

A group of approximately ten business professionals, including men and women in suits and blouses, are walking through a modern office lobby. They are carrying briefcases and bags, suggesting a busy workday. The lobby has large glass windows and a polished floor.

Raleigh-Durham office market report

Q4 2022

**AVISON
YOUNG**

Raleigh-Durham office market trends

6.13%

Increase in asking rental rates

Asking rental rates have risen year-over-year due to high construction costs and supply chain issues.

Our take on this trend...

High construction costs have increased the cost of tenant improvements and new construction. Supply chain issues in the construction industry are impacting delivery times additionally affecting prices.

3.2 msf

Leasing Activity in 2022

Overall office leasing activity has increased in 2022 as demand for office space shows some growth.

Our take on this trend...

Increases in leasing activity combined with high availability resulted in a net absorption of just 9,124 sf in 2022. Although annual net absorption is positive, most of the negative net absorption for 2022 took place during the fourth quarter.

2.7 msf

Sublease Space Available

As employers continue to look for cost-saving measures, subleasing has become increasingly common for underutilized space.

Our take on this trend...

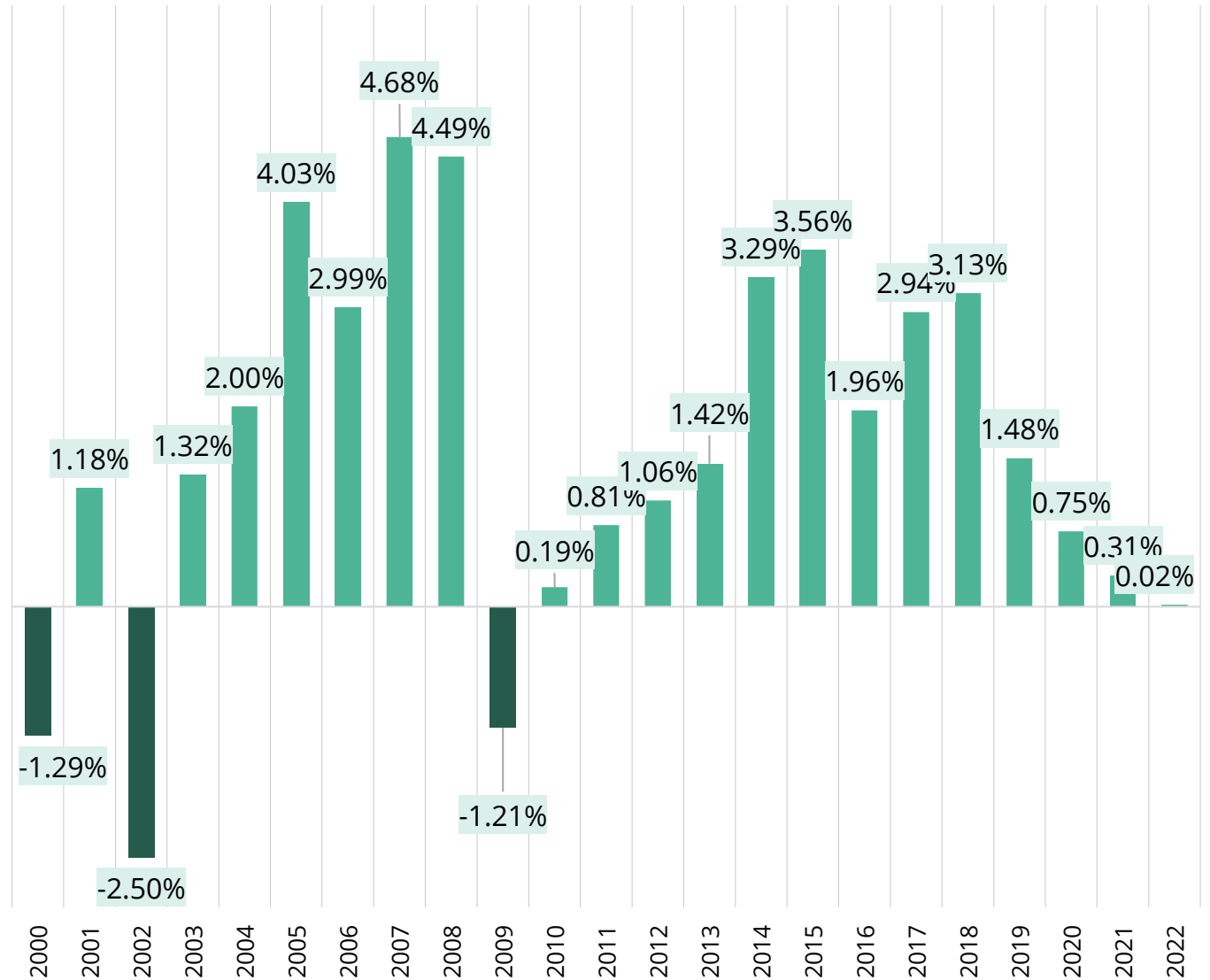
While the sublease market has continued to increase year over year, the opportunity for tenants considering upgraded space or a lower barrier to entry with plug-and-play options is plentiful.

