

# Raleigh-Durham



## Market Indicators

	YoY Change	
<b>Vacancy</b>	11.9%	►
<b>Absorption (TTM)</b>	949,753 sf	▼
<b>Deliveries (TTM)</b>	1.1 msf	▼
<b>Under Construction</b>	3.9 msf	▲
<b>Avg. Asking Rate</b>	\$27.33 psf	▲

The spread of COVID-19 and resulting containment policies are changing rapidly. While information contained herein is current as of the date written, the views expressed are subject to change as circumstances unfold.

First-quarter statistics serve as an indicator of the Triangle office market's position prior to the COVID-19 crisis, which began to unfold locally with widespread social distancing measures in March. The leasing and sales environment has changed dramatically since that time, and those impacts will begin to materialize in the data in the second quarter.

### New COVID-19 Reality

Triangle office leasing activity has largely been frozen since late March, with the exception of renewals and deals that were already close to the finish line. The region's large presence of knowledge-based tenants has insulated some segments of the economy as many of these businesses have successfully transitioned to remote work. Nonetheless, many office tenants facing sharp declines in revenue are seeking relief. Landlords with the means to do so are working with tenants on a case-by-case basis, typically offering short-term rent forbearance in exchange for additional term at the end of the lease.

### Outlook

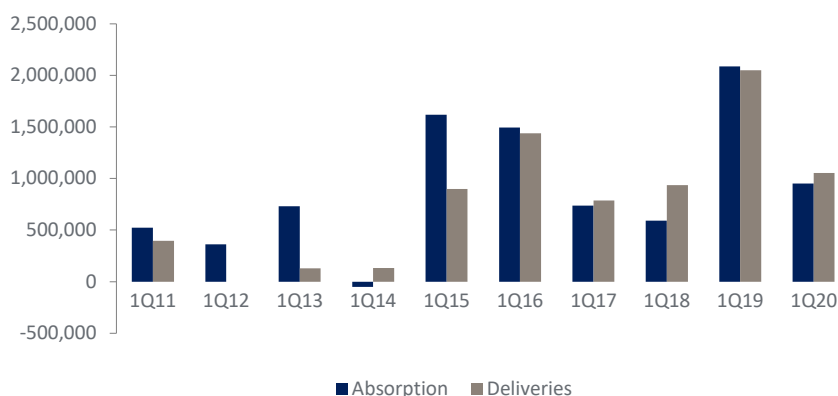
Stalled leasing activity will likely push office vacancy higher through the remainder of 2020 as new space delivers, giving tenants increased leverage and slowing rent growth. Faced with overwhelming uncertainty, many tenants are opting to renew in place versus initiate a search for new space. How long this hesitancy lasts will depend upon the depth and duration of the broader economic fallout. Fortunately, the Triangle entered the crisis from a position of strength, with the tightest leasing conditions in 20 years and construction in line with demand.

It remains to be seen what the future holds for the hard-hit coworking sector. Coworking options can provide needed flexibility to tenants as a recovery unfolds, but these operators will cease to be significant drivers of leasing activity in the near term. The accelerated adoption of remote working is likely to endure to some degree post crisis, but the decrease in space utilization may be offset in part by the need to implement distancing measures within the workplace as employees return.

