MARKETBEAT

RALEIGH-DURHAM

Office Q2 2020

	YoY Chg	12-Mo. Forecast
8.6% Vacancy Rate	▼	▲
184K Net Absorption, SF	▼	▬
$26.88 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

**Market Indicators are not reflective of U.S. MarketBeat tables*

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
850.5K Triangle Employment	▼	▲
11.1% Triangle Unemployment Rate	▲	▼
13.0% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMIC OVERVIEW

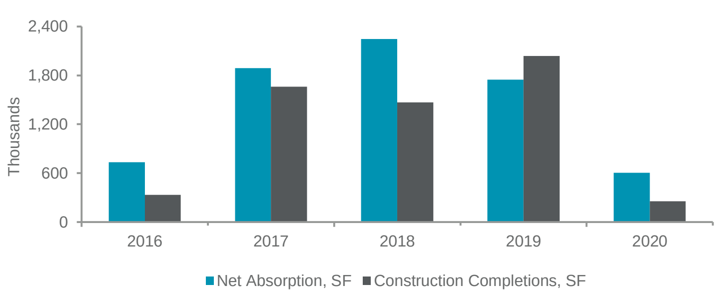
The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID here.

After several months of stay-at-home orders and strict social distancing guidelines, North Carolina moved forward into Phase II of its reopening plans in the second quarter. Prior to the pandemic, North Carolina's unemployment rate was 3.6% but has since jumped to 11.1% as hundreds of thousands of people filed for unemployment benefits. Despite this economic turmoil, the Triangle area announced several key job announcements. These included Bandwidth and Grail which combined, have committed 1,565 new jobs and approximately $200M in investments for the local economy.

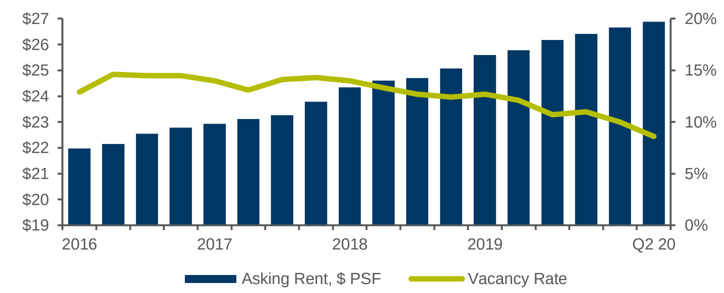
SUPPLY AND DEMAND

In the second quarter of 2020, the Triangle's office market posted modest absorption gains while vacancy levels declined. At 8.6%, the overall vacancy rate reached its lowest point in recent history while Class A vacancy slightly ticked up to 7.8%. Despite the economic fallout from the pandemic, office leasing activity in the second quarter totaled 183,789 square feet (sf). As many businesses continued to implement work-from-home policies, the new demand dropped off by 24.3% since the first quarter. However, a recent commitment of 200,000 square feet (sf) by Grail bodes well for the market's future. Construction is presently underway for the California-based life science company at Park Point in RTP/I-40, the Triangle's largest submarket.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEVELOPMENT PIPELINE

New construction deliveries in the second quarter totaled 254,024 sf. In RTP/I-40, construction was completed on 139,024 sf at Innovation I and 3800 Glenwood totaling 115,000 sf. Thanks to healthy preleasing activity prior to COVID-19, these buildings delivered at 63.5% preleased. Despite several projects pushing back delivery dates, new construction levels in the Triangle remain at all-time highs. Construction is underway on nearly 4.3 million square feet (msf) of product, much of which is concentrated within the CBDs and RTP/I-40 submarket.

PRICING

Rental rates in the Triangle continued to trend upward, remaining unphased from the pandemic. In the second quarter of 2020, the overall market-wide average gross asking rate increased to $26.88 per square foot (psf) and reflected solid growth of 4.3% year-over-year (YOY). Asking rates for Class A assets increased to $29.06 psf and recorded 3.5% YOY growth. The outlook for rent growth remains positive as landlords continue to push for more concessions to tenants.

