

Savills Studley Report

Raleigh/Durham office sector

Q2 2017



SUMMARY

Market Highlights

LEASING STAYS ON SLOWER TRACK

Tenants have leased 3.6 msf in the four most recent quarters, just below the long-term average of 4.1 msf leased each year.

AVAILABILITY & VACANCY DECLINES

The overall availability rate for the region decreased slightly, falling by 0.6% to 13.5%. Similarly the Class A availability rate fell by 0.8 pp to 13.7%. The vacancy rate for the region also declined from the first quarter, dropping to 6.7%.

RENT PUSHES HIGHER

The overall gross asking rent for the region jumped by 2.6% to \$23.50. The Class A asking rent was nearly unchanged, ticking down by 0.1% to \$26.04.

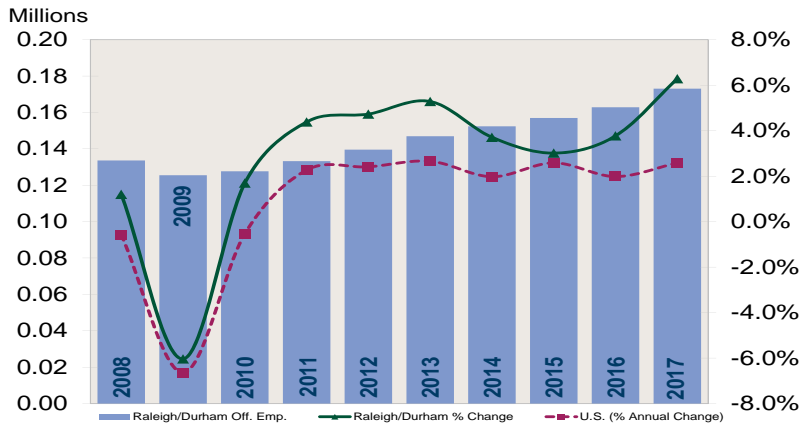
SALES INCREASE

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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"Banks and financial services companies made major lease commitments to Raleigh/Durham during the last few months. In most cases these firms are doubling down on their presence in the region, with plans to add hundreds of new employees."

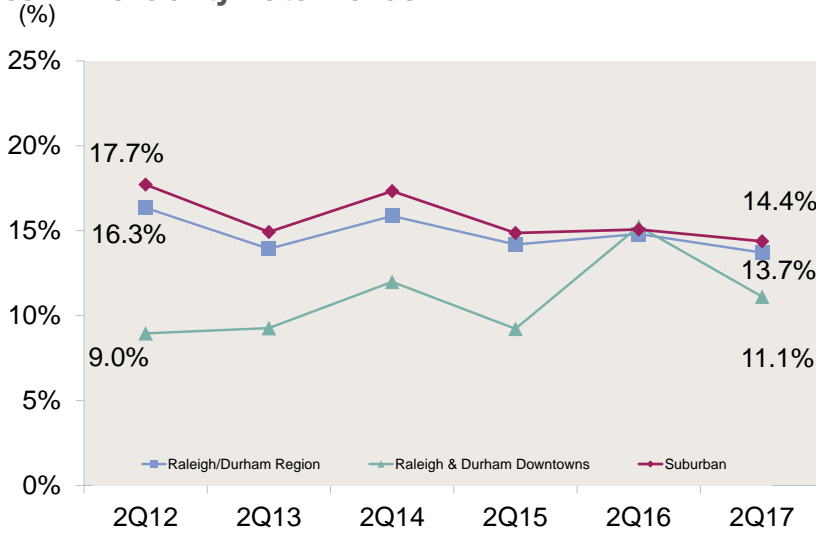
Edwin Yarbrough,
 Executive Vice President

