

COLUMBIA OFFICE MARKET

Caution Abounds as Economy Enters the Second-Longest Expansion on Record

As the midpoint of 2018 approaches, the economy has just passed a significant milestone: This is now officially the second-longest expansion on record. In fact, the stimulus of federal tax reform has increased the probability that this economic upturn could actually result in the longest expansion in history. Market fundamentals are strong and commercial real estate is performing well this year, but caution still abounds. The latest forecasts predict that the cycle will not turn until as late as 2020 or 2021. In turn, lenders in most markets are wary of extending seven- or 10-year loans and are particularly restrained in the issuance of construction loans.

On a national level and across all commercial property types, investors are looking to value-add opportunities and site redevelopment in lieu of new construction. In the office sector, owners have responded to fierce competition by offering site improvements in order to lure tenants.

Rates across the Columbia office market have held steady at \$16.67/SF from \$16.69/SF one year ago yet reflect a 3.28% increase over the past two years. In the Central Business District, rates have increased 4.72% in just one year and sit at an all-time high of \$20.18/SF. The cost of construction continues to drive up rates, as landlords must contend with increasing labor costs in order to complete tenant improvements and upfits upon lease executions and renewals. In the CBD, operating expenses for Class A towers continue to rise and, in turn, drive up rents as well.

Vacancy in the overall office market has increased from 8.0% to 8.8% in the last 12 months, as tenants respond to the lack of new, quality office space by repurposing non-traditional and often more affordable property types to meet their needs.

No new space is currently under construction, and there have been no significant market deliveries since 2016, when the First Base Building in the Bull Street Development and the Innovation Center at 550 Assembly Street were completed. The current rental rates simply do not justify the cost of new construction at this time.

CURRENT CONDITIONS

Market-wide vacancy is up to 8.8%

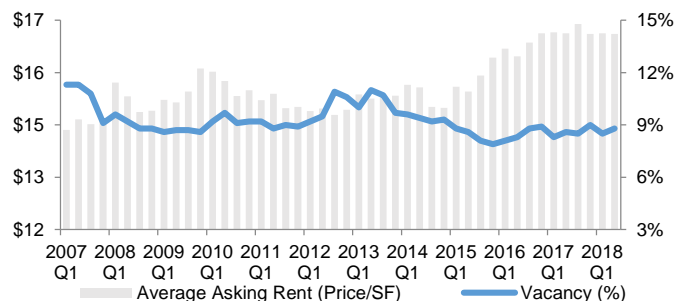
CBD Rates are at all-time high of \$20.18/SF

No new construction has been announced

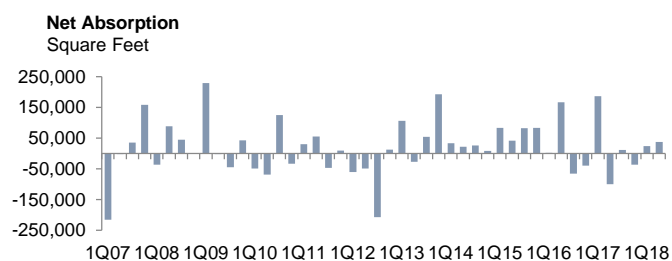
MARKET ANALYSIS

Asking Rent and Availability

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.4 MSF	19.4 MSF	19.4 MSF	↔
Vacancy Rate	8.8%	8.5%	8.0%	↑
Quarterly Net Absorption	-52,478	81,011	-58,186	↑
Average Asking Rent	\$16.67	\$16.69	\$16.69	↑

SUBMARKET STATISTICS

	Total Inventory (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Cayce / West Columbia	1,214,098	7.7%	11.1%	-21,682	-22,274	\$13.33	-	\$13.33
Downtown (CBD)	7,080,507	8.5%	9.4%	64,176	67,362	\$20.38	\$19.96	\$20.22
Dutch Fork / Irmo	631,516	1.3%	1.3%	2,436	2,436	\$18.06	\$24.45	\$18.06
Forest Acres	1,301,794	15.2%	20.1%	-1,434	-4,626	\$16.04	-	\$16.04
Lexington	527,407	10.3%	11.1%	-7,900	-417	\$17.00	-	\$17.00
North Columbia	1,624,524	5.2%	7.0%	-3,103	-3,103	\$20.30	-	\$20.30
Northeast Columbia	2,348,849	14.8%	23.4%	-46,658	-121,718	\$15.44	\$13.55	\$15.32
Saint Andrews	3,396,755	9.0%	15.1%	8,260		\$16.36	\$14.75	\$16.44
Southeast Columbia	1,274,390	1.2%	2.5%	18,796	35,200	\$16.92	-	\$16.92
Suburban Total	12,319,333	9.0%	13.6%	-116,654	-38,829	\$15.69	\$14.32	\$15.66
CBD Total	7,080,507	8.5%	9.4%	64,176	67,362	\$20.38	\$19.96	\$20.22
Market	19,399,840	8.8%	12.1%	-52,478	28,533	\$16.71	\$16.76	\$16.67

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
IMG	Landmark II - 3700 Forest Drive	Forest Acres	Renewal	8,842
	IKON Building - 7 Technology Circle	Northeast	New	22,000
SC State Ethics Comm	201 Executive Center Drive	St. Andrews	New	7,588

