



**AVISON
YOUNG**

Raleigh-Durham Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and positive job growth have allowed the Raleigh-Durham unemployment rate to rebound from a high of 12 percent to **3.7 percent**.
- Since the onset of the pandemic, Raleigh-Durham has been awarded several expansions with job wins climbing into the thousands. Most notably, **Apple and Google** have chosen the Triangle for new operations. Apple plans to invest **\$1B** over a 10-year period.



Recovery

- Raleigh-Durham's robust tech and life science industries, population density and rich talent pool are fundamental indicators that the market is one of the best positioned in the country for recovery.
- Raleigh ranked as one of the **Top 10** U.S. markets for real estate prospects in 2021 by the Urban Land Institute.



Office demand

- After minimal leasing activity last year, demand is beginning to rebound. The Triangle's office market recorded **1.3 msf** in total leasing activity during the first half of 2021.
- In the largest deal of the quarter, Invitae will lease **245,159 sf** of office, research and lab space at The Stitch, creating 374 jobs over the next five years and an investment of \$114.6M over the next ten years.

Key takeaways



Office supply

- Vacancy continues to increase, reaching the highest level since the global financial crisis. The Triangle's office direct vacancy ended the quarter at **12.7%** up 213 basis points year-over-year.
- Sublease space continues to increase and strain aggregate fundamentals, accounting for a record **1.4 msf** of vacant space (YTD).



Pricing trends

- New construction and delivery of Class A product continues to support rents across the market. Class A asking rents ended the quarter at **\$30.74 psf**, up 1.3% from the previous year.
- Landlords have approached concessions with varying strategies. While tenants have gained increased leverage as a result of the pandemic, soaring construction costs have constrained how flexible landlords can be with base rents and tenant improvement allowances.



Capital markets

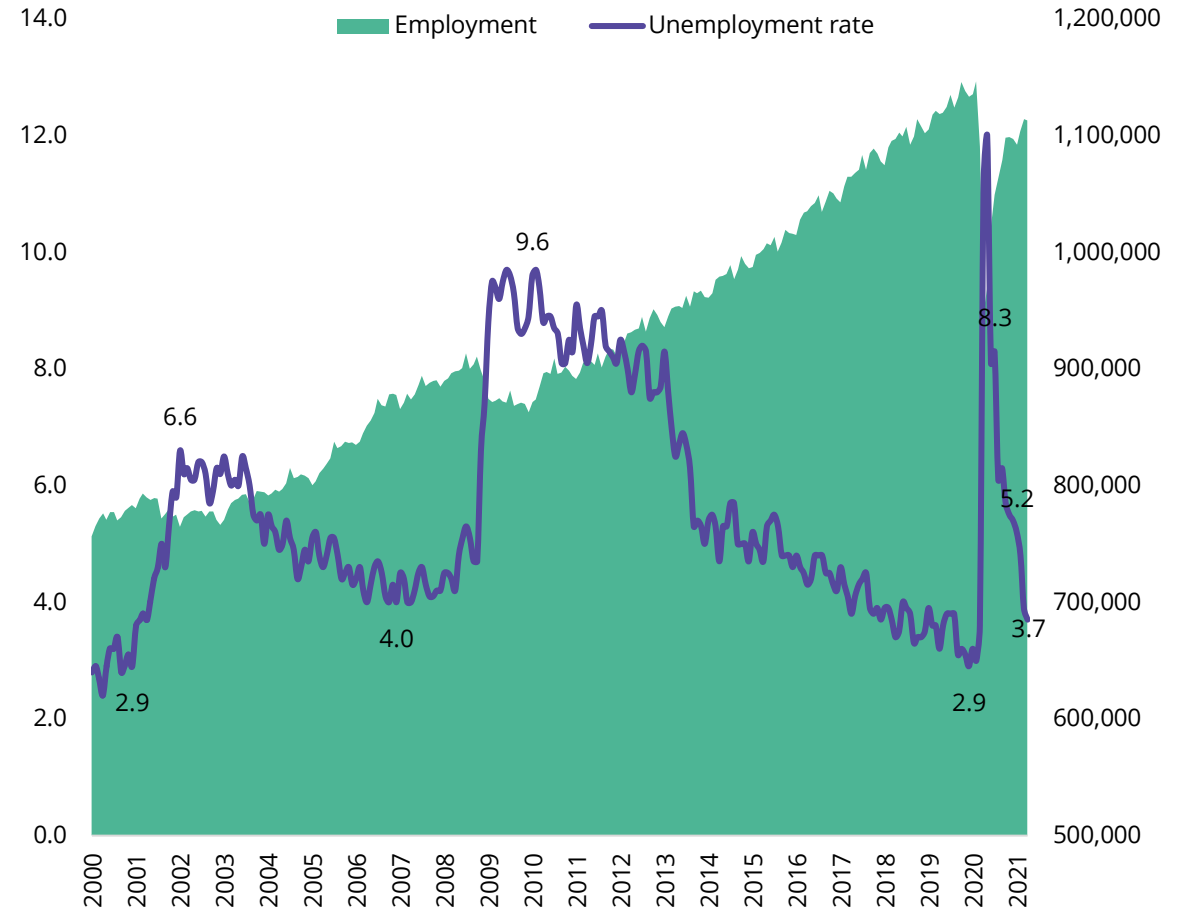
- Price discovery has improved among all product types, but particularly for the office sector as select industries have announced return to office plans.
- The Triangle market's already-strong desirability continues to attract investors. Raleigh-Durham was ranked **#1** in the U.S. for real estate investing in 2021.

