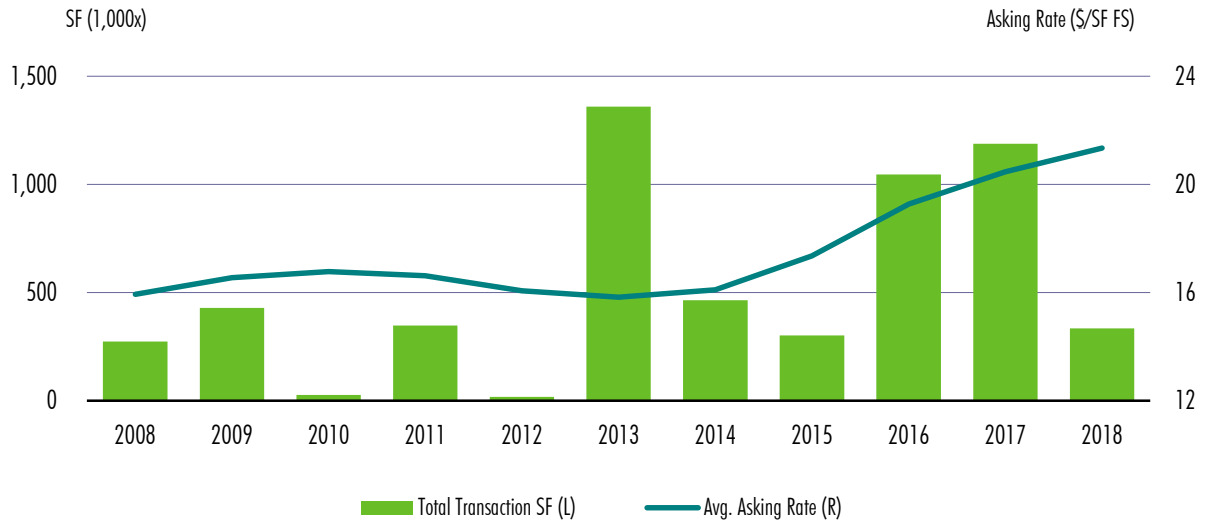


Greenville-Spartanburg Office, Q3 2018

Increased investor interest prompting continued rent growth

▼ Vacancy Rate 14.7%
▶ Availability Rate 19.2%
▼ Net Absorption 21,633 SF
▶ Asking Rate \$ 21.35 PSF FS
▶ Under Construction 158,000 SF

Figure 1. Investment Volume vs. Average Asking Rate



Source: CBRE Research, Q3 2018

The Greenville-Spartanburg market has undergone a series of significant changes over the last decade with asking rents regularly increasing as an influx of institutional investors have entered into the local marketplace foregoing interim rates of return in favor of long-term gains. In fact, over the last six years roughly 40% of the entire office market has changed hands. When combined with ongoing new construction and considering the small market base, expect asking rent rates to continue their upward trend in the coming years.

Absorption in Q3 reached a modest 21,000 sq. ft. vacancy having decreased from 14.9% to 14.7% as

tenants in the market continue to seek out available office space. Current asking rates are holding steady at an average of \$21.35 per sq. ft., which represents a roughly 8% increase in the last four quarters.

Total market asking rates have risen 36% in the last five years and 15% in the last two on a full service basis. Current growth is more driven by the quality of product being vacated as opposed to landlords lifting rates at individual properties. Never before has there been such a high concentration of class A vacancies in Greenville-Spartanburg.

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	2,491,999	13.6	20.0	26.71	158,000	(15,462)	(39,808)
Greenville CBD Class B	1,143,112	15.6	16.5	20.42	-	569	(3,665)
Downtown	3,726,316	14.1	18.6	24.88	158,000	(14,893)	(43,473)
Greenville Suburban Class A	2,889,430	19.4	25.3	22.25	-	(118,947)	23,045
Greenville Suburban Class B	3,257,887	13.0	17.9	17.23	-	99,414	42,061
Spartanburg Class A	448,737	1.6	3.7	24.23	-	(3,565)	-
Spartanburg Class B	833,259	14.3	0.1	14.97	-	7,767	-
Suburban	7,598,133	15.0	19.5	19.55	-	(19,779)	65,106
MARKET TOTAL	11,324,449	14.7	19.2	21.35	158,000	(34,672)	21,633
Class A	5,830,166	15.6	21.4	24.08	158,000	(137,974)	(16,763)
Class B	5,234,258	13.8	17.0	17.64	-	103,302	38,396
MARKET TOTAL	11,324,449	14.7	19.2	21.35	158,000	(34,672)	21,633

