

After Successful 2017, a Flurry of Market Activity Expected to Hit Raleigh-Durham in 2018

Emily Bostic Research Analyst | Raleigh-Durham

Key Takeaways

- Increasing demand and construction price points will propel Triangle office rents even higher in 2018. Average asking rents jumped to \$23.12 per square foot, up over \$2.00 from last year, with Class A rents increasing to \$26.80 psf.
- While overall vacancy rates have been relatively flat, we can expect to see a flurry of market activity in 2018 that will change vacancy and absorption totals. As businesses reassess their future and move forward with new locations and expansions, the Triangle will experience an increase in absorption and deal flow as tenants finally land in newly delivered office developments.

President Trump's Tax Plan | How Does it Effect the Triangle CRE Market?

Jim Anthony CEO, Colliers | Raleigh-Durham

- "Prior to the Trump tax plan passage, the U.S. had the highest corporate tax rate in the developed world (at 35% previously). President Trump's Tax bill is creating a pro-growth environment. This is being reflected in higher equity markets, stronger real estate development and investment fundamentals, as well as higher interest rates. The plan has already ushered in an economic recovery (3% plus GDP growth) and combined with rolling back regulations at the federal level, has unleashed even more economic growth forces which are pressing up CRE activity and values."
- "On the negative side, we are in a severe labor shortage in construction nationally, and material pricing increases are busting many budgets. Rents have to be repriced for new construction and they are in every product type, from single family to multi-family, office, retail and industrial. Rents are rising out of necessity on the cost side and by demand on the remaining short supplies in our local NC markets."

- Click for a [Summary of How Some of the Changes May Affect You and Your Business](#). Contributed by Our Friends at [Hughes Pittman & Gupton, LLP](#)

Market Indicators

Relative to prior quarter

Raleigh-Durham
Q4 2016

Raleigh-Durham
Q4 2017

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



Summary Statistics

Q4 2017 Office Market

Triangle
Market

Triangle
Class A

Triangle
Class B

Existing Inventory
(Millions Square Feet)

68.4

35.9

29.9

Vacancy Rate

8.3%

9.3%

8.4%

Change From Q4 2016

0.2%

0.9%

0.9%

YE Net Absorption
(Million Square Feet)

1.40

1.00

0.34

YE Under Construction
(Million Square Feet)

2.33

2.31

0.01

YE Construction Deliveries
(Million Square Feet)

1.72

1.64

0.07

Asking Rents

Per Square Foot Per Year

Average Quoted

\$23.12

\$26.80

\$19.03

Change from Q4 2016

\$1.46

\$1.06

\$1.40

Absorption & Leasing Activity

- The Triangle reported over 1.4M square feet of total net absorption at the close of 2017. West Raleigh obtained the most positive net demand with over 296,000 SF of office space absorbed. Notable leasing activity in the West Raleigh submarket includes tenants such as Sageworks, Bandwith (renewal) and TierPoint. This submarket remains competitive as it offers tenants large blocks of Class A space with close proximity to Downtown Raleigh and Downtown Durham.
- The delivery of the 284,000-square foot Chesterfield Building brought Class A absorption totals in the Downtown Durham submarket up to 209,066 square feet. Major tenants including Duke University, Nutanix and BioLabs preleased a significant amount of space (over 75%).
- The Cary submarket continues to produce strong office demand with over 156,000 total square feet absorbed after the delivery of CentreGreen III. The CentreGreen III building brought an additional 167,268 square feet to the Cary submarket.
- Overall Class A net absorption in the Triangle reached 1.0M square feet at the end of 2017, while the overall Class B market reported absorption of only 343,732 square feet for year end totals.
- The largest lease signed in 2017 was the 258,250 square foot deal signed by INC Research (now Syneos Health), a clinical research and development firm, in the RTP I-40 submarket. INC Research (Syneos Health) will occupy all 258,250 square feet of Perimeter Park Five building upon its delivery.

