

# Sublease space and office pipeline offer tenants a unique upgrade opportunity

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## Key Takeaways

- › Sublease and anticipated office deliveries in 2021 afford tenants the opportunity to upgrade from their current office space. Furthermore, out-of-market businesses can relocate headquarters or start a new business in Charleston.
- › Rental rates will be likely be lowered throughout the market until the Class A office sublease space is absorbed.

## Commercial development follows residential boom

Charleston saw an uptick in residential sales beginning last year and continuing into 2020 as residents desired more space to work remotely and stay further away from communal environments. The need for distance has led to an uptick in single-family home sales throughout Charleston. Year-to-date home sales have increased over the home sales through November of 2019 by 12.9% in Berkeley County, 14.8% in Charleston County and 19.6% in Dorchester County. In addition, homes throughout the Charleston region are sold within two months or less from the time they are listed, proving the residential market is maintaining momentum. New homes were built in 2019 anticipating an increase in population, and then in 2020 growth was fueled by the pandemic and need for personal space therefore boosting overall Charleston residential sales. Residential growth bodes well for commercial real estate because it allows out-of-town business owners new home choices throughout the region. Commercial real estate tends to follow residential development trends by providing offices to be filled by businesses new to the region. The Charleston office market is proving this trend to be true.

### Market Indicators

Relative to prior period	Q4 2020	Q1 2021*
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

Q4 2020 Charleston Office Market	Market	CBD	Suburban
Vacancy Rate	16.97%	12.73%	18.09%
Change From Q4 2019 (basis points)	+409	-273	+591
Absorption (Thousand Square Feet)	-281.77	+13.42	-295.19
New Construction (Thousand Square Feet)	-	-	-
Under Construction (Thousand Square Feet)	669.24	448.00	221.24

### Asking Rents

Per Square Foot Per Year			
Overall	\$23.98	\$33.30	\$22.07
Change From Q4 2019	-12.00%	-6.50%	-10.00%
Class A	\$25.69	\$37.30	\$21.63
Change From Q4 2019	-19.26%	-2.97%	-21.29%



*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.*

In addition to new residents desiring to live in Charleston, new businesses are drawn to the area based on the region receiving multiple accolades for having a positive business climate and high livability standards. Charleston also offers enticements for business owners to relocate to the region based on workforce and business incentives. The South Carolina Department of Commerce has become proficient at offering a rapid permitting process, proactive workforce development and tax incentives to enhance job creation and operational investments.

## Opportunity for local tenants to upgrade and new tenants to locate to Charleston

This year the pandemic has enhanced the importance of personal distance. That coupled with the population expected to increase by 8.89% from 2020 through 2025, presents a growing need for additional commercial space. While some businesses are choosing to work remotely into next year; others are returning to the office, but feel the need for ongoing social distance translates to a need for

new or upgraded space. There are currently 751,381 square feet of office sublease space and 669,240 square feet of offices under construction in the Charleston market with anticipated deliveries throughout 2021. These availabilities afford tenants the opportunity to upgrade to a larger or higher quality space. Furthermore, out-of-market businesses can relocate headquarters to Charleston or start a new business.

## 2020 Annual Market Recap

### Overall Charleston Market

Due to the pandemic during 2020, the most significant change within the Charleston office market was a significant annual increase in sublease space from 166,377 square feet during the fourth quarter of last year to 751,381 square feet currently. The reason behind so much available space is many companies have opted to work from home due to uncertainty surrounding the COVID-19 pandemic. The majority of the sublease space

## 2020 Regional Demographics, Awards & Accolades

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. In addition, Charleston is repeatedly one of the most celebrated tertiary cities in the U.S.



**50 BEST U.S. CITIES FOR STARTING A BUSINESS IN 2020**  
**CHARLESTON RANKED #7**  
 -INC.



**U.S. CITY GAINING INNOVATIVE JOBS**  
**CHARLESTON RANKED #10**  
 -THE NEW YORK TIMES



**2020 BEST CITIES FOR JOBS**  
**CHARLESTON RANKED #18**  
 -WALLETHUB



**BEST PERFORMING CITY IN 2020: WHERE AMERICA'S JOBS ARE CREATED AND SUSTAINED**  
**CHARLESTON RANKED #13**  
 -MILKEN INSTITUTE



