



# Colliers Keenan 2005 Mid-Year Office Market Charleston, SC



July 2005

## TOTAL OFFICE MARKET

Market	Total	Available	Sublet	Avg. Rate	Vacancy	Proposed
West Ashley	933,917	200,514	0	\$16.85	21.47%	154,000
Lower N. Charleston	1,733,322	165,525	12,088	\$15.76	10.25%	702,000
Upper N. Charleston	1,367,805	113,933	1,974	\$13.83	8.47%	200,000
East Cooper	1,725,247	134,763	9,863	\$17.64	8.38%	858,400
Downtown Charleston	1,959,578	189,491	9,600	\$21.23	10.16%	310,000
<b>Total Market</b>	<b>7,719,869</b>	<b>804,226</b>	<b>33,525</b>	<b>\$17.06</b>	<b>10.85%</b>	<b>2,224,400</b>

## CLASS "A" OFFICE MARKET

Market	Total	Available	Sublet	Avg. Rate	Vacancy	Proposed
West Ashley	331,548	28,093	0	\$22.07	8.47%	154,000
Lower N. Charleston	594,540	48,450	5,348	\$20.13	9.05%	702,000
Upper N. Charleston	316,000	28,447	0	\$15.00	9.00%	200,000
East Cooper	1,047,237	82,357	0	\$21.50	7.86%	681,900
Downtown Charleston	971,219	89,852	9,600	\$25.33	10.24%	310,000
<b>Total Market</b>	<b>3,260,544</b>	<b>277,199</b>	<b>14,948</b>	<b>\$20.81</b>	<b>8.96%</b>	<b>2,047,900</b>

## Market Overview

For the Greater Charleston Office Market, past predictions do come true. In previous reports, we anticipated that office vacancies would go lower and rents would rise. From the 4<sup>th</sup> Quarter of 2004, the overall office vacancy has decreased from 12.94% to 9.18% and the overall Class "A" office market rental rate has increased from \$20.11 per square foot annually to \$20.81. In addition, a recently published national report by Colliers International indicated that The Charleston region is one of the top ten job growth markets in the United States. With these trends and indicators, now is the time to grow the market. The current relative shortage of office space should give rise to new development in the area: however, the combination of lender pre-leasing requirements, increasing costs of land and construction and continued population growth will drive rental rates higher.

## Downtown Charleston

"Consistent" is the best way to describe the Downtown Charleston office market. It continues to absorb existing product while adding new projects to the growing office base. Limited new developments being brought on line are the 68,000 square foot 100 Calhoun Street Building and the 40,000 square foot expansion of 40 Calhoun Street. For the near future, the vacancy will remain stable at 10.16% overall but will lower over the next 15 months. The conversion of "B" and "C" office properties to residential condos is diminishing the supply of office product, and the long lead-time for approvals for downtown developments will further keep vacancies stabilized and put pressure on rents. The current top of the market for quoted office rents is pushing \$30.00 per square foot on an annual full service basis, with an average Class "A" rate of \$25.33 and an overall average rate of \$21.23.

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[Collierskeenan.com](http://Collierskeenan.com)

Colliers Keenan  
151 Meeting Street/ Ste. 350  
P.O. Box 610  
Charleston, SC 29402 USA  
Tel: (843) 723-1202  
Fax: (843) 577-3837



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## East Cooper

This submarket, comprised of Mount Pleasant and Daniel Island, has been experiencing tremendous residential and commercial growth, and has created continued pressure for office development closer to the homes of decision makers. With the population growth and current sales and leasing activity, the East Cooper submarket has tremendous opportunity, despite significant increases in office rental rates. Currently, Class "A" and overall average rental rates are \$21.50 per square foot and \$17.64 per square foot respectively. Corresponding vacancies are 7.86% and 8.38%. Opportunistic developers have close to one million square feet of new office projects proposed for this submarket. Some of the projects include The Offices at Belle Hall, a two building, 75,000 square foot project in Mt. Pleasant, and the 120,000 square foot BenefitFocus project on Daniel Island. Both are expected to have construction started in 2005.

## Lower North Charleston

The Lower North Charleston submarket houses the largest amount of corporate tenants in the area. The Lower North Charleston market also has the largest amount of new proposed Class "A" office product, with over 700,000 square feet of new product planned for development. We anticipate that continued demand created by corporate tenants representing the defense and manufacturing sectors, seeking to either relocate or expand for continued growth, will be candidates for some of this new space

New speculative office projects for 2005 include the 90,000 square foot Class "A" Belle Oaks office project and the 70,000 square foot Class "A" Faber Centre. The average overall rental rate for the Lower North Charleston submarket is \$15.76 per square foot, with an overall vacancy rate of 10.25%.

## Upper North Charleston

The Upper North Charleston market has shown great potential and is beginning to show signs of turning the corner as the Ashley Phosphate Road expansion comes to completion and vacancy rates decrease. Redevelopment activity has been significant on the main business arteries of Rivers Avenue and Dorchester Road, where in-fill development is becoming more prevalent. The only substantial new office project that is planned in this submarket is the expansion of Aviation Business Park, where 18 acres of additional land has been added to this project and close to 200,000 square feet of new Class "A" office and flex product is anticipated to be delivered over the next few years. The office market is also beginning to see the conversion of former "Big Box" retail projects which are providing new opportunities for back office users such as call centers and technical schools. The average Class "A" rental rate has increased to \$15.00 per square foot, amid a 9.00% vacancy rate. The overall Upper North Charleston average rental rate is \$13.83 per square foot, with a decreased 8.47% vacancy rate.

## West Ashley

The future for West Ashley looks bright with growth in residential and commercial space provided a fair and reasonable resolution comes to the controversial Watson Hill tract for new residential development. This submarket saw significant absorption in the Class "A" product with vacancy lowered to 8.47%. Little new product has been announced in this

submarket. Robust land opportunities are available near Ashley River Road, along I-526, and at the intersection of Bees Ferry Road and Glenn McConnell Parkway. Though still the smallest office submarket in the Charleston area, the Class "A" product has firmed up with an average rental rate of \$22.07 per square foot.

## Forecast

The forecast for the remainder of 2005 is that the office market will remain strong. With office market vacancy rates being at their lowest levels in recent times and owners looking to take advantage of maximized values, anticipate more building sales in late 2005 and early 2006. Rental rates should continue to increase and vacancy should continue to shrink. Although the forecast sounds positive, it is critical to the health and continued growth of the market that new product be delivered. Without new product, price increases will continue to occur but at a faster pace, vacancies will continue to drop, corporate expansions could be lost and new economic development would be sacrificed.

*NOTE: Permission is granted to quote from this publication only when Colliers Keenan Inc. is credited as the source. All information contained herein was compiled utilizing data from sources deemed reliable. It is submitted without warranty. Statistical data was collected as of June 30, 2005 and encompasses all office buildings 10,000 square feet and greater.*

For further information on the  
Charleston, SC Office Market  
Contact:

Peter S. Fennelly, SIOR, MCR  
at (843)720-7500 or  
pfennelly@collierskeen.com



collierskeen.com

Colliers Keenan  
151 Meeting Street/ Ste. 350  
P.O. Box 610  
Charleston, SC 29402 USA  
Tel: (843) 723-1202  
Fax: (843) 557-3837