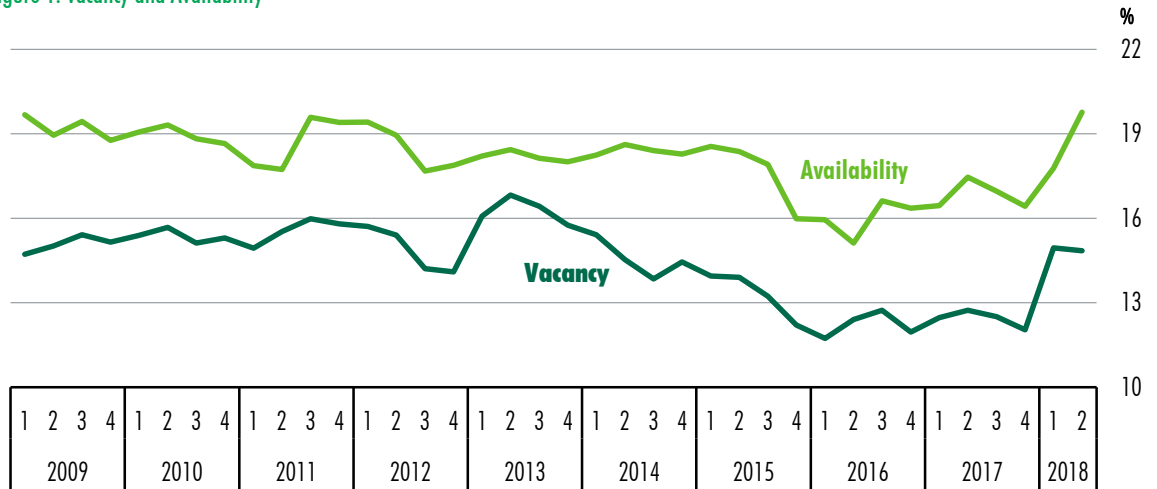


Greenville-Spartanburg Office, Q2 2018

# Absorption normalizes as availability hits highest mark since 2009

▶ Vacancy Rate 14.9%
▲ Availability Rate 19.8%
▲ Net Absorption 48,363 SF
▶ Asking Rate \$ 21.35 PSF FS
▲ Under Construction 158,000 SF

Figure 1. Vacancy and Availability



Source: CBRE Research, Q2 2018

For the five quarters prior to the second quarter of 2018, activity levels in the Greenville-Spartanburg office market were sluggish, resulting in negative absorption and a significant rise in vacancy, largely driven by a number of engineering-related contractions. All anticipated givebacks for the sector have been realized, indicating the market may be in position to see additional growth moving forward. The second quarter of 2018 seems to indicate that may be the case as absorption topped 45,000 sq. ft. for the first time since 2016.

The absorption of this much product is mildly misleading though as more than 40,000 sq. ft. of absorption was attributed to the recently

reclassified Haywood Ridge Flex Park. Due to the property's features, the property is more similar and attractive to office users than industrial users. The recently constructed facility secured tenants in the automation and information technology sectors this quarter.

While the recent uptick in availability has softened market fundamentals, the large number of Class A availabilities is unprecedented in the history of Greenville-Spartanburg office space. A limiting factor in recruiting new companies to the region has been the limited number of Class A options for prospective tenants. This is no longer a concern and should result in significant economic activity in the coming quarters.

**Figure 2. Market Statistics**

Market	Market Rentable Area (SF)	Vacancy Rate (%)	Total Availability (%)	Avg Asking Dr Rate (\$ PSF/YR)	Under Construction (SF)	Net Absorption Last 4 Qtrs (SF)	Net Absorption Current Qtr (SF)
Greenville CBD Class A	2,522,821	11.9	20.4	26.48	158,000	18,833	3,592
Greenville CBD Class B	1,143,112	15.1	17.6	20.25	0	5,136	4,140
<b>Downtown</b>	<b>3,757,138</b>	<b>12.8</b>	<b>19.2</b>	<b>24.61</b>	<b>158,000</b>	<b>23,969</b>	<b>7,732</b>
Greenville Suburban Class A	2,928,568	20.9	27.0	22.17	0	(126,207)	(10,599)
Greenville Suburban Class B	3,224,859	13.6	17.6	17.31	0	84,411	51,230
Spartanburg Class A	448,737	1.6	3.7	24.13	0	(3,565)	(3,565)
Spartanburg Class B	833,259	14.3	14.3	14.97	0	5,094	0
<b>Suburban</b>	<b>7,604,243</b>	<b>15.9</b>	<b>20.0</b>	<b>19.66</b>	<b>0</b>	<b>(54,202)</b>	<b>40,631</b>
<b>MARKET TOTAL</b>	<b>11,361,381</b>	<b>14.9</b>	<b>19.8</b>	<b>21.35</b>	<b>158,000</b>	<b>(30,233)</b>	<b>48,363</b>
<b>Class A</b>	<b>5,900,126</b>	<b>15.6</b>	<b>22.4</b>	<b>23.90</b>	<b>158,000</b>	<b>(110,939)</b>	<b>(7,007)</b>
<b>Class B</b>	<b>5,201,230</b>	<b>14.1</b>	<b>17.1</b>	<b>17.71</b>	<b>0</b>	<b>74,706</b>	<b>55,370</b>
<b>MARKET TOTAL</b>	<b>11,361,381</b>	<b>14.9</b>	<b>19.8</b>	<b>21.35</b>	<b>158,000</b>	<b>(30,233)</b>	<b>48,363</b>