Employment and unemployment rate

3.7%

Raleigh-Durham unemployment rate as of April 2021

Raleigh-Durham’s regional economy has rebounded from pandemic lows. Triangle unemployment was just 80 bps above its pre-pandemic level in April 2021 well below the national average of 5.8%. Employment rolls have grown by over 163,000 since April 2020, recovering nearly 92% of job losses incurred during the pandemic.



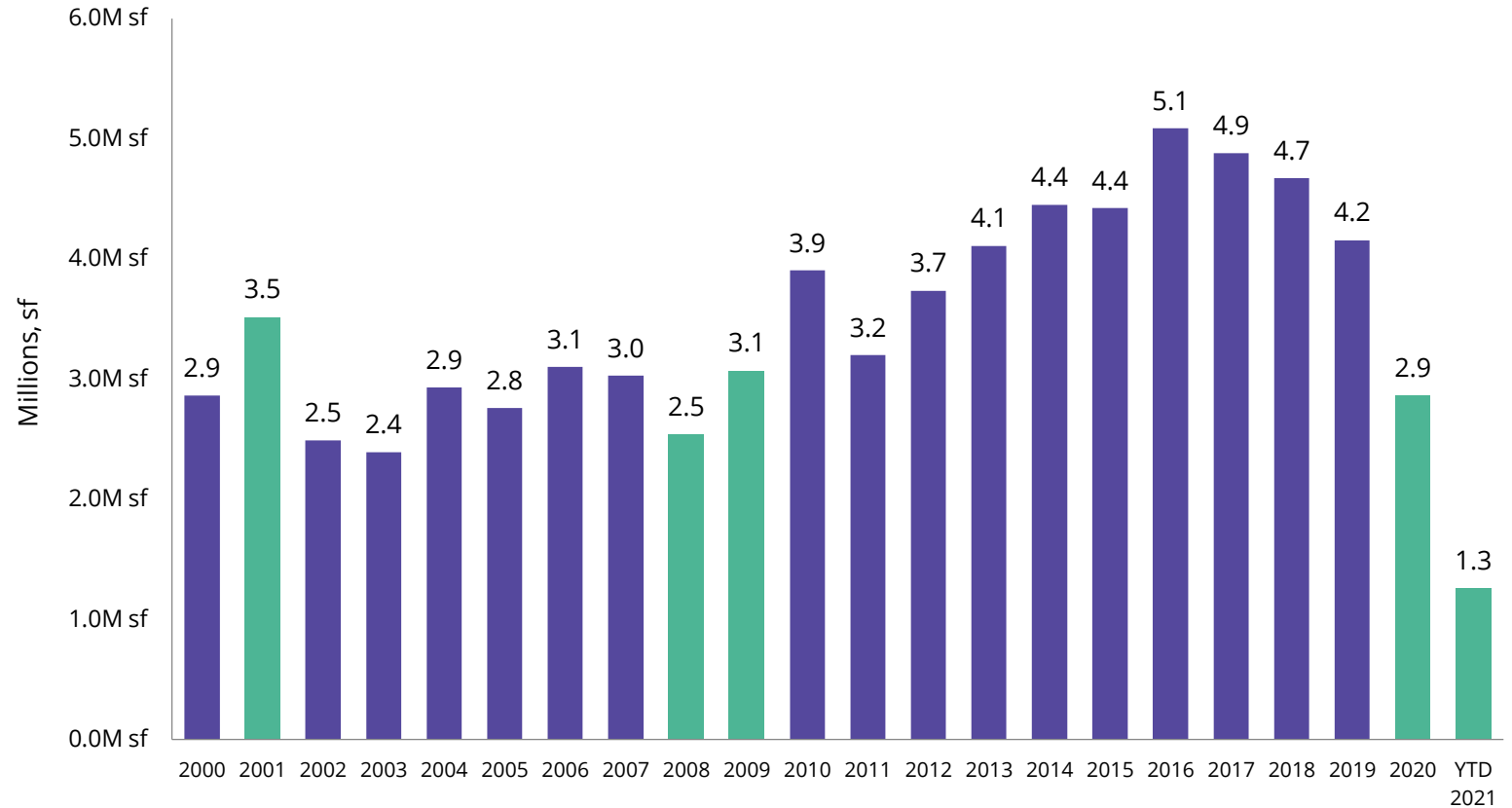
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office leasing activity

1.3 msf

2021 YTD leasing activity

There is no modern precedent for the post-COVID slowdown in leasing activity as office occupiers are faced with determining future workplace needs. Leasing activity in the long term is expected to rebound as reopening efforts continue and new companies move to the Triangle.



