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Greenville, South Carolina Multifamily Market

Currently, the entire Greenville-Spartanburg MSA (GSP) is experiencing the highest occupancy rates the area has seen in a decade. Job growth, cultivated by the low cost of doing business, is strong. Furthermore, GSP is centrally located with easy access to Atlanta, Charlotte and the Port of Charleston. Developers, enticed by a market-wide vacancy rate of 7.4 percent, are responding to market conditions with 1,025 units currently under construction and 1,380 units proposed for future construction. Meanwhile, absorption levels are expected to continue to outpace new supply in most submarkets.

The standard for new multifamily development involves swimming pools, fitness center access and above-average finishes. Since GSP consumers do not have much patience for commuting, most new apartments are being built in very close proximity to the major employment and retail sectors. Regionally, low, single-family housing costs have driven developers to build multifamily units with larger floor plans than in the past in an effort to provide a comparable product with economic competitiveness. For example, communities in the market that are at least 16 years old offer an average unit size of 896 square feet, while the newest communities provide an average square footage of 1,268, a 42 percent difference.

Most major economic development projects in the works are located directly on I-85 in Greenville and Greer. Four adjacent projects at exit 48 on I-85 comprise approximately 1,900 acres of office space, research facilities and housing. The most notable project is the 250-acre Clemson University International Center for Automotive Research (CU-ICAR), which will create thousands of high-paying jobs during the next 10 to 20 years. With a corporate vision of becoming the "premier automotive and motorsports research and educational facility in the world," this public-private conglomeration involves major players including Clemson University, BMW, Michelin, Timken, Sun, IBM, the state of South Carolina, the city of Greenville and Greenville County. Several buildings are already built and occupied.

Adjacent to CU-ICAR is Carolina First Banks' new 68-acre headquarters. Phase I broke ground last month and should create approximately 600 new jobs.

Also adjacent to CU-ICAR is the 500-acre Millennium Campus, which focuses on businesses with research and technology concentrations. Hubbell Lighting has already moved into the property with its new \$36 million headquarters. The entire project is also expected to create thousands of high-paying jobs with millions of square feet of office space during the next 20 to 30 years.

Across I-85 from Millennium Campus and CU-ICAR is the 1,100-acre master-planned community of Verdae. The project plans for 3.5 million square feet of commercial space and housing for 10,000 people. Surprisingly, the first phase of this project does not include development of multifamily units. The Verdae project will be built during a period of 20 to 30 years.

Retail and entertainment developments will undoubtedly catch the attention of multifamily developers as well. A \$290 million, 175-acre commercial development has been proposed for the intersection of I-85 and Highway 14 in Greer near GSP International Airport. Nothing has been solidified for the project; but if some of the rumored retail comes to fruition, national trends point to the likelihood that the development of nearby multifamily dwellings will follow.

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A noteworthy development is the demolition of the existing Greenville Mall and its conversion to more than 1 million square feet of office, condominium, retail and entertainment space in a pedestrian-friendly lifestyle center wedged between Woodruff Road and I-385. Since Woodruff Road is already the most built-out, congested location in the Upstate, it is unlikely new apartment development will be instigated by its construction. It should, however, aid in the absorption of new units already in the pipeline.

New apartment development is generally concentrated along the I-85 corridor, evenly distributed along the vein that bisects the entire market. Most of the jobs in the market are located along I-85 or I-385, and the creation of easy commutes to employment bases is extremely important for apartment developers here. Every major retail/entertainment sector, including super-regional shopping destinations, is situated either on the interstates or a very short distance from them. Additionally, developers are hoping to cash in on the impending in-migration expected from the substantial amount of technology and white-collar jobs being created along I-85 in Greenville.

A couple of new players in the GSP apartment development market are Terwilliger Davis & Leadbetter, building 195 units in downtown Greenville, and the Benchmark Development Group, with 250 proposed units in Greer.

While there have been a few mixed-use, adaptive reuse and student housing projects built in the past few years, developers are sticking to traditional, suburban, class A, garden-style construction for most new projects. Developers in this region have to build product with easy driving access to points of interest that accommodates a diverse demographic set. The single, young professional tends to be the target market for new infill product while developers tend to have families in mind for product in the outlying areas.

Rents after concessions in the Greenville-Spartanburg market range anywhere from \$0.54 per square foot for the oldest product in Greenville-Central to more than \$1 per square foot for core, downtown properties. Put in perspective, you could spend as little as \$400 a month in gross rent to as much as \$1,700 a month. The highest average rents in the market, other than the limited downtown options, are being achieved in the Greenville-northeast submarket at \$0.66 per square foot. The Greenville-south and Spartanburg-east submarkets follow closely behind with rents at \$0.65 per square foot.

Vacancy rates in the Greenville-Spartanburg MSA are at their lowest levels in 10 years. While the overall market vacancy rate is 7.4 percent, some segmentation exists among the submarkets. For example, the Greenville-northwest submarket is experiencing a vacancy rate of 10.1 percent, while the Greenville-northeast and Greenville-central submarkets are achieving vacancies of 5.5 percent. The latter two submarkets, with the lowest vacancy rates, make up approximately 43 percent of the overall MSA.

The Greenville-northeast submarket continues to set the pace with the highest rents, strongest absorption and tightest supply, but the current trend for developers is to spread out along the I-85 and I-385 corridors. Developers continue to pick up the pace of new projects, finding every piece of interstate frontage between exits 14 and 60 on I-85 and between downtown Greenville and Simpsonville on I-385 on which to build new residential, commercial, retail, hotel and entertainment developments. As mentioned before, more than 1,900 acres of adjacent projects at exit 48 on I-85 in Greenville are slated to create thousands of well-paying jobs during the course of the next couple of decades as well as hundreds of new housing units. Included in these projects are the Clemson University International Center for Automotive Research (CU-ICAR) and the new campus for Carolina First Bank's headquarters. The City of Greenville and Greenville County are looking at options for mass transit that will connect the I-85/I-385 development boom with the Central Business District. As these projects take shape, more multifamily communities will be built as close to interstate exits as possible, filling in the remaining empty spaces and connecting Greenville to both Spartanburg and Anderson.

Historically, the employment base in the Greenville-Spartanburg communities has been driven by the manufacturing industry. Many of those jobs have moved overseas in the past 20 years but have been replaced by a diverse mix of technology-based and other higher-paying, white-collar jobs. In fact, the region has the highest number of engineers per capita of any market in the nation. As a result, the region is no longer as heavily dependent on the health of just one industry sector to provide its employment base, and is, therefore, in a much better position today to be insulated from a recession in the national economy. Further, the low

cost of doing business here continues to bring an influx of large amounts of foreign investment to the region. As long as supply continues to stay somewhat constrained, the GSP multifamily submarkets are well-positioned for long term occupancy and rent growth.

GSP has seven submarkets totaling approximately 25,000 units. Greenville-central has the highest occupancy (94.6 percent) while Greenville-northeast has the highest rents and strongest absorption. If you look at the pipeline of scheduled deliveries (2,405) market-wide, the potential for new construction appears to outpace historical absorption. However, it is important to note that the new projects are distributed throughout the MSA, and only a couple of the proposed projects have even announced start dates. Almost every submarket in the GSP area should be able to absorb their new product with little or no affect on current economics. Greer is the exception, however, and faces the most potential for short-term weakness with 626 proposed units in the pipeline representing a 75 percent increase from its current supply. Greenville-northeast and Greenville-central have the most potential for rent growth with occupancies at 95 percent and few proposed units in their pipelines.

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