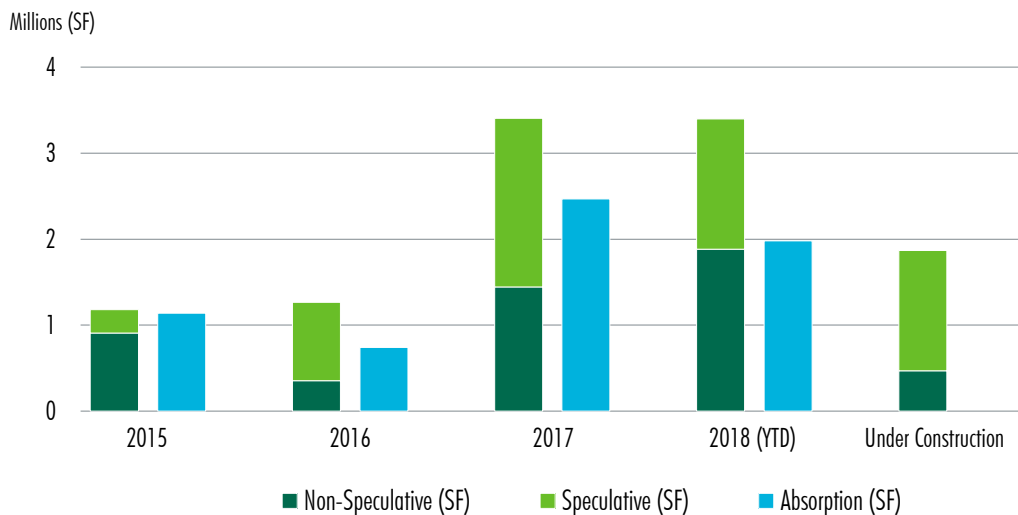


Charleston Industrial & Logistics, Q3 2018

# Increased speculative development prompts accelerated absorption

▼ Vacancy Rate 7.2 %
▲ Availability Rate 9.8 %
▲ Net Absorption 795,025 SF
▶ Avg. Asking Rent \$5.59 PSF NNN
▼ Construction 1,869,624 SF

Figure I. Speculative and Non-Speculative Deliveries



Source: CBRE Research, Q3 2018

In the third quarter of 2018 the Charleston industrial market delivered its twelfth consecutive quarter of growth with nearly 800,000 sq. ft. of positive absorption. In the last four quarters the Charleston market has absorbed just under four million sq. ft. of industrial product.

Despite a significant amount of new speculative construction, i.e., construction beginning prior to the developer having secured a tenant, the Charleston market has consistently proven its ability to quickly absorb space in the marketplace. However, it is important to note that the overwhelming majority of the roughly 1.8 million sq. ft. currently under construction is speculative,

meaning that in the short-term expect vacancy to rise.

Construction is underway at a number of new industrial projects. The Silverman Group’s latest addition to Summerville’s Foreign Trade Zone as well as Greensboro-based developer Samet’s facility located the Omni Industrial Park are scheduled to be completed later this year. Once finished these projects will add nearly 1 million sq. ft. of Class A warehouse space to Charleston’s I-26 North submarket. Another major development is set to break ground at Camp Hall in early 2019 and also located in the I-26 North submarket. The

Figure 2. Market Statistics

Market	Market Rentable Area (SF)	Vacancy Rate (%)	Total Availability (%)	Avg Asking Dr Rate (\$ PSF/YR)	Under Construction (SF)	Net Absorption Last 4 Qtrs (SF)	Net Absorption Current Qtr (SF)
Charleston	1,816,457	7.6	12.4	9.84	48,000	(38,000)	-
East Cooper	8,472,100	3.7	3.8	5.64	-	79,163	200,000
Hanahan	6,204,388	5.9	11.6	7.29	340,000	87,141	91,389
Hwy 52 North	4,681,735	9.6	11.2	1.64	-	(136,859)	-
I-26 North	12,923,674	9.1	11.9	5.06	1,052,544	3,004,895	68,617
North Charleston/Ladson	23,860,444	7.4	9.8	5.85	429,080	681,503	433,519
West Ashley	1,267,604	7.2	12.7	8.89	-	(71,148)	1,500
<b>MARKET TOTAL</b>	<b>59,226,402</b>	<b>7.2</b>	<b>9.8</b>	<b>5.59</b>	<b>1,869,624</b>	<b>3,576,343</b>	<b>795,025</b>
Manufacturing	24,169,808	5.0	6.3	4.97	-	1,982,643	250,839
R&D/Flex	2,413,262	6.6	10.5	9.99	-	63,610	33,700
Warehouse/Distribution	32,463,332	9.0	12.5	5.56	1,869,624	1,530,090	510,486
<b>MARKET TOTAL</b>	<b>59,226,402</b>	<b>7.2</b>	<b>9.8</b>	<b>5.59</b>	<b>1,869,624</b>	<b>3,576,343</b>	<b>795,025</b>

Source: CBRE Research, Q3 2018

project is slated to be one of the largest in the region providing roughly 800,000 sq. ft. of speculative warehouse space adjacent to Volvo's 2.3 million sq. ft. manufacturing facility completed earlier this year.

