

Office Market Overview

Companies continue to move and expand in and around the Triangle. In Wake County alone, 2,795 jobs have been added since January 2016 and 42 companies have made commitments to either relocate or expand with over \$224 million in total investments - new companies represent one-third of the activity. During third quarter, UNC Health Care announced that the company would be moving approximately 1,000 employees from Chapel Hill to 182,000 square feet in Perimeter Park. Netsertive, a digital marketing company, also announced that the company would nearly double their footprint into another 22,000 square feet at Perimeter Park.

Overall Class A and B office vacancy in the Triangle declined 50 basis points to 9.3 percent during third quarter. Direct vacancy declined 40 basis points to 8.5 percent while sublease space remained at about 0.80 percent or approximately 411,000 square feet. Class A direct vacancy led the trend moving from 9.0 percent to 8.2 percent while Class B direct vacancy only declined 10 basis points to 11.0 percent. The demand for space was predominantly in Class A suburban office buildings. Downtown urban office markets are in high demand, but this clearly shows the suburbs are long from gone. As prices have risen in the core markets, it is apparent that suburban opportunities are gaining momentum.

Overall net absorption in the Triangle totaled nearly 287,000 square feet during third quarter and nearly 93 percent of that absorption was reflected in Class A office buildings and over 98 percent in suburban submarkets. West Raleigh and South Durham were among the submarkets to experience the highest rate of positive net absorption with 55 percent of the Triangle's net absorption captured in these two submarkets. In West Raleigh, over 108,000 square feet of move-ins were reported during third quarter. TEKsystems moved out of Trinity Place on Edward Mill Road into approximately 27,000 square feet in the new Wade III office building at 5440 Wade Park Boulevard. The Trinity Place building recently sold to Origin Investments of Chicago for \$23.5 million from The Brookdale Group of Atlanta with full disclosure that an anchor tenant would be vacating 32,000 square feet. At Capital Center located at 5511 Capital Center Drive, K4 Connect and Certara, together, moved into over 23,000 square feet. In addition, North Carolina Community Foundation moved into approximately 17,000 square feet on the fourth floor at 3737 Glenwood Avenue. In South Durham, Avaya, Inc. signed a new lease and moved into nearly 40,000 square feet at 2605 Meridian Parkway downsizing from about 70,000 square feet that Avaya inherited in 2009 after acquiring Nortel Networks' Enterprise Solution Division.

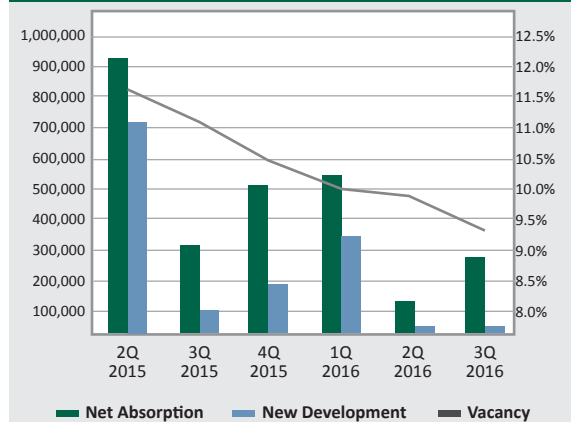
In the Triangle, Class A and B direct office rents have increased \$0.68 psf since third quarter last year to \$22.09 psf. More recently, Class A direct rental rates showed a \$0.08 psf increase while Class B quoted office rents actually declined \$0.10 psf from second quarter 2016. The decline in Class B direct office rents can be attributed to buildings such as 600 Park Office Drive in the RTP/RDU submarket. The 129,000 square foot office building at The Frontier in Park Center has over 60,000 square feet available for lease and the listing rate was reduced to \$18.50 psf full service - a move from \$19.50 psf in August. This building is part of a large redevelopment plan to create a "work, live, play" concept on 50 acres within Research Triangle Park. Among the amenities planned are a dog park, food market, a movie theater, a full-service hotel with 300 plus rooms, and a boutique style hotel.

Joining the 1.8 million square feet of office projects currently under construction in the Triangle is Meritage Properties' four-story, 116,500 square foot Class A office building located at 7751 Brier Creek Parkway in the Glenwood/Creedmoor submarket. The building broke ground in mid-July and is scheduled to deliver in June 2017 with the IRS moving into an estimated 18,000 square feet. With regard to nearing office building completions, the next Class A office building set to deliver is the Center for Technology & Innovation located on North Carolina State University's Centennial Campus in West Raleigh. The 104,988 square foot building is 62 percent leased with approximately 39,000 square feet still available when the building comes online in November 2016. NC State/The Nonwovens Institute signed a lease for 44,644 square feet on the first floor and NC State/DELTA signed a lease for 19,290 square feet.

