

Office Market Overview

Overall office building vacancy in the Triangle remained at 10.2 percent during the second quarter. Though vacancy remained the same as the previous quarter, vacancy is down 140 basis points from a year ago. Direct vacancy moved to 9.2 percent – down 20 basis points from first quarter. Overall net absorption was relatively flat at a positive 34,196 square feet with the RTP/RDU submarket experiencing the most significant activity. The largest move-in of the quarter was the relocation of Veritas Collaborative’s existing child and adolescent psychiatric hospital from Douglas Street in Durham to 4024 Stirrup Creek Drive. The renovation was said to cost \$9.1 million and Veritas moved to the new location in May.

The Triangle signed almost 850,000 square feet in leases during second quarter with 93.0 percent of the leases being in suburban submarkets. The RTP/RDU, West Raleigh, and Six Forks Falls of Neuse submarkets experienced the most leasing activity. The largest new lease was in Alexandria Innovation Center on Kit Creek Road in Morrisville where Foundation Medicine Inc., a molecular information company specializing in cancer care, signed a lease for over 48,000 square feet on floors 1 and 2. In addition, SynteractHCR announced the company would be doubling its office space to over 20,000 square feet with an expansion on the fifth floor of Building 300 at Keystone Office Park and Netsertive, a digital marketing technology firm, signed a nearly 22,000 square foot lease at Perimeter Park. The company will move to 2450 Perimeter Park Drive this October. In West Raleigh, NCSU Delta will be taking nearly 20,000 square feet at the new Center for Technology & Innovation building on North Carolina State University’s Centennial Campus at 2401 Research Drive. KeyStone Corporation’s 105,000 square foot, Class A laboratory and office building is currently under construction and is set to deliver in November 2016. UnitedHealthcare signed a lease for just over 61,000 square feet in the new 18-story Bank of America Tower at North Hills in Six Forks Falls of Neuse. Also, in The Landmark building at North Hills at 4601 Six Forks Road, Siemens leased approximately 18,000 square feet on the fifth floor.

Building sales remain active in the Triangle. One of the largest office building sales transactions during second quarter was the two building portfolio - Berrington Center and Bradford Center at Durham’s Imperial Center. The new owner, an affiliate of Crown Realty & Development, purchased the buildings from B&B Realty for \$46 million (\$205 psf) in April. Quintiles leases all of the 121,883 square feet at Bradford Center and now leases about 32,000 square feet of the 102,896 square foot Berrington Center building. Genband signed a lease for the remaining space bringing the buildings to 100 percent occupancy. During second quarter, according to Real Capital Analytics, eleven office properties sold for a total of \$188 million (\$128 psf) and the average cap rate over the last twelve months was 6.7 percent - down 79 basis points from the prior twelve months.

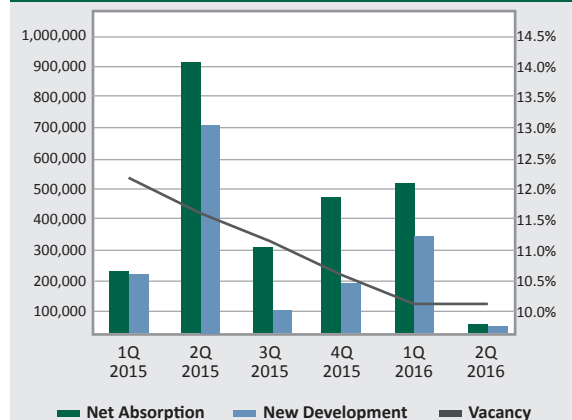
The Triangle Class A and B office rents pushed to \$22.11 psf during second quarter - up almost 1.0 percent from first quarter and up approximately 4.3 percent over last year. Class A direct rental rates actually fell \$0.12 to \$25.04 psf while Class B direct rental rates increased over the previous quarter to \$18.36 psf. Class A office product in Downtown Durham, Orange County, and Downtown Raleigh are demanding the highest direct rental rates with Downtown Durham being the highest at \$29.75 psf on full service leases.

Several buildings under construction offer large contiguous blocks of Class A space. One of the largest can be found in the Forty540 at the Perimeter building on the corner of I-40 and I-540 at 3030 Slater Road in Morrisville. Strategic Capital Partners is developing the five-story Class A office building with 205,000 square feet available for lease with occupancy in March 2017. In addition, Kane Realty Corporation’s 267,000 square foot building, The Dillon, at 223 S West Street is also under construction in Downtown Raleigh. This is the newest mixed-use development in Raleigh’s Warehouse District. The office building is now nearly 25 percent leased since Stewart Engineering signed a lease for 28,000 square feet on the 10th floor. There is approximately 203,000 square feet still available on the remaining eight floors. This new office component is set to deliver in March 2018.

