

# Charleston office market anxiously awaits delivery of new construction

Crystal Baker Research Coordinator | South Carolina

## Key Takeaways

- During the fourth quarter of 2019, the overall Charleston office market absorbed 64,329 square feet.
- New construction and upgraded space availabilities increased the overall average weighted rental rate to \$25.72 per square foot during the fourth quarter of 2019.
- Due to completed construction outweighing absorption, the overall vacancy rate rose slightly from 10.74% last quarter to 11.74% this quarter.
- Positive office-using job creation will be necessary to increase office demand.

## 2019 Office Recap

Over the past 12 months, there were 14 office buildings delivered to the Charleston market adding 719,068 square feet. Despite the office deliveries this year, the Charleston office market vacancy rate has decreased from 13.81% during the fourth quarter of 2018 to 12.71% this quarter. Charleston offices absorbed 725,704 square feet and while all of the class sectors posted positive absorption, all of the positive absorption occurred within Class A and B properties. Lower North Charleston had the highest absorption of 232,375 square feet followed by Upper North Charleston absorbing 157,122 square feet. Due to building upgrades and new office deliveries, the average weighted rental rate for the remaining office space in Charleston rose from \$23.27 per square foot during the fourth quarter of last year to \$25.72 per square foot during the fourth quarter of 2019.

## Market Overview

### Overall Charleston Market

The Charleston office market is comprised of approximately 14.06 million square feet within 399 office buildings. There are currently 12 office buildings under construction which, upon completion, will add

### Market Indicators

Relative to prior period

Q4 2019

Q1 2020\*

VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE**	↑	↑

Note: Construction is the change in Under Construction.

\*Projected

\*\*Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

### Summary Statistics

Q4 2019 Charleston Office Market

Market

CBD

Suburban

Vacancy Rate	12.71%	13.70%	12.45%
Change From Q4 2018 (basis points)	-110	+715	-322
Absorption (Thousand Square Feet)	64.33	6.01	58.32
New Construction (Thousand Square Feet)	322.41	197.41	125.00
Under Construction (Thousand Square Feet)	626.74	318.00	308.74

### Asking Rents

Per Square Foot Per Year

Overall	\$27.38	\$35.49	\$24.27
Change From Q4 2018	+17.66%	+11.05%	+8.30%
Class A	\$32.58	\$38.33	\$28.32
Change From Q4 2018	+40.01%	+19.93%	+26.37%

626,740 square feet to the office market and one office undergoing renovations. In addition, there are 13 proposed offices totaling 999,600 square feet adding to the construction pipeline. There were three office buildings delivered to Charleston during the fourth quarter of 2019 adding 322,414 square feet. The overall Charleston office market absorbed 64,329 square feet and, due to the square feet of completed construction outweighing absorption, the overall vacancy rate rose slightly from 10.74% last quarter to 12.71% this quarter. Also, likely due to new construction and high quality space availabilities, the overall average weighted rental rate rose from \$24.78 per square foot during the third quarter of 2019 to \$27.38 per square foot this quarter.

## Central Business District

The central business district has 89 buildings totaling 2.93 million square feet in Charleston and there are currently 318,000 square feet of office buildings under construction. During the fourth quarter of 2019 22 Westedge Street was delivered to the central business district adding 154,998 square feet, and the Lumberyard's delivery located at 1859 Summerville Avenue added 42,416 square feet. Downtown Charleston offices absorbed 6,007 square feet this quarter with offices classified as Class A and B absorbing a total of 10,457 square feet, while Class C office properties posted a negative absorption of 4,450 square feet. The vacancy rate increased from 7.68% during the third quarter of 2019 to 13.70% at year end mostly due to new construction deliveries. The average weighted rental rate was \$35.49 per square foot for the remaining downtown availabilities during the fourth quarter of this year; the delivery of high quality spaces continues to drive the rental rate upward.

## Suburban Conditions

The Charleston suburban office market is comprised of 11.13 million square feet within 310 office buildings. There are eight offices totaling 308,740 square feet under construction throughout the suburban submarkets and one building is under renovation at Garco Mill in Lower North Charleston. Also, Ferry Wharf, a 125,000-square-foot office building was added to the Mount Pleasant submarket during the fourth quarter of 2019. Overall, the suburbs absorbed 58,322 square feet this quarter; Class A office space absorption of 41,115 square feet accounted for more than half of the total suburban absorption. Mount Pleasant posted the healthiest submarket absorption of 49,378 square feet this quarter. Despite positive absorption and ongoing office demand, the suburban office vacancy rate rose from 10.74% during the third quarter of this year to 12.45% this quarter. The overall suburban market average weighted rental rate for the remaining availabilities increased to \$24.27 per square foot this quarter.

