

TRIANGLE OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Triangle Employment	922k	935k	▲
Triangle Unemployment	4.1%	3.8%	▲
U.S. Unemployment	4.3%	3.8%	▼

Numbers above are quarterly averages; April- May 2018 data used to represent Q2 2018 for Raleigh/Durham

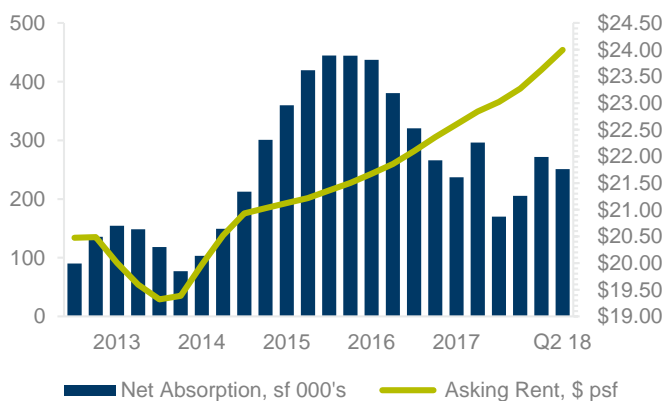
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	13.1%	13.6%	▼
Net Absorption (sf)	1.01M	427k	▲
Under Construction (sf)	2.2M	2.4M	▼
Average Asking Rent*	\$23.11	\$24.58	▲

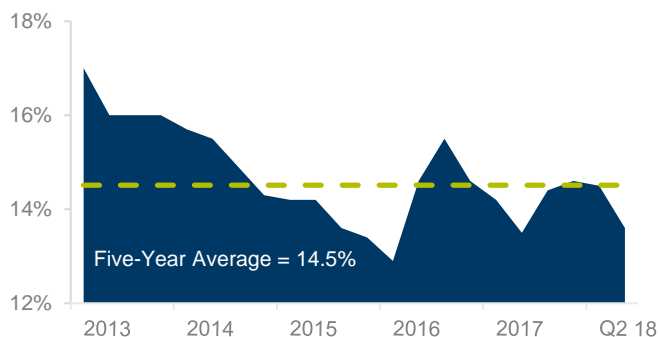
*Market Indicators are not reflective of U.S. MarketBeat tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Source: TBJ Space

Economy

Raleigh-Durham's strong start to the year showed signs of heating up further in the second quarter. Key economic indicators like Triangle unemployment declined to 3.8%, and total employment grew 1.4% year-over-year. Local announcements told the story as four companies selected the Triangle area for large corporate expansions, totaling more than 1,000 new jobs and over \$2.1 million in investment. Biogen and Trialcard, both located in RTP, announced they would create 150 and 300 jobs respectively. Ipreo, a global financial services technology firm located in downtown Raleigh with 320 employees, further expanded its footprint with the addition of 250 new jobs for Wake County. Lastly, Xylem a clean tech firm picked Durham over New York and India for a 300-job expansion that is expected to bring an average salary of \$95,000 to the Triangle. These corporate commitments demonstrate a continued desire to expand in the Triangle and take advantage of the highly skilled labor market.

Downtown Raleigh also made a major announcement expanding the footprint of its warehouse district with the opening of Morgan Street Food Hall and Union Station. July marked the first train to leave Union Station, which the state hopes will bolster future transportation throughout the central part of the state with four daily roundtrips to Charlotte, but also serving areas as far away as New York and Florida. The project is designed to help address Downtown Raleigh's explosive population growth, which is expected to increase another 34% by 2022.

After solidifying itself as the second longest economic expansion period in history, the U.S. economy posted a solid 4.1% GDP growth rate and U.S. unemployment came in at 3.8% in the second quarter. The impressive GDP growth was the highest rate since Q3 of 2014. Experts have offered differing opinions as to how much the growth rate might have been impacted by President Trump's tariffs as many suppliers rushed to export their products before the tariffs took effect potentially inflating the growth rate. The tariffs have continued to escalate a growing trade war, particularly between the U.S. and China where both countries have showed no signs of backing down. The Fed raised interest rates by 25 basis points (bps) to the target level of 1.75%-2.00% in their June meeting. The meeting notes cited strong economic activity and consumer spending as economic drivers. Economists predict one or two more rate hikes in 2018 and then likely two more in 2019. Regardless, the second half of 2018 will be watched closely as we near the longest economic expansion period in history.

