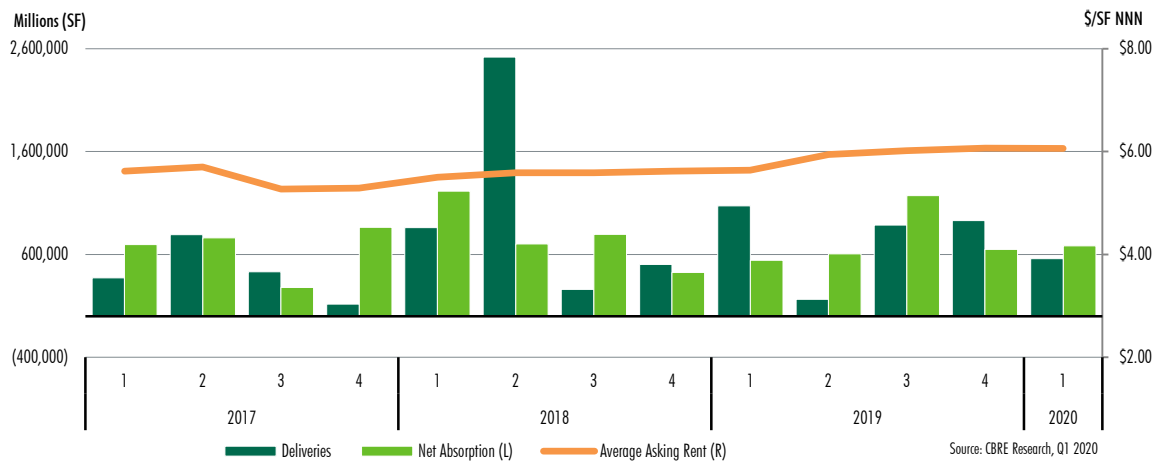


Charleston Industrial & Logistics, Q1 2020

Absorption holds strong as market anticipates COVID-19 impacts

▼ Vacancy Rate 6.4%
▼ Availability Rate 10.4%
▲ Net Absorption 682,900 SF
▶ Avg. Asking Rent \$6.06 PSF NNN
▼ Construction 1,065,418 SF

Figure 1. Net Absorption, Deliveries and Average Asking Rent (PSF/NNN)



The Charleston Industrial market recorded its eighteenth consecutive quarter of growth in Q1 2020 with 682,900 sq. ft. of positive net absorption. Vacancy in the overall market has decreased nearly 18% from Q1 of 2019. Overall asking rates remain largely unchanged, while warehouse inventory has recorded an 11% increase in asking rates, now averaging \$6.14 per sq. ft. annum on a triple net basis, year-over-year.

The Port of Charleston is a main economic driver in the value of the Charleston industrial market as well as the global supply chain relative to the Southeast. Per the SCSPA, the Port of Charleston leads all ports in North America in terms of productivity. Furthermore, over \$2 billion has been invested into various projects to strengthen the infrastructure and efficiency. As e-commerce and logistical occupiers pursue space in the Charleston industrial market, occupancy growth will hopefully continue to expand.

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the US economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage, and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S. – mirroring China’s experience – the U.S. government’s fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

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 Quarters (SF)	Net Absorption Current Quarter (SF)
Charleston	1,841,068	9.1	15.0	7.93	-	-	-
East Cooper	8,497,754	2.8	6.1	6.26	-	32,920	124,000
Hanahan	6,651,388	1.8	8.7	9.20	-	686,491	101,823
Hwy 52 North	4,770,051	9.4	10.6	1.87	615,000	116,000	-
I-26 North	14,564,041	7.2	13.4	5.03	450,418	1,268,163	430,243
North Charleston/Ladson	25,781,552	7.6	10.1	6.93	-	989,039	19,334
West Ashley	1,267,604	5.7	11.2	10.07	-	17,000	7,500
MARKET TOTAL	63,373,458	6.4	10.4	6.06	1,065,418	3,109,613	682,900
Manufacturing	24,503,345	2.9	4.0	4.67	211,000	305,196	(25,750)
R&D/Flex	2,330,567	6.2	9.2	10.57	-	39,558	-
Warehouse/Distribution	36,359,546	8.8	14.8	6.14	854,418	2,764,859	708,650
MARKET TOTAL	63,373,458	6.4	10.4	6.06	1,065,418	3,109,613	682,900

