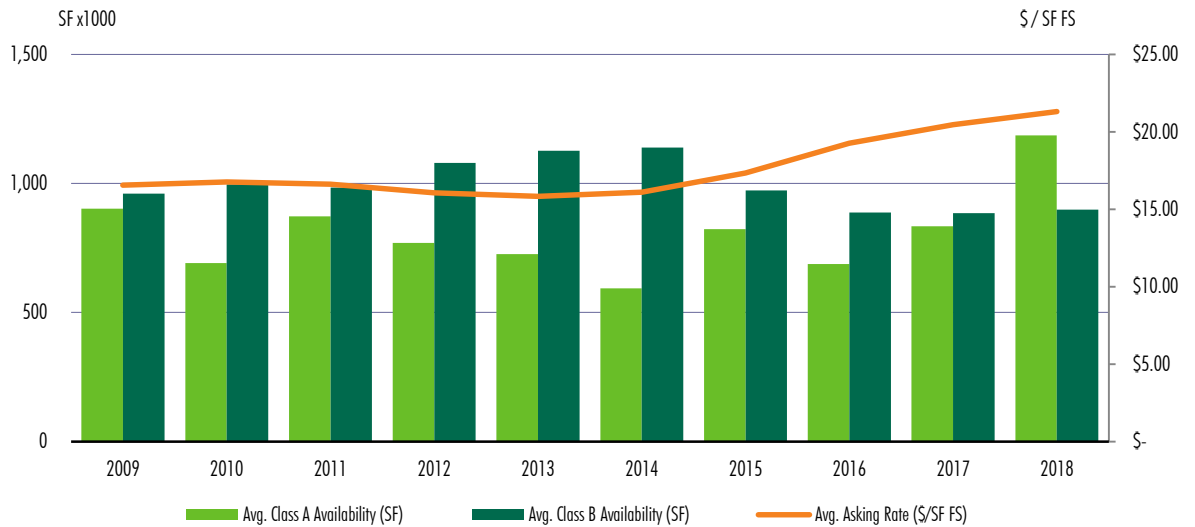


Greenville-Spartanburg Office, Q4 2018

# Quality of available space prompts consistent asking rate increase

▶ Vacancy Rate 14.8%
▼ Availability Rate 18.4%
▲ Net Absorption 35,809 SF
▶ Asking Rate \$ 21.25 PSF FS
▶ Under Construction 158,000 SF

Figure 1. Availability and Asking Rates



Source: CBRE Research, Q4 2018

During the last five years the Greenville-Spartanburg market has undergone a series of changes prompting a significant rise in asking rates, now at a market total average of \$21.25 a sq. ft. on a full-service basis. New development and a greater number of out-of-market investors were the primary drivers of the increase, but the current rise is more attributable to the quality of space available on the market.

In the wake of increased landlord spending providing for better upfitting, tenant improvement costs and updated amenities, the office market contains more Class A availability than ever before, bolstering rising asking rents. Prior to

2018 Class B office availability had consistently exceeded that of Class A. In 2018 Class A suburban absorption was negative by more than 110,000 sq. ft. This increase in the quality of space available has resulted in a further increase in asking rates.

Also contributing to heightened asking rents has been the increasing price tag of new construction due to the growing costs of materials and labor. Uncertainty related to the impact of tariffs further complicate the picture. Deal negotiations are already being affected by the inclusion of a “steel tariff contingency” in some transactions. The rise in asking rates over the last five years presents a

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	2,491,999	11.3	18.1	26.64	158,000	52,880	44,511
Greenville CBD Class B	1,183,357	18.9	21.8	21.24	-	560	(3,584)
<b>Downtown</b>	<b>3,766,461</b>	<b>13.6</b>	<b>19.0</b>	<b>24.57</b>	<b>158,000</b>	<b>53,440</b>	<b>40,927</b>
Greenville Suburban Class A	2,889,430	19.4	22.1	22.22	-	(135,912)	19,592
Greenville Suburban Class B	3,272,882	13.9	17.5	17.22	-	81,827	(24,710)
Spartanburg Class A	448,737	1.6	3.7	24.23	-	(3,565)	-
Spartanburg Class B	833,259	14.3	0.1	14.97	-	(360)	-
<b>Suburban</b>	<b>7,613,133</b>	<b>15.4</b>	<b>18.1</b>	<b>19.34</b>	<b>-</b>	<b>(14,206)</b>	<b>(5,118)</b>
<b>MARKET TOTAL</b>	<b>11,379,594</b>	<b>14.8</b>	<b>18.4</b>	<b>21.25</b>	<b>158,000</b>	<b>1,137</b>	<b>35,809</b>
<b>Class A</b>	<b>5,830,166</b>	<b>14.6</b>	<b>19.0</b>	<b>24.08</b>	<b>158,000</b>	<b>(83,032)</b>	<b>64,103</b>
<b>Class B</b>	<b>5,289,403</b>	<b>15.1</b>	<b>18.0</b>	<b>18.12</b>	<b>-</b>	<b>122,266</b>	<b>(28,294)</b>
<b>MARKET TOTAL</b>	<b>11,379,594</b>	<b>14.8</b>	<b>18.4</b>	<b>21.25</b>	<b>158,000</b>	<b>1,137</b>	<b>35,809</b>

