South Carolina Economic Developers' Association
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SCEDA's Legislative Update
June 6, 2012

SCEDA Bill Signed Into Law
Thursday was a great day for South Carolina when Governor Nikki Haley signed into law H.3726, the SCEDA legislation that contains numerous economic development provisions that help propel the state forward in recruiting new companies and also help existing South Carolina businesses grow.

SCEDA thanks Senators Billy O'Dell (R-Greenwood), Hugh Leatherman (R-Florence), Paul Campbell (R-Berkeley), Harvey Peeler (R-Cherokee), and Creighton Coleman (D-Fairfield) and House Ways & Mean Chairman Brian White (R-Anderson) and Rep. Dwight Loftis (R-Greenville) for their leadership and support of much-needed economic development legislation for South Carolina.

The SCEDA legislation includes:
- Datacenters – A sales tax exemption on computer equipment, software, and electricity for new or existing datacenters that meet the following qualifications:
o Minimum $50 million investment and 25 jobs for a single data center company or a minimum combined $75 million investment and an aggregate 25 employees for multiple data center companies;
o Minimum employee wage requirement of at least 150% of the lower of the state or county average per capita wage;
o Must maintain the 25 jobs for three years;
o Must be certified by the Dept. of Commerce;
o If 25 jobs are not maintained for three years, must pay back the entire amount of sales tax exempted; and
o If 25 jobs are not maintained in year four or subsequent years, company may obtain a prorata exemption on sales taxes paid for electricity but not computer hardware or software.

- Utility Tax Credit – Allows UTC's to be used for site preparation, such as clearing, grubbing, grading, and stormwater retention, and building refurbishment;

- Utility Tax Credit – Increases UTC maximum amount from $300,000 to $400,000;

- Technology Intensive Facilities – Updates statute to reflect current NAICS Code classification system;

- Technology Intensive Facilities – Broadens the definition of technology intensive facilities to include NAICS Code 518210 (data processing, hosting, and related services);

- Qualifying Service Related Facilities – Reduces the job thresholds to qualify for these projects for purposes of job tax credits to: (1) 175 jobs at a single location; (2) 125 jobs at a single location comprised of a building or portion of a building that has been vacant for at least twelve months; (3) 100 jobs at a single location where the jobs have an average compensation of more than 1.5 times the lower of the state or county per capita income; (4) 50 jobs at a single location where the jobs have an average compensation of more than twice the lower of the state or county per capita income; (5) 25 jobs where the average compensation is more than 2.5 times the lower of the county or state per capita income.

- FILOT – Clarifies the 10 year extension to 30 years is not mandated;

- FILOT – Allows counties access to certain information to validate companies' tax returns.

Upcoming Events

Upcoming Professional Development Class
Build A Competitive Edge Through Marketing & Branding
July 23-24, 2012
Aiken, SC
more info

PCA Fix Signed Into Law, 11th Hour Frivolous Lawsuit Filed
In a major victory for the business community, the Pollution Control Act (PCA) legislation, H.4654 by House Agriculture Committee Chairman Nelson Hardwick (R-Horry), was given final approval by the General Assembly and signed into law by Governor Nikki Haley on Wednesday. The legislation, which was backed by SCEDA and numerous other business organizations, was one of the top business priorities this session. It reverses a controversial SC Supreme Court ruling, Georgetown League of Women Voters vs. Smith Land Company, which made South Carolina businesses and industries more vulnerable to frivolous environmental lawsuits. Most importantly, the legislation restores the intent of the PCA to require permits only when a regulatory permitting program applies and to explicitly state that no private right of action exists under the PCA.

In a move, however, by the environmental community, lawyers or parties that had expressly agreed to the compromise that led to the passage of the bill, filed an 11th hour lawsuit against another South Carolina company based on the ruling in the Smith Land case. The lawsuit was filed as soon as the legislation was approved by the General Assembly but before the Governor signed the bill into law. The business lobby worked as quickly as possible to get the bill ratified and to the Governor's desk, and Governor Nikki Haley signed the bill immediately when she received it. We believe the Governor's action may very well have prevented other last minute lawsuits. The courts will have to decide if the new lawsuit can still stand, but at the very least, any further frivolous lawsuits were prevented.

The compromise discussions came about after the business community drew a line in the sand expressing fierce opposition to any amendment imposing a new isolated wetlands regulatory permitting program and threatening to return next session to pursue the legislation again. The negotiations, which were tense at times and were in the presence of several key Senators, resulted in a compromise agreement that included:
- Retaining the language restoring the intent of the PCA to require permits only when a regulatory permitting program applies and to explicitly state that no private right of action exists under the PCA.
- Removing language that would make the legislation retroactive, which would have ended any existing lawsuits filed based on the findings in the Smith Land ruling.
- Establishing a task force to study Carolina Bays and other isolated wetlands and to study the need for a stand-alone isolated wetlands permitting program in South Carolina.
- Allowing a private citizen the right to petition DHEC to determine if a company is required to have a permit for certain activity. DHEC will have 60 days to issue a decision, and the decision can be appealed to the Administrative Law Court. DHEC will retain the ability to issue an emergency order as needed to stop a discharge. Under this compromise, there is no private cause of action under the Pollution Control Act in circuit court. The option will be limited to permit protests in front of the Administrative Law Court. Citizens will retain the right to file suit under all existing nuisance laws.

