

## TECH-BASED ECONOMY PROPELS RALEIGH-DURHAM'S OFFICE MARKET FORWARD



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After a banner year in 2017, the metro Raleigh-Durham's office sector is continuing its surge forward with little worry of global economic or foreign policy changes.

No secret to many across the nation, Raleigh and the Research Triangle have continued to become synony-

mous with the "recession proof" tech, life science and biotech industries fueling the 21st century economy.

As such, Raleigh and the Triangle as a whole have continued to receive top accolades for corporate expansions and tech growth.

### Top Spot to Live, Work

Raleigh and the Research Triangle are home to the second most educated city in the country. The metro is ranked in VentureBeat's Top 4 U.S. Tech Hubs to Watch in 2018 and has the fourth highest percentage of STEM (science, technology, engineering and mathematics) workforce in the country. Trailing only San Francisco, Seattle and Austin, Raleigh sits at No. 4 in the country for highest concentration of tech job openings. Forbes even ranks Raleigh-Durham at No. 2 for tech job growth across the United States.

Rankings aside, business activity is the real confirmation of Raleigh-Durham's national acclaim. Locally, Raleigh added over 4,200 jobs in 2017 with the Triangle unemployment rate sitting below the national average at 3.8 percent. The market is also home to over 500 startup companies that have fueled over \$9.2 billion in mergers and acquisitions activity.

At the time of this writing, the famed Amazon HQ2 requirement, as well as Apple's own future headquarters campus, have both shortlisted Raleigh and the Triangle for their expansions with more relocation announcements predicted.

### Leasing Activity

The office leasing market confirms the bull economy in Raleigh. The rise in rental rates of up over \$2 per square foot from 2017 is a direct result of increased demand and construction costs. Average office rental rates for first-quarter 2018 sit at \$23.31 per square foot, with Class A averages at \$27 per square foot.

Demand continues to be strong for office space with a flurry of activity. From 2017 through the start of 2018, Raleigh-Durham has absorbed over 1.5 million square feet of office space, pressing vacancy rates down even further down. Metro vacancy rates were as low as 7.8 percent for first-quarter 2018, a drop from over 8 percent in 2017.

Tenant activity in the market is also

at an all-time high, with over 4 million square feet of known requirements searching for real estate in the Triangle. The Raleigh-Durham market will continue to experience an increase in absorption as new office developments are delivered, but the question remains, when?

### Waiting Game

With currently over 2.5 million square feet of office space under construction, Raleigh tenants are stuck in a waiting pattern for relocation or expansion options.

From the central business districts of downtown Durham, downtown Raleigh and North Hills to the new suburban campuses in the Research Triangle Park, preleasing continues to be strong and the best option for big tenants, with large blocks in the market mainly available through new construction.

But as a result of increased large tenant activity, tight leasing markets in most submarkets have made quality office options limited across the Triangle for the majority of tenants. Notable leases like Rho Inc.'s 160,000-square-foot suburban office to WeWork's 81,000-square-foot lease in downtown Raleigh and Infosys' new American headquarters office for 60,000 square feet in Brier Creek effectively fill large block office projects before construction delivery.

This continued backlog of space needs has put increased demand on developers and municipalities to start and speed up approval on construction projects, all while increased costs and rental rates for future tenants.

The leasing frenzy has not scared away investors though, as Raleigh-Durham topped over \$1 billion in volume for 2017, with average price over \$200 per square foot.

Worries aside, the frantic rise in office rents, construction costs, institutional investments and tenant activity all point to one thing — the Raleigh-Durham market is topping charts and becoming a national player and economic leader.

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In January, The Keith Corp. broke ground on a 160,000-square-foot corporate headquarters for Rho Inc., a pharmaceutical company, in Durham.