

# Limited Options for Space and Rising Rents Create a Landlord-Favored Market

Bryana Mistretta Research Coordinator | South Carolina

## Key Takeaways

- › Strong demand for quality, large blocks of office space in the Greenville market is driving occupancy and rental rates to levels higher than those of the past.
- › Downtown construction remains visible with several buildings close to completion.
- › Investors are expressing interest in the market as high occupancy, rental rates and moderate capitalization rates generate ideal investment conditions. Interest rates are low with the potential to drop lower by the end of the year.

## Competition Tightens for Space In Greenville Markets

Demand in the market is healthy due to low vacancy, limited options for large contiguous space and high rental rates. Current conditions have created a landlord-favored market with tenants continuing to pay higher rates to locate in the Greenville market, creating competition between tenants to find suitable space at affordable rental rates. Vacancy for Class A office space at the end of Q2 is 16.6%, down from 17.3% in Q1 2016. The average asking rental rate for Class A office space throughout the market is \$23.33 per square foot per year (PSF/YR), up from \$20.66 (PSF/YR) a year ago.

Tenants are attracted to the Greenville market for more than business. Greenville is once again rated on Thrillist's list of Best Small Cities for quality of life, upping the appeal for companies looking in the area. Completion of current and future construction of new quality office spaces downtown and in the suburbs will alleviate the stress on tenants, creating an even playing field between all the players in the market. Competition tightens in the market as similar tenants are competing for the same spaces. Tenants downtown are primarily in the business services sector while many tenants in the suburbs are in the manufacturing and engineering industries. These tenants are driving the demand for spaces in close proximity to their respective industrial clusters.

### Market Indicators

Relative to prior period	Q2 2016	Q3 2016*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↔	↑
RENTAL RATE**	↔	↑

Note: Construction is the change in Under Construction.

\*Projected

\*\*Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

### Summary Statistics

Q2 2016 Greenville Office Market	Market	CBD	Suburban
Vacancy Rate	16.6%	14.1%	17.9%
Change From Q1 2016 (basis points)	-70	-50	-90
Absorption (Thousand Square Feet)	129.7	16.3	113.4
New Construction Delivery (Thousand Square Feet)	70	0	70
Under Construction (Thousand Square Feet)	165	165	0

### Asking Rents

Per Square Foot Per Year

Market	\$19.34
Market Class A	\$23.33
Downtown Class A	\$26.28
Suburban Class A	\$21.08

## Downtown Market Continues To Tighten

Downtown Greenville has seen enthusiasm from potential users from the financial and business service sectors who have leased some of the few remaining large, quality spaces in the Central Business District (CBD). Although demand is high, activity was limited with only 34,717 square feet absorbed in the CBD, dropping the vacancy rate 40 Basis Points to 14.1% at the end of the second quarter. Overall, average asking rental rates slightly decreased due to a drop in Class C space. Class A and B, the most desirable spaces, increased to \$26.28 (PSF/YR) and \$22.82 (PSF/YR) respectively, a 11.0% increase in Class A average asking rental rates since Q2 2015.

Construction is visible along the Greenville skyline with a few buildings nearly complete. The completion of these buildings will add much demanded, Class A office space to the existing inventory, as well as increase the CBD's average asking rental rate. Rising construction costs are reflected in the higher than average asking rental rates for Class A space yet the spaces are filling quickly.

- Falls Park Place, a 72,000-square-foot mixed-use project, remains under construction. The building will include 40,000 square feet of Class A office space.
- The Erwin Penland building, at 110 E Court Street, is still under construction. The building will be a 125,000-square-foot, Class A office building expected to deliver January 2017. Erwin Penland will occupy two floors in the new building. Several other tenants, including Parker Poe, Cherry Bekaert, Hughes Commercial Properties and Centennial American Properties, have already committed to leasing space in the building. 38,000 square feet of office space are still available.