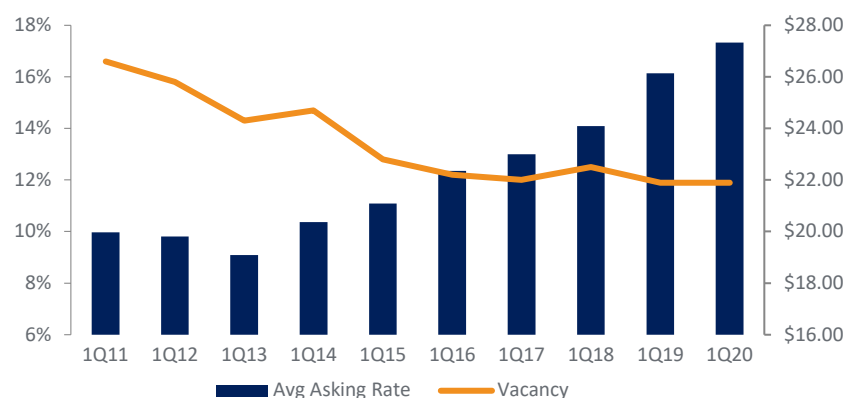
## Market Highlights

- Deemed an essential business activity, construction largely continues to move forward in the Triangle, although risk mitigation efforts are likely to slow delivery timelines. With stalled leasing activity hampering preleasing efforts, few proposed projects are likely to break ground in the near term.
- Office building sales totaled \$466 million in 1Q20, bringing trailing 12-month volume to \$1.4 billion. Demand for Triangle office properties was exceptionally high prior to the COVID-19 crisis, but most investors and sellers have hit the pause button. Volume will be sharply lower in 2Q20, and cap rates are expected to rise in the near term.
- Not all recent news has been negative for the Triangle. Raleigh-based communications software company, Bandwidth, announced in April that it will add 1,165 new local employees over the next eight years. The company has agreed to purchase 40 acres from the State of North Carolina in West Raleigh for construction of a new headquarters facility.
- In the I-40/RTP submarket, a combined total of more than 500,000 sf was leased at the Parmer RTP and Parmer Ellis campuses in 1Q20. The tenant(s) had not been disclosed at the time of this report.
- Martin Marietta leased the 125,000-sf GlenLake Seven in its entirety in 1Q20. Currently under construction in the Glenwood/Creedmoor submarket, the building was originally slated to be partially occupied by its developer, Highwoods Properties. The REIT will instead remain in its current location in the US 1/Capital Boulevard submarket. Martin Marietta will relocate to GlenLake from 2710 Wycliff Road in West Raleigh.

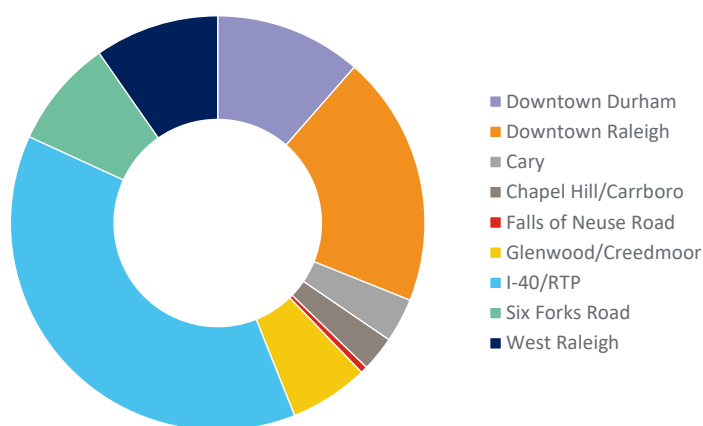
### Absorption and Deliveries (trailing 12 months)



