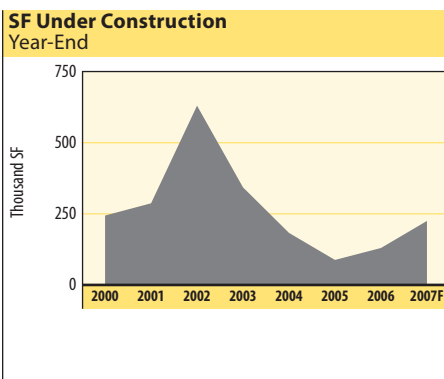
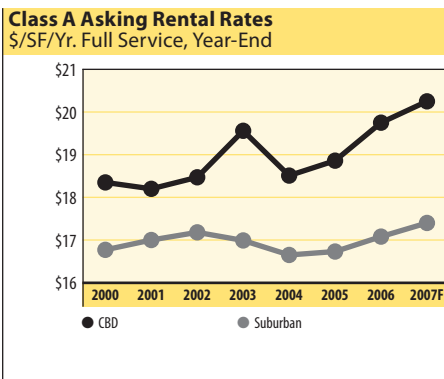
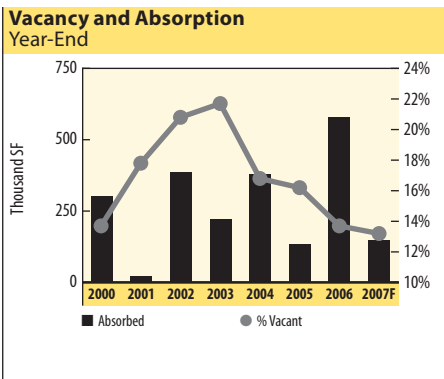




With increasing absorption totals and rising asking rates, the Greenville Class A office market is poised for an expansion period, while Class B space is struggling as it competes against a glut of office condos, especially in the suburbs.



The more than 500,000 square feet of positive absorption in the Greenville office market in 2006 was the largest annual total in the last six years. Fluor Corporation's lease of over 160,000 square feet of space at Patewood Plaza, the sale-leaseback deal of the RBC-Liberty Life campus and the absorption of a new building at the Clemson University International Center for Automotive Research (CU-ICAR) accounted for the major tenant activity.

All three transactions occurred in the Greenville Suburban submarket. A strong year in the suburbs resulted in a significant vacancy drop in the second half of 2006. Of note, Class A properties enjoyed more success than Class B properties in the suburbs. This disparity is tied to two factors: a tight Class A CBD market and an office condo glut undermining the strength of the suburban Class B market.

Downtown Greenville is teeming with amenities, providing fertile soil for high-end office development. As a result, the CBD consistently posts lower vacancy rates and higher asking rates than comparable properties in the suburban market. Subsequently, tenants looking for deals found them in the suburban market.

While the high-end office market appears on the verge of an expansion period, office condos are an ominous cloud hanging over the Class B market. With over 300,000 square feet of vacant office condo space in the market, Class B property owners will have a difficult time competing for smaller tenants. Until the office condo glut dissipates, the

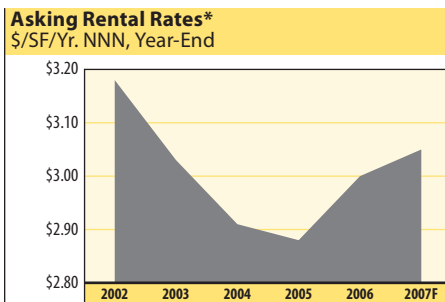
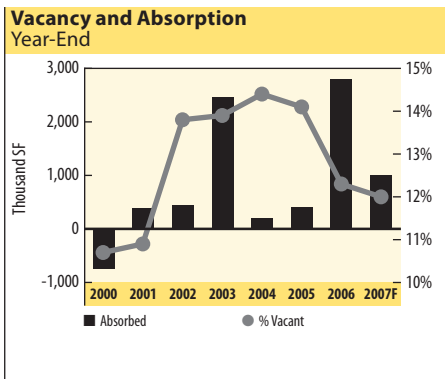
prospects for the Class B market will be subdued. Fortunately for Class B property owners, market pressures appear to be stalling planned office condo projects.

Asking rates have been rising across the board. The spaces in highest demand, Class A in the CBD increased asking rates more than \$1 per square foot in the past year. Even with the rate escalation, the higher asking rates in nearby Charlotte, Charleston, and Atlanta indicate that there is still room for rent growth among the most competitive properties. Despite vacancy concerns, Class B asking rates are expected to rise as well, benefiting from the increase in asking rates for Class A space.

