

THE UPSTATE 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

The average vacancy rate is down 140 basis points year-over-year

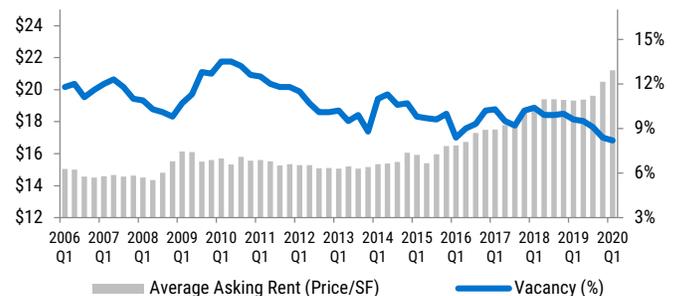
Gross office rents have increased more than 33% since 2015 from \$15.92/SF to \$21.20/SF

560,523 Total SF have been positively absorbed in the last twelve months

MARKET ANALYSIS

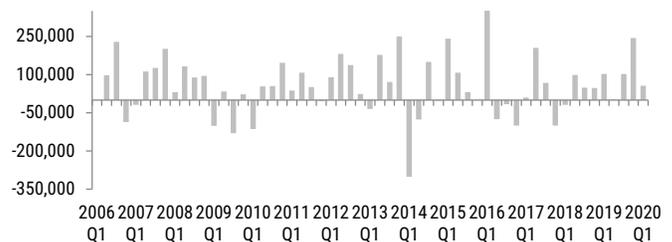
Asking Rent and Vacancy

Asking Rent and Vacancy



Net Absorption (SF)

Net Absorption
Square Feet



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	24.05 MSF	24.05 MSF	23.96 MSF	↔
Vacancy Rate	8.20%	8.40%	9.60%	↑
Quarterly Net Absorption	55,514	243,425	102,851	DOWN
Average Asking Rent	\$21.20	\$20.50	\$19.32	↔

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)
Greenville County	19,757,552	9.0%	11.7%	62,875	62,875	\$21.93	\$16.80	\$21.58
Greenville CBD	4,628,422	11.0%	14.6%	-147,666	-147,666	\$25.15	\$17.77	\$24.80
Spartanburg County	4,294,080	4.6%	6.5%	-7,361	-7,361	\$16.42	\$16.00	\$15.38
Spartanburg CBD	1,808,146	4.6%	4.5%	725	725	\$18.26	\$16.00	\$18.10
Market	24,051,632	8.2%	10.8%	55,514	55,514	\$21.52	\$16.76	\$21.20

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Utility Partners of America	Pelham at Hyland – 7001 Pelham Rd	I-385/Woodroof Road	New	21,024
Dority & Manning, PA	Two Liberty Square – 75 Beattie Pl	Greenville CBD	Renewal	24,446
Agfa Corporation	10 S Academy St	Greenville CBD	Renewal	18,880
Grace Hill	300 Executive Center Dr - Bldg 300	Pelham Road	New	10,468

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
850 S Pleasantburg Dr	South Pleasantburg	\$1,350,000	\$37.00	36,446
Grove Office Medical Park - 1005 Grove Rd	Greenville County	\$3,830,000	\$204.60	18,695
30 Pointe Cir	Pelham Road	\$780,000	\$66.10	11,800
3254 Brushy Creek Rd	Greer/Taylors	\$3,650,000	\$322.60	11,315
200 Church St	Anderson County	\$1,750,000	\$239.90	7,296
150 D St	Rt 101 Corridor	\$1,350,000	\$256.90	5,255

