

OFFICE MARKET REPORT

Raleigh-Durham

Q2 2020

Raleigh-Durham CSA Office Market

The Raleigh-Durham CSA has a combined 46.3 million square feet of existing Class A and Class B general office space (1); 38.9 million square feet situated in suburban submarkets and 7.4 million square feet situated in central business districts. Year to date 722 thousand square feet of Class A non-medical office space was added to the market, which combined, was 31% leased by end of Q2. Another 1.1 million square feet is under construction with estimated delivery dates by year end 2020. Existing Class A office inventory includes 29.9 million square feet across 255 buildings, of which 49% are fully leased. Class B inventory includes 16.3 million square feet across 235 buildings, of which 66% are fully leased.

Q2 2020

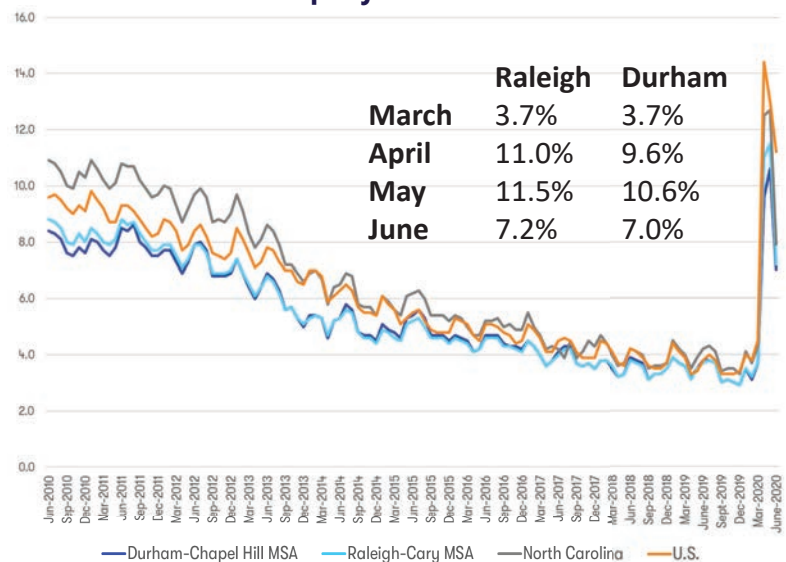
Although the COVID-19 pandemic has caused significant economic disruption in the Triangle region, statistically the office market remained largely on solid footing at the close of Q2. The combined Class A & B market showed 110,180 square feet of positive net absorption in Q2. Direct vacancy of 8.95% was up 15 basis points over Q1, but remained 55 basis points below the market's historical 5-year average. Average direct asking rents are up 4.5% year over year; a 30% increase over the last five years.

The market experienced a significant decrease in leasing velocity in Q2, which contributed to the 43% drop in volume from Q1. New lease deals are progressing slowly or paused, while short-term renewals, of two to five years, are on the rise. North Carolina's "Safer At Home Phase 2" of reopening and lifting COVID-19 restrictions has been extended into Q3, and most office employees will be restricted to working from home for several more weeks.

Class A ⁽¹⁾ Market Indicators	Q2 2020	QOQ Change	YOY Change
Vacancy - Direct	8.01%	↑	↓
Avg. Asking Rent - Direct	\$29.07	↑	↑
Market Rent	\$31.74	→	↑
Total Net Absorption (SF)	202,819	↓	↑
Under Construction (SF)	3,234,823	↑	↑
Under Construction Asking Rate	\$32.85	↓	↓

A quarterly rent change of ±1% or less is deemed to be flat.
A quarterly vacancy rate change of ±10 basis points or less is deemed to be flat.

Unemployment 2020



SOURCES: METROSTUDY 2020, COSTAR

"When things go wrong, don't go with them." -Elvis Presley

- (1) Office buildings of 30K SF or greater, non-government, non-medical, non-owner occupied
- (2) Weighted Average Asking Rents based on current availability
- (3) Costar derived Market Rents - modeled gross asking rents, informed by current asking rents and lease comps; taking into consideration the entire inventory rather than current availabilities only

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Looking Ahead

Remote work is here to stay, at least as a part of the fabric of the workplace. Companies will incorporate remote work into their mainstream workflow for many reasons: reducing occupied space density, talent retention and recruiting, economics, and business continuity and resilience during natural disasters or pandemics being among them. Remote working is not a universal fit for all employers or employees. While some companies will move to 100% remote work, most will be a mix of in-office and remote working.

