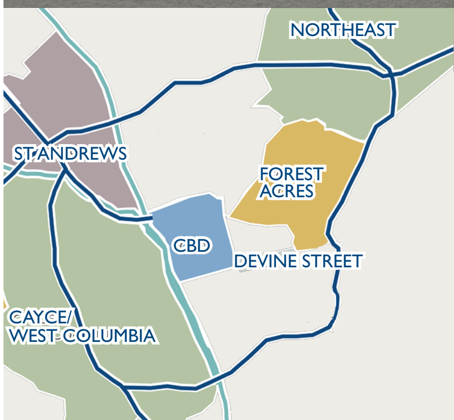
Mid-Year Office Market

Q2 I 2009



MARKET INDICATORS

	Q1	Q2
OCCUPANCY	↔	↓
ABSORPTION	↔	↓
RENTAL RATE	↓	↓
JOB GROWTH	↓	↓

QUICK UPDATES

- MARKET BEGINS TO FEEL IMPACT OF NATIONAL RECESSION
- CORPORATE TENANTS DOWNSIZE; NEGATIVE ABSORPTION
- ENERGY EFFICIENCY EMERGES AS TREND
- NEGATIVE ABSORPTION FORECASTED THROUGH THE END OF 2009

The Columbia, South Carolina, office market began to feel the effects of the national economic recession during the first half of 2009, posting negative absorption of 145,614 square feet. The overall occupancy rate fell from 84.72% at year-end 2008 to 82.02% at mid-year 2009 for all classes of office space combined. Although the U.S. entered into a recession nearly 18 months ago, the Columbia office market started to feel the negative impact in the real estate sector during the first six months of 2009.

A significant portion of office space that was vacated during the first six months of the year was vacated by national corporate tenants that downsized. The Columbia office market also experienced an increase in tenants vacating space that remained under lease, which resulted in 122,979 square feet of available sublease space at mid-year 2009. This sublease space will create additional competition for landlords looking to attract or retain tenants during the second half of 2009.

The Class A office market experienced the greatest impact of the recession during the first half of the year, as national tenants occupy a large percentage of Class A space in the Columbia market. During the first six months of 2009, the Class A market experienced 92,893 square feet of negative absorption plus an additional 43,210 square feet of sublease space was added to the market. The decline in occupied space caused a reduction in average asking rental rates from $19.18 per square foot at year-end 2008 to $18.97 per square foot at mid-year 2009.

Although the market experienced a downturn during the six months prior to mid-year 2009, the **Central Business District** demonstrated exceptional resistance to the weak economy. The market has long relied on economic diversity, but given the fact that two of the fundamental building blocks of our local economy, the South Carolina State Government and the University of South Carolina, experienced budget cuts due to economic conditions, one would have expected the office market to experience a significant downturn as well. This, however, was not the case. Strength of local office tenants created resilience to the negative impact caused by the national economy.

Since the Meridian Building was constructed in 2004, occupancy rates in the downtown office market have remained stable near 87.0%. Even in times of economic growth as experienced from 2005 to 2007, the market trended upward only slightly. This is a positive sign for the longevity of the market, as the CBD market remained at 86.4% at mid-year 2009.

Energy efficiency and operating expenses emerged as important trends during the first six months of 2009, particularly as the competition continued to increase among landlords for new tenants. Both 1441 Main Street and the Bank of America Plaza located at 1901 Main Street received Energy Star accreditation from the Environmental Protection Agency during 2009. By increasing efficiency, the energy expenses at 1441 Main Street were reportedly 19% lower than the average energy expenses in other downtown Columbia buildings, while the owners of Bank of America Plaza reported that their property maintains energy expenses that are approximately 14% lower than the downtown average.

