



CHARLESTON, SC

## PLUM LENDING MARKET SPOTLIGHT



PLUM LENDING MARKET SPOTLIGHTS ARE INTENDED TO GIVE INVESTORS AND BORROWERS A DETAILED OVERVIEW OF THE INFORMATION THAT IS ALLOWING PLUM TO PLACE COMMERCIAL REAL ESTATE DEBT IN GROWING MARKETS

# PLUM MARKET SPOTLIGHT - CHARLESTON, SC

- The Charleston-North Charleston metro has a 2020 Census population of over 819,000, which is an increase of more than 150,000 from 2010 to 2020
- Ranked within the top 50 of US News & World Report's (2021-2022) 150 best places to live. The median age for the MSA is 38 years, while the median household income in 2019 was \$70,505.
- Google has established operations in the Charleston-North Charleston MSA since 2007 and in March 2021, announced that it will be expanding its data center in Moncks Corner and investing an additional \$500 MM, bringing Google's total investment in the state to \$2.9 BN.
- The Port of Charleston (part of the South Carolina Ports Authority) has been continually growing through its \$2 BN infrastructure plan, and recently opened its Leatherman Terminal (April 2021), the first new container terminal in the US since 2009 (adding 700,000 of twenty-foot equivalent units of capacity to the port). The multi-terminal Port serves more than 150 countries and 13 out of the 15 top container lines, with record-breaking activity during the pandemic.
  - The deepest water port in the southeast, the Port and its network of inland ports creates over \$63 BN in economic impact and its high-efficiency rating has attracted firms such as Walmart to invest \$220 MM in a new 3 MM SF distribution center, which will further increase the Port's volume beyond 2.5 MM+ TEUs.
- PWC's 2022 Emerging Trends in Real Estate report Charleston as one of their Niche markets in the Visitor and Convention Centers category, which is defined as a market that draws a substantial number of visitors that is either for conventions or leisure. According to the College of Charleston's Office of Tourism Analysis, the MSA receives 7.4 MM visitors annually.
- Charleston County holds an AAA credit rating from Fitch

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## MSA Overview:

The Charleston-North Charleston MSA is comprised of three counties (Berkeley, Charleston, Dorchester), 27 cities, and 3,100 square miles. The metro is chock full of history, historic architecture, and world-class culture (Spoleto Festival USA and the Charleston Wine + Food Festival as examples). The area contains five beaches, championship golf courses, more than 160 parks and recreation areas spread across 8,000+ acres, the Ace Basin National Wildlife Refuge, and the Francis Marion National Forest. The most populous county, Charleston County, has an estimated 2020 population of 417,981. Since 2010, the census population has grown by more than 152,000 people (over 15,000 additional residents per year on average). Some of the main draws for residents to the metro are the warm climate, high-quality, but cost-effective lifestyle, diverse housing, and lifestyle options, and the strong jobs market. In addition, there are plenty of activities for outdoor lovers and recreation enthusiasts in the MSA, including cycling, canoeing, kayaking in a 62-mile stretch of the Edisto River or open ocean, golfing along the picturesque coastline, fishing, sailing and boating, water parks, surfing, and watching wildlife along the Ashley River. The metro is ranked within the top 50 of US News & World Report's (2021-2022) 150 best places to live.

Higher education is prevalent in the MSA with ~40,000 students enrolled in area colleges and universities, including The College of Charleston (9,000+ enrollment) and the Medical University of South Carolina. The College of Charleston is ranked in the top 5 of US News & World Report's list of Top Public Schools in the South. The Medical University of South Carolina was founded in 1824 and has been ranked with the #1 hospital in the state by US News & World Report. Charleston is also home to The Citadel (The Military College of South Carolina), an institution comprised of mostly cadets from 45 states and a dozen countries, which holds the #1 spot in US News & World Report's list of the Top Public Schools in the South. The metro has a strong military presence with Joint Base Charleston, an installation that is one of 12 Department of Defense Joint Bases, holding over 60 Department of Defense and Federal agencies. The base services over 90,000 across multiple installations in the MSA, including Charleston Air Force Base and Naval Weapons Station Charleston, and also contains the US Navy's Nuclear Power Training Command complex (3,600+ students and over 450 faculty).

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## Economic Overview:

The metro's diverse industry mix includes healthcare, higher education, logistics, IT/tech, aerospace, military and defense, automotive, and tourism. Major public or private sector employers consist of Roper St. Francis Healthcare (6,000), Boeing (5,700), Trident Health (2,600), Joint Base Charleston (22,000), Medical University of South Carolina (16,000), and Walmart Inc. Boeing (or through its predecessor companies) has been in the MSA since 2004 and has its Centers of Excellence for IT, Research & Technology, and Engineering Design, as well as the final assembly and delivery facility for its 787 Dreamliner aircraft across over 3.6 MM SF of space. The Medical University of South Carolina (MUSC) is the oldest medical institution in the southern US and through MUSC Health, has four hospitals (totaling 700 beds) on its Charleston Medical Center campus (its University Medical Center is ranked the #1 hospital in the state by US News & World Report). MUSC Health's eight-hospital system throughout South Carolina and the University generates over \$1.1 BN combined in revenue.

