

FIGURES | SAVANNAH INDUSTRIAL | Q4 2022

# Savannah Vacancy Remains Low Despite Record Absorption, Construction

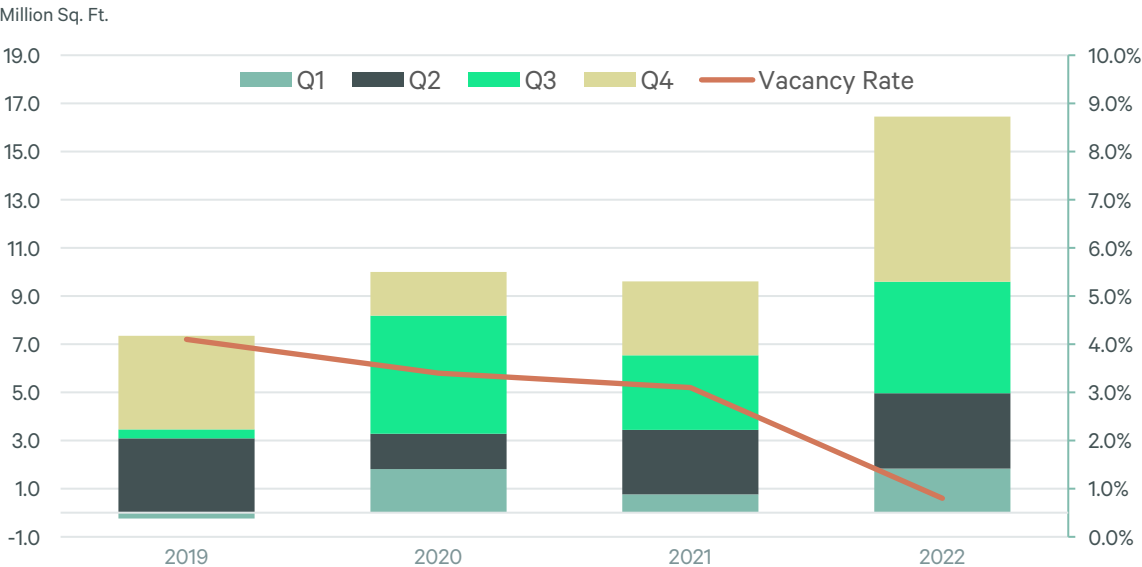


Note: Arrows indicate change from previous quarter.

### Key Takeaways

- There was over 6.8-million sq. ft. of net absorption in Q4, bringing the annual total to a staggering 16.4-million sq. ft., nearly doubling the previous record set in 2021.
- The total vacancy rate rose by 30 basis points (0.3%) to 0.8% in Q4; Savannah remains among the tightest industrial markets in the country.
- Occupiers continue to select new, Class A product, evidenced by the record 6.4-million sq. ft. of new product being fully leased upon completion in Q4.
- A record 26.2-million sq. ft. are under construction, representing over 25% of the existing market.
- Leasing of new product continues to surge; the 2.4-million sq. ft. of deals inked in Q4 pushes year-to-date leasing activity to a near-record 12.7-million sq. ft.
- Rents reached a record high average of \$6.09 per sq. ft., an annual increase of more than 11%.

FIGURE 1: Quarterly Net Absorption and Total Vacancy Rate



Source: CBRE Research, Q4 2022

Market Overview

- The Savannah industrial market is one of the most attractive in the country for investors and occupiers.
- The Port of Savannah experienced increased activity following the completion of the \$1.4-billion Savannah Harbor Expansion Project in March of 2022.
- The Port of Savannah is the fourth busiest and fastest growing port in the nation. The Georgia Ports Authority is underway on growth projects to increase overall container capacity from the current level of 6.0-million twenty-foot equivalent units (TEU) to 9.5-million TEU’s by 2025, an increase of 60%.
- Boasting a robust rail network with CSX and Norfolk Southern both on terminal, the port handles import and export cargo efficiently to every destination east of the Mississippi River, including an extensive network of inland ports.
- The Garden City Terminal is the largest single container terminal in North America, providing tremendous operational advantages.
- Major Interstates 95 and 16 are both short distances from the Garden City Terminal - 10 miles and 4 miles, respectively - allowing for a 4-hour drive to Atlanta, Charlotte, Orlando, and numerous other major population centers.

