

COLUMBIA OFFICE MARKET



THE IMPACT OF THE GLOBAL HEALTH CRISIS ON COMMERCIAL OFFICE SPACE

Despite international uncertainty surrounding trade policy and a general volatility in the global market, base fundamentals indicated that US commercial real estate would remain on strong footing through 2020.

Economists seemed to echo a mantra about the “sturdiness” of the economy during their fourth-quarter economic forecasts, consistently adding that an unforeseen catastrophic event, namely a war with China, would effectively invalidate any prediction of continued expansion. The global COVID-19 pandemic, which by the end of March has seen 2.6 billion people across the world living in some sort of lockdown or quarantine, proved to be one of those disastrous events, though certainly not one that was to be expected.

Developments continue to be extremely fluid and tremendous uncertainty remains as to how widely the virus will spread and what its ultimate impact will be on economic growth, as well as the impact it will have on both financial and real estate markets, though a few truths are beginning to emerge.

April unemployment numbers were up significantly as the national unemployment rate rose 1,030 basis points in just one month, rising from 4.4% in March to 14.7% in April. No sector has been untouched, but some sectors were hit harder than others as government-ordered closures or restrictions to limit the spread of the virus affected some industries more than others.

More than one quarter (26.8%) of the job losses came from bars and restaurants that were directly affected by closure orders. For sectors where sheltering employees had the option of continuing to work from home – as is the case with a significant number of office users – the job losses were much less.

Nevertheless, a notable shift toward telework could have major implications for office demand in the near future.

CURRENT CONDITIONS

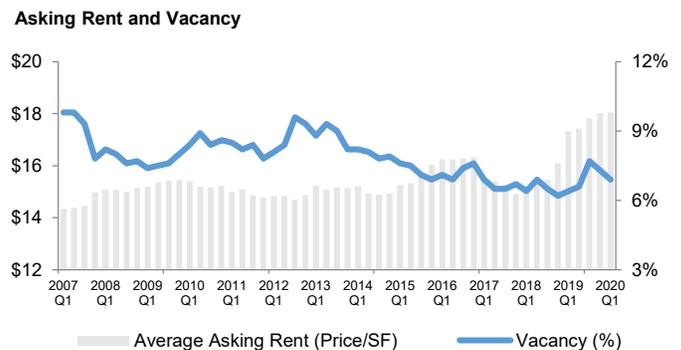
Average rental rates have risen 18.28%, from \$15.26/SF to \$18.05/SF since first-quarter 2015

Rates in Lexington and North Columbia have surpassed those of the Central Business District across property classes

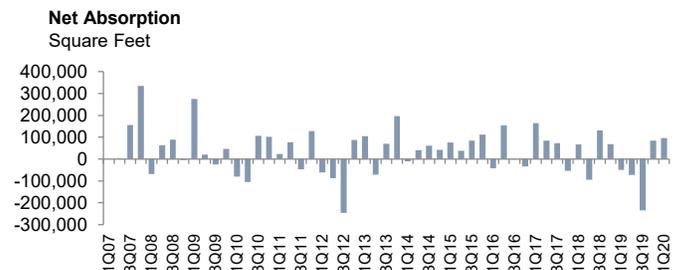
Just one office building over 10,000 SF is currently under construction - the 78,500-square-foot office building in the Otarre Point development at 1001 Clovis Point Way in Cayce is expected to deliver December 2020

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	23.97 MSF	23.97 MSF	23.94 MSF	↔
Vacancy Rate	6.9%	7.3%	6.4%	↑
Quarterly Net Absorption	95,443	85,134	-49,167	DOWN
Average Asking Rent	\$18.05	\$18.02	\$17.33	DOWN

For one, the long-standing trends toward densification, open-plan layouts, and coworking may reverse sharply due to the success of remote working and the pervasive public health concerns that call for more space per employee.

A recent survey by Gartner of more than 250 chief financial officers found that three quarters of firms have intentions of shifting at least some workers to permanent work-from-home status following reentry. Overall, only about 35% in the survey said they would like to return to their regular work schedule and nearly three-quarters of the CFOs polled said they plan to shift at least 5% of previously on-site employees to permanently remote positions.

Facebook, Amazon, and Google each initially announced that employees would be allowed to work remotely for the remainder of the year. Facebook and Twitter later went one step further in announcing plans to shift to a *permanent* work-from-home model, with Facebook transitioning approximately 45,000 of its employees by the end of the next decade and Twitter allowing a majority of its 4,500-plus workers to continue to work out of their home office.

