

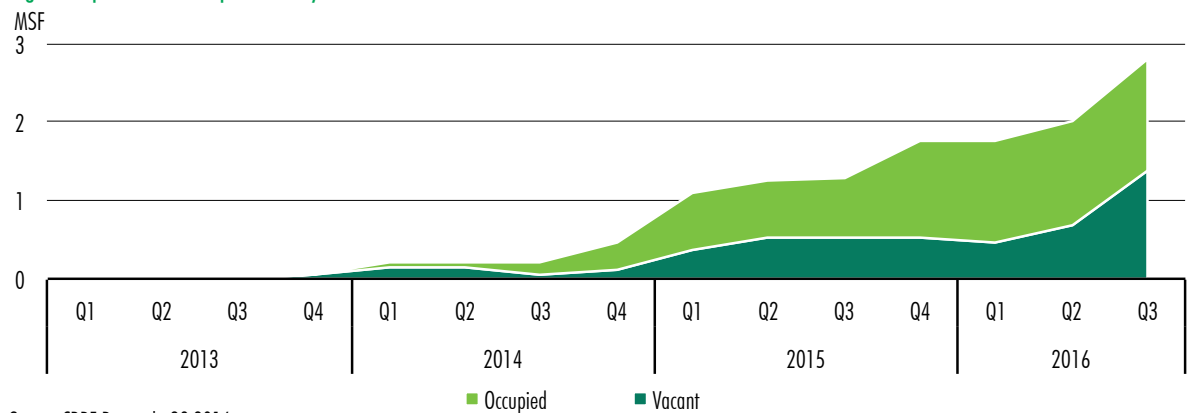
Greenville-Spartanburg Industrial & Logistics, Q3 2016

Major distribution centers push absorption to highwater mark

▲ Vacancy Rate 7.7%
▲ Availability Rate 11.3%
▲ Net Absorption 2,463,614 SF
▲ Asking Rate \$3.36 PSF NNN
▼ Under Construction 2,104,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Speculative Absorption History



Source: CBRE Research, Q3 2016.

Over 3.4 million sq. ft. of industrial space was delivered in Q3 2016, the largest amount of square feet delivered in a single quarter since the completion of the original BMW facility twenty years ago. The types of space delivered serve as a good snapshot for the state of the Greenville-Spartanburg industrial market. Most notable were the completions of two large distribution centers and multiple new speculative developments. While the activity pushed absorption for the quarter over 2.4 million sq. ft, the completion of speculative space drove vacancy higher by over 75 basis points to 7.7%.

The Greenville-Spartanburg market is evolving from an industrial market that has historically focused on manufacturing to one that is more diversified, experiencing growth for large distribution facilities as well. New distribution facilities for Techtronic Industries and Dollar Tree were completed in Q3 2016, combining to add over 2.5 million sq. ft. of industrial space to the market.

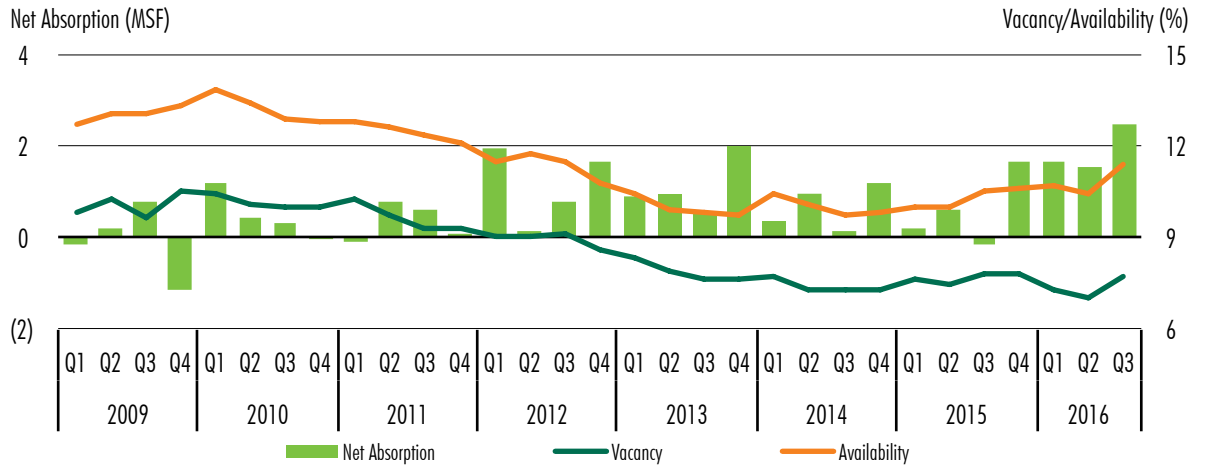
In addition to major distribution centers, two new Class A speculative warehouses were delivered. Johnson Development completed their 360,000 sq. ft. warehouse in the Spartanburg East submarket

