

Savills Studley Report Raleigh/Durham office sector

Q2 2018



SUMMARY

Market Highlights

LEASING BELOW LONG-TERM TRENDS

Tenants have leased 2.3 million square feet (msf) in the four most recent quarters, well below the long-term average of 4.2 MSF leased each year.

AVAILABILITY RATE DECLINES SLIGHTLY

The overall availability rate for the Raleigh/Durham region decreased by 10 basis points to 12.8% in second quarter. The Class A availability rate decreased by 50 basis points to 13.5%.

RENT SPIKES

The overall gross asking rent for the region rose by 3.1% to \$24.62 quarter-over-quarter. Class A rent increased by 2.2% to \$26.85.

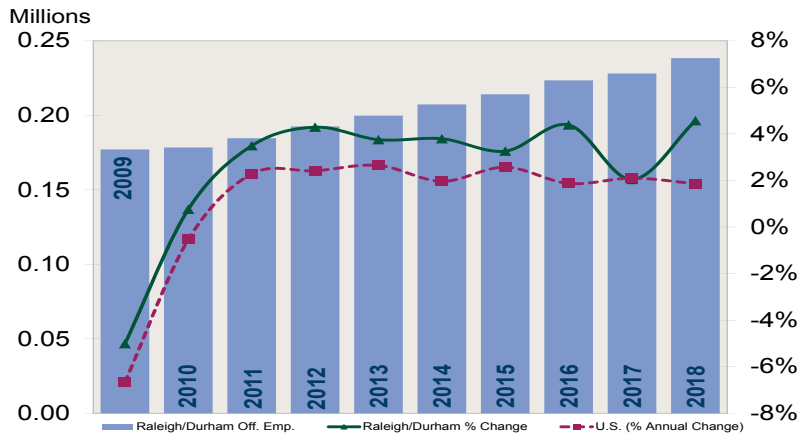
SALES SURGE

Office property sales during the last six months (through May 2018) totaled \$914 million, a 72% increase compared to the previous six-month total of \$528 million.

"The Raleigh-Durham Office market continues to experience historically low vacancy rates coupled with increased rental rate appreciation. New construction is delivering at higher price points with substantial lease-up."

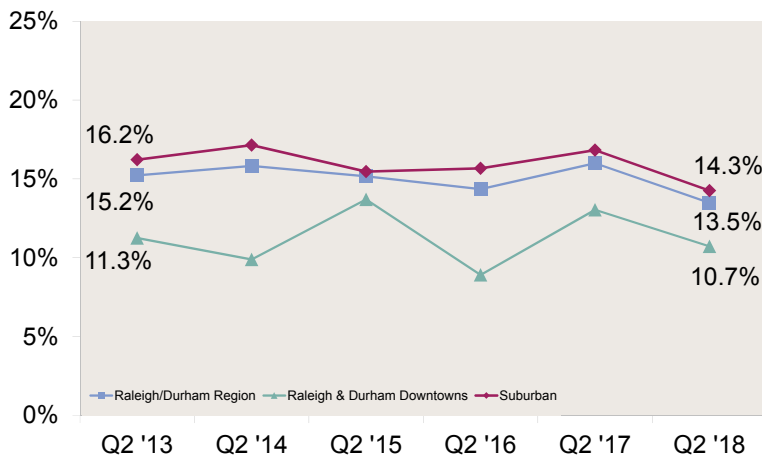
Tucker Shade,
Executive Vice President

Office-Using Employment Trends

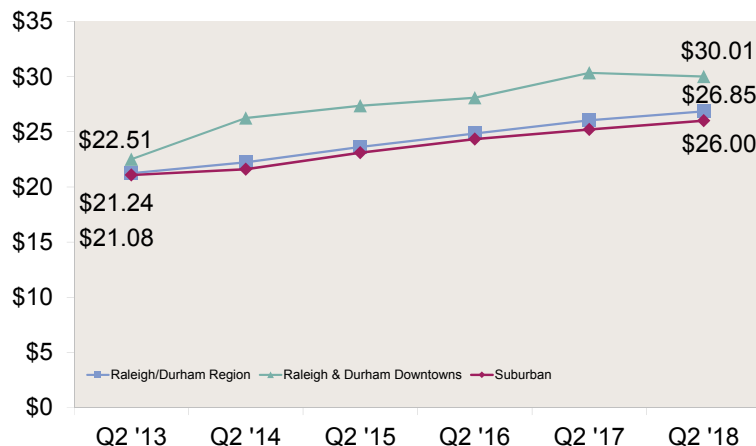


Source: Bureau of Labor Statistics^

Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Demand Continues to Spur New Construction

A lack of available space for lease in first-generation office space continues to drive new building construction in the area. As of mid-year, 34 Buildings are currently under construction in the Triangle totaling almost 3.7 MSF with approximately 2.8 MSF on track for delivery in 2018. On average, buildings under construction will deliver 70% preleased.