Tire Manufacturer Bill Passes
Senators in favor of a controversial school choice issue that provides a tax credit for parents looked for any tax-related bills as vehicles where they could attach school choice amendments. As a result, several bills stalled and did not pass, including the Angel Investment Act, a Dept. of Revenue technical cleanup bill, and a solar equipment tax credit bill.

However, in a move to approve the legislation granting investment tax credits for tire manufacturers, the House and Senate revived H.3508, a bill with several economic development provisions, from a conference committee and amended it by striking the bill and inserting the tire manufacturer language. The move required free conference powers, which takes a 2/3 vote of the House and Senate. The House easily gave approval, and after a lengthy debate on the Senate floor where the opposition to the legislation was led by Senator Tom Davis (R-Beaufort), the Senate finally gave approval. The legislation now goes to the Governor for her signature.

Angel Investment Act Fails to Pass
The Senate failed to give final approval to H.3779, a bill by Rep. Joan Brady (R-Richland) that provides for state nonrefundable income tax credits allocated by the SC Department of Commerce for qualified investments in businesses primarily engaged in manufacturing, processing, warehousing, wholesaling, software development, information technology services, research and development or other non-prohibited services that meet certain criteria, and to establish the criteria and procedures for the credit, and to make the credit transferable. The bill died when the

House and Senate adjourned at 5:00pm on Thursday and will have to be reintroduced next session to have a chance of passage.

Abandoned Buildings Bill Dies
The Senate failed to give final approval to H.4802, a bill by Rep. James Smith (D-Richland) enacting the "South Carolina Abandoned Buildings Revitalization Act" which would provide that a taxpayer making at least a $500,000 investment in rehabilitating an abandoned building may receive a credit against income taxes or property taxes.

Right to Work Bill Approved
The House and Senate gave final approval to H.4652, a bill by House Labor, Commerce, & Industry Chairman Bill Sandifer (R-Oconee) that strengthens the state's right to work laws. The legislation, which was watered down somewhat from the original version, allows employers to hang posters notifying employees of the provisions of the state's right to work law. The bill now goes to the Governor's desk for her signature.

State Budget Bills Going to Conference Committee
The House re-amended the Senate's version of H.4813 and H.4814, the fiscal year 2012-2013 state appropriation legislation. The $6.1 billion spending plan, which is composed of $672 million of new, recurring revenue and $785 million of non-recurring revenue, now goes to conference committee where they will work out the differences between the House and Senate versions.

Key differences in the budget that will be debated include Dept. of Commerce funding. The latest House version includes $43 million for the Closing Fund with the monies coming from the General Fund, while the Senate version includes $20 million for the Closing Fund with $10 million of it coming from the National Mortgage Settlement Fund. In addition, the Senate's proposed budget includes $5 million in recurring funds for the Regional Economic Development Organizations, while the House has $0.

House budget conferees include Ways & Means Chairman Brian White (R-Anderson), Rep. Murrell Smith (R-Sumter), and Rep. Harry Ott (D-Calhoun). Senate budget conferees include Finance Committee Chairman Hugh Leatherman (R-Florence), Senator Danny Verdin (R-Laurens), and Senator John Land (D-Clarendon). The conference committee is expected to meet on Monday, June 11th.

House and Senate Adjourn, Will Return Briefly June 19th
Pursuant to H.5377, the Sine Die resolution adopted by the House and Senate, the General Assembly adjourned at 5:00 PM. on Thursday, June 7th. The House and Senate will stand adjourned and will meet again at 12:00 Noon on Tuesday, June 19th and can continue until 5:00 PM on Thursday, June 21st for consideration of certain matters, including the following:
- Gubernatorial vetoes and appointments;
- General Appropriations and Capital Reserve Fund bills;
- Continuing Resolution to fund ordinary expenses of state government until passage of the General Appropriations Bill;
- Resolutions affecting Sine Die adjournment;
- Receipt and consideration of appointments;
- Receipt, consideration and disposition of conference and free conference committee reports appointed prior to 5:00 p.m. June 7th; and
- Elections for offices or vacancies to be filled by the General Assembly.

According to the resolution, when each body recedes on Thursday, June 21st, the General Assembly will stand in recess unless called back to session for certain matters by the Speaker of the House and the Senate President Pro Tempore. They are expected to return on Tuesday, June 26th to deal with budget vetoes. The 2012 session will then officially stand adjourned Sine Die on Monday, November 12th, when the terms of office begin for the Senators and Representatives chosen at the 2012 general election.

