

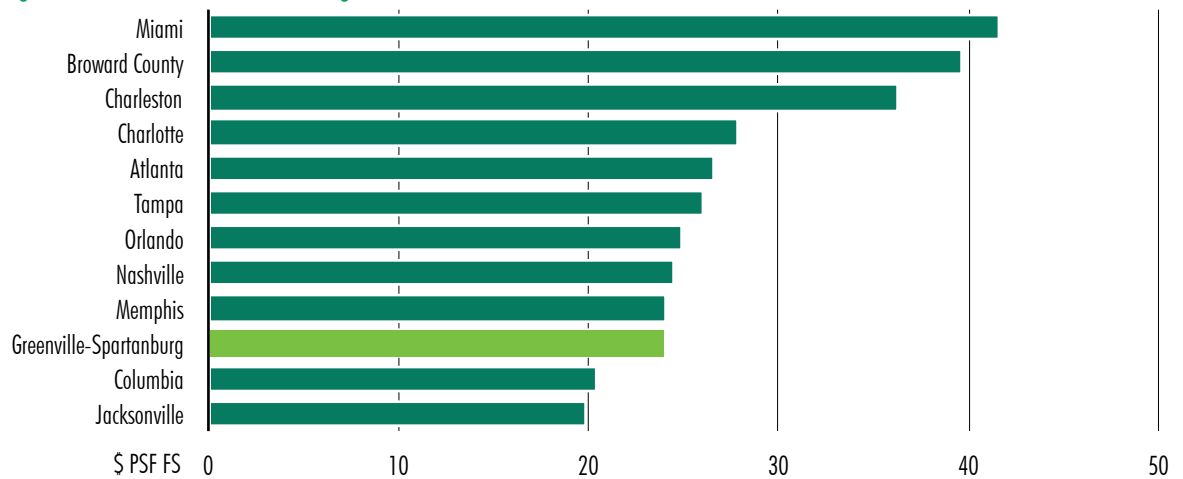
Greenville-Spartanburg Office, Q4 2016

Office asking rates continue their rise; still a value in the Southeast

▼ Vacancy Rate 11.1%
▼ Availability Rate 15.9%
▲ Net Absorption 133,645 SF
▲ CBD Class A Asking \$25.94 PSF FS
▼ Under Construction 28,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Southeast Office Downtown Asking Rates



Source: CBRE Research, Q4 2016.

The delivery of a Class A office building in the CBD helped Q4 absorption top 200,000 sq. ft. for the second time this year and prompt another jump in asking rents. Vacancy, which is now at 12.0%, is just 22 basis points from a record low. With new product unlikely to be completed until late 2018, expect a new low vacancy rate in 2017. These strong fundamentals are driving investors to the Greenville-Spartanburg office market, where more than 20% of the competitive inventory has traded hands in the last two quarters.

Despite the growing momentum of commercial real estate as an investment vehicle, small markets like Greenville-Spartanburg have largely been off the radar of firms looking for stable investment-grade product. With cap rates compressing in major markets, investors are broadening their scope in search of opportunity. The rising rates coupled with increasing activity and a lack of new product are attracting some

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 Q4 2016 (SF)
Greenville CBD Class A	2,494,821	10.6	15.7	25.94	28,000	187,827	131,088
Greenville CBD Class B	1,143,164	12.4	16.9	20.81	-	69,650	(2,039)
Downtown	3,729,190	11.1	15.9	23.97	28,000	263,473	133,645
Greenville Suburban Class A	2,756,998	7.7	14.4	21.95	-	142,595	9,335
Greenville Suburban Class B	3,213,386	13.3	17.2	16.96	-	377,788	64,902
Spartanburg Suburban Class A	448,737	3.7	5.8	22.60	-	(3,466)	-
Spartanburg Suburban Class B	960,695	26.6	26.6	13.57	-	(80,269)	(1,287)
Suburban	7,548,636	12.4	16.6	17.37	-	311,645	86,043
MARKET TOTAL	11,277,826	12.0	16.4	19.62	28,000	575,118	219,688

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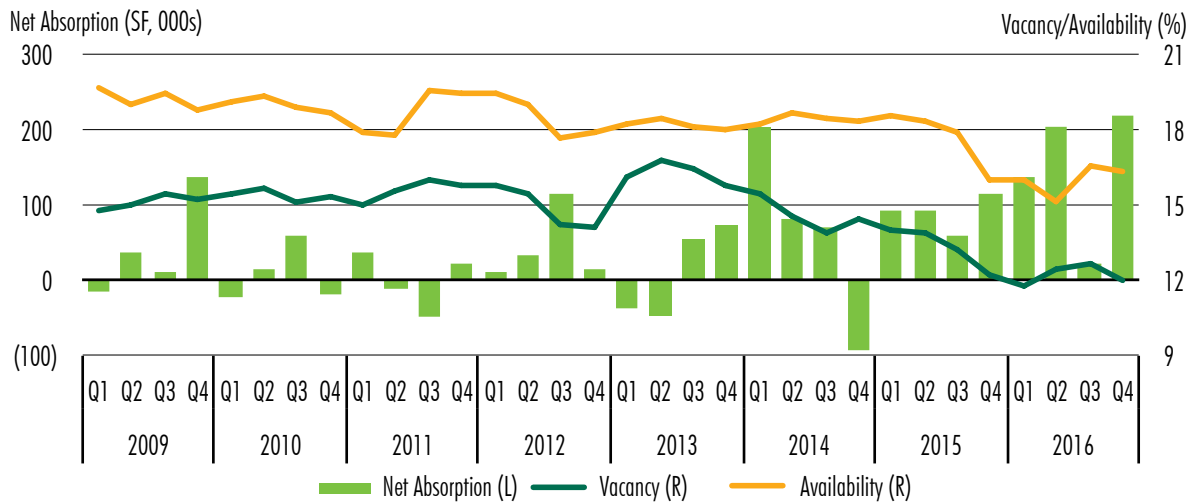
Source: CBRE Research, Q4 2016.

