

Raleigh-Durham Office, Q4 2018

Vacancy declines despite one million sq. ft. in deliveries

Vacancy Rate
9.1%

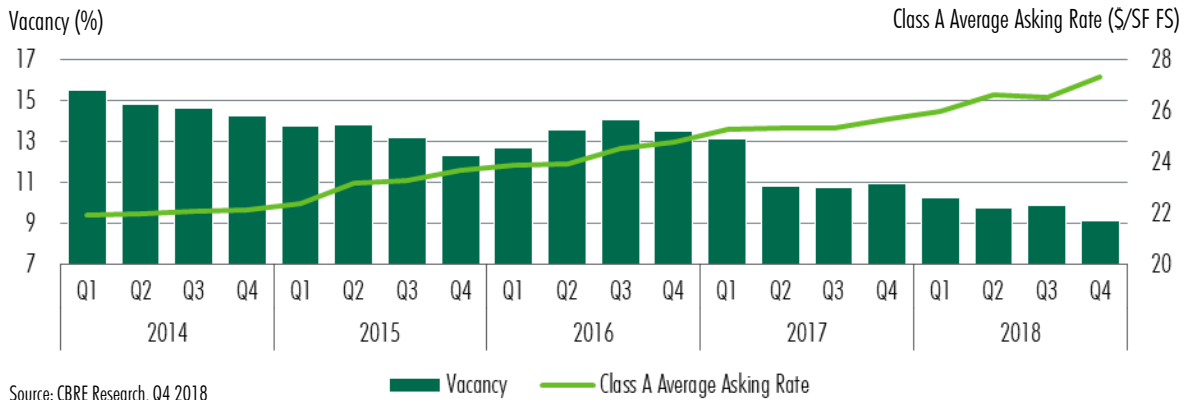
Class A Lease Rate
\$27.30 PSF

Net Absorption
995,594 SF

Under Construction
2,291,129 SF

Figure 1: Class A Average Asking Rate vs. Vacancy

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q4 2018

MARKET OVERVIEW

The Triangle office market experienced a strong finish to 2018 with declining vacancy and rising rental rates throughout the market. Average Class A asking rates rose 6.3% year-over-year to \$27.30 per sq. ft. The Downtown Raleigh submarket continues to command the highest average asking rate of the market for Class A space at \$32.26 per sq. ft. Office product currently under construction in downtown Raleigh holds an average asking rate of \$35.36 per sq. ft.

Overall market vacancy dropped 74 basis points quarter-over-quarter to 9.1%, while Class A vacancy increased slightly to 8.0%. The overall decrease in vacancy for the quarter displays the

strength of the market, as 1,028,697 sq. ft. of space delivered in Q4. Central Durham added over 450,000 sq. ft. of Class A space in the quarter with the deliveries of One City Center at 90% leased and Durham I.D. at 50% leased.

Net absorption for the quarter was 995,594 sq. ft., which represents the strongest quarterly net absorption of the year. Overall, the market experienced 2 million sq. ft. of positive net absorption in 2018. The strong absorption numbers demonstrate that market fundamentals in the Triangle will continue to support the development of new product.

The Triangle experienced 1,028,697 sq. ft. of deliveries in Q4, the highest of any quarter in 2018. Collectively, the Q4 deliveries delivered 81% leased. Notable Class A deliveries include Regency Woods II in Cary, and Perimeter Five and 3300 Paramount in RTP/I-40 Corridor. Despite the influx of deliveries, construction remains active with nearly 2.3 million sq. ft. under construction, of which 93% is Class A. The RTP/I-40 Corridor leads all submarkets with 360,433 sq. ft. of space under construction at 79% preleased. The Class A projects underway include Perimeter Six at Perimeter Park and Building 1 of

- IAT Insurance preleased 60,000 sq. ft. at Kane Realty's North Hills Tower IV project.
- The Triangle experienced two million sq. ft. of positive net absorption in 2018.
- Overall vacancy decreased 189 basis points year-over-year to 9.06%.
- Over one million sq. ft. of new construction delivered in Q4.

