

# MARKET REPORT

Office  
Raleigh Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

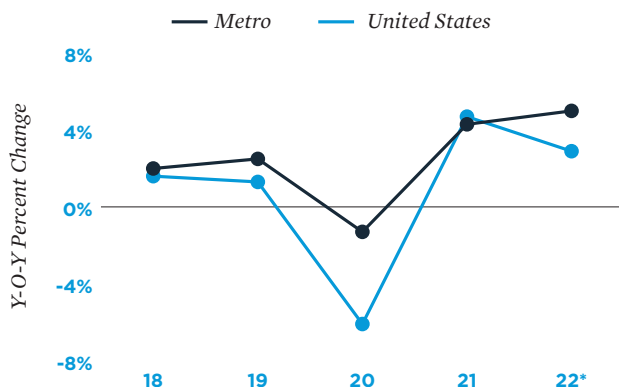
2Q/22

## Corporate Inflows and Shortage of Lab Space Aid Office Fundamentals in The Triangle

**Life science cluster drives regionally low availability.** Vacancy in Raleigh has held below many of its Sun Belt peers since 2019. The high proportion of biotech employers is largely the driver of this comparative success. Jobs in these industries are often unable to be performed remotely, and thus require firms to maintain a significant physical footprint. Amgen and Fujifilm Diosynth recently announced expansions in South Cary-Apex, joining a local tenant roster that includes Eli Lilly and Gilead Sciences. Much of the metro's construction pipeline as of April is spoken for lab space, highlighting the demand overhang for such properties. The life science industry is highly agglomerated, suggesting more companies will enter Raleigh's burgeoning biotech scene for years to come.

**Corporate relocations boost metrowide outlook.** Biotech is far from the only high-income sector in the metro, with Raleigh's tech base also showing substantial growth. As Google continues work on its new hub in Durham, additional firms like Epic Games have announced intentions to build a campus on a former retail site in Cary. These firms will join Apple, Lenovo, IBM and Oracle as tech companies with considerable footprints in the metro. RTP, Cary, Downtown Durham and Raleigh all have their share of established firms and startups, suggesting future demand for traditional office space will be widespread across the metro. Well-established firms will likely take on Class A space in crucial nodes, while startups and supplemental businesses will take on smaller floor plans nearby.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook



**50,000  
JOBS**  
*will be created*

### EMPLOYMENT:

The addition of 15,000 traditional office-using roles in the first four months of 2022 will aid the subsector in recording an 8.2 percent rate of employment growth this year. Many of these positions are technology- or life science-related.



**1,400,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Developers expand Raleigh's inventory by 1.4 percent in 2022, the lowest annual completions total in the past six years. More than 2 million square feet of office space has entered the market in four of the last five annual periods.



**10  
BASIS POINT**  
*increase in vacancy*

### VACANCY:

Vacancy is set to rise on an annual basis this year. However, after reaching 13 percent in the first quarter of 2022, the rate is expected to fall 50 basis points by the end of December. This will put office vacancy at 12.5 percent.

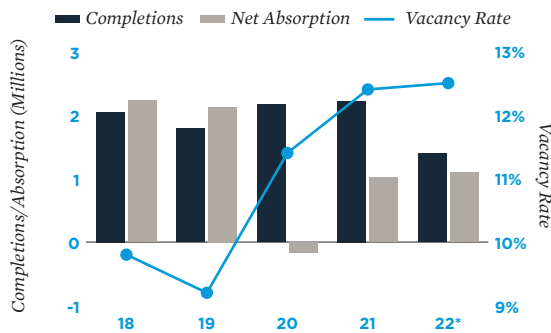


**3.7%  
INCREASE**  
*in asking rent*

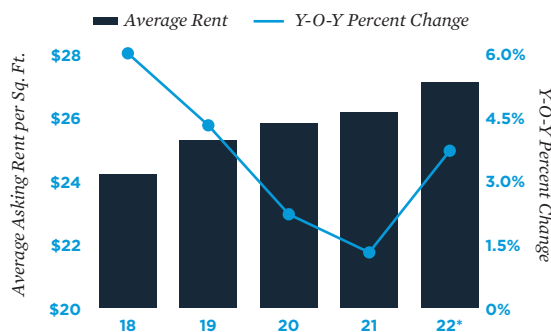
### RENT:

Following last year's 1.3 percent advancement, the pace of rent growth will elevate in 2022, as tenants absorb more than 1 million square feet for the second consecutive year. Entering 2023, the average marketed rate will sit at \$27.10 per square foot.

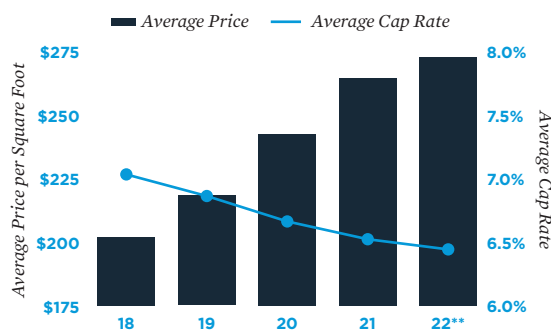
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**1,830,000 sq. ft. completed**

- Development during the 12 months preceding April grew inventory by 1.9 percent. This increase trailed the mid-2 percent expansion registered the year prior, but was still in line with historical averages.
- The largest property currently under construction is the 440,000-square-foot Bandwidth headquarters in West Raleigh.



### VACANCY

**90 basis point increase in vacancy Y-O-Y**

- Vacancy rose to 13.0 percent in the first quarter of 2022, largely driven by availability climbs in RTP and Downtown Raleigh.
- Durham County recorded a 180-basis-point drop in vacancy during the first three months of 2022. Orange County also recorded a sharp drop, as demand for space near the University of North Carolina improves.



### RENT

**2.7% increase in the average asking rent Y-O-Y**

- Asking rent growth of 3.5 percent in the Class B/C segments drove the average overall marketed rent to \$26.59 per square foot in March.
- The relative affordability of Raleigh's lab space, when compared to life science hubs like Boston and Philadelphia, suggests solid demand for available biotech and pharmaceutical-suited space will persist locally.

## Investment Highlights

- Raleigh's office market has never been more liquid. More office assets changed hands in the 12 months preceding April than in any annual period since at least 2000. An influx of institutional activity is partially responsible for this climb. Large and high-end offices are trading in and near RTP, Downtown Durham and Downtown Raleigh. Increased attention on institutional-grade assets has elevated average pricing by more than 10 percent to \$273 per square foot, and lowered the mean cap rate to 6.4 percent.
- Recent announcements by life science firms like Amgen and Fujifilm Diosynth in West Wake County should increase supplemental demand for nearby lab space, making office assets in South Cary-Apex a particularly intriguing option for investors. Assets near the Highway 1/Highway 64 interchange are already changing hands with heightened velocity.
- As firms like Apple and Google transform Durham into a burgeoning tech hub, additional businesses are likely to enter the area to access highly-trained workers. Local buyers are targeting sub-50,000-square-foot assets in Durham and North Raleigh. Average entry costs here are near \$200 per square foot, with first-year yields around 7 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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