

Tenants begin to make decisions, bringing needed clarity to market

▲ 13.3%

Vacancy Rate

▼ (447,174)

SF Quarterly Net Absorption

▲ 2.3 M

SF Under Construction

▲ \$32.13

Class A Avg. Asking Lease Rate

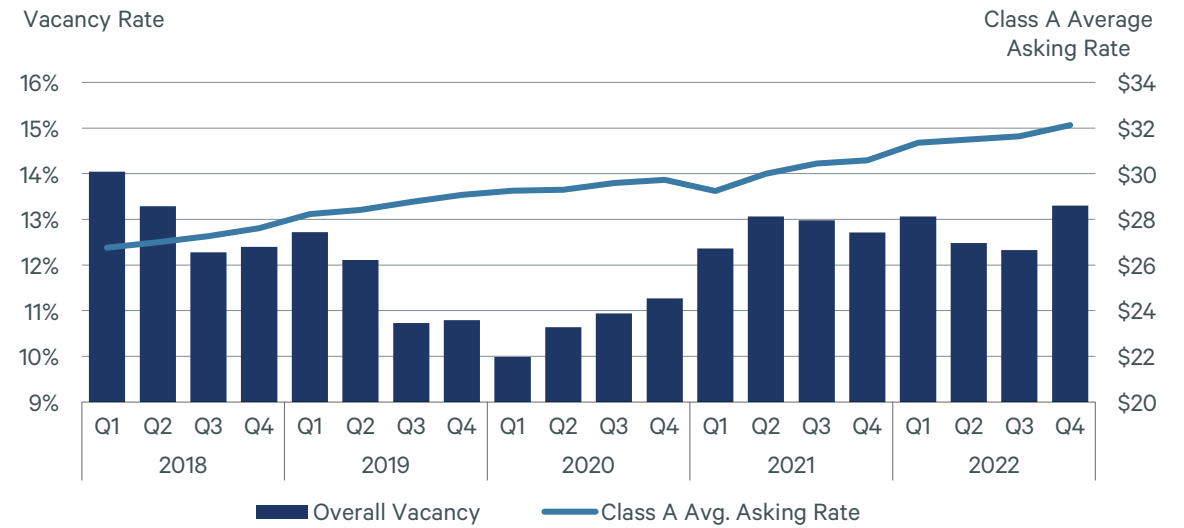
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- The office market experienced negative net absorption of 447,174 sq. ft. during Q4 2022.
- Overall office vacancy rose to 13.3%, up 100 basis points quarter-over-quarter and 60 bps year-over-year.
- Class A vacancy rose 70 bps year-over-year to 13.1%.
- Sublease availability rose to 3.6 million sq. ft., representing 6.1% of market-wide inventory.

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

FIGURE 1: Vacancy and Class A Avg. Asking Lease Rates



Source: CBRE Research, Q4 2022

Tenants Right Size, Seek Premium Space

After more than two years of delayed decision making, tenants began to move off the sidelines in the second half of 2022. Net absorption fell into the red in Q4 as short-term leases signed in the early stages of the pandemic expired and tenants began to shed excess space.

In the RTP/I-40 Corridor, ChannelAdvisor vacated 116,000 sq. ft. at Perimeter Park Four after consolidating into just 33,500 sq. ft. elsewhere in the park. In the U.S. 1/Capital Blvd. submarket, Truist made 130,000 sq. ft. available for lease in a building it owns at 3200 Beechleaf Court. Brightly Software exercised an option to give back 50,000 sq. ft. of its headquarters space at Regency Lakeview in Cary.

Top-tier buildings in amenity-rich environments continue to attract the bulk of occupier interest. American Tower leased 42,000 sq. ft. at the recently delivered Fenton mixed-use development in Cary. The company will relocate from a comparable amount of single-story space it owns in Cary’s Regency Park. Whitley Law Firm leased 17,792 sq. ft. at 1000 Social at The Exchange, currently under construction near North Hills in Raleigh. In Downtown Raleigh, multiple tenants leased a combined 25,295 sq. ft. at Smoky Hollow, and software company Qualtrics leased 10,000 sq. ft. at One Glenwood. Qualtrics currently occupies coworking space and recently called employees back to the office four days per week.

