

High Occupancy Driving Redevelopment but Not New Development

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Key Takeaways

- > Office users are moving to non-traditional spaces in the Central Business District.
- > Speculative office construction will continue to be limited to small projects until rental rates are \$28.00 per square foot or above for Class A space.

Redevelopment Intensifies

Downtown Columbia is accessible by three major interstates and has a well-established base of the region's major employers. This trifecta, coupled with a growing population of millennials and young professionals, is bringing new attention to the Central Business District (CBD) and driving demand in the office market. There are few available large blocks of traditional office space and a lack of significant office development in the pipeline, encouraging a few expanding office users to consider repurposing older buildings into office space in the CBD and the immediate surrounding areas.

Accessibility plays a key factor in many employers' location decisions. Encircled by three interstates, I-20, I-26 and I-77, the CBD is easily accessible as it is centrally located in relation to Columbia's most desirable residential markets. The CBD is also home to some of the region's largest employers, such as the State of South Carolina, Palmetto Health, University of South Carolina, Wells Fargo, Aflac, Seibels and AgFirst Farm Credit Bank. The recent boom in activity in the CBD has spurred new attention from employers, many choosing to locate here.

Increasing demand for downtown office space brought the occupancy rate to a record high of 90.6%, despite small fluctuations in occupancy over the course of 2016 due to tenants shifting between office buildings. This has left companies requiring large blocks of 20,000 square feet or more with few options in the district. Smaller tenants are also finding a limited number of options along the Main Street corridor.

Market Indicators

Relative to prior period

Q1 2017

Q2 2017

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 2017 Columbia Office Market

	Market	CBD	Suburban
Vacancy Rate	15.4%	9.4%	21.3%
Change From Q1 2016 (basis points)	0	50	-30
Absorption (Thousand Square Feet)	28.1	99.5	-71.4
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

Overall	\$16.49	\$21.17	\$14.63
Change From Q1 2015	3.4%	11.6%	0.2%
Class A	\$21.27	\$23.17	\$17.54
Change From Q1 2015	8.9%	9.2%	2.8%

There are currently no office developments of significant size under construction or planned for the Columbia office market. As a result, average asking rental rates in the CBS have increased from \$18.97 per square foot per year (PSF/YR) to \$21.17 PSF/YR, an 11.5% increase in two years. These asking rental rates are too low to support new construction. The few planned developments are mostly mixed-use and located along the edges of the CBD. These properties may include small amounts of office space, though not enough to cover the five-year average annual absorption of 110,000 square feet. The new Brookland development in West Columbia is one such property, with a range of 30,000 to 40,000 square feet of office space planned. The lack of space is leading many tenants to find alternative, unconventional options.

For example, in the last year, Studio 2LR moved to a former warehouse on Main Street north of Elmwood Avenue, United Way of the Midlands repurposed a collection of warehouses, Belser and Belser announced a new location in a renovated building in the Vista and The Boudreaux Group and Cyberwoven are remodeling under-utilized storefronts in the Main Street District. Many of these locations were once retail or warehouse spaces converted for office tenants. Because many were less than 10,000 square feet, these spaces have nominally changed the total inventory of office space in the submarket. The trend is likely to continue as the Vista and Main Street District continue to see the redevelopment of empty or under-utilized buildings, and new office development is unlikely to enter the pipeline until rental rates climb to a level of \$28.00 PSF.

Significant Transactions

Strong occupancy and rising asking rental rates are attracting investors to the Columbia office market. RealOp Investments, a commercial real estate investment company based in Greenville, has been active in the market. The company purchased the Stephenson Center at 720 Gracern Road this quarter for \$7.75 million, or \$67.88 PSF. The Stephenson Center is a 101,100-square-foot Class B office building in the St. Andrews submarket and was 93.8% occupied at the time of sale. Last quarter, RealOP Investments purchased three office buildings in the Westpark Center office park in St. Andrews for just over \$9 million, or \$99.77 per square foot.

Market Conditions

The overall market vacancy rate in Columbia dropped to 15.4% at the end of the first quarter of 2017 from 15.7% at the end of the first quarter of 2016. The market average asking rental rate increased slightly to \$16.49 per square foot per year (PSF/YR) this quarter from \$16.32 PSF/YR a year ago. Over the last two years, the asking rental rate for the market has increased 3.4% and is expected to continue escalating.