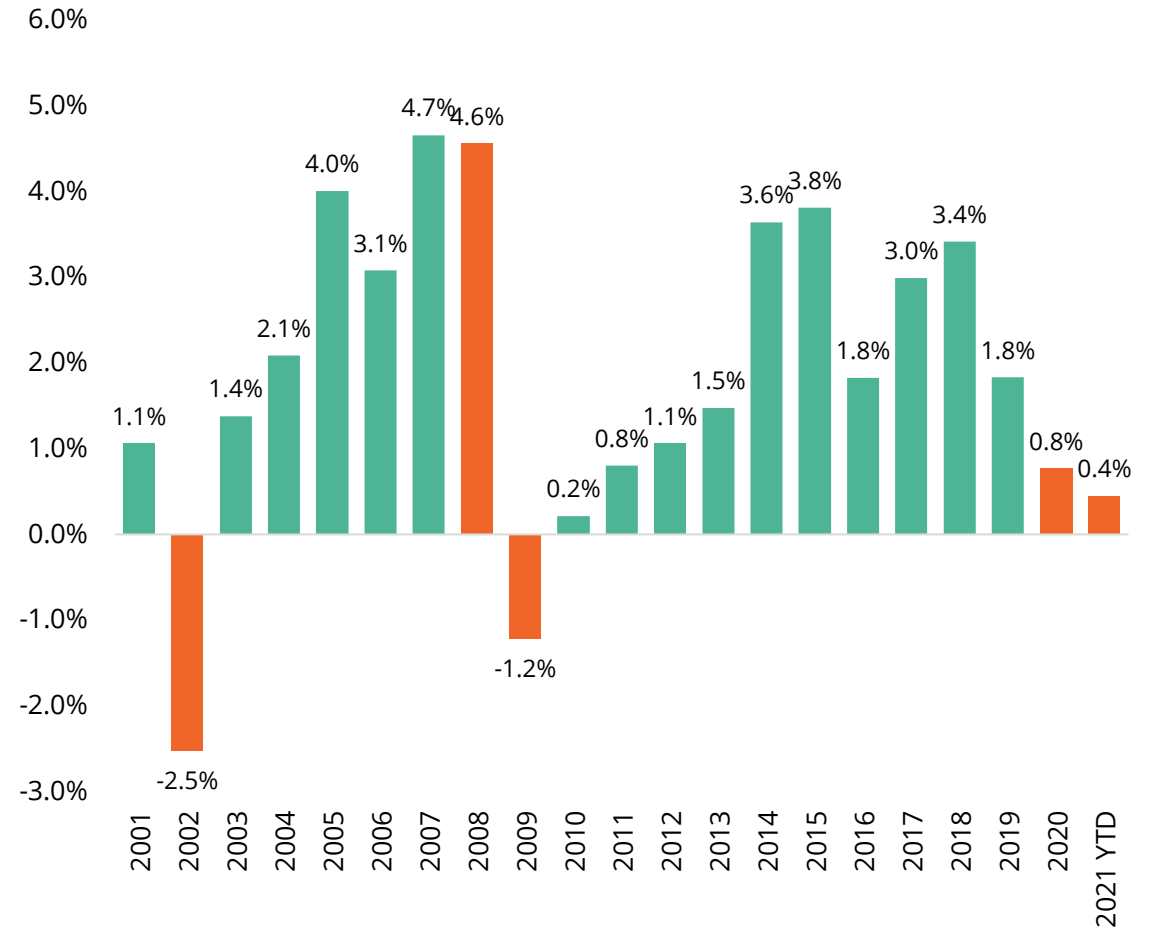
Source: AVANT by Avison Young

Absorption

0.4%

Net absorption as a percentage of inventory, 2020 through 2Q 2021

Positive net absorption from 2020 to 2Q 2021 has totaled over 579,716 sf, totaling 0.4% of the existing inventory. The Triangle market has been relatively steady; demand for the tech and life science sector continues to rise indicating there may be a significant amount future growth in the market.