Survey Criteria

Includes all classes of competitive warehouse/distribution, shallow bay, and flex space 10,000 sq. ft. and greater in Bryan, Chatham, Effingham, and Liberty County, Georgia, and Jasper County, South Carolina. Buildings under construction are evidenced by site excavation or foundation work. Excludes self-storage, specialized manufacturing, data centers, and industrial outdoor storage.

\*Note: CBRE Research began tracking Jasper County, South Carolina, as part of the Savannah industrial market in Q3 2022. Historical adjustments were made to data going back one year.

FIGURE 2: Market Statistics

Quarter/Year	Market Rentable Area (sq. ft.)	Total Vacancy Rate %	Total Avail Rate %	Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. NNN Lease Rate (\$/sq. ft./Yr)
Q4 2022	104,414,441	0.8	0.8	6,858,881	16,455,221	26,269,775	\$6.09
Q3 2022	98,013,360	0.5	0.5	4,632,622	9,596,340	25,435,509	\$6.02
Q2 2022	86,651,570	0.7	1.9	3,118,220	4,879,840	23,024,169	\$5.79
Q1 2022	84,228,973	1.3	1.1	1,761,620	1,761,620	21,282,226	\$5.48
Q4 2021	84,573,672	3.1	3.5	3,122,973	9,691,954	17,657,211	\$5.48
Q3 2021	82,001,895	3.5	3.5	3,127,692	6,568,981	15,220,384	\$5.48
Q2 2021	79,163,460	3.5	3.8	2,679,277	3,441,289	9,137,976	\$5.40
Q1 2021	77,228,420	3.3	4.1	762,012	762,012	8,510,808	\$5.39
Q4 2020	77,683,656	3.4	5.6	1,813,426	10,001,530	7,985,212	\$5.32
Q3 2020	75,085,883	4.0	6.8	4,905,633	8,188,104	5,473,793	\$5.31
Q2 2020	74,672,333	5.8	8.4	1,468,278	3,282,471	5,413,550	\$5.22
Q1 2020	71,677,240	4.6	5.6	1,814,193	1,814,193	5,703,135	\$5.23
Q4 2019	71,007,374	4.1	5.3	3,889,097	7,109,023	6,835,785	\$5.16

Source: CBRE Research, Q4 2022

Net Absorption and Leasing Highlights

The Savannah market experienced over 6.8-million sq. ft. of net absorption in Q4, more than any other quarter by roughly 2-million sq. ft. This helped to boost annual net absorption to 16.4-million sq. ft., nearly double the previous record. The largest contributor to this increase was Amazon occupying their newly-built, four-story, 2.4-million sq. ft. fulfillment center. Additionally, Performance Team occupied 1-million sq. ft. at Southeast Gateway, along with five other move-ins of 300,000 sq. ft. and larger.

There were over 2.4-million sq. ft. of leases signed in Q4, bringing the year-to-date total to an impressive 12.7-million sq. ft., narrowly behind the record set in 2021. 3PL groups and wholesalers continued to account for the bulk of leasing activity.

Vacancy

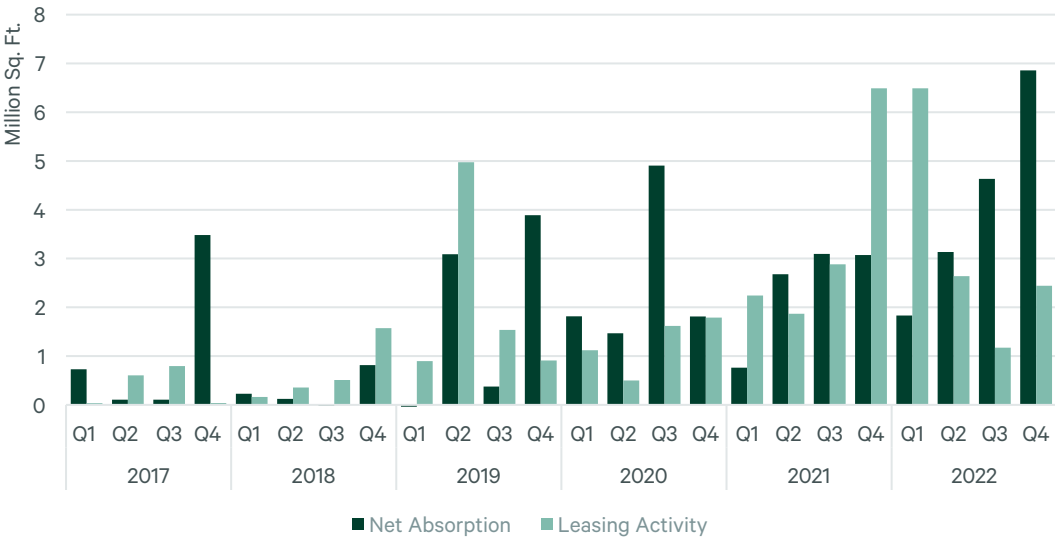
The total vacancy rate rose slightly to 0.8%, a 30 basis point (0.3%) increase from Q3. The primary driver for this was JLA Homes’ move out of 400,000 sq. ft. at the 13-year-old 602 Expansion Blvd building. This uptick in vacancy is marginal and any further short term increases in vacancy will likely be a result of similar turnover situations.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Performance Team	Southeast Gateway - Bldg II	1,004,400	Outlying Chatham County	New Lease
Lecangs	Old Augusta Commerce Center – Bldg I	442,606	Effingham County	New Lease
UPS	CenterPoint Industrial Park	223,000	N Savannah/Garden City	Expansion
Logipia	Cowan Logistics Park – Bldg A	280,500	N Savannah/Garden City	New Lease