Thank you for supporting SCEDA, SC's Voice for Economic Development! Please contact SCEDA should you have any questions about the legislative report.

South Carolina Economic Developers' Association

Send to a Colleague

By G. Edward DeSeve, Senior Fellow, University of Maryland, Public Management and Finance

Top Ten Things Local Officials Can Do to Promote Job Creation

The man who oversaw the U.S. government's $787-billion stimulus program emphasizes a common-sense approach to job-creation based on planning, efficiency and shoe leather.

As a senior advisor to the president, G. Edward DeSeve oversaw the implementation of the $787 billion American Recovery and Reinvestment Act. He has been a professor of public management at the University of Maryland, where he currently is a senior fellow.

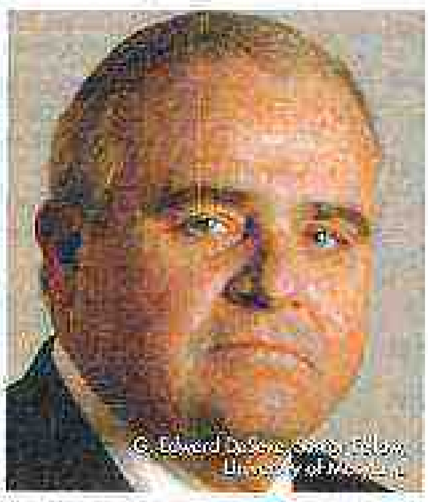
1. Know your job creators: You need to find out what kind of jobs employers currently have in place and whether their companies and their industries are likely to grow. You need to get the statistics and also talk directly with large and small employers.

2. Know your labor force: What kinds of skills are in your labor force and how can they be enhanced? Do these skills fit what employers need? Will you need to "import" some workers? Where are you likely to find them? For example, Canadian health-care providers recently advertised in the U.S. for workers to fill their skill shortages.

3. Know the strengths and weaknesses of your community: Location, transportation, infrastructure, quality of life and education are only some of the factors that affect location decisions. Seek out location consultants and ask them how you stack up against your competition--regionally, nationally and internationally.

4. Partner: Find employers who are willing to work with you and put them to work with their customers, their suppliers and their colleagues to encourage job creation. The "agglomeration effect," where co-location promotes efficiency, is very real.

5. Talk constantly: Let people know that you are "open for work." At every chance, let employers know that you want to help in any way you can. Go to schools and colleges and encourage faculty to understand local needs and encourage students to seek employment locally after they graduate.



G. Edward DeSeve, Senior Fellow, University of Maryland

6. Have a plan: Publish an official "plan for jobs." This should describe what kinds of jobs you want, where they could be located, what incentives are available, what federal government programs can be used to help, what regulations might need to be changed, and how taxes can be modified to encourage job creation. Make sure that there is an organizational infrastructure in place to carry out this plan with well-packaged financing and training available.

7. Streamline processes: Make it easy for employers to add jobs in your community. Everything from applying for a business license to getting construction permits to paying taxes should be as simple as possible, and there should be a bias in your government in favor of simplifying processes for employers.

8. Emphasize services: The business of local government is to provide services. Let people know how good yours are. Whether it is police or fire or water and sewer, good services thoughtfully provided to employers can be very helpful. If you have a great recycling program, for example, let employers know about it. A green community may be just what an employer is looking for.

9. Partner again, this time with other governments in your region: Jobs in a town or county just across the border will help your residents as well. A joint effort to sell a region can be more effective than cutthroat competition. Work at the state level to promote every benefit that your state has to offer to encourage employers to expand.

10. Hustle: At every opportunity, talk about jobs and the need to create more. Go to every event you can where job expansion is happening. Let the employers know that you are glad to help in any way you can. Be relentless.

Prof. DeSeve's columns appear online at: http://www.governing.com/columns/mgmt-insights/local-government-job-creation-unemployment-promote.html

May 22, 2012

Economics Group

Special Commentary

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Commercial Real Estate Snapshot: South Carolina

South Carolina: Signs of Improvement

After a slow start, South Carolina's economic recovery is finally gaining some traction. Output in the Palmetto State fell nearly 5 percent during 2008 and 2009, as the state's heavy reliance on cyclically sensitive consumer products manufacturing, tourism and in-migration all slowed markedly. Growth returned in 2010, and the state's real GDP has likely neared its prerecession peak. The Federal Reserve Bank of Philadelphia's coincident economic index, which provides a more timely assessment of the overall economy, showed economic activity climbing at its fastest pace during March than any other time since the end of 2005 (Figure 1). Employment and income are strengthening, but at a still moderate rate, while the housing market is showing some signs of firming. Across the state, the commercial real estate market is generally picking up, led by the apartment market. However, progress in office, industrial and retail markets have varied across the state's major metro areas.

After a slow start, South Carolina's economic recovery is finally gaining some traction.