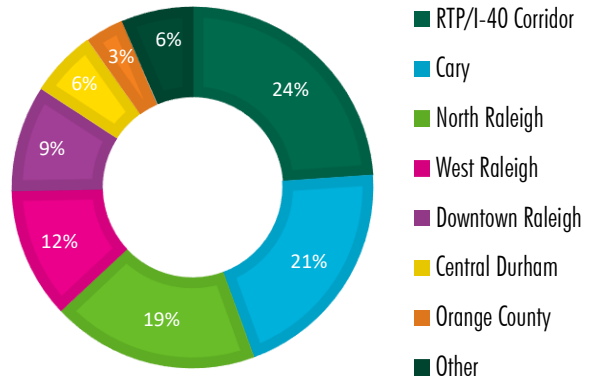
Triangle 54, which is a build to suit for Rho.

Significant leases during the fourth quarter included a 60,000 sq. ft. lease by IAT Insurance at Kane Realty’s North Hills Tower IV project. IAT is the first prelease for the 328,600 sq. ft. office tower which began construction in Q4 and is commanding an asking rental rate of \$38.50 per sq. ft. In downtown Raleigh, Capital Bank leased 50,500 sq. ft. at One Glenwood. The project is expected to deliver in Q1 2019 and is 88% preleased. In the Central Durham submarket, Pairwise selected Golden Belt Campus to be the company’s new headquarters and has preleased 35,971 sq. ft. at the newly renovated campus. On Glenwood Avenue in Raleigh, regional CPA firm Cherry Beckaert preleased 23,000 sq. ft. at Grubb Venture’s 3800 Glenwood project.

The RTP/I-40 Corridor submarket experienced 481,420 sq. ft. of positive net absorption for the quarter, as overall vacancy fell over 300 basis points in Q4. Part of this absorption can be attributed to the deliveries of 3300 Paramount and Perimeter Five. 3300 Paramount delivered 70% leased, while the 258,250 sq. ft. Perimeter Five building delivered 100% leased to Syneos Health, and was purchased in Q4 by Capri EGM for \$74.2 million. Other investment sales in the quarter included Weston I & II in Cary, purchased by Accesso Partners for \$73.8 million; Crescent Lakeside I & II sold to HLM Realty for \$69 million; KBS Realty sold Colonnade One in the Six Forks Road submarket to First Citizens Bank for \$27 million. First Citizens currently leases and occupies 53,000 sq. ft. in the adjacent Colonnade Two building.

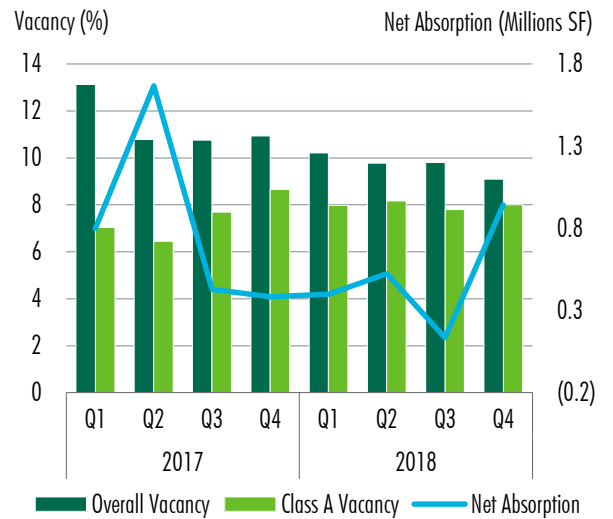
Market fundamentals position the Triangle well for a strong 2019. According to CBRE’s 2019 Southeast Outlook report, Raleigh-Durham ranks first in the Southeast in significant statistics such as five-year projected job growth (10.8%), population percentage with a four-year degree (47.1%), and office employment percentage (57.1%). The region’s diverse economic engine driven by technology, university systems, healthcare and Raleigh as the state capital, continues to push population growth and contribute to the strong office market in the Triangle.

