



Colliers Keenan 2004 Year-End Medical Office Market Charleston, SC



January 2005

TOTAL MEDICAL OFFICE MARKET

Market	Total	Available	Sublet	Avg. Rate	Vacancy	Proposed
Downtown Charleston	284,442	13,750	0	\$22.32	4.8%	90,000
North Charleston	383,658	28,674	0	\$21.69	7.5%	79,600
West Ashley	589,493	49,556	3,000	\$20.72	8.4%	77,010
East Cooper	574,951	41,711	3,464	\$23.97	7.3%	136,000
Total Market	1,832,544	133,691	6,464	\$22.18	7.0%	382,610

Market Trends

The Charleston Medical Office Market has shown growth throughout 2004, a trend that has continued over the past two years. While the entire Charleston market has and continues to see large growth by the area hospital systems, many private practice groups are positioning themselves to combine financial resources with complimentary practices to purchase or build medical offices. This clustering also enhances services with convenience to patients as well as to physicians. The chance to have an equity stake in a practice by owning an interest in the property is increasingly appealing to many of the Charleston area's physicians. The physicians purchase a suite or medical building or develop a building, and a doctor who joins the practice will simply buy the interest in the property from an exiting physician. What's more, the practice can be expanded by extending office hours rather than hiring new doctors. Owning property comes with other benefits such as a favorable impression of the practice by the general public, as well as the standard financial benefits of property ownership. Charleston's healthcare industry has become a prominent force in the economic development of the entire area, and it provides some of the best patient care in the state. Overall, the medical office market grew by 90,139 square feet, saw positive absorption of 71,942 square feet and experienced a \$.42 increase in average per square foot rental rates.

Downtown Charleston

With the densely developed nature of Downtown Charleston and lack of building sites, the Charleston Peninsula is undergoing several new infill projects within the eight block medical area surrounding the hospital systems. MUSC is well into the site work for Phase I of its Hospital Replacement Project on Courtney Boulevard. On Rutledge Avenue, two other infill projects are under construction; the Charleston High School project of 80,000 square feet will be completed in 2005 with a new parking garage finished in the spring, and the 15,000 square foot project at Rutledge Avenue and Doughty Street is projected for an April completion with 10,000 square feet committed to be medical office space. Roper Hospital's expansion on Calhoun Street has had structural steel erected and is progressing quickly, while Hollings Cancer Center expansion containing 112,500 square feet is nearing completion as well. Vacancy will rise briefly as new product is absorbed, and rental rates will climb.

North Charleston

The North Charleston market has remained relatively strong and is showing signs of growth as several new projects have come out of the ground. With the limited remaining parcels on Medcom and Tricom Streets, development in upper North Charleston has sprung eastward from Trident Regional Hospital and across University Boulevard.

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Medical

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University Place, situated across University Boulevard from Trident Regional Hospital, is in the process of completing a 6,000 square foot building and will look to begin construction on a 39,000 square foot building by the end of 2005. In lower North Charleston, Lenhart Professional Park, located in front of Whitehall subdivision on Dorchester Road above Ashley Phosphate Road, has completed the first of the twelve building medical and professional office park containing buildings ranging in size from 4,000-8,000 square feet. These buildings are being offered for sale or lease. Drivers in this sub-market will be relocations from damaged or demolished properties such as the Red Cross Building, as well as growth of new and existing practices reaching out to growing population.

West Ashley

With a vacancy rate of only 8.4 percent, the West Ashley and James Island sub-markets remain strong but still have the highest vacancy rate in the Charleston area. James Island has experienced its first medical growth in years with the Ellis Oaks Medical Park nearing completion. Each of the three buildings in the project consists of approximately 6,500 square feet. This location has drawn physicians from further up Folly Road as well as from the Charleston Peninsula because of its ease of access and proximity to Downtown Charleston. Another Class A project of similar size and within close proximity is currently in the process of being reviewed and approved by the City of Charleston and

its Board of Architectural Review. West Ashley is still experiencing growth along Charlie Hall Boulevard in Essex Medical Park near St. Francis Xavier Hospital. The Park has six remaining proposed buildings varying from 6,000 to 10,000 square feet and should witness at least one of the buildings begin construction during the second half of 2005.

East Cooper

While the vacancy rate has increased from 6.1 percent to 7.3 percent, the East Cooper sub-market is still the strongest sub-market next to Downtown Charleston in terms of development and occupancy. The Medical Center of East Cooper lost several tenants in the second half of the year, leaving over 12,000 square feet of vacant space. Roper Mt. Pleasant Medical Center remains about 80 percent occupied. Two large medical office buildings (MOBs) are proposed in Mt. Pleasant, the first of which will be located on Wingo Way at the foot of the Cooper River Bridge and will be approximately 70,000 square feet. This Wingo Way building should come out of the ground in the first quarter of 2005 and will be the second largest MOB in the East Cooper sub-market. About forty physicians are currently involved with the project, but there will be available space in the building for lease. The second MOB project, which is scheduled for a first quarter 2006 completion date, is proposed to be approximately 38,000 square feet and will be located on Johnnie Dodds Boulevard at the current Ryan's Steakhouse site. On Daniel Island there are three more 9,000 square foot MOBs proposed adjacent to the Prevecare Building on Seven Farms Drive. Average rental rates for the East Cooper sub-market have dropped slightly from \$24.23 per square foot to \$23.97 per square foot, but they should begin increasing as these new projects come on line.

Forecast

The outlook for 2005 shows no signs of the Charleston Medical Office Market losing any strength. Rental rates have continued to remain strong in all sub-markets, as vacancy has remained low at an overall average of 7 percent. New construction of over 160,000 square feet of new medical office product is either already underway or proposed to commence in 2005, another 220,000 square feet of space is on the drawing board for 2006. The expansion of hospital systems also demonstrates the velocity at which the market is moving. The robust healthcare industry in the Greater Charleston area should continue to expand its workforce, look to improve services and facilities, and form new alliances to accommodate the growth of the Lowcountry. The Charleston Medical Office Market should see vacancy rates remain steady as rental rates may exhibit a slight increase within the first half of 2005.

NOTE: Permission is granted to quote from this publication only when Colliers Keenan Inc. is credited as the source. All information contained herein was compiled utilizing data from sources deemed reliable. It is submitted without warranty. Statistical data was collected as of December 30, 2004 and encompasses all medical buildings 5,000 square feet and greater.

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