Net absorption as a share of inventory

0.02%

Office absorption continued a positive trend through the end of 2022

Although there was an increase in sublease space coming on the market in Q4 2022, tenants were still actively leasing space, leading to an overall positive absorption for the year. High negative net absorption in the fourth quarter of 2022 erased much of the positive absorption recorded in the other three quarters, and if this trend continues it is likely that future annual net absorption numbers will be negative.



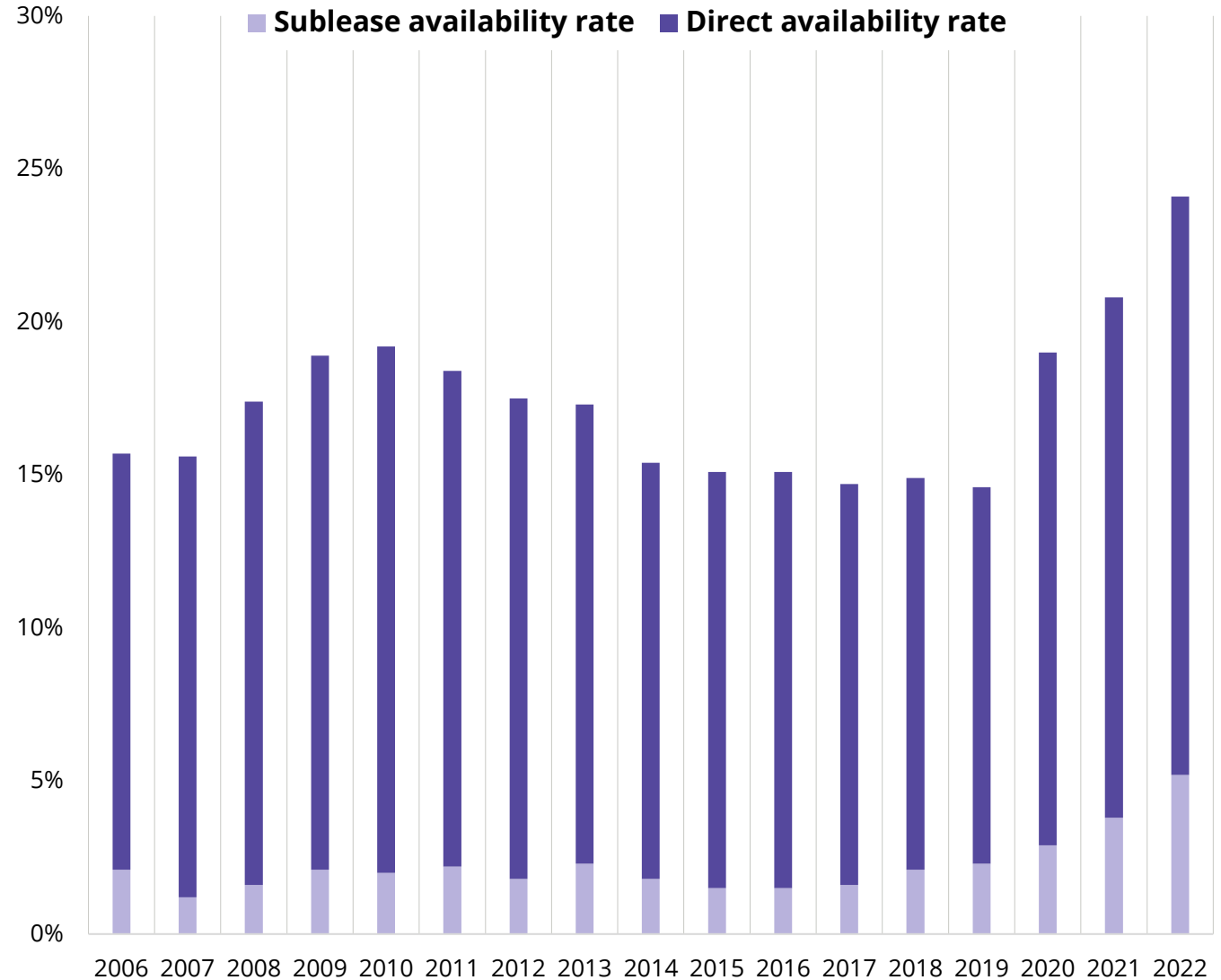
Source: AVANT by Avison Young, CoStar

Raleigh-Durham availability rate

13 msf

Available office space in Raleigh-Durham Increased again in 2022 surpassing the high from 2021

Sublease space has contributed to the increase in available space, but most of the space on the market is direct space. There are many office leasing opportunities in the market, and tenants have more options than they have had in the last several years in terms of available space.

