

Raleigh-Durham Office MarketView

Q3 2014

CBRE Global Research and Consulting

 **VACANCY**
14.9%

 **LEASE RATES**
\$19.55

 **NET ABSORPTION**
563,399 Sq. Ft.

 **LOCAL UNEMPLOYMENT**
5.0%

CONSTRUCTION ACTIVITY AND POSITIVE ABSORPTION PUSH RATES LEADING INTO Q4 2014.

Quick Stats

Q3 2014	Q-o-Q	Y-o-Y
Vacancy	14.9%	↓
Lease Rates	\$19.55	↑
Net Absorption sq. ft.	563,399	↑
Under Construction	1,839,108 sq. ft.	↑
Deliveries	180,000 sq. ft.	↑

Source: CBRE Research, Q3 2014.

Hot Topics

- Class A remains in single digit vacancy in most submarkets...now at 9.71% Marketwide.
- Construction activity is heating up, closing in on pre-recession numbers.
- Rental rates are on the rise, while concessions are shrinking.
- The absorption of long-vacant Class B space is beginning to have an impact on the market.
- North Hills Tower Two sets a Triangle high-water mark for asking rental rates of \$33.95 as it broke ground in September.

Economic Overview

The Triangle office market continues to perform admirably and recently-commenced construction validates the current strength of the market. Overall activity continued the momentum seen earlier in the year as evidenced by an extremely strong quarter of positive absorption. Increasing quoted rental rates, brought on by a continued decline in vacancy rates, lend validity to the argument that the market is close to equilibrium. Although the Triangle market grew by over 560,000 sq. ft. in Q3, vacancy rates dropped from 15.5% in Q2 to 14.9% in Q3.

For the seventh time in the past nine quarters, the Triangle had positive absorption in excess of 200,000 sq. ft., with over 560,000 sq. ft. of net absorption in Q3 alone. The largest and most active submarket, RTP/I-40, has a Class A vacancy rate of 8.6%, and the overall submarket experienced 266,766 sq. ft. of absorption in Q3. Much of this can be attributed to the delivery of the 6-story, 245,352 sq. ft. Perimeter Three Building in September, at 74% occupancy. Downtown Raleigh benefited from the delivery of Citrix's signature Headquarters, adding 173,000 sq. ft. and roughly 700 employees to that growing submarket.

The Triangle's average rental rate increased as owners of existing product leveraged the higher rates being quoted for new construction.

At the close of Q3 average rates were \$19.55 per sq. ft., a \$0.21 rise from Q2's rate of \$19.34 per sq. ft. CBRE|Raleigh anticipates rental rates will continue to increase across well located submarkets as the most desirable space continues to lease up. The most significant example of upward-trending rental rates for new construction is at North Hills Tower Two, in the Six Forks submarket, whose current asking rate of \$33.95 per sq. ft. represents a historical high-water mark for Triangle office space.

Many of the trends seen in Q3 were a continuation from Q2. Smaller deals have dominated the market and concessions continue to shrink with modest rent growth in sixty-six (66%) percent of our submarkets. The Cary, Downtown Raleigh, and US1/Capital Boulevard submarkets have experienced the greatest average rental rate increases over the quarter, with Cameron Village Shopping Center not far behind.

With vacancy rates declining, rental rates increasing, active construction projects underway, and positive investment activity, it is evident the Triangle market continues to thrive as it transitions to Q4 2014.

Figure 1: Market Statistics Q3 2014

Submarket	Rentable Area (Sq. Ft.)	Vacancy Rate (%)*	Class A Vacancy Rate (%)	Q3 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Average Asking Lease Rate (\$/Sq. Ft. /YR)	Availability Rate (%)**
West Raleigh	5,070,355	10.2	10.2	(62,248)	415,476	21.37	19.1
US 70/Glenwood Avenue	3,627,362	10.8	7.7	21,201		20.20	11.0
Six Forks Road	3,289,165	12.1	9.0	34,703	313,627	20.63	22.3
Falls of Neuse Road	3,091,489	16.6	14.9	19,386		17.93	16.6
US 1/Capital Boulevard	2,248,347	20.4	22.2	11,193		18.97	20.4
Downtown Raleigh	4,163,563	8.4	7.5	207,435	348,969	23.44	17.7
Cameron Village	648,017	7.5	3.8	2,433	13,684	18.96	10.4
Eastern Wake County	596,140	15.5	2.2	12,471		18.71	15.5
Southern Wake County	270,958	34.4	53.7	0		17.76	34.4
Cary	5,858,116	14.3	12.0	22,053	502,000	20.40	24.2
RTP/I-40 Corridor	11,568,284	19.6	8.6	266,766	245,352	18.71	24.9
Central Durham	3,317,561	6.5	3.6	241		17.89	8.5
North Durham	1,411,303	42.9	N/A	(4,653)		16.60	42.9
South Durham	1,833,312	14.9	11.0	14,797		18.82	14.9
Orange County	1,486,864	12.3	12.8	17,621		22.84	13.9
MARKET TOTALS	48,480,836	14.9	9.9	563,399	1,839,108	19.55	19.8

