Savills Studley Report
Raleigh/Durham office sector Q2 2016

SUMMARY

Market Highlights

AVAILABILITY RATES RISE
Both Raleigh/Durham's overall market and Class A availability rates increased from last quarter. The overall market rate moved to 14.6%, while the Class A rate jumped to 14.1%. Downtown Raleigh's Class A availability rate spiked by 6.8 pp to 19.9%, offsetting moderate decreases of 1.1 pp to 13.7% in West Raleigh and 2.9 pp to 21.9% in 6 Forks Falls of Neuse.

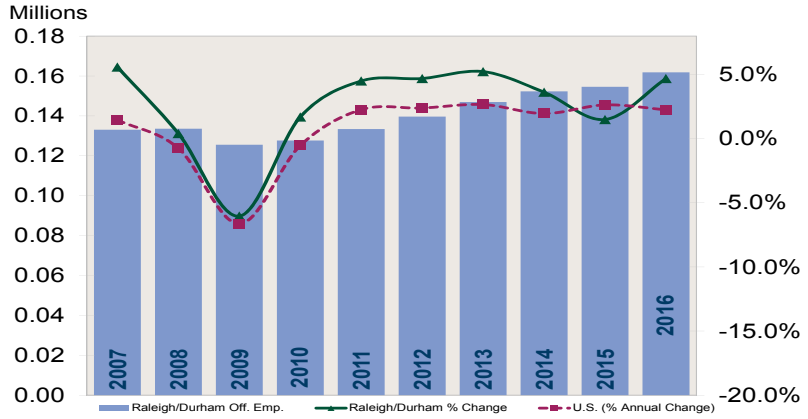
RENT DOWN SLIGHTLY
Overall asking rent inched 0.5% lower, falling from $22.26 to $22.15. Class A asking rent dropped by 1.5% to $24.51. Class A asking rent in RTP/RDU has increased by 4.5% year-on-year, ending mid-year at $21.71.

LEASING SLOWING BUT REMAINS ABOVE AVERAGE
Deal volume failed to reach 1.0 msf for the second quarter in a row – prior to the last two quarters deal volume had attained 1.0 msf six of the nine prioir quarters. Tenants have leased 3.9 msf in the four most recent quarters, on par with the market's long-term average.

"Leasing has lost some of its intensity as the number of larger deals has decreased. Smaller and mid-sized tenants remain active, though, and the Triangle continues to attract out-of-market investors and expansion from businesses based in other markets."

