

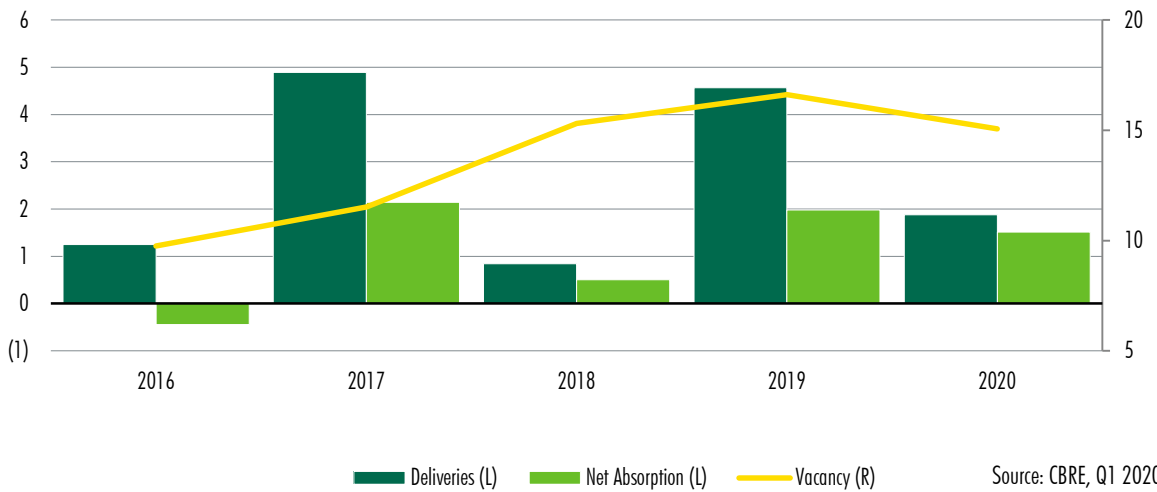
Charleston Office, Q1 2020

Average lease rates and absorption figures hit new high

▼ Vacancy 15.1%
▲ Rental Rate \$26.00 FS
▲ Net Absorption 151,177 SF
▲ Under Construction 743,000 SF
▼ Deliveries 188,000 SF

Figure 1: Historical Supply & Demand Dynamics

Indicates change from previous quarter.



Source: CBRE, Q1 2020

The Charleston MSA posted 151,000 sq. ft. of positive net absorption in Q1 2020, the highest figure on record since 2016. The CBD's notable 61,000 sq. ft. of absorption can be attributed to the delivery and strong preleasing activity at the WestEdge development. New Class A product being delivered to the relatively small market has driven average lease rates up nearly 5% from the previous quarter to an average lease rate of \$26 per sq. ft. per annum on a full service basis. Subsequently, vacancy fell to 15.1% or 150 basis points lower than the previous quarters vacancy rate of 16.6%.

COVID-19 PANDEMIC

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the US economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage, and transportation sectors. Office-using

employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S. – mirroring China's experience – the U.S. government's fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

Charleston remained a landlord favored market as owners remained bullish and continued to escalate rents on a quarterly basis. While it is to be anticipated that there will be an increase in rent concessions (TIAs and abatement), once the market stabilizes, Charleston is positioned to hopefully return to normalcy. Charleston continues to outpace the Southeast in terms of population and GDP growth, attracting a young, educated workforce to the area.

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	1,830,211	14.5	14.6	38.17	420,998	46,541	64,237
Peninsula Class B	467,958	7.2	11.4	28.80	-	4,265	0,992
Downtown	2,376,813	12.7	13.7	36.52	420,998	54,149	61,693
Daniel Island	1,316,329	18.6	18.9	27.61	-	31,879	3,807
East Cooper	1,344,640	6.9	8.0	27.77	-	166,217	38,810
North Charleston	3,765,673	19.2	20.4	20.90	234,000	37,000	(9,977)
West Ashley	598,447	11.5	11.9	26.92	-	58,431	56,844
Suburban	7,025,089	16.1	17.0	22.75	234,000	296,922	89,484
MARKET TOTAL	9,492,746	15.1	16.0	26.00	654,998	351,071	151,177