Post-coronavirus, employee health concerns will also likely become a driving force for office users following reentry. Following the Great Recession, in an effort to cut costs, space per office worker declined nearly 17% from 250 square feet in the 1990s to 214 square feet per worker by 2019. These crowded workplaces do not allow for six feet of separation between employees, thus requiring a staggering of work schedules and potentially more remote workers.

Coworking space – one of the most pervasive office trends of the last decade - has been hard-hit by the social distancing measures that are slowly becoming standard preference. By early April, WeWork's valuation plummeted to \$2.9 billion, a 94% decrease from its high point of \$47 billion early last year, as its office tenants emptied the company's 800 plus locations. As a result, the company's occupancy rate fell to roughly 64 percent.

Overall, the trajectory of the office market will be molded by the ability of federal, state, and local governments and financial institutions to manage the ongoing crisis, as well as by the potential emergence of structural and operational changes to how office space is utilized. The possible incorporation of lower employee density and deployment of remote-working options will also help shape the future of the U.S. workplace.



SUBMARKET STATISTICS

	Total Inventory (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Cayce / West Columbia	1,947,938	8.5%	9.5%	-23,544	-23,544	\$18.75	\$18.00	\$17.49
Downtown (CBD)	7,932,095	5.9%	8.3%	38,109	38,109	\$20.95	\$21.17	\$20.97
Dutch Fork / Irmo	662,810	6.5%	6.5%	-	-	\$20.00	-	\$20.00
Forest Acres	1,576,918	15.1%	16.1%	1,017	1,017	\$16.61	\$21.00	\$16.72
Lexington	781,654	1.7%	3.1%	30,525	30,525	\$21.84	-	\$21.84
North Columbia	1,919,251	2.6%	2.9%	6,131	6,131	\$23.48	-	\$23.48
Northeast Columbia	3,671,512	10.3%	13.2%	-20,716	-20,716	\$17.51	\$13.00	\$17.32
Saint Andrews	4,080,941	6.7%	10.6%	73,028	73,028	\$15.83	\$17.80	\$15.88
Southeast Columbia	1,401,125	2.4%	7.6%	-	-	\$16.20	\$16.28	\$16.26
Suburban Total	16,042,149	7.5%	9.9%	57,334	57,334	\$17.19	\$16.15	\$17.10
CBD Total	7,932,095	5.9%	8.3%	38,109	38,109	\$20.95	\$21.17	\$20.97
Market	23,974,244	6.9%	9.4%	95,443	95,443	\$18.11	\$17.41	\$18.05

SELECT LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
US General Services Administration	100 Caughman Rd	Lexington	New	86,940
Utility Partners of America	636 Rosewood Dr	Southeast Columbia	Sublease	20,500
VC3	1301 Gervais St	CBD	Renewal	14,234

SELECT SALES TRANSACTIONS

Building	Submarket(s)	Sale Price	Price/SF	Square Feet
1333 Main St & 1301 Assembly St	CBD	\$29,350,000	\$63.69	460,079 Total SF
200 Center Point Cir	Saint Andrews	\$9,500,000	\$128.26	74,069
1 Wellness Blvd	Dutch Fork/Irmo	\$8,373,150	\$157.85	53,045
3630 Sunset Blvd	Cayce/West Columbia	\$1,987,500	\$266.28	7,464

ECONOMIC CONDITIONS

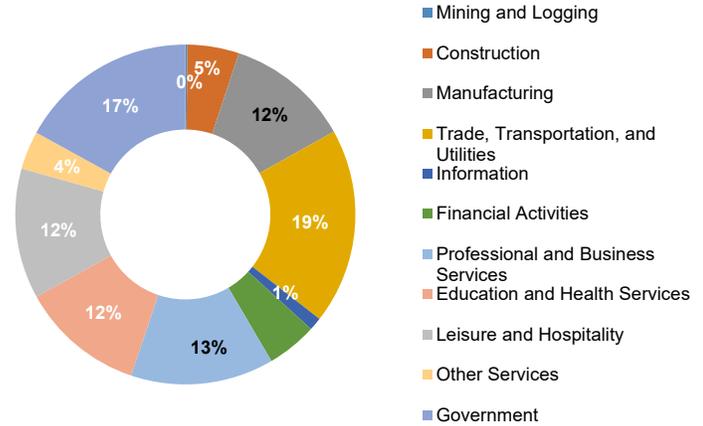
Unemployment in South Carolina remains below the national employment rate of 4.4% at 2.5% as of March 2020. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

South Carolina currently leads the nation in the percentage of jobs linked to non-U.S.-based companies. 8.2 percent of total private sector employment in South Carolina is due to foreign direct investment. In fact, foreign direct investment in South Carolina has grown 21% in the last five years, while the private sector has only seen 14% growth. As a result, South Carolina will be more affected than most by any disruption to the global markets, or any impact the global health crisis may have on the countries that have established operations in the state.

