

Savills Studley Report

Raleigh/Durham office sector

Q3 2017



SUMMARY

Market Highlights

LEASING STAYS ON SLOWER TRACK

Tenants have leased 3.3 msf in the four most recent quarters, well below the long-term average of 4.3 msf leased each year.

AVAILABILITY RATE JUMPS

The overall availability rate for Raleigh/Durham market posted its largest increase in more than a year, jumping from 13.5% to 15.0%. Similarly the Class A availability rate spiked from 13.7% to 16.0%. New construction activity is boosting availability rates.

RENT PUSHES HIGHER

The overall gross asking rent for the region jumped by 3.9% to \$24.42. The Class A asking rent increased by 2.8% to \$26.76.

SALES INCREASE

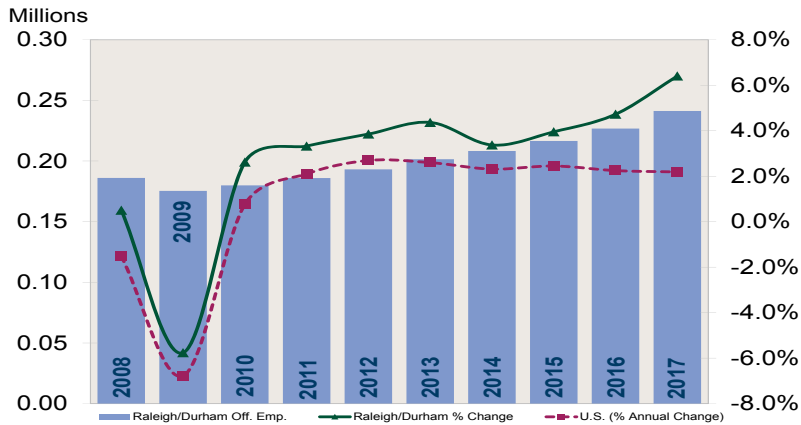
Year-to-date office property sales totaled \$375 million – rising by 26.9% compared to the \$295 million sold during the same period in 2016.

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"Tech talent generally comes at an exorbitant rate. A market such as Raleigh/Durham possessing highly specialized labor, at a cost that is low relative to most other tech hubs, is the best of both worlds."

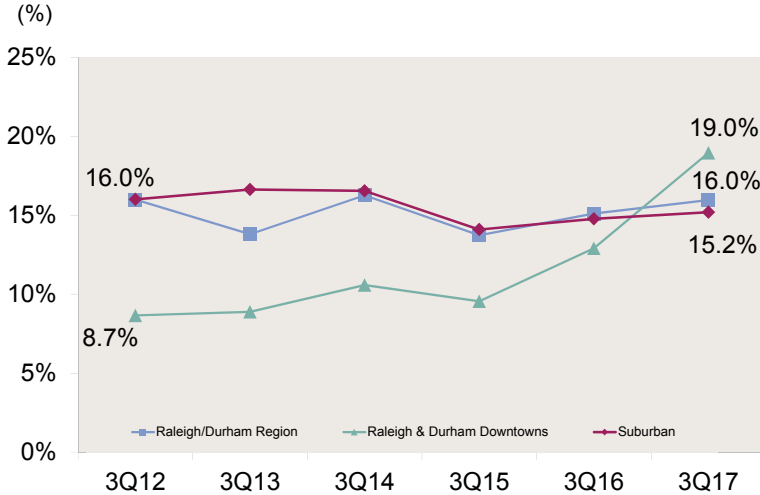
Tucker Shade,
Executive Vice President
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Office-Using Employment Trends