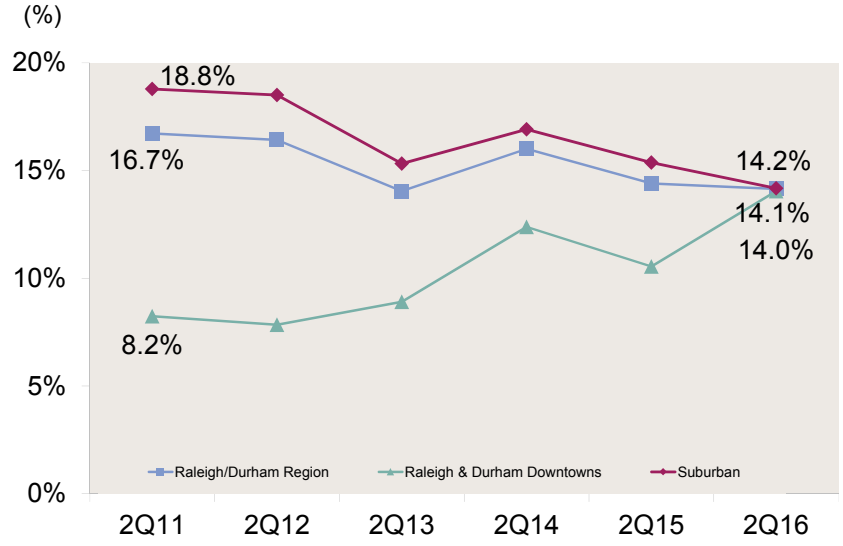
Tucker Shade, Executive Vice President

Office-Using Employment Trends

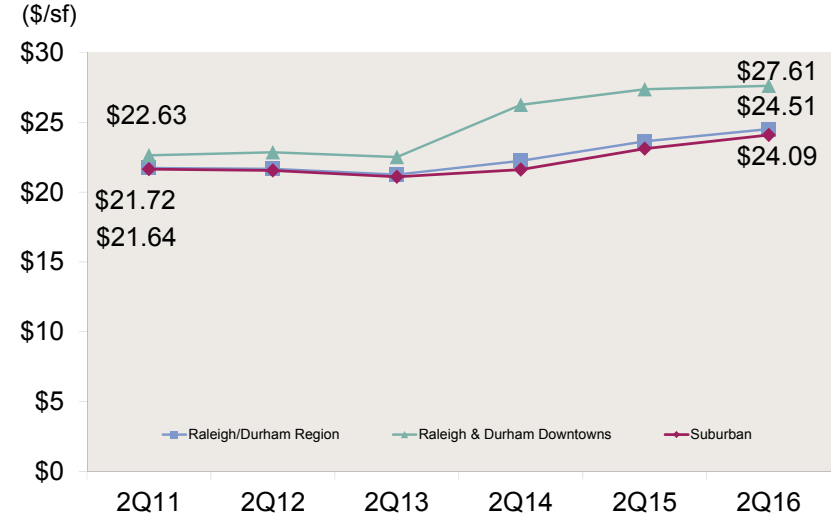


Source: Bureau of Labor Statistics

Class A Availability Rate Trends



Class A Asking Rent Trends



Triangle's Connections to Tech Hubs Deepen

While many major metros in the U.S. have seen a cooldown in employment, the Triangle has registered relatively steady job growth. The region's tech sector continues to grow and expand, although some startups are beginning to face some difficulties due to a more challenging funding environment. In contrast to San Francisco, which has seen cuts by tech firms of varying sizes, most layoffs during the second quarter came from larger tech and pharmaceutical companies implementing long-term company restructuring plans.

Xerox, for example, announced 53 layoffs in Raleigh. This was Xerox's third round of layoffs in 2016. Earlier this year the company cut 139 employees at their Henderson-based Xerox State Healthcare facility and 178 employees in Cary. Late in the first quarter, Raleigh-based pharma research firm INC Research cut 175 employees. Of note, some INC Research employees could find jobs at Veristat, another CRO that is setting up operations in the region for the first time. Based in Massachusetts, Veristat is looking for about 6,000 sf in the Triangle to accommodate a team of 40 employees initially, with plans to hire 150 employees in the long-term.

Links to Boston & The Valley Deepen

In addition to this growing connection between Boston and the Triangle, the region's links to Northern California continue to strengthen. Silicon Valley-based WalkMe selected Raleigh over Austin, Nashville and Denver for its first expansion market. The tech startup already has 10 employees in the region and hopes to add 30 to 40 employees in the next year. CloudGenix announced that it has chosen a location at Glenwood South for its East Coast outpost (124 Glenwood Ave). CloudGenix, which recently secured $34.0 million in financing, specializes in SD-WAN (software-defined wide-area networks) technology that enhances connectivity between different offices, data centers and corporate facilities in multiple locations. A company spokesperson noted that lower housing costs were a contributing factor in their selection of Raleigh/Durham.

Other area tech firms are joining forces with San Francisco startups. Red Hat officially completed its acquisition of San Francisco-based software firm 3scale in June. The open source software firm has been partnering with 3scale Inc. since early

2015 to offer a platform for API-based application development. Additionally, Optum, the technology and services group of UnitedHealthGroup, is reportedly nearing a deal to set up operations in North Hills – the company has been looking for about 60,000 sf of office space, enough to hold about 200 employees. Based in Minneapolis, Optum is rumored to be targeting Bank of America's recently delivered North Hills tower.

Absorption Slows, Availability Rises

During the first quarter there was a lull in larger 100,000 sf-plus leases. The second quarter brought a 259,531 sf deal by Quintiles at 4820 Emperor Boulevard and a 142,215 sf lease by UNC-Chapel Hill at 123 W. Franklin Street. A diverse set of companies from multiple industries signed leases in the quarter. In 6 Forks/Falls of Neuse, SunTrust leased 28,000 sf at 305 Church Street. Tenants remained active in Downtown Raleigh. Stewart Engineering leased 27,000 sf at 223 S West.

In RTP/RDU, The Army Research Office completed a 27,324 sf lease at 800 Park Drive. Co-working space has been proliferating in multiple metros areas including Raleigh/Durham. Industrious, a New York-based co-working space provider added 12,000 sf at Charter Square, an expansion of their 22,000 sf lease signed earlier this year. In addition to these mid-sized deals among a wide variety of industries, smaller tech firms were active, underscoring that many area startups are still growing. In some instances these are companies based elsewhere that are expanding their local footprint. Infusion also leased space at Charter Square – the New York-based tech firm is currently located at 711 Hillsborough Street.

The region's vacant availability rate posted its first increase since late 2014, albeit rising only slightly. Overall availability increased by 30 basis points to 14.6%, and the Class A rate jumped by 50 basis points to 14.1%. Downtown Raleigh, which posted a 510 basis point spike in availability to 16.6% accounted for most of the increase, most other submarkets posted a slight decrease in availability.

