

# RALEIGH-DURHAM | OFFICE

## Q2 2016



## Triangle Rents Increase; Relatively Flat 2nd Quarter

Emily Bostic Research Associate | Raleigh-Durham

### Key Takeaways

- › Triangle rents across all property classes continue to rise. As the Central Business Districts in the Triangle begin to tighten and large block space becomes constrained, rents will increase into the year 2017.
- › Limited Class A leasing opportunities with high costs of new construction will also result in the steep increases of average rental rates. Average Class A rents are reportedly \$24.80 PSF.
- › The Triangle's overall Class B market is benefitting from the high occupancy costs and increased rates of the Class A sector. Absorption of Class B space in the Triangle has been positive for seven consecutive quarters.
- › Vacancy rates remained steady at 8.0%, resulting in no change from the previous first quarter of 2016.

### Market Overview

As of May 2016, the Triangle unemployment rate was reported at 4.5% down from 4.8% that was reported in the previous month of April. The Raleigh-Durham market has been adding approximately 2,000 jobs per month and have added 10,300 jobs since the beginning of 2016. Raleigh was recently named among the top ten large cities in the country for economic growth.

The Raleigh-Durham region ranks as one of the best value propositions for investors in commercial real estate in the country. So far in 2016, investors of commercial real estate properties in the Triangle have bought and sold nearly \$1.36 billion in commercial properties.

#### Market Indicators

Relative to prior period

Raleigh-Durham  
Q2 2015

Raleigh-Durham  
Q2 2016

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



#### Summary Statistics

Q2 2016 Regional Office Market

Triangle  
Region

Triangle  
CBD

Triangle  
Suburban

Existing Inventory  
(Square Feet)

82,158,893

12,286,123

69,872,770

Vacancy Rate

8.0%

4.9%

8.5%

Change From Q2 2015  
(basis points)



1.3



0.9



1.4

Absorption  
(Square Feet)

44,519

(36,880)

81,399

Under Construction  
(Square Feet)

1,459,700

417,000

1,042,700

Deliveries  
(Square Feet)

48,271

0

48,271

#### Asking Rents

Per Square Foot Per Year

Average Quoted



\$21.35



\$26.38



\$20.88

Change from Q2 2015

\$1.02

\$1.79

\$0.96

Class A Rents

\$24.80

\$28.08

\$24.29

## Absorption & Leasing Activity

- During the second quarter of 2016, the Triangle's positive net absorption totaled 44,519 square feet. The RTP I-40 submarket obtained the most positive net absorption (57,726 SF) while South Durham did not fall far behind with 54,740 square feet of positive net absorption.
- The West Raleigh submarket reported the most positive net absorption in the Class A Triangle market at 64,679 square feet. Raleigh-Durham's overall suburban Class B market reported the highest absorption of the second quarter with over 140,000 square feet of positive net absorption.
- One of the largest deals of the quarter was the 142,215 square foot lease signed by UNC-Chapel Hill at the Carolina Square-C building in the Orange County submarket. The Carolina Square-C building is currently under construction and will deliver 201,451 SF of Class A space in the third quarter of next year.