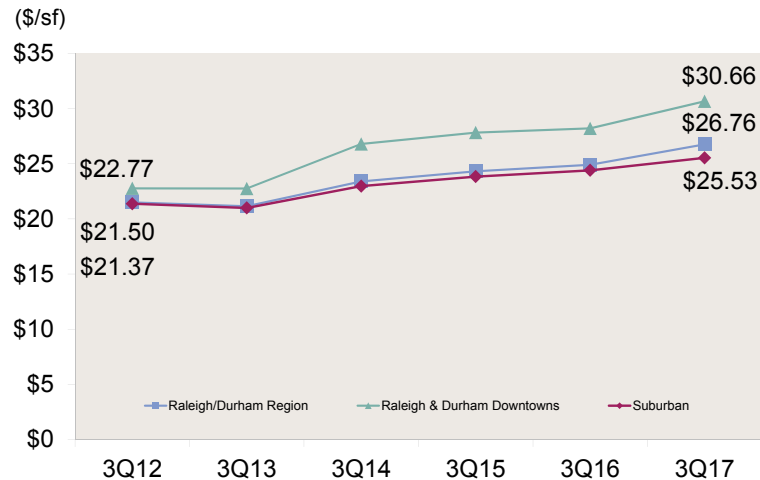


Source: Bureau of Labor Statistics

Class A Availability Rate Trends



Class A Asking Rent Trends



Magnetic Market

The Research Triangle is benefitting from a couple of potent long-term trends – the flow of people and businesses to lower-cost markets in the South and West, and the continued energy and dynamism of the tech rally. In many markets, such as San Francisco or Boston, these are competing forces. Tech talent generally comes at an exorbitant rate. Raleigh/Durham enjoys highly specialized labor, at a cost that is low relative to most other tech hubs – so it is the best of both worlds. Local residents and tenants struggling to absorb escalating costs for housing, office space and labor may dispute the affordability of the market; but the Triangle remains an exceptional value for businesses and households relocating from Boston, New York City or even Atlanta.

Office-using employment growth in the Raleigh-Durham market continues to outpace most other major U.S. markets. During the last 12 months office-using employment in the Triangle has increased by 6.4%, more than three times the 2.1% gain at the national level. Large occupiers continue to choose or consider the Triangle as a lower-cost alternative for their back-office and/or HQ operations, and existing tenants in the Triangle are adding headcount.

Domestic and Foreign Tenants Drawn to Region

The range of industries setting up operations in the region and seeking space is very diverse, and includes professional services, life sciences, software start-ups, and engineering firms based both within the U.S. and in other countries. Höganäs, for example, recently opened its new office and laboratory in Cary. The Swedish research and manufacturing company has 1,800 employees locally and expects to add 100 new employees over the next two years. The new facility in Cary will serve as its key global hub for its new water and soil remediation business.

In July, Verizon retailer A Wireless (A2Z) announced plans to add 250 employees in the region. The company leased the second and third floors at Colonnade II – the former Salix Pharmaceuticals space. The site represents a big expansion for the firm – they currently have 88 employees in Greenville, South Carolina. The building had a big quarter, First Citizens Bank leased the two floors above A Wireless in mid-September and will relocate 125 of

its employees from the Business Services Group, currently split between their North Hills and south Raleigh locations.

Steady Demand for New Space

In addition to major renovations such as the Colonnade II, new office product is underway across the region with several projects in Downtown Raleigh and Durham as well as Cary. The region has 2.0 msf under construction, with a pre-leased rate of 42.8%. Tenant response to new development has been strong, even as rent approaches \$40/sf in some buildings such as Midtown Plaza. WeWork pre-leased 81,032 sf at Trinity Partners' One Glenwood. The building, slated to start construction in late 2017, now has about 100,000 sf remaining for lease. Also at One Glenwood, Sepi Engineering & Construction signed a 26,000 sf lease.

Other buildings that recently delivered include The Chesterfield and Forty540. As tenants relocate to these new buildings, many are leaving behind bigger blocks of space, opening up some opportunities for other companies. This space left behind, plus unleased space in new buildings, has contributed to a 230 basis point increase in the Class A availability rate for the region.

Costs Mount

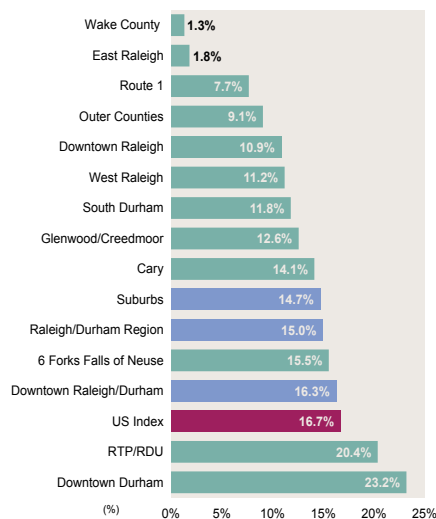
The region is losing some of its affordability, though, as rent has increased steadily in the last few quarters. Conditions have tightened, particularly in terms of quality office product in Downtown Raleigh and Durham. Asking rent has posted double-digit increases in both of these submarkets compared to a year ago. It continues to be a landlord-friendly market in the Triangle. Large occupiers can command more concessions in the form of rent abatement and tenant improvement allowance, but rental rates are steadily increasing. Small-to-medium occupiers are receiving fewer concessions on new leases and renewals. They are also facing rising rental rates.