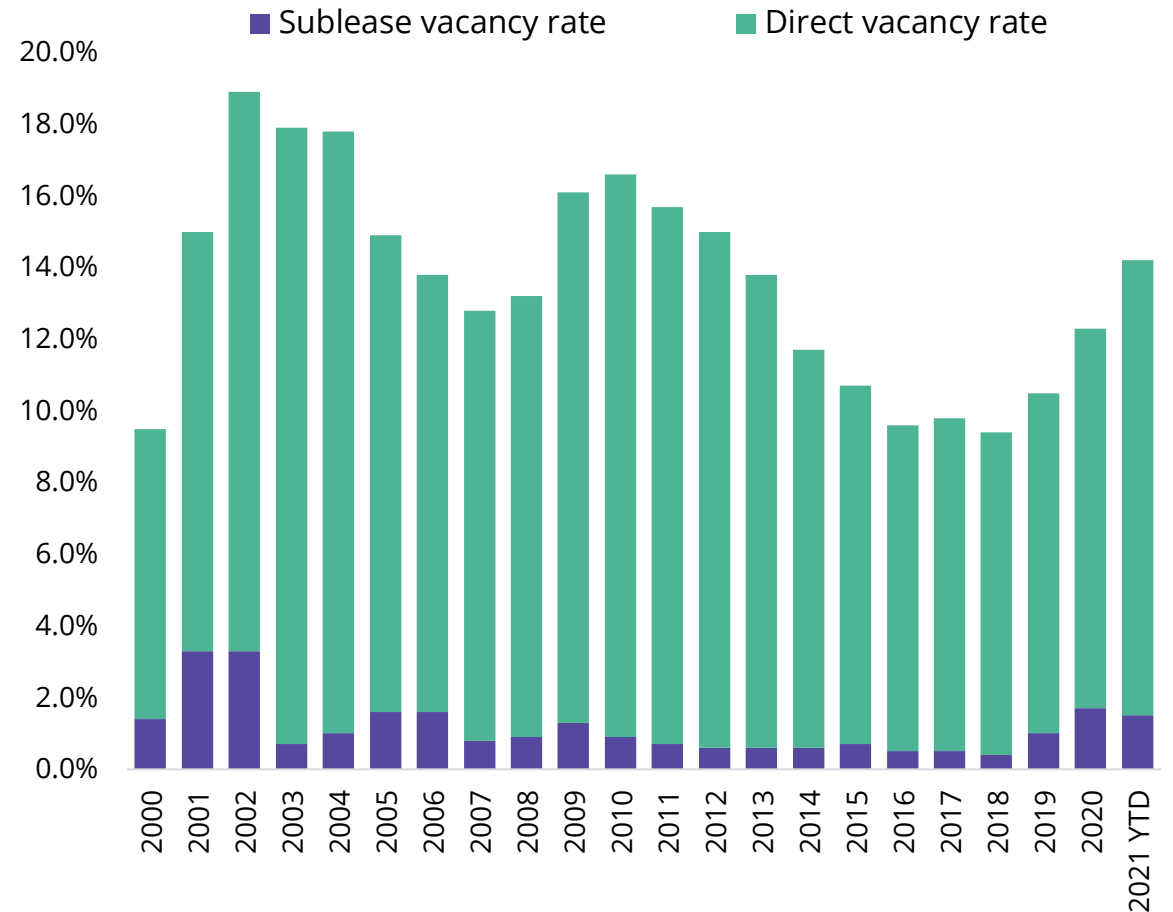
Source: AVANT by Avison Young

Vacancy rate

14.2%

Raleigh-Durham vacancy as of 2Q 2021

The 2Q21 vacancy rate reached the highest level recorded since the global financial crisis. The significant bump in sublease and direct vacancy is not only attributed to tenant retractions, but also a significant amount of new product that has delivered year-to-date (1.3 msf).



