

Raleigh-Durham Office, Q3 2018

Robust leasing continues to compress vacancy and availability

Vacancy Rate
9.8%

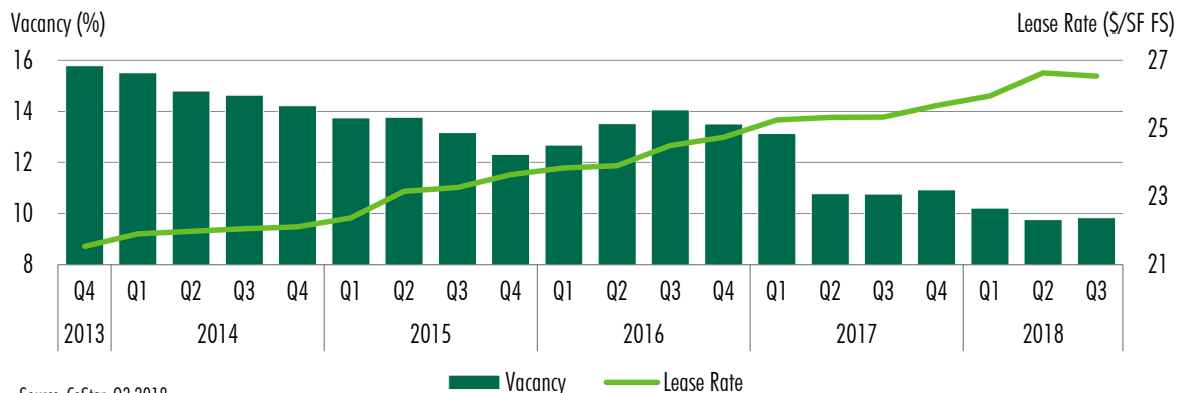
Lease Rate
\$26.53 PSF

Net Absorption
138,617 SF

Under Construction
2,651,565 SF

Figure 1: Lease Rate vs. Vacancy

*Arrows indicate change from previous quarter.



Source: CoStar, Q3 2018

MARKET OVERVIEW

Healthy demand continues to drive down vacancy throughout the Triangle market. Overall vacancy in the Triangle decreased 94 basis points year-over-year and currently sits at 9.84%. Class A vacancy decreased 23 basis points quarter-over-quarter to 7.91%. Overall, vacancy continues to fall at a steady rate, decreasing nearly 6 percentage points over the last five years.

Raleigh-Durham experienced 138,617 sq. ft. of positive net absorption in Q3, bringing the YTD total to over one million sq. ft. of positive net absorption through three quarters. Downtown Raleigh led all submarkets with 67,202 sq. ft. of positive net absorption in the quarter. With this absorption, overall vacancy in the submarket

dropped 1.5 percentage points quarter-over-quarter to 8.3%, while total availability decreased 3.5 percentage points quarter-over-quarter to 7.3%. The decrease in availability can be attributed to major leases by insurance firm Arch Capital for 104,000 sq. ft. at The Dillon and international law firm McGuireWoods for 42,000 sq. ft. at FNB Tower.

Landlords continue to raise rental rates as vacancy decreases at a steady pace. While the average Class A asking rate for available space in the Triangle dropped 10 cents, or 0.4%, quarter-over-quarter, the average asking rate increased 4.7% year-over-year and currently sits at \$26.53 per sq. ft. The Downtown Raleigh submarket commands the highest asking rate of the market for Class A available space at \$30.87 per sq. ft., an increase of 10.9% year-over-year. Projects currently under construction in Downtown Raleigh hold an average asking rate of \$35.33 per sq. ft. and are 58% preleased.

Similarly, demand in Central Durham remains strong; for the fourth consecutive quarter, overall and Class A vacancy remained under 4% and 2%, respectively. The average asking rate for Class A available space increased 1.6% quarter-over-quarter to \$30.06 per sq. ft.

Demand in the Triangle's CBD submarkets is likely to

- Arch Capital signed a lease for 104,000 sq. ft. at The Dillon in Downtown Raleigh.
- Overall vacancy decreased 94 basis points year-over-year to 9.84%.
- Central Durham leads all submarkets with over 950,000 sq. ft. under construction.
- The millennial population in the Triangle has grown by 15.7% over the last five years.

