

Raleigh-Durham Office, Q1 2020

First quarter ends strong despite COVID-19 outbreak and economic instability

Vacancy Rate
10.0%

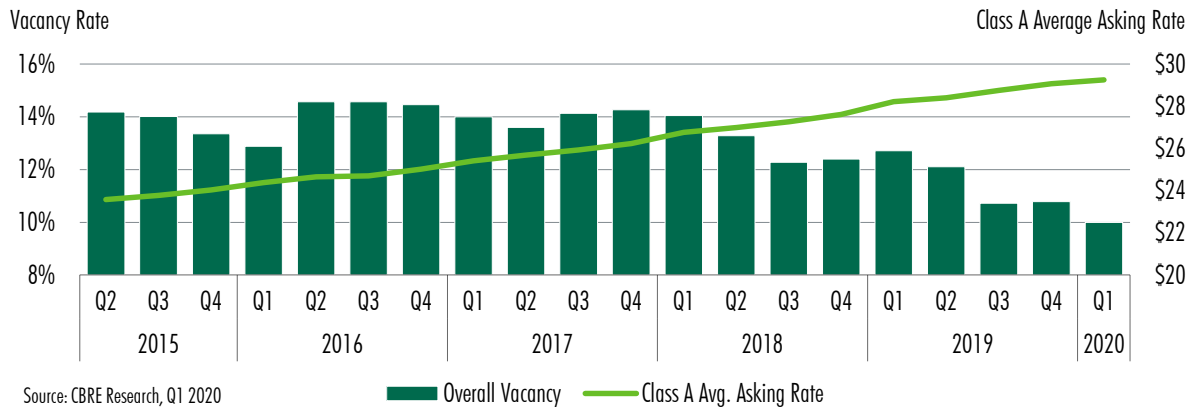
Class A Lease Rate
\$29.25 PSF

Net Absorption
421,020 SF

Under Construction
4,116,779 SF

Figure 1: Vacancy and Class A Avg. Asking Rates

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2020

MARKET OVERVIEW

Despite the first quarter ending with the outbreak of COVID-19, the Raleigh-Durham office market experienced declining vacancy and positive net absorption to begin 2020. Overall vacancy decreased 273 basis points year-over-year to 10.0%, while Class A vacancy decreased 165 basis points year-over-year to 7.3%. Tightening vacancy has driven up asking rates throughout the market. The overall Class A average asking rate increased 3.6% year-over-year to \$29.25 per sq. ft.

Driven mainly by absorption in the Class B sector, the market experienced strong positive absorption during Q1. Overall net absorption during the quarter was 421,000 sq. ft., bringing the

12-month trailing net absorption total to 1.7 million sq. ft. The RTP/I-40 Corridor led all submarkets with 558,000 sq. ft. of positive net absorption in Q1.

The Parmer campus led the RTP/I-40 Corridor submarket with strong activity during Q1 with Duke University leasing 273,000 sq. ft. at Parmer RTP and Q2 Solutions leasing 163,000 sq. ft. at Parmer Ellis. UCB Biosciences leased 45,000 sq. ft. at 4000 Paramount Parkway and Marvell Semiconductor will expand into 30,000 sq. ft. at Perimeter Three. In the US/70 Glenwood Avenue submarket, Martin Marietta leased the entirety of Glenlake Seven. The 125,000 sq. ft. spec development is currently under construction and expected to deliver in Q3 2020.

- Overall vacancy declined 273 basis points year-over-year to 10.0%.
- Duke University leased 273,000 sq. ft. at Parmer RTP in the RTP/I-40 Corridor submarket.
- Over 4.1 million sq. ft. is currently under construction throughout the market.
- The Triangle posted 421,000 sq. ft. of net absorption during Q1 2020, marking ten consecutive quarters of positive net absorption.

