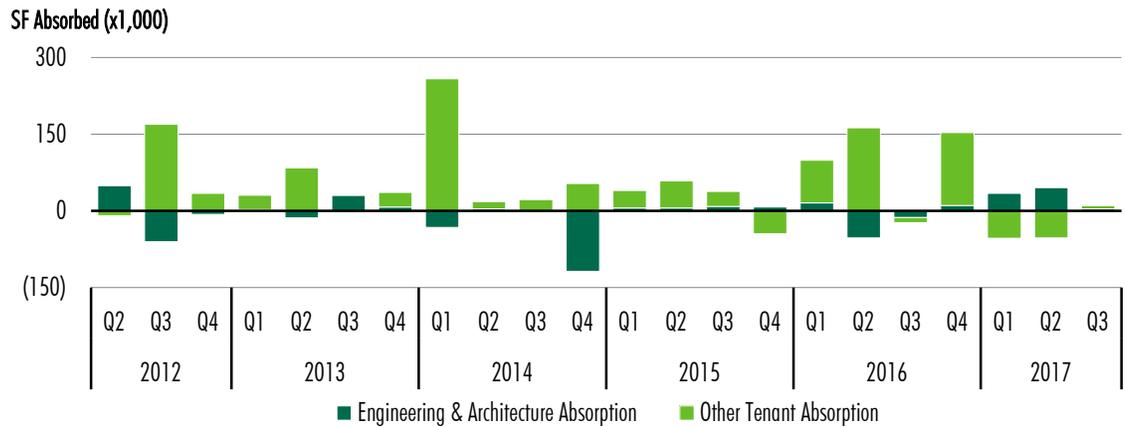


Greenville-Spartanburg Office, Q3 2017

Modest market growth as uncertainty surrounds engineering sector

▼ Vacancy Rate 12.5%
▼ Availability Rate 17.0%
▶ Net Absorption 26,072 SF
▶ Asking Rate \$ 19.75 PSF FS
▲ Under Construction 125,000 SF

Figure 1. Absorption by Tenant Type



Source: CBRE Research, Q3 2017

After record levels of expansion in 2016, the Greenville-Spartanburg office market has experienced its third consecutive quarter of pedestrian market activity, resulting in minimal movement in market wide vacancy, which currently stands at 12.5%, unchanged from Q1. This has put earlier expectations for a new record low vacancy rate on hold, but with a lack of new product expected through the end of 2018, market pressures remain, which means if the current economic expansion continues, a new record low vacancy rate appears likely during this real estate cycle.

With that being said, a significant amount of uncertainty looms related to the engineering sector. Major employers of engineers like Fluor Corp., General Electric, Jacobs Engineering and

CH2M have large presence in the market. Fluor Corp., which occupies over 700,000 sq. ft. of space on their owned corporate campus, has historically leaned on the for leasable office inventory to accommodate expansion. From 2012 to 2014, they vacated ancillary spaces in the office market, opening a void in the Greenville Suburban submarket.

While that space has been eagerly absorbed by a variety of tenants, the company is now listing part of their campus on the market for sublease. While the property is not currently included in the leasable office inventory, that could change in the coming quarters, providing availability to a market that has exhibited a healthy appetite for new space.

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	12.9	17.8	26.11	125,000	120,443	(5,513)
Greenville CBD Class B	1,143,164	15.5	17.7	20.19	-	(15,534)	902
Downtown	3,757,190	13.5	17.6	24.01	125,000	109,505	(4,611)
Greenville Suburban Class A	2,756,998	7.9	13.8	22.12	-	4,658	15,785
Greenville Suburban Class B	3,174,952	12.5	17.9	16.76	-	137,048	11,571
Spartanburg Class A	448,737	0.8	3.1	24.79	-	13,093	-
Spartanburg Class B	960,695	26.5	26.5	13.56	-	(273)	(2,673)
Suburban	7,510,202	12.0	16.7	17.22	-	119,650	30,683
MARKET TOTAL	11,267,392	12.5	17.0	19.75	125,000	229,155	26,072
Class A							
Class A	5,728,556	9.5	14.8	24.52	125,000	138,194	10,272
Class B							
Class B	5,278,811	15.7	19.4	16.62	-	80,601	9,800
MARKET TOTAL	11,267,392	12.5	17.0	19.75	125,000	229,155	26,072

