



Office Market Overview

The Triangle's overall net absorption totaled positive 307,298 square feet during third quarter 2014, surpassing second quarter's positive 193,574 square feet. This gain can be attributed to Class A office demand as 251,734 square feet of space was occupied during third quarter. Class B office buildings also experienced positive net absorption of 55,564 square feet - a significant improvement over last quarter's negative 23,518 square feet. Vacancy in the Triangle dropped 10 basis points to 13.8 percent from the previous quarter and dropped 20 basis points when compared to third quarter 2013. Preliminary numbers for fourth quarter 2014 show vacancy continuing to tighten.

The submarket with the highest net absorption was RTP/RDU with 253,558 square feet of positive net demand. Perimeter Park continues to create a lot of activity in the Morrisville area. SciQuest, Inc. and Trinity Partners both occupied their spaces at the beginning of August in the Perimeter Two building totaling over 92,000 square feet - SciQuest leased 78,565 square feet and Trinity Partners leased 14,191 square feet. Across the street, the Perimeter Three building was completed in September. Teleflex expanded its operation in the Triangle by leasing approximately 161,000 square feet on four floors in the building. They occupied 84 percent of that space in mid-September. Duke Realty is ready to break ground on Perimeter Four and is slated for completion in October of next year. ChannelAdvisor has already signed a seven year lease for 72 percent of the building and will be relocating into nearly 137,000 square feet on the first, third, fourth and fifth floors of the new 192,225 square foot building at 3025 Carrington Mill Boulevard. They also have an option to expand into the remaining 55,687 square feet. The urban submarkets also had gains, but they were more modest. Downtown Durham experienced approximately 18,000 square feet of net absorption as Nutanix moved into over 16,500 square feet on the fourth floor of The Measurement Building on 404 Hunt Street. Downtown Raleigh experienced approximately 13,000 square feet of net absorption with a 7,200 square foot sublease at PNC Plaza and a nearly 8,000 square foot lease at One Bank of America Plaza signed by Capital Area Metropolitan Planning Organization.

The Triangle had over 775,000 square feet of leases signed during the third quarter. Of those transactions, RTP/RDU executed 292,469 square feet. ChannelAdvisor is among the largest leases announced this year. In addition, Nimble Storage leased over 48,000 square feet at Imperial Center, Weatherby Locums signed a lease in August for 26,575 square feet at Central Park South and The Army Research Office, Intradot and CrazyBrain Youth Engineering all leased space at 800 Park Drive totaling nearly 87,000 square feet. Six Forks/Falls of Neuse and West Raleigh also had significant leasing activity during third quarter. In Six Forks/Falls of Neuse, Merz North America leased 58,626 square feet at NorthChase Executive Center I and Hatteras Investments leased 13,500 square feet in NorthChase Executive Center II. Select leases in West Raleigh include a renewal by TeraData for 28,780 square feet in the Forsyth Building and a few medical office transactions at RexView Medical, Trinity III and Blue Ridge Center I.

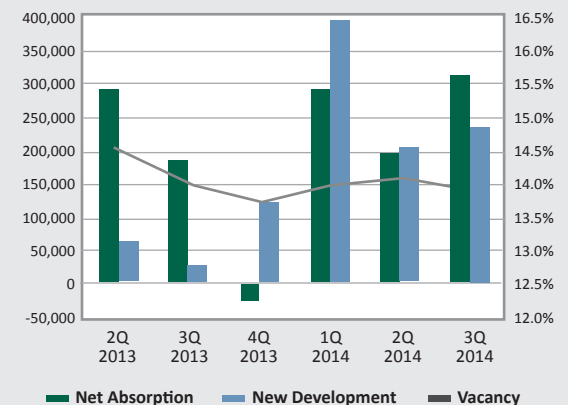
Two office developments broke ground during third quarter. Kane Realty Corp. began construction in September on the eighteen story North Hills Tower II in the Six Forks/Falls of Neuse submarket. The building will be a 300,000 square foot Class A office building with a direct asking rental rate of \$33.95 per square foot delivering in April 2016. North Hills Tower II will be the tallest office structure on the I-440 beltline with ten floors of office above seven levels of structured parking. In West Raleigh, construction has recently started on Wade III located at 5440 Wade Park Boulevard. The building is 25 percent leased with direct asking rental rates at \$27.50. Avison Young signed a five year lease in May of this year and plan to move into 12,000 square feet on the first floor in July 2015. In addition, Perimeter Four is expected to break ground in November.