Office-Using Employment Trends

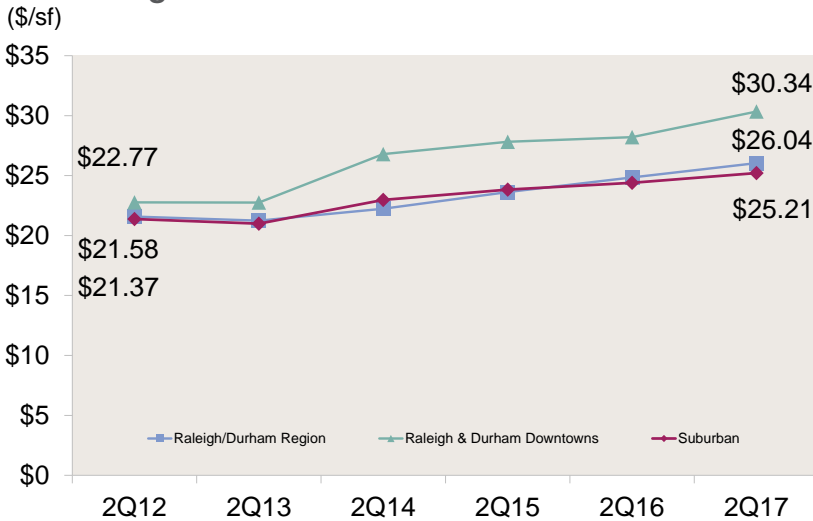


Source: Bureau of Labor Statistics

Class A Availability Rate Trends



Class A Asking Rent Trends



Banks Double Down on Commitment to Triangle

There are some signs that the recovery is slowing nationally. Private sector employers added 310,000 office-using jobs during the last six months, still a decent increase but a big drop from the 420,000 added in the prior six months. In contrast, Raleigh's office-using employment growth jumped from nearly 4,500 jobs in the second half of 2016 to more than 5,400 in the most recent six months. The region has added more than 10,000 office-using jobs in the last year – a year-on-year increase of more than 6.0%.

The Triangle continues to benefit from out-of-market firms that set up operations in the region a few years ago and are now expanding their local presence. San Jose based Align Technology is among the long list of companies that has deepened their commitment to the market. The medical device company recently signed a 21,519-sf expansion at Forty540, just a couple of months after originally agreeing to a 60,000 sf lease at the Morrisville facility.

During the last few months several banks and asset management firms have made significant expansions. In May, Metlife unveiled plans to build a third office building at its Global Technology Campus in Cary. The company already employs 1,000 people locally. A 219,000-sf building will accommodate an unknown number of additional personnel the insurance company plans to hire. In 2013 Metlife was awarded a \$87.2 million state incentives package.

The biggest announcement this quarter came from Credit Suisse, though. In May the bank said that it will hire 1,200 more people at its RTP facility in Morrisville, a significant addition to the 1,700 people they currently employ at the technology hub. The bank plans to spend about \$70.5 million to construct a new building on Louis Stephens Drive. North Carolina will give Credit Suisse up to \$40.2 million via its Jobs Development Investment Grant program, contingent upon the fulfillment of its jobs pledge.

Finally, Pittsburgh-based First National Bank will anchor a new 22-story tower to be constructed at 501 Fayetteville Street in Downtown Raleigh. Construction is scheduled to start in December with completion in the summer of 2019. The building, which will be called FNB Tower, will have retail space on the ground level, 150,000 sf of office space and nearly 240 apartment units. FNB will lease more than 40,000 sf in the building with expansion

rights. In March, FNB acquired local bank Yadkin Bank for \$1.4 billion.

Tight Conditions in Downtown Durham and Raleigh

During 2015 and much of 2016, leasing in Downtown Durham and Raleigh was outpacing supply. Developers have started to catch up, but tenants continue to face some challenges finding adequate quality space. Newly constructed building has pushed Downtown Durham's availability rate up to nearly 18.0%. Downtown Raleigh's overall availability rate was much lower, ending mid-year with a rate of 12.8%. Downtown Durham has now entered a new phase of development. The emphasis has shifted from the ongoing restoration of historic properties to the construction of large new multi-use buildings in the heart of downtown. One City Center and the Durham Innovation District are two projects slated to open in the summer of 2018. Together, both projects are expected to deliver 480,000 square feet of premier Class A office space.

Startups in Durham are having success raising funds. This is spurring a proliferation of co-working space providers. American Underground opened its fourth location and newest co-working space in Downtown Durham called Gridworks Durham with 7,000 sf in April.

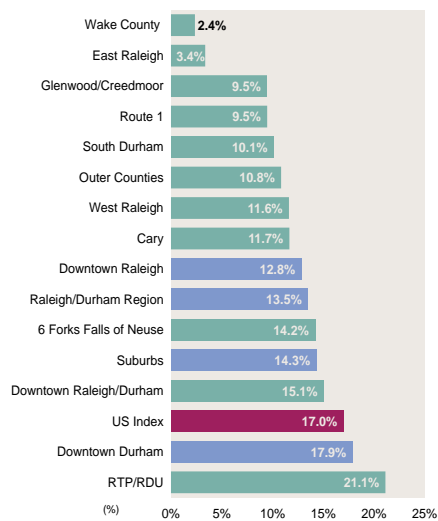
In Downtown Raleigh, 950,000 sf delivered from 2010 to 2015, with no actual completions in this submarket in 2016, allowing some compression in the market vacancy rate. There is currently 554,669 sf of Class A office underway, more than half which has been pre-leased. Some additional relief is on the horizon. Plans for Union Station Martin Street are being drawn up. Additionally a possible consolidation of six different city of Raleigh locations into a civic campus just north of Nash Square could open up some additional space.

