

Office market activity decelerates

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Key Takeaways

- > Despite negative absorption and rising vacancy rates, the Columbia office market is still attractive due to the business climate, employment, regional investments and strong market drivers.
- > The differential between rising construction costs and rental rates means it is not economically viable for new office development.

Stalled market activity

The Columbia office market is showing signs of sluggishness due to several varying market conditions. While the Columbia unemployment rate is still attractive at 3.1% as of December 2018, office-using job growth peaked at the end of 2016 through April of 2017, leaving the market flat. Also, a decreasing number of office-using jobs diminishes the need for office space. Therefore, instead of tenants in the market demanding expansion space, they have a desire to downsize as office-using jobs decrease. Also, with the continual rise of construction costs as a deterring factor, the cost to construct a new office building does not provide the returns to entice investors. The rental rate required of a newly constructed office building would need to be much higher than current market rental rates. While this may seem like Columbia is headed for an inevitable downturn, that is not the case. High quality space is still in short supply and owners will continue to try to raise market rental rates. The Columbia economy is still robust, and there is a significant supply of capital investment within the region. The University of South Carolina is a strong downtown market driver and employee provider, and the cost of living in Columbia is lower than the United States average.

Market Conditions

The Columbia office market has approximately 16.21 million square feet within eight submarkets and posted a net negative absorption of 115,135 square feet. The overall market vacancy rate jumped 119 basis points, from 10.62% during the fourth quarter of last year to 11.81% during the first quarter of 2019. The average weighted rental

Market Indicators

Relative to prior period	Q1 2019	Q2 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

Q1 2019 Columbia Office Market	Market	CBD	Suburban
Vacancy Rate	11.83%	11.45%	12.03%
Change From Q1 2018 (basis points)	+78	+24	+107
Absorption (Thousand Square Feet)	-115.14	-49.33	-65.81
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	\$17.73	\$20.85	\$16.48
Change From Q1 2018	+5.79%	+2.01%	+9.50%
Class A	\$20.61	\$22.61	\$19.39
Change From Q1 2018	-5.33%	-1.40%	+1.68%

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.

rates for remaining office availabilities in Columbia increased from \$17.36 per square foot during the fourth quarter of 2018 to \$17.73 per square foot during the first quarter of 2019 due to some higher quality space becoming available.

Columbia Business District (CBD)

The Columbia central business district has 97 buildings totaling 5.69 million square feet within the market. The central business district posted a net negative absorption of 49,330 square feet and the vacancy rate increased from 10.58% during the fourth quarter of 2018 to 11.45% this quarter. While the Class A vacancy rate is still low at 9.75%, this class posted a net negative absorption of 24,477 square feet this quarter, which was relatively equal to the combined central business district Class B and C net negative absorption square feet. Most of the negative absorption occurred within three buildings: 1901 Main Street, 1280 Assembly Street and 500 Taylor Street. The average weighted downtown rental rates rose slightly from \$20.72 per square foot during the fourth quarter of last year to \$20.85 per square foot during the fourth quarter of 2019. The Class A weighted rental rates are a little lower this quarter at \$22.16 per square foot, down from \$22.42 per square foot during the fourth quarter of 2018. The drop in Class A rent is because to the office building with the largest net negative absorption has lower rental rates than the other downtown office buildings.

Suburban

The Columbia suburban market consists of 227 buildings totaling 10.56 million square feet. The suburbs posted a net negative absorption of 65,805 square feet, and while Northeast Columbia absorbed 78,333 square feet, the St. Andrews submarket posted a net negative 101,715 square feet of absorption. The overall vacancy rate in the suburban submarkets increased from 11.58% during the fourth quarter of last year to 12.00% during the first quarter of 2019, and there are approximately 1.27 million square feet of suburban office space available. The average weighted rental rate for the remaining suburban office space rose to \$16.48 per square foot this quarter, 2.81% higher than the average suburban rental rate during the fourth quarter of last year.

Significant Transactions

This quarter there were 21 sale transactions and all but five were under 10,000 square feet, according to CoStar, and also 63 leases signed during the first quarter of 2019.

Sales

- > MBRE Healthcare purchased a 42,295-square-foot office at 2611 Forest Drive for \$14.18 million.
- > The 150 Park Central Drive 14,362-square-foot office was purchased by Darby Development for \$6.65 million.

Leases

- > Carolina Elevator Services signed a lease for a 14,262-square-foot office located at 777 Old Clemson Road.

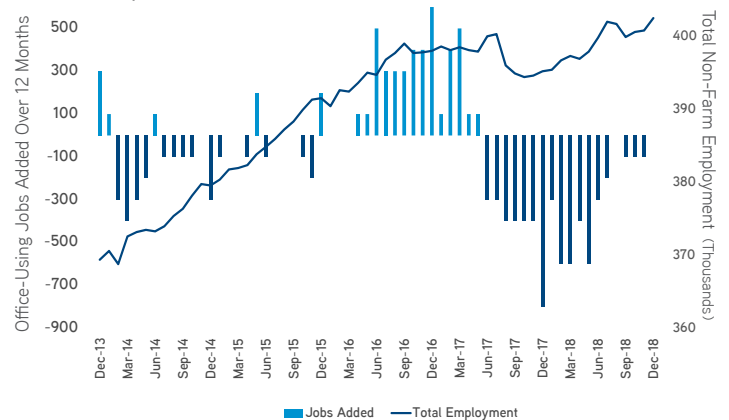
Office-Using Employment

Office-using employment is those jobs related to the professional and business services, financial activities and information sectors. According to the most recent December 2018 data from the Bureau of Labor Statistics, no office-using jobs were added or lost since December of 2017 within the Columbia Metro Statistical Area (MSA). There were 7,300 total jobs added over the past twelve months, raising the total non-farm employment to 402,600. The Columbia unemployment rate continues to drop and was at 3.1% as of December 2018.

