

MARKETBEAT OFFICE SNAPSHOT

CHARLESTON, SC

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Q3 2014



ECONOMIC OVERVIEW

The Charleston office market retains its overall 2014 positive trend of declining vacancy rates as companies are expanding and employment is reaching prerecession heights, both downtown and in suburbia. Rental rates downtown are approaching potentially record rates of \$40.00 per square foot (psf) full service for new deliveries. The scarcity of parking downtown and rising rates can contribute an additional \$4.00 psf to the overall effective rate. Downtown vacancy rates have dipped to below 10% with class A space at a low 7.6% rate. Very few blocks of space exist in excess of 5,000 sf in the CBD. A start-up high tech firm (ATLTL) has committed to a lease for 15,000 sf at 174 Meeting with Holder Companies in the CERTUS Bank Building. During the year, a tidal wave of announcements of tourist-driven development in the retail and hospitality sectors is occurring reflecting the growing economy and the area's growing reputation as the crown jewel of the southeast. Pressure on the area's infrastructure is a challenge as Charleston's quality of living continues to attract talent in the fields of medicine, high-tech research and manufacturing, aeronautics, automotive and hospitality with no signs of decelerating.

TRENDS

As in Downtown Charleston, the suburban markets are experiencing falling vacancy and escalating rental rates as tenants seek more reasonable quality space with less congestion. Class A and B buildings with contiguity to the Port, Boeing and SPAWAR and the center point of the region have limited availability due to their locations close to the interstate and favorable options for ingress and egress. New office development will be required for sustained economic growth. A question mark remains for the defense industry which has traditionally plays a major part of the local economy and is feeling the effects of sequestration. Aerospace firms and defense contractors are still waiting for the long-lasting effects of the 2013 government sequester which resulted in about \$1 trillion in across-the-board spending cuts nationally. Local spending on military contracts and attendant real estate development will be affected as continued sequestration may undermine speculative development of flex and office products in suburban submarkets.

OUTLOOK

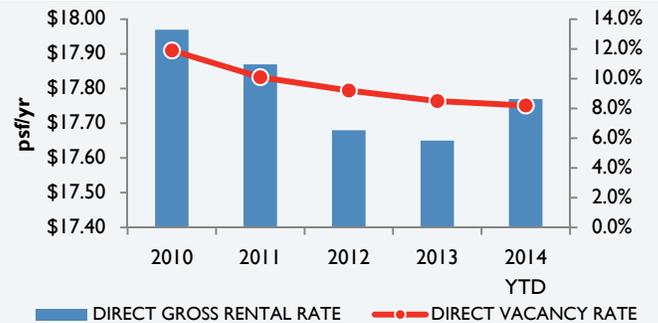
Speculative development is evident in downtown projects. The Cigar Factory, a retail/office redevelopment of 245,000 sf, and Midtown, a mixed-use development of 433,000 sf anchored by a combination of

Hyatt House and Hyatt Place Hotels (a first with Hyatt), and high-end multifamily and retail, are well underway. Evening Post Industries, owner of The Post and Courier, plans to break ground on its 12 acres of downtown property next fall. Phase I will be around the corner from the Midtown development by Regent Partners of Atlanta. The Charleston area will continue to be on the radar of tech start-ups in addition to regional corporate entities as Generation Y exerts its influence on the evolution of efficient space planning. Live-work-play is the name of the game not only downtown but also in suburbia highlighted by MeadWestvaco's ambitious NEXTON development in Summerville.

STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.2%	8.3%	-0.9pp	↕
Direct Asking Rents (psf/yr)	\$17.79	\$17.77	-0.1%	↕
YTD Leasing Activity (sf)	400,009	508,935	27.2%	↘

DIRECT RENTAL VS. VACANCY RATES



OVERALL ACTIVITY VS. ABSORPTION