Source: CBRE Research, Q3 2014.

*Vacancy rate is based on total vacant square footage compared to the total rentable square footage..

**Availability rate includes sublease and new construction space.

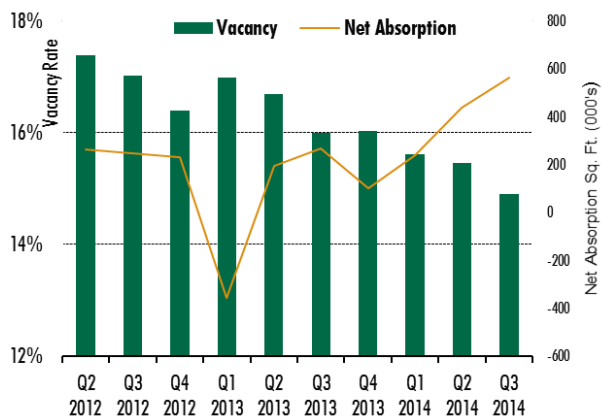
Figure 2: Top Transactions: Q3 2014

Tenant	Property	Type	Sq. Ft.	Class	Purchase Price (\$)	Purchase Price(\$)/sq. ft.
Lease Transactions:						
Toshiba*	3901 South Miami Blvd.	New	200,000	A	-	-
Channel Advisor	Perimeter 4	New	136,000	A	-	-
Bronto Software	American Tobacco Campus	Expansion	80,000	A	-	-
Vital Source	227 Fayetteville	New	20,000	A	-	-
ARO (Army Research Org.)	800 Park office	New	35,000	B	-	-
					-	-
					-	-
Sale Transactions:						
Bank of America Plaza			373K	A	84M	227
Meridian Corporate Center*			615K	A	80M	131
Beacon Office Portfolio*			772K	B	89M	115

Source: CBRE Research, Q3 2014.

*Denotes a transaction arranged by CBRE|Raleigh .

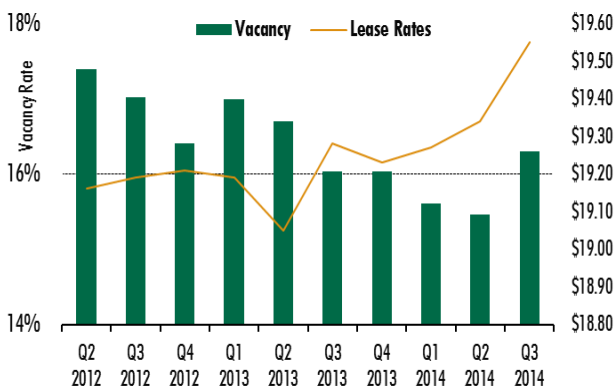
Figure 3: Vacancy & Net Absorption



Source: CBRE Research, Q3 2014.

- Q3 Overall Vacancy: 14.9%
- Class A Vacancy: 9.7%
- Strongest quarterly absorption to date with 560,000 + sq. ft. of positive absorption in Q3.
- 1,200,000 + sq. ft. absorbed in 2014
- Class B absorption: 200,000 + sq. ft.

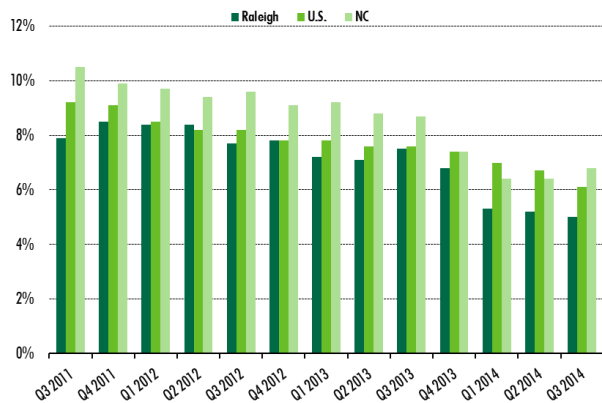
Figure 4: Vacancy & Average Rent



Source: CBRE Research, Q3 2014.