Looking ahead, we expect the pace of economic activity to accelerate and population inflows to increase. The state's manufacturing sector, which helps provide the cyclical impulse to the state's economy, is growing rapidly, which is one reason why the Philadelphia Fed's leading economic indicator index points to stronger growth over the next six months (Figure 2).

Figure 1

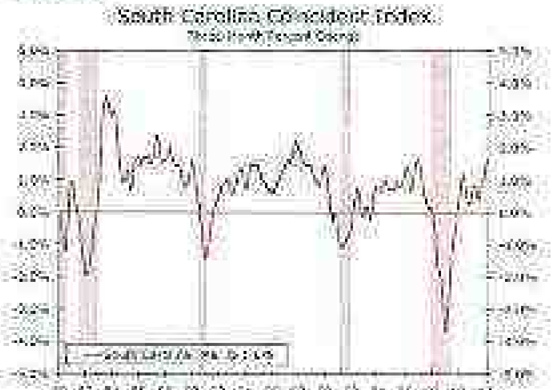


Figure 2

Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

South Carolina's labor market continues to improve as employers have stepped up hiring in recent months (Figure 3). Firms have added more than 25,000 positions to payrolls over the past year, with strong growth in the state's manufacturing and professional and business services industries. The unemployment rate has ticked down since the fall and is now less than 9 percent (Figure 4). Columbia, Charleston, Florence and Spartanburg have seen the most sizable gains over the past year, adding more than 17,000 jobs between the four regions. Meanwhile, hiring has

This report is available on wellsfargo.com/economics and on Bloomberg WFRE

reportedly lagged in Greenville, Anderson and Sumter. While the state is heading in the right direction, the labor market still has a long road ahead to a full recovery. Employment remains 5.5 percent off its prerecession peak, and the unemployment rate is 3.8 percentage points higher than it was at the onset of the recession.

Figure 3

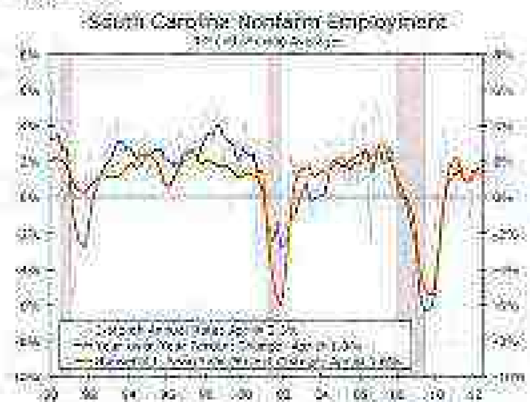
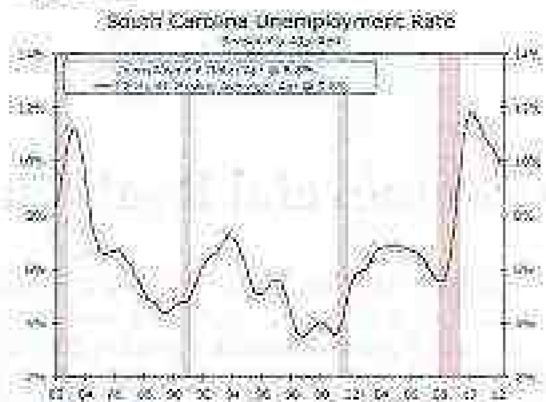


Figure 4



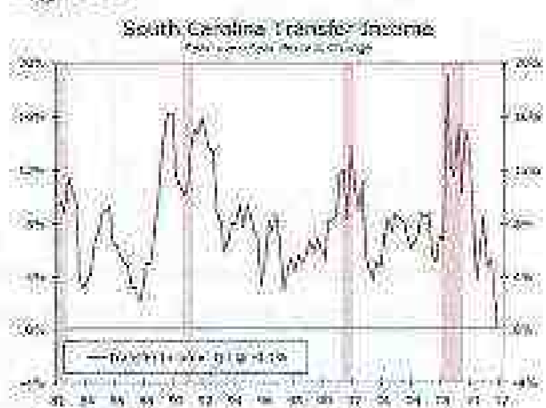
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The slowdown in personal income growth over the past two quarters has primarily come from a decline in transfer payments to South Carolina residents.

Improved job growth has helped bolster income growth, but South Carolina continues to underperform relative to the nation. Personal income growth accelerated to a 2.8 percent annualized rate in the fourth quarter compared to a 3.2 percent pickup nationwide (Figure 5). Despite some improvement, real income gains remained weak over the past year at less than 1 percent. The slowdown in personal income growth over the past two quarters has primarily come from a decline in transfer payments to South Carolina residents. Transfer payments, which include Social Security, unemployment insurance and other income support from government programs, fell on a year-ago basis in the fourth quarter for the first time since the 1950s as emergency benefits triggered by the fallout of the Great Recession have expired (Figure 6). Still, at 23 percent of total income, South Carolina remains heavily reliant on transfer payments. Per capita income has also rebounded since the recession, increasing 3.7 percent in 2011. Even with this gain, however, South Carolina's per capita income remains nearly 20 percent below the national figure and the per capita income gap between the state and nation has widened since the end of the past recession. One reason for this is that a larger proportion of South Carolina's economy and population are still centered in rural areas, where earnings and living expenses tend to be significantly lower.

