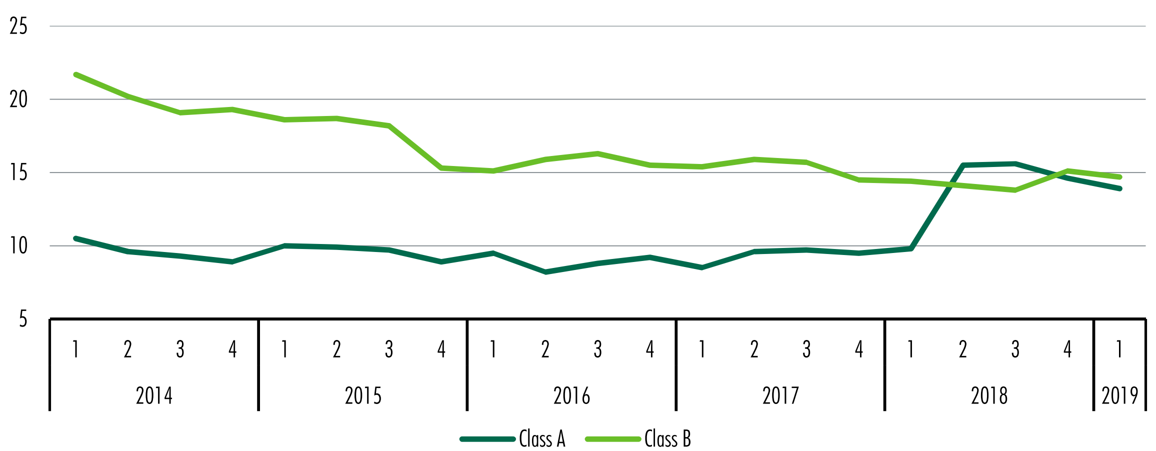
CBRE MARKETVIEW

Greenville-Spartanburg Office, Q1 2019

Stabilizing engineering sector improves Class A trends

Vacancy Rate 14.2%	Availability Rate 17.6%	Net Absorption 65,947 SF	Asking Rate $ 21.02 PSF FS	Under Construction 231,045 SF

Figure I. Vacancy By Class



Source: CBRE Research, Q1 2019

The close of the first quarter marks a reversal of trends that have been impacting the Greenville-Spartanburg market for the last two years resulting in flat absorption. This lackluster rate of growth was the byproduct of merger and acquisition activity in the engineering sector, which has now stabilized. As a result, absorption exceeded 65,000 sq. ft. for the first time in nine quarters, helping to push vacancy down by more than 50 basis points to 14.2%. This is especially beneficial to the Class A sector, which has experienced more than 100,000 sq. ft. of absorption in the last two quarters, indicating that demand for quality space still exists.

While Class A vacancy is elevated at 13.9%, more than 175,000 sq. ft. of large spaces vacated by engineering tenants remain on the market. While it is not possible to exclude specific properties from the inventory, more than 25% of the vacant Class A space is associated with contiguous availabilities of more than 40,000 sq. ft., indicating the market conditions experienced by larger tenants are significantly different from those experienced by smaller tenants.

While the market has experienced an overall market asking rate increase of more than 30% in the last six years, expectations for further increases should be held in check given the quantity of space available on the market. Demand for quality space is still prevalent.

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	11.3	18.1	26.64	158,000	52,880	44,511
Greenville CBD Class B	1,183,357	18.9	21.8	21.24	-	560	(3,584)
Downtown	3,766,461	13.6	19.0	24.57	158,000	53,440	40,927
Greenville Suburban Class A	2,889,430	19.4	22.1	22.22	73,045.00	(135,912)	19,592
Greenville Suburban Class B	3,272,882	13.9	17.5	17.22	-	81,827	(24,710)
Spartanburg Class A	448,737	1.6	3.7	24.23	-	(3,565)	-
Spartanburg Class B	833,259	14.3	0.1	14.97	-	(360)	-
Suburban	7,613,133	15.4	18.1	19.34	73,045.00	(14,206)	(5,118)
MARKET TOTAL	**11,379,594**	**14.8**	**18.4**	**21.25**	231,045	**1,137**	**35,809**
Class A	5,830,166	14.6	19.0	24.08	231,045	(83,032)	64,103
Class B	5,289,403	15.1	18.0	18.12	-	122,266	(28,294)
MARKET TOTAL	**11,379,594**	**14.8**	**18.4**	**21.25**	231,045	**1,137**	**35,809**

