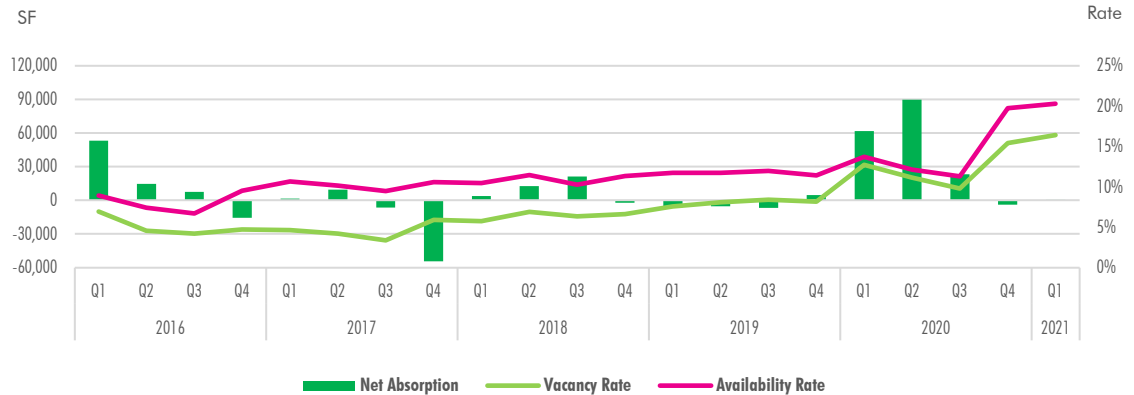


Strong net migration continues to fuel market fundamentals

▲ Vacancy Rate 16.4%
▼ Overall Rate \$26.57 FS
▼ Class A Rate \$29.52 FS
▲ Net Absorption 366 SF
▼ Deliveries 113,000 SF
▲ Construction 370,879 SF

*Arrows indicate quarterly change

Figure 1: Historical Supply & Demand Dynamics



Source: CBRE Research, Q1 2021

Demand in Charleston improved quarter-over-quarter as 366 sq. ft. of positive net absorption was recorded in Q1 2021. Although the impact of COVID-19 continued to reverberate through the market, Charleston’s fundamentals have remained stable amid the pandemic. Since Q2 2020, the first full quarter impacted by COVID-19, the Charleston office market has recorded 398,000 sq. ft. of occupancy growth, a record high. The Peninsula, Charleston’s urban core, fueled demand in Q1 2021 recording 53,000 sq. ft. of positive net absorption. As the market reverts to normalcy, Charleston’s welcoming business environment will continue to attract new migrants to the market. Over the last five years, 62,000 people have migrated to Charleston annually, directly increasing the metro’s talented employment base.

Charleston’s vacancy rate increased 100 basis points in Q1 2021 to 16.4%, the highest vacancy rate since Q4 2019. This was primarily driven by Boeing vacating 40,000 sq. ft. at 4340 Corporate Road and the market’s sublease vacancy rate increasing 23% from the previous quarter to 110,000 sq. ft. These market trends coupled with the macro-economic factors connected to COVID-19 continued to soften office fundamentals in Charleston in Q1 2021.

Recent economic announcements in Charleston like Walmart’s commitment to add over 1,000 jobs and the sustained success of the Port of Charleston continues to leverage the emerging market as a focal point in the Southeast for investment activity, residents, and occupiers.

COVID-19 Q1 2021 RESPONSE

The outlook for the United States economy is becoming very positive as COVID-19 vaccines are deployed at a rapid pace. At the close of the first quarter over a quarter of Americans have received at least one dose of the vaccine. The rate of daily vaccinations has accelerated to 2.5 million, making societal and economic normalization possible by mid-year.

A reopening of the economy would support near 7% GDP growth this year—the strongest pace seen since the early 1980s. This expansion is poised to be broad-based, with personal consumption being a critical factor. Indeed, consumers, particularly high earners, have plenty of ‘dry powder’ in the form of elevated savings accrued during the pandemic. This will be paired with over \$800 billion of transfer payments to low and middle-income households via the American Recovery Plan.

