

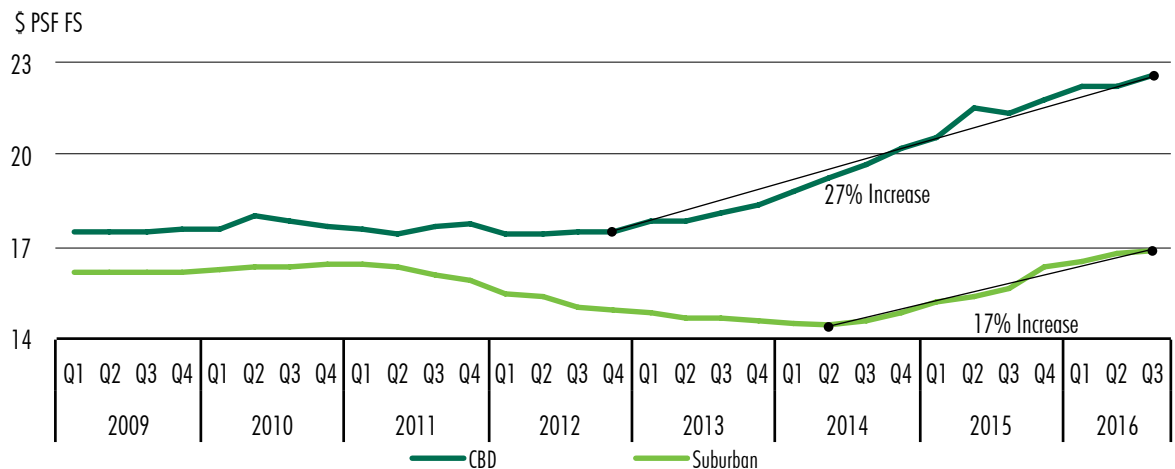
Greenville-Spartanburg Office, Q3 2016

Opportunities rise for large occupiers amid rising asking rates and lack of new product

▲ Vacancy Rate 12.7%
▲ Availability Rate 16.6%
▼ Net Absorption 13,007 SF
▲ CBD Class A Asking \$24.80 PSF FS
▶ Under Construction 153,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate Growth



Source: CBRE Research, Q3 2016.

Market absorption was positive for the seventh consecutive quarter although availability ticked 150 basis points higher to 16.6% with the addition of new space to the market and approaching vacancies in the for-profit education sector. Asking rates continued their climb higher as Class A CBD market asking rates rose for the thirteenth consecutive quarter to \$24.80 per sq. ft. full service, although the rapid ascent appears to be slowing.

With the lack of speculative construction in the pipeline coupled with the market's record high asking rates, owner-users of office space facilities are beginning to recognize the opportunity to market underutilized square footage to the market as available for lease to other users. Most recently, the engineering firm Fluor Corp. made 52,000 sq. ft. of Class A office space available to the market for lease. The company still owns and occupies over 500,000 sq. ft. of space in the market.

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 Q3 2016 (SF)
Greenville CBD Class A	2,369,821	11.4	14.2	24.80	153,000	21,426	5,735
Greenville CBD Class B	1,139,502	12.3	14.6	19.50	-	67,889	(4,988)
Downtown	3,600,528	11.7	14.3	22.57	153,000	90,715	747
Greenville Suburban Class A	2,756,998	8.1	13.1	21.86	-	131,833	(28,380)
Greenville Suburban Class B	3,138,440	14.7	20.6	15.89	-	362,207	40,640
Spartanburg Suburban Class A	448,737	3.7	5.8	22.60	-	(8,718)	(3,466)
Spartanburg Suburban Class B	960,695	26.5	26.5	13.56	-	(76,982)	-
Suburban	7,473,690	13.2	17.7	16.88	-	377,939	12,260
MARKET TOTAL	11,074,218	12.7	16.6	18.50	153,000	468,654	13,007

