

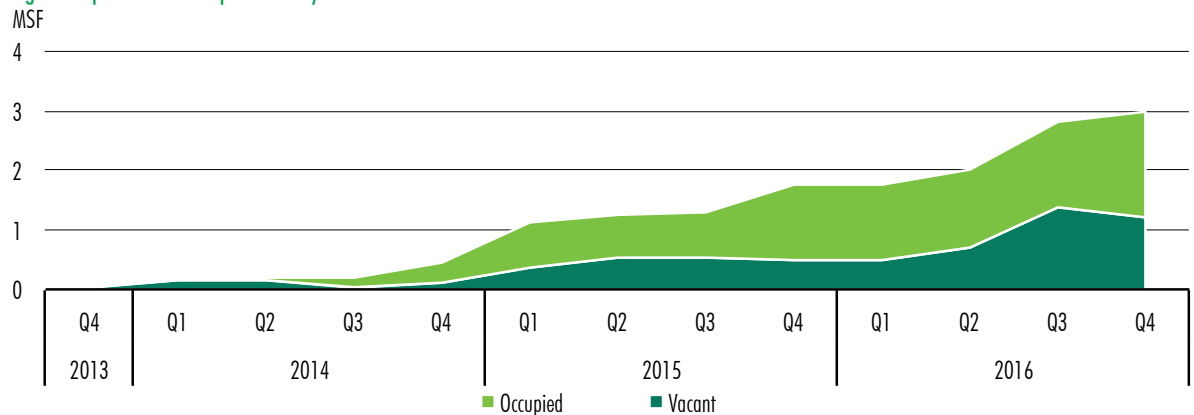
Greenville-Spartanburg Industrial & Logistics, Q4 2016

# Strong diverse growth helps speculative development find routine success

▼ Vacancy Rate 7.6%
▶ Availability Rate 11.3%
▼ Net Absorption 790,117 SF
▶ Asking Rate \$3.37 PSF NNN
▲ Under Construction 3,210,650 SF

\*Arrows indicate change from previous quarter.

Figure 1: Speculative Absorption History



Source: CBRE Research, Q4 2016.

With total market absorption of over 6.4 million sq. ft., 2016 wound up as the strongest year in terms of total net absorption in Greenville-Spartanburg’s history. This strong market absorption is being driven by an evolution of the market from a manufacturing-driven industrial economy to a more diverse one that also prominently features distribution. This diversification has helped justify the construction of speculative development, which is now demonstrating routine success.

Over the last three years, average quarterly absorption was over 930,000 sq. ft. Assuming the rate of absorption holds, vacancy, which currently stands at 7.6%, is likely to approach or even drop below the record low vacancy rate of 7.0% experienced two quarters ago. Much of this will be contingent upon the success of existing speculative space as well as an additional 500,000 sq. ft. under construction.

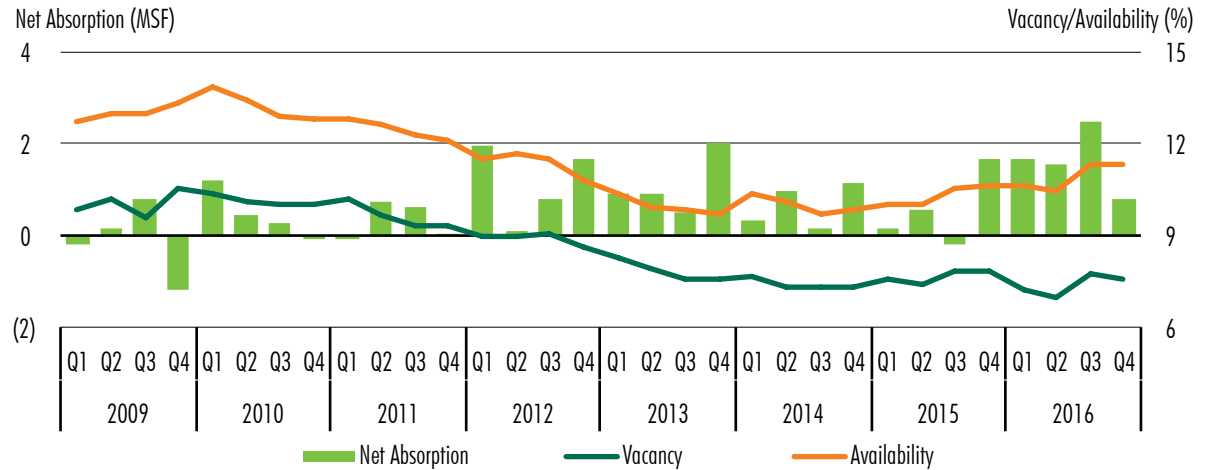
During Q4, over 340,000 sq. ft. of speculative industrial space was absorbed by multiple tenants. The two largest were logistics company Senator International in the Spartanburg East submarket and automotive

