



Year-End Office Market

Q4 | 2008



MARKET INDICATORS

	Q3	Q4
OCCUPANCY	↓	↓
ABSORPTION	↓	↓
RENTAL RATE	↑	↑
CONSTRUCTION	↔	↔

QUICK UPDATES

- TOTAL MARKET SIZE CONTINUES TO GROW
- DOWNTOWN CHARLESTON REMAINS STABLE
- VACANCY RATE INCREASES IN SUBURBAN MARKETS

The Charleston, South Carolina, office market experienced declines in occupancy during 2008 as a result of downturns in both the national and local economy. From year-end 2007 to year-end 2008, total market vacancy increased from 13.77% to 18.19%, representing an increase in vacant space of 536,299 square feet. Although this is a significant increase in vacant square footage, total market size grew by 698,579 square feet during the same period due to new office projects that were delivered in the early part of the year. The net difference between these numbers represents a total negative absorption of 162,280 square feet for the year.

There were no deliveries of new office space in the second half of 2008, and very little is expected in 2009. Although the market is much softer than that experienced at year-end 2007, average rental rates continued to increase year-over-year due to the cost associated with new space coming online. At year-end 2007, average rental rates across the market were \$19.69 per square foot. This number increased to \$19.72 per square foot at year-end 2008. Even with limited new construction projected for the market over the next twelve months, rental rates will likely decline as tenants shop for the most cost-effective space available.

Overall employment in the Charleston Metropolitan Statistical Area (MSA) declined during 2008, with the greatest declines being experienced in the tourism- and trade-related sectors as opposed to those sectors impacting the office market. During the year, total employment declined by 5,200 jobs (1.7%); employment sectors that most impact the office market experienced a total decline of 500 jobs, with professional and administrative services declining by 700 jobs and the governmental sector declining by 100 jobs, while information services grew by 100 jobs and the financial sector increased by 200 jobs.

DOWNTOWN OFFICE MARKET

Although the Charleston market did experience a downturn during 2008, the downtown office market remained stable, a notable accomplishment given the occurrences in the national economy during the second half of 2008. Average rental rates increased slightly in the downtown market from \$23.55 per square foot at year-end 2007 to \$23.87 per square foot at year-end 2008. The amount of sublease space in the downtown market increased by 17,629 square feet in 2008.

The office market in downtown Charleston should remain stable during the first six months of 2009. While some consolidation in the financial sector is anticipated, the total vacancy should increase only slightly. Over the longer term, downtown Charleston offers exciting development possibilities, including properties that surround Marion Square and Ansonborough Field, as well as the redevelopment of Midtown, Magnolia and the neck of the Charleston Peninsula.



TOTAL OFFICE MARKET

Market	Total	Available	Sublease	Avg. Rate	Vacancy	Occupied Space
West Ashley	982,434	172,919	2,700	\$17.98	17.88%	806,815
Lower North Charleston	2,526,938	663,857	73,336	\$19.06	29.17%	1,789,745
Upper North Charleston	2,013,505	432,206	0	\$16.77	21.47%	1,581,299
East Cooper	2,379,990	311,177	20,717	\$20.94	13.95%	2,048,096
Downtown Charleston	2,063,704	118,559	17,629	\$23.87	6.49%	1,927,516
Total Market	9,966,571	1,698,718	114,382	\$19.72	18.19%	8,153,471

CLASS A OFFICE MARKET

Market	Total	Available	Sublease	Avg. Rate	Vacancy	Occupied Space
West Ashley	422,848	35,984	2,700	\$22.78	9.15%	384,164
Lower North Charleston	1,058,288	246,082	67,511	\$24.00	29.63%	744,695
Upper North Charleston	851,000	206,703	0	\$19.93	24.29%	644,297
East Cooper	1,546,020	214,691	19,000	\$25.51	15.12%	1,312,329
Downtown Charleston	1,031,219	48,737	17,629	\$28.44	5.51%	964,853
Total Market	4,909,375	752,197	106,840	\$24.13	17.50%	4,050,338

SUBURBAN OFFICE MARKET

Although Charleston's downtown has thus far endured the economic crisis, the suburban market experienced a significant increase in vacancy during 2008. At year-end 2007, total market vacancy stood at 16.03%; this number increased to 21.22% at year-end 2008. This increase in vacancy is due to a combination of factors, including the aforementioned new space being made available to the market, the uncoupling of the housing and mortgage markets and the overall contraction of the economy as most businesses are preparing for a bearish 2009.

Even as the suburban market experienced a decline over the past year, the defense sector has continued to grow, adding new jobs as contractors have located or expanded in the Charleston area. It is also important to note that, until recently, it had been difficult to recruit new companies to the suburban market that needed immediate occupancy due to limited supply of quality space. With large amounts of Class A space now available, it will be less of a hindrance once the national economy begins to expand.

INVESTMENT

Investment sales of office product experienced a dramatic slowdown during the second half of 2008, largely due to the credit crisis experienced nationwide. This was further compounded by pressure on capitalization rates, which created deflationary impact on real property prices. Limited demand for office investments is likely to continue during the first half of 2009 or until lending is stabilized.

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COLLIERS INTERNATIONAL

293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS

USA 99
Canada 19
Latin America 18

Asia Pacific 95
EMEA 62

\$2.0B in Revenue
868M SF Under Management
11,000 Professionals

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