



Colliers Keenan 2006 Year-End Medical Office Market Charleston, SC



January 2007

Total Medical Office Market

Submarket	Total	Available	Sublet	Avg. Rate*	Vacancy*	Proposed
Downtown Charleston	290,343	18,514	0	\$25.94	6.38%	0
North Charleston	499,959	39,413	0	\$23.28	7.88%	0
West Ashley/James Island	609,197	48,962	0	\$23.80	4.75%	26,000
East Cooper	532,041	21,475	0	\$24.23	4.04%	106,000
Total Market	1,931,540	128,364	0	\$24.19	6.65%	132,000

*Rental rates and overall vacancy are calculated on a weighed average basis. Rental rates are calculated on a full service basis.

Market Trends

As Charleston continues to enjoy a robust economy, it's strength has maintained both stable commercial and residential real estate markets. Greater Charleston's medical office market has shown continued growth throughout 2006 as total medical office inventory has increased from approximately 1,855,000 square feet at Year End 2005 to approximately 1,932,000 square feet by Year End 2006.

Medical expansion has been and continues to be witnessed in each of the four submarkets as we see new construction of freestanding medical office buildings (MOBs) for private physician groups either expanding into new submarkets or continuing the trend of choosing ownership over leasing. Hospitals which are seeing growth, such as Bon Secours St. Francis in West Ashley, Roper Hospital, and MUSC's Hospital Replacement Project, indicate growth on a larger scale and exhibit overall stability for Greater Charleston's medical office market.

As inventory continues to increase, so does rental rates in all classes. With the continued growth in land costs and construction costs, these two elements are driving up rental rates in the medical office market as in all other real estate sectors. Overall quoted rental rates average \$24.19 per square foot, an increase from one year ago with an average rental rate of \$22.72 per square foot. New product fully serviced to include all operating expenses, are now in the range of \$30-\$32 per square foot which is an increase of 20-25% of overall costs from four years ago.

Downtown Charleston

Other than the recent delivery of Roper Hospital's expansion of approximately 245,000 square feet on Calhoun Street and MUSC's Hospital Replacement Project consisting of approximately 518,000 square feet, no projects other than Dr. Calcote's new Class "A" MOB located at 163 Rutledge Avenue have been constructed and currently there are no other true MOB projects proposed on the Peninsula. In the more distant future, there is potential for the South Carolina Research Authority (SCRA) and MUSC to examine the possibility of creating a presence north of the Downtown Charleston medical community which may incorporate research and laboratory space.

The enduring obstacles of extremely limited and costly parking and the lack and cost of available land for new construction continues to hinder Downtown's medical office growth. These hindrances have given way to an average rental rate increase from \$23.56 per square foot at Year End 2005 to \$25.96 per square foot at Year End 2006, though vacancy has risen approximately 20% from 5.3% to 6.38% in the past year.

North Charleston

As overall occupancy and absorption continue to grow in the North Charleston submarket, the vacancy has increased as well within the past year from 5.9% to 7.88%. This increase is due to the new construction of two buildings equaling approximately 45,000 square feet on University Boulevard and others located on Tricom Street and Ladson Road towards Summerville.



Colliers Keenan
151 Meeting Street/ Ste. 350
P.O. Box 610
Charleston, SC 29402 USA
Tel: (843) 723-1202
Fax: (843) 577-3837
www.collierskeenan.com



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The largest new occupant in the North Charleston submarket is University Medical Associates (UMA) currently in the process of building out their new 25,000 location at University Place next to Charleston Southern, across from Trident Hospital. North Charleston medical office rental rates have remained in line as they have increased slightly from \$22.57 per square foot to an overall average of \$23.28 per square foot. This trend should hold steady with continued slight growth in inventory absorption and rental rates as the strength of this submarket lies within the continued residential growth northward to Highway 78 and beyond to Summerville, Goose Creek and Moncks Corner.

West Ashley / James Island

Over the past three years, the West Ashley and James Island submarket has been the second fastest growing submarket in the Greater Charleston market next to North Charleston. Approximately 90,000 square feet has been developed, not including the current expansion of Bon Secours St. Francis Hospital. The last remaining medical parcels on Charlie Hall Boulevard have been purchased over the past year at between \$325,000 and \$455,000 per acre, depending on size. The majority of freestanding MOB's in West Ashley are owner occupied, specifically at Savage Road Medical Center, Charlie Hall Boulevard, the Moreland Medical MOB and the majority of other MOB's on St. Andrews Boulevard, Ashley River Road and Cosgrove Avenue. As new demand following the continued residential growth out Glenn McConnell and Bees

Ferry increases, rental rates have increased from \$21.08 per square foot to \$23.80 per square foot on average.

East Cooper

As in the other suburban submarkets, East Cooper's residential growth will fuel the medical office market. East Cooper is experiencing growth along I-526, Long Point Road and Highway 17. Southeastern Spine Institute is nearing completion of the new approximately 21,000 square foot building on Chuck Dawley Boulevard and the new Wingo Way MOB of approximately 69,000 square feet at the foot of the Ravenel Bridge which will serve as Lowcountry Medical Associates' (LMA) Mount Pleasant hub. This project has been constructed and interior improvements are under way; approximately 6,900 square feet remain available at a rental rate of \$28.00 per square foot on a full service basis. The third of the larger newly constructed MOB projects in Mt. Pleasant is the cluster of six buildings equaling approximately 24,500 square feet on Lone Tree Drive behind Roper Mt. Pleasant Medical Center off of Longpoint Road. East Cooper is currently the most healthy submarket in Charleston with a 4.04% vacancy rate, Class "A" development, and a future of expansion northward towards Awendaw.

Forecast

The 2007 forecast for the overall Charleston Medical Office Market remains healthy. New construction will continue whether land and construction costs continue to increase or become stagnant. Rental rates will increase as absorption stays relatively flat with occupancy of new construction by private physician groups and expansion of others into the vacated spaces in larger multi-tenant MOB's. Several groups related either by association or practice will look to consolidate into larger buildings in North Charleston and Mount

Pleasant vacating smaller spaces throughout Charleston which will be back-filled. Vacancy should continue to stand firm overall with the possibility of small areas of increases in North Charleston and Mount Pleasant.

Survey Methodology

The Colliers Keenan Greater Charleston Medical Office Market Report surveys facilities not exclusively used or owned by hospitals, single and multi-tenant medical office buildings and certain multi-tenant office buildings containing medical practices or freestanding clusters equal to or in excess of 5,000 square feet. All statistics provided in this survey are based solely on the individual properties actually surveyed. Colliers Keenan acknowledges and appreciates those individuals who provided information about the properties they own or represent. The accuracy of this report is a reflection in part of the participation and cooperation of those individuals.

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, 2006 and encompasses all medical buildings 5,000 square feet and greater.

For further information on the
Charleston, SC Medical Office
Market contact:
Mark A. Mattison, II
at (843)437-1545 or
mmattison@collierskeen.com



Colliers Keenan
151 Meeting Street/ Ste. 350
P.O. Box 610
Charleston, SC 29402 USA
Tel: (843) 723-1202
Fax: (843) 577-3837
www.collierskeen.com