This new construction will alleviate the shortage of big blocks of quality space in the near future. Another nine Class A buildings currently underway nearly doubles the number of properties with a block of at least 50,000 sf to 19. This is the biggest pipeline since the end of the last cycle, in early 2008 when a nearly identical amount was being built.

In contrast to early 2008, though, the local economy and market shows no signs of deteriorating. Hiring is steady. Regional employment numbers are steady. The employment in the region rose by 4.6% year-on-year, as of May, exceeding the 1.9% national growth rate. Steady labor markets have been supported by both local payroll expansion and the movement of companies from other markets.

Durham iD Underway

Availability rates have bumped up a bit, in part due to new construction, but conditions are still tight – particularly in Downtown Durham and Raleigh where much of the activity is concentrated. For the time being at least, this seems to be a good time for a developer to be building. As more new buildings and renovated product delivers, the range of options for tenants to consider is expanding.

The region offers a variety of properties in very different locations. Longfellow Real Estate Partners will deliver its first two buildings at the Durham Innovation District (200 Morris) by this summer. Duke University will fully occupy 200 Morris Street. The project covers a lot of ground – the two 180,000-sf buildings sit on a 17-acre site. Upon completion, tenants will have access to a rooftop restaurant, ground floor retail and several public areas. The future buildout for Durham.ID calls for 1.7 msf of office and lab space to be phased in over seven to 10 years. Some multifamily product could eventually be added to the complex.

While Longfellow has not yet drawn any

tenants to Durham Innovation District it has seen continued activity at Keystone Technology Park. Laird Technologies signed an 18,000-sf lease at Keystone Tech 8 at 629 Davis Drive. The lease brings the building to more than 95% occupancy. This is a remarkable turnaround, the building was completely vacant as of early 2018 after Syngenta moved to their new facility in the same area.

A couple of boutique buildings are also underway in Downtown Durham, including 555 Mangum, which is just a short distance from Durham.ID. Located in front of the Durham County Courthouse, the 240,000-sf building is just one block east of the Durham Bulls Athletic Park. Two apartment buildings with a combined total of 418 apartment units will be constructed adjacent to the office building.

Lull in Downtown Raleigh

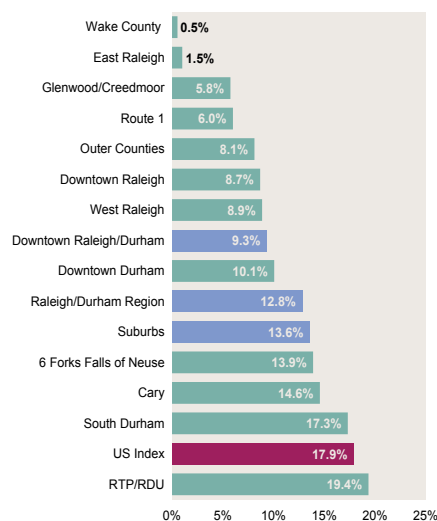
Downtown Raleigh is in the midst of a lull in construction. FNB's office space at the mixed-use Charter Square North Tower at 501 Fayetteville Street is the only major project currently in progress. Future projects are on the horizon, developer Kane Realty has been assembling land in the warehouse district of Downtown Raleigh. They have pieced together six acres and will likely build a mixed-use complex on the site. The property is currently occupied by a 14,401-sf building that owned and occupied by general contractor Clancy & Theys since the 1970s.

Meanwhile, in Chapel Hill, East West Partners paid \$7 million for the Atlantic BT building and a 2.4-acre parcel. The land is located at the corner of Creedmoor Road and Glenwood Avenue. Just a short distance from the Crabtree Valley Mall, plans call for a 175,000-sf building currently being marketed as Crabtree Terrace.