of these investors to the market. In the last two quarters, over 2.1 million sq. ft. of the competitive inventory has traded hands. New investment groups are based in markets as varied as New York, Atlanta and Richmond.

The successful trade of an asset from one out-of-market investor to another helps build the credibility of the Greenville-Spartanburg office market for additional investment. Based on the success of these new investors, expect to see increased capital availability for additional investment, including that which would provide for the development of new product in market.

An example of new product being constructed is EP360, a new 125,000 sq. ft. Class A building in the Greenville CBD. The property, which is listed at \$30 per sq. ft. on a full service basis, helped move the asking rents for Class A CBD product to more than \$25.75. This represents an increase of more than 35%

Figure 3: Total Market Vacancy, Availability and Net Absorption



Source: CBRE Research, Q4 2016.

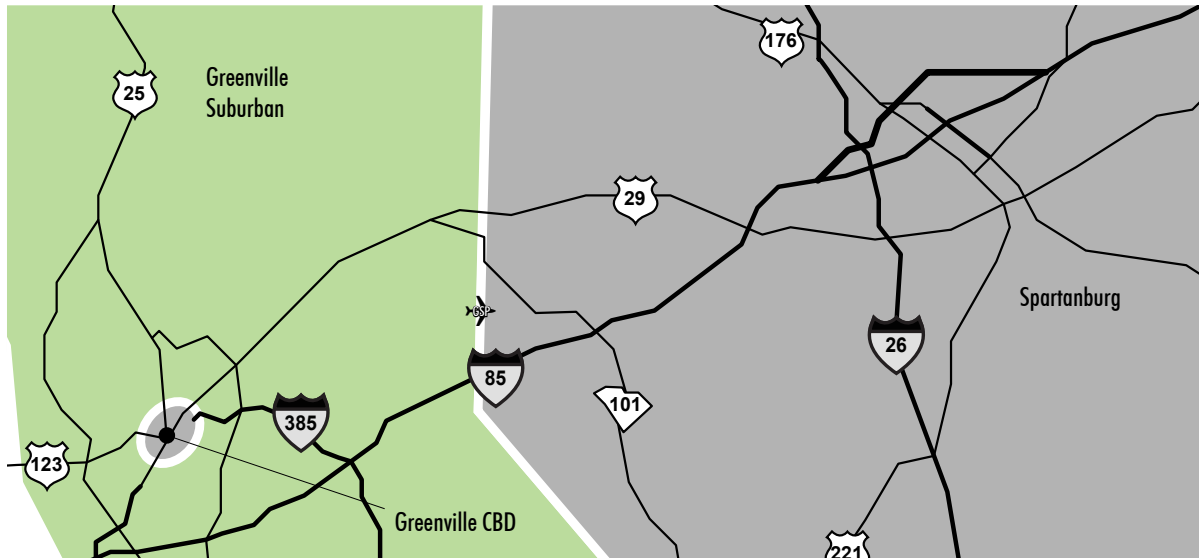
over the last five years. There is now only one building under construction, a 28,000 sq.ft. Class A office building for The Greenville News, which will serve as the catalyst for the development of Camperdown, a high-profile mixed-use project expected to bring with it an additional 110,000 sq. ft. of Class A office space as well as multifamily, retail and hospitality space in the heart of the CBD submarket.

The delivery of new space for existing tenants could not come soon enough. In the last three years, the Greenville-Spartanburg office market has averaged almost 100,000 sq. ft. of net absorption per quarter, which equates to an annual growth rate of over 3.5%. Not only is the growth strong, but it is broad as well. If the rate of absorption over the last three years is sustained in 2017, record low vacancy rates will be achieved in all submarket.

In Q4, several tenants absorbed large amounts of space, including Morley Companies, BB&T and Raytheon. Combined, the companies accounted for over 50,000 sq. ft. of absorption, all in Class A office product. Tenants are demonstrating a clear preference for the best spaces in market as they attempt to attract and retain talent and shift costs associated with hiring towards the justification of

paying more for their real estate. Not surprisingly, tightening market conditions have impacted asking rates, which have climbed consistently coming out of the recession. In six of the last seven quarters, asking rates have hit record highs. In Q4, Class B CBD asking rates topped \$20 per sq. ft. on a full service basis for the first time. Class A CBD asking rates topped that mark for the first time three years ago.

As market conditions have helped build the case for additional office space, the labor cost of construction has kept pace, complicating the ability for prospective developers to deliver new product. Locally, there are more than 3,000 multifamily units under construction. Given that many local multifamily contractors are also involved in office development, it is reasonable to expect construction costs to remain elevated until the multifamily development pipeline slows.


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