



# COLUMBIA, SOUTH CAROLINA RESEARCH & FORECAST REPORT



## Hospitals Attract Private Practices.

The Columbia, South Carolina medical market experienced a moderate increase in occupancy during the first half of 2010, with a mid-year vacancy rate of 11.38%. This 1.98% decline in vacancy from year-end 2009 can largely be attributed to a trend of hospitals acquiring private medical practices across the region. On-campus medical office buildings (MOBs) experienced 48,242 square feet of positive absorption during the six month period ending June 30, 2010. Off-campus multi- and single-tenant properties experienced a combined negative absorption of 17,073 square feet during this same period, which resulted in a net positive absorption of 18,388 during the first two quarters of 2010.

Prior to the recent recession, medical practices were constructing privately owned facilities away from hospital campuses in order to take advantage of historically low interest rates and favorable financing terms. As the economy weakened and uncertainty regarding healthcare reform dominated the business side of private practices, physicians started looking at alternative business models. These eroding conditions, combined with hospital

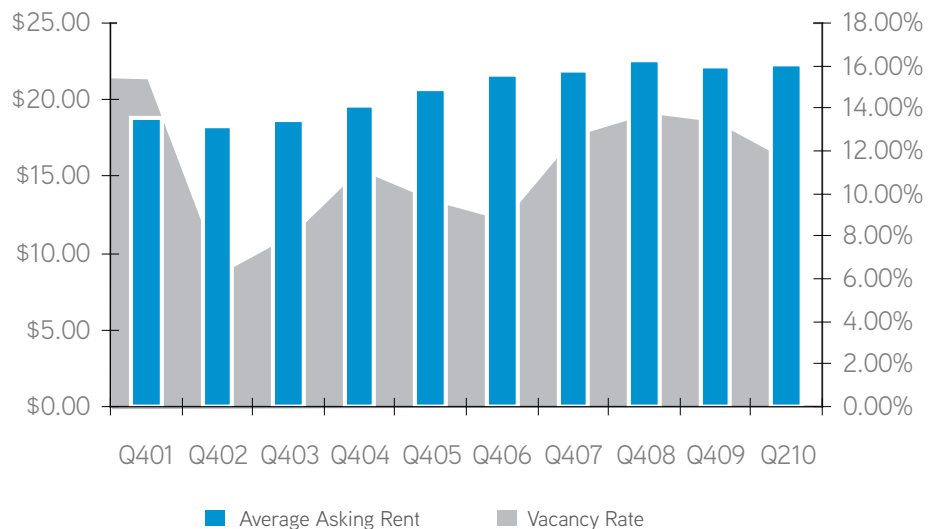
### MARKET INDICATORS

	Q1/Q2 2010	Forecast
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	—	↑
RENTAL RATE	—	—

### QUICK UPDATES

- Weak economy and pending healthcare reform results in private practices being absorbed by hospital systems
- Market vacancy declines by 1.98%
- Palmetto Health receives CON for Palmetto Baptist Parkridge
- Providence Hospital to renovate and expand Forest Drive Campus and Northeast Campus

2001 - 2010 Vacancy and Average Asking Rental Rates



**DEFINITIONS**

**Absorption (Net)**-The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy and subtracting all the negative changes in occupancy.

**Vacancy Rate**-A percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

**Vacant Space**-Space that is not currently occupied by a tenant, regardless of any lease obligation on the space.

**Deliveries**-Buildings that complete construction during a specified period of time. A certificate of occupancy must have been issued for the property for it to be considered delivered.

**Leasing Activity**-The volume of square footage that is committed to and signed for under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity for buildings under construction or planned.

**Average Asking Rental Rate**-Rental rates are calculated based on a weighted average of available space in each submarket. Therefore, fully leased buildings do not impact the average asking rate within the market, and properties with large blocks of available space have greater influence on market rates.

systems’ desire to affiliate with some of the region’s leading practices, substantiates the aforementioned trend reversal.

Although the availability of on-campus MOB space has significantly tightened, with vacancy rates declining by 4.47% during the first two quarters of 2010, the average asking rental rate increased by only \$0.08 per square foot during this period. With vacancy declining at such a significant rate one would expect a greater increase in rental rates, but with the majority of space being absorbed by hospital-owned practices, rates remained stable. Contrary to this, however, asking rental rates for off-campus multi-tenant buildings declined by \$0.78 per square foot during the first half of the year as second and third generation space was reintroduced to the market.

