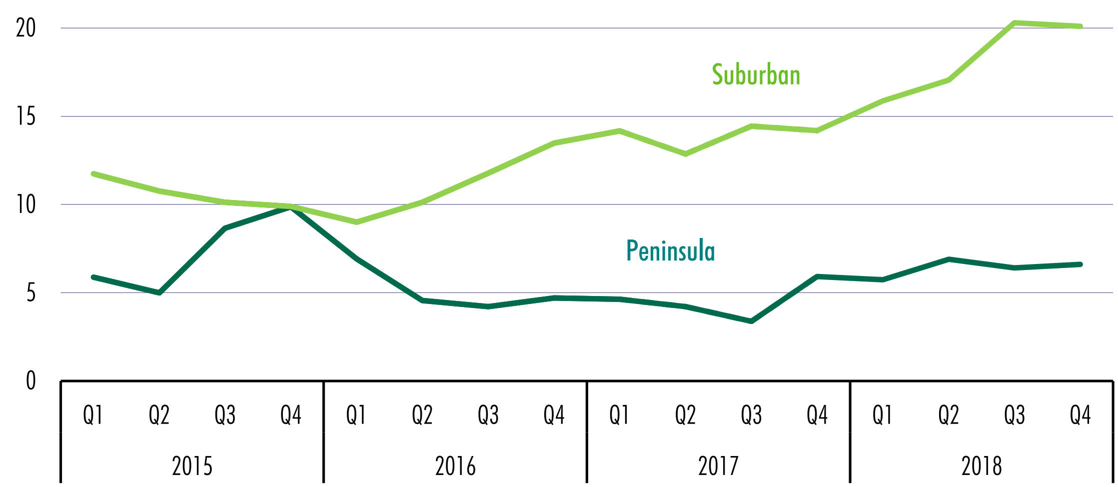
Charleston Office, Q4 2018

New construction is finally underway on the Peninsula

Vacancy Rate	Availability Rate	Net Absorption	Asking Rate	Under Construction
16.6%	19.0%	114,052 SF	$25.24 PSF SF	449,117 SF

Figure 1. Vacancy by Submarket



Source: CBRE Research, Q4 2018

Although vacancy remained flat at a little over 16%, the Charleston office market bounced back from last quarters negative absorption, rising to just over 114,000 sq. ft. during the fourth quarter of 2018. Similarly, market users continue to demonstrate a clear preference for the Peninsula submarket as Suburban vacancy has now almost tripled that of Charleston's downtown Peninsula.

Market conditions in the Peninsula submarket remain tight due to the challenges in delivering new product as well as office users' preference for the convenience and comforts of Charleston's downtown over the newer facilities and amenities offered in suburban submarkets. Development restrictions and market dynamics have limited the viability of development on the Peninsula, but 22 WestEdge appears to be bucking these trends. The project will supply office users with more than 150,000 sq. ft. of Class A space in the second half of 2019. Additionally, Bridge Commercial's planned Charleston Tech Center will provide 92,000 sq. ft. of Class A space to the Upper Peninsula. The project is scheduled to deliver in late 2020.

Outside of the Peninsula, other projects currently underway include the Portside at Ferry Wharf and

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)
Peninsula Class A	1,644,771	6.7	9.6	34.79	154,998	28,943	11,512
Peninsula Class B	417,958	5.9	18.9	28.76	-	(15,575)	-
Downtown	2,196,373	6.6	11.4	33.48	154,998	35,339	(2,166)
Daniel Island	1,111,210	25.3	25.3	26.43	32,119	83,451	26,650
East Cooper	1,205,600	1305.0	14.2	30.44	138,000	(39,172)	(18,352)
North Charleston	3,745,329	21.7	23.8	22.35	124,000	(118,854)	1,014
West Ashley	566,447	14.9	17.2	24.58	-	89,737	106,906
Suburban	6,628,586	20.1	21.7	23.99	294,119	15,162	116,218
MARKET TOTAL	8,915,803	16.6	19.0	25.24	449,117	50,501	114,052
Class							
Class A	5,204,500	17.0	18.3	27.75	101,360	141,520	24,906
Class B	3,345,498	17.3	20.7	20.89	-	(119,500)	60,591
MARKET TOTAL	8,915,803	16.6	19.0	25.24	449,117	50,501	114,052

Source: CBRE Research, Q4 2018

736 Coleman Boulevard, both projects scheduled for completion in late 2019 and will deliver just under 150,000 sq. ft. of Class A office product to Charleston's East Cooper submarket.

