

Year-Over-Year Change in Triangle CBD Class A Rents at 12.4%; Raleigh-Durham Market Anxiously Awaits 2.16M SF of Anticipated Deliveries

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Key Takeaways

- › The Raleigh-Durham market anxiously awaits the delivery of the 2.16M square feet of inventory that is currently under construction. Increasing demand for Class A space has created a construction frenzy across the Raleigh-Durham region, pushing pre-leasing percentages to record rates.
- › The lack of large Class A office space in the Triangle continues to drive vacancies to record lows and in turn creating a 12.4% change in year-over-year CBD Class A rents. Year-to-date vacancies have been on the decline since 2010 and second quarter vacancy rates were reported at 7.7%, resulting in 1.1% decrease from the second quarter of 2016. Vacancy rates in the Triangle's suburban market fell to 8.5%, a 1.4% decrease from a year ago, which indicates that tenant demand remains strong in all Triangle markets, not just CBD markets.
- › Downtown Durham and Downtown Raleigh are thriving central business districts. Downtown Durham's vacancy rate has remained below 2% for seven consecutive quarters. Downtown Raleigh continues to see increasing demand from technology and innovation sectors, keeping Class A asking rents high.
- › From October 2016 to May 2017, Wake County added 4,975 jobs in 64 new and expanding companies, creating a total investment of \$236M. The unemployment rate dropped from 4.2% to 3.8% as of the end of May 2017. Raleigh has a projected population growth of over 73% through year 2044, outpacing cities such as Boston, Atlanta, Nashville and San Francisco.
- › Incentives for new & expanding companies, entrepreneurial hubs and tech start-ups to open locations in the Raleigh-Durham area continues to rival other U.S. mid-size markets. In July, Infosys, a global technology company, announced it would be bringing an additional 2,000 jobs to Wake County with an average starting salary above \$72,000.

Market Indicators

Relative to prior period

Raleigh-Durham
Q2 2016

Raleigh-Durham
Q2 2017

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



Summary Statistics

Q2 2017 Regional Office Market

Triangle
Region

Triangle
CBD

Triangle
Suburban

Existing Inventory
(Square Feet)

67,064,414

10,340,576

56,723,838

Vacancy Rate

7.7%

3.8%

8.5%

Change From Q2 2016

-1.1%

-1.0%

-1.4%

YTD Net Absorption
(Square Feet)

700,677

123,917

576,760

Under Construction
(Millions Square Feet)

2.16

1.28

830,384

Construction Deliveries
(Square Feet)

274,991

0

274,991

Asking Rents

Average Quoted

\$22.69

\$29.55

\$21.81

Change from Q1 2016

\$1.40

\$2.89

\$1.00

Class A Rents

\$26.37

\$30.67

\$25.41

Absorption & Leasing Activity

- In the second quarter, the Triangle's overall net absorption totaled 700,677 square feet. The Six Forks Falls of Neuse submarket obtained the most positive net absorption with over 268,941 SF of Class A office space absorbed. CapTrust relocated their offices to CapTrust Tower where they occupied over 73,000 square feet on three floors. Allscripts will finalize their move to Midtown Plaza later in 2017 when they relocate from their current location at The Forum.
- West Raleigh reported strong year-to-date absorption numbers with over 164,547 total square feet absorbed. The Center for Technology and Innovation gained the NCSU Nonwoven Institute as a major tenant during the second quarter after the building delivered in January.
- Overall Class A absorption in the Triangle reached 569,201 square feet during the second quarter, while the overall Class B market reported absorption of 61,032 square feet in the second quarter.
- The largest year-to-date lease was the 214,450 square foot lease signed by INC Research at Perimeter Five in the RTP | I-40 submarket. Perimeter Five is now 100% leased with amenities including seven miles of walking trails, green space and a new on-site cafe.