Source: CBRE Research, Q2 2018

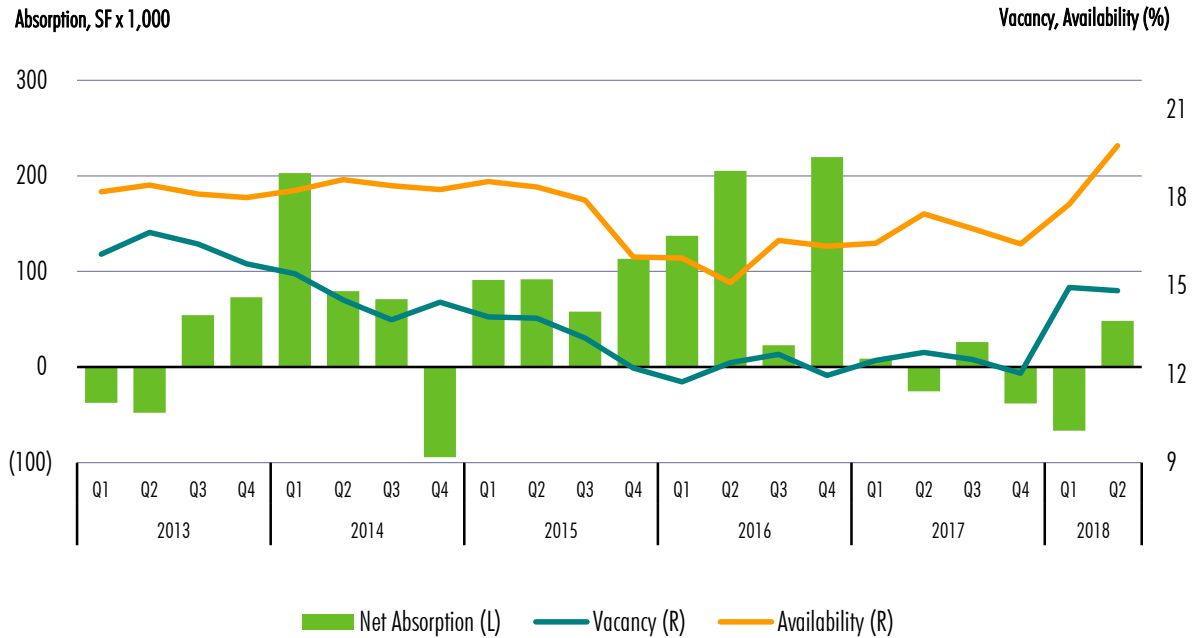
Despite the recent rise in vacancy, asking rates continue to increase. Total market asking rates have risen 36% in the last five years and 15% in the last two to its present mark of \$21.35 per sq. ft. on a full service basis. Current growth is more driven by the quality of product being vacated as opposed to landlords lifting rates at individual properties. As such, expect the asking rate growth to slow, especially as vacancy remains elevated. Tenants are already seeing increasing concessions from landlords who are aggressively trying to attract and maintain occupancy. There is no expectation that rates would fall significantly though, especially as new construction is delivered.

The only project currently under construction is the redevelopment of the old Greenville News building sit in the Greenville CBD. The project will result in more than 150,000 sq. ft. of Class A space

along with retail space, apartments, and hotel rooms. Completion is expected in the latter half of 2019. The outlook for the project is strong due to the fact that the bulk of the large Class A availabilities are concentrated in the suburban submarkets.