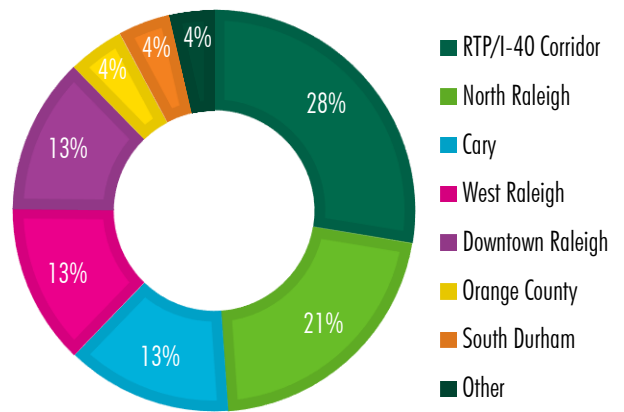
remain robust as companies compete for top millennial talent by offering innovative urban office space that appeals to millennials' desired lifestyle. In a recent report by CBRE, Raleigh-Durham ranked second out of 50 North American markets in millennial population growth percentage, increasing 15.7% over the last five years. Many companies, led by the technology sector, are looking at the Triangle for expansion plans to benefit from the millennial talent in the area. Over the last five years, total tech occupations in the Triangle have grown by 20.7%, adding over 10,000 new tech workers to the metro.

However, technology firms are not the only ones taking note of the Triangle's growing millennial population. Coworking giants, WeWork and SPACES, are swiftly emerging in the market by providing innovative urban office space that occupiers seek. WeWork and SPACES combined have leased over 300,000 sq. ft. in the Triangle within the last two years. Much of this square-footage has been absorbed in Class A mixed-use projects under construction in the CBD submarkets. In Q3, SPACES signed a lease at 555 Mangum in Downtown Durham for 52,000 sq. ft., as well as a lease for 32,000 sq. ft. at Crabtree Terrace in the US 70/Glenwood Ave. submarket.

Sales transactions in Q3 were highlighted by the \$258 million purchase of five buildings in Perimeter Park by Temasek. The portfolio included the purchase of Perimeter Two, Three, and Four, as well as Oracle I and II. In Downtown Raleigh, the 544,000 sq. ft. Wells Fargo Capitol Center sold for \$173 million, or \$318 per sq. ft., to Preferred Office Properties. In West Raleigh, Aegon sold WestChase Office Park for \$56 million to The Brookdale Group.

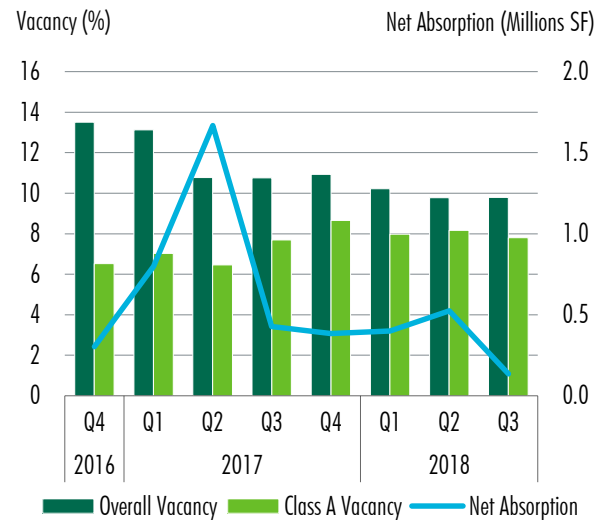
New construction deliveries included the 751 Corporate Center building in West Raleigh. The 90,000 sq. ft. building delivered at 88% preleased. Construction in the Triangle remains active with 2.65 million sq. ft. under construction, of which 91% is Class A. Demand is keeping pace with supply, as current Class A projects are 63% preleased. Central Durham leads the market, with almost one million sq. ft. underway. This brings much-needed product to one of the area's tightest submarkets, as vacancy has remained below 4% for four consecutive quarters. Mixed-use projects One City Center and Durham ID are nearing delivery in Central Durham and are 90% and 50% preleased, respectively.