While historically landlords have utilized tenant improvements as a means to offset the price of construction, the escalating cost of building materials and the market's limited labor supply have further complicated the development and tenant upfit process. The introduction of new office product in the market has helped to sustain ongoing increases in asking rents and as a result, led to a substantial rise in tenant improvement costs.

An added source of concern is the impact of recent trade tariffs on imported steel and aluminum to the U.S. The effect of the change has already been felt as deal negotiations often include a " steel tariff contingency," meaning that contractors are protected in the instance of rising costs, which adds an element of uncertainty to new development.

In spite of these difficulties, demand for available office space has showed no sign of slowing down as tenants have begun seeking innovative solutions to solve their current leasing challenges. One alternative, coworking, has grown increasingly attractive given its flexibility and the potential for reduced real estate costs, especially in the Peninsula submarket where vacancy is below 7%. Coworking operators in the Charleston market include Local Works, Office Evolution, The Skinny Dip, The Harbor

Figure 3. Vacancy, Availability and Absorption

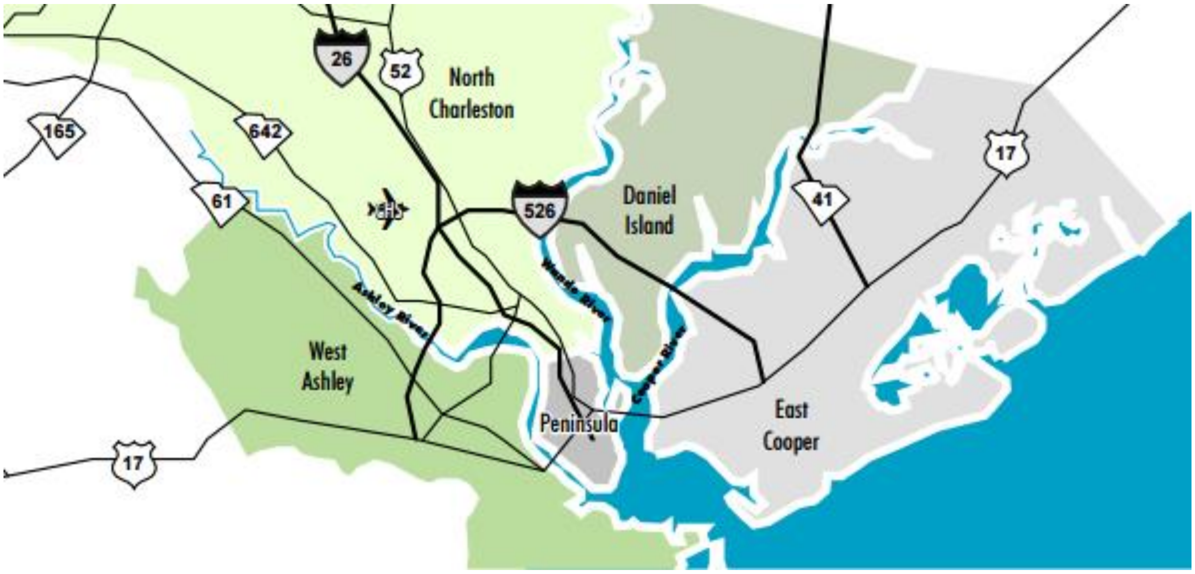
Source: CBRE Research, Q4 2018

Entrepreneur Center and Holy City Collective.

Given the rising costs, developers are looking for alternative methods of responding to demand. One alternative to traditional office leasing can be seen in the redevelopment and renovation of North Charleston's former industrial textile factory, Garco Mill. Scheduled for completion in the first half of 2019, the Garco Mill development will provide the North Charleston submarket with just over 60,000 sq. ft. of office space in addition to a 20,000 sq. ft. food hall.

Repurposed warehouse space has become increasingly popular with office users looking to expand their presence in the market while also avoiding steepened asking rents and the uncertain cost of new construction. For example, Charleston's historic Cigar Factory originally built as a cotton mill in the 1880's was purchased by a developer in 2014. After extensive renovations the 244,000 sq. ft. mixed-use facility incorporates office, retail and event spaces into one cohesive project.

As tenants in the market continue to expand, expect to see continued growth in the forthcoming quarters. Peninsula owners look to hold onto office properties as occupancy levels remain extremely high and rental asking rates continue to rise. Strong investment fundamentals encourage investors to hold onto their assets for the long-term as they look to capitalize on the expanding economic growth.



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