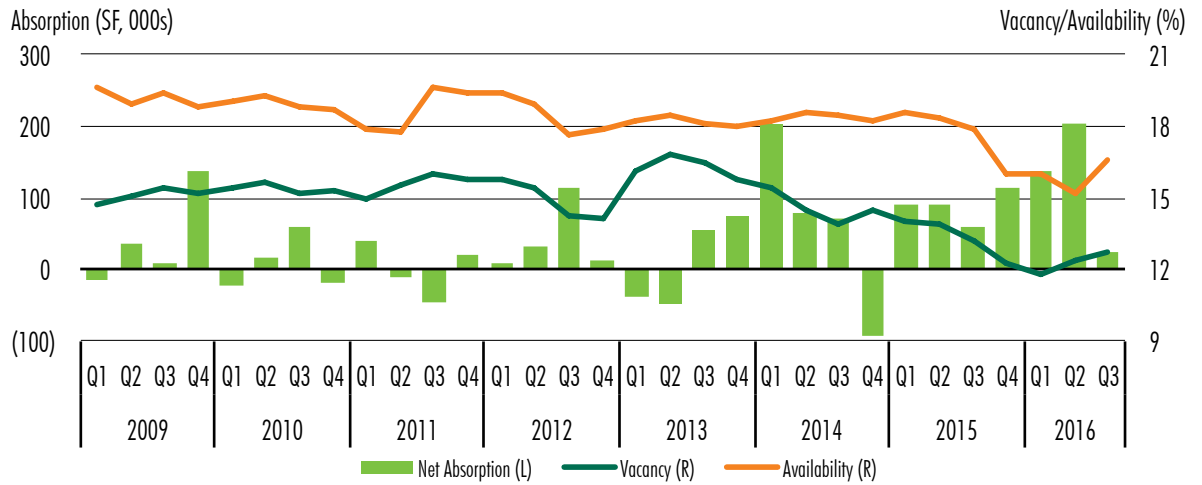
Class	Market Rentable Area (SF)	Vacancy Rate (%)	Total Availability (%)	Avg Asking Dr Rate (\$ PSF FS)	Under Construction (SF)	Net Absorption Last 4 Qtrs (SF)	Net Absorption Q3 2016 (SF)
Class A	5,575,556	9.2	13.0	23.25	153,000	149,793	(22,645)
Class B	5,238,637	16.3	20.4	15.90	-	303,793	35,652
MARKET TOTAL	11,074,218	12.7	16.6	18.50	153,000	468,654	13,007

Source: CBRE Research, Q3 2016.

This trend follows the success of companies like Level One and Guardian Building Products, who have combined to place to 100,000 sq. ft. of previously occupied space on the market only to be quickly absorbed by other users in search of quality space. It is important to note that the users who have experienced success are those with better quality space. Users with lower quality space or ones that are difficult for tenants to visualize will sit for longer periods of time.

Over the last three years, the Greenville-Spartanburg market has averaged over 85,000 sq. ft. of net absorption per quarter, which is an annual growth rate of over 3%. This rapid growth is going to be challenged by a retraction of the for-profit education sector spurred by the ending of federal financial aid for their new students. This trend will impact many office markets in the region. In Greenville-Spartanburg the industry accounts for over 220,000 sq. ft. of space, of which at least 75,000 sq. ft. is expected to be vacated by the end of 2017. It is worth noting that not all for-profit educational institutions are equal and

Figure 3: Total Market Vacancy, Availability and Net Absorption



Source: CBRE Research, Q3 2016.

