

Savills Studley Report Raleigh/Durham office sector

Q3 2018



SUMMARY

Market Highlights

LEASING BELOW LONG-TERM TRENDS

Tenants have leased 2.1 million square feet (msf) in the four most recent quarters, well below the long-term average of 4.0 msf leased each year.

AVAILABILITY RATE INCREASES

The overall availability rate for the Raleigh/Durham region rose by 70 basis points to 13.5% in the third quarter. The Class A availability rate posted a more moderate 20 basis point increase to 13.6%.

RENT PUSHES HIGHER

The overall gross asking rent for the region inched up by 1.0% to \$24.80 quarter-over-quarter. Class A inched lower, falling by 0.4% to \$26.66. The leasing of new product is removing some of the highest-price space from the market.

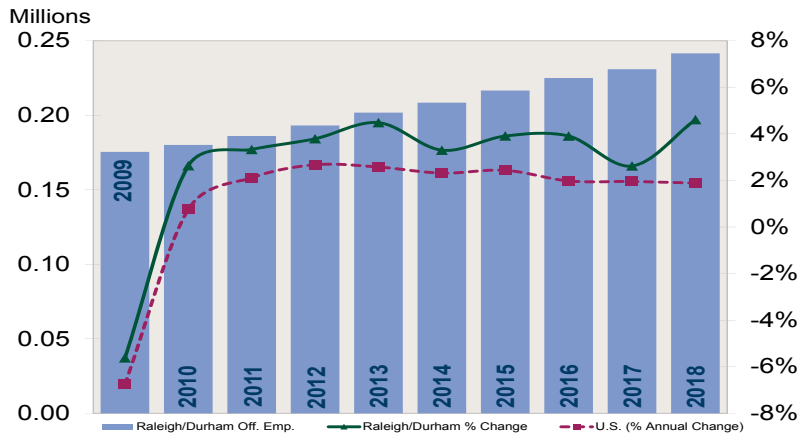
SALES SURGE

Office property sales during the first seven months of the year totaled \$1.2 billion, a 168% increase compared to the first seven months of 2017.

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"Availability and vacancy rates throughout the Triangle remain low and rental rates are pushing higher due to the lack of available space for medium to larger users."

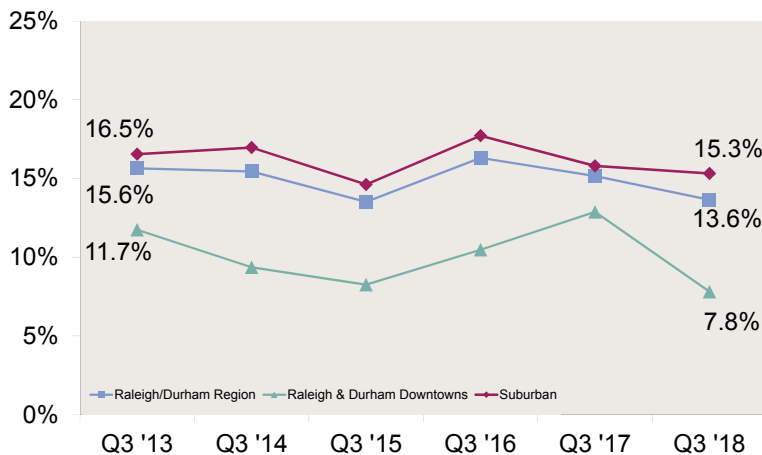
Tucker Shade,
Executive Vice President

Office-Using Employment Trends

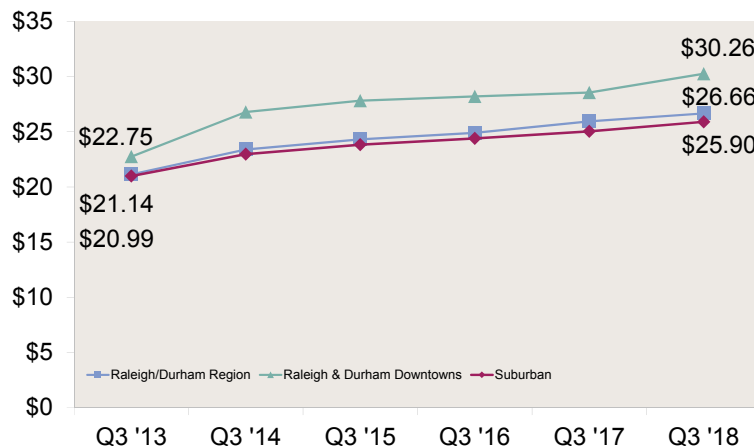


Source: Bureau of Labor Statistics^

Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Tech, Other Sectors, Deplete New Product Pipeline

