MARKET FORECAST

OFFICE

South Carolina Metros

IPA INSTITUTIONAL PROPERTY ADVISORS

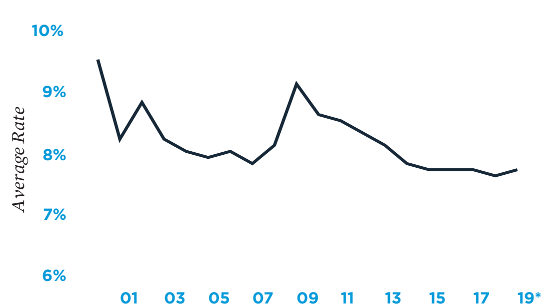
Q2/19

Developers Largely Overlook South Carolina; Investment Capital Moving Into State

Limited construction funneling demand into existing office properties. Vacancy in Charleston is nearly half the national average, largely due to measured office development as local firms expanded. The largest concern to the local office market is three consecutive quarters of declining office-using employment. However, that trend is anticipated to reverse course prior to the end of this year, limiting any potential impact on operating fundamentals. Most of the job cuts were planned restructuring by large local employers and are not indicative of a greater weakness across the market. As a result, vacancy will tighten through the end of the year, facilitating the state's strongest rent growth.

Columbia and Greenville-Spartanburg office performance driven by diversified local economies that limit boom-bust cycles. Columbia, in particular, benefits from a broad range of industries, which is resulting in demographic trends that mirror the U.S. averages. New development in metro is not a factor to operations as only one fully leased property is scheduled for completion this year. Modest demand, meanwhile, will drive vacancy down to the lowest level during the current cycle. Greenville-Spartanburg is the largest office market in the state, though the metro has been largely ignored by developers in recent years. Low construction and expanding office demand from companies such as Verizon and Caristrap International will nearly drag down vacancy into the single digits this year, while rent growth remains well above 3 percent.

Local Office Yield Trends



** Cap rates trailing 12 months through 1Q19*
Sources: CoStar Group, Inc.; Real Capital Analytics

Office 2019 Outlook

Metro	Vacancy	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y Change
Charleston	7.3%	-130	$25.93	3.7%
Columbia	8.9%	-70	$18.10	3.2%
Greenville	10.0%	-90	$19.51	3.4%

Investment Trends

Charleston

- Charleston is a favorite among debt funds due to the impressive growth projections forecast over the next several years. Investors are targeting Class B deals, though most of the new momentum is in Class C assets.
- The state's lowest average cap rates can be found in Charleston, which were in the low-7 percent during the most recent 12-month period. An increase in lower-tier deals put upward pressure on the average.

Columbia

- Investors searching for higher yields are turning to Columbia's Class B office assets, where transaction velocity recently doubled. A greater number of Class C deals is also indicative of the health of the market.
- With first-year returns close to the mid-8 percent range, buyers are willing to move additional capital into the market despite pedestrian growth projections.

Greenville-Spartanburg

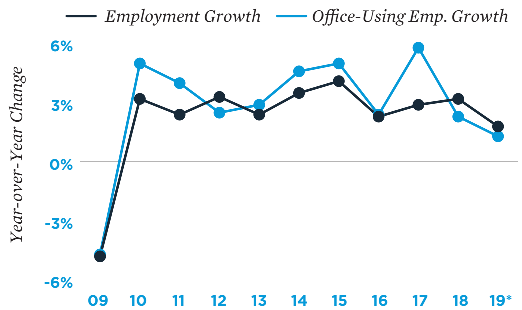
- Mirroring trends across the state, the number of Class B deals in the market is rising as capital and investors from larger markets move into tertiary locations.
- Buyers purchased properties at average cap rates in the mid- to high-7 percent range during the most recent yearlong period. Further improvement in operating fundamentals could put downward pressure on average returns.

CHARLESTON

INSTITUTIONAL PROPERTY ADVISORS

1Q19 – 12-Month Trend

Employment Trends

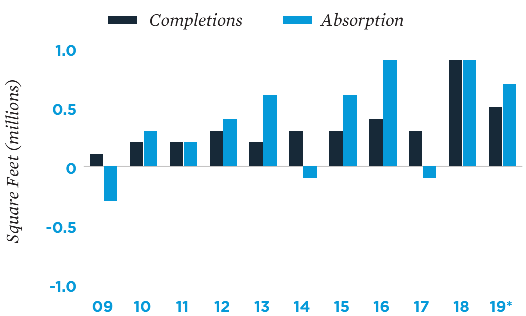


EMPLOYMENT

2.0% increase in total employment Y-O-Y

- In the 12-month period ending in the first quarter, employers added 7,100 jobs in Charleston, lifting payrolls 2.0 percent. Office-using firms erased 1,200 spots, representing a 1.5 percent decline.
- The construction sector added approximately 1,000 spots, lifting headcounts 4.2 percent, while trade, transportation and utilities increased 5.3 percent with the addition of 3,500 spots. The unemployment rate remained below 3 percent in the first quarter.