Tight market conditions in Downtown Durham and Raleigh have contributed to steady rental rate growth. Compared to a year ago, Class A asking rent in Downtown Durham has jumped by 8.3% to \$31.66. In Downtown Raleigh, the Class A sector has posted a 8.6% year-on-year jump to \$30.17.

Tenants Assess Suburban Options

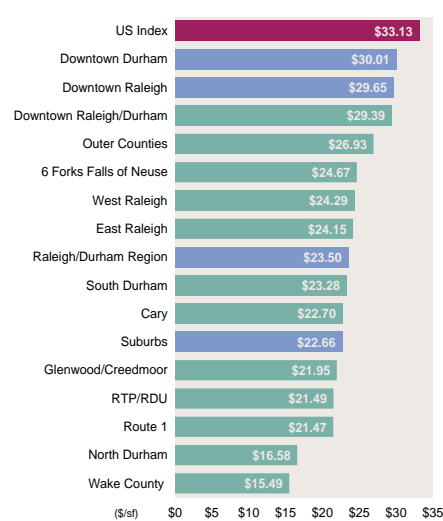
Rents have been more stable in RTP and Morrisville due to more sporadic leasing and the fact that tenants have multiple options to consider. Lab and R&D space in RTP,

Availability Rate Comparison



Note: North Durham submarket rate is 42.5%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Credit Suisse	180,000	5 Moore Drive	RTP/RDU
CAPTRUST	73,910	4208 Six Forks Road	6 Forks Falls of Neuse
Chiesi USA	54,000	100 Lucent Lane	Cary
Copernicus IRB	44,000	5000 CentreGreen Way	Cary
First National Bank	40,000	501 Fayetteville Street	Downtown Raleigh
YMCA	26,000	227 Fayetteville Street	Downtown Raleigh
Mayne Pharma	18,259	3301 Benson Drive	6 Forks Falls of Neuse
Troutman Sanders	16,867	4000 Cardinal at North Hills Street	6 Forks Falls of Neuse
Imsoniac Games	14,707	7806 NC-751	South Durham
Marken LLP	9,390	1009 Slater Road	RTP/RDU
Sum of Top Leases	477,133		

Morrisville, Cary, South Durham, and Chapel Hill remains very tight though. GlaxoSmithKline's sale of its 20-building campus in RTP to Parmer Innovation Centers should set the stage for the eventual addition of more than 1.1 msf of lab and office space. GSK will lease back four buildings totaling 700,000 sf. Parmer plans to spend \$80 million to upgrade the facilities, saying they plan to deliver "the most amenitized and unique business campus in the southeastern U.S." Parmer has a similar site in Austin that covers more than 240 acres.

Some areas in suburban Raleigh are enjoying an increase in activity. Buildings in North Hills continue to poach tenants from Downtown Raleigh. Troutman Sanders signed a 16,867-sf lease at Midtown Plaza, a decline of more than 25.0% from the 23,825 sf it occupies at BB&T/Two Hannover Square. Increased efficiency at the newer building was one of the reasons

for the relocation. Allscripts has started to move all of its 1,400 employees to Midtown Plaza. SunTrust Bank also recently took a floor at Midtown Plaza.

Looking Forward

The second half of the year could bring additional growth from companies based in other markets, including some international firms. Infosys has recently committed to bring 2,000 jobs to North Carolina for its second technology and innovation hub. Landing Infosys (India's second largest tech firm) is a big win for the Triangle. The state reportedly offered \$25 million in grants and incentives. Workers at the Raleigh hub will provide services to financial services, manufacturing, health care, retail and energy firms. Indiana granted Infosys its largest incentive package on record - \$31 million, which is about one-third of the \$90 million that North Carolina offered to MetLife for its Cary and Charlotte locations.

