



Colliers Keenan

2006 Mid-Year Office Market

Columbia, South Carolina



July 2006

- **Rental rates see slight increase during first half of 2006**
- **Positive absorption (barely) in the market**
- **Limited new construction is occurring in 2006**
- **Stagnant job growth in the Columbia region leads to slow expansion**

Market Overview

The Columbia, South Carolina office market posted positive levels of absorption over the first half of 2006, although not at levels needed to sustain a growing market. The total market absorbed 17,836 square feet in the past six months; whereas market absorption for the previous twelve months was at a much stronger 96,613 square feet. Even with weakened demand, quoted rental rates averaged higher at mid-year 2006 than six months earlier, increasing from \$13.80 per square foot to \$14.25 per square foot. Many landlords are asking for increased rates given rapid increases in operating expenses.

As the national economy continued to grow, posting a 5.3% increase in the first quarter of 2006, Columbia's economy remained relatively flat. From December 2005 to May of 2006 the Columbia economy experienced a decrease in employment. Relative to the state's 1.9% job growth during this period, the Columbia region experienced a reduction of 500 jobs.

Employment sectors with the greatest effect on the office market have experienced slight declines thus far in 2006, helping to explain the lackluster performance of the office market. The service economy as a whole downsized by 1,300 jobs from December 2005 to May 2006. Key sectors within this category include financial services, decreased by 700 jobs; state government, decreased by 500 jobs; and information technology, which posted positive gains of 300 new jobs over this period.

The slight constriction of the employment base could be attributed to seasonal or cyclical downsizing within the varying economic sectors, but the Class A market, which is often used as an indicator of the overall market, trended down slightly over the first six months of 2006 as well, with negative absorption of 16,122 square feet. There was little activity in many Class A buildings across the market. This, coupled with a few larger tenants giving up space, resulted in negative absorption. Quoted rental rates surpassed \$19.00 per square foot for the first time, posting an average quoted rent of \$19.09 per square foot across the market. While the average quoted rent is impeded by newer buildings in the market, the median rent was \$18.00 per square foot, up from \$17.50 per square foot at year-end 2005.

There are a number of properties recently introduced to the market that, although not yet classified as multi-tenant office buildings will likely impact the market in the months and years to come. Transition properties such as the Wachovia Operations Center in St. Andrews, a 200,000 square foot facility, is now available for lease. IKON is offering their 85,000 square foot building in the Northeast submarket for complete sublease, and the single-story flex building at Pinnacle Point is being marketed for lease as well. These properties will likely draw the attention of unique users as they look at possible locations in the Columbia market due to the availability of large blocks of contiguous space and competitive rates.

CBD

The CBD experienced positive growth in the first half of 2006 after posting a loss during the prior six months due to state downsizing. Positive absorption of 18,496 square feet gives a slight momentum moving into the second half of the year. Quoted



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	Total Feet	Occupied	Vacant	Occupancy Rate	Absorption (Six Month)	Absorption (Twelve Month)	Average Rate	Class A Rate	Class B Rate	Class C Rate
Total Market	9,085,161	7,396,784	1,688,377	81.4%	17,836	96,613	\$14.25	\$19.09	\$13.83	\$11.64
CBD	4,461,175	3,903,472	557,703	87.5%	18,496	-44,545	\$16.22	\$19.44	\$16.00	\$12.41
Suburbs	4,623,986	3,493,312	1,130,674	75.5%	-660	141,158	\$13.21	\$17.70	\$13.43	\$10.88
Cayce/West Columbia	460,014	234,774	225,240	51.0%	5,275	11,198	\$9.26	-	\$9.78	\$7.83
East Columbia (Devine Sreet)	97,300	94,990	2,310	97.6%	1,290	3,840	\$12.00	-	-	\$12.00
Forest Acres	775,223	637,851	137,372	82.3%	17,159	37,983	\$14.18	\$17.00	\$14.21	\$12.68
Northeast Columbia	1,163,094	838,248	324,846	72.1%	-39,701	15,493	\$14.24	\$18.36	\$14.66	\$10.16
St. Andrews	2,128,355	1,687,449	440,906	79.3%	15,317	72,644	\$14.34	\$17.73	\$14.70	\$12.38

rental rates across the CBD increased from \$15.19 at year-end 2005 to \$16.22 at mid-year 2006.

The next six to twelve months will prove interesting in the CBD as several key announcements will affect the market for years to come. The former Kline Iron and Steel site at Huger and Gervais is expected to be converted into a mixed-use urban development containing residential, retail and up to 100,000 square feet of office space. The first phase of the University of South Carolina's Innovista is now under construction and will be online in 2007. This project will significantly impact the CBD and surrounding submarkets as developers work to fill speculative research and development space with companies attracted by the University and even existing tenants in the market.

Other considerations likely to affect the long-term stability of the CBD include the possible relocation of SCANA and the possible relocation of the Veterans Administration, with both possibly leaving the CBD.

Suburbs

The suburban office market in Columbia finished the first half of 2006 with virtually no absorption for the six-month period. Although there was robust leasing activity, it was predominately lateral moves by tenants. The suburban market stood at 75.6% occupied at mid-year 2006, with quoted rents averaging \$13.21 per square foot. The majority of

suburban absorption occurred in the Forest Acres market. This predominately Class B and C market offers convenient access to the CBD at much lower rental rates. The Forest Acres submarket has shown substantial gains over the past twelve months, with occupancy levels increasing from 76.9% at mid-year 2005 to 82.3% at mid-year 2006.

The St. Andrews submarket, which is the largest suburban submarket in Columbia, also posted positive absorption, though primarily in the Class B market. The Class A market experienced a decline bringing Class A occupancy to 81.2% at mid-year 2006, down from 87.1% at year-end 2005.

The rapidly expanding Northeast area of Columbia posted negative absorption at mid-year 2006. Even with ever-increasing residential and retail developments, the office market occupancy declined by 39,701 square feet, putting it at 72.1% occupied. The majority of negative absorption was in older single-story office properties. Average quoted rents in the Northeast market remained flat over the past twelve months at \$14.24 per square foot.

The Cayce/West Columbia submarket experienced an increase in leasing activity over the first six months of 2006, but still posted a dismal occupancy of only 51.0%. The better performing properties in the submarket are generally located in West Columbia, within proximity to I-26.

The office market along Devine Street, with close proximity to the CBD, Five Points and the upscale Shandon and Heathwood neighborhoods, remains nearly at full occupancy. Even with a continued high demand, the average quoted rates in this predominately Class C market have remained flat over the past six months at \$12.00 per square foot.

Forecast

Over the next six to twelve months, job creation will be critical to the overall health of the office market. As rental rates rise and conditions of the local economy remain in question, many existing tenants are expanding within their current space or acquiring as little new space as possible. Without corporate relocations or openings to Columbia, any activity in the market will likely be lateral moves from companies shopping for the best rates, thereby causing an erosion of some rental rates over the next six months.

For further information on the Columbia, SC Office Market
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