Source: CBRE Research, Q1 2020

LEASING ACTIVITY

Prior to the COVID-19 outbreak, leasing velocity in the Charleston Industrial market was substantial and the initial impacts largely weren't felt until Mid-March. There was a 13.4% increase of gross leasing activity compared to Q1 2019. Notable transactions include the following:

- W.W. Williams, a logistics occupier, expanded their existing operations, now occupying over 200,000 sq. ft. at 5801 N. Rhett Ave in the North Rhett Commerce Center.
- AmerCareRoyal, a disposable product supplier expanded their total footprint to over 400,000 sq. ft. at 1334 Drop Off Drive, located in the Foreign Trade Zone Park.
- A confidential logistics user, leased 88,000 sq. ft. of space at 830 Drop Off Drive, positioned in the Charleston Logistics Center.

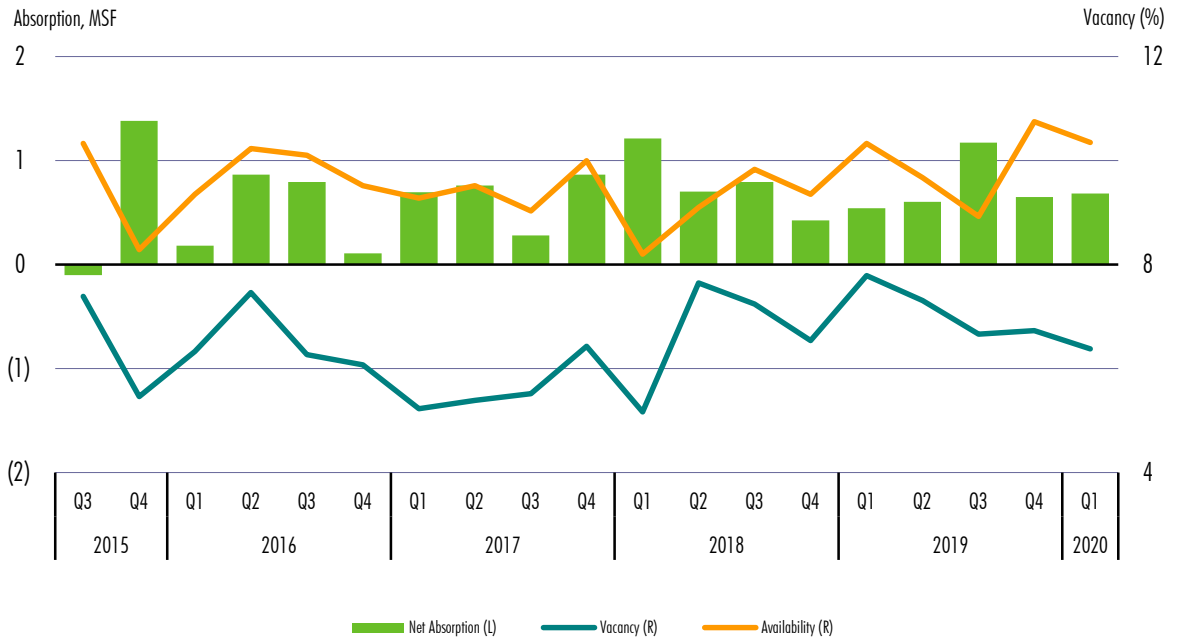
While short term outlook is bleak, activity is expected to rebound as the market starts to return to normalcy.

DEVELOPMENT ACTIVITY

Developers remain optimistic on the market fundamentals and construction has remained unaffected. There is approximately 1 million sq. ft. of product under construction in the overall market. 78% of that total figure is build-to-suit product. A&R Logistics is constructing a 615,000 sq. ft. warehouse in the West Branch Commerce Park, while German-based auto supplier IFA Rotorion continues work on their 230,000 sq. ft. manufacturing expansion in the Charleston Trade Center in Summerville.

Recent deliveries include Ladson Industrial Park Building 1, a 420,000 sq. ft. spec building on Highway 78 in Ladson. 264 Deming Way, a 131,000 sq. ft. spec warehouse in the Summerville Distribution Complex was also finalized. Atlantic Packaging delivered their build-to-suit 100,000 sq. ft. expansion at 101 Spaniel Lane.

