



## the Pulse



### INCREASING DEMAND FOR CLASS A MEDICAL SPACE

From 2015 to 2018, the Raleigh-Durham market saw a significant increase in the delivery of medical office space with an average of 238,000 sf or 5% of the total inventory added each year. Despite this growth, the demand for medical space was so high, that vacancy rates continued to drop to their lowest level of 3.7% in 2018. By 2020, the vacancy rate had increased to 8.6%. The disruption caused by the Covid-19 Pandemic led to delays in construction and fewer project starts, resulting in a decrease in the amount of new space delivered. From 2022 to 2024, the average space delivered was 230,000 sf or nearly 4% of the total inventory per year.

Despite the recent uptick in new space, the overall vacancy remained the same at around 8%. If low demand were the issue, one would expect vacancy rates to rise with the delivery of new projects and absorption rates to fall, neither of which has happened. As new space delivered continues to be absorbed, the data suggests that the majority of vacant space currently available has been on the market for some time, indicating it is an issue with the actual inventory, not declining demand.

Moreover, there continues to be high demand for Class A medical outpatient space in Raleigh-Durham. This type of space has not contributed significantly to the overall medical office vacancy rate, indicating a shortage in supply.

### Quick facts

**8.3%**  
Vacancy

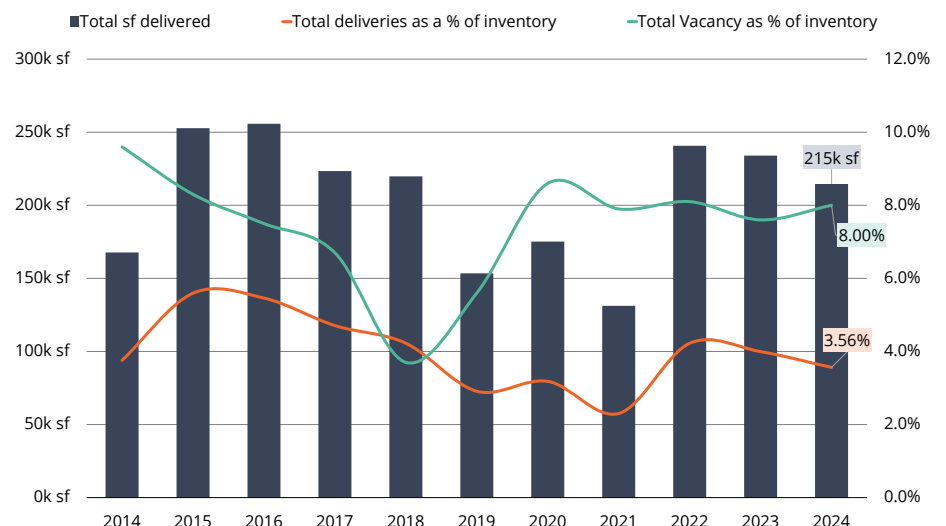
**\$23.5M**  
Sales Volume

**129,232 SF**  
Net Absorption  
(TTM\*)

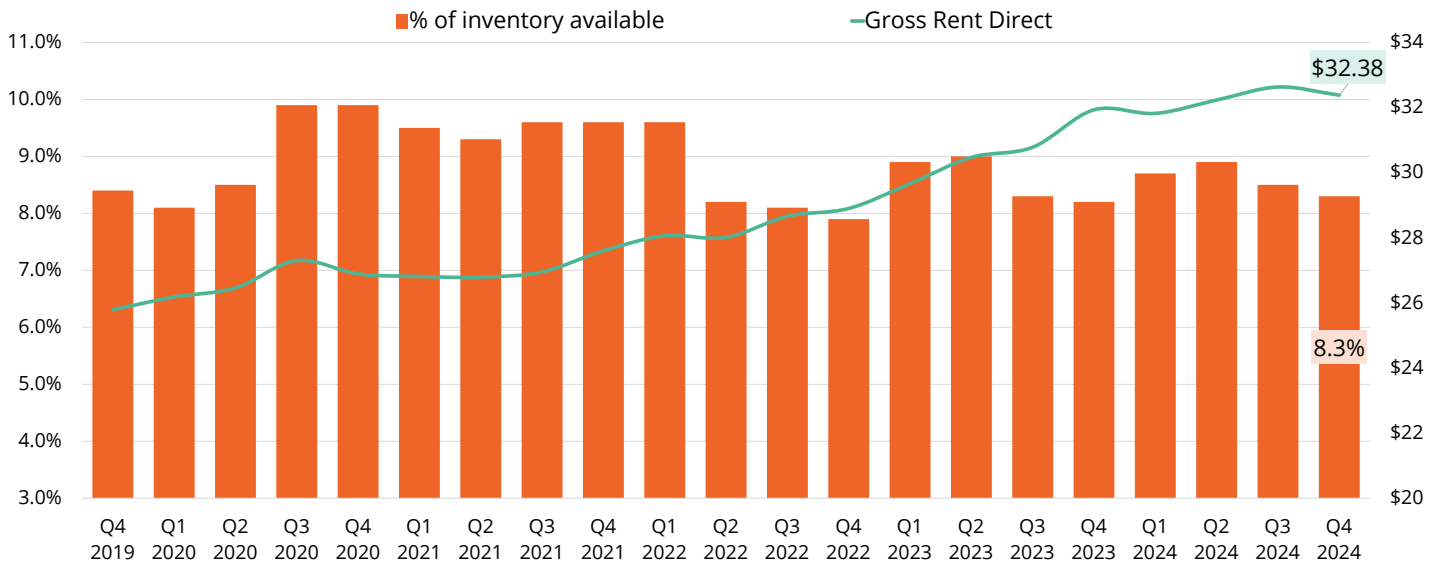
**175,694 SF**  
Deliveries  
(TTM\*)