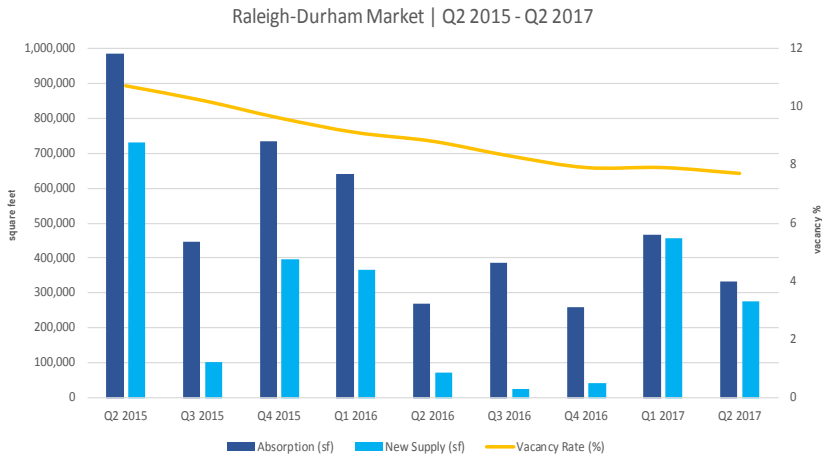
Vacancy & Availability

- The overall Triangle market's vacancy rate remained low and stable at 7.7% for the second quarter, resulting in 1.1% drop in percentage points from the second quarter of 2016. The overall Class A vacancy in the Triangle market has been on the decline since 2008 and was reported at 7.6% at the close of the second quarter with over 2.2M total square feet of vacant space.
- Downtown Durham continues to post exceptionally low vacancy rates. The Downtown Durham submarket reported a vacancy rate of 0.5% vacancy at the end of the second quarter. This submarket's vacancy rate has remained below 2% for seven consecutive quarters. The lack of inventory in this relatively small central business district has created an aggressive market for tenants who are waiting for major Class A office space to deliver in several ongoing developments.
- The North Durham and Research Triangle Park submarkets reported the highest vacancies during the second quarter of 2017. North Durham vacancy reached 28.4% and RTP reported a vacancy rate of 18.5%.

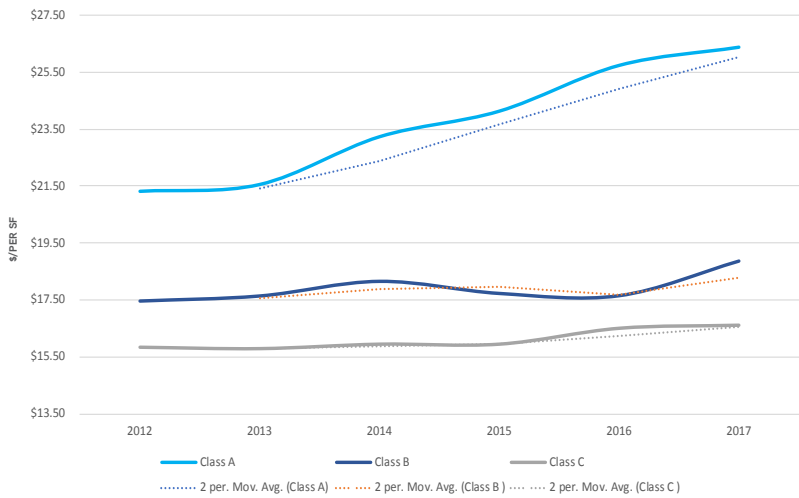
Rental Rates

- Class A office rents in both CBD and suburban markets are still rising; however market rents will begin to stabilize throughout 2017.
- The average Class A rental rate in Downtown Durham reached \$31.66 per square foot during the second quarter. The average Class A rental rate in Downtown Raleigh reached \$30.17 per square foot during the second quarter.
- The Six Forks Falls of Neuse submarket is forecasted to produce record setting Class A rents in 2017, with average per square foot costs reaching over \$35.00 psf.

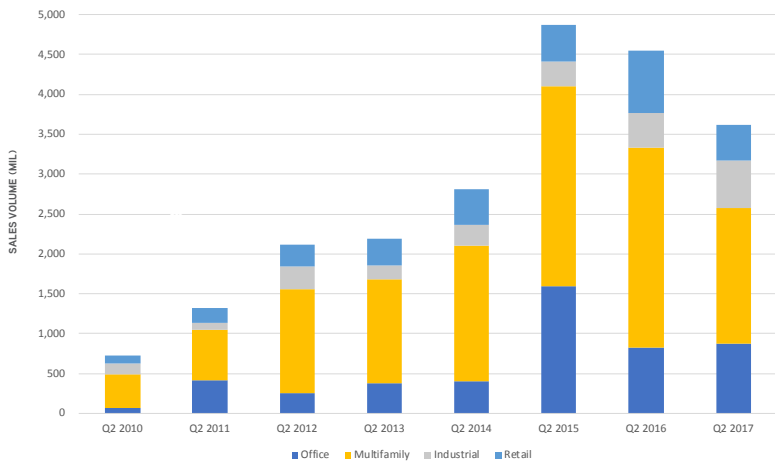
Historical Absorption vs. Deliveries, Vacancies