Office Supply and Demand

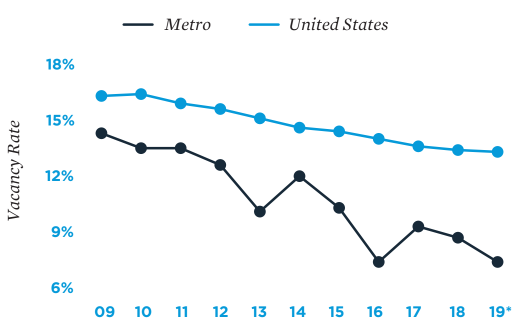


CONSTRUCTION

540,000 square feet completed Y-O-Y

- Builders expanded office inventory 2.7 percent during the past 12 months as 540,000 square feet came online. Development was modestly slower than the previous period, when nearly 650,000 square feet was completed.
- Approximately 750,000 square feet of office space is underway in the market, with pre-leasing activity approaching 70 percent. One-third of the new construction is in downtown Charleston.

Vacancy Rate Trends

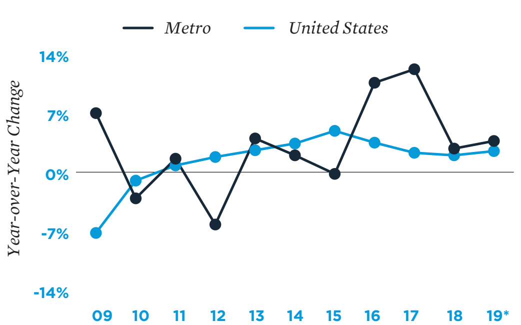


VACANCY

130 basis point decrease in vacancy Y-O-Y

- Strong demand resulted in a 130-basis-point decline in vacancy to 7.6 percent in this year's opening period. In the prior 12-month period, the rate increased 100 basis points.
- Year over year, Class A vacancy dipped 50 basis points to 11.6 percent. At the same time, the vacancy rate in Class B/C buildings plunged 170 basis points to 6.0 percent.

Asking Rent Trends



RENT:

0.6% decrease in the average asking rent Y-O-Y

- Despite strong leasing activity, the average rent for available space inched 0.6 percent lower to $25.10 per square foot. Asking rent jumped 10.0 percent during the prior year.
- Top-tier rent advanced 3.5 percent to $30.85 per square foot during the past year due to healthy space demand. Class B/C average rent declined 3.1 percent in the past year to $22.85 per square foot.

* Forecast
Source: CoStar Group., Inc.

Demographic Highlights

2019 Forecast Job growth

Metro **1.8%**

U.S. Average 1.3%

2019 Office-Using Job growth

Metro **1.3%**

U.S. Average 1.7%

Population Age 20-34*

Metro **22.3%**

U.S. Average 20.6%

Population of Age 25+ Percent with Bachelor Degree+**

Metro **33.4%**

U.S. Average 29.9%

Sq. Ft. Per Office Worker*

Metro **246**

U.S. Average 215

Office Square footage*

22.6% *Urban*

U.S. Average 32.0%

77.4% *Suburban*

U.S. Average 68.0%

**1Q19*
***2018*

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19

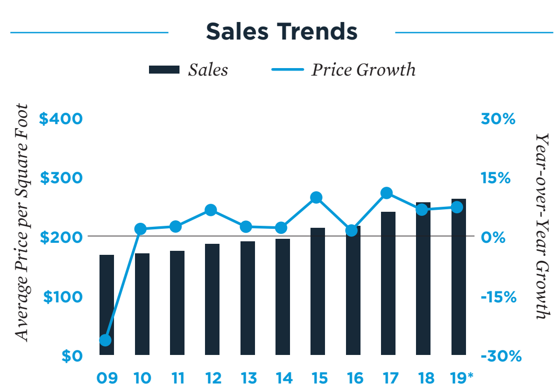
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Downtown Charleston	4.9%	-150	$30.49	4.1%
Dorchester County	6.2%	-180	$10.41	-27.9%
Greater Charleston	6.6%	-630	$27.50	0.4%
North Charleston	8.6%	190	$22.65	-2.5%
East Islands-Mt Pleasant	9.0%	-180	$27.86	-3.2%
Outlying Berkeley County	11.3%	-590	$17.40	5.7%
Overall Metro	**7.6%**	**-130**	**$25.10**	**-0.6**