Parking adds to the cost associated with office space in Downtown Raleigh and Durham. Limited mass transit options and reliance on vehicles make parking a critical part of the equation for some firms. Suburban buildings typically offer free parking and higher parking ratios.

Value Plays

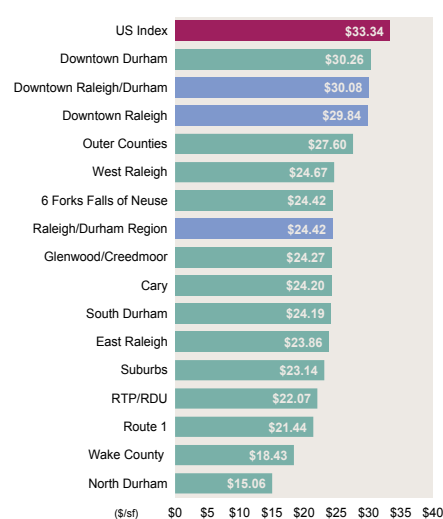
Several firms are recognizing the value of

Availability Rate Comparison



Note: North Durham submarket rate is 44.2%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
WeWork	81,032	One Glenwood Ave	Downtown Raleigh
Infosys	60,000	7751 Brier Creek Pkwy	RTP/RDU
First Citizens Bank	53,214	8510 Colonnade Center Dr	6 Forks Falls of Neuse
A2Z	51,363	8510 Colonnade Center Dr	6 Forks Falls of Neuse
Pendo	42,710	150 Fayetteville St	Downtown Raleigh
Ashfield Pharmacovigilance	26,575	500. S Miami Blvd	Raleigh
Sepi Engineering & Construction	26,000	One Glenwood Ave	Raleigh
East Coast Migrant Head Start Project	23,014	2301 Sugar Bush Rd	Glenwood/Creedmoor
CA Technologies	10,687	1101 Haynes St	East Raleigh
Validic	10,000	701 W Main St	Downtown Durham
Sum of Top Leases	384,595		

space in Cary and West Raleigh. Asking rents are comparatively lower in Cary, and several big blocks of space are on the market or about to come available. West Raleigh's location is also sometimes overlooked by firms, but buildings in this submarket have prime access to I-40 and offer free parking and lower rent, within just a few minutes of downtown.

Sustained Sales

Demand for quality office buildings in the Triangle remains steady. Goldman Sachs paid \$103.2 million for seven buildings located in the 21-building Perimeter Park in Morrisville. A partnership between Trinity Capital Advisors, Starwood Capital Group and Vanderbilt Partners acquired the buildings for \$85.4 million in April of 2015. Nearly all of the buildings, except for 1800 Perimeter Park Drive (which was 52% vacant), were near or at full occupancy at time of sale.

Looking Forward

As Amazon undertakes its search for a second base of operations, there is no question that from a talent and labor perspective the Triangle can provide much of what the e-commerce giant is looking for. Additionally, the local roster of local universities and colleges rivals major metros such as New York City and Boston. Of note, though, a recent analysis of the top cities that best match Amazon's preferences, conducted by the Brookings Institute, suggested that Raleigh would be knocked off the list due to deficiencies in its transit system. Time will tell, but the landing of an employer expecting to hire up to 50,000 people would be truly transformative.

