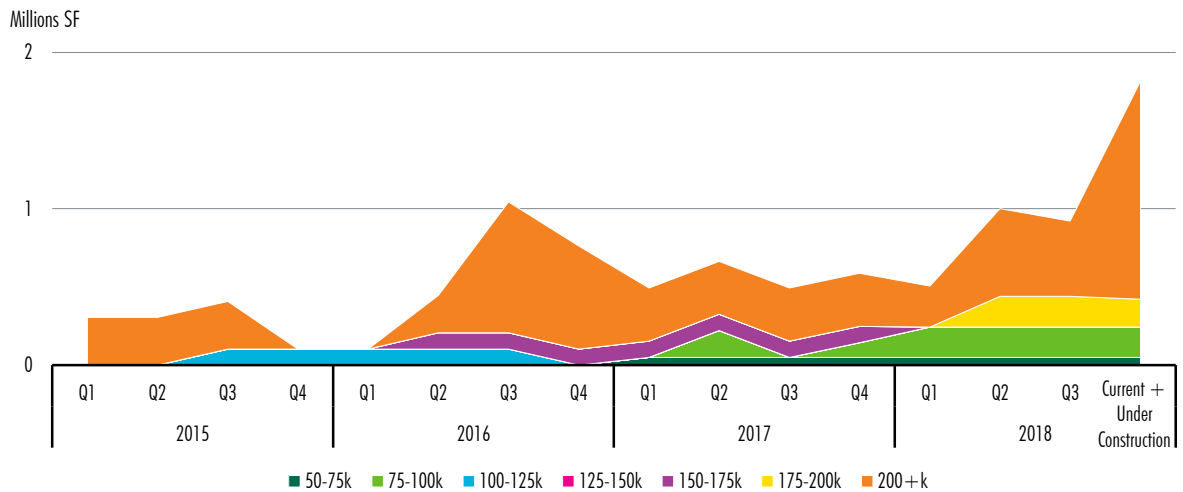


Greenville-Spartanburg Industrial & Logistics, Q3 2018

Speculative development responding primarily to large warehouse needs

▶ Vacancy Rate 6.9%
▶ Availability Rate 11.1%
▼ Net Absorption 544,476 SF
▶ Asking Rate \$3.33 PSF NNN
▲ Under Construction 3,993,420 SF

Figure 1. Speculative Vacant Class A Warehouse Space by Property Size



Source: CBRE Research, Q3 2018

During the third quarter of 2018, the Greenville-Spartanburg industrial market exhibited much of the same pattern of the previous quarter with vacancy rates hovering at just under 7%.

Consistent absorption and growing asking rates for Class A warehouse have bolstered developer interests in the market, helping to usher in a period of unprecedented speculative development. While the space is getting absorbed quickly, the size of product being delivered is significantly larger than has been delivered in the past. The majority of new speculative product currently available or under construction is larger than 200,000 sq. ft. This means tenants interested in smaller Class A facilities do not have as many options as the market dynamics would suggest.

In response to the shift toward larger speculative development, the availability of smaller Class A warehouse facilities has diminished. Depending upon users' needs and space requirements, large speculative projects are often above and beyond the needs of mid-size industrial users. Vacancy should continue to decrease for mid-size industrial product even with the completion of several new speculative projects in the coming quarters.