Figure 5

Figure 6



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The state's housing market continues to struggle but has shown some signs of improvement. Home prices appear to be stabilizing and are up 1.8 percent from a year ago, according to from CoreLogic (Figure 7). Building activity has also picked up slightly, led by gains in the multifamily sector. Sales, however, remain weak (Figure 8). Distressed sales continue to weigh on the market and accounted for 20 percent of sales in March. While delinquencies are declining, the state's foreclosure inventory remains elevated. The percentage of loans in foreclosure continues to climb, and the supply of distressed properties is more than six months. Positive net-migration and above-average population growth in recent years will help to work down this supply, but a full recovery remains elusive and most of the state's housing markets will continue to make only modest improvements during the next year.

Home prices appear to be stabilizing.

Figure 7

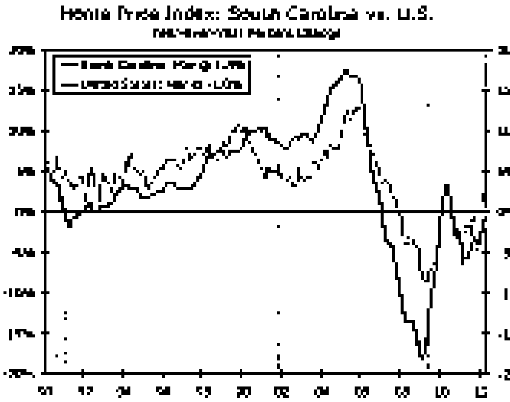
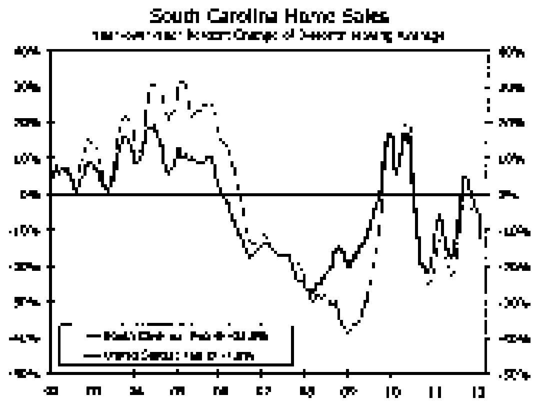


Figure 8



Source: CoreLogic and Wells Fargo Securities, LLC

There are a few bright spots. Sales in the Columbia area have strengthened consistently over the past six months, and sales have also perked up in Charleston. Activity is less robust in the Upstate, however, and remains sluggish in Florence and Sumter. Myrtle Beach and Hilton Head are clearly better than they were a year ago, although transaction volumes have slowed a bit. There are not as many of the extremely low-priced transactions as there were a year or so ago, and sales of higher-priced homes have not picked up yet. But, there are fewer homes on the market today and conditions appear better positioned for recovery. Over time, the state's improving job market and rising net-migration will help to work down the inventory of distressed homes, most of which are along the coast. A full recovery, however, remains elusive, and most of the state's housing markets will continue to make only modest improvements during the next year.

Office Market

South Carolina is home to a relatively small office market. As of the first quarter, total office space across the state's major metro areas totaled just over 100 million square feet.[1] This compares to 96 million square feet of space in the neighboring Charlotte, N.C., metropolitan area alone. In fact, the Charlotte suburb of Fort Mill, S.C., is home to the Palmetto State's only Fortune 500 corporate headquarters, Domtar, and is one of the fastest growing office markets in the state. Fort Mill is located about 20 miles south of downtown Charlotte along I-77 and the same distance from the Charlotte-Douglas International Airport, making it a choice location for corporate and regional headquarter facilities. The area also abuts Charlotte's Ballantyne area, which is the region's fastest growing office market. In addition to Domtar, major employers operating facilities in the Fort Mill area include Citifinancial, Muzak, Continental Tire, Red Ventures, URS Washington Division Nuclear Energy and Wells Fargo Mortgage.

Columbia is South Carolina's single-largest office market, with 35 million square feet of space. Charleston and Greenville vie for the second spot, with about 25 million square feet of office space

[1] Metro areas included are: Anderson, Charleston, Columbia, Greenville, Myrtle Beach and Spartanburg.

apiece. Together these three regions account for about 60 percent of the state's office employment and have accounted for roughly that same share of office employment growth over the past decade. Charleston has seen the strongest office employment growth over the past decade, accounting for roughly one-fourth of all new private sector office jobs in the state. Greenville has accounted for the second-largest share of office employment growth, while gains in Columbia have been much more modest. As the state capital, however, Columbia also has a great deal of government and trade association leasing, which does not always show up in the office employment counts.