Average Triangle Rents by Asset Class



Investor Demand by CRE Sectors



Source: Colliers Research, CoStar Group

OVERALL SUBMARKET COMPARISONS | RALEIGH-DURHAM

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	YTD NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE
SUBMARKET NAME									
Cary	8,632,730	442,349	56,056	498,405	5.8	71,254	0	167,154	\$21.43
Downtown Durham	4,257,591	19,190	0	19,190	0.5	27,415	0	1,003,182	\$30.14
Downtown Raleigh	6,082,985	350,922	23,032	373,954	6.1	96,502	0	284,688	\$29.27
Glenwood Creedmoor	3,116,045	158,712	21,793	180,505	5.8	(83,439)	0	116,500	\$22.23
North Durham	1,765,507	501,751	0	501,751	28.4	60,497	0	0	\$15.95
Northeast Wake County	512,371	13,524	0	13,524	2.6	2,813	0	0	\$15.49
Orange County	2,872,127	157,787	8,245	166,032	5.8	(16,118)	0	219,213	\$27.36
Research Triangle Park	7,305,033	1,321,872	29,789	1,351,661	18.5	13,339	0	150,000	\$20.74
RTP I-40	5,625,046	301,409	37,478	338,878	6.0	139,781	200,991	37,000	\$23.29
Six Forks Falls of Neuse	8,371,630	738,073	24,218	60,495	9.1	268,941	0	0	\$23.74
South Durham	5,021,776	141,397	13,383	154,780	3.1	(4,037)	0	76,446	\$21.79
Southern Wake County	1,773,287	93,117	0	93,117	5.3	19,499	0	0	\$15.89
US 1 Capital Blvd.	2,782,330	168,519	0	168,519	6.1	(59,692)	0	0	\$17.93
West Raleigh	8,945,956	560,997	27,219	570,525	6.4	164,547	74,000	104,071	\$24.32
MARKET TOTALS	67,064,414	4,969,619	241,213	5,191,336	7.7	700,677	274,991	2,158,254	\$22.69

CLASS A SUBMARKET COMPARISONS | RALEIGH-DURHAM

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	YTD NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE
SUBMARKET NAME									
Cary	4,032,923	244,381	52,303	296,684	7.4	5,730	0	167,154	\$23.56
Downtown Durham	2,394,518	1,875	0	1,875	0.1	6,188	0	1,003,182	\$31.66
Downtown Raleigh	3,859,147	299,902	23,032	322,934	8.4	84,696	0	267,000	\$30.17
Glenwood Creedmoor	1,248,913	44,897	21,793	66,690	5.3	(88,584)	0	116,500	\$25.39
Orange County	1,384,163	97,347	3,361	100,708	7.3	(7,830)	0	219,213	\$29.23
Research Triangle Park	3,068,651	291,383	20,015	311,398	10.1	11,285	0	150,000	\$23.63
RTP I-40	4,012,035	251,189	37,478	288,667	7.2	128,156	200,991	0	\$24.55
Six Forks Falls of Neuse	3,783,136	466,598	8,586	475,184	12.6	293,265	0	0	\$27.07
South Durham	2,340,103	82,659	7,169	89,828	3.8	(1,212)	0	76,446	\$24.61
Southern Wake County	115,710	0	0	0	0.0	0	0	0	\$22.50
US 1 Capital Blvd.	1,045,060	60,474	0	60,474	5.8	6,631	0	0	\$24.09
West Raleigh	4,789,885	381,805	25,899	407,704	8.5	130,876	74,000	104,071	\$26.25
MARKET TOTALS	32,074,244	2,222,510	199,636	2,422,146	7.6	569,201	274,991	2,103,566	\$26.37

*NOTE: North Durham and NE Wake County submarkets do not have any Class A inventory.

NOTABLE YTD LEASE TRANSACTIONS

TENANT	BUILDING	SUBMARKET	TOTAL SF	LEASE TYPE
INC Research	Perimeter Five	RTP I-40	214,450	Pre-Lease
Captrust	Captrust Tower	Six Forks Falls of Neuse	73,910	Relocation
Clintrax Global	CentreGreen Three	Cary	44,000	Pre-Lease
First National Bank	FNB Tower	Downtown Raleigh	40,000	New Lease
Ward & Smith	Raleigh Corporate Center	West Raleigh	33,000	Pre-Lease
The Nonwovens Institute	Center for Technology	West Raleigh	30,000	New Lease
Trilliant	One Harrison Park	Cary	20,024	New Lease
LogMeIn	One City Plaza	Downtown Raleigh	17,000	New Lease

*NOTE: Infosys, a global technology firm, will bring an additional 2,000 jobs to Wake County. Their location has not been disclosed.

