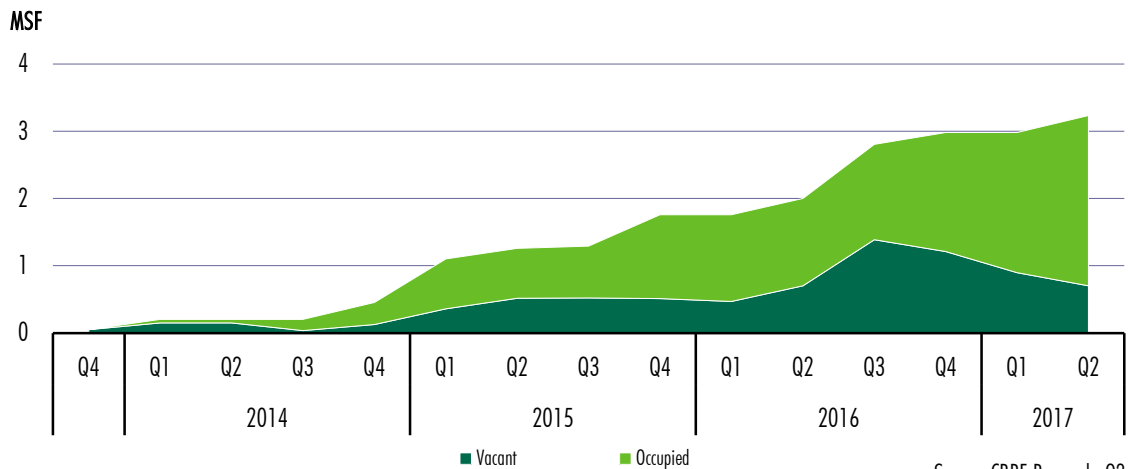


Greenville-Spartanburg Industrial & Logistics, Q2 2017

As vacancy nears new record low, speculative development slows, hampering tenants

▼ Vacancy Rate 7.0%
▼ Availability Rate 10.8%
▲ Net Absorption 2,260,642 SF
▶ Asking Rate \$3.32 PSF NNN
▼ Under Construction 3,615,374 SF

Figure 1. Speculative Development



Source: CBRE Research, Q2 2017

Record levels of construction activity in previous quarters is now giving way to record levels of absorption. For the second time in the last four quarters, absorption has topped 2.2 million sq. ft., which has vacancy within two basis points of a record low vacancy set in during Q2 2016. Given that the pipeline of speculative development is slowing, it appears inevitable that a new record low is likely in the second half of 2017. An additional 3.6 million sq. ft. is under construction, but less than 10% is being constructed on a speculative basis, with no other speculative projects announced yet.

Given the success during the current cycle and continued demand, we expect to see a new slate of speculative development start construction. The

substantial number of tenants struggling to locate suitable space in the market is likely to result in slower economic activity in the coming quarters.

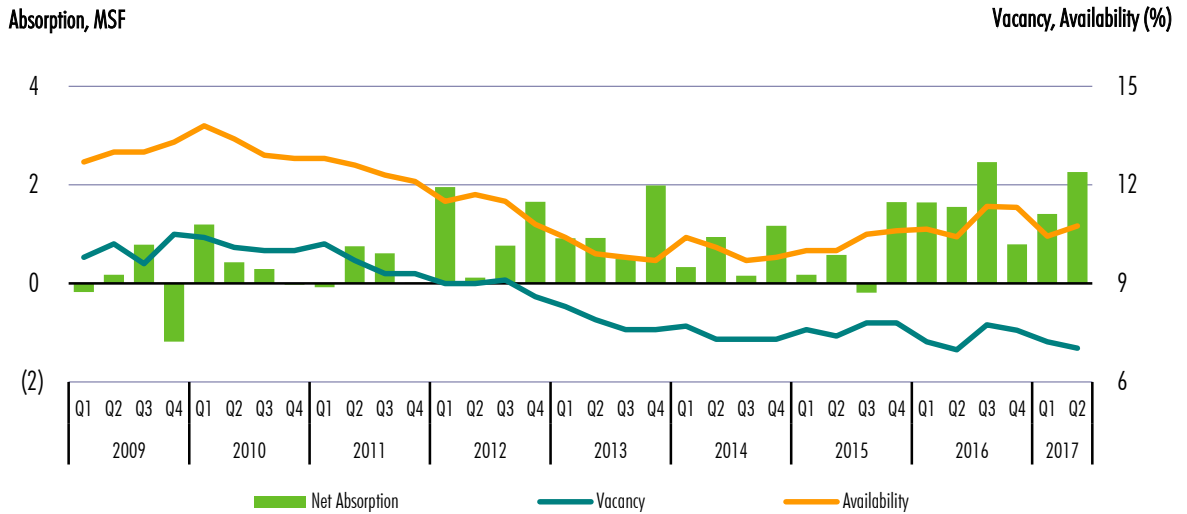
Large tenants continue to grow, leading to new construction and expanding industries. With a recent 675,000 sq.ft. expansion by BMW and the active development of more than 2 million sq. ft. of space for Michelin, the automotive industry continues to be a significant driver of activity. A large portion of industrial growth can also be attributed to the huge success of the Inland Port in Greer. The inland port continues to outperform projections, calling for further growth and expansions. With the support of the Port of Charleston and the announcement of a