Hopeful Signs for Rising Office Utilization

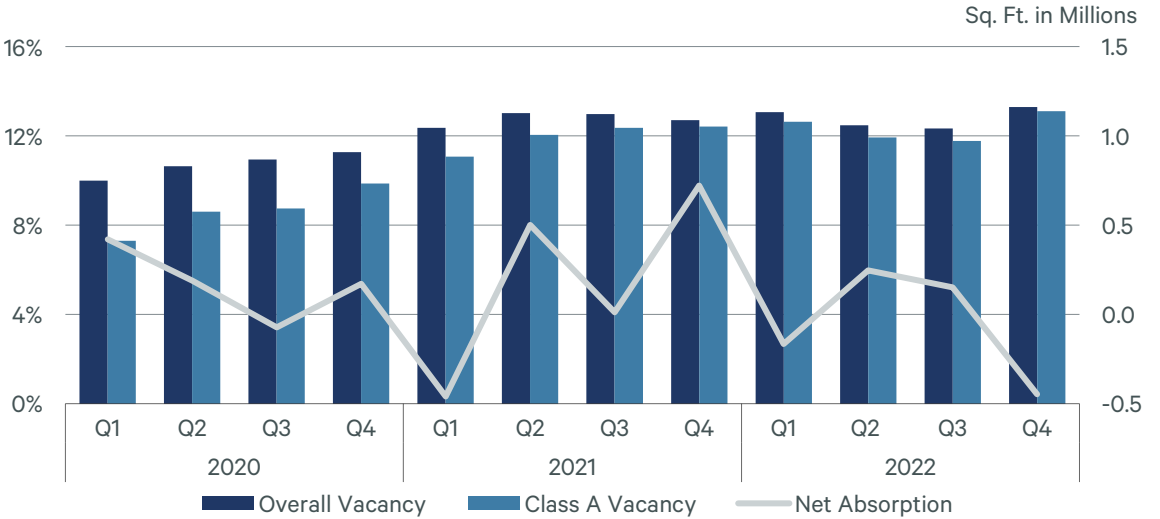
Momentum appears to be growing to get employees back to the office with greater frequency. Several high-profile companies have recently made public announcements requiring employees to report in person a minimum number of days per week, including Disney, Twitter, Vanguard Group, Black & Veatch, Paycom Software, Salesforce, Snap and Starbucks. Concerned with productivity and recognizing the need for more in-person collaboration, employers may sense they have increased leverage as the economy softens. A recent report from LinkedIn noted that remote job postings declined to 14% of all paid listings in November 2022, down from a peak of 20% in March 2022.

FIGURE 2: Top Lease/Sale Transactions Q4 2022

Lease: Tenant	Property	Square Feet	Submarket	
American Tower	Fenton	42,000	Cary	
HNTB	One North Hills	30,000	Six Forks Road	
*Whitley Law Firm	1000 Social	17,792	Falls of Neuse	
Sale: Building	Purchase Price	Price Per Sq. Ft.	Square Feet	Submarket
*Northchase	\$48 M	\$272	176,601	Six Forks Road
*Regency Single-Story Portfolio	\$18.3 M	\$216	84,599	Cary
Lakeridge North	\$17.25 M	\$240	71,998	Falls of Neuse