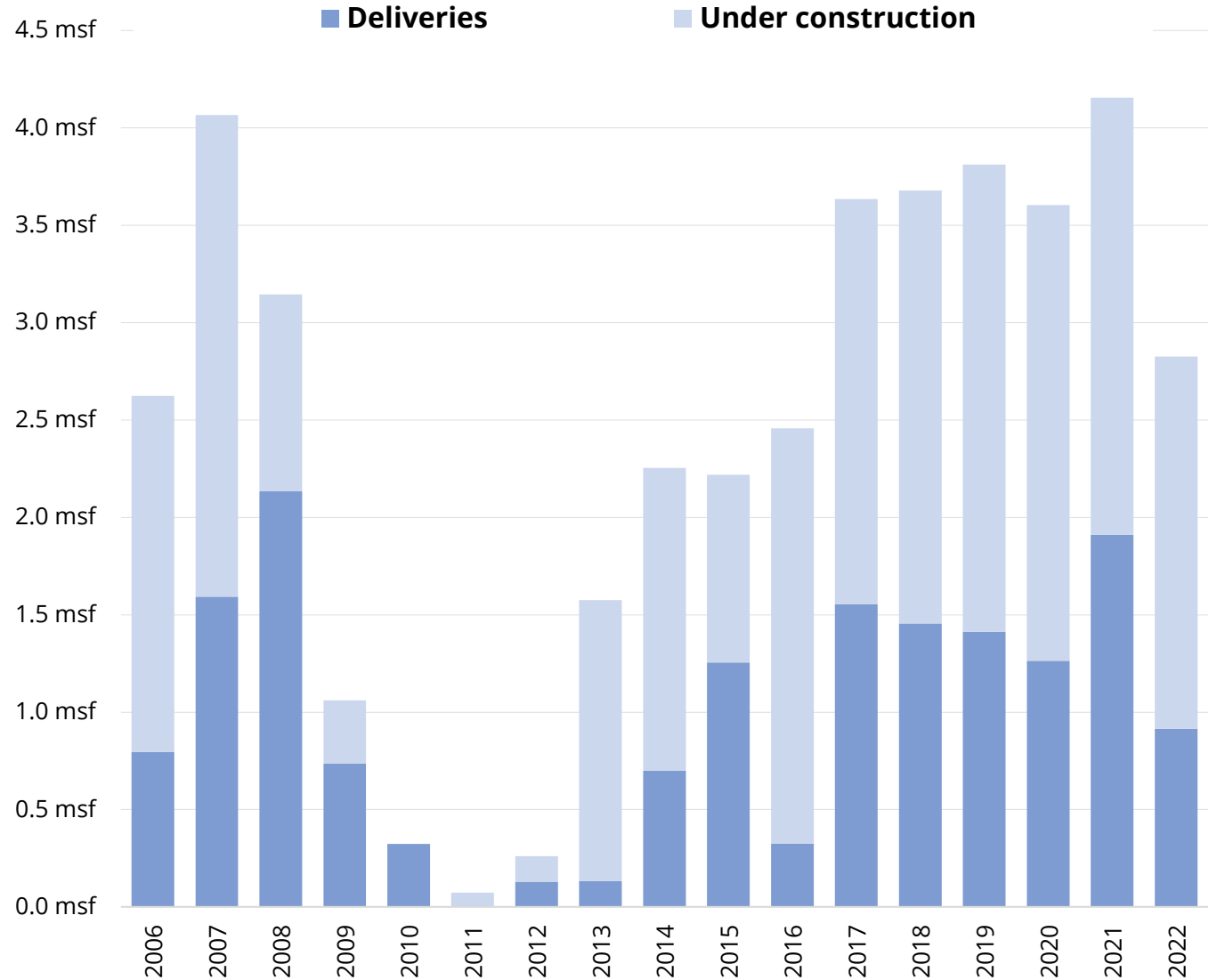


Raleigh-Durham development activity

2 msf

Office inventory under development going into 2023

Development activity is lower going into 2023 than it has been since 2015, and deliveries are at their lowest point since 2016. Both are due to the increase in office vacancy brought on from the popularity of remote work. Developers are less certain about office projects, which has slowed the number of projects that are coming down the development pipeline.