SALES TRENDS

Investors Move Down the Quality Ladder in Search Of Higher Yields

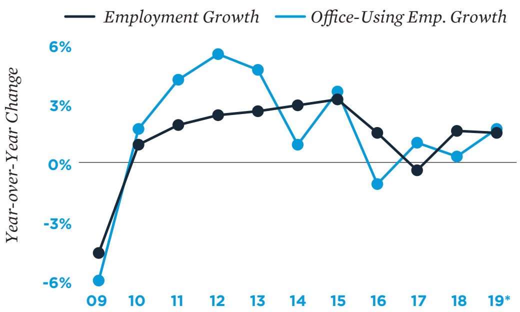
- Charleston recorded an 8 percent increase in transaction velocity during the most recent 12-month period, aided by a nearly 40 percent raise in Class C deals.
- The average cap rate ticked up 10 basis points during the past year. First-year returns have consistency remained in the low-7 percent range since 2013.

Outlook: Buyers were well-distributed across the market during the past year as asset fundamentals trumped location. Class B deals accounted for the bulk of transactions.

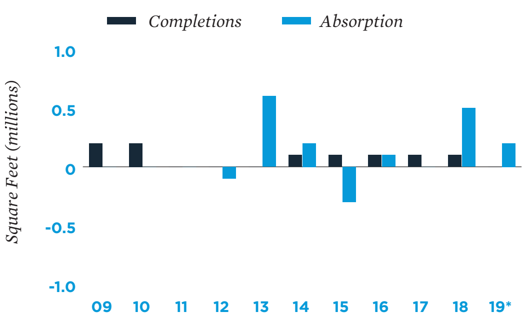


** Trailing 12 months through 1Q19 over previous time period*
Sources: CoStar Group, Inc.; Real Capital Analytics

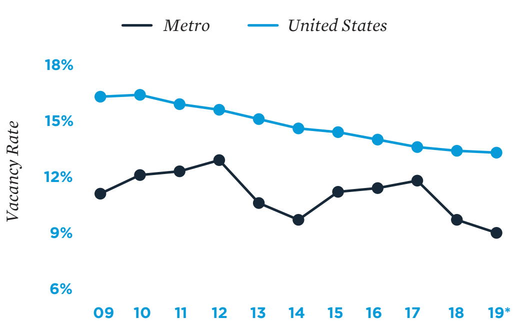
Employment Trends



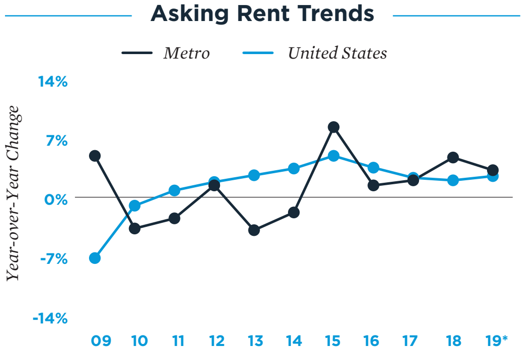
Office Supply and Demand



Vacancy Rate Trends



Asking Rent Trends



* Forecast
Source: CoStar Group., Inc.

1Q19 – 12-Month Trend

EMPLOYMENT

0.7% increase in total employment Y-O-Y

- Employment gains ticked up 0.7 percent in the past year as 2,800 spots were generated. During the previous 12-month period, payrolls rose 0.5 percent.
- Office-using employment struggled to gain footing in the 12-month period ending in the first quarter. Nearly 1,500 spots were eliminated from payrolls, a decline of 1.6 percent. Nonetheless, unemployment was 3.1 percent.

CONSTRUCTION

60,000 square feet completed Y-O-Y

- Only 60,000 square feet of office space was completed in the metro during the yearlong period ending in the first quarter, down modestly from the prior year.
- Supply-side pressure will not impact operating fundamentals in Columbia this year as a single build-to-suit property is underway and fully pre-leased.