Figure 2: Class A Vacant Space Distribution



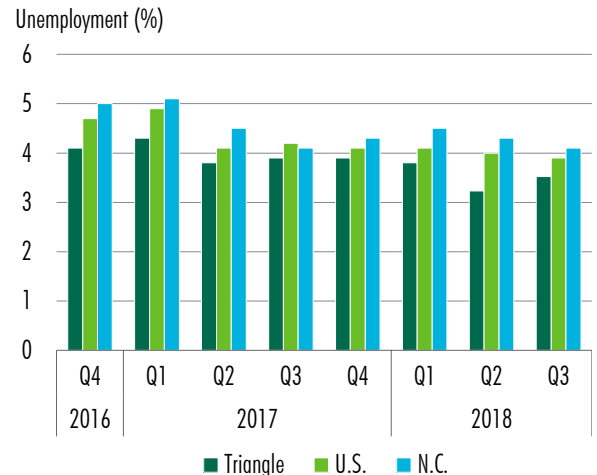
Source: CoStar, Q3 2018.
 **"North Raleigh" is comprised of Falls of Neuse, Six Forks, and US 1/Capital Blvd. submarkets.
 ***"Other" includes US 70/Glenwood Ave., Cameron Village, and Central Durham submarkets.

Figure 3: Net Absorption vs. Vacancy



Source: CoStar, Q3 2018.

Figure 4: Unemployment Statistics



Source: Bureau of Labor Statistics, July 2018.

MARKETVIEW RALEIGH-DURHAM OFFICE

Figure 5: Submarket Breakout Q3 2018

Submarket	Market Rentable Area (SF)	Overall Vacancy Rate (%)	Class A Vacancy Rate (%)	Overall Avail. Rate (%)	Q3 2018 Net Absorption (SF)	Under Construction (SF)	Class A Asking Lease Rate (\$/SF/Yr)
West Raleigh	6,244,912	7.2	7.0	10.7	44,234		26.82
US 70/Glenwood Ave.	3,843,260	3.4	3.0	8.9	36,926	184,500	27.22
Six Forks	3,954,300	13.2	14.3	17.4	4,749		27.28
Falls of Neuse	2,985,527	6.2	5.1	11.5	5,272	32,242	23.45
US 1/Capital Blvd.	2,392,819	6.4	6.1	12.1	36,595	41,910	23.96
Downtown Raleigh	4,614,648	8.3	9.2	7.3	67,202	512,335	30.87
Cameron Village	592,233	2.0	3.8	10.1	1,866		30.17
Eastern Wake	826,059	4.4	N/A	14.8	(21,929)		N/A
Southern Wake	331,802	2.5	N/A	3.1	1,866	20,000	N/A
Cary	6,383,695	8.4	7.4	19.0	(12,444)	242,000	26.12
RTP/I-40 Corridor	13,289,644	16.4	9.8	22.2	(63,072)	603,612	25.03
Central Durham	3,729,640	3.4	1.3	6.3	(12,581)	954,181	30.06
North Durham	1,275,218	16.9	N/A	29.1	0		N/A
South Durham	1,723,153	10.2	10.6	26.1	38,261		26.62
Orange County	1,607,764	10.9	10.6	14.5	11,672	60,785	29.26
MARKET TOTAL	53,794,674	9.8	7.9	15.4	138,617	2,651,565	26.53

Rates determined by Class A asking rates on vacant spaces quoting full service rates.