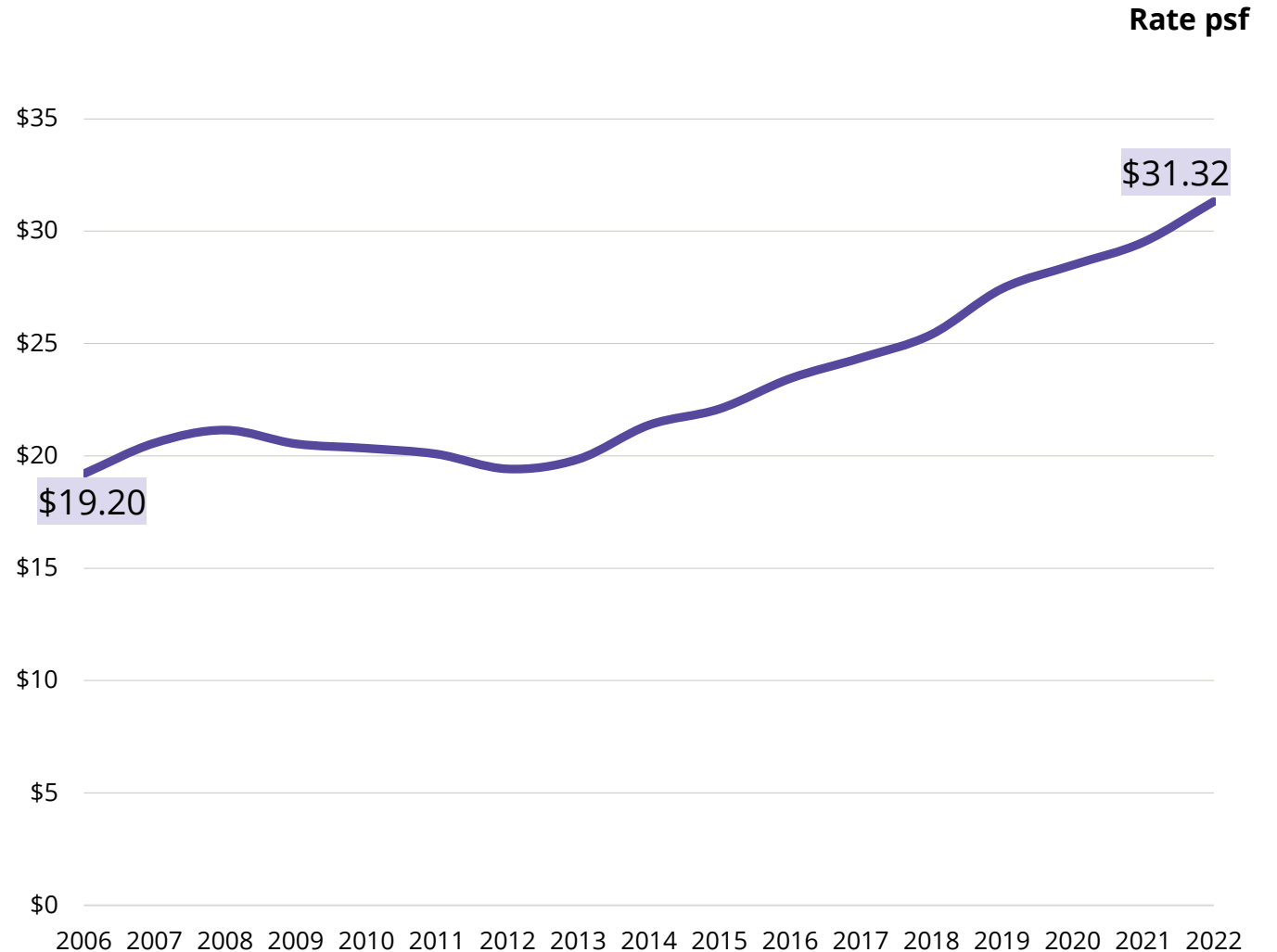
Source: AVANT by Avison Young, CoStar

Raleigh-Durham asking rents

\$31.32 psf

Overall office asking rental rate has increased in 2022 and will likely continue to rise in 2023

Rental prices continue to grow due to the long-term view of high demand and increased upfit costs for Triangle office space. The higher vacancy rates have not had a significant impact on landlord expectations in rental pricing going into 2023. Continued positive landlord market expectations and rising construction costs will likely cause asking rental rates to grow in 2023.

