

CHARLESTON, SOUTH CAROLINA

RESEARCH & FORECAST REPORT



High Demand and Rising Rents to Support Speculative Construction

MARKET OVERVIEW

Charleston's industrial market saw improved market fundamentals as it ended the first quarter of 2014 with decreased vacancy rates and increased activity by tenants and buyers. The total vacancy rate declined to 8.0% in the first quarter of 2014 from 8.4% in the fourth quarter of 2013. This is the fifth consecutive year that the vacancy rate has declined in the region dropping from 13.04% in 2009 to 8.4% in 2013. Industrial expansion, strong demand for space and the lack of new speculative buildings ready for move-in resulted in a positive net absorption of 120,251 square feet during the first quarter of 2014.

Sales dominated the first quarter as they did in the fourth quarter of 2013. Demand for industrial acquisitions continued to be strong as available supply of inventory and interest rates remained low. Sales are forecasted to remain strong through year-end 2014 with buyers consisting of both users and investors. One driver is that large, out of market manufacturers are seeking to acquire large facilities for purchase for their own use. Currently, Charleston has such a dearth of buildings that manufacturers that prefer Charleston for operational reasons are considering alternative cities within the region to satisfy their space needs.

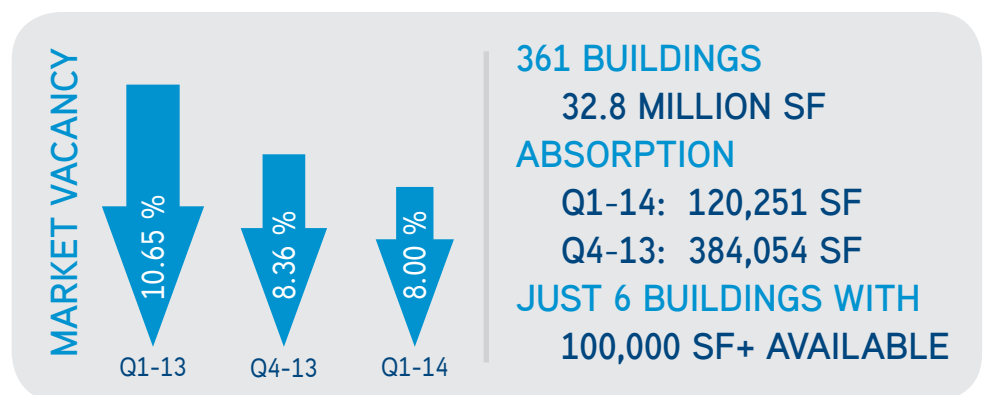
Two developers are making the moves to go spec with 150,000 to 275,000 square foot facilities. With extremely limited speculative construction in approximately five years, side effects such as lower vacancy rates and increasing rental rates can be seen throughout the region. As the market continues to tighten, many tenants are having difficulty finding space to suit their needs, especially if they require more than 100,000 square feet. While there is the potential for major leases to expire thus bringing existing warehouse space to the market, the current demand would quickly absorb any quality space that would become vacant.

MARKET INDICATORS

	Q1 2014	Forecast
VACANCY RATE	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↑
RENTAL RATE	↑	↑

QUICK UPDATES

- > MARKET VACANCY RATE REMAINS BELOW 10%
- > STRONG SALES ACTIVITY
- > SPECULATIVE DEVELOPMENT NEEDED FOR GROWTH
- > PIER CONTAINER VOLUME REACHES 2008 LEVELS
- > BLOCKS OF SPACE OVER 80,000 SF ARE IN LOW SUPPLY
- > NORTH CHARLESTON CONTAINS GREATEST AMOUNT OF AVAILABLE SPACE



	Number of Buildings	Square Feet	Direct Vacant	Sublease Vacant	Direct Vacancy	Total Vacancy	Total Vacancy (Q4-13)	Net Absorption
Clements Ferry	40	4,342,844	224,900	80,000	5.18%	7.02%	7.02%	0
North Charleston	169	11,678,020	782,644	80,000	6.70%	7.39%	9.11%	200,991
Hanahan - N. Rhett	31	3,775,340	315,000	-	8.34%	8.34%	3.44%	(185,000)
Goose Creek - Moncks Corner	15	2,060,734	0	-	0.00%	0.00%	0.00%	0
Summerville	62	7,205,887	599,456	-	8.32%	8.32%	9.77%	104,260
West Ashley	14	838,670	71,000	15,000	8.47%	10.25%	10.25%	0
Peninsula	30	2,856,986	451,500	-	15.80%	15.80%	15.80%	0
Market Total	361	32,758,481	2,444,500	175,000	7.46%	8.00%	8.36%	120,251