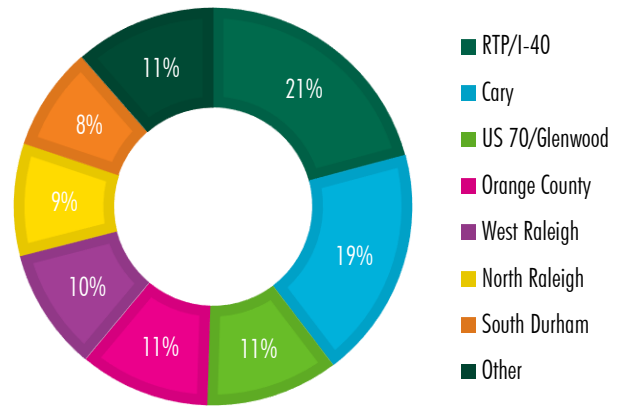
Investment sales for the quarter were highlighted by Ventas' purchase of the Center for Technology and Innovation and Keystone Science Center buildings in West Raleigh. The two-building portfolio was purchased for \$80.0 million, or \$456 per sq. ft. Bridge Investment Group purchased a three-building portfolio in Raleigh consisting of Somerset Business Center, Capital Center and Somerset Place. The three buildings were purchased for a total of \$62.8 million, or \$195 per sq. ft. In the RTP/I-40 Corridor submarket, Alidade Capital purchased Bradford & Berrington Center for \$40.9 million, or

\$182 per sq. ft., while Longfellow Real Estate Partners purchased three office buildings—2400, 2450 and 2600 Perimeter Park for \$29.7 million, or \$160 per sq. ft. TriGate Capital purchased a four-building office portfolio in Raleigh for \$40.3 million, or \$149 per sq. ft. Overall, 2.1 million sq. ft. of office product traded hands during Q1 totaling \$473.8 million in sales volume.

Continued construction remains a bright spot in our market while many of the major gateway markets experienced a halt to new construction. In the long-term, the Triangle may be well-positioned as companies evaluating their real estate offerings in highly concentrated gateway markets look to diversify into less-dense secondary markets. Today, over 4.1 million sq. ft. is still under construction throughout the market. Development projects are well distributed across the market, as seven submarkets have at least 200,000 sq. ft. currently under construction. The RTP/I-40 Corridor leads all submarkets with 1.4 million sq. ft. of space under construction. This includes new developments such as Forty540 Phase II, 4000 Paramount Parkway and Innovation I, as well as redevelopment projects such as The Stitch, Park Point and INQ @ 1101.

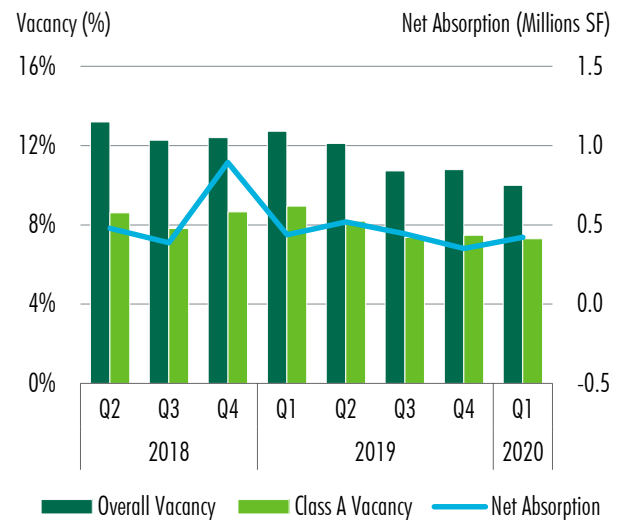
The Raleigh-Durham office market remains well-positioned in the long-term despite a considerable short-term slow down due to the COVID-19 pandemic. The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China’s experience—the U.S. government’s fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