VACANCY

260 basis point decrease in vacancy Y-O-Y

- Healthy leasing activity and limited construction in the market supported an impressive 260-basis-point decline in vacancy to 9.3 percent over the last 12 months. In the previous annual period, vacancy ticked up 30 basis points.
- Despite strong overall demand, Class A vacancy climbed 70 basis points to 19.4 percent year over year. At 7.8 percent, Class B/C vacancy is 310 basis points lower than one year ago.

RENT:

5.3% increase in the average asking rent Y-O-Y

- Rapidly declining vacancy supported an impressive 5.3 percent increase in average asking rent to $17.82 per square foot. The jump in average rent was nearly double the rise during the prior annual period, when rents advanced 2.8 percent.
- All of the increase in rent can be attributed to Class B/C properties, where average rent soared 6.4 percent to $17.36 per square foot. Class A rent slipped 0.7 percent $20.90 per square foot.

Demographic Highlights

2019 Forecast Job growth

Metro **1.5%**

U.S. Average 1.3%

2019 Office-Using Job growth

Metro **1.7%**

U.S. Average 1.7%

Population Age 20-34*

Metro **22.4%**

U.S. Average 20.6%

Population of Age 25+ Percent with Bachelor Degree+**

Metro **31.3%**

U.S. Average 29.9%

Sq. Ft. Per Office Worker*

Metro **244**

U.S. Average 215

Office Square footage*

34.1% *Urban*

U.S. Average 32.0%

65.9% *Suburban*

U.S. Average 68.0%

**1Q19*
***2018*

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19**

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Southeast Columbia	3.9%	-100	$17.71	59.0%
North Columbia	5.5%	-50	$17.62	7.4%
Cayce/West Columbia	6.3%	-90	$13.25	3.5%
CBD	8.1%	-180	$20.11	2.0%
St. Andrews	10.9%	-140	$16.11	2.2%
Northeast Columbia	13.2%	-1,070	$16.84	13.9%
Forest Acres	18.2%	-40	$16.43	-1.1%
Overall Metro	**9.3%**	**-260**	**$17.82**	**5.3%**

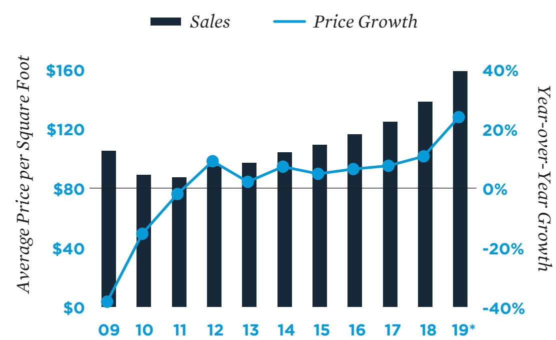
SALES TRENDS

Columbia Office Market Benefits From Flow of Cash Into Smaller Metros

- As investors moved capital into more tertiary markets, the number of office properties that changed hands soared 70 percent during the most recent 12-month period. The number of Class B sales more than doubled during the period.
- Year over year, the average price per square foot jumped 24 percent to $159 per square foot year over year.

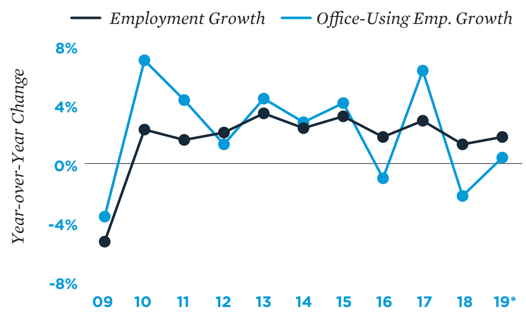
Outlook: Average cap rates dipped 10 basis points to the low- to mid-8 percent range during the most recent 12-month period. Class A cap rates can dip below 7 percent.