Source: CBRE Research, Q4 2022

FIGURE 4: Net Absorption and Leasing Activity



Source: CBRE Research, Q4 2022

FIGURE 5: Class A Warehouse/Distribution Total Vacancy & Availability Rates



Source: CBRE Research, Q4 2022

Industrial Rental Rates

The average NNN lease rate has risen to \$6.09 per sq. ft., an 11% increase year-over-year. As tenants are continually faced with new construction as the only opportunity for occupancy, industrial developers continue to pass the high construction costs directly to tenants. Pre-leasing of product under construction has prevented vacancy increases, so each new building that comes online is expected to continue setting the new mark. Sustained vacancy below 1% for the past three quarters has tightened the market like never before, and competition between tenants eager to participate in the rapidly expanding port market in all inventory classes will continue to increase rents.

FIGURE 6: Average Class A Warehouse/Distribution Rental Rates



Source: CBRE Research, Q4 2022

FIGURE 7: Notable Q4 Industrial Sales

Location	Buyer	Seller	Size (sq. ft.)	Sale Price	Price/Sq. Ft.
Coastal Commerce Center – Bldgs A & B*	Stream Realty	Strategic	826,200	\$113.0M	\$136.77
Savannah Gateway Industrial Hub – Bldg 1H	TerraCap Management	Broe Real Estate	790,400	\$82.1M	\$103.82
Cubes at Interstate Centre II – Bldg E	TA Realty	CRG	465,250	\$50.5M	\$108.54

\* Denotes part of multi-property sale

Source: CBRE Research, Q4 2022

Capital Markets

With sustained vacancy below 1%, annual rental increases of over 11%, and continued tenant demand in the market, Savannah remains a prime target for investors. The confidence in the market is supported by the \$668-million worth of assets that traded in Q4. Institutional buyers dominated acquisitions, accounting for ±90% of Q4 deals. Sales of single assets accounted for the bulk of deal volume in Q4, reaching nearly \$520-million, or 77.7% of transactions. On the contrary, Prologis’ acquisition of Duke Realty comes with ownership of over 8.2-million sq. ft. of assets in the Savannah market.