Source: CBRE Research, Q1 2019

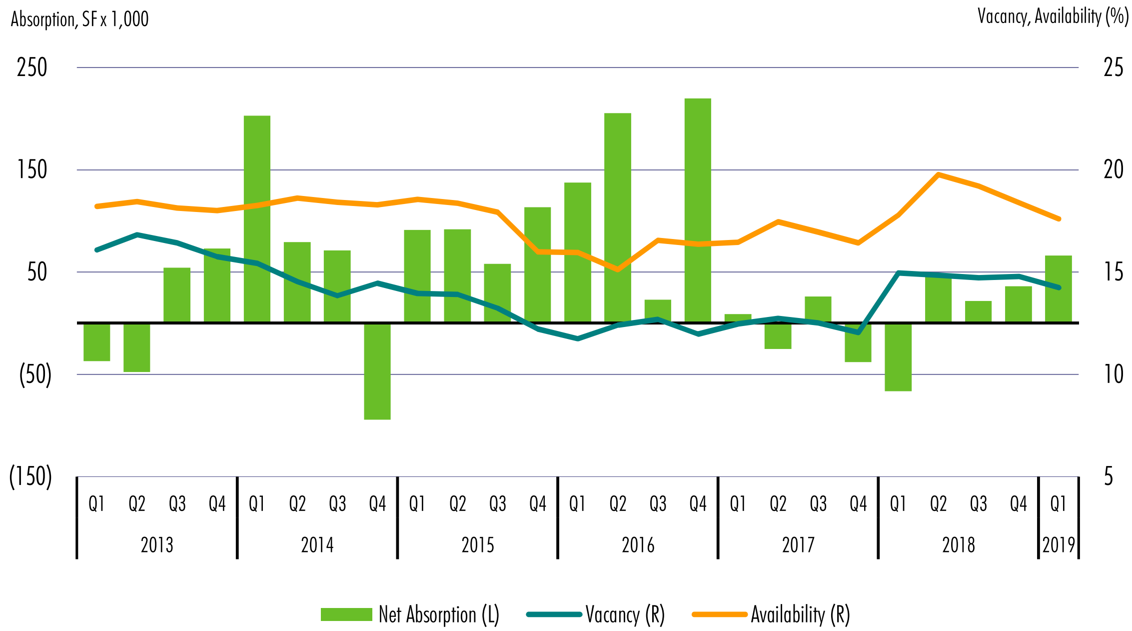
This helps put new construction into context, which is increasing despite elevated vacancy rates. Camperdown is expected to deliver 160,000 sq. ft. of space to the Greenville CBD later this year and a new mixed-use suburban project by local developer Hughes Investments, Bridgeway Station, started construction this quarter. The new development is expected to delver more than 70,000 sq. ft. of office space to the market upon completion.

Indicative of tenant demand for quality space, Camperdown is now 85% preleased. Bridgeway Station is expected to experience strong lease up as well due to the project being offered at a lease rate below the average Class A asking rate, which is now above $22 per sq. ft. on a full service basis.

Despite elevated vacancy rates, not all tenants are able to locate spaces that suit their needs, especially at rates that are significantly higher than they would have expected five years ago. Some tenants are now looking for innovative solutions to sole tenant space challenges. Coworking has become an increasingly popular alternative for users looking for both a collaborative and flexible work environment.

Another example of an alternative to traditional leasing is to become an owner-occupier of office space in the market. While not an option for all tenants, those with a high degree of confidence in their long-term space needs may see it as a viable option. Recently United Community Bank purchased a 90,000 sq. ft. office building in the CBD. In addition to providing greater control of their real estate, tenants electing to purchase office space may benefit from tax incentives