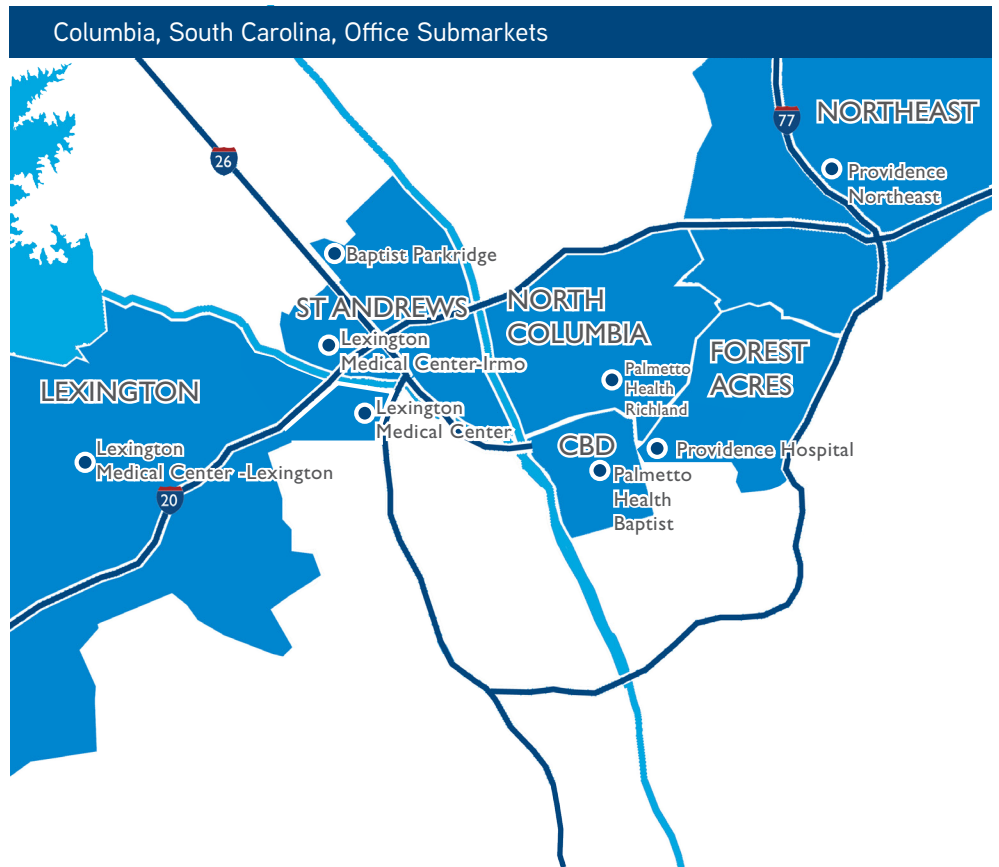
As hospitals have acquired private practices, and these practices have relocated to on-campus facilities, the amount of single- and multi-tenant medical space available for purchase has increased. At mid-year 2010, there was 81,613 square feet of space available for sale in the Columbia medical

office market. The price averaged \$159.86 per square foot for multi-tenant properties, and \$140.80 per square foot for single tenant properties. The variance in sales price between single- and multi-tenant properties is due to the newer age and more attractive location of the multi-tenant properties that were available at mid-year 2010.

**Expansion of Hospital System Facilities**

Both Palmetto Health and Providence Hospital have announced plans for significant expansions. Palmetto Health received its Certificate of Need for the construction of a new hospital on Lake Murray Boulevard in Irmo, adding to the existing 89,451-square-foot medical office and urgent care center already located at Palmetto Health Parkridge. Completion of the expansion is scheduled for as early as 2013.

