

FIGURES | SAVANNAH INDUSTRIAL | Q2 2023

# Record Deliveries Boost Vacancy Rate Above 1%

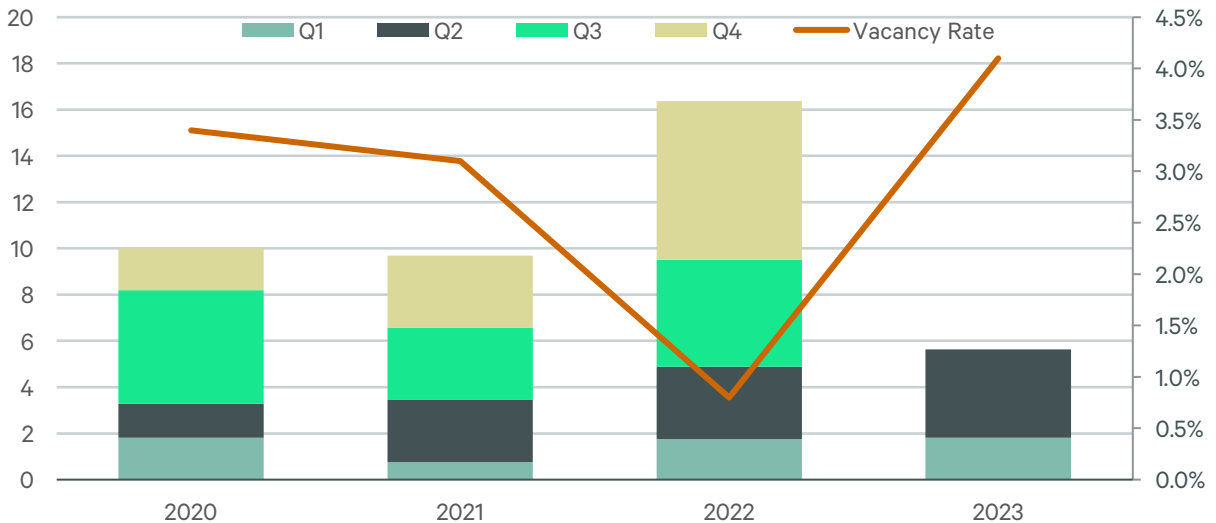


Note: Arrows indicate change from previous quarter.

### Key Takeaways

- The total vacancy rate in the Savannah Industrial Market has risen 350 basis points (3.5%) to 4.1%, quarter-over-quarter.
- This marks the first time in five quarters the vacancy rate has been above 1%.
- The nearly 8-million sq. ft. of deliveries was the most in Savannah’s industrial market history.
- With record completions, the construction pipeline decreased by 24.9% quarter-over-quarter.
- Net absorption increased from last quarter to 3.8.-million sq. ft. in Q2. Compared to Mid-Year 2022, industrial absorption has increased by 15.4% this year.
- Leasing activity remains stable, with over 2.6-million sq. ft. of deals signed in Q2.
- Rents have increased 8.1% year-over-year, with the average NNN rate now sitting at a record \$6.26 per sq. ft.
- Due to domestic and international circumstances, the Port of Savannah has recorded its highest container market share ever, and the port’s expansion project is gearing up for more demand.

FIGURE 1: Quarterly Net Absorption and Total Vacancy Rate  
Million Sq. Ft.



Source: CBRE Research, Q2 2023

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 third 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)
Q2 2023*	109,433,238	4.1	5.1	3,820,482	5,630,466	21,246,379	\$6.26
Q1 2023*	101,452,661	0.6	1.1	1,809,984	1,809,984	28,277,511	\$6.16
Q4 2022*	100,704,661	0.8	1.5	6,858,881	16,455,221	26,269,775	\$6.09
Q3 2022*	94,752,261	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

Source: CBRE Research, Q2 2023

Net Absorption and Leasing Highlights

Net absorption increased from last quarter to 3.8-million sq. ft. in Q2. Compared to Mid-Year 2022, industrial absorption has increased by 15.4% this year. Pre-leased deliveries accounted for the majority of the industrial space absorbed this quarter at 80%. With few tenants moving out, the demand of the market remains strong.