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q1 2019

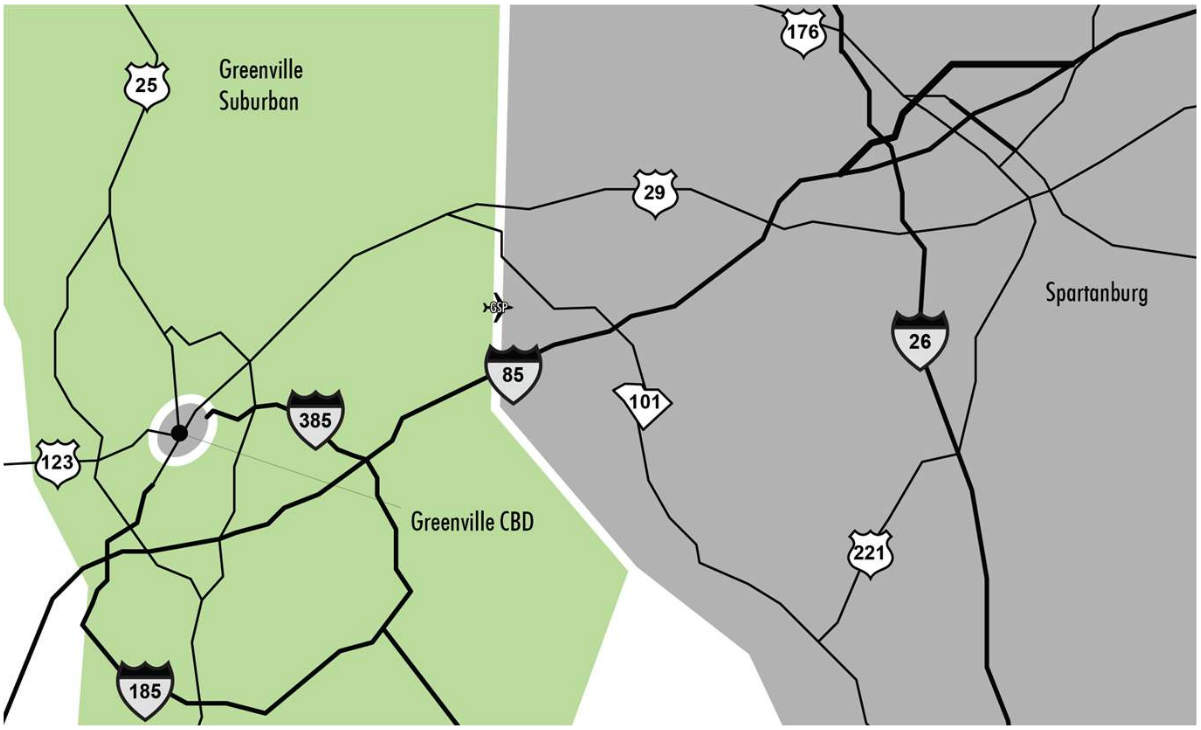
related to building maintenance, property improvements and job creation. Purchasing office space is not a viable option for all tenants though, as many users value the flexibility that leasing provides and do not want to tie potential expansion capital to real estate.

This is why new developments are able to secure tenants in spite of market fundamentals that may, at first glance, appear soft. Another large factor in the success of new construction is tied to the tight labor market. Looking for any edge possible, tenants are now leveraging the quality of their spaces to help attract and retain talent. While new construction is one way to differentiate a property, amenities play an important role in the quality of spaces, so strategic landlords should look for differentiation through amenity packages. It is important to note that some amenities are beyond the control of a landlord, especially those associated with the location of the property itself. Properties in downtown environments and well-integrated office parks are poised for success.

Location alone is insufficient in assuring the success of a property. Plans have been submitted to replace the 30,000 sq. ft. Class B office building in the CBD with multifamily. Despite the property achieving almost 100% occupancy consistently, the potential upside of multifamily development is a significant draw. This is in spite of the continued climb of construction costs.

While expectations for rental rate increases are modest, construction costs could complicate the picture. Both material and labor costs are on the rise and uncertainty related ot eh impact of tariffs further complicate the picture. Deal negotiations are already being affected by the inclusion of a “steel contingency tariff” in some transactions.

Anything that increases the cost of creating new supply would be viewed favorably by flurry of investors who entered the Greenville-Spartanburg market in the last six years, during which roughly 40% of the entire office market changed hands. Investors who entered in the market during this time frame are not only enjoying renewals with significant increases, they are also taking advantage of a cap rates, which are compressing, allowing these new investors to hit planned investment benchmarks sooner than anticipated. Accordingly expect to see some recently purchased assets trade again.



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