

TRIANGLE OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Triangle Employment	936k	959k	▲
Triangle Unemployment	3.5%	3.4%	▼
U.S. Unemployment	4.4%	3.9%	▼

Numbers above are quarterly averages; July- August 2018 data used to represent Q3 2018 for Raleigh/Durham

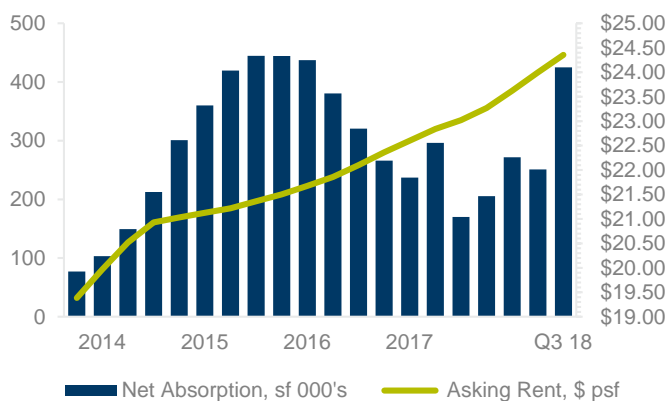
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	13.8%	12.7%	▼
Net Absorption (sf)	-309k	386k	▲
Under Construction (sf)	2.1M	2.6M	▼
Average Asking Rent	\$23.26	\$24.70	▲

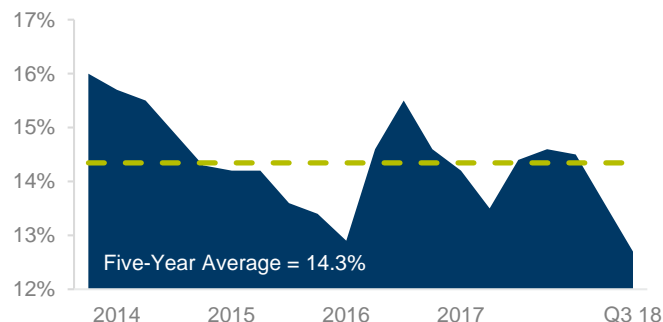
*Market Indicators are not reflective of U.S. MarketBeat tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

After healthy economic activity in the first half of the year, the Raleigh-Durham market showed no signs of slowing down in Q3, adding approximately 24,000 jobs while the unemployment rate fell to 3.4%, 50 basis points (bps) below the national average. As unemployment continues to decline, job creation has kept pace with the rapidly expanding population and labor force, driving continued concerns that the Triangle market is at or close to full employment. The flurry of job announcements continued into Q3 with Arch Capital committing 365 new jobs, an investment estimated at \$12.9 million in the Triangle by the end of 2019. As rental rates reach historical highs in major U.S. markets and recruiting top talent becomes even more competitive in the current labor market, companies will continue to look favorably to Raleigh-Durham and its abundant skilled workforce and high quality of life.

In Q3, the U.S. economy continued to accelerate with solid GDP growth of 3.3%. North Carolina's GDP grew at a rate of 3.4% through the first half of the year and was led by the manufacturing sector with an estimated GDP of \$106,741 million. As trade concerns escalated, the U.S. renegotiated NAFTA with Canada and Mexico, signing a new agreement called USMCA (United States, Mexico and Canada). The Federal Reserve continued its strategy of gradual interest rate hikes, raising interest rates by 25 basis points (bps) to the target level of 2.00%-2.25% in their September meeting. Investment activity in the Triangle has been strong, but the commercial real estate community will continue to carefully watch the impact of rising interest rates as higher borrowing costs slowly start to impact the market, creating potential headwinds for commercial real estate.