Recent newcomers to South Carolina from outside the U.S. include: Fuyao North America, Inc., one of the largest automotive glass producers worldwide, which is investing \$16.1 million in a new processing center in Greenville County; Miwon Specialty Chemical Co. USA plans to invest \$19.5 million in new production operations in Richland County; and The Quality Model Group of companies plans to expand its plastic injection molding operations in Orangeburg County in another \$9.5-million capital investment.

EMPLOYMENT BY INDUSTRY

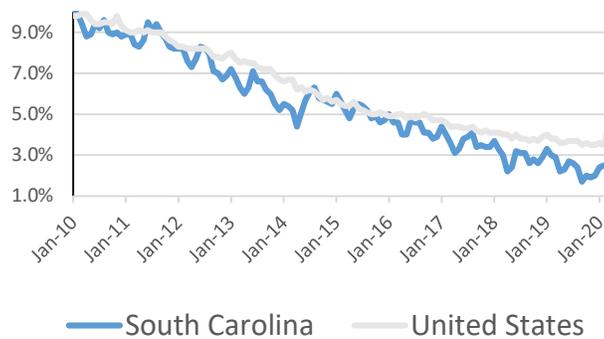
South Carolina, 2019



Source: U.S. Bureau of Labor Statistics

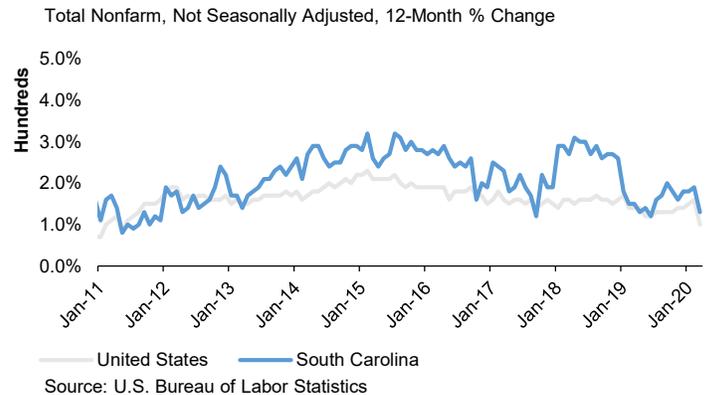
UNEMPLOYMENT RATE

Seasonally Adjusted



PAYROLL EMPLOYMENT

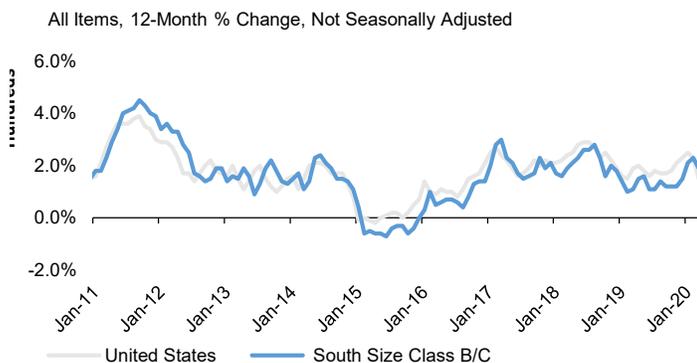
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

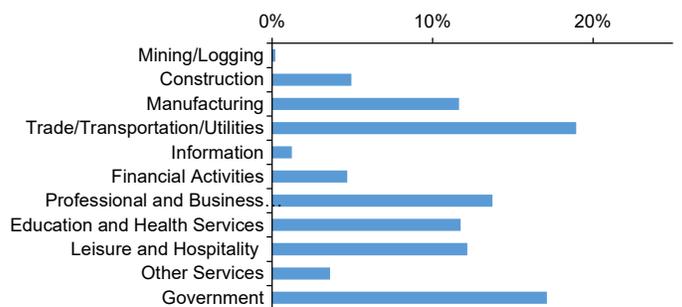
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

South Carolina, 2019, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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