Charleston's location of serving as the halfway point between New York City and Miami, its integrated transportation network, and having close to 1/3 of the US population within 500 miles of the Charleston region has given the metro a strategic advantage with logistics for European markets, and also allows for shipments to reach most domestic markets within 48 hours. The Port of Charleston (part of the South Carolina Ports Authority) has been continually growing and recently opened its Leatherman Terminal (April 2021), the first new container terminal in the US since 2009 (adding 700,000 of twenty-foot equivalent units of capacity to the port). The five terminal Port serves more than 150 countries and 13 out of the 15 top container lines.

PWC's 2022 Emerging Trends in Real Estate report classified the MSA as one of the Niche markets in the Visitor and Convention Centers category, which is defined as an area that draws a substantial number of visitors that is either for conventions or leisure. According to the College of Charleston's Office of Tourism Analysis, the MSA receives 7.4 MM visitors annually, with over 47,000 employed in the industry. Charleston International Airport is adjacent to Joint Base Charleston and in 2019 served over 4.8 MM passengers, making it the busiest airport in South Carolina.

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## Economic Overview:

The expansion of the Port, the business friendly environment, skilled labor force, and continued population growth has attracted a diverse set of firms to the area. For instance, the metro has been gaining the nickname Silicon Harbor due to over 400 tech companies that have established its headquarters or offices in the area, such as Benefitfocus, BoomTown, BlackBaud, Inc., Google, and Infosys. Google has operated in the Charleston-North Charleston MSA since 2007 and in March 2021, announced that it will be expanding its data center in Moncks Corner by investing an additional \$500 MM, bringing Google's total investment in the state to \$2.9 BN. Additionally, the Naval Information Warfare Center Atlantic in North Charleston specializes in designing cyber networks for communication, computers, and space systems and has an estimated \$2.6 BN in annual contracts.

The MSA has also continued its expansion towards establishing a hub for life sciences with now 35 pharmaceutical and medical device manufacturers and over 50 R&D labs in the area. On the automotive side, Mercedes-Benz Vans has been in the metro since 1999, with a major \$500 MM expansion in 2018 for its Sprinter assembly plant. Volvo also followed suit and opened its 2.3 MM SF plant in Ridgeville, SC for its S60 sedan production. Production for the XC 90 is set to begin in 2022 and in June 2021, Volvo announced that it will invest an additional \$118 MM into building the Polestar 3 on Volvo's next generation electric architecture, bringing the company's total investment in the area to \$1.2 BN. In Dec. 2020, Walmart broke ground on its \$220 MM Walmart Ridgeville Import Distribution Center 7, which will span 3 MM SF, take 14 months to complete, and support 850 Walmart and Sam's Club stores across South Carolina and beyond.

As of August 2021, the unemployment rate in the Charleston-North Charleston metro is 3.8%. Median home prices in the Greater Charleston area have increased over 16% YTD compared to Sept. 2020 to \$345,000 (Charleston Trident Association of Realtors), though they are still affordable vs. major west coast markets.

Median Household Income has increased from \$48,062 in 2010 to \$70,505 in 2019, representing an increase of 46.7%, or a compound annual growth rate (CAGR) of 4.35%.

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## Commercial Real Estate Trends:

**Multi-Family:** In 2020, Charleston's apartment supply increased by over 6%, making it the fastest growing MSA in the country for multifamily. Fortunately for multifamily investors in Charleston, demand for apartments has been well above the historical average and has outpaced supply in recent years. Annual rent growth in the market is near 17%, with asking rents currently above \$1,400/unit. Cap rates for multifamily properties in Charleston continue to compress, ranging from 4% to 7%, depending on asset characteristics.

**Industrial:** As part of the SC Port Authority's \$2 BN investment in expanding the Port, the opening of the new Hugh K. Leatherman Terminal and the Port's high efficiency rating has already attracted new tenants to the market such as UPS, Lowe's, and Walmart, in recent quarters. The industrial market in Charleston continues to boom, as the Port of Charleston posted a record throughput of over 2.5 million container units (TEUs) in Fiscal Year 2021, partly due to increased demand from consumers during the pandemic for retail goods. Market rent, sale price/SF, and rent growth are all at record levels for the market. Market vacancy remains just below 4%. The largest headwind to the industrial market in Charleston is the construction pipeline, which currently has over 8 million SF underway (representing over 9% of the market's inventory).

**Retail:** Despite retail vacancies in Charleston remaining above pre-pandemic levels, asking rents have reached all-time highs in the market. With little product in the development pipeline, supply-side pressure will not be a near-term issue. Cap rates for retail properties in Charleston range from 5.5% to 7.5%, depending on asset characteristics.

