



Office vacancy expected to rise with new construction delivery

Crystal Baker Research Coordinator | South Carolina

Key Takeaways

- › As new office construction is delivered to the Greenville-Spartanburg-Anderson office market, the vacancy rate will rise in the coming quarters before the new space is absorbed.
- › Rental rates will stabilize at the beginning of 2019 until higher quality office buildings are delivered to the market.

2018 Market Recap

The Greenville-Anderson-Spartanburg market posted an annual net negative absorption of 287,990 square feet from the fourth quarter of 2017 to the fourth quarter of 2018, likely due to a large amount of new office product and a few large single tenants vacating their office space. The market vacancy rate rose from 10.16% during the fourth quarter of last year to 12.94% this quarter. Three office buildings totaling 68,440 square feet were delivered to the Greenville-Spartanburg-Anderson office market in 2018: The overall average weighted rental rate dropped from \$21.40 per square foot during the fourth quarter of 2017 to \$20.10 per square foot during the fourth quarter of 2018 and are expected to stabilize around the same rate in the coming quarters.

Market Conditions

The Greenville-Spartanburg-Anderson market consists of 397 office buildings within five submarkets, which total 16,739,246 square feet. The market absorbed 49,154 square feet during the fourth quarter of 2018. There are currently three office buildings under construction which, when completed, will add 182,333 square feet to the Greenville-Spartanburg-Anderson market, and eight proposed buildings that, if constructed, will add 439,720 square feet throughout the market. The Greenville-Spartanburg-Anderson office market vacancy rate dropped during the fourth quarter of 2018 to 12.94%, 30 basis points lower than the vacancy

Market Indicators

Relative to prior period	Q4 2018	Q1 2019*
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 2018 Greenville Office Market	Market	CBD	Suburban
Vacancy Rate	12.94%	13.99%	12.59%
Change From Q4 2017 (basis points)	+278	+24	+368
Absorption (Thousand Square Feet)	+49.15	-9.31	+58.46
Q4 2018 New Construction* (Thousand Square Feet)	0	0	0
Under Construction (Thousand Square Feet)	182.33	150.00	32.33

*New construction is buildings delivered

Asking Rents

Per Square Foot Per Year			
Overall	\$20.10	\$23.32	\$19.47
Change From Q4 2017	-6.07%	-8.26%	+6.68%
Class A	\$22.46	\$25.32	\$22.11
Change From Q4 2017	-8.85%	-5.98%	+4.19%

rate of 13.24% during the third quarter of this year. Likewise, the Class A market vacancy dropped to 14.76% this quarter, down from 15.05%. The overall average full service weighted market rental rate rose slightly higher from \$20.07 per square foot during the third quarter of 2018 to \$20.10 per square foot during the fourth quarter. Conversely, the Class A average full service weighted market rental rate dropped from \$22.71 per square foot during the third quarter of 2018 to \$22.46 per square foot during the fourth quarter of 2018; the slight drop in rent is due to the lack of upgraded Class A space remaining.

Central Business District (CBD) Conditions

The Greenville-Spartanburg-Anderson central business district has 67 office buildings totaling 4,209,861 square feet. The central business district posted a net negative absorption of 9,314 square feet during the fourth quarter of 2018, and the downtown vacancy rate rose from 13.20% during the third the third quarter of 2018 to 13.99% during the fourth quarter of 2018. The increasing vacancy rate is mostly due to an increase in available downtown sublease space this quarter; currently, 40,383 square feet of office sublease space is available. In addition, 150,000 square feet of office construction is underway in the Greenville central business district, so the vacancy rate will continue to rise as new construction is delivered to the market. The overall average full service weighted downtown rental rate was \$23.32 per square foot during the fourth quarter, lower by 2.18% from the average weighted rental rate during the third quarter of 2018.

Suburban Conditions

The Greenville-Spartanburg-Anderson suburban office market has 330 buildings consisting of 12,259,385 square feet. The suburban market absorbed 58,468 square feet of office space, likely due to Class B buildings leasing 23,104 square feet in the Pickens County submarket. The suburban market vacancy rate dropped from 13.06% during the third quarter of 2018 to 12.59% this quarter. Likewise, the Class A vacancy rate dropped from 15.07% last quarter to 14.64% during the fourth quarter of 2018. The overall average full service weighted market rental rate within the suburbs rose due to demand, during the fourth quarter of 2018 it was \$19.47 per square foot.

Significant Transactions

This quarter there were 61 office sale transactions, according to CoStar, including the \$22 million portfolio sale of Harbinger One, Two and Three in Greenville. CoStar reported 93 leases signed within the Greenville-Spartanburg-Anderson submarkets.

Sales

- A 162,962-square-foot office portfolio of three Greenville properties, located at 777 Lowndes Hill Road in the Harbinger Office Park in Greenville, was purchased for \$22 million by

Continental Capital Partners LLC.

