INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Office

Raleigh

2022

Tech and Life-Science Entrants Power Outlook; Office Market Recovery Ahead of the National Pace

Comparatively low rents lead to high levels of space retention. The Raleigh metro has experienced fewer tenant exits and a smaller percentage of available sublet space during the health crisis than other major metros due to its lower rent costs. Meanwhile, the flourishing technology and life-science sectors continue to draw additional coastal firms to the metro, as they seek to make use of Raleigh's young and educated workforce while saving on costs. Recently, Invitae committed to 250,000 square feet in Research Triangle Park while Apple continues construction of a 1 million-square-foot campus in the same locale. Meanwhile, Google is planning an expansion to its cloud computing hub in Durham and software firm Bandwidth is building a new, nearly 450,000-square-foot headquarters in Raleigh. Apart from these projects, rising construction costs will hold 2022 deliveries well below last year's figures. Limited development and strong leasing trends should work in concert to reduce vacancy and elevate rents higher this year.

Corporate growth increases Raleigh's visibility. Transaction velocity is slightly down in the metro, driven by the Durham and RTP areas returning to usual levels of activity after a spike in 2020. High-profile tech arrivals, spurred by economic policy aimed at recruiting businesses in need of an educated workforce, have made the office market much more liquid over the past several years. Raleigh remains the most targeted locale in the metro, specifically downtown and in suburbs to the north and west of the core, followed by Durham and RTP. Cap rates have been reported around 6 percent in central portions of both Raleigh and Durham for Class B assets but can ascend 100 basis points higher in suburban areas and RTP. Local investors are increasingly targeting lower-tier properties here, driven by entry costs below the market average. Trades in West Wake County, specifically Cary, have reduced sharply as rejuvenation efforts have pulled leasing and investor demand to all corners of the metro.

2022 Market Forecast

Employment up 2.8% — Employers add 28,000 roles in 2022, with more than a third being traditional office-using jobs, many in tech and life science.

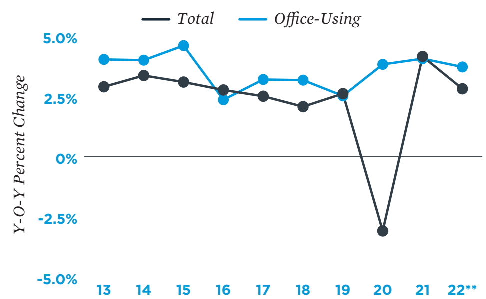
Construction 1,600,000 sq. ft. — Completions decline after several years of increasing construction. Still, developers expand the metro's office inventory by 1.6 percent in 2022.

Vacancy down 70 bps — Stronger leasing activity will push absorption significantly ahead of completions this year, inducing a tightening in vacancy to 12.5 percent.

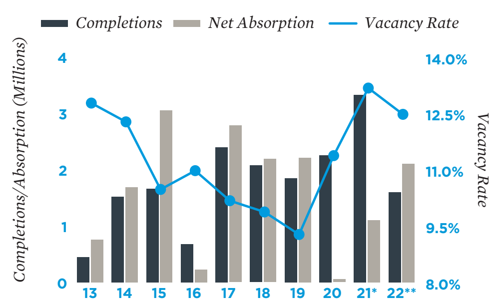
Rent up 3.3% — The uptick in absorption pushes the average asking rent to $26.50 per square foot. This rate of growth matches the trailing-five-year average.

Investment — Local and out-of-state investors drive the majority of the metro's activity; however, a recent uptick in foreign buyers highlights Raleigh's growing visibility among capital sources.

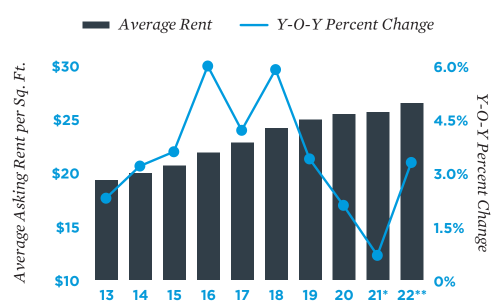
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.