Market Overview

The Triangle area saw robust activity in Q2 2018 as overall vacancy declined and net absorption posted solid numbers, even without any new office buildings delivering. Strong leasing activity remained steady as net

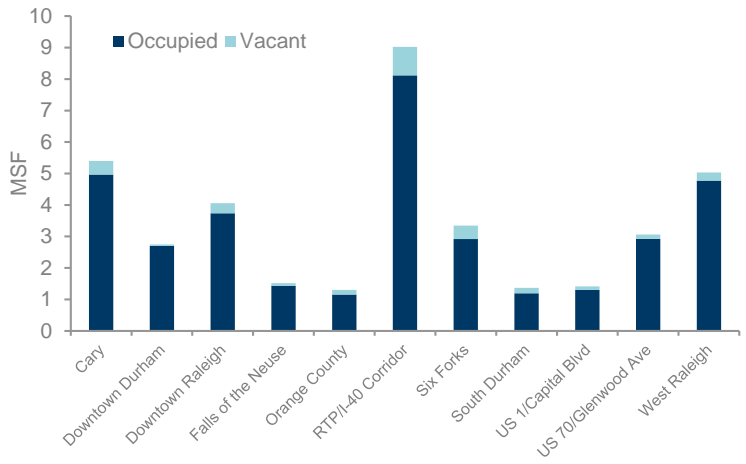
absorption for the quarter registered 482,677 square feet (sf), just shy of the previous quarter's levels. The RTP/I-40 Corridor, which accounted for 338,416 sf or 70% of the Triangle's net absorption led the way. Much of the submarket's activity was attributed to the newly remodeled Parmer RTP campus that GSK vacated in 2016, leaving over 1.0 million square feet (msf) vacant. Karlin Real Estate has since been busy redeveloping the site and adding amenities to make it more competitive. We expect RTP/I-40 to keep this momentum going as these spaces are redeveloped and made available. Downtown Durham posted negative net absorption levels for the third time in the last year, but with the deliveries of One City Center, Durham I.D. (buildings 200 and 300) this trend will likely change in the very near term. Once delivered, these buildings will provide much needed space for tenants as Class A vacancy currently sits at the historical lows of 1.5%. Overall and Class A vacancy in the Triangle dipped to 13.5% (lowest since this time last year) and 8.6% respectively. Overall vacancy saw a decrease of almost 1.0% quarter over quarter due to the combination of healthy leasing activity and the lack of new supply deliveries.

Rising rental rates continued to surge in the Triangle as tenants adjust to the realities of a market fueled by limited supply, higher construction costs, and an active investment market. This can be especially challenging for tenants re-engaging the market for the first time in years as the dynamics of the Triangle market have shifted considerably in favor of landlords. Tenants who signed a five-year lease in 2013, would have paid on average a \$21.35 per square foot (psf) gross rental rate. Now, the same tenant would pay \$26.74 psf, reflecting a remarkable 24.2% rent growth in only five years. Overall asking rates were up 6.4% and Class A rates edged up 4.8% year-over-year. Cary and downtown Raleigh showed the largest Class A growth at 8.3% year-over-year respectively. It has been no surprise that rents continue to climb as the market heavily favors landlords. With the current supply imbalance, a robust economy, and healthy leasing activity, Cushman & Wakefield forecasts Class A and overall rental rates for the Triangle to climb as high as \$29.12 psf and \$27.23 psf respectively, by 2022.

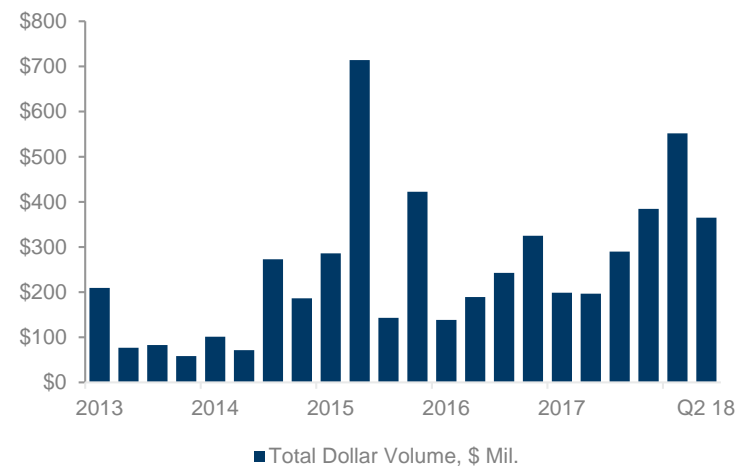
Investment Sales

Investment activity in the second quarter slowed down from the white-hot start observed in the first quarter, but most experts point to this being a normal trend impacting the summer months. Investment sales volume totaled \$365 million bringing the year-to-date total to \$916 million. This is a substantial increase from the first half of 2017, which only saw \$383 million. Volume in the second quarter was boosted by the sale of the Centennial Research Park portfolio consisting of 7 properties and totaling \$172 million.

