

RALEIGH-DURHAM | OFFICE

Q1 2019

Demand For High-End Buildings In Prime Locations Continue to Drive Rents In The Raleigh-Durham Market

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Key Takeaways

- › Talented workforce and high quality of life continue to draw companies to the Raleigh-Durham area, resulting in an increase in demand and pushing rents in select markets above \$31.00 per square foot.
- › Metro areas with premium office inventory have been the most resilient in rent growth, despite a slight uptick in vacancy rate this past quarter.
- › Investors are still active and pushing the Raleigh-Durham market, with office assets appreciating in value. As a result, particular office sales in the market have surpassed more than \$260 per square foot.
- › Collectis Biologics, a French life sciences company announced it will be opening its first North American manufacturing facility in Wake County. The company will bring 200 jobs and a \$68.6 million investment to the area.
- › Increased development interest in Downtown Raleigh and Downtown Durham was evident this quarter. Proposed plans for mixed-use projects including the Nexus, 301 Hillsborough and The Roxboro were introduced to the market.

Rental Rates

- › Triangle leasing market continues to favor the landlord with overall increasing rents and no sign of changing direction. This quarter, rental rates increased \$0.35 with 232,663 square feet delivered.
- › Average Class A asking rents in the Downtown Durham, Downtown Raleigh and Six Forks/Falls of Neuse submarkets exceeded \$31.00 per square foot.
- › Average asking rents for the overall Triangle market were reported at \$21.71 per square foot. Class A rents were quoted at \$28.60 per square foot, resulting in a \$0.27 increase from 2018.

Market Indicators	Raleigh-Durham Q4 2018	Raleigh-Durham Q1 2019
VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

Summary Statistics

Q1 2019 Office Market	Triangle Market	Triangle Class A
Existing Inventory (Millions Square Feet)	67.9	33.5
Vacancy Rate	7.66%	9.26%
Net Absorption (Square Feet)	232,663	296,063
Under Construction (Million Square Feet)	1.53	1.45
Construction Deliveries (Square Feet)	524,962	524,962
Asking Rents Per Square Foot Per Year		
Average Quoted	\$21.71	\$28.60

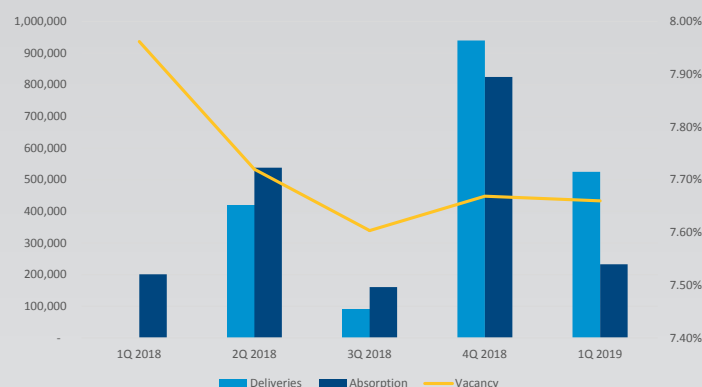
Absorption & Leasing Activity

- Competitive firms seeking to retain and attract the best talent look to lease high quality spaces in prime locations, resulting in net absorption almost exclusively involving Class A inventory. This quarter the Class A market accounted for 269,063 square feet of absorption.
- The overall office market reported net absorption at 232,663 square feet. Downtown Raleigh and RTP/I-40 continued to produce stable demand with a combined total of 280,217 square feet. Downtown Durham experienced a decrease in absorption this quarter, falling 107,071 square feet.
- Class A buildings in West Raleigh reported the highest demand in the first quarter of 2019, with 168,063 square feet of total net absorption.
- Tech, coworking and life science firms continue to drive most increases in occupancy for the Raleigh-Durham market with expansions and new leases signed by Laboratory Corporation of America, WeWork and Tachtest Pharma.
- Leasing activity remained steady this quarter. Significant lease transactions included Collectis signing 82,985 square feet at 2500-2540 Sumner Blvd, 64,098 square feet signed at 5 Laboratory Drive, 38,203 square feet signed at 111 Coming Road, 31,766 square feet signed at 8529 Six Forks Road and Align signing 29,773 square feet at 3030 Slater Road.

