

GREENVILLE 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 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.

There are six buildings and a total of 129,844 square feet currently under construction in the Greenville office market. Five of the buildings are fully leased ahead of delivery. Vacancy rose from 10.4% in the first quarter of 2018 to 10.9%, as 97,682 square feet was negatively absorbed. Average full-service gross rents rose 5.7% to \$19.39/SF from \$18.35/SF in the previous quarter and have risen 12.7% in just two years.

Greenville's Central Business District (CBD) has maintained a vacancy of 10.0% since the beginning of 2018. Average rents have increased 3.1% quarter-over-quarter and currently come in at an all-time high of \$25.38/SF. Twenty-one office leases were signed in the CBD during the first half of 2018. This is a slowdown from the last three years, when an average of 58 leases were signed per year.

Notable sales this quarter:

- 1041 East Butler Road sold for \$24.3 million (\$115.64/SF)
- 874 South Pleasantburg Drive sold for \$2.9 million (\$136.79/SF)

Notable leases this quarter:

- Jacobs Engineering signed a 210,126-square-foot lease at 1041 East Butler Road in the Woodruff/I-385 submarket.
- Pomeroy IT Solutions leased 26,661 square feet at 510 Airport Road in Haywood Ridge Flex Park. The 45,000-square-foot building is now fully leased. Adjacent tenants include Green Cloud Technologies and Rockwell Automation.

CURRENT CONDITIONS

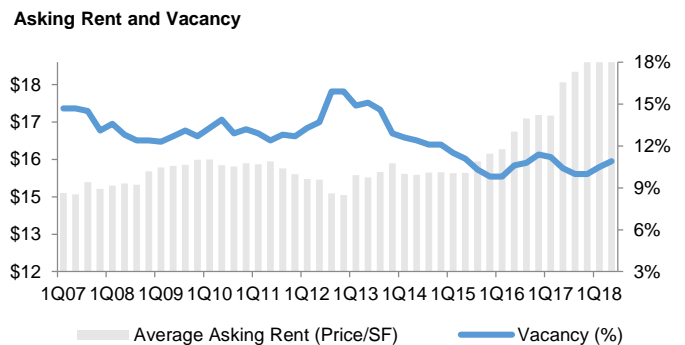
Vacancy in Greenville's CBD holds steady at 10.0%

Average rents across the market have risen 5.7% quarter over quarter and 12.7% in just two years.

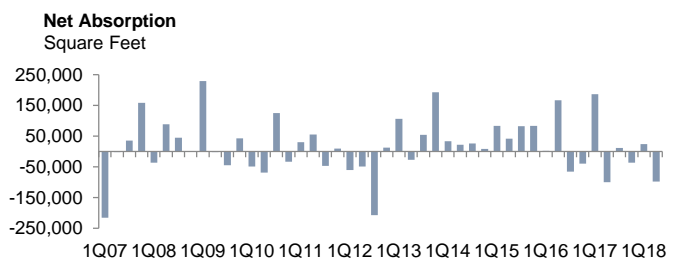
Greenville CBD rents are at an all-time high of \$25.38/SF.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	18.9 MSF	18.9 MSF	18.8 MSF	↑
Vacancy Rate	10.9%	10.4%	10.2%	↓
Quarterly Net Absorption	-97,682	-71,218	147,417	↑
Average Asking Rent	\$19.39	\$19.07	\$18.35	↑

SUBMARKET STATISTICS

	Total Inventory (SF)	Total Availability Rate	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Greenville County	15,658,445	14.4%	11.8%	-111,571	-180,799	\$22.08	\$16.40	\$21.38
Greenville CBD	4,096,252	13.3%	9.6%	13,597	-4,693	\$25.15	\$19.13	\$24.82
Spartanburg County	3,246,631	8.3%	6.6%	13,889	11,899	\$21.61	\$19.36	\$20.67
Spartanburg CBD	1,284,573	9.5%	8.6%	6,576	5,326	\$14.12	\$19.36	\$18.25
Market	18,905,076	13.3%	10.9%	-97,682	-168,900	\$19.60	\$16.71	\$19.39

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Jacobs Engineering	1041 E Butler Road	Woodruff/I-385	New	210,126
OBHG Management Services	535 N Pleasantburg Drive	Pelham Road	New	46,011
Pomeroy IT Solutions	510 Airport Rd – Haywood Ridge Flex Park	Downtown Airport	New	26,661

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1041 E Butler Road	Woodruff/I-385	\$24,300,000	\$115.64	210,126
874 S Pleasantburg Drive	South Pleasantburg	\$2,900,000	\$136.79	21,200
503 S Main Street	Mauldin/Fountain Inn	\$2,420,000	\$125.00	19,360
3 Caledon Ct	Pelham Road	\$1,725,000	\$112.75	15,300