Leasing activity in Savannah declined slightly by 16.5% quarter-over-quarter. Just over 2.6 million square feet was signed in Q2 2023. The most active tenant types were logistics companies and wholesalers. The properties leased in Q2 were a mixture of older and newer buildings. Plastics Express was the largest transactions in the quarter with the wholesaler pre-leasing the entire 982,880 sq. ft. space in Central Port Logistics Bldg. 11 which is expected to deliver in Q3. Leasing activity is expected to remain consistent through the end of 2023. However, rental rate growth will likely temporarily plateau in late 2023 and early 2024 as more product is delivered, making it a more competitive environment for landlords.

Vacancy

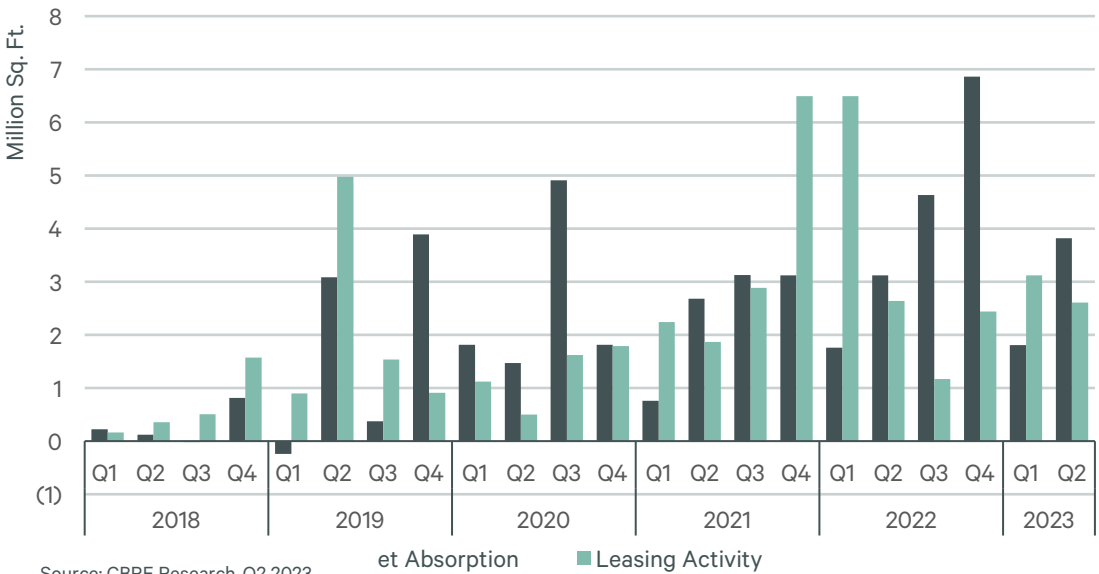
After being below 1% for five consecutive quarters, the vacancy rate for Q2 2023 stands at 4.1%. The key reason for the increase was due to record-breaking deliveries which added just under 5-million sq. ft. of unoccupied space to the market. Despite the rise in vacancy, the Savannah market remains in high demand. Savannah’s overall industrial vacancy rate should remain over the 1% mark through 2024 as more buildings in the robust development pipeline deliver to the market.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Plastics Express	Central Port Logistics Bldg. 11	982,880	Outlying Chatham County	New Lease
Lonestar Transportation	602 Expansion Blvd.	400,000	North Savannah/Garden City	New Lease
Dile Solutions	Rockingham Farms Logistics Park – Bldg. 10	198,343	Outlying Chatham County	New Lease
Palmer Logistics	Coastal Commerce Center II	165,000	Savannah	New Lease

