

TRIANGLE OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Triangle Employment	932k	958k	▲
Triangle Unemployment	4.0%	3.2%	▼
U.S. Unemployment	4.1%	3.7%	▼

Numbers above are quarterly averages; Oct. – Nov. 2018 data used to represent Q4 2018 for Raleigh/Durham

Market Indicators (Overall, All Classes)

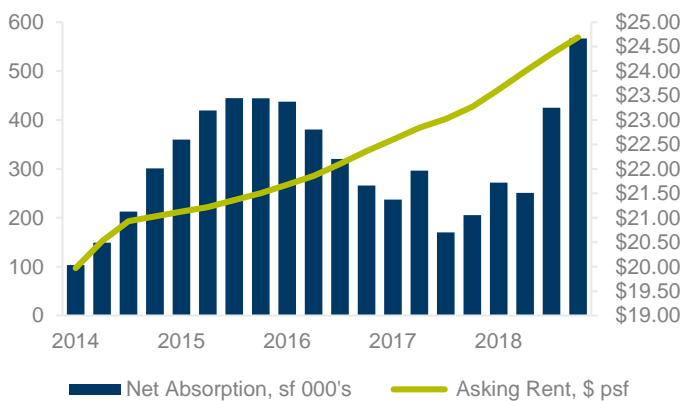
	Q4 17	Q4 18	12-Month Forecast
Vacancy	14.5%	12.4%	▼
Net Absorption (sf)	327k	895k	▼
Under Construction (sf)	1.9M	1.9M	▼
Average Asking Rent*	\$23.78	\$25.12	▲

*Rental rates reflect gross asking \$psf/year.

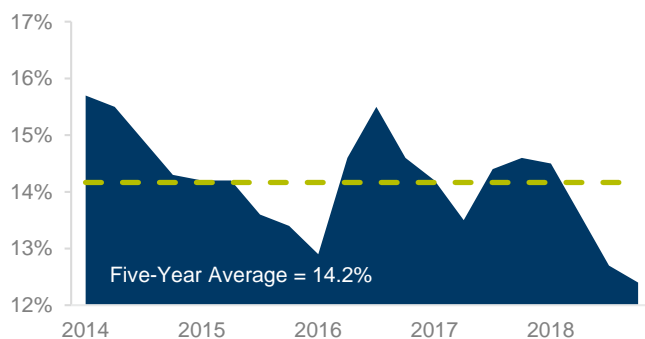
*Market Indicators are not reflective of U.S. MarketBeat tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Raleigh-Durham market ended 2018 on a high note as the area posted strong economic growth combined with several notable job announcements. The unemployment rate in the Triangle declined to 3.2%, 50 basis points (bps) below the national average of 3.7%. Job growth in region was exceptional throughout 2018, with companies either relocating or expanding their Triangle operations. The fourth quarter was no different, as Pendo announced plans to expand its downtown Raleigh presence with 590 new jobs and invest \$34.5 million over the next five years. Another big win for the Triangle was the announcement by Advance Auto Parts to relocate its headquarters from Virginia, which would bring 435 new jobs with it. CEOs from both companies cited the Triangle's skilled workforce and tech talent as key drivers. To top off the positive announcements, Forbes ranked North Carolina as the Best State for Business for the second year in a row. Cost of doing business, minimal regulation and impressive growth statistics helped keep North Carolina in the #1 spot in 2018. Heading into 2019, the Triangle area will aim to keep this momentum going.

Despite some political and economic uncertainty, the U.S. economy remained strong in Q4 2018 with healthy job growth and a declining unemployment rate. Effects from the government shutdown and the ongoing trade skirmish with China have yet to be determined, but U.S. job growth continued to remain strong as the national unemployment rate declined 20 bps to 3.7% from the previous quarter. In 2018, the Fed raised interest rates four times, but has since retreated from its hawkish tone signaling a more measured approach in 2019 that will be data dependent. The overall outlook for the economy remains positive heading into 2019 as labor markets continue to tighten, boosting incomes and supporting more spending as consumer confidence remains high.

