



Colliers Keenan 2004 Year-End Office Market Charleston, SC



December 2004

TOTAL OFFICE MARKET

Market	Total	Available	Sublet	Avg. Rate	Vacancy	Proposed
West Ashley	921,620	241,696	0	\$16.19	26.23%	124,000
Lower N. Charleston	1,703,322	218,991	12,088	\$15.41	13.57%	622,000
Upper N. Charleston	1,376,585	163,956	1,974	\$13.63	12.05%	200,000
East Cooper	1,645,247	112,904	12,400	\$17.21	7.62%	681,900
Downtown Charleston	1,977,646	217,340	5,300	\$20.95	11.26%	355,000
Total Market	7,624,420	954,887	31,762	\$16.68	12.94%	1,982,900

CLASS "A" OFFICE MARKET

Market	Total	Available	Sublet	Avg. Rate	Vacancy	Proposed
West Ashley	319,251	28,944	0	\$20.42	9.07%	124,000
Lower N. Charleston	574,540	51,469	5,348	\$19.82	9.89%	622,000
Upper N. Charleston	261,000	35,656	0	\$14.63	12.05%	200,000
East Cooper	979,237	62,666	2,117	\$20.55	6.62%	681,900
Downtown Charleston	971,219	93,414	5,300	\$25.11	10.16%	355,000
Total Market	3,105,247	272,149	12,765	\$20.11	9.18%	1,982,900

Market Overview

The Greater Charleston Office Market experienced another solid year of overall growth, with some activity occurring in the new office product that was delivered in 2004 but most of the activity occurring among existing facilities. Growth in 2004 was more of a growth in occupancy than an increase in market inventory. The combined activity created significant absorption in the Class "A" market of 272,616 square feet of space, with the remainder of the market absorbing 593,607 square feet of space for a total absorption of 866,223 square feet of office space for the year. The positive net absorption helped to fill a significant amount of newly developed property, to solidify occupancy and create financial stability among existing buildings, and to enhance values of properties sold during the year.

Downtown Charleston

Steady expansion by legal, financial and insurance sectors kept the Downtown Charleston office market busy with leasing activity. Large lease transactions in the fourth quarter involving these types of institutional tenants moving to new Class "A" projects helped bolster the success of 100 Calhoun Street and kick off the expansion of the Charleston Gateway Building. Rental rates firmed up during the year and continued to increase through the fourth quarter. Sales activity in the market was limited only by the amount of quality properties that were made available. Sales prices for multi-tenant office buildings hit a new high of \$298 per square foot in the Downtown Charleston Market with Bank of America Place selling for \$43 million. The market should continue to tighten and see rental rates climb, with only the Charleston Gateway expansion planning to break ground in 2005 and rental rates for any other new developments projected at over \$30 per square foot.



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East Cooper

The East Cooper market, which is comprised almost entirely of the Mount Pleasant and Daniel Island office markets, had a tremendous year with vacancy for both Class "A" and the total market averaging roughly 7%. This low vacancy rate has helped rental rates climb to an average of \$17.21 per square foot and is prompting new construction throughout the market. Many smaller office properties are being built in master planned communities such as Park West. Larger buildings are planned or being constructed in the more highly visible areas of Mt. Pleasant and Daniel Island. Examples are Bridgeport Center Office Building on US 17 at the Cooper River Bridge from Mt. Pleasant to Charleston and the First Citizens Office Complex on Daniel Island, which is both visible and accessible by exit ramp from I-526. Office condominiums also continue to thrive in this market, with sales prices cresting to \$200.00 per square foot. The market appears to have great potential for new construction that is already approved with permits in place. The potential dilemma facing the East Cooper market is the possibility that high land costs and escalating rental rates could force office tenants to seek locations in neighboring markets. With East Cooper rental rates approaching those of the Downtown Charleston market, the Lower North Charleston market could pose legitimate competition.

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Lower North Charleston

After a steady year of activity and absorption highlighted by the 150,000 square foot Verizon call center, the Lower North Charleston office market is preparing for new construction. With the Class "A" market experiencing less than 10% vacancy, speculators and developers are preparing to break ground on numerous new office projects. Five traditional office buildings with 20,000–30,000 foot plates are planned and being proposed to be started in 2005, one of which is the 150,000 square foot 2nd phase of Carriage Hill. The market should also enjoy activity created by the Vought-Alenia selection of Charleston as the location the group will use to build aviation components of the new Boeing 7E7 Dreamliner airplanes. Significant activity can be expected in 2005.

Upper North Charleston

The Upper North Charleston market has suffered through but will now benefit from a host of major road improvement projects, which will improve traffic and access to existing office facilities in the market. During 2004, the Upper North Charleston market experienced positive absorption and saw the market finally begin to tighten somewhat. Residential and retail growth in this sector has been tremendous, and growth in this market should continue with proposed office, retail and industrial developments in 2005 and 2006. Rental rates will begin to climb and office users will look to this market in order to remain close to growing populations and amenities.

West Ashley

The West Ashley office market continued to stagnate in 2004, despite good absorption in the Class "A" projects. Unfortunately, the balance of the market experienced negative absorption and put

more space back on the market with relocations and closings, such as Unisum Insurance at Southpark Centre. The West Ashley market remains underdeveloped with respect to office projects, but increased residential growth among the west islands in general and Johns Island in particular will put pressure on the market to create office space closer to the residential base, which is the office work force. 2005 may see some redevelopment, but new development of any magnitude may not occur until 2006.

Forecast

The Greater Charleston office market can look forward to a promising 2005, with leasing and sales activity remaining strong. New development will occur among suburban markets in response to continued residential growth, and new development and activity will occur in more urban markets in response to market drivers such as growth among defense contractors, financial service groups and law firms. In 2005, the overall market should see growth in inventory, rental rates, and absorption, with decreases in vacancy and concessions.

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