

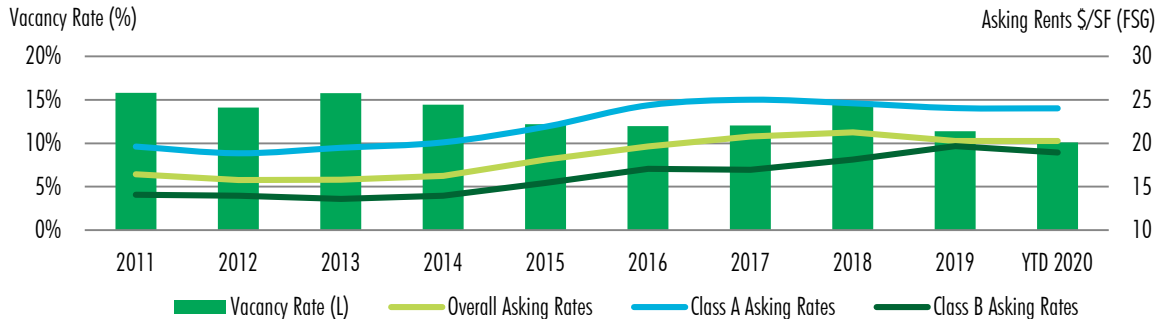
Greenville Spartanburg Office, Q1 2020

Suburban office markets fuel leasing velocity as vacancy reaches a new low

▼ Vacancy 10.1%
▼ Availability 12.7%
▲ Rental Rate \$21.15 FS
▲ Net Absorption 117,797 SF
▼ Under Construction 314,000 SF
▲ Deliveries 93,000 SF

Figure 1: Historical Vacancy & Asking Rate Growth

Indicates change from previous quarter.



Source: CBRE, Q1 2020

The Greenville-Spartanburg MSA posted 118,000 sq. ft. of positive net absorption in Q1 2020, the eighth consecutive quarter of occupancy growth in South Carolina's largest office market. Since Q1 2016, Greenville-Spartanburg has recorded 1.0 million sq. ft. of positive net absorption, 59% of that activity occurring in the suburban markets. Subsequently, vacancy fell to 10.1%, 130 basis points lower than the previous quarters vacancy rate of 11.4%

Greenville-Spartanburg persisted as a landlord favorable market through Q1 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, Greenville is positioned to hopefully return to normalcy. Further, asking rates in core Class A office buildings in the CBD and new development tend to push 5% to 15% higher than the markets overall Class A rates of \$24.01 per sq. ft. annum on a full service basis.

Leading up to the COVID-19 pandemic, Greenville-Spartanburg's office market fundamentals were robust as vacancy and occupancy growth continued to hit new records annually. Given the uncertainty in the market due to COVID-19, the Greenville-Spartanburg office market remained attractive due to an educated workforce, favorable tax incentives, an appealing quality of life index and a competitive business environment. Historically, Greenville has seen significant growth in response to a recession due to reinvestment in infrastructure and expansion in the large engineering sector. Both vacancy and availability saw notable decreases from Q4 2019. The total market availability saw a significant drop to 9.3%, a 340 BPS swing from the previous quarter of 12.7%.

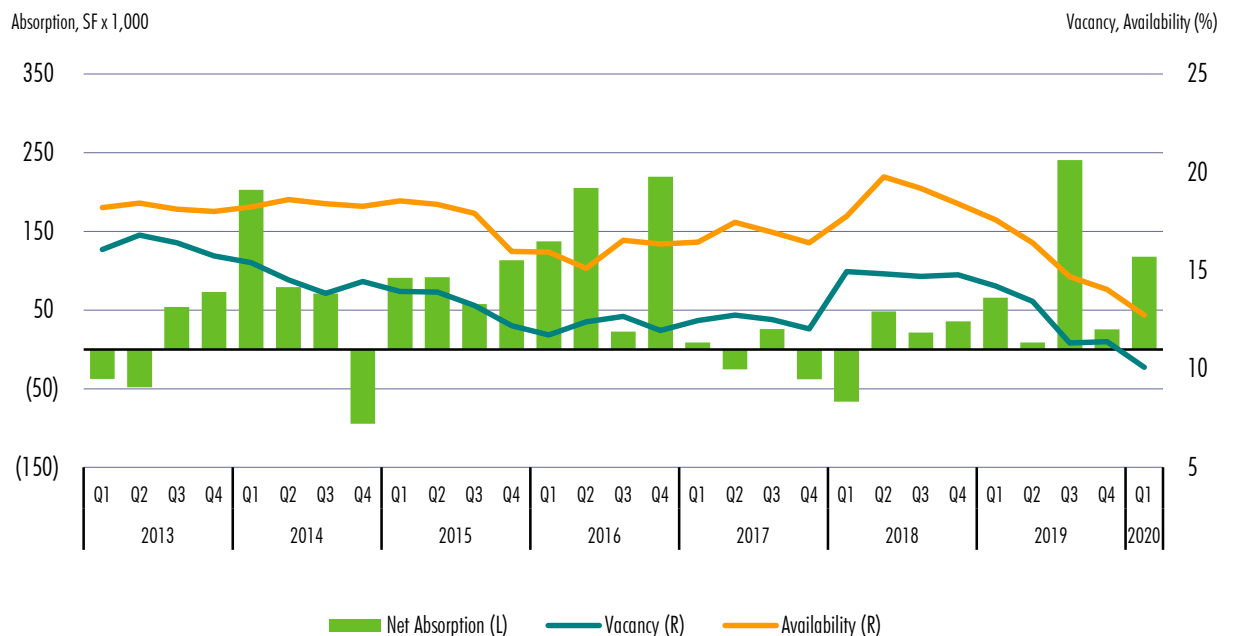
The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the US economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage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