Construction & Investment Activity

- At the close of the second quarter of 2017, office deliveries totaled 274,991 SF in 3 buildings with an additional 2.16 million square feet that is currently under construction.
- In the Downtown Raleigh submarket, demolition began for the new 228,000 square foot One Glenwood building. The proposed First National Bank tower, also in Downtown Raleigh, will provide an additional 150,000 square feet of Class A office space.
- The most notable office transaction of the second quarter was the sale of the Parmer RTP building previously owned by pharmaceutical giant GlaxoSmithKline. The 1.8M SF office park sold for \$110M at \$61 per square foot in May of 2017. The property was sold to Karlin Real Estate from GlaxoSmithKline.
- In the second quarter, the Raleigh-Durham market produced \$171.7M in total volume of 9 office property sales with an average per square foot price of \$79.00. In the prior twelve months (through Q2 2017), the Triangle market produced \$843.1M in total volume of 59 property sales with an average square foot price of \$143.00.

NOTABLE DEVELOPMENT ACTIVITY

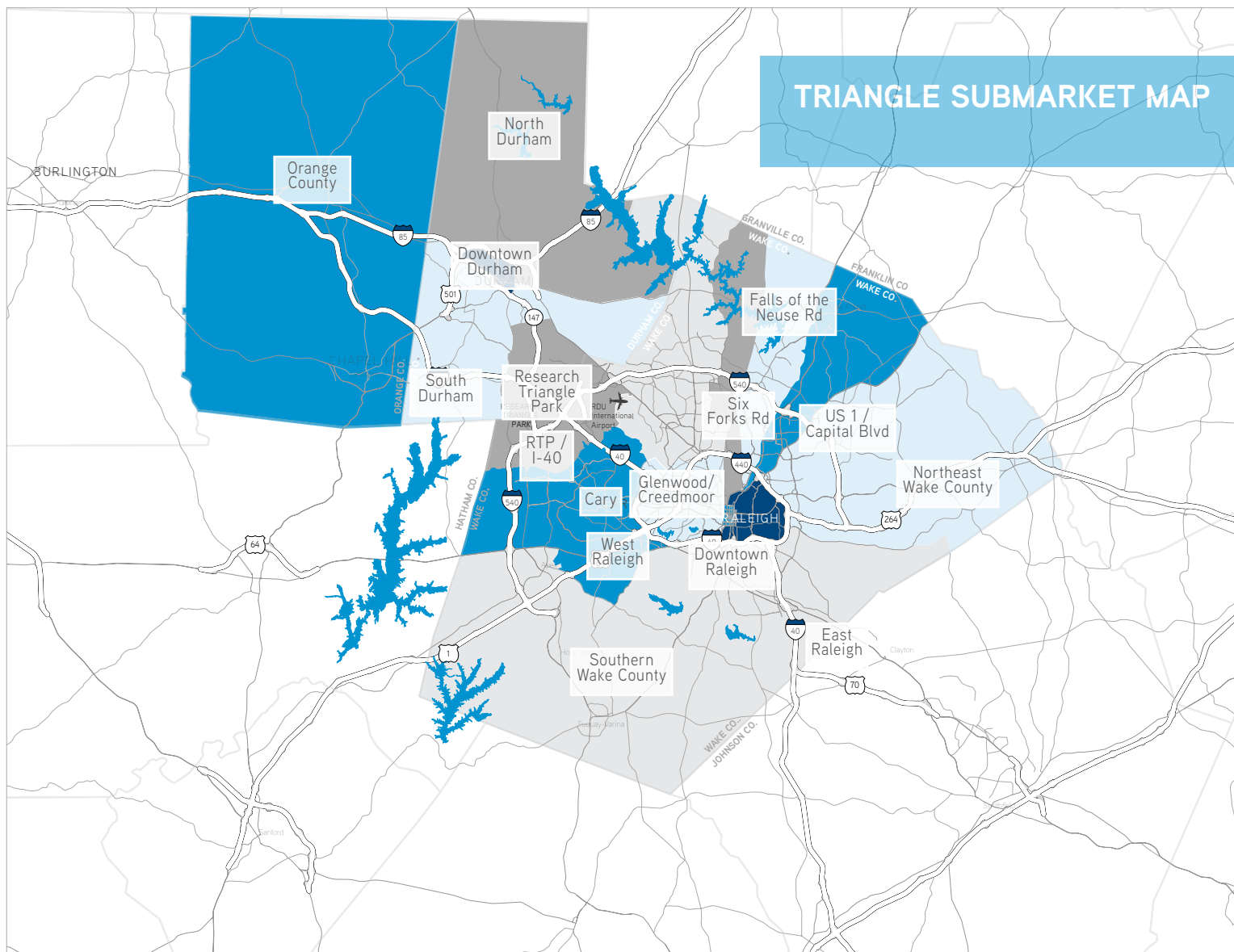
PROPERTY	SUBMARKET	SIZE (SF)	PRE-LEASED %	QUOTED RENTAL RATE	BUILDING CLASS	CONSTRUCTION STATUS	START / DELIV DATE
Tower IV at North Hills	Six Forks Falls of Neuse	344,500	0.0	\$37.50	A	Proposed	Q4 2017
The Chesterfield	Downtown Durham	284,500	81.0	\$22.83	A	Under Construction	Q3 2017
The Edison	Downtown Raleigh	279,642	0.0	Withheld	A	Proposed	Q2 2018
The Dillon	Downtown Raleigh	267,000	41.4	\$34.50	A	Under Construcion	Q1 2018
555 Mangum	Downtown Durham	245,112	0.0	Withheld	A	Under Construction	Q2 2018
Brier Creek Town Center I	RTP I-40	240,000	0.0	Withheld	A	Proposed	Q3 2018
One Glenwood	Downtown Raleigh	228,600	0.0	\$32.95	A	Under Construction	Q3 2017
Perimeter Park Five	RTP I-40	214,500	100.0	Withheld	A	Proposed	Q3 2017
The Arringdon Phase II	Research Triangle Park	200,000	0.0	Withheld	A	Proposed	Q4 2018
CentreGreen III	Cary	167,154	0.0	Withheld	A	Under Construction	Q3 2017
One City Center	Downtown Durham	150,000	34.7	\$32.00	A	Under Construction	Q1 2018
FNB Tower	Downtown Raleigh	149,842	30.7	\$33.50	A	Proposed	Q3 2017
Legacy at Brier Creek	Glenwood Creedmoor	116,500	27.5	\$26.95	A	Under Construction	Q3 2017
3800 Glenwood	Glenwood Creedmoor	115,000	0.0	\$31.95	A	Proposed	Q1 2018

