



## RALEIGH OFFICE

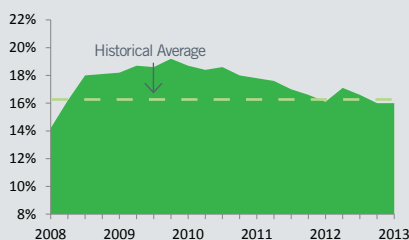
### Economic Indicators

	Q4 13	Q4 12
Raleigh-Durham CMSA Labor Force	873,820	884,927
Raleigh-Durham CMSA Unemployment	6.1%	7.5%
U.S. Unemployment	7.2%	7.8%
U.S. CCI (Consumer Confidence Index)	74.17	70.44

### Net Absorption



### Vacancy Rate



### Market Tracker

\*Arrows = Change from Previous Quarter

◀ Vacancy  
16.00%

▼ Net Absorption  
102,424 SF

▼ Deliveries  
281,550 SF

▲ Asking Rent  
\$20.77 SF

## A Tale of Two Markets

The outlook is sunny for the Raleigh-Durham economy heading into 2014, with optimism buoyed by shrinking unemployment, down 1.4 percentage points from year-end 2012 – a decrease more than double that in the US average unemployment rate over the same time period. The area continues to attract a tremendous influx of talent and resources, and the selection of NC State's Centennial Campus to house a new \$140 million manufacturing research center further burnished Raleigh-Durham's reputation as a national powerhouse for innovation and technology. Despite these strong fundamentals, Triangle office market activity slowed in the fourth quarter, as was predicted after an exceptionally strong third quarter exceeded expectations with net absorption of approximately 265,000 square feet, only slightly less than the total for the previous four quarters combined. Activity remained positive, posting modest gains in absorption, but due to deliveries of almost 300,000 square feet of new space, the vacancy rate remained flat at around 16%. While most submarkets remained stable with very minor fluctuations, Cary, normally a top performing submarket, showed negative absorption of 100,000 square feet, as Duke Progress Energy moved out of temporary space it had leased while renovating the Progress Energy Building on Fayetteville Street in downtown Raleigh. Downtown Durham stood out as a bright spot, with net absorption of about 115,000 square feet, due mostly to the delivery of Diamond View III. This newest addition to the American Tobacco Campus, a five story, Class A office building, came to market fully leased and commanding notably higher than average rents, demonstrating the renewed appetite for amenity-rich space in a resurgent economy.

The success of Diamond View III highlights the fact that in recent years the Triangle has become a tale of two markets: the Class A vacancy rate stands close to equilibrium at 11.7%, less than half that of Class B product at 23.6%. Contrary to the hopes of Class B landlords, swelling demand and significant gains in Class A absorption of over 500,000 square feet during 2013 have not led to a corresponding increase in Class B deal volume. Instead, users have signaled intent to hold out for more desirable locations, and developers have unleashed a flurry of new construction activity, looking to capitalize on demonstrated willingness to pay top dollar for high-end product. There are over 700,000 square feet of premium office space currently under construction, including Perimeter II and III in Morrisville, and GlenLake V in West Raleigh, with an additional 345,000 square feet to be added when two long-delayed projects, Alliance Center I on Centennial Campus and Charter Square in downtown Raleigh, break ground in early 2014. This influx of best-in-class inventory spells good news for users who have been feeling the pinch of limited options in recent years, but ensures that the Class B market will continue to struggle to fill less-desirable spaces.

### FORECAST:

- In keeping with the recent trend, developers will exercise caution by waiting for significant pre-leasing before embarking on new projects, and so the market will be well-able to absorb the coming influx of premium space. Class B will continue to lag, however, and may pull down overall market absorption numbers.
- Class A vacancy rates will decline steadily in the near term, and this, in conjunction with the much higher rents commanded by the new projects, will cause overall rental rates to rise and concessions to continue to erode.
- In this favorable environment, a number of capital investment offerings will hit the market in the first quarter, including the Citrix headquarters in downtown Raleigh, Research Commons, Golden Belt, and various "one-off" office buildings throughout the market.