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	2,526,744	7.4	12.5	25.79	314,000	85,539	23,972
Greenville CBD Class B	1,183,257	15.4	18.5	20.00	-	18,374	10,962
Downtown	3,801,206	9.8	14.1	23.50	314,000	106,213	37,234
Greenville Suburban Class A	2,813,359	9.0	12.6	22.14	0	276,047	45,851
Greenville Suburban Class B	3,377,207	12.2	13.2	18.38	-	28,536	52,809
Spartanburg Class A	448,737	3.9	5.0	24.23	-	(6,261.00)	-
Spartanburg Class B	856,631	8.6	8.6	17.63	-	(11,593)	(15,593)
Suburban	7,664,754	10.2	12.1	19.65	0	286,639	80,561
MARKET TOTAL	11,465,960	10.1	12.7	21.15	314,000	392,854	117,797

Asset 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	5,788,840	7.9	12.0	24.01	314,000	355,235	1,872
Class B	5,417,095	12.3	13.6	18.84	-	35,317	23,565
MARKET TOTAL	11,465,960	10.1	12.7	21.15	314,000	392,854	117,797

Figure 3: Vacancy, Availability and Absorption



LEASING ACTIVITY

In Q1 2020, 322,000 sq. ft. of office space was leased in the Greenville-Spartanburg market. There were five leases over 10,000 sq. ft. executed. Three notable Q1 2020 lease transactions included:

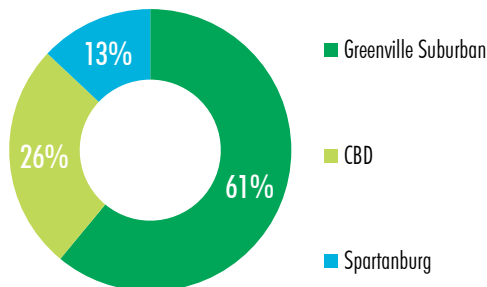
- A confidential customer support company executed a 39,000 sq. ft. lease at Park 37 located at 400 Executive Center Drive.
- Grace Hill inked a 10,500 sq. ft. lease at 300 Executive Center drive, also located within the Park 37 Building Park. The real estate software company relocated from 5,000 sq. ft. in the CBD, doubling their previous footprint.
- Utility Partners of America, leased 21,000 sq. ft. of flex office space at 7001 Pelham Road in the Pelham at Hyland Business Park.

DEVELOPMENT ACTIVITY

There are two major projects under construction in Greenville’s CBD. Falls Tower, located at 435 S. Main St., is a new segment of the mixed-use Camperdown development. CBRE, Elliott Davis, Bank of America and Spaces have preleased 93% of the building. The redevelopment at County Square, a 37.4 acre site off University Ridge, has gained preliminary approval. Once completed, the project will add additional Class A space to the CBD office market.

Renovations continue at the historic Judson Mill, which will infuse nearly 300,000 sq. ft. of office space into the CBD submarket. The mixed-use development will also feature premium lofts and state of the art retail attributes such as a rock-climbing facility.

Figure 4: Q1 2020 Gross Leasing Activity by Submarket(Share by SF)



Source: CBRE, Q1 2020.

Two office buildings delivered in Q1 2020, both located in Greenville’s suburban office market. Bridgeway Station added 73,000 sq. ft. of office space and Legacy Square, a mixed-use project in the master planned Verdae development, added just over 20,000 sq.ft. of office space.