Class	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)
Class A	5,736,927	14.6	15.1	29.37	101,360	321,648	129,732
Class B	3,341,538	15.7	18.2	20.69	-	48,070	21,439
MARKET TOTAL	9,492,746	15.1	16.0	26.00	654,998	351,071	151,177

Source: CBRE Research, Q1 2020

LEASING ACTIVITY

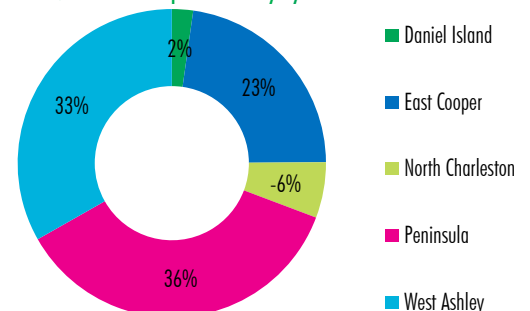
Prior to COVID—19 leasing velocity in the Charleston office market was stable. Due to steady growth in the market, Charleston has witnessed new tenants enter the market in addition to established occupiers renewing their leases. Three of these new leases include:

- RMS Organics, a Charleston based organic makeup and skincare business, signed an 18,000 sq. ft. lease 1460 Tobias Gadson Blvd located in the West Ashley submarket.
- IndySoft., a software management solutions provider, inked a 10,000 sq. ft. lease at The Headquarters Building, a Class A asset located at 146 Fairchild St. in the Daniel Island submarket.
- CitiCasters Inc., a subsidiary of iHeartRadio Media, signed an 8,000 sq. ft. lease at Watermark Plaza located at 950 Houston

Northcutt Blvd. in the East Cooper submarket. Johnson and Johnson also signed a 5,000 sq. ft. lease at the same property.

The Peninsula submarket lead Charleston in absorption activity with a positive 61,000 sq. ft. of absorption, while the only negative absorption of (9,977) was posted in the North Charleston submarket.

Figure 3: Q1 2020 Absorption Activity by Submarket



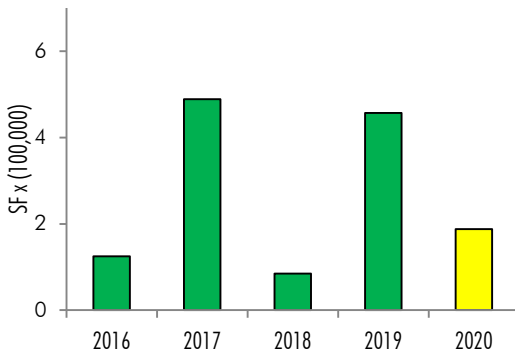
Source: CBRE, Q1 2020.

DEVELOPMENT ACTIVITY

Currently, there is just over 700,000 sq. ft. of office space under construction in the Charleston MSA. 51% of that total figure is located in Charleston’s Peninsula submarket which is seeing unprecedented growth. The total square footage of the Peninsula submarket has increased 8.2% over the last year alone and once the under construction projects deliver, will supply an additional 361,000 sq. ft. of Class A space to the Peninsula.

While pre-leasing activity usually wavers, it should be noted that 40% of the current development is already pre-leased. Ingevity, a 110,000 sq. ft. asset in North Charleston is currently 100% pre-leased, while the Jasper a new 75,000 sq. ft. project on the Peninsula only has 15,000 sq. ft. of office space remaining. Wells Fargo is moving their Charleston operation and 60 employees from 177 Meeting Street to the 320 Broad Street address in late 2020.

Figure 4: Historical Office Deliveries



Source: CBRE, Q1 2020.

PORT OF CHARLESTON

The Port of Charleston is a main economic driver in the value of the Charleston market as well as the global supply chain relative to the Southeast. Per the SCSPA, the Port of Charleston leads all ports in North America in terms of productivity. Furthermore, over \$2 billion has been invested into various projects to strengthen the infrastructure and efficiency. As e-commerce and logistical occupiers pursue space in the Charleston industrial market, occupancy growth in the office sector will hopefully continue to expand.

