

MARKET REPORT

Office
Raleigh Metro Area

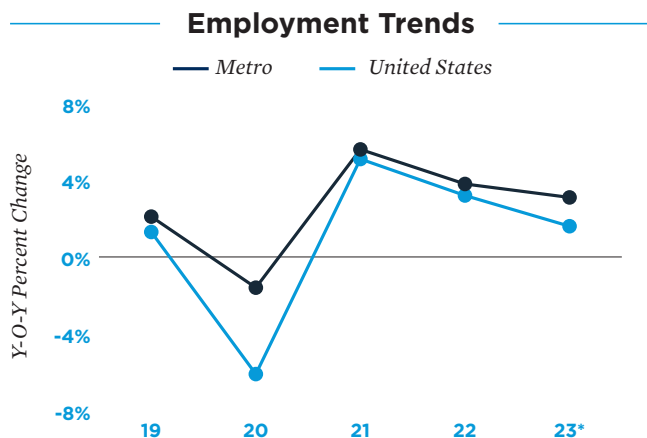
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

Tech Giant's Billion-Dollar Commitment and Strong Pre-Leasing are Signaling Budding Office Recovery

Apple's plans come at a needed time. In June, the company moved forward with an official proposal to build a 1-million-square-foot campus in the Research Triangle Park. The expansion is Apple's largest since starting on its Austin campus in 2019, and represents a promising opportunity to help recover space demand in Raleigh's office sector. Similar to the effect observed in Austin, Apple's move-in to the Research Triangle Park should attract additional tech firms to the area, as they attempt to leverage the talent base and information network of the company. Nevertheless, the timeline for the project is uncertain, and the market is still being impacted by a collection of upcoming lease expirations. While overall vacancy will rise to a record of 16.8 percent in 2023, company commitments, such as Apple's in the tech sector, should help stabilize the rate longer-term.

Vacancy among 2023's new builds is limited. In September, nearly 75 percent of the total space underway with delivery dates in 2023 was pre-leased. New leases for incoming deliveries should limit supply-side pressures on the marketwide Class A vacancy rate near-term, which already eased by 40 basis points from April to June, from a record of 22.1 percent. Recovering net absorption for top-tier offices may also help bring greater stability in the coming months. Companies absorbed 254,000 square feet of Class A space on net in the span, which was the metro's first positive metric in 12 months, as well as the highest volume among major southeastern markets.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**33,000
JOBS**

will be created

EMPLOYMENT:

While overall employment will grow at an above-average pace of 3.1 percent in 2023, hiring from traditionally office-using sectors remains historically muted. The 1.7 percent gain from these segments will be a 14-year low.



**1,310,000
SQ. FT.**

will be completed

CONSTRUCTION:

Metro stock expands by 1.3 percent this year. Glenwood-Creedmoor, North Raleigh and West Wake County receive over 200,000 square feet, while Raleigh has a 441,000-square-foot Bandwidth campus delivered.



**240
BASIS POINT**

increase in vacancy

VACANCY:

Marketwide, the overall vacancy rate continues to push to historic highs, closing out 2023 at 16.8 percent. Still, rates may remain tighter in Durham and East Wake County, which each have meager new supply underway.



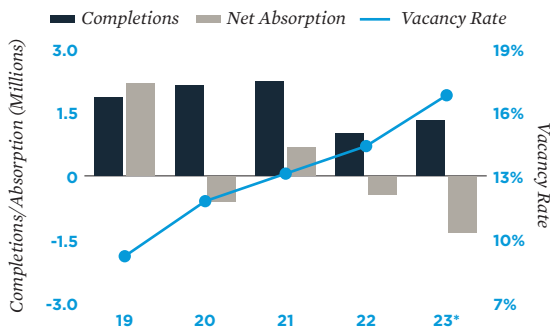
**1.0%
DECREASE**

in asking rent

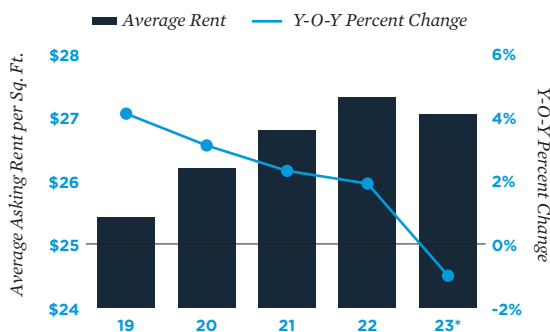
RENT:

The average asking rent falls for the first time since 2012, amid some of the highest levels of net relinquishment recorded by the metro. Regardless, at \$27.05 per square foot, the rate will be 6 percent higher than year-end 2019.

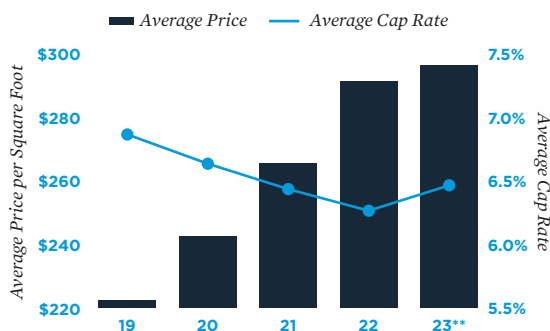
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

494,000 sq. ft. completed

- Overall inventory expanded by a decade-low of 0.5 percent during the 12-month span ending in June. Just 160,000 square feet was completed in the first half, which was the metro's lowest six-month span since mid-2013.
- North Raleigh and West Wake County had the first- and second-most space delivered in the frame, at 221,000 and 151,000 square feet, respectively.



VACANCY

200 basis point increase in vacancy Y-O-Y

- While the metro noted a mild stock expansion during the last year, marketwide vacancy still jumped to a record high of 15.4 percent in June.
- East Wake County and Glenwood-Creedmoor both recorded lower vacancy rates in June than at the end of 2022. Johnston County and Raleigh proper's local rates also held steady through the same six-month span.



RENT

0.3% increase in the average asking rent Y-O-Y

- Class A rents fell by 1.8 percent, as more than 1.3 million square feet of top-tier spaces was relinquished. Still, growth among Class B/C options nudged the overall mean marketed rate to \$27.36 per square foot.
- The Class B/C average asking rate grew by 2.4 percent, fueled by local gains exceeding 5 percent in East Wake and Orange counties.

Investment Highlights

- Despite softer overall fundamentals, entry costs for office investments have continued to rise. The average per-square-foot pricing for an office traded in the Raleigh metro over the 12-month span ending in June was \$296, up 6.5 percent from the prior yearlong period and 33.3 percent since 2019. With rising vacancy likely curtailing near-term cashflows for some operators, new listings may enter the market as owners attempt to capture proceeds from the metro's recent sale price appreciation.
- Nearly all trades in 2023 have involved Class B offices, with Durham County hosting the bulk of this activity. Many buyers are favoring high-yield assets amid more expensive borrowing costs, which has drawn a high number of them into the submarket. The average per-square-foot entry cost here over the first eight months was \$85, although medical properties still commanded prices upward of \$140 per square foot.
- In September, Central Raleigh hosted over 25 percent of the metro's total multifamily pipeline. This potential population influx may stir even tighter competition for local medical offices, with most assets here already trading no lower than \$320 per square foot during the first eight months of 2023.

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; WSOC-TV