

FIGURES | RALEIGH-DURHAM OFFICE | Q4 2024

Year ends on optimistic note as absorption turns positive, pipeline empties

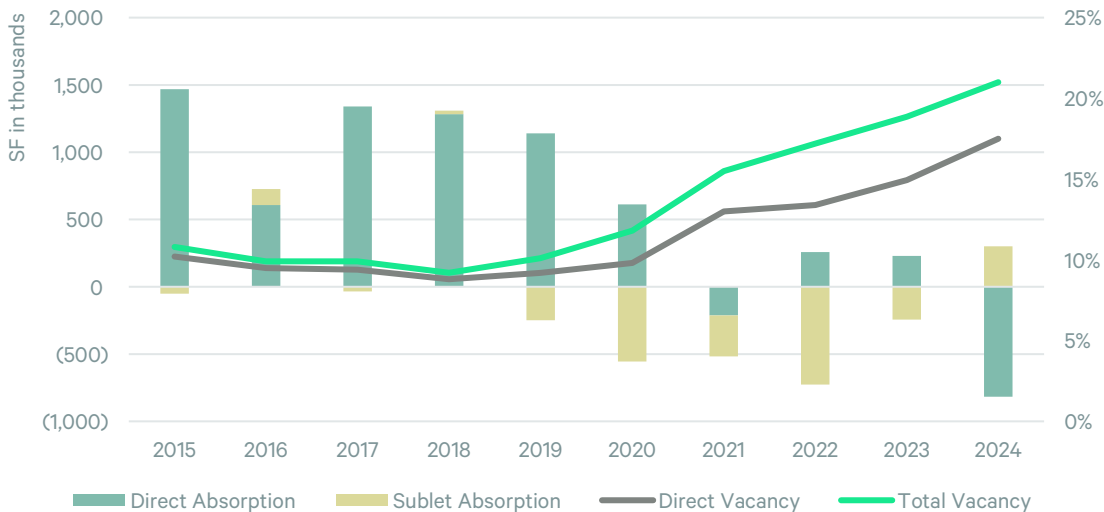


Note: Arrows indicate change from previous quarter.

MARKET REPORT HIGHLIGHTS

- Net absorption totaled 52,211 sq. ft. in Q4 2024, marking the first period of positive demand for the year.
- Direct vacancy ended Q4 at 17.5%, up 10 basis points for the quarter and 250 bps year-over-year. Overall vacancy rose to 21%, up 40 bps for the quarter and 210 bps year-over-year.
- After declining in Q3, average asking rental rates rose slightly in Q4 as several owners pushed rates higher at properties in both urban and suburban locations.
- With the delivery of 354,466 sq. ft. at Tower 5 at the North Hills Innovation District in Midtown Raleigh, the construction pipeline is empty for the first time since 2011.
- After a dearth of sales through most of the year, several office buildings traded in Q4, driven by demand from both investors and from tenants buying buildings for occupancy.
- With no new supply slated to be added to the market in the near term and demand expected to increase, fundamentals should begin to improve in 2025.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2024

Market Fundamentals

Continued signs of market stabilization emerged in Q4 2024. Net absorption totaled 52,211 sq. ft. for the quarter, marking the first period of positive demand for the year. The Raleigh-Durham region has experienced an increase in tenant activity in terms of both signed leases and tenants in the market with active requirements, providing reason for optimism that absorption will increase further in 2025.

As expected, vacancy rose as the final building in the pipeline was delivered. Overall vacancy ended Q4 at 21%, up 40 bps for the quarter and 210 bps year-over-year. Class A vacancy rose to 24%, up 100 bps for the quarter and 290 bps year-over-year. Class B vacancy declined in Q4, falling 50 bps to 16.5% due to a combination of positive net absorption and buildings being removed from inventory after being sold to tenants who will occupy all or a majority of the space. The figure remained 80 bps higher year-over-year.

After declining in Q3, average asking rental rates rose slightly in Q4 as multiple property owners pushed rates higher across the market. The average asking rate ended Q4 at \$31.74 per sq. ft., up 0.3% for the quarter and 1.4% year-over-year.

