office

Colliers Keenan Goldsmith Market Report
Greenville, SC

January 2005

MARKET TURNS THE CORNER

- **Positive absorption after two years of negative absorption**
- **CBD remains strong—market weakness still focused in suburbs**
- **Class 'A' market turns in great year**
- **RiverPlace, the CBD's largest planned mixed-use development begins Phase I construction**
- **ICAR is underway, and Hubbell Lighting announces in the suburbs**
- **Office condominiums experience unprecedented development**

Market Summary

Throughout 2004 the Greenville office market fundamentals improved, and all signs point to continued improvements in 2005. After posting negative net absorption in both 2002 and 2003, the office market posted positive net absorption of 69,529 square feet for 2004. This resulted in the overall market vacancy rate declining slightly from 23.9% at year end (YE) 03 to 23.7% at YE 04.

Even better news was the performance of Class A space. Many consider the vitality of Class A space to be the true barometer of the office market. Based on this measurement, the market turned in a great year with strong Class A net absorption at 239,000 square feet. As a result, the CBD Class A vacancy rate was 8.7% at YE 04, down from 11.6% at YE 03. The Suburban Class A vacancy rate also improved, down from 31.5% at YE 03 to 25.8% at YE 04. Many companies used the market softness to move from Class B and C properties to Class A buildings with no significant in-migration of new tenants during the year. Due to the continued market softness, the average asking rental rate remained at the 2003 level, $15.75 per square foot. The softness of the market is still focused in the suburbs with the CBD market being much stronger.

Office Inventory and Percent Vacancy Rates
Year End 2004

	Central Business District		Suburban		Total Market
	Class A	Total	Class A	Total	
Total Inventory	1,329,099	2,671,315	1,813,879	3,414,465	6,085,780
Direct Vacant SF	116,295	436,737	467,515	984,599	1,421,336
Sub-lease SF	6,397	6,397	55,000	55,000	61,397
Direct Vacancy Rate	8.7%	16.3%	25.8%	28.8%	23.7%
Availability Rate (Direct and Sub-lease)	9.2%	16.6%	28.8%	30.4%	24.4 %
Y-T-D New Product	61,500	61,500	28,000	28,000	89,500
Y-T-D Net Absorption	91,744	9,400	147,121	60,129	69,529
SF Under Construction	87,000	87,000	0	0	87,000
Average Asking Rental Rate / SF	$18.50	$16.50	$16.75	$15.50	$15.75

Several office condominium developments entered the market during 2004, both in the CBD and suburbs. Office condominium development has occurred in Greenville over the past decade on a small scale, but this level is unprecedented. It is too early to tell how the market will accept this product.

Colliers Keenan Goldsmith
201 E. McBee Ave, Ste 201
Greenville, SC 29601 USA
Tel: (864) 297-4950
Fax: (864) 527-5444
www.collierskeenan.com

office

Colliers Keenan Goldsmith

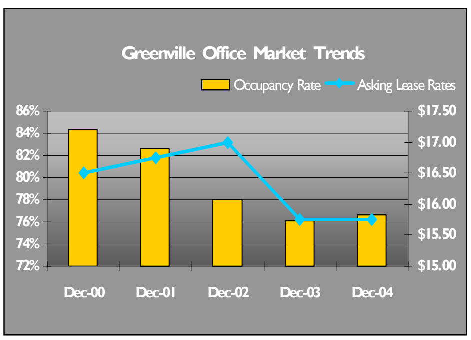
Market Report

Greenville, SC

January 2005

Central Business District

The CBD continued to be the bright spot of the Greenville office market. While the overall vacancy rate increased to 16.3% at YE 04 from 14.7% at YE 03, the vacancy rate for Class A space dropped from 11.6% at YE 03 to 8.7% at YE 04. Net absorption for the CBD market was 9,400 square feet but Class A net absorption was strong at 91,744 square feet. The tightening of the Class A market resulted in the average asking rental rate for Class A space increasing by $.25 per square foot to $18.50 per square foot at YE 04. The gap between the availability rate and the direct vacancy rate tightened as a large chunk of sublease space in the Landmark Building was reclaimed when the Nuvox/New South merger occurred.



It is important to note that the migration to Class A space has resulted in a lack of a large contiguous Class A space available with the largest contiguous block being 20,000 square feet. This will be remedied when the 87,000 square foot RiverPlace office building is delivered in mid 2005. Construction of this speculative office building began in the summer of 2004, and the first major tenant signed a lease in the fall. The RiverPlace mixed-use development located on South Main Street at the Reedy River will include retail, residential, office, and hotel developments as well as parking garages.

The third developer to control the Memorial Auditorium site was unable to acquire enough pre-leasing to kick off the project and allowed the contract to expire. This site is located next to the Bi-Lo Center at the gateway to downtown Greenville and another developer is currently talking to the city about developing the site. No contract has been signed at this point.

Suburban Market

The suburban office market in recent years has been one of the nation's weakest markets. Colliers surveys 50 office markets nationwide, and in 2002 the Greenville suburban office market had the highest vacancy rate of any market Colliers surveyed. During 2004 this market turned the corner with positive net absorption of 60,129 square feet resulting in a decline of the vacancy rate to 28.8%, down from 30.7% at YE 03. The performance of Class A space was especially strong with positive net absorption of 147,121 square feet which dropped the Class A vacancy rate to 25.8%, down from 31.5% at YE 03.

Sublease space declined by 27,000 square feet during the year, and Fluor Daniel removed 150,000 of Class A space from the market when they reclaimed the space for their own use. These factors resulted in the availability rate dropping to 30.4%, down from 33.1% at YE 03. The gap between the direct vacancy rate and the availability rate tightened due to the reduction of sublease space.

Two announcements provided much needed good news for the suburban office market. Clemson University started the infrastructure for its graduate school of automotive engineering located at the intersection of I-85 and Laurens Road/276. The International Center for Automotive Research, known as ICAR, is a 250 acre campus with Clemson University partnering with BMW, Microsoft, Michelin, and IBM. Hubbell Lighting Inc. announced plans to build a $25 million, 300,000 square foot regional headquarters in Greenville after an intense recruiting battle among upstate SC cities, Asheville, NC and Savannah, GA.

Forecast

It appears that the Greenville office market turned the corner during 2004 and is poised for continued improvement during 2005. The weakness is still concentrated in the suburban market which has a total of 1,000,000 square feet available. Even with no speculative construction underway, it will take many years of strong absorption to substantially improve the market fundamentals in the suburbs. The CBD should still continue to be the bright spot of the market with the delivery of the first phase of the RiverPlace development in 2005. This should continue the strong interest in downtown Greenville.

During the last two years, existing Greenville tenants have moved from B and C properties to Class A properties with little in-migration from outside tenants. At this point it appears that most existing tenants have moved and the market needs the in-migration of outside tenants to grow. Additional growth within the market hopefully will occur, but we think that demand has been satisfied over the past two years. Hopefully, the improving economy will create growth in the office market from both inside and from outside the Greenville area further improving the office market fundamentals.

For further information on the Greenville, SC Office Market Contact Brent L. Freeman, CCIM at (864) 527-5440 or bfreeman@collierskeenan.com

COLLIERS KEENAN GOLDSMITH
201 E. McBee Ave, Ste 201
Greenville, SC 29601 USA
Tel: (864) 297-4950
Fax: (864) 527-5444
www.collierskeenan.com