Providence Hospital announced plans to significantly expand its presence on its main campus on Forest Drive. The hospital will construct a new patient tower, expand the



MARKET UPDATES	Buildings	Total Square Feet	Vacant Space	Absorption	Occupied Space	Vacancy Rate	Average Rent	Asking Price PSF
<b>CBD</b>								
MOB	3	262,434	22,361	706	240,073	8.52%	\$21.12	
Multi-Tenant	9	89,174	26,552	(9,684)	62,622	29.78%	\$16.11	
Single Tenant	10	96,887	0	5,049	96,887	0.00%	N/A	
Submarket	22	448,495	48,913	(3,929)	399,582	10.91%	\$18.40	

<b>FOREST ACRES</b>								
MOB	4	144,197	14,453	4,574	129,744	10.02%	\$22.41	
Multi-Tenant	5	54,408	4,854	0	49,554	8.92%	\$13.00	
Single Tenant	6	46,540	13,045	-13,045	33,495	28.03%	N/A	\$91.99
Submarket	15	245,145	32,352	(8,471)	212,793	13.20%	\$20.04	

<b>IRMO</b>								
MOB	3	175,104	13,107	3,265	161,997	7.49%	\$23.07	
Multi-Tenant	4	136,076	6,500	0	129,576	4.78%	\$18.50	\$92.31
Single Tenant	3	20,380	20,380	-20,380	0	100.00%	N/A	\$107.70
Submarket	10	320,524	28,951	(17,115)	291,573	9.03%	\$21.55	

<b>LEXINGTON</b>								
MOB	4	343,337	77,729	22,272	265,608	22.64%	\$23.34	
Multi-Tenant	18	169,447	11,480	2,521	157,967	6.77%	\$15.85	
Single Tenant	16	140,720	15,939	3,132	124,781	11.33%	\$17.75	\$201.54
Submarket	38	653,504	105,148	27,925	548,356	16.09%	\$18.98	

<b>NORTH COLUMBIA</b>								
MOB	6	496,055	43,454	11,044	452,601	8.76%	\$21.50	
Multi-Tenant	3	72,463	17,578	(8,200)	54,885	24.26%	\$19.77	\$213.41
Single Tenant	15	296,615	4,090	0	292,525	1.38%	N/A	\$100.00
Submarket	24	865,133	65,122	2,844	800,011	7.53%	\$21.19	

<b>NORTHEAST COLUMBIA</b>								
MOB	2	125,746	16,105	6,381	109,641	12.81%	\$20.00	
Multi-Tenant	7	115,640	28,589	6,400	87,051	24.72%	\$18.29	\$171.38
Single Tenant	10	82,329	0	4,353	82,329	0.00%	N/A	
Submarket	19	323,715	44,694	17,134	279,021	13.81%	\$18.91	

<b>MARKET TOTALS</b>								
MOB	22	1,546,873	187,209	48,242	1,359,664	12.10%	\$22.27	
Multi-Tenant	46	637,208	95,553	(8,963)	541,655	15.00%	\$15.71	\$159.86
Single Tenant	60	924,857	98,148	(8,110)	826,709		\$17.75	\$140.80
Market	128	2,856,516	325,180	18,388	2,531,336	11.38%	\$17.44	

emergency room and convert semi-private rooms to private rooms. Additionally, the Providence Northeast Campus will undergo expansions in several departments throughout the hospital. Construction of the new patient tower on Forest Drive is expected to commence during the second quarter of 2011.

### Forecast

Vacancy rates in MOB's will remain stable or decrease slightly over the next six months as hospitals continue to acquire private practices. The rate and frequency of acquisition, however, will also impact the vacancy rates of off-campus medical properties. Limited speculative and multi-

tenant construction is expected in the near-term, although developers may find potential opportunity in the Irmo submarket as quality space becomes increasingly difficult to locate.

Rental rates will continue to increase through the end of 2010 due to limited availability of space and lack of new construction. This trend will likely continue for the next 24 months or until the full impact of health care reform is understood.

### The Impact of Pending Healthcare Reform

Healthcare reform could potentially spur a greater demand for medical office space, specifically for hospital space and on-campus MOB's. The average health care system nationwide requires about 1.9 square feet of space for every patient, according to *National Real Estate Investor Magazine*. The healthcare reform will provide insurance for approximately 32 million people, which could increase the national demand for medical space by 61 million square feet. According to the US Census Bureau, there were approximately 708,000 uninsured people in South Carolina in 2008. As this population is reclassified as insured under the new reform, demand for medical space in South Carolina could increase by as much as 1.34 million square feet.

## 480 offices in 61 countries on 6 continents

United States: 135  
Canada: 39  
Latin America: 17  
Asia Pacific: 194  
EMEA: 95

- \$1.6 billion in annual revenue
- 672.9 million square feet under management
- Over 15,000 professionals

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