions are the most popular, making up 63% of Charleston employees, but the construction

employment is also strong as the industry attempts to keep up with the recent surge in multifamily construction. Additionally, the need for advanced manufacturers is on the rise and Charleston will see more employees filling positions within the manufacturing sector. The variety of employment has led to a solid median household income of \$55,266. This may increase in coming years, however, as there are a growing number of employment opportunities in Charleston which, as new employees move into the area to fill these jobs, will increase the already high housing demand.

## Market Forecast

With a surge of new construction such as Charleston has seen, hypersupply often follows. However, with this city's powerful market drivers in place and the potential for income growth and job creation, we are confident that we have not yet seen the end of the Charleston demand chain. Due to the planned completion in 2019 of the Port of Charleston renovations and an expectation that this completion will draw new international companies to Charleston, an extension of the expansion cycle can be expected, leading to the ongoing demand for Charleston multifamily housing into 2018.

### Charleston, SC MSA Employment Trends



Source: South Carolina Bureau of Labor Statistics

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



CHARLESTON'S MULTIFAMILY MARKET is moving along in the expansion phase. Rental rates, occupancy and employment are all strong and continue to increase. New construction activity is historically high, with plans for additional development.

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## \$2.6

billion in  
annual revenue

## 2

billion square feet  
under management

## 15,000

professionals  
and staff

### FOR MORE INFORMATION:

Liz H. McCary  
Director of Marketing | South Carolina  
+1 803 401 4269  
Liz.McCary@colliers.com

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

### CHARLESTON MULTIFAMILY PROFESSIONALS:

Seth Clark | Senior Brokerage Associate  
+1 843 720 7501  
Seth.Clark@colliers.com

Scott Rogers, CCIM, SIOR | Senior Brokerage Associate  
+1 843 290 9948  
Scott.Rogers@colliers.com

Adam Griffin | Brokerage Associate  
+1 843 518 6089  
Adam.Griffin@colliers.com

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



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