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) |
|-------------------------|---------------------------|------------------|------------------------|--------------------------------|-------------------------|---------------------------------|---------------------------------|
| Anderson | 22,667,207 | 9.0 | 9.8 | 2.78 | - | 792,724 | 54,000 |
| Anderson County | 22,667,207 | 9.0 | 9.8 | 2.78 | - | 792,724 | 54,000 |
| Central Greenville | 16,457,509 | 8.1 | 12.1 | 2.72 | - | 282,197 | 42,334 |
| I-385 South | 21,642,273 | 7.5 | 12.0 | 3.58 | - | 284,225 | 98,000 |
| I-85 East | 13,993,242 | 5.7 | 8.0 | 5.54 | - | 532,623 | 162,424 |
| I-85 West | 18,438,729 | 5.5 | 11.4 | 3.46 | 331,850 | 775,039 | - |
| Taylors-Greer | 8,210,278 | 8.8 | 12.1 | 3.01 | - | 237,004 | (16,316) |
| Travelers Rest | 3,661,519 | 6.3 | 6.3 | 3.41 | - | 160,000 | - |
| Greenville County | 82,403,550 | 6.9 | 11.0 | 3.57 | 331,850 | 2,271,088 | 286,442 |
| Spartanburg East | 22,525,624 | 9.4 | 12.3 | 2.84 | 52,000 | 1,403,328 | 40,000 |
| Spartanburg West | 45,863,252 | 5.1 | 10.1 | 3.23 | 3,231,524 | 4,013,970 | 1,880,200 |
| Spartanburg County | 68,388,876 | 6.5 | 10.8 | 3.10 | 3,283,524 | 5,417,298 | 1,920,200 |
| MARKET TOTAL | 173,459,633 | 7.0 | 10.8 | 3.32 | 3,615,374 | 8,481,110 | 2,260,642 |
| Development Type | | | | | | | |
| Manufacturing | 92,010,949 | 4.7 | 7.1 | 2.81 | 672,500 | 2,399,779 | 1,306,000 |
| R&D/Flex | 7,183,555 | 12.6 | 15.5 | 5.99 | 52,000 | 137,721 | 54,324 |
| Warehouse/Distribution | 74,265,129 | 9.4 | 14.8 | 3.22 | 2,890,874 | 5,943,610 | 900,318 |
| MARKET TOTAL | 173,459,633 | 7.0 | 10.8 | 3.32 | 3,615,374 | 8,481,110 | 2,260,642 |
| Property Size | | | | | | | |
| 10,000 to 25,000 SF | 13,203,347 | 9.9 | 12.8 | 4.52 | - | 79,215 | (4,642) |
| 25,001 to 75,000 SF | 30,720,510 | 9.8 | 12.9 | 3.86 | 114,500 | 873,581 | 260,334 |
| 75,001 to 150,000 SF | 29,153,471 | 6.5 | 12.1 | 3.41 | - | 1,371,458 | 218,500 |
| 150,001 to 250,000 SF | 26,656,346 | 6.9 | 9.8 | 3.22 | 401,856 | 2,411,411 | 695,700 |
| 250,001 and larger | 73,725,959 | 5.7 | 9.3 | 2.83 | 3,099,018 | 3,745,445 | 1,090,750 |
| MARKET TOTAL | 173,459,633 | 7.0 | 10.8 | 3.32 | 3,615,374 | 8,481,110 | 2,260,642 |

Source: CBRE Research, Q2 2017

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q2 2017

new inland port coming in Dillon, a supply network across South Carolina will prove to benefit the entire state and create further transportation efficiencies.