The South Carolina office market has generally improved over the past year as employers have stepped up hiring in office-using industries.

The South Carolina office market has generally improved over the past year as employers have stepped up hiring in office-using industries. Net absorption across most office markets has been positive, which has helped to bring down the vacancy rate in the state's three major metro markets (Figure 9 and Figure 10). New space has come online over the past year, although the gains remain exceptionally modest. Charleston's office market has seen the most significant progress over the past year, with the vacancy rate falling 1.4 percentage points since the first quarter of 2011, despite adding 260,000 square feet of space—the most among metro areas. The Myrtle Beach market, on the other hand, deteriorated further over the past year. Occupied space in the region declined by 90,000 square feet, pushing the vacancy rate up to its highest mark since the recession began. Rents across the state continue to face downward pressure, but may be seeing some reprieve soon. While down on a year-ago basis, asking rents ticked up in the first quarter in the Charleston, Columbia and Spartanburg markets and were flat in Greenville.

Figure 9

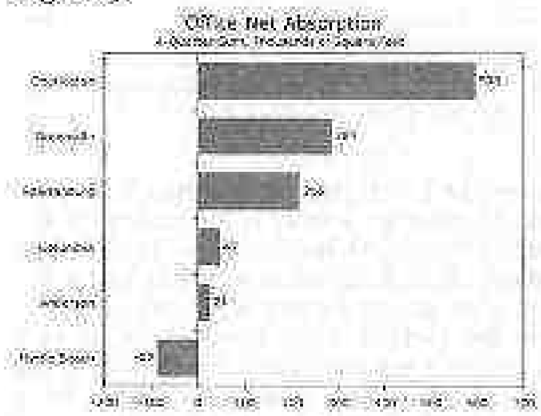
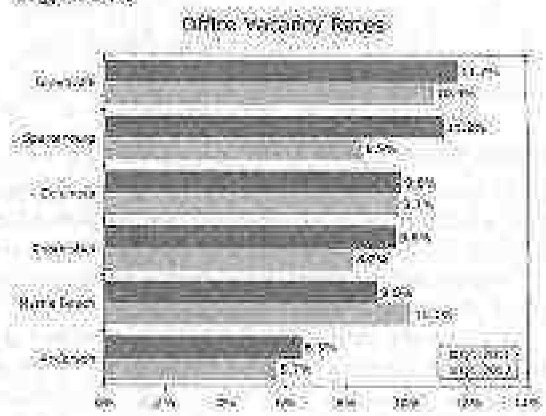


Figure 10



Source: PPR and Wells Fargo Securities, LLC

Companies are increasingly becoming interested in doing business in South Carolina and expect this trend to accelerate. South Carolina offers a great deal of expense savings from competing office markets in Atlanta and North Carolina. Its major markets are some of the fastest growing regions in the nation and are linked by a fairly efficient highway network. Greenville, Charleston and Columbia also continue to attract a great deal of industrial development, which should continue to bring in some follow-up activity in the office market.

Greenville is located about midway between Atlanta and Charlotte along I-85. The arrival of BMW nearly 20 years ago dramatically reshaped the region's industrial base, by attracting suppliers and eventually tacking on two large expansions. Economic development is now focusing on marrying the growth in the automotive industry with the region's historic focus in engineering. Downtown Greenville has also seen a major makeover, which has made it more pedestrian friendly and even added a little European flavor to the community. Much of the recent economic development activity has been in the areas surrounding Clemson University's International Center for Automotive Research (ICAR), which is located along I-85, near its intersection with Laurens Road.

Financial services are another growth engine for the area. TD Bank announced intentions to occupy the newly built corporate campus, located just to the north of ICAR, which it acquired along when it purchased of The South Financial Group. New office space is also up in downtown Greenville, which has seen a number of moves announced by law firms, accountants and other professional services providers that are upgrading their office address. Spartanburg lost one of its corporate headquarters when Extended Stay America relocated its headquarters to Charlotte. Spartanburg, too, has given its downtown area a dramatic makeover, which has also added a little European charm to the area and helped fuel demand for office and retail space.

Boeing's influence on the region's office market continues to build, as the commercial aircraft plant attracts offices for key suppliers.

Charleston has long relied on the region's inherit charm and history as an asset, but the city has recently scored some exceptional wins in the industrial area, which are helping fuel gains in business and professional services. Development has been fairly restrained in recent years, and vacancy rates have been fairly low, yet have trended even lower. Leasing historically has primarily been driven by growth at existing businesses. Activity has picked up modestly in virtually every submarket, with a rising tide of smaller leases. Boeing's influence on the region's office market continues to build, as the commercial aircraft plant attracts offices for key suppliers. Defense contractors are also playing a larger role. Many have chosen to cluster near the Naval Weapons Station in North Charleston. The Remount Business Park landed operations from Science Applications International Corporation last spring and recently added Booz Allen Hamilton and CACI International to the park. The defense sector has long played a key role in Charleston and has evolved from its past large physical presence of military personnel to a more technology focused presence that is attracting a steady stream of high-paying civilian contractor jobs to the region.

