



ANALYSIS

A Megaregion Fueled by Industrial Development Is Emerging in the Southeast

The Interstate 85 Corridor Benefits From a Combination of Demand Drivers and Infrastructure



Industrial development lines Interstate 85 just south of Charlotte Douglas International Airport. The corridor, which runs from Durham, North Carolina, to south of Atlanta, is emerging as an industrial powerhouse. (Ryan Gwilliam/CoStar)

By Chuck McShane, David Kahn, Jesse McConnico and Ashley Rogers
CoStar Analytics

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The Interstate 85 Corridor that stretches from Atlanta to the North Carolina-Virginia border is one of the fastest-growing parts of the country. The region is home to a handful of booming metropolitan areas and is a major manufacturing and distribution hub. With strong demographic growth, locational and infrastructure advantages and

pro-growth government entities, the corridor is primed to emerge as a “megaregion” over the next several years.

Economists have increasingly brought attention to megaregions, or clusters of cities that have spread outward, converging with each other along infrastructure nodes. The Boston-Washington, D.C., corridor along I-95 and the Chicago-Pittsburgh stretch that runs along I-90 are the most established megaregions in the United States. However, southward population shifts from these older regions have led to growth in Sun Belt markets such as Atlanta; Charlotte; North Carolina’s Research Triangle regions of Raleigh and Durham; and South Carolina’s Upstate region, a manufacturing powerhouse that includes the Greenville and Spartanburg metropolitan areas.

Back in 2014, urbanist Richard Florida identified the “Charlanta” region of the Carolinas and Georgia, roughly corresponding with the I-85 Corridor, as the nation’s third-largest megaregion. The area encompasses markets that together total more than 22 million people and have a gross domestic product as large as the entire country of South Korea.

Economic activity here is being concentrated around the interstate. The 33 counties through which I-85 passes account for \$543.5 billion in gross regional product, representing roughly 43% of GRP in the three states, according to the most recent estimates from the Bureau of Economic Analysis.

The area’s population is growing fast, too. Between 2010 and 2020, the corridor’s population grew by 14.2%. That is nearly double the national growth rate during the same period, and now makes up roughly a third of the three-state region’s population.

This population growth has coincided with a historic expansion of e-commerce demand, leading to rapid growth in logistics and distribution space. The 40 million square feet currently under construction in the 33-county corridor represents about 10% of all industrial construction in the U.S.

As the growth of e-commerce and a new wave of demand for suburban housing are poised to expand the urban boundaries of Southern metropolitan regions, the Charlanta

corridor's influence should continue to evolve and impact development trends, particularly in the industrial sector.

Historically, this region was a hub for furniture and textile manufacturing, which drove demand for smaller, specialized industrial buildings where production took place. Since then, professional services-related industries grew around the region's urban centers while traditional manufacturing declined due to international competition.

North Carolina, for example, has shed 85% of its textile manufacturing jobs and 63% of its jobs in furniture manufacturing since 1990, according to data from the North Carolina Department of Commerce. At the same time, financial activities employment in the state increased by 89%. This left an antiquated industrial inventory ripe for adaptive re-use, and a growing group of high buying-power consumers in and around the corridor's major cities.

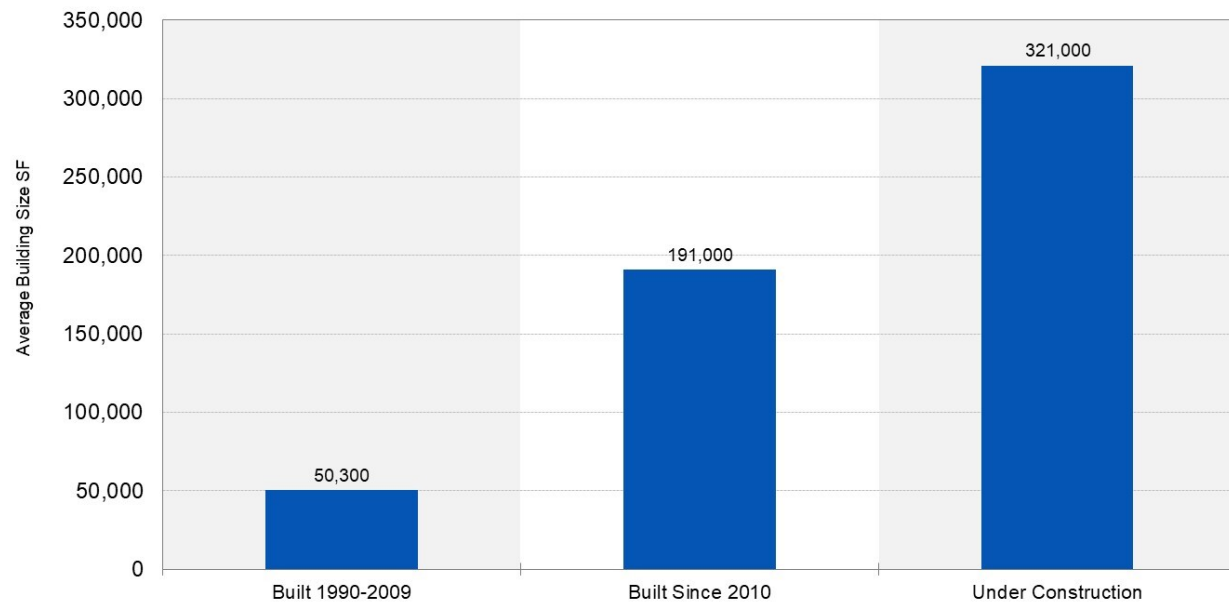
While about 24% of existing industrial inventory in the 33-county I-85 Corridor was custom-built for specialized purposes, including manufacturing, only 8% of industrial space currently under construction is specialized space, compared to 89% of under construction space slated for warehouse or distribution purposes.

