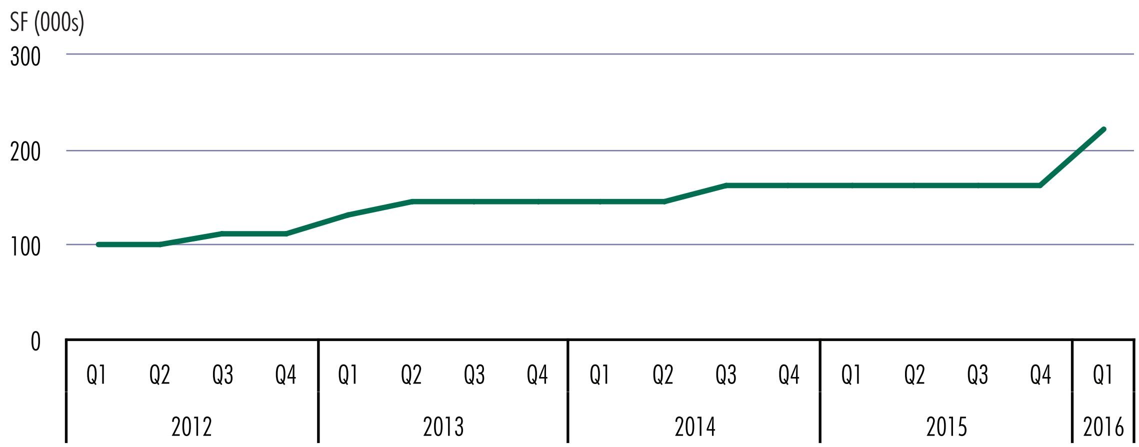
Greenville-Spartanburg Office, Q1 2016

Shared workspaces bloom in the face of rising rents and another record low vacancy

Vacancy Rate	Availability Rate	Net Absorption	CBD Class A Asking	New Construction
11.7%	16.0%	113,224 SF	$23.78 PSF FS	282,000 SF

*Arrows indicate change from previous quarter.

Figure 1: The Rise of the Shared Workspace



Source: CBRE Research, Q1 2016.

High absorption levels, consistent declines in vacancy and rapidly increasing asking rates have marked the last three years in the Greenville-Spartanburg office market and the first quarter of 2016 was no different. Vacancy is now at a record low of 11.7% thanks to continued market growth amid a lack of new deliveries. Of particular note this quarter is the growing trend of shared workspaces emerging in the market.

The most notable recent example is the lease of 20,000 sq. ft. of space by Endeavor Greenville, a co-working concept, in the Greenville CBD. As opposed to traditional office leases where tenants have defined spaces and amenities, co-work offices typically feature open environments that promote interaction among its occupants and shared amenities. While the typical shared workspace occupant consists of smaller entrepreneurial companies looking to leverage the community setting and amenities associated with

Figure 2: Market Statistics

Market	Market Rentable Area (SF)	Vacancy Rate (%)	Total Availability (%)	Avg Asking Dr Rate ($ PSF FS)	Under Construction (SF)	Net Absorption Last 4 Qtrs (SF)	Net Absorption Q1 2016 (SF)
Greenville CBD Class A	2,369,821	12.0	16.6	24.50	125,000	(15,228)	42,514
Greenville CBD Class B	1,059,502	11.8	13.1	18.34	-	(4,568)	6,940
Downtown	3,520,528	12.0	15.5	22.26	125,000	(17,598)	49,454
Greenville Suburban Class A	2,542,928	5.6	9.5	20.13	157,000	178,632	56,539
Greenville Suburban Class B	3,100,208	16.6	19.9	15.55	-	245,621	18,134
Spartanburg Suburban Class A	448,737	2.9	2.9	22.50	-	(3,661)	-
Spartanburg Suburban Class B	916,695	14.0	27.9	15.06	-	(15,482)	3,554
Suburban	7,177,388	11.6	16.2	16.55	157,000	417,578	87,761
MARKET TOTAL	10,697,916	11.7	16.0	18.42	282,000	399,980	137,215
Class							
Class A	5,361,486	8.2	12.1	22.57	282,000	159,743	99,053
Class B	5,076,405	15.1	19.9	15.97	-	225,571	28,628
MARKET TOTAL	10,697,916	11.7	16.0	18.42	282,000	399,980	137,215

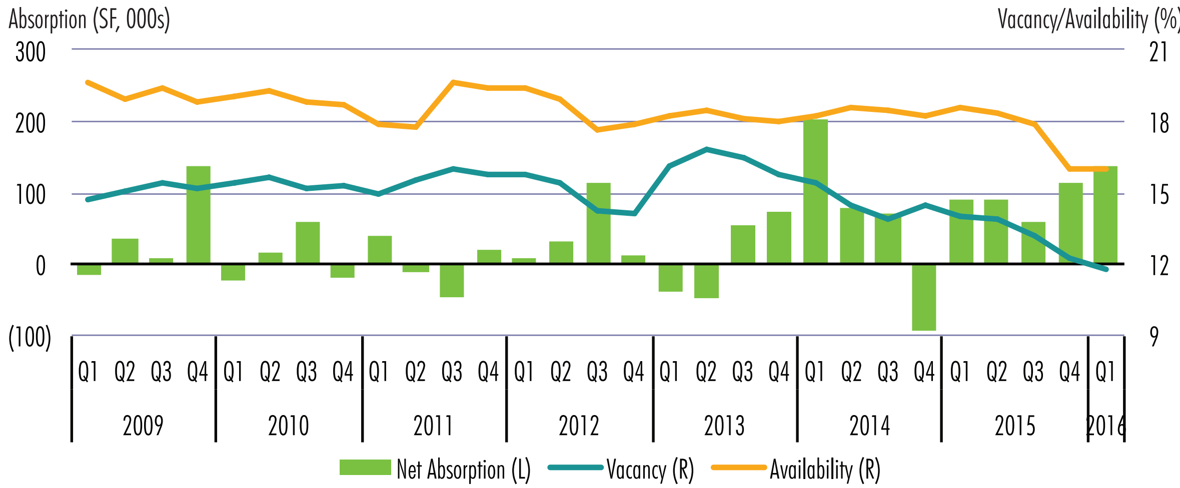
Source: CBRE Research, Q1 2016.