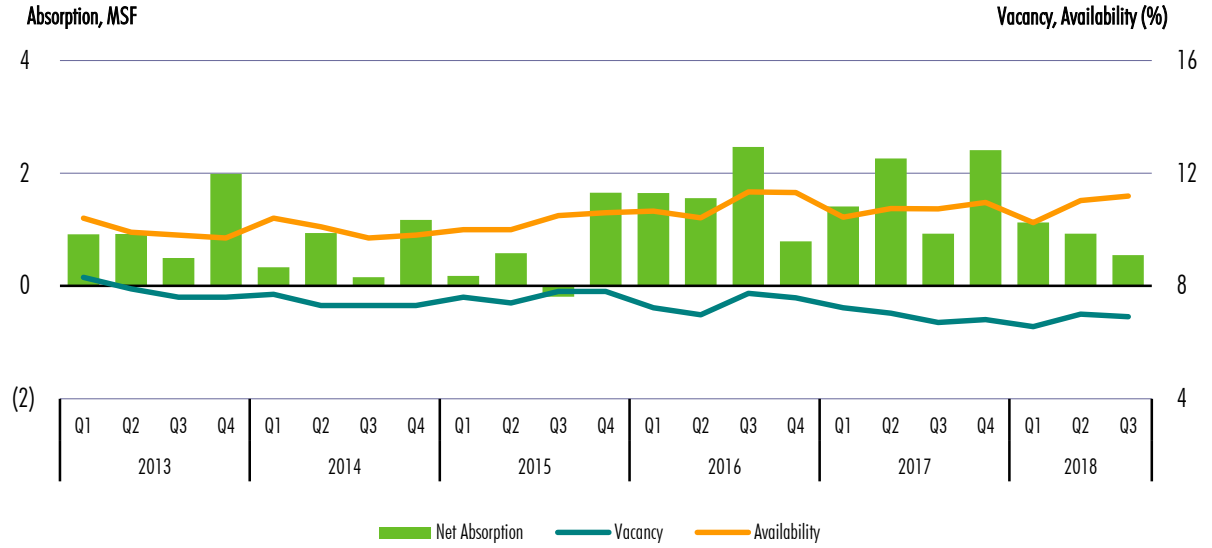
The number of speculative projects in development is on the rise, and overall construction continues to grow throughout Greenville-Spartanburg's industrial market. Of the nearly 4 million sq. ft. currently under construction, roughly 25% is designated as

Figure 2. Market Statistics

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)
Anderson	23,101,954	8.6	9.9	2.87	200,000	406,227	(23,360)
Anderson County	23,101,954	8.6	9.9	2.87	200,000	406,227	(23,360)
Central Greenville	16,502,509	6.2	12.6	2.74	-	483,714	17,914
I-385 South	21,782,421	5.8	13.5	3.15	-	243,226	143,451
I-85 East	14,304,724	7.3	11.1	5.37	-	117,179	80,497
I-85 West	19,106,971	5.5	10.4	3.14	-	781,423	199,033
Taylors-Greer	8,210,278	10.9	15.4	3.32	-	(26,144)	(10,720)
Travelers Rest	3,661,519	6.5	6.5	3.31	-	(7,140)	(21,540)
Greenville County	83,568,422	6.6	12.1	3.47	-	1,592,258	408,635
Spartanburg East	22,982,334	9.2	11.9	2.76	-	97,610	-
Spartanburg West	49,640,197	5.6	9.9	3.45	3,793,420	2,904,169	159,201
Spartanburg County	72,622,531	6.8	10.6	3.24	3,793,420	3,001,779	159,201
MARKET TOTAL	179,292,907	6.9	11.2	3.33	3,993,420	5,000,264	544,476
Development Type							
Manufacturing	94,036,953	5.1	7.7	2.95	2,149,000	876,936	275,006
R&D/Flex	7,555,131	12.9	16.1	5.71	-	46,207	63,210
Warehouse/Distribution	77,700,823	8.5	14.9	3.22	1,844,420	4,077,121	206,260
Class A (50k SF+)	20,713,356	4.3	6.7	4.52	1,358,600	3,134,416	176,570
Class B (50k SF+)	18,459,248	7.4	16.6	3.08	-	14,890	100,000
MARKET TOTAL	179,292,907	6.9	11.2	3.33	3,993,420	5,000,264	544,476