**CHARLESTON RANKED #1 CITY IN AMERICA** 8<sup>TH</sup> year straight  
 -TRAVEL + LEISURE



**CHARLESTON RANKED "A BEST CITY OF 2020"**  
 -SOUTHERN LIVING



**30 PEOPLE MOVE TO CHARLESTON PER DAY**  
 -CRDA.ORG



**TOP 10 SMALL AMERICAN CITIES OF THE FUTURE 2019/20**  
**CHARLESTON RANKED #6**  
 -FDIINTELLIGENCE.COM



**TOP BOOMTOWNS IN AMERICA**

- MOUNT PLEASANT #3
- CHARLESTON #8
- NORTH CHARLESTON #9

-SMART ASSET



**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)



**EMPLOYMENT RATE**

↑ SEPTEMBER 2020: 95.3%

Source: ESRI, Bureau of Labor Statistics

is available within Class A suburban office space. The central business district offices absorbed 82,763 square feet over the past year; however, the suburban offices posted a negative annual absorption of 445,183 square feet. The overall office market posted an annual negative 362,420 square feet due to this amount of space becoming available. In addition, over the past year there were six office buildings delivered to the market adding 193,561 square feet. The overall weighted rent for the Charleston office market has decreased from \$27.25 per square foot last year to \$23.98 per square foot this quarter. The decrease is most likely tied to owners decreasing rental rates in order to compete with the newly available office space.

## Market Overview

### Overall Charleston Market

The Charleston office market is comprised of approximately 14.47 million square feet and there are currently 11 office buildings under construction which, upon completion, will add 669,240 square feet to the office market. In addition, there are 15 proposed offices totaling 1.18 million square feet within the construction pipeline. No new offices were delivered to the Charleston office market during the fourth quarter of 2020. Overall, the Charleston office market posted a negative absorption of 281,773 square feet. Sublease space increased from 220,248 square feet last quarter to 751,381 square feet this quarter, most in Class A office space. It is estimated that approximately 20% of all Charleston office employees have returned to the office; however, the majority have continued a remote working status. The overall negative absorption forced the vacancy rate upward from 15.02% during the third quarter of 2020 to 16.97% this quarter. Charleston overall office market rental rates were slightly higher at \$23.98 per square foot during the fourth quarter of this year due to an increase within the central business district. The submarkets which had an increase in sublease space have lower rental rates as owners compete to attract tenants to fill vacant space.

### Central Business District

The central business district has 88 buildings totaling 3.03 million square feet in Charleston and there are currently 448,000 square feet of office buildings under construction. Downtown offices absorbed 13,420 square feet during the fourth quarter of 2020, most of which was Class A space. Due to the positive absorption, the overall vacancy rate dropped from 13.17% during the third quarter of this year to 12.73% this quarter. Weighted rental rates increased marginally from \$33.06 per square foot last quarter to \$33.30 per square foot during the fourth quarter of 2020.

### Suburban Conditions

The Charleston suburban office market is comprised of 11.44 million square feet and there are six offices totaling 221,240 square feet under construction throughout the suburban submarkets. The

overall suburban office posted a negative absorption of 295,193 square feet, mostly due to Daniel Island having a total of 532,256 square feet of sublease space available this quarter. The large amount of sublease space presents a unique opportunity for tenants in the market to decide if they want to upgrade to larger or nicer space. In addition, out-of-market businesses have many options to choose from when locating to Charleston. The suburban vacancy rate increased from 15.51% last quarter to 18.09% during the fourth quarter of this year. The overall suburban average weighted rental rate for the remaining availabilities remained steady at \$22.07 per square foot from the third quarter of 2020 to the fourth quarter.

## Significant Transactions

According to Costar, there were 23 existing office sales within the Charleston market this quarter, including two portfolio sales. In addition, there were 74 leases executed during the fourth quarter of 2020.

