

# Renew, redevelop or sublease are the options Columbia tenants face

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## Key Takeaways

- > As the market tightens, tenants will renew their current leases or redevelop unconventional space.
- > No new construction has been announced in Columbia, and will not be until rental rates rise considerably.
- > Investment sales reached a record high this year, with six major office buildings traded to investors from January 2017 through October 2017.

## 2017 Market Recap

The overall market vacancy rate in Columbia has fluctuated over the last four quarters but landed at the same vacancy rate as of this time last year. The market average full service rental rate decreased slightly from \$16.44 at the end of the fourth quarter last year to \$15.71 per square foot for the fourth quarter of this year. The overall market absorption year-over-year is -34,857 square feet, while the Central Business District had a lower rate of absorption of -7,622 square feet and the suburban market absorbed 16,179 square feet. Throughout this year, several of the buildings in the market traded, including most of the largest in the Central Business District.

Landlords are focused on retaining their current tenants by renewing leases early, upfitting common area spaces and upgrading building amenities. As market availabilities dwindle, the office market rental rates are simultaneously declining due to the lack of quality office space remaining to lease. This lack of quality space will continue to drive tenants to search for redevelopment options within non-traditional buildings and may eventually spur the construction of a new building. Columbia has already seen a few successful conversions with tenants such as the United Way, which purchased three industrial buildings and repurposed them into an office campus setting at 1818 Blanding Street, and the Boudreaux Group, who now occupies the second floor of the redeveloped Powell Furniture building located at 1519 Sumter Street. This

### Market Indicators

Relative to prior period	Q4 2017	Q1 2018
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↔	↔
RENTAL RATE**	↓	↔

Note: Construction is the change in Under Construction.

\*Projected

\*\*Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

### Summary Statistics

Q4 2017 Columbia Office Market	Market	CBD	Suburban
Vacancy Rate	17.21%	12.89%	21.37%
Change From Q4 2016 (basis points)	0	0	0
Absorption (Thousand Square Feet)	44.1	-29.3	73.4
New Construction (Thousand Square Feet)	0	0	0
Under Construction (Thousand Square Feet)	0	0	0

\*Note: New construction is buildings delivered.

### Asking Rents

Full-Service Per Square Foot Per Year	Market	CBD	Suburban
Overall	\$15.71	\$19.60	\$13.53
Change From Q4 2016	-4.50%	-6.93%	-5.32%
Class A	\$21.02	\$22.68	\$18.09
Change From Q4 2016	-4.19%	-3.28%	0.17%

repurposing of buildings in a market where new construction is not feasible in the near future is a lucrative option for owners and developers looking to maximize the revenue of their investment.

## Market Conditions

The overall market vacancy rate in Columbia rose slightly from 17.18% at the end of the third quarter to 17.21% during the fourth quarter. The market average full service rental rate decreased slightly again this quarter from \$16.02 at the end of the third quarter to \$15.71 per square foot for the fourth quarter. The lack of quality available space left in the market is bringing the overall rent averages down across all sectors despite the fact that a few Class A office towers have raised their rental rates this quarter. There are 100,877 square feet of sublease space available in the market, which leaves tenants a lower-priced leasing option for higher quality space.

### Columbia Business District (CBD)

The overall vacancy rate in the Central Business District rose during the fourth quarter to 12.89%, up from 12.27% at the end of the third quarter. This increase is due to 53,068 square feet of sublease space availability in Class A and B buildings. The sublease space also lowers the quarterly absorption rate, which is -29,329 square feet this quarter. The overall average Central Business District market rental rate is \$19.60 per square foot, down from \$21.06 this time last year. The Class A office space in the Central Business District is also a bit lower from this time last year; it is \$22.68 per square foot, compared to \$23.45 per square foot during the fourth quarter of 2016.

### Suburban

Vacancy in the suburban markets dipped this quarter down 21.37% from 21.91% during the third quarter. The overall asking rental rate dropped from \$14.28 per square foot during the third quarter and \$14.50 per square foot a year ago to \$13.53 per square foot during this quarter.

Overall, there were 73,436 square feet absorbed in the suburban market, the majority of space absorbed in Class B buildings. There are also 47,809 square feet of sublease space available in the suburban market this quarter, most of the direct and sublease vacancies are in Class C office buildings.

## Significant Transactions

Sale activity reached a record high this year through October, and during the fourth quarter, CoStar reported 20 sale transactions, most of them less than 10,000 square feet. Leasing activity was strong, and most of the leases beginning this quarter were also under 10,000 square feet. Going forward, more tenants will renew

their leases and sublease activity will accelerate as higher quality sublease space is filled before the lower quality space left in the market.

### Sales

- › In November, Dutch Center, a 101,306-square-foot office building located at 810 Dutch Square Boulevard, sold for \$3,850,000.

### Leases

- › In November, the South Carolina Department of Juvenile Justice leased 49,550 square feet in Synergy Executive Park, located at 250 Berryhill Road.
- › Duck Creek Technologies renewed their 29,979-square-foot lease at 1441 Main Street.
- › The South Carolina Retirement System Investment Commission renewed 19,700 square feet of office space in Capitol Center, located at 1201 Main Street.

