

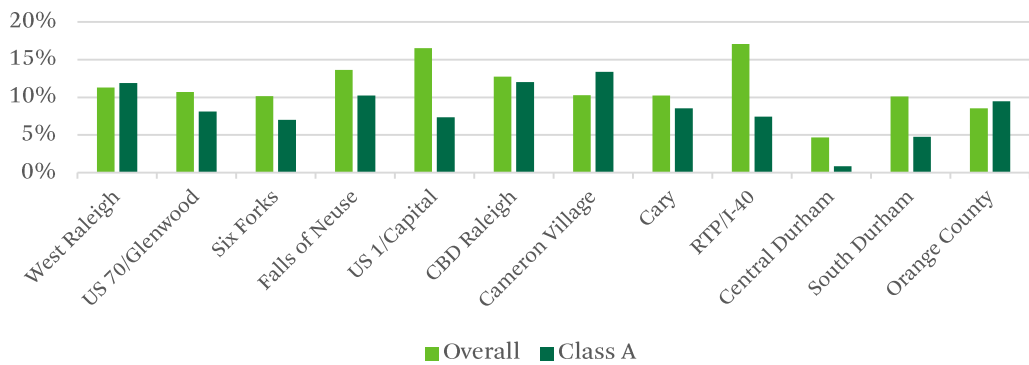
Raleigh-Durham Office, Q4 2015

Vacancy rates fluctuate based on preleasing of new deliveries

▼ Vacancy Rate **13.4%**
▲ Lease Rate **\$23.57 PSF**
▲ Net Absorption **238,292 SF**
▼ Under Construction **1,172,609 SF**

Figure 1: Class A vs. Overall Vacancy Rates

*Arrows indicate change from previous quarter.



*Note: Graph does not include outlier submarkets North Durham, Eastern Wake, or Southern Wake, refer to figure 4 for statistics.

Source: TBJ SPACE, Q4 2015.

The Triangle office market concluded 2015 with a decent Q4, capping off a record year despite a measurable number of tenant relocations and consolidations. The impact of both new Class A deliveries and shrinking vacancy have escalated rental rates, while technology and more open, efficient work environments have decreased tenants' space requirements. For the Quarter, overall market vacancy rates dropped 20 basis points to 13.4%, and Class A vacancy also fell 10 basis points from 8.7% to 8.6% in Q4 2015.

The Raleigh-Durham Market has now experienced 12 consecutive quarters exceeding 200,000 sq. ft. of positive absorption, with over 230,000 sq. ft. in Q4 2015. This was primarily due to activity in the Triangle's largest and most active submarket, RTP/I-40 corridor, where a number of new and renewal deals helped continue this absorption trend. ChannelAdvisor consolidated from two buildings in Aerial Center to 137,000 sq. ft. at Perimeter Four, a 200,000 sq. ft. Class A building in Perimeter Park. Extreme Networks renegotiated 54,530 sq. ft. at RDU Center III, along with Booz Allen Hamilton and K&L Gates, both who renewed leases totaling 48,000 sq. ft. at Keystone Park.

- Overall Vacancy dropped 20 basis points to 13.4% and Class A Vacancy dipped 10 basis points to 8.6%.
- Perimeter Four delivered 71% preleased to ChannelAdvisors in the RTP/I-40 submarket.
- Central Durham Class A vacancy rates dips below 1% to end Q4 2015 at 0.85%.
- Job growth continues to drive tenant activity in a tightening market.

Overall market absorption in 2015 was outstanding, with just over 1.6 million sq. ft. of absorption (85% stemming from the Class A office spaces), contributing to Class A vacancy reaching its lowest level since 2001. The Central Durham submarket reached an unprecedented Class A vacancy rate, dipping to 0.85% in Q4 2015.

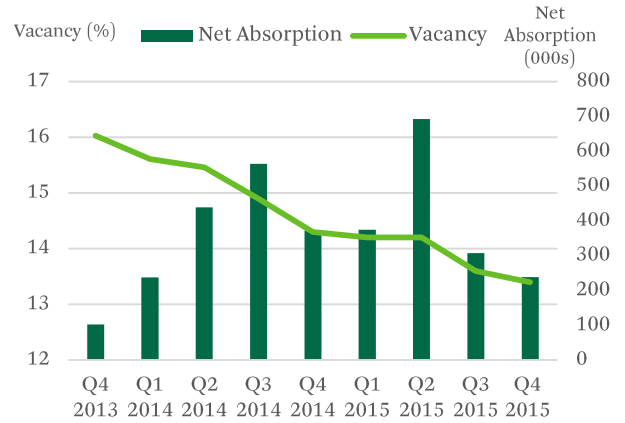
MARKET FORECAST

Also in the Central Durham submarket, significant pre-leasing occurred during the quarter with Duke University and BioLab NC signing leases for 100,000 sq. ft. and 42,000 sq. ft. respectively at the Chesterfield Building scheduled to deliver Q1 2017. In contrast, Downtown Raleigh ended the quarter with a 12.0% Class A vacancy rate, largely attributable to vacancy at existing product and new deliveries such as Charter Square.