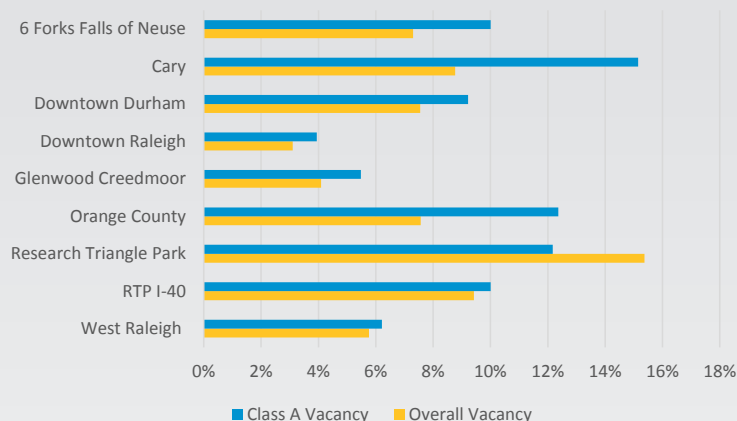
Vacancy & Availability

- Vacancy in the overall Triangle market decreased 0.01%, reporting 7.66% at the beginning of 2019. Class A vacancy followed trend this quarter with an increasing rate reported at 9.26%. The delivery of Class A developments including Perimeter Park and Perimeter Park Six along with One Glenwood pushed overall vacancy levels to rise from the fourth quarter of 2018.
- The Downtown Raleigh Class A submarket produced the highest demand this quarter, reporting at 3.94%, down 4.0% from the prior quarter with over 163,875 total square feet vacant.
- Of the 1.53M square feet of office space still under construction, 1.47M is Class A inventory. Anticipated delivery of these Class A buildings is expected to create an aggressive market for tenants looking to move into high-end buildings in optimal locations.