## 22 Westedge Street | Charleston, SC



Source: Charleston Multiple Listing Service

## Construction Pipeline

Construction activity continues to be positive in the Charleston market. Currently, there are 686,740 square feet of office space under construction or undergoing renovations.

### 2019 Q4 Office Construction Pipeline | Charleston

PROPERTY NAME   LOCATION	BUILDING SF	COUNTY
<b>DELIVERED</b>		
22 Westedge Street	154,998	Charleston
Ferry Wharf   75 Port City Landing	125,000	Charleston
Lumberyard   1859 Summerville Avenue	42,416	Charleston
<b>UNDER CONSTRUCTION (+50,000 SF)</b>		
The Belvidere   1510 Meeting Street	110,000	Charleston
Ingevity   4920 O'Hear Avenue	110,000	Charleston
Charleston Technology Center   999 Morrison Drive	93,000	Charleston
The Jasper   320 Broad Street	75,000	Charleston
Garco Mill Redevelopment   4854 O'Hear Avenue (under renovation)	60,000	Charleston

In January 2018, Colliers International benchmarked its office data set for South Carolina. The new standard includes: all office buildings 10,000 square feet or larger, except medical office and government-owned buildings; all single tenant office buildings; buildings in an expanded geography; data for all quarters beginning in Q4 2008; and excluding office condominiums. In addition, the submarkets are separated by class levels A, B and C (A being the highest quality space and C being of lesser quality), and are also divided into 2 divisions: **Central Business District (CBD)** and **Suburban**. The Central Business District submarket consists of a highly-populated business area with infrastructure and an office building/high-rise environment, which is often accompanied by heavy daytime foot traffic. A Suburban submarket is an area or town existing as a mixed-use community within commuting distance of a larger city. Due to the adjustments of the building inventory, comparison of data included in previously published market reports should be avoided.

## Significant Transactions

According to CoStar, during the fourth quarter of 2019 leasing activity was steady, there were 71 office leases executed in the Charleston market. The largest leases were signed by undisclosed tenants; sublease activity also ramped up this quarter. CoStar reported 21 office sale transactions from October 2019 through December 2019.

### Sales

- For \$3.1 million, Turner Property Management LLC purchased 297 Seven Farms Drive, a 30,442-square-foot office building located in the Daniel Island submarket.

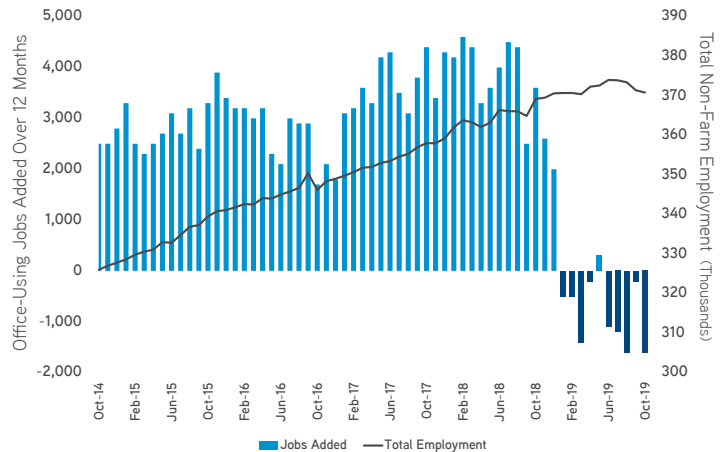
## Office-Using Employment

Office-using employment covers jobs related to the professional and business services, financial activities and information sectors. According to the most recent October 2019 data from the Bureau of Labor Statistics, there were 1,600 fewer office-using jobs during October of 2019 than there were in October of last year which will decrease office demand, unless more office-using jobs are created. Despite less office jobs this year, total non-farm employment has increased by 1,600 jobs in the past 12 months. The top 3 employment sectors within Charleston are Trade, Transportation and Utilities, Government and Professional and Business Services. According to the Bureau of Labor Statistics, as of October 2019 the unemployment rate remains low at 1.8%, much lower than the national unemployment rate of 3.6%.

## Market Forecast

Tensions rise when entering an election year as fears of policy changes and economic downturns mount. However, most economists agree a recession is not predicted to happen next year. Charleston's economy will be strong enough to withstand political or policy changes, which could negatively affect the nation, due to tourism and global trade connections positively impacting the region. Charleston's office market is forecasted to continue on a positive tract. New office-using job creation is necessary in order to raise the demand for office space. Charleston's strong economy will likely attract business owners looking for a thriving environment in which to locate, leading to positive job creation, office market absorption and lowering vacancy rates. As office owners continue to upgrade dated spaces and new construction delivers to the market, weighted rental rates are expected to continue rising in the next few quarters.

### Office-Using Employment | Charleston, MSA\*

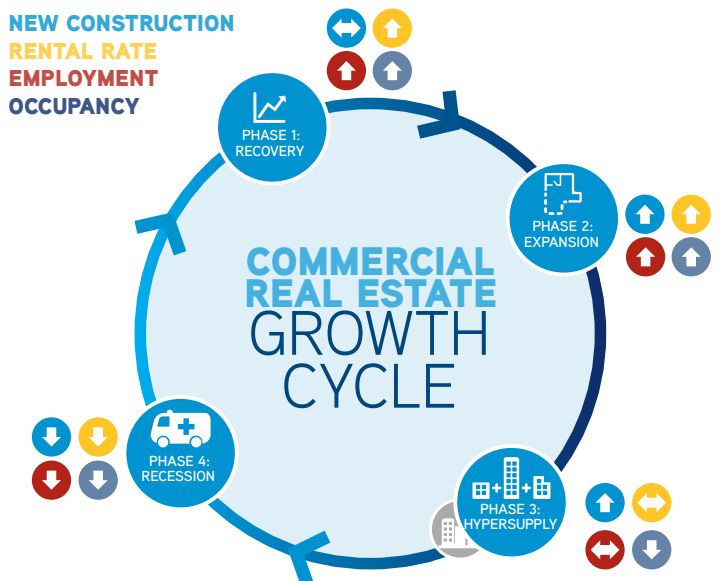


### Ferry Wharf | 75 Port City Landing Charleston, SC



Source: CoStar

### Commercial Real Estate Growth Cycle: Where the market stands and where it is going





## Q4 2019 Office Market Summary Statistics

MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	NET ABSORPTION (SF)	AVERAGE ASKING RENTAL RATE (SF/YR)
<b>DANIEL ISLAND</b>								
Class A	9	897,389	50,896	-	50,896	5.67%	6,511	\$26.22
Class B	18	489,045	82,281	-	82,281	16.82%	16,063	\$27.36
Class C	1	20,000	-	-	-	0.00%	-	-
<b>Daniel Island Total</b>	<b>28</b>	<b>1,406,434</b>	<b>133,177</b>	<b>-</b>	<b>133,177</b>	<b>9.47%</b>	<b>22,574</b>	<b>\$26.92</b>
<b>LOWER NORTH CHARLESTON</b>								
Class A	7	670,888	117,811	18,408	136,219	20.30%	557	\$28.19
Class B	33	1,390,488	61,122	17,706	78,828	5.67%	7,352	\$24.09
Class C	45	1,285,901	85,791	5,058	90,849	7.07%	7,933	\$20.20
<b>Lower North Charleston Total</b>	<b>85</b>	<b>3,347,277</b>	<b>264,724</b>	<b>41,172</b>	<b>305,896</b>	<b>9.14%</b>	<b>15,842</b>	<b>\$24.78</b>
<b>MT. PLEASANT</b>								
Class A	10	535,634	146,715	-	146,715	27.39%	70,055	\$36.20
Class B	42	1,010,409	129,897	17,163	147,060	14.55%	-8,586	\$25.57
Class C	21	291,738	-	15,861	15,861	5.44%	-12,091	-
<b>Mt. Pleasant Total</b>	<b>73</b>	<b>1,837,781</b>	<b>276,612</b>	<b>33,024</b>	<b>309,636</b>	<b>16.85%</b>	<b>49,378</b>	<b>\$30.81</b>
<b>SUMMERVILLE/GOOSE CREEK</b>								
Class A	6	389,890	72,772	39,900	112,672	28.90%	-11,312	\$28.52
Class B	10	294,521	25,345	-	25,345	8.61%	-	-
Class C	19	291,735	5,207	-	5,207	1.78%	-1,050	\$10.82
<b>Summerville/Goose Creek Total</b>	<b>35</b>	<b>976,146</b>	<b>103,324</b>	<b>39,900</b>	<b>143,224</b>	<b>14.67%</b>	<b>-12,362</b>	<b>\$26.50</b>
<b>UPPER NORTH CHARLESTON</b>								
Class A	12	707,689	111,483	-	111,483	15.75%	-24,696	\$21.88
Class B	16	957,312	150,347	2,740	153,087	15.99%	8,875	\$17.56
Class C	31	934,079	136,629	-	136,629	14.63%	-2,813	\$16.37
<b>Upper North Charleston Total</b>	<b>59</b>	<b>2,599,080</b>	<b>398,459</b>	<b>2,740</b>	<b>401,199</b>	<b>15.44%</b>	<b>-18,634</b>	<b>\$18.11</b>
<b>WEST ASHLEY</b>								
Class A	-	-	-	-	-	-	-	-
Class B	11	483,774	69,457	-	69,457	14.36%	1,524	\$28.76
Class C	19	484,019	23,529	-	23,529	4.86%	-	\$19.57
<b>West Ashley Total</b>	<b>30</b>	<b>967,793</b>	<b>92,986</b>	<b>-</b>	<b>92,986</b>	<b>9.61%</b>	<b>1,524</b>	<b>\$26.43</b>
<b>CHARLESTON CBD SUBMARKET</b>								
Class A	14	1,239,674	251,066	29,541	280,607	22.64%	8,349	\$38.33
Class B	27	795,040	95,272	-	95,272	11.98%	2,108	\$30.86
Class C	48	893,628	25,345	-	25,345	2.84%	-4,450	\$22.45
<b>Charleston CBD Total</b>	<b>89</b>	<b>2,928,342</b>	<b>371,683</b>	<b>29,541</b>	<b>401,224</b>	<b>13.70%</b>	<b>6,007</b>	<b>\$35.49</b>
<b>SUBURBAN SUBMARKETS</b>								
Class A	44	3,201,490	499,677	58,308	557,985	17.43%	41,115	\$28.32
Class B	130	4,625,549	518,449	37,609	556,058	12.02%	25,228	\$24.81
Class C	136	3,307,472	251,156	20,919	272,075	8.23%	-8,021	\$17.54
<b>Suburban Submarkets Total</b>	<b>310</b>	<b>11,134,511</b>	<b>1,269,282</b>	<b>116,836</b>	<b>1,386,118</b>	<b>12.45%</b>	<b>58,322</b>	<b>\$27.38</b>
<b>MARKET</b>								
Class A	58	4,441,164	750,743	87,849	838,592	18.88%	49,464	\$32.58
Class B	157	5,420,589	613,721	37,609	651,330	12.02%	27,336	\$25.93
Class C	184	4,201,100	276,501	20,919	297,420	7.08%	-12,471	\$18.02
<b>Market Total</b>	<b>399</b>	<b>14,062,853</b>	<b>1,640,965</b>	<b>146,377</b>	<b>1,787,342</b>	<b>12.71%</b>	<b>64,329</b>	<b>\$27.38</b>

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**400** offices in  
**68** countries on  
**6** continents

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**\$3.3**

billion in  
annual revenue

**2**

billion square feet  
under management

**17,000+**

professionals  
and staff



#### FOR MORE INFORMATION:

James R. (Jim) Garrett, Jr., MCR  
Market President | Charleston  
+1 843 723 1202  
James.Garrett@colliers.com

Liz H. McCary  
Vice President of Marketing | South Carolina  
+1 803 401 4269  
Liz.McCary@colliers.com

Crystal Baker, CPRC  
Research Coordinator | South Carolina  
+1 803 401 4230  
Crystal.Baker@colliers.com

#### CHARLESTON OFFICE PROFESSIONALS:

Kristie Roe, SIOR, CCIM | Senior  
Brokerage Associate  
+1 843 720 7504  
Kristie.Roe@colliers.com

William Ederle | Brokerage Associate  
+1 843 720 7507  
William.Ederle@colliers.com

Alex Irwin | Senior  
Brokerage Associate  
+1 843 720 7504  
Alex.Irwin@colliers.com

#### CHARLESTON OFFICE:

Colliers International | Charleston  
40 Calhoun Street, Suite 460  
Charleston, South Carolina | USA  
+1 843 723 1202

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