

CHARLESTON INDUSTRIAL MARKET

PORT CONTINUES TO SET RECORDS DESPITE TARIFF CONCERNS

The economy passed a significant milestone this year: This is now officially the second-longest expansion on record. In fact, the stimulus of federal tax reform has increased the probability that this economic upturn will actually result in the longest expansion in history, a milestone set to occur in July 2019. The Federal Reserve has expressed confidence in the economy by raising interest rates three times this year after keeping them at record lows to encourage growth following the financial crisis. Although the Fed must raise rates to prevent the economy from overheating as a result of the tax stimulus, it must raise them gradually in order to prevent inflation.

Several factors are leading many economists to speculate that the next downturn could happen as early as the end of 2019. The yield curve, a chart showing the interest rate paid on bonds of different maturities, has started to flatten. An inverted yield curve, which occurs when short-term interest rates are higher than long-term rates, tends to signal an upcoming recession, although it is by no means definitive or causal. Continued Federal Reserve tightening, soft credit demand and the uncertainty accompanying tariffs and the ongoing trade war are some of the factors that could encourage a downturn in the not-so-distant future.

As the home of the nation's fastest-growing port, Charleston is particularly concerned with tariff negotiations. China is the port's largest customer, accounting for nearly \$6.3 billion worth of goods shipped in 2017. Approximately \$2.4 billion worth of shipments come exclusively from BMW in Greer. In August, vehicle exports as a whole plunged 35.0% compared with a year ago. By September, BMW announced it would cut its expected profit margin to the lowest level since 2009 during the Great Recession.

Volvo started production this quarter at its Berkeley Count facility but had to cancel its plans to go public by the end of 2018, citing China's 25.0% tariff retaliation as the cause.

Despite these hurdles, the Port of Charleston still managed to set a single-month record in August for the amount of containerized cargo moving through its terminals, handling 206,541 cargo boxes measured in 20-foot increments, up 13.0% from July and 16.0% year over year. It is too early to tell what kind of impact, if any, a trade war with China will have on Charleston's industrial economy.

CURRENT CONDITIONS

4.6 million square feet currently under construction

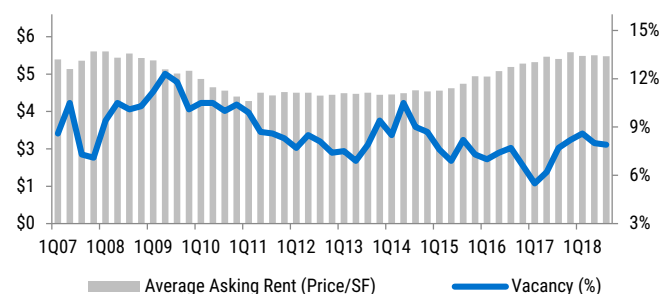
Average asking rents at \$5.97/SF

1,084,149 square feet positively absorbed during the second quarter

MARKET ANALYSIS

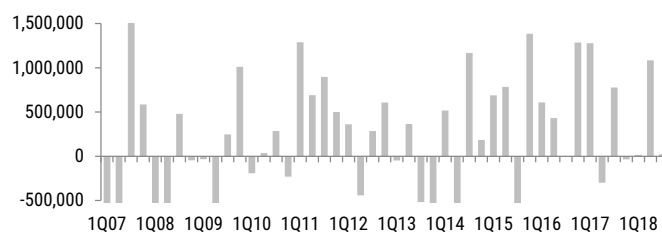
Asking Rent and Availability

Asking Rent and Vacancy



Net Absorption (SF, Millions)

Net Absorption
Square Feet



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76.3 MSF	73.2 MSF	70.8 MSF	↑
Vacancy Rate	7.9%	8.0%	6.1%	↔
Quarterly Net Absorption (SF)	23,378	1,084,149	-242,069	↑
Average Asking Rent	\$5.60	\$5.63	\$5.46	↑

The Mercedes-Benz Vans expansion, which was first announced in 2015, is also set to open this year. The expansion will feature an additional 1.0 million square feet that will more than double the size of the existing assembly and administration building. The facility will be

fully operational by 2020, with a workforce of over 1,300 capable of producing Sprinter vans from start to finish for North American customers, thus eliminating the need to assemble the vans twice.