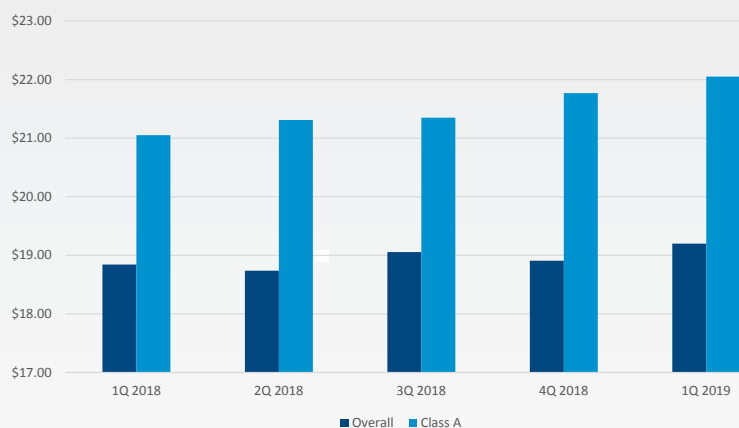
Absorption vs. Deliveries, Vacancies



Vacancy Rates Among Major Submarkets



Class A Rent Vs Overall Market Rent



RALEIGH-DURHAM SUBMARKET COMPARISONS

SUBMARKET NAME	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (WEIGHTED)
Cary	8,665,512	759,737	11,330	771,067	8.77%	(28,658)	-	219,000	\$22.25
Downtown Durham	4,801,343	362,473	12,421	374,894	7.55%	(107,071)	-	252,905	\$28.52
Downtown Raleigh	6,405,009	198,417	-	198,417	3.10%	177,923	-	149,842	\$28.42
Glenwood/Creedmoor	3,235,847	132,205	9,163	141,368	4.09%	(7,035)	-	168,000	\$21.90
North Durham	1,633,508	199,782	-	199,782	12.23%	33,826	-	-	\$11.25
Northeast Wake County	398,199	1,940	-	1,940	0.49%	-	-	-	\$5.92
Orange County	2,663,281	201,495	32,384	233,879	7.57%	(16,420)	-	-	\$16.04
Research Triangle Park	7,442,429	1,143,668	31,867	1,175,535	15.37%	(51,095)	-	152,456	\$20.00
RTP/I-40	6,123,245	576,957	52,669	629,626	9.42%	102,294	297,462	-	\$15.07
6 Forks Falls of Neuse	8,351,574	609,515	28,755	638,270	7.30%	62,980	-	390,000	\$23.07
South Durham	5,023,802	335,688	12,465	348,153	6.68%	(21,979)	-	-	\$20.72
Southern Wake County	1,646,008	26,758	-	26,758	1.63%	9,945	-	53,413	\$12.03
US 1 / Capital Blvd	2,573,194	140,477	-	140,477	5.46%	(21,891)	-	31,854	\$18.76
West Raleigh	8,955,222	516,141	67,890	584,031	5.76%	99,844	227,500	115,000	\$24.81
MARKET TOTALS (WEIGHTED)	67,918,173	5,205,253	258,944	5,464,197	7.66%	232,663	524,962	1,532,470	\$21.71

RALEIGH-DURHAM CLASS A SUBMARKET COMPARISONS

SUBMARKET NAME	EXISTING INVENTORY (SF)	DIRECT VACANCY (SF)	SUBLET VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY PERCENTAGE (%)	NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (WEIGHTED)
Cary	4,327,354	655,734	10,245	665,979	15.15%	(21,277)	-	219,000	\$27.82
Downtown Durham	2,887,197	266,078	6,521	272,599	9.22%	(18,321)	-	252,905	\$33.42
Downtown Raleigh	4,160,013	163,875	-	163,875	3.94%	166,243	-	149,842	\$32.78
Glenwood/Creedmoor	1,363,598	74,676	2,423	77,099	5.48%	(41,166)	-	168,000	\$27.27
Orange County	1,178,301	145,791	32,384	178,175	12.37%	(19,223)	-	-	\$27.27
Research Triangle Park	3,058,379	372,122	3,182	375,304	12.17%	(22,613)	-	152,456	\$24.76
RTP/I-40	4,510,628	451,721	52,669	504,390	10.01%	93,938	297,462	-	\$25.69
6 Forks Falls of Neuse	3,783,011	378,706	28,755	407,461	10.01%	27,212	-	390,000	\$31.28
South Durham	2,361,690	245,310	11,309	256,619	10.39%	(27,753)	-	-	\$25.77
US 1 / Capital Blvd	944,734	44,898	-	44,898	4.75%	(9,040)	-	-	\$23.82
West Raleigh	4,966,821	308,240	51,638	359,878	6.21%	168,063	227,500	115,000	\$28.86
MARKET TOTALS (WEIGHTED)	33,541,726	3,107,151	199,126	3,306,277	9.26%	296,063	524,962	1,447,203	\$28.60

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	SUBMARKET	TOTAL SF	LEASE TYPE
Collectis SA	2500-2540 Sumner Blvd	US 1/ Capital Blvd	82,985	New
WeWork	300 Morris St	Downtown Durham	74,937	New
Kuehne & Nagel Inc	5410 Trinity Road	West Raleigh	21,234	Renewal
IAT Insurance	North Hills East-Tower IV at North Hills	Six Forks Falls of Neuse	61,000	New
Spaces	555 S. Mangum Street	Downtown Durham	47,619	New
Arch Capital	223 S West Street	Downtown Raleigh	104,593	New
LabCorp	5 Moore Drive	Research Triangle Park	221,988	New
Nvidia	2600 Meridian	South Durham	65,599	New