Columbia's office market has long been dependent on government leasing, and the recent budget pressures have led to quite a bit of consolidation. Much of the space that is being put back on the market is older and some may be put to other use. Private-sector leasing remains relatively sluggish. SCANA vacated its downtown office space four years ago and the space may be put to use as some sort of student housing. A number of other firms, including many area law firms, have been consolidating space into new buildings, and leases have expired on some vacant space that had been in shadow inventory, which has held back net absorption.

Industrial Market

South Carolina has enjoyed a great deal of success at landing new industrial projects over the past few years.

South Carolina has enjoyed a great deal of success at landing new industrial projects over the past few years, including a series of major expansions to the BMW manufacturing plant outside Spartanburg and a massive new commercial airliner manufacturing facility for Boeing in Charleston, which is building the 787 Dreamliner. In addition, the state has landed a host of new tire plants over the past few years, including new and expanded facilities for Michelin, Bridgestone, and BF Goodrich, which should propel it to the top spot for tire manufacturing states nationwide. Two tire manufacturers, Michelin in Greenville and BF Goodrich just outside Charlotte, currently maintain their North American headquarters in the state. Successful inroads have also been made in attracting life sciences firms, advanced manufacturing and research and development facilities. In all, the South Carolina Department of Commerce helped recruit $4.7 billion in new capital projects in 2011 and more than $1.3 billion in announcements have been made so far this year. The influx of new industry has helped drive manufacturing employment up 8.4 percent since employment bottomed 27 months ago, accounting for 27.5 percent of all jobs added in the state during this time period.

Data show that the industrial real estate market is improving, although not yet in full recovery mode. Vacancy rates have trended down as net absorption has turned positive, but build-to-suit properties continue to dominate new construction. Asking rents have fallen across most of the state's metro areas as competition for tenants remains heated.

Despite the Greenville market having the largest amount of industrial space at 49 million square feet, Charleston and Columbia have seen the largest absorption at more than 1 million square feet over the past year (Figure 11). The Charleston market—totaling 39 million square feet—has benefited from its link to the port and is the tightest of the state's major industrial markets. The vacancy rate has fallen to 9.6 percent in Charleston from 14 percent at the end of the past recession and has been assisted by a steady decline in asking rents as owners compete for tenants. The Columbia and Spartanburg markets have also continued to improve modestly in recent quarters. Occupied space is up 4.4 percent in Columbia and 2.2 percent in Spartanburg over the past year, while vacancies have fallen on a year-ago basis in each metro. The Greenville market, however, has moved sideways. Over the past year, only 100,000 square feet of space has been absorbed, and total space in the market has actually declined (Figure 12). This has at least helped push up asking rents as the quality of properties has improved on balance.

Figure 11

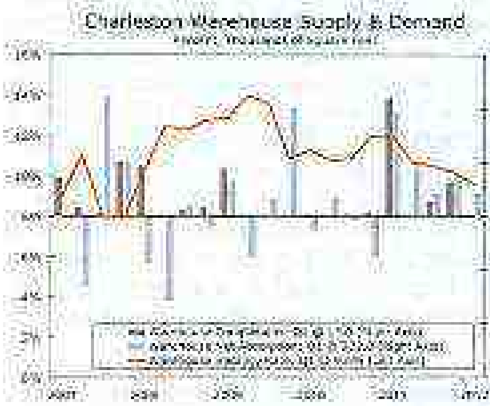
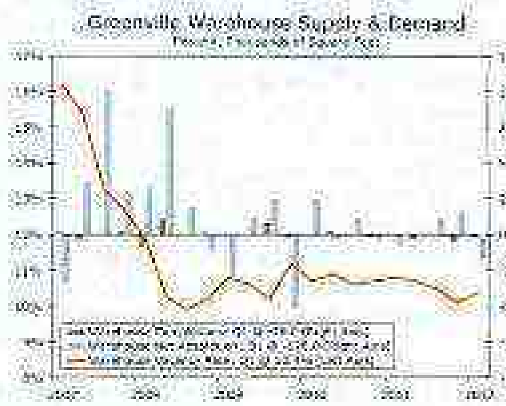


Figure 12



Source: PPR and Wells Fargo Securities, LLC

Retail Market

With relatively weak income growth, South Carolina's retail market recovery will likely lag behind other property types.