In a recent national survey of 5,000 general office workers across industries, 12% of respondents would prefer to work from home full time, while 44% did not want to work from home at all. In a separate survey of 2,200 workers in the tech sector, 35% would embrace working from home full time in a post-lockdown period, but the majority, 56%, would prefer to work from home only two to three days a week, or about half of the time.

Following the Q2 trend seen in the multi-family market, expect a shift in office demand from urban centers to the suburbs. Low-rise will increase in demand. Companies will want to control their entire office space envelope, which will impact the way we build buildings.

New delivery and under construction vacancy, and leasing velocity, are a potential point of concern, and we continue to track the data closely. Urban project lease-up will be challenged threefold: by the feasibility of high-rise occupancy in this COVID-era, the disproportionate exposure to coworking occupancy, and by the impact of civil unrest.

One thing we have learned so far is that corporate America has proven we can remain productive and adaptable for the short term. But it may take several quarters, and multiple phases of reopening, before firms can fully assess their space needs. The length and depth of the current recession will be a key determinant.

Jobs & Expansions

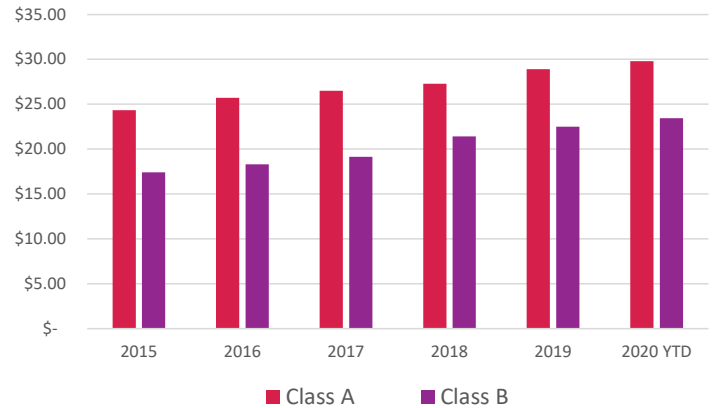
Raleigh-based **Bandwidth**, a telecommunications technology firm, will create over 1,000 jobs in the coming years as part of a planned \$32.2 million expansion in the Triangle. Bandwidth is currently headquartered at Centennial Campus, but the expansion includes a new \$70 million headquarters in west Raleigh at 2201 Edwards Mill Road. The 40-acre site is currently owned by the state and the company has agreed to buy the land for \$30 million.

Global Mutual has filed plans to **expand the Research Commons office park**, at 79 TW Alexander Drive in Research Triangle Park. Plans filed call for two new buildings of four to five stories with a combined 270,000 square feet of office space. Currently, Research Commons features a little under 450,000 square feet of office space across its five existing Class A and B buildings.

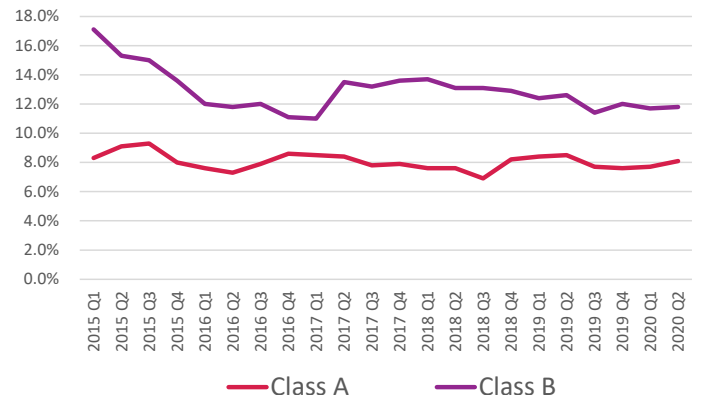
Announcements

Dominion Realty Partners filed plans for what's currently referred to as **"o Slater Road,"** featuring 224 apartment units and **137,500 square feet of office space** in a six-building complex. The project is situated at the corner of Slater Road and Carrington Mill Boulevard in the RTP/RDU submarket, between Perimeter Park and Interstate 40. The apartments will span five 3- and 4- story buildings. The office building will stand alone.