While we note the stability of the downtown office market as of mid-year 2009, it is also necessary to recognize the challenges the downtown market will face in the near future. The Palmetto Center, the 456,000-square-foot office building located in the 1400 block of Main Street, will be completely vacant by the end

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	Total	Occupied	Vacant	Occupancy	6 Month Absorption	Average Rate	Class A Occupancy	Class A Rate
Total Market	9,516,891	7,805,875	1,630,363	82.02%	-145,614	$15.19	86.17%	$18.97
CBD	4,631,068	4,014,207	616,861	86.68%	-23,840	$16.48	88.17%	$19.78
Suburbs	4,885,823	3,791,668	1,013,502	77.61%	-121,774	$14.40	82.35%	$17.95
Cayce/West Columbia	507,817	364,739	143,078	71.82%	19,095	$11.79	0.00%	$0.00
East Columbia	104,438	89,600	14,838	85.79%	-12,738	$12.04	-	-
Forest Acres	723,057	606,152	116,905	83.83%	-28,485	$15.33	92.41%	$17.00
Northeast	1,204,372	835,472	288,247	69.37%	-150,415	$15.34	85.75%	$18.58
St. Andrews	2,346,139	1,895,705	450,434	80.80%	50,769	$14.46	83.41%	$16.88

of 2009. This building represents approximately 10.0% of the total downtown market and offers both a unique challenge and an opportunity for downtown Columbia.

Main and Gervais, the new office tower that was under construction at mid-year 2009, became highly visible in Columbia's skyline during the first half of the year. The owner/anchor partners, NBSC, The McNair Law Firm and Edens and Avant, will move into the building during the first and second quarters of 2010. The relocation of these tenants from other downtown properties will leave approximately 180,000 square feet of vacant space along the Main Street corridor. This space, coupled with the vacant Palmetto Center, will result in a projected occupancy rate of approximately 73.2% in the downtown office market by mid-year 2010. While these numbers give the impression of a soft market, it is important to note that this vacancy is comprised of a few very large blocks of space. Coordinated recruitment efforts could provide the opportunity to attract new businesses to Columbia and positively impact the local economy.

The **suburban markets** were unfortunately not as stable as the Central Business District during the first half of 2009. Occupancy rates declined from 82.17% at year-end 2009 to 77.61% at mid-year 2009. This decrease was the result of 121,774 square feet of negative absorption in the suburbs. The **Northeast** submarket experienced the greatest downturn during the first half of the year with 150,415 square feet of negative absorption. This resulted largely from national tenants downsizing or leaving the Columbia market. It is no surprise that this submarket experienced the greatest decrease in occupied space as it also experienced the greatest amount of growth, in office, residential and retail, during the economic boom experienced from 2005 to 2007. The **Forest Acres** submarket also experienced negative absorption of 28,485 square feet during the first six months of 2009.

The **St. Andrews** and **Cayce** submarkets both experienced positive absorption during the first six months of 2009. With positive absorption of 50,769 square feet and 19,095 square feet, respectively, these submarkets outperformed other submarkets in the Columbia region during the first half of the year. St. Andrews can attribute its expansion to the addition of national tenants which continued to grow in this submarket due to its connectivity within the state and region. The Cayce submarket has grown in notoriety over the past several years, and the pending relocation of SCANA to this submarket continued to lend additional credibility to the area. Southern First Bank also started construction of a new corporate headquarters on Knox Abbott Drive in the "Brickworks" development during the first part of 2009. This 39,000-square-foot building is scheduled for completion during the latter half of 2009.

Forecast

With large blocks of space available both for direct lease and sublease at mid-year 2009, landlords will work diligently to hold on to existing tenants, offering concessions for longer terms and early renewals. While tenants were extremely conservative in making real estate decisions during the latter parts of 2008 and into 2009, we will likely see this trend turn as tenants take advantage of longer-term offers from landlords. As we continue to anticipate economic recovery, we will likely see occupancy rates decline across the market through the end of the 2009.

COLLIERS INTERNATIONAL

294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 94
Canada 22
Latin America 17

Asia Pacific 97
EMEA 64

$1.6B in Revenue
1.1B SF Under Management
12,749 Professionals

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