Retail markets are strengthening across most of South Carolina's major metro areas as the state's recovery begins to firm. Retail hiring has been down slightly across the state over the past year, but the state's three largest markets—Greenville, Columbia and Charleston—have seen retail jobs increase 1 percent or more since April of last year. Together these regions constitute about half of the state's retail market and have each seen total occupied space pick up over the past year. The most notable gains have been in the Greenville region where occupied space increased 1.4 percent over the past four quarters, helping to drive down the vacancy rate to its lowest mark since the end of 2006 (Figure 13). Little new construction in Greenville has taken place in recent quarters, however. Charleston and Columbia have seen slightly stronger completion rates, although retail building remains far off its prerecession pace. The Myrtle Beach retail market is the weakest among the state's metro area as retailers have cut back operations. Retail employment in Myrtle Beach has fallen more than 13 percent since last April, and occupied space fell 0.7 percent between the first quarter of 2011 and the first quarter of 2012. The metro's vacancy also ticked up over the past year (Figure 14). With relatively weak income growth, South Carolina's retail market recovery will likely lag behind other property types.

The overall retail market remains sluggish since there has been quite a bit of tenant turnover, particularly in the big-box space where a number of store closings have left holes in a some established shopping centers. Steady population gains and the continued influx of new industry keep Greenville and Charleston near the top of many retailers' growth plans, particularly the Woodruff Road corridor in Greenville and the Mount Pleasant and Summerville areas in Charleston. New retail development remains constrained, however, as there are still plenty of vacant spaces for expanding chains to move into as well as a number of outparcels for growing restaurant chains and retailers on which to build. With retail markets tightening up, new development will likely increase during the coming year, with discount stores, specialty grocery stores and restaurants leading the way.

Figure 13

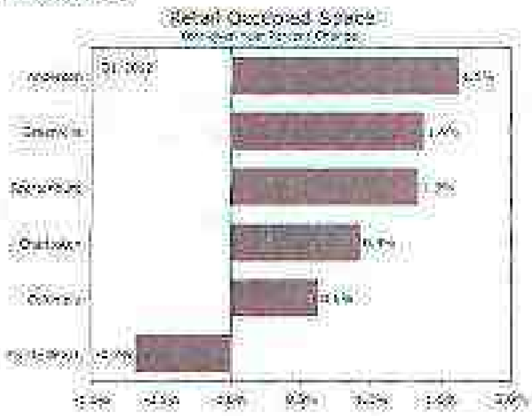
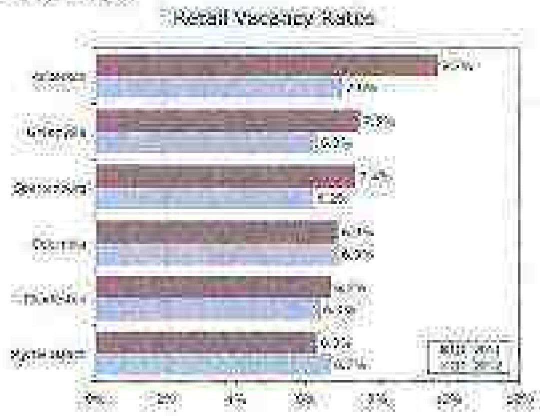


Figure 14



Source: PPR and Wells Fargo Securities, LLC

Apartment Market

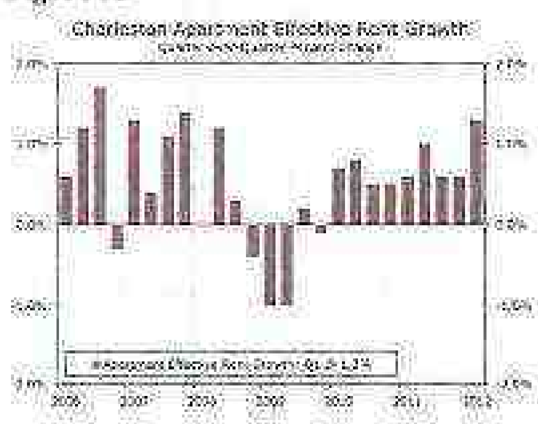
Rental prices are rising across the state as demand for space has outpaced new construction.

If one property type in South Carolina is doing unequivocally well, it is the apartment market. Little new space has been completed over the past year, but demand has continued to grow for rental properties as mortgage credit has been tough to qualify for. Vacancies have trended steadily down since 2010 to the lowest rate in more than a decade in the Charleston, Columbia and Greenville markets (Figure 15). This has led to a flurry of new multifamily construction. Currently more than $100 million in apartment construction spending is underway across the state, led by a $60 million development in Myrtle Beach that is set for completion in late 2013. Multifamily building permits across the state have doubled from year-ago levels. Rental prices are also rising across the state as demand for space has outpaced new construction. Among the state's three big markets, Charleston has seen the largest gains in pricing power over the past year, with effective rent rising 3.5 percent (Figure 16).

The pickup in apartment construction has raised some eyebrows, because it stands out in the overall sluggish construction market. Apartment construction still remains low by historic standards, and demand from renters remains brisk. Leasing is being fueled by improving job growth, steady population gains and a growing preference for rental housing. These trends will likely remain in place for the next few years, creating more opportunities for new development.

Figure 15

Figure 16



Source: Reis, Inc. and Wells Fargo Securities, LLC

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