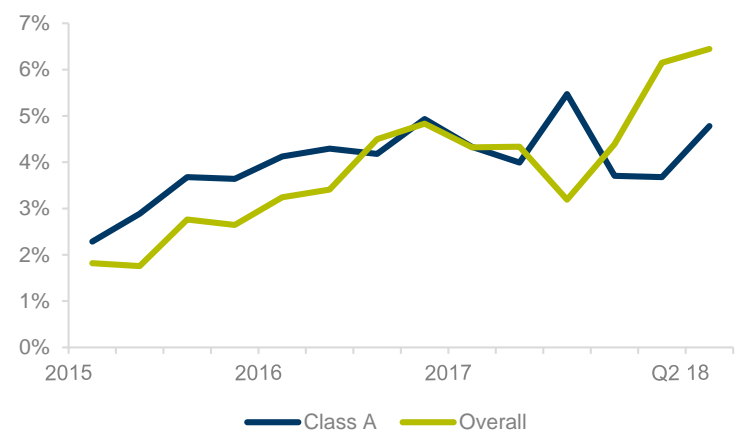
Class A Vacancy – Major Submarkets



Cumulative Monthly Investment Sales Volume, \$ Millions



YoY Market-Wide Asking Rate Growth (Class A)



MARKETBEAT

Raleigh-Durham

Office Q2 2018



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	4-QTR NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)**
Downtown Raleigh	71	4,918,864	427,768	8.7%	30,383	255,025	150,000	\$27.39	\$28.53
Downtown Durham	70	4,039,213	316,747	7.8%	-78,377	-96,730	454,265	\$27.86	\$30.39
CBD	141	8,958,077	744,515	8.3%	-47,994	158,295	604,265	\$27.56	\$29.09
Cary	132	6,596,398	739,137	11.2%	-32,138	-48,286	453,500	\$24.48	\$25.88
Falls of the Neuse	75	3,040,619	221,007	7.3%	-4,422	26,750	-	\$20.81	\$23.63
North Durham	33	1,229,924	450,868	36.7%	65,419	78,436	-	\$16.06	n/a
Orange County	37	1,689,554	250,414	14.8%	-9,713	100,377	-	\$27.25	\$28.65
RTP/I-40 Corridor	175	14,571,147	3,228,294	22.2%	338,416	539,438	712,824	\$23.23	\$24.91
RTP/I-40 Corridor (Class A)**	77	8,118,351	903,646	11.1%	58,349	111,639	712,824	-	\$24.91
Six Forks	66	4,012,090	594,818	14.8%	48,084	-180,872	-	\$27.08	\$30.01
South Durham	42	1,913,192	247,918	13.0%	11,204	-21,433	-	\$22.21	\$25.58
US 1/Capital Boulevard	47	2,356,117	243,649	10.3%	3,234	-9,549	-	\$22.10	\$24.03
US 70/Glenwood Avenue	74	3,983,977	253,681	6.4%	16,713	160,167	212,500	\$24.61	\$26.71
West Raleigh	93	6,079,753	396,927	6.5%	93,874	184,332	90,000	\$25.75	\$26.87
RALEIGH/DURHAM TOTALS	915	54,430,848	7,371,228	13.5%	482,677	987,655	2,073,089	\$24.60	\$26.74

Note: Market Indicators are not reflective of U.S. MarketBeat tables *Rental rates reflect gross asking \$psf **Submarket subset, not included in Total

	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	4-QTR NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT*
Class A	393	35,641,198	3,049,591	8.6%	182,821	598,718	2,073,089	\$26.74
Class B	486	18,132,788	4,174,512	23.0%	282,963	404,333	-	\$20.18
Class C	89	2,174,210	209,718	9.6%	17,418	71,431	-	\$16.46

