

Sublease inventory increases as tenants strategize re-occupancy plans

▲ 13.1%

Vacancy Rate

▼ -166,876

SF Net Absorption

▲ 2.2 M

SF Construction

▲ \$31.35

Class A Avg/ Lease Rate

Note: Arrows indicate change from previous quarter.

Market Report Highlights

- The office market experienced 166,876 sq. ft. of negative net absorption during Q1 2022
- The overall office vacancy rate increased 31 basis points quarter-over-quarter to 13.06%
- Sublease inventory is at 3.1 million sq. ft., 5.2% of overall inventory
- Construction activity remains active at 2.2 million sq. ft., 3.7% of overall office inventory

CBRE | Raleigh tracks over 59 million sq. ft. of office space in the Raleigh-Durham market. The market is composed of 3 counties, Wake, Durham and Orange and 15 separate submarkets.

FIGURE 1: Vacancy and Class A Avg. Asking Rates



Source: CBRE Research, Q1 2022

Absorption

Raleigh-Durham experienced 168,876 sq. ft. of negative net absorption in Q1. Several big block “givebacks” throughout the market and slowed leasing activity attribute to the negative number. Downtown Raleigh experienced the most absorption of any submarket at 72,900 sq. ft., notably with the recently delivered 301 Hillsborough leasing 26,000 sq. ft. to law firm Nelson Mullins. The RTP/I-40 Corridor experienced the largest negative absorption of any submarket at -155,000 sq. ft., as Credit Suisse put 120,000 sq. ft. at 6966 Louis Stephens Drive on the market and TKXS vacated 29,000 sq. ft. at 1500 Perimeter Park.

Vacancy

Overall market vacancy rates increased 31 basis points quarter-over-quarter to 13.06%. Class A vacancy rates increased 22 basis points quarter-over-quarter to 12.64%

Asking Rates

Class A leasing rates continue to increase steadily with the average rate now at \$31.45, a 3% increase from the previous quarter, due to newly delivered and highly amenitized space available for lease at a higher rate. Six Forks, Downtown Raleigh, North Hills and Central Durham maintain the highest lease rates in the market due to the significant amount of recent Class A deliveries in those submarkets.

Notable Lease Transactions

Raleigh-Durham experienced modest leasing activity in Q1, with several deals signed in the 20,000-30,000 sq. ft. range. Notable deals include medical technology firm Intelerad leasing 28,061 sq. ft. at Midtown Plaza in North Hills, absorbing a floor of available sublease space in the building. Engineering firm Stantec leased 25,700 sq. ft. at the Interchange Plaza in West Raleigh and Nelson Mullins leased 26,700 sq. ft. in the newly delivered 301 Hillsborough in Downtown Raleigh. Software company Channel Advisor is downsizing from 116,000 sq. ft. at Perimeter Four in the RTP/I-40 Corridor and leased 33,000 sq. ft. at Perimeter Six.

FIGURE 2: Top Lease/Sale Transactions Q1 2022

Lease: Tenant	Property	Square Feet	Submarket
Nelson Mullins*	301 Hillsborough	26,700	Downtown Raleigh
Stantec*	Interchange Plaza II	25,700	West Raleigh
Intelerad	Midtown Plaza	28,061	Six Forks

Sale: Building	Purchase Price	Square Feet	Submarket
Credit Suisse*	\$92 M	205,000	RTP/I-40 Corridor
Regency Woods II	\$54 M	150,000	Cary
Blue Ridge I & II*	\$28.9 M	123,900	West Raleigh

* Denotes CBRE|Raleigh Transaction

FIGURE 3: Vacancy and Net Absorption



Source: CBRE Research, Q2 2022

Sales Activity

Sales activity in Q1 was strong. In the RTP/I-40 Corridor, Credit Suisse sold one of their buildings for \$92 million or \$449 per sq. ft. The 205,000 sq. ft. building at 6933 Louis Stephens Drive was purchased by ElmTree Funds. Regency Woods II, a 105,000 sq. ft. building in Cary, was purchased by GI Partners for \$54 million or \$359 per sq. ft. In West Raleigh, half the property interest of Blue Ridge I & II sold for \$28.9 million or \$233 per sq. ft., 123,950 of the medical office buildings was purchased by AW Real Estate.