Source: CBRE Research, Q3 2017

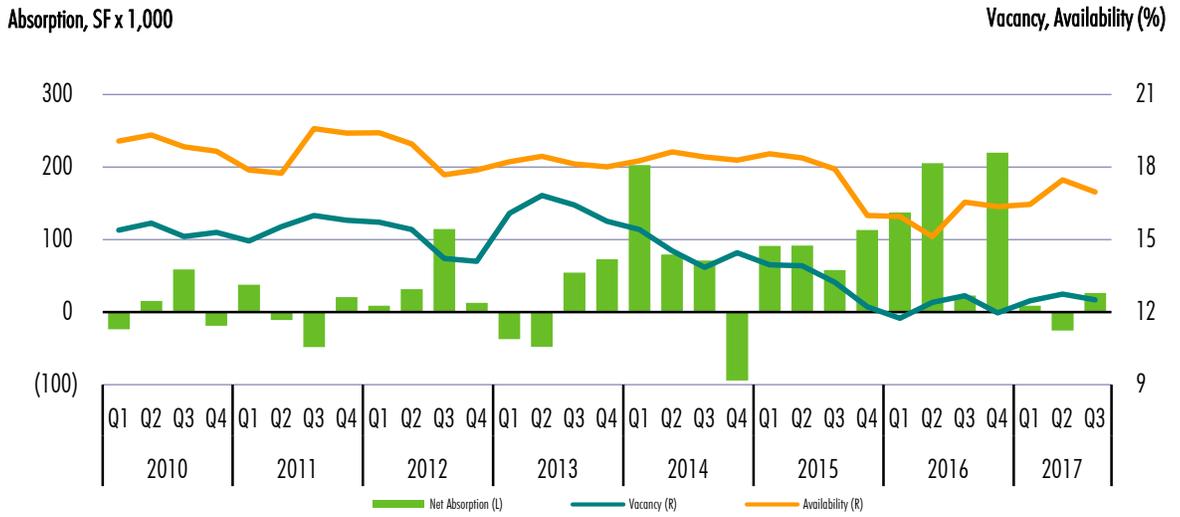
In addition to a potential reduction in space needs for Fluor, two engineering firms with a large presence are involved in merger and acquisition activity. Earlier this quarter, Jacobs Engineering agreed to purchase engineering firm CH2M. The two firms combined to lease over 200,000 sq. ft. in the Greenville-Spartanburg office market. Over the long-term, this acquisition could result in a consolidation of operations among the firms, increasing availability in the market.

These potential engineering-related vacancies are all located in the Greenville Suburban submarket, which means it is not expected to have a direct impact on the demand for space in the Greenville Downtown submarket, particularly for Class A product downtown. As if on queue, the construction of Camperdown has begun.

Camperdown is a mixed-use projected on the old Greenville News site. The project will result in more than 125,000 sq. ft. of Class A office space along with space for retail, apartments, and hospitality. With delivery not expected until the beginning of 2019 at the earliest, current market conditions -- which are prompting rising asking rates--are expected to remain. While discussions are just preliminary, it appears likely that additional office space will likely be developed during the redevelopment of the County Square, but the timeline extends beyond 2020.

The lack of active office space under development is misleading, as downtown is dotted with construction cranes as developers respond to demand in the multifamily and hospitality sectors. The U.S. Census recently listed the City

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q3 2017

of Greenville as one of the five fastest growing cities in the country from 2010 to 2016. Much of the growth can be attributed to the recent success of multifamily development.

To a certain extent, the ability to deliver new office product is being hampered by an active multifamily sector. Apartment communities typically provide more favorable returns to investors than office product, complicating the development of new Class A office space. High levels of development also have created a shortage of labor, driving up construction costs.