# Cassidy Turley Office Market Snapshot

Raleigh-Durham • Fourth Quarter • 2013

	TOTAL BLDGS	INVENTORY	OVERALL VACANT SF	OVERALL VACANCY %	NET ABSORPTION	PAST 4 QTR NET ABSORPTION	COMPLETIONS	UNDER CONSTRUCTION	AVERAGE ASKING RENT
<b>SUBMARKET</b>									
Cary	121	5,732,603	777,510	13.6%	-99,376	-40,925	16,550	0	\$20.85
Downtown Durham	57	3,256,119	269,984	8.3%	113,157	137,495	133,000	0	\$22.85
Downtown Raleigh	82	4,571,593	457,072	10.0%	7,004	53,734	132,000	106,000	\$21.40
Falls of Neuse	76	3,086,965	476,145	15.4%	18,736	100,970	0	0	\$19.15
North Durham	32	1,410,741	648,981	46.0%	-25,497	-74,029	0	0	\$16.67
Orange County	36	1,531,406	243,895	15.9%	11,088	37,949	0	0	\$23.79
RTP/I-40 Corridor	148	11,161,555	2,465,635	22.1%	51,983	-200,067	0	451,761	\$19.52
Six Forks	59	3,305,389	520,756	15.8%	-848	-93,903	0	0	\$21.94
South Durham	38	1,782,109	340,091	19.1%	1,874	-15,253	0	0	\$19.61
US 1/Capital Boulevard	48	2,237,735	467,195	20.9%	-12,370	-109,490	0	0	\$19.95
US 70/Glenwood Avenue	70	3,583,399	371,599	10.4%	11,393	54,675	0	0	\$21.27
West Raleigh	84	5,064,549	411,198	8.1%	28,535	184,074	0	166,000	\$21.88
<b>TRIANGLE MARKET TOTALS</b>									
Class A	347	29,746,082	3,490,881	11.7%	111,091	519,445	281,550	723,761	\$22.58
Class B	402	15,057,513	3,556,119	23.6%	-43,250	-488,646	0	0	\$17.98
Class C	102	2,754,348	577,917	21.0%	34,583	40,956	0	0	\$15.72
<b>TRIANGLE METRO</b>	<b>851</b>	<b>47,557,943</b>	<b>7,624,917</b>	<b>16.0%</b>	<b>102,424</b>	<b>71,755</b>	<b>281,550</b>	<b>723,761</b>	<b>\$20.77</b>

Office asking rents converted to Full Service

## Key Lease Transactions Q4 2013

Tenant	Building	SF	Transaction Type	Submarket
Teleflex Medical	Perimeter Three	130,000	Relocation/Expansion	RTP/I-40
State of North Carolina	4301 Research Commons	96,000	New	RTP/I-40
State Employees' Credit Union	SECU Headquarters	56,000	New	Downtown Raleigh
Charles & Colvard, Ltd.	Southport XVII	36,344	Relocation/Expansion	RTP/I-40
Clark Nexsen	333 Fayetteville Street	29,499	Expansion	Downtown Raleigh
Trinity Partners	Perimeter Two	19,616	Relocation/Expansion	RTP/I-40
North Carolina Wesleyan	4426 South Miami Blvd	18,658	Relocation	RTP/I-40
Baxano Surgical	Horizon IV	17,000	Expansion	6 Forks/Falls of Neuse
<b>Hedrick, Gardner, Kincheloe</b>	<b>WestChase III</b>	<b>16,152</b>	<b>Renewal</b>	<b>West Raleigh</b>
Wasserman Media Group	Captrust Tower	15,319	Renewal	6 Forks/Falls of Neuse
<b>3M Company</b>	<b>EastRidge at Perimeter Park</b>	<b>10,045</b>	<b>Expansion</b>	<b>RTP/I-40</b>

Bold Text = Cassidy Turley Transaction

## Key Sales Transactions Q4 2013

Property	Price	SF	Price PSF	Buyer / Seller	Submarket
3421 Olympia Drive	\$5,700,000	17,500	\$326	Rural Plumbing and Heating / 3421 Olympia Drive, LLC	Eastern Wake
WakeMed at Brier Creek	\$14,000,000	60,000	\$233	MB Real Estate / Health Care REIT	RTP/I-40
3518 Westgate Drive	\$8,500,000	59,912	\$142	Catalyst Capital / Zumot RE MGMT	South Durham
4000 Aerial Center	\$3,400,000	38,506	\$88	Sentinel Real Estate / TRI Properties, Inc	RTP/I-40
7001 Development Drive	\$26,000,000	455,067	\$57	Rubenstein Partners JV Grubb Properties / Sony JV Ericsson AB	RTP/I-40

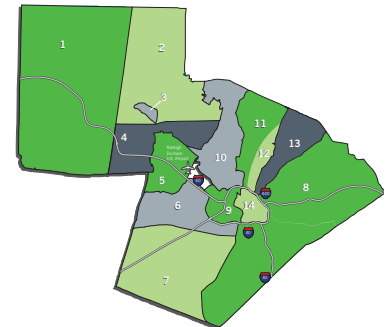
## About Cassidy Turley

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## Office Submarkets

Raleigh / Durham

1. Orange County
2. North Durham
3. Downtown Durham
4. South Durham
5. RTP / I-40 Corridor
6. Cary
7. Southern Wake County
8. Eastern Wake County
9. West Raleigh
10. US 70 / Glenwood
11. Six Forks Road
12. Falls of Neuse Road
13. US 1 / Capital Blvd
14. Downtown Raleigh



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