Figure 2: Class A Vacant Space Distribution



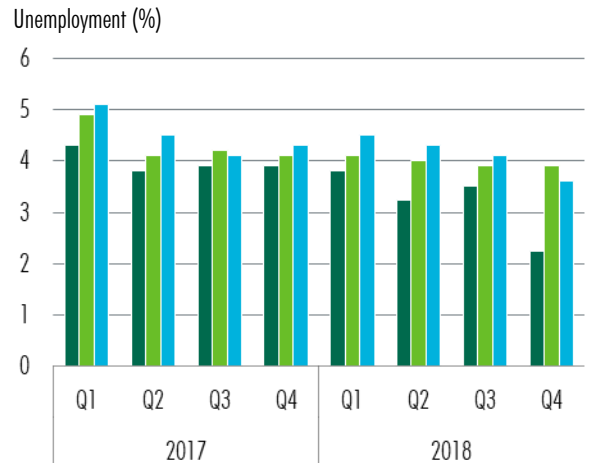
Source: CBRE Research, Q4 2018.
 **"North Raleigh" is comprised of Falls of Neuse, Six Forks, and US 1/Capital Blvd. submarkets.
 ***"Other" includes US 70/Glenwood Ave., Cameron Village, and South Durham submarkets.

Figure 3: Net Absorption vs. Vacancy



Source: CBRE Research, Q4 2018.

Figure 4: Unemployment Statistics



Source: Bureau of Labor Statistics, October 2018.

MARKETVIEW RALEIGH-DURHAM OFFICE

Figure 5: Submarket Breakout Q4 2018

Submarket	Market Rentable Area (SF)	Overall Vacancy Rate (%)	Class A Vacancy Rate (%)	Overall Avail. Rate (%)	Q4 2018 Net Absorption (SF)	Under Construction (SF)	Class A Asking Lease Rate (\$/SF/Yr)
West Raleigh	6,162,856	6.4	6.6	10.9	53,055	209,145	27.18
US 70/Glenwood Ave.	3,812,616	5.0	3.1	11.6	(61,339)	276,500	28.02
Six Forks	3,954,300	10.0	10.8	16.2	124,998	328,648	27.37
Falls of Neuse	2,985,527	8.2	9.4	16.1	(58,861)	34,038	24.31
US 1/Capital Blvd.	2,423,851	5.7	5.9	13.3	46,963	42,732	24.17
Downtown Raleigh	4,574,648	6.8	7.6	5.7	3,440	367,397	32.26
Cameron Village	563,443	1.6	3.8	8.8	2,562		31.64
Eastern Wake	826,059	4.8	N/A	15.9	(3,500)		N/A
Southern Wake	351,802	3.4	N/A	7.3	16,071	52,000	N/A
Cary	6,533,695	10.8	11.7	20.1	(20,867)	303,500	27.09
RTP/I-40 Corridor	13,382,556	13.1	8.5	20.3	481,420	360,443	25.12
Central Durham	3,914,420	5.1	6.1	11.4	350,615	316,726	32.00
North Durham	1,275,218	17.0	N/A	29.2	(666)		N/A
South Durham	1,723,153	8.4	7.8	26.4	29,932		26.10
Orange County	1,607,764	8.9	8.6	12.8	31,771		29.30
MARKET TOTAL	54,091,908	9.1	8.0	15.8	995,594	2,291,129	27.30