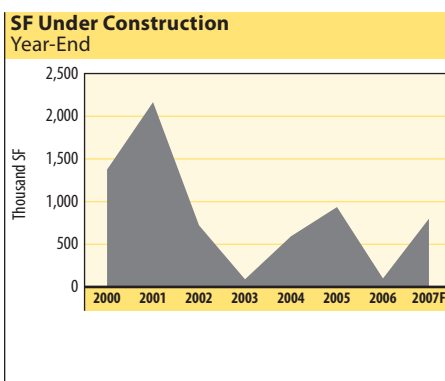
A new building at the campus of CU-ICAR, the second phase of Riverplace, the Carolina First building in Spartanburg, and a new building at Independence Corporate Park are all scheduled for delivery in 2007. Only the latter of which is expected to bring substantial speculative office space to the lease market. This lack of speculative construction is the result of elevated construction costs and the relatively inexpensive Greenville rental rates.

The development of the headquarters of Hubbell Lighting and The South Financial Group will bring substantial owner-occupied office space to the market over the next two years. While these developments will not directly impact the market of leasable space, the area could emerge as a new hub of office market growth in the Greenville area.

In 2006, the industrial market posted its highest level of annual absorption of any of the past five years, one year after the national market did the same. The trend of the national market foreshadowing local market events is not new.



*Warehouse/distribution space



Riding five consecutive quarters of positive net absorption, the industrial market is in the midst of a strong expansion cycle. Since the third quarter of 2005, over 3 million square feet of space has been absorbed and limited planned construction should extend the expansion through 2007.

Despite considerable absorption, vacancy rates are still significantly higher than the national average. Since the beginning of the 1900s, Greenville has served as a manufacturing hub, especially for textiles. In the past fifteen years, outsourcing has hit the textile industry especially hard, resulting in the closing of several textile plants and related warehouses across the market. The tide of textile-related closings appears to be slowing, but its impact is significant, as the market is filled with textile mills and warehouses that are out-of-date and have limited application.

This supply of functionally obsolete space artificially inflates vacancy rates and degrades asking rates. While the weighted average asking rate for warehouse/distribution space is around \$3.00 per square foot, new high-end warehouse/distribution space could easily lease for over \$4.50 per square foot. The gap in high-end warehouse/distribution inventory is most notable among properties smaller than 50,000 square feet. There are few options for tenants looking for small, high-end spaces.

This limited supply of small warehouse/distribution space may present opportunities for property owners in the coming year. In the absence of new construction, tenants

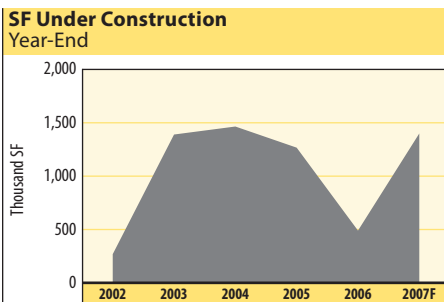
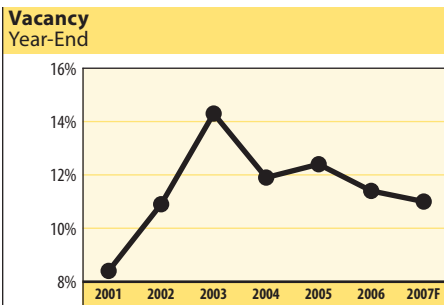
looking for small high-end spaces will have difficulty meeting their needs. An opportunity may present itself to owners of larger spaces to look into industrial condo options, especially if the property they own can be easily divided and has the high-ceiling heights demanded by modern industrial users.

The prelease of the new 320,000-square-foot warehouse/distribution facility at the Fairforest Business Center in Spartanburg by Echostar Communications represents one of the largest deals in 2006. This took the largest speculative building off the market two quarters before the building was scheduled for completion and is indicative of the scant supply of quality warehouse/distribution space in the Greenville market.

Another major industrial facility that has a significant impact on the market is the 800,000-square-foot distribution center vacated by Winn-Dixie in the fourth quarter of 2005. Recently purchased, the site appears destined for a partial redevelopment.

If the trend of the local market following the national industrial market remains true, the Greenville-Spartanburg market can look forward to strong growth in 2007. A lack of new construction could have a significant impact on market availabilities, sending asking rates north over the coming year. However, the lack of quality space available in the market may cause more sophisticated tenants to skip the Upstate market altogether.

Local population growth remains steady, driving demand for new retail. Development opportunities that previously would have targeted Woodruff Road are spilling over to other nearby trade areas.



Three years in a row prior to 2006, retail construction in the Greenville market topped 1.1 million square feet. Last year new construction ended at less than half of that pace, which means new tenants will be more likely to occupy existing spaces, leading to expectations of positive absorption and lower vacancy going forward.

While Woodruff Road has been the center of the retail market in Greenville, retail growth is spreading in all directions. Home Depot, Super Target, Wal-Mart and Super Bi-Lo (local grocer Bi-Lo's concept store) have either located or have announced plans to locate in trade areas just outside of Woodruff Road.

Due in part to the removal of over 650,000 square feet of retail space in the Greenville Mall from the competitive inventory, net absorption (the change in occupied space) was down in 2006. Because over 400,000 square feet of the space was vacant, the loss also resulted in a significant drop in market vacancy. Leading to the mall's demise was the close proximity of the larger Haywood Mall, the size of which allowed it to lure better tenants.

