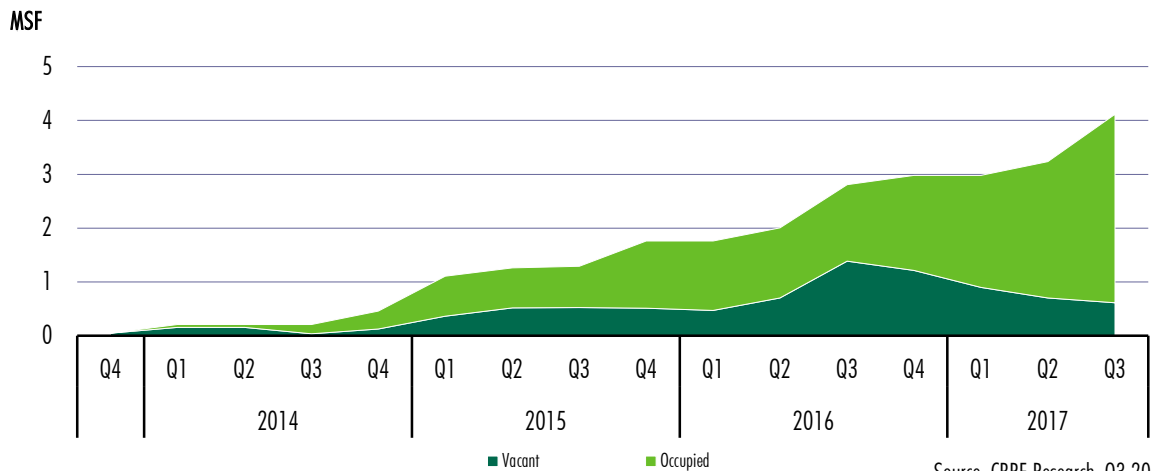


Greenville-Spartanburg Industrial & Logistics, Q3 2017

As record low vacancy hits, new round of speculative development begins

▼ Vacancy Rate 6.7%
▼ Availability Rate 10.7%
▶ Net Absorption 928,052 SF
▶ Asking Rate \$3.29 PSF NNN
▲ Under Construction 4,522,974 SF

Figure 1. Speculative Development



Over the last three years, vacancy in the Greenville-Spartanburg industrial market has hovered around 7% as rapid rates of absorption were offset by speculative development. After eight consecutive quarters of positive absorption and a slowing pipeline of speculative development, a new record low vacancy rate has finally been achieved, which now stands at 6.7%.

Since 2013, developers have completed 3.5 million sq. ft. of speculative development. With less than 675,000 sq. ft. of this space remaining available, developers are recognizing the opportunity to deliver additional product. There is now almost 900,000 sq. ft. of additional speculative development underway. This amount of development raises potential concerns regarding

an oversupply, but the rapid rate of absorption in the last three years coupled with the persistent regional trends positively impacting the local market should help to mitigate them.

The most significant of the speculative developments currently underway include Apple Valley Industrial Park, a pair of Class A distribution facilities totaling more than 370,000 sq. ft. in the Spartanburg West submarket and Augusta Grove, a 330,000 sq. ft. distribution facility in the I-85 West submarket.

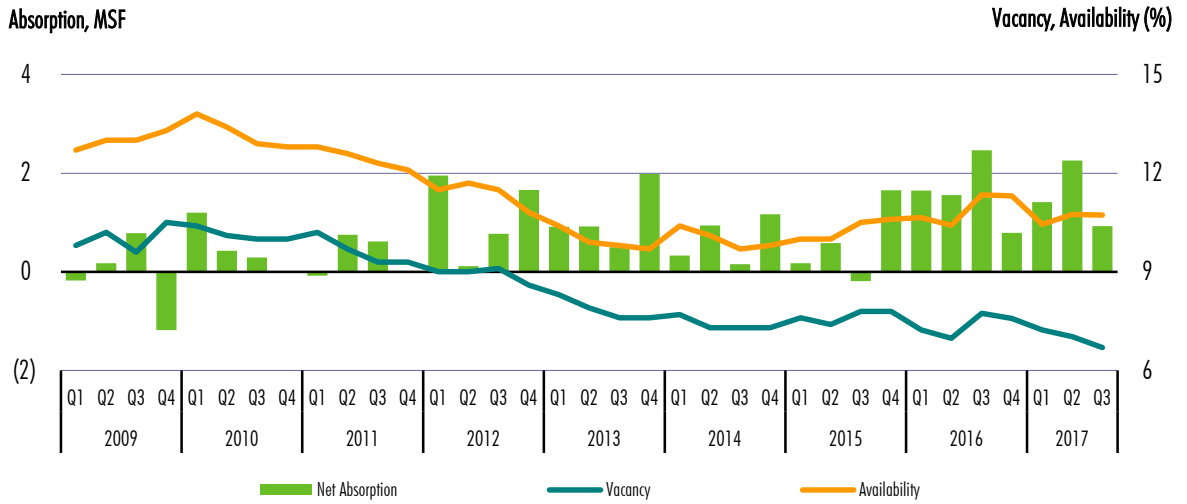
With an active development pipeline, it is easy to envision a scenario in which some properties face longer lease up time periods. Based on the lease up period of the speculative development

