

# Non-core retail activity is gaining traction

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## Key Takeaways

- > Average triple net core rental rates have risen to \$22.12 per square foot this quarter.
- > The East Cooper submarket posted the highest absorption of all of the Charleston submarkets.

## 2018 Market Recap

Over the past 12 months, the Charleston retail market absorbed 78,502 square feet; likewise, non-core shop space absorbed 124,128 square feet, however, core shop space posted a net negative absorption. There are currently 369,106 square feet of retail space under construction within the Charleston retail submarkets. Also, 323,163 square feet of shopping center space completed construction this year. The overall vacancy rate dropped from 6.08% during the fourth quarter of last year to 5.53% during the fourth quarter of 2018. The overall average triple net weighted retail rental rates dropped slightly from \$2.50 per square foot during the fourth quarter of 2017 to \$2.40 per square foot this quarter, largely due to the lack of quality available space factored into the weighted average.

## Market Conditions

The Charleston retail market consists of 14.32 million square feet of retail space, and there were no new retail buildings delivered to the market during the fourth quarter of 2018. The market posted a net negative absorption of 27,389 square feet this quarter. Core shopping centers posted a net negative 28,881 square feet during the fourth quarter of 2018, non-core retail space absorbed 1,492 square feet. The overall market vacancy rate increased from 5.34% last quarter to 5.53% during the fourth quarter of this year. Also, the rental rate for the remaining shop space availabilities averaged \$20.40 per square foot, up 0.84% above the average shopping center space of \$20.23 per square foot during the third quarter of 2018.

## Berkeley

The Berkeley retail submarket has almost 1.3 million square feet of retail space within its submarket and has relatively equal amounts of core and non-core shopping center spaces. This submarket

### Market Indicators

Relative to prior period	Q4 2018	Q1 2019*
VACANCY	↑	↑
NET ABSORPTION	—	+
CONSTRUCTION	↑	↑
WEIGHTED 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 2018 Charleston Retail Market	Core	Non-core
Vacancy Rate	4.36%	6.85%
Change From Q4 2017 (basis points)	+61	-183
Quarterly Absorption (Thousand Square Feet)	-28.88	1.49
New Construction (Thousand Square Feet)	-	-
Under Construction (Thousand Square Feet)	205.23	163.88

### Asking Weighted Rents

Per Square Foot Per Year		
Shop Space	\$22.12	\$19.15
Change From Q4 2017	-2.73%	+1.97%

posted a net negative absorption of 3,802 square feet, with 13,325 square feet of the negative absorption occurring within core shop spaces. Likewise, the vacancy rate rose from 3.19% during the third quarter of 2018 to 3.48% this quarter. The average weighted shopping center rental rate rose from \$13.13 per square foot during last quarter to \$13.31 per square foot during the fourth quarter of 2018, and this may be attributed to higher quality retail space continuing to become available as the vacancy rate rises.

## East Cooper

The East Cooper submarket is the second largest submarket, with 3.41 million square feet of shopping center retail space. The East Cooper submarket absorbed 20,436 square feet during the fourth quarter of 2018, most of which was absorbed in non-core shopping centers. The overall East Cooper submarket vacancy rate dropped from 3.83% last quarter to 3.23% during the fourth quarter of this year. The triple net weighted rental rates in the East Cooper submarket are on the rise; during the fourth quarter of 2018, they averaged \$25.77 per square foot. Triple net core weighted rental rates averaged \$28.67 per square foot, and the average triple net weighted rental rate in non-core retail space was \$24.12 per square foot during the fourth quarter of 2018.

## North Charleston

North Charleston is the largest submarket, comprised of 3.91 million square feet. This submarket overall vacancy rate dropped slightly to 8.02% this quarter and the submarket absorbed 5,436 square feet of shopping center space during the fourth quarter of 2018; core shopping centers absorbed 6,264 square feet. The triple net average North Charleston shop space rental rates increased during the fourth quarter of 2018 and were \$13.84 per square foot, up from \$13.73 per square foot last quarter. This quarter's rental rates within core shop space also rose marginally to \$14.69 per square foot, up from the third quarter rental rate of \$14.61 per square foot.

## Summerville

The Summerville submarket has over 2.34 million square feet of retail space, and during the fourth quarter of 2018, posted a net negative absorption of 844 square feet due to core and non-core retail absorption offsetting one another. Core retail space posted a net negative absorption of 3,645 square feet, while non-core shop space absorbed 2,810 square feet. The Summerville overall vacancy rate rose slightly from 3.25% during the third quarter of 2018 to 3.28% during the fourth quarter. The triple net average weighted rental rate in Summerville rose from \$21.42 per square foot last quarter to \$21.96 during the fourth quarter of this year.

## West Ashley

The West Ashley submarket has over 2.21 million square feet of retail space, and the overall vacancy rate rose significantly from 7.07% during the third quarter of this year to 9.19% during the fourth quarter of 2018. This submarket also posted a net negative absorption of 46,838 square feet, mostly in core retail space at the shopping center at 1610 Sam Rittenberg Boulevard. However,

## Definitions

This report includes two distinct types of data.