### 2020 Q4 Office Significant Transactions | Charleston

PROPERTY NAME   LOCATION	BUYER	BUILDING SF	PRICE   PRICE PER SF
<b>SALES</b>			
900 Island Park Drive	Charleston Industrial	41,360	\$8.51M   \$205.75
1520 Old Trolley Road	Origin Development Partners	10,993	\$1.4M   \$127.35

### 2020 Q4 Office Construction Pipeline | Charleston

PROPERTY NAME   LOCATION	BUILDING SF	COUNTY
<b>UNDER CONSTRUCTION</b>		
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
677 King Street	80,000	Charleston
The Jasper   320 Broad Street	75,000	Charleston
4900 O'Hear Avenue	45,000	Charleston
The Refinery   1640 Meeting Street	45,000	Charleston
4 Maple Street	45,000	Charleston
Ingleside Boulevard	26,400	Charleston
1247 Nexton Parkway	20,000	Berkeley
877 Island Park Drive	19,840	Berkeley

Source: Colliers International, CoStar



## Office-Using Employment

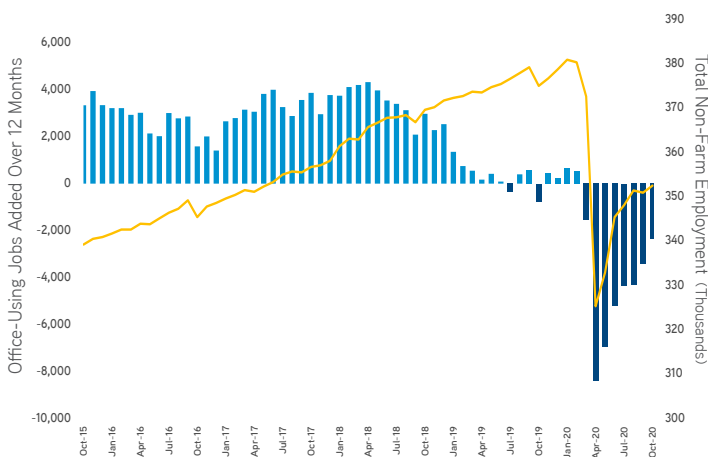
Office-using employment covers jobs related to the professional and business services, financial activities and information sectors. According to the most recent data from the Bureau of Labor Statistics, the amount of office-using jobs is normalizing. In just six months, during the period from April 2020 through October 2020, the number of jobs lost in Charleston decreased from 8,408 to 2,357. This is a positive sign that employers are rehiring, working remotely and/or reopening following the lifted quarantine restrictions. It is also estimated that approximately 20% of the office employees have returned to their offices on a full-time basis. The Charleston-North Charleston-Summerville employment rate was 95.3% as of September 2020 and is expected to increase further as more companies open for business.

## Market Forecast

This is an unprecedented time to be a tenant in the Charleston office market. There is an unusually higher amount of Class A sublease space available, so current tenants will likely take advantage of this and absorb it quickly. Also, this unique opportunity allows large out-of-town businesses to set up in Charleston to get a feel for the region and business climate before signing a long-term lease.

Tenants looking for a place to conduct business with a longer commitment can lease an office in one of the 11 office buildings currently under construction with a 2021 delivery expected. It is probable rental rates will be lowered throughout the market until sublease space is absorbed, then new construction will likely drive the prices up by the end of next year.

