

Raleigh-Durham maintains slow but steady leasing activity

▼ 12.5%

Vacancy Rate

▲ 246,342

SF Net Absorption

▼ 1.8 M

SF Construction

▲ \$31.50

Class A Avg. Lease Rate

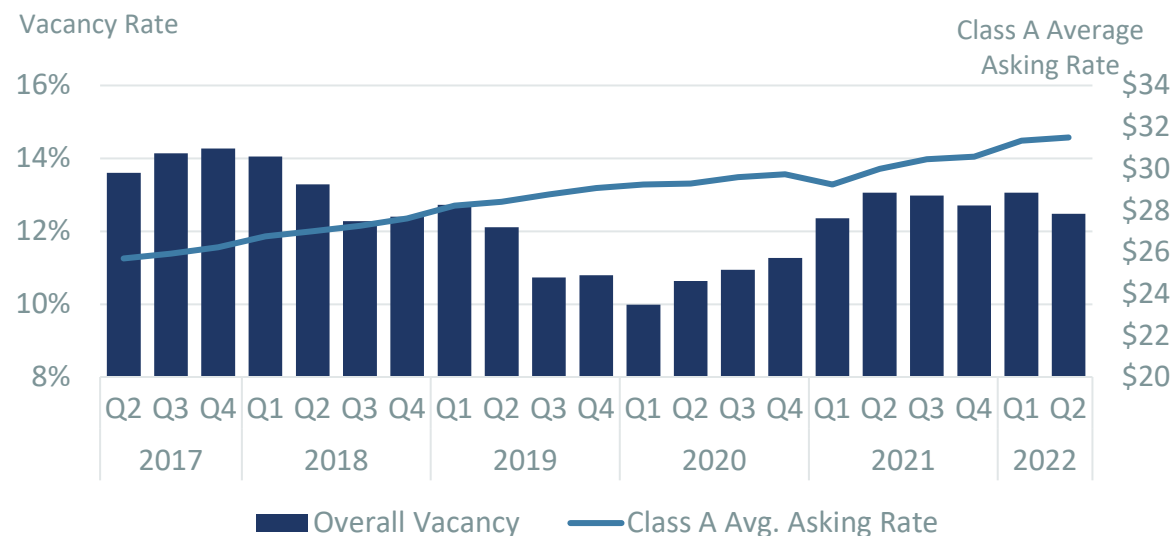
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- The office market experienced 246,342 sq. ft. of positive net absorption during Q2 2022.
- The overall office vacancy rate decreased 60 basis points quarter-over-quarter to 12.5%.
- Sublease inventory totaled 3 million sq. ft., 5.1% of overall inventory.
- The amount of office space underway has declined notably year-over-year, with 1.8 million sq. ft. underway in Q2 2022.

CBRE | Raleigh tracks over 59 million sq. ft. of office space in the Raleigh-Durham market. The market is composed of three counties - Wake, Durham and Orange - and 15 separate submarkets.

FIGURE 1: Vacancy and Class A Avg. Asking Rates



Source: CBRE Research, Q2 2022

Absorption

Raleigh-Durham experienced 246,342 sq. ft. of positive net absorption in Q2. Market activity remains slow and steady as decision makers continue to face re-occupancy uncertainty with the lingering effects of COVID-19 and potential economic downturn. The RTP/I-40 Corridor experienced the most absorption of any submarket at 109,000 sq. ft., with Renesas leasing 90,000 sq. ft. at Forty540 II and Pyxus leasing 24,000 sq. ft. at Aerial Center.

Vacancy

Overall market vacancy decreased 60 bps quarter-over-quarter to 12.5%. Class A vacancy fell 70 bps quarter-over-quarter to 11.9%.

Asking Rates

The average Class A asking rental rate stood at \$31.50 in Q2 2022, a slight increase over Q1. Six Forks Road, Downtown Raleigh, and Central Durham maintain the highest asking rates in the region due to a significant amount of recent Class A deliveries.