SUBMARKET STATISTICS

	Total Inventory (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	INDUSTRIAL Asking Rent (Price/SF)	FLEX Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Dorchester	8,168,740	2.4%	8.1%	16,906	321,162	\$5.16	\$10.00	\$5.68
Downtown (CBD)	794,431	0.0%	7.8%	46,639	50,727	\$12.00	\$35.00	\$25.80
E Charleston/Mt. Pleasant	1,303,115	1.9%	4.5%	1,900	-6,353	\$16.25	\$10.60	\$11.20
Greater Charleston	8,021,904	5.2%	7.3%	19,897	89,571	\$6.75	\$13.32	\$7.17
James Island	627,436	8.4%	8.4%	2,700	2,700	\$8.01	-	\$8.01
North Charleston	30,441,375	8.4%	9.9%	205,691	961,376	\$5.32	\$15.40	\$5.94
Outlying Berkeley County	26,664,854	10.3%	9.2%	-269,255	3,034,061	\$4.63	\$10.04	\$4.68
West Charleston	257,922	0.0%	0.0%	1,900	4,400	-	-	-
Total Market	76,279,777	7.9%	9.0%	23,378	4,457,644	\$5.17	\$13.94	\$5.60

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
RPM	180 Trade Center Pky	Outlying Berkeley Cty	New	307,353
MAHLE BEHR USA, Inc	4500 Leeds Ave	North Charleston	Renewal	165,000
Gear Design & Manufacturing, LLC	4500 Leeds Ave	North Charleston	New	120,238
Lansing Building Products	4400 Arco Ln	North Charleston	New	50,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1023-1025 Northpointe Industrial Blvd	Outlying Berkeley Cty	\$30,500,000	\$86.93	350,856
1770 Hock Ave	North Charleston	\$6,000,000	\$67.96	88,288

ECONOMIC CONDITIONS

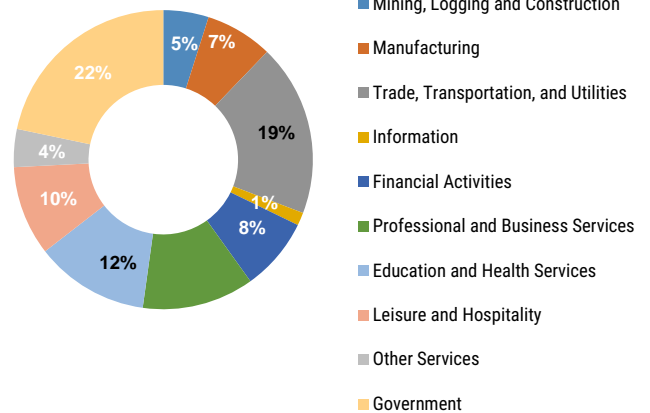
Unemployment in South Carolina remains low at 3.6% as of July 2018, even lower than the national unemployment which came in 3.9%. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

As South Carolina approaches full employment, labor shortages constitute the largest hurdle to continued expansion. Various workforce training programs exist to promote workforce development in the state. One such program, readySC, offers customized training for new or expanding businesses in South Carolina at little or no cost to qualifying companies.

South Carolina brought in 157 economic development projects and \$5.2 billion in capital investment in 2017. This was also the state's eighth consecutive year of record-setting total export sales. The SC Export Incentives Program, which reimburses small and midsize businesses that participate in trade missions and exhibitions, has been credited with encouraging the state's steady export growth, from \$24.7 billion in 2011 to \$32.0 billion in 2017. Vehicle exports dominated at \$11.0 billion, followed by aircraft at \$6.0 billion and machinery at nearly \$4.0 billion.

EMPLOYMENT BY INDUSTRY

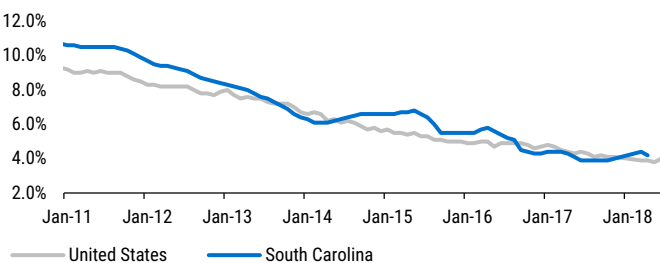
South Carolina, 2017



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

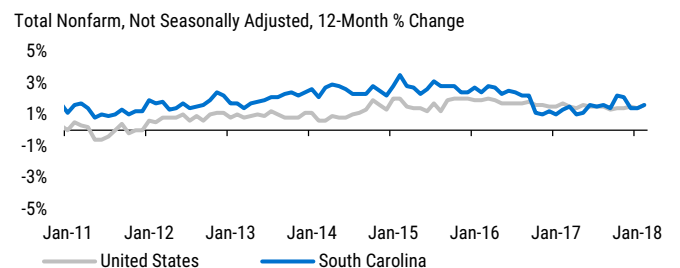
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

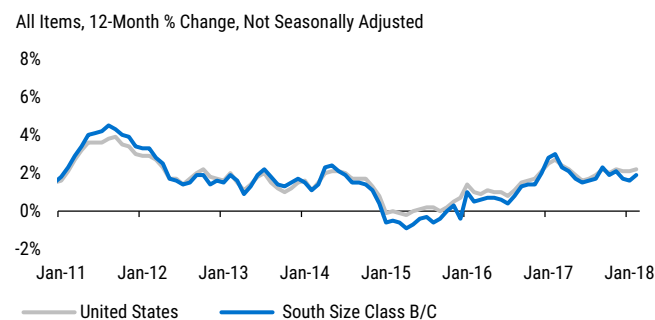
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

