

MARKETBEAT OFFICE SNAPSHOT

CHARLESTON, SC

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

Tourism, manufacturing and shipping continue to dominate the Charleston economy through Q2 2015. Once again, and for the third year in a row, *Travel and Leisure* magazine has ranked Charleston the “Best” of all

destinations in North America. Among top 10 cities in the world, Charleston took second to Kyoto, Japan.

The Charleston office market is reflecting the economy’s surge with the lowest vacancy rate reported since 2007 while reaching historically high rental rate levels. Rates in downtown Charleston are bumping an astounding \$40 per square foot (psf), full service, while the suburbs are seeing some spec development for the first time in almost a decade. Holder Properties just delivered its 75,000-square foot (sf) Daniel Island trophy building with over 45% leased at rates of \$28.00 psf. All suburban markets are experiencing growing activity together with increased investor interest as the primary market becomes increasingly competitive and investors are forced to examine secondary markets.

The delta between new and older generation space is generally wide downtown, but in the suburbs the gap is shrinking which is causing developers like Holder to bring appealing new space to the market at rates which make sense to the current tenant pool.

ABSORPTION AND LEASING

The Charleston office market grew yet again with a net positive overall absorption of 216,005 sf for Q2 and 452,591 sf year-to-date. The overall vacancy rate decreased to 7.0%, down from 7.2% in Q1 2015. Direct asking rental rates decreased from \$21.16 psf in Q1 2015 to \$20.07 psf in Q2 2015. A total of 150,000 sf of speculative space was delivered in Q2 with 89,354 sf still under construction.

TRENDS

Continued vacancy rate reductions signal an overall positive outlook for the region. Speculative office buildings under construction are a very welcomed sight for the Charleston market.

OUTLOOK

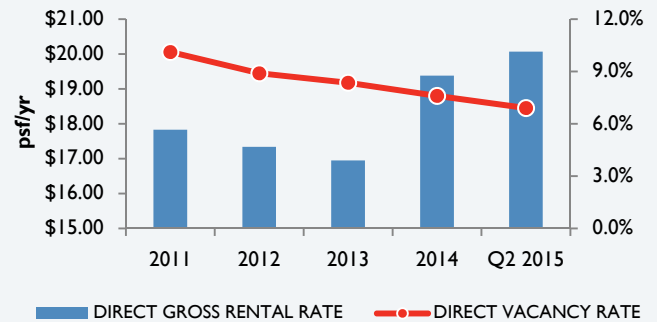
Highlighted last quarter, the Nexton Development in Summerville, the Cigar Factory on the Peninsula, and the 75,000-sf Holder building on Daniel Island were sitting center stage as the most active office buildings in the tri-county area. But today ground breaking ceremonies for the 125,000-sf class A building developed by Durlach and Trinity Capital Advisors at 4400 Leeds Avenue in North Charleston seems to be all the buzz among Charleston brokers.

Known for their attention to detail, this modern state of the art design featuring floor to ceiling windows and column free architecture will certainly be another trophy award building for brokers to show their clients. Durlach has developed a number of class A buildings in the past few years that have leased remarkably fast compared to other competitive developments. One other building soon to be competing for attention, and just across the street, will be 4401 Leeds Avenue, this 84,804-sf class A building is rumored to be breaking ground soon.

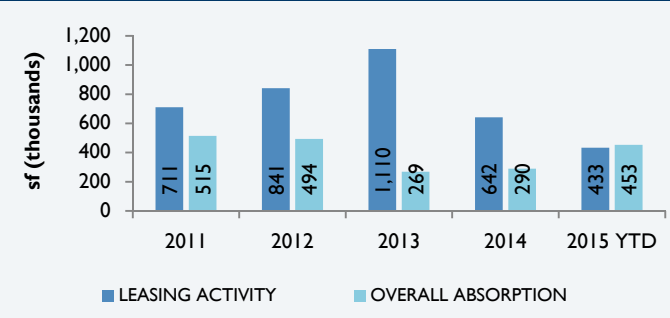
STATS ON THE GO

| | Q2 2014 | Q2 2015 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy | 8.4% | 7.0% | -1.4 pp | ▼ |
| Direct Asking Rents (psf/yr) | \$17.88 | \$20.07 | 12.2% | ▼ |
| YTD Leasing Activity (sf) | 366,875 | 432,563 | 17.9% | ▲ |