Notable Lease Transactions

Raleigh-Durham experienced a slight uptick in leasing activity quarter-over-quarter in Q2. In the RTP/I-40 submarket, electronics firm Renesas leased 90,000 sq. ft. at Forty 540 II, and Extreme Networks renewed its lease for 54,000 sq. ft. at RDU Center III. In Central Durham, life science company Elevate signed a 60,000 sq. ft. lab/office lease at Longfellow’s Durham ID. IT firm RapidScale leased 26,600 sq. ft. at 301 Hillsborough in Downtown Raleigh, bringing the building to 67% leased. Elsewhere in the submarket, several tenants leased a combined 14,000 sq. ft. at FNB Tower.

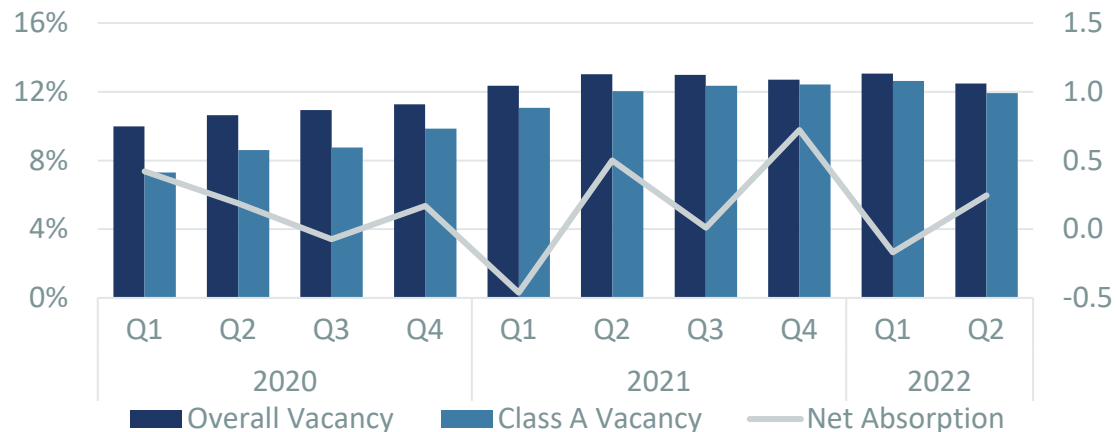
FIGURE 2: Top Lease/Sale Transactions Q2 2022

Lease: Tenant	Property	Square Feet	Submarket
*Renasas	Forty540 II	90,000	RTP/I-40 Corridor
*Extreme Networks	RDU Center II	54,530	RTP/I-40 Corridor
*RapidScale	301 Hillsborough	26,603	Downtown Raleigh

Sale: Building	Purchase Price	Square Feet	Submarket
Gateway Centre	\$74 M	301,000	RTP/I-40 Corridor
AIHF	\$35 M	185,600	Six Forks Road
*Situs Office Park	\$27.9 M	156,600	West Raleigh

* Denotes CBRE|Raleigh Transaction

FIGURE 3: Vacancy and Net Absorption



Source: CBRE Research, Q2 2022

Sales Activity

Raleigh-Durham office sales were relatively light in Q2, with the largest transactions occurring in suburban submarkets. In the I-40/RTP Corridor, Capridge Partners purchased a four-building, 301,000-sq.-ft. office portfolio at Gateway Centre for \$74 million or \$241 per sq. ft. Welltower paid \$35 million or \$178 per sq. ft. for 8300 Health Park Drive in the Six Forks Road submarket. The 185,600-sq.-ft. building is occupied by the American Institute of Healthcare and Fitness. The Simpson Organization paid \$27.9 million or \$178 per sq. ft. for Situs Office Park, a three-building, 156,000-sq.-ft. office portfolio located in West Raleigh.