Source: CBRE Research, Q3 2018

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q3 2018

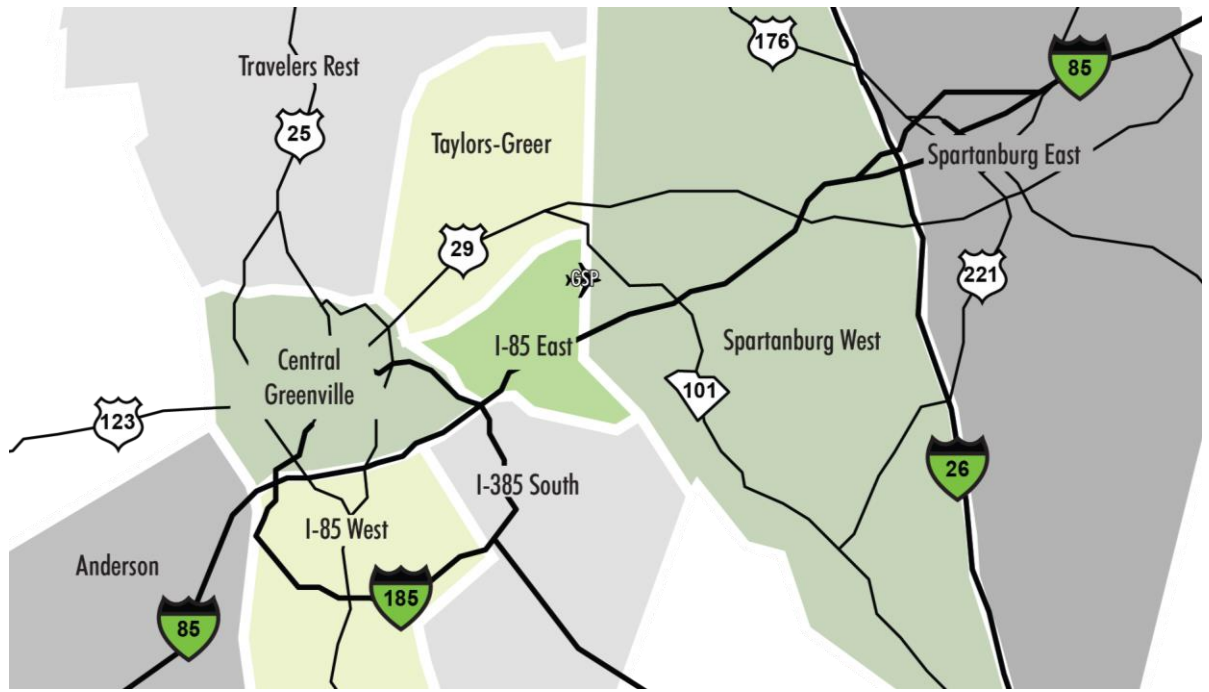
speculative Class A warehouse. Non-speculative developments include a pair of distribution buildings for Michelin and Keurig-Green Mountain’s new facility. Combined the two users will occupy an additional 1.8 million sq. ft. of industrial space.

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. This rise in land costs is partially attributable to interest from developers who are competing for the most suitable industrial land. 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 factors are pushing construction costs in the same direction, resulting in a variable for developers that is complicating new development. The net effect of all of these rising costs points clearly to one trend: rising asking rates. This rise in leasing costs is expected to impact both new construction and existing product.

The competition for labor is not just complicating development, it presents a challenge for industrial users as well. In order to help attract and retain talent, there is now a stronger focus placed on the amenities included with new development. These amenities include stronger office finishes and the more frequent provision of air conditioning in warehouse spaces. This trend is also pushing construction costs higher.

The unprecedented development and rising construction costs driven by increasing developer and investor interest in the market is a byproduct of the market’s success. Historically, the Greenville-Spartanburg industrial has been associated with manufacturing, however in the wake of recent speculative success and the expansion of the Greer Inland Port, development in the region is shifting to also include broader distribution as a driver of the industrial market. Opened in 2013, the Greer Inland Port has exceeded high expectations, warranting the opening of a second inland port in Dillon, South Carolina. These two inland ports will work together to help increase the capacity at the Port of Charleston, to which the Greenville-Spartanburg industrial distribution market is inextricably linked.



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