Source: CBRE Research, Q2 2023

FIGURE 4: Net Absorption and Leasing Activity



Source: CBRE Research, Q2 2023

FIGURE 5: Class A Warehouse/Distribution Total Vacancy

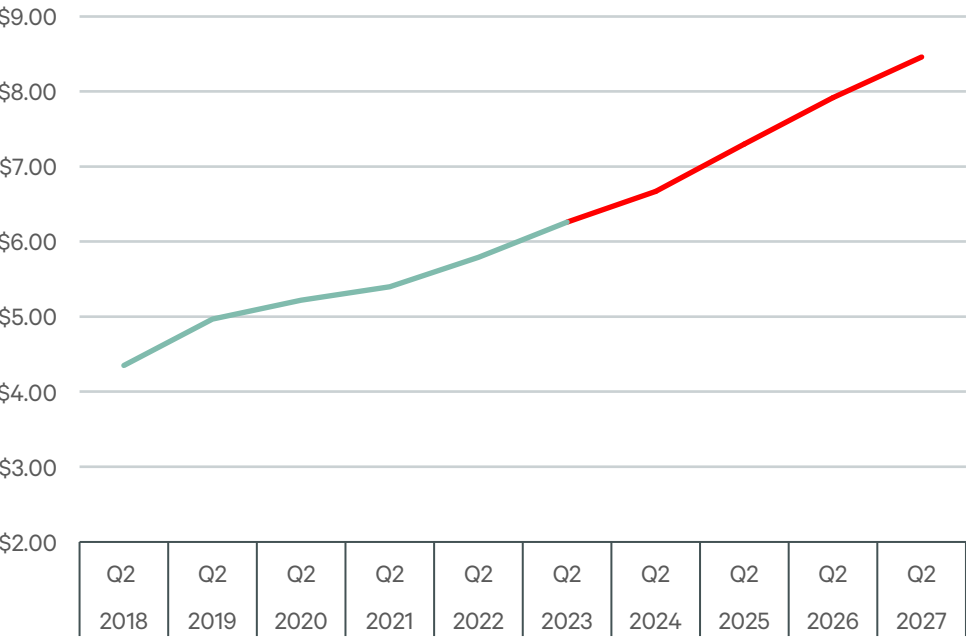


Source: CBRE Research, Q2 2023

Industrial Rental Rates

Savannah’s average NNN lease rate has risen 8.1% year-over-year to \$6.26 per sq. ft. Landlords pricing power continues due to ongoing demand for Savannah’s industrial market and the continuous low vacancy rate, even with this quarter’s uptick. The GPA reported the second busiest container activity on record for fiscal year 2023 at the Port of Savannah. Factors such as this, along with other domestic and international factors, are contributing to the market’s attraction of industrial users, which is leading to continued competition for space in the market. That being said, the abundance of projects currently under construction, and the available space within these developments, will likely stabilize rental rate increases in the near term.

FIGURE 6: Historic & Projected Class A Warehouse/Distribution Rental Rates



Source: CBRE Research, Q2 2023

Economic Development

The Georgia Port Authority released final year 2023 figures, showing the fiscal year that ended June 30 was its second busiest on the record, trailing only 2022. Although the total number of shipping containers transported decreased year-over-year, the GPA improved its U.S. market share to 11.2%, up from 10.4% in 2022. As demand continues to rise, rapid development and the port’s expansion plan are preparing the Savannah industrial market for growth. Berth 1 has reopened following two-and-half-years of renovation and expansion. The opening dock increases GPA’s container capacity by 25% and Berth 1 handled five ships in its first five days of operation. Once it is completed in 2026, Ocean Terminal’s conversion will add another 25% capacity.

In April 2023, the Hyundai Meta-plant site went vertical as construction on the main buildings began. The upcoming plant’s impact on the market has continued to grow as automobile parts suppliers from across the globe have made investments in the area. During Q2, Seohan Auto Georgia and PHA made investments to build facilities near the plant. As the port continues to expand, Hyundai and its suppliers will import an estimated 100,000 containers full of parts through Savannah.