- In Greenville, Wade Hampton Office Park had three properties totaling 346,611 square feet purchased by TWO Capital Partners, LLC in a portfolio sale for a total price of \$17 million.
- A 17,600-square-foot office building located at 1050 Grove Road in Greenville was purchased by Summit Management for \$6.98 million.
- Spectrum Companies purchased a 29,855-square-foot Class B office building located at 5 Century Drive in Greenville for \$2.27 million.
- At 373 Halton Road in Greenville, an 8,333-square-foot Class B office building was purchased by Piedmont Electrical Distributors of Greenville for \$1.24 million.
- SRE South Pleasantburg LLC purchased a 17,457-square-foot office property for \$975,000. The office building is located at 856 South Pleasantburg Drive in Greenville.

Leases

- KCI Technologies Inc. signed a 10,000-square-foot office lease at 122 Smith Hines Road in Greenville.

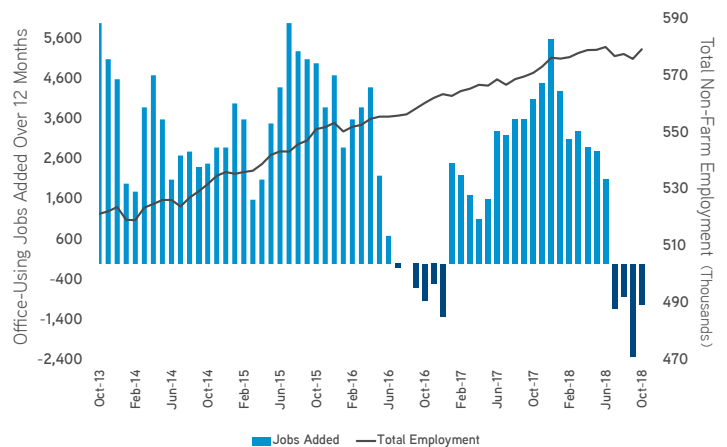
Construction Pipeline

Construction activity is active, with 182,333 square feet currently under construction in the downtown Greenville and I-385/85 submarkets.

Under Construction

- In downtown Greenville, 305 South Main Street is the site of a 150,000-square-foot Class A office currently under construction in the Camperdown mixed-use development.

Office-Using Employment | Greenville-Spartanburg-Anderson, MSAs



Source: Bureau of Labor Statistics, Colliers International

- › In Mauldin, construction continues on an 18,333-square-foot Class A office building.
- › Office construction continues on a 14,000-square-foot, Class B office building located at 340 Business Parkway.

Office-Using Employment

Office-using employment is those jobs related to the professional and business services, financial activities and information sectors, within the combined Greenville-Spartanburg-Anderson Combined Statistical Area (CSA). According to the most recent October 2018 data from the Bureau of Labor Statistics, there are a total of 119,800 office-using jobs in the Greenville-Spartanburg-Anderson submarket, and while that is 1,000 fewer jobs than in October of 2017, total non-farm employment in the Greenville-Spartanburg-Anderson market has increased by 8,300 jobs over the last year. In addition, according to the Bureau of Labor Statistics, the unemployment rate in both the Spartanburg MSA and the Greenville-Mauldin-Easley MSA is 3.0%, the lowest it has been in 10 years.

Market Forecast

Due to rising office demand at the end of last year, construction within the Greenville-Spartanburg-Anderson market has increased throughout 2018 causing the vacancy rate to steadily rise quarter-over-quarter. The vacancy rate is expected to continue to rise for the next few quarters until the new office space has a chance to be absorbed. The overall rental rate will likely stabilize next quarter but as higher quality office space is delivered to the market, a rental rate increase is anticipated.

Harbinger Three | Greenville, South Carolina



Source: CoStar

5 Stevens Street | Greenville, South Carolina



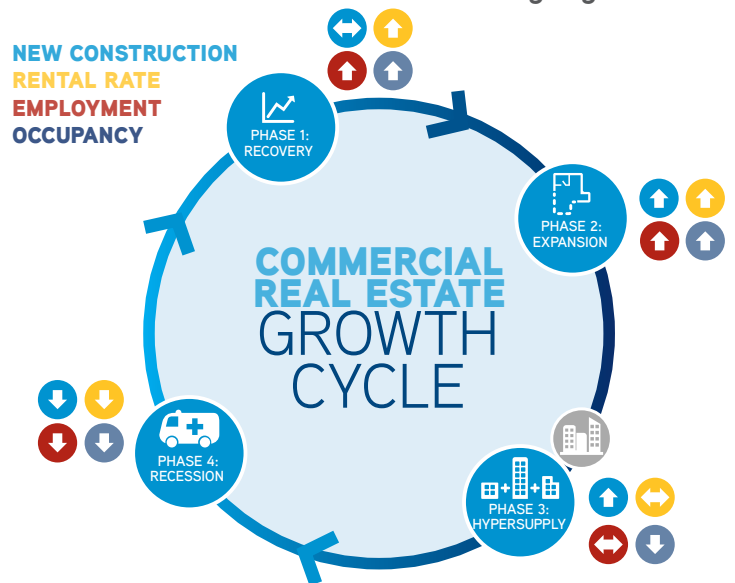
Source: CoStar

145 North Church | Spartanburg, South Carolina



Source: CoStar

Commercial Real Estate Growth Cycle: Where the market stands and where it is going