Recently completed projects include Pattillo's speculative development located in Palmetto Commerce Park and the completion of Crosspoint 6, both properties combine to supply a little over 600,000 sq. ft. of warehouse space to the North Charleston/Ladson submarket. In addition, FedEx's newest distribution center was also completed in the third quarter of 2018 and added another 230,000 sq. ft. of absorption to the North Charleston/Ladson submarket as well.

While increasing developer confidence and tenant demand for larger facilities is driving the growing size of warehouses, an often-underappreciated factor is the cost of land. As land prices rise, the pressure to build larger facilities grows, as economies of scale allow developers to obtain a greater rate of return for completed facilities. In addition to rising land costs, the cost of labor is also complicating new development. Developers are all competing in a market with a limited supply of construction labor. On top of land and labor, material prices are on the rise as well as a result of concerns about global trade. All of these pressures point to one likely outcome: an increase in asking rates over the next few years. Currently asking rates are \$5.59 per sq. ft. on a triple net basis.

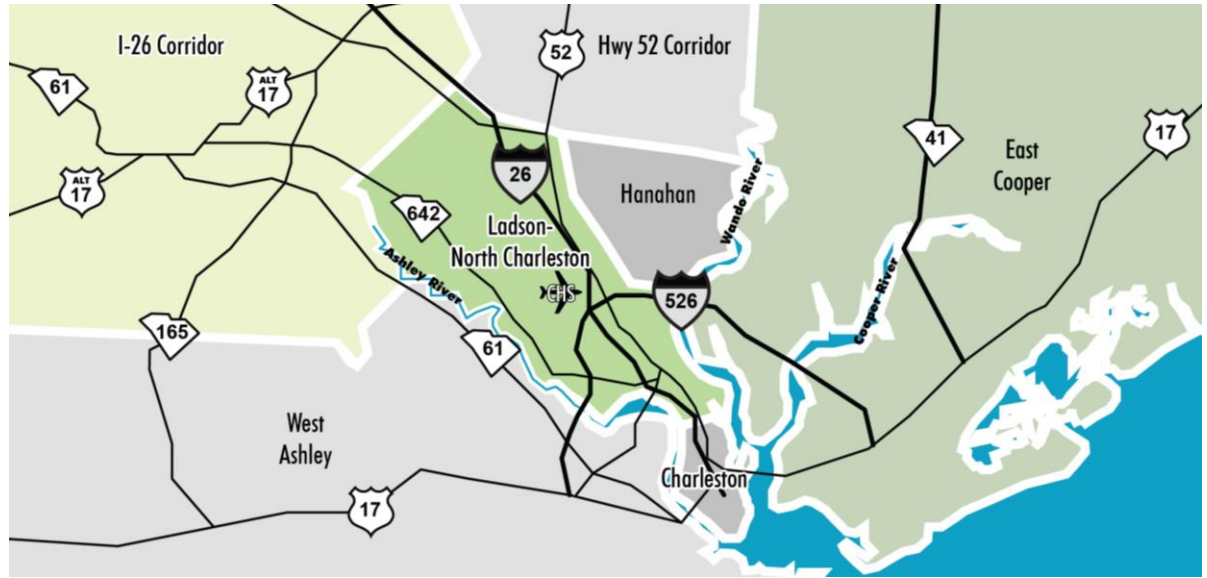
Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q3 2018

Over time the range of speculative warehouse sizing has grown significantly with the smallest project currently under construction measuring roughly 120,000 sq. ft. However, not every industrial user requires such a large amount of space. In response, the Charleston market is experiencing a dwindling supply of smaller warehouse spaces, i.e., industrial properties identified with 100,000 sq. ft. or less. Although the overall market’s most recent vacancy declined 10 basis points from last quarter’s 7.7% down to 7.2%, vacancy for smaller warehouse spaces in the marketplace is only 5.0%. Given the large amount of speculative warehouse product currently under construction, expect to see vacancy tighten in the coming quarters for smaller warehouse product as developers fail to respond to demand.

A significant contributor to the growth in warehouse and distribution facilities in the Charleston market can be attributed to ongoing expansion efforts at the Port of Charleston, one of the fastest growing and most efficient ports in the country. The Port of Charleston, in addition to the recently opened Inland Ports of both Greer and Dillon, continues to be a catalyst for growth in the Charleston market and it is difficult to understate its vital role in helping to cultivate the region’s industrial marketplace. The port is undertaking a massive capital improvement project intended to attract more container traffic from a recently widened Panama Canal. The end-goals are to both deepen the port to 52 feet and to open the new Hugh Leatherman terminal. The terminal is slated for a 2020 completion.

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