**Shopping Center Retail** is defined as all retail shopping centers except for regional shopping centers that are 20,000 square feet or larger, designed to accommodate at least one anchor or junior anchor tenant. This is further divided into core and non-core retail nodes.

A **core retail** center is in an amalgamation that draws shoppers from across the region. It will have a mix of anchor, junior anchor and shop space tenants and will include a variety of food service and soft goods retailers that exist only in core retail markets.

A **non-core** retail center will be one that is located at the edge of a submarket. It is generally designed with a single retail anchor and attracts shoppers from the surrounding neighborhoods only.

Anchor space is typically 25,000 square feet or greater and is designed to accommodate a single tenant.

Junior anchor space is typically 10,000 to 25,000 square feet and is designed for a single tenant. It can anchor a shopping center but is generally paired with an anchor and shop space.

Shop space is typically less than 10,000 square feet and is generally attached to a center with an anchor, junior anchor or both.

**Urban Retail** is defined as a street-oriented retail district where the primary way the tenant approaches the property is as a pedestrian. It typically has a mix of luxury retailers not found in traditional shopping centers and is found in urban locations. It is usually the street level or first level of a multistory building in a highly urbanized area.

the average triple net core shop space rental rate was \$31.74 per square foot during the fourth quarter of 2018; the overall West Ashley submarket rental rates were \$21.71 per square foot.

## Urban Retail

King Street, stretching from Line Street to Broad Street, consists of approximately 320 properties and 844,058 square feet. In the fourth quarter of 2018, the vacancy rate remained 9.8%. The average triple net asking rental rate for shop space along the corridor is \$58.33 per square foot.

## Significant Transactions

According to CoStar, there were 52 retail sales from October through December of 2018. There were also 71 leases signed during the fourth quarter of 2018, the two largest leased by undisclosed tenants.

## Sales

- › Fencroft Capital purchased a 4,646-square-foot retail storefront for \$4.92 million, located at 415 King Street in Charleston.
- › Knightsville Crossing, a 36,108-square-foot shopping center located at 1605 Central Avenue in Summerville, was purchased for \$4.6 million by Andrew C. English.

- > 588 East Bay Street is a 1,479-square-foot retail/convenience store purchased for \$3.15 million by McRae Law Firm.
- > For \$2.93 million, Ecovest Development, LLC purchased a 1,236-square-foot retail/convenience store located at 200 Spring Street.
- > In downtown Charleston at 188 King Street, a 3,166-square-foot retail storefront was purchased by Hillary S. Lamendola for \$2.8 million.
- > A 7,029-square-foot freestanding retail building located at 817 St. Andrews Boulevard in Charleston was purchased for \$1.63 million by MAR Real Estate, LLC.

### Leases

- > Dollar General leased a 9,100-square-foot retail building located at 7630 Highway 41 in Jamestown.

## Gross Retail Sales & Employment

Per the Bureau of Labor Statistics' most recent data from October 2018, non-farm employment has encompassed 20.9% of the total employment and 7,500 non-farm jobs were added within the Charleston Metropolitan Statistical Area (MSA) within the last 12 months. Also, the Charleston MSA had a total of 362,700 non-farm employees. Data from the South Carolina Department of Revenue state gross retail sales in the Charleston MSA reached \$30.51 billion, a 12.8% increase over the last 12 months, which spans from October 2017 through October 2018.

## Market Forecast

The Charleston region can expect positive absorption in the Summerville area thanks to high demand in the Nexton area due to an influx of residential occupants, and the East Cooper submarket can expect positive absorption into 2019 because of its convenient

location; however, the rest of the Charleston retail market may struggle as businesses locate closer to the positive market activity. The average market rental rates continue to increase quarter-over-quarter. The overall shopping center vacancy rate in Charleston is low, and, in the areas seeking new tenants, new construction will likely be proposed.

## Around South Carolina

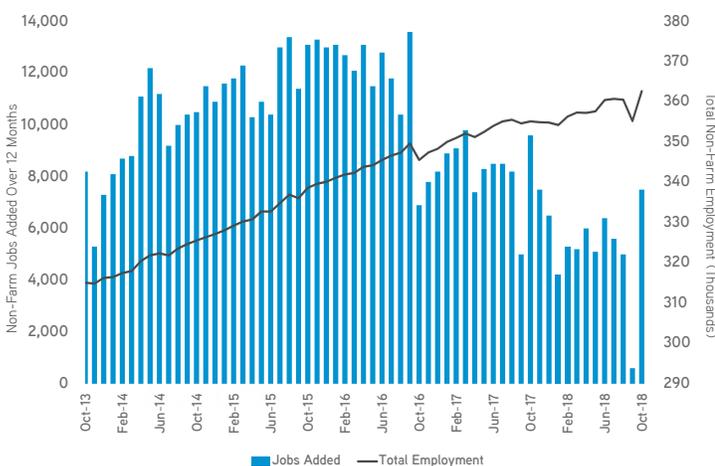
### Columbia, SC

- > The Columbia shopping center market absorbed 2,879 square feet during the fourth quarter of 2018, and overall average shop space weighted rental rates averaged \$17.57 per square foot. In addition, there were two new retail buildings delivered to the market this quarter. The Columbia vacancy rate is expected to decrease through the middle of 2019 because no significant construction is currently underway and prime retail space availabilities are diminishing.