* Denotes CBRE|Raleigh Transaction

FIGURE 3: Vacancy and Net Absorption



Source: CBRE Research, Q4 2022

Asking Rates Rise, Construction Activity Slows

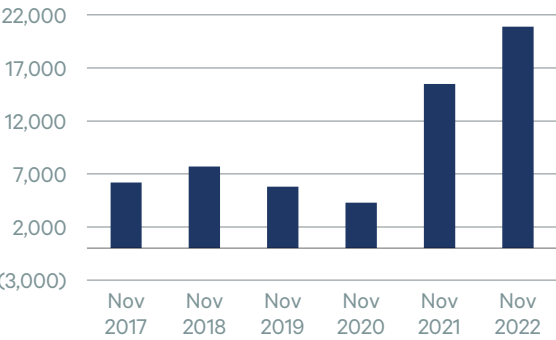
Rising availability has yet to have an impact on average asking rental rates as inflation and elevated construction and capital costs drive property owners to push rates higher. Raleigh-Durham’s average Class A asking rate rose to \$32.13 in Q4, up 5.1% year-over-year. While a handful of projects have broken ground in recent months, office construction activity has begun to moderate. Projects totaling 2.3 million sq. ft. were underway in Q4, down 44% since the cyclical peak of 4.1 million sq. ft. underway in Q1 2020. Soft tenant demand, excess available space and a challenging capital environment will further slow development activity in 2023, which will ultimately help bring supply and demand back into balance. Some near-term planned mixed-use projects are likely to be re-programmed to include less office space.

Outlook

The next 12 to 18 months will prove challenging for building owners, while occupiers will benefit from the most tenant-favorable conditions witnessed in more than a decade. In its recent 2023 market forecast, CBRE estimates that office utilization and the space needed per worker will reach a new equilibrium that could ultimately reduce demand for office space per employee by up to 15% from the pre-pandemic norm. In the near term, expect continued bifurcation between top-tier office buildings and older properties or those with access to fewer amenities. While talk of office conversions has increased, feasible opportunities represent a small percentage of inventory. Additional owner-occupied space is likely to be added to the leasing market as these office users also seek to right-size their footprints.

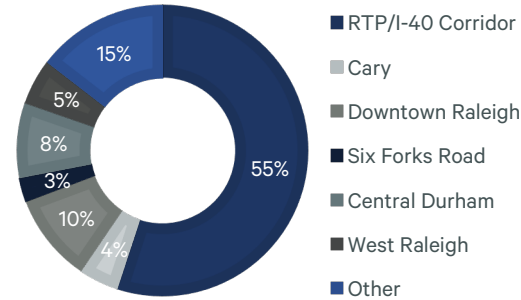
As one of the fastest growing markets in the U.S. in terms of both population and economic activity, the long-term outlook for Raleigh-Durham’s office sector remains bright. The region logged another record-setting year for economic development wins in 2022, with companies announcing 12,780 jobs and \$11.3 billion in new investment. Office-using employment grew by 20,900 jobs or 7.8% between November 2021 and November 2022. While net absorption has become disconnected from office-using job growth as employers adapt to a seismic shift in how they utilize space, the region’s growth will ultimately translate into long-term demand for office space. The availability of large blocks of high-quality space can serve as a magnet for tenants looking to enter the Raleigh-Durham market.

FIGURE 4: Office-Using Job Growth (year-over-year)