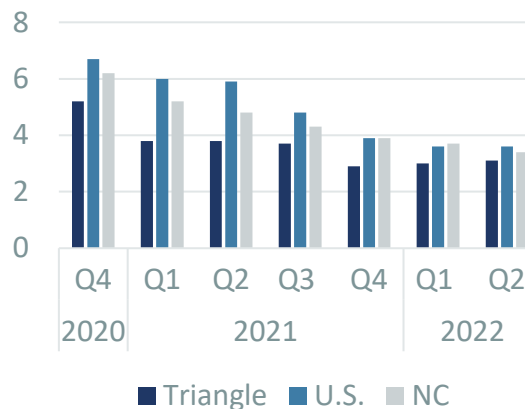
Sublease

Available sublease space remains elevated at just over 3 million sq. ft., representing 5.1% of the market’s total office inventory. Fortunately, offerings in prime locations have attracted strong interest from tenants. An undisclosed tech tenant subleased 103,000 sq. ft. from Biogen, along with an additional floor of direct space, at Innovation I in the RTP/I-40 Corridor. In Downtown Raleigh, an The UNC Foundation subleased two floors totaling 51,000 sq. ft. from Arch Capital at The Dillon. Tech firm, Relay, subleased 31,300 sq. ft. from Advance Auto Parts at the company’s namesake tower at North Hills. As of Q2, 64% of sublease inventory is contained in Class A office product, and 35% of sublessors have five or more years remaining on their term.

Construction

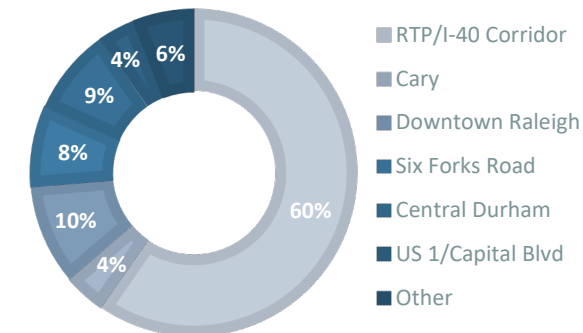
Raleigh-Durham office construction has declined notably in recent months, ending Q2 at 1.8 million sq. ft. versus 3.7 million sq. ft. two years ago. Phase one of the \$1 billion mixed-use Fenton development in Cary was delivered in Q2, including 200,000 sq. ft. of speculative office space. In the Capital Blvd/U.S. 1 submarket, the first phase of Raleigh Iron Works is scheduled to add 170,000 sq. ft. of office space to the market in Q3 and is currently 8% preleased. In Downtown Raleigh, the 20-story 400H mixed-use tower will add 150,000 sq. ft. of office space to the market upon completion in Q4 2023. At the former JCPenney site in North Hills, work is well underway on 352,135 sq. ft. of office space at One North Hills and NHX Creative Office. The largest project currently in the pipeline is Bandwidth’s new headquarters campus, which is scheduled to add 533,889 sq. ft. of fully leased office space to the West Raleigh submarket in Q2 2023.

