

Charleston is prime for population spike, eventually increasing demand

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Key Takeaways

- Negative effects of the pandemic are starting to be evident in the Charleston office market - no new offices were delivered; however, the office market posted a negative overall absorption of 25,280 square feet.
- Overall Charleston office rental rates are lower this quarter, except in Class A central business district office space. The drop in rental rates may be partly a result of owners lowering rates to lease space quickly to accommodate for tenants downsizing or moving due to the Coronavirus.
- Following the pandemic, cities with less population density, such as Charleston, are becoming more attractive.

Charleston draws new residents

Charleston has received many accolades over the years regarding its quality of life and dynamic business environment, making it a favorite relocation choice for people from all over the nation. Residents moving from other states made South Carolina the 6th fastest growing state last year. In addition, Charleston's regional population is growing three times faster than the United States average.

There are several reasons the region continues to be popular. Charleston is home to multiple public and private universities, as well as technical college systems, collectively offering training and education programs that support the growing regional labor force. Also, desirable housing and a strong job market are a large draw for new Charleston residents. Charleston's livability factor is high due to world-renowned dining, a mild climate with beautiful beaches and a multitude of walkable historical landmarks and sites to visit. Charleston has drawn tourists to the area for several years; however, following the pandemic, cities with less population density are becoming even more attractive. Many people from larger northeastern U.S. cities are relocating to smaller southern

Market Indicators

Relative to prior period	Q3 2020	Q4 2020*
VACANCY	↑	↓
NET ABSORPTION	—	+
CONSTRUCTION	↑	↑
RENTAL RATE**	↓	↔

Note: Construction is the change in Under Construction.

*Projected

**Rental rates for current quarter are for CBD. Rent forecast is for metro-wide rents.

Summary Statistics

Q3 2020 Charleston Office Market	Market	CBD	Suburban
Vacancy Rate	13.22%	12.39%	13.43%
Change From Q3 2019 (basis points)	+168	+245	+150
Absorption (Thousand Square Feet)	-25.28	6.20	-31.48
New Construction (Thousand Square Feet)	-	-	-
Under Construction (Thousand Square Feet)	764.24	513.00	251.24

Asking Rents

Per Square Foot Per Year			
Overall	\$23.56	\$32.45	\$21.89
Change From Q3 2019	-3.68%	-1.07%	-5.73%
Class A	\$24.76	\$37.50	\$21.58
Change From Q3 2019	-14.06%	+2.40%	-18.63%

cities such as Charleston. According to Zillow, the average time for a Charleston home to be on the housing market is only 100 days, meaning houses for sale are purchased often within a little over three months of being listed, showing how high the demand for housing is. Due to the draw of new residents and a need for space afforded within tertiary cities such as Charleston, a future population boom will likely increase the need for office space and absorb availabilities created as a result of the pandemic.

Market Overview

Overall Charleston Market

The Charleston office market is comprised of approximately 14.26 million square feet and there are currently 12 office buildings under construction which, upon completion, will add 764,240 square feet to the office market. In addition, there are 14 proposed offices totaling 1.09 million square feet adding to the construction pipeline. No new offices were delivered to the Charleston office market however, the office market posted a negative overall absorption of 25,280 square feet during the third quarter of 2020. The effects of the pandemic are likely the cause of much of the negative absorption this quarter as some companies choose remote work setting or downsizing options. Lower North Charleston posted much of the positive activity, this submarket absorbed 41,247 square feet. The overall negative absorption forced the vacancy rate upward from 13.07% during the second quarter of 2020 to 13.22% this quarter. Charleston office market rental rates were marginally lower at \$23.56 per square foot during the third quarter of this year. The drop in rental rates may be partly a result of owners trying to lease vacant space quickly to accommodate for tenants downsizing or moving as a result of the Coronavirus.

Central Business District

The central business district has 88 buildings totaling 2.91 million square feet in Charleston and there are currently 438,000 square feet of office buildings under construction. Charleston may be feeling tenant's hesitancy to make a change during the pandemic; only 8 buildings in downtown Charleston posted activity this quarter. Offices in the Charleston central business district absorbed 6,201 square feet during the third quarter of 2020, almost half of which was in Class A office space. While this absorption was minimal, it dropped the vacancy rate slightly from 12.61% during the second quarter of 2020 to 12.39% this quarter. The average weighted rental rate during the third quarter of 2020 was \$32.45 per square foot for the remaining downtown availabilities. Class A central business district rental rates are currently higher than they were this time last year, because there are higher quality spaces currently available.



