

TRIANGLE OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Triangle Employment	608.4k	627.5k	▲
Triangle Unemployment	4.3%	3.6%	▼
U.S. Unemployment	4.7%	4.1%	▼

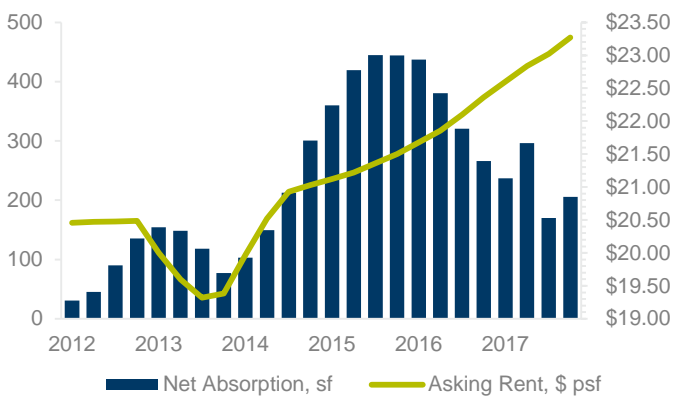
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	14.5%	14.5%	■
Net Absorption (sf)	194k	327k	▲
Under Construction (sf)	2.0 M	1.9 M	▼
Average Asking Rent*	\$22.78	\$23.78	▲

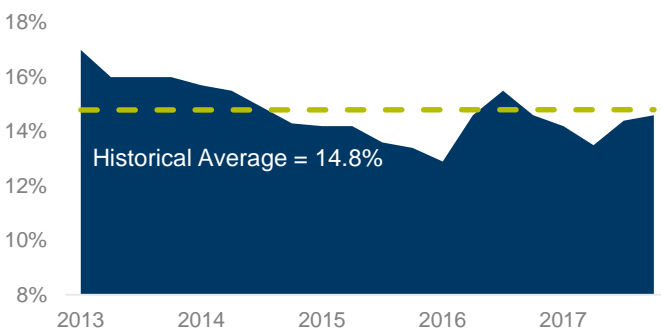
*Market Indicators are not reflective of U.S. MarketBeat tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Source: TBJ Space

Economy

The Triangle continued to see strong economic growth to close out 2017. As of October 2017, the job growth rate for the Triangle was 3.0%, more than doubling the national average of 1.4%. Both the U.S. unemployment rate and the Triangle unemployment rate dropped (to 4.1% and 3.6% respectively) in the quarter, which may start to present a challenge for Triangle employers as the area approaches full employment, and growing businesses find it harder to fill positions. North Carolina continues to receive national recognition for its growth and business climate. Most notably, Forbes ranked North Carolina as the best state for business in 2017, citing its low cost of doing business and its young, educated workforce as key factors. President Trump signed the “Tax Cuts and Jobs Act” into law on December 22. The Tax Reform bill substantially lowers the current corporate tax rate from 35% to 21%. What’s unclear is what corporations will do with the additional capital. Will they invest in growth or R&D, buy back stock, or pay down debt? In the near term, it’s been clear that the tax reform is welcome on Wall Street, where strong momentum in the stock market continues, stoked by deregulation and strong consumer confidence. 2018 will be watched closely as the U.S. is now in its 8th year of economic expansion, trailing only two other economic expansion periods (1961 to 1979 and 1991 to 2001) since the end of World War II.

Market Overview

In the fourth quarter, the Triangle bounced back from the negative blip observed in net absorption in the third quarter. The final quarter marked the delivery of two new buildings, Carolina Square in Chapel Hill and Wade IV in West Raleigh, totaling 262,499 square feet (sf). The fact that the buildings were 78% and 70% preleased were key factors in the net absorption turnaround in the final quarter of the year. Class A vacancy dropped back down to 8.7% after its brief stint above 9.0% in the previous quarter, something that had not occurred since Q2 2015. Market-wide net absorption came in at a very strong 327,947 sf, allaying concerns of the previous quarter’s negative 194,705-sf number. The greatest amount of activity occurred in the US 70-Glenwood submarket which accounted for 136,077 sf of net absorption. At year-end, net absorption recorded 1.9 msf of space for all of 2017, which more than doubled all of 2016’s total, demonstrating a strong year and no traces of residual impact from the now repealed HB2, which hindered corporate relocations across North Carolina the previous year.

