

Raleigh-Durham



Market Facts

12.3%

Total market vacancy
down 30 bps year-over-year

10%

Class A vacancy
unchanged year-over-year

1.6 MSF

2018 absorption
up 47% versus 2017

\$28.67 PSF

Average Class A asking rate
up 8% in the last 12 months

Market Overview

The Triangle office market turned in an extraordinary performance in 2018 with vacancy declining despite 1.6 msf in deliveries and asking rental rates surging to unprecedented levels. Solid economic and leasing fundamentals fueled exuberance among investors looking for upside opportunity outside of more expensive gateway markets.

Vacancy and Absorption

Vacancy ended the year at 12.3%, down 30 bps since year-end 2017. Class A vacancy remained constrained at just 10% in spite of substantial construction deliveries. Class B vacancy fell by 90 bps to 16.9% as rising rental rates and limited options drove increased activity in older buildings.

Net absorption of 943,518 sf in the fourth quarter brought the annual total to 1.6 msf, the market's strongest performance since 2007. Absorption was particularly robust in Downtown Durham, where more than 640,000 sf of new space was delivered

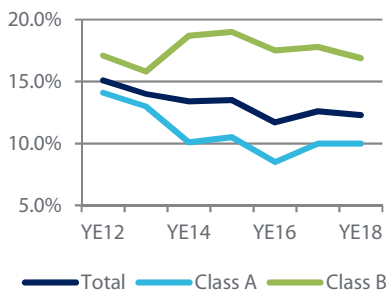
significantly preleased. On the downside, absorption fell into the red in Cary, where Fidelity Investments vacated 178,300 sf at 11000 Weston Parkway after moving employees to its RTP campus. Absorption was also negative along Falls of Neuse Road, where Syneos Health vacated space at 4800 North Park following completion of its new facility at Perimeter Park in the I-40/RTP submarket.

Tenant Activity

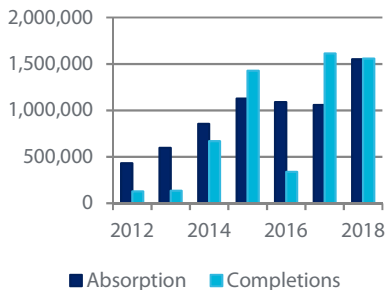
Leasing activity was healthy in the fourth quarter, particularly in the Six Forks Road submarket. IAT Insurance leased 61,000 sf at Tower IV at North Hills, becoming the first tenant to sign on at the speculative project. Elsewhere in the submarket, Itron, insightsoftware and Whiting Turner backfilled 75,000 sf that had been vacated at Forum IV when Allscripts relocated to North Hills in 2017. In Downtown Raleigh, Capital Bank leased 53,553 sf for a new headquarters location at One Glenwood, scheduled for completion in early 2019.

Office building sales totaled \$2 billion in 2018, shattering historic records by a wide margin.

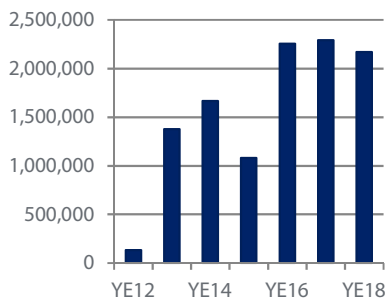
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Tenant Activity, Cont'd.

In Downtown Durham, agricultural technology firm Pairwise leased 36,761 sf at Mill No. 1, part of the Golden Belt adaptive re-use development.

New Construction

Construction deliveries totaled 1.1 msf in the fourth quarter, with 73% of the space leased upon completion. The year-end wave of completions pushed the 2018 total to 1.6 msf. The greatest concentration of deliveries in the fourth quarter occurred in Downtown Durham, where 640,974 sf was delivered at One City Center, Mill No. 1 on the Golden Belt Campus, and 200 and 300 Morris Street in the Durham Innovation District. In the I-40/RTP submarket, construction was completed on Syneos Health's new 258,250-sf headquarters location at Perimeter Five. The Station at East 54 was delivered in Chapel Hill. The 47,678-sf building is fully leased with co-working firm Spaces as the anchor tenant. In Cary, 150,000 sf was delivered at Regency Woods II, which is 67% leased to Black & Veatch and Chiesi USA.