Construction Activity

For the first time since 2011, Raleigh-Durham’s office construction pipeline is empty following the Q4 delivery of Tower 5 at the North Hills Innovation District in Midtown Raleigh. The building totals 354,466 sq. ft. of office space, 17% of which is leased to Parexel International. The clinical research organization will relocate its global headquarters to the building from its current location in the RTP/I-40 Corridor.

Leasing Activity

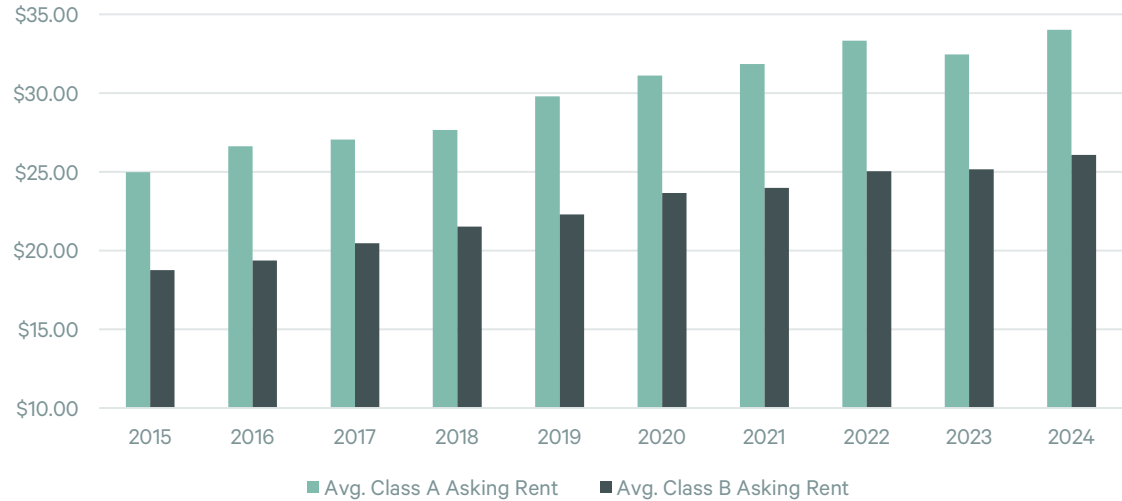
Leasing activity rose in the back half of 2024 as tenants became more confident in their space needs. Downtown Raleigh’s Fayetteville Street corridor received a boost in Q4 when Smith Anderson renewed and expanded its long-term lease at 150 Fayetteville Street. The law firm will expand into 20,339 sq. ft. formerly occupied by City Club Raleigh, bringing its total leased square footage to 112,327 sq. ft. In the RTP/I-40 Corridor, the Federal Emergency Management Agency signed a short-term lease for the 117,840-sq.-ft. Danbury Hall to manage disaster relief in Western North Carolina, and Durham Tech leased a 62,490-sq.-ft. building located at 41 Moore Drive. In West Raleigh, Hitachi renewed and expanded its lease to 150,000 sq. ft. at Alliance One.

FIGURE 2: Select Lease Transactions Q4 2024

Tenant	Property	Type	Submarket	SF
Hitachi	Alliance One	Renewal/Expansion	West Raleigh	150,000
FEMA	Danbury Hall	New Lease	RTP/I-40 Corridor	117,840
Smith Anderson	150 Fayetteville	Renewal/Expansion	Downtown Raleigh	112,327
Durham Tech*	41 Moore Drive	New	RTP/I-40 Corridor	62,490
Relay	Bandwidth Headquarters	Sublease	West Raleigh	60,000
HDR	Charter Square	Renewal	Downtown Raleigh	40,000
SAP	The Dillon	Sublease	Downtown Raleigh	26,866
VitalSource Technologies*	227 Fayetteville	Renewal/Downsize	Downtown Raleigh	21,988
Phelps Dunbar*	GlenLake Three	New	Glenwood/Creedmoor	15,983
Hedrick Gardner*	The Grove	New	West Raleigh	14,792