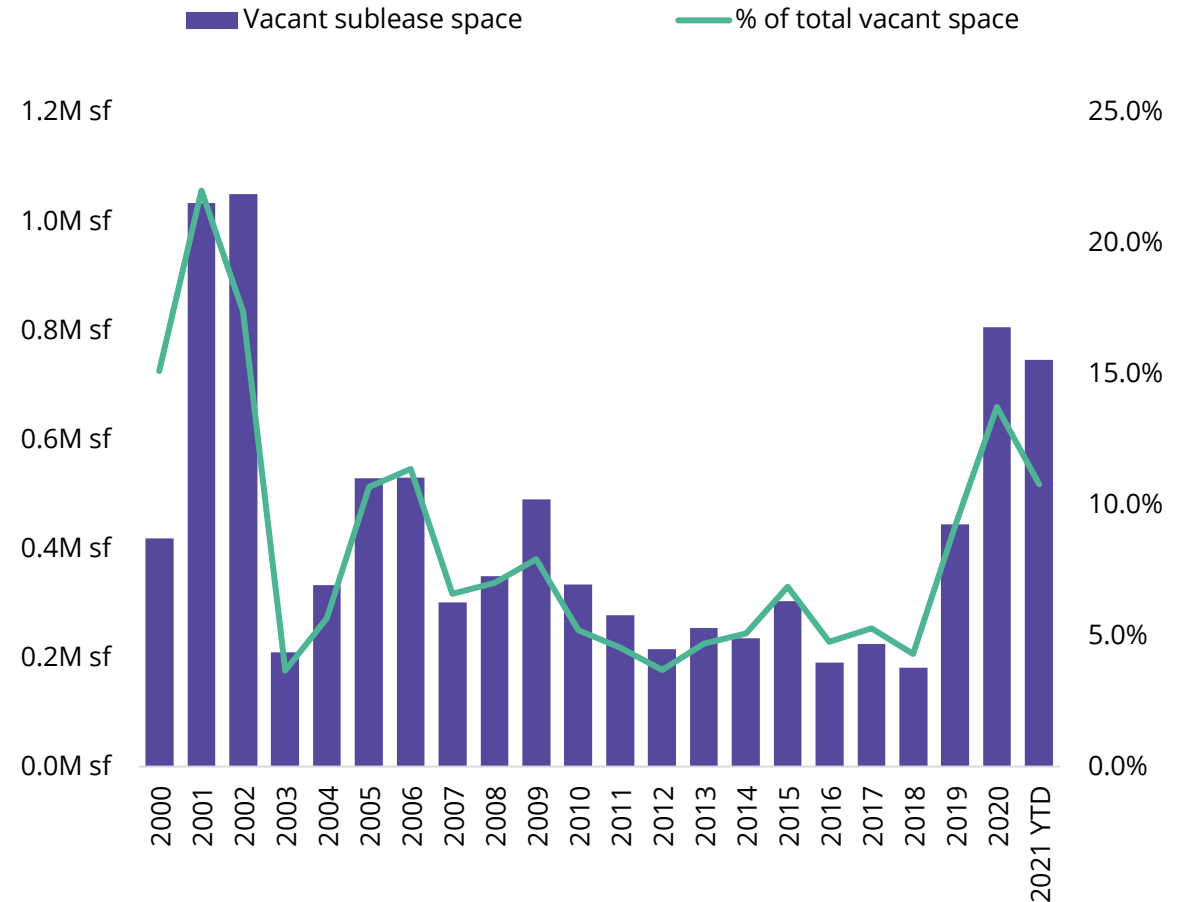
Source: AVANT by Avison Young

Vacant sublease space

746k sf

Record levels of vacant sublease space

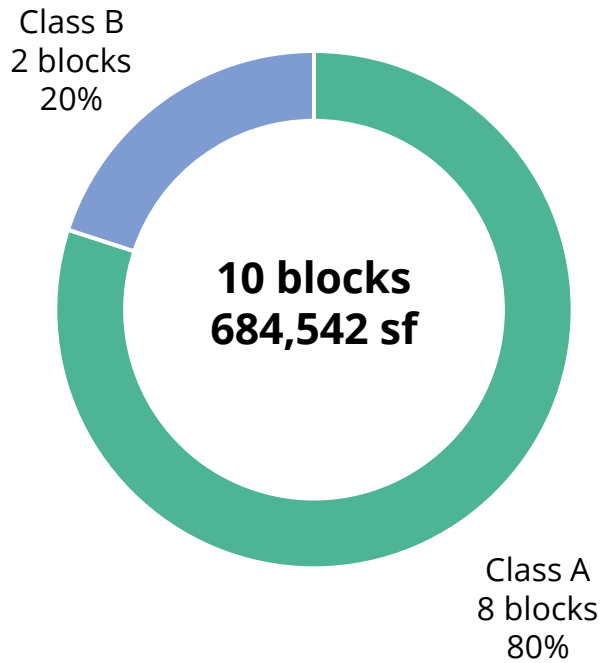
While the share of sublease-to-total vacant space of 10.1% has not reached the peak of 22% from the early 2000s, the amount of sublease space currently on the market sits at an all-time high. Total available sublease space rose to 1.9 msf in the second quarter.