With the steady demand for office space and Class A vacancy closing in on historical lows, we should continue to see a very active office development market. To date, there is 1.9 msf of space under construction with 13 projects expected to deliver in 2018 alone. This level of development is expected to continue though as prelease levels remain greater than 50% and large companies that leased space such as Infosys, Credit Suisse and Syneos (INC Research) have promised to bring 3,750 new jobs over the next five years. Even office development projects that some considered risky have seen substantial preleasing. It's no surprise that asking rates continue to show steady growth with overall asking rates up 4.3% and Class A rates up 3.7% year-over-year.

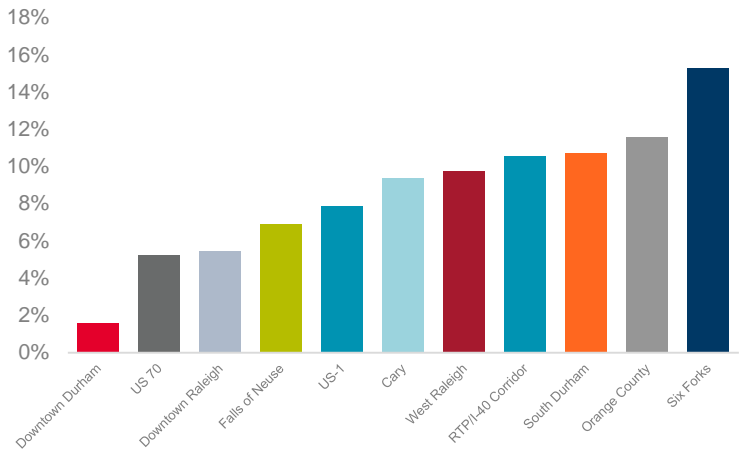
Investment Sales

Wrapping up 2017, the U.S. economy continued to surge forward as GDP increased by 3.2%. Keeping this growth in mind, it is likely the Fed will look to control inflation by raising interest rates three to four times in 2018. This will undoubtedly impact investors if they look to borrow money. Office investment sales volume in Q4 totaled over \$384 million – a 71%-increase year-over-year and the highest fourth quarter result on record. Closings in the final three months of 2017 brought total volume for the year to more than \$1.1 billion and notably close to record breaking numbers seen in 2015 when Starwood acquired the Duke Realty office/flex portfolio. In 2017, one-half of all office acquisitions were by investors making their first buy in the Raleigh-Durham area. This combined with quarterly and year-end volumes provides ample proof that investment in the Triangle has gained favor with the institutional community and should remain strong heading into the New Year.

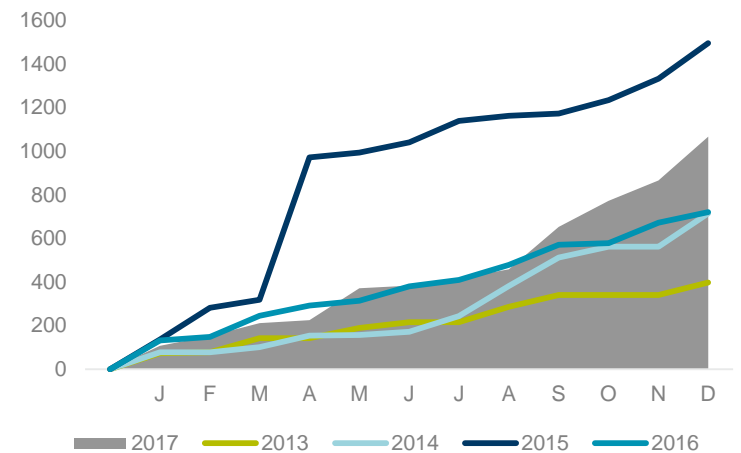
Outlook

- Historically high asking rental rates will continue to climb alongside rising demand, putting further pressure on the market.
- With an abundance of new deliveries anticipated for 2018, an uptick in vacancy is possible.
- Looking ahead to 2018, it remains to be seen how companies will allocate increased funds in light of the tax reform, and what impact will be on the commercial real estate industry.