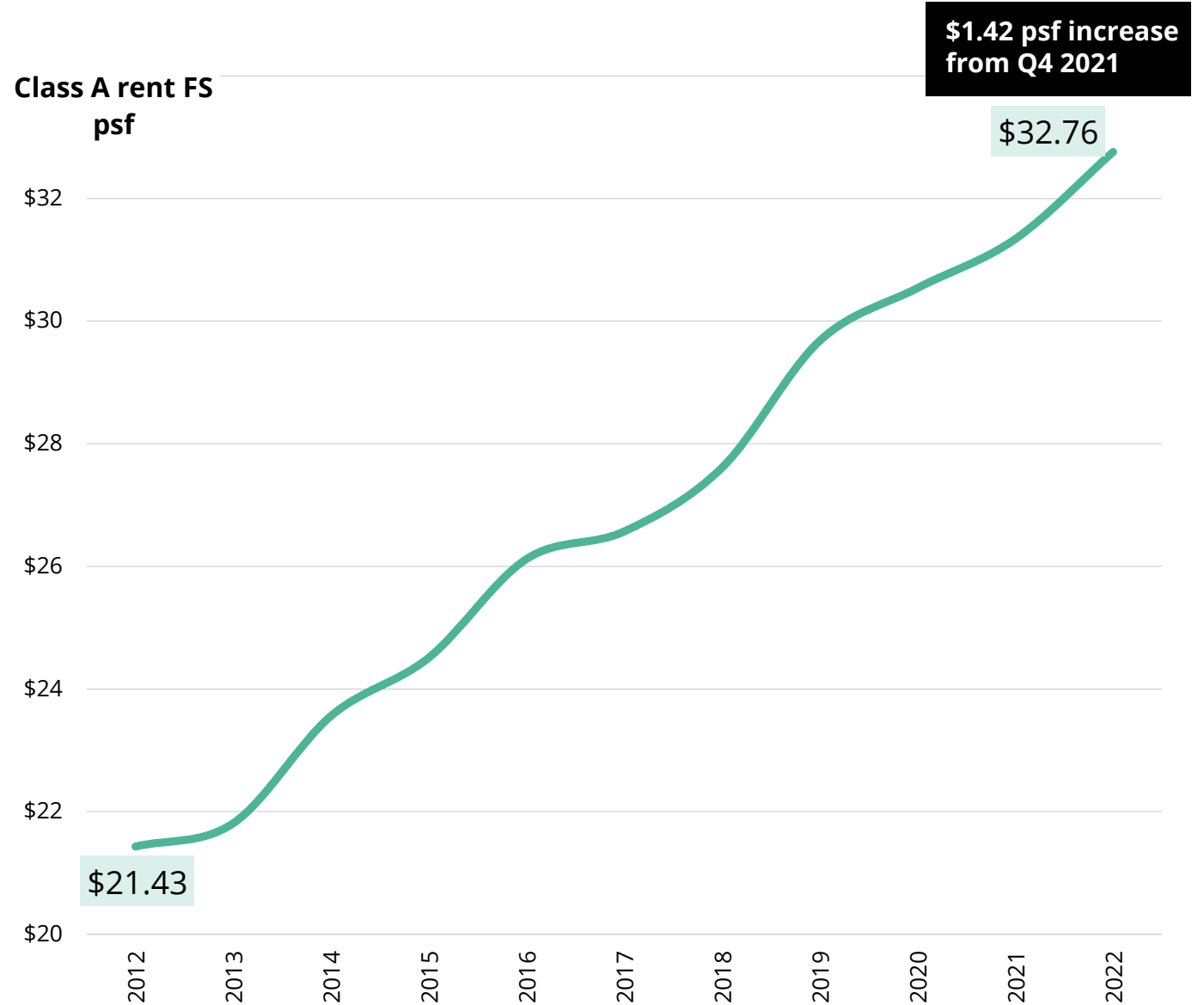


Class A Office rental rates

52.9%

Increase in Class A rental rates in the last 10 years.

Rental rates for Class A office space have shown significant growth over the last 10 years. Demand for class A office space remains optimistic going into 2023, as the Triangle is a gateway market with many businesses looking for cost-effective options out of Gateway Cities. Prices are likely to continue to rise along with construction costs and land values in 2023.



