

## Triangle Rents Continue to Increase, High Demand For Class A Office Product

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### Key Takeaways

- > Vacancy rate held steady at the end of the third quarter. Post construction delivery of 2.46M square feet is expected to fluctuate vacancy and absorption totals.
- > Average asking rents in the market were \$23.85 per square foot with Class A rents averaging \$27.43 per square foot. Major submarkets have become an incubator for high-end, Class A space where tenants are willing to pay competitive rents for key locations, space configuration and modern amenities.
- > Triangle office market sales surpassed prior years with notable transactions including Wells Fargo Capitol Center in Downtown Raleigh selling for \$173 million.
- > The delivery of the Dillon Tower last quarter along with the 104,000 square foot lease signed by Arch Capital Services has made the Warehouse district appealing for office users entering and relocating in the market.
- > North Carolina ranked #6 in the nation for Doing Business in 2018 according to Area Development Magazine. The state had the second most competitive labor environment; third most cooperative and responsive state government; and fifth most shovel-ready sites. Tier 1 research universities in addition to technical and advanced vocational programs provide a competitive labor environment.

### Market Indicators

Relative to prior quarter

Raleigh-Durham  
Q2 2018

Raleigh-Durham  
Q3 2018

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



### Summary Statistics

Q3 2018 Office Market

Triangle  
Market

Triangle  
Class A

Existing Inventory  
(Millions Square Feet)

66.7

32.2

Vacancy Rate

7.49%

8.14%

Net Absorption  
(Square Feet)

214,006

207,375

Under Construction  
(Million Square Feet)

2.46

2.41

Construction Deliveries  
(Square Feet)

90,000

90,000

Asking Rents  
Per Square Foot Per Year

Average Quoted

\$23.85

\$27.43

## Absorption & Leasing Activity

- The Triangle reported over 214,006 square feet of total net absorption at the close of the third quarter. The Glenwood I Creedmoor submarket contained the most positive net demand with over 68,010 square feet of office space absorbed.
- The Downtown Raleigh submarket continues to produce stable office demand with over 49,585 total square feet absorbed during the third quarter.
- Overall Class A net absorption in the Triangle reached 207,375 square feet at the end of the third quarter. The overall Class B market reported positive net absorption of 9,141 square feet for the quarter end totals.
- The Downtown Raleigh submarket reported the highest Class A demand of the quarter with over 60,255 square feet of total net absorption.
- As expected, lease activity remained steady in the third quarter of 2018. The largest leases in the market included over 221,000 square feet lease signed by Laboratory Corporation of America at 5 Moore Drive in Research Triangle Park and 104,000-square-feet leased by Arch Capital at The Dillon, 223 S West Street, in the Downtown Raleigh Warehouse District.

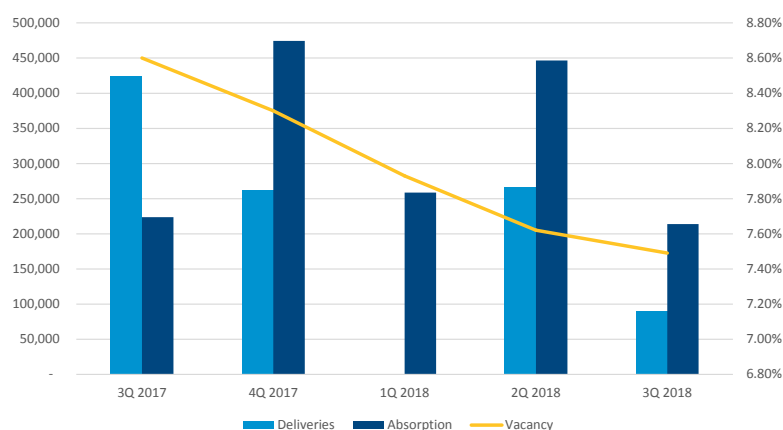
## Vacancy & Availability

- The overall Triangle vacancy rate dropped to 7.49% for the third quarter end. This results in a 0.13% decrease in vacancy percentage from the second quarter of 2018. The overall Class A vacancy in the Triangle office market decreased at the close of the quarter reporting at 8.14%, down 0.39% from the prior quarter with over 2.4M total square feet of vacant space.
- Downtown Durham continues to produce high demand, reporting the lowest vacancy rate in the Triangle office market. The delivery of several large Class A developments, totaling 905,422 square feet, is expected to increase vacancy levels.
- The anticipation of several new Class A deliveries is expected to create an aggressive market for tenants looking for a live, work, play atmosphere.
- Demand from companies looking for new locations and expansions is expected to continue into the following year, resulting in an escalation of deals, changing vacancies and absorption.