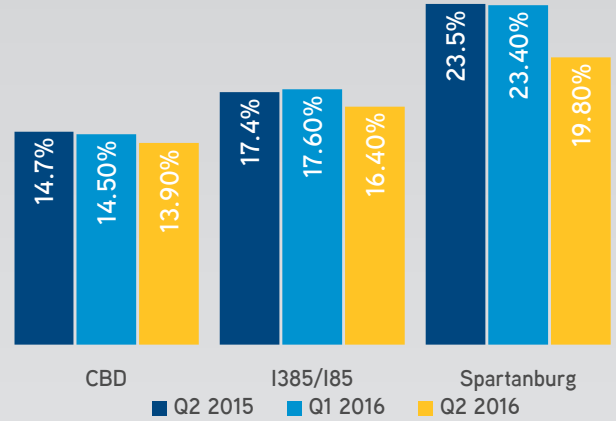
## Demand for Space Outrunning Supply

Greenville's suburbs are split into two submarkets, Spartanburg and I-385/I-85. Greenville's suburban submarkets are seeing activity as overall vacancy shifts from 18.7% and average asking rental rates increased from \$17.43 (PSF/YR) at the end of the first quarter of 2016 to 16.4% and \$17.64 (PSF/YR), respectively for the second quarter.

The Spartanburg submarket has an overall vacancy rate of 17.1% for all office space and only 3.2% for Class A space. Average asking rental rates shifted slightly from \$16.51 (PSF/YR) at the end of the first quarter of 2016 to \$16.27 (PSF/YR) at the end of this quarter. Construction activity in the Spartanburg market is limited to the Drayton Mills Marketplace. A renovation of the Drayton Mill warehouses that will allow for a mix of commercial uses, including office. Tenants have already begun pre-leasing space including, Melotte Enterprises and Agracel.

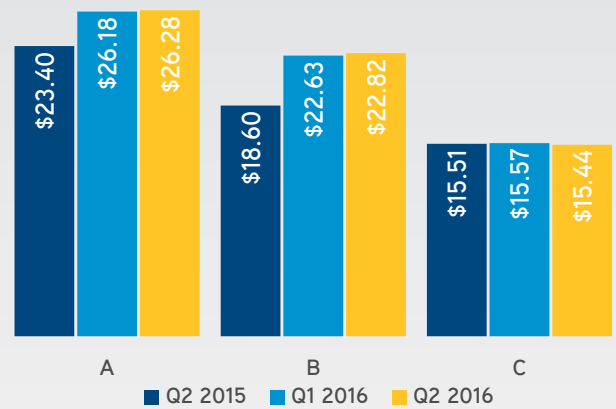
The I-385/I-85 submarket is experiencing demand equal to the Greenville CBD, offering tenants ample free parking, close proximity to employees, retail services, and amenities. At the end of the second quarter of 2016 vacancy in the I-385/I-85 submarket

Total Vacancy Rate by Submarket



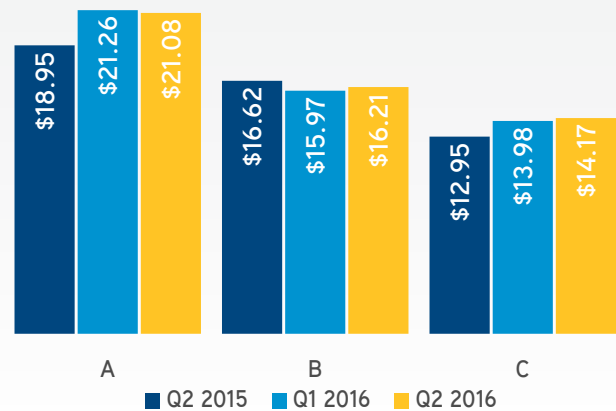
Source: Colliers International

CBD Average Asking Rental Rates (PSF/YR)



Source: Colliers International

I-385/85 Submarket Average Asking Rental Rates (PSF/YR)