SALES TRANSACTIONS

Sales activity was hot during the first quarter of 2014 following a trend that began in 2013 as users and investors took advantage of low interest rates and high occupancy costs. Manufacturers continue to consider Charleston as several have purchased smaller facilities in the Eastport area of Summerville.

- > Lee Distributors acquired a 162,000 square foot distribution and manufacturing facility in Summerville for \$8.75 million. The company plans to renovate and occupy the building located at 315 Marymeade Drive.
- > American Tactical Imports, Inc., one of the top importers of firearms and firearm accessories, is expanding its footprint and entering the South Carolina market. The importer purchased a 27,639 square foot manufacturing plant located at 231 Deming Way in Summerville for \$2.15 million and plans to create over 100 jobs.
- > Pacolet-Milliken Enterprises Inc., a Spartanburg-based investment company, acquired Cooper River Partners, owner of Bushy Park Industrial Complex, a 1,600 acre industrial park with tenants such as Perigon Engineering and Nexans High Voltage. The park's tenants have collectively invested \$1.2 billion and created thousands of jobs.

RECENT ANNOUNCEMENTS

- > Lexington-based The SEFA Group recently announced plans to build a \$40 million facility in Georgetown. The plant will recycle all of the coal fly ash produced at Santee Cooper's Winyah Generating Station and will be able to recycle as much as 400,000 tons of fly ash annually.
- > ManTech International Corp, Virginia-based developer of products for defense and homeland security applications, recently opened a 12,000 square foot facility in North Charleston. Located at 5965 Core Avenue, work at the facility will include software development, 3-D modeling, database development, tactical vehicle command, control systems analysis, and electro-optical, seismic, thermal and motion sensor data fusion.
- > JBE, Inc, a supply management solution company who works with clients such as Cummins, Honda, Sonoco, Michelin and Boeing, leased approximately 100,000 square feet at North Rhett Commerce Center in North Charleston.
- > Boeing's Commercial Airplanes' business increased production rates and accelerated delivery of its backlog in 2013 while focusing on the launch of the 787-10 and 777X models.

NORTH POINTE BUSINESS CAMPUS

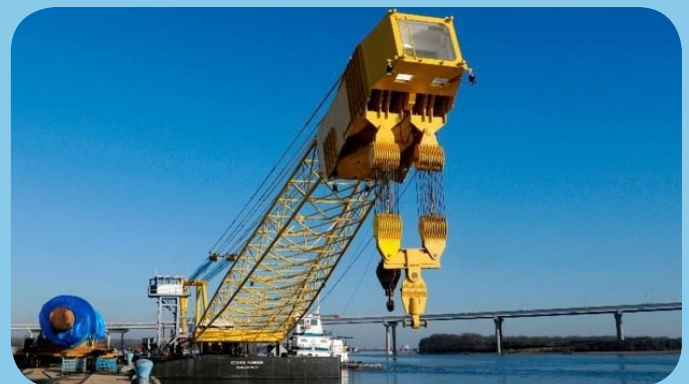
Two pad-ready sites are available in North Pointe Business Campus off North Rhett Avenue. The sites can accommodate users from 285,000 to 351,000 square feet.



PORT OF CHARLESTON UPDATE

The South Carolina Ports Authority reported a 10% increase in pier container volume in March 2014 over the previous year reaching its highest volume since August 2008. The port handled 150,516 TEUs, or 20-foot equivalents, in March 2014.