Market Overview

For four straight quarters the Triangle office market has posted strong net absorption levels that have driven vacancy rates down. In Q3, the market continued that strength by posting market-wide positive net absorption of 386,111 square feet (sf), and an overall decline in vacancy to 12.7%. Once again, the driving force of this strength was the Class A market where net absorption totaled 309,335 sf and vacancy declined to 8.0%. Much of the quarter's absorption was tied to new deliveries that originally came to market in 2017. Those deliveries totaled 1.6 million square feet (msf) and had an average occupancy level of 67.0% at the time of delivery, leaving roughly 550,000 sf of Class A space for the market to absorb; and that is just what happened in 2018 and in the latest quarter as absorption was concentrated in these new buildings. With supply still trying to catch up to demand, Class A space has become extremely tight in the CBD's of Durham and Raleigh, where vacancy is 0.9% and 4.6%, respectively. Large and even small blocks of existing Class A space in those areas can be difficult to find making it extremely challenging for current and prospective tenants. Unfortunately, current trends show more companies

looking to be in the CBD areas to attract younger millennial and generation Z workforce. Regardless of where you are in the Triangle, the demand for Class A space continues to be a top priority for local companies.

As we gauge the current forecast for supply, help appears to be on the way. We are tracking increasing construction levels over the next few quarters and meaningful deliveries in several submarkets. With new deliveries on the horizon we expect a continued uptick in rental rates driven by asking rates at newly delivered buildings, higher construction costs, investment activity ('high bidder effect'), and general market demand. Q3 saw the delivery of only one building totaling 90,000 sf in West Raleigh as the market waits patiently for some of the new deliveries expected in the quarters ahead. To that end, six buildings totaling 899,977 sf are slated to deliver by the end of 2018, and perhaps more impressively, those deliveries are projected to be approximately 74.0% preleased when they come to market. Downtown Durham in particular, is expected to deliver three buildings (One City Center, Durham North and South I.D.) totaling 454,265 sf in Q4. As a result, we could finally see the pendulum swing back slightly as Class A vacancy in downtown Durham would project to increase to 9.6% if preleasing levels remain consistent. However, strong activity in the submarket may portend record absorption given the market hasn't seen this kind of supply in years.

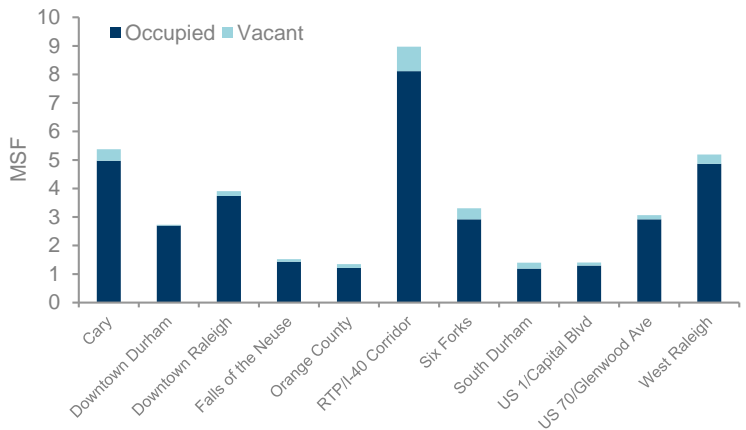
Rental rates in Q3 showed solid growth with overall rates up 6.6% and Class A rates up 3.8% year-over-year, respectively. As has become the norm, Downtown Durham and Six Forks lead the region with the highest Class A rental rates at \$30.49 and \$29.97 respectively, driven by their new deliveries. Current development pipelines are flush with the promise of skyline-altering projects, which could potentially push rental rates over \$40.00 per square foot (psf) on the Triangle's marquee projects at some point in 2019.

