

INVESTMENT FORECAST

OFFICE
Raleigh Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2020

Corporate Expansion Delivers Robust Demand Drivers; Investors Prioritize Assets in North Raleigh

Office construction and strong tenant mix reinforce Raleigh-Durham. A lower cost of living and corporate synergy potential make the area a destination for a variety of global firms. Last year, companies such as MetLife, Credit Suisse, and Rho renewed their commitment to the metro by building new headquarters or office buildings. In 2020, Advanced Auto Parts, Xerox, and LabCorp will occupy a combined 400,000 square feet in the metro, bolstering prospects for both developers and future tenants. The healthy position of Raleigh's office market has led developers to create speculative office concepts such as the Stitch, a 250,000-square-foot creative space, and 1101 Shiloh Glenn, a shopping center conversion into 140,000 square feet of trophy office space. Nevertheless, pre-leased properties make up the majority of new construction in the metro, specifically in areas along Interstate 440 and in West Wake County. This year's construction total will surpass last year's 1.8 million square feet of new office space, bumping up vacancy.

Transactions trend lower while investors target value-add opportunities. Although overall transactions in Raleigh have stepped back, some assets like Class B/C properties in the \$1 million to \$10 million range and Class A assets over \$10 million continue to have consistent or accelerating deal flow. Acquisitions of larger Class B/C buildings priced above \$10 million have retreated, partially due to fewer listings, which is weighing on overall velocity. In the absence of these deals, investors have focused on value-add opportunities in Orange and Wake counties, with first-year yields in the mid-7 to high-7 percent range. Local private buyers purchased the majority of Class B/C assets over the past year in the North Raleigh region, proximate to new high-end developments. Out-of-state investors, meanwhile, acquired a majority of the available Class A properties in the region, which traded at average cap rates in the mid-6 percent range. Marketwide, first-year returns hover near 7 percent entering the year.

2020 Market Forecast

Employment
up 2.2%



Job growth will temper slightly as 21,400 jobs are added to the metro in 2020, lower than the 26,800 positions added in 2019.

Construction
2.0 million sq. ft.



Deliveries in 2020 will grow by approximately 150,000 more square feet than 2019 completions.

Vacancy
up 10 bps



Vacancy will tick up in 2020, rising to 9.3 percent following a 100-basis-point decline in 2019. Vacancies have dropped 360 basis points over the past five years.

Rent
up 4.3%



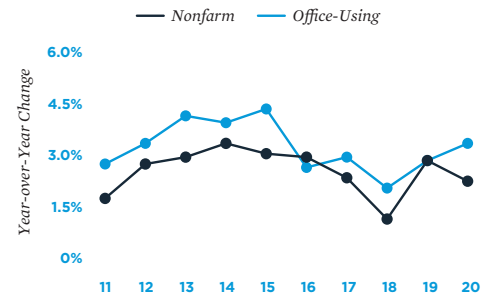
Healthy demand and new construction support an increase in the average asking rent to \$25.97 per square foot, at a higher pace compared with 2019's gain of 2.7 percent.

Investment

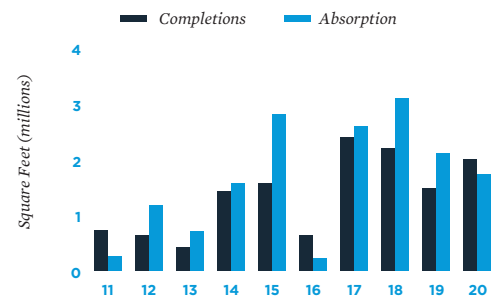


Although Class A trophy space continues to attract interest from investors, value-add opportunities are present with rising rents supporting upward pressure on values in the metro.

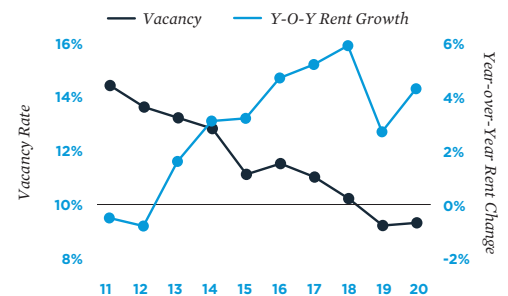
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.