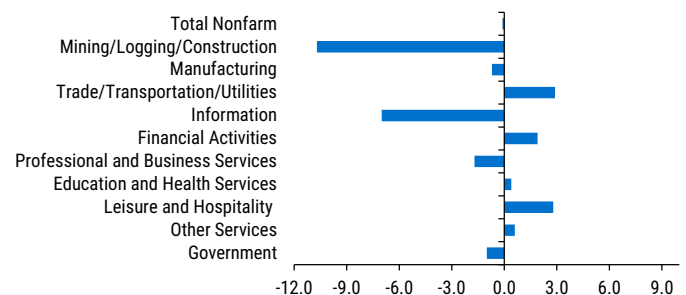
All Items, 12-Month % Change, Not Seasonally Adjusted



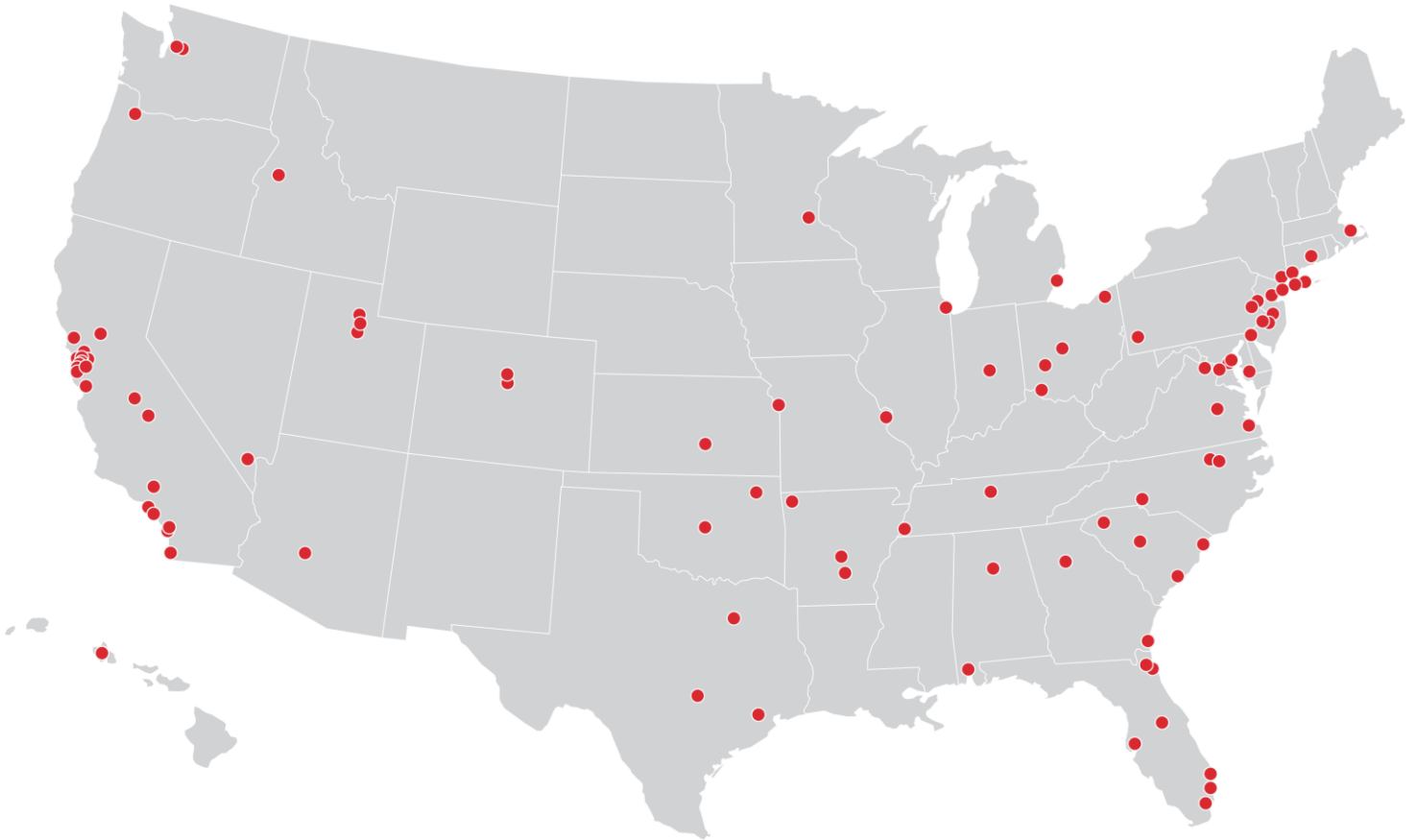
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Columbia, April 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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