ECONOMIC CONDITIONS

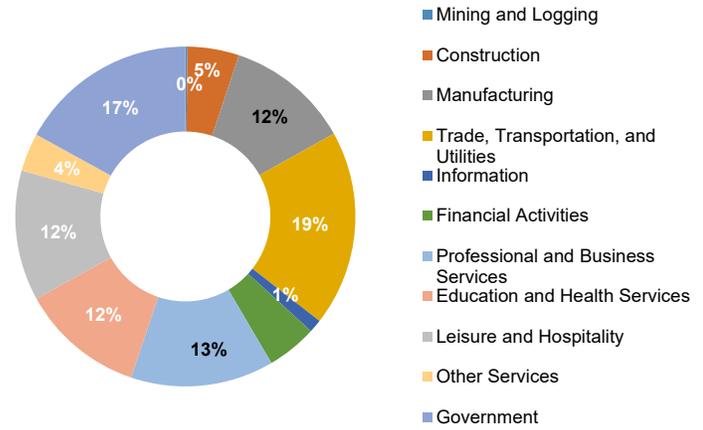
Unemployment in South Carolina remains below the national employment rate of 4.4% at 2.5% as of March 2020. Trade, government and professional services continue to dominate the state's employment sectors, as companies continue to migrate into and grow with South Carolina.

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

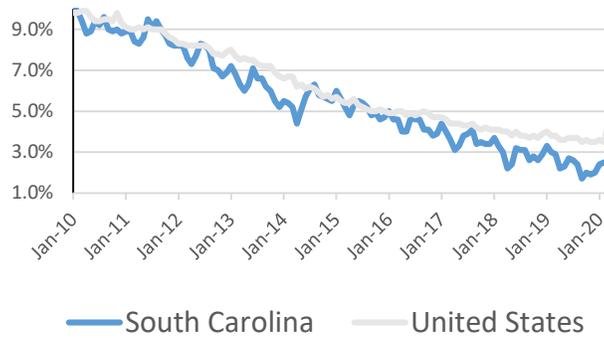
South Carolina, 2019



Source: U.S. Bureau of Labor Statistics

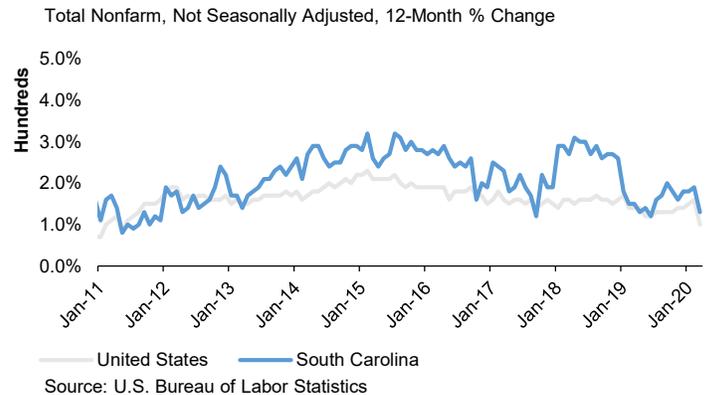
UNEMPLOYMENT RATE

Seasonally Adjusted



PAYROLL EMPLOYMENT

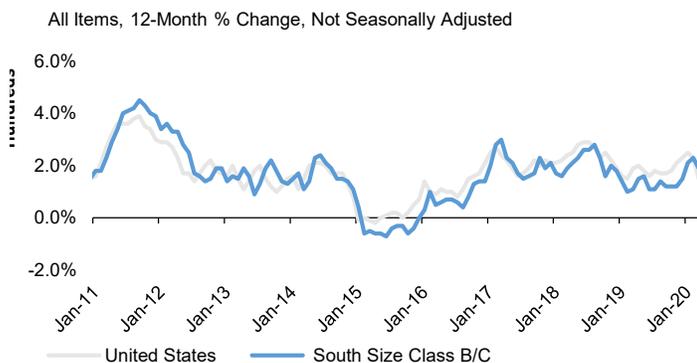
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