Industrial Inventory by Type, I-85 Corridor



The composition of this industrial inventory has also changed over time, highlighting the shift from smaller manufacturing operations to distribution and larger manufacturing plants. The average industrial building completed along the I-85 Corridor from 1990 to 2009 was roughly 50,000 square feet, while properties built since 2010 average 191,000 square feet. And developments are only getting larger, as buildings currently under construction average about 321,000 square feet.

I-85 Corridor | Average Building Size Over Time



Source: CoStar
As of Aug-21



But the manufacturing sector along the I-85 Corridor is far from dead. In fact, much of the industrial growth in the region is tied to advanced manufacturing, particularly as it relates to the automotive industry. BMW opened a factory along the corridor in the Spartanburg area in 1994. The Spartanburg plant has grown into the German automaker's largest production facility in the U.S. and has [attracted suppliers to nearby industrial properties](#).

While I-85 is an inland corridor, BMW's presence helps connect the corridor to global supply chains. Inland ports in the Spartanburg and Charlotte areas connect to major shipping channels through the ports of Charleston, South Carolina; Savannah, Georgia; and Wilmington, North Carolina. In fact, more than half of the economic impact of

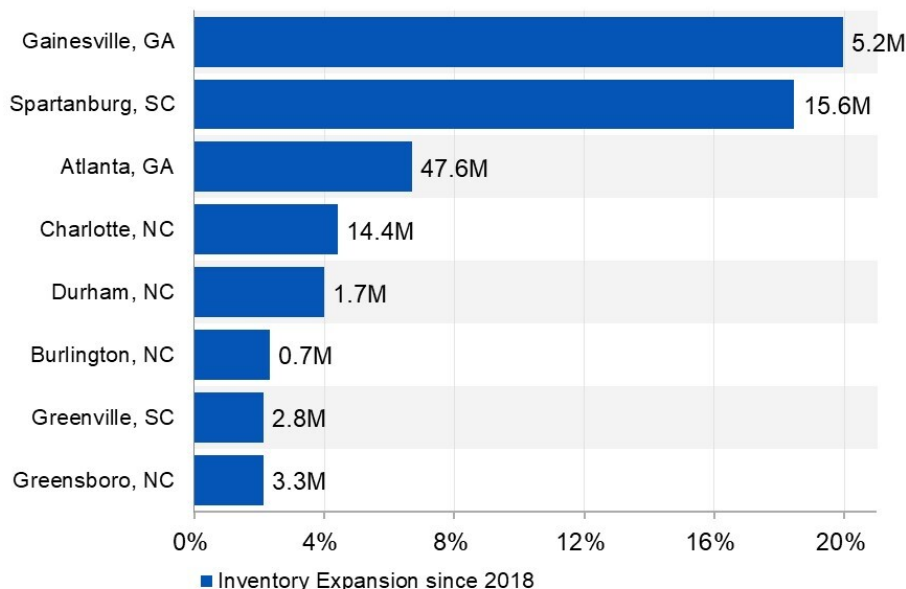
South Carolina's port system comes from users in the Greenville and Spartanburg areas, near the I-85 Corridor, according to a University of South Carolina analysis.

Manufacturing and distribution demand has driven growth in industrial inventory in Spartanburg, which has seen the fifth largest expansion of industrial inventory on a percentage basis since the second quarter of 2018. More than 15.6 million square feet has been added since that time, an 18.5% expansion of the market's industrial inventory.

Further down the I-85 Corridor, the growth of e-commerce has spurred industrial development in exurban Atlanta. The Gainesville, Georgia, area, at the northern edge of the Atlanta metropolitan area, has seen a 20% expansion in industrial inventory, giving it the fourth fastest-growing industrial inventory of any U.S. market on a percentage basis.

On a nominal basis, Atlanta's 47.6 million square feet of industrial space added since 2018 ranks Georgia's capital fifth in the country for industrial inventory growth in that time.

Inventory Expansion 18Q2-21Q2, I-85 Corridor Metros



The I-85 Corridor in Northeast Georgia is also set to benefit from the [\\$5 billion SK Innovation plant](#), which will serve as one of the largest hubs of electric vehicle

manufacturing in the world. The South Korean company broke ground on the first plant in 2019 and is expected to begin mass production at the Commerce site in 2022. At full build-out, the plant is expected to create as many as 6,000 jobs.

In North Carolina, a rapidly expanding life science industry in the Raleigh and Durham markets is expected to further increase industrial growth along the I-85 Corridor in Greensboro. Since 2020, more than 4,300 life science jobs and nearly \$4 billion in investment has been announced in the Research Triangle region, the majority of which can be contributed to biomanufacturing facilities. Increased need for supply chain support is expected to change the face of industrial real estate in Greensboro and The Triad, which has traditionally been composed of textile and furniture manufacturing.

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