

Increased availabilities present opportunities for tenants

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Key Takeaways

- › The effects of the pandemic continue to impact the Greenville-Spartanburg office market with increased sublease space and negative absorption.
- › There are currently 2.08 million square feet of vacant office space, 833,162 square feet, of which would be classified as Class A. This presents an opportunity for tenants to upgrade to a quality space.
- › Office tenants are choosing to become owner occupants by purchasing office space due to low interest rates and the freedom to operate their own space.
- › Rental rates are expected to remain flat or decline slightly in the coming quarters until sublease space is absorbed.

Renew, upgrade or relocate from another market

This year the pandemic has enhanced the importance of personal distance. While some businesses are choosing to work remotely into next year and renew their current leases; others are returning to the office, but may feel the need for a need for new or upgraded space in order to ensure safety measures and social distancing. There are currently 2.08 million square feet of vacant office space, 833,162 square feet of which would be classified as Class A. These availabilities give tenants the opportunity to upgrade to a larger or higher quality space. Furthermore, out-of-market businesses can relocate headquarters to Greenville or start a new business. This is a unique time in the Greenville-Spartanburg office market for tenants to take advantage of in order to enhance their work environment and improve their office space.

Market Indicators

Relative to prior period

	Q4 2020	Q1 2020*
VACANCY	↑	↓
NET ABSORPTION	—	+
CONSTRUCTION	↔	↑
RENTAL RATE**	↑	↓

Note: Construction is the change in Under Construction.
 *Projected

Summary Statistics

Q4 2020 Greenville-Spartanburg Office Market

	Market	CBD	Suburban
Vacancy Rate	13.27%	20.17%	10.78%
Change From Q4 2019 (basis points)	+334	+1,045	+74
Absorption (Thousand Square Feet)	-67.46	1.40	-68.86
Q4 2020 New Construction* (Thousand Square Feet)	0	0	0
Under Construction (Thousand Square Feet)	160.53	160.53	-

Asking Rents

Per Square Foot Per Year	Market	CBD	Suburban
Overall	\$20.79	\$24.10	\$18.97
Change From Q4 2019	+18.26%	+20.86%	+14.76%
Class A	\$23.29	\$25.68	\$21.61
Change From Q4 2019	+9.24%	+16.57%	+4.35%

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Owner occupants gain freedom by purchasing their own space

The pandemic has altered the way of life for many people this year. One distinctive way it may change commercial real estate is by tenants choosing to become owner occupants by tenants purchasing their own office. With historically low interest rates, buying an office building is gaining attraction from both local and out-of-market investors. Owning an office affords owner/occupants freedom to control their own space by implementing their own cleaning schedule, air filtration system, and regulating the amount of visitors/other tenants in and out of the building. In addition, real estate is a solid investment for a tenant who has the capital to purchase their own building and become an owner/occupant - especially if it is a multi-tenant building where other tenants are already paying rent.

Market Overview

Annual Greenville-Spartanburg Office Recap

The effects of the pandemic are becoming evident throughout the Greenville-Spartanburg office market. Over the past year, sublease availabilities have nearly doubled from 149,654 square feet during fourth quarter of 2019 to 272,048 square feet during the fourth quarter of 2020. The suburbs posted a negative annual absorption of 338,168 square feet, while the central business district posted a negative 107,481 square feet of annual absorption. Therefore, the overall market posted a negative annual absorption of 445,649 square feet. Consequently, the annual vacancy rate increased from 9.11% at the end of last year to 11.97% this quarter. Two offices delivered to the market adding 57,483 square feet this year while remaining office construction was delayed due to shortage and delay in supply deliveries and general economic uncertainty, but are expected to gain speed in 2021. Overall market rental rates increased slightly over the past year from \$20.58 per square foot to \$20.79 per square foot, rental rates are expected to decrease in the

next few quarters until most of the lower-priced sublease space is absorbed.

Overall Greenville-Spartanburg Market

The Greenville-Spartanburg office market consists of 17.41 million square feet. There are currently two office buildings under construction and another 286,720 square feet are proposed to be built, but have not yet broken ground. The effects of the pandemic continue to impact the Greenville-Spartanburg office market with increased sublease space and negative absorption. Overall the market posted a negative 67,456 square feet of quarterly absorption. Over half of the negative absorption occurred in Class C offices; however, 26,700 square feet of negative absorption was in Class A office space. Many tenants are choosing to “wait it out” and are not contributing to the market activity as only 33 buildings posted any activity this quarter. Negative quarterly absorption forced the vacancy rate upward from 11.58% during the third quarter of 2020 to 11.97% this quarter. Overall average Greenville-Spartanburg weighted rental rate was \$20.79 per square foot this quarter, ranging from \$6.50 per square foot in Spartanburg County to \$30.00 per square foot in the Greenville central business district. Average weighted rental rates in Class A office space averaged \$23.29 per square foot during the fourth quarter of 2020.

Greenville Central Business District

The Greenville central business district is comprised of 4.43 million square feet. Central business district office activity is basically at a “stand still” currently as business owners wait on new vaccine distribution before making any decisions. During the fourth quarter of 2020, downtown offices absorbed 1,403 square feet. The minimal market activity confirms the hesitancy of tenants to make any permanent decisions amidst the pandemic. Due to marginal fourth quarter absorption, the vacancy rate decreased by 3 basis points from 15.31% last quarter to 15.28% this quarter. Average weighted downtown rental rates increased to \$24.10 per square foot this quarter from \$23.35 per square foot during the third quarter of this year. Likewise, Class A office property weighted rental rates rose to \$25.68 per square foot up from \$25.39 per square foot last quarter.

Suburban

The Greenville-Spartanburg suburban office submarkets consist of 12.99 million square feet. No buildings are under construction, nor were there new construction deliveries this quarter. However, there are currently four offices proposed to be built which will add 274,720 square feet to the suburbs. Suburban offices posted a negative absorption of 68,859 square feet during the fourth quarter of 2020. Current suburban sublease space increased by 43,032 square feet from the third quarter of this year. Most of the negative absorption occurred within the I-385/85 submarket in Class A offices. Due to the negative activity, the suburban vacancy rate rose

2020 Q4 Office Construction Pipeline | Greenville - Spartanburg

PROPERTY NAME LOCATION	BUILDING SF	MARKET SECTOR
UNDER CONSTRUCTION		
Camperdown Office Falls Tower 423 S. Main Street	150,000	CBD
900 Pendleton Street	10,531	CBD

Source: CoStar, Colliers International

from 10.31% during the third quarter of this year to 10.84% this quarter. The overall average rental rate for the remaining suburban office space was marginally higher this quarter at \$18.97 per square foot, the averages ranged from \$25.50 per square foot in Class A I-385/85 suburban office space down to \$6.50 per square foot in Class C Spartanburg County offices.

Significant Transactions

During the fourth quarter of 2020, there were 39 office sale transactions, the largest of which were medical offices. Also, according to CoStar, 41 leases were signed within the Greenville-Spartanburg submarkets.

- > Vectrus, Inc. leased 14,215 square feet at Independence Corporate Park in Greenville.
- > Quest Global Services NA, Inc. leased 11,998 square feet at Independence Corporate Park in Greenville.

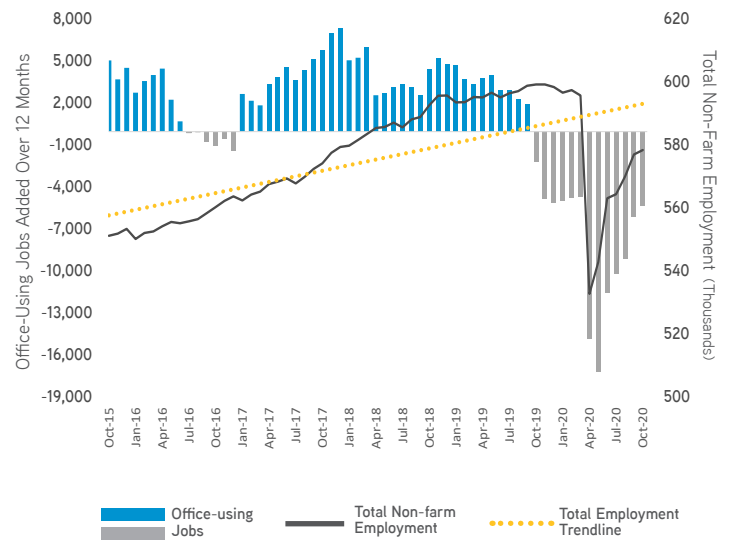
Office-Using Employment

Office-using employment are those jobs related to the professional and business services, financial activities and information sectors, within the combined Greenville-Spartanburg-Anderson Combined Statistical Area (CSA). According to the most recent October 2020 data from the Bureau of Labor Statistics, there are a total of 119,400 office-using jobs in the Greenville-Spartanburg-Anderson CSA. The office-using employment total is 5,299 less than it was one year ago due to pandemic job loss. Office-using employment losses hit an all-time annual low during April of 2020, nearly half of those jobs have now been recovered in the Greenville-Spartanburg-Anderson markets. The number of employees returning to work increases each month as employers and employees find their comfort zone regarding COVID-19. In addition, upon distribution of the vaccine, employment is expected to return to a pre-pandemic state. According to the Bureau of Labor Statistics, as of October 2020, the unemployment rate in the Spartanburg MSA was 4.4% and the Greenville-Mauldin-Easley MSA was 2.6%- both areas have seen decreasing unemployment over the last quarter as employees are able to return to work.

Market Forecast

Increasing vacancies within the Greenville-Spartanburg office market offer tenants an opportunity to upgrade to a higher quality space, purchase their own office or renew their current lease. Larger availabilities will also attract out-of-market businesses to the region because the business climate is positive and employment rates are improving month-over-month. In the next few quarters, sublease will likely be absorbed before direct vacant space because it is generally priced lower. Due to this, owners may temporarily lower rental rates in order to compete. The pace of new construction is anticipated to pick up in 2021 as the vaccine is distributed and companies resume a normal working environment.

Office-Using Employment | Greenville-Spartanburg-Anderson, CSA



Source: Bureau of Labor Statistics, Colliers International

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



Q4 2020 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)
ANDERSON COUNTY								
Class A	4	102,403	6,000	-	6,000	5.86%	0	\$11.00
Class B	12	189,698	4,046	-	4,046	2.13%	0	\$18.00
Class C	13	177,408	1,280	-	1,280	0.72%	0	\$14.18
Anderson County Total	29	469,509	11,326	-	11,326	2.41%	0	\$13.86
I-385/I-85								
Class A	59	4,342,504	436,974	135,447	572,421	13.18%	-28,627	\$21.79
Class B	100	3,363,240	223,301	35,114	258,415	7.68%	-1,859	\$19.65
Class C	74	1,804,301	298,825	5,024	303,849	16.84%	-13,658	\$17.71
I-385/I-85 Total	233	9,510,045	959,100	175,585	1,134,685	11.93%	-44,144	\$19.68
PICKENS COUNTY								
Class A	4	84,213	2,300	-	2,300	2.73%	-	\$19.00
Class B	5	90,600	39,580	-	39,580	43.69%	-	\$15.00
Class C	5	59,338	10,000	-	10,000	16.85%	-	-
Pickens County Total	14	234,151	51,880	-	51,880	22.16%	-	\$15.77
SPARTANBURG COUNTY								
Class A	9	464,941	17,328	-	17,328	3.73%	-	\$22.86
Class B	30	1,264,767	90,860	-	90,860	7.18%	4,684	\$18.24
Class C	31	1,042,294	80,935	20,480	101,415	9.73%	-29,399	\$11.99
Spartanburg County Total	70	2,772,002	189,123	20,480	209,603	7.56%	-24,715	\$16.29
GREENVILLE CBD								
Class A	28	2,481,192	217,874	17,239	235,113	9.48%	1,927	\$25.68
Class B	25	1,399,784	217,330	58,062	549,476	19.67%	-2,584	\$24.94
Class C	17	544,704	165,024	682	165,706	30.42%	2,060	\$21.50
Greenville CBD Total	70	4,425,680	600,228	75,983	676,211	15.28%	1,403	\$24.10
SUBURBAN MARKETS TOTAL								
Class A	76	4,994,061	462,602	135,447	598,049	11.98%	-28,627	\$21.61
Class B	147	4,908,305	357,787	35,114	392,901	8.00%	2,825	\$19.06
Class C	123	3,083,341	391,040	25,504	416,544	13.51%	-43,057	\$16.68
Suburban Total	346	12,985,707	1,211,429	196,065	1,407,494	10.84%	-68,859	\$18.97
MARKET TOTAL								
Class A	104	7,475,253	680,476	152,686	833,162	11.15%	-26,700	\$23.29
Class B	172	6,308,089	575,117	93,176	668,293	10.59%	241	\$20.93
Class C	140	3,628,045	556,064	26,186	582,250	16.05%	-40,997	\$18.24
Market Total	416	17,411,387	1,811,657	272,048	2,083,705	11.97%	-67,456	\$20.79

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.

400 offices in
68 countries on
6 continents

\$3.5
billion in
annual revenue

2
billion square feet
under management

+15,000
professionals
and staff



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