Economic Conditions

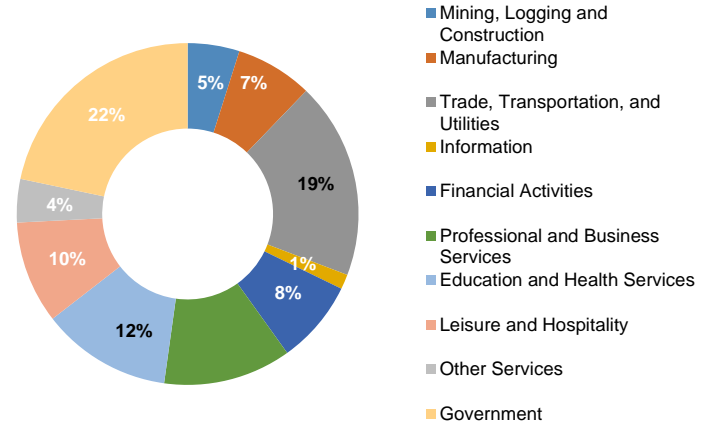
Unemployment in South Carolina remains low at 4.2% as of April 2018. The national average for unemployment currently sits at 3.9%. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

South Carolina was ranked Business Facilities' 2017 State of the Year. The magazine cited Samsung's new, \$380 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

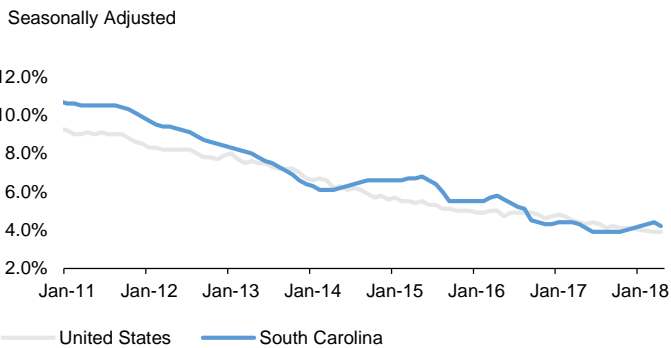
South Carolina, 2017



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

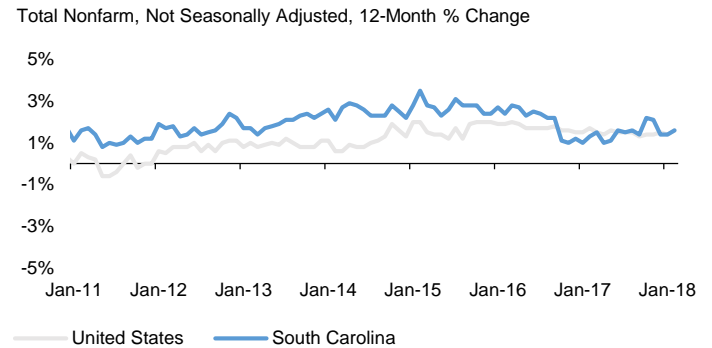
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

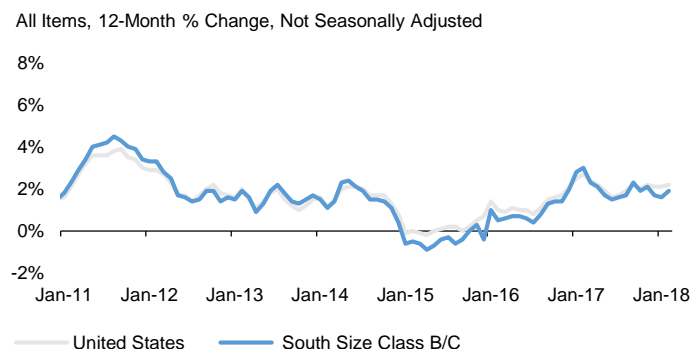
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

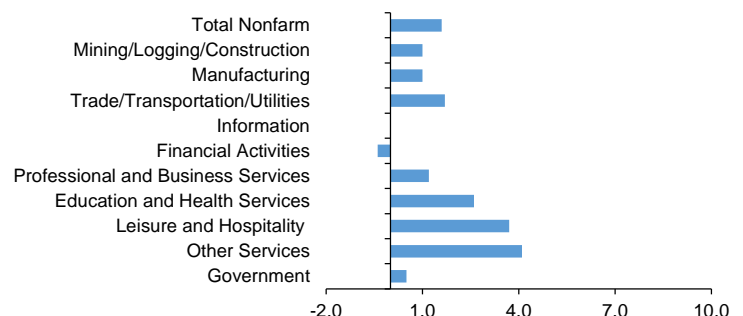
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



ALYSE HOWARD

Marketing & Research Director
803.255.8611
Alyse.howard@wilsonkibler.com

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