In addition to significant growth among established tech firms, the Research Triangle's economy offers many examples of rapid growth from startups that originated locally. In recent quarters a number of area startups including Liquidia Technologies and Precision Hawk have announced expansion plans.

The Triangle is also witnessing the continued relocation of innovators from high-cost tech markets. Fintech startup Even announced that it selected Raleigh for its new East Coast office. Headquartered in Oakland, California, Even recently raised \$40 million in Series B funding. Durham's Bull City Venture Partners was among the investors. Even offers financial wellness tools to employees at firms such as Walmart. More than 200,000 of Walmart's employees use the app. The funding will give the company funds to double its workforce. Employers continue to come to the region as they pursue its growing and highly educated younger workforce - 48% of residents in Raleigh have a bachelor's degree or higher, compared to 30% nationally.

Tech Growth Spurring Expansion in other Sectors

Steady hiring, particularly among tech firms - life sciences and biotech firms, in particular - has been well documented. Other sectors such as, financial services, real estate and professional/business services have also been active. Recent examples of leases from these traditional office space users include Arch Capital, Colliers, Apex Life Sciences, BMC, Siemens and Acquire.

The cost of living and doing business has been mounting in the Triangle, but remains well below what firms would pay in Manhattan, Boston or even Atlanta. Office rent in the Triangle has been increasing steadily over the last few quarters, but is still reasonable relative to Manhattan, Boston, Silicon Valley or even Atlanta. Class A office rents hover around \$31/sf in Triangle, but approach the mid-\$30/sf range for new projects such as The Dillon in Downtown Raleigh's Warehouse District

Suburban office product is still priced under \$30/sf, with the best-in-class spaces commanding \$27 to \$28/sf. Owners of suburban buildings are trying to capture higher rent by replicating some of the amenities that Downtown settings

provide. The gap between land costs in Downtown Raleigh and Durham, and suburban locations, has widened in the wake of extensive development in the two downtowns. More developers and investors are consequently considering projects in Morrisville and West Raleigh. The extent of redevelopment varies widely ranging from upgrades to Class B product such as 2828 Pickett Road in South Durham (priced in the low \$20/sf range) to 5901 Durham-Chapel Hill Boulevard. The 210,000-sf building is being completely redone with a new lobby, HVAC and amenities. The most extensive proposals entail complete repositioning of parks. Some have described these developments as an attempt to construct "pseudo-urban campuses in suburban environments."

Wide Range of Tenants Taking New Space

The Research Triangle is in the midst of an office development boom, but following recent leases, quite a bit of the new product has been taken. In 2017, 1.1 msf of speculative office product delivered. At the end of the third quarter, just over 85% was pre-leased. The region has 2.4 msf underway, and nearly 65% is pre-leased.

This leaves the market with about 800,000 sf of newly constructed space for lease. One Glenwood, in West Raleigh, and 555 S Mangum St, account for nearly half of the remaining space. New construction is critical to both Downtown Raleigh and Durham – availability rates are both well under the market average.

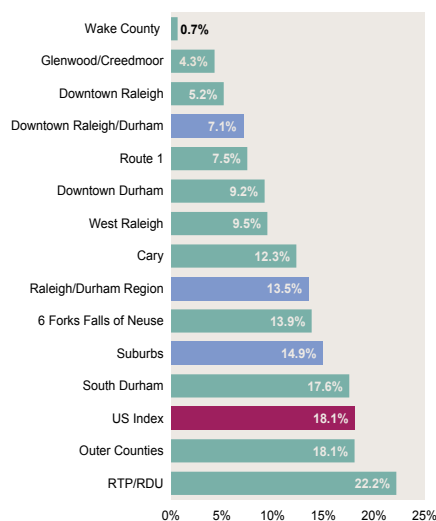
Coworking space providers are also tapping into the new development pipeline. Spaces (Regus' coworking group) leased 47,619 sf at 555 S Mangum Street in Downtown Durham – slightly more than half the size of WeWork's 80,000-plus-sf center slated to open at One Glenwood in 2019. This is Spaces' fourth location in the Triangle.