Market Overview

As anticipated, a historical wave of new supply hit the market in Q4 2018. Six buildings totaling 959,977 square feet (sf) became available, making this the largest quarterly supply of new construction in the Triangle on record. Much of this activity occurred in the downtown Durham submarket where three buildings, One City Center, Durham North and South I.D. buildings totaling 454,265 sf became available. The RTP/I-40 submarket also finished construction on two buildings, 3300 Paramount and Perimeter Five totaling 355,712 sf. Lastly, the Cary submarket delivered 150,000 sf at Regency Woods II. The fourth quarter's unprecedented new supply was the result of pent up demand for Class A space in the Triangle over the past several years, prompting many market observers to welcome the long-awaited deliveries.

Benefiting from the wave of new Class A supply and strong market fundamentals, net absorption levels were healthy and market-wide vacancy actually declined. Total absorption activity reached 894,917 sf and brought

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Raleigh-Durham

Office Q4 2018



year-end totals to 2.2 million square feet (msf). It's important to point out that much of the absorption occurred over the last year in these new buildings but is not statistically realized until the buildings are delivered. Year-end absorption levels were the second highest historically, only behind 2000's record setting year. These strong market fundamentals combined with a healthy preleasing level of 73.2% helped boost absorption figures past the five-year quarterly average of 404,921 sf, notable given the strength of the Triangle market in recent years. Market-wide vacancy declined to 12.4%, while Class A vacancy increased 70 bps to 8.7% due to the large influx of supply delivered in the quarter. As anticipated, downtown Durham felt the effects of new supply as Class A vacancy rose to 7.0%, up from the historical low of 0.9% in Q3 2018. Preleasing levels in downtown Durham were 61.0% as one of Longfellow's Durham I.D. buildings delivered 100% vacant, but recently reported a three-floor lease with co-working giant WeWork. With strong demand and the new supply of Class A space in downtown Durham, healthy absorption levels over the next several quarters are expected. The theme for 2018 continued to be surging rental rates as demand for office space in the Triangle outpaced current supply, especially in the CBDs. Adding to this theme has been the high volume of office investment sales, as well as rising construction costs. In Q4, Class A and overall rental rates increased 4.9% and 5.5% year-over-year, respectively. Submarkets with the largest Class A rental rate increases year-over-year were downtown Raleigh at 8.7%, followed by Cary at 7.1% and West Raleigh at 6.5%. Class A rates in CBD areas were 6.6% higher than last year, as they continue to outpace suburban office space, which only saw an increase of 4.6%. Heading into 2019, current rental rate projections still show an upward trend but should be watched closely should a new wave of supply outstrip demand, as it did in Q4 of 2018.

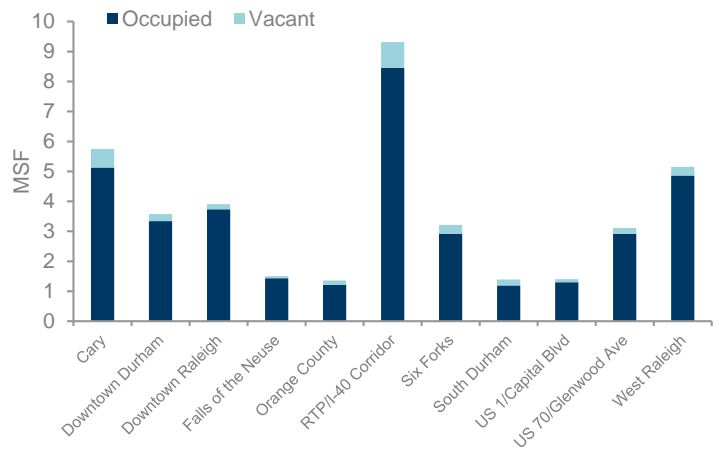
Investment Sales

Investment activity remained strong in the last quarter with more than \$434 million in sales, carrying the 2018 total to over \$2.0 billion. For context, this total was double the activity of 2017. Notable sales included Cary's Weston I & II for \$75.5 million and Perimeter Five in RTP/I-40 for \$74.0 million. Despite economic jitters concerning where we might be in the cycle and rising interest rates, investors remained extremely active in 2018. A key proponent for this robust investor activity was the abundance of capital being put to work, signaling credit markets are healthy and perhaps peaking.