Figure 2: Class A Vacant Space Distribution



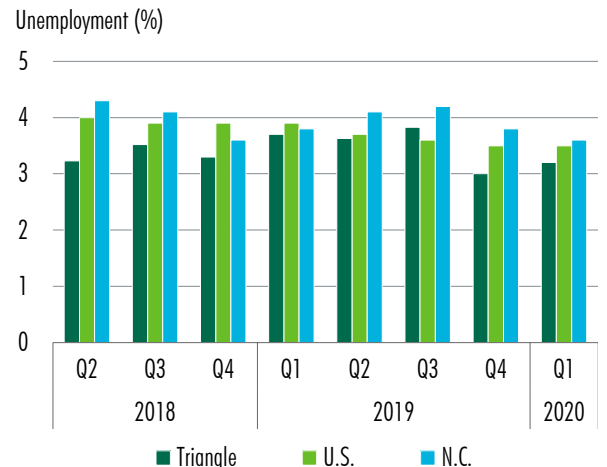
Source: CBRE Research, Q1 2020.
 **“North Raleigh” is comprised of Falls of Neuse, Six Forks, and US 1/Capital Blvd. submarkets.
 ***“Other” includes Downtown Raleigh, Central Durham, Cameron Village, S. Wake and E. Wake.

Figure 3: Vacancy and Net Absorption



Source: CBRE Research, Q1 2020.

Figure 4: Unemployment Statistics



Source: Bureau of Labor Statistics, February 2020.

MARKETVIEW RALEIGH-DURHAM OFFICE

Figure 5: Submarket Breakout Q1 2020

Submarket	Market Rentable Area (SF)	Overall Vacancy Rate (%)	Class A Vacancy Rate (%)	Overall Avail. Rate (%)	Q1 2020 Net Absorption (SF)	Under Construction (SF)	Class A Asking Lease Rate (\$/SF/Yr)
West Raleigh	6,099,829	5.5	5.7	12.3	(42,854)	376,073	29.46
US 70/Glenwood Ave.	4,109,504	9.7	9.5	11.9	1,881	270,800	29.44
Six Forks Road	3,959,340	6.3	4.4	9.3	(8,640)	347,320	33.34
Falls of Neuse	3,163,207	10.9	5.1	14.2	757	21,000	25.51
US 1/Capital Blvd.	2,122,939	6.1	4.0	8.7	31,062	31,854	26.46
Downtown Raleigh	5,339,508	5.0	3.9	17.1	5,259	761,179	33.19
Cameron Village	473,521	15.7	4.2	15.7	0	0	25.85
Eastern Wake	756,699	4.5	0.8	4.5	(11,499)	0	N/A
Southern Wake	368,590	15.6	5.6	16.7	(14,667)	54,600	N/A
Cary	6,956,661	11.1	9.8	14.8	(33,007)	258,628	27.88
RTP/I-40 Corridor	14,495,031	11.5	6.8	22.3	558,093	1,469,874	26.46
Central Durham	4,663,080	7.6	4.3	10.6	(51,448)	242,337	32.51
North Durham	1,035,513	33.8	N/A	33.8	(17,130)	0	N/A
South Durham	1,918,415	16.5	19.7	17.1	(5,184)	13,114	26.77
Orange County	2,019,143	19.6	21.1	26.0	8,397	270,000	29.18
MARKET TOTAL	57,480,980	10.0	7.3	18.7	421,020	4,116,779	29.25