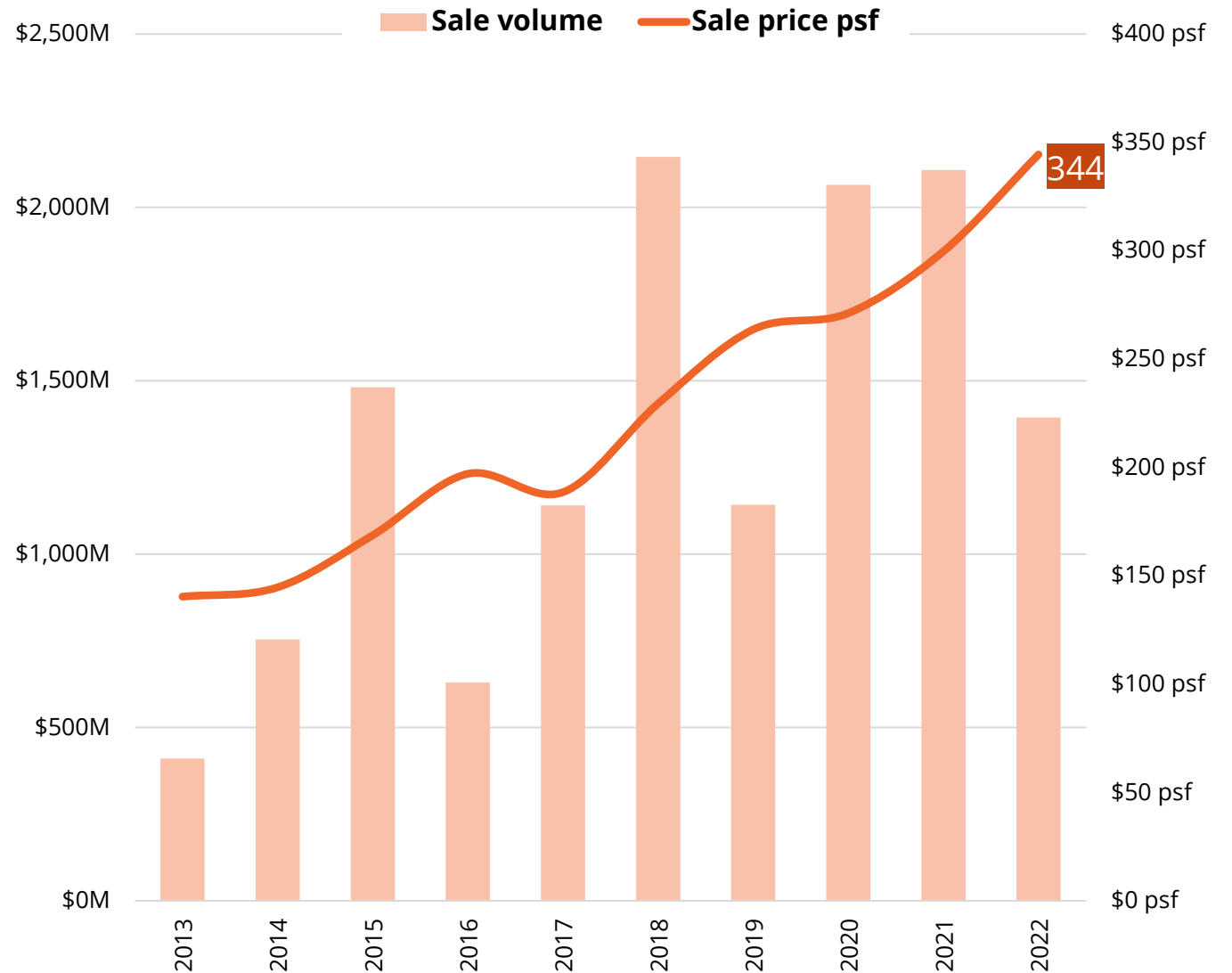
Note: Excludes subleases, expansions and renewals.
Source: AVANT by Avison Young

Raleigh-Durham investment sales activity and price

\$344 psf

Investment activity in Raleigh-Durham has decreased in 2022

Investment in Raleigh-Durham office properties continues to stay strong as inventory totals rise. The average sales volume has decreased, while the sales price per square foot has continued to increase. Sales price per square foot has increased nearly 15% from its former high in Q4 2021. Triangle office property continues to be a good investment option



Source: AVANT by Avison Young, CoStar

Raleigh-Durham Office market activity

Recent leasing activity

Tenant name	Property	Sign date	Size	Transaction type	Lease type	Submarket
American Tower	1 Fenton Main St.	November 2022	50,000	New	Direct	Falls of Neuse
Nelson Mullins Riley & Scarborough LLP	301 Hillsborough St.	October 2022	26,617	New	Direct	Downtown Raleigh
Vaco	Parklake Ave	November 2022	19,000	New	Direct	Glenwood Creedmoor
Whitley Law Firm	Midtown Exchange	November 2022	17,792	New	Direct	Six Forks
Endeavor	5430 Wade park	October 2022	14,192	New	Direct	West Raleigh

