

Raleigh-Durham



Market Indicators

	YoY Change	
Vacancy	12.9%	▲
Absorption (TTM)	988,011 sf	▼
Deliveries (TTM)	1.7 msf	▼
Under Construction	3.1 msf	▼
Avg. Asking Rate	\$27.70 psf	▲

The 3.1 msf of office space underway in the Triangle in the second quarter is approximately 35% preleased and represents 6% of existing inventory.

Given the traditionally long-term nature of office leases, Triangle office data will take some time to fully reflect the COVID-driven changes experienced in the first half of 2020. The most apparent impact thus far can be seen in leasing activity, which fell by 56% year-over-year in 2Q20 to reach the lowest level registered since early 2007. The market has not yet witnessed a widespread trend of tenants shedding space. Most office-using tenants remain in a holding pattern, with many of their employees continuing to work from home. Short-term renewals are the norm in the current environment as companies struggle to understand what their near-term and long-term space needs will be. Net absorption was essentially flat lined for the quarter, and vacancy rose 60 bps year-over-year to 12.9% as approximately 680,000 sf of new space was delivered in 2Q20. Deliveries totaled 1.7 msf over the last 12 months.

Construction costs remained relatively unchanged through the second quarter, keeping upward pressure on rental rates

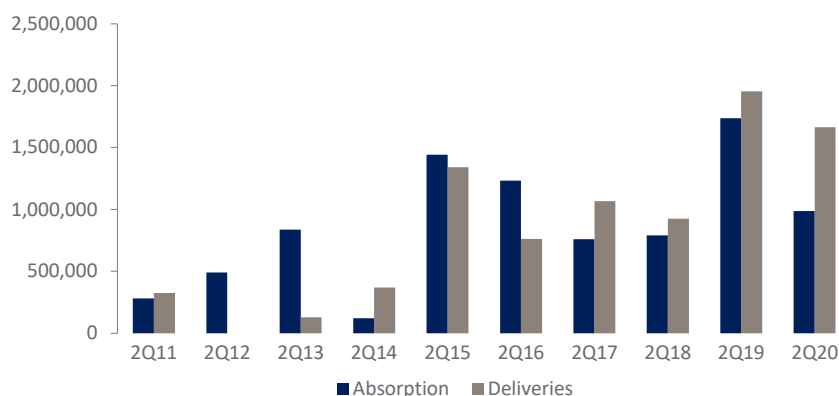
despite the sudden collapse in demand. Many contractors are facing a dwindling pipeline heading into the second half of the year, however, which is likely to lead to a softening in prices and future rent growth. The average Class A asking rate rose to a new record high of \$30.69 psf in 2Q20, up 6% year-over-year.

Sublease space is still largely in line with levels witnessed at year-end 2019. Sublease offerings have increased in the last two years primarily as a result of tenants moving to newly delivered buildings with lease term remaining on their prior space. While the retail and hospitality sectors have thus far borne the brunt of job losses, more fallout could begin to bleed into office-using sectors as the economy struggles to find its footing. As a result, the office sector is likely to experience upward pressure on vacancy through the end of the year and into 2021. 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.

