

# RALEIGH-DURHAM | OFFICE

## Q4 2016



## 2016: The Year of Construction;

*Raleigh-Durham Absorption Remains Positive for 8 Consecutive Years*

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### Key Takeaways

- The year 2016 ended as one of the hottest years of office construction the Triangle market has experienced in quite some time. National and local commercial real estate developers have become more assertive as increasing demand for Class A office space has outpaced much of the Raleigh-Durham market's supply. The 2 million square feet of new office space that is currently under construction is more space than the Raleigh-Durham market has had in its development pipeline in over ten years.
- Even with the large amount of construction, the Triangle market has remained unphased and will continue to report positive absorption numbers into year 2017, keeping up with new supply. Within the 15 building construction Pipeline, preleasing already accounts for 48% of the inventory of new space.
- Office demand continues to drive vacancies to record lows throughout the Triangle market and year-to-date vacancies have been on the decline since 2010. Fourth quarter vacancy rates were reported at 7.9%, resulting in 1.7% decrease from the third quarter of 2016. Vacancy rates in the Triangle's suburban market fell to 8.4%, a 1.9% decrease from a year ago, which indicates that tenant demand is not only strong in CBD markets, but similarly strong across all suburban markets.
- Limited Class A leasing opportunities with high costs of new construction will continue to increase average rental rates in the Triangle. Overall average Class A rents are reportedly \$25.62 PSF and CBD Class A rents reached \$28.81 PSF in the fourth quarter.
- As of November 2016, Wake County added 2,795 jobs (16 new and 29 expanding companies) creating a total investment of \$224M. The unemployment rate remained low, reporting at 4.2% as of the end of December 2016.

### Market Indicators

Relative to prior period

Raleigh-Durham  
Q4 2015

Raleigh-Durham  
Q4 2016

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



### Summary Statistics

Q4 2016 Regional Office Market

Triangle  
Region

Triangle  
CBD

Triangle  
Suburban

Existing Inventory  
(Square Feet)

66,222,635

10,551,664

55,670,971

Vacancy Rate

7.9%

5.1%

8.4%

Change From Q4 2015

-1.7%

-1.0%

-1.9%

2016 Net Absorption  
(Square Feet)

1,601,706

99,811

1,501,895

Under Construction  
(Millions Square Feet)

2.0

701,000

1.3

2016 Construction Deliveries  
(Square Feet)

504,306

0

504,306

### Asking Rents

Average Quoted

\$21.51

\$27.10

\$21.00

Change from Q4 2015

\$0.71

\$1.92

\$0.59

Class A Rents

\$25.62

\$28.81

\$25.14

## Absorption & Leasing Activity

- At the close of 2016, the Triangle's year-to-date net absorption totaled 1,601,706 square feet. Total net absorption in 2016 was lower than year-end totals reported at the close of 2015 because of the 2.0M square feet of office construction that the Triangle is expected to deliver throughout 2017. The RTP | I-40 submarket gained momentum in the fourth quarter, obtaining the most positive net absorption with over 600,000 SF absorbed. The Six Forks Falls of Neuse submarket also reported strong absorption numbers at the close of the quarter with 331,914 SF of positive net absorption.
- The RTP | I-40 submarket reported the most positive net absorption in the Class A Triangle office market at 426,866 square feet. The overall Triangle suburban market reported the highest year-to-date occupancy with over 1.5M square feet of positive net absorption.
- The largest deal of the quarter was the 70,000 square foot lease signed by Nutanix at 701 W. Main Street in the Downtown Durham submarket. The 284,000 SF building is currently 68.3% leased with amenities including bio-tech lab and research lab space. At 1025 Think Place in the RTP I-40 submarket, UNC Health Care signed the largest year-to-date deal occupying 112,224 total square feet.

## Vacancy & Availability

- The Triangle market's vacancy rate remained low at 7.9% for the fourth quarter, resulting in 1.7% drop in percentage points from the fourth quarter of 2015. The overall Triangle and overall Class A vacancy in the Triangle market has been on the decline since 2008.
- With over 2.3M total square feet of vacant space, the Triangle's overall Class A vacancy was 7.3% in the fourth quarter. This represents a 1.9% percent decrease in Class A vacancy from the fourth quarter of 2015.