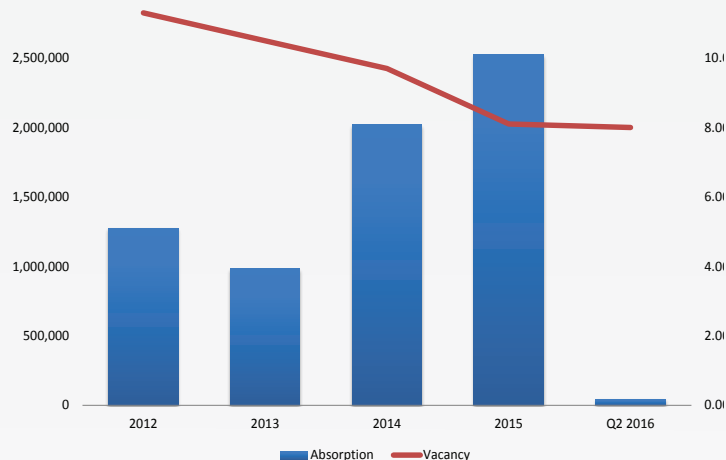
## Vacancy & Availability

- The Triangle market's vacancy rate remained stable at 8.0% for the second quarter, resulting in 0.0% change in percentage points from the first quarter of 2016. While the vacancy rate in the Triangle market did not change during the second quarter, the vacancy rate has decreased from 9.3% (down 1.3 percentage points) since the second quarter of 2015.
- With over 2.9M total square feet of vacant space, the Triangle's overall Class A vacancy was 8.4% in the second quarter. This 0.3 percent increase in Class A vacancy was a direct result of the negative absorption that occurred in the Cary, Downtown Raleigh and RTP I-40 submarkets in the second quarter.

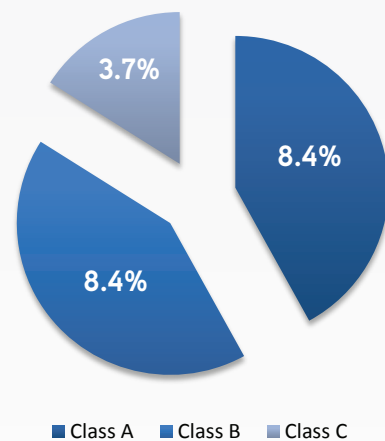
## Rental Rates

- Triangle rents across all property classes continue to rise. As the overall vacancy in Downtown Durham and Downtown Raleigh continues to decline, the market will further tighten while rents subsequently increase. The average rental rate in Downtown Raleigh reached \$27.10 per square foot during the second quarter.
- The overall average asking rental rate for the Triangle market was reported at \$21.35 per square foot during the second quarter, up \$0.13 from the first quarter of 2016 and an increase of \$1.02 from 2015.
- The largest increase in asking rents was observed in the Class A sector where the overall average rent jumped to \$24.80 per square foot. This represents a \$1.30 increase from the recorded rents at the close of the second quarter of 2015. Downtown Durham reported the highest Class A rents of any Triangle Submarket at \$29.24 per square foot.