Construction activity is modest considering the historically low vacancy rates and consecutive quarters of positive absorption. The Triangle office market expects just over 430,000 sq. ft. of deliveries in 2016, the majority coming from Bank of America Tower at North Hills in Q2 2016. The tower contains approximately 285,000 sq. ft. and stands 48% preleased at the end of Q4 2015. Also at North Hills, the 330,000 SF Midtown Plaza is under construction, 78% preleased, and expected to deliver in Q2 2017. At Centennial Campus, The 105,000 SF Center for Technology and Innovation is under construction, 50% preleased and delivering Q1 2017 in the West Raleigh submarket. West Raleigh and Downtown Raleigh both saw vacancy rates rise in Q4 2015 as a result of new deliveries with vacancy and tenants consolidating to other areas of the Triangle. Despite these two submarkets ending the quarter with slightly higher Class A vacancy, we forecast these rates will shrink in 2016 as quality space near the urban core remains in high demand.

The Financial Times ranks Raleigh #1 among “Mid-Sized American Cities of the Future” and in July Forbes voted Raleigh the “2nd Best City for Business and Careers”. The Triangle’s large educated workforce (875,000 non-farm jobs), played a critical role in helping buck the upward North Carolina unemployment trend in 2015. While the state experienced an unemployment rates rise to 5.7%, above the U.S. average of 5.0%, the Triangle stayed below this threshold at 4.7%, which was 20 basis points higher than a year ago.

Figure 2: Vacancy vs. Net Absorption



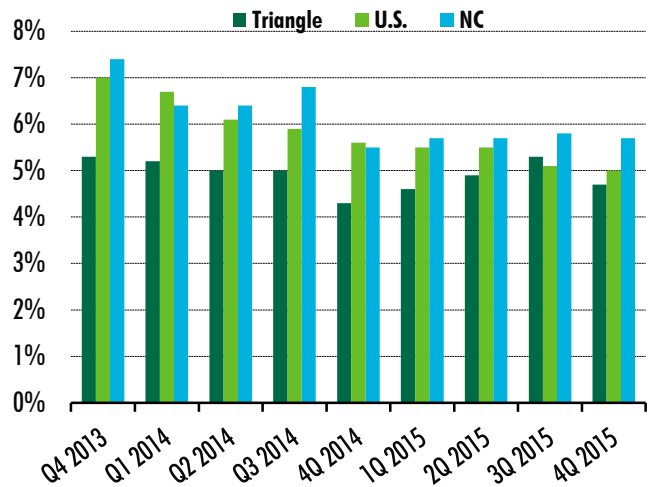
Source: TBJ Space, Q4 2015.

Figure 3: Vacancy and Asking Rates



Source: TBJ Space, Q4 2015.

Figure 4: Unemployment Statistics



Source: Bureau of Labor Statistics, January 2016.

MARKETVIEW RALEIGH-DURHAM OFFICE

Figure 5: Submarket Breakout Q4 2015

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Class A Vacancy Rate (%)	Avail. Rate (%)	Q4 2015 Net Absorption (SF)	Under Construction (SF)	Class A Asking Lease Rate (\$/SF/Yr)
West Raleigh	5,840,680	11.3	11.9	13.8	(35,519)	104,988	23.75
US 70/Glenwood	3,787,207	10.7	8.1	11.6	3,120		24.19
Six Forks	3,322,064	10.1	7.0	35.0	(6,725)	614,892	22.93
Falls of Neuse	3,036,445	13.6	10.2	13.6	3,107		22.85
US 1/Capital	2,423,890	16.5	7.3	18.4	23,871		22.20
Downtown Raleigh	4,416,242	12.7	12.0	13.7	(3,374)		27.06
Cameron Village	606,669	10.3	13.4	11.1	(4,280)	12,729	23.49
Eastern Wake	595,483	12.4	0.0	12.4	2,956		18.33*
Southern Wake	254,344	25.9	53.7	25.9	1,509		22.50
Cary	6,337,574	10.2	8.5	12.4	38,057		22.25
RTP/I-40	11,485,293	17.1	7.4	18.6	187,076		21.91
Central Durham	3,482,466	4.7	0.9	12.9	10,912	284,000	23.40
North Durham	1,388,238	47.2	N/A	47.2	3,999		16.78*
South Durham	1,809,137	10.1	4.8	10.1	19,841		23.39
Orange County	1,477,081	8.5	9.5	19.4	(6,258)	156,000	26.44
MARKET TOTALS	50,262,813	13.4	8.6	18.4	238,292	1,172,609	23.57

*Denotes Class B Asking Rate and not factored into Market Average Rate.
Rates determined by Class A asking rates on vacant spaces quoting full service rates.