* Denotes CBRE Transaction

FIGURE 3: Average Asking Rates



Source: CBRE Research, Q4 2024

Capital Markets

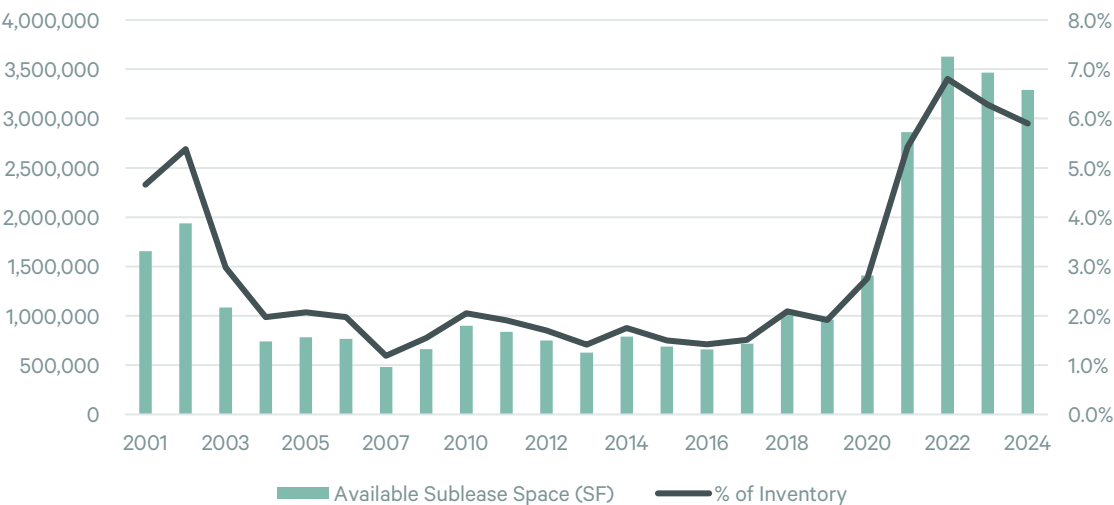
After a dearth of sales through most of the year, several office buildings traded in Q4. In the largest transaction of the quarter, Easterly Government Properties purchased Crossroads I, II and III in Cary from Menlo Equities for \$72.5 million (\$246/SF). The buildings are 100% leased with the majority of space occupied by the Wake County Public School System for 10 years. A local investor paid Highwoods Properties \$21.4 million (\$125/SF) for a 170,102-sq.-ft. building located at 4800 Falls in North Raleigh. The building was 75% leased at the time of sale. In West Raleigh, Perkins Fund paid Bridge Commercial Real Estate \$6 million (\$37/SF) for Capital Center, 75% below the building’s assessed value of \$24.4 million. The 163,522-sq.-ft. property was 55% leased at the time of sale, and its anchor tenant, Plexus Corporation, is a known vacate in June of 2026 after purchasing the nearby Interchange Plaza I for occupancy. Plexus paid Clear Path Asset Management \$9.4 million (\$260/SF) for the fully vacant, 36,000-sq.-ft. building. The sale was one of several transactions in Q4 in which tenants acquired buildings for full or partial occupancy.

Outlook

With no new supply slated to be added to the market in the near term and demand expected to increase, fundamentals should begin to improve in 2025. Mirroring national trends outlined in CBRE’s recently released [U.S. Real Estate Market Outlook](#), bifurcation will remain prevalent, with stubbornly high vacancy a persistent issue at one end of the spectrum and a dwindling supply of premium leasing opportunities at the other. The region’s top-tier buildings, representing the top 10% of the market, will continue to outperform. While this segment of the market is currently experiencing above-average vacancy due to the prevalence of newly constructed buildings, it has also witnessed the strongest demand. Net absorption in this segment totaled 167,611 sq. ft. in Q4 and 290,233 sq. ft. in 2024. Rent growth is also strongest for this category, with the average rate ending the year at \$45.94 per sq. ft., up 0.5% for the quarter and 7% year-over-year. Vacancy for top-tier buildings is expected to fall rapidly, with competition for space likely to become fierce by 2026.