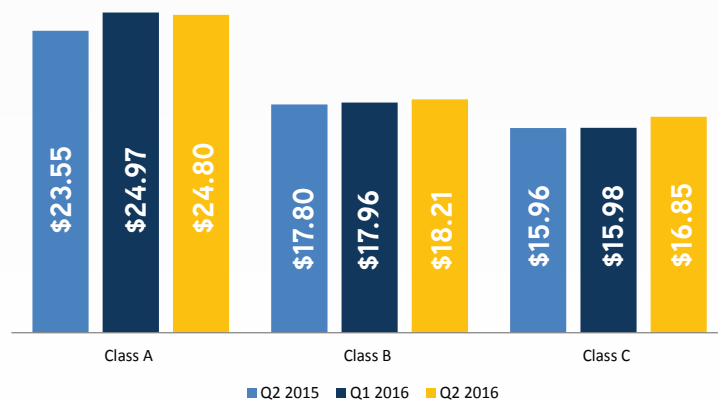
### Historical Vacancy and Absorption



### Vacant Space by Type



### Gross Rental Rates Per Square Foot



Source: Colliers Research, CoStar Group

## OVERALL SUBMARKET COMPARISONS | RALEIGH-DURHAM

	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
SUBMARKET NAME									
Cary	11,420,172	708,978	43,437	752,415	6.6	(6,951)	0	23,060	\$20.67
Downtown Durham	4,948,588	87,918	25,379	113,297	2.3	(3,499)	0	150,000	\$24.81
Downtown Raleigh	7,337,535	453,015	38,618	491,633	6.7	(33,381)	0	267,000	\$27.10
Glenwood   Creedmoor	3,497,886	173,444	9,023	182,467	5.2	6,377	0	14,307	\$20.93
Johnston County	844,263	26,994	0	26,994	3.2	616	0	22,400	\$18.72
North Durham	1,824,925	525,968	0	525,968	28.0	8,504	0	0	\$16.03
Northeast Wake County	612,855	6,316	7,000	13,316	2.2	(2,790)	0	0	\$16.50
Orange County	3,412,994	172,612	10,158	182,770	5.4	(17,984)	0	158,284	\$25.55
RTP   I-40	19,232,929	1,767,011	171,284	1,938,295	10.1	57,726	0	205,000	\$19.79
Six Forks   Falls of Neuse	9,333,636	776,765	158,424	935,189	10.0	20,680	25,000	329,214	\$23.36
South Durham	5,210,982	224,168	41,326	265,494	5.1	54,740	0	22,700	\$21.83
Southern Wake County	2,195,346	162,184	1,624	163,808	7.5	3,353	23,271	12,165	\$16.05
US 1   Capital Blvd.	2,976,774	213,140	0	213,140	7.2	11,181	0	52,000	\$17.67
West Raleigh	9,310,008	687,066	39,922	726,988	7.8	(1,234)	0	203,570	\$23.56
<b>MARKET TOTALS</b>	<b>82,158,893</b>	<b>5,993,156</b>	<b>544,995</b>	<b>6,538,151</b>	<b>8.0</b>	<b>44,519</b>	<b>48,271</b>	<b>1,459,700</b>	<b>\$21.35</b>

## CLASS A SUBMARKET COMPARISONS | RALEIGH-DURHAM

	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
SUBMARKET NAME									
Cary	4,915,810	320,363	28,554	348,917	7.1	(21,631)	0	0	\$22.71
Downtown Durham	2,560,653	22,518	2,371	24,889	1.0	2,945	0	150,000	\$29.24
Downtown Raleigh	4,251,922	393,177	38,618	431,795	10.2	(35,214)	0	267,000	\$27.77
Glenwood   Creedmoor	1,274,785	60,224	5,350	65,574	5.1	(1,890)	0	0	\$24.20
Orange County	1,257,790	65,775	5,274	71,049	5.6	(15,647)	0	201,451	\$28.68
RTP   I-40	8,151,857	594,755	166,317	761,072	9.3	(30,011)	0	205,000	\$22.22
Six Forks   Falls of Neuse	3,775,231	414,329	142,000	556,329	11.0	32,185	25,000	329,214	\$27.21
South Durham	2,464,922	127,982	2,895	130,877	5.3	(7,247)	0	0	\$24.82
Southern Wake County	435,710	0	0	0	0.0	0	0	0	\$17.50
US 1   Capital Blvd.	1,042,294	87,205	0	87,205	8.4	(3,704)	0	0	\$20.90
West Raleigh	4,646,410	415,248	28,073	443,321	9.5	64,679	0	203,570	\$25.42
<b>MARKET TOTALS</b>	<b>34,875,714</b>	<b>2,508,752</b>	<b>419,452</b>	<b>2,928,204</b>	<b>8.4</b>	<b>(94,979)</b>	<b>25,000</b>	<b>1,313,068</b>	<b>\$24.80</b>

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

## CENTRAL BUSINESS DISTRICT CLASS 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
CLASS									
CLASS A	6,812,575	404,674	40,989	445,663	6.5	11,021	0	417,000	\$28.25
CLASS B	3,811,969	96,672	23,008	119,680	3.1	(8,511)	0	0	\$21.52
CLASS C	1,661,579	28,566	0	28,566	1.7	3,900	0	0	\$17.67

## SUBURBAN CLASS 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
CLASS									
CLASS A	28,063,139	2,093,057	378,463	2,471,520	8.8	(62,710)	25,000	896,068	\$24.29
CLASS B	35,333,536	3,091,377	96,525	3,187,902	9.0	143,918	23,271	146,632	\$18.08
CLASS C	6,463,859	267,789	6,010	273,799	4.2	191	0	0	\$16.79



## Construction & Investment Activity

- At the close of the second quarter, office deliveries totaled 48,271 SF in three buildings with an additional 1,459,700 million square feet that is currently under construction. Class A office deliveries in the Triangle totaled 25,000 SF and over 1.3 million square feet of space under construction. With several highly anticipated projects underway, including Gateway Center and the Dillon, Downtown Raleigh and Downtown Durham have a combined 714,000 total square feet under construction at the close of the second quarter. As these Class A properties deliver throughout the year 2016 and over the next couple of years, average rents in the Triangle will continue to escalate.
- Construction is underway for the new Legacy at Brier Creek, the 121,000 SF office building in the Glenwood Creedmoor submarket. The new development is the first in the Triangle by Heritage Properties, a Maryland-based firm. Colliers Raleigh-Durham will handle all of the leasing for the new office development.
- One of the most notable office sales transactions of the second quarter was EastRidge at Perimeter Park. The 626,351 SF property portfolio sold for \$63,500,000 at \$101.38 per square foot in April. The portfolio of eleven properties assembled on 56 acres was sold to Somerset Properties from Hudson Advisors at a 7.5% cap rate.

