

COLUMBIA OFFICE MARKET

WILL THIS BECOME THE LONGEST EXPANSION ON RECORD?

The economy passed a significant milestone this year: 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, a milestone set to occur in July 2019. 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 increased to \$17.16/SF from \$16.49/SF one year ago yet reflect a 4.6% increase over the past two years. In the Central Business District, rates have increased 8.3% in just one year and sit at an all-time high of \$20.89/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. Nationally, construction costs have risen 4.2% year over year. As tariffs increase the cost of many key construction materials, such as steel and aluminum, contractors will have to assume much of the cost. A tight market for skilled labor with an increase in demand for various materials will further drive up construction costs across the U.S.

Vacancy in the overall office market has increased from 8.4% to 9.0% in the past 12 months, as tenants respond to the lack of new, quality office space by repurposing nontraditional 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 9.0%

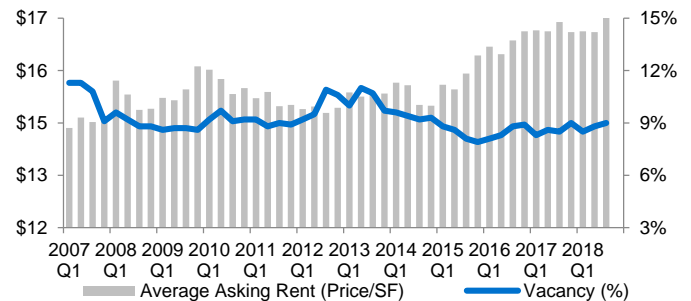
CBD Rates are at all-time high of \$20.89/SF

No new construction has been announced

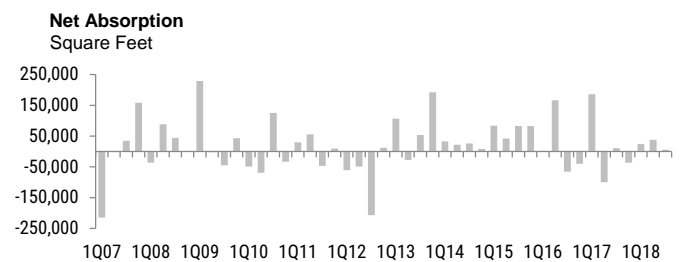
MARKET ANALYSIS

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	9.0%	8.8%	8.4%	↑
Quarterly Net Absorption	5,540	-52,478	12,445	↑
Average Asking Rent	\$17.16	\$16.67	\$16.49	↑

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	8.3%	14.7%	-3,792	-30,174	\$17.50	-	\$17.50
Downtown (CBD)	7,127,337	8.7%	10.2%	-5,295	34,679	\$20.80	\$22.10	\$20.89
Dutch Fork / Irmo	631,516	0.9%	0.9%	2,568	5,004	\$21.02	-	\$21.02
Forest Acres	1,301,794	15.8%	19.0%	-8,766	-12,461	\$16.28	\$24.00	\$16.67
Lexington	527,241	13.8%	13.8%	-18,418	-18,835	\$17.00	-	\$17.00
North Columbia	1,624,524	4.6%	6.1%	8,874	5,771	\$17.00	-	\$17.00
Northeast Columbia	2,331,536	16.3%	22.9%	-9,030	-153,968	\$15.77	\$13.80	\$15.57
Saint Andrews	3,441,630	7.6%	12.0%	33,430	120,749	\$15.15	-	\$15.15
Southeast Columbia	1,252,112	1.6%	10.2%	-3,923	31,277	\$16.67	-	\$16.67
Suburban Total	12,294,451	9.1%	13.6%	10,835	-52,637	\$15.71	\$15.13	\$15.67
CBD Total	7,127,337	8.7%	10.2%	-5,295	34,679	\$20.80	\$22.10	\$20.89
Market	19,421,788	9.0%	12.4%	5,540	-17,958	\$17.66	\$17.22	\$17.16

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
AARP	1201 Main St	CBD	New	5,191

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Synergy Business Park (Four Buildings)	St Andrews	\$24,249,999	\$76.76	315,919
3630 Sunset Blvd	Cayce/West Columbia	\$1,320,000	\$178.38	7,400
6941 N Trenholm Rd	Forest Acres	\$1,290,000	\$35.46	36,377

ECONOMIC CONDITIONS

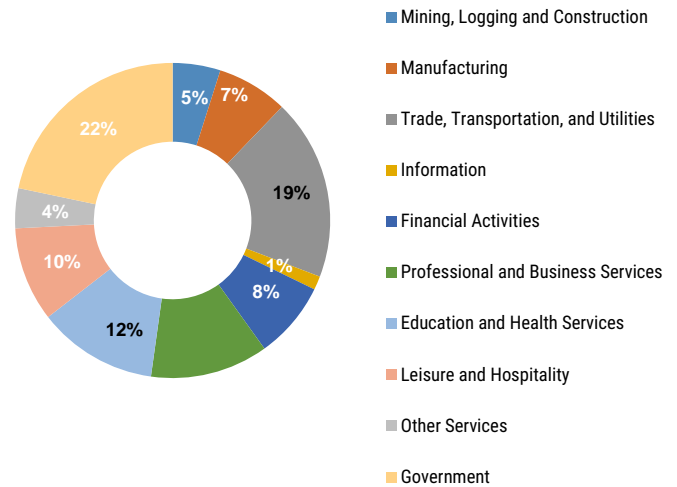
Unemployment in South Carolina remains low at 3.4% as of August 2018, even lower than the national unemployment which came in at 3.9%. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

As South Carolina approaches full employment, labor shortages constitute the largest hurdle to continued expansion. Various workforce training programs exist to promote workforce development in the state. One such program, readySC, offers customized training for new or expanding businesses in South Carolina at little or no cost to qualifying companies.

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

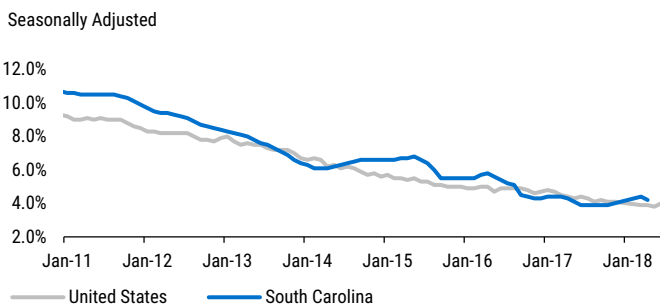
South Carolina, 2017



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

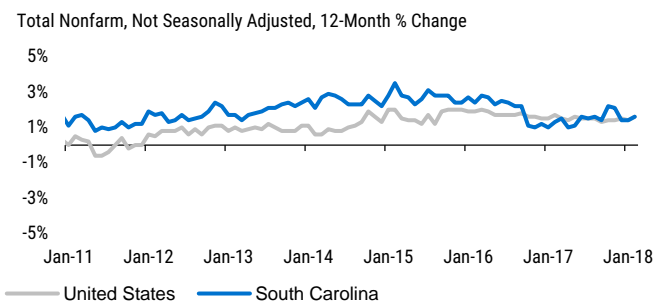
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

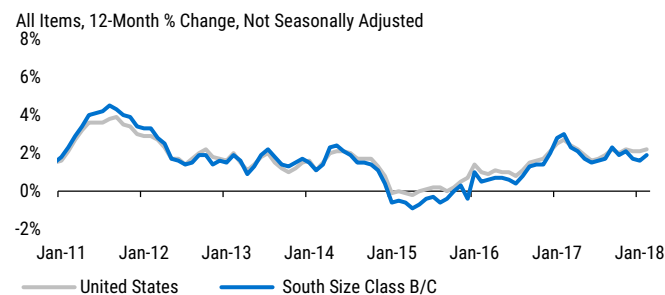
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

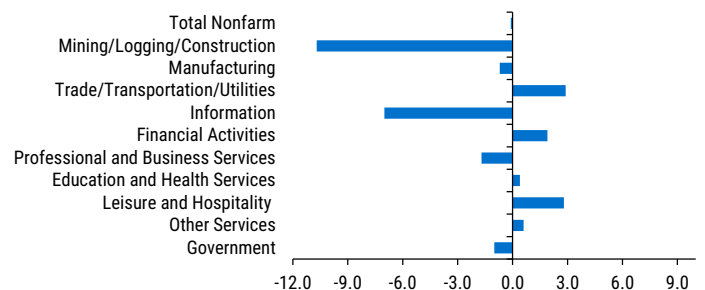
All Items, 12-Month % Change, Not Seasonally Adjusted



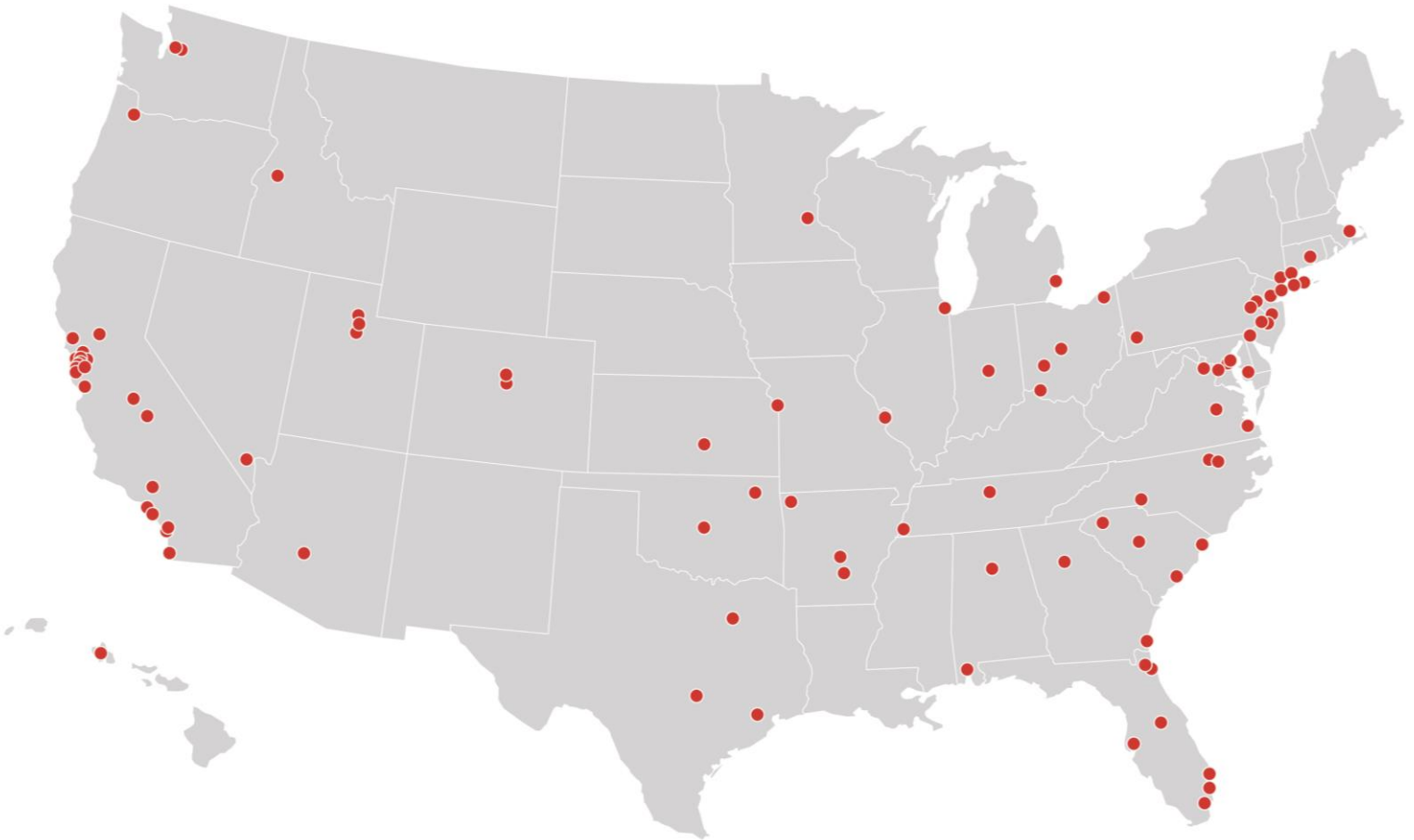
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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