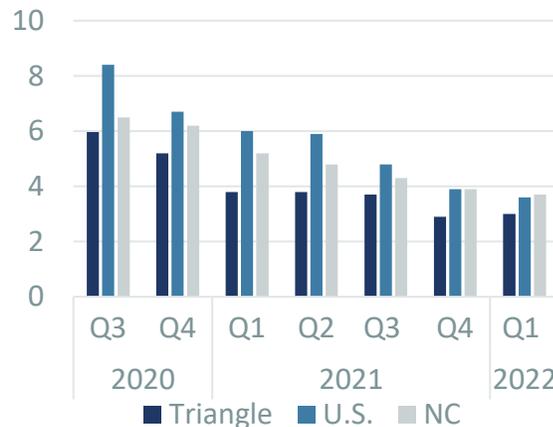
Sublease

Sublease inventory in Q1 totaled slightly over 3 million sq. ft. in Raleigh-Durham, 5.2% of the market’s total office inventory. Several large subleases remain on the market, including IBM with 178,000 sq. ft., Duke Health with 126,000 sq. ft. and IQVIA with 106,000 sq. ft. Notable additions to the sublease market include Glaxo Smith Kline with 485,000 sq. ft. of space in the RTP/I-40 Corridor and Duke Energy with 170,900 sq. ft. in Downtown Raleigh. Smaller subleases have been quite active as well, as occupiers continue to seek flexible scenarios or re-occupancy post-pandemic.

Construction

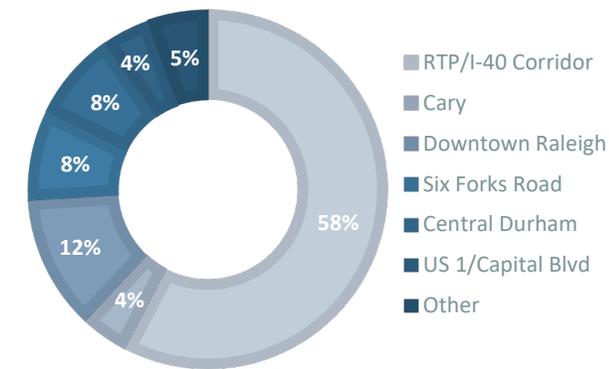
New construction underway totaled 2.2 million sq. ft. during Q1. There were no new deliveries for the quarter and a limited amount of new product broke ground. In Downtown Raleigh, 400 Hillsborough Street is under construction for 150,000 sq. ft. and expects to deliver Q4 2023. The Grove in West Raleigh on Wycliff Road began renovation for 166,200 sq. ft. and will deliver by the end of this year. Raleigh Iron Works in the US 1/Capital Blvd submarket expects to deliver 170,000 sq. ft. in Q3, while The Fenton in Cary will deliver 175,000 sq. ft. in Q3 as well.