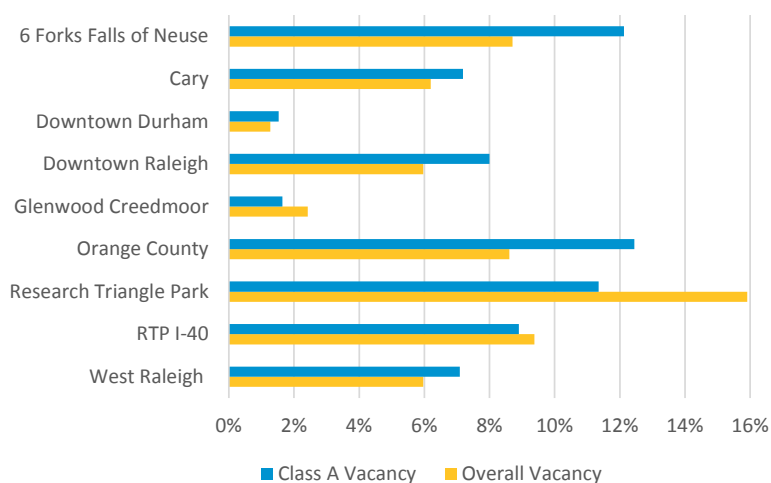
## Rental Rates

- Average asking rents in the Triangle office market continue to increase. While several large buildings have recently delivered, an impressive amount of supply is still to come and the leasing environments in the Triangle will continue to heavily favor the landlord.
- Average asking rents for the overall submarket were reported at \$23.85 per square foot, resulting in a \$0.38 decrease from the previous quarter. Class A rents remained relatively unchanged at \$27.43 psf.

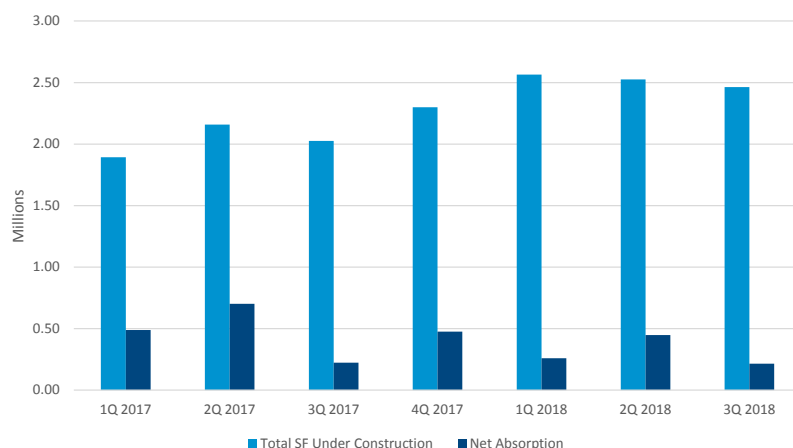
Absorption vs. Deliveries, Vacancies | Q3 2018



Vacancy Rates Among Major Submarkets | Q3 2018



Class A Rent Vs Overall Market Rent | Q3 2018



## RALEIGH-DURHAM SUBMARKET COMPARISONS

	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)
SUBMARKET NAME									
Cary	8,518,936	510,680	17,651	528,331	6.20%	10,166	0	369,000	\$23.54
Downtown Durham	4,433,236	51,947	4,191	56,138	1.27%	28,500	0	905,422	\$30.05
Downtown Raleigh	6,377,730	380,784	0	380,784	5.97%	49,585	0	162,680	\$28.86
Glenwood/Creedmoor	3,202,017	77,476	0	77,476	2.42%	68,010	0	0	\$21.22
North Durham	1,629,292	226,868	1,886	228,754	14.04%	17,593	0	0	\$15.14
Northeast Wake County	392,764	12,140	0	12,140	3.09%	776	0	0	\$16.75
Orange County	2,854,824	231,523	14,165	245,688	8.61%	2,707	0	47,648	\$23.83
Research Triangle Park	7,396,532	1,145,571	31,090	1,176,661	15.91%	46,172	0	152,456	\$22.66
RTP/I-40	5,571,207	394,945	127,899	522,844	9.38%	(84,425)	0	555,712	\$24.05
6 Forks Falls of Neuse	8,373,866	718,640	10,404	729,044	8.71%	6,840	0	0	22.94
South Durham	4,910,038	316,307	18,568	334,875	6.82%	10,501	0	0	\$21.85
Southern Wake County	1,652,458	46,932	0	46,932	2.84%	(1,192)	0	11,000	\$16.03
US 1 / Capital Blvd	2,576,769	131,902	0	131,902	5.12%	16,660	0	31,854	\$18.71
West Raleigh	8,802,230	502,579	23,293	525,872	5.97%	42,113	90,000	227,500	\$26.09
MARKET TOTALS (WEIGHTED)	66,691,899	4,748,294	249,147	4,997,441	7.49%	214,006	90,000	2,463,272	\$23.85