Source: Colliers International

## Q2 2016 Office Market Summary Statistics

Greenville, SC								
MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	Q2 2016 ABSORPTION (SF)	AVERAGE ASKING RENTAL RATE (SF/YR)
<b>CENTRAL BUSINESS DISTRICT</b>								
Class A	23	2,310,167	354,246	0	354,246	15.3%	12,831	\$26.28
Class B	12	1,023,078	98,770	8,519	107,289	10.5%	1,985	\$22.82
Class C	6	187,306	34,740	0	34,740	18.5%	1,510	\$15.44
<b>CBD Total</b>	<b>41</b>	<b>3,520,551</b>	<b>487,756</b>	<b>8,519</b>	<b>496,275</b>	<b>14.1%</b>	<b>16,326</b>	<b>\$24.64</b>
<b>I-385/85</b>								
Class A	32	2,606,280	303,857	0	303,857	11.7%	62,312	\$21.08
Class B	34	2,057,553	408,950	45,000	453,950	22.1%	27,366	\$16.21
Class C	10	307,458	55,637	0	55,637	18.1%	23,957	\$14.17
<b>I-385/85 Total</b>	<b>76</b>	<b>4,971,291</b>	<b>768,444</b>	<b>45,000</b>	<b>813,444</b>	<b>16.4%</b>	<b>113,635</b>	<b>\$17.91</b>
<b>SPARTANBURG</b>								
Class A	8	500,681	11,222	4,732	15,954	3.2%	11,544	\$21.05
Class B	12	692,327	210,847	0	210,847	30.5%	-10,052	\$14.91
Class C	7	227,692	105,387	0	105,387	46.3%	-1,750	\$12.48
<b>Spartanburg Total</b>	<b>27</b>	<b>1,420,700</b>	<b>327,456</b>	<b>4,732</b>	<b>332,188</b>	<b>23.4%</b>	<b>-258</b>	<b>\$14.87</b>
<b>SUBURBAN TOTAL</b>								
Class A	40	3,106,961	315,079	4,732	319,811	10.3%	73,856	\$21.08
Class B	46	2,749,880	619,797	45,000	664,797	24.2%	17,314	\$16.00
Class C	17	535,150	161,024	0	161,024	30.1%	22,207	\$13.55
<b>Suburban Total</b>	<b>103</b>	<b>6,391,991</b>	<b>1,095,900</b>	<b>49,732</b>	<b>1,145,632</b>	<b>17.9%</b>	<b>113,377</b>	<b>\$17.45</b>
<b>MARKET</b>								
Class A	63	5,417,128	669,325	4,732	674,057	12.4%	86,687	\$23.33
Class B	58	3,772,958	718,567	53,519	772,086	20.5%	19,299	\$16.68
Class C	23	722,456	195,764	0	195,764	27.1%	23,717	\$13.98
<b>Market Total</b>	<b>144</b>	<b>9,912,542</b>	<b>1,583,656</b>	<b>58,251</b>	<b>1,641,907</b>	<b>16.6%</b>	<b>129,703</b>	<b>\$19.34</b>

The tracked Greenville, SC office inventory is exclusive to buildings 10,000 square feet or over. The inventory was expanded during the first quarter of 2016 to include office buildings in Spartanburg, SC.

dropped from 17.5% at the end of Q1 2016 to 16.4%. Although demand is strong, quality space remains limited with a vacancy rate of 11.7% for Class A. Class C space experienced the largest drop in vacancy from 25.9% in the first quarter of 2016 to 18.1% at the end of this quarter. Limited options are requiring tenants to renew leases in the space they currently occupy, restricting expansions within the submarket. Notable large leases this quarter include Regional Management Corporation, Patriot National, and Movement Mortgage all contributing to the positive net absorption of 109,391 square feet within the submarket.

The I-385/I-85 average asking rental rates continue to inch closer to CBD average asking rental rates for Class A space, a testament to the attractiveness of the suburban submarket. Average asking rental rates reflect the demand as they reached \$17.91 (PSF/YR) overall, up from \$16.02 (PSF/YR) in Q2 of 2014. Class C space is seeing the most growth in average asking rental rates at \$14.17 (PSF/YR), up from \$13.01 (PSF/YR) during Q2 of 2014. Tenants are willing to pay the high rates to secure their place in the

Greenville market, as evident in the lower vacancy rates for Class A, B, and C space. Average asking rental rates are 11.3% higher than two years ago and are expected to continue this trend as demand increases and space continues to be absorbed. Landlords have taken notice of the demand and renovated older office buildings to encourage lease renewals and attract new tenants at higher rental rates.

New development is limited to the build-to-suit project for CH2M Hill at 200 Verdae Boulevard, which delivered last quarter. They moved into their new space this quarter fully occupying the building. The newest true office park constructed in the I-385/I-85 submarket is Independence Corporate Park. The majority of the park was built in the early 2000s with the most recent building constructed in 2007. A lack of new inventory in suburban Greenville exemplifies the need for new speculative office buildings providing large, contiguous space catering to the needs of companies looking to locate in the area, and sustaining the growth of the submarket.

## Office-Using Employment

Office-using employment in the Greenville-Anderson-Mauldin, SC metropolitan statistical area (MSA) continues to steadily increase, contributing to a larger portion of the area's total non-agricultural employment. According to the Bureau of Labor Statistics, the office-using employment sector accounted for approximately 23.0% of total non-agricultural employment in March 2016, increasing from 20.6% ten years ago. Since March 2006, 18,100 office-using jobs have been added to the MSA, a 19.2% increase.