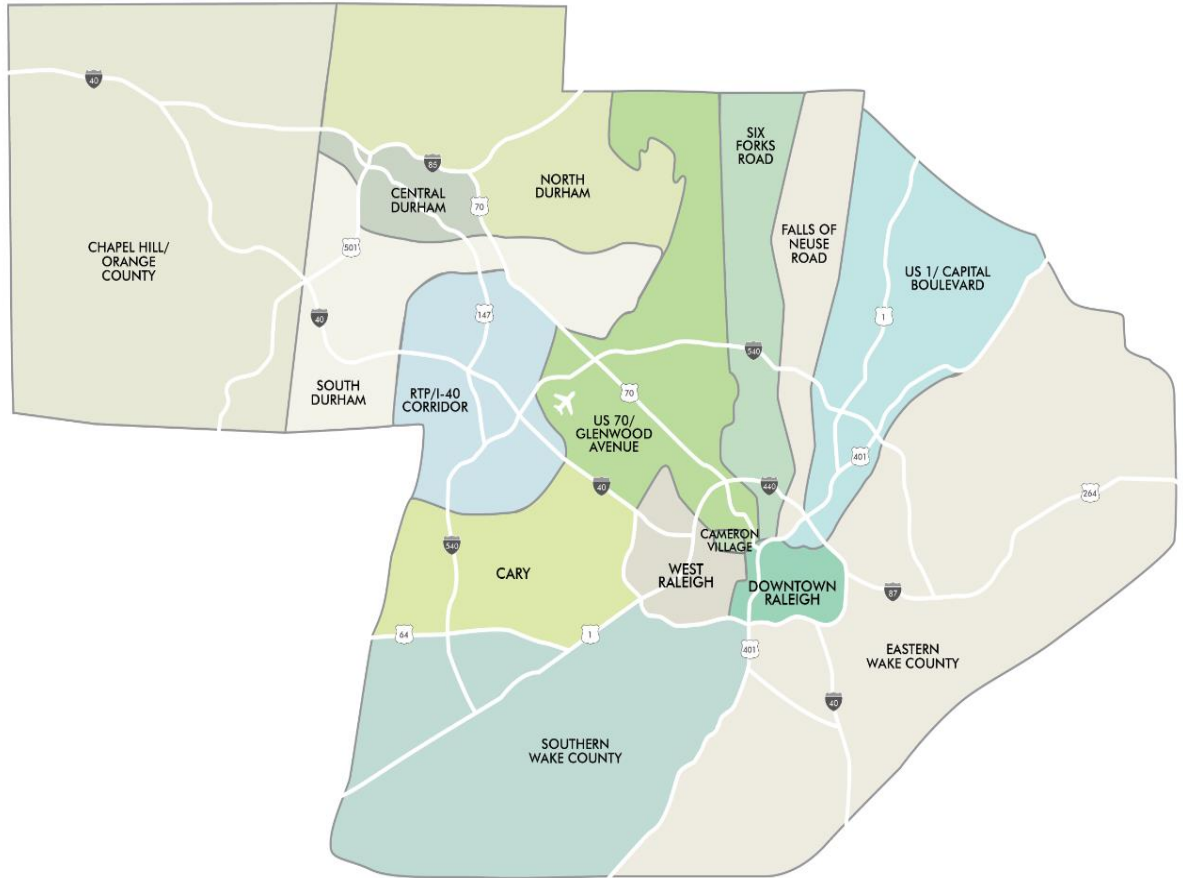
Source: CBRE Research, Q1 2020

Figure 6: Top Lease/Sale Transactions: Q1 2020

Lease: Tenant	Building	Sq. Ft.	Lease Type	Submarket
Duke University*	Parmer RTP	273,031	New	RTP/I-40 Corridor
Q2 Solutions*	Parmer Ellis	163,371	New	RTP/I-40 Corridor
Martin Marietta	Glenlake Seven	125,000	New	US 70/Glenwood Ave
Sales: Building	Submarket	Sq. Ft.	Purchase Price	Price per Sq. Ft.
Keystone Corp. NC Portfolio (2 Buildings)	West Raleigh	175,444	\$80.0 M	\$456
Dilweg Co. NC Portfolio (3 Buildings)	Raleigh (Multiple Submarkets)	321,310	\$62.8 M	\$195
Bradford & Berrington Center	RTP/I-40 Corridor	224,779	\$40.9 M	\$182

* Denotes CBRE | Raleigh Transaction

Source: CBRE Research, Q1 2020.

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