Market Forecast

Despite the slightly increasing vacancy and negative absorption, Columbia is a viable city for office prospects looking to relocate. The Columbia region has a low cost of living and a thriving business environment; state government and the University of South Carolina are driving business and economics. Even though Columbia is experiencing a lull in market activity, it is likely in the next few quarters that new prospects will show interest in the market and absorb a portion of the high quality office space currently available.

Office-Using Employment | Columbia, MSAs



Source: Bureau of Labor Statistics, Colliers International

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



Q1 2019 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)
CAYCE/WEST COLUMBIA								
Class A	4	665,024	-	-	-	0.00%	-	-
Class B	5	147,588	-	-	-	0.00%	-	-
Class C	19	771,498	47,024	-	47,024	6.10%	-4,200	\$12.13
Cayce/West Columbia Total	28	1,584,110	47,024	-	47,024	2.97%	-4,200	\$12.13
EAST COLUMBIA								
Class A	-	-	-	-	-	-	-	-
Class B	2	52,176	12,364	-	12,364	23.70%	-	\$20.19
Class C	24	606,700	8,370	-	8,370	1.38%	-	\$14.81
East Columbia Total	26	658,876	20,734	-	20,734	3.15%	-	\$18.02
FOREST ACRES								
Class A	-	-	-	-	-	-	-	-
Class B	5	305,840	31,308	-	31,308	10.24%	-3,400	\$16.21
Class C	22	830,996	214,296	-	214,296	25.79%	-41,504	\$15.15
Forest Acres Total	27	1,136,836	245,604	-	245,604	21.60%	-44,904	\$15.49
IRMO/CHAPIN								
Class A	-	-	-	-	-	-	-	-
Class B	3	77,009	-	-	-	0.00%	-	-
Class C	10	114,613	9,411	-	9,411	8.21%	-	\$17.00
Irmo/Chapin Total	13	191,622	9,411	-	9,411	4.91%	-	\$17.00
LEXINGTON								
Class A	3	167,028	3,090	-	3,090	1.85%	6,681	\$14.00
Class B	9	170,040	41,594	-	41,954	24.46%	-	\$11.00
Class C	8	125,364	-	-	-	0.00%	-	-
Lexington Total	20	462,432	44,684	-	44,684	9.66%	6,681	\$11.22
NORTHEAST COLUMBIA								
Class A	11	640,787	100,855	14,592	115,447	18.02%	-28,547	\$19.06
Class B	20	1,846,899	170,134	-	170,134	9.21%	107,022	\$17.12
Class C	15	471,832	149,850	-	149,850	31.76%	-142	\$15.95
Northeast Columbia Total	46	2,959,518	420,839	14,592	435,431	14.71%	78,333	\$17.17
ST. ANDREWS								
Class A	7	513,032	116,389	-	116,389	22.69%	-27,219	\$19.82
Class B	24	1,624,850	80,409	-	80,409	4.95%	7,703	\$17.10
Class C	38	1,427,981	267,255	-	267,255	18.72%	-82,199	\$15.34
St. Andrews Total	69	3,565,863	464,053	-	464,053	13.01%	-101,715	\$17.01
SUBURBAN SUBMARKETS								
Class A	25	1,985,871	220,334	14,592	234,926	11.83%	-49,085	\$19.39
Class B	65	4,194,402	335,809	-	335,809	8.01%	111,325	\$16.38
Class C	136	4,348,984	696,206	-	696,206	16.01%	-128,045	\$15.21
Suburban Submarkets Total	226	10,529,257	1,252,349	14,592	1,266,941	12.03%	-65,805	\$16.48
COLUMBIA CBD SUBMARKET								
Class A	13	2,305,367	193,826	30,881	224,707	9.75%	-24,477	\$22.16
Class B	25	1,787,950	174,917	61,681	236,598	13.23%	-12,325	\$20.45
Class C	59	1,591,138	188,787	690	189,477	11.91%	-12,528	\$18.67
CBD Submarket Total	97	5,684,455	557,530	93,252	650,782	11.45%	-49,330	\$20.85
OVERALL MARKET								
Class A	38	4,291,238	414,160	45,473	459,633	10.71%	-73,562	\$20.61
Class B	90	5,982,352	510,726	61,681	572,407	9.57%	99,000	\$17.75
Class C	195	5,940,122	884,993	690	885,683	14.91%	-140,573	\$15.68
Market Totals	323	16,213,712	1,809,879	107,844	1,917,723	11.83%	-115,135	\$17.73

Source: Colliers International, CoStar

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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