co-work space, the use of co-working space is becoming increasingly popular among corporate users. In Greenville-Spartanburg, over 210,000 sq. ft. of office space in the market could be classified as co-work space, ranging from open-concept entrepreneurial hangouts to private executive suites with shared amenities that can be reserved with flexible terms.

It is possible that the rise of co-working space can be partially attributed to tightening market conditions. Tenants are finding few options with vacancy at a record low and a lack of speculative deliveries in the pipeline. While there is over 280,000 sq. ft. of new space under construction, only 40,000 sq. ft. of that space remains available. For tenants unable to locate suitable office space, the use of co-working space may present an intermediate solution.

Active construction projects include a new Class A 125,000 sq. ft. office building in the CBD and 155,000 sq. ft. in the Greenville Suburban submarket. As previously mentioned, most of the space is pre-leased. The success of these

Figure 3: Total Market Vacancy, Availability and Net Absorption



Source: CBRE Research, Q1 2016.

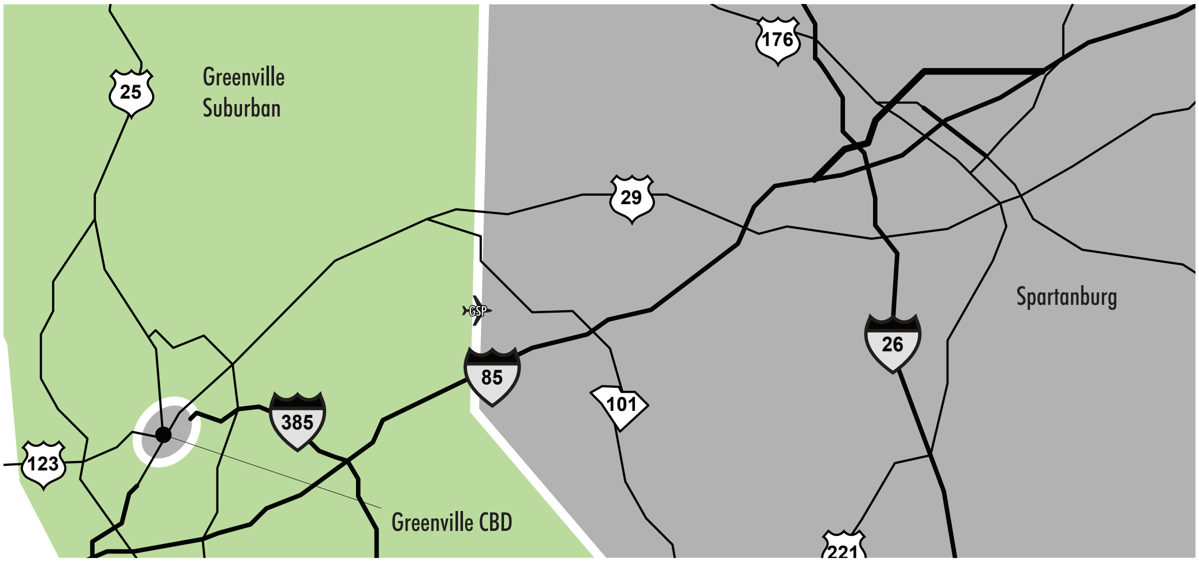
developments in the face of rising asking rates is making the development of additional speculative space more feasible. The development of multiple speculative projects is expected in the coming quarters, the most notable being Camperdown, the 150,000 sq. ft. of Class A office space to be constructed where the Greenville News is currently located.

With vacancy at a record low, tenants interested in spaces larger than 15,000 sq. ft. have few options to choose from. Developers are bringing new product to the market, but given that most of the space currently under construction is already leased, this will not help to substantially alleviate demand.

While urban environments receive much of the notoriety for their ability to attract a workforce and rapidly rising asking rents, the Greenville-Spartanburg suburban markets are performing well. While suburban asking rates are lower than in the CBD, market-wide vacancy is also lower. Class A vacancy in the Greenville Suburban submarket is at a record low 5.6%. Additionally, Class A asking rates have topped $20 per sq. ft. for the first time, rising 8% in the last two years.

While there is a definite need for additional space in the market, there are two large availabilities that will inject some supply to the market. CH2M will be moving to a new facility in the Greenville Suburban submarket, vacating a 125,000 sq. ft. property in the Spartanburg Suburban submarket. Additionally, 80,000 sq. ft. of space has been made available by TD Bank in the Greenville CBD submarket. While the spaces add to availability, the Greenville-Spartanburg office has a legacy of backfilling large vacancies relatively quickly. In the coming quarters, we anticipate the record low vacancy rate to decline further at least until these availabilities become vacant.

Construction is about to begin on a revamped interchange between I-85, I-385 and Woodruff Road. The area is known locally for its suburban traffic gridlock. While the improved interchange will help address the traffic pattern challenges, construction is expected to continue through 2017, which will present a challenge to suburban landlords interested in finding tenants.



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