



Office Market Overview

The Triangle's overall net absorption totaled positive 336,945 square feet during second quarter 2014 surpassing first quarter's positive 271,428 square feet. This gain can be attributed to the Class A office demand as 237,275 square feet of space was occupied during second quarter. Class B office buildings also experienced positive net absorption of 99,670 square feet - a smaller net gain compared to the positive 282,646 square feet during first quarter. Vacancy in the Triangle dropped 30 basis points to 13.8 percent from the previous quarter and dropped 20 basis points when compared to second quarter 2013. Preliminary numbers for third quarter 2014 show vacancy continuing to tighten.

RTP/RDU and West Raleigh had the most significant net demand during second quarter. Much of the activity was centered around Perimeter Park in RTP/RDU. Duke Realty's Perimeter Two was the only office building to be delivered during second quarter in the Triangle. Fujifilm Medical Systems, Compliance Implementation Services, and MaxPoint Interactive all moved into the new 206,409 square foot, Class A office building in June. In addition, SciQuest Inc. and TP Triangle have also signed leases for the building and plan to occupy their space in August leaving the building 97 percent occupied. Another building, Perimeter Four, has recently been announced and is slated for completion in October 2015. ChannelAdvisor has already signed a lease for 136,538 square feet in the proposed office building and will be taking four floors in October 2015. The deal is one of the largest office lease deals of 2014 in the Triangle. Also in the area, Bayer CropScience signed a sublease with University of Phoenix for over 17,000 square feet at Brier Creek Corporate Center IV that expires April 2015. In West Raleigh, LexisNexis moved their Business of Law Software Solutions division from Cary to Centennial Campus. The company moved into the 120,000 square foot space in May that once served as Red Hat's headquarters. Kuehne + Nagel also expanded and moved into nearly 22,000 square feet at the Palisades II building on Trinity Road.

Leasing activity remained heavy in the Triangle during second quarter 2014. Nearly 476,000 square feet of leases were signed in the Triangle and 461,000 square feet were signed in the suburban areas alone. West Raleigh had the most leasing activity of the suburban submarkets with ABB signing a lease for nearly 94,000 square feet in the Alliance One building that is currently under construction on NCSU's Centennial Campus. ABB will be moving 350 employees into the new building when it is completed in May 2015. Citrix also renewed their 46,500 square foot lease at 701 Corporate Center Drive through September when they will then move into the old Dillon Supply steel warehouse that has recently been redeveloped in the Warehouse District in downtown Raleigh. Avison Young also signed a lease for 12,000 square feet in the Wade III building and will move into the new space in July 2015 when the building is completed.

There are currently five Class A office buildings under construction in the Triangle with Perimeter Three in suburban RTP/RDU being the largest with 245,352 rentable square feet. In the urban submarkets, Charter Square's South Tower on Fayetteville Street is the only building under construction totaling 242,969 square feet. The building is estimated to deliver in May 2015 and is 45.6 percent leased. The largest tenant is Womble Carlyle who signed a lease for nearly 45,000 square feet and will be downsizing from approximately 67,000 square feet in the Wells Fargo Capitol Center in January 2016.

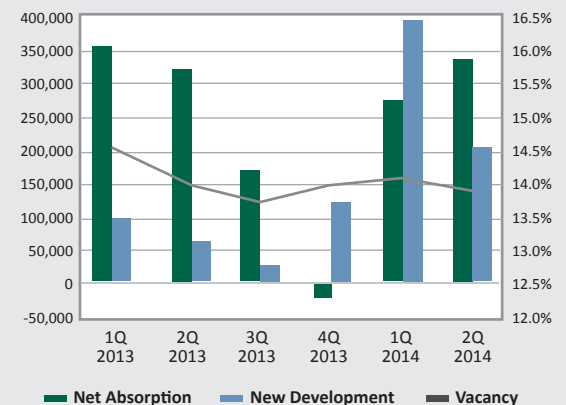
Class A direct asking rental rates fell about \$.08 during second quarter to \$22.63 per square foot but rates still continue to be among the highest seen since 2009. Downtown Raleigh's direct asking rental rates are at \$28.35 per square foot - up almost \$4.50 per square foot from a year ago. The forecast is that the market will see more new construction and higher rental rates as corporate tenants have fewer options available to them in a tightening market in 2014.