ASKING RATES

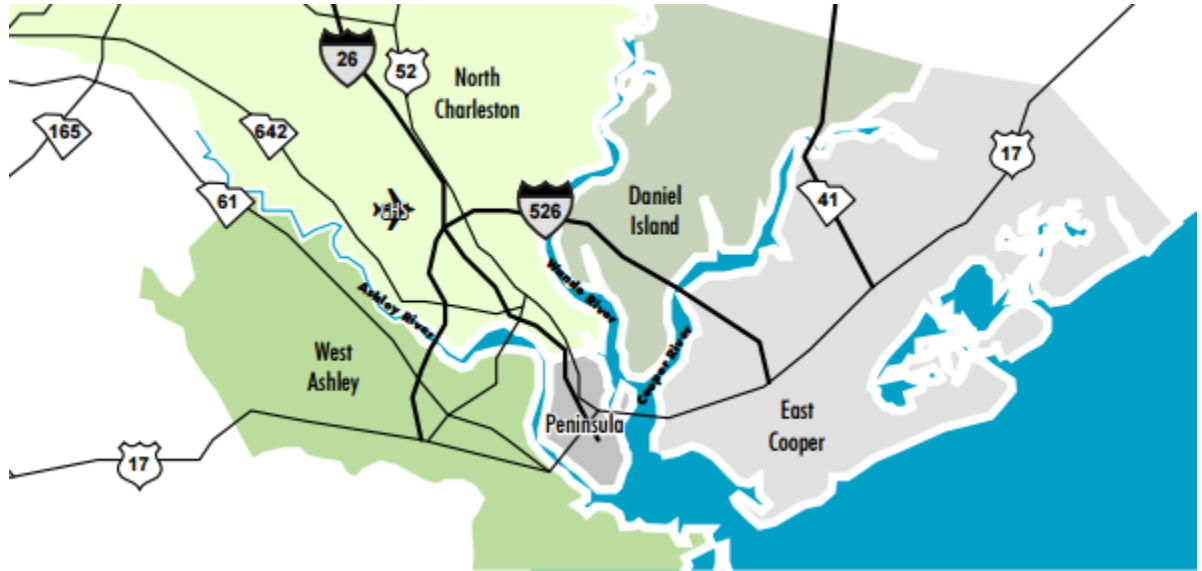
As Charleston continues to attract both regional and national tenants to the market, in particular medium sized companies that are seeking headquarter space. Subsequently, asking rates, continue to escalate and have posted historical highs specifically in new construction as asking rates exceed \$40.00 per sq. ft annum on a full service basis.

Overall asking rates increased 5% over the prior quarter to \$26.00 per sq. ft. annum on a full service basis, a 5.7% annual increase. Although all asset asking rates continue to rise, Charleston’s Class A rental rates in the Peninsula submarket have posted the most growth. Since 2017, Class A asking rates on the Peninsula have increased 12.8% reaching \$38.17 per sq. ft. annum on a full service basis, the highest rate ever recorded in Charleston’s Class A Peninsula submarket.

INVESTMENT SALES

Due to economic uncertainty, investment sales in the Charleston office market were stagnant in the first quarter. However, 2019 posted impressive figures for investment sales. Some notable transactions included:

- Blackbaud’s 280,000 sq. ft. headquarters building at 2000 Daniel Island Dr in the Daniel Island submarket commanded a \$35 million price tag in Q2 of 2019. The Class A asset sold 100% leased to Atlanta based Holder Properties.
- 146 Fairchild St, also in the Daniel Island submarket posted an \$8 million sale in early 2019. The 67,000 sq. ft. building is currently 86% leased.
- 1180 Sam Rittenberg Blvd, a 38,000 sq. ft. asset in the West Ashley submarket sold for just under \$5.5 million in Q4 of 2019.



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