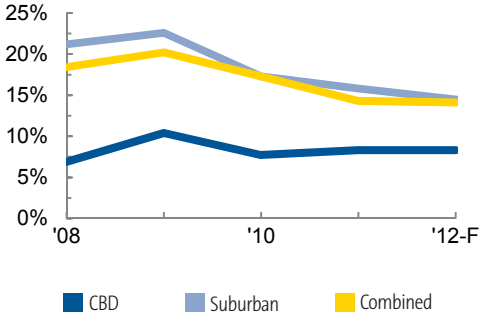


**Vacancy Rate**



# Gradual Ascent Continues

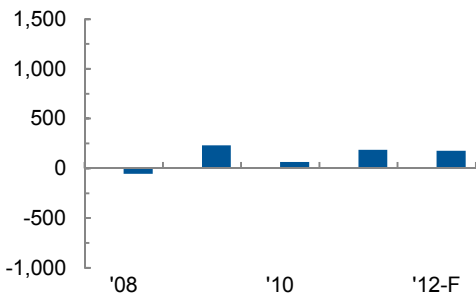
As 2011 ends, this is a good time to reflect on the past few years and look forward to 2012's prospects in Charleston's office market. In the big picture, the numbers Grubb & Ellis|WRS tallied from the tenth year of tracking the office market paint an encouraging picture. After witnessing an aggressive climb upwards during 2008 and 2009, the office market has posted a second straight year of decreasing vacancy rates, a great sign.

Perhaps the greatest single reason for the market improvement is the failure of banks to lend money for development projects as the size of the local office market has been frozen for the past two years; the market is actually a little smaller than it was in 2009.

Landlords are still accepting aggressive lease rates. The average price per square foot is three dollars less than it was four years ago, a drop of twelve percent. The only exception is that the average rate in the Downtown market has actually increased nearly one dollar due increased demand and limited supply.

**Absorptions**

(in Thousands of SF)



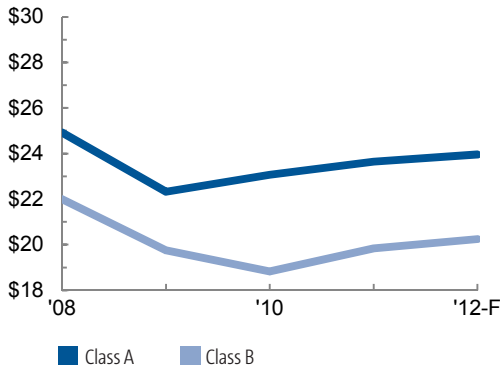
**2011 REVIEW**

The overall vacancy is at 14.3 percent, roughly the same rate as the end of 2007 but nearly six points lower than the end of 2009. Law firms are leading the charge with new firms entering the market, including Smith Moore Leatherwood and a few others not ready to be identified as well as existing local firms growing, such as Young Clement Rivers and Carlock Copeland.

In the fourth quarter, McAngus Goudelock & Courie leased the entire second floor of 735 Johnnie Dodds, the former API building on Johnnie Dodds in Mt. Pleasant. Financial/Securities firms and government contractors are still active in the market and absorbing space perhaps due to the bullish stock market and continued government spending.

**Asking Rental Rates**

(\$/SF/Yr. Full Service)



(CONTINUED ON PAGE 2)

**KEY TRANSACTIONS FOR 2011**

<p><b>Haykora, LLC</b> Leased 15,617 SF at 5935 Rivers Avenue, North Charleston, SC to Honeywell Tec.</p>	<p><b>Holder/Durlach</b> Leased 12,600 SF at 4000 Faber Place North Charleston, SC to Regus Charleston</p>	<p><b>Holland Properties, LLC</b> Leased 14,760 SF at 735 Johnnie Dodds Blvd. Mount Pleasant, SC to the McAngus Law Firm</p>
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OFFICE MARKET REVIEW AND FORECAST

	2010	2011	2012 Forecast
Vacancy Rate	17.3%	14.3%	14.1%
Class A Rental Rate <sup>1</sup>	\$23.07	\$23.65	\$23.95
Class B Rental Rate <sup>1</sup>	\$18.82	\$19.84	\$20.25
Net Absorption	65,293	187,780	\$175,000
Space Completed	-	-	-

*1. Asking rate per square foot per year full service*

(CONTINUED FROM PAGE 1)

A common theme in successful lease transactions has been either the availability of cash by either the landlord or tenant. The landlords that have cash to spend are able to entice tenants with upgraded space with little commitment on behalf of the tenant and on the flip side, tenants that have capital on hand can take a space that needs work and get a healthy rent credit for the money they are spending on improvements.

