

MARKET REPORT

Office
Charleston Metro Area

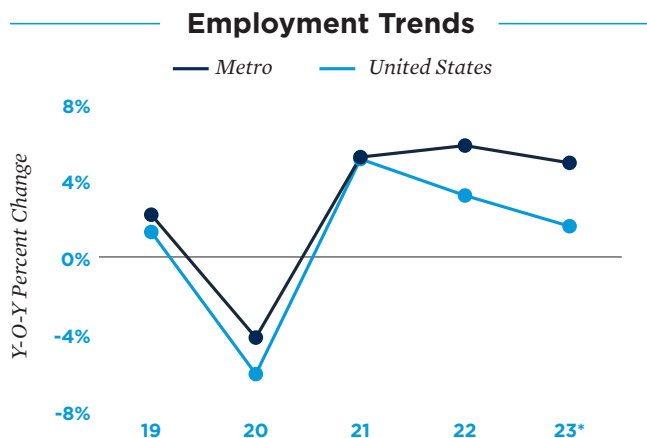
IPA
INSTITUTIONAL
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ADVISORS

4Q/23

Headcounts Among Firms that Traditionally Use Offices are up, Fueling Space Needs

Demand outperformed nationally. From January 2020 to June 2023, the job tally for firms in sectors that are typically heavy office users grew by 23 percent in Charleston, tripling the prior three and a half-year period. Despite the continued impact of hybrid and remote work, this hiring contributed to more than 1 million square feet of office space being absorbed on net — a feat only matched by six other major markets in the span. Each of those six other metros have at least twice as much stock as Charleston, alluding to the growing need for new local builds. Still, hiring from traditionally office-using companies has slowed, with high inflation making it challenging to relocate personnel. As of September, over 40 percent of 2023's deliveries were slated to come online without a tenant. Some operators with higher vacancies may adjust asking rates to better compete with new supply, flattening metrowide rent growth in the near-term.

New builds are aplenty in Outlying Berkeley County. Roughly 473,000 square feet was underway in the submarket as of September. Prospects for new builds here are promising, as the local 2.3 percent vacancy rate in June was one-fourth of the long-term mean. The 0.7 percent figure for Class B/C offices here may also aid demand for vacant Class A stock. A lack of options near residential areas could direct expanding firms to move up in quality to be closer to their staff. Average asking rents for top-tier offices were a metro-low, at \$25 per square foot, which may help motivate this shift.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**20,000
JOBS**

will be created

EMPLOYMENT:

Job growth in office-centric sectors expanded at a nationally-high pace of 4.4 percent over the first seven months of 2023. By year-end, hiring among these firms will help total employment grow by 4.9 percent.



**500,000
SQ. FT.**

will be completed

CONSTRUCTION:

Stock growth in 2023, at 2.1 percent, will roughly equate to the prior three years. Outlying Berkeley County, as well as Downtown and North Charleston, are expected to have over 150,000 square feet delivered in 2023.



**120
BASIS POINT**

increase in vacancy

VACANCY:

More projects being completed amid cooler demand will sustain upward pressure on the marketwide vacancy rate, as it closes out 2023 at 11.4 percent. The rate remains well-below the 12.1 percent peak recorded in 2020.



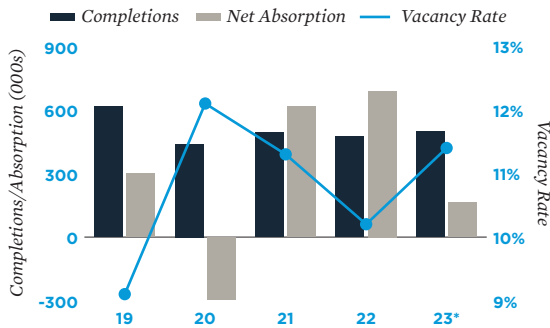
**0.3%
INCREASE**

in asking rent

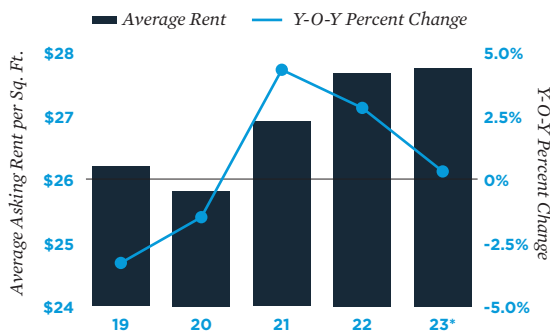
RENT:

The average asking rent will nudge up to \$27.75 per square foot in 2023. While many new builds may command higher rents, some existing offices may ease their market rates to preserve occupancy levels.

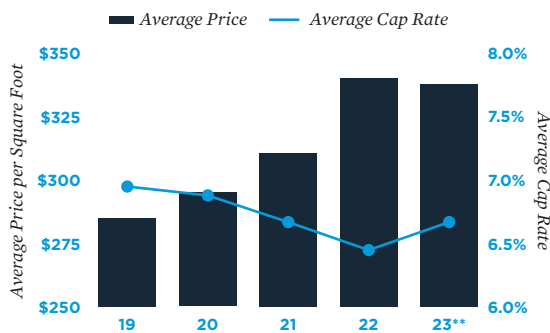
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

392,000 sq. ft. completed

- Charleston noted year-over-year inventory growth of 1.7 percent. While the pace was below the long-term average, it ranked among the four highest U.S. metros during the 12-month span ended in June.
- Downtown's 4.6 percent expansion was the third fastest among major U.S. CBDs. Only San Jose and Austin's cores recorded greater increases.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- While the marketwide vacancy rate declined on an annual basis to 11.0 percent, the metric climbed 80 basis points from the year-end 2022 mark.
- Due to continued supply additions, the Class A vacancy rate rose 40 basis points over the past year to 18.7 percent. Conversely, the rate among mid- and lower-tier options fell by 80 basis points to 7.2 percent.



RENT

3.2% increase in the average asking rent Y-O-Y

- Five of the six largest submarkets had rents grow annually. Double-digit percentage gains in Outlying Berkeley and Dorchester counties helped fuel a rise in the metro's average asking rate to \$28.12 per square foot.
- North Charleston, the metro's largest submarket by inventory, noted a 1.2 percent decline in its average asking rate to \$23.40 per square foot.

Investment Highlights

- Preliminary data suggests that transactions for offices in Charleston have flattened over the first eight months of 2023. Already compounded by higher financing costs, buyers could also face rising insurance expenses after major storms like Hurricane Idalia. While the average cap rate for trades completed over the year ended in June was up 30 basis points annually to 6.7 percent, these additional expenses may cut into buyers' margins. Investors may place even more attention toward higher-yield assets moving forward as a result.
- Trading activity in 2023 has largely been confined to North Charleston. Unlike most of the metro, entry costs here have trended upward since last year. Several trades in the first eight months were completed at prices over \$380 per square foot, a mark hardly reached in 2022. Being farther inland, less expensive insurance premiums may be required for local assets, helping facilitate a higher level of buyer interest than in more coastal areas.
- Outlying Berkeley County could see a larger number of medical office trades long-term. Roper St. Francis Berkeley's ongoing expansion may stir demand for off-site outpatient services and accompanying spaces nearby.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; Live 5 News © Marcus & Millichap 2022 | www.ipausa.com