Raleigh-Durham office sales are expected to increase in 2025, driven by opportunistic investors and distressed sales. A rise in transactions will provide much-needed price discovery and facilitate the rehabilitation or redevelopment of buildings that are facing obsolescence. As one of the fastest growing regions in the U.S., Raleigh-Durham will be a sought-after destination for capital as the markets thaw.

FIGURE 4: Available Sublease Space



Source: CBRE Research, Q4 2024

FIGURE 5: Select Building Sales

Property	Buyer	SF	Price	Price per SF
Crossroads I, II & III	Easterly Government Properties	295,253	\$72,500,000	\$246
4800 Falls	Duy Khuong Ong	170,192	\$21,350,000	\$125
Highline*	LiveSwitch	33,264	\$12,000,000	\$361
Interchange Plaza I*	Plexus Corporation	36,008	\$9,378,000	\$260
Capital Center*	Perkins Fund	163,522	\$6,000,000	\$37
2635 Meridian Parkway**	DR Horton	61,743	\$4,475,000	\$72
117 Edinburgh South Drive*	Brian R Raleigh	27,357	\$3,114,500	\$114
113 Edinburgh South Drive*	Alan W Thompson	30,013	\$2,775,500	\$92

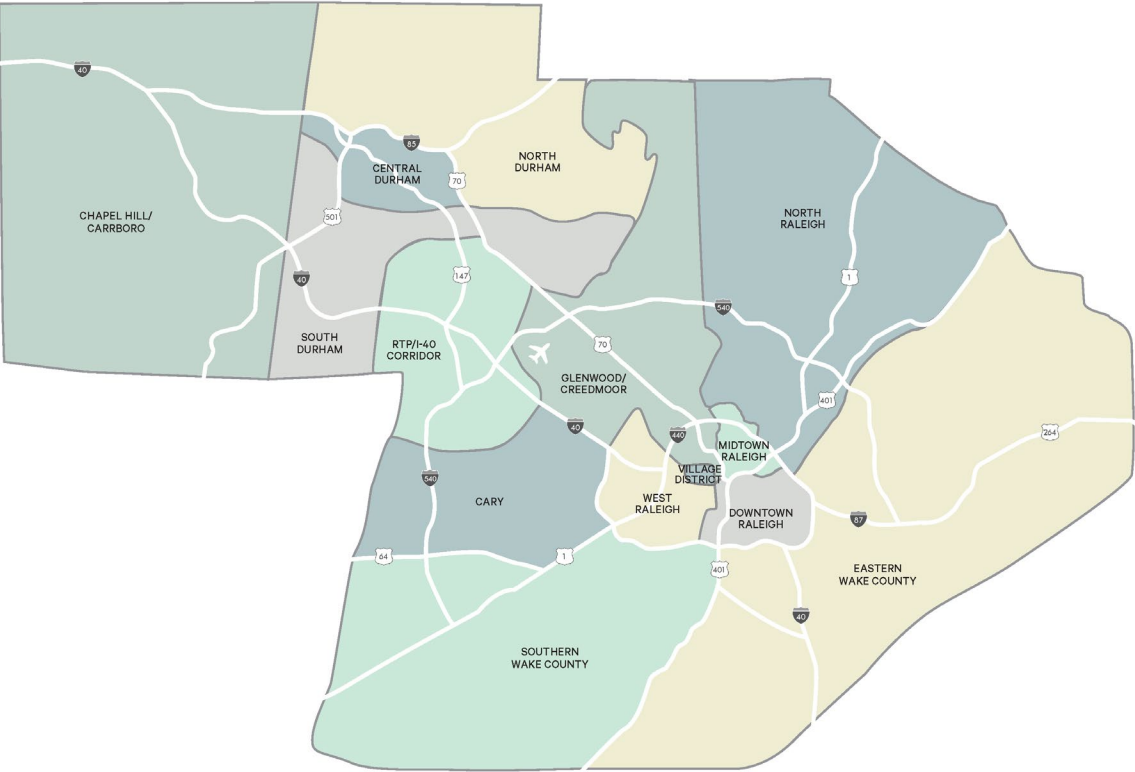
*Full or partial owner-occupant sale
**Denotes CBRE Transaction