Projects totaling 2.2 msf were underway at year-end with 55% of the space reported as leased. A handful of projects broke ground in the fourth quarter, including North Hills Tower IV in the Six Forks Road submarket, Wade V in West Raleigh, and Crabtree Terrace in the Glenwood Avenue/Creedmoor Road submarket.

Rental Rates

While rental rates have been on an upward trajectory since 2012, the rate of increase was sharply higher in 2018. Tight market conditions and rising construction costs continue to be major factors in rising rates, but the recent surge in investment sales played a particularly significant role in recent months. Owners have routinely pushed rates higher before taking buildings to market, and buyers typically raise

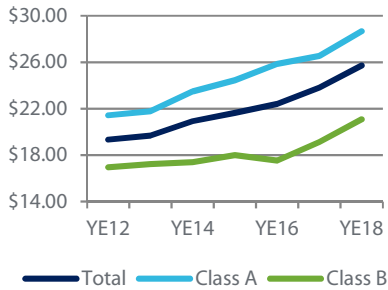
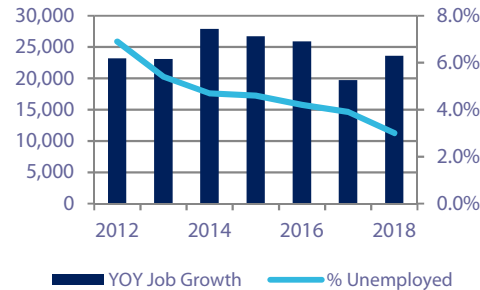
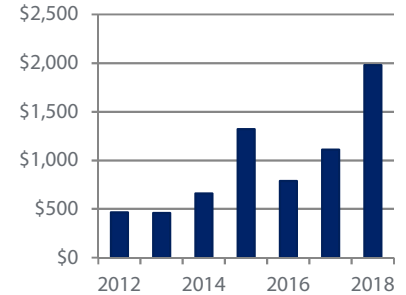
rates again after closing and, in many instances, investing in improvements. The average Class A rate rose to a record-high of \$28.67 psf in the fourth quarter, up 8% year-over-year. The increase was even more pronounced for Class B properties, where the average rate rose 10% in the last 12 months to end the quarter at \$21.08 psf.

Investment Sales

2018 was a record-breaking year for both overall Triangle investment sales and office sales. Total market volume hit \$5.5 billion for the year, up 31% versus 2017. Office sales were a substantial driver of this increase in activity, representing 36% of overall sales for the year. Office sales totaled a record-setting \$2 billion, up 78% versus the previous year. In the fourth quarter, Florida-based Accesso Partners paid \$74.2 million (\$254/sf) for Weston I & II in Cary. The buildings were 98% leased to multiple tenants at closing. In the I-40/RTP submarket, Chicago-based Capri EGM paid \$74.2 million (\$288/sf) for Perimeter Five, the recently completed headquarters facility for Syneos Health.

Outlook

The Triangle economy continues to fire on all cylinders, setting the stage for another active year for the Triangle office market. The region added 23,600 jobs between November 2017 and November 2018, and unemployment fell from 3.9% to just 3.0% during this time. While the Triangle did not ultimately win secondary corporate headquarters locations for Amazon and Apple, 2018 remained a highly successful year in terms of corporate recruitment efforts. In the fourth quarter, Advance Auto Parts and Pendo chose the Triangle for their corporate headquarters, resulting in more than 1,000 new jobs. Construction activity is likely to push vacancy higher in 2019, but oversupply is not currently a significant concern. Overall conditions should remain favorable to landlords.

Average Asking Rental Rate
(psf/year/full service)Raleigh-Durham Job Growth
(November of each year)Office Investment Sales
(in millions)

Select Lease Transactions

Tenant	Property	Type	Submarket	SF
IAT Insurance Group	Tower IV at North Hills	New Lease	Six Forks Road	61,000
Capital Bank	One Glenwood	New Lease	Downtown Raleigh	53,553
Itron	Forum IV	New Lease	Six Forks Road	37,000
Pairwise	Golden Belt - Mill No. 1	New Lease	Downtown Durham	36,761
insightssoftware	Forum IV	New Lease	Six Forks Road	31,000
Cohesity	Bristol Place	New Lease	I-40/RTP	25,000
Colliers International	Trinity Place	New Lease	West Raleigh	17,363
The John Locke Foundation*	Six Forks Center III	New Lease	Six Forks Road	11,800