Capital Markets

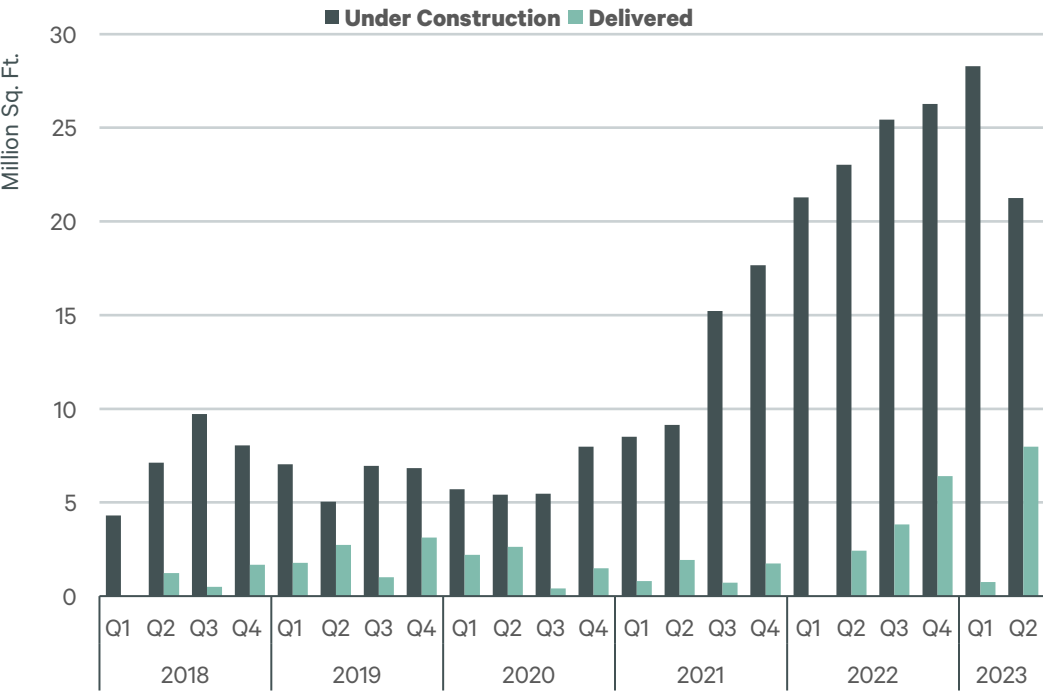
In Q2 2023, over 1.7-million sq. ft. of industrial assets changed hands, representing a sales volume of more than \$190 million. Despite economic fears, escalating interest rates, and other challenges in the capital markets nationwide, sales volume in the Savannah Industrial Market grew 73% quarter-over-quarter. Savannah’s consistently low vacancy rate, robust construction pipeline, and strong rent growth have better protected it from the macroeconomic difficulties other markets have suffered. Following the shift to the east coast ports and the expansion of the Port of Savannah, the market has become one of the country’s busiest industrial markets. As Savannah continues to reap the benefits of these factors, expect new construction leased to credit tenants to boost sales volumes.

Investment transactions accounted for \$86 million of the total sales volume this quarter. The remainder was in user sales, most notably Kiss Nails Products’ purchase of the Cubes at Interstate Centre II – Bldg. B. The wholesale supplier paid \$80.1 million for the 708,990 sq. ft. distribution facility; a record amount for a user purchase. Savannah’s superb attributes and appealing nature will keep it at the top of both investor and user minds. This will help sustain sales activity throughout the rest of 2023, even with the unfavorable economic climate nationally.

Under Construction

Due to the record amount of space delivered in the second quarter, construction activity has decreased to its lowest level since the first quarter of 2022. Just over 21.2-million sq. ft. of industrial product remains in development in Savannah. While off from the historic 28.3-million sq. ft. construction figure last quarter, the pipeline remains active. There were 7 new buildings to break ground in Q2, totaling 2.8-million sq. ft. Speculative construction remains most active in the market with 95% of properties under construction falling under this category. Although only 18% of these buildings are pre-leased, the number is expected to improve closer to the delivery dates.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q2 2023