The Dillon, completed earlier this year, is nearly fully leased. Kane Realty Corporation added two more office tenants bringing the project to more than 95% leased. Arch Capital leased 104,593 sf over four floors. The financial services group will open its new headquarters in Raleigh, offering 365 new jobs. Additionally Analog Devices committed to 26,875 sf on the 14th floor.

Population Growth Supporting Construction Activity

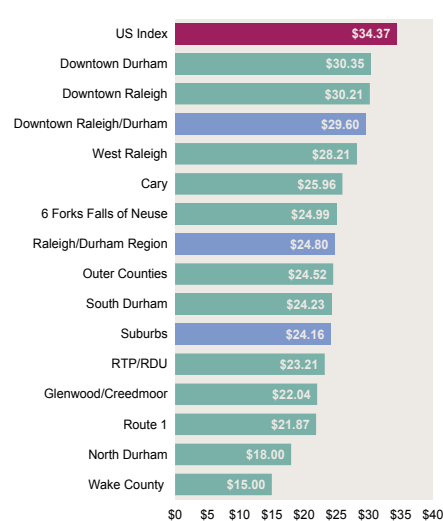
Construction cranes have been a prominent

Availability Rate Comparison*



*North Durham submarket rate is 39.6%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Arch Capital	104,593	223 S West St	Downtown Raleigh
Spaces / Regus	47,619	555 S Mangum St	Downtown Durham
Advanced Auto	38,168	411 Fayetteville St	6 Forks Falls of Neuse
Dzone	34,809	600 Park Offices Dr	RTP/RDU
Analog Devices	26,875	223 S West St	Downtown Raleigh
Charter Communications	26,272	1000 Park Forty Plaza Dr	RTP/RDU
Stewart Engineering	18,500	421 Fayetteville St	Downtown Durham
RSM US	17,234	5444 Wade Park Blvd	West Raleigh
Nasuni Corporation	16,593	404 Hunt St	Downtown Durham
TBD	16,500	319 Chapanoke Rd	Wake County
Sum of Top Leases	347,163		

feature for several years in Downtown Raleigh and Durham. The development of multi-family product started to intensify years ago in response to steady population growth. Households and businesses continue to flock to the Triangle with 63 people moving to Wake County per day and 20 to Durham. Another 13,000 apartments are expected to be built by 2020 to house new residents.

Extensive residential and commercial development is drawing contractors and engineers into the region. During the summer, Stewart Engineering signed an 18,500-sf lease at 421 Fayetteville Street in Downtown Durham. Additionally, in suburban Raleigh, Kiewit Power Constructors signed a 10,667-sf lease at 8521 Six Forks Road. Raleigh/Durham has no shortage of construction projects underway.

Steady Sales

Sales have remained quite steady. Atlanta-based Preferred Properties paid \$173 million (\$308.94/sf) for the Wells Fargo Center at 150 Fayetteville Street. This was the largest single-asset sale since September of 2016 when Dominion Realty Partners sold the 70% leased Charter Square to Highwoods Properties for \$78.4 million (\$322.49/sf). The property was nearly 90% occupied at time of sale. In addition to Wells Fargo, other major tenants include Smith Anderson and Pendo.

Foreign investors are also investing in the region. Singapore investment firm Ascendas-Singbridge paid \$314 million (\$270.20) for six Morrisville properties on Carrington Mill Boulevard. The properties, sold by Trinity Capital, were part of a larger portfolio consisting of 33 buildings totaling 3.3 msf located in Raleigh, Portland, Oregon and San Diego.