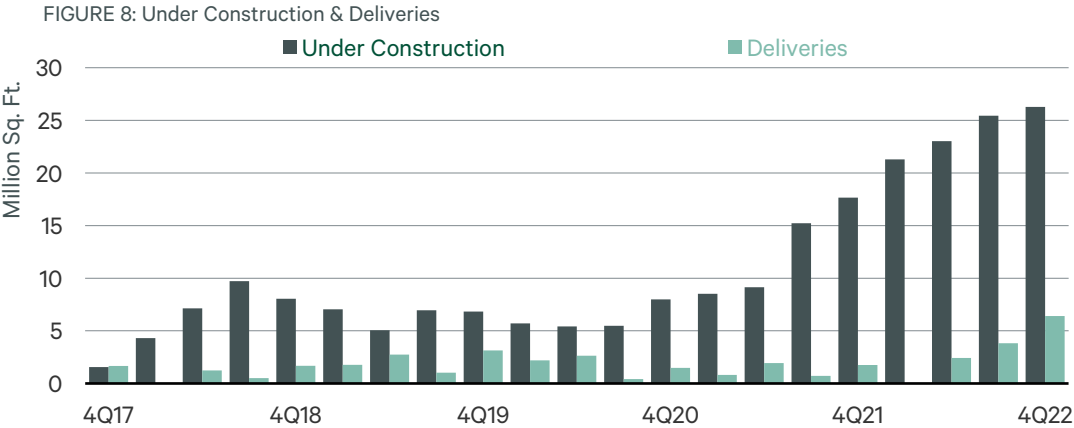
Investor sentiment slowed in the end of 2022, both nationwide and in Savannah. Uncertainties surrounding interest rates and other macroeconomic headwinds have softened capital markets, and cap rates in Savannah have risen. That said, Savannah cap rates have remained on par with major markets such as Atlanta. Furthermore, Savannah’s incredibly strong fundamentals should help protect the market from economic deterrents and should lead to a relatively more positive investor outlook in 2023 compared to other markets.

Under Construction

The development pipeline has increased to a record 26.2-million sq. ft., the fifth consecutive record-breaking quarter. While the pipeline is being built mostly on a speculative basis, 36.8% of active development has already been pre-leased, a figure expected to increase as projects move closer to completion. There are an impressive seven buildings under construction at or greater than one million sq. ft., and three have already been fully leased. Additionally, there are 14 projects exceeding 500,000 sq. ft. and the average size of buildings under construction has increased to 547,000 sq. ft., only seven of which are 150,000 sq. ft and smaller.

Deliveries

The market broke a record for deliveries in Q4, bringing over 6.4-million sq. ft. online. Additionally, the year-to-date total of 12.6-million sq. ft. delivered more than doubled the record set in 2021. The average building size of completions grew to 800,000 sq. ft. in Q4, with three buildings over one million sq. ft. and only two under 400,000 sq. ft., largely a circumstance of timing.



Source: CBRE Research, Q4 2022

Economic Development

Savannah’s record port growth and its’ business-friendly environment continue to generate economic development in the market. Announced earlier this year, site work on Hyundai’s 3,000-acre megasite in North Bryan County is well underway, with a project completion date of 2025. The investment totals \$5.5-billion dollars, the largest in state history. The plant footprint will span 16-million sq. ft. between the battery and auto plants and will create 8,100 jobs. The ancillary suppliers for the South Korean automaker will add another 11,000 estimated jobs, with an investment price tag of roughly \$2.5-billion dollars.

FIGURE 9: Hyundai & Ancillary Supplier Announcements

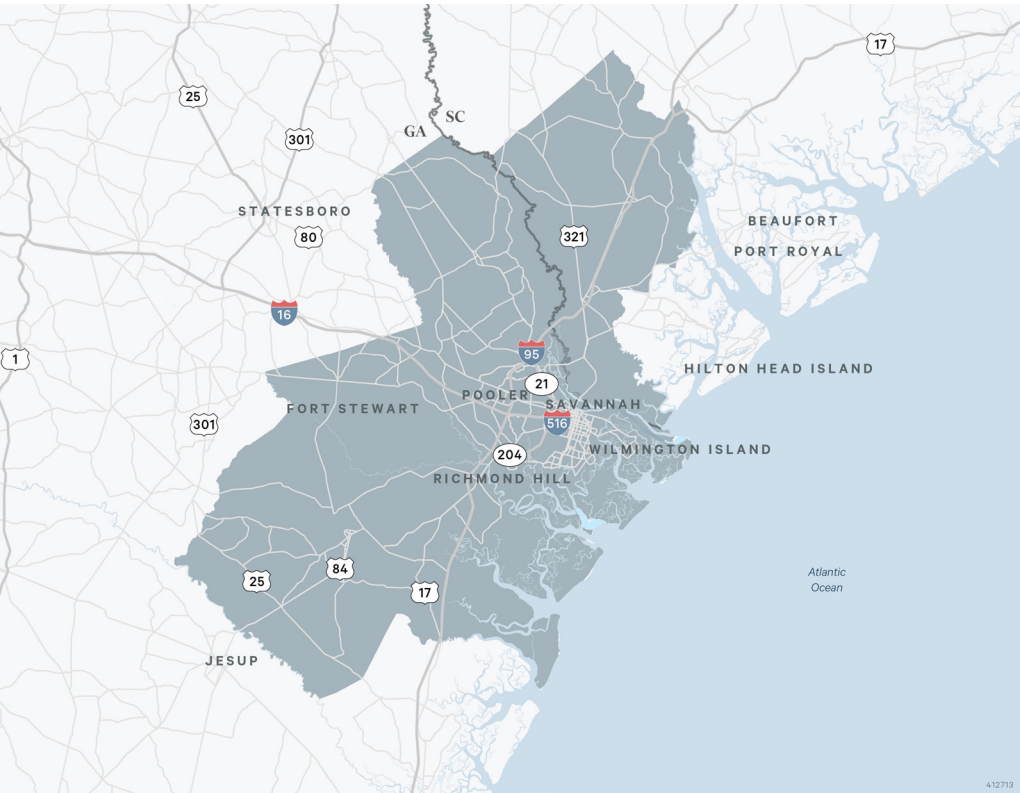
Supplier	Investment	Submarket	Location	Size (sq. Ft.)	Employees
Hyundai	\$5.5B	Bryan County	Bryan County Megasite	16M	8,100
Ecoplastic	\$205M	Bulloch County	Hwy 301 & I-16	TBD	450
Joon GA	\$317M	Bulloch County	Bruce Yawn Park	866,000	630
Hyundai Mobis	\$926 M	S. Bryan County	Belfast Commerce Park	1,200,000	1,500
Seoyon E-HWA	\$76M	Chatham County	Sav/Chatham Man Center	TBD	700
Totals	\$7.02B				11,380