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q1 2020

INVESTMENT SALES ACTIVITY & OUTLOOK

Currently, Class B assets in the 20,000 sq. ft. to 100,000 sq. ft. range are seeing the most investment activity with a handful being under contract for purchase. While these deals are expected to move forward to closing in Q2 2020, there will likely be limited Class A transactions. Only one investment sale has been recorded in Q1 of 2020. Jet Park Warehousing, LLC purchased 111 Old Depot Rd, an 85,000 sq. ft. warehouse in the Hwy 52 submarket for \$3 million.

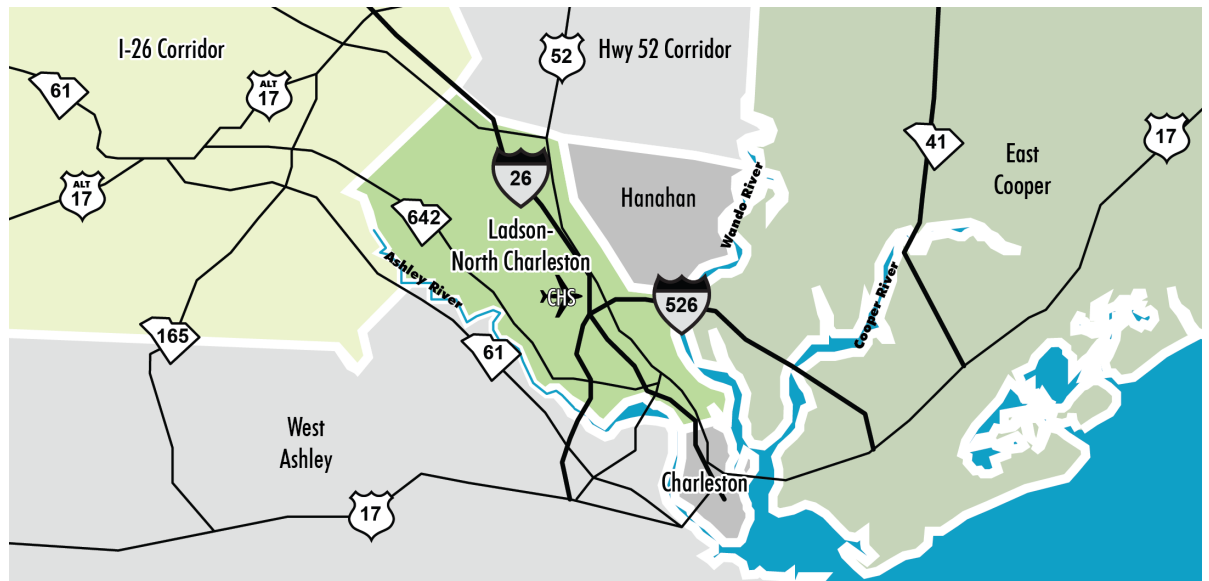
Investment sales in 2019 were fairly robust, recording \$241 million in assets traded. Notable transactions are highlighted in the below table.

Figure 6: 2019 Investment Sales (price per sq. ft.)

Building Name	Building Address	Sale Date	RBA	Price PSF
TBC Summerville	400 Trade Zone Blvd Summerville, SC	11/19	1,100,00	\$66
Science Applications International Corp. (SAIC)	7413 Magi Rd Hanahan, SC	06/19	313,650	\$113
NBG Home Distribution Center	6 Corporate Pkwy Goose Creek, SC	04/19	505,000	\$80

OTHER KEY TAKEAWAYS

- Diversification in supply chains will spark a shift as occupiers seek out lower cost alternatives for space in port adjacent markets like Charleston. During these uncertain times, the market might see demand for short term warehousing solutions due to the upswing of e-commerce business.
- Likely to see user demand from automotive suppliers supporting Mercedes-Benz Vans and Volvo continue throughout the year
- Through Q1 2020, volume at the Port of Charleston had not been negatively impacted. Posted figures from the SCSA show rail moves had actually increased 23.1% over the last four quarters but overall volume in upcoming quarters are subject to a decrease as the market absorbs the aftershocks of the shut down in China.
- Construction of the new Hugh K. Leatherman port terminal remains on schedule with an anticipated delivery date in 2021. Once completed the port’s container capacity will be expanded by roughly 50%, further driving the demand for warehouse & distribution product.



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