Sales Trends

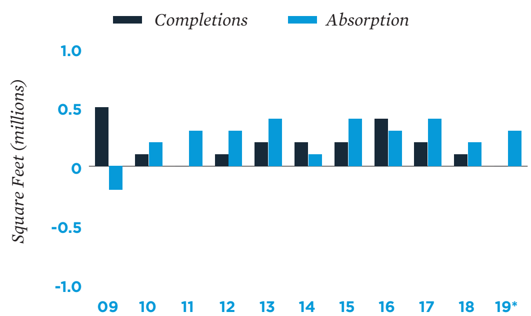


** Trailing 12 months through 1Q19 over previous time period*
***Includes submarkets with more than 1 million square feet*
Sources: CoStar Group, Inc.; Real Capital Analytics

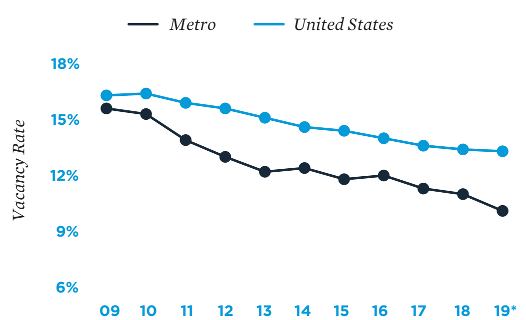
Employment Trends



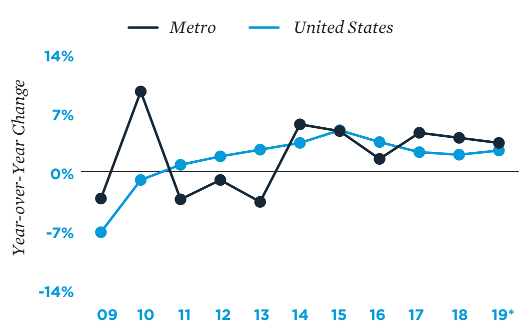
Office Supply and Demand



Vacancy Rate Trends



Asking Rent Trends



** Forecast*
Source: CoStar Group., Inc.

1Q19 – 12-Month Trend

EMPLOYMENT

1.2% increase in total employment Y-O-Y

- Payrolls advanced 1.2 percent year over year with the addition of 6,800 jobs. The leisure and hospitality sector contributed 2,500 positions as headcounts advanced 4.2 percent. The construction sector expanded 4.3 percent as 1,200 spots were created.
- Mirroring other large markets in the state, office-using employment declined 2.5 percent as 3,100 positions were cut. All of those positions were in the professional and business services sector.

CONSTRUCTION

130,000 square feet completed Y-O-Y

- The pace of development continues to slow in the metro as 130,000 square feet came online in the past four quarters, down from 180,000 square feet the prior year. Inventory grew a modest 0.5 percent in that time.
- Approximately 225,000 square feet is under construction on the Greenville side of the market, while Spartanburg has no new development underway.

VACANCY

140 basis point decrease in vacancy Y-O-Y

- Nearly 500,000 square feet of office space was absorbed during the 12-month period ending in the first quarter, pulling the vacancy rate down to 10.3 percent. The decrease built on a 30-basis-point decline during the previous period.
- Class A vacancy retreated 200 basis points year over year to 13.4 percent, while Class B/C vacancy recorded a 110-basis-point decline to 9.2 percent.

RENT:

4.0% increase in the average asking rent Y-O-Y

- After the average rent increased 2.3 percent during the prior year, operators lifted rent 4.0 percent during the past 12 months to $19.06 per square foot in the first quarter.
- Class A rent declined 3.2 percent year over year to $22.80 per square foot during the yearlong period ending in the first quarter. Operators of Class B/C properties, however, managed a 7.7 percent rise in average rent to $17.66 per square foot.