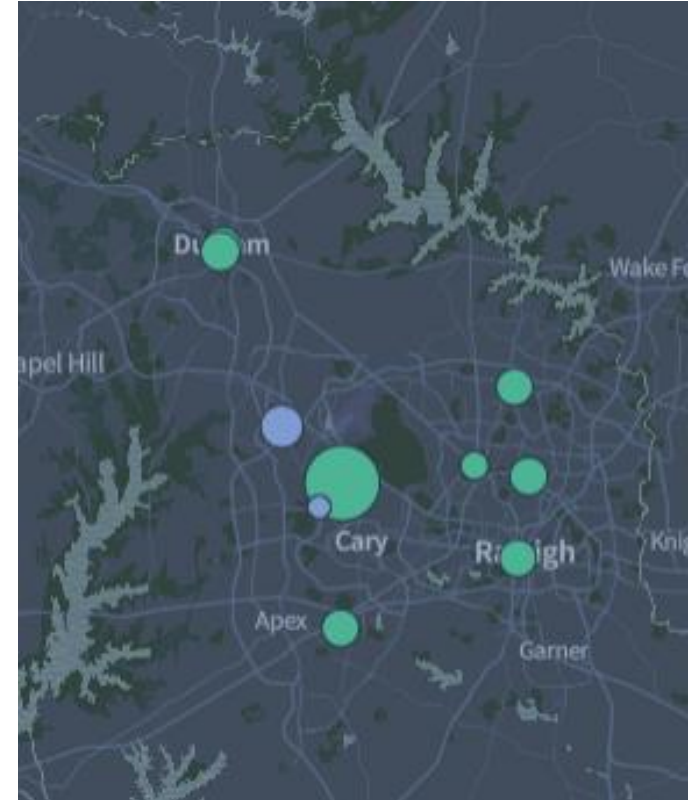
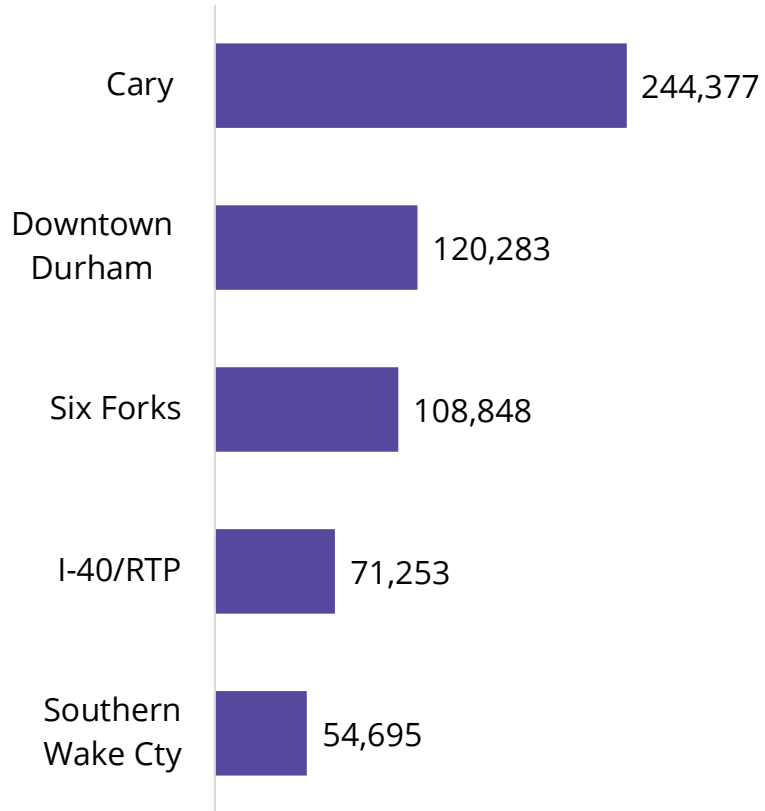
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Submarket availability by total size (sf)