Alternatively, spaces that are updated, functional and “move-in ready” are leasing more quickly when cash is not available. This is evident by the fact that Class A space shows stronger leasing fundamentals than lower quality space. The vacancy rate of Class B space is nearly twice as high as its Class A competition.

The Daniel Island office market is bouncing back. The former Cigna Healthcare building on Fairchild Street is nearing capacity with a variety of users taking portions of the first floor space while Blackbaud occupies the entire second floor. Daniel Island’s vacancy rate has dropped nearly ten percent since the end of last year. West Ashley’s vacancy rate also actually improved slightly for the second year in a row.

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## 2012 FORECAST

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The unemployment rate is often a good barometer for forecasting the demand for office space in a community. This rang true in 2011 as the number of unemployed Charlesto-nians dropped nearly 2,500 from December 2010 to November 2011 or 0.8 percent with a similar drop in the market's office vacancy rate. Charleston's current unemployment rate of 8.4 percent is lower than both the state and national unemployment rates. Con-sidering the growth in industries, such as the addition of Boeing and the Clemson Wind Turbine Institute, combined with a continued trend of companies eyeing the south for expansion or relocation, the unemployment rate and hence the office market is expected to continue its slow ascent to a healthy balance in 2012.

As the year progresses and the uncertainty of the upcoming presidential election in No-vember subsides, it is anticipated that banks and their regulators will ease restrictions on lending for investment properties and speculative developments. While the true impact of this will likely not be felt until 2013, the tangible activity in the coming year will be bank-owned transactions where owner-occupant buyers will take advantage of today's low interest rates and purchase bank inventories that are listed at below replacement costs. The more transactions that occur in this arena, the more likely the transaction price will approach replacement costs. When the gap between market purchase prices and replacement costs narrows the possibility of new office developments will be within reach.

# Office Trends Report—Fourth Quarter 2011

## Charleston, SC



By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION		Under Construction SF	ASKING RENT	
					Current Qtr	Year To Date		Class A	Class B
Downtown	1,870,459	155,479	8.3%	8.3%	63,517	42,363	-	\$30.88	\$23.81
<b>CBD Total</b>	<b>1,870,459</b>	<b>155,479</b>	<b>8.3%</b>	<b>8.3%</b>	<b>63,517</b>	<b>42,363</b>	-	<b>\$30.88</b>	<b>\$23.81</b>
Daniel Island	1,120,434	148,292	13.2%	12.9%	45,445	102,991	-	\$22.91	\$19.13
Mount Pleasant	1,513,046	191,051	12.6%	12.6%	29,614	(17,872)	22,500	\$23.25	\$20.93
North Charleston	3,544,083	656,784	18.5%	18.5%	3,274	(35,521)	21,000	\$21.80	\$17.33
West Ashley	1,143,916	162,116	14.2%	14.2%	45,930	41,521	-	\$23.75	\$22.77
<b>Suburban Total</b>	<b>7,321,479</b>	<b>1,158,243</b>	<b>15.8%</b>	<b>15.8%</b>	<b>124,263</b>	<b>91,119</b>	<b>43,500</b>	<b>\$22.61</b>	<b>\$19.29</b>
<b>Totals</b>	<b>9,191,938</b>	<b>1,313,722</b>	<b>14.3%</b>	<b>14.3%</b>	<b>187,780</b>	<b>133,482</b>	<b>43,500</b>	<b>\$23.65</b>	<b>\$19.84</b>

By Class	Total SF	Vacant SF	Vacant %	Available %	Current Qtr	Year To Date	Under Construction SF	AVAILABLE FOR SUBLEASE	
								CBD	Suburban
Class A	4,780,618	504,968	10.6%	10.5%	138,853	199,928	43,500	5,740	20,050
Class B	2,272,049	461,587	20.3%	20.3%	6,803	(42,392)	-	14,882	6,876
Class C	2,139,271	347,167	16.2%	16.2%	42,124	(24,054)	-	-	6,468
<b>Totals</b>	<b>9,191,938</b>	<b>1,313,722</b>	<b>14.3%</b>	<b>14.3%</b>	<b>187,780</b>	<b>133,482</b>	<b>43,500</b>	<b>20,622</b>	<b>33,394</b>

### Grubb & Ellis Office Locations

as of 4th Quarter 2011



## Grubb & Ellis|WRS Real Estate Advisors

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### OFFICE TERMS AND DEFINITIONS

**Total SF:** Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

**Office Building Classifications:** Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

**Vacancy and Availability:** The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

**Net Absorption:** The net change in physically occupied space over a period of time.

**Asking Rent:** The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where

all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

*\* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*

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