*Transaction handled by Avison Young

Select Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Weston I & II	Cary	Accesso Partners	292,000	\$74.2 million	\$254
Perimeter Five	I-40/RTP	Capri EGM	258,250	\$74.2 million	\$288
Crescent Lakeside I & II	Cary	HLM Realty	254,796	\$69.0 million	\$271

Select Construction Projects

Property	Submarket	Projected Completion	Total Office SF	% Preleased	Asking Rate PSF
555 Mangum	Downtown Durham	3Q19	229,455	23%	\$34.50 FS
One Glenwood	Downtown Raleigh	1Q19	212,500	75%	\$35.25 FS
FNB Tower	Downtown Raleigh	4Q19	149,842	61%	\$35.50 FS
MetLife III	Cary	1Q19	213,500	100%	N/A
Crabtree Terrace	Glenwood/Creedmoor	4Q19	168,000	31%	Withheld
Perimeter Six	I-40/RTP	1Q19	200,000	67%	\$28.50 FS
Triangle 54 - Building 1	I-40/RTP	1Q19	152,456	100%	N/A
3300 Paramount Parkway	I-40/RTP	1Q19	97,462	70%	\$26.50 FS
Tower IV at North Hills	Six Forks Road	3Q20	328,600	18%	\$38.00 FS
Wade V	West Raleigh	1Q20	209,145	0%	\$32.00 FS

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION			AVERAGE ASKING RENT		
		Total	Class A	Class B	4Q18	YTD	SF Underway	Total	Class A	Class B
Downtown Durham	3,815,681	7.7%	9.9%	2.1%	445,154	464,186	229,455	\$31.57	\$32.73	\$28.91
Downtown Raleigh	4,899,591	7.6%	10.7%	2.7%	7,632	279,049	362,342	\$32.64	\$33.17	\$30.24
Urban Total	8,715,272	7.6%	10.3%	2.4%	452,786	743,235	591,797	\$32.05	\$32.93	\$29.55
Cary	5,572,692	11.9%	14.7%	1.5%	(90,279)	(45,348)	213,500	\$26.38	\$27.55	\$19.36
Chapel Hill/Carrboro	1,559,869	16.4%	10.9%	33.5%	58,725	20,368	210,000	\$28.73	\$29.99	\$23.16
Falls of Neuse	2,240,510	12.5%	13.4%	9.1%	(48,208)	(141,770)	-	\$22.70	\$24.87	\$21.21
Glenwood/Creedmoor	2,600,487	7.2%	6.2%	9.1%	(1,664)	(22,626)	168,000	\$26.44	\$28.61	\$21.23
I-40/RTP	14,489,904	19.1%	9.8%	31.4%	385,995	492,162	449,918	\$22.80	\$25.09	\$21.18
North Durham	440,139	40.8%	-	40.8%	-	7,520	-	\$16.89	-	\$16.89
Six Forks Road	3,640,810	11.0%	11.9%	9.6%	79,090	283,640	328,600	\$30.29	\$33.03	\$22.13
South Durham	1,646,653	10.1%	8.6%	12.3%	26,429	(30,030)	-	\$24.49	\$25.98	\$21.21
Southern Wake County	263,951	7.3%	-	7.3%	16,500	16,500	-	\$13.51	-	\$13.51
US 1/Capital Boulevard	1,784,472	4.5%	3.2%	5.4%	5,026	17,242	-	\$20.89	\$24.14	\$18.89
West Raleigh	5,390,470	5.6%	5.7%	5.7%	59,118	210,074	209,145	\$26.62	\$28.07	\$22.57
Suburban Total	39,629,957	13.4%	9.9%	19.3%	490,732	807,732	1,579,163	\$24.77	\$27.76	\$20.65
Total Market	48,345,229	12.3%	10.0%	16.9%	943,518	1,550,967	2,170,960	\$25.72	\$28.67	\$21.08

BY CLASS	Inventory	Vacancy	4Q18 Absorption	YTD Absorption	SF Underway	Sublease SF
Class A	30,619,648	10.0%	740,305	1,453,680	2,170,960	1,035,494
Class B	16,596,954	16.9%	502,947	145,498	-	101,255
Class C	1,128,627	8.5%	(2,734)	(48,211)	-	-
Total Market	48,345,229	12.3%	943,518	1,550,967	2,170,960	1,136,749

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