



Office Market Overview

Since the beginning of 2016, seven companies have announced relocations or expansions in Wake County, accounting for 210 new jobs and \$19.5 million of investment. Recently, Microsoft announced the company is relocating their Durham office and have signed an 11 year lease agreement for nearly 40,000 square feet on the second floor of the new Perimeter Park Four building in Morrisville. Cohera Medical Inc. and Citrix Systems have both announced company plans for Downtown Raleigh. Cohera Medical Inc. is moving the company's headquarters from Pittsburgh to 16,000 square feet at the 227 Fayetteville office tower where the company plans to more than double its workforce in the next 18 months. Citrix Systems also announced they were adding another 14,000 square feet on the ground floor of their existing building, formerly slated for retail, and now occupies the entire building at 501 W Morgan Street. Citrix has about 700 employees in Raleigh.

The Raleigh/Durham economy continues to bring opportunities for investors. During first quarter, 12 office buildings sold totaling \$245.7 million with an average price of \$202 psf. The largest building sale was the Toshiba building at 3901 S Miami Boulevard in Durham; a 200,000 square foot Class B office building that is fully occupied by Toshiba Global Commerce Solutions through April 2028. The building was acquired by GC Essential Asset REIT II in January from IBM for \$35.5 million (\$177 psf).

Overall office building vacancy in the Triangle declined 30 basis points from 10.5 percent to 10.2 percent during first quarter 2016. Direct vacancy moved to 9.6 percent – down 50 basis points from fourth quarter, and down 230 basis points versus a year ago. The area experienced over 475,000 square feet of positive space demand with direct and sublet net absorption at positive 596,000 square feet and negative 121,000 square feet respectively.

Even with several sublet spaces hitting the market, the overall market experienced nearly a half million square feet of positive net absorption. The RTP/RDU submarket was responsible for approximately 67.0 percent of the space demand with 320,000 square feet of positive net absorption during first quarter. Fidelity Investments moved into over 116,000 square feet at Danbury Hall, an announcement that came in October of last year that committed Fidelity to bringing 600 jobs to Durham by 2018 in an \$8.0 million expansion. The state approved a JDIG incentive package worth up to \$15.0 million. The company is once again leasing the entire building that it had vacated in 2013. TrialCard signed a new lease for just over 73,000 square feet at 2250 Perimeter Park Drive and moved to floors 2 and 3 in January. Humacyte took nearly 60,000 square feet at the newly renovated building located at 2525 E NC Highway 54 and Novan Therapeutics now occupies the entire building at 4105 Hopson Road. Other notable move-ins include UNC Physicians Network at 2000 W Perimeter Park Drive where the company took nearly 30,000 square feet and SimpliVity moved into over 20,000 square feet at Perimeter Park Three in January.

Overall leasing activity in the Triangle was just over 950,000 square feet during first quarter. The largest lease transaction was with UNC-Chapel Hill at the Carolina Square redevelopment project under construction on Franklin Street in Orange County. The three building complex will include 159,000 square feet of office space, 43,000 square feet of retail, and 246 multi-family units. Almost all of the office space has been pre-leased to programs affiliated with the University including Carolina Population Center and the Gillings School of Public Health. The entire project is expected to be complete by August 2017. Asking rates are \$35.00 psf full service - one of the highest published asking rental rates in the market but only floors 5 and 6 are still available.

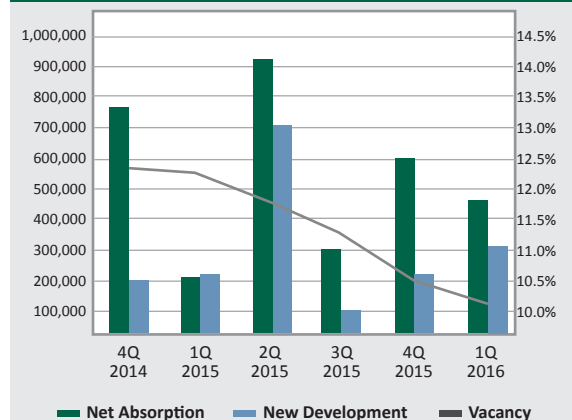
Class A and B direct asking rental rates in the market have climbed \$1.13 psf in the last year. Class A direct asking rental rates increased \$0.67 psf over last quarter and increased \$1.29 psf over last year to reach \$25.04 psf at the end of first quarter. Currently, the largest contiguous block of existing Class A office space is located in the 6 Forks Falls of Neuse submarket. The Colonnade II building located at 8510 Colonnade Center Drive approximately 127,000 square feet available. Quoted rental rates are \$25.95 psf for a full service lease.