Average Direct Asking Rents



Direct Vacancy





Class A ⁽¹⁾			Vacant Available		Net Absorption - SF						
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q2 Total	YTD Total	Rent - Direct Asking ⁽²⁾	Rent - Direct Market ⁽³⁾	Deliveries SF	Under Construction SF	Under Construction Asking
Downtown Raleigh	10	2,801,804	6.00	9.30	(23,671)	(51,986)	\$33.45	\$36.38	-	200,519	\$40.00
Downtown Durham	20	2,759,312	11.00	11.10	136,326	106,048	\$32.28	\$32.53	-	922,249	\$38.50
Subtotal CBD	30	5,561,116	8.30	10.20	112,655	54,062	\$32.57	\$34.60			\$39.60
W Raleigh / SW Wake	43	4,633,716	7.50	8.80	(52,451)	(78,722)	\$29.57	\$33.71	215,415	553,541	\$35.65
RTP-RDU	36	4,393,605	6.50	6.60	(31,020)	81,729	\$27.28	\$29.82	140,302	340,000	\$27.50
Cary	35	4,280,968	10.60	10.60	141,492	227,937	\$28.56	\$30.17	-	225,350	\$38.50
Research Triangle	31	2,973,819	4.30	5.50	12,435	151,262	\$25.74	\$27.90	-	832,162	\$26.75
6 Forks - Falls of Neuse	22	2,720,681	1.30	2.30	(1,623)	78,545	\$30.28	\$34.63	-	330,380	n/a
S. Durham	21	1,787,761	15.90	15.90	11,684	(20,703)	\$26.81	\$29.82	-	111,871	\$30.95
Glenwood/Creedmoor	14	1,464,812	11.10	11.60	(9,223)	10,765	\$29.93	\$31.30	-	-	-
SW Wake	0	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-	\$28.00
Orange County	15	1,314,651	16.80	17.00	13,102	5,584	\$30.93	\$31.03	-	106,000	n/a
E. Ral / Rt 1 / NE Wake	8	816,049	1.30	1.30	5,768	(7,888)	\$21.25	\$31.19	-	-	-
Class A Totals	255	29,947,178	8.01	8.79	202,819	502,571	\$29.07	\$31.74	355,717	3,234,823	\$32.85

Class B ⁽¹⁾			Vacant Available		Net Absorption - SF						
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q2 Total	YTD Total	Rent - Direct Asking ⁽²⁾	Rent - Direct Market ⁽³⁾	Deliveries SF	Under Construction SF	Under Construction Asking
Downtown Raleigh	13	1,110,983	2.90	2.90	(8,791)	(15,103)	\$30.32	\$28.81			
Downtown Durham	11	691,313	10.30	10.30	(722)	(4,742)	\$26.93	\$24.29			
Subtotal CBD	24	1,802,296	5.74	5.74	(9,513)	(19,845)	\$29.02	\$27.08			
W Raleigh / SW Wake	30	1,851,747	8.10	8.70	(76,400)	(62,502)	\$24.86	\$27.67			
RTP-RDU	15	1,241,766	8.90	11.40	(504)	17,474	\$21.96	\$27.73			
Cary	26	1,662,057	1.50	3.90	(1,517)	(23,212)	\$20.09	\$24.26			
Research Triangle	43	4,182,039	20.30	20.50	(40,876)	16,753	\$23.50	\$23.07			
6 Forks - Falls of Neuse	39	2,388,844	9.20	9.20	70,923	86,115	\$24.99	\$26.57			
S. Durham	16	927,197	15.40	15.40	(15,876)	(7,487)	\$21.32	\$21.78			
Glenwood/Creedmoor	15	762,632	2.60	2.60	(2,766)	9,930	\$22.71	\$21.54			
SW Wake	2	70,040	0.00	0.00	n/a	n/a	n/a	\$23.61			
Orange County	6	369,587	1.40	1.40	23,850	23,850	\$22.00	\$25.77			
E. Ral / Rt 1 / NE Wake	19	1,079,726	10.70	16.30	(39,960)	(63,442)	\$22.66	\$23.17			
Class B Totals	235	16,337,931	10.66	11.58	(92,639)	(22,366)	\$23.67	\$24.95	-	-	n/a