\* Trailing twelve months

### Vacancy and Deliveries



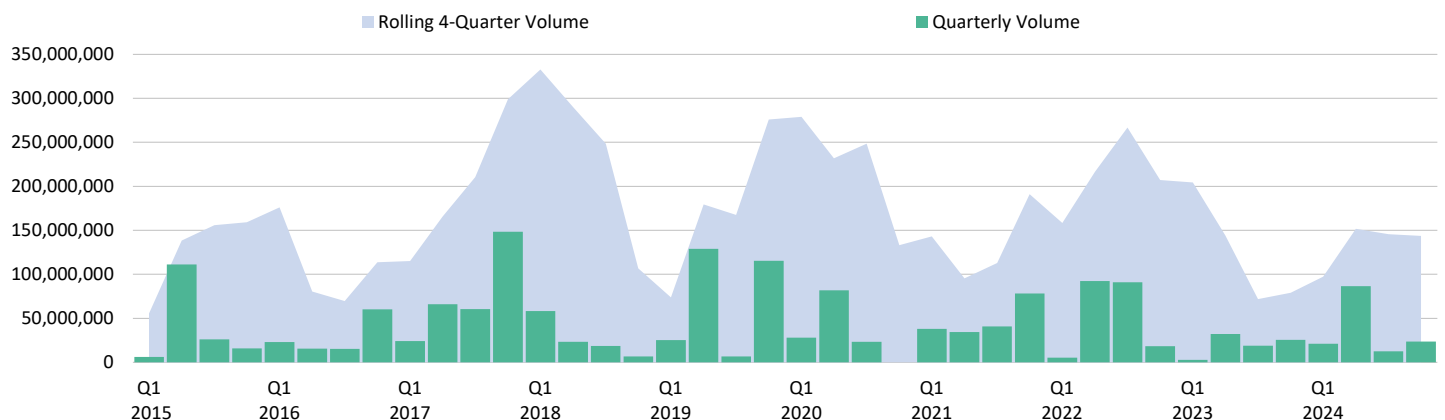
## Vacancy and Rental Rates



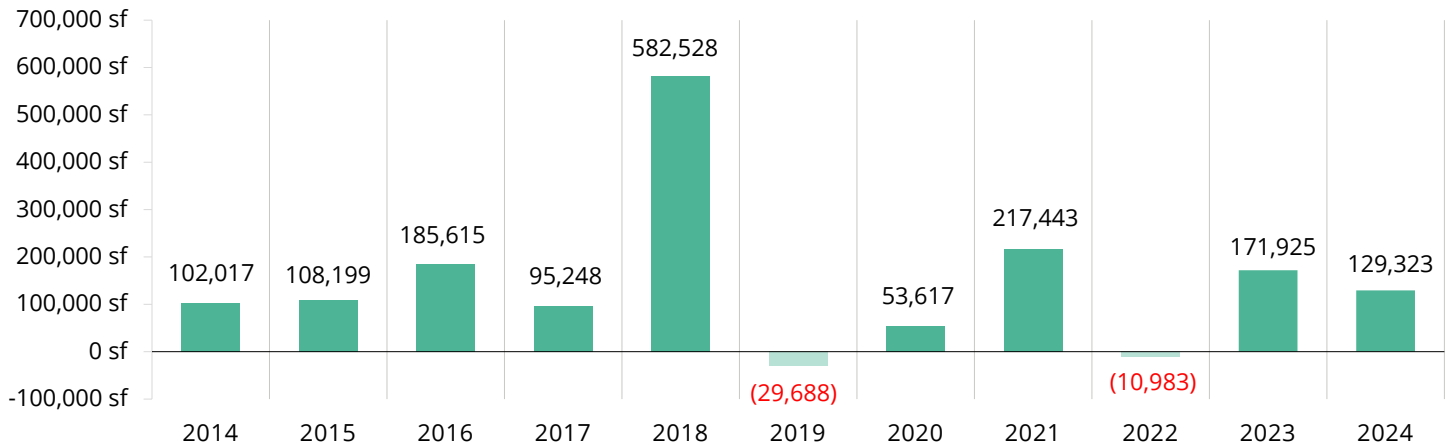
## MEDICAL OFFICE INVESTMENTS HOLD STEADY

Medical office investment sales ended the year with a respectable performance, given all the turmoil in the broader capital markets over the last few years. Yet still only a handful of assets sold for investment purposes, with one large institutional transaction accounting for half the quarterly volume of \$23.5mm, and the other assets trading to out-of-market private investors. Of note is that these private passive investment deals sold at low cap rates, roughly 6.5%, considering the current lending environment. Contributing to these compressed cap rates were strong tenant credit, long-term leases, and expense structures that shift inflationary risk from landlord to tenants. Overall, FY2024 put up a transaction volume of \$143.6mm, besting what we hope will be the trough of trading volume across all commercial real estate property sectors in FY2023. Still 2025 is expected to start off quiet with limited availability of high-quality assets available due to long-term investment horizons from the region’s major institutional and physician-occupant owners.