Year-to-date sales activity

Buyer	Property	Sale date	Sale price	Sale price psf	Submarket	Seller
CBRE Investment Management	Park Point	September 2022	\$200,404,895	\$606	I-40/RTP	Trinity Capital Advisors LLC
ElmTree Funds	Credit Suisse	January 2022	\$92,000,000	\$449	I-40/RTP	Credit Suisse
Menlo Equities	1010 Sync St	August 2022	\$66,000,000	\$330	I-40/RTP	Starwood Capital Group
Dean Debnam	NorthChase at Midtown	November 2022	\$48,000,000	\$272	Six Forks	JPB Holdings LLC
Zurich Alternative Asset Management	Perimeter Park	July 2022	\$29,200,000	\$324	I-40/RTP	Starwood Capital Group

Notable Development

Property	Submarket	Delivery Date	Total SF	% Preleased	Asking Rent	Developer
Midtown Exchange	Six Forks	February 2024	353,891	5%	Undisclosed	Dewitt Carolinas
541 Church at North Hills St.	Six Forks	December 2024	322,232	0%	Undisclosed	Kane Realty
One North Hills Tower	Six Forks	September 2023	261,628	0%	\$45.50 FS	Kane Realty
T3 American Tobacco South	Downtown Durham	March 2023	257,973	0%	Undisclosed	Hines

Raleigh-Durham office market stats

By Submarket	Inventory (sf)	Total %	Vacancy		Net Absorption		SF Under	Average Asking Rent		
			Class A	Class B	4Q22	TTM	Construction	Total	Class A	Class B
Downtown Durham	4,118,024	16.8%	17.8%	14.2%	-26,710	53,151	-	\$36.72	\$37.23	\$33.00
Downtown Raleigh	6,084,942	17.0%	19.1%	15.0%	63,817	68,894	573,408	\$36.95	\$38.14	\$29.81
Urban Subtotal	10,202,966	16.9%	18.5%	17.5%	37,107	122,045	573,408	\$36.52	\$37.40	\$30.99

By Submarket	Inventory (sf)	Total %			4Q22	TTM		Total		
Cary	5,858,242	15.3%	18.0%	4.1%	-26,384	199,087	51,351	\$29.83	\$30.49	\$23.41
Chapel Hill/Carrboro	1,897,909	22.9%	74.5%	9.0%	4,443	12,993	-	\$29.19	\$29.28	\$28.81
Falls of Neuse	2,323,679	14.4%	19.9%	8.8%	-78,136	80,786	-	\$25.58	\$27.84	\$23.30
Glenwood/Creedmoor	2,952,939	12.0%	15.3%	3.8%	-78,443	31,470	-	\$29.28	\$31.67	\$24.51
I-40/RTP	13,308,215	15.4%	17.4%	10.7%	-228,044	-188,409	111,871	\$27.84	\$28.07	\$25.92
North Durham	440,056	34.7%	-	37.1%	-	26,580	-	\$17.93	-	\$17.93
Six Forks Road	4,058,675	5.4%	3.6%	9.2%	24,501	116,368	684,714	\$39.73	\$43.13	\$23.68
South Durham	1,563,386	19.5%	21.9%	15.2%	9,026	85,302	-	\$28.12	\$28.40	\$21.34
Southern Wake County	263,951	3.0%	-	3.0%	8,350	23,100	-	\$15.45	-	\$15.45
US 1/Capital Boulevard	2,030,133	32.1%	33.6%	29.4%	-132,040	-366,652	-	\$36.08	\$39.17	\$25.01
West Raleigh	5,378,252	19.7%	20.8%	17.0%	-77,951	-133,546	490,575	\$31.15	\$31.57	\$29.70
Suburban Subtotal	40,075,437	16.1%	16.4%	16.0%	-574,678	-112,921	1,338,511	\$30.06	\$31.51	\$24.29
Market Total	50,278,403	16.3%	17.5%	14.1%	-537,571	9,124	1,911,919	\$31.32	\$32.76	\$25.03

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit **avisonyoung.com**

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