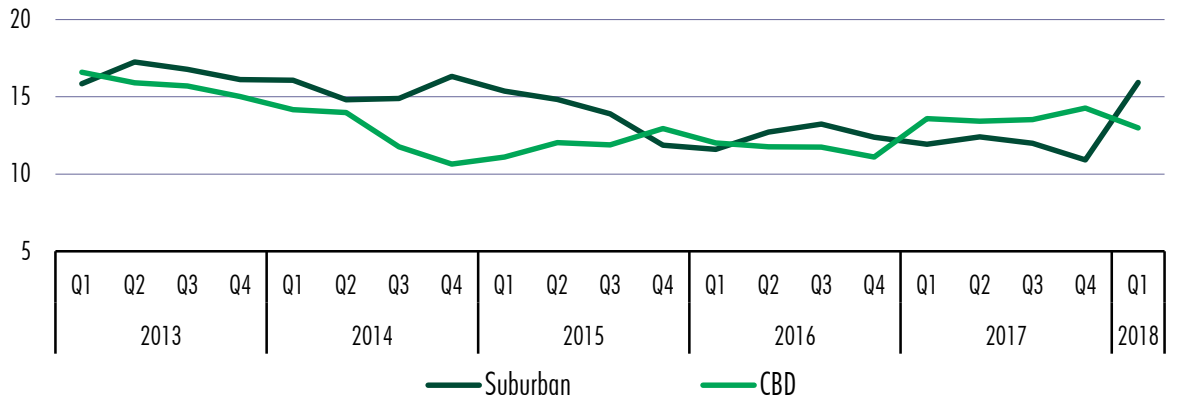


Greenville-Spartanburg Office, Q1 2018

# Softening engineering sector delivers Class A vacancy to the suburban market

▲ Vacancy Rate 15.0%
▲ Availability Rate 16.4%
▼ Net Absorption (66,571) SF
▲ Asking Rate \$ 21.29 PSF FS
▶ Under Construction 150,000 SF

Figure 1. Vacancy by Submarket



Source: CBRE Research, Bureau of Labor Statistics, Q1 2018

Two years ago, the Greenville-Spartanburg market hit a record low vacancy rate of 11.7% as asking rates achieved some of the highest growth rates in the country. Since then, the availability of space and labor combined to suppress market absorption. Despite the strong fundamentals, uncertainty related to the engineering sector helped prevent the delivery of additional product. After a series of engineering-related contractions, clarity has arrived and prompted a vacancy increase of 290 basis points to 15.0%.

Interestingly, all of the space given back this quarter is concentrated among Class A product in the Greenville Suburban submarket where vacancy climbed by over 1,200 basis points to 20.6%. Additionally, the availabilities are unique due to

their contiguous size. The largest of which is Axis Point, a 225,000 sq. ft. corporate campus that was recently sold by engineering firm Fluor Corp. as they downsized their local operations. The next largest is the newly constructed 75,000 sq. ft. headquarters for CH2M, which was recently vacated due to their merger with Jacobs Engineering. The migration of engineering firm Day & Zimmerman from one Class A office park to another was finally completed, which opened another large void in the market. This is the first time in the market's history that tenants have had as many as four different options of 50,000 contiguous Class A sq. ft. in the local market.

While the shift in market statistics suggests a change in landlord-tenant leverage, the unique

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	2,522,821	12.0	18.6	26.82	150,000	36,859	44,585
Greenville CBD Class B	1,143,164	15.5	17.5	20.20	-	(14,156)	3,669
<b>Downtown</b>	<b>3,757,190</b>	<b>13.0</b>	<b>18.0</b>	<b>24.70</b>	<b>150,000</b>	<b>22,703</b>	<b>48,254</b>
Greenville Suburban Class A	2,928,568	20.6	23.2	22.22	-	(143,841)	(167,950)
Greenville Suburban Class B	3,174,952	14.0	15.4	16.71	-	33,181	53,485
Spartanburg Class A	448,737	1.6	4.9	24.13	-	(3,565)	(3,565)
Spartanburg Class B	833,259	14.3	14.3	14.97	-	8,781	360
<b>Suburban</b>	<b>7,554,336</b>	<b>15.9</b>	<b>17.7</b>	<b>19.29</b>	<b>-</b>	<b>(126,738)</b>	<b>(114,825)</b>
<b>MARKET TOTAL</b>	<b>11,311,526</b>	<b>15.0</b>	<b>17.8</b>	<b>21.29</b>	<b>150,000</b>	<b>(104,035)</b>	<b>(66,571)</b>
<b>Class A</b>	<b>5,900,126</b>	<b>15.5</b>	<b>19.7</b>	<b>24.22</b>	<b>150,000</b>	<b>(110,547)</b>	<b>(123,365)</b>
<b>Class B</b>	<b>5,151,375</b>	<b>14.4</b>	<b>15.7</b>	<b>17.41</b>	<b>-</b>	<b>748</b>	<b>56,794</b>
<b>MARKET TOTAL</b>	<b>11,311,526</b>	<b>15.0</b>	<b>17.8</b>	<b>21.29</b>	<b>150,000</b>	<b>(104,035)</b>	<b>(66,571)</b>