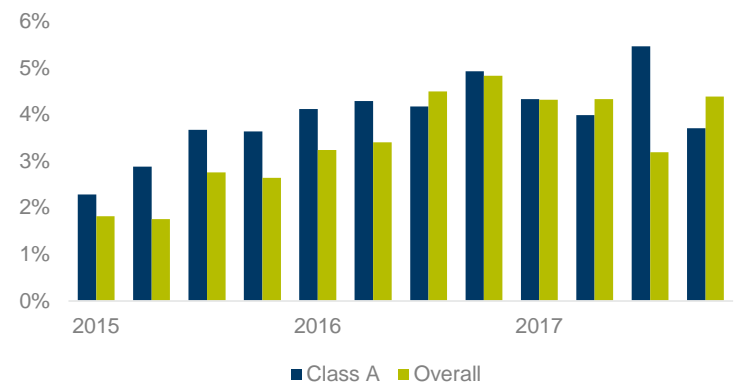
Class A Vacancy – Major Submarkets



Cumulative Monthly Investment Sales Volume, \$ Millions



YoY Market-Wide Asking Rate Growth



MARKETBEAT

Raleigh-Durham

Office Q4 2017



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Downtown Raleigh	61	4,467,186	306,232	6.8%	57,071	236,920	220,354	\$25.95	\$26.97
Downtown Durham	69	3,936,852	244,379	6.2%	(15,835)	224,950	640,793	\$27.07	\$30.10
CBD	130	8,404,038	550,611	6.5%	41,236	461,870	861,147	\$26.40	\$28.09
Cary	132	6,456,054	683,277	10.6%	(81,300)	11,325	86,960	\$23.48	\$24.82
Falls of the Neuse	79	3,033,423	236,845	7.8%	3,913	99,168	-	\$20.45	\$22.95
North Durham	29	1,344,924	526,175	39.1%	1,331	8,647	-	\$16.06	N/A
Orange County	36	1,641,580	219,104	13.3%	80,581	78,270	48,000	\$26.75	\$28.01
RTP/I-40 Corridor	173	14,124,318	3,565,775	25.25%	58,849	857,263	605,706	\$22.24	\$24.22
RTP/I-40 Corridor (Class A)**	75	7,747,954	818,246	10.6%	110,654	140,458	605,706	-	\$24.22
Six Forks	66	4,012,190	668,337	16.6%	31,263	17,205	-	\$25.98	\$29.82
South Durham	44	1,956,362	229,416	11.7%	83	(18,282)	-	\$21.99	\$25.25
US 1/Capital Boulevard	49	2,383,641	250,136	10.5%	58,800	2,004	-	\$21.59	\$23.72
US 70/Glenwood Avenue	74	3,981,230	266,301	6.7%	136,077	163,759	212,500	\$24.20	\$26.38
West Raleigh	95	6,193,192	608,535	9.8%	(2,886)	102,177	90,000	\$25.10	\$26.19
RALEIGH/DURHAM TOTALS	907	53,530,952	7,804,512	14.5%	327,947	1,783,406	1,904,313	\$23.78	\$26.03

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

	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT*
Class A	397	35,154,453	3,071,178	8.7%	361,141	1,119,259	1,904,313	\$26.03
Class B	484	17,889,897	4,573,473	25.9%	(44,881)	707,646	-	\$19.40
Class C	89	2,203,000	238,747	10.8%	17,340	63,836	-	\$16.33

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Legacy at Brier Creek	65,263	Infosys	New Lease	US 70 / Glenwood
Wells Fargo Capitol Center	52,000	U.S. Attorneys Office	New Lease	Downtown Raleigh
Forty540	41,175	Solar Winds	New Lease	RTP/I-40 Corridor
1800 Perimeter Park Dr	36,887	Conduit	New Lease	RTP/I-40 Corridor

Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Regency Office Park	394,520	Regency Park Corporation/Allidade Capital	\$52,500,000 / \$133	Cary
News & Observer Headquarters	258,269	The News & Observer/Acquisition Group	\$22,000,000 / \$85	Downtown Raleigh
Central Park South & West	223,370	James Campbell Co./Lincoln Advisors	\$36,500,000 / \$163	RTP/I-40 Corridor
The Arbors	211,504	The Simpson Organization JV Harbert Mgmt Corp/Brightman & Gill JV Priam Capital	\$30,250,000 / \$143	Route 1
Highwoods Tower I	185,506	Highwoods Properties/BB&T	\$34,300,000 / 185	Route 1
Nottingham Hall	105,363	CapRidge Partners/The RMR Group	\$22,000,000 / \$209	RTP/I-40 Corridor

MARKETBEAT

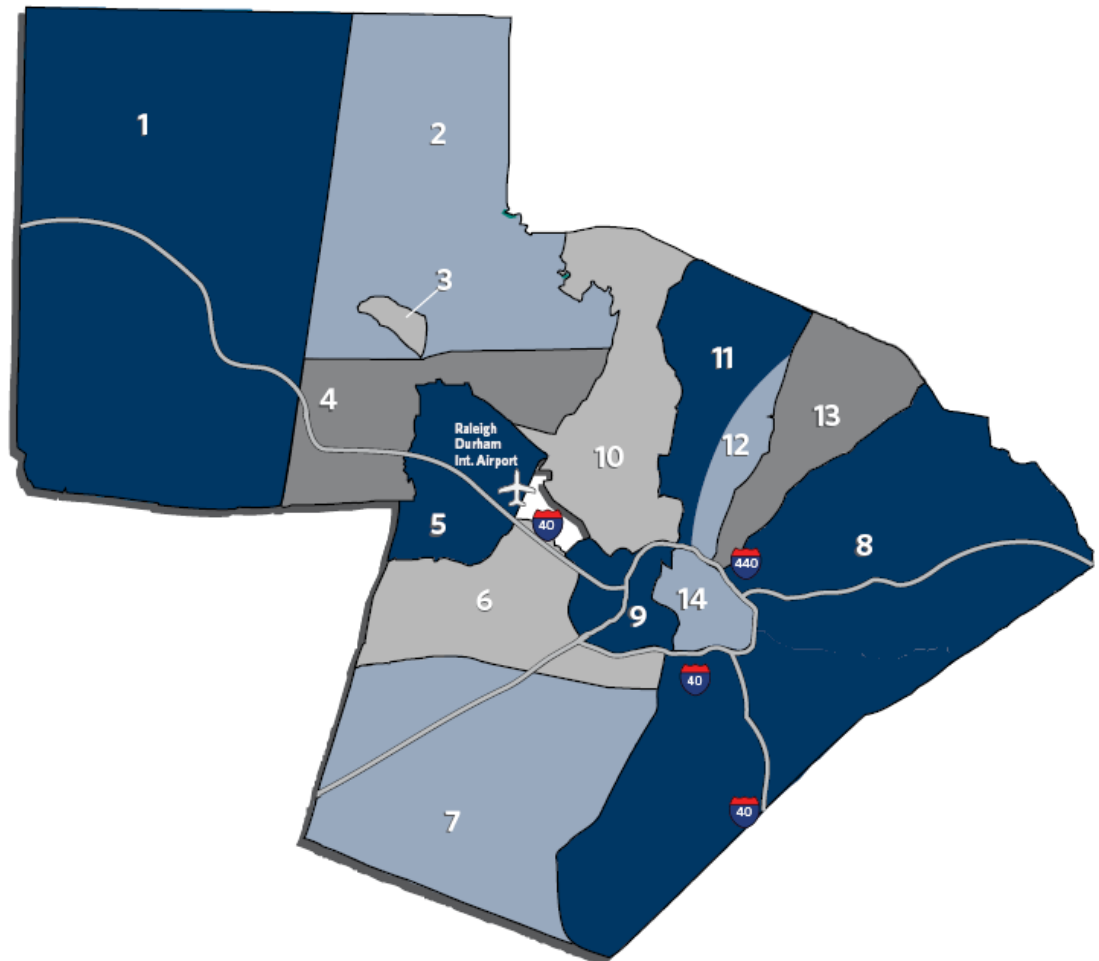
Raleigh-Durham

Office Q4 2017



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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