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 Q4 2016 (SF) |
|------------------------|---------------------------|------------------|------------------------|--------------------------------|-------------------------|---------------------------------|-----------------------------|
| Anderson               | 22,613,207                | 7.5              | 10.2                   | 2.83                           | -                       | 2,114,525                       | 10,000                      |
| Anderson County        | 22,613,207                | 7.5              | 10.2                   | 2.83                           | -                       | 2,114,525                       | 10,000                      |
| Central Greenville     | 16,419,075                | 8.1              | 11.9                   | 2.71                           | -                       | 555,525                         | -                           |
| I-385 South            | 21,813,011                | 8.3              | 14.5                   | 3.15                           | 40,000                  | 306,552                         | (45,600)                    |
| I-85 East              | 13,801,554                | 6.3              | 8.6                    | 5.61                           | 100,000                 | 428,518                         | 61,744                      |
| I-85 West              | 18,438,729                | 6.4              | 8.6                    | 3.73                           | 331,850                 | 340,858                         | 312,591                     |
| Taylors-Greer          | 8,203,933                 | 11.9             | 13.5                   | 3.34                           | -                       | 158,172                         | -                           |
| Travelers Rest         | 3,531,519                 | 6.6              | 7.4                    | 3.44                           | 130,000                 | 30,000                          | -                           |
| Greenville County      | 82,207,821                | 7.8              | 11.3                   | 3.56                           | 601,850                 | 1,819,625                       | 328,735                     |
| Spartanburg East       | 22,489,242                | 9.2              | 11.9                   | 2.88                           | 52,000                  | 2,350,668                       | 102,000                     |
| Spartanburg West       | 43,280,152                | 6.3              | 11.7                   | 3.40                           | 2,556,600               | 1,822,398                       | 350,142                     |
| Spartanburg County     | 65,769,394                | 7.3              | 11.8                   | 3.24                           | 2,608,600               | 4,173,066                       | 452,142                     |
| <b>MARKET TOTAL</b>    | <b>170,590,422</b>        | <b>7.6</b>       | <b>11.3</b>            | <b>3.37</b>                    | <b>3,210,450</b>        | <b>8,107,216</b>                | <b>790,877</b>              |
| <b>Property Type</b>   |                           |                  |                        |                                |                         |                                 |                             |
| Manufacturing          | 22,613,207                | 7.5              | 10.2                   | 2.83                           | -                       | 2,114,525                       | 10,000                      |
| R&D/Flex               | 22,613,207                | 7.5              | 10.2                   | 2.83                           | -                       | 2,114,525                       | 10,000                      |
| Warehouse/Distribution | 16,419,075                | 8.1              | 11.9                   | 2.71                           | -                       | 555,525                         | -                           |
| <b>MARKET TOTAL</b>    | <b>21,813,011</b>         | <b>8.3</b>       | <b>14.5</b>            | <b>3.15</b>                    | <b>40,000</b>           | <b>306,552</b>                  | <b>(45,600)</b>             |
| <b>Property Size</b>   |                           |                  |                        |                                |                         |                                 |                             |
| 10,000 to 25,000 SF    | 13,186,167                | 10.4             | 13.2                   | 4.63                           | -                       | 25,621                          | (57,690)                    |
| 25,001 to 75,000 SF    | 30,412,694                | 9.9              | 13.5                   | 3.74                           | 142,000                 | 651,394                         | 39,480                      |
| 75,001 to 150,000 SF   | 28,918,471                | 7.9              | 13.1                   | 3.45                           | 230,000                 | 975,660                         | 156,164                     |
| 150,001 to 250,000 SF  | 26,091,861                | 9.0              | 12.5                   | 3.43                           | 171,600                 | 1,115,910                       | 472,923                     |
| 250,001 SF and larger  | 72,481,229                | 5.4              | 8.8                    | 2.83                           | 2,666,850               | 5,338,631                       | 180,000                     |
| <b>MARKET TOTAL</b>    | <b>170,590,422</b>        | <b>7.6</b>       | <b>11.3</b>            | <b>3.37</b>                    | <b>3,210,450</b>        | <b>8,107,216</b>                | <b>790,877</b>              |