	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	171	0	658	0.0%	718	12.8%	-0.7%	14.8%	\$29.65	-0.5%	\$27.41
	Downtown Raleigh - Class A	3,939	198	0	574	-1.3%	742	14.6%	-1.3%	20.2%	\$30.17	-0.8%	\$27.77
	East Raleigh	643	38	11	22	0.0%	23	3.4%	0.0%	3.6%	\$24.15	-5.8%	\$21.17
	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	658	88	904	9.2%	987	11.6%	0.8%	13.1%	\$24.29	0.4%	\$23.95
	West Raleigh - Class A	4,833	554	58	624	7.0%	736	12.9%	0.5%	16.1%	\$25.93	0.8%	\$25.42
	Glenwood/Creedmoor	2,254	224	16	213	8.6%	215	9.5%	0.8%	9.5%	\$21.95	0.7%	\$22.10
	Glenwood/Creedmoor - Class A	1,248	179	14	126	-0.3%	109	10.1%	0.0%	8.7%	\$23.94	-0.1%	\$24.20
	6 Forks Falls of Neuse	6,318	561	197	896	-7.3%	1,055	14.2%	-1.1%	17.6%	\$24.67	-1.6%	\$24.65
	6 Forks Falls of Neuse - Class A	3,790	357	176	607	-8.6%	664	16.0%	-1.5%	19.2%	\$27.07	-2.4%	\$27.25
	Route 1	1,682	32	10	159	-10.7%	160	9.5%	-1.1%	9.5%	\$21.47	5.4%	\$19.86
	Route 1 - Class A	977	9	7	97	-8.5%	109	9.9%	-0.9%	11.2%	\$24.09	5.2%	\$21.30
	Wake County*	903	6	N/A	21	79.2%	8	2.4%	1.1%	0.8%	\$15.49	-6.7%	\$18.63
	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	424	40	732	-8.7%	696	11.7%	-1.8%	11.7%	\$22.70	-1.2%	\$21.91
	Cary - Class A	4,141	255	16	583	-6.3%	481	14.1%	-2.2%	12.6%	\$23.63	-1.3%	\$22.77
	RTP/RDU	11,206	982	78	2,367	6.6%	2,336	21.1%	0.6%	21.6%	\$21.49	5.2%	\$20.38
	RTP/RDU - Class A	7,074	902	67	1,247	12.3%	1,232	17.6%	1.1%	18.3%	\$24.03	0.7%	\$22.28
	South Durham	3,731	243	15	377	-13.0%	274	10.1%	-1.8%	7.5%	\$23.28	-0.1%	\$22.24
	South Durham - Class A	2,417	175	15	240	0.0%	184	9.9%	-0.3%	7.8%	\$24.61	0.6%	\$23.45
	Downtown Durham	3,993	149	8	714	0.0%	341	17.9%	-2.2%	9.6%	\$30.01	5.3%	\$25.35
	Downtown Durham - Class A	2,829	103	3	599	0.0%	281	21.2%	-3.8%	11.7%	\$31.66	2.5%	\$29.24
	North Durham	875	53	N/A	371	0.0%	402	42.5%	0.0%	46.0%	\$16.58	16.5%	\$16.16
	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	49	8	304	0.0%	281	10.8%	-0.7%	10.6%	\$26.93	0.3%	\$27.41
	Outer Counties - Class A	1,574	36	4	251	0.0%	234	16.0%	-1.8%	16.5%	\$28.08	0.0%	\$29.26
	Raleigh & Durham Downtowns Total	9,113	287	8	1,372	58.8%	1,059	15.1%	4.8%	12.6%	\$29.39	-0.3%	\$26.81
	Raleigh & Durham Downtowns Total - Class A	6,767	226	3	1,173	55.9%	926	17.3%	4.9%	15.3%	\$30.34	-0.5%	\$28.08
	Suburban Total	44,467	2,570	466	6,368	0.0%	6,426	14.3%	-0.3%	15.0%	\$22.66	2.8%	\$22.05
	Suburban Total - Class A	26,258	1,942	357	3,775	0.0%	3,737	14.4%	-0.5%	15.1%	\$25.21	-0.1%	\$24.34
	Raleigh/Durham Region Total	53,581	3,635	473	7,231	-1.1%	7,441	13.5%	-0.6%	14.5%	\$23.50	2.6%	\$22.56
	Raleigh/Durham Region Total- Class A	33,025	2,834	360	4,527	-0.1%	4,565	13.7%	-0.8%	14.8%	\$26.04	-0.1%	\$24.85

*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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