FIGURE 10: Notable Q4 2022 Deliveries

Property Name	Property City	Building Size (sq. ft.)	Distance to Port (miles)	Month Completed	Developer
Amazon Fulfillment Center	Pooler	2,400,000	9.0	December 2022	Seefried
Georgia International Trade Center – Bldg 2C	Rincon	1,165,425	11.9	November 2022	Chesterfield
Southeast Gateway – Bldg II	Savannah	1,004,400	18.7	December 2022	McShane Development
Cubes at Interstate Centre – Bldg E	Ellabell	465,250	24.9	October 2022	Clayco
Old Augusta Commerce Center – Bldg I	Rincon	442,606	12.2	November 2022	Becknell Industrial
15 Aviation Ct	Garden City	113,400	3.3	October 2022	Duke Realty
Total Delivered Q4 2022		5,601,081			

Source: CBRE Research, Q4 2022

Market Area Overview



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Definitions

- Available Sq. Ft.:** Space in a building ready for occupancy within six months; can be occupied or vacant.
- Availability Rate:** Total available sq. ft. divided by the total building area.
- Big-Box:** An industrial property totaling 200,000 sq. ft. or greater.
- Capitalization Rates:** Also known as “cap rates”; a measure used to estimate rates of return on commercial real-estate properties.
- Clear Height:** The usable height in a building to which an occupier can store its goods on racking. Clear height is measured below any ceiling obstructions such as lights or sprinklers.
- Deliveries:** Completion of required construction for a building.
- Distribution/Logistics:** An industrial property subtype of warehouse/storage designed to accommodate the efficient movement of goods. Distribution space is at least 100,000 sq. ft., office area less than 10%, and clear heights 30 ft. and higher.
- Flex Space:** An industrial property subtype built to allow flexibility of alternative uses. Flex space contains at least 25% office area, high curb appeal, and high parking ratios.
- Leasing Activity:** Square footage committed to and signed under a lease obligation for a space in a given period.
- Net Absorption:** The change in physically occupied square feet from one period to the next period.
- Net Net Net (NNN) Lease Rate:** Rent excludes “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.
- Occupied Sq. Ft.:** Building area not considered vacant.
- Shallow Bay:** An industrial property subtype with bay depth of 120 to 200 feet with typical clear heights between 18 and 24 feet.
- Total Rentable Area:** The total rentable floor area square feet of the building.
- Vacant Sq. Ft.:** Existing space not occupied by a tenant. Vacant space can be available or not available.
- Vacancy Rate:** Total vacant sq. ft. divided by the total building area.
- Warehouse/Storage:** An industrial property subtype designed for the warehousing and storage of materials, goods and merchandise. Office area is less than 15% of the space, clear heights of at least 18 ft.

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