Investment Sales

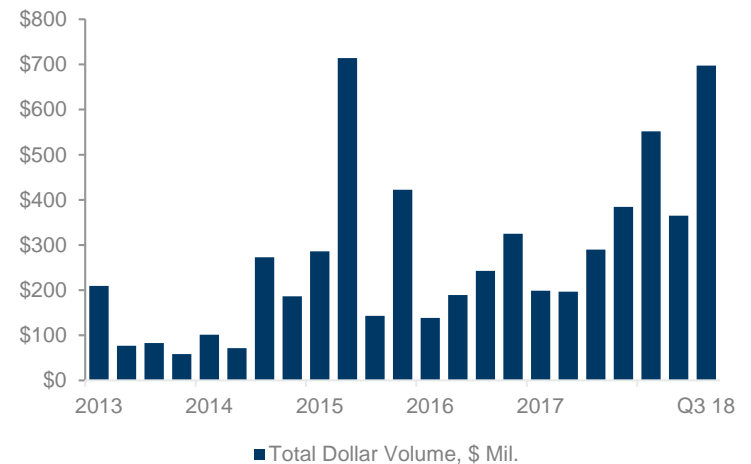
Third quarter investment activity soared to impressive levels and set historical highs as total sales volume was \$698 million. Sales in Q3 were the second largest in RDU history behind only Q2 of 2015 where the market recorded a sales volume of \$714 million. Activity in the third quarter was boosted by the sale of the Wells Fargo Capitol Center in downtown Raleigh for \$173 million, as well as the Starwood portfolio consisting of five properties in Perimeter Park and totaling \$314 million. 2018 year-to-date total investment sales now total \$1.6 billion signifying a historical high, but experts feel there's still room to run as we approach the end of the year. Investment activity has increased by 278% in Raleigh-Durham since 2013, primarily due to increasing interest by investors in the high-growth Southeast market, as well as the current stage of the investment cycle that has delivered a flurry of activity.

Source: TBJ Space

Class A Vacancy – Major Submarkets



Cumulative Monthly Investment Sales Volume, \$ Millions



YoY Market-Wide Asking Rate Growth (Class A)



MARKETBEAT

Raleigh-Durham

Office Q3 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	4,939,296	287,833	5.8%	139,935	318,463	367,397	\$27.75	\$28.92
Downtown Durham	71	4,063,681	329,579	8.1%	11,636	-77,759	672,134	\$27.92	\$30.49
CBD	142	9,002,977	617,412	6.9%	151,571	240,704	1,039,531	\$27.81	\$29.40
Cary	130	6,616,273	716,933	10.8%	25,083	-75,394	453,000	\$24.65	\$26.09
Falls of the Neuse	76	3,053,262	220,742	7.2%	9,765	27,585	-	\$20.98	\$23.70
North Durham	33	1,070,924	350,652	32.7%	1,302	77,940	-	\$16.00	n/a
Orange County	38	1,742,324	251,673	14.4%	30,429	126,095	-	\$27.14	\$28.39
RTP/I-40 Corridor	174	14,551,215	3,127,754	21.5%	84,744	712,233	710,399	\$23.09	\$25.07
RTP/I-40 Corridor (Class A)**	77	8,114,827	859,189	10.6%	44,457	221,480	710,399	n/a	\$25.07
Six Forks	65	3,992,090	508,669	12.7%	85,149	189,931	328,648	\$27.18	\$29.97
South Durham	42	1,911,992	279,763	14.6%	-31,845	-54,216	-	\$22.34	\$25.75
US 1/Capital Boulevard	46	2,335,931	229,462	9.8%	14,187	79,474	31,854	\$22.12	\$24.03
US 70/Glenwood Avenue	73	3,953,333	239,669	6.1%	6,752	155,449	-	\$25.07	\$27.22
West Raleigh	94	6,139,275	470,666	7.7%	8,974	203,345	-	\$26.69	\$27.72
All other submarkets	66	1,534,144	77,322	5.0%	271	1,848	-	\$20.72	\$24.99
RALEIGH/DURHAM TOTALS	979	55,903,740	7,090,717	12.7%	386,382	1,684,994	2,606,932	\$24.70	\$27.00

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

	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	35,792,413	2,857,541	8.0%	309,335	1,102,158	2,458,607	\$27.00
Class B	486	17,931,617	4,047,072	22.6%	54,433	513,853	-	\$20.23
Class C	89	2,179,710	186,104	8.5%	22,614	68,983	-	\$16.94