Source: CBRE Research, Q3 2018

Tenants are already seeing increasing concessions from landlords who are aggressively trying to attract and maintain occupancy. Due to so many new owners expecting to meet asset performance goals, coupled with projected increases in construction costs there is no expectation that asking rates will fall significantly in the near future.

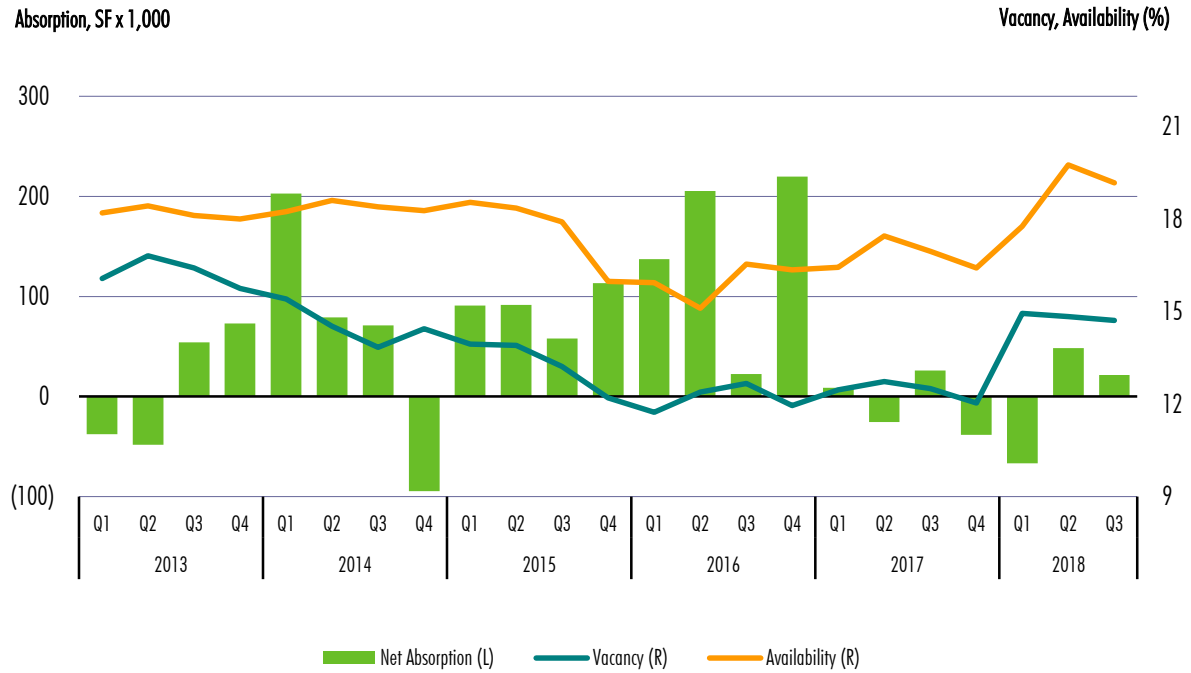
Another shift has been the increasing cost of bringing new construction into the marketplace. There have been growing concerns regarding the lasting impact of recent trade tariffs on all imported steel and aluminum to the U.S. The change has already begun to affect deal negotiations as planned projects often include a “steel tariff contingency,” meaning that

contractors are protected in the case of rising costs, which adds an element of uncertainty to new development.

The only project currently under construction includes the redevelopment of the old Greenville News building site located in the CBD. Once complete the project will result in more than 150,000 sq. ft. of Class A office space along with retail, apartment housing and hotel accommodations and will be completed toward the end of 2019. The market outlook for the project is strong given the bulk of the existing large Class A availabilities are concentrated in the suburban submarkets.