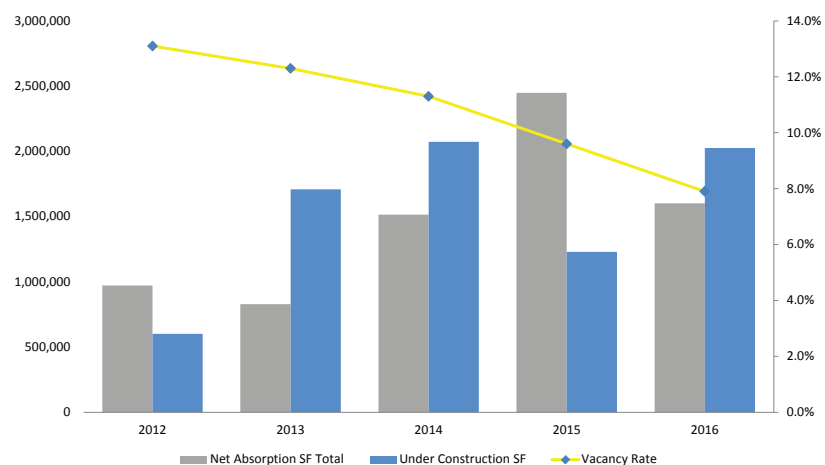
## Rental Rates

- Class A office rents in both CBD and suburban markets continued to increase throughout 2016 in Raleigh-Durham. The average Class A rental rate in Downtown Durham reached \$30.65 per square foot during the fourth quarter. The average Class A rental rate in Downtown Raleigh reached \$28.34 per square foot during the fourth 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.
- Downtown Raleigh reported the highest overall average rental rate at \$27.61 per square foot while Orange County produced the second highest average rents at \$26.30 per square foot.