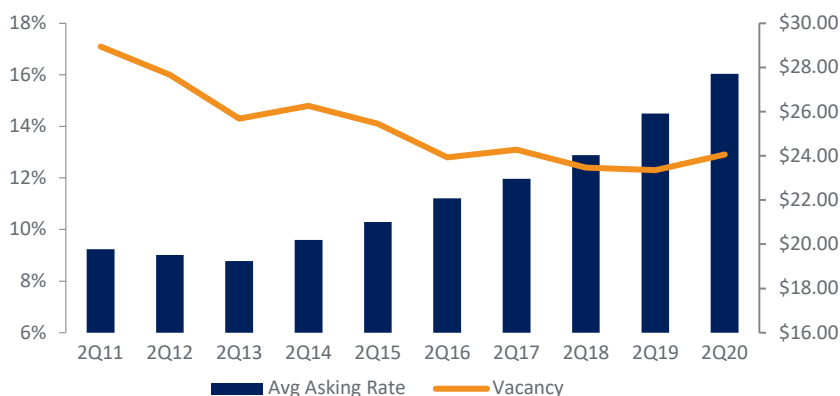
Market Highlights

- Although overall Triangle leasing activity remains constrained, a handful of large transactions were signed in recent months in the I-40/RTP submarket and will positively impact absorption by early 2021. Duke University leased 275,000 sf at Parmer RTP and will launch a new \$100 million campus for its School of Medicine. GRAIL, Inc., which focuses on early cancer detection research, will relocate from California to Research Triangle Park, creating 400 jobs. GRAIL leased 200,000 sf of office and lab space at the Park Point campus, which is scheduled for delivery in 1Q21.
- Coworking operators have been particularly hard hit by the pandemic, but the sector is experiencing some renewed demand for private work spaces as people seek an alternative to the home office. While WeWork, which faced its own set of challenges pre-COVID, has made recent headlines with lease cancellations in major markets such as New York, major operators in the Triangle have thus far honored their lease commitments. Spaces opened a new 54,000-sf location at 555 Mangum in Downtown Durham in the second quarter.
- While new construction starts will pause in the near term, developers appear to be bullish on the long-term future of the Triangle, with plans unveiled in the second quarter for several notable office projects. Turnbridge Equities is seeking approval for two new towers of up to 40 stories at The Creamery in Downtown Raleigh. At least one tower would include office space. In Chapel Hill, Grubb Properties is in advanced discussions with the town to develop 3.2 acres along E. Rosemary Street for office and lab use. In the I-40/RTP corridor, Global Mutual has filed plans to add two office buildings totaling 270,000 sf to Research Commons, which it acquired in 2019.

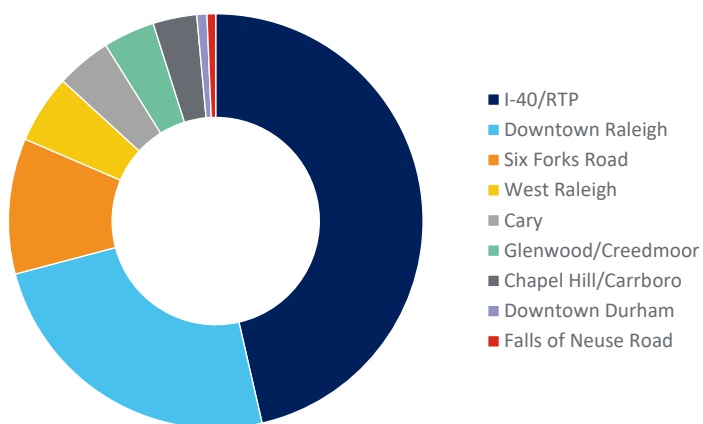
Absorption and Deliveries
(trailing 12 months)



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	2Q20	Last 12 Mos.	SF Underway	Total	Class A	Class B
Downtown Durham	4,215,154	9.8%	10.0%	9.8%	140,402	236,972	24,468	\$34.14	\$34.65	\$31.74
Downtown Raleigh	5,766,964	8.1%	10.2%	4.3%	(64,114)	432,355	761,179	\$36.36	\$37.05	\$26.06
Urban Total	9,982,118	8.8%	10.1%	6.4%	76,288	669,327	785,647	\$35.57	\$36.25	\$29.41
Cary	5,673,318	9.2%	10.3%	5.1%	165,573	235,315	133,628	\$27.84	\$28.37	\$22.20
Chapel Hill/Carrboro	1,765,340	21.7%	22.4%	25.3%	(38,279)	(26,827)	106,000	\$30.15	\$30.94	\$27.07
Falls of Neuse	2,195,694	12.6%	3.9%	18.3%	68,218	19,116	21,000	\$24.10	\$25.46	\$23.41
Glenwood/Creedmoor	2,894,500	18.6%	23.0%	9.5%	(89,110)	(33,105)	125,000	\$28.83	\$31.02	\$24.70
I-40/RTP	15,194,655	16.1%	9.3%	26.3%	(47,210)	119,174	1,442,406	\$23.93	\$26.78	\$21.02
North Durham	440,139	38.8%	-	38.8%	-	8,233	-	\$17.90	-	\$17.90
Six Forks Road	3,629,798	6.3%	4.3%	10.2%	(7,971)	61,429	328,648	\$29.21	\$35.79	\$22.92
South Durham	1,593,847	22.1%	21.6%	22.8%	1,271	(7,462)	-	\$25.82	\$27.19	\$22.10
Southern Wake County	325,251	16.9%	-	16.9%	1,000	6,240	-	\$15.00	-	\$15.00
US 1/Capital Boulevard	1,765,761	11.8%	3.3%	17.5%	(36,250)	(60,976)	-	\$23.11	\$25.69	\$21.75
West Raleigh	5,564,407	10.0%	10.2%	9.9%	(70,385)	(2,453)	166,290	\$31.10	\$31.64	\$28.73
Suburban Total	41,042,710	14.0%	10.9%	19.5%	(53,143)	318,684	2,322,972	\$25.99	\$28.87	\$21.86
Total Market	51,024,828	12.9%	10.8%	17.9%	23,145	988,011	3,108,619	\$27.70	\$30.77	\$22.18

Select Second Quarter Leases

Tenant	Property	Type	Submarket	SF
Duke RTP Campus	Parmer RTP	New Lease	I-40/RTP	275,000
GRAIL, Inc.	Park Point	New Lease	I-40/RTP	200,000
Biogen	Innovation I	New Lease	I-40/RTP	104,000
Wake County*	Somerset Office Park	New Lease	Falls of Neuse Road	52,741
UNC	The Parkline	New Lease	Chapel Hill/Carrboro	50,000

