

FIGURES | GREENVILLE-SPARTANBURG - OFFICE | Q3 2023

Large Blocks of Suburban Availability Negate Uptick in Deal Velocity

▼ 10.6%
Vacancy Rate

▼ (14,077) sq. ft.
Q3 2023 Net Absorption

▲ 17.4%
Availability Rate

▲ \$23.03
Average Direct Rate (PSF/Full Service)

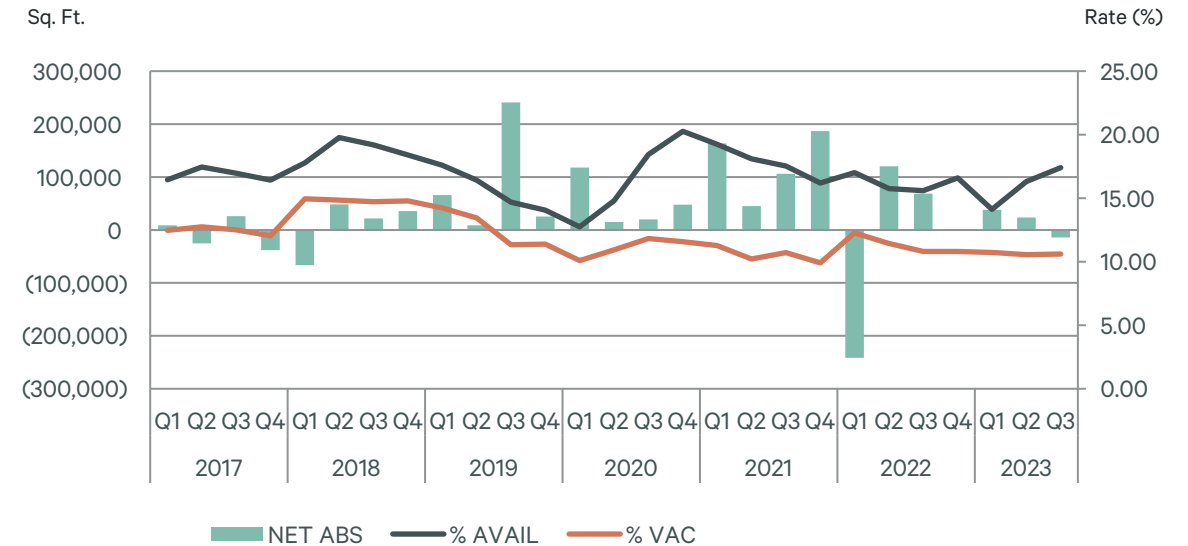
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

The Greenville-Spartanburg office market is experiencing the impact of larger office users subleasing or giving back portions of their office space as corporations continue to react to office space needs going forward amid implementation of cost-cutting measures in anticipation macro-economic headwinds. Conversely, new to market companies are chasing talent, existing companies expand in markets with solid fundamentals and many are focusing on amenities and quality office improvements to lure employees back to the office. Most of the available office spaces are located in large suburban blocks, particularly in the Mauldin and Pelham Road submarkets.

- Greenville-Spartanburg’s office market posted -14,077 sq. ft. of net negative absorption during the third quarter of 2023 as a result of larger givebacks.
- Leasing velocity experienced a slight increase due to the high demand for smaller, yet high-end, suites which are currently limited in the market. This quarter, there were 29 lease transactions recorded, including seven lease renewals and one expansion. Despite a dip in net absorption, leasing remains a more popular option than purchasing due to ongoing lending challenges.
- There was a 19 basis points increase in rental rates year-over-year even with higher vacancy and availability rates.
- The U.S. economy is facing emerging challenges such as increasing oil prices, the resumption of student loan payments, and a sluggish global economy due to high interest rates.

FIGURE 1: Historical Supply & Demand Dynamics

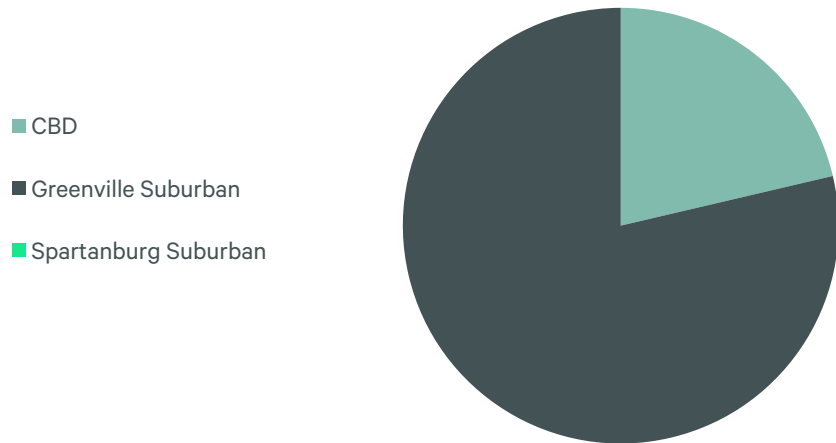


Source: CBRE Research, Q3 2023

Leasing Activity

Due to limited availability of similar-sized alternatives, tenants in the Greenville market are choosing to renew leases in smaller offices. In the last quarter, seven lease renewals took place, with an average size of 5,072 sq. ft. The largest renewal occurred at 550 S. Main Street, where a space of 12,928 sq. ft. was renewed. Additionally, Southern Tide pre-leased 24,406 sq. ft. in the Borden Building, which is expected to be completed by the end of this year.

FIGURE 2: YTD Net Absorption by Submarket



Vacancy

Vacancy has remained relatively stable while availability rates are on the rise in the Greenville-Spartanburg market as office tenants adapt to a shifting workforce. Downtown Greenville continues to maintain a vacancy rate under 10%, attributed to tenant preference for Class A spaces. Suburban areas, however, have a higher vacancy rate of 11.2%, largely comprised of vacancy over 20,000 SF. There has also been a substantial increase in sublease space, particularly in suburban areas, where roughly 250,000 sq. ft. was added to this submarket, driving the availability rate up to 17.4% for the quarter. Despite these hurdles, the Greenville-Spartanburg office market remains robust due to its strong market and workforce fundamentals.

Capital Markets

There were four office sales totaling nearly \$20 million in the Greenville-Spartanburg market in Q3. Despite concerns about the office asset class at a national level, GSP remains an attractive office market for buyers due to its low-risk profile, popularity, and affordability as a secondary market which is mostly immune to the woes faced by larger metros. Landlords with ample funding are expected to thrive in the tightening market in the next three years. This is mainly due to the lack of significant new office buildings being constructed, and the ability of these landlords to compete against almost every deal in the market. The challenges in obtaining investment debt for office assets might lead to a shift in ownership dynamics, with more owner/users entering the market to meet their space requirements. Developers who can quickly offer new office product or revamp existing ones will be successful. The high cost of construction, however, is currently discouraging improvements and new office projects.

Asking Rates

Due to both the lack of available quality office space and an increase in construction costs for tenant upfits, the Greenville-Spartanburg office market is experiencing a rise in rental rates despite an increase in vacancy and availability. The overall market rental rates this quarter averaged at \$23.03 per sq. ft., while Class A rates averaged at \$25.87 per sq. ft. For the past seven quarters, the average rates have varied between the high \$22s and low \$23 per sq. ft., marking a significant increase over the previous average rates.

Economic Trends & Outlook

The U.S. economy has demonstrated resilience despite stringent credit conditions and banking sector write-downs, largely due to the impact of the Chips and IRA Acts on the construction sector, Federal Reserve and FDIC's support to banks, and strong consumer balance sheets and incomes. However, challenges such as rising oil prices, the resumption of student loan payments, and a weakening global economy are emerging in the face of high-interest rates. The Federal Reserve's predicted end to its tightening cycle could benefit real estate capital markets. Although economic growth may slow down, valuations are expected to stabilize by the first half of 2024. The Upstate region may face additional stressors like increasing sublease space and lease give-backs but this creates opportunities for new companies due to the availability of large blocks of space and strong population growth.

FIGURE 5: Historical Statistics

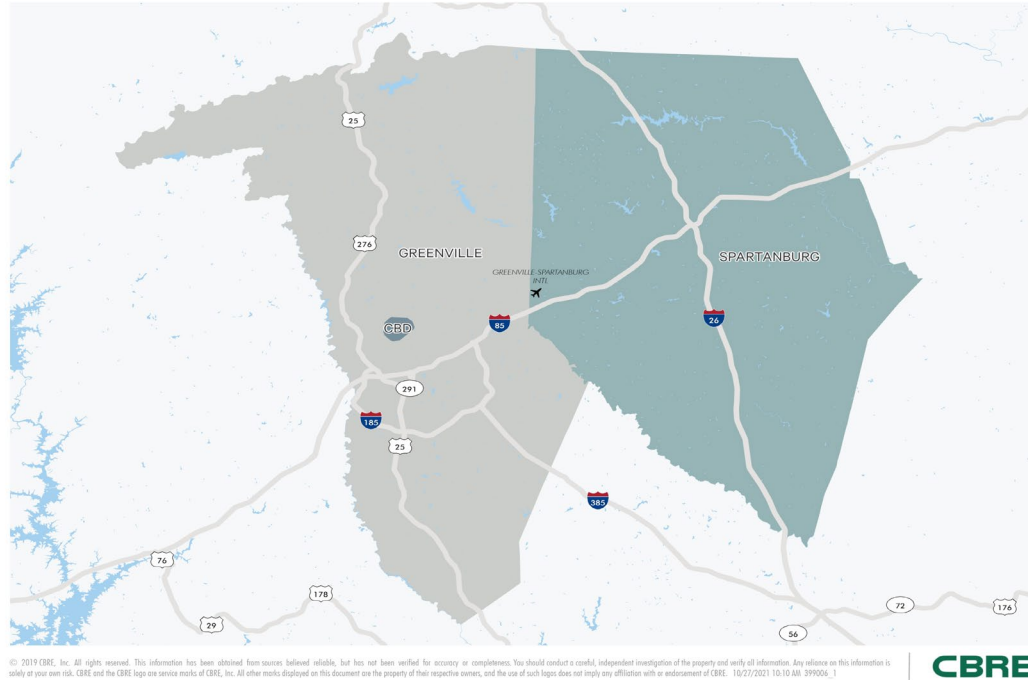
Submarket	Building SF	Vacancy (%)	Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net Absorption	Q3 2023 Net Absorption (SF)
CBD	3,896,638	9.6%	17.3%	\$25.37	97,500	45,540	(2,709)
Suburban	7,110,440	11.2%	17.4%	\$21.57		7,880	(11,368)
MARKET TOTAL	11,007,082	10.6%	17.4%	\$23.03	97,500	53,420	(14,077)

Submarket by Class	Building SF	Vacancy (%)	Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net Absorption	Q3 2023 Net Absorption (SF)
CBD Class A	2,039,449	3.1%	4.8%	\$31.62	97,500	32,219	(10,669)
CBD Class B	1,857,189	16.7%	3.1%	\$24.29	-	13,321	7,960
Greenville Suburban Class A	2,981,200	13.5%	22.8%	\$24.57		(16,664)	(51,711)
Greenville Suburban Class B	2,633,681	12.6%	18.2%	\$18.81	-	50,727	29,625
Spartanburg Class A	448,737	4.5%	5.8%	\$27.87	-	(16,584)	10,718
Spartanburg Class B	856,631	3.2%	4.4%	\$17.77	-	(10,942)	-
TOTAL (Class A & B)	11,007,082	10.6%	17.4%	\$23.03	97,500	52,077	(14,077)

Class	Building SF	Vacancy (%)	Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net 1010	Q3 2023 Net Absorption (SF)
Class A	5,469,386	8.9%	14.7%	\$25.87	97,500	(1,009)	(51,662)
Class B	5,347,501	12.5%	20.4%	\$21.61	-	53,086	37,585
TOTAL (Class A & B)	10,816,887	10.6%	17.4%	\$23.74	97,500	52,077	(14,077)

Source: CBRE Research, Q3 2023

Market Area Overview



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Survey Criteria

The CBRE, Inc. Office Figures report provides statistics based on a revised set of inventory consisting of office properties in the following submarkets: the CBD, Greenville Suburban, and Spartanburg Suburban. All properties are greater than 20,000 sq. ft. and are not owner occupied. Historical data is reflective of the current set of inventory rather than previously published report figures and is subject to revision as additional information becomes available.

Definitions:

Availability Rate- spaces being marketed for lease; occupied spaces that are available for lease in addition to all vacant spaces.

Vacancy Rate- spaces being marketed for lease that are not occupied.

Net Absorption- the sum of all leasing activity minus move-outs in the quarter.

Average Direct Rate- the weighted average of available space for lease and the full-service asking rate, excluding the sublease rate.

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