As social distancing measures subside, much of the spending will likely focus on consumer services, such as restaurants and leisure travel. A recovery within these sectors is critical for the broader labor market, as leisure and hospitality employment are more than 30% below pre-COVID levels, compared to 5% for total employment (excluding leisure and hospitality). Overall, we think the U.S. economy will create upward of 7 million total new jobs in 2021. This burst of activity will push inflation above the Federal Reserve’s traditional 2% target, but this is likely to be transitory as 18 million workers remain on the sidelines and the wall of fiscal stimulus represents a one-time jolt rather than a constant flow of dollars.

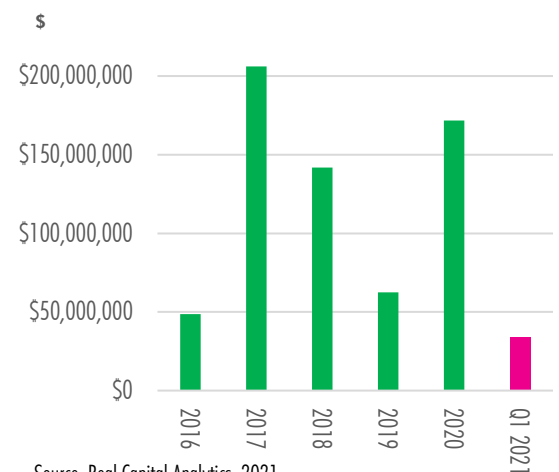
CAPITAL MARKETS

After a record setting year of transactional volume, \$170 million in 2020, investment activity remained stable in Q1 2021. The two Q1 2021 transactions include:

- LHMT Capital, a subsidiary of Jack Lingo Asset Management out of Delaware, purchased 201 Sigma Drive for \$26 million or \$307 per sq. ft. The 85,000 sq. ft. asset was previously owned by Westport Capital Partners out of Connecticut.
- 3800 Paramount Drive, located in the North Charleston Submarket, was purchased by Montague Investments for \$8.3 million or \$164 per sq. ft. The 50,000 sq. ft. property was previously owned through a joint-venture between Garrison Investment Group and Cobalt Property Group.

Amid the COVID-19 pandemic, Charleston recorded its two most expensive sales in history. Portside at Ferry Wharf located at 75 Port City Landing and Blackbaud Corporate Campus set investment records in Charleston in 2020. Consistent population growth, favorable tax benefits, and a promising weather climate continues to drive annual rent growth and employment trends, drawing new investors to Charleston.

Figure 2: Historical Investment Activity

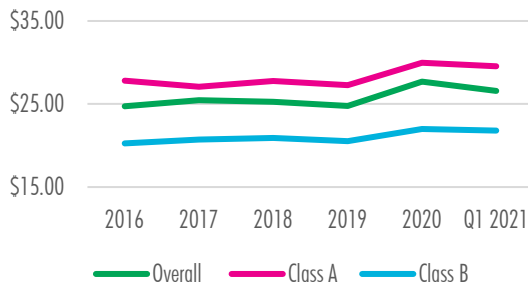


Source: Real Capital Analytics, 2021

ASKING RATES

Overall asking rates closed Q1 2021 at \$26.57 per sq. ft. per annum on a full-service basis, a 2% annual increase. Over the last five years, Charleston’s office rates have increased 1.5% annually. Consistent demand and the new office product coming online over the next 2 years will continue to drive rates upward.

Figure 3: Historical Pricing



Source: CBRE Research, Q1 2021

DEVELOPMENT ACTIVITY

Two properties delivered in Charleston in Q1 2021 totaling 113,000 sq. ft. at a prelease rate of 78%.

- The Jasper, a 75,000 sq. ft. office development located at 320 Broad Street, delivered 100% preleased. The Class A asset is occupied by the owner, The Beach Company, and Wells Fargo.
- Flyway Construction and Development’s 38,000 sq. ft. office project, The Refinery, located at 1640 Meeting Street delivered this quarter. The new Class A creative office development is 36% preleased.