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

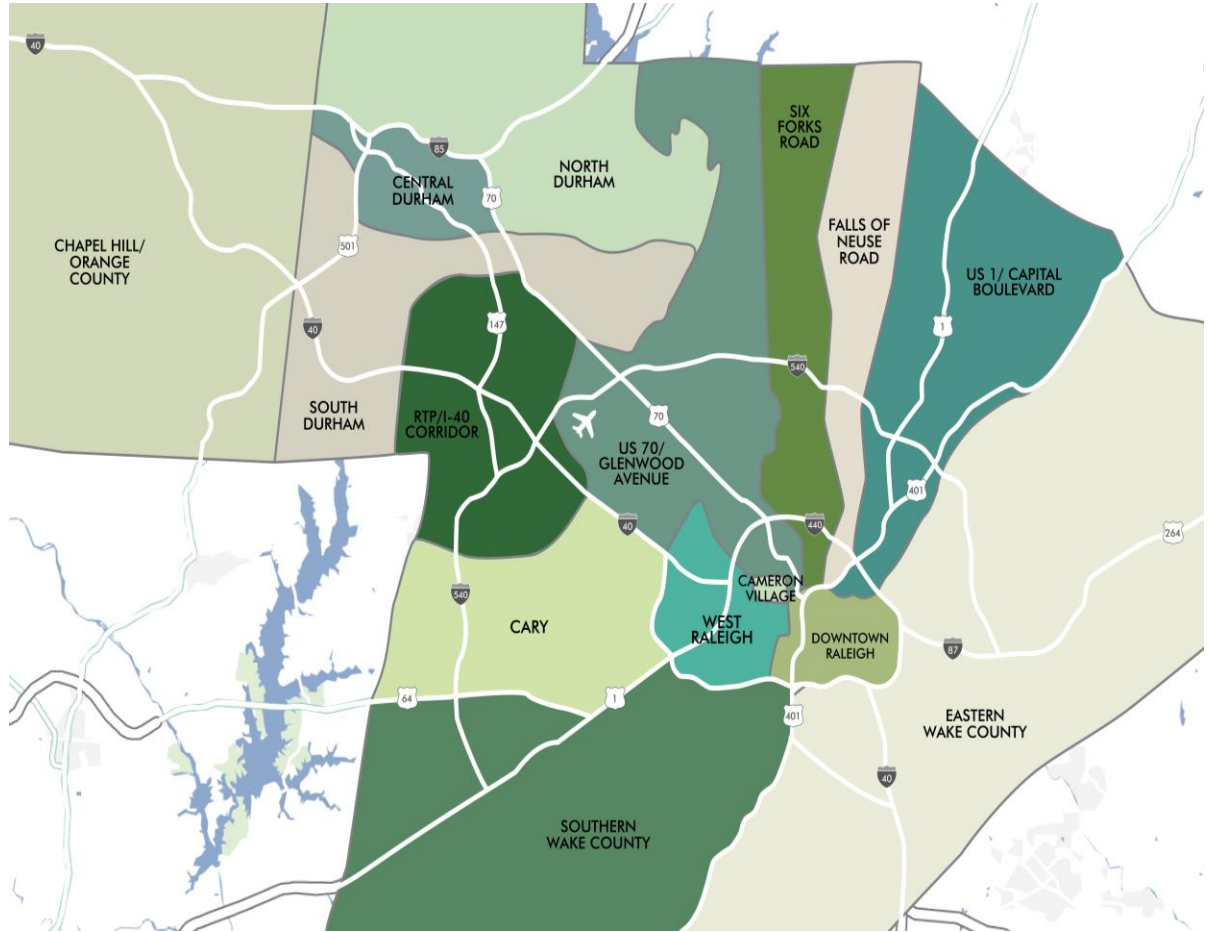
Source: CBRE Research, Q4 2018

Figure 6: Top Lease/Sale Transactions: Q4 2018

Lease: Tenant	Building	Sq. Ft.	Lease Type	Submarket
IAT Insurance	North Hills Tower IV	60,000	New	Six Forks
Capital Bank	One Glenwood	50,500	New	Downtown Raleigh
Pairwise*	Golden Belt Campus	35,971	New	Central Durham
Sales: Building	Submarket	Sq. Ft.	Purchase Price	Price per Sq. Ft.
Perimeter Five	RTP/I-40 Corridor	258,000	\$74.2 M	\$288
Weston I and II (2 bldgs.)	Cary	292,000	\$73.8 M	\$253
Crescent Lakeside I & II (2 bldgs.)	Cary	254,796	\$69 M	\$271
Colonnade One*	Six Forks	126,928	\$27 M	\$213

* Denotes CBRE | Raleigh Transaction

Source: CBRE Research, Q4 2018.

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