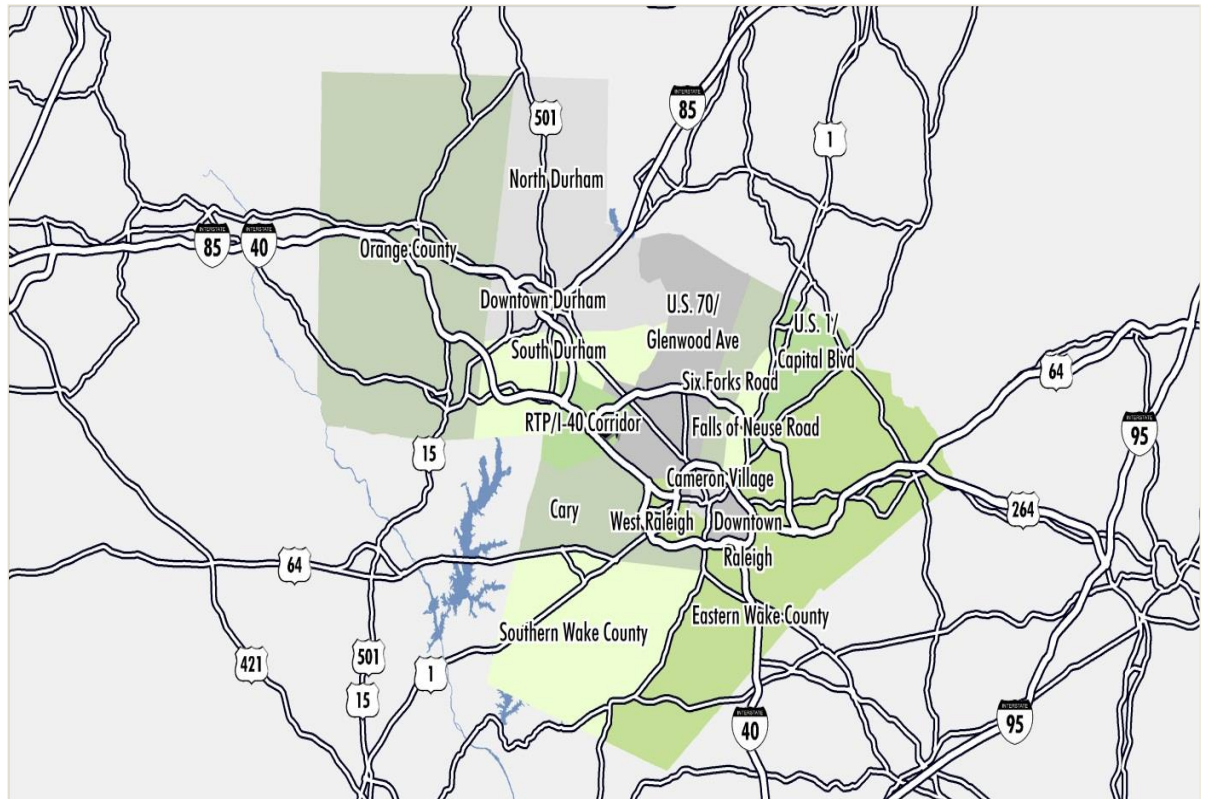
Source: TBI SPACE, Q4 2015.

Figure 6: Top Lease/Sale Transactions: Q4 2015

Leases: Tenant	Building	Sq. Ft.	Lease Type	Notes
Duke University	The Chesterfield	100,000	New	
*UNC Chapel Hill POP Center	Carolina Square	90,577	New	
*iContact	RDU Center III	29,160	New	
*Booz Allen Hamilton	Keystone Technology Park	26,773	Renewal	
*K&L Gates	Keystone Technology Park	24,857	Renewal	
Sales: Building	Submarket	Sq. Ft.	Purchase Price	Price per Sq. Ft.
*Erwin Square Plaza	Central Durham	238,972	\$57.25 M	\$240
*Wells Fargo Mortgage Center	West Raleigh	450,000	\$42.3 M	\$94
*Carolina Place	US 70/Glenwood	99,181	\$20 M	\$202
*500 Gregson	Cary	105,849	\$17 M	\$161

* Denotes CBRE | Raleigh Transaction

Source: CBRE Research, Q4 2015.


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