YTD NOTABLE SALES ACTIVITY

PROPERTY	SUBMARKET	SALES MONTH	SALES PRICE (MILLIONS)	SIZE (SF)	PRICE PER SF	BUYER	SELLER
*Parmer RTP	Research Triangle Park	May	\$110.0	1,800,000	\$61	Karlin Real Estate	GlaxoSmithKline
Sterling Regency	Cary	January	\$61.0	382,000	\$160	Dilweg Companies	Intercontinental RE
**Principal RE Investors	RTP I-40	February	\$47.7	299,048	\$160	Fairlead CRE	Principal RE Investors
**Investcorp NC Office	RTP I-40	March	\$45.0	224,448	\$200	Innovatus Capital	Investcorp RE
*Golden Belt Center	Downtown Durham	July	\$19.5	258,757	\$75	LRC Properties	Scientific Properties
Town Hall Commons	RTP I-40	January	\$12.6	73,613	\$171	Carolina Investments	Stuart E. White
1001 Wade Avenue	West Raleigh	June	\$9.9	60,000	\$164	Empire Properties	Trademark Properties
3110 Edwards Mill	3110 Edwards Mill	May	\$8.2	45,692	\$179	Taylor Development	The Simpson Org.
3700 NW Cary Parkway	Cary	April	\$7.0	17,440	\$401	Levy Family	Artha Associates
Keystone 100	RTP I-40	March	\$7.0	63,144	\$111	Origin Investments	Investcorp
9131 Anson Way	6 Forks Falls of Neuse	May	\$6.6	45,160	\$147	Taylor Development	Hocab LLC

*NOTE: Owner occupied.

**NOTE: Part of a portfolio sale.



METHODOLOGY

METHODOLOGY

The Raleigh-Durham Office reports calculate statistics using CoStar Group and Colliers International Raleigh-Durham's database of existing and under construction properties at market and submarket levels. Included in the pool of data are non-owner occupied Class A, B, and C office properties of 10,000+ SF.

396 offices in 68 countries

United States: **153**

Canada: **29**

Latin America: **24**

Asia: **36**

EMEA: **111**

ANZ: **43**

\$105

billion in
annual revenue

2.0

billion square feet
managed

15,000

professionals
and staff

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