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 Q3 2016 (SF) |
|------------------------|---------------------------|------------------|------------------------|--------------------------------|-------------------------|---------------------------------|-----------------------------|
| Anderson | 22,613,207 | 7.5 | 10.3 | 2.84 | - | 1,962,525 | 826,150 |
| Anderson County | 22,613,207 | 7.5 | 10.3 | 2.84 | - | 1,962,525 | 826,150 |
| Central Greenville | 16,498,792 | 8.1 | 12.6 | 2.71 | - | 614,207 | 241,500 |
| I-385 South | 21,813,011 | 8.1 | 13.4 | 3.10 | - | 471,198 | (40,000) |
| I-85 East | 13,801,554 | 6.8 | 8.9 | 5.59 | - | 396,101 | 69,650 |
| I-85 West | 18,388,729 | 7.9 | 9.3 | 3.66 | 50,000 | 17,993 | 32,720 |
| Taylors-Greer | 8,203,933 | 11.9 | 13.6 | 3.33 | - | 185,672 | - |
| Travelers Rest | 3,531,519 | 6.6 | 7.4 | 3.44 | 130,000 | 100,000 | 30,000 |
| Greenville County | 82,237,538 | 8.1 | 11.3 | 3.55 | 180,000 | 1,785,171 | 333,870 |
| Spartanburg East | 22,489,242 | 9.7 | 12.6 | 2.89 | - | 2,273,768 | 1,290,450 |
| Spartanburg West | 42,774,452 | 6.1 | 11.3 | 3.36 | 1,924,000 | 1,105,876 | 13,144 |
| Spartanburg County | 65,263,694 | 7.3 | 11.7 | 3.22 | 1,924,000 | 3,379,644 | 1,303,594 |
| MARKET TOTAL | 170,114,439 | 7.7 | 11.3 | 3.36 | 2,104,000 | 7,127,340 | 2,463,614 |
| Property Type | | | | | | | |
| Manufacturing | 90,211,768 | 4.7 | 7.7 | 2.90 | 1,659,000 | 1,734,895 | (301,633) |
| R&D/Flex | 7,127,720 | 12.4 | 16.6 | 5.92 | - | 211,388 | 100,622 |
| Warehouse/Distribution | 72,774,951 | 11.0 | 15.3 | 3.26 | 445,000 | 5,181,057 | 2,664,625 |
| MARKET TOTAL | 170,114,439 | 7.7 | 11.3 | 3.36 | 2,104,000 | 7,127,340 | 2,463,614 |
| Property Size | | | | | | | |
| 10,000 to 25,000 SF | 13,206,167 | 10.0 | 12.4 | 4.50 | - | 39,627 | 69,410 |
| 25,001 to 75,000 SF | 30,375,711 | 9.9 | 13.7 | 3.74 | 248,300 | 524,235 | 159,189 |
| 75,001 to 150,000 SF | 28,818,471 | 7.9 | 12.9 | 3.50 | 355,000 | 972,407 | 5,955 |
| 150,001 to 250,000 SF | 25,732,861 | 9.6 | 12.3 | 3.42 | 754,618 | 566,987 | 189,888 |
| 250,001 SF and larger | 65,913,229 | 6.2 | 10.0 | 2.83 | 4,362,880 | 5,024,084 | 2,039,172 |
| MARKET TOTAL | 170,114,439 | 7.7 | 11.3 | 3.36 | 5,720,798 | 7,127,340 | 2,463,614 |

Source: CBRE Research, Q3 2016.

Figure 3: Total Market Vacancy, Availability, and Net Absorption



Source: CBRE Research, Q3 2016.

and Scannell Properties completed their 155,000 sq. ft. warehouse in the Spartanburg West submarket. German Automotive supplier Brose secured the first half of the Scannell facility.

In the current real estate cycle, 2.8 million sq. ft. of speculative space has been delivered and roughly half has been absorbed. Only 8% of the remaining 2.1 million sq. ft. of industrial space under construction is speculative. Consequently, vacancy can be expected to decline in coming quarters, although several planned projects are likely to bring additional speculative space as existing vacancies are absorbed.

As a market primarily focused on manufacturing, especially the manufacture of exports, the health of the Greenville-Spartanburg market is intrinsically tied to that of global growth trends. Given the expectation of moderating global growth, the rapid pace of market acceleration experienced in the last few years can be expected to downshift. However, the success of the Inland Port in Greer and its tight relationship with the Port of Charleston bolster the market's reputation as a growing distribution hub and may keep activity high in the coming years, especially with increased activity expected to shift traffic from the West Coast to the East Coast.

This market evolution is likely to result in a greater number of Class A warehouse facilities. Of the eight Class A warehouse facilities in the market larger than 500,000 sq. ft., three were constructed in the last four quarters. All were build-to-suit or owner-built product, meaning demand for speculative development in this size range has not been proven. It is worth noting that speculative development larger than 500,000 sq. ft. is occurring along the I-85 corridor halfway between the Atlanta and Greenville-Spartanburg markets, indicating potential opportunity over the long-term.

In addition to an evolution in product type, we also anticipate a similar transition when it comes to investment opportunity. As a general rule, occupiers of manufacturing space are more likely to own their own facilities than those who occupy warehouse space. This is due to the risk associated with disrupting proprietary manufacturing processes. As a result, expect to see new investors enter the market as opportunities arise.

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.



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