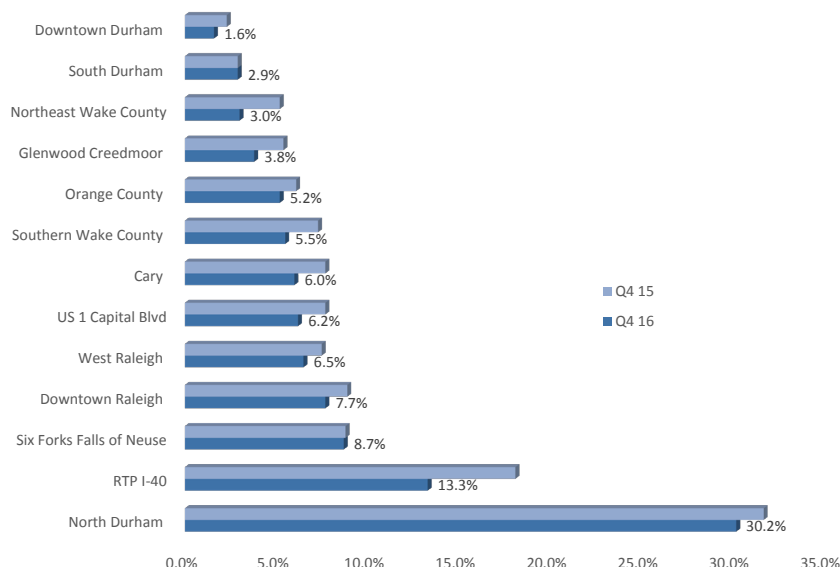
## YTD Triangle Rent Comparisons



## Historical Vacancy, Absorption & Construction



## Q4 '16 Submarket Vacancy Rates



Source: Colliers Research, CoStar Group



## OVERALL SUBMARKET COMPARISONS | RALEIGH-DURHAM

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	2016 NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE
SUBMARKET NAME									
Cary	8,535,720	479,328	28,554	507,882	6.0	146,699	0	190,596	\$21.84
Downtown Durham	4,469,948	72,493	296	72,789	1.6	29,167	0	434,000	\$25.79
Downtown Raleigh	6,081,716	431,838	38,618	470,456	7.7	70,644	0	267,000	\$27.61
Glenwood   Creedmoor	3,068,056	114,198	3,498	117,696	3.8	49,772	0	0	\$21.64
North Durham	1,751,120	529,161	0	529,161	30.2	25,173	0	0	\$14.77
Northeast Wake County	512,371	15,229	0	15,229	3.0	11,357	0	0	\$14.49
Orange County	2,880,173	150,765	0	150,765	5.2	49,965	0	158,284	\$26.30
RTP   I-40	12,579,102	1,583,770	92,357	1,676,127	13.3	603,810	0	391,000	\$19.75
Six Forks   Falls of Neuse	8,029,630	676,365	19,136	695,501	8.7	331,914	0	329,214	\$23.62
South Durham	4,992,059	141,793	2,895	144,688	2.9	48,823	0	76,446	\$21.32
Southern Wake County	1,741,694	95,386	0	95,386	5.5	62,951	0	0	\$17.09
US 1   Capital Blvd.	2,801,181	173,740	0	173,740	6.2	74,919	16,200	0	\$17.14
West Raleigh	8,779,865	546,591	24,490	571,081	6.5	107,997	24,582	178,988	\$23.80
<b>MARKET TOTALS</b>	<b>66,222,635</b>	<b>5,010,657</b>	<b>209,844</b>	<b>5,220,501</b>	<b>7.9</b>	<b>1,601,706</b>	<b>40,782</b>	<b>2,025,528</b>	<b>\$21.51</b>

## CLASS A SUBMARKET COMPARISONS | RALEIGH-DURHAM

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	2016 NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE
SUBMARKET NAME									
Cary	4,044,639	246,628	28,554	275,182	6.8	13,320	0	167,536	\$23.48
Downtown Durham	2,394,518	8,063	0	8,063	0.3	36,516	0	434,000	\$30.65
Downtown Raleigh	3,857,878	369,012	38,618	407,630	10.6	51,347	0	267,000	\$28.34
Glenwood   Creedmoor	1,247,991	34,992	0	34,992	2.8	36,686	0	0	\$24.61
Orange County	1,384,163	99,812	0	99,812	7.2	2,704	0	158,284	\$28.79
RTP   I-40	6,936,675	482,565	79,912	562,477	8.1	426,866	0	355,000	\$23.73
Six Forks   Falls of Neuse	3,461,552	421,053	2,712	423,765	12.2	239,044	0	329,214	\$27.71
South Durham	2,373,120	83,055	2,895	85,950	3.6	(11)	0	0	\$24.01
Southern Wake County	85,710	0	0	0	0.0	0	0	0	\$22.00
US 1   Capital Blvd.	1,045,060	64,900	0	64,900	6.2	7,950	0	0	\$22.15
West Raleigh	4,610,664	324,423	15,636	340,059	7.4	107,015	24,582	178,988	\$26.00
<b>MARKET TOTALS</b>	<b>31,441,970</b>	<b>2,134,503</b>	<b>168,327</b>	<b>2,302,830</b>	<b>7.3</b>	<b>921,437</b>	<b>24,582</b>	<b>1,890,022</b>	<b>\$25.62</b>

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

## NOTABLE 2016 SALES ACTIVITY

PROPERTY	SUBMARKET	SALES MONTH	SALES PRICE (MILLIONS)	SIZE (SF)	PRICE PER SF	CAP RATE (%)	BUYER
Charter Square	Downtown Raleigh	September	\$77.6	243,106	\$319	NA	Highwoods Properties
EastRidge at Perimeter Park	RTP   I-40	April	\$47.8	487,356	\$98	NA	Somerset Properties
Bradford & Berrington Center	RTP   I-40	April	\$46.0	224,779	\$205	NA	Crown Realty & Development
*Dilweg Company Portfolio	RTP   I-40	November	\$41.5	263,474	\$157	NA	Dilweg Companies
Toshiba	RTP   I-40	January	\$35.5	200,846	\$177	6.1	GC Essential Asset REIT II
Regency Forest	Cary	June	\$35.2	206,588	\$170	6.5	True North Mgmt Group
*Brickman Medical Portfolio	South Durham	November	\$34.8	98,324	\$354	NA	HTA (REIT)
*Brookdale NC Portfolio	RTP   I-40   West Raleigh	August	\$31.7	184,511	\$172	NA	CapRidge Partners
Carolina Crossing	South Durham	January	\$25.9	66,232	\$392	NA	Hammes Partners
Trinity Place	West Raleigh	July	\$23.5	111,762	\$210	NA	Origin Capital Partners

\*NOTE: Part of a portfolio sale.