FIGURE 4: Unemployment Statistics



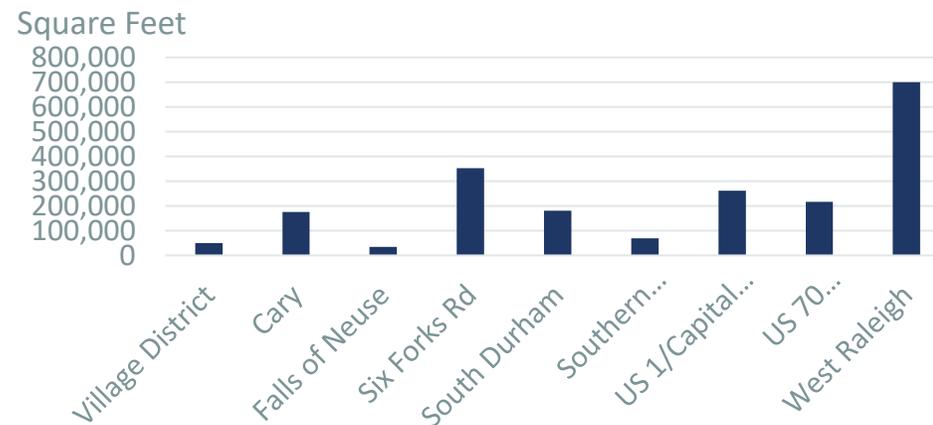
Source: BLS, March 2022

FIGURE 5: Distribution of Sublease Availability



Source: CBRE Research Q1, 2022

FIGURE 6: Active Construction by Submarket

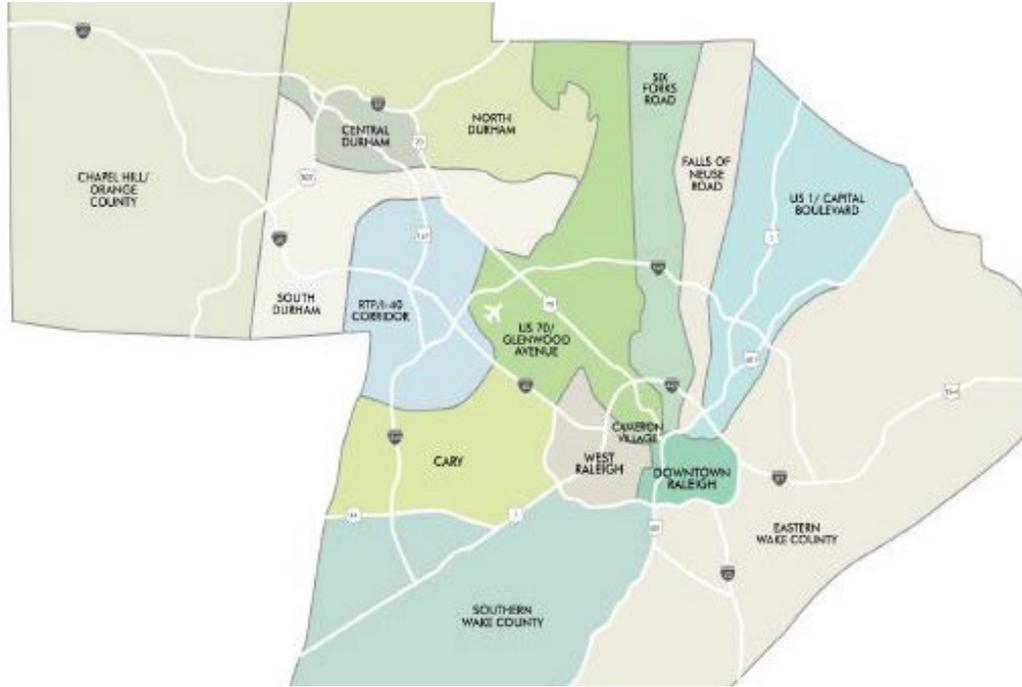


Source: CBRE Research Q1, 2022

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	878,275	13.3%	18.0%	(17,325)	700,089	\$30.60
US 70/Glenwood Ave	4,467,979	556,494	12.5%	13.4%	(16,559)	216,000	\$30.44
Six Forks Road	4,339,119	267,331	6.2%	20.1%	(53,768)	352,135	\$35.77
Falls of Neuse	3,136,239	254,826	8.1%	11.8%	(11,643)	33,793	\$26.99
US 1/Capital Blvd	2,190,226	197,286	9.0%	23.6%	3,813	261,527	\$27.35
Downtown Raleigh	6,179,562	787,515	12.7%	22.0%	72,932	150,000	\$35.75
Village District	467,110	74,461	15.9%	21.1%	10,028	50,000	\$25.82
Eastern Wake	854,798	152,617	17.9%	17.9%	11,300	-	N/A
Southern Wake	513,494	44,473	8.7%	14.9%	19,114	69,046	N/A
Cary	7,412,483	856,665	11.6%	15.7%	(3,834)	175,110	\$28.76
RTP/I-40 Corridor	12,889,326	1,857,117	14.4%	28.1%	(155,135)	-	\$28.56
Central Durham	5,200,995	709,964	13.7%	18.4%	2,171	-	\$35.63
North Durham	1,039,481	325,526	31.3%	31.3%	(38,656)	-	N/A
South Durham	1,898,622	350,264	18.4%	28.0%	11,669	181,114	\$28.85
Orange County	2,197,073	446,228	20.3%	20.3%	(983)	-	\$30.65
Market Totals	59,409,186	7,759,042	13.06%	20.3%	(166,876)	2,188,814	\$31.35

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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