Select Second Quarter Deliveries

Property	Submarket	Developer	Anchor Tenant(s)	Total SF	% Leased
555 Mangum	Downtown Durham	Northwood Ravin	Policygenius, Spaces	217,869	55%
Wade V*	West Raleigh	Dominion Realty Partners	Vontier, Apex Systems	209,784	20%
Innovation I	I-40/RTP	Scannell Properties	Biogen	139,163	75%
3800 Glenwood	Glenwood/Creedmoor	Grubb Ventures	Cherry Bekaert	113,543	49%

*Transaction/project handled by Avison Young

Trends to Watch

COVID-19's impacts on the Triangle office sector are just beginning to materialize in quarterly statistics.



SF Per Employee

A potential permanent increase in remote working may be offset by a reversal in density trends.



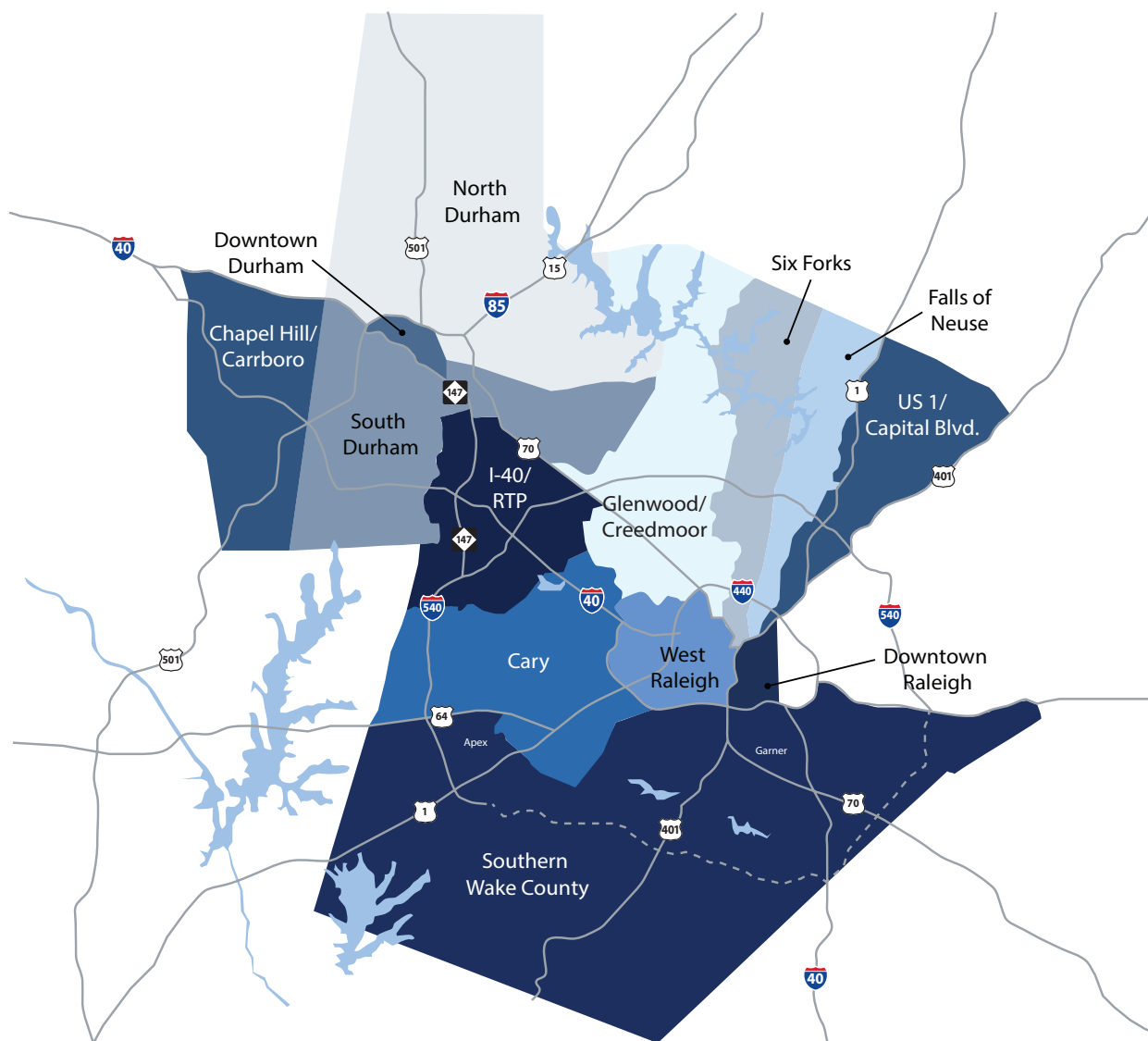
Rising Vacancy

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 likely to slow notably in the near term.



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