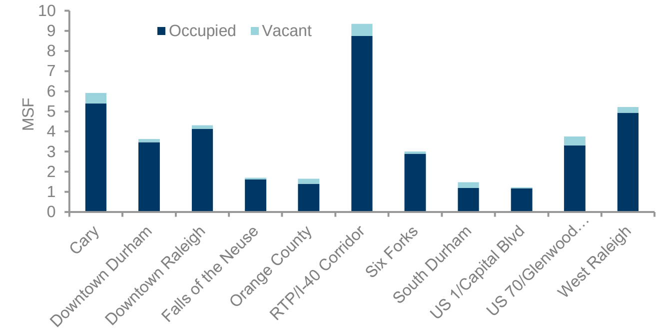
INVESTMENT SALES

While investment activity remained strong throughout most of the first quarter, investors' tones quickly turned bearish from the pandemic in the second quarter. Investors were forced to reposition their assets and hit the pause button as debt markets became unstable. As a result, investment activity recorded a significant drop in the second quarter to $34.4M. Although the Triangle is not immune to headwinds stemming from COVID-19, investors on both sides are still confident in the long-term outlook of the market.

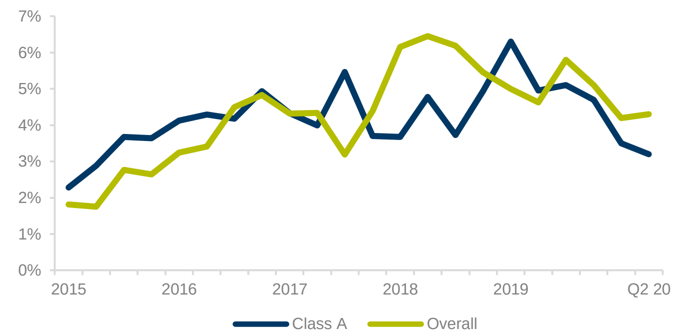
Outlook

- In past economic downturns, rental rates in the Triangle had similar reactions. If the current situation follows the historical trend, the average rental rate will experience a slow and steady decline, followed by a quick recovery.
- Despite the slowdown in investment activity in the second quarter, investors remain optimistic in high-growth, low cost markets such as the Triangle.

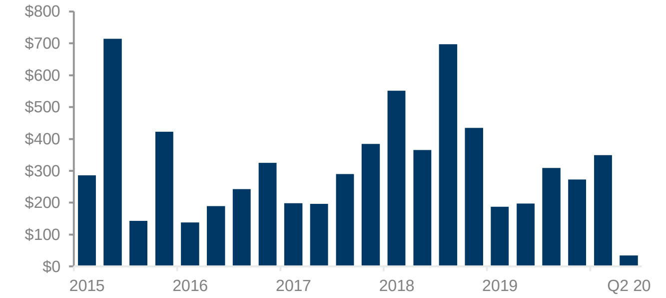
CLASS A VACANCY – MAJOR SUBMARKETS



YoY MARKET-WIDE ASKING RATE GROWTH



CUMULATIVE INVESTMENT SALES VOLUME, $ MILLIONS



MARKETBEAT

RALEIGH-DURHAM

Office Q2 2020

MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown Raleigh	65	5,333,384	56,888	184,371	4.5%	-18,800	-13,541	787,219	$30.41	$31.94
Downtown Durham	73	4,563,702	-	293,272	6.4%	-2,058	-2,058	444,500	$30.53	$32.44
CBD TOTAL	**138**	**9,897,086**	**56,888**	**477,643**	**5.4%**	**-20,858**	**-67,047**	**1,231,719**	**$30.46**	**$32.15**
Cary	133	7,029,193	22,650	593,388	8.8%	9,948	-23,059	344,800	$26.26	$28.77
Falls of the Neuse	75	3,014,308	3,748	317,021	10.6%	64,069	64,826	21,000	$22.83	$25.70
North Durham	32	1,074,253	-	157,028	14.6%	-	-17,130	-	$17.77	n/a
Orange County	43	2,083,162	7,461	242,228	12.0%	35,012	43,409	256,000	$27.67	$28.77
RTP/I-40 Corridor	194	15,935,984	56,929	1,928,071	12.5%	184,888	742,981	1,330,850	$24.90	$26.33
RTP/I-40 Corridor (Class A)**	63	9,219,770	56,929	508,465	6.1%	111,351	175,528	1,330,850	n/a	$26.33
Six Forks	70	4,341,109	81,530	167,436	5.7%	11,673	3,033	348,648	$29.95	$33.07
South Durham	41	1,479,473	-	198,718	13.4%	-40,938	-46,122	168,000	$23.00	$26.51
US 1/Capital Boulevard	39	1,810,921	63,255	99,607	9.0%	-8,472	22,590	31,854	$22.99	$26.09
US 70/Glenwood Avenue	73	4,172,330	6,542	308,152	7.5%	-25,756	-23,875	125,000	$27.57	$29.48
West Raleigh	96	6,290,972	10,612	243,843	4.0%	-7,102	-49,956	377,090	$28.78	$29.75
ALL OTHER SUBMARKETS	55	1,485,794	-	11,799	0.8%	-18,675	-44,841	54,600	$22.39	$24.90
RALEIGH-DURHAM TOTAL	**989**	**58,614,585**	**309,615**	**4,744,934**	**8.6%**	**183,789**	**604,809**	**4,289,561**	**$26.88**	**$29.06**