Source: CoStar data pulled 4.29.16; Real Capital Analytics; Wake County Economic Development; Urban Land Institute; Triangle Business Journal; Lincoln Harris Research

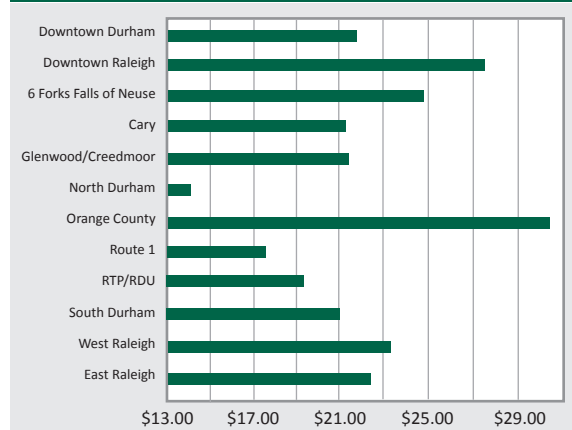
MARKET STATISTICS

	1Q 2016	4Q 2015	FORECAST
Market Supply (SF)	52,265,420	51,951,765	▲
Under Construction (SF)	1,211,653	1,056,857	▲
Direct Vacancy (%)	9.60%	10.10%	▼
Total Vacancy (%)	10.20%	10.50%	▼
Total Net Absorption (SF)	475,184	605,212	▼
YTD Net Absorption (SF)	475,184	210,303	▲
Direct Asking Rent	\$21.90	\$21.46	▲
Class A Direct Asking Rent	\$25.04	\$24.37	▲
Class B Direct Asking Rent	\$18.00	\$17.85	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET DIRECT ASKING RATES - 1Q 2016



OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	1Q 2016 Absorption	YTD 2016 Absorption	Completions	Construction	Direct Asking Rates
DOWNTOWN DURHAM	3,545,215	91,720	2.6%	8,737	8,737	0	284,000	\$21.81
DOWNTOWN RALEIGH	4,919,538	456,676	9.3%	59,585	59,585	0	267,000	\$27.55
URBAN TOTALS	8,464,753	548,396	6.5%	68,322	68,322	0	551,000	\$26.37
6 FORKS FALLS OF NEUSE	5,953,755	691,811	11.6%	82,602	82,602	313,655	354,214	\$24.93
CARY	6,426,473	470,742	7.3%	-5,961	-5,961	0	0	\$21.41
GLENWOOD/CREEDMOOR	2,301,101	148,354	6.4%	17,242	17,242	0	0	\$21.74
NORTH DURHAM	919,698	421,644	45.8%	0	0	0	0	\$14.11
ORANGE COUNTY	1,899,647	90,841	4.8%	14,540	14,540	0	201,451	\$30.35
ROUTE 1	2,160,279	130,599	6.0%	7,509	7,509	0	0	\$17.89
RTP/RDU	11,950,057	1,968,432	16.5%	320,348	320,348	0	0	\$19.64
SOUTH DURHAM	3,816,881	184,352	4.8%	-24,354	-24,354	0	0	\$21.10
WEST RALEIGH	7,380,845	638,850	8.7%	-8,289	-8,289	0	104,988	\$23.67
EAST RALEIGH	991,931	17,804	1.8%	3,225	3,225	0	0	\$22.42
SUBURBAN TOTALS	43,800,667	4,763,429	10.9%	406,862	406,862	313,655	660,653	\$21.48
RALEIGH TOTALS	52,265,420	5,311,825	10.2%	475,184	475,184	313,655	1,211,653	\$21.90

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2016 Absorption	Direct Asking Rent (PSF)
Class A	289	31,305,325	2,592,191	8.3%	461,064	\$25.04
Class B	380	20,960,095	2,719,634	13.0%	14,120	\$18.00
MARKET TOTALS	669	52,265,420	5,311,825	10.2%	475,184	\$21.90

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
Toshiba	RTP/RDU	200,846	\$35,500,000	\$177
Carolina Crossing	South Durham	66,232	\$25,900,000	\$392
Venable Center	Downtown Durham	85,886	\$18,000,000	\$210
Meridian Corporate Center	South Durham	106,101	\$15,200,000	\$143
51 Kilmayne Drive	Cary	40,056	\$5,900,000	\$147

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
UNC Chapel Hill	123 W Franklin Street	Orange County	142,215	New
UnitedHealth Group (Optum)	Bank of America Tower	6 Forks/Falls of Neuse	58,000	New
Microsoft	Perimeter Park Four	RTP/RDU	39,257	New
The Army Research Office	800 Park Drive	RTP/RDU	27,324	New
TEKSystems	Wade III	West Raleigh	26,827	New

About Lincoln Harris

Lincoln Harris, an affiliate of Lincoln Property Company, is a full-service corporate real estate company focused on development, commercial brokerage, corporate real estate services, retail services, land services, project services, property management and asset management. Based in Charlotte, NC, Lincoln Harris has twenty-three service offices across the country.

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