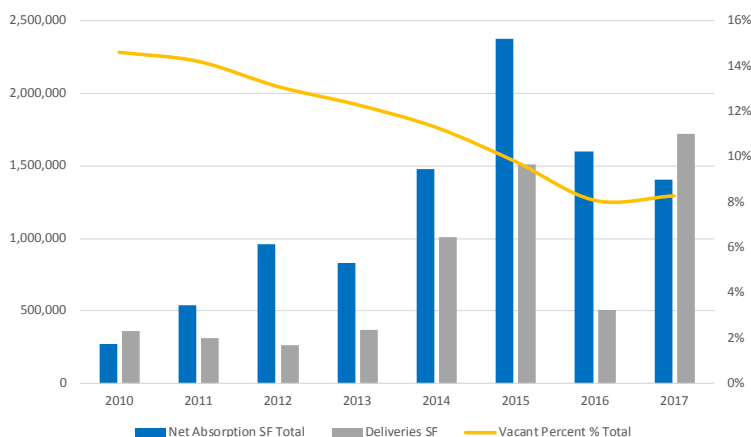
Vacancy & Availability

- The overall Triangle vacancy rate held steady at 8.3% for the fourth quarter. This results in only a 0.2% decrease in vacancy percentage from the fourth quarter of 2016. The overall Class A vacancy in the Triangle office market was reported at 9.3% at the close of the 2017 with over 3.0M total square feet of vacant space.
- Market activity will be hot in 2018. As companies move forward with new locations and expansions, the Triangle will experience an influx of deals bumping vacancies and absorption.
- Downtown Durham reported the lowest vacancy rate in the Triangle office market for the ninth-consecutive quarter. The delivery of the Chesterfield Building brings an additional 284,000 total square feet, creating a 2.0% increase in vacancy. However, the lack of inventory coupled with the anticipation of several new Class A deliveries continues to create an aggressive market for tenants.

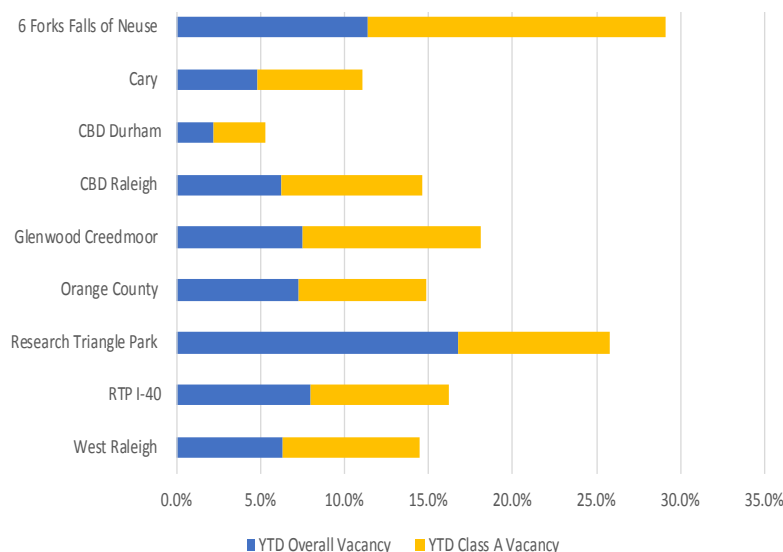
Rental Rates

- Average asking rents in the Triangle office market continue to increase. The Triangle's Class A rents are experiencing the most growth as vacancies remain relatively unchanged. While several large buildings have recently delivered, an impressive amount of supply is still to come and the leasing environments heavily favor the landlord.
- Average asking rents jumped to \$23.12 per square foot, up over \$2.00 from last year, with Class A rents increasing to \$26.80 psf.

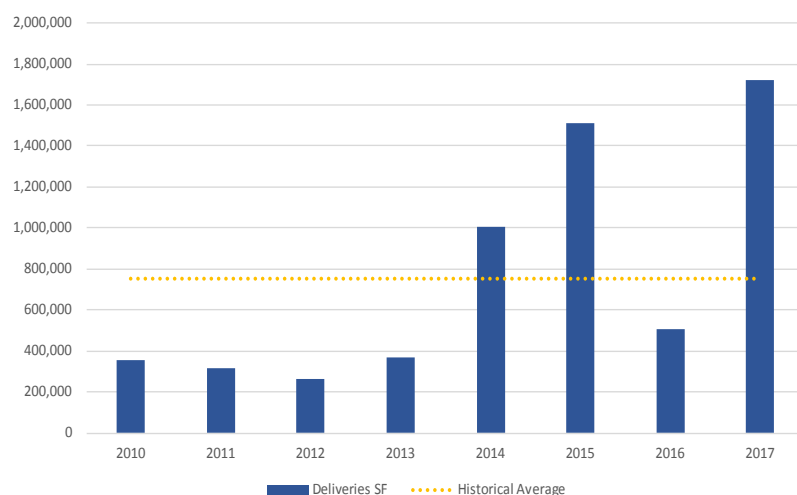
Absorption vs. Deliveries, Vacancies | Year End 2017