### Office-Using Employment | Charleston-North Charleston, MSA



Source: Bureau of Labor Statistics, Colliers International

### Truluck Center | 1014 Saint Andrews Boulevard Charleston, South Carolina (delivered in 2020)



Source: CoStar

### Daniel Island Executive Center | 300 Benefitfocus Way Charleston, South Carolina



Source: CoStar

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



## Q4 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)
<b>DANIEL ISLAND</b>								
Class A	11	1,013,765	4,110	532,256	563,366	52.91%	-293,694	\$29.50
Class B	18	473,164	126,345	-	126,345	26.70%	3,786	\$27.33
Class C	1	20,000	13,007	-	13,007	65.04%	-	\$22.19
<b>Daniel Island Total</b>	<b>30</b>	<b>1,506,929</b>	<b>143,462</b>	<b>532,256</b>	<b>675,718</b>	<b>44.84%</b>	<b>-289,908</b>	<b>\$26.81</b>
<b>LOWER NORTH CHARLESTON</b>								
Class A	7	670,888	249,930	22,293	272,223	40.58%	12,783	\$19.79
Class B	35	1,484,074	164,691	64,085	228,776	15.42%	-57,674	\$24.81
Class C	45	1,267,860	115,959	8,616	124,575	9.83%	-4,776	\$21.32
<b>Lower North Charleston Total</b>	<b>87</b>	<b>3,422,822</b>	<b>530,580</b>	<b>94,994</b>	<b>625,574</b>	<b>18.28%</b>	<b>-49,667</b>	<b>\$21.69</b>
<b>MT. PLEASANT</b>								
Class A	11	567,089	34,368	5,399	39,767	7.01%	596	\$27.94
Class B	42	1,019,378	108,244	17,163	125,407	12.30%	24,405	\$26.41
Class C	21	291,738	11,412	22,090	33,502	11.48%	-6,538	\$29.12
<b>Mt. Pleasant Total</b>	<b>74</b>	<b>1,878,205</b>	<b>154,024</b>	<b>44,652</b>	<b>198,676</b>	<b>10.58%</b>	<b>18,643</b>	<b>\$26.94</b>
<b>SUMMERVILLE/GOOSE CREEK</b>								
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%	-	\$25.13
Class C	19	291,735	4,157	1,750	5,907	2.02%	3,550	\$10.52
<b>Summerville/Goose Creek Total</b>	<b>38</b>	<b>1,037,146</b>	<b>67,234</b>	<b>39,045</b>	<b>106,279</b>	<b>10.25%</b>	<b>3,550</b>	<b>\$24.51</b>
<b>UPPER NORTH CHARLESTON</b>								
Class A	12	707,689	78,952	-	78,952	11.16%	4,300	\$20.17
Class B	16	957,730	163,300	-	163,300	17.05%	-	\$18.78
Class C	31	934,079	127,947	3,719	131,666	14.10%	740	\$17.11
<b>Upper North Charleston Total</b>	<b>59</b>	<b>2,599,498</b>	<b>370,199</b>	<b>3,719</b>	<b>373,918</b>	<b>14.38%</b>	<b>5,040</b>	<b>\$18.55</b>
<b>WEST ASHLEY</b>								
Class A	1	32,000	17,778	-	17,778	55.56%	-	\$29.32
Class B	11	483,774	30,437	5,000	35,437	7.33%	24,519	\$24.22
Class C	19	484,019	37,101	-	37,101	7.67%	-7,370	\$19.61
<b>West Ashley Total</b>	<b>31</b>	<b>999,793</b>	<b>85,316</b>	<b>5,000</b>	<b>90,316</b>	<b>9.03%</b>	<b>17,149</b>	<b>\$23.28</b>
<b>CHARLESTON CBD SUBMARKET</b>								
Class A	14	1,369,213	158,985	29,541	188,526	13.77%	15,164	\$37.30
Class B	27	789,521	98,962	200	99,162	12.56%	1,452	\$29.86
Class C	47	870,863	96,035	1,974	98,009	11.25%	-3,196	\$21.04
<b>Charleston CBD Total</b>	<b>88</b>	<b>3,029,597</b>	<b>353,982</b>	<b>31,715</b>	<b>385,697</b>	<b>12.73%</b>	<b>13,420</b>	<b>\$33.30</b>
<b>SUBURBAN SUBMARKETS</b>								
Class A	48	3,381,321	438,218	597,243	1,035,461	30.62%	-276,015	\$21.63
Class B	135	4,773,641	603,014	86,248	689,262	14.44%	-4,964	\$23.78
Class C	136	3,289,431	309,583	36,175	345,758	10.51%	-14,214	\$19.51
<b>Suburban Submarkets Total</b>	<b>319</b>	<b>11,444,393</b>	<b>1,350,815</b>	<b>719,666</b>	<b>2,070,481</b>	<b>18.09%</b>	<b>-295,193</b>	<b>\$22.07</b>
<b>MARKET</b>								
Class A	62	4,750,534	597,203	626,784	1,223,987	25.77%	-260,851	\$25.69
Class B	162	5,563,162	701,976	86,448	788,424	14.17%	-3,512	\$24.60
Class C	183	4,160,294	405,618	38,149	443,767	10.67%	-17,410	\$19.63
<b>Market Total</b>	<b>407</b>	<b>14,473,990</b>	<b>1,704,797</b>	<b>751,381</b>	<b>2,456,178</b>	<b>16.97%</b>	<b>-281,773</b>	<b>\$23.98</b>

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**400** offices in  
**68** countries on  
**6** continents

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**\$3.5**  
billion in  
annual revenue

**2**  
billion square feet  
under management

**15,000+**  
professionals  
and staff



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