Source: CBRE Research, Q4 2016.

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



Source: CBRE Research, Q4 2016.

supplier Brose in the Spartanburg West submarket. For the first time in two years, the total amount of speculative space on the market decreased. During this economic cycle, 3 million sq. ft. of speculative development has occurred, of which 59% has been leased.

As developers are able to find success in anticipating the needs of the market, additional development can be expected to occur as new developers seek out markets with consistent growth. One of the reasons for a strong outlook in the Greenville-Spartanburg market is its diversification.

The market has a long legacy of manufacturing, especially for global markets. As such, the health of the Greenville-Spartanburg market is intrinsically tied to that of global growth trends. Access to global economies through the Port of Charleston helps to prop the local economy and embolden its success.

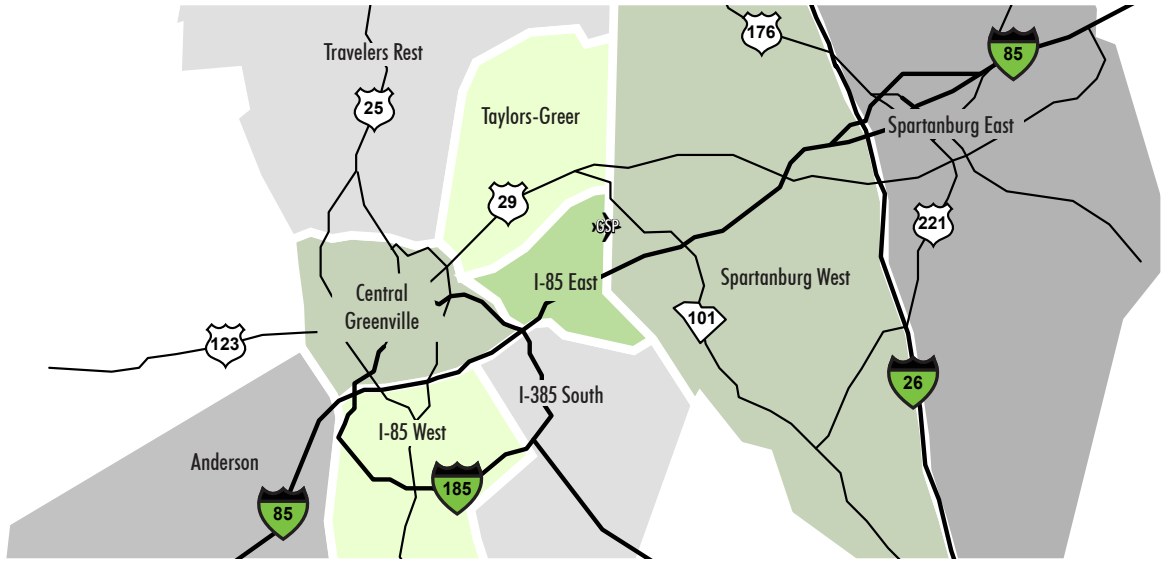
Given the expectation of moderating global growth coupled with political uncertainty, the rapid pace of market acceleration experienced in the last few years can be expected to downshift. However, the success of the Inland Port in Greer and its tight relationship with the Port of Charleston bolster the

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.

Recently the South Carolina Ports Authority announced a second inland port to be constructed in the state in Dillon, SC. Due to its ability to help increase efficiency and port capacity, this new inland port will help strengthen the Port of Charleston, and by extension, the long-term outlook for distribution in Greenville-Spartanburg.

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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