## Sales Volume (\$)



## Net absorption



## Southwest Wake

### SUBMARKET UNDER THE MICROSCOPE

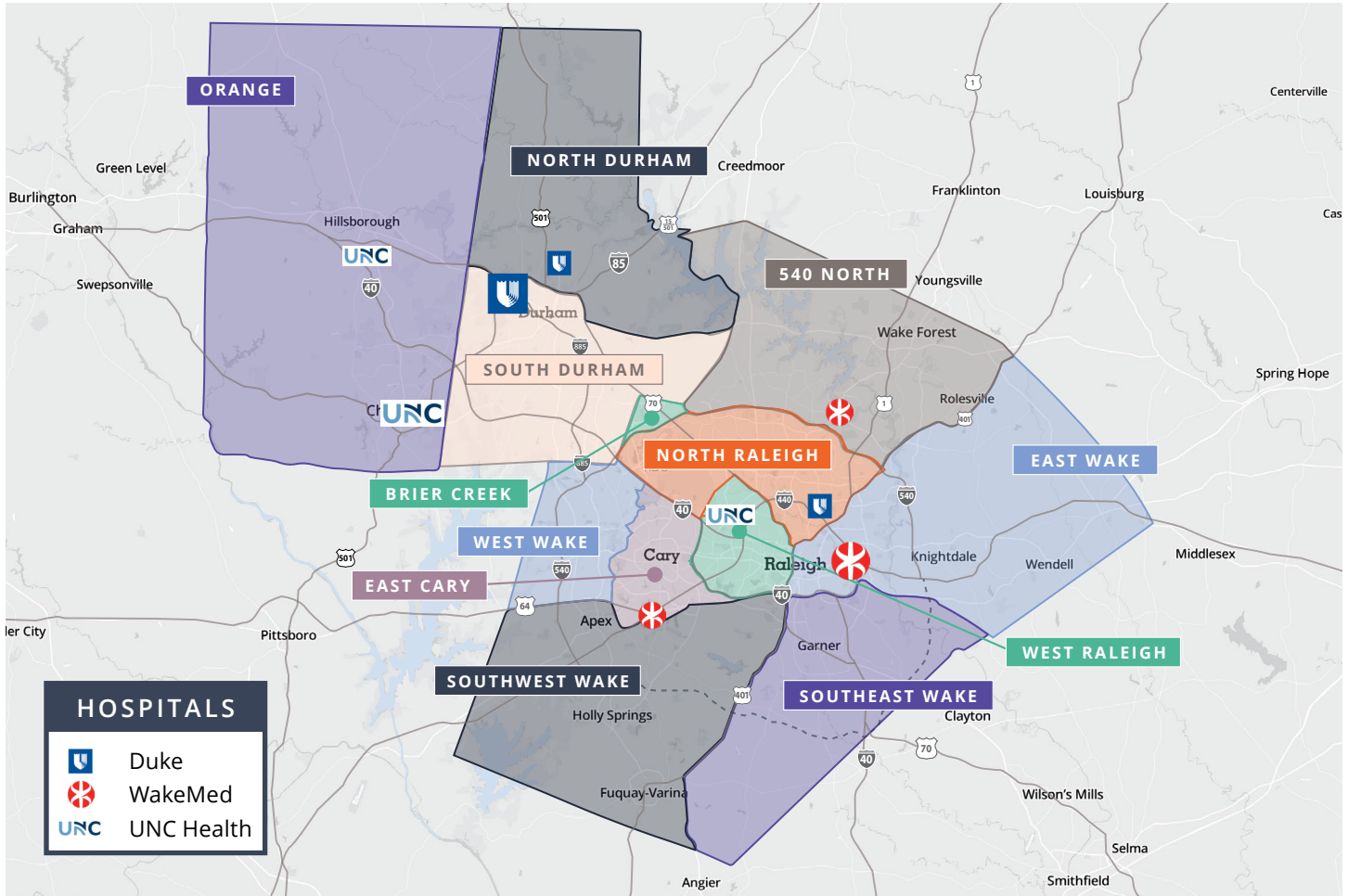
The Southwest Wake submarket, encompassing Apex, Holly Springs, and Fuquay-Varina, is experiencing unprecedented growth, with no signs of slowing down. Notably, the Carolina Springs development in Holly Springs has already started delivering units, ultimately planning to add 1,700 townhomes to the area. The massive Veridea project in Apex will eventually contain more than 8,000 housing units, and recently broke ground on Phase I, which will include 1,100 single-family homes and townhomes. While the submarket has been a flurry of activity beyond residential development, including an explosion of growth in retail, industrial, hospitality, educational, life science and advanced manufacturing projects, this rapid expansion is anticipated to lead to an increase in demand for medical services, causing a shortage of medical space. This presents great opportunity for medical practices across various disciplines, with pediatrics, ob/gyn, behavioral health, and physical/occupational therapy already being identified as in short supply<sup>1</sup>.