Demand Coming from Diverse Set of Tenants

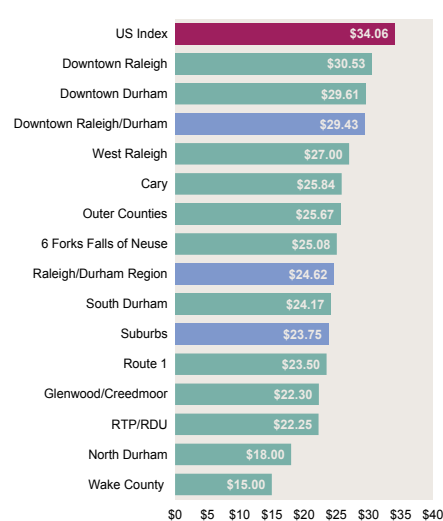
Demand for new construction and existing buildings is supported by steady expansion among a wide variety of industries, including biopharma and life sciences. Several local startups had successful funding rounds. Heat Biologics, for example, raised \$20.7 million in a public offering of common stock and warrants. The Durham-based immunotherapy treatment innovator said it will use the funds to bring on more people in both its Durham and San Antonio facilities. LabCorp announced earlier this year that it would add 422 new jobs and invest \$30

Availability Rate Comparison



Note: North Durham submarket rate is 30.7%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Ipreo, LLC	69,306	421 Fayetteville Street	Downtown Raleigh
Advanced Auto	38,168	411 Fayetteville Street	Downtown Raleigh
Spaces	34,920	223 S West St	Downtown Raleigh
KBI Biopharma	30,500	2 Triangle Dr	RTP/RDU
Northwestern Mutual Life	28,845	1201 Edwards Mill Rd	West Raleigh
American Tower Corp	28,232	3300 Regency Parkway	Cary
RSM	17,234	5444 Wade Park Blvd	West Raleigh
Mills Construction	16,270	4501 Atlantic Avenue	Route 1
Morgan Stanley	14,552	6340 Quadrangle Dr	South Durham
Shattuck Labs	13,523	5 Moore Drive	RTP/RDU
Sum of Top Leases	291,550		

million for an operations center in Research Triangle Park. The state agreed to give the company up to \$8 million in reimbursement over 12 years, contingent upon the lab and drug-development company hitting hiring and investment goals. LabCorp signed a 15-year lease totaling 222,000 sf with Parmer Innovation Center at the former GlaxoSmithKline. Parmer is spending \$80 million to modernize the RTP campus, adding extensive amenities. Ipreo recently announced plans to expand operations. The data processing and analytics firm debuted in the Triangle with about 100 employees in 2013 and has since grown to 320 people. The firm plans to add 250 more employees in Raleigh over the next four years.

The coworking sector is supplementing activity in the tech sector. Spaces signed a 33,000-sf lease at the Station at East 54 in Chapel Hill. This will be the second site for the coworking provider in the Triangle. The new 50,000-sf building currently underway,

should be completed by this fall.

Urbanizing Suburban Campuses

More tenants continue to embrace urban settings. The blueprint for keeping tenants in place and attracting new ones in a suburban setting seems to be very similar from one market to the next – replicate the cornucopia of tastes and sights and sounds of a CBD. The GSK campus is a good example. Plans call for unique amenities such as a treehouse meeting space, a hammock conferencing area, food trucks and a gym. Tenants will enjoy extensive recreation areas such as shuffleboard, ping pong and gaming area and a 40-inch, 300-game video device. Nearly one third 650,000 sf of the 1.8 msf at the park is still available for lease. The former GSK campus secured its second tenant in the quarter as KBI Biopharma inked a 60,000 sf lease. The contract development and manufacturing company will move to the Venture at Imperial Center.