### Greenville-Spartanburg-Anderson, SC

- > Vacancy rates were slightly lower during the fourth quarter of 2018 and, with no new construction underway, are expected to drop further in the next few quarters. The market absorbed 20,184 square feet of retail space this quarter and the vacancy rate dropped from 10.16% during the third quarter of 2018 to 10.04% this quarter. Average triple net weighted shop space rental rates are increasing across most submarkets: non-core rental rates rose from \$10.50 per square foot last quarter to \$10.80 per square foot during the fourth quarter of 2018. Likewise, core rental rates increased from \$15.24 per square foot during the third quarter of 2018 up to \$16.44 per square foot this quarter.

### Charleston, SC MSA Employment Trends



Source: South Carolina Bureau of Labor Statistics

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



## Q4 2018 Retail Market Summary Statistics | Charleston, SC

MARKET	INVENTORY (SF)	VACANCY RATE (%)	ANCHOR SPACE (GREATER THAN 25,000 SF)		JR. ANCHOR SPACE (10,000-25,000 SF)		SHOP SPACE (LESS THAN 10,000 SF)	
			VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)	VACANT (SF)	ASKING RENT (NNN)
<b>Berkeley</b>								
Non-Core	620,597	4.52%	-	-	-	-	28,045	\$12.75
Core	678,458	2.54%	-	-	14,000	\$25.00	3,200	\$18.00
<b>Berkeley Total</b>	<b>1,299,055</b>	<b>3.48%</b>	<b>-</b>	<b>-</b>	<b>14,000</b>	<b>\$25.00</b>	<b>31,245</b>	<b>\$13.31</b>
<b>East Cooper</b>								
Non-Core	1,422,655	6.04%	46,000	\$30.00	-	-	39,914	\$24.12
Core	1,983,950	1.22%	-	-	-	-	24,193	\$28.67
<b>East Cooper Total</b>	<b>3,406,605</b>	<b>3.23%</b>	<b>46,000</b>	<b>\$30.00</b>	<b>-</b>	<b>-</b>	<b>64,107</b>	<b>\$25.77</b>
<b>North Charleston</b>								
Non-Core	2,321,673	8.54%	97,015	\$5.00	-	-	101,339	\$13.18
Core	1,586,401	7.26%	31,280	-	35,500	\$11.00	48,448	\$14.69
<b>North Charleston Total</b>	<b>3,908,074</b>	<b>8.02%</b>	<b>128,295</b>	<b>\$5.00</b>	<b>35,500</b>	<b>\$11.00</b>	<b>149,787</b>	<b>\$13.84</b>
<b>Peninsula</b>								
Non-Core	165,647	3.66%	-	-	-	-	6,064	\$30.00
<b>Peninsula Total</b>	<b>165,647</b>	<b>3.66%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,064</b>	<b>\$30.00</b>
<b>South Islands</b>								
Non-Core	367,406	1.33%	-	-	-	-	4,877	\$41.00
Core	622,328	5.28%	-	-	-	-	32,843	\$21.82
<b>South Islands Total</b>	<b>989,734</b>	<b>3.81%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,720</b>	<b>\$24.78</b>
<b>Summerville</b>								
Non-Core	766,668	1.28%	-	-	-	-	9,800	\$29.00
Core	1,578,257	4.25%	28,100	\$7.50	-	-	39,047	\$21.47
<b>Summerville Total</b>	<b>2,344,925</b>	<b>3.28%</b>	<b>28,100</b>	<b>\$7.50</b>	<b>-</b>	<b>-</b>	<b>48,847</b>	<b>\$21.96</b>
<b>West Ashley</b>								
Non-Core	1,108,137	11.79%	58,047	\$13.00	22,200	\$13.54	50,359	\$19.33
Core	1,101,859	6.58%	29,945	\$12.00	28,111	\$19.60	14,418	\$31.74
<b>West Ashley Total</b>	<b>2,209,996</b>	<b>9.19%</b>	<b>87,992</b>	<b>\$12.47</b>	<b>50,311</b>	<b>\$16.93</b>	<b>64,777</b>	<b>\$21.71</b>
<b>Market Total</b>								
Non-Core	6,772,783	6.85%	201,062	\$17.08	22,200	\$13.54	240,398	\$19.15
Core	7,551,253	4.36%	89,325	\$9.82	77,611	\$17.78	162,149	\$22.12
<b>Market Total</b>	<b>14,324,036</b>	<b>5.53%</b>	<b>290,387</b>	<b>\$14.61</b>	<b>99,811</b>	<b>\$16.69</b>	<b>402,547</b>	<b>\$20.40</b>
<b>Urban Retail</b>								
King Street	844,058	9.8%	40,000		11,488		30,817	\$58.33

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annual revenue

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billion square feet  
under management

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professionals  
and staff

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