### SELECT DEVELOPMENT ACTIVITY

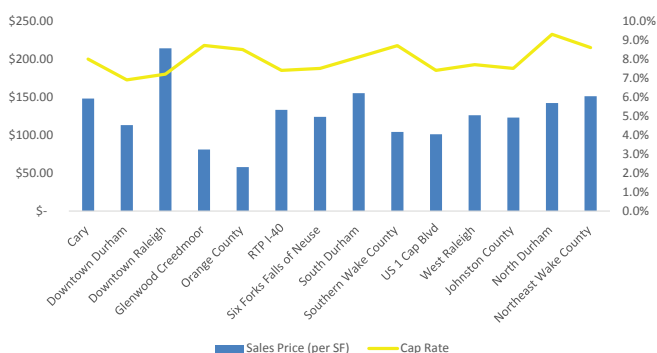
PROPERTY	SUBMARKET	SIZE (SF)	PRE-LEASED %	QUOTED RATE	BUILDING CLASS	STATUS	DELIV DATE
Midtown Plaza	Six Forks Falls of Neuse	329,214	83%	\$33.95	A	Under Construction	Q2 17
The Dillon	Downtown Raleigh	267,000	6%	Negotiable	A	Under Construction	Q1 18
Forty540 at the Perimeter	RTP   I-40	205,000	0%	\$25.50	A	Under Construction	Q1 17
Carolina Square	Orange County	201,451	73%	\$35.00	A	Under Construction	Q3 17
One City Center	Downtown Durham	150,000	36%	\$32.00	A	Under Construction	Q1 18
Legacy at Brier Creek	Glenwood Creedmoor	121,000	0%	\$26.95	A	Under Construction	Q2 17

### NOTABLE SALES ACTIVITY

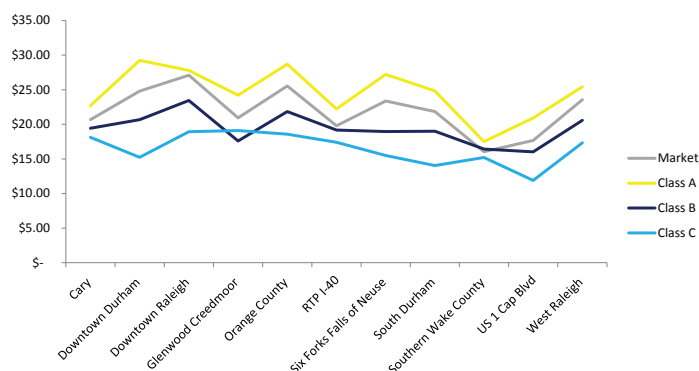
PROPERTY	SALES DATE	SALES PRICE	SIZE (SF)	PRICE / SF	CAP RATE	BUYER
*EastRidge at Perimeter Park	April	\$63,500,000	626,351	\$101.38	7.5%	Somerset Properties
Bradford & Berrington Center	April	\$46,000,000	224,779	\$204.64	NA	Crown Realty
Regency Forest	6.23.16	\$35,225,000	206,588	\$170.51	NA	True North Management Group
Triangle Business Center	June	\$20,150,000	270,833	\$74.40	NA	Alidade Cap
TBC Place I & II		\$18,700,000	177,743	\$105	NA	Starwood Property Trust