A new project that will compete with suburban Class A product is BridgeWay Station, a mixed-use office development in the Greenville Suburban submarket. The development will comprise of more than 40 acres accommodating a wide range of uses. The total amount of office space to be developed has not yet been determined. Given the quantity of Class A office space readily available, it would not be surprising to see the project initially gain more traction with non-office components such as hospitality, retail and multifamily. The redevelopment of County Square in the Greenville

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q2 2018

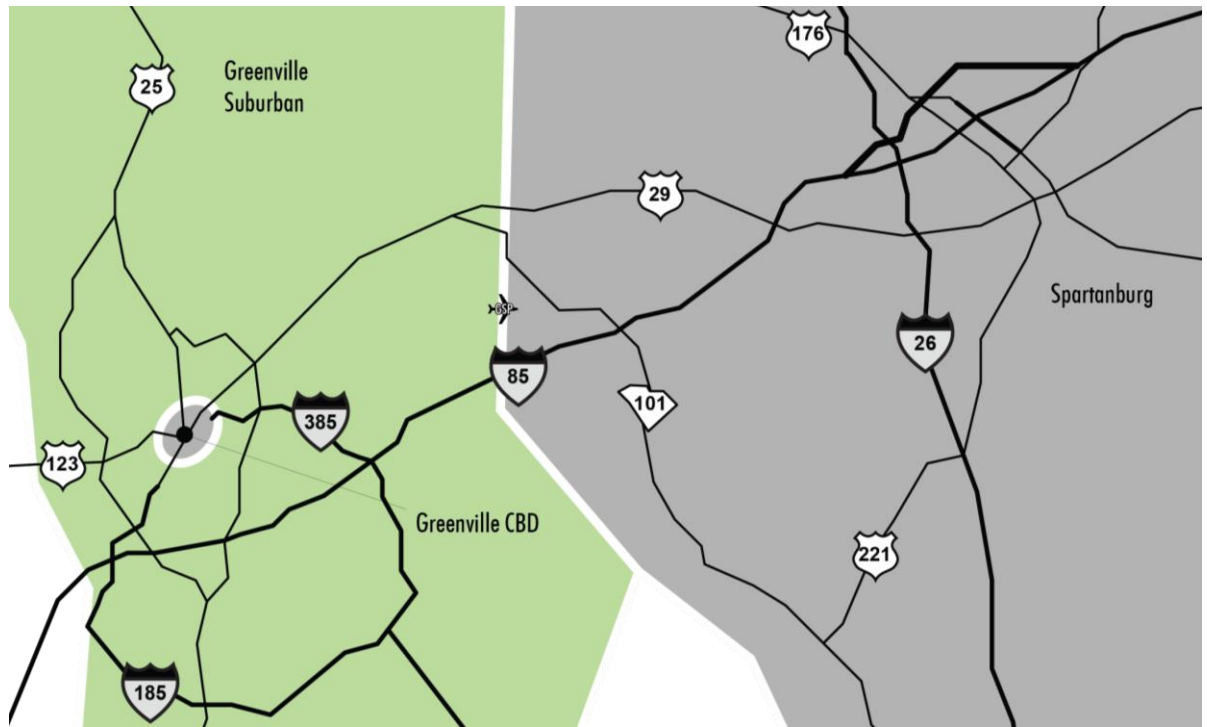
CBD is also on the horizon, although the timeline for completion is unlikely to be prior to 2021.

In previous quarters, the availability of space has been cited as an economic challenge. However, that need appears to have been sufficiently addressed. Currently, the biggest hurdle facing office market growth in Greenville-Spartanburg is the availability of labor. In CBRE's [2018 Southeast Outlook Report](#), the market had the fourth lowest unemployment rate in the study and ranked 14<sup>th</sup> out of 16 markets in terms of population between the ages of 20 and 34 and last of all markets in educational attainment. Both of these are largely driven by the small number of college students in the market and it suggests tenants may face fierce competition when hiring employees during the first decade of their professional career. Future economic growth is going to be reliant upon the continued migration of talent to the region, which now draws 11,000 people to the market annually.

The rising availability of quality space, coupled with the dwindling supply of vintage textile facilities may limit the need for the creative repurposing of the industrial facilities for office use. The most recent example is the renovation of Plush Mill into 24,000 sq. ft. of office space. The property brings together two recent trends in the market with the eventual occupancy of coworking operator Serendipity Labs later this year.

While the Greenville-Spartanburg office market is enduring a lull in market activity, a driver of that sluggish activity was the lack of office availability. Now that that has been addressed, expect to see absorption numbers rise in the coming quarters.

It is important to note that absorption levels from 2014 to 2016 were at historically high levels, averaging more than double the long-term rate of absorption. Since the recession, the Greenville-Spartanburg market has averaged a little more than 40,000 sq. ft. of absorption per quarter. It is reasonable to expect future rates of growth to be similar in the coming quarters.

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