Construction & Investment Activity

- Deliveries totaled 524,962 square feet at the end of the first quarter. Perimeter Six, Building I, Perimeter Park and One Glenwood contributed to quarter-end deliveries for the start of 2019.
- An additional 1.53M is currently under construction including Tower IV at North Hills, Smokey Hollow, 555 S. Mangum Street and 301 Metlife Way.
- Sales volume held up this quarter with pricing holding firm. Noteworthy sales included 3700 Glenwood for \$268.55 per square foot, 3030 Slater Road for \$289.07 per square foot and The Station at East 54 for \$417.91 per square foot.

Q1 2019 | NOTABLE DEVELOPMENT ACTIVITY

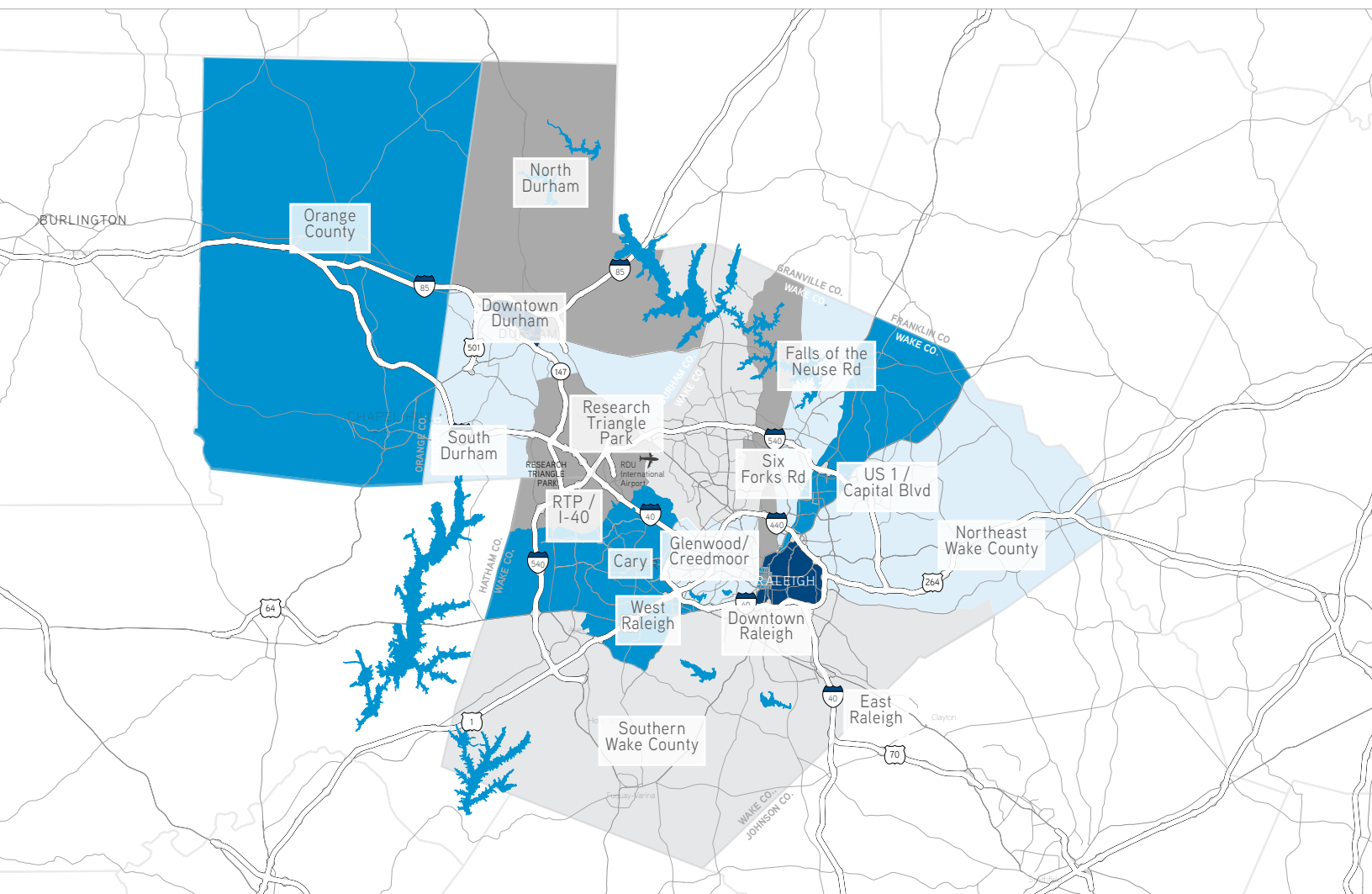
PROPERTY	SUBMARKET	SIZE (SF)	PRE LEASED %	CONSTRUCTION STATUS	START/DELIV.
Town Hall Commons	Southwest Wake County	43,000	68.7%	Under Construction	Q2 2019
555 S. Mangum Street	Downtown Durham	233,000	20.1%	Under Construction	Q4 2019
FNB Tower	Downtown Raleigh	149,842	60.7%	Under Construction	Q4 2019
Wade V	West Raleigh	209,322	0.0%	Under Construction	Q2 2020
Tower IV at North Hills	6 Forks Falls of Neuse	390,000	33.3%	Under Construction	Q3 2020
Crabtree Terrace	Glenwood/Creedmoor	168,000	31.1%	Under Construction	Q4 2019
400 H	Downtown Raleigh	500,000	0.0%	Proposed	Q1 2019
Briar Creek Town Center I	RTP/RDU	200,000	0.0%	Proposed	Q2 2019
The Edge	Downtown Raleigh	282,000	0.0%	Proposed	Q1 2020
City Gateway	Downtown Raleigh	196,802	62.6%	Proposed	Q2 2019
Briar Creek Town Center I	RTP/RDU	200,000	0.0%	Proposed	Q2 2019
The Nexus	Downtown Raleigh	1,500,000	0.0%	Proposed	N/A
464 Pettigrew Street	Downtown Durham	202,000	0.0%	Proposed	N/A