Q4 2018 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)
ANDERSON COUNTY								
Class A	4	102,403	-	-	-	0.00%	8,225	-
Class B	10	134,312	-	5,926	5,926	4.41%	4,046	-
Class C	13	177,408	2,668	-	2,668	1.50%	500	\$14.18
Anderson County Total	27	414,123	2,668	5,926	8,594	2.08%	12,771	\$14.18
I-385/I-85								
Class A	54	4,157,800	635,362	51,075	686,437	16.51%	7,652	\$22.11
Class B	99	3,314,152	368,448	70,527	438,975	13.25%	29,166	\$19.31
Class C	73	1,755,218	269,085	-	269,085	15.33%	6,488	\$15.12
I-385/I-85 Total	226	9,227,170	1,272,895	121,602	1,394,497	15.11%	43,306	\$19.84
PICKENS COUNTY								
Class A	4	84,213	-	-	-	0.00%	-	-
Class B	4	71,507	1,750	-	1,750	2.45%	23,104	\$15.00
Class C	4	43,338	10,000	-	10,000	23.07%	-	-
Pickens County Total	12	199,058	11,750	-	11,750	5.90%	23,104	\$15.00
SPARTANBURG COUNTY								
Class A	9	464,941	17,468	-	17,468	3.76%	4,877	-
Class B	26	1,204,290	70,773	-	70,773	5.88%	-24,072	\$16.48
Class C	30	1,019,803	54,220	20,480	74,700	7.32%	-1,518	\$13.71
Spartanburg County Total	65	2,689,034	142,461	20,480	162,941	6.06%	-20,713	\$14.86
GREENVILLE CBD								
Class A	28	2,463,135	358,028	11,300	369,328	14.99%	373	\$25.32
Class B	24	1,351,536	150,494	29,083	179,577	13.29%	-16,862	\$24.41
Class C	15	395,190	40,203	-	40,203	10.17%	7,175	\$18.08
Greenville CBD Total	67	4,209,861	548,725	40,383	589,108	13.99%	-9,314	\$23.32
SUBURBAN MARKETS TOTAL								
Class A	71	4,809,357	652,830	51,075	703,905	14.64%	20,754	\$22.11
Class B	139	4,724,261	440,971	76,453	517,424	10.95%	32,244	\$18.98
Class C	120	2,995,767	335,973	20,480	356,453	11.90%	5,470	\$14.88
Suburban Total	330	12,259,385	1,429,774	148,008	1,577,782	12.59%	58,468	\$19.47
MARKET TOTAL								
Class A	99	7,272,492	1,010,858	62,375	1,073,233	14.76%	21,127	\$22.46
Class B	163	6,075,797	591,465	105,536	697,001	11.47%	15,382	\$20.37
Class C	135	3,390,957	376,176	20,480	396,656	11.70%	12,645	\$15.34
Market Total	397	16,739,246	1,978,499	188,391	2,166,890	12.94%	49,154	\$20.10

In January 2018, Colliers International benchmarked its office data set for South Carolina. The new standard includes: all office buildings 10,000 square feet or larger, except medical office and government-owned buildings; all single tenant office buildings; buildings in an expanded geography; data for all quarters beginning in Q4 2008; and excluding office condominiums. In addition, the submarkets are separated by class levels A, B and C (A being the highest quality space and C being of lesser quality), and are also divided into 2 divisions: **Central Business District (CBD)** and **Suburban**. The Central Business District submarket consists of a highly-populated business area with infrastructure and an office building/high-rise environment, which is often accompanied by heavy daytime foot traffic. A Suburban submarket is an area or town existing as a mixed-use community within commuting distance of a larger city. Due to the adjustments of the building inventory, comparison of data included in previously published market reports should be avoided.

400 offices in
69 countries on
6 continents

\$2.7
billion in
annual revenue

2
billion square feet
under management

15,400
professionals
and staff



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FOR MORE INFORMATION:

David Feild, CCIM
Market President | Greenville
+1 864 527 5428
David.Feild@colliers.com

Liz H. McCary
Vice President, Marketing | South Carolina
+1 803 401 4269
Liz.McCary@colliers.com

Crystal Baker
Research Coordinator | South Carolina
+1 803 401 4230
Crystal.Baker@colliers.com

GREENVILLE-SPARTANBURG-ANDERSON OFFICE PROFESSIONALS:

Brantley Anderson | Brokerage Associate
+1 864 527 5440
Brantley.Anderson@colliers.com

Taylor Allen | Brokerage Associate
+1 864 527 5423
Taylor.Allen@colliers.com

Ralph Settle | Brokerage Associate
+1 864 527 5452
Ralph.Settle@colliers.com

Colliers International | Greenville
55 E. Camperdown Way, Suite 200
Greenville, South Carolina | USA
+1 864 297 4950

Colliers International | Spartanburg
145 West Main Street
Spartanburg, South Carolina | USA
+1 864 297 4950



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