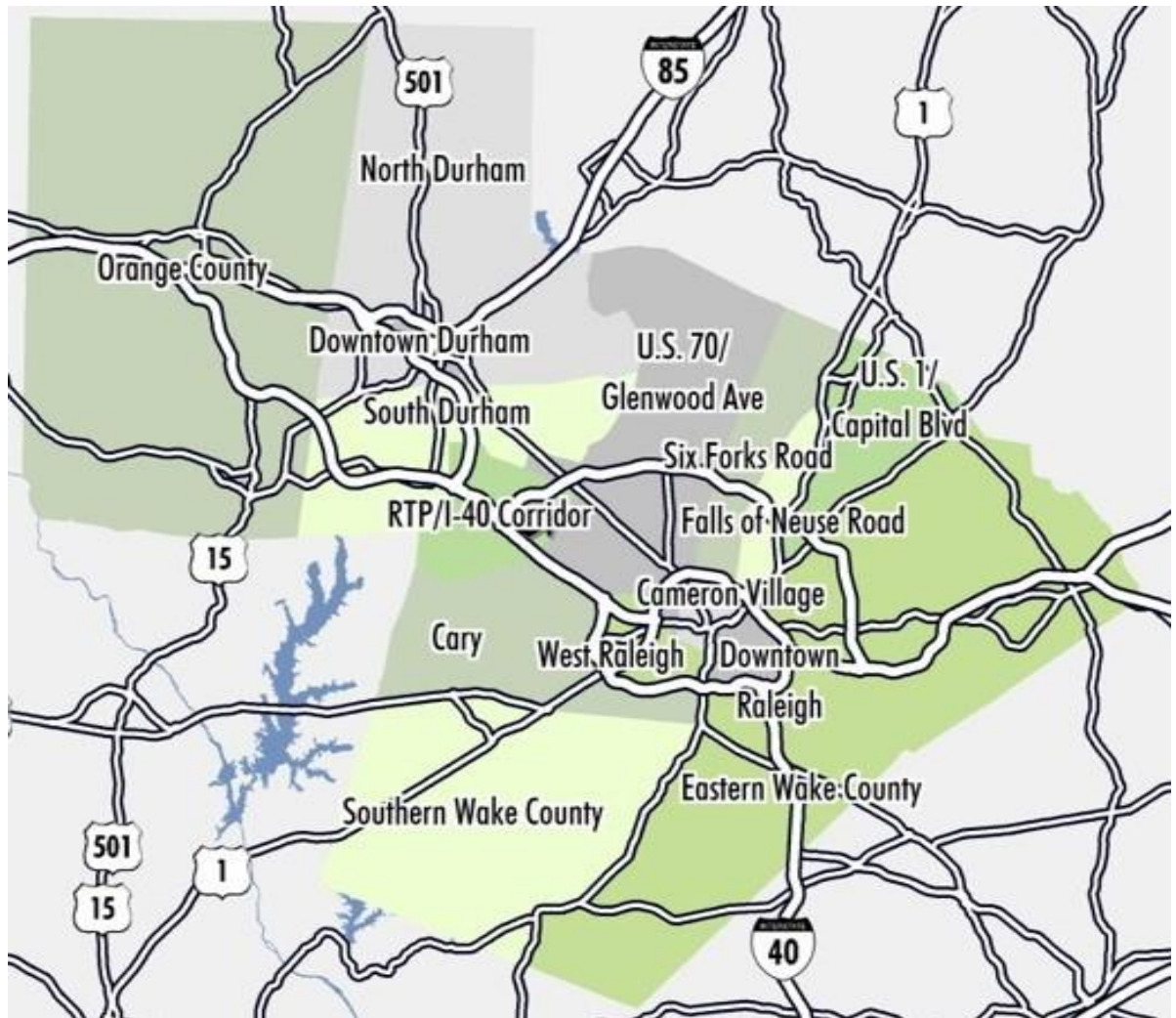
Source: CBRE Research, Q3 2018

Figure 6: Top Lease/Sale Transactions: Q3 2018

Lease: Tenant	Building	Sq. Ft.	Lease Type	Submarket
Arch Capital*	The Dillon	104,361	New	Downtown Raleigh
SPACES	555 Mangum	52,000	New	Central Durham
McGuireWoods*	FNB Tower	42,000	New	Downtown Raleigh
SPACES*	Crabtree Terrace	31,794	New	US 70/Glenwood Ave.
Sales: Building	Submarket	Sq. Ft.	Purchase Price	Price per Sq. Ft.
Perimeter Park (5 bldgs.)	RTP/I-40 Corridor	959,361	\$258 M	\$273
Wells Fargo Capitol Center	Downtown Raleigh	544,482	\$173 M	\$318
WestChase Office Park* (3 bldgs.)	West Raleigh	312,544	\$56 M	\$180

* Denotes CBRE | Raleigh Transaction

Source: CBRE Research, Q3 2018.

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