2020 Charleston Awards & Accolades

- > Charleston ranked "#1 City in America" - 8th year straight
Travel + Leisure
- > Charleston ranked a "Best City of 2020"
Southern Living
- > Charleston named "50 Best U.S. Cities for Starting a Business in 2020"
Inc. Magazine
- > Charleston ranked a top 10 "Best-Performing Cities 2020: Where America's Jobs Are Created and Sustained"
Milken Institute
- > Charleston named "#10 U.S. City Gaining Innovation Jobs"
The New York Times
- > Charleston ranked "2020's Best Cities for Jobs"
WalletHub

Regional Demographics

The Charleston-North Charleston MSA, which makes up over 15% of South Carolina's population, offers favorable demographics, with above average population growth and a skilled, educated labor force.



POPULATION

2025: **899,432** (ESRI forecast)
2020: **818,498** (ESRI estimate)
2010: **664,607** (Census)



HOUSEHOLDS

2025: **351,755** (ESRI forecast)
2020: **319,923** (ESRI estimate)
2010: **259,987** (Census)



HOUSEHOLD INCOME

Average:
2025: **\$100,779** (ESRI forecast)
2020: **\$90,938** (ESRI estimate)
Median:
2025: **\$70,863** (ESRI forecast)
2020: **\$65,239** (ESRI estimate)

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Suburban Conditions

The Charleston suburban office market is comprised of 11.35 million square feet and there are seven offices totaling 251,240 square feet under construction throughout the suburban submarkets. While there were several suburban office buildings which posted positive absorption during the third quarter of 2020, the overall negative absorption outweighed the positive. Charleston suburbs posted a negative 31,481 square feet this quarter, most of which was in Class B suburban space. Class A suburban offices absorbed 17,385 square feet. The suburban vacancy rate increased from 13.19% last quarter to 13.43% during the third quarter of this year. The overall suburban average weighted rental rate for the remaining availabilities decreased from \$23.01 during the second quarter of 2020 to \$21.89 per square foot during the third quarter of 2020.

Significant Transactions

According to Costar, there were 18 office sales within the Charleston market this quarter, the two largest were medical office buildings. In addition, there were 76 leases executed during the third quarter of 2020.

Office-Using Employment

Office-using employment covers jobs related to the professional and business services, financial activities and information sectors. According to the most recent data from the Bureau of Labor Statistics, the amount of office-using jobs is normalizing. In just three months, during the period from April 2020 through July 2020, the number of jobs lost in Charleston decreased from 8,449 to 4,451. This is a positive sign that employers are rehiring and reopening following the lifted quarantine restrictions. The Charleston-North Charleston-Summerville unemployment rate was 9.2% as of July 2020 and is expected to decline through year-end as more companies open for business.

Market Forecast

As the effects of the pandemic become evident with new vacancies in high quality space, more residents are also moving to southern regions. Therefore, while the vacancy rate may increase for the next couple of quarters, an influx of new residents will likely lease the currently vacant spaces. Rental rates are lower this quarter as landlords attempt to lease space quickly in order to fill their buildings. Central business district Class A rental rates have continued to climb because that space is high-quality and in demand. New construction deliveries are expected to raise the overall rental rates within a few quarters. The full affects of the pandemic are still playing out within the office market, so there are still uncertainties. Nevertheless, Charleston's positive business environment and attraction of new residents should allow for future positive growth.