Source: CBRE Research, Q4 2018

challenge to tenants as the renewal of a ten-year lease could experience significant increases in real estate costs.

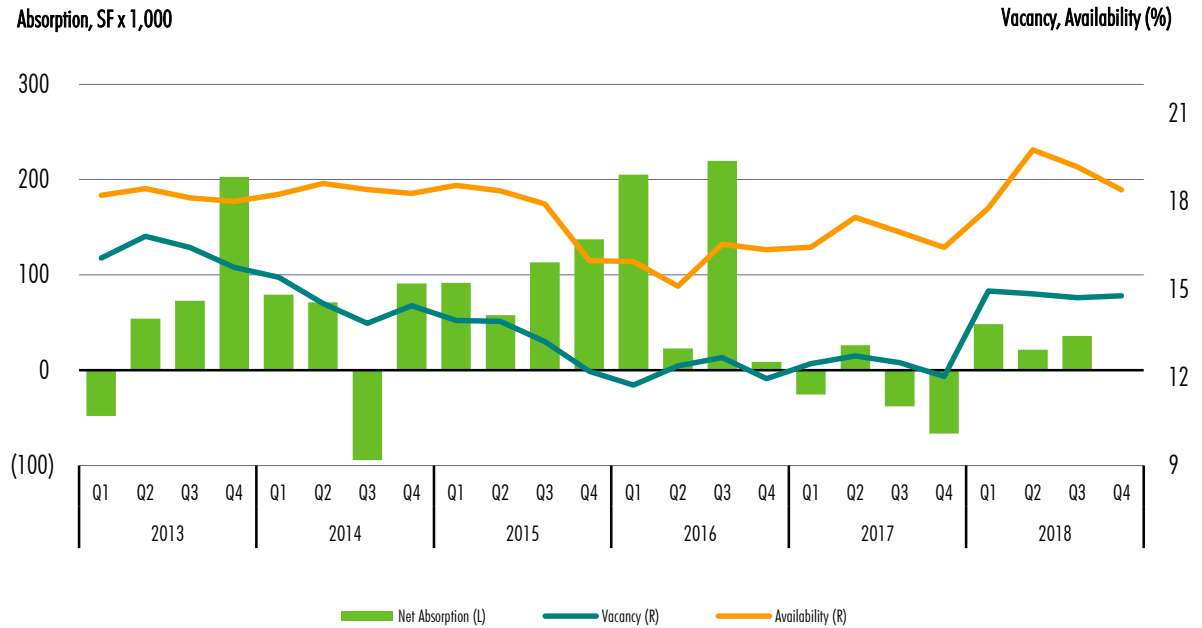
Despite increased costs, projects are under construction, including the upcoming Camperdown office development, scheduled to deliver just under 160,000 sq. ft. of Class A office product to the Greenville CBD submarket in 2019. Additionally, Bridgeway Station, an upcoming mixed-use office development planned for Greenville's Suburban submarket, is set to break ground in 2019. Once complete the project will consist of more than 40 acres of land accommodating a wide range of uses including hospitality, retail and multifamily. The total amount of office product has yet to be determined

given the quantity of Class A office space readily available in the market.

Tenants reluctant to pay the market's rising asking rates are now looking for innovative solutions to solve tenant space issues. Coworking has become an increasingly popular alternative for users looking for both a collaborative and flexible work environment. Greenville's newest coworking operator, Serendipity Labs, recently opened its 24,000 sq. ft. facility along the edge of downtown with the redevelopment of the former manufacturing facility, Plush Mill.