Source: BLS, November 2022

FIGURE 5: Distribution of Sublease Availability



Source: CBRE Research Q4, 2022

FIGURE 6: Select Construction Activity by Submarket

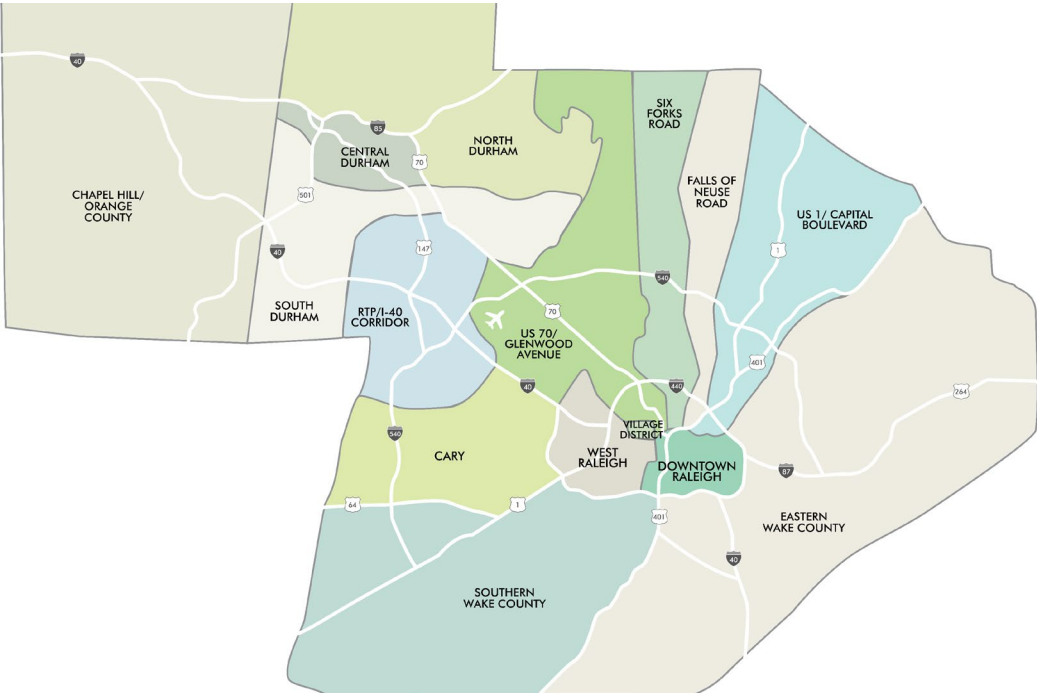
Project	Submarket	RBA (Sq. Ft.)	Q4 2022 Vacancy	Scheduled for Completion
Bandwidth Headquarters	West Raleigh	533,135	0	Q2 2023
North Hills Tower V	Six Forks Road	354,466	354,466	Q2 2024
1000 Social at The Exchange	Falls of Neuse	315,427	297,635	Q4 2023
One North Hills	Six Forks Road	264,632	234,632	Q2 2023
GlenLake III	U.S. 70/Glenwood Ave	205,000	194,000	Q4 2023
400H	Downtown Raleigh	150,000	150,000	Q4 2023
NHX Creative Office	Six Forks Road	87,503	87,503	Q2 2023

Source: CBRE Research Q4, 2022

FIGURE 7: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Sublease Availability (SF)	Under Construction (SF)	Class A Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	6,722,975	959,473	14.3%	19.3%	(74,358)	(73,262)	185,888	152,768	\$31.21
U.S. 70/Glenwood Ave	4,498,561	508,147	11.3%	15.9%	39,506	1,059	206,334	194,000	\$31.57
Six Forks Road	4,296,357	215,937	5.0%	23.0%	(2,736)	(58,438)	96,608	676,601	\$36.39
Falls of Neuse	3,007,495	309,563	10.3%	21.6%	(26,137)	(38,006)	43,753	297,635	\$27.26
U.S. 1/Capital Blvd	2,497,996	676,192	27.1%	33.6%	(204,139)	(181,737)	162,142	0	\$31.77
Downtown Raleigh	6,148,057	689,323	11.2%	19.5%	48,531	121,881	356,909	150,000	\$36.00
Village District	476,432	65,717	13.8%	18.8%	9,765	22,954	0	24,000	\$25.82
Eastern Wake	893,260	119,337	13.4%	13.4%	26,379	44,954	0	0	N/A
Southern Wake	595,239	43,778	7.4%	10.5%	12,005	43,994	0	18,745	N/A
Cary	7,550,269	1,065,650	14.1%	16.5%	(63,152)	(30,475)	161,264	19,000	\$30.40
RTP/I-40 Corridor	12,961,003	1,698,743	13.1%	28.5%	(247,659)	(251,825)	1,996,229	110,000	\$28.82
Central Durham	5,198,072	594,572	11.4%	17.3%	(4,824)	120,000	302,282	0	\$36.18
North Durham	1,009,159	283,932	28.1%	28.1%	2,021	(26,167)	0	0	N/A
South Durham	1,792,053	298,376	16.6%	17.4%	5,731	40,210	111,018	13,114	\$29.04
Orange County	2,243,192	435,315	19.4%	24.6%	31,893	48,381	15,765	0	\$30.73
Market Totals	59,890,120	7,964,055	13.3%	21.9%	(447,174)	(216,477)	3,627,636	2,299,945	\$32.13

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 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.

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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