2020 Q3 Office Construction Pipeline Charleston		
PROPERTY NAME LOCATION	BUILDING SF	COUNTY
UNDER CONSTRUCTION (+50,000 SF)		
850 Morrison Drive	145,000	Charleston
The Belvidere 1510 Meeting Street	110,000	Charleston
Ingevity 4920 O'Hear Avenue	110,000	Charleston
Charleston Technology Center 999 Morrison Dr.	93,000	Charleston
The Jasper 320 Broad Street	75,000	Charleston

Source: Colliers International, CoStar

Commercial Real Estate Growth Cycle: Where the market stands and where it is going



Q3 2020 Office Market Summary Statistics

MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	NET ABSORPTION (SF)	AVERAGE ASKING RENTAL RATE (SF/YR)
DANIEL ISLAND								
Class A	10	927,831	29,610	11,819	41,429	4.47%	-	\$24.76
Class B	18	473,164	130,031	-	130,031	27.50%	-37,679	\$27.10
Class C	1	20,000	-	-	-	0.00%	-	\$22.19
Daniel Island Total	29	1,420,995	159,741	11,819	171,560	12.07%	-37,679	\$26.15
LOWER NORTH CHARLESTON								
Class A	7	670,888	223,795	22,293	246,088	36.68%	38,595	\$19.26
Class B	35	1,478,074	111,268	56,645	167,913	11.36%	1,196	\$21.23
Class C	45	1,267,860	102,838	8,616	111,454	8.79%	1,456	\$21.67
Lower North Charleston Total	87	3,416,822	437,901	87,554	525,455	15.38%	41,247	\$20.23
MT. PLEASANT								
Class A	11	567,089	61,473	5,399	66,872	11.79%	-9,571	\$28.81
Class B	42	1,017,416	119,423	17,163	136,586	13.42%	3,259	\$26.42
Class C	21	291,738	8,053	19,091	27,144	9.30%	2,438	\$29.19
Mt. Pleasant Total	74	1,876,243	188,949	41,653	230,602	12.29%	-3,874	\$27.05
SUMMERVILLE/GOOSE CREEK								
Class A	6	389,890	53,080	37,295	90,375	23.18%	-	\$25.49
Class B	13	335,521	9,997	-	9,997	2.81%	-3,925	\$25.13
Class C	19	291,735	7,707	1,750	9,457	3.24%	-4,250	\$10.82
Summerville/Goose Creek Total	38	1,037,146	70,784	39,045	109,829	10.59%	-8,715	\$24.31
UPPER NORTH CHARLESTON								
Class A	12	707,689	104,605	-	104,605	14.78%	-11,639	\$20.60
Class B	16	957,730	168,712	-	168,712	17.62%	-	\$18.78
Class C	31	934,079	117,621	-	117,621	12.59%	-2,770	\$16.60
Upper North Charleston Total	59	2,599,498	390,938	-	390,938	15.04%	-14,409	\$18.64
WEST ASHLEY								
Class A	1	32,000	18,570	-	18,570	58.03%	-	\$27.64
Class B	11	483,774	52,607	2,121	54,728	11.31%	-4,812	\$29.69
Class C	19	484,019	22,507	-	22,507	4.65%	-3,779	\$19.16
West Ashley Total	31	999,793	93,684	2,121	95,805	9.58%	-8,591	\$26.76
CHARLESTON CBD SUBMARKET								
Class A	14	1,239,674	141,481	29,541	171,022	13.80%	2,526	\$37.50
Class B	27	795,040	87,350	200	87,550	11.01%	1,987	\$29.46
Class C	47	870,863	99,561	1,974	101,535	11.66%	1,688	\$21.84
Charleston CBD Total	88	2,905,577	328,392	31,715	360,107	12.39%	6,201	\$32.45
SUBURBAN SUBMARKETS								
Class A	47	3,295,387	491,133	76,806	567,939	17.23%	17,385	\$21.58
Class B	135	4,765,679	592,138	75,929	668,067	14.02%	-41,961	\$23.47
Class C	136	3,289,431	258,726	29,458	288,183	8.76%	-6,905	\$19.08
Suburban Submarkets Total	318	11,350,497	1,341,997	182,192	1,524,189	13.43%	-31,481	\$21.89
MARKET								
Class A	61	4,535,061	632,614	106,347	738,961	16.29%	19,911	\$24.76
Class B	162	5,560,719	679,488	76,129	755,617	13.59%	-39,974	\$24.35
Class C	183	4,160,294	358,287	31,431	389,718	9.37%	-5,217	\$19.36
Market Total	406	14,256,074	1,670,389	213,907	1,884,296	13.22%	-25,280	\$23.56

400 offices in
68 countries on
6 continents

\$3.3
billion in
annual revenue

2
billion square feet
under management

17,000+
professionals
and staff



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