Vacancy Rates Among Major Submarkets | Q4 2017



New Supply (SF) | Year End 2017



Source: Colliers Research, CoStar Group

RALEIGH-DURHAM SUBMARKET COMPARISONS

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	YE NET ABSORPTION (SF)	YE NEW DELIVERIES (SF)	YE UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (WEIGHTED)
SUBMARKET NAME									
Cary	8,785,306	533,227	22,939	556,166	6.3	156,162	194,808	369,000	\$23.21
Downtown Durham	4,602,705	72,167	32,254	104,421	2.3	252,368	284,000	695,501	\$28.45
Downtown Raleigh	6,115,201	360,925	20,248	381,173	6.2	96,847	0	279,838	\$30.34
Glenwood Creedmoor	3,207,490	240,261	0	240,261	7.5	18,861	116,500	0	\$21.88
North Durham	1,760,222	404,999	943	405,642	23.0	141,426	0	0	\$14.77
Northeast Wake County	512,422	11,999	0	11,999	2.3	3,230	0	0	\$14.20
Orange County	3,030,555	218,520	3,361	221,881	7.3	131,299	158,428	47,678	\$27.01
Research Triangle Park	7,383,610	1,206,636	32,966	1,239,602	16.8	79,653	0	151,579	\$20.78
RTP I-40	5,681,851	400,156	57,846	455,334	8.0	98,676	257,767	458,250	\$23.52
Six Forks Falls of Neuse	8,383,882	910,363	42,236	952,599	11.4	147,766	329,214	0	\$23.47
South Durham	5,040,022	245,903	60,319	306,222	6.1	(46,276)	76,446	0	\$22.70
Southern Wake County	1,797,005	53,504	0	53,504	3.0	48,377	18,220	0	\$16.87
US 1 Capital Blvd.	2,758,658	181,868	0	181,868	6.6	(21,167)	0	0	\$18.88
West Raleigh	9,244,303	566,170	12,883	579,053	6.3	296,764	283,059	324,600	\$24.66
MARKET TOTALS	68,440,341	5,415,655	285,995	5,698,982	8.3	1,403,329	1,718,442	2,326,446	\$23.12

RALEIGH-DURHAM CLASS A SUBMARKET COMPARISONS

	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	YE NET ABSORPTION (SF)	YE NEW DELIVERIES (SF)	YE UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (WEIGHTED)
SUBMARKET NAME									
Cary	4,223,493	362,109	22,939	385,048	9.1	83,174	194,808	369,000	\$25.81
Downtown Durham	2,556,143	54,934	28,063	82,997	3.2	209,066	284,000	695,501	\$29.28
Downtown Raleigh	3,859,147	304,868	17,748	322,616	8.4	92,578	0	267,000	\$31.05
Glenwood Creedmoor	1,365,413	145,414	0	145,414	10.6	6,078	116,500	0	\$25.33
Orange County	1,470,227	108,805	3,361	112,166	7.6	163,060	158,428	47,678	\$30.01
Research Triangle Park	2,944,244	259,630	4,281	263,911	9.0	4,168	0	151,579	\$24.08
RTP I-40	4,012,064	278,582	48,805	327,387	8.2	98,970	200,991	458,250	\$24.95
Six Forks Falls of Neuse	3,783,136	627,685	41,014	668,699	17.7	166,546	329,214	0	\$26.30
South Durham	2,417,888	191,483	54,105	245,588	10.2	(63,766)	76,446	0	\$24.96
Southern Wake County	115,700	0	0	0	0.0	0	0	0	\$17.50
US 1 Capital Blvd.	1,045,179	54,927	0	54,927	5.3	9,973	0	0	\$24.92
West Raleigh	4,907,743	389,848	11,563	401,411	8.2	236,707	283,059	324,600	\$26.59
MARKET TOTALS	32,767,387	2,778,285	231,879	3,010,164	9.2	1,006,554	1,643,446	2,572,495	\$26.62

*NOTE: North Durham, NE Wake County submarkets do not have any Class A office inventory.