## RALEIGH-DURHAM CLASS A SUBMARKET COMPARISONS

	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)
SUBMARKET NAME									
Cary	4,178,830	300,443	0	300,443	7.19%	53,666	0	369,000	\$26.63
Downtown Durham	2,482,209	38,030	0	38,030	1.53%	370	0	905,422	\$32.29
Downtown Raleigh	4,141,648	331,404	0	331,404	8.00%	60,255	0	149,842	\$31.38
Glenwood/Creedmoor	1,366,861	22,391	0	22,391	1.64%	34,657	0	0	\$24.82
Orange County	1,369,844	156,405	14,165	170,570	12.45%	(5,422)	0	47,648	\$27.39
Research Triangle Park	2,979,883	338,336	0	338,336	11.35%	25,327	0	152,456	\$24.37
RTP/I-40	3,954,916	233,136	118,858	351,994	8.90%	(46,720)	0	555,712	\$25.65
6 Forks Falls of Neuse	3,783,011	448,528	10,404	458,932	12.13%	26,953	0	0	\$26.95
South Durham	2,360,447	236,390	11,309	247,699	10.49%	5,594	0	0	\$25.73
US 1 / Capital Blvd	958,016	34,760	0	34,760	3.63%	4,560	0	0	\$23.10
West Raleigh	4,715,628	316,926	17,588	334,514	7.09%	48,135	90,000	227,500	\$28.45
MARKET TOTALS (WEIGHTED)	32,291,293	2,456,749	172,324	2,629,073	8.14%	207,375	90,000	2,407,580	\$27.43

\*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
Arch Capital	223 S West Street	Downtown Raleigh	104,593	New
LabCorp	5 Moore Drive	Research Triangle Park	221,988	New
Bandwidth	900 Main Campus Drive	West Raleigh	83,218	New



## Construction & Investment Activity

➤ At the close of the third quarter of 2018, office deliveries totaled 90,000 SF with an additional 2.46 million square feet that is currently under construction. Durham iD, a 178,000 square foot mixed-use building in Downtown Durham is still under construction with an anticipated delivery time of late 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 in addition to the FNB Tower totaling 149,000 square feet with an expected delivery date of late 2019. CCCC Health & Science building is also under construction in Chatham County totaling 111,000 square feet with projected delivery in late 2019.

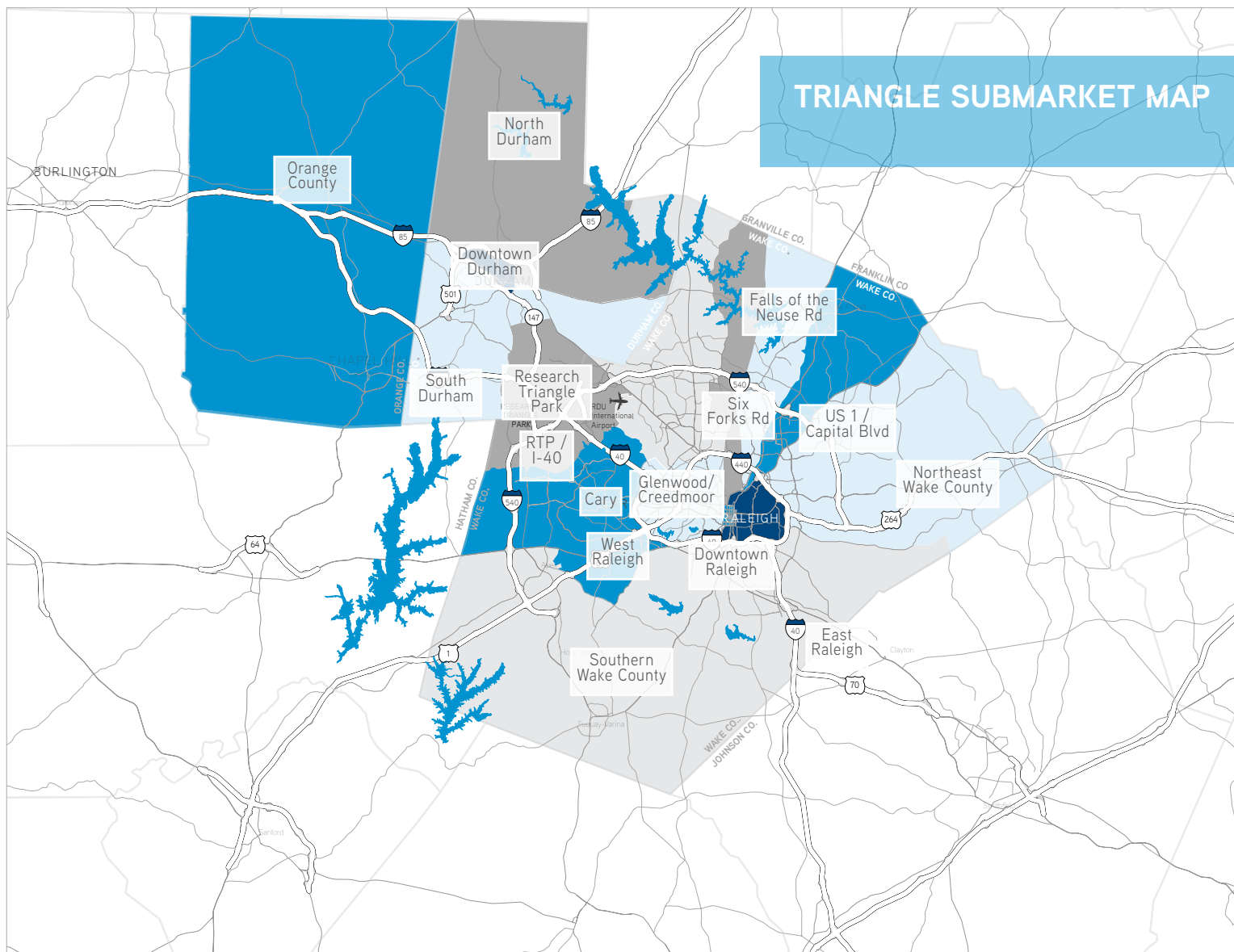
### Q3 2018 | NOTABLE DEVELOPMENT ACTIVITY