Source: CoStar; Real Capital Analytics; Triangle Business Journal; Lincoln Harris Research

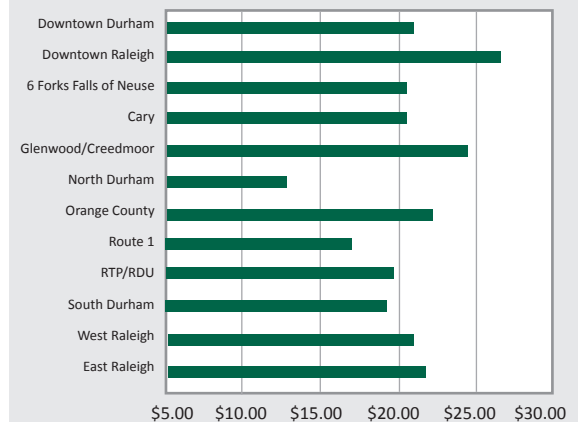
MARKET STATISTICS

	3Q 2014	2Q 2014	FORECAST
Market Supply (SF)	50,646,432	50,401,080	▲
Under Construction (SF)	1,077,366	1,322,718	▲
Direct Vacancy (%)	13.3%	13.5%	▲
Total Vacancy (%)	13.8%	13.9%	▲
Total Net Absorption (SF)	307,298	193,574	▲
YTD Net Absorption (SF)	799,480	492,182	▲
Direct Asking Rent	\$20.28	\$20.30	▲
Class A Direct Asking Rent	\$22.74	\$22.76	▲
Class B Direct Asking Rent	\$18.37	\$18.39	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET ASKING RATES - 3Q 2014



OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	3Q 2014 Absorption	YTD 2014 Absorption	Completions	Construction	Asking Rates
DOWNTOWN DURHAM	3,512,452	136,809	3.9%	17,448	259,472	0	0	\$21.80
DOWNTOWN RALEIGH	3,938,580	254,016	6.4%	13,103	9,928	0	242,969	\$26.63
URBAN TOTALS	7,451,032	390,825	5.2%	30,551	269,400	0	242,969	\$25.65
6 FORKS FALLS OF NEUSE	5,566,404	741,928	13.3%	43,340	35,500	0	0	\$20.76
CARY	5,888,728	652,194	11.1%	-2,448	12,928	0	427,000	\$20.53
GLENWOOD/CREEDMOOR	2,131,100	170,833	8.0%	-11,668	35,105	0	167,000	\$24.04
NORTH DURHAM	830,494	420,236	50.6%	-24,392	-23,081	0	0	\$13.37
ORANGE COUNTY	1,629,870	170,532	10.5%	3,364	22,776	0	0	\$22.72
ROUTE 1	2,163,121	295,679	13.7%	-4,058	2,225	0	0	\$17.53
RTP/RDU	13,079,394	3,196,549	24.4%	253,558	291,508	245,352	0	\$19.45
SOUTH DURHAM	3,667,211	300,216	8.2%	33	45,080	0	93,906	\$19.36
WEST RALEIGH	7,247,147	609,302	8.4%	26,518	113,039	0	146,491	\$21.64
EAST RALEIGH	991,931	16,000	1.6%	-7,500	-5,000	0	0	\$22.03
SUBURBAN TOTALS	43,195,400	6,573,469	15.2%	276,747	530,080	245,352	834,397	\$19.82
RALEIGH TOTALS	50,646,432	6,964,294	13.8%	307,298	799,480	245,352	1,077,366	\$20.25

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2014 Absorption	Asking Rent (PSF)
Class A	278	29,422,118	2,879,070	9.8%	485,842	\$22.50
Class B	378	21,224,314	4,085,224	19.2%	313,638	\$18.38
MARKET TOTALS	656	50,646,432	6,964,294	13.8%	799,480	\$20.25

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
One Bank of America Plaza	Downtown Raleigh	360,515	\$81,500,000	\$226.00
RDU Center III	RTP/RDU	114,653	\$23,300,000	\$203.00
2520 Meridian Parkway	South Durham	115,000	\$22,200,000	\$193.00
6501 Weston Parkway	Cary	93,990	\$12,500,000	\$133.00
Research Commons (5 buildings)	RTP/RDU	422,000	\$58,700,000	\$139.00

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
ChannelAdvisor	Perimeter Four	RTP/RDU	136,538	New
Merz North America	NorthChase Executive Center I	6 Forks Falls of Neuse	58,626	New
Nimble Storage Inc.	Newcastle South	RTP/RDU	48,378	New
Bronto Software	American Tobacco	Downtown Durham	40,000	Sublease/Exp
The Army Research Office	800 Park Drive	RTP/RDU	33,324	New
Intradot	800 Park Drive	RTP/RDU	29,285	New

About Lincoln Harris

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