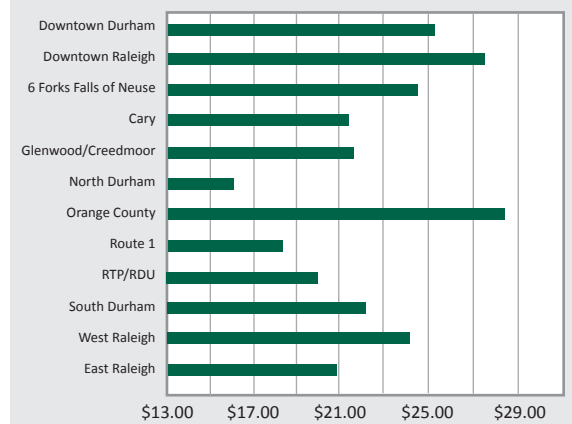
MARKET STATISTICS

	2Q 2016	1Q 2016	FORECAST
Market Supply (SF)	52,214,940	52,189,940	▲
Under Construction (SF)	1,324,486	1,034,486	▲
Direct Vacancy (%)	9.2%	9.4%	▼
Total Vacancy (%)	10.2%	10.2%	▼
Total Net Absorption (SF)	34,196	514,161	▼
YTD Net Absorption (SF)	548,357	514,161	▲
Direct Asking Rent	\$22.17	\$21.99	▲
Class A Direct Asking Rent	\$25.04	\$25.16	▼
Class B Direct Asking Rent	\$18.36	\$18.00	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET DIRECT ASKING RATES - 2Q 2016



Source: CoStar data pulled 7.21.16; Real Capital Analytics; Wake County Economic Development; Urban Land Institute; Triangle Business Journal; Lincoln Harris Research

OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	2Q 2016 Absorption	YTD 2016 Absorption	Completions	Construction	Direct Asking Rates
DOWNTOWN DURHAM	3,511,812	93,674	2.7%	-1,954	6,783	0	150,000	\$25.30
DOWNTOWN RALEIGH	4,920,565	469,625	9.5%	-36,364	23,221	0	267,000	\$27.47
URBAN TOTALS	8,432,377	563,299	6.7%	-38,318	30,004	0	417,000	\$26.86
6 FORKS FALLS OF NEUSE	5,986,442	810,987	13.5%	6,424	111,793	25,000	329,214	\$24.68
CARY	6,426,473	485,407	7.6%	-17,110	-15,471	0	-	\$21.47
GLENWOOD/CREEDMOOR	2,301,101	168,147	7.3%	-19,793	-2,551	0	-	\$21.69
NORTH DURHAM	919,698	398,331	43.3%	23,313	23,313	0	-	\$16.02
ORANGE COUNTY	1,899,647	105,478	5.6%	-11,862	2,678	0	158,284	\$28.41
ROUTE 1	2,161,348	127,253	5.9%	3,346	10,855	0	36,000	\$18.24
RTP/RDU	11,953,934	1,865,621	15.6%	65,276	385,624	0	205,000	\$19.85
SOUTH DURHAM	3,803,643	150,291	4.0%	9,439	5,784	0	-	\$22.24
WEST RALEIGH	7,336,658	631,915	8.6%	9,681	-10,697	0	178,988	\$24.18
EAST RALEIGH	993,619	14,004	1.4%	3,800	7,025	0	-	\$20.99
SUBURBAN TOTALS	43,782,563	4,757,434	10.9%	72,514	518,353	25,000	907,486	\$21.66
RALEIGH TOTALS	52,214,940	5,320,733	10.2%	34,196	548,357	25,000	1,324,486	\$22.17

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2016 Absorption	Direct Asking Rent (PSF)
Class A	290	31,317,936	2,826,509	9.0%	378,672	\$25.04
Class B	378	20,897,004	2,494,224	11.9%	169,685	\$18.36
MARKET TOTALS	668	52,214,940	5,320,733	10.2%	548,357	\$22.17

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
Bradford & Berrington Center	RTP/RDU	224,779	\$46,000,000	\$205
Regency Forest I	Cary	103,597	\$17,700,000	\$171
Regency Forest II	Cary	102,991	\$17,600,000	\$171
3101 Hillsborough Street	West Raleigh	28,987	\$10,800,000	\$373
201 Shannon Oaks Circle	Cary	56,571	\$7,000,000	\$124

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
BASF Corp.	2510 Meridian Parkway	South Durham	63,113	Renewal
UnitedHealthcare	4242 Six Forks Road	6 Forks Falls of Neuse	61,880	New
Foundation Medicine Inc.	7010 Kit Creek Road	RTP/RDU	48,236	New
ALLSTATE	Spring Forest III	Route 1	24,837	Renewal
SyneractHCR	430 Davis Drive	RTP/RDU	23,392	New

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Source: CoStar data pulled 7.21.16; Real Capital Analytics; Wake County Economic Development; Urban Land Institute; Triangle Business Journal; Lincoln Harris Research