PROPERTY	SUBMARKET	SIZE (SF)	PRE-LEASED %	CONSTRUCTION STATUS	START / DELIV DATE
FNB Tower	Downtown Raleigh	149,842	60.7	Under Construction	Q4 2019
Perimeter Park Five	RTP   I-40	258,250	100.0	Under Construction	Q1 2019
555 Mangum	Downtown Durham	229,455	20.75	Under Construction	Q3 2017
One Glenwood	Downtown Raleigh	228,600	46.9	Under Construction	Q3 2017
Perimeter Park Six	RTP I-40	200,000	65.52	Under Construction	Q2 2019
Durham iD	Downtown Durham	178,998	8.5	Under Construction	Q3 2018
200 Morris Street	Downtown Durham	160,000	96.6	Under Construction	Q3 2018
One City Center	Downtown Durham	150,000	76.6	Under Construction	Q4 2018
Regency Woods II	Cary	150,000	63.5	Under Construction	Q4 2018
Tower IV at North Hills	Six Forks Falls of Neuse	344,500	0.0	Proposed	Q4 2018
The Edge	Downtown Raleigh	282,000	0.0	Proposed	Q1 2020
Wade V	West Raleigh	209,322	0.0	Proposed	Q1 2020
City Gateway	Downtown Raleigh	196,802	62.6	Proposed	Q2 2019

### YTD | NOTABLE INVESTMENT SALES ACTIVITY

PROPERTY	SUBMARKET	SALES PRICE (MILLIONS)	SIZE (SF)	PRICE PER SF	CAP RATE%	BUYER	SELLER
Wells Fargo Capitol Building	Downtown Raleigh	\$173.00	559,984	\$308	6.0	Preferred Office Properties	Highbrook Investors
*4011 Westchase Blvd	West Raleigh	\$56.33	312,544	\$180	7.1	The Brookdale Group	AEGON USA Realty Advisors Inc
*5200 E Paramount Parkway	RTP/RDU	\$314.00	1,162,109	\$270	N/A	Ascendas-Singbridge Group	Trinity Capital Advisors, LLC
Lenovo Enterprise	RTP I-40	\$135.30	485,000	\$279	5.7	Sentinel Real Estate	Arzan Financial Group
Midtown Plaza	Six Forks Falls of Neuse	\$127.00	330,000	\$385	6.0	Lionstone Investments	Kane Realty; JV: KBS Realty
Crossroads	Cary	\$68.80	390,542	\$176	NA	Menlo Equities	American Realty Advisors
*Brown Bros Portfolio	South Durham	\$55.60	201,008	\$276	NA	Innovatus	Clarion Partners
*Meridian Campus	RTP I-40	\$95.80	587,901	\$189	7.0	Accesso Partners; JV: Torchlight	Investcorp; JV: American RE Partners
Stratford Hall	RTP I-40	\$14.30	81,000	\$176	NA	4307 Emperor LLC	Principal RE Investors

\*NOTE: Part of a portfolio sale.



## METHODOLOGY

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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.



# 413 offices in 69 countries on 6 continents

United States: **145**

Canada: **28**

Latin America: **23**

Asia Pacific: **39**

EMEA: **131**

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