## Market Forecast

Columbia's office tenants have few options to choose from regarding direct vacancy availabilities; however, they have several options if they are interested in subleasing space and may be able to capture these higher quality spaces at a lower-than-market rental rate. This will be attractive to tenants in this tight office market, and the sublease space will fill quickly. If subleasing is not an option for tenants looking to lease space, they will be forced to redevelop non-traditional space or settle for lesser quality options. To retain tenants, landlords will continue to upgrade amenities and shared areas and attempt to renew tenants several months in advance of their lease expiration dates. There is still no new office construction announced for Columbia, due to the continual rise of construction prices.

### Bank of America Plaza | Columbia, SC



Source: CoStar

## Q4 2017 Office Market Summary Statistics

MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	NET ABSORPTION (SF)	AVERAGE ASKING RENTAL RATE (SF/YR)
<b>CENTRAL BUSINESS DISTRICT</b>								
Class A	14	2,324,922	247,044	13,009	260,053	11.19%	-17,609	\$22.68
Class B	15	1,617,059	153,968	40,059	194,027	12.00%	-12,920	\$19.48
Class C	21	791,431	156,039	-	156,039	19.72%	1,200	\$14.86
<b>CBD Total</b>	<b>50</b>	<b>4,733,412</b>	<b>557,051</b>	<b>53,068</b>	<b>610,119</b>	<b>12.89%</b>	<b>-29,329</b>	<b>\$19.60</b>
<b>CAYCE/WEST COLUMBIA</b>								
Class A	2	63,000	1,200	-	1,200	1.90%	-	\$18.00
Class B	4	152,770	-	-	-	0.00%	2,364	-
Class C	9	302,954	90,271	-	90,271	29.80%	2,669	\$10.06
<b>Cayce/West Columbia Total</b>	<b>15</b>	<b>518,724</b>	<b>91,471</b>	<b>-</b>	<b>91,471</b>	<b>17.63%</b>	<b>5,033</b>	<b>\$10.16</b>
<b>EAST COLUMBIA</b>								
Class A	-	-	-	-	-	-	-	-
Class B	-	-	-	-	-	-	-	-
Class C	5	86,183	13,447	-	13,447	15.60%	-	\$4.63
<b>East Columbia Total</b>	<b>5</b>	<b>86,183</b>	<b>13,447</b>	<b>-</b>	<b>13,447</b>	<b>15.60%</b>	<b>-</b>	<b>\$4.63</b>
<b>FOREST ACRES</b>								
Class A	1	23,700	-	-	-	0.00%	-	-
Class B	7	305,725	45,327	-	45,327	14.83%	47,860	\$16.50
Class C	10	533,973	120,970	-	120,970	22.65%	-1,870	\$9.04
<b>Forest Acres Total</b>	<b>18</b>	<b>863,398</b>	<b>166,297</b>	<b>-</b>	<b>166,297</b>	<b>19.26%</b>	<b>45,990</b>	<b>\$11.07</b>
<b>NORTHEAST COLUMBIA</b>								
Class A	10	512,760	102,186	11,126	113,312	22.10%	5,077	\$17.83
Class B	8	428,174	130,775	-	130,775	30.54%	-	\$15.87
Class C	9	336,652	153,864	-	153,864	45.70%	5,480	\$10.96
<b>Northeast Columbia Total</b>	<b>27</b>	<b>1,277,586</b>	<b>386,825</b>	<b>11,126</b>	<b>397,951</b>	<b>31.15%</b>	<b>10,557</b>	<b>\$14.43</b>
<b>ST. ANDREWS</b>								
Class A	5	402,512	36,259	-	36,259	9.01%	-	\$18.82
Class B	12	680,056	105,832	-	105,832	15.56%	34,007	\$16.25
Class C	18	1,082,784	201,788	36,683	238,471	22.02%	-22,151	\$13.55
<b>St. Andrews Total</b>	<b>35</b>	<b>2,165,352</b>	<b>343,879</b>	<b>36,683</b>	<b>380,562</b>	<b>17.58%</b>	<b>11,856</b>	<b>\$14.94</b>
<b>SUBURBAN SUBMARKETS</b>								
Class A	18	1,001,972	139,645	11,126	150,771	15.05%	5,077	\$18.09
Class B	31	1,566,725	281,934	-	281,934	18.00%	84,231	\$16.11
Class C	51	2,342,546	580,340	36,683	617,023	26.34%	-15,872	\$11.18
<b>Suburban Submarkets Total</b>	<b>100</b>	<b>4,911,243</b>	<b>1,001,919</b>	<b>47,809</b>	<b>1,049,728</b>	<b>21.37%</b>	<b>73,436</b>	<b>\$13.53</b>
<b>MARKET</b>								
Class A	32	3,326,894	386,689	24,135	410,824	12.35%	-12,532	\$21.02
Class B	46	3,183,784	435,902	40,059	475,961	14.95%	71,311	\$17.30
Class C	72	3,133,977	736,379	36,683	773,062	24.67%	-14,672	\$11.96
<b>Market Total</b>	<b>150</b>	<b>9,644,655</b>	<b>1,558,970</b>	<b>100,877</b>	<b>1,659,847</b>	<b>17.21%</b>	<b>44,107</b>	<b>\$15.71</b>

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**68** countries on  
**6** continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **79**

EMEA: **111**

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**\$2.6**

billion in  
annual revenue

**2**

billion square feet  
under management

**15,000**

professionals  
and staff

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