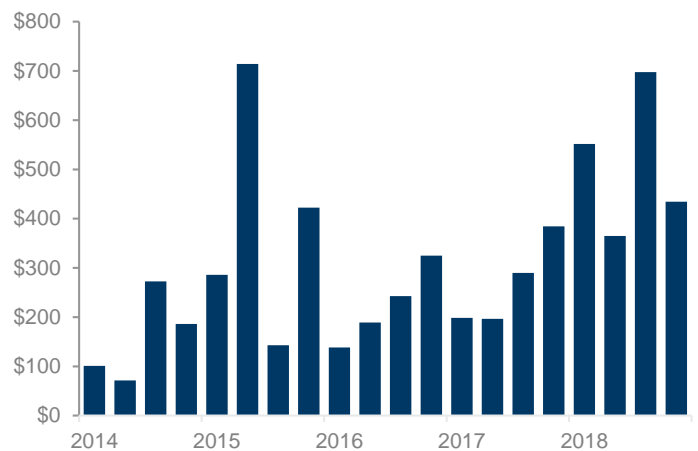
Outlook

- With this historical wave of new supply, near-term outlook should be a bit more balanced, but still favoring landlord's until we see these strong absorption levels slow.

Class A Vacancy – Major Submarkets



Cumulative Monthly Investment Sales Volume, \$ Millions



YoY Market-Wide Asking Rate Growth



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Raleigh-Durham

Office Q4 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	72	4,939,150	281,000	5.7%	6,633	268,025	367,397	\$28.92	\$30.41
Downtown Durham	73	4,523,670	472,339	10.4%	287,037	225,113	242,337	\$29.08	\$31.10
CBD	145	9,462,820	753,539	8.0%	293,670	493,138	609,734	\$28.99	\$30.69
Cary	130	6,773,195	888,409	13.1%	-20,334	-14,428	303,500	\$25.06	\$26.57
Falls of the Neuse	74	2,989,547	213,060	7.1%	27,505	51,177	-	\$21.31	\$23.85
North Durham	31	1,036,302	331,146	32.0%	18,090	94,699	-	\$17.61	n/a
Orange County	38	1,742,324	261,456	15.0%	-9,783	35,731	-	\$27.27	\$28.55
RTP/I-40 Corridor	176	14,762,361	2,931,239	19.9%	425,728	1,079,112	348,143	\$23.18	\$25.12
RTP/I-40 Corridor (Class A)**	79	8,451,714	863,291	10.2%	351,610	462,436	348,143	n/a	\$25.12
Six Forks	66	4,004,678	411,577	10.3%	97,092	255,760	328,648	\$27.40	\$30.43
South Durham	42	1,904,230	273,633	14.4%	6,130	-48,169	-	\$22.36	\$25.82
US 1/Capital Boulevard	45	2,323,183	185,475	8.0%	43,987	64,661	31,854	\$22.31	\$24.17
US 70/Glenwood Avenue	73	3,958,165	306,429	7.7%	-52,771	-33,399	145,000	\$25.44	\$27.51
West Raleigh	93	6,092,337	395,175	6.5%	55,668	261,899	209,145	\$26.84	\$27.89
All other submarkets	59	1,533,308	67,387	4.4%	9,935	6,130	-	\$20.61	\$24.99
RALEIGH/DURHAM TOTALS	972	56,582,450	7,018,525	12.4%	894,917	2,246,311	1,976,024	\$25.12	\$27.41

*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	402	36,917,234	3,194,735	8.7%	650,470	1,391,487	1,976,024	\$27.41
Class B	477	17,450,993	3,633,421	20.8%	245,709	804,443	-	\$20.40
Class C	93	2,214,223	190,369	8.6%	-1,262	50,381	-	\$17.25