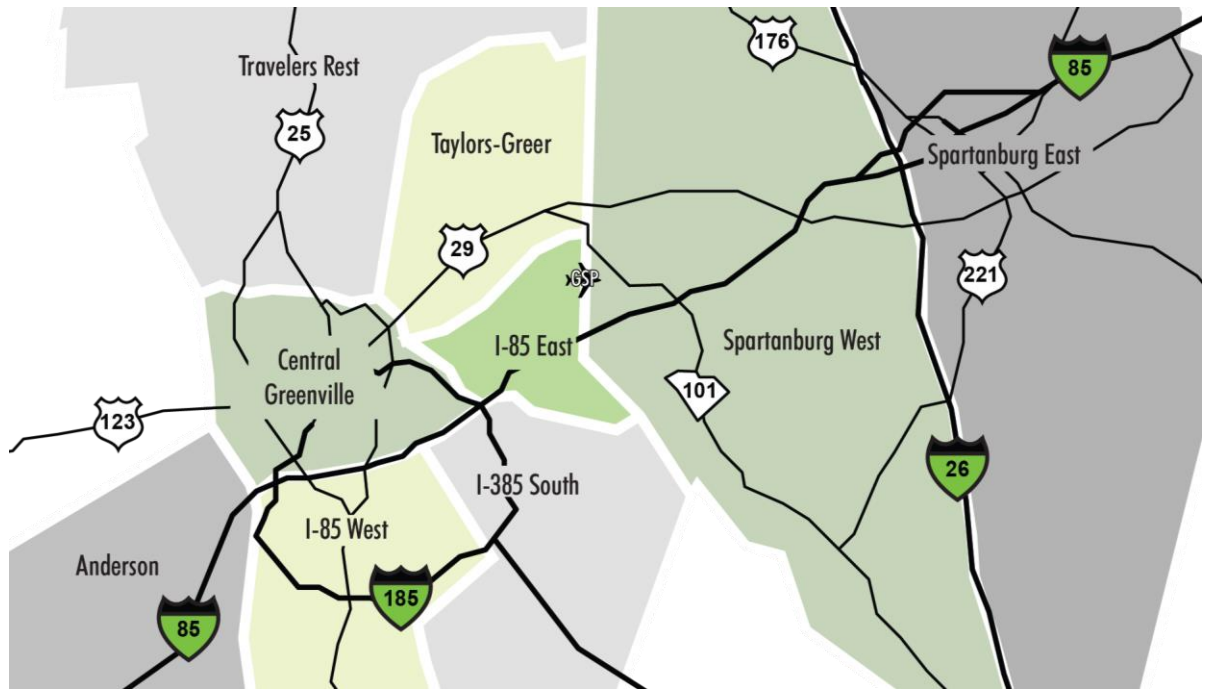
The strength of statewide connections is that two of the largest manufacturing companies in Charleston have active suppliers in the Greenville-Spartanburg industrial market. Another recent example is the completion of a new 750,000 sq. ft. facility for Boeing supplier Toray Carbon Fiber in the Spartanburg West submarket. Additional statewide business thanks to Volvo's new manufacturing facility in Charleston has attracted a network of automotive suppliers looking to secure a footprint in close proximity to multiple major manufacturers. The textile manufacturing industry also holds a strong position in market, taking form in advanced materials. Manufacturing diversity will help sustain market growth into the foreseeable future

Strong leasing activity is enabling landlords to often secure tenants prior to delivery. An example of this was the successful preleasing period of Caliber North speculative property. The 171,600 square foot facility has achieved full occupancy upon delivery this quarter. With numerous similar success stories just like this, developers are eager to secure a footprint in the market.

As interest from developers have increased, so have land costs, often higher than expected, particularly for land that is entitled and ready-to-develop. This coupled with difficulty in securing financing has built a barrier to entry in a market that is in dire need for additional product. From an investment standpoint, strong leasing activity leading to record low vacancy and rental rate increases continue to grab national attention. Of particular interest to landlords, cap rates are expected to compress as a result.

The most recent large investment transaction was the purchase of the Rite Aid distribution center in the Spartanburg East submarket for nearly \$65 million with a cap rate of 6.01%. However, as the return on investment properties rises and growth rates are sustained, additional capital will continue to flow into development opportunities.

From an investment perspective, the increased notoriety of the local industrial market, coupled with the long-term favorable fundamentals of being well-located on the I-85 corridor in the heart of the Southeast makes Greenville-Spartanburg appealing to investors. The market does not have a legacy of supporting large investment-grade distribution facilities, but recent growth patterns coupled with the success of the Greer Inland Port has prompted an evolution in product and investment activity.



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