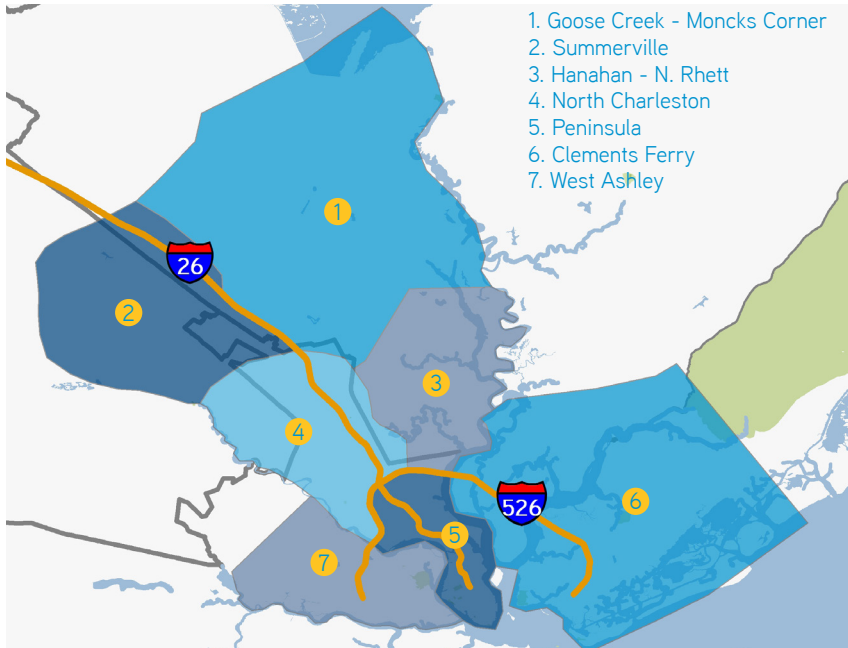
The Charleston Harbor welcomed its newest asset, The Ocean Ranger, which unloaded a 308-ton generator on a barge in February. The harbor's newest heavy-lift crane has a 500-ton capacity and can achieve a lift rating of up to 740 tons for heavier cargo. The mobile barge crane is designed primarily for heavy project cargo lifts but can also lift cargo on barges, railcars, trucks and container vessels. The \$2.5 million crane is owned and operated by Charleston Heavy Lift, Inc.



The Ocean Ranger, Charleston's newest heavy-lift barge crane. Source: South Carolina Ports Authority

IN THE MONTHS AHEAD

Overall, the market has been characterized by a number of sales transactions, primarily by users. The market is calling for new facilities as available quality, large blocks of space diminish throughout the market. It is hopeful that contemplated speculative buildings come out of the ground shortly enabling market growth to continue. Successful pre-leasing of a speculative building has the potential to spur further development of speculative construction.



SELECT Q1-14 SALES TRANSACTIONS			
BUYER	SIZE	ADDRESS	PRICE
Pacolet Milliken	1,600 Acres	Bushy Park	Unknown
Lee Distributors	162,000 SF	162 Marymeade	\$8,748,000
Origin Point Brands	119,452 SF	2453 King Street Ext.	\$3,500,000
JL Woode	87,872 SF	1770 Hock Avenue	\$1,900,000
Pro Build	58,123 SF	257 Deming Way	\$2,950,000
Just Plane Properties LLC	50,765 SF	219 Varnfield	\$2,137,500
Carr Properties	32,000 SF	2745 W 5th North St.	\$775,000

SELECT Q1-14 LEASE TRANSACTIONS		
TENANT	SIZE	ADDRESS
SAIC (renewal)	305,423 SF	1020 Northpointe Industrial Blvd.
JBE	103,448 SF	North Rhett Commerce Center
Dupez Storage & Forwarding	100,000 SF	Palmetto Commerce Park
Premier Logistics	100,000 SF	3290 Benchmark
Frontier Logistics	57,787 SF	4500 Goer
Key Logistics	50,000 SF	Arco Lane
VT Milcom	25,000 SF	1007-A Trident Street
Appalachain Insulation Supply	25,000 SF	1007-B Trident Street



North Rhett Commerce Center, North Charleston, SC

JBE, Inc. leased 100,000 square feet at North Rhett Commerce Center in North Charleston. The supply chain management solution company works with clients such as Cummins, Honda, Sonoco, Michelin and Boeing.