DIRECT RENTAL VS. VACANCY RATES



OVERALL ACTIVITY VS. ABSORPTION



CHARLESTON, SC

| SUBMARKET | INVENTORY | OVERALL VACANCY RATE | DIRECT VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | OVERALL WTD. AVG. ALL CLASSES GROSS RENTAL RATE* | DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE* |
|------------------------|-------------------|----------------------|---------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|--|---|
| CBD | 5,050,748 | 5.8% | 5.4% | 112,966 | 20,000 | 0 | 103,610 | 106,454 | \$28.33 | \$31.55 |
| Dorchester County | 1,203,002 | 8.3% | 8.3% | 6,210 | 0 | 0 | 2,869 | 2,869 | \$14.49 | N/A |
| E Charleston County | 33,000 | 9.1% | 9.1% | 0 | 0 | 0 | 0 | 0 | N/A | N/A |
| E Islands/Mt Pleasant | 3,199,194 | 4.1% | 4.1% | 49,462 | 69,354 | 0 | (15,166) | (15,166) | \$23.84 | \$28.20 |
| Greater Charleston | 3,715,669 | 6.3% | 6.1% | 133,816 | 8,784 | 220,000 | 218,141 | 208,930 | \$19.90 | \$24.18 |
| James Isld/Folly Beach | 271,068 | 1.9% | 1.3% | 0 | 0 | 0 | 0 | 0 | \$14.76 | N/A |
| North Charleston | 7,413,152 | 8.0% | 7.9% | 125,469 | 130,000 | 24,000 | 78,819 | 78,819 | \$17.08 | \$21.98 |
| Outlying Berkeley Cty | 1,395,624 | 15.5% | 15.5% | 3,100 | 0 | 75,000 | 70,045 | 70,045 | \$18.44 | \$23.19 |
| W Charleston County | 18,556 | 26.6% | 26.6% | 0 | 0 | 0 | 0 | 0 | \$9.00 | N/A |
| West Islands | 156,494 | 0.0% | 0.0% | 1,540 | 0 | 0 | 640 | 640 | \$15.56 | N/A |
| TOTALS | 22,456,507 | 7.0% | 6.9% | 432,563 | 228,138 | 319,000 | 458,958 | 452,591 | \$20.12 | \$25.84 |

* TOTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS

| | SUBMARKET | TENANT | BUILDING CLASS | SQUARE FEET |
|---|--------------------------|---|----------------|-------------|
| Charleston Gateway Center – 40 Calhoun St | Downtown Charleston | Mass Mutual Life Insurance Co. | A | 8,168 |
| Cigar Factory – 701 East Bay St | Downtown Charleston | Garden & Gun LLC | B | 7,245 |
| Charleston Gateway Center – 40 Calhoun St | Downtown Charleston | Gallivan, White & Boyd PA | A | 6,378 |
| 115 Central Island St | Greater Charleston | Arthur J. Gallagher Risk Mgmt. Services, Inc. | A | 6,142 |
| 25 Calhoun St | Downtown Charleston | Colliers International | A | 3,328 |
| 767 Johnnie Dodds Blvd | East Islands/Mt Pleasant | Oral and Facial Surgery Center | B | 3,323 |
| East Cooper Medical Complex | East Islands/Mt Pleasant | First Reliance Bank | B | 3,303 |
| 115 Central Island St | Greater Charleston | Thalhimer | A | 3,298 |

SIGNIFICANT Q2 2015 SALE TRANSACTIONS

| | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
|------------------------|--------------------------|-----------------------------------|------------------------|-------------|
| 8992 University Blvd | North Charleston | Healthare Trust of America, Inc. | \$10,600,000 / \$257 | 41,168 |
| 6650 Rivers Ave | North Charleston | William S. Sherriff | \$1,800,000 / \$113 | 16,000 |
| 2702 Azalea Dr | North Charleston | Cantey Technology Consulting, LLC | \$635,000 / \$82 | 7,702 |
| 3044 N US-17 N | East Islands/Mt Pleasant | Anthony H. Pope | \$1,167,500 / \$174 | 6,703 |
| 940 Johnnie Dodds Blvd | East Islands/Mt Pleasant | Buxton & Collie | \$1,050,000 / \$205 | 5,130 |

SIGNIFICANT Q2 2015 CONSTRUCTION COMPLETIONS

| | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
|-----------------------|--------------------|--|-----------------|---------------------------------|
| 115 Central Island St | Greater Charleston | Arthur J. Gallagher Risk Mgmt Services, Inc. | Q2 2015 | 75,000 (45%) |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
|---|--------------------------|----------------------------------|-----------------|---------------------------------|
| Roper St Francis Bldg – 8536 Palmetto Commerce Pkwy | North Charleston | Roper St Francis Healthcare Data | Q2 2016 | 130,000 (100%) |
| 235 McGrath Darby Blvd | East Islands/Mt Pleasant | Speculative | Q1 2016 | 62,500 (4%) |
| Midtown – 550 King St | Downtown Charleston | Speculative | Q3 2015 | 20,000 (16%) |
| 2067 Charlie Hall Blvd | Greater Charleston | Speculative | Q3 2015 | 8,784 (10%) |