Source: CBRE Research, Q1 2018

nature of these new availabilities—large contiguous Class A spaces—is unique in local market history and likely to attract the attention of tenants that previously had not considered in the Greenville-Spartanburg office market. In other words, the availability of a 200,000 sq. ft. corporate campus is unlikely to have an impact on the negotiations of a tenant looking for 5,000 sq. ft. of Class A space in the CBD submarket.

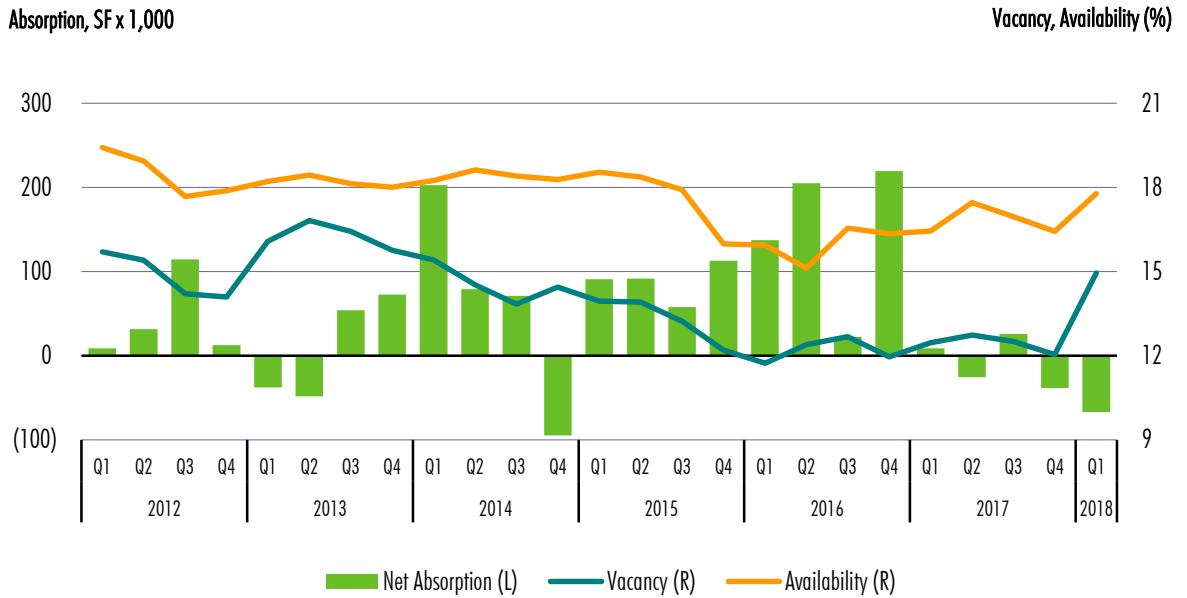
While the quantity and quality of the space hitting the market simultaneously is unprecedented, there are examples of smaller amounts of Class A suburban product experiencing success. In the three-year period between 2012 and 2014 Fluor and grocery conglomerate Ahold combined to vacate more than 400,000 sq. ft. of Class A suburban space in the market. The tenants that

backfilled their spaces include a robust list of new-to-market tenants like Esurance, Level One, Global Lending Services, Gordian and Raytheon.

On a related note, last year multiple large tenants, unable to find suitable quality space, ultimately migrated to owned office space. Facing few viable for-lease options, BB&T migrated to a newly constructed owned office building in the suburbs and United Community Bank moved to an owned office building in the CBD.

Indicative of the quality of space hitting the market, the total market asking rate now exceeds \$21 per sq. ft. on a full service basis. In the last three years, total market asking rates have increased by 28%. During that same time period, Class A suburban asking rates have risen by 35%.