## 2016 Outlook

Robust interest in the Greenville market has led to low vacancy and high asking rental rates. This trend is expected to continue as Greenville continues to gain attention nationally for its healthy market and strong engineering and manufacturing industries. New speculative office buildings are emerging along the Greenville skyline but more are needed throughout the suburbs where it is currently more commonplace to see build-to-suit developments. Current construction downtown is expected to add 165,000 square feet of new Class A, speculative office space by year-end. New speculative office in the suburbs would grow the I-385/I-85 and Spartanburg submarkets, making them even more attractive to potential investors, tenants, or developers. Tight market conditions, favorable capitalization rates, and current low interest rates provide an ideal investment sales environment. Interest rates remain low and have the potential to decrease by the end of the year. Investment sales activity is expected to gain momentum in the coming quarters while interest rates remain low.

## Around South Carolina

Demand for office space in South Carolina is gaining momentum leading to higher average asking rental rates. Tenants are challenged to find large blocks of quality space in all markets with construction not meeting the current demand for space.

### Charleston, South Carolina

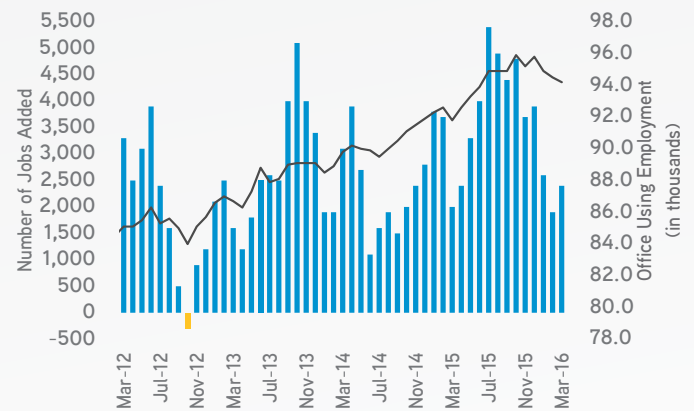
Faber Plaza, a 5-story, 125,000-square-foot, Class A office building in North Charleston delivered midway through the quarter. Tenants include Sonepar North America, HDR Engineering, and T.Y. Lin International.

### Columbia, South Carolina

The FirstBase Building, a 72,000-square-foot, Class A office building delivered this quarter. Tenants including Ogletree Deakins Law Firm, will enjoy a view of the newly delivered stadium and proximity to other amenities as the mixed-use development continues to progress.

For more statewide commercial real estate news check out our market reports at: [www.colliers.com/southcarolina/insights](http://www.colliers.com/southcarolina/insights)

## Annual Change and Office Using Employment by Month | Greenville-Anderson-Mauldin, SC MSA



Source: Bureau of Labor Statistics, St. Louis Federal Reserve, Colliers International

## Commercial Real Estate Growth Cycle: Where the market stands and where it is going.



**GREENVILLE'S OFFICE MARKET** is currently in the early stages of the expansion phase. Rental rates, occupancy and employment are all strong and continue to increase. New construction is beginning to gain momentum but remains limited to a few projects.

---

# 502 offices in 66 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

---

## \$2.5

billion in  
annual revenue

## 2

billion square feet  
under management

## 16,000

professionals  
and staff

## About Colliers International

*Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 16,300 professionals operating from 502 offices in 67 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.*

[colliers.com](http://colliers.com)

Copyright © 2015 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

## FOR MORE INFORMATION:

David Feild, CCIM  
Market President | Greenville  
+1 864 527 5428  
[David.Feild@colliers.com](mailto:David.Feild@colliers.com)

Liz H. McCary  
Director of Marketing | South Carolina  
+1 803 401 4269  
[Liz.McCary@colliers.com](mailto:Liz.McCary@colliers.com)

Bryana Mistretta  
Research Coordinator | South Carolina  
+1 803 401 4252  
[Bryana.Mistretta@colliers.com](mailto:Bryana.Mistretta@colliers.com)

## GREENVILLE OFFICE PROFESSIONALS:

Brantley Anderson | Brokerage Associate  
+1 864 527 5440  
[Brantley.Anderson@colliers.com](mailto:Brantley.Anderson@colliers.com)

Taylor Allen | Brokerage Associate  
+1 864 527 5423  
[Taylor.Allen@colliers.com](mailto:Taylor.Allen@colliers.com)

Colliers International | Greenville  
55 E. Camperdown Way, Suite 200  
Greenville, South Carolina | USA

+1 864 297 4950



Accelerating success.