An alternative to new construction has emerged

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q3 2018

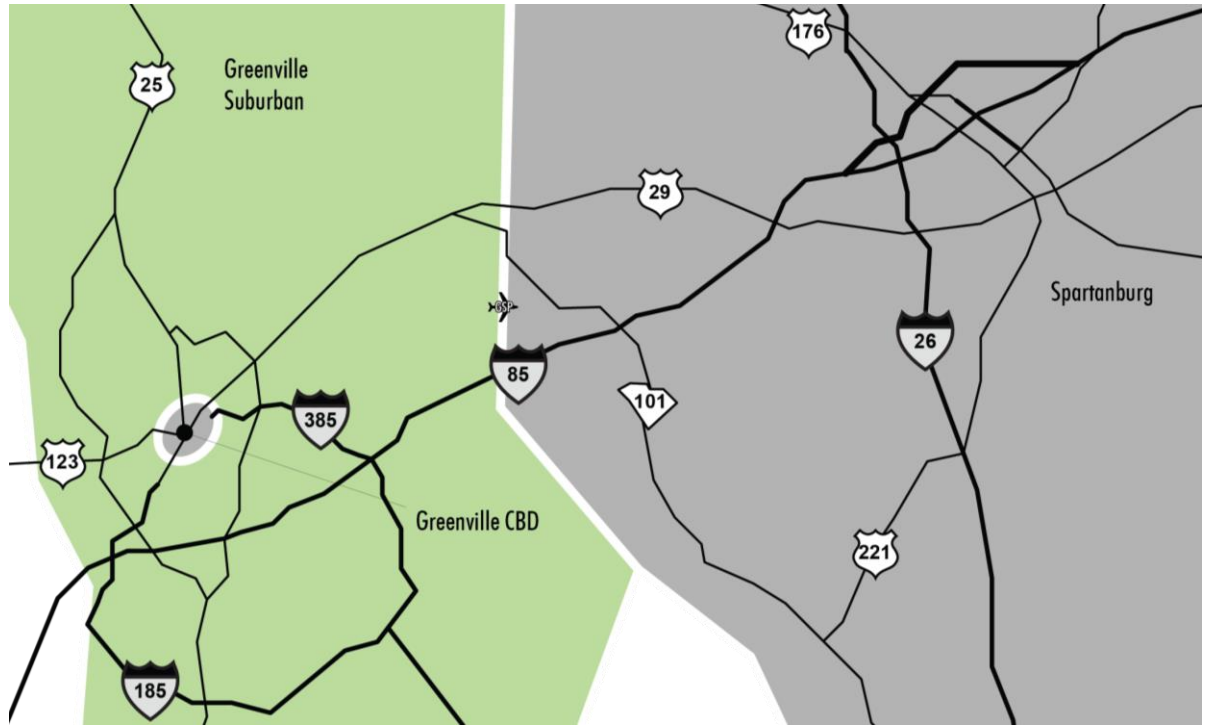
over the last few quarters as developers seek to convert former retail and industrial space into viable office product. The most recent example is the arrival of Alorica, a Samsung affiliate who opened a new call center on Holland Road, the former site of a Bloom/Food Lion grocery store. The new 35,000 sq. ft. facility was renovated to better serve the needs of an office call center.

Another example being the redevelopment of Plush Mill, a former textile manufacturing facility located along the edge of Greenville’s downtown. The property opened on behalf of Serendipity Labs as a new 24,000 sq. ft. coworking site. Coworking continues to be an increasingly attractive option for tenants, allowing for a tremendous amount of flexibility in a collaborative work environment.

One new project that will compete with suburban Class A product is Bridgeway Station, a mixed-use office development in the Greenville Suburban submarket. The development will comprise of more than 40 acres accommodating a wide range of uses. The total amount of office space to be developed has not yet been determined given the

quantity of Class A office space readily available. However, it would not be surprising to see the project initially gain more traction with non-office components such as hospitality, retail and multifamily. Additionally, the redevelopment of County Square in the Greenville CBD is also on the horizon, although the timeline for completion is unlikely to be prior to 2021.

Although the Greenville-Spartanburg office market has experienced relatively flat absorption rates in 2017 and 2018, this has been attributed to the lack of office availability. With newly vacated large Class A spaces in the suburbs and the construction of new speculative space downtown expect to see absorption numbers increase in the coming quarters.



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