Demographic Highlights

2019 Forecast Job growth

Metro **1.8%**

U.S. Average 1.3%

Population Age 20-34*

Metro **20.1%**

U.S. Average 20.6%

Sq. Ft. Per Office Worker*

Metro **186**

U.S. Average 215

2019 Office-Using Job growth

Metro **0.4%**

U.S. Average 1.7%

Population of Age 25+ Percent with Bachelor Degree+**

Metro **25.2%**

U.S. Average 29.9%

Office Square footage*

41.5% *Urban*

U.S. Average 32.0%

58.5% *Suburban*

U.S. Average 68.0%

*1Q19
**2018

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19**

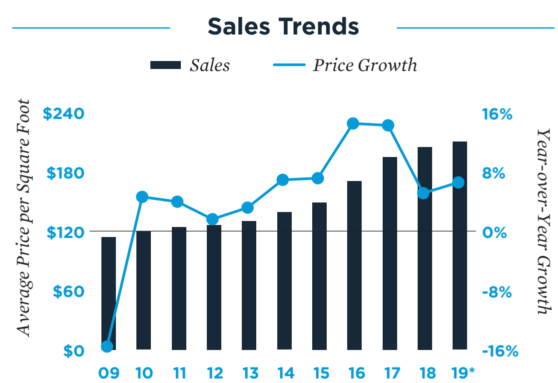
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Pickens	2.4%	-490	$13.84	-3.5%
Anderson	3.3%	30	$15.61	-7.1%
Spartanburg CBD/ I-85 Corridor/Airport	7.5%	-140	$16.90	18.8%
Greenville CBD/Medical/West End-Stone Avenue	9.9%	-40	$24.11	4.0%
Woodruff-I-385- Southern Greenville	11.8%	90	$16.76	-1.4%
Suburban Spartanburg	13.1%	-90	$12.17	2.5%
Pelham	13.7%	-630	$20.47	7.3%
Greer Taylors/Travelers Rest	16.8%	-90	$13.77	2.4%
Overall Metro	**10.3%**	**-140**	**$19.06**	**4.0%**

SALES TRENDS

Mid-Tier Properties Attracting Out-of-State Capital To Greenville

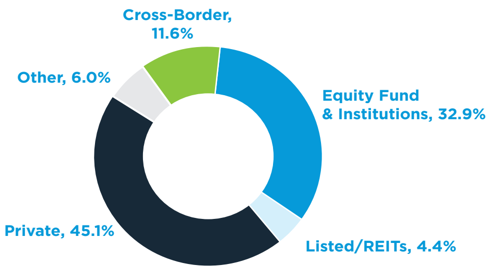
- An increase in Class B deals boosted overall transaction velocity by 16 percent during the most recent 12-month period. Class A and Class C trades were relatively flat year over year.
- Healthy investor demand pushed the average price per square foot up 7 percent to $210 during the yearlong period ending in first quarter. Average cap rates compressed 30 basis points in that time to the mid- to high-7 percent range.

Outlook: Office properties in Greenville garner the most interest from investors, followed by Spartanburg. The Pickens submarket is experiencing the greatest increase in buyer activity.

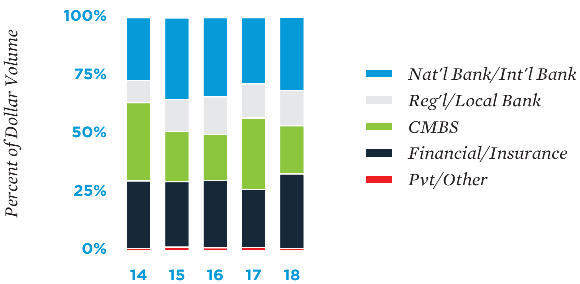


** Trailing 12 months through 1Q19 over previous time period*
***Includes submarkets with more than 1 million square feet*
Sources: CoStar Group, Inc.; Real Capital Analytics

1Q19* Office Acquisitions By Buyer Type



Office Mortgage Originations By Lender



** Trailing 12 months through 1Q19*

Include sales $2.5 million and greater

Sources: CoStar Group, Inc.; Real Capital Analytics

National Office and Industrial Group

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Capital Markets

By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **Ongoing trade concerns weigh on growth outlook; Fed plots next steps.** Amid rising trade tensions between the U.S. and China and slowing global growth, the outlook has turned more cautious. Market volatility, along with a flight to safety trade, has flattened the yield curve dramatically, with the 10-Year Treasury trading below 2.2 percent. This has pushed the broader yield curve into inversion, a closely watched precursor to a potential recession. Meanwhile, many measures of the domestic economy remain buoyant, including continued job and wage growth, historically low unemployment and muted inflationary pressure. These conditions have prompted a dichotomy, with Federal Reserve officials signaling more accommodative policies. The impending end of quantitative tightening in September, coupled with potential cuts to the Fed funds rate in the second half of the year, highlight the shift in Fed policy. As a result, long-term interest rates are likely to remain subdued, with Fed policy leaning toward accommodation.

- **Conservative underwriting balances abundant marketplace liquidity.** While debt availability for office assets remains widely available from a wide range of sources including local, regional and national banks and insurance companies, sentiment surrounding the health of the economy has fallen somewhat in recent months. Lenders remain broadly cautious in underwriting, with loan-to-value (LTV) ratios typically in the 55 to 70 percent range, depending on the borrower, asset and location. The conservative approach has filtered into a focus on proven property results, with much less willingness to lend against pro forma rents. This has prompted investors to turn toward short-term mezzanine debt and bridge loans to cover capital improvements, while seeking long-term solutions once returns have been solidified. Construction origination remains muted, with lenders focusing on core locations with proven demand.

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. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions valued at $1,000,000 and 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau