

Savills Studley Report

Raleigh/Durham office sector

Q1 2018



SUMMARY

Market Highlights

LEASING STAYS ON SLOWER TRACK

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 JUMPS

The overall availability rate for the Raleigh/Durham market was 10.3%, a 90 basis point increase compared to last quarter. The Class A availability rate fell by 80 basis points to 10%. Class B and C availability is rising as tenants continue to relocate to quality buildings.

RENT UNCHANGED

The overall gross asking rent for the region rose by 1.5% to \$22.85 quarter-over-quarter. Class A rent decreased by 0.3% quarterly to \$26.28.

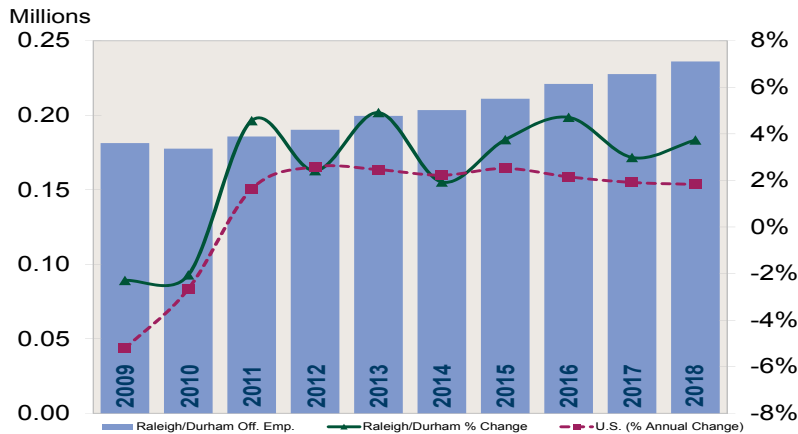
SALES SKYROCKET

Office property sales during the last six months (through February 2018) totaled \$1.1 billion, a 221% increase compared to the previous six-month total of \$354 million.

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"The Triangle's economy is among a handful of front running tech-fueled markets that have outperformed nearly all others nationally. Despite strong growth in residential and commercial rent, Raleigh/Durham is much more reasonably priced than its tech counterparts."

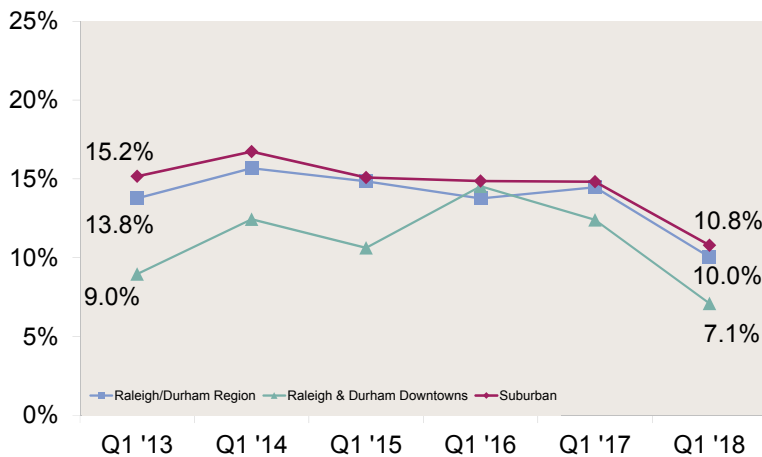
Matthew Patterson,
 Managing Director

Office-Using Employment Trends

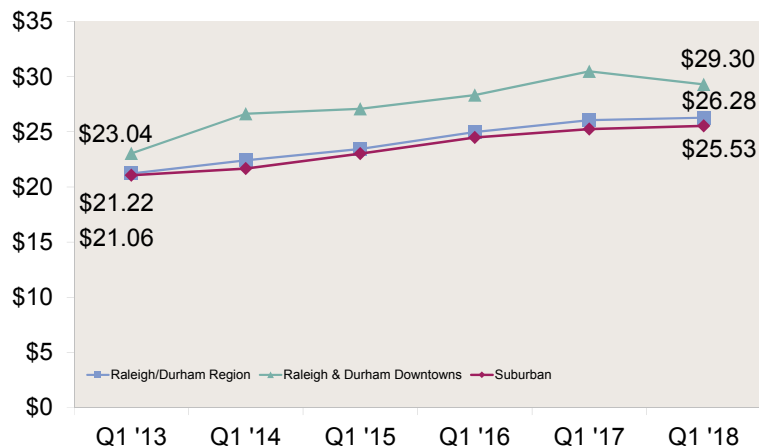


Source: Bureau of Labor Statistics^

Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Economy and Office Market Charges Ahead

Raleigh's economy continues to surge ahead, showing few signs of a slowdown. The Research Triangle is among a handful of tech centers that have separated from the rest of the pack in terms of hiring activity and economic expansion. Overall employment rose by 2.8% during the last 12 months, increasing from 2.4% in the prior 12 months, and nearly twice the 1.5% in 2016.

Office-using employment has been even more impressive, spiking by 5.1% in the Triangle in the last 12 months. Raleigh has gained nearly 50,000 office-using jobs from its trough during October of 2009 — a 27.8% gain. Only a handful of other markets, including Silicon Valley and San Francisco, have achieved larger percentage gains.

Still a Bargain

Area employers face challenges finding qualified employees. Raleigh's unemployment rate has dipped to 4.1%. Wage growth is accelerating. A high percentage of recent job additions are in high-paying sectors such as life sciences and tech. High-tech employment totals just over 59,000 in Raleigh, well short of the 161,900 in Atlanta, but it accounts for nearly 10% of the overall employment base in the region — twice the national average of 4.8%.

Raleigh/Durham has experienced significant spikes in its residential and commercial real estate costs. Home prices have jumped by 5.1% in the last 12 months according to Zillow. Compared to the top tech markets such as the Bay Area of California or Seattle prices in the Triangle still seem reasonable.

Even as wages and salaries spike, tech companies coming from major West and East Coast tech hubs still find the Triangle a bargain on multiple fronts. Salaries are significantly lower, as are housing and business costs. Additionally, the region's colleges and universities rival those in major East Coast metros such as Boston, New York City and Washington, DC. This makes the Triangle a top choice for firms seeking a deep pool of highly talented workers.

Some employers are trying to land talent even before they enter the workforce. Technology consulting firm Infosys for example, is about to commence a major recruiting initiative at local universities as part of its efforts to hire 2,000 workers over

the next five years. Infosys' new building located in Brier Creek will house the first 500 new hires.

Raleigh/Durham's innovation economy is further supported by expansion among incubators. HQ Raleigh, which provides collaborative space and mentoring for startups, opened several new locations in 2017. They are also partnering with Citrix and Red Hat in a program called Raleigh Innovators Program that seeks to foster patent and idea generation.

Demand for New Product in Most Areas

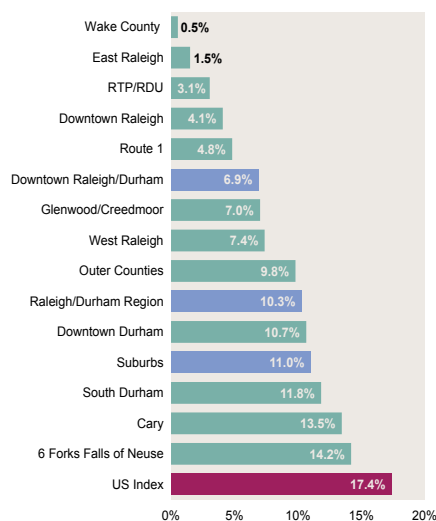
Leasing activity in newly constructed buildings remains brisk. Pre-leasing at the Dillion, East 54 and Carolina Square in Chapel Hill has been strong. Other buildings have struggled to gain traction. Tri Properties recently completed Churchill Hall at Durham's Imperial Center and has so far secured only two tenants. The developer will occupy 12,579 sf. Tri-Properties also signed a small lease with Telit Wireless Solutions. Asking rent at Churchill Hall starts around \$27.50. This is well above other Class A properties in the area, but is nearly \$10/sf below what new product such as The Dillion in Downtown Raleigh is quoting and remains well under the \$35/sf for top existing Class A buildings such as PNC Plaza.

New Amenity Standards

In addition to boosting rents, new construction also ratchets up the pressure on other buildings to upgrade their facilities. Owners leasing space in older projects are adding amenities. Imperial Center (formerly known as the Venture Center) in Research Triangle Park is loaded with unique amenities such as fire pits, outdoor pingpong tables and hammocks. The complex also secured its first tenant since finishing the redevelopment of former GlaxoSmithKline project. California-based Renesas Electronics America leased 40,000 sf. The semiconductor company is currently expanding its local workforce.

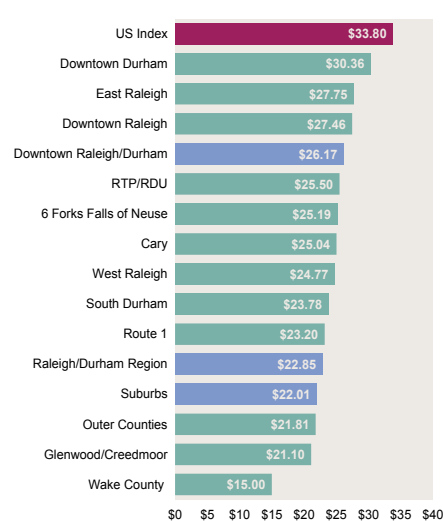
Owner Longfellow Real Estate Partners bought the former GlaxoSmithKline building in 2016. They borrowed \$21.9 million to fund improvements, gutting the complex. Longfellow described the project's transformation as a "change from strictly functionary to a space designed with amenities that inspire creativity and spark collaboration."

Availability Rate Comparison



Note: North Durham submarket rate is 4%

Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Bandwidth	83,218	900 Main Campus Dr	West Raleigh
FMI	20,000	223 S West St	Downtown Raleigh
WalkMe	10,939	555 Fayetteville St	Downtown Raleigh
Micromass Communications	10,925	100 Regency Forest Dr	Cary
STV Incorporated	6,434	1600 Perimeter Park Dr	RTP/RDU
Shanahan Rheumatology	4,971	2224 Highway 54	RTP/RDU
Treximo	4,007	2224 Highway 54	RTP/RDU
Redwood Software	3,809	3005 Carrington Mill Blvd	RTP/RDU
Dragados USA Inc	3,037	7920 ACC Blvd	Glenwood/Creedmoor
The Energy Foundation	2,175	421 Fayetteville St	Downtown Raleigh
Sum of Top Leases	149,515		

Cashing Out

Investors are paying top dollar for newly constructed properties. Midtown Plaza sold in February for \$127 million (\$385/sf). Completed last spring by Kane Realty Corp and KBS Realty Advisors, much of the of the 329,613-sf building is occupied by Allscripts, which relocated to the property from the Forum in North Raleigh. Kane will presumably put some of the proceeds towards its planned development of Tower IV at North Hills. The complex will include a 32-story multi-family building and a 20-story Office Tower, with a completion date in the spring of 2020. Kane also recently bought a 32-acre site on St. Albans Drive. They plan to construct two office buildings and four apartment buildings on the site.

Sales activity got a big boost in early 2018 from out-of-market investors targeting the Triangle. Florida-based Accesso Partners paid more than \$100 million for Meridian

Corporate Center in March. The firm acquired nine buildings from Investcorp for \$95.7 million, a decent gain from the \$84 million the seller paid in 2014. The nine buildings acquired from Investcorp were 91% leased at time of sale. Separately, Accesso paid \$12.4 million for the remaining 74,072-sf building at the complex.

A few smaller buildings are also capturing significant gains. Buyers that took a risk on properties with higher vacancy and then invested extensively in renovation and lease-up are capitalizing on their efforts. In Cary, Childress Klein Properties and WHI Real Estate Partners recently sold 6501 Weston Parkway for \$18.4 million, a 47.2% increase from the \$12.5 million they paid for it in 2014. They acquired the building after Jaggaer (formerly SciQuest) moved out. Over the last few years the seller pushed occupancy at the building to more than 90%.