## Construction & Investment Activity

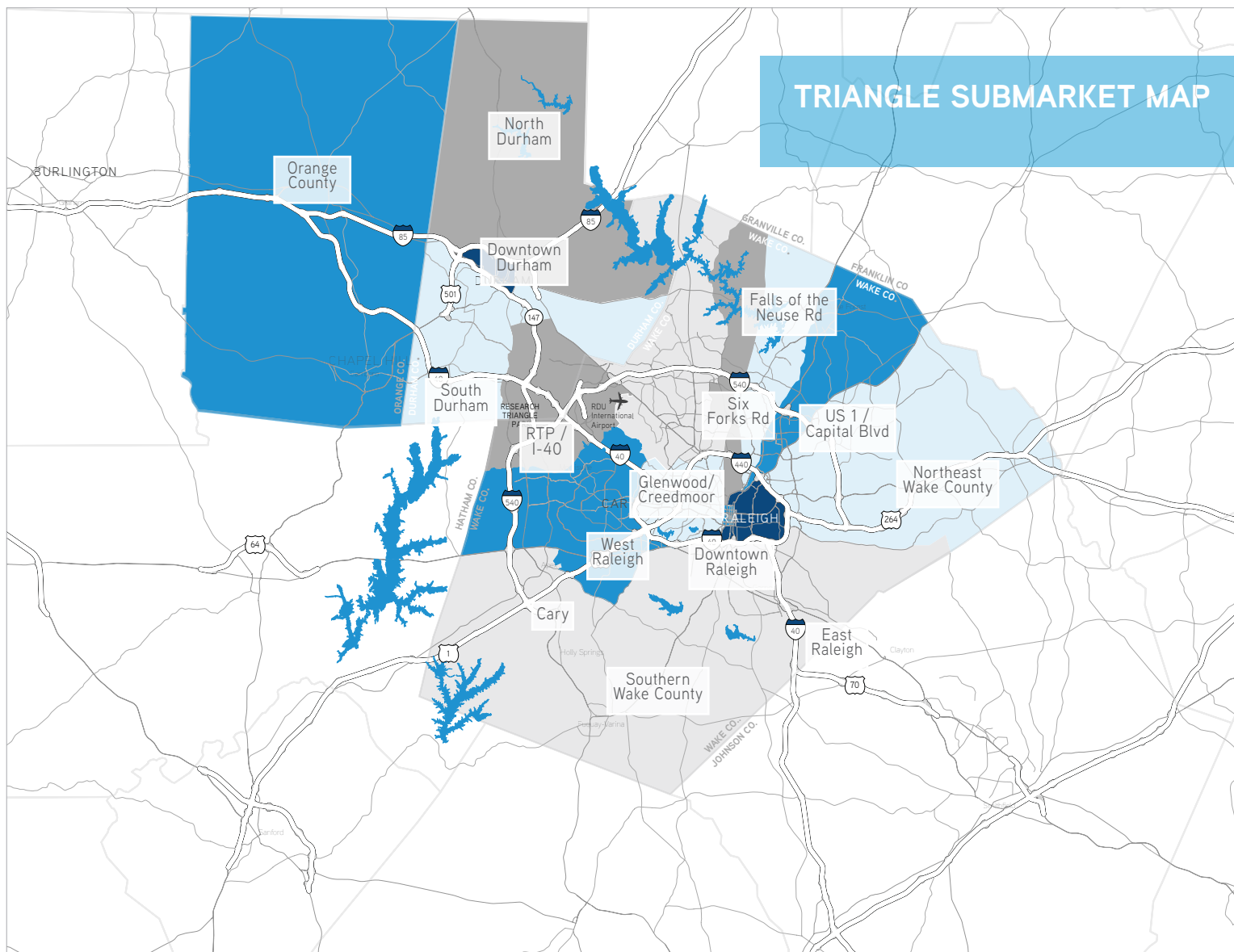
- › At the close of 2016, office deliveries totaled 504,306 SF in 13 buildings with an additional 2,025,528 million square feet that is currently under construction. With several highly-anticipated projects underway, including Gateway Center and the Dillon, Downtown Raleigh and Downtown Durham have a combined 701,000 total square feet under construction at the end of the fourth quarter. Year-to-date average Class A office deliveries in the Triangle totaled 388,975 SF and over 1.8M square feet of space under construction.
- › The Triangle experienced strong pre-leasing percentages during the fourth quarter of 2016. Of the 2,025,528 square feet that is under construction, 48% of that inventory that is pre-leased. In Downtown Durham, DCRI (Duke Clinical Research Institute) will occupy all 156,274 SF of the planned Southern Gateway building in the Durham ID District. At Midtown Plaza in North Hills, the fourth quarter pre-leasing percentage is up to 83.0% after Allscripts signed on to occupy over 200,000 square feet.
- › The most notable office transaction of 2016 was the sale of Charter Square in Downtown Raleigh. The 243,106 SF property portfolio sold for \$78,400,000 at \$322.49 per square foot in September. The property was sold to Highwoods Properties from Dominion Realty Partners at a 7.6% pro forma cap rate. Highwoods Properties stated that \$5.1 million in building improvements are planned for stabilization of the asset. Charter Square is a newly constructed Class A building that was approximately 70% leased at the time of sale.
- › In the fourth quarter, the Raleigh-Durham market produced \$220M in total volume of 16 office property sales with an average per square foot price of \$217. Year-end sales volume reached \$827M and \$183 per square feet in 57 office properties across the Triangle market.