231 Deming Way, Summerville, SC

A 27,639 square foot manufacturing plant at 231 Deming Way in Summerville, SC was purchased for \$2.15 million by American Tactical Imports, Inc. The importer of firearms and firearm accessories is to occupy the building and create over 100 jobs.



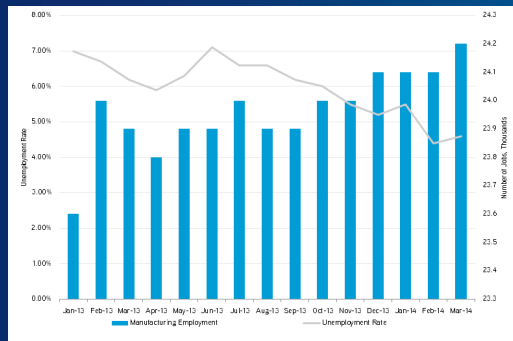
315 Marymeade Drive, Summerville, SC

Lee Distributors purchased a 162,000 square foot distribution and manufacturing facility at 315 Marymeade Drive in Summerville, SC for \$8.75 million with plans to occupy the building following an extensive renovation.

ECONOMIC OVERVIEW – CHARLESTON SC

MANUFACTURING EMPLOYMENT & UNEMPLOYMENT

Charleston - N. Charleston - Summerville, SC MSA



The Charleston-N. Charleston-Summerville, SC MSA unemployment rate was up slightly to 4.6% in March 2014 from 4.4% in February 2014, but remained below the March 2013 unemployment rate of 6.2%. The statewide and national unemployment rates were 5.5% and 6.7%, respectively, in March 2014.

Manufacturing employment in Charleston was up to 24,200 jobs in March 2014 from 23,900 in March 2013. South Carolina reported 228,800 manufacturing jobs in March 2014. Columbia and Greenville employed 28,300 and 41,100, respectively, in the manufacturing industry in March 2014.

AROUND THE STATE

South Carolina's business friendly environment, talented labor force and efficient logistics provided through the Port of Charleston and South Carolina Inland Port in Greer, SC have left the state with a limited supply of quality move-in ready industrial space. The market is active with capital investments and speculative construction in major cities.

COLUMBIA, SOUTH CAROLINA

- Construction at Nephron Pharmaceuticals' new \$330 million manufacturing facility at 4500 12th Street Extension in Cayce is nearing completion and is to be operational this spring. The company, which is headquartered in Orlando, Florida, manufactures generic inhalation solutions and plans to expand its Columbia, SC product line to include ophthalmic and injectable medications. Nephron currently has hired 80 employees and is still filling several positions. The company is contemplating launching a second phase, but definite plans have not been made.
- Reger Holdings of New York purchased a 174,000 square foot building on 11.85 acres at 3130 Bluff Road in the Southeast Columbia submarket and a 109,000 SF building in Richburg, SC just off I-77. Both facilities had fallen into disrepair. Reger plans a major renovation to both buildings and is offering highly competitive lease rates with a generous tenant improvement allowance.

GREENVILLE, SOUTH CAROLINA

The available supply of existing industrial space falls short of demand in the Upstate and has motivated speculative construction in Greenville.

- Construction on a 250,000 square foot class A industrial building in Fountain Inn, SC is to begin by mid-year 2014. The \$12 million development, to be called Southchase One, will be located on 40 acres in Southchase Industrial Park off Interstate 385 and is anticipated to complete in early 2015.
- Logue Park, an \$11 million development, is planned for 13 acres within one mile of the Interstate 85 and Pelham Road interchange. The park is to consist of two class A industrial buildings totaling 200,000 square feet. The buildings will be equipped with 50 by 50 inch column spacing, 28 foot minimum clear ceiling heights, a 200 foot truck court, the ability to provide drive-in doors and early suppression fast response (ESFR) sprinkler systems.



Planned Renovations, 3130 Bluff Road, Columbia, SC



Logue Park, Greenville, SC

485 offices in 63 countries on 6 continents

- \$2.1 billion in annual revenue
- 1.46 billion square feet under management
- Over 15,800 professionals
- 80,000 Lease/Sale Transactions
- \$75 Billion Total Transaction Value

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Sources: Bureau of Labor Statistics, Colliers International Research, CoStar Group, SC Ports Authority

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