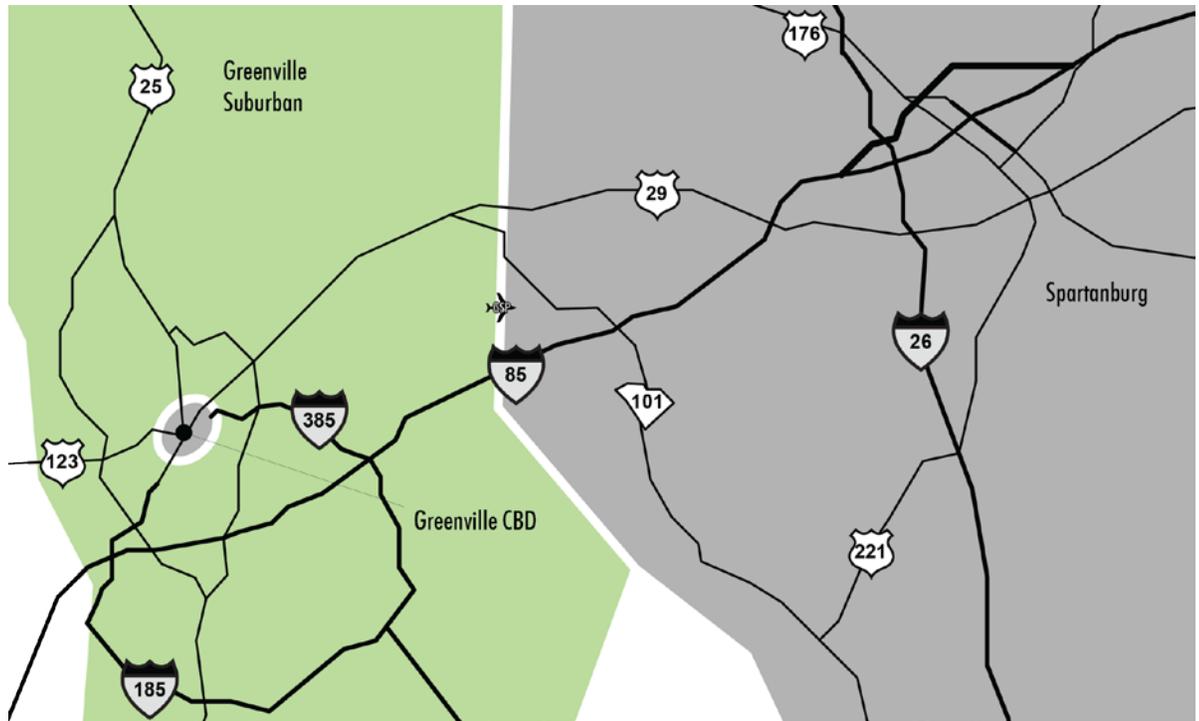
Given the crossover of multifamily and office construction contractors, construction costs are expected to remain high until the multifamily pipeline slows. With more than 3,000 units under construction, this is unlikely to happen until 2018.

In 2016, more than 2.4 million sq. ft. of the market traded hands as investors are attracted by the market's strong fundamentals and the attractive rate of return provided by being in a smaller market. A frequent question from investors new to the market involves how much longer rent rate growth can continue. While rent growth is not a given, until the relationship between construction costs and the amount of rent tenants are willing to

pay for new space changes, it is not expected to end soon.

A lack of new product, coupled with strong market growth over the last three years has helped to pushing asking rents to new heights. Class A asking rates in the Greenville-Spartanburg market set a new record high of \$24.52 per sq. ft. on a full service basis. This represents more than a 25% increase in the last four years. While the rate of increase has slowed in the last four quarters, the pressures prompting that rise, strong absorption rates and a lack of new product being delivered, it would not be surprising to see rates rise further.

While a lack of new product presents an economic challenge in the short-term, on the horizon lies a larger challenge that is facing many markets: labor availability. According to data from ESRI, Greenville-Spartanburg has the smallest population percentage between the ages of 20 and 34 years old of all markets in the state. While this is largely driven by a small number of college students in the market, it suggests tenants may face fierce competition when hiring employees during the first decade of their professional career. Fortunately, the number of people moving to the market exceed the number moving away from the market by more than 6,000 residents annually.



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