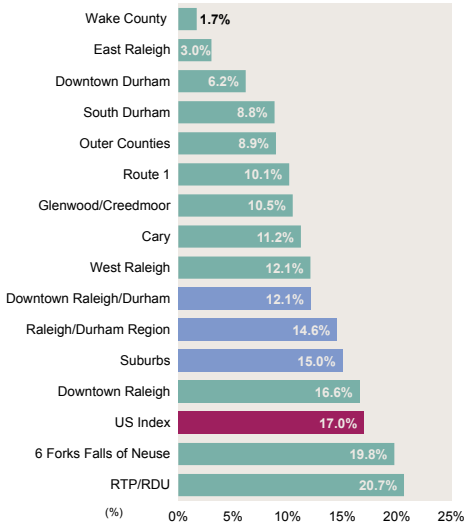
Spec Development a Sign of Landlord Optimism

For most of this recovery the construction of office product has been very contained. The market is becoming more bullish, though, underscored by more landlords deciding to proceed with speculative developments. Tri Properties announced that it will move ahead on the construction of Churchill Hall, a five-story 150,000 sf building at Imperial Center. This will be the 18th building in the park, and the first new building since Quintiles Plaza was completed in 2009.

Washington, DC- based Akridge is teaming up with local developer Northwood Ravin on 555 Mangum, a new 10-story, 225,000 sf building located on the former Elkins Chrysler dealership parcel in Durham. Northwood will also build a 400-unit multifamily building on the same site. If the plans clear approvals, the project should be completed by late 2018. In Downtown Cary, Northwood Associates recently submitted proposals for a 75,000 sf office and retail building on Chatham Street. The property, which would be constructed in conjunction with 188 apartments and a 466-space parking deck, is part of a redevelopment of an entire block at Chatham Street and Harrison Avenue that has been in consideration for roughly a decade. In Chapel Hill, the Town Council gave its approval for "The Station at East 54." The $20.0 million project is a public-private partnership between the city and developer East West Partners that will tear down the current fire station on Hamilton Road and construct a new fire station in its place, as well as a four-story 55,000 sf office building and parking deck.

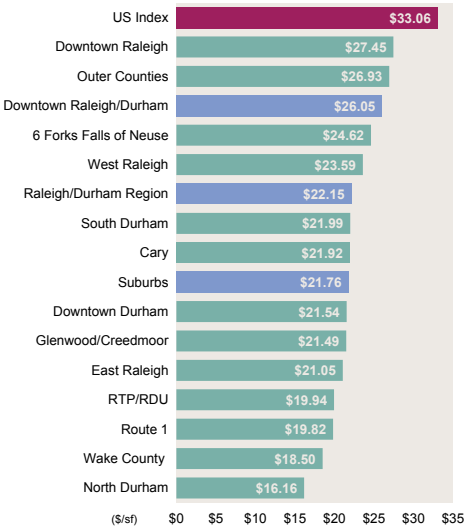
Finally, Spectrum Properties has proposed Regency Woods II on Symphony Lake. The five-story 150,000 sf building at Regency Park in Cary could begin later this year with an estimated completion date of late 2018. Spectrum plans to start the property even if it does not have any tenants in hand.

Availability Rate Comparison



Note: North Durham submarket rate is 54%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Quintiles	259,531	4820 Emperor Blvd	RTP/I-40
UNC-Chapel Hill	142,215	123 W Franklin St	Orange County
Microsoft	39,257	4825 Creekstone Drive	RTP/RDU
SunTrust Bank	28,000	305 Church Street	6 Forks / Falls of Neuse
The Army Research Office	27,324	800 Park Dr	RTP/RDU
Stewart Engineering	27,000	223 S West Street	Downtown Raleigh
IntraHealth	19,925	6320 Quadrangle Drive	South Durham
Hope Services	16,358	3000 Highwoods Blvd	Route 1
Varonis Systems, Inc.	14,649	2250 Perimeter Park Dr	RTP/RDU
Semiconductor Research Corporation	12,567	4819 Emperor Blvd	RTP/RDU
Sum of Top Leases	**586,826**		