FIGURE 4: Unemployment Statistics



Source: BLS, June 2022

FIGURE 5: Distribution of Sublease Availability



Source: CBRE Research Q2, 2022

FIGURE 6: Select Active Construction by Submarket

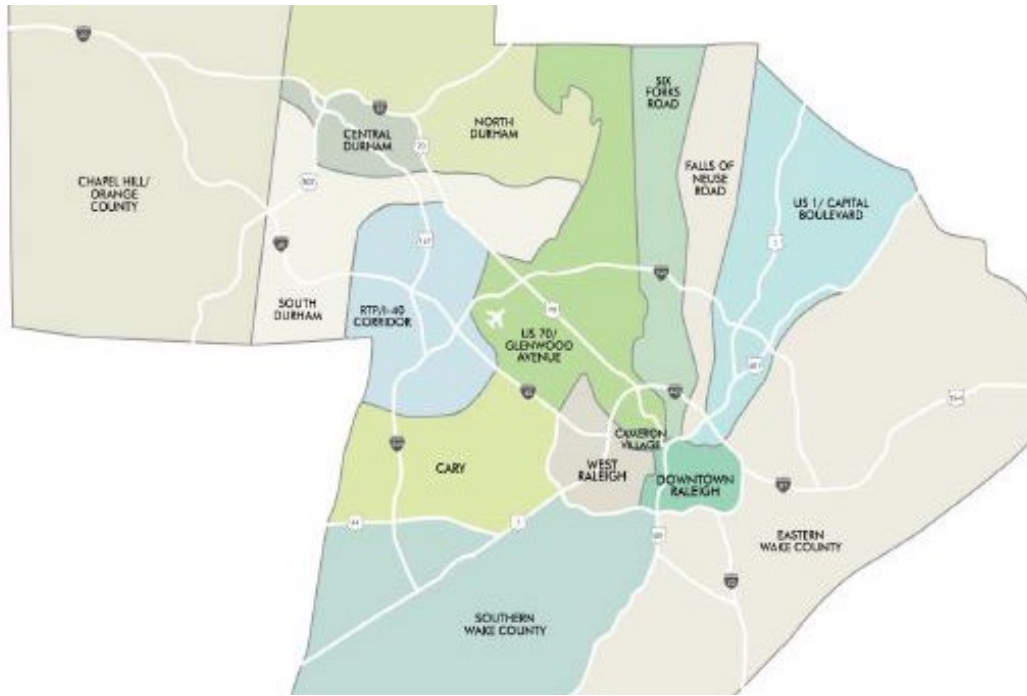
Project	Submarket	RBA (Sq. Ft.)	Q2 2022 Vacancy	Scheduled for Completion
The Walker	Cary	102,000	76,823	4Q 2022
400 Hillsborough	Downtown Raleigh	150,000	150,000	4Q 2023
One North Hills	Six Forks Road	264,632	264,632	2Q 2023
NHX Creative Office	Six Forks Road	87,503	87,503	2Q 2023
Raleigh Iron Works	U.S. 1/Capital Blvd	171,000	156,557	3Q 2022
Bandwidth HQ	West Raleigh	533,135	0	2Q 2023
GlenLake III	U.S. 70/Glenwood Ave	205,000	194,000	4Q 2023

Source: CBRE Research Q2, 2022

FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Net Absorption (SF)	Under Construction (SF)	Class A Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	6,622,679	830,122	12.5%	15.7%	48,153	700,089	\$30.63
U.S. 70/Glenwood Ave	4,469,613	550,080	12.3%	13.2%	6,414	216,000	\$30.46
Six Forks Road	4,349,119	222,539	5.1%	18.9%	(7,934)	352,135	\$35.77
Falls of Neuse	3,152,039	281,993	8.9%	13.2%	(31,438)	33,793	\$27.26
U.S. 1/Capital Blvd	2,190,226	188,957	8.6%	21.0%	8,329	171,000	\$27.52
Downtown Raleigh	6,159,810	839,235	13.6%	21.0%	(65,438)	150,000	\$35.88
Village District	482,647	78,789	16.3%	21.3%	1,984	50,000	\$25.82
Eastern Wake	879,798	155,642	17.7%	17.7%	(3,025)	-	N/A
Southern Wake	525,990	57,700	11.0%	15.0%	(6,526)	54,518	N/A
Cary	7,588,191	1,007,968	13.3%	16.0%	59,740	102,000	\$29.52
RTP/I-40 Corridor	13,098,085	1,576,287	12.0%	26.1%	109,097	-	\$28.70
Central Durham	5,200,995	608,955	11.7%	16.8%	99,015	-	\$35.63
North Durham	1,026,981	300,369	29.2%	29.2%	10,589	-	N/A
South Durham	1,898,622	342,690	18.0%	18.7%	7,574	13,114	\$28.85
Orange County	2,241,776	434,672	19.4%	19.4%	9,808	-	\$30.70
Market Totals	59,886,571	7,475,998	12.48%	18.9%	246,342	1,842,649	\$31.50

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant.

Availability Rate: Total Available Sq. Ft. divided by the total building Area.

Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.

Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building.

Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions.

Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance.

Net Absorption: The change in Occupied Sq. Ft. from one period to the next.

Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.

Occupied Sq. Ft.: Building Area not considered vacant.

Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area.

Vacant Sq. Ft.: Space that can be occupied within 30 days.

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