FIGURE 6: Submarket Breakdown

BY SUBMARKET	Rentable Area (SF)	Direct Vacancy	Total Vacancy	NET ABSORPTION		SF Under Construction	AVERAGE ASKING RATE		
				Q4 2024	Year-to-Date		Total	Class A	Class B
Central Durham	4,273,931	17.7%	20.1%	(18,225)	(70,318)	-	\$36.30	\$38.02	\$31.15
Downtown Raleigh	6,424,512	13.4%	20.9%	(24,317)	(134,827)	-	\$36.14	\$38.50	\$29.70
Midtown Raleigh	4,111,269	26.2%	28.3%	88,518	229,120	-	\$44.08	\$46.22	\$26.08
Urban Totals	14,809,712	18.2%	22.7%	45,976	23,975	-	\$39.08	\$41.55	\$29.96
North Raleigh	5,675,763	12.7%	16.8%	84,887	(21,343)	-	\$27.41	\$29.18	\$26.36
Glenwood/Creedmoor	4,129,787	17.5%	18.4%	(42,812)	(96,700)	-	\$32.79	\$34.37	\$34.37
Village District	382,262	15.1%	15.4%	13,369	15,597	-	\$29.57	\$36.74	\$25.91
West Raleigh	6,037,203	19.2%	20.0%	(28,821)	29,835	-	\$31.47	\$33.47	\$25.98
Cary	6,452,287	18.2%	19.6%	(121,437)	(391,170)	-	\$28.30	\$28.87	\$26.39
RTP/I-40 Corridor	13,420,983	17.9%	24.1%	78,787	(127,355)	-	\$28.39	\$29.88	\$25.02
Eastern Wake	489,153	0.6%	0.6%	(1,530)	1,340	-	\$21.62	-	\$21.62
Southern Wake	302,861	2.6%	2.6%	1,876	33,171	-	\$30.28	\$32.50	\$29.00
North Durham	482,870	28.9%	28.9%	531	26,222	-	\$19.22	-	\$19.22
South Durham	1,663,451	22.7%	23.7%	29,368	(16,427)	-	\$26.80	\$28.59	\$21.49
Chapel Hill/Carrboro	2,000,084	17.0%	18.6%	(7,983)	6,214	-	\$31.05	\$32.35	\$25.51
Suburban Totals	41,036,704	17.3%	20.4%	6,235	(540,616)	-	\$29.13	\$30.97	\$25.22
Market Totals	55,846,416	17.5%	21.0%	52,211	(516,641)	-	\$31.74	\$34.01	\$26.08

BY CLASS						Available Sublease Space			
Class A	36,036,067	20.1%	24.0%	24,186	(222,748)	-	2,653,916		
Class B	18,198,321	13.5%	16.5%	10,941	(284,262)	-	637,682		
Class C	1,612,028	5.8%	5.8%	17,084	(9,631)	-	-		
Market Totals	55,846,416	17.5%	21.0%	52,211	(516,641)	-	3,291,598		

Market Area Overview



Methodology and Definitions

CBRE’s competitive office inventory includes buildings with 10,000 sq. ft. or more of office space located within Wake, Durham and Orange counties. Owner-occupied, medical and life science properties are excluded. Average asking rates are weighted by the amount of direct available space per building and are quoted on a full-service basis, per sq. ft. per year.

Rentable Area: The total floor area of a building, typically taken at the drip line. Includes the space tenants will occupy as well as common areas such as restrooms, lobbies and shared amenity spaces.

Direct Vacancy: Physically vacant space being offered for lease directly by a building owner.

Total Vacancy: Direct vacancy plus vacant sublease space.

Available Sublease Space: Includes vacant sublease space being marketed for immediate occupancy and space being actively marketed for sublease at a future date.

Net Absorption: The change in physically occupied space within a given period of time.

Full Service Rental Rate: Typically includes real property taxes, building insurance and major maintenance.

In an effort to provide the most comprehensive data possible, CBRE has recently made revisions to its historical asking rate information. The data contained herein may differ from previously published reports.

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