Central Business District

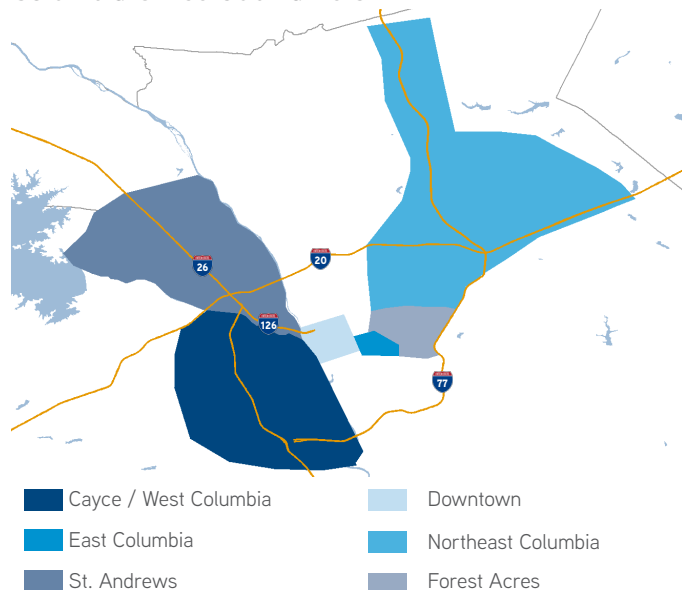
The first quarter vacancy rate in the CBD was 9.4%, down from 11.5% at the end of the fourth quarter of 2016. The overall average asking rental rate was \$21.17 PSF/YR, an 8.8% increase from \$19.46 PSF/YR a year ago. In the CBD, Class A space saw the highest climb in rental rates, increasing 10% in the last year. The delivery of two Class A office buildings in the CBD has supported the rise of asking rental rates. Before the delivery of these buildings, the asking rental rate for Class A space was between \$19.00 and \$25.00 PSF/YR.

Suburban

Increased leasing activity at the end of 2016 led to a vacancy rate of 19.7%, down from 21.8% at the end of the previous quarter. While downtown is attracting a disproportionate share of tenants, the suburban office market in Columbia remains an attractive alternative due to larger available blocks of space and free parking. The vacancy rate for Class A suburban office space decreased from 12.9% at the end of the first quarter of 2016 to 11.6% at the end of the fourth quarter. Average asking rental rates for suburban Class A office space was \$18.15 PSF/YR at the end of the fourth quarter, significantly lower than the \$23.45 PSF/YR for Class A office space in the CBD.

Owners of suburban office buildings are renovating the entryways and communal meeting spaces of their buildings to remain competitive and attract new tenants. As office space downtown becomes increasingly expensive and parking availability becomes more restricted, suburban office buildings are expected to continue to see increased activity, higher occupancy and higher asking rental rates.

Columbia Office Submarkets



Q1 2017 Office Market Summary Statistics

Columbia, SC								
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)
DOWNTOWN DISTRICT								
Class A	14	2,324,922	204,970	11,370	216,340	9.3%	60,161	\$23.17
Class B	15	1,617,059	130,467	29,939	160,406	9.9%	9,088	\$19.11
Class C	21	791,431	66,000	-	66,000	8.3%	30,234	\$18.60
CBD Total	50	4,733,412	401,437	41,309	442,746	9.4%	99,483	\$21.17
CAYCE/WEST COLUMBIA								
Class A	2	63,000	3,300	-	3,300	5.2%	-	\$20.67
Class B	4	152,770	2,364	-	2,364	1.5%	-	\$16.50
Class C	9	302,954	60,452	-	60,452	20.0%	-	\$12.08
Cayce/West Columbia Total	15	518,724	66,116	-	66,116	12.7%	-	\$12.67
EAST COLUMBIA								
Class A	-	-	-	-	-	-	-	-
Class B	-	-	-	-	-	-	-	-
Class C	5	86,183	1,883	-	1,883	2.2%	4,663	\$17.00
East Columbia Total	5	86,183	1,883	-	1,883	2.2%	4,663	\$17.00
FOREST ACRES								
Class A	1	23,700	-	-	-	-	-	-
Class B	7	305,725	76,362	-	76,362	25.0%	11,230	\$16.13
Class C	10	533,973	100,343	-	100,343	18.8%	-22,009	\$14.26
Forest Acres Total	18	863,398	176,705	-	176,705	20.5%	-10,779	\$15.07
NORTHEAST COLUMBIA								
Class A	10	512,760	75,713	24,126	99,839	19.5%	-14,969	\$16.96
Class B	8	428,174	122,586	-	122,586	28.6%	-80,441	\$15.96
Class C	9	336,652	158,813	-	158,813	47.2%	4,200	\$10.45
Northeast Columbia Total	27	1,277,586	357,112	24,126	381,238	29.8%	-91,210	\$13.72
ST. ANDREWS								
Class A	5	402,512	25,200	-	25,200	6.3%	3,252	\$18.87
Class B	12	680,056	142,336	-	142,336	20.9%	7,350	\$16.44
Class C	18	1,082,784	226,020	24,683	250,703	23.2%	15,304	\$14.80
St. Andrews Total	35	2,165,352	393,556	24,683	418,239	19.3%	25,906	\$15.62
SUBURBAN SUBMARKETS								
Class A	18	1,001,972	104,213	24,126	116,622	12.8%	-11,717	\$17.54
Class B	31	1,566,725	343,648	-	281,787	21.9%	-61,861	\$16.19
Class C	53	2,342,546	547,511	24,683	572,552	24.4%	2,158	\$13.15
Suburban Submarkets Total	102	4,911,243	995,372	48,809	970,961	21.3%	-71,420	\$14.63
MARKET								
Class A	32	3,326,894	309,183	35,496	369,817	10.4%	48,444	\$21.27
Class B	47	3,183,784	474,115	29,939	451,281	15.8%	-52,773	\$16.96
Class C	80	3,133,977	613,511	24,683	682,420	20.4%	32,392	\$13.73
Market Total	159	9,644,655	1,396,809	90,118	1,503,518	15.4%	28,063	\$16.49