With less than 16,000 sf of medical space currently available, the market dynamics support serious consideration from developers as well as practices seeking to build custom facilities to support their operations. The ongoing development in the area suggests a positive long-term outlook, presenting a valuable opportunity for medical practices looking to expand their footprint.

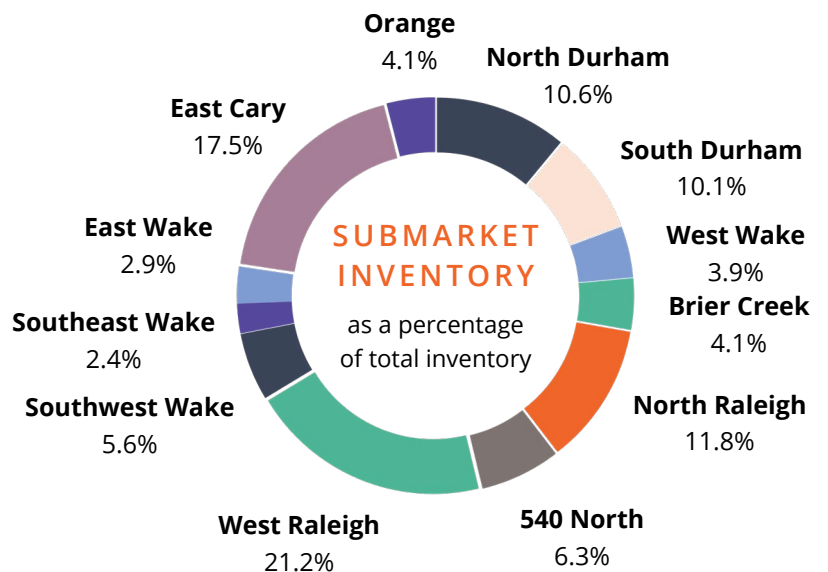
<sup>1</sup>AVANT by Avison Young Healthcare Site Selection



## Raleigh-Durham Submarkets



Delivery of 120,694 sf in West Raleigh over the last 12 months bumped the submarket's dominance in medical office space inventory from 20.1% to 21.2%.





Submarket	Existing inventory sf	Deliveries sf (TTM)	Under development sf	Total availability sf	Total availability %	Net absorption sf (TTM)	Net absorption as a % of inventory (TTM)	Direct asking rent (FS)
Southwest Wake	331,805	0	0	15,862	4.80%	11,746	3.50%	\$35.26
Southeast Wake	143,399	0	0	1,584	2.30%	-1,530	-1.00%	\$24.49
Western Wake	237,322	0	0	18,512	10.10%	47,106	19.80%	\$33.78
Eastern Wake	171,502	0	0	14,197	8.30%	-10,351	-6.00%	\$26.38
North Raleigh	709,295	55,000	0	121,345	17.10%	24,398	3.40%	\$32.00
West Raleigh	1,275,924	120,694	0	132,626	10.40%	76,061	6.00%	\$30.04
North Durham	639,842	0	0	19,080	3.00%	-2,399	-0.40%	\$33.28
South Durham	608,029	0	0	3,908	0.60%	3,313	0.40%	\$30.00
Orange County	227,242	0	0	4,182	1.80%	5,192	0.40%	\$32.50
Brier Creek	246,901	0	0	6,500	3.20%	-3,469	-1.40%	\$34.50
540 North	378,527	0	0	21,328	5.60%	-2,468	-0.60%	\$28.50
East Cary	1,050,710	0	0	136,008	12.90%	-14,094	-1.30%	\$35.22
<b>Market total</b>	<b>6,020,498</b>	<b>175,694</b>	<b>0</b>	<b>502,330</b>	<b>8.30%</b>	<b>129,232</b>	<b>2.10%</b>	<b>\$32.62</b>

## Let's Connect.

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