**Rental rates reflect full service asking **Submarket subset, not included in total ***Market Data is not reflective of U.S. Overview Tables*

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Park Point	RTP/I-40 Corridor	Grail	200,340	New
3800 Paramount Pky	RTP/I-40 Corridor	Premier Research International	61,722	New
4401 Bland Rd	Falls of Neuse	Wake County	52,741	New

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
Croasdaile Commons – Duke Urgent Care	North Durham	Welltower, Inc / MBRE Healthcare	67,000	$33M / $493
Historic Durham Sun Building	Downtown Durham	Jonathan E Jensen / Lennox & Grae	14,000	$1.4M / $100

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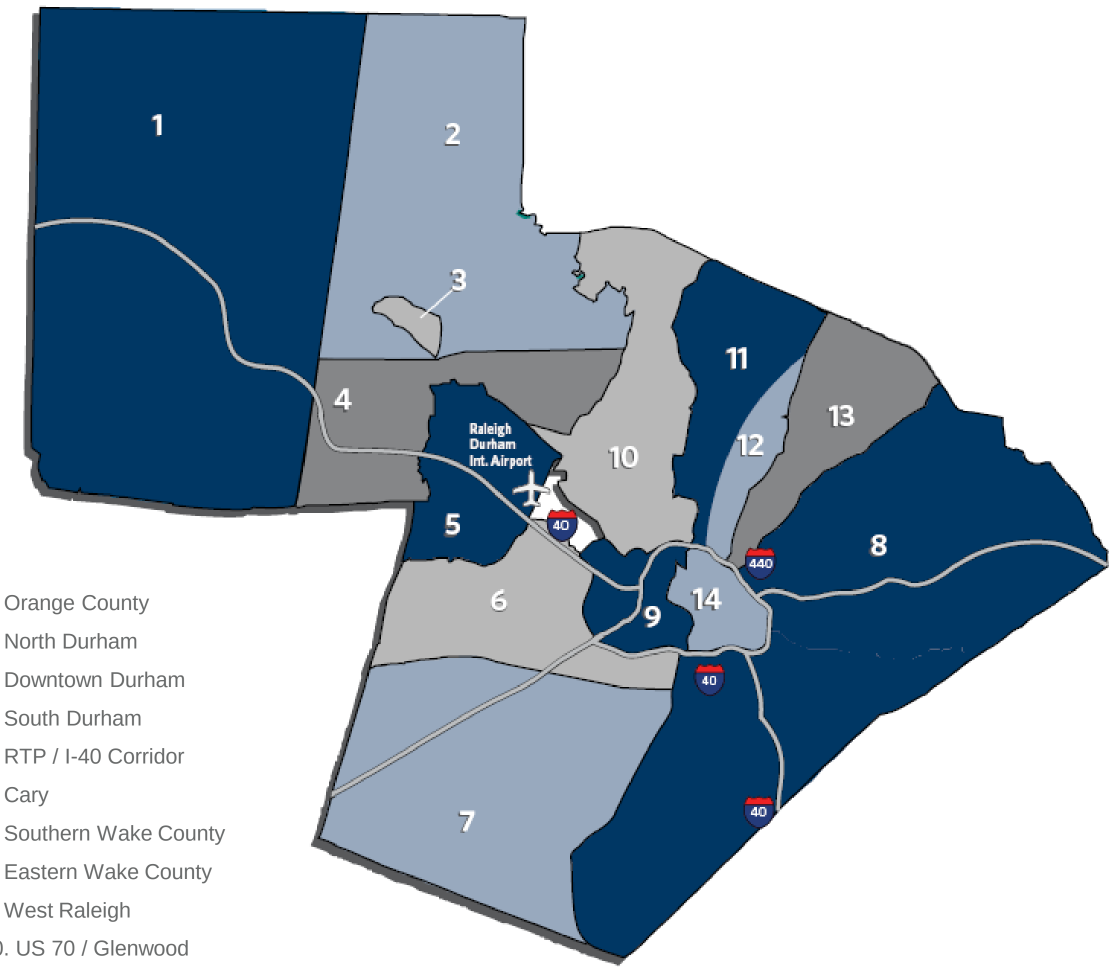
OFFICE SUBMARKETS



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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