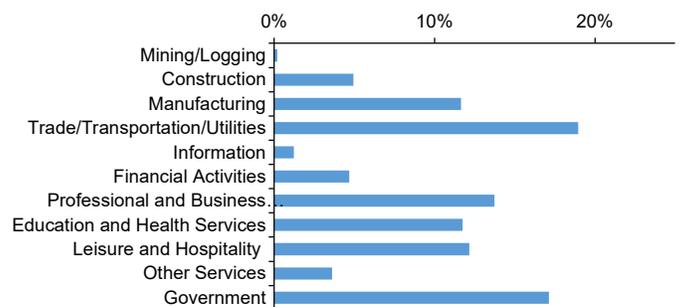
All Items, 12-Month % Change, Not Seasonally Adjusted



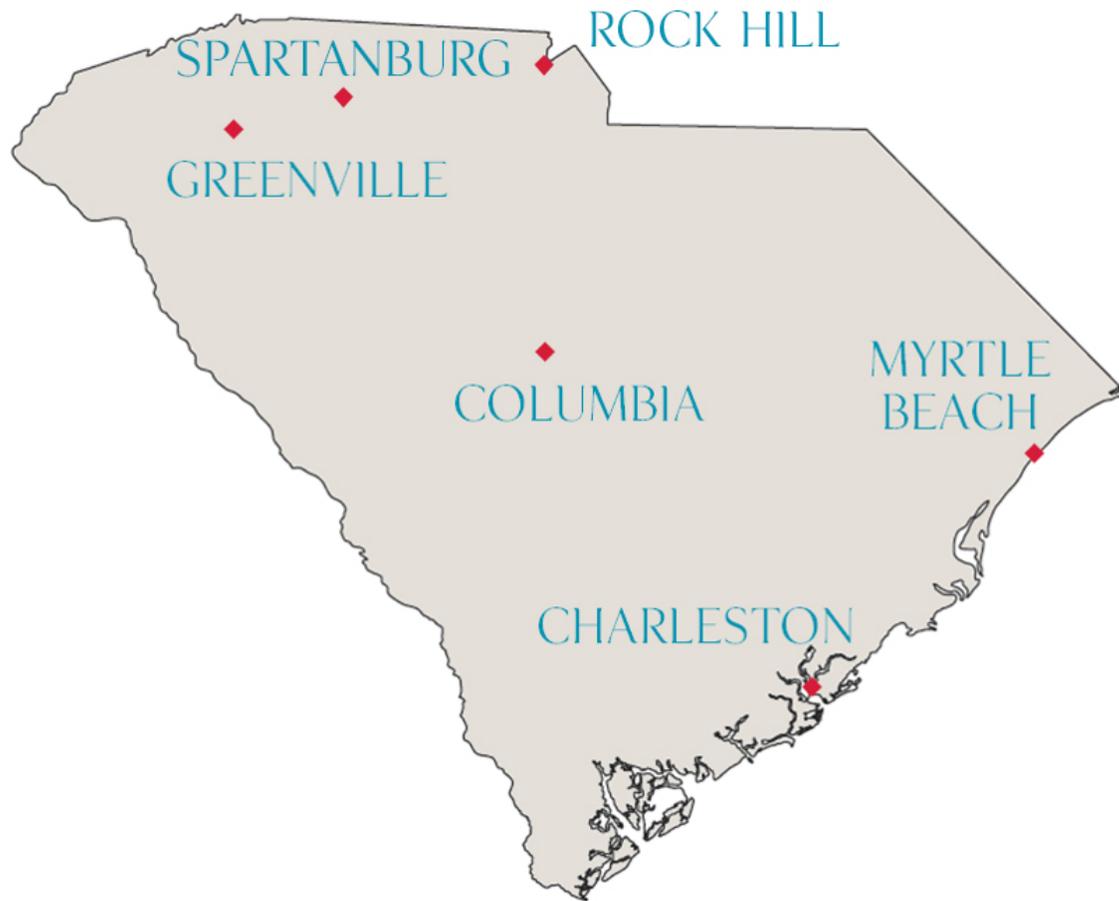
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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