Key Lease Transactions Q2 2018

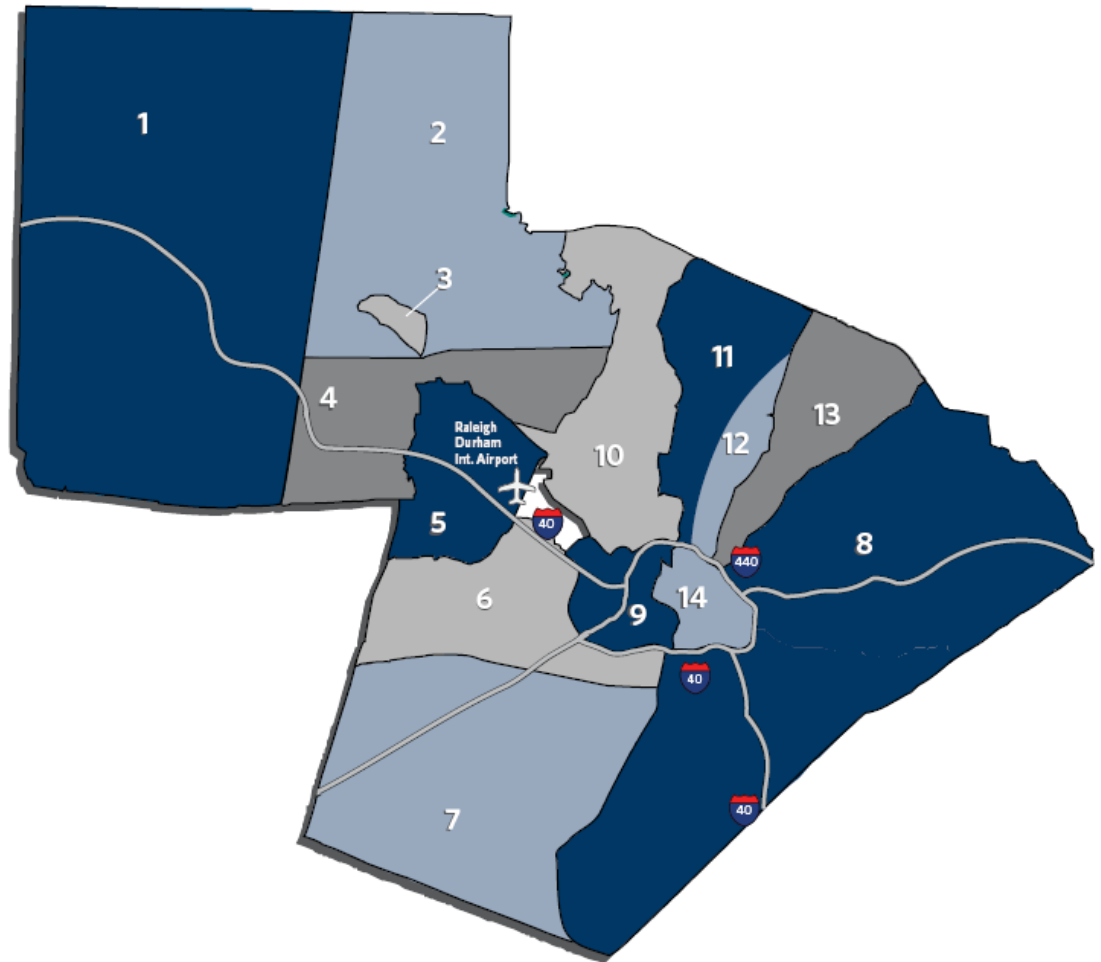
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Forty540	43,624	Align Technologies	New Lease	RTP/I-40 Corridor
600 Frontier	34,809	Dezon	New Lease	RTP/I-40 Corridor
The Dillon	25,248	Analog Devices	New Lease	Downtown Raleigh
19 TW Alexander Dr	16,022	Teledyne	New Lease	RTP/I-40 Corridor

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
NCSU Centennial Campus – Venture & Alliance buildings	620,797	Heitman, LLC / TPG Real Estate JV Parkway Property Investments	\$172,100,000 / \$277	West Raleigh
2728 Capital Blvd	520,994	Equus Capital Partners / New Market Strategies	\$27,500,000 / \$53	US 1 / Capital Blvd
Sun Life Portfolio	223,118	Sun Life Financial / Bentall Kennedy / RealOp Investments	\$30,600,000 / \$137	Overall Triangle
Highwoods Tower II	174,438	Highwoods Properties / BB&T	\$31,035,000 / \$178	Six Forks
Crabtree Overlook	155,830	Trinity Partners / L&B Realty Advisors	\$32,000,000 / \$205	US 70/Glenwood
Imperial Center – Chelsea & Oxford Place	121,511	Crown Realty & Development / OA Development	\$17,300,000 / \$142	RTP/I-40 Corridor
Imperial Center – Cambridge & Canterbury Hall	89,797	Bridge Investment Group / OA Development	\$14,100,000 / \$157	RTP/I-40 Corridor

OFFICE SUBMARKETS

RALEIGH / DURHAM



1. Orange County
2. North Durham
3. Downtown Durham
4. South Durham
5. RTP / I-40 Corridor
6. Cary
7. Southern Wake County
8. Eastern Wake County
9. West Raleigh
10. US 70 / Glenwood
11. Six Forks Road
12. Falls of Neuse Road
13. US 1 / Capital Blvd
14. Downtown Raleigh

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