Submarket	Total	Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
	Inventory SF (1000's)	Last 12 Months	This Qtr.	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
Downtown Raleigh	4,837	290	12	803	44.3%	636	16.6%	5.1%	13.2%	$27.45	0.1%	$26.37
Downtown Raleigh - Class A	3,650	258	12	728	51.9%	536	19.9%	6.8%	14.7%	$27.95	-0.7%	$27.75
East Raleigh	643	15	0	19	6.6%	27	3.0%	0.2%	4.2%	$21.05	-5.9%	$21.35
East Raleigh - Class A	118	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
West Raleigh	7,556	488	84	914	-6.6%	1,033	12.1%	-0.9%	13.9%	$23.59	0.4%	$22.85
West Raleigh - Class A	4,585	363	74	627	-7.3%	701	13.7%	-1.1%	15.6%	$24.88	0.7%	$24.04
Glenwood/Creedmoor	2,317	133	5	243	7.9%	247	10.5%	0.8%	10.7%	$21.49	0.0%	$23.71
Glenwood/Creedmoor - Class A	1,247	113	1	108	17.0%	164	8.6%	1.3%	13.1%	$24.20	0.5%	$25.09
6 Forks Falls of Neuse	6,128	549	109	1,212	-6.3%	1,018	19.8%	-1.4%	17.6%	$24.62	-0.2%	$23.66
6 Forks Falls of Neuse - Class A	3,532	340	97	774	-11.2%	538	21.9%	-2.9%	16.9%	$27.56	0.1%	$27.55
Route 1	1,678	47	5	170	-11.1%	210	10.1%	-1.3%	12.5%	$19.82	0.5%	$19.64
Route 1 - Class A	974	21	0	118	-10.7%	123	12.1%	-1.4%	12.6%	$21.30	0.0%	$21.42
Wake County*	949	0	N/A	16	6.5%	61	1.7%	0.1%	6.4%	$18.50	-8.6%	$18.13
Wake County - Class A	86	0	N/A	0	N/A	26	0.0%	0.0%	30.0%	$17.50	0.0%	$17.50
Cary	5,986	273	40	672	3.4%	659	11.2%	0.4%	11.0%	$21.92	0.3%	$21.30
Cary - Class A	3,957	156	18	447	13.6%	413	11.3%	1.4%	10.4%	$22.79	-0.3%	$22.38
RTP/RDU	11,042	1,183	189	2,281	-0.3%	2,867	20.7%	-0.1%	26.4%	$19.94	-2.0%	$19.77
RTP/RDU - Class A	6,766	1,020	138	1,123	-3.3%	1,524	16.6%	-0.6%	23.2%	$21.71	-0.5%	$20.78
South Durham	3,639	299	10	320	3.6%	293	8.8%	0.3%	8.1%	$21.99	3.7%	$20.46
South Durham - Class A	2,297	224	7	148	2.5%	129	6.5%	0.2%	5.6%	$23.20	-0.5%	$22.46
Downtown Durham	3,635	403	0	224	7.6%	201	6.2%	0.4%	5.5%	$21.54	0.0%	$21.66
Downtown Durham - Class A	2,428	290	0	126	14.6%	104	5.2%	0.7%	4.3%	$24.89	0.0%	$24.33
North Durham	823	0	N/A	444	0.0%	460	54.0%	0.0%	55.9%	$16.16	15.2%	$15.00
North Durham - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Outer Counties**	2,749	260	5	246	10.1%	194	8.9%	0.8%	7.1%	$26.93	-8.6%	$22.20
Outer Counties - Class A	1,289	234	4	177	13.6%	105	13.7%	1.6%	8.1%	$28.89	-8.0%	$24.94
Raleigh & Durham Downtowns Total	**8,472**	**692**	**12**	**1,027**	**34.3%**	**838**	**12.1%**	**3.1%**	**9.9%**	**$26.05**	**-0.1%**	**$25.36**
Raleigh & Durham Downtowns Total - Class A	**6,078**	**548**	**12**	**854**	**45.0%**	**641**	**14.0%**	**4.4%**	**10.5%**	**$27.61**	**-0.7%**	**$27.36**
Suburban Total	**43,510**	**3,247**	**447**	**6,538**	**-1.5%**	**7,070**	**15.0%**	**-0.2%**	**16.5%**	**$21.76**	**-0.5%**	**$21.09**
Suburban Total - Class A	**24,851**	**2,472**	**338**	**3,522**	**-2.9%**	**3,722**	**14.2%**	**-0.4%**	**15.4%**	**$24.09**	**-1.6%**	**$23.11**
Raleigh/Durham Region Total	**51,982**	**3,940**	**459**	**7,565**	**2.2%**	**7,908**	**14.6%**	**0.3%**	**15.4%**	**$22.15**	**-0.5%**	**$21.50**
Raleigh/Durham Region Total- Class A	**30,929**	**3,020**	**349**	**4,376**	**3.8%**	**4,363**	**14.1%**	**0.5%**	**14.4%**	**$24.51**	**-1.5%**	**$23.63**

*Wake County includes the Northeast Wake County, Southeast Wake County and Southwest Wake County submarkets.
**Outer Counties includes the Chatham County, Franklin County, Johnston County, Orange County and Person County submarkets.

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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