

Market Trends South Carolina Upstate

Grubb & Ellis Research

Third Quarter 2004



Slow but Steady Recovery

Grubb & Ellis|The Furman Co. is pleased to present market information on over 137 million square feet of commercial space in the South Carolina Upstate office, industrial, and retail markets. Our information reveals that the real estate recovery is well underway, although some sectors are improving quicker than others. This report also demonstrates that the Upstate continues to be a highly competitive mid-size market. Announcements and development activity in the industrial, automotive, corporate and retail sectors show that this region has the necessary momentum to enable all sectors to see healthier levels of recovery.

Improvements in the office market began to emerge in 2004 as vacancy declined and absorption increased. Construction levels are down, which should enable existing properties to meet the demand of new users. The recent spurt of office condo development is providing a relatively new form of competition for landlords, and is truly altering the landscape of the Upstate office market.

The industrial market is perhaps the slowest sector to recover. The needs and demands of industrial users have evolved over the past few years, making many existing properties less competitive. The construction of speculative space has ticked up slightly, which indicates that developers are once again banking on the Upstate's competitive status.

The most positive news comes from the retail sector where big box vacancies are slowly disappearing and construction levels have surpassed the 1 million square foot mark. While few new national retailers have entered the market, others such as Target and Lowe's are expanding their presence into new Upstate submarkets.

New developments and improved market conditions will make 2005 an interesting year. The Clemson University International Center for Automotive Research (ICAR) will become a more tangible reality, new companies will settle in the Upstate, and local residents will enjoy expanded shopping options.

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“Clemson University's International Center for Automotive Research (ICAR) currently being developed at the intersection of I-85 and Laurens Road should provide a further economic boost to a recovering real estate market.”

Stephen B. Smith, SIOR
Vice President
Grubb & Ellis|The Furman Co.

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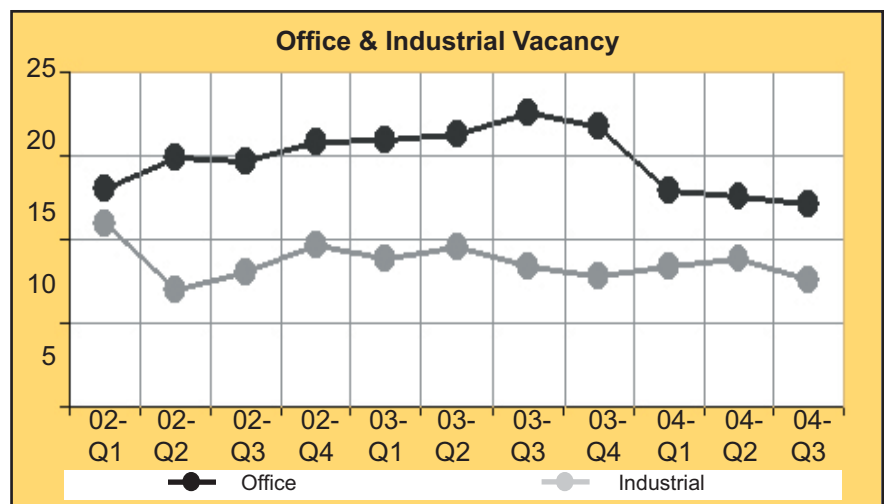
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covering Greenville, Spartanburg and Anderson, SC is published semi-annually by Grubb & Ellis|The Furman Co.

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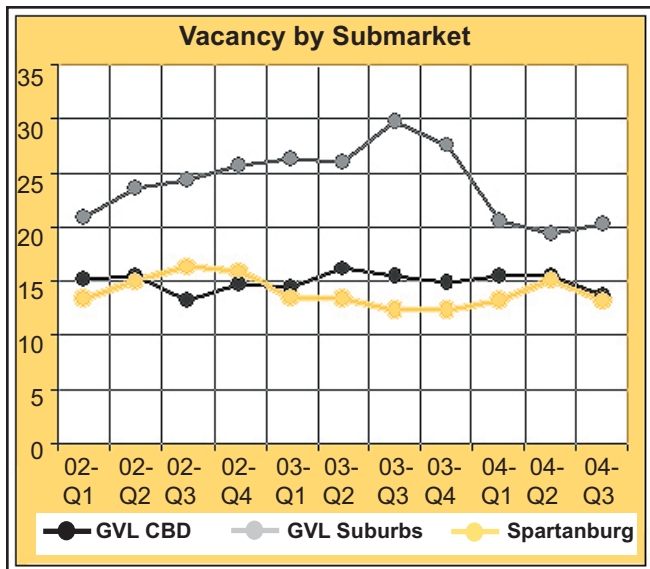
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By Submarket (All Classes)	Total SF ⁽¹⁾	Vacant SF ⁽²⁾	Vacant %	Absorption		Under Construction ⁽³⁾	Asking Rates ⁽⁴⁾	
				3 rd Qtr '04	Year-To-Date		Class A	Class B
Greenville CBD	3,047,975	416,892	13.7%	57,382	38,957	87,500	\$18.59	\$15.61
Greenville Suburban	5,034,641	1,015,003	20.2%	(35,421)	239,403	0	\$16.65	\$15.02
Greenville Total	8,082,616	1,431,895	17.7%	21,961	278,360	87,500	\$17.39	\$15.04
Spartanburg	1,299,068	174,451	13.3%	53,966	66,466	0	\$14.41	\$13.05
Total	9,381,684	1,604,346	17.1%	75,927	344,826	87,500	\$16.93	\$14.84