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
The State Media Co - 1401 Shop Road	Southeast Columbia	\$16,625,000	\$62.74	265,000
1233 Washington Street	CBD	\$1,950,000	\$46.43	42,000
Heritage Building -1777 St Julian Pl	Forest Acres	\$1,650,000	\$38.76	42,567

Economic Conditions

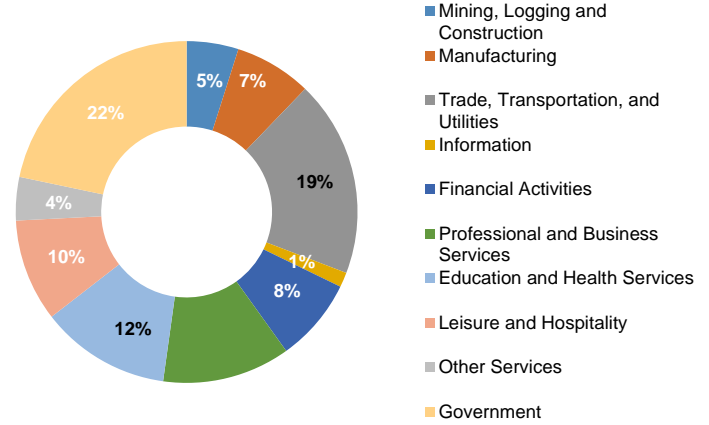
Unemployment in South Carolina remains low at 4.2% as of April 2018. The national average for unemployment currently sits at 3.9%. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

South Carolina was ranked Business Facilities' 2017 State of the Year. The magazine cited Samsung's new, \$380.0 million home appliance plant in Newberry County as well as BMW's and Volvo's expansions, which have catapulted South Carolina to one of the top places to do business in the country.

South Carolina brought in 157 economic development projects and \$5.2 billion in capital investment in 2017. This was also the state's eighth consecutive year of record-setting total export sales. The SC Export Incentives Program, which reimburses small and midsize businesses that participate in trade missions and exhibitions, has been credited with encouraging the state's steady export growth, from \$24.7 billion in 2011 to \$32.0 billion in 2017. Vehicle exports dominated at \$11.0 billion, followed by aircraft at \$6.0 billion and machinery at nearly \$4.0 billion.

EMPLOYMENT BY INDUSTRY

South Carolina, 2017

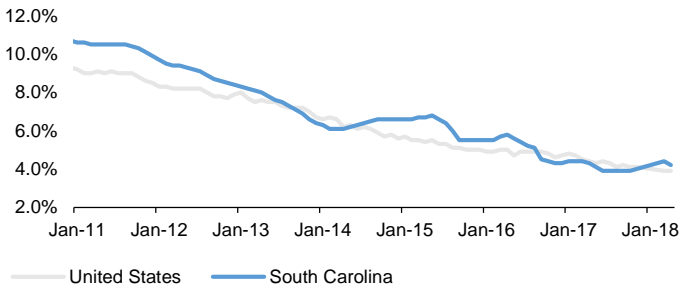


Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

Not Seasonally Adjusted

Seasonally Adjusted

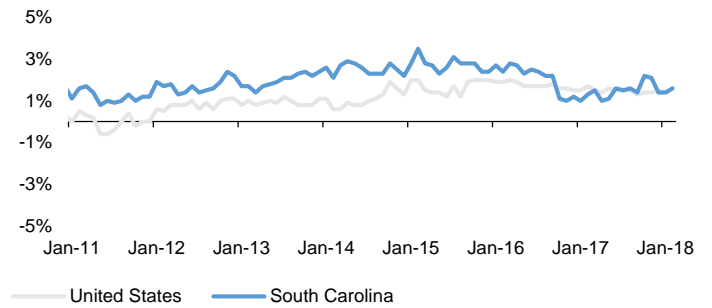


Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change

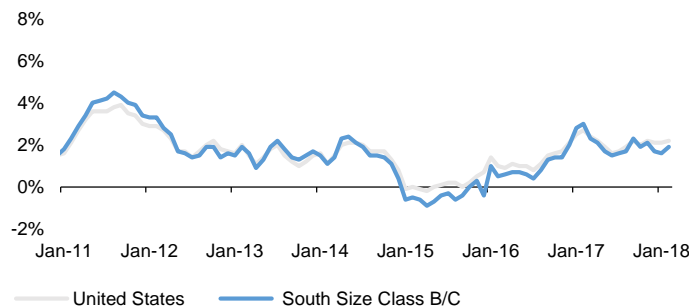


Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

All Items, 12-Month % Change, Not Seasonally Adjusted

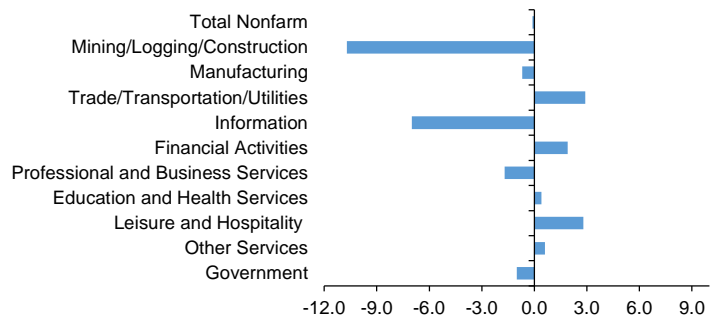
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Columbia, April 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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