Key Lease Transactions Q4 2018

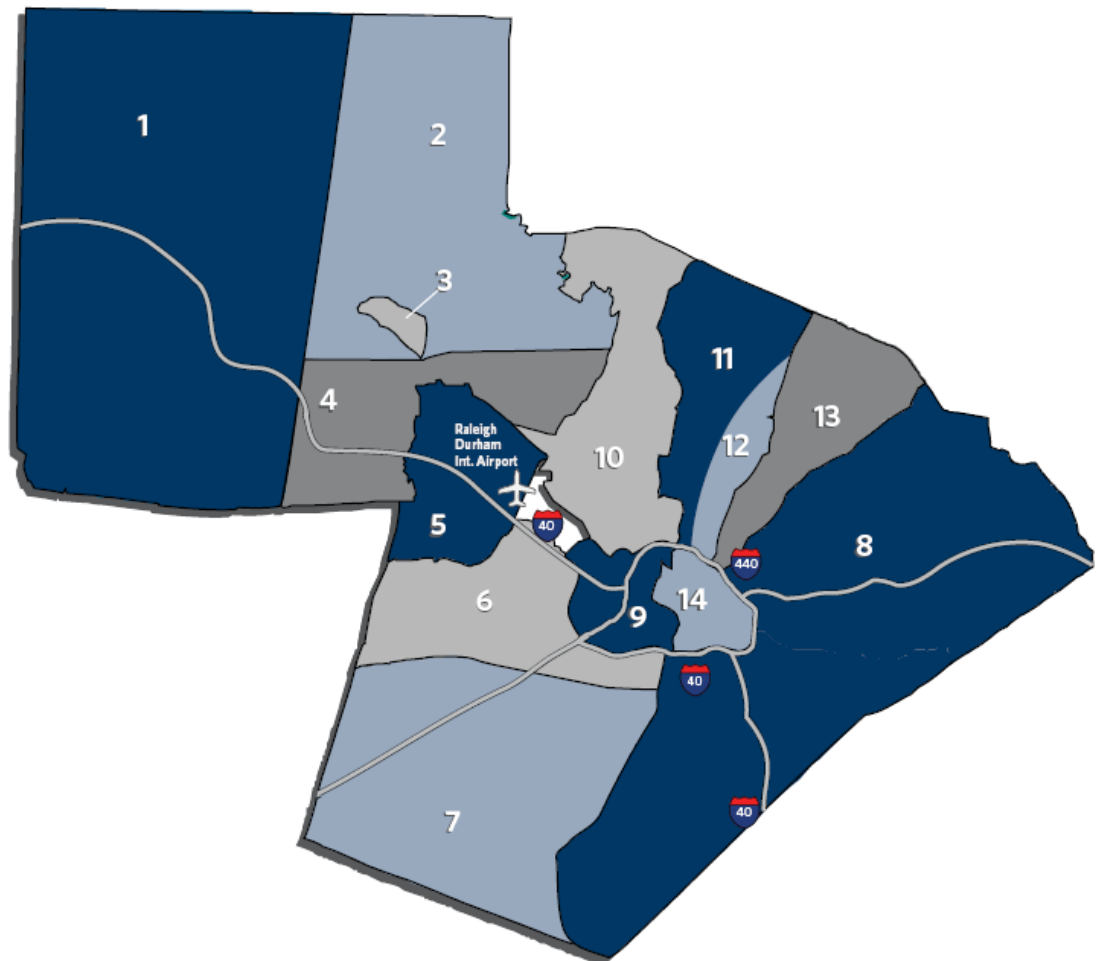
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Tower IV at North Hills	61,132	IAT Insurance	New	Six Forks
807 E Main St	36,761	Pairwise	New	Downtown Durham
Forum I	32,601	RK&K	New	Six Forks

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Weston I & II	290,183	Assurant JV Capital Associates / Accesso Partners	\$75,500,000 / \$260	Cary
Perimeter V (Syneos Health HQ)	258,250	Starwood Capital JV Trinity Capital / Capri EGM	\$74,217,000 / \$287	RTP/I-40 Corridor
Crescent Lakeside I & II	254,796	Capital Associates / Private Investor (NY)	\$68,266,000 / \$268	Cary
Imperial Center Portfolio – Carlisle Place & Stratford Hall	197,264	Bridge Investment Group / OA Development	\$45,200,000 / \$229	RTP/I-40 Corridor
Six Forks Square	140,780	Heritage Capital Group / NGPV Management	\$26,475,000 / \$188	Six Forks
Colonnade I	126,928	KBS Realty Advisors / First Citizens Bank	\$27,000,000 / \$213	Six Forks
2235 Gateway Access Point	45,746	Union Bank & Trust Co. / Griffin Partners	\$7,300,000 / \$160	West Raleigh

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

Cushman & Wakefield
3015 Carrington Mill Blvd,
Suite 410
Morrisville, NC 27560

For more information, contact:
Josh Chiles, Research Analyst
Tel: +1 919 645 3590
josh.chiles@cushwake.com

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