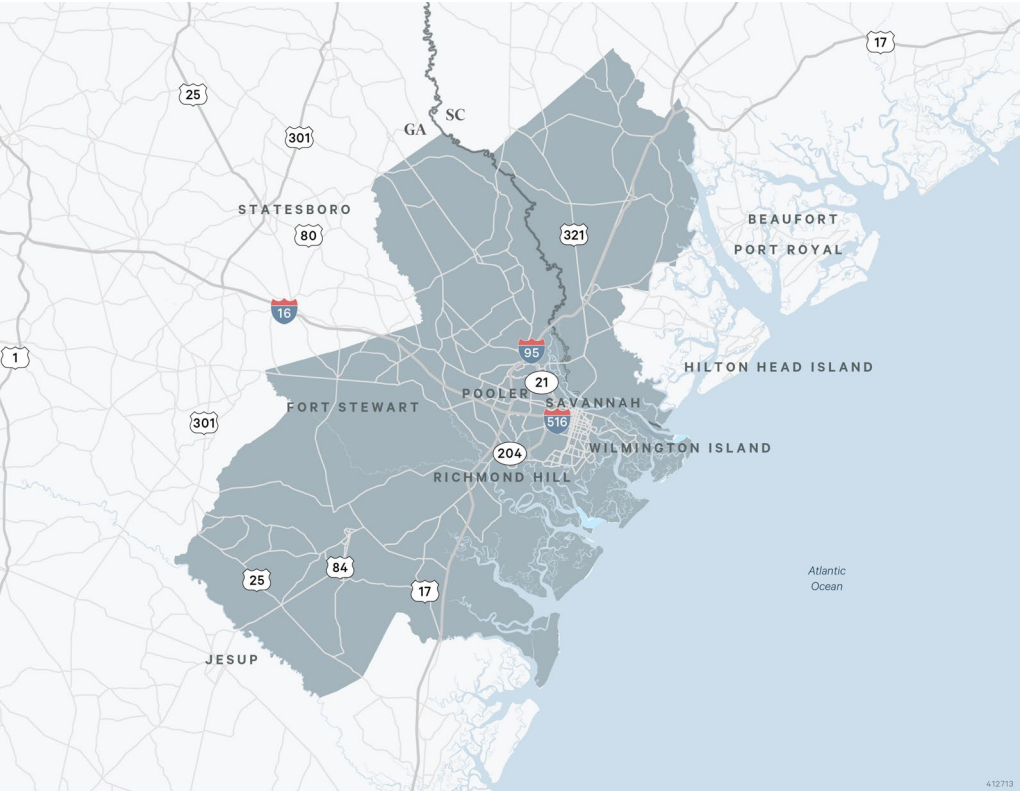
FIGURE 9: Q2 2023 Deliveries

Property Name	Property City	Building Size (sq. ft.)	Distance to Port (miles)	Month Completed	Developer
GITC – Bldg. 3	Rincon	1,500,815	11.9	June 2023	Chesterfield, LLC
Old Augusta Commerce Ctr. – Bldg. 2	Rincon	1,026,606	12.9	April 2023	Becknell Industrial
SunPort 95	Savannah	944,260	9.2	April 2023	SunCap Property
I-16 Port Logistics – Bldg. 1	Pooler	711,975	12.8	June 2023	CA Ventures
The Cubes at Interstate Centre II – B	Ellabell	708,990	28.5	April 2023	Clayco
Total Delivered Q2 2023		7,980,577			

Deliveries

Savannah recorded a record-breaking 8-million sq. ft. of industrial space delivered in Q2 2023. Historic construction levels have led up to the record amount added to the market this quarter, and even more records are set to be broken in the coming year because of this. For Q2, Building B at the Georgia International Trade Center, preleased by Lowe’s, was the largest building completed at 1.5-million sq. ft. In total, there were two buildings of a million square feet or higher to deliver this quarter; however, the majority of new buildings coming online in Q2 fell within the 100K-500K square-foot range. Just over 63% of the space delivered to the market in the second quarter was pre-leased which helped boost occupancy gains. Looking ahead, as the market’s rapid growth prepares for anticipated demand from across the globe, Savannah is projected to see an astounding 17.6-million sq. ft. of industrial development deliver through the end of the year.

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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