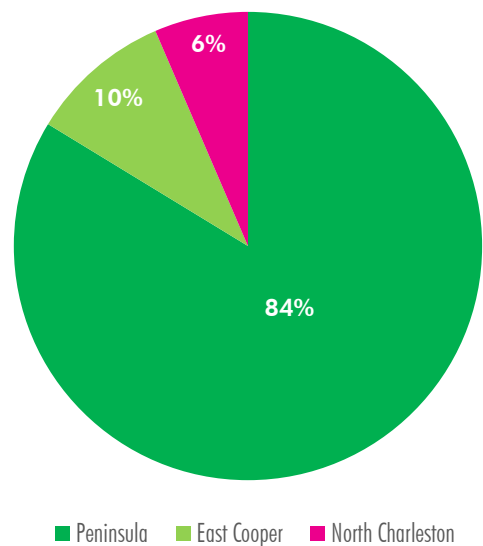
In addition to 113,000 sq. ft. delivering this quarter, 371,000 sq. ft. of office product is currently under construction in Charleston. Morrison Yard, located at 850 Morrison Avenue, is the largest project under development in Charleston. The 135,000 sq. ft. Class A asset in the Peninsula submarket is being developed by Origin Development Partners, a developing firm located in Charleston.

ECONOMIC OUTLOOK

Charleston has experienced unprecedented population growth in the last decade, growing nearly 20% from 2010 through 2019. As the metro continues to grow and Charleston’s main economic drivers such as tourism, retail, and hospitality rebound as vaccines become more readily available, unemployment will continue to decrease. As of February 2021, Charleston’s unemployment rate decreased to 4.8%, 30 basis points lower than South Carolina’s unemployment rate of 5.1%.

The Charleston Metro remains one of the most educated markets in South Carolina. Over 66% of Charleston’s population has achieved a college level education compared to 59% in South Carolina. As Charleston continues to attract more talent as people migrate to Charleston, the market will become more attractive to occupiers and future investment.

Figure 4: Development by Submarket



Source: CBRE Research, Q1 2021

Figure 5: Market Statistics

Submarket	Total RBA	Total Vacancy (%)	Total Availability (%)	Overall Rate (\$/FS)	Q1 2021 Net Absorption	2020 Net Absorption	Construction
Peninsula Class A	1,895,271	17.7	18.9	35.37	53,091	163,109	310,479
Peninsula Class B	476,994	9.6	13.2	28.45	-	(1,154)	-
CBD	2,505,909	15.5	17.3	34.22	53,091	160,616	310,479
Daniel Island	1,437,615	16.3	29.1	26.32	(2,750)	20,906	-
East Cooper	1,326,604	10.6	11.1	27.45	2,219	143,207	36,400
North Charleston	4,108,075	20.1	23.3	23.08	(39,076)	127,727	24,000
West Ashley	591,483	8.3	11.6	25.03	(13,118)	96,461	-
Suburban	6,872,294	23.2	18.2	25.53	(52,725)	388,301	60,400
Market Total	9,969,686	16.4	20.3	26.57	366	548,917	370,879