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	8.6	9.5	2.84	400,000	628,274	85,550
Anderson County	22,667,207	8.6	9.5	2.84	400,000	628,274	85,550
Central Greenville	16,457,509	8.9	13.7	2.72	-	145,982	(137,852)
I-385 South	21,329,181	4.5	10.2	3.96	260,000	540,600	342,000
I-85 East	13,993,242	5.9	9.4	5.54	275,000	304,132	(35,316)
I-85 West	18,638,729	6.9	13.9	3.28	463,050	249,311	(274,000)
Taylors-Greer	8,210,278	10.6	12.2	2.98	-	96,632	(146,652)
Travelers Rest	3,661,519	6.3	6.3	3.41	-	160,000	-
Greenville County	82,290,458	6.9	11.6	3.58	998,050	1,496,657	(251,820)
Spartanburg East	22,803,764	9.1	12.4	2.81	-	1,482,450	110,000
Spartanburg West	46,535,752	4.3	9.0	3.05	3,124,924	4,247,291	984,322
Spartanburg County	69,339,516	5.9	10.1	2.97	3,124,924	5,729,741	1,094,322
MARKET TOTAL	174,297,181	6.7	10.7	3.29	4,522,974	7,854,672	928,052
Development Type							
Manufacturing	93,109,589	4.6	6.9	2.82	906,200	2,493,148	753,878
R&D/Flex	7,235,555	13.7	18.4	5.86	-	91,340	(35,316)
Warehouse/Distribution	73,952,037	8.7	14.8	3.13	3,616,774	5,270,184	209,490
MARKET TOTAL	174,297,181	6.7	10.7	3.29	4,522,974	7,854,672	928,052
Property Size							
10,000 to 25,000 SF	13,203,347	9.6	12.8	4.50	-	111,930	44,168
25,001 to 75,000 SF	30,835,010	10.1	13.5	3.84	125,000	508,028	(2,139)
75,001 to 150,000 SF	29,353,471	6.8	11.8	3.51	725,700	680,446	(89,409)
150,001 to 250,000 SF	26,882,486	5.6	10.8	3.11	783,256	2,198,143	326,632
250,001 and larger	74,022,867	5.2	8.8	2.74	2,889,018	4,356,125	648,800
MARKET TOTAL	174,297,181	6.7	10.7	3.29	4,522,974	7,854,672	928,052

Source: CBRE Research, Q3 2017

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q3 2017

constructed during this real estate cycle, it is clear that not all speculative projects are equal. In general the projects most likely to find success are those that are near existing product. Speculative developments constructed in the highly sought after Spartanburg West and I-385 South submarkets face shorter lease up periods than those built in other submarkets.

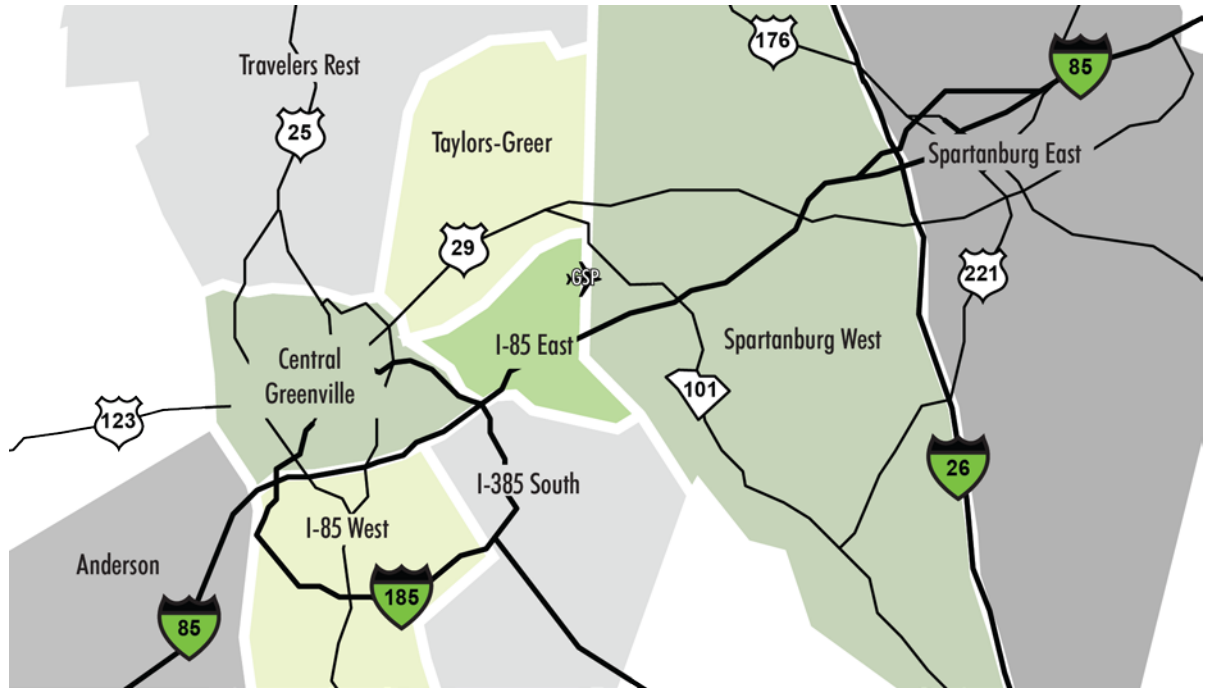
It is important to note that development is not limited to speculative development. Automotive manufacturing and pharmaceuticals are prompting an additional 3.5 million sq. ft. of construction being built on a non-speculative basis. The most significant include two warehouses for Michelin, a distribution center for automotive supplier Plastic Omnium and another for pharmaceutical company Valeant. Combined, the four projects include more than 2.1 million sq. ft. in the Spartanburg West submarket.

Spartanburg West remains the heart of the Greenville-Spartanburg industrial market. It is the location where developers are experiencing the most success as well as the location of BMW and the Inland Port. Given the amount of land available for industrial development in the submarket, particularly along the Hwy 290 and Hwy 101 corridors, it is expected to remain the most desired location of industrial users for the foreseeable future.

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 has resulted in a record low vacancy rate and rental rate increases continue to grab national attention.

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.

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.



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