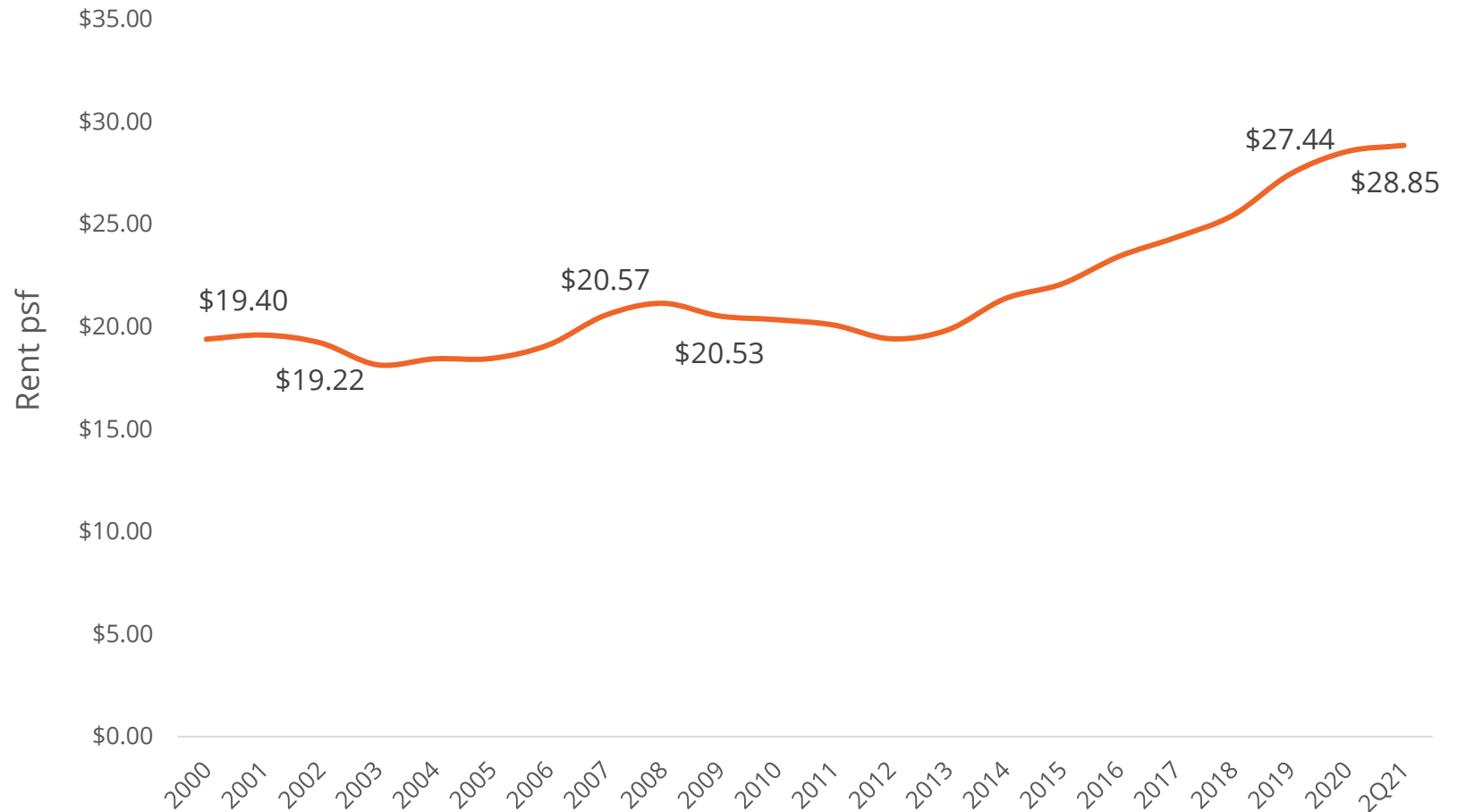
Source: AVANT by Avison Young

Base rents

1.9%

Average rent growth year-over-year

Triangle-wide rent growth has slowed notably in the last 12 months but remains positive at 1.9%. The modest price appreciation is a welcome relief for tenants, who were facing a historically tight leasing market just one year prior.