	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	5,137	255	43	210	-25.1%	658	4.1%	-1.4%	13.6%	\$27.46	-3.6%	\$29.80
	Downtown Raleigh - Class A	3,956	242	38	123	-36.4%	582	3.1%	-1.8%	15.8%	\$28.71	-2.5%	\$30.40
	East Raleigh	643	54	5	10	18.3%	22	1.5%	0.2%	3.4%	\$27.75	2.8%	\$25.65
	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	7,804	421	148	576	-9.1%	828	7.4%	-0.8%	10.8%	\$24.77	-0.7%	\$24.20
	West Raleigh - Class A	4,851	334	135	444	-8.3%	583	9.1%	-0.9%	12.4%	\$25.72	-1.2%	\$25.73
	Glenwood/Creedmoor	2,267	102	9	159	2.2%	196	7.0%	0.1%	8.7%	\$21.10	-2.2%	\$21.80
	Glenwood/Creedmoor - Class A	1,250	91	9	81	-10.9%	126	6.5%	-0.8%	10.1%	\$23.91	1.5%	\$23.97
	6 Forks Falls of Neuse	6,309	426	56	896	-11.8%	967	14.2%	-1.9%	15.3%	\$25.19	1.7%	\$25.06
	6 Forks Falls of Neuse - Class A	3,783	297	11	630	-10.9%	663	16.7%	-2.0%	17.5%	\$26.92	1.2%	\$27.73
	Route 1	1,682	15	0	81	-5.1%	178	4.8%	-0.3%	10.6%	\$23.20	-1.1%	\$20.37
	Route 1 - Class A	977	10	0	62	-10.9%	106	6.4%	-0.8%	10.9%	\$24.57	-0.7%	\$22.91
	Wake County*	903	14	N/A	5	-58.8%	12	0.5%	-0.8%	1.3%	\$15.00	0.0%	\$16.60
	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	6,134	140	48	826	-8.8%	801	13.5%	-1.0%	13.4%	\$25.04	3.2%	\$22.98
	Cary - Class A	4,001	78	17	721	-6.3%	622	18.0%	-0.6%	16.2%	\$26.42	4.7%	\$23.93
	RTP/RDU	11,218	539	27	343	-15.0%	2,221	3.1%	-0.5%	20.5%	\$25.50	2.3%	\$20.43
	RTP/RDU - Class A	7,069	423	26	335	-12.8%	1,110	4.7%	-0.7%	16.5%	\$25.62	1.6%	\$23.86
	South Durham	3,729	52	6	441	27.1%	434	11.8%	2.5%	11.9%	\$23.78	1.7%	\$23.31
	South Durham - Class A	2,416	45	6	335	45.4%	240	13.9%	4.3%	10.2%	\$25.00	2.2%	\$24.47
	Downtown Durham	3,871	120	73	413	-25.3%	714	10.7%	-3.2%	20.1%	\$30.36	0.7%	\$28.51
	Downtown Durham - Class A	2,706	95	73	349	-21.4%	599	12.9%	-2.8%	25.0%	\$31.39	1.2%	\$30.88
	North Durham	875	29	N/A	375	-2.9%	371	42.9%	-1.3%	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	115	0	268	5.8%	304	9.8%	0.8%	11.5%	\$21.81	2.0%	\$26.86
	Outer Counties - Class A	1,504	111	0	203	0.0%	251	13.5%	0.6%	17.8%	\$24.58	-0.1%	\$28.07
	Raleigh & Durham Downtowns Total	9,008	374	115	622	-25.2%	864	6.9%	-2.2%	10.3%	\$26.17	-0.4%	\$29.48
	Raleigh & Durham Downtowns Total - Class A	6,662	338	111	472	-26.0%	753	7.1%	-2.3%	12.4%	\$29.30	0.5%	\$30.48
	Suburban Total	44,299	1,907	300	4,876	16.1%	6,368	11.0%	1.6%	14.6%	\$22.01	2.9%	\$22.04
	Suburban Total - Class A	26,055	1,417	204	2,811	-4.3%	3,775	10.8%	-0.4%	14.8%	\$25.53	0.5%	\$25.24
	Raleigh/Durham Region Total	53,307	2,281	415	5,498	9.3%	7,315	10.3%	0.9%	14.1%	\$22.85	1.5%	\$22.90
	Raleigh/Durham Region Total- Class A	32,716	1,754	315	3,284	-8.2%	4,534	10.0%	-0.8%	14.5%	\$26.28	-0.3%	\$26.06

*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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