Office Using Employment

Office-using employment, those jobs related to the professional and business services, financial activities and information sectors, are growing within the Columbia, South Carolina Metropolitan Statistical Area (MSA). According to the most recent February 2017 data from the Bureau of Labor Statistics, there were 83,600 people employed in office-using jobs. The financial activities sector saw the most growth over the last year, adding 900 jobs to reach a total of 31,100 this February.

The office-using employment sectors added fewer jobs between February 2016 and 2017 than the year prior but jobs are increasing from month to month. Over the last five years, office-using employment has increased by 6,500 jobs, an 8.4% increase. Over the same time, non-farm employment increased by 12% from 353,800 employees to 396,400 employees. Office-using employment accounts for 21.1% of total non-farm employment in the Columbia, South Carolina, MSA, down slightly from 21.6% in February 2016.

Market Forecast

Strong residential population growth and a boom of student housing in the downtown area have led to an increased demand for retail space. To maximize revenue and capitalize on the increased demand for retail, landlords are looking to convert first floor office and service space to retail space. Additionally, the asking rental rates for office space are expected to continue climbing in 2017. Leasing activity will accelerate as a wave of tenant leases approach their expiration date in 2017 and 2018 and expanding tenants absorb the remaining spaces in the market. The market will be robust, with tenants who will look at options to relocate but will be faced with fewer available alternatives and much higher asking rental rates. The office market in the suburbs will begin to tighten as tenants lease the remaining large blocks of available space. Landlords are finding it necessary to retrofit their buildings to compete with other like properties in the market. Recently renovated suburban office buildings will continue to see the most activity from tenants looking in the market. Overall, 2017 will be an active year for Columbia's tightening office market.

Around South Carolina

Greenville, South Carolina

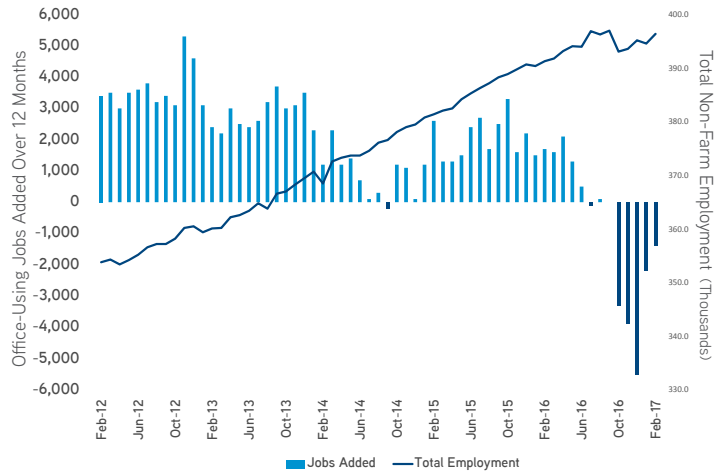
- › Experiential workplaces are a popular trend in the national office market and are growing in the Greenville market.

Charleston, South Carolina

- › Road improvements surrounding the Charleston International Airport and Boeing will spur new speculative office development.

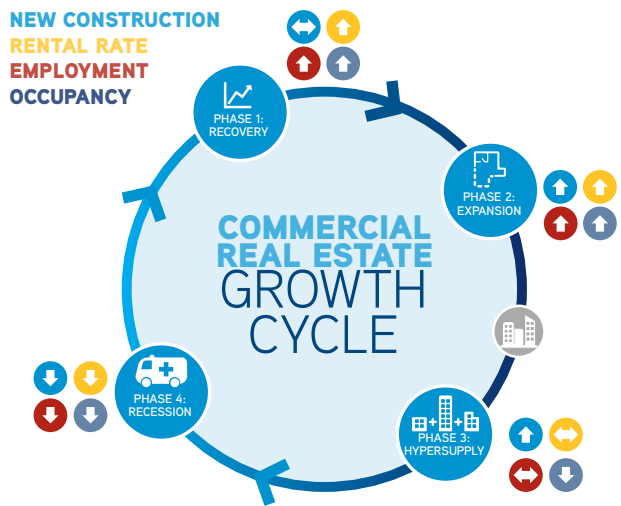
For more statewide commercial real estate news check out our market reports at: www.colliers.com/southcarolina/insights

Office-Using Employment | Columbia, MSA



Source: Bureau of Labor Statistics, Colliers International

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



4401 Leeds Avenue Rendering | Charleston



Source: Holder Properties

554 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue

2

billion square feet
under management

16,000

professionals
and staff

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