ASKING RATES & CONCESSIONS

Asking rates for the Greenville-Spartanburg market increased from the previous quarter to \$21.15 per sq. ft. annum on a full service basis. With limited inventory, landlords are able to demand higher asking rate for assets. The most in demand product, Suburban office space, saw the largest jump in asking rates at 8.8%. This is attributed to the new product being delivered to the suburban office market. The Spartanburg suburban submarket recorded a 9.4% increase in average direct asking rates from \$16.12 per sq. ft. annum on a full service basis in Q4 2019 to \$17.63 per sq. ft. annum on a full service basis in Q1 2020.

Q1 2020 HIGHLIGHTS

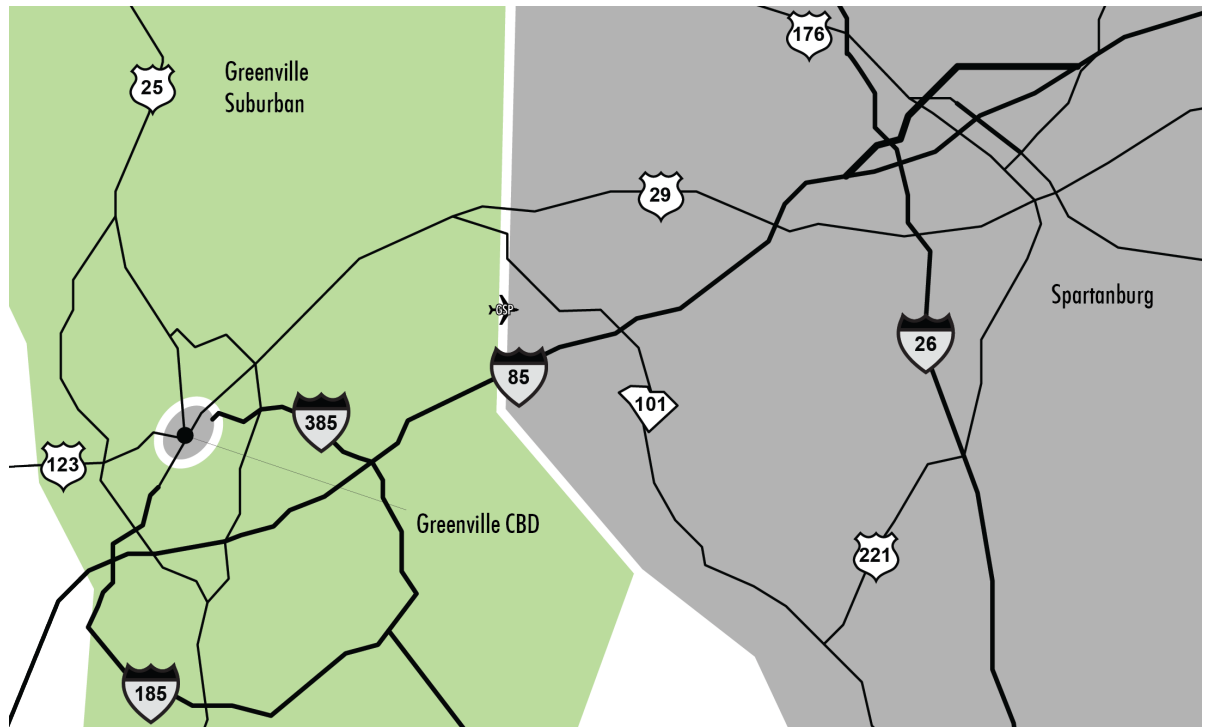
Greenville-Spartanburg remains one of the nations leaders in automotive technology and innovation. The Greenville-Spartanburg MSA is home to over 120 automotive companies that employ over 30,000 people. Since 1992, BMW has invested over \$7.8 Billion in South Carolina to support infrastructure and job growth.

Although no assets sold in Q1 2020, Greenville-Spartanburg recorded overall growth in transactional volume in 2019 as \$151 million sold, the highest transactional value since 2016. Further, 18 properties totaling 1.2 million sq. ft. are currently on the market for sale as of Q1 2020, which could accelerate sales activity in 2020 and 2021.

Figure 5: Quarter-over-Quarter Rent Growth by Asset Class

Asset Class	Rent Per SF (\$) (FS)	YoY Change (%)
Class A	\$24.01	0.12%
Class B	\$18.84	0.80%
Class C	\$10.21	14.6%
Overall	\$21.15	1.49%

Source, CBRE, Q1 2020



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