Nationally, malls are falling out of favor with the consumer. This trend is being felt locally, as two malls will be dealing with partial demolition in 2007. In addition to changes at the Greenville Mall, the Westgate Mall is losing 150,000 square feet of space vacated by Proffitt's to make room for a freestanding Costco. Coincidentally, Costco is involved in the Greenville Mall redevelopment as well.

Developers purchased the Greenville Mall in late 2005, intent on redeveloping the

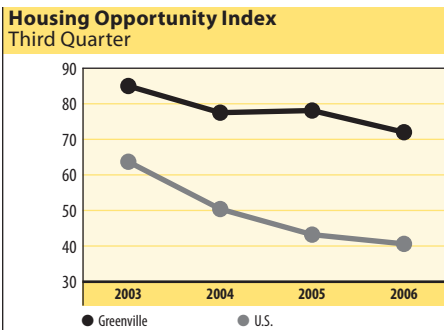
property to take advantage of the national trend of consumer preference for lifestyle centers over conventional malls. After the mall's partial demolition, Magnolia Park Town Center will begin construction in 2007. The site is being developed as a lifestyle center with a mix of retail, residential, and office uses. While the problems of the past may cast doubt upon the future of Magnolia Park, the phenomenal site visibility from two interstates should lend itself well to the reinvention.

Surprisingly, there has been a significant amount of activity among vacant big boxes. Not surprising, however, is that local retailers are the primary tenants in these second-generation big-box spaces. Peak Fitness, Jeff Lynch Appliance & TV Center, and Palmetto Home & Garden have all occupied large retail spaces previously considered obsolete by a national tenant.

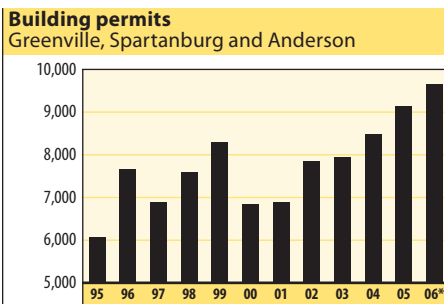
Other places likely to see significant retail development are Easley and areas east of Cherrydale. In addition, downtown Greenville will see a mixed-use shopping center, McBee Station, bringing with it regional grocer Publix and its only large national tenant in Staples. If the development is successful, more national tenants may be lured to downtown in the coming years.

After three years with high levels of retail development, the Greenville market was due for a reduction in new construction in 2006. Looking ahead, several large projects are planned and new construction should reach 1 million square feet again in 2007.

In contrast to the national housing market, the local market has maintained its sustainable pace. However, increasing new home inventory will bring moderation to the housing market in 2007.



Source: NAHB/Wells Fargo



*Estimated
Source: U.S. Census

Building permit growth remains high in the Greenville market. While the four-year period between 1996 and 1999 is largely considered the local residential boom, the number of building permits issued in the past four years was significantly higher. A combination of affordability and more sustainable levels of growth has insulated the local market from the recent national economic downturn. However, the number of new building permits issued in 2007 is expected to decline moderately from record numbers in 2006.

Locally, the most prominent growth areas will be along the Golden Strip, the area southeast of Interstate 85 running along Simpsonville, Mauldin, and Fountain Inn as Interstate 385 serves as the main artery into the heart of Greenville. In Spartanburg County, growth is expected to continue in the Golden Box, the area southwest of the City of Spartanburg over to Boiling Springs. Other areas primed for new residential growth include Easley, Anderson, north of Cherrydale and north of the City of Greer. Adequate infrastructure, quality schools and areas of employment will direct future growth.

From a national perspective, the Greenville market remains among the most affordable in the nation. However, there are indications that Greenville's affordability may be changing. The median price of new single-family homes is climbing for the local market, but its increase is more sustainable than similar increases in many other markets.

Development pressures are placing a strain on existing infrastructure. To help address these infrastructure demands, some jurisdictions are considering ways to pass additional infrastructure costs to new development, such as impact fees. In high growth areas, new development is funding road improvements. In addition, the past year has seen increased fees for water and sewer access. A side effect of these changes will be to increase the cost of new development, thereby elevating new home prices. This will present a challenge to local affordability.

Commercial land is also transacting at higher prices. The most notable large transaction was the purchase of the struggling Greenville Mall in the fourth quarter of 2005 for over \$500,000 per acre. Of further importance, the redevelopment plans released for the site include demolition costs that indicate the land's value is higher than the initial transaction figure. Other parcels situated with good interstate access and visibility are being purchased by builders and developers, such as the 68 acres purchased for The South Financial Group's new corporate campus.

Overall, prices in the local market are expected to increase moderately as land remains a hot commodity and commercial development occurs in high growth areas. The availability of large tracts of vacant land near the most desirable locations, in downtown markets or near major retail hubs is diminishing, which could lead to more high-priced land deals in 2007.



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