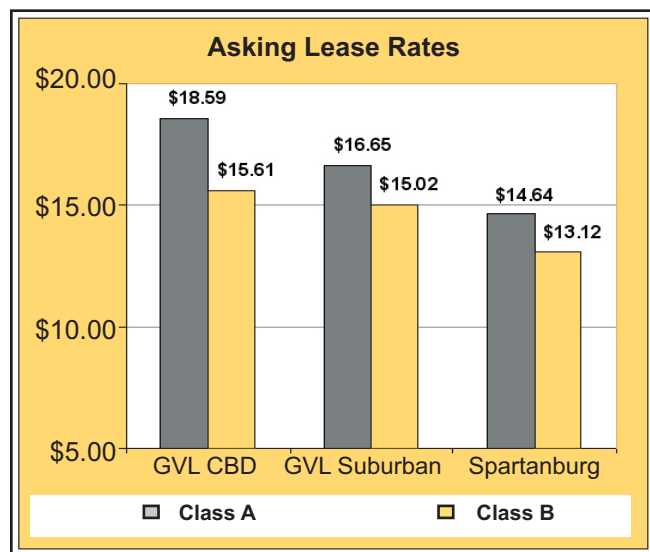
- (1) Inventory includes multi-tenant properties with at least 20,000 sq. ft.
- (2) Vacant space includes vacant sublease space. Sublease space not yet vacant in not included.
- (3) Space under construction includes speculative and build-to-suit for lease projects.
- (4) Asking rates are per sq. ft. per year full service.



The Greenville-Spartanburg office market continued to show improvements during the third quarter, but landlords are still searching for the silver lining. The overall vacancy rate declined by half a percentage point, to 17.1 percent, and absorption remained positive for the fourth straight quarter. Concessions in the marketplace and the delivery of no speculative space contributed to the market's slightly healthier performance.

Spartanburg had the lowest vacancy rate (13.3 percent) of the three major submarkets. This was fueled by the completion of the QS/1 Building, which added 115,000 square feet to the inventory. Speculative construction may bring more space to Spartanburg in 2005, but no new projects are currently underway.

Greenville's Downtown office market continued to hold its own in terms of vacancy and absorption. This submarket experienced net absorption of 57,382 square feet and a decline in vacancy of almost 2 percentage points. Class A properties showed the highest level of leasing activity for the quarter. The construction of RiverPlace is well underway, and is showing strong pre-leasing prior to its Summer 2005 completion.



While the demand for office space is increasing, tenants are finding options that have left some landlords struggling to compete. Low interest rates and the heightened availability of office condominiums have prompted many tenants to purchase their own office space and opt out of traditional leasing. This has been especially hard on landlords of suburban Class B properties. This pattern may have contributed to the fact that vacancy in the suburbs increased slightly during the third quarter, from 19.4 to 20.2 percent.

Asking lease rates are expected to see only minor fluctuations throughout the market. The only exception being Class A properties in the CBD where rents are expected to increase slightly over the current average rate of \$18.59. It appears that concessions will continue to be offered as long as vacancy remains above 10 percent.

Market Trends

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Industrial Market

By Subtype (Sq. Ft. x 1,000)	Total SF (1)	Vacant SF	Vacant %	Asking Rents (2)
General Industrial	49,184.1	4,539.2	9.2%	\$3.13
R & D / Flex	4,677.9	5,94.7	12.7%	\$6.47
Warehouse / Distribution	49,026.7	7,798.9	15.9%	\$2.80
Total	102,888.8	12,932.8	12.6%	\$3.12

(1) Inventory includes competitive multi-tenant, single-tenant and owner occupied buildings with at least 5,000 sq. ft.

(2) Asking rents are per sq. ft. per year, triple net. Rates for each building are weighed by the amount of available space within the building.

The Upstate industrial market is now in the recovery stage and is beginning to see signs of improved market activity. Announcements from new and expanding companies such as Select Brands, Atlas Hydraulics, Diversified Distribution Systems, and Billhorn Board and Paper demonstrate that the Upstate continues to be a competitive location for national and international companies.

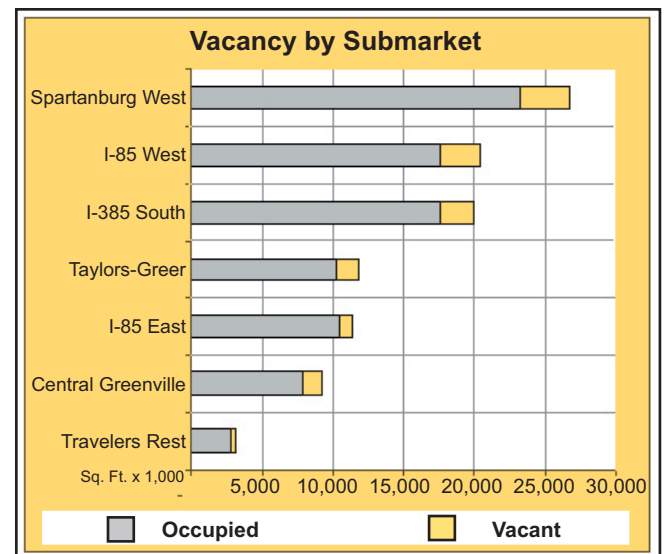
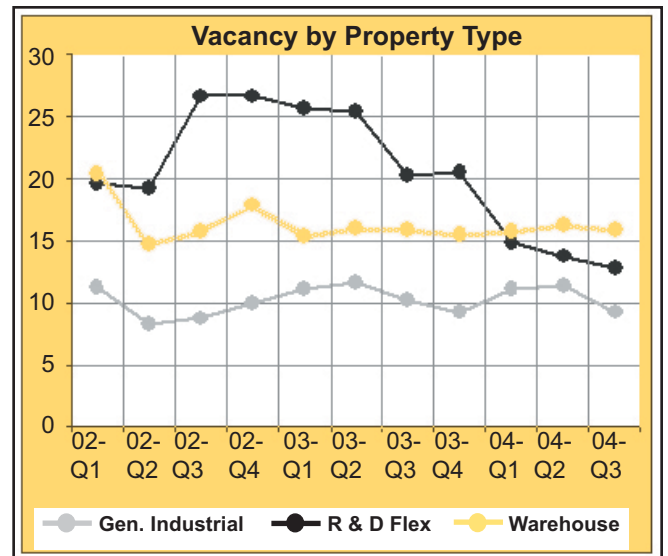
Expanded coverage of the industrial market increased the total inventory to more than 102 million square feet. Overall vacancy stood at 12.6 percent at the end of third quarter, which is the lowest recorded rate in almost two years. Year-to-date construction levels for 2004 indicate that over one-half million square feet of new space has been delivered, of which roughly 76 percent has been absorbed.

A look at the three separate industrial property types reveals three very distinct pictures. General industrial (or manufacturing) space continues to be the area's most stable industrial sector, where vacancy for the third quarter declined slightly to the current rate of 9.2 percent.

Fluctuations in the vacancy of warehouse space have been relatively minor over the past two years, ranging from 15 to 18 percent. This group now stands at 15.9 percent, indicating that no major market shifts have taken place.

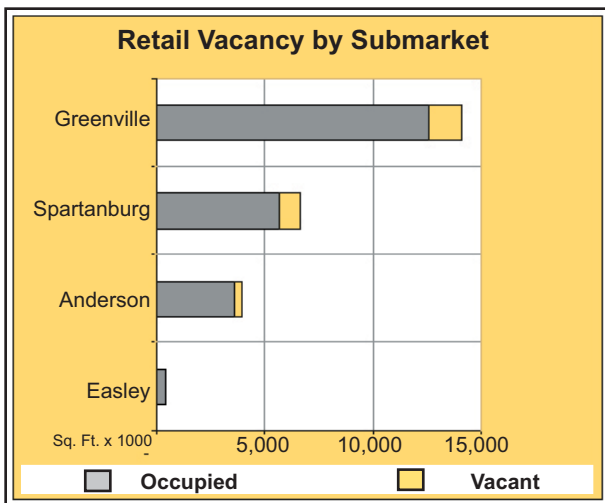
The most dramatic improvement can be seen in the flex space category, where vacancies have declined significantly over the last 2 years, to its current vacancy level of 12.7 percent. This is the result of small business and start-up operations rebounding in the Upstate. Such a trend will have long-term economic impact on the entire industrial market as these companies grow and expand into larger facilities.

Despite improvements in vacancy, the industrial sector is not out of the woods yet. The inventory continues to reveal an oversupply of older manufacturing and warehouse properties. As the logistics and technological needs of industrial users become more sophisticated, the marketability of these properties declines. This is especially true in the distribution market, where many companies are opting to build large distribution facilities rather than buying or leasing existing buildings.



By Market (Sq. Ft. x 1,000)	Total GLA	Strip	Free Standing	Neighborhood	Community	Power	Regional
Anderson	3,991.1	28.0	196.5	1,409.0	538.5	1,159.0	660.0
Greenville	14,120.9	973.6	3,232.8	5,755.1	1,398.6	715.0	2,045.7
Spartanburg	6,651.9	319.5	987.7	1,942.4	1,362.2	203.5	1,836.5
Easley	427.2	-	80.0	347.2	-	-	-
Upstate	24,763.9	1,321.1	3,828.8	9,453.8	3,299.4	2,077.5	4,542.2

Inventory includes multi-tenant retail centers at least 20,000 sq. ft. and five tenants. Free-standing retail of 20,000 sq. ft. also included.



The Upstate retail market saw significant construction activity in 2004, with more on the way in 2005. Strong residential growth provides an excellent population base for retail expansion; and many national retailers have taken note. For 2004, almost 1.2 million square feet of new or redeveloped space has been delivered. Retailers such as Target, Hobby Lobby, Ross, TJ Maxx, and Lowe's have spurred the majority of the area's recent growth.

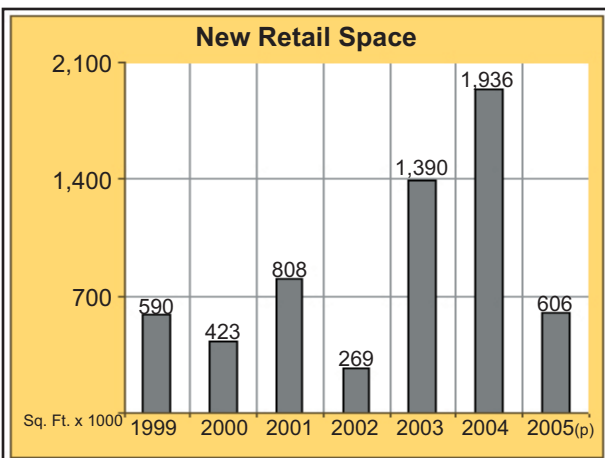
Coverage of the Upstate retail inventory was expanded during 2004 with the inclusion of Easley, located 10 miles west of Greenville. Although this area has less than one-half million square feet in qualifying centers, Easley is seen as a significant emerging submarket.

The total retail inventory located in Anderson, Greenville, Easley and Spartanburg now stands at 25.1 million square feet. For the third quarter, the market was 11.9 percent vacant compared to 13.9 percent at the end of 2003. Over the past two years, higher vacancy rates were primarily the result of the numerous "big box vacancies" that plagued the market. During 2004, second-generation users snapped up many of these properties, resulting in a much healthier retail environment.

Even though Anderson County has seen very little retail growth in the past year, shopper demand remains strong. A newly announced center for Clemson Boulevard may add up to 600,000 square feet over the next several years.

In Greenville, development activity is robust. In 2004 and 2005, Greenville will see the delivery of roughly 1.6 million square feet, which includes North Hampton Market, Fairview Corners, and The Shops at Greenridge. Hot spots for retail development include Woodruff Road, Simpsonville's Fairview Road, and Wade Hampton Boulevard.

After Spartanburg's flurry of development in 2002 and 2003, new construction has slowed, but several projects are in the works. It appears that the redevelopment of older properties by retailers such as Lowe's and Hobby Lobby will drive retail growth in Spartanburg.



CENTER NAME	LOCATION / AREA	TYPE	SQ. FT.	STATUS
The Shops at Greenridge	Greenville, Woodruff Road	Regional	555,980	Under Construction
North Hampton Market	Greenville, Wade Hampton Blvd.	Community	85,000	Remaining Shop Space
Wal-Mart	Travelers Rest	Free-standing	184,000	Proposed
Lowe's	Spartanburg, E. Main St.	Free-standing	147,000	Redevelopment
Lowe's	Spartanburg, E. Blackstock Rd.	Free-standing	135,000	Redevelopment
Planned Center	Spartanburg	Strip	20,000	Proposed
Home Depot	Easley, Calhoun Memorial Pkwy	Free-standing	100,000	Under Construction
Total			1,226,980	