Source: CoStar; Real Capital Analytics; Triangle Business Journal; Lincoln Harris Research

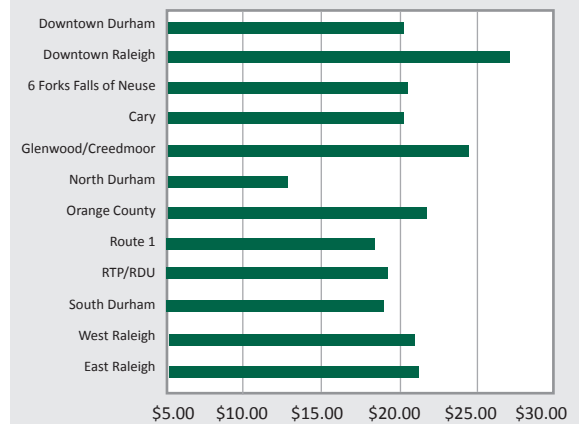
MARKET STATISTICS

	2Q 2014	1Q 2014	FORECAST
Market Supply (SF)	50,513,343	50,306,934	▲
Under Construction (SF)	914,812	1,088,221	▲
Direct Vacancy (%)	13.4%	13.6%	▼
Total Vacancy (%)	13.8%	14.1%	▼
Total Net Absorption (SF)	336,945	271,428	▲
YTD Net Absorption (SF)	608,373	271,428	▲
Direct Asking Rent	\$20.30	\$20.33	▲
Class A Direct Asking Rent	\$22.63	\$22.71	▲
Class B Direct Asking Rent	\$18.35	\$18.34	▲

HISTORICAL VACANCY & NET ABSORPTION



SUBMARKET ASKING RATES - 2Q 2014



OFFICE MARKET STATISTICS

	Inventory	Vacant Space	Vacancy Rate	2Q 2014 Absorption	YTD 2014 Absorption	Completions	Construction	Asking Rates
DOWNTOWN DURHAM	3,621,352	154,257	4.3%	-1,339	242,024	0	0	\$20.26
DOWNTOWN RALEIGH	4,027,991	348,619	8.7%	-13,454	-3,175	0	242,969	\$26.90
URBAN TOTALS	7,649,343	502,876	6.6%	-14,793	238,849	0	242,969	\$25.44
6 FORKS FALLS OF NEUSE	5,502,178	713,288	13.0%	-39,000	-7,840	0	0	\$20.72
CARY	5,888,728	677,980	11.5%	39,811	-12,858	0	80,000	\$20.35
GLENWOOD/CREEDMOOR	2,131,100	159,165	7.5%	14,787	46,773	0	167,000	\$24.07
NORTH DURHAM	851,414	416,362	48.9%	-6,659	-6,136	0	0	\$13.47
ORANGE COUNTY	1,629,870	173,896	10.7%	5,381	19,412	0	0	\$22.32
ROUTE 1	2,163,121	284,821	13.2%	1,840	6,283	0	0	\$18.16
RTP/RDU	12,842,701	3,052,883	23.8%	222,792	189,822	206,409	245,352	\$19.48
SOUTH DURHAM	3,667,211	348,571	9.5%	546	45,047	0	33,000	\$18.99
WEST RALEIGH	7,196,453	646,214	9.0%	112,240	86,521	0	146,491	\$21.46
EAST RALEIGH	991,224	8,500	0.9%	0	2,500	0	0	\$21.91
SUBURBAN TOTALS	42,864,000	6,481,680	15.1%	351,738	369,524	206,409	671,843	\$19.76
RALEIGH TOTALS	50,513,343	6,984,556	13.8%	336,945	608,373	206,409	914,812	\$20.19

OFFICE STATISTICS BY TYPE

Building Class	Buildings	Inventory	Vacant Space	Vacancy Rate	YTD 2014 Absorption	Asking Rent (PSF)
Class A	277	29,428,324	2,881,173	9.8%	226,057	\$22.22
Class B	378	21,085,019	4,103,383	19.5%	382,316	\$18.33
MARKET TOTALS	655	50,513,343	6,984,556	13.8%	608,373	\$20.19

RECENT INVESTMENT SALES

Building	Submarket	RBA	Sale Price	Price/SF
Southcourt	South Durham	146,000	\$12,800,000	\$88.00
Regency Pines	Cary	124,800	\$14,400,000	\$115.00
CVS Plaza	Orange County	99,987	\$26,200,00	\$262.00
3100 Blue Ridge Road (Medical)	West Raleigh	40,700	\$11,500,000	\$283.00

SIGNED LEASE TRANSACTIONS

Tenant	Building	Submarket	Size	Type
ABB	Alliance One	West Raleigh	93,975	New
Citrix	Cigna Building	West Raleigh	46,500	Renewal
State Bureau of Investigation	4403 Bland Road	Six Forks/Falls of Neuse	25,240	New
Bayer CropScience	Brier Creek CC IV	RTP/RDU	17,449	Sublease
Paidion Research	Palladian CC II	South Durham	14,378	Sublease
Avison Young	Wade III	West Raleigh	12,000	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.

CONTACT INFORMATION

David Connor
Senior Vice President
919.645.6968
david.connor@lincolnharris.com

Kaler Walker
Vice President
919.645.6983
kaler.walker@lincolnharris.com

Ryan Ramey
Research Coordinator
704.714.7639
ryan.ramey@lincolnharris.com

Lincoln Harris
5430 Wade Park Boulevard, Suite 300
Raleigh, NC 27607 | 919.840.8040

lincolnharris.com

