Vacancy Decreases as Demand for Quality Space Strengthens

The Columbia office market saw a vacancy of 9.4% at the close of the first quarter 2017, decreasing from 9.8% at the end of 2016. Average rental rates dropped modestly and leveled off at $17.31 per square foot (SF), following the highest rate in two years at $17.49 SF in 4Q16. Net absorption for the Columbia office market was positive ±78,643 SF in the first quarter compared to negative ±23,183 SF in 4Q16, the majority of absorption reflecting Class A space.

Continued interest in the Central Business District (CBD) explains the high rental rates (even with a slight downtick this quarter) while costs for tenant improvements are also increasing. Many local tenants are following the lead of companies like Electric Guard Dog, vacating their space in suburban Columbia to set up their headquarters in ±20,572 SF at the new Innovation Center on the University of South Carolina campus. Womble Carlyle Sandridge & Rice, LLP is another example of the desire to be the in heart of the CBD, vacating its office on Hampton Street and subleasing ±8,760 SF of Class A tower space at 1221 Main Street.

Despite the modest decrease in rental rates following the fourth quarter spike, we expect rates to increase again as vacancies continue to become tighter. Our experts believe rates may be the lowest now that they will be for the next few years.

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Broker Insight Continued

This is causing tenants to begin their lease renewal process years in advance to take advantage of current rates. Nationally, the demand for upgraded, efficient space has rental rates trending up for the foreseeable future, especially for Class A space.

The lack of large blocks of new space is another indicator that landlords will demand increased rental rates and capitalize on the demand for quality space in the CBD. However, as space recedes and rates climb, office tenants in quarters to come may come to a crossroads when deciding to stay in the premium space or relocate to more economical options. Several law firms and banks are maintaining their presence in the Class A office towers on Main Street while taking advantage of lower rates and free surface parking in suburban locations for back office staff.

Tenants are finding themselves with virtually no options to choose from, especially when looking for sizable chunks of contiguous Class A office space in the CBD. Columbia’s downtown office market is very tight. Class B options are even less plentiful. Commercial property taxes are relatively high in the City of Columbia and Richland County, often making new ground up construction numbers challenging. Fortunately, the trend of escalating rental rates and scarcity of product continues to trigger the redevelopment of historic buildings throughout the Vista, Main Street and Bull Street. The Bailey Bill tax incentive is helping make more and more of those projects become a reality. The State law allows local governments to grant special tax assessments to rehabilitated historic properties, encouraging preservation, restoration, and adaptive reuse in cities where old buildings are the foundation of its structural character. The City of Columbia and Richland County allow eligible historic buildings (meeting the qualified expenditures, certification, etc.) to be assessed at their pre-rehabilitated values for 20 years, the most favorable historic property tax incentive available in the entire state.

Within these renovated historic buildings, businesses are seeing the opportunity to meet the demand for more progressive office space. In the last few years, authentic loft and modern office adaptive reuse spaces have popped up around the country and Columbia is no exception. The demand for these alternative plans and designs are increasing every quarter. They consist of predominately open floor plans aimed at fostering collaboration; authentic designs with exposed brick, towering exposed ceilings with spiral ductwork, and sleek concrete floors; and historic buildings near pedestrian-friendly amenities as more and more millennials value living and working in a vibrant, urban area.
Submarket Statistics

Columbia MSA
OFFICE MARKET REPORT
1st QTR 2017

Significant Transactions

LEASED
Columbia

INNOVATION CENTER
550 ASSEMBLY STREET
±20,500 SF LEASED

Tenant: Electric Guard Dog

SOLD
St. Andrews

STEPHENSON CENTER OFFICE BUILDINGS
720 GRACERN ROAD AND 714 BETSY DRIVE
±104,300 SF SOLD

Price: $7,750,000
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- Property and Project Management Services
- Office Sales and Leasing
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- Special Asset and Receivership Services
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- Corporate Advisory Services
- Site Selection and Land Sales
- Fee Development and Build-to-Suit Services
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Featured Listing

700 Huger Street  
Three-Story, Class A Office Building  
Columbia, SC

±54,081 SF, 100% Pre-Leased  
Sales Price: $10,700,000

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