

FIGURES | GREENVILLE-SPARTANBURG - OFFICE | Q4 2023

Dynamic Leasing Continues Amid High Interest Rates

▲ 10.6%

Direct Vacancy Rate

▼ (12,014) sq. ft.

Q4 2023 Net Absorption

▲ 17.8%

Total Availability Rate

◀ \$23.03

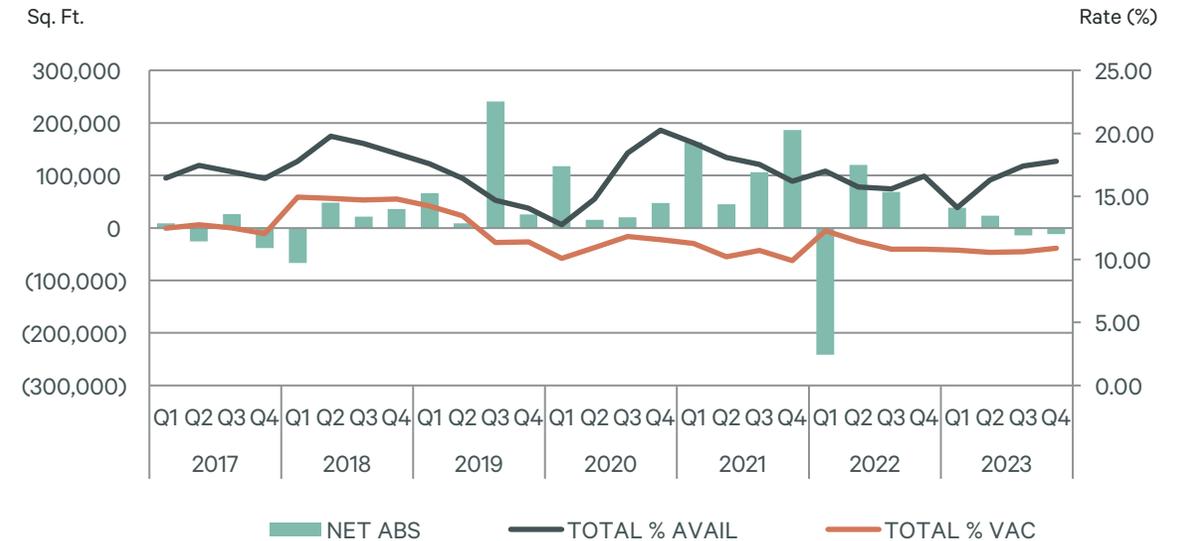
Average Direct Rate (PSF/Full Service)

Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- Despite the reported negative absorption of 12,014 square feet for the quarter, actual leasing activity was considerably high. This discrepancy was due to a lack of vacancies in the market, leading to some spaces being leased before being officially recognized as absorbed. Even though there were 36 leases and renewals, amounting to 197,028 square feet, the quarter still ended up showing negative absorption due to the emergence of six new vacancies.
- The average rental rates in the last quarter were stable at \$23.04 per sq. ft., with central business districts having slightly higher rates (\$25.33 per sq. ft.) and suburban areas in Greenville and Spartanburg having lower rates (\$21.50 per sq. ft.). There's a strong demand for high-quality office space which could lead to potential rental growth, yet this growth may be slow due to the limited supply of such spaces. Despite potential decrease in rates, the leasing demand is expected to remain strong as it has been previously resilient even amidst historically high interest rates.
- The trend of slower sales is projected to improve in the second half of 2024 as lending constraints loosen leading to more investment opportunities and portfolio restructuring.
- The Federal Reserve's expected cessation of its interest rate tightening cycle is predicted to result in a boost in real estate loans and transactions in the following year.

FIGURE 1: Historical Supply & Demand Dynamics

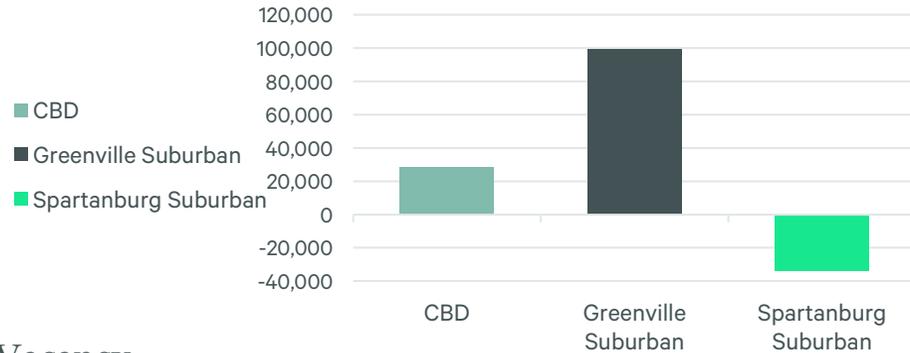


Source: CBRE Research, Q4 2023

Leasing Activity

The Greenville-Spartanburg office market in the second half of 2023 showed a consistent trend of leasing small spaces as soon as they became vacant, indicating a robust market. However, this trend may skew overall market data. The reported negative absorption of 12,014 square feet does not truly represent the leasing activity due to limited vacancies. In Q4 2023, there were 36 leases and renewals, amounting to 197,028 square feet. The Greenville suburban submarket reported 114,656 square feet of leasing activity because this submarket had the most space available.

FIGURE 2: YTD Net Absorption by Submarket



Vacancy

The Greenville-Spartanburg office market is experiencing a shortage of Class A sub-10K sq. ft. vacancies, leading to many spaces being leased before they could be recorded as absorbed. The overall direct market vacancy rate during the fourth quarter of 2023 was 10.6%. Despite 36 leases and renewals, totaling 197,028 square feet, this quarter still reported negative absorption due to six new large vacancies. The ongoing leasing activity is making the market tight for spaces under 20,000 square feet; most quarter-over-quarter vacancies lying in offices over 20,000 square feet, which take longer to lease. Even with significant leasing and renewal activity, new vacancies can still result in an overall negative absorption for the quarter, as witnessed in Q4.

Capital Markets

The Greenville-Spartanburg market saw three office sales worth \$7 million in Q4, despite the economic stress induced by high interest rates and constrained lending. However, this trend of slower sales is expected to improve in the second half of 2024 as the constraints loosen, offering more investment opportunities and enabling portfolio restructuring. The Greenville office market continues to remain appealing to buyers due to its low-risk profile, popularity, and affordability as a secondary market. It largely remains unaffected by the problems faced by larger metros.

Asking Rates

The market rental rates remained relatively stable from the third to fourth quarter, with an average rate of \$23.04 per square foot. The central business district rental rates averaged slightly higher at \$25.33 per square foot, whereas suburban Greenville and Spartanburg maintained a rate of roughly \$21.50 per square foot. The demand for quality office space is high, indicating a potential for continued rental growth next year, although at a slower pace.

Economic Trends & Outlook

The economy and interest rates remained stable in Q4, with positive expectations for three rate cuts in H2 2024. The banking industry is predicted to adjust well to these changes, which could create opportunities in the real estate sector. Lower asset pricing may encourage sales of less desirable properties, and the Federal Reserve's expected end to its tightening cycle could increase real estate loans and transactions. There is a growing demand for public services such as municipal, education and healthcare due to disproportionate population growth. Major U.S. companies such as: Amazon, Apple, Chipotle, Citigroup, Disney, Goldman Sachs, Google, IBM, JP Morgan, Salesforce, Starbucks, Tesla and Uber are expecting employees to return to the office, which will likely be mirrored by tertiary market office users. The combination of a daily influx of 55 people in the region and a return-to-office push is likely to increase demand for existing space.

Sources: Federal Reserve | CNBC.com, Business Insider

FIGURE 5: Historical Statistics

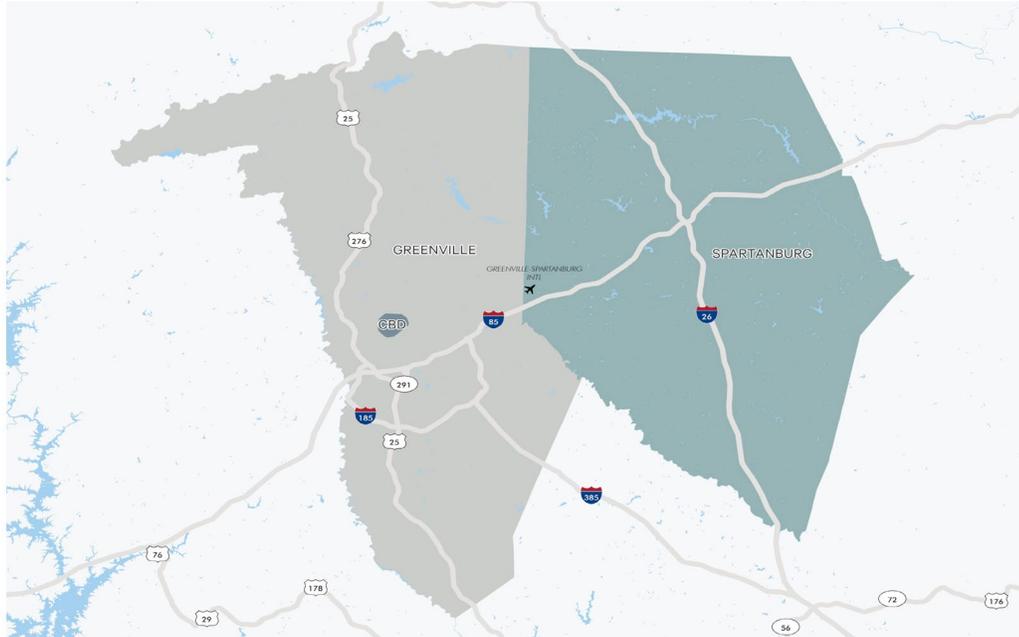
Submarket	Building SF	Direct Vacancy (%)	Total Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net Absorption	Q4 2023 Net Absorption (SF)
CBD	3,896,638	9.6%	15.1%	\$25.33	97,500	28,104	(1,239)
Suburban	7,110,444	11.2%	14.6%	\$21.66		65,517	(10,775)
MARKET TOTAL	11,007,082	10.6%	14.8%	\$23.03	97,500	93,621	(12,014)

Submarket by Class	Building SF	Vacancy (%)	Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net Absorption	Q4 2023 Net Absorption (SF)
CBD Class A	2,039,449	3.2%	4.6%	\$31.70	97,500	6,427	(3,229)
CBD Class B	1,857,189	16.6%	26.5%	\$24.10	-	21,677	1,990
Greenville Suburban Class A	2,981,200	13.3%	16.3%	\$24.57		69,999	(3,228)
Greenville Suburban Class B	2,633,681	12.3%	17.6%	\$18.81	-	28,497	1,185
Spartanburg Class A	448,737	4.5%	5.8%	\$27.87	-	(16,312)	-
Spartanburg Class B	856,631	3.5%	4.7%	\$18.88	-	(11,798)	(2,853)
TOTAL (Class A & B)	10,816,887	10.6%	14.9%	\$23.69	97,500	98,157	(6,135)

Class	Building SF	Vacancy (%)	Availability (%)	Avg Asking Lease Rate (PSF/Full-Service)	Under Construction	Last 4 Qtrs. Net Absorption	Q4 2023 Net Absorption (SF)
Class A	5,469,386	8.8%	11.1%	\$25.90	97,500	59,781	(6,457)
Class B	5,347,501	12.4%	18.7%	\$21.47	-	38,376	322
TOTAL (Class A & B)	10,816,887	10.6%	14.9%	\$23.69	97,500	98,157	(6,135)

Source: CBRE Research, Q4 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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