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q1 2018

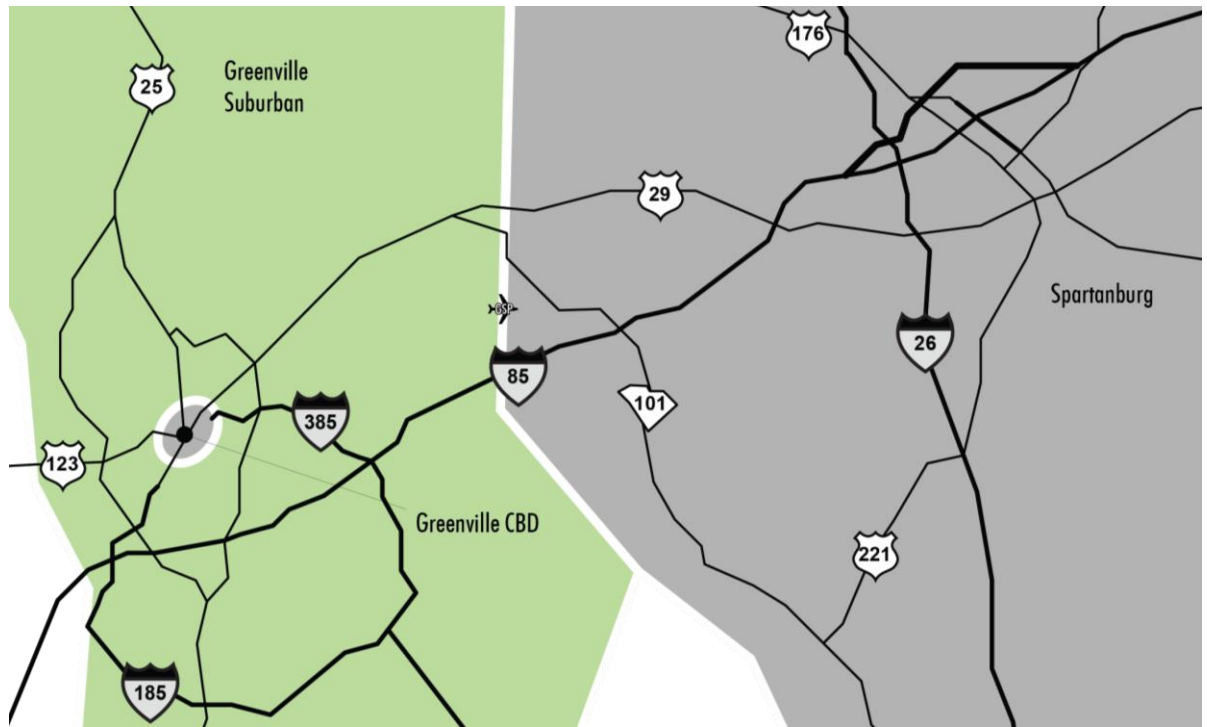
In addition to new space in the Greenville Suburban submarket, additional space is under construction in the Greenville CBD. Camperdown, a mixed-use project on the old Greenville News site, will result in 150,000 sq. ft. of Class A office space along with space for retail, apartments, and hospitality; although delivery is not expected until the second half of 2019. It is important to note that more than 40,000 sq. ft. of Class A space in the CBD was absorbed last quarter.

While the availability of space was cited as an economic challenge previously, that appears to be sufficiently addressed. Now the biggest challenge to office market growth in Greenville-Spartanburg is the availability of labor. In the CBRE’s [2018 Southeast Outlook Report](#), Greenville-Spartanburg ranked 14<sup>th</sup> out of 16 markets in terms of population between the ages of 20 and 34 and last of all markets in educational attainment. Both of these are largely driven by a small number of college students in the market and it suggests tenants may face fierce competition when hiring employees during the first decade of their professional career. The market has the 4<sup>th</sup> lowest unemployment rate of the markets included in the

study. Future economic growth is going to be reliant upon the continued migration of talent to the region, which now draws 11,000 people to the market annually.

While the headline story for the Greenville-Spartanburg office market is the newly available Class A spaces in the Greenville Suburban submarket, it is important to note that tenants remain active. The largest leases of the quarter include large expansions for OBHG Management Services and New Penn Financial. Combined the two expanded by over 60,000 sq. ft. of space in the market and now occupy over 90,000 sq. ft.

Given that availability has now higher, it is important to for both tenants and landlords to be strategic. While it is true that market fundamentals appear to be softening, the impacts will not be felt uniformly and that if recent history serves as an example, this newfound supply may be able to tap into demand that had long gone unmet.

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