NOTABLE INVESTMENT SALES ACTIVITY

PROPERTY	SUBMARKET	SALES PRICE (\$MM)	SIZE (SF)	PRICE / SF	CAP RATE	BUYER	SELLER
*5200 E Paramount Pkwy	RTP/RDU	\$314.00	1,162,109	\$270	N/A	Ascendas-Singbridge Group	Trinity Capital Advisors, LLC
Wells Fargo Capitol Bldg	Downtown Raleigh	\$173.00	559,984	\$308	6.00%	Preferred Office Properties	Highbrook Investors
Midtown Plaza	Six Forks Falls of Neuse	\$127.00	330,000	\$385	6.00%	Lionstone Investments	Kane Realty, JV: KBS Realty
*5020 Weston Pkwy	Cary	\$75.50	290,183	\$260	N/A	Accesso Partners LLC	Capital Associates Management LLC
3034 Carrington Mill Blvd	RTP/RDU	\$74.21	258,250	\$287	7.05%	Capri EGM	Starwood Capital Group
7751 Brier Creek Pkwy	Glenwood/Creedmoor	\$34.10	124,000	\$275	6.50%	Zurich Alternative Asset Management LLC	Heritage Properties, Inc
3700 Glenwood Ave	West Raleigh	\$30.00	111,710	\$269	N/A	Acentris, LLC	Grubb Ventures LLC
1011 S Hamilton Rd	Orange County	\$19.92	47,678	\$418	6.20%	Mattie Equity LLC	Station at Chapel Hill, LLC
4 North Blount St	Downtown Raleigh	\$3.00	10,760	\$279	N/A	4 North Blount LLC	American Legion Dpt of NC

*NOTE: Part of a portfolio sale.

Triangle Submarket Map



FOR MORE INFORMATION

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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.