YEAR END 2017 | NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	SUBMARKET	TOTAL SF	LEASE TYPE
INC Research	Perimeter Park V	RTP I-40	258,250	New
Rho Inc.	Triangle Life Science Center	Research Triangle Park	160,000	New
Relias	Perimeter Park VI	RTP I-40	130,640	New
WeWork	One Glenwood	Downtown Raleigh	81,032	New
Captrust	Captrust Tower	Six Forks Falls of Neuse	73,910	Renewal
Infosys	Legacy at Brier Creek	Glenwood Creedmoor	60,477	New
Varonis	Perimeter Park	RTP I-40	55,698	New
Pendo	Wells Fargo Capitol Center	Downtown Raleigh	42,710	New
*FNB	FNB Tower	Downtown Raleigh	40,981	New

*Colliers Raleigh-Durham transaction.

Construction & Investment Activity

- At the close of 2017, office deliveries totaled 1.7M SF with an additional 2.3 million square feet that is currently under construction. The Dillon, a 267,000 square foot mixed-use building in Downtown Raleigh is still under construction with an anticipated delivery time of early 2018. In the Downtown Raleigh submarket, construction is underway for the new 228,000 square foot One Glenwood building with anticipated delivery in early 2019.
- The largest office sales transaction of 2017 was Hock Plaza I in Downtown Durham. The 327,160 SF building sold for a total of \$141.9M or \$434 per square foot. Harrison Street RE Capital purchased the property from Hines Global REIT Partners. The property was 100% occupied at the time of sale.
- The Raleigh-Durham market produced over \$1B in total sales volume of 89 office properties (over 7.2M SF) within the last twelve months, with an average per square foot price of \$152.00.

YEAR END 2017 | NOTABLE DEVELOPMENT ACTIVITY

PROPERTY	SUBMARKET	SIZE (SF)	PRE-LEASED %	QUOTED RENTAL RATE	BUILDING CLASS	CONSTRUCTION STATUS	START / DELIV DATE
The Dillon	Downtown Raleigh	267,000	41.4	\$34.50	A	Under Construction	Q1 2018
Perimeter Park Five	RTP I-40	258,250	100.0	Withheld	A	Under Construction	Q1 2019
One Glenwood	Downtown Raleigh	228,600	46.8	\$32.95	A	Under Construction	Q3 2017
Perimeter Park Six	RTP I-40	200,000	67.5	Withheld	A	Under Construction	Q2 2019
Durham iD	Downtown Durham	178,998	0.0	\$32.00	A	Under Construction	Q3 2018
200 Morris Street	Downtown Durham	160,000	96.6	Withheld	A	Under Construction	Q2 2018
Churchill Hall	Research Triangle Park	151,579	8.0	\$27.50	A	Under Construction	Q1 2018
One City Center	Downtown Durham	150,000	34.7	\$32.00	A	Under Construction	Q1 2018
Regency Woods II	Cary	150,000	63.5	\$29.95	A	Under Construction	Q4 2018
Tower IV at North Hills	Six Forks Falls of Neuse	344,500	0.0	\$37.50	A	Proposed	Q1 2020
The Edison	Downtown Raleigh	298,001	0.0	Withheld	A	Proposed	Q1 2020
Wade V	West Raleigh	209,322	0.0	Withheld	A	Proposed	Q2 2019
City Gateway	Downtown Raleigh	196,802	62.6	\$34.00	A	Proposed	Q1 2019

YEAR END 2017 | NOTABLE INVESTMENT SALES ACTIVITY

PROPERTY	SUBMARKET	SALES MONTH	SALES PRICE (MILLIONS)	SIZE (SF)	PRICE PER SF	BUYER	SELLER
Hock Plaza I	Downtown Durham	December	\$141.9	327,160	\$434	Harrison Street RE Capital	Hines Global REIT
Parmer RTP	Research Triangle Park	May	\$110.0	1,800,000	\$61	Karlin Real Estate	GlaxoSmithKline
*Perimeter Park	RTP I-40	September	\$104.4	582,245	\$179	Goldman Sachs	Starwood Capital; JV: Vanderbilt Partners
Sterling Regency	Cary	January	\$61.0	382,000	\$160	Dilweg Companies	Intercontinental RE
*Regency Park	Cary	October	\$53.0	389,456	\$136	Alidade Cap	Regency Park Corporation
*Principal RE Portfolio	RTP I-40	February	\$47.7	299,048	\$160	Fairlead CRE	Principal RE Investors
*Investcorp NC	RTP I-40	March	\$45.0	224,448	\$200	Innovatus	Investcorp
*Highwoods Portfolio	Cary	September	\$39.0	252,000	\$155	Adler Kawa	Highwoods Properties
Highwoods Tower One	US 1 Capital Blvd.	October	\$34.4	185,446	\$185	BB&T	Highwoods Properties
Simpson Portfolio	US 1 Capital Blvd.	November	\$30.3	220,687	\$137	Priam Ventures; JV: Brightman & Gil	The Simpson Org; JV: Harbert Management Corp.

