CHARLESTON

EXECUTIVE SUMMARY

- Construction costs, permitting time and regulatory costs have increased rental rates for new construction to an all-time high.
- Expectations are that growth will be slower in 2020, due to tariffs, the cost of construction and labor shortages.
- The Charleston Port continues to expand despite uncertainty related to tariffs.
- The regional economy remains strong, and Avison Young expects continued growth in 2020, but at a lesser pace.
- In their 2020 Emerging Trends in Real Estate report, the Urban Land Institute and PwC named Charleston a top 20 U.S. market to watch for overall real estate prospects.

Charleston's diversification into the manufacturing and technology sectors bodes well for the local economy long term. Low unemployment, coupled with a strong construction pipeline and expansion of the port, will continue to facilitate growth in the region.

The Greater Charleston area continues to grow in population and industry, expanding the region's reach both economically and geographically. A healthy balance between small and large employers, among a multitude of other factors, put Charleston's unemployment rate at just 1.5% in September 2019, contributing to positive sentiment heading into 2020.

The Charleston office market has moved into a period of moderating tenant activity, as evidenced by a decline in net absorption of 60% in 2019 versus 2018. Meanwhile, deliveries in 2020 will add to existing inventory, driving vacancy higher and creating a more competitive leasing environment. Landlords will likely need to provide leasing incentives, a condition not seen in the market since the end of the Great Recession. As a result, Charleston is likely to see some softening in rental rates and deal volume until supply and demand are back in balance.

In Charleston's industrial market, vacancy rates and rents have stabilized as a result of strong tenant demand. The region's growing automotive and aerospace manufacturing sectors are poised for additional expansion, contributing to a positive outlook for the foreseeable future. Demand from those sectors will continue to buoy the market, even if other industrial sectors contract. With additional warehouses continually coming online as well as the deepening of the port, competition for land has become fierce across the market.

Charleston's retail sector remains strong, as population growth and tourism are driving national and regional retailers to enter and expand in the market. Activity in the retail sector is expected to remain consistent with previous years, with older centers being updated and new product coming available to keep up with demand.

Trends to keep an eye on in Charleston can be witnessed in each of the region's commercial product types. For office, technology will be a key focal point in 2020 as developers continue looking to incorporate new high-tech features into buildings to gain a competitive advantage with tenants who are increasingly using office space as a tool to recruit and retain top talent. The global economic slowdown has not yet been witnessed in Charleston's industrial market. Despite the notable downturn in global manufacturing in the automotive sector, Boeing, Volvo and Mercedes continue to grow locally. Lastly, the rebirth of retail can be seen from Charleston's submarkets to historic King Street, with experiential retailing leading the way. Avison Young expects Charleston's fundamentals remain strong, and for the market to continue along its path of growth despite a more moderately forecasted 2020.

AVISON YOUNG

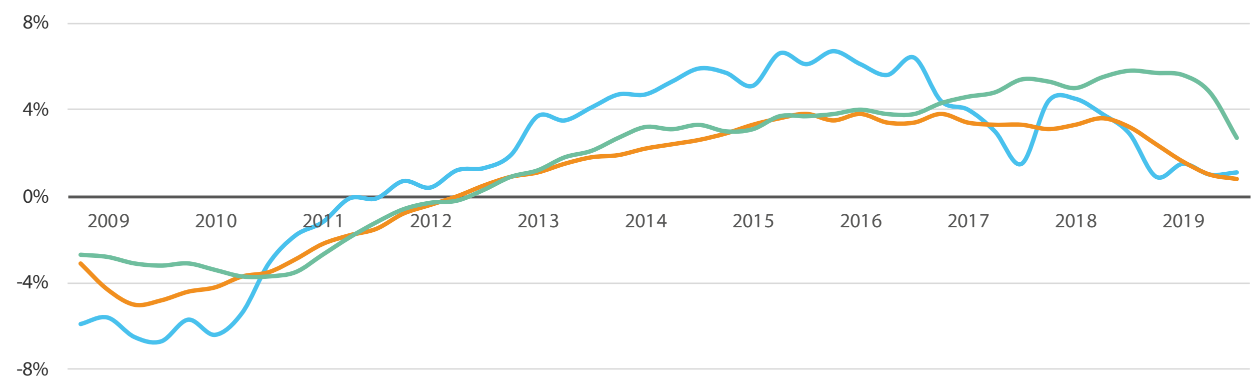
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	→
Vacant Space	↑↑	↑↑	↓
Construction Levels	↑↑	↑↑	↑
Leasing Volume	↑	↑	→
Investment Volume	→	→	→

Exponential growth across the Charleston region has led to sharply higher construction costs. That trend, coupled with increased permitting timelines and rising regulatory costs, has pushed rental rates for newly constructed product to an all-time high. Significantly higher occupancy costs may temper further expansion in Charleston in 2020.

CHARLESTON RENTAL RATE GROWTH YEAR OVER YEAR



Source: CoStar Realty Information, Inc.