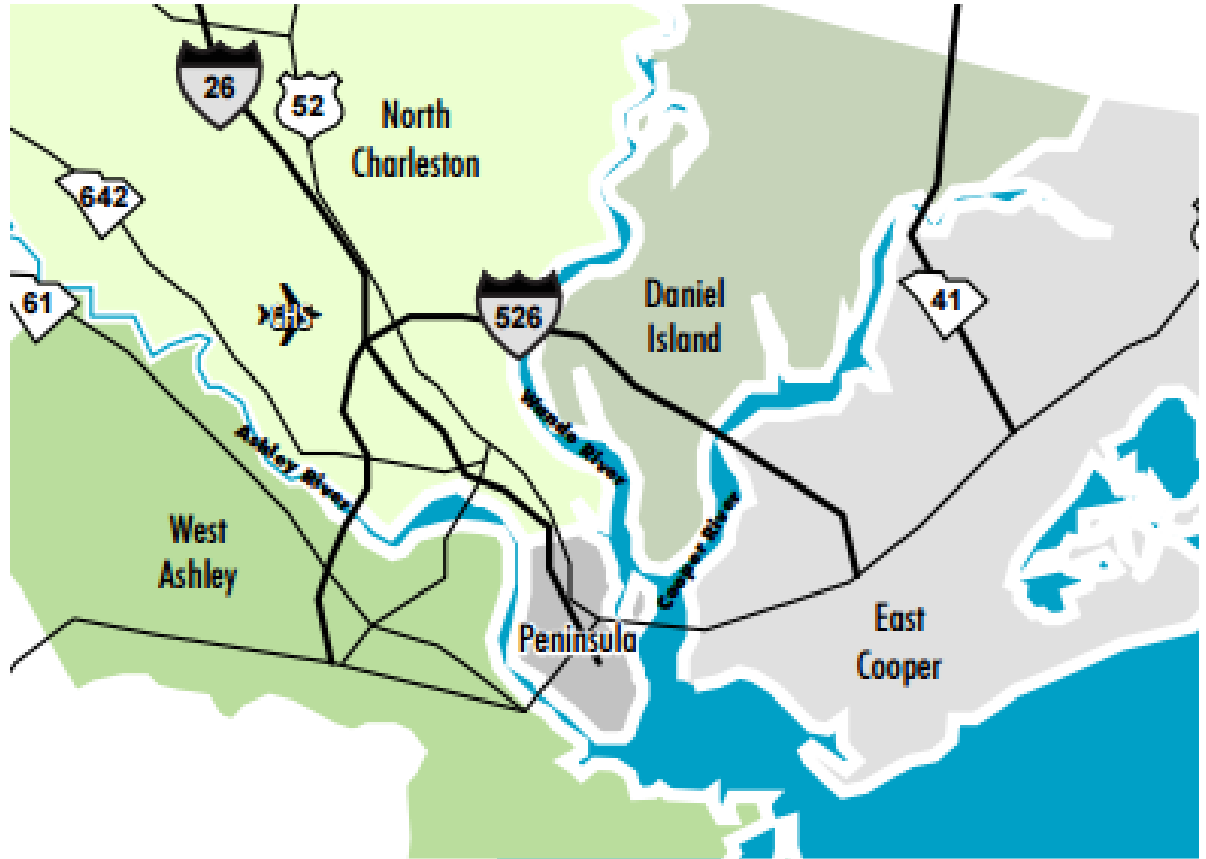
Asset Class	Total RBA	Total Vacancy (%)	Total Availability (%)	Overall Rate (\$/FS)	Q4 2020 Net Absorption	2020 Net Absorption	Construction
Class A	5,980,248	15.8	20.6	29.52	17,114	442,593	346,879
Class B	3,550,121	18.2	20.8	21.82	(7,473)	97,657	24,000
Market Total	9,969,686	16.4	20.3	26.57	366	548,917	370,879

Source: CBRE Research, Q1 2021

Figure 6: Notable Charleston Office Transactions

Property Name	RBA	Sales Price (Millions)	Price PSF	Seller	Buyer	Sale Date
Blackbaud Corporate Campus	172,000	\$76.3	\$443	Holder Properties	Blackbaud	8/20
Portside at Ferry Wharf	114,903	\$48.4	\$421	Holder Properties	Susquehanna Holdings	12/20
201 Sigma Drive	85,050	\$26.1	\$307	Westport Capital	LHMT Capital	1/21
134 Meeting Street	71,947	\$23.8	\$330	CMB Properties	Highland Ventures	9/20
M.U.S.C.	32,000	\$12.0	\$375	Southeastern Development	M.U.S.C.	6/20

Source: CBRE Research, Q1 2021



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