*NOTE: Part of a portfolio sale.

An In-Depth Look: The Research Triangle Park

North Carolina's [Research Triangle Park](#) has long shined as a catalyst for innovation and development. As landscapes, industries, and generations move forward, Colliers was curious of the Park's strategy to attract new companies and continue the partnership between the universities. Denise Southerland and Hannah Hathaway of Colliers' marketing department sat down with Scott Levitan, recently appointed CEO of the Research Triangle Foundation, to find out how the park is pioneering growth opportunity for the Triangle workforce:

Future Outlook and the Emerging Workforce:

Research Triangle Park's original funding source was from large land sales. Now that the land inventory is down to approximately 450 acres, the foundation is creating new and sustainable sources of revenue to support companies wanting to locate in RTP and be central to all areas of the region. The Triangle has experienced a surge in startup and emerging companies, and RTP has become an ideal place to foster that local growth.

The Frontier, one of the Park's original buildings, was renovated in 2015 as a startup incubator space, designed to meet the needs of companies in various stages of growth. Of the over 250 companies doing business in the park, the Frontier houses 80. The emerging business community has shown a significant and consistent need for cheap space to foster growth, and the Frontier has proved to be a great option (it is currently full with a waiting list of 30 companies.) This year, RTP will expand this concept by completing the development of two additional buildings. Building 400, a mix of lab and office space, is set to open in July 2018, offering 2,000-5,000 SF spaces with whole-floor availability. Rents are very competitive (in the low \$20's gross, with fit out) and should come as no surprise that it is already 60% pre-leased. Building 600, at 100,000 SF, will be similar, but offers primarily office space with suites ranging from 1,000-2,000 SF. Future plans for The Frontier involve enhancing outside workspace and implementing new creative retail spaces that will cater to the live-work-play lifestyle.

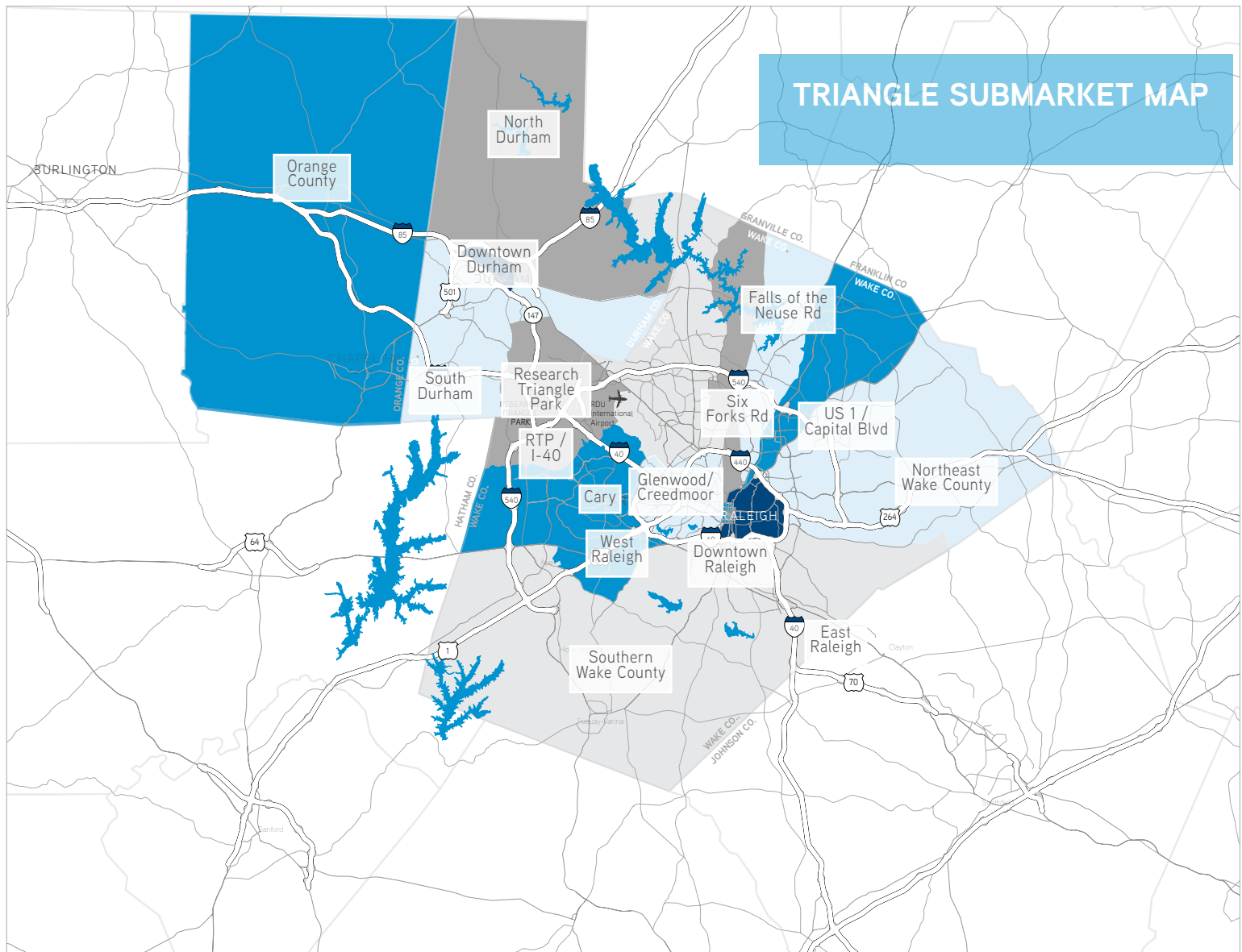
Spaces for universities to come together in collaboration is a driving force behind the Park's future strategy, and the foundation is encouraged by recent additions to its board from local community colleges and universities. Chancellors and/or presidents from the "big three" (UNC Chapel Hill, Duke, and NC State) are all starting conversations about how to utilize RTP to unite the schools and foster the gathering of tomorrow's workforce at the park.