## Charleston CRE Updates:

- Apartment rents in Charleston have increased by approximately 17% year-over-year
- Bluewater at Bolton's Landing sold for \$85,500,000 or approximately \$244,286/unit
- Beeple signed a 5-year NNN lease at 2325 Charleston Regional Pky for 50,000 SF

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## Development Activity:

**Industrial:** In Q2 2021, Trinity Capital Advisors began construction on the 850k SF class A industrial Tradepark East, at Palmetto Commerce Parkway in Charleston. The property will consist of four buildings. Building one will be the largest at 342k SF and will have cross-docking with 36 ft. clear heights. Buildings two and three will be 175k SF each and building four will be 146k SF. Delivery is expected for 2022.

**Hospitality:** The Cooper hotel (225 rooms) broke ground in Q1 2020 and resumed construction in August 2021. The full-service waterfront luxury hotel is being developed by Los Angeles-headquartered Lowe (the firm behind the renovation and redevelopment of the Wild Dunes Resort) and will include 20k SF of indoor/outdoor event space, an infinity edge resort pool with views of the harbor and downtown skyline, a rooftop lounge, and a signature restaurant with water views. Open date is slated for Q1 2023. The hotel is in addition to Lowe's recent completion of the 153-room Sweetgrass Inn in Isle of Palms (opened Spring 2021).

**Multifamily:** In January 2020, The Southern Land Company broke ground on the Society at Laurens, an \$80 MM, 148-unit, luxury mid-rise property in downtown Charleston set to be delivered in early 2022. The community will have a heated saltwater pool deck and spa, private cabanas, an outdoor lanai, resident lounge, fitness center, and a dog run.

Woodfield Development's opportunity zone project, the 380-unit Morrison Yard, is currently under construction in Charleston's NoMo neighborhood (formerly an industrial zone that is being revitalized through several mixed-use projects). When complete in 2022, the community will be made up of a 10-story 241-unit structure and a 6-story 139-unit building, with green space across eight courtyards, an event stage, harbor view deck, over 25k SF of ground-floor commercial space, a large fitness center, and an elevated pool deck.

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## Development Activity:

**Mixed-Use:** WestEdge is a 50-acre site, 2.7 MM SF master-planned development in the Charleston Medical District being made possible through a public private partnership with the WestEdge Foundation and Gateway Ventures. Over \$300 MM in construction has been completed, including the 237-unit Caroline, the 350-unit 10 WestEdge apartments, 138k SF 22 WestEdge office tower (MUSC and SCRA lease 40% for lab and innovation space), 50k SF Publix. Developments set to deliver in 2023 - 2024 include four hotels totaling 700 rooms, 300 units of workforce and senior housing, 200-unit luxury apartments, and 200k SF of office/medical office/life science.

**Office:** The \$54 MM, six-story, 92k SF Charleston Tech Center was delivered in Q2 2021. The project was developed by Iron Bridge Capital and the Charleston Digital Corridor, in partnership with the city of Charleston, Charleston County, South Carolina, and the College of Charleston. Charleston Digital Corridor (who is also the anchor tenant), expects that the property will become home to 36 different companies. Tenants may also be able to benefit from the opportunity zone location economically due to potential tax advantages. Charleston Digital Corridor is focused on promoting the region's tech economy, and has been establishing flagship locations to help incubate early stage tech and life science companies since at least 2009. Charleston Digital Corridor occupies the entire 2nd floor (16k+ SF). The 6th floor contains amenities, such as shared conference rooms and a rooftop terrace with views of downtown Charleston and the Ravenel Bridge.

The \$42 MM, 12-story, 148k SF, Morrison Yard office building is in the middle of construction. The property will have a penthouse deck for events, 40k SF retail in another building, and large floor plates. The lower-level offices will sit 50 feet above the ground, with unique architecture to reflect the maritime location of the NoMo area, creating a large courtyard to take in views of Ravenel Bridge and the Cooper River. The project benefits from sustainability credits through the Charleston RISE program, and will have a rain garden to return filtered water to the adjacent wetlands, EV charging stations in the parking structure, a bike farm for sustainable commuting, and strategically placed kitchens and bathrooms to improve HVAC efficiency. A Charlotte-based law firm has signed a 12k SF lease at the property and delivery is expected in summer 2022.



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## Sales Activity:

On September 30th, Bluewater at Bolton's Landing sold for \$85,500,000 or approximately \$244,286/unit. The multifamily property (built in 2017) was 92.2% occupied at sale and traded at a 5.86% cap rate.

On October 1st, Ansonborough Inn sold for \$18,500,000 or approximately \$544,118/room. The boutique hotel is located within the Ansonborough neighborhood, which stretches from King Street to the edge of the Cooper River, between Hasell and Calhoun streets.

## Lease Activity:

In Q3 2021, Beeple signed a 5-year NNN lease at 2325 Charleston Regional Pky. The digital artist (who sold an NFT for \$69.3 million earlier this year) leased 50,000 SF of Flex Warehouse space at a rental rate of approximately \$7.50/SF.

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