Another example of an alternative to traditional leasing is the recent decision of United Community Bank to expand their presence by

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q4 2018

purchasing a 90,000 sq. ft. building in the Greenville CBD submarket. In addition to having greater control of their real estate, tenants electing to purchase office space may benefit from tax incentives related to building maintenance, property improvements and job creation.

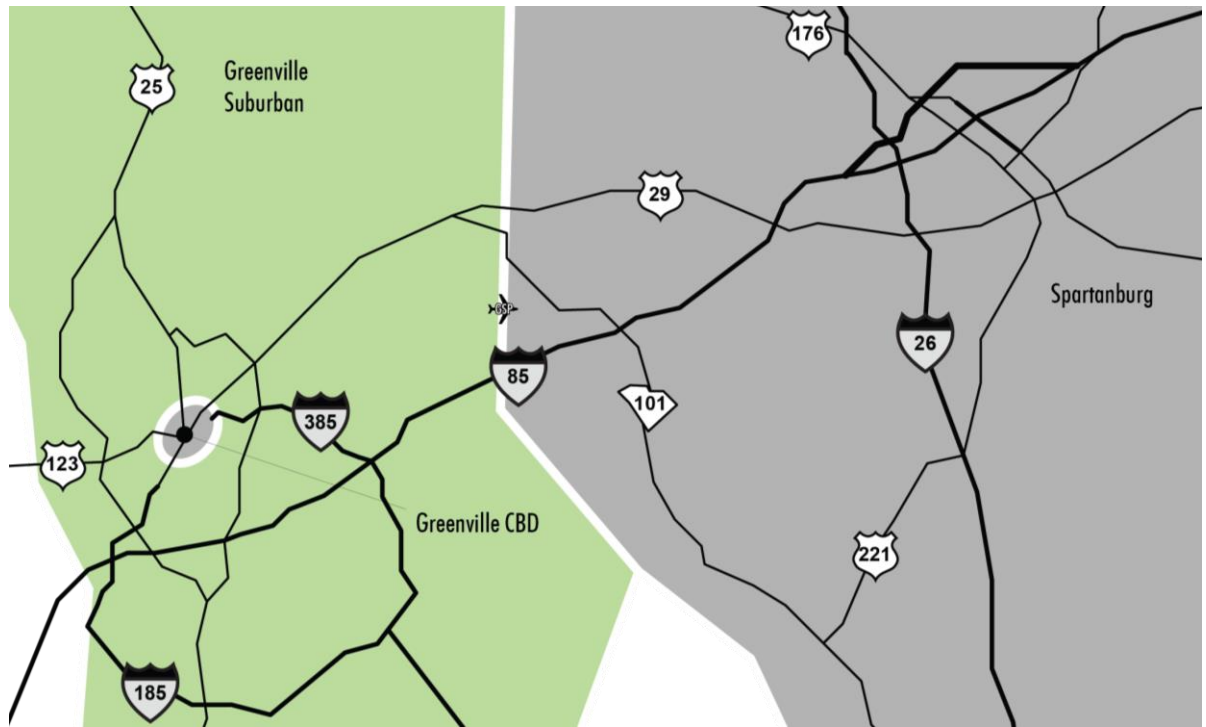
Increased asking rents in Greenville’s CBD may partially be attributed to tenants’ continued preference for downtown amenities and walkability. Suburban submarket attempts to mimic these urban conveniences are proving successful as seen through the consistently stable leasing of office parks including Office Park Patewood, Park 37 and Harbinger, where market users are readily provided with nearby restaurants and retail with the added benefit of plentiful parking and lower real estate costs.

An example of this is demonstrated by the decision of Getronics, an information and technology firm, to expand their current operations to Park 37 Office Park as well as the

relocation of OB Hospitalist Group to Harbinger Office Park. Despite the existence of several quality office options, office park amenities proved an important deciding factor in both firms’ decisions.

One of the reasons why amenities are considered so important pertains to the challenges in securing labor in the market. In a tight labor market, companies are often forced to attract talent from competitors. While increasing salaries is one way to accomplish this, providing an office setting that increases the quality of life of its employees is becoming an effective strategy.

Although the Greenville-Spartanburg office market has experienced relatively flat absorption rates in 2017 and 2018, this has largely been attributed to a lack of product availability. With newly vacated Class A spaces in the suburbs and the construction of new speculative space downtown, expect to see absorption numbers increase in the coming quarters.



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