### Vacancy and Average Asking Rental Rate (all classes - \$/sf/full service)



### Construction by Submarket (% of total sf underway)



## Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION			AVERAGE ASKING RENT		
		Total	Class A	Class B	1Q20	Last 12 Mos.	SF Underway	Total	Class A	Class B
Downtown Durham	3,962,249	7.6%	7.1%	9.9%	(19,108)	88,850	444,501	\$34.32	\$34.76	\$26.43
Downtown Raleigh	5,845,086	6.9%	8.9%	3.2%	(72,710)	508,797	761,179	\$36.61	\$37.56	\$28.87
<b>Urban Total</b>	<b>9,807,335</b>	<b>7.1%</b>	<b>8.1%</b>	<b>5.6%</b>	<b>(91,818)</b>	<b>597,647</b>	<b>1,205,680</b>	<b>\$35.82</b>	<b>\$36.55</b>	<b>\$28.77</b>
Cary	5,673,318	12.1%	13.5%	7.2%	86,901	7,446	133,628	\$27.07	\$28.35	\$19.23
Chapel Hill/Carrboro	1,765,340	24.0%	23.5%	32.8%	(7,518)	42,315	106,000	\$29.79	\$30.19	\$23.85
Falls of Neuse	2,195,939	15.7%	10.4%	18.8%	53,514	(150,124)	21,000	\$24.16	\$25.46	\$23.41
Glenwood/Creedmoor	2,772,985	12.1%	15.1%	6.3%	20,606	70,209	238,543	\$28.14	\$30.09	\$24.21
I-40/RTP	15,057,064	15.2%	7.4%	26.5%	313,806	299,413	1,469,698	\$23.72	\$26.25	\$20.87
North Durham	440,139	38.8%	-	38.8%	8,233	8,733	-	\$17.90	-	\$17.90
Six Forks Road	3,629,798	6.1%	4.3%	8.5%	28,264	159,826	328,648	\$28.85	\$34.39	\$22.78
South Durham	1,593,403	22.1%	23.6%	19.7%	(25,607)	(127,978)	-	\$26.08	\$27.16	\$21.53
Southern Wake County	263,951	3.8%	-	3.8%	10,000	1,900	-	\$15.00	-	\$15.00
US 1/Capital Boulevard	1,765,761	9.8%	3.5%	14.5%	(9,464)	(33,569)	-	\$22.76	\$26.25	\$21.41
West Raleigh	5,345,078	5.1%	5.2%	5.0%	(10,538)	73,935	376,074	\$30.63	\$31.07	\$28.30
<b>Suburban Total</b>	<b>40,502,776</b>	<b>13.0%</b>	<b>9.8%</b>	<b>18.9%</b>	<b>468,197</b>	<b>352,106</b>	<b>2,673,591</b>	<b>\$25.65</b>	<b>\$28.38</b>	<b>\$21.50</b>
<b>Total Market</b>	<b>50,310,111</b>	<b>11.9%</b>	<b>9.5%</b>	<b>17.1%</b>	<b>376,379</b>	<b>949,753</b>	<b>3,879,271</b>	<b>\$27.33</b>	<b>\$30.26</b>	<b>\$21.73</b>

## Select First Quarter Leases

Tenant	Property	Type	Submarket	SF
Undisclosed	Parmer Ellis	New Lease	I-40/RTP	365,366
Undisclosed	Parmer RTP	New Lease	I-40/RTP	140,544
Martin Marietta	GlenLake Seven	New Lease	Glenwood/Creedmoor	125,000
Envestnet, Inc.	Tower Two at Bloc83	New Lease	Downtown Raleigh	81,810
Vontier*	Wade V	New Lease	West Raleigh	36,411

## Select First Quarter Sales

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Keystone Corp. Centennial Center Portfolio	West Raleigh	Ventas	175,444	\$80.0 million	\$456
Dilweg Companies Portfolio	Falls of Neuse, West Raleigh	Bridge Investment Group	321,310	\$62.8 million	\$195
Bradford & Berrington Center	I-40/RTP	Alidade Capital	224,779	\$40.9 million	\$182

\*Transaction handled by Avison Young

## Trends to Watch

COVID-19's impacts on the Triangle office sector will materialize in the data beginning in 2Q20.



## Coworking

Coworking will cease to be a demand driver in the near term, and the industry is likely to see consolidation.