	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.
	Downtown Raleigh	5,120	263	152	556	-15.6%	660	10.9%	-2.0%	13.6%	\$29.84	0.6%	\$26.98
	Downtown Raleigh - Class A	3,939	263	151	465	-19.1%	644	11.8%	-2.8%	17.5%	\$30.43	0.9%	\$27.57
	East Raleigh	643	70	39	12	-46.0%	17	1.8%	-1.5%	2.7%	\$23.86	-1.2%	\$22.02
	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	7,781	593	94	871	-3.6%	913	11.2%	-0.4%	12.1%	\$24.67	1.6%	\$24.02
	West Raleigh - Class A	4,833	505	87	598	-4.1%	676	12.4%	-0.5%	14.7%	\$26.42	1.9%	\$25.47
	Glenwood/Creedmoor	2,254	186	35	284	32.9%	279	12.6%	3.1%	12.3%	\$24.27	10.6%	\$22.55
	Glenwood/Creedmoor - Class A	1,248	155	29	198	56.9%	168	15.9%	5.8%	13.5%	\$25.55	6.7%	\$24.46
	6 Forks Falls of Neuse	6,318	594	132	982	9.5%	1,113	15.5%	1.4%	18.6%	\$24.42	-1.0%	\$24.22
	6 Forks Falls of Neuse - Class A	3,790	397	101	699	15.3%	765	18.5%	2.4%	22.2%	\$26.13	-3.5%	\$26.92
	Route 1	1,682	18	3	129	-19.1%	176	7.7%	-1.8%	10.4%	\$21.44	-0.1%	\$19.06
	Route 1 - Class A	977	10	3	90	-7.8%	102	9.2%	-0.8%	10.5%	\$24.10	0.0%	\$21.09
	Wake County*	903	15	N/A	12	-44.2%	5	1.3%	-1.0%	0.6%	\$18.43	19.0%	\$17.27
	Wake County - Class A	86	0	N/A	0	N/A	0	0.0%	0.0%	0.0%	-	0.0%	\$17.50
	Cary	6,274	338	44	886	21.1%	790	14.1%	2.5%	13.3%	\$24.20	6.6%	\$22.59
	Cary - Class A	4,141	215	41	732	25.6%	599	17.7%	3.6%	15.6%	\$25.05	6.0%	\$23.22
	RTP/RDU	11,206	635	138	2,282	-3.6%	2,133	20.4%	-0.8%	19.7%	\$22.07	2.7%	\$20.25
	RTP/RDU - Class A	7,074	536	74	1,160	-7.0%	1,008	16.4%	-1.2%	15.0%	\$24.21	0.7%	\$22.39
	South Durham	3,731	179	13	440	16.7%	312	11.8%	1.7%	8.5%	\$24.19	3.9%	\$22.43
	South Durham - Class A	2,417	71	13	308	28.6%	235	12.8%	2.8%	10.1%	\$25.57	3.9%	\$23.71
	Downtown Durham	3,993	83	39	926	29.7%	256	23.2%	5.3%	7.2%	\$30.26	0.8%	\$26.37
	Downtown Durham - Class A	2,829	31	20	818	36.5%	199	28.9%	7.7%	8.3%	\$30.83	-2.6%	\$31.05
	North Durham	875	36	N/A	387	4.1%	379	44.2%	1.7%	43.3%	\$15.06	-9.2%	\$14.72
	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**	2,799	99	81	254	-16.5%	268	9.1%	-1.8%	10.2%	\$27.60	2.5%	\$27.21
	Outer Counties - Class A	1,574	92	81	203	-19.2%	224	12.9%	-3.1%	15.8%	\$28.87	2.8%	\$28.51
	Raleigh & Durham Downtowns Total	9,113	312	190	1,482	8.0%	916	16.3%	1.2%	10.9%	\$30.08	2.3%	\$26.84
	Raleigh & Durham Downtowns Total - Class A	6,767	262	171	1,283	9.3%	783	19.0%	1.6%	12.9%	\$30.66	1.1%	\$28.20
	Suburban Total	44,467	2,053	618	6,538	2.7%	6,337	14.7%	0.4%	14.7%	\$23.14	2.1%	\$21.86
	Suburban Total - Class A	26,258	1,526	456	3,989	5.7%	3,667	15.2%	0.8%	14.8%	\$25.53	1.3%	\$24.40
	Raleigh/Durham Region Total	53,581	3,259	809	8,020	10.9%	7,485	15.0%	1.5%	14.6%	\$24.42	3.9%	\$22.36
	Raleigh/Durham Region Total- Class A	33,025	2,497	627	5,271	16.4%	4,662	16.0%	2.3%	15.1%	\$26.76	2.8%	\$24.90

*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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