- Largest “jump” in rates, up \$0.21 per sq. ft. from Q2.
- Class B vacancy dropped from 26.1% in Q2 to 24.8% in Q3.
- Rent concessions shrink in most submarkets.
- Construction activity and positive absorption across-the-board continue to push rates.

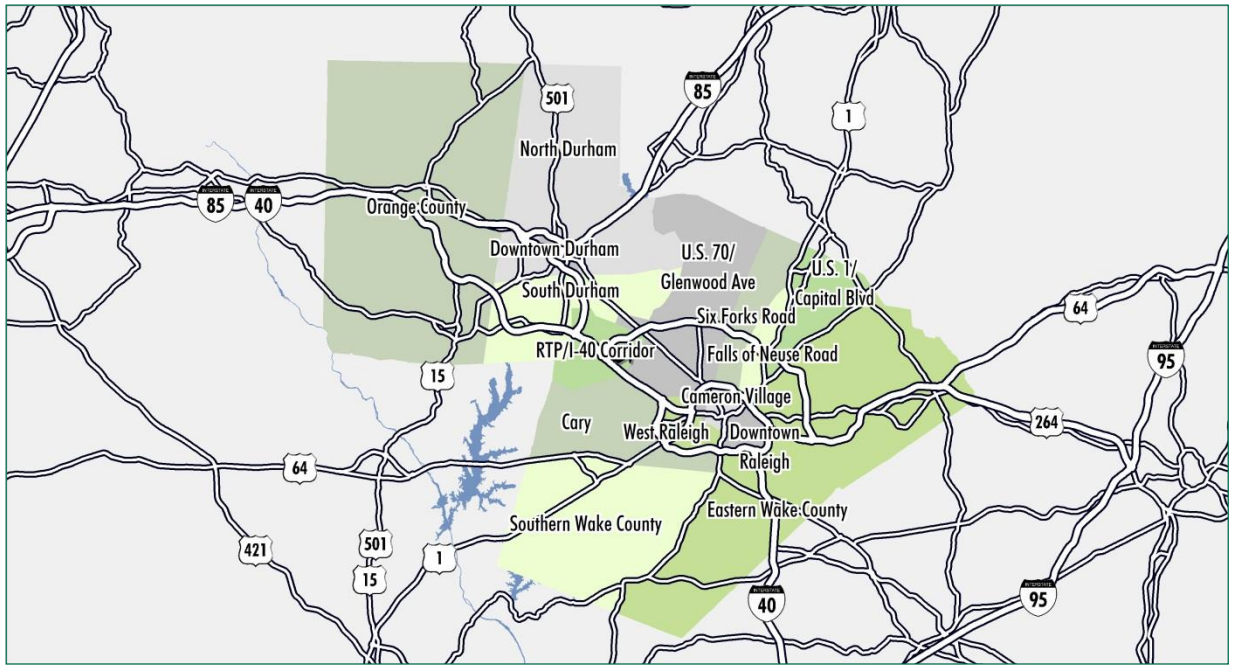
Figure 5: Unemployment Statistics



Source: Bureau of Labor Statistics, September 2014.

As of August 2014, the unemployment rate for the Raleigh-Cary and Durham-Chapel Hill MSA’s remained at 5.0%, the lowest in 6 years. Statewide, North Carolina’s unemployment rose slightly from 6.4% in Q2 to 6.8% at the end of Q3. 6.4%. The US unemployment rate dropped slightly from Q2 2014, closing the quarter at 5.9%. Major sectors of the non-farm labor market in Raleigh-Durham include Manufacturing, Leisure & Hospitality, State and Local Government, Healthcare, Technology, and Education.

The third quarter 2014 marked a major milestone for Wake County, which reached 1 million residents in late August. The Triangle MSA is comprised of roughly 1.75 million people, with more than 897,900 people making up the labor force. Each year graduates of the area’s top tier universities (Duke, UNC Chapel Hill and North Carolina State University) supplement the Triangle’s workforce in addition to other workers and companies relocating to the area.



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