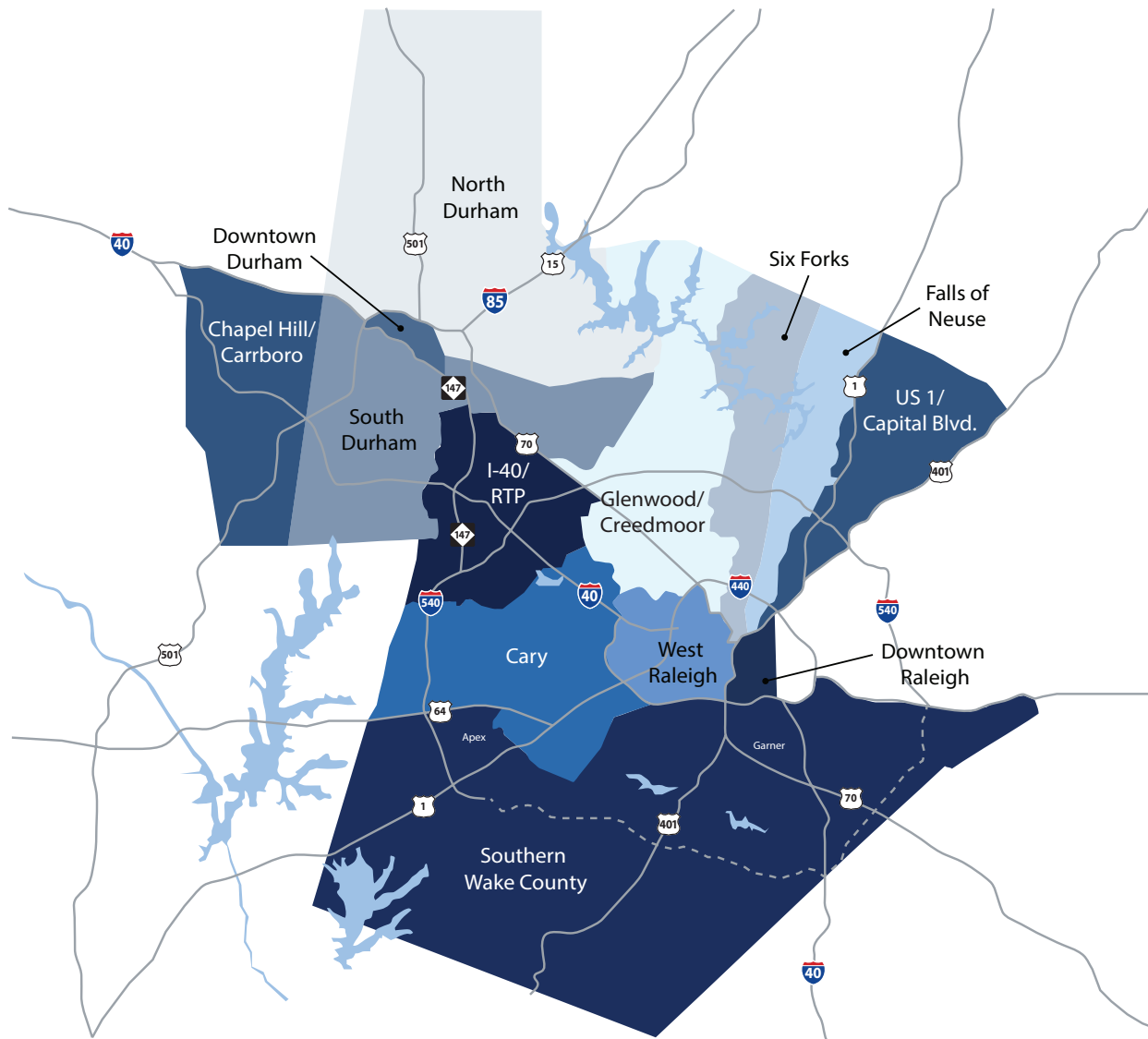
## Rising Vacancy

A sharp decline in leasing activity will contribute to higher vacancy as new space delivers.



## Rent Growth

After several years of steep increases, rent growth is poised to slow notably.



## Raleigh-Durham Office Team

John Linderman  
Principal, Regional Managing Director  
919.420.1559  
john.linderman@avisonyoung.com

Janet Clayton, CCIM  
Principal  
919.420.1581  
janet.clayton@avisonyoung.com

Kathy Gigac, SIOR  
Principal, Occupier Solutions  
919.913.1117  
kathy.gigac@avisonyoung.com

Jake Jones  
Principal, Occupier  
919.420.1564  
jake.jones@avisonyoung.com

Thomas Kenna  
Principal, Occupier Solutions  
919.913.1119  
thomas.kenna@avisonyoung.com

Arnold Siegmund  
Principal  
919.420.1573  
arnold.siegmund@avisonyoung.com

Baxter Walker, III, SIOR, CCIM  
Principal, Occupier Solutions  
919.913.1118  
baxter.walker@avisonyoung.com

Carlo DiGiorgio  
Senior Vice President  
919.420.1569  
carlo.digiorgio@avisonyoung.com

Michael Vulpis  
Senior Vice President  
919.420.1562  
michael.vulpis@avisonyoung.com

Gary Hill, CCIM  
Senior Associate  
919.913.1116  
gary.hill@avisonyoung.com

Elizabeth Gates  
Principal, Senior VP, Research  
919.420.1563  
elizabeth.gates@avisonyoung.com

Emily Bostic  
Research Analyst  
919.866.4274  
emily.bostic@avisonyoung.com



avisonyoung.com