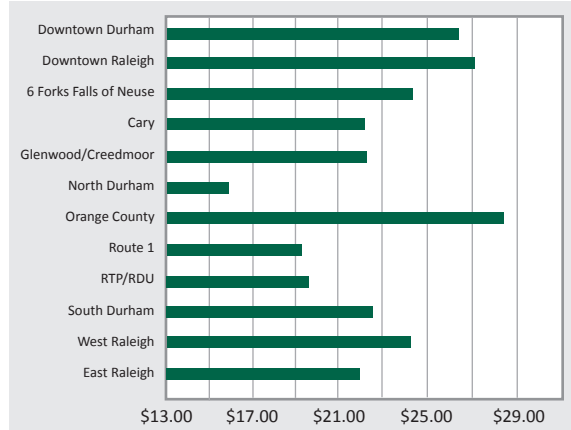
MARKET STATISTICS

	3Q 2016	2Q 2016	FORECAST
Market Supply (SF)	51,990,619	51,964,619	▲
Under Construction (SF)	1,850,932	1,634,486	▲
Direct Vacancy (%)	8.5%	8.9%	▼
Total Vacancy (%)	9.3%	9.8%	▼
Total Net Absorption (SF)	286,637	134,751	▲
YTD Net Absorption (SF)	968,644	682,007	▲
Direct Asking Rent	\$22.09	\$22.22	▼
Class A Direct Asking Rent	\$23.15	\$22.72	▲
Class B Direct Asking Rent	\$18.33	\$18.43	▼

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET DIRECT ASKING RATES - 3Q 2016



Source: CoStar data pulled 10.21.16; Real Capital Analytics; Wake County Economic Development; Urban Land Institute; Triangle Business Journal; Lincoln Harris Research

OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	3Q 2016 Absorption	YTD 2016 Absorption	Completions	Construction	Direct Asking Rates
DOWNTOWN DURHAM	3,460,068	52,327	1.5%	4,339	34,130	0	434,000	\$26.29
DOWNTOWN RALEIGH	4,946,565	486,294	9.8%	-1,149	34,920	0	267,000	\$27.06
URBAN TOTALS	8,406,633	538,621	6.4%	3,190	69,050	0	701,000	\$26.88
6 FORKS FALLS OF NEUSE	5,919,442	647,003	10.9%	35,527	241,774	0	329,214	\$24.34
CARY	6,426,319	528,714	8.2%	12,025	-43,400	0	166,000	\$22.14
GLENWOOD/CREEDMOOR	2,303,077	143,588	6.2%	24,559	22,008	0	-	\$22.23
NORTH DURHAM	945,396	365,347	38.6%	8,404	31,717	0	-	\$14.78
ORANGE COUNTY	1,812,367	126,119	7.0%	5,359	8,037	26,000	158,284	\$28.53
ROUTE 1	2,161,978	107,198	5.0%	11,452	22,307	0	36,000	\$19.22
RTP/RDU	11,907,377	1,775,187	14.9%	25,560	451,157	0	205,000	\$19.69
SOUTH DURHAM	3,772,711	115,189	3.1%	50,442	40,886	0	76,446	\$22.65
WEST RALEIGH	7,341,700	472,838	6.4%	108,116	116,080	0	178,988	\$24.27
EAST RALEIGH	993,619	12,001	1.2%	2,003	9,028	0	-	\$22.02
SUBURBAN TOTALS	43,583,986	4,293,184	9.9%	283,447	899,594	26,000	1,149,932	\$21.59
RALEIGH TOTALS	51,990,619	4,831,805	9.3%	286,637	968,644	26,000	1,850,932	\$22.09

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2016 Absorption	Direct Asking Rent (PSF)
Class A	292	31,416,954	2,575,344	8.2%	650,598	\$25.11
Class B	373	20,573,665	2,256,461	11.0%	318,046	\$18.33
MARKET TOTALS	665	51,990,619	4,831,805	9.3%	968,644	\$22.09

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
Charter Square South Tower	Downtown Raleigh	243,106	\$78,400,000	\$322
Trinity Place	West Raleigh	111,762	\$23,500,000	\$210
Nottingham Hall	RTP/RDU	105,363	\$18,500,000	\$176
Palisades II	West Raleigh	83,486	\$14,000,000	\$168
Carolina Corporate Center	Glenwood/Creedmoor	87,838	\$12,100,000	\$138

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
Duke Private Diagnostic Clinic	Brier Creek Medical Park	RTP/RDU	43,611	Expansion
Stewart Engineering	The Dillon	Downtown Raleigh	27,000	New
Regus	The Dillon	Downtown Raleigh	35,000	New
Social & Scientific Systems, Inc.	4505 Emperor Boulevard	RTP/RDU	23,000	New
nne pharmaplan	1101 Slater Road	RTP/RDU	19,403	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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Source: CoStar data pulled 10.21.16; Real Capital Analytics; Wake County Economic Development; Urban Land Institute; Triangle Business Journal; Lincoln Harris Research