Key Lease Transactions Q3 2018

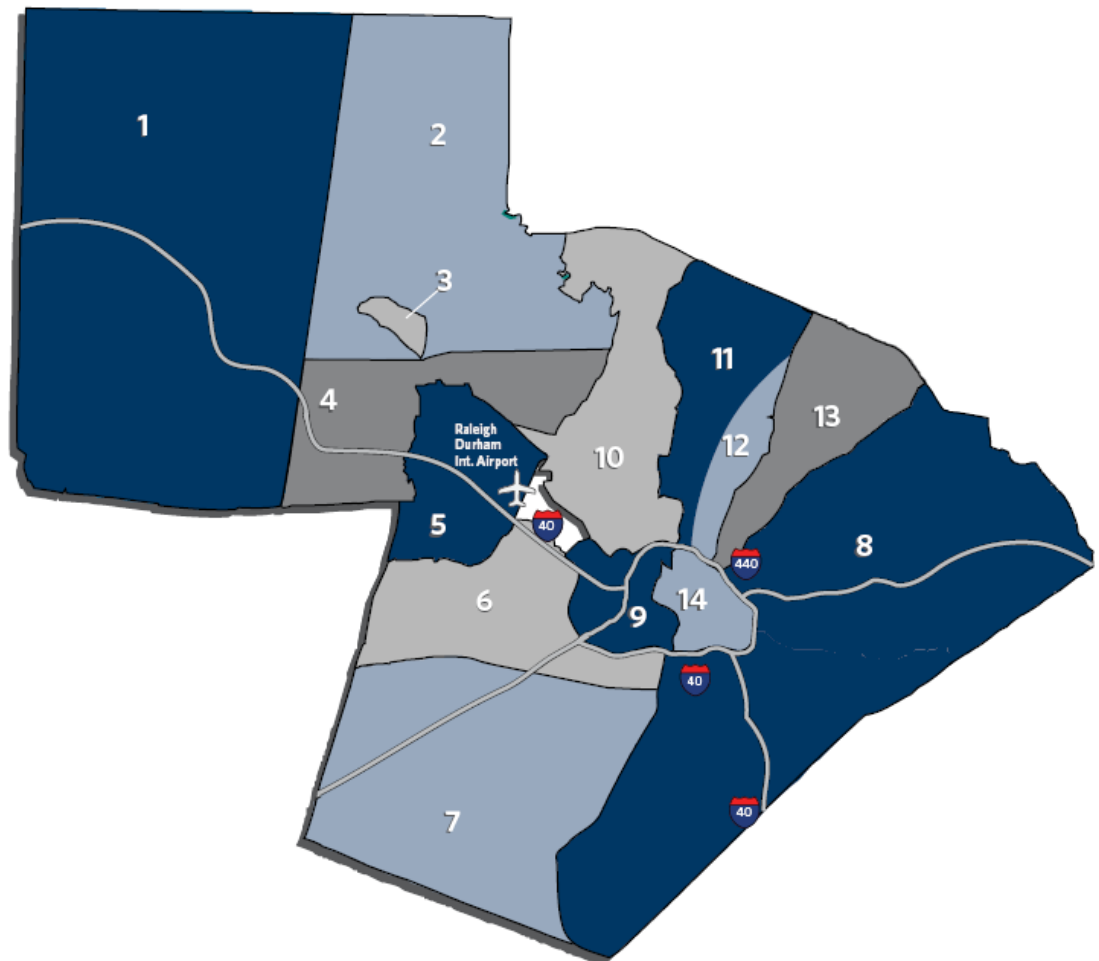
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
The Dillon	106,054	Arch Capital	New Lease	Downtown Raleigh
20 T.W. Alexander Dr.	36,162	Stiefel Laboratories	New Lease	RTP/I-40 Corridor
Churchill Hall	31,304	Pearson Education	New Lease	RTP/I-40 Corridor

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Perimeter Park Office Portfolio	1,162,109	Starwood Capital JV Vanderbilt Partners JV Trinity Capital / Ascendas-Singbridge	\$314,000,000 / \$270	RTP/I-40 Corridor
Wells Fargo Capitol Center	559,591	HighBrook Investors / Preferred Office Properties	\$173,000,000 / \$309	Downtown Raleigh
Westchase I, II, & III	312,444	AEGON USA Realty Advisors / The Brookdale Group	\$56,330,000 / \$180	West Raleigh
Regency Forest I, II & Interchange Plaza II	274,982	True North Management Group / Alder Real Estate Partners	\$53,250,000 / \$194	Cary
Palisades I & II	161,480	CapRidge Partners / Keystone Corporation	\$32,300,000 / \$200	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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