	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	282	178	255	-40.2%	543	5.2%	-3.5%	11.1%	\$30.21	-0.8%	\$27.76
	Downtown Raleigh - Class A	3,956	266	173	215	-44.0%	461	5.4%	-4.3%	11.7%	\$30.67	-0.3%	\$28.72
	East Raleigh	477	21	16	0	0.0%	20	0.0%	0.0%	3.1%	\$0.00	0.0%	\$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	7,529	397	75	715	1.5%	951	9.5%	0.6%	12.0%	\$28.21	5.0%	\$24.14
	West Raleigh - Class A	4,894	332	71	531	-5.5%	715	10.8%	-0.2%	14.1%	\$28.64	2.8%	\$25.85
	Glenwood/Creedmoor	2,335	100	25	100	-26.9%	284	4.3%	-1.5%	11.9%	\$22.04	-1.2%	\$21.76
	Glenwood/Creedmoor - Class A	1,367	89	20	58	-29.7%	211	4.3%	-1.8%	15.5%	\$23.42	-3.8%	\$24.11
	6 Forks Falls of Neuse	5,826	228	86	808	-5.2%	761	13.9%	0.0%	12.4%	\$24.99	0.4%	\$23.49
	6 Forks Falls of Neuse - Class A	3,453	84	30	552	-1.9%	454	16.0%	0.4%	12.6%	\$26.74	-0.9%	\$25.99
	Route 1	1,552	18	16	117	23.3%	93	7.5%	1.5%	5.9%	\$21.87	-4.3%	\$22.86
	Route 1 - Class A	790	0	0	58	-7.3%	70	7.3%	0.2%	8.0%	\$24.40	-0.7%	\$24.75
	Wake County*	750	0	N/A	5	0.0%	5	0.7%	0.1%	0.5%	\$15.00	0.0%	\$15.00
	Wake County - Class A	0	0	N/A	0	N/A	0	N/A	N/A	0.0%	N/A	0.0%	N/A
	Cary	6,074	191	50	750	-18.1%	939	12.3%	-2.2%	14.9%	\$25.96	1.7%	\$24.31
	Cary - Class A	4,107	137	40	548	-16.5%	822	13.4%	-2.5%	19.8%	\$26.76	-0.1%	\$25.21
	RTP/RDU	11,594	560	117	2,574	15.4%	2,563	22.2%	2.8%	22.2%	\$23.21	4.3%	\$24.54
	RTP/RDU - Class A	7,172	445	64	1,302	12.2%	1,482	18.2%	2.4%	20.1%	\$23.80	-2.5%	\$24.99
	South Durham	3,319	79	24	583	0.2%	396	17.6%	0.2%	11.8%	\$24.23	0.2%	\$23.42
	South Durham - Class A	1,943	45	2	421	0.7%	207	21.7%	0.0%	10.8%	\$26.13	0.2%	\$24.69
	Downtown Durham	4,376	182	96	404	-11.4%	571	9.2%	-0.8%	12.6%	\$30.35	5.1%	\$29.28
	Downtown Durham - Class A	3,286	174	92	351	-12.4%	480	10.7%	-1.3%	14.3%	\$30.92	6.0%	\$30.36
	North Durham	678	8	N/A	269	0.0%	330	39.6%	8.9%	37.7%	\$18.00	0.0%	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**	2,537	55	7	459	106.6%	191	18.1%	10.0%	7.0%	\$24.52	-5.3%	\$20.61
	Outer Counties - Class A	1,429	53	5	403	90.0%	157	28.2%	14.1%	10.4%	\$25.60	-2.3%	\$24.18
	Raleigh & Durham Downtowns Total	9,279	464	274	658	-25.3%	1,114	7.1%	-2.3%	11.8%	\$29.60	2.0%	\$25.86
	Raleigh & Durham Downtowns Total - Class A	7,242	439	264	566	-27.8%	942	7.8%	-2.9%	12.9%	\$30.26	2.3%	\$28.56
	Suburban Total	42,672	1,657	417	6,379	6.1%	6,513	14.9%	1.4%	14.7%	\$24.16	9.8%	\$21.05
	Suburban Total - Class A	25,272	1,185	233	3,872	4.2%	4,118	15.3%	1.1%	15.8%	\$25.90	1.5%	\$25.04
	Raleigh/Durham Region Total	51,951	2,121	691	7,037	2.1%	7,627	13.5%	0.7%	14.2%	\$24.80	1.0%	\$22.14
	Raleigh/Durham Region Total- Class A	32,514	1,624	497	4,438	-1.4%	5,060	13.6%	0.2%	15.2%	\$26.66	-0.4%	\$25.95

*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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