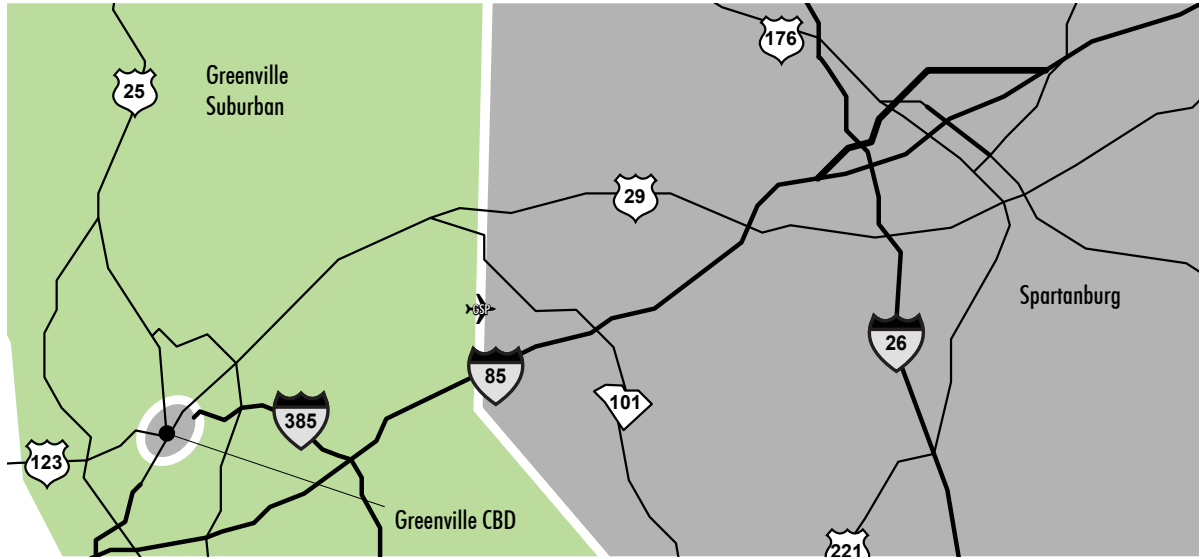
each will be impacted in various ways. While companies like ITT Tech and Brown Mackie are unlikely to remain in market long-term, Iron Yard—a for-profit coding school—is hoping to emerge unscathed.

There is no speculative development under construction; however, there are two projects approaching completion. EP360, a new 125,000 sq. ft. Class A office building is expected to be completed by the end of 2016 and is currently 89% pre-leased. Additionally, a new 28,000 sq.ft. Class A office building is under construction for The Greenville News. It serves as the catalyst for the development of Camperdown, a high-profile mixed-use project expected to bring with it an additional 110,000 sq. ft. of Class A office space as well as multifamily, retail and hospitality space in the heart of the CBD submarket.

In the last three years, the most important story of the Greenville-Spartanburg office market has been rising rental rates. In all sectors and in all submarkets, asking rates are rising. While the rise in asking rates started with the completion of the ONE building in the Greenville CBD, creating a gap between it and existing Class A product, the trend has been reinforced by rising construction costs.

Whereas the ONE building was delivered to the market with an asking rate of \$28 per sq. ft. on a full service basis, rents need to top \$32 per sq. ft. on a full service basis, rents need to top \$32 per sq. ft. to justify new construction in the CBD. A similar disconnect exists in the Greenville Suburban market as well, as developers struggle to deliver new product on the basis of \$23.50 per sq. ft. on a full service basis. At a minimum, this means it is reasonable to expect asking rents to rise further until speculative construction becomes feasible.

There is a caveat though that while asking rents will need to rise to justify new construction, it is possible for the equation to change based on lowering construction costs. Given record levels of construction in the industrial, multifamily and hospitality sectors in recent years, construction labor is at a premium. Industrial construction is 25% of what it was one year ago, meaning construction labor costs may moderate.



CONTACTS

Brian Reed, AICP

Research Manager

+1 864 527 6073

brian.reed@cbre.com

@BrianReedCRE

Steve B. Smith, SIOR

Managing Director

+1 864 527 6030

steve.b.smith@cbre.com

CBRE

101 North Main Street

Suite 1400

Greenville, SC 29601

@CBRE_SC

OFFICE SERVICES

Charles Gouch, CCIM, SIOR

Senior Vice President

+1 864 527 6073

charles.gouch@cbre.com

Blaine Hart, SIOR

Vice President

+1 864 527 6054

blaine.hart@cbre.com

@BlaineHart86

Doug Webster

Senior Associate

+1 864 527 6033

doug.webster@cbre.com

@DougWebster21

Ryan Clark

Senior Associate

+1 864 527 6036

ryan.clark@cbre.com

@RSClark

Shelby Dodson, LEED AP

Senior Associate

+1 864 527 6022

shelby.dodson@cbre.com

Joe Cummings

Associate

+1 864 527 6023

joe.cummings@cbre.com

@jcummings19

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