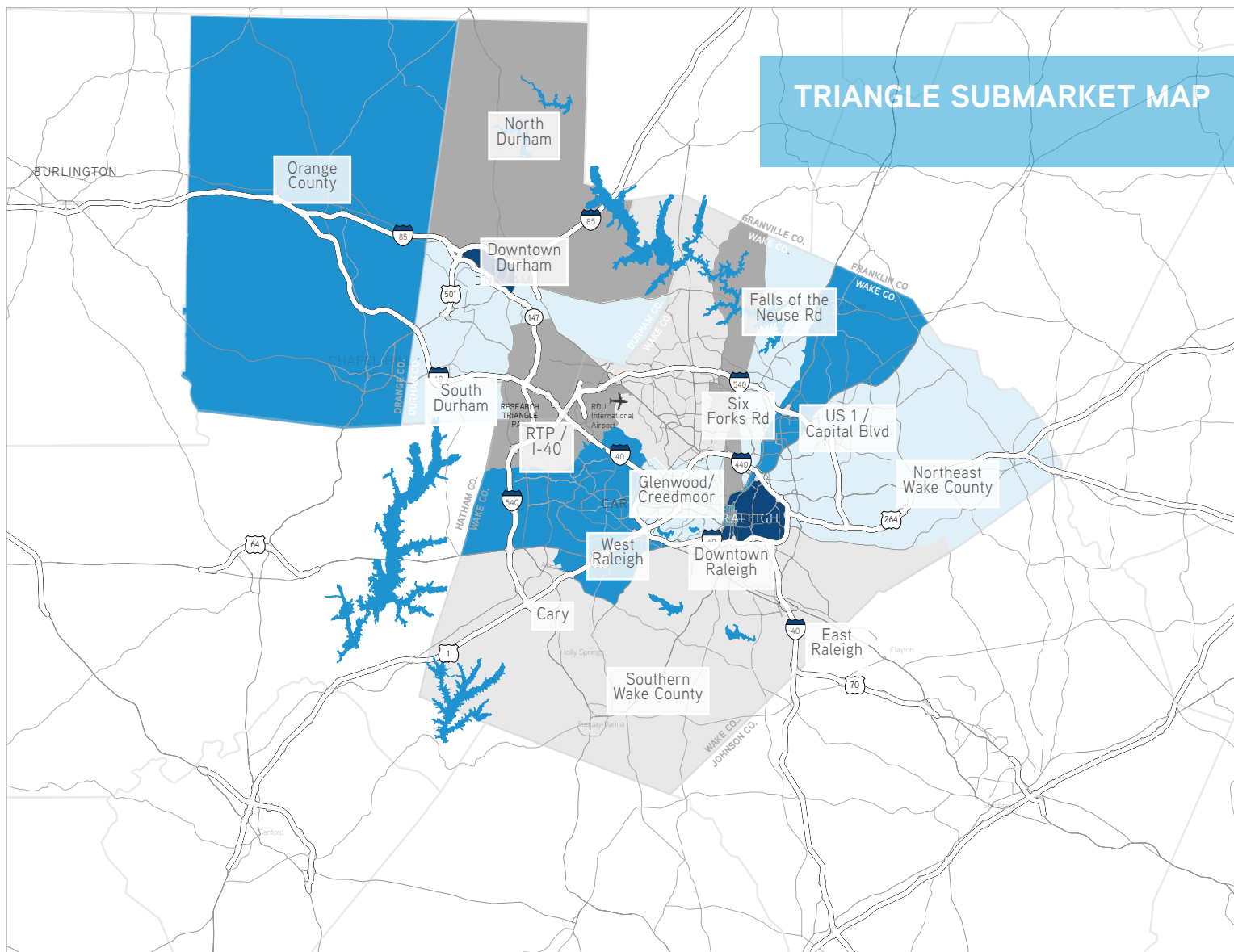
\*NOTE: Part of an 11 property portfolio sale.

### Investment Sales Activity per Submarket



### Average Rental Rates (psf) per Submarket





## 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 Class A, B, and C office properties of 10,000+ SF.

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**502** offices in  
**67** countries on  
**6** continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

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**\$2.3**

billion in  
annual revenue

**1.7**

billion square feet  
under management

**16,300**

professionals  
and staff

#### OFFICE SERVICES | CONTACT:

Kathy Gigac  
Director of Leasing | Raleigh  
+1 919 582 3130  
Kathy.Gigac@colliers.com

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

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

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

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

#### REGIONAL AUTHOR:

Emily W. Bostic | Research Associate  
+1 919 582 3136  
Emily.Bostic@colliers.com



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