	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.	Year Ago
	Downtown Raleigh	4,903	256	1	426	3.2%	626	8.7%	0.3%	12.8%	\$30.53	0.6%	\$29.65
	Downtown Raleigh - Class A	3,956	244	1	383	9.8%	546	9.7%	0.9%	13.8%	\$30.77	-2.0%	\$30.17
	East Raleigh	643	44	0	7	-32.9%	20	1.0%	-0.5%	3.1%	\$0.00	-100.0%	\$24.15
	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	7,934	417	83	704	-1.4%	1,054	8.9%	-0.1%	13.3%	\$27.00	9.0%	\$24.29
	West Raleigh - Class A	5,078	348	72	562	-3.5%	836	11.1%	-0.4%	16.5%	\$28.04	9.0%	\$25.93
	Glenwood/Creedmoor	2,383	109	23	137	-21.5%	284	5.8%	-1.6%	11.9%	\$22.30	5.7%	\$21.95
	Glenwood/Creedmoor - Class A	1,367	97	20	83	-14.2%	225	6.1%	-1.0%	16.5%	\$24.34	1.8%	\$23.94
	6 Forks Falls of Neuse	6,124	274	45	851	-4.9%	879	13.9%	-0.7%	14.4%	\$25.08	-0.4%	\$24.67
	6 Forks Falls of Neuse - Class A	3,598	155	34	562	-10.8%	572	15.6%	-1.9%	15.9%	\$26.98	0.2%	\$27.07
	Route 1	1,576	5	0	95	16.6%	128	6.0%	0.9%	8.1%	\$23.50	1.3%	\$21.47
	Route 1 - Class A	871	3	0	62	0.0%	73	7.1%	0.0%	8.4%	\$24.57	0.0%	\$24.09
	Wake County*	903	9	N/A	5	0.0%	14	0.5%	0.0%	1.6%	\$15.00	0.0%	\$15.49
	Wake County - Class A	86	0	N/A	0	N/A	0	0.0%	0.0%	0.0%	N/A	0.0%	N/A
	Cary	6,284	185	85	916	4.0%	836	14.6%	0.6%	13.3%	\$25.84	3.2%	\$22.70
	Cary - Class A	4,151	138	76	657	-15.3%	708	15.8%	-2.9%	17.0%	\$26.79	1.4%	\$23.63
	RTP/RDU	11,522	581	121	2,231	2.8%	2,306	19.4%	0.5%	20.0%	\$22.25	1.0%	\$21.49
	RTP/RDU - Class A	7,360	455	99	1,160	-4.5%	1,513	15.8%	-0.7%	20.6%	\$24.41	-1.0%	\$24.03
	South Durham	3,359	68	30	582	16.0%	424	17.3%	2.4%	12.6%	\$24.17	1.6%	\$23.28
	South Durham - Class A	1,929	56	26	418	24.7%	239	21.6%	4.3%	12.4%	\$26.09	4.4%	\$24.61
	Downtown Durham	4,521	124	12	455	-5.7%	494	10.1%	-0.6%	10.9%	\$29.61	7.8%	\$30.01
	Downtown Durham - Class A	3,356	102	10	400	1.0%	407	11.9%	0.1%	12.1%	\$30.05	4.7%	\$31.66
	North Durham	875	36	N/A	269	-28.4%	371	30.7%	-12.2%	42.5%	N/A	N/A	N/A
	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**	2,735	130	23	222	-8.5%	257	8.1%	-0.8%	9.4%	\$25.67	4.1%	\$26.93
	Outer Counties - Class A	1,504	128	22	212	-1.8%	219	14.1%	-0.3%	14.6%	\$25.98	1.3%	\$28.08
	Raleigh & Durham Downtowns Total	9,424	380	14	881	-1.6%	1,120	9.3%	-0.2%	11.9%	\$29.43	4.9%	\$29.39
	Raleigh & Durham Downtowns Total - Class A	7,312	346	11	784	5.1%	953	10.7%	0.5%	13.0%	\$30.01	3.1%	\$30.34
	Suburban Total	44,338	1,859	417	6,018	-0.5%	6,575	13.6%	-0.1%	14.8%	\$23.75	7.9%	\$22.66
	Suburban Total - Class A	26,062	1,408	348	3,716	-5.0%	4,385	14.3%	-0.8%	16.8%	\$26.00	1.8%	\$25.21
	Raleigh/Durham Region Total	53,762	2,239	431	6,899	-0.7%	7,694	12.8%	-0.1%	14.3%	\$24.62	3.1%	\$23.50
	Raleigh/Durham Region Total- Class A	33,374	1,754	360	4,500	-3.4%	5,338	13.5%	-0.5%	16.0%	\$26.85	2.2%	\$26.04

*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.

^Unless otherwise noted, Source for data is Savills Studley.

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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