## Forecast

- › The Triangle office market will continue to favor landlords throughout 2017. The large increase in construction deliveries will push net absorption totals even higher than in previous years. With the delivery of new office space, Class A vacancy could rise, but only minimally. The average asking rents in Raleigh-Durham could level off towards the end of 2017.
- › The Triangle region will remain a highly attractive market for all investment sectors. Raleigh was recently named #5 Top 12 Destinations of 2017 and North Carolina ranked among the top 10 fastest growing states in the country. According to Realtor.com, Raleigh-Durham metro will have higher than average increases in home sales in 2017 and will rank among the top U.S. markets for housing growth. Raleigh is home to over 500 startup companies and in the last three years alone, startups in Raleigh have raised over \$300 million in venture capital investment.

### NOTABLE 2016 DEVELOPMENT ACTIVITY

PROPERTY	SUBMARKET	SIZE (SF)	PRE-LEASED %	QUOTED RATE	BUILDING CLASS	STATUS	DELIV DATE
Tower IV at North Hills	Six Forks Falls of Neuse	344,500	0%	\$36.50	A	Proposed	2018
Midtown Plaza	Six Forks Falls of Neuse	329,214	83%	\$34.50	A	Under Construction	Q2 17
Charter Square North	Downtown Raleigh	287,669	0%	Withheld	A	Proposed	2018
The Chesterfield	Downtown Durham	284,000	44%	Negotiable	A	Under Construction	Q4 17
The Edison	Downtown Raleigh	279,642	0%	Withheld	A	Proposed	2018
Charter Square North	Downtown Raleigh	287,669	0%	Withheld	A	Proposed	2018
The Dillon	Downtown Raleigh	267,000	6%	Negotiable	A	Under Construction	Q1 18
Five Points Center	Downtown Durham	250,000	0%	Negotiable	A	Proposed	2019
555 Mangum	Downtown Durham	240,500	4.7%	Withheld	A	Proposed	2018
One Glenwood	Downtown Raleigh	224,666	0%	Withheld	A	Proposed	2018
Perimeter Park Seven	RTP   I-40	214,500	0%	Negotiable	A	Proposed	2018
Perimeter Park Five	RTP   I-40	214,500	23%	Withheld	A	Proposed	2018
Forty540	RTP   I-40	205,000	34%	\$27.50	A	Under Construction	Q1 17
Crabtree Terrace	Glenwood Creedmoor	178,000	22%	Withheld	A	Proposed	2019
CentreGreen Three	Cary	167,536	5%	Withheld	A	Under Construction	Q3 17



## 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 Class A, B, and C office properties of 10,000+ SF.

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**502** offices in  
**67** countries on  
**6** continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

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**\$2.3**

billion in  
annual revenue

**1.7**

billion square feet  
under management

**16,300**

professionals  
and staff

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