The Park Center:

The Park Center project, announced in 2015, is still in the works but with revised development plans. The Park is currently in conversations with specialty developers about various project possibilities, ranging from more easily accessed retail, to 1M SF of office space, to hotels and residential units. The possibilities are endless with formal development options as well as more organic growth of startup spaces like the Frontier. Creating places for the benefit of the larger Triangle community is also a significant factor in future plans. "We want RTP to be an open, inclusive place that builds equality and equity in to the work place" says Levitan. "We also want to have spaces that the entire community can benefit from, rather than just employees of park-resident companies. We want to be a welcoming, amenity-rich environment that invites people to RTP."

Economic Development:

With Raleigh being announced on the "shortlist" for Amazon HQ2, there is an increased buzz about the Triangle as a site-selection destination. While our talent pool is arguably one of the best in the nation, Levitan encouraged that the community continue supporting the resources needed for continued growth, and we agree. Mobility continues to be a top issue: public transportation as well as direct flight options at RDU Airport are major factors for companies considering the Triangle – and the Park – for future expansion. Levitan also spoke to the numerous economic development projects that are gaining traction, but still have some margin to cover before they can reach the finish line. "We need public-private partnerships, as well as motivated community members focused on how to overcome that hurdle, because it absolutely must and can be overcome."



METHODOLOGY

METHODOLOGY

The Raleigh-Durham office reports calculate statistics using CoStar Group and Colliers International Raleigh-Durham's database of existing and under construction properties at market and submarket levels. Included in the pool of data are non-owner occupied Class A, B, and C office properties of 10,000+ SF.

396 offices in
60 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **192**

EMEA: **112**

\$105

billion in
annual revenue

2.0

billion square feet
managed

15,000

professionals
and staff

OFFICE SERVICES | CONTACT:

Kathy Gigac, SIOR
Director of Tenant Advisory Services | Raleigh
+1 919 582 3130
Kathy.Gigac@colliers.com

Baxter Walker
Senior Vice President | Raleigh
+1 919 582 3112
Baxter.Walker@colliers.com

Martie Serianni
Senior Vice President | Raleigh
+1 919 582 3156
Martie.Serianni@colliers.com

Thomas Kenna
Vice President | Raleigh
+1 919 582 3141
Thomas.Kenna@colliers.com

Lindsey Calverley
Associate | Raleigh
+1 919 582 3153
Lindsey.Calverley@colliers.com

REGIONAL AUTHOR:

Emily W. Bostic | Research Analyst, CPRC
+1 919 582 3136
Emily.Bostic@colliers.com



SPECIAL THANKS TO GUEST CONTRIBUTORS:



[RTP Foundation](#)



[Hughes, Pittman & Gupton](#)
Kim Kamens, CPA

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