Source: AVANT by Avison Young

Under-construction inventory

12 properties

under construction

1.6 msf

under construction

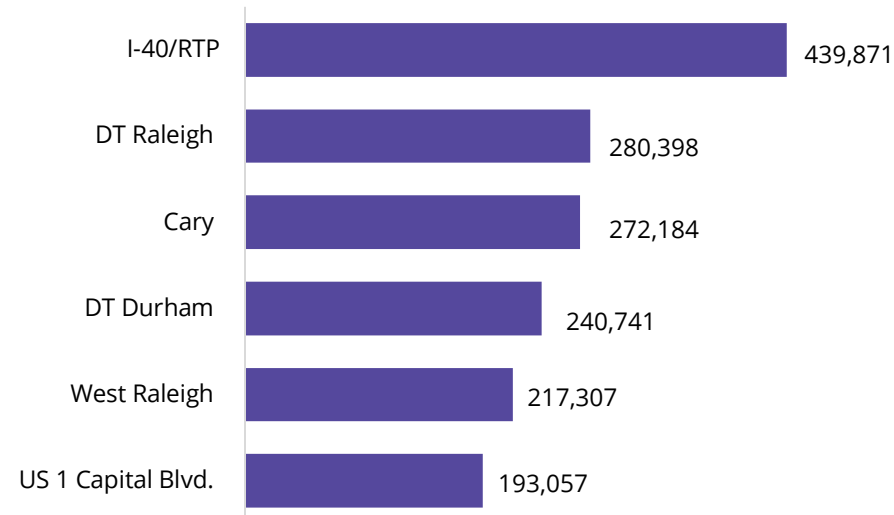
3.4%

share of office inventory

20%

released

Square footage underway by submarket



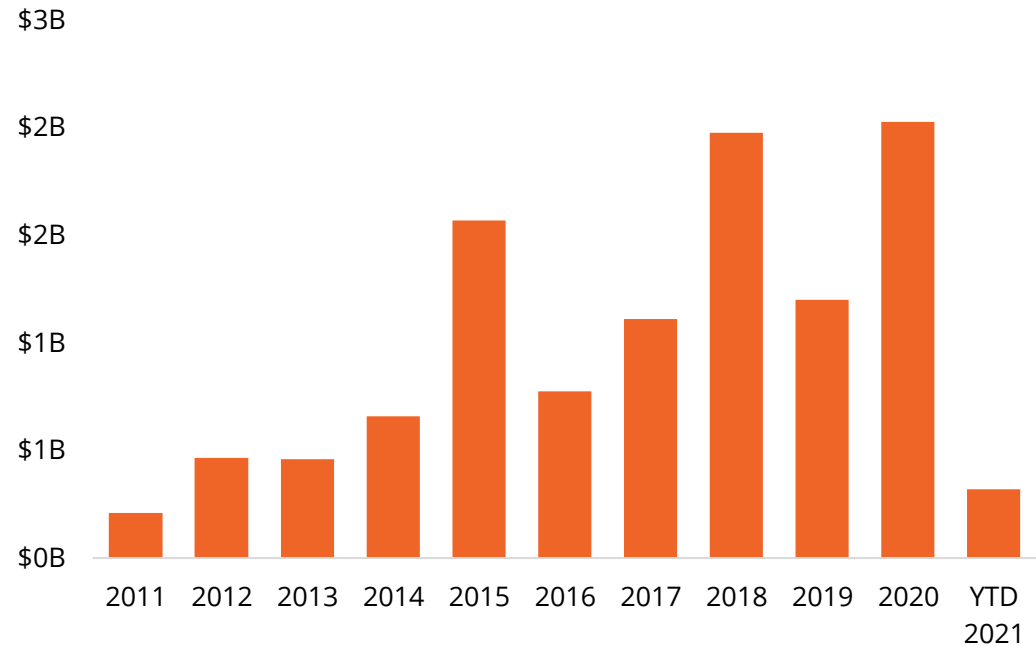
Source: AVANT by Avison Young

Office investment dollar volume

\$2.3B

Raleigh-Durham office dollar volume 2020 to present

Raleigh-Durham's office sales activity paused during the risk-pricing crisis, totaling only \$319 million in the first half of 2021, down 85% from the first half of 2020.



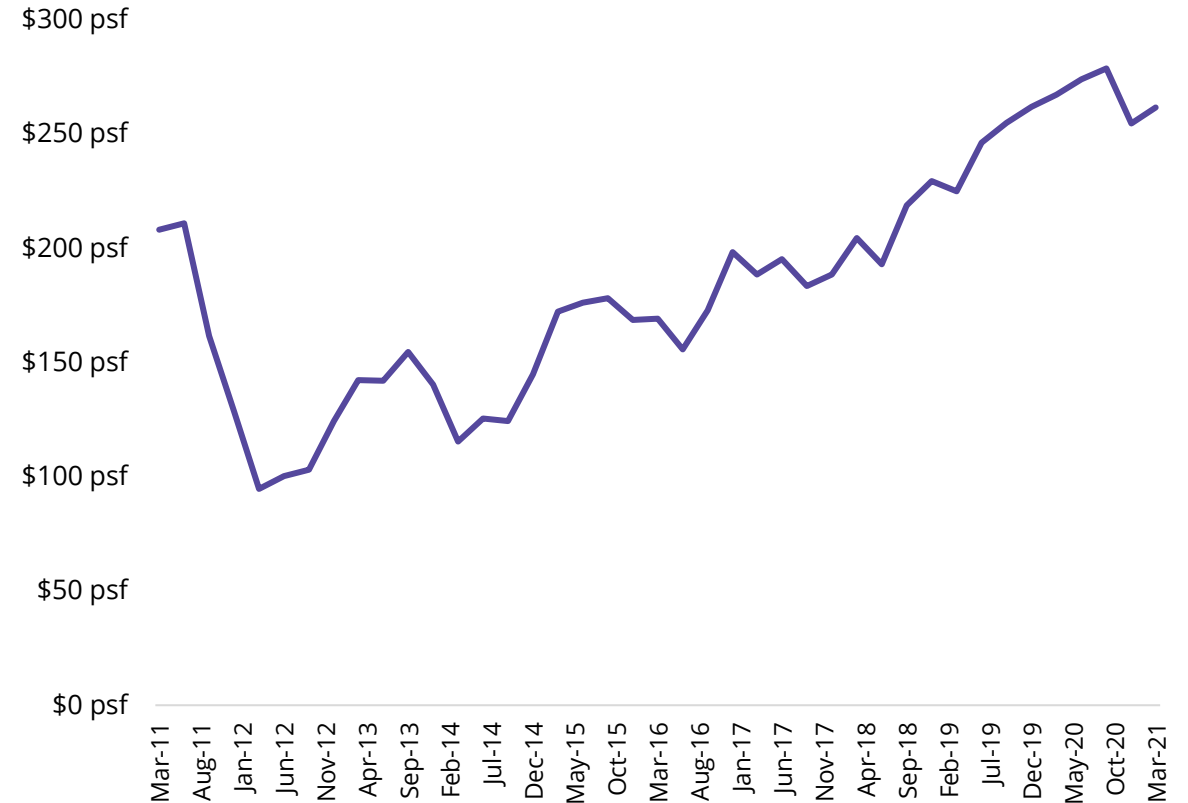
Source: AVANT by Avison Young, RCA

Office asset pricing

16.4%

Raleigh-Durham office pricing from March 2019 to present

After a record-setting 2020 in terms of office sales, pricing moderated during the pandemic as investors adopted more conservative underwriting approaches, decreasing from \$267 psf in March 2020 to \$261 psf. However, asset pricing has trended incrementally upward in recent months, indicating a potential stabilization.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- As reopening efforts continue, **Raleigh-Durham's economy has started to see recovery** in 2021. Many companies are embracing a hybrid work model as they begin to return to the office.
- Reimagining the workplace may become a "best practice" in order to retain talent, particularly in the Triangle's tight labor market.
- **Leasing activity is expected to trend upwards** in the second half of the year and into 2022 as companies continue to expand or relocate into the Triangle at a healthy pace.
- **Average rent growth** for direct office space may slow in the second half of 2021, as concessions continue to shift in favor of tenants.



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Let's talk

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