Class A & B ⁽¹⁾			Vacant Available		Net Absorption - SF						
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q2 Total	YTD Total	Rent - Direct Asking ⁽²⁾	Rent - Direct Market ⁽³⁾	Deliveries SF	Under Construction SF	Under Construction Asking
Combined	490	46,285,109	8.95	9.78	110,180	480,205	\$27.16	\$29.34	355,717	3,234,823	\$32.85

(1) Office buildings of 30K SF or greater, non-government, non-medical, non-owner occupied

(2) Weighted Average Asking Rents based on current availability

(3) Costar derived Market Rents - modeled gross asking rents, informed by current asking rents and lease comps; taking into consideration the entire inventory rather than current availabilities only

Class A & B ⁽⁴⁾			Vacant Available		Net Absorption - SF						
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q2 Total	YTD Total	Rent - Direct Asking	Rent - Direct Market			
Combined	1,554	62,229,217	8.10	9.20	68,263	350,780	\$25.29	\$27.84			

(4) All CSA office buildings (no minimum square footage applied): non-condominium, non-government, non-medical, non-owner occupied

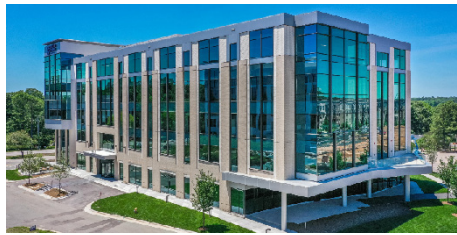
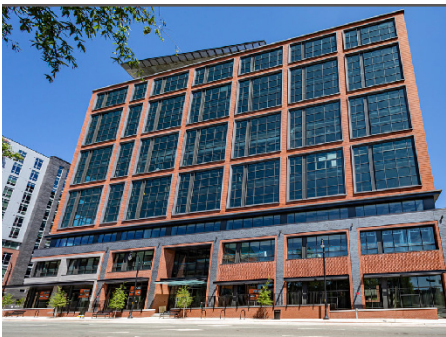


New Deliveries

Building Name	Address	City	Submarket	Delivered	Avg Asking	RBA	% Leased
555 Mangum Street	555 S Mangum St	Durham	Downtown Durham	Q1	\$29.00	252,905	47.60%
Glenwood Place	3800 Glenwood Ave	Raleigh	West Raleigh	Q1	\$38.00	113,543	48.90%
Wade V	5438 Wade Park Blvd	Raleigh	West Raleigh	Q2	\$34.00	215,415	22.40%
INQ	1101 Shiloh Glenn Dr	Morrisville	RTP/RDU	Q2	\$28.00	140,302	0.00%

Total SF

722,165



Under Construction

Building Name	Address	City	Submarket	Est. Delivery	Avg. Asking	RBA	% Leased
Tower IV at North Hills	4200 Six Forks Rd	Raleigh	6 Forks Falls of Neuse	Q4 2020	\$40.85	330,380	100.00%
Fenton (Building 10)	855 Cary Towne Blvd	Cary	Cary	Q4 2021	\$38.50	161,087	22.91%
Fenton (Building 12)	855 Cary Towne Blvd	Cary	Cary	Q4 2021	\$38.50	64,263	20.76%
The Roxboro at Venable Center	464 Pettigrew St	Durham	Downtown Durham	Q4 2020	\$38.50	200,519	0.00%
421 N. Harrington	421 N Harrington St	Raleigh	Downtown Raleigh	Q3 2020	\$38.50	255,000	12.24%
Raleigh Crossing	301 Hillsborough St	Raleigh	Downtown Raleigh	Q4 2021	\$41.50	280,000	47.41%
The Gwendolyn at Glen Lennox	101 Glen Lennox Dr	Chapel Hill	Orange County	Q1 2021	\$38.50	106,000	15.15%
Forty540 Phase II	710 Slater Rd	Morrisville	Research Triangle	Q1 2021	\$32.50	205,000	40.00%
Innovation I	831 Slater Rd	Durham	Research Triangle	Q3 2020	\$26.75	139,163	73.99%
Edge (West)	4001 E Nc Highway 54	RTP	Research Triangle	Q3 2021	\$31.00	149,000	0.00%
Edge (East)	4001 E Nc Highway 54	RTP	Research Triangle	Q3 2021	\$31.00	179,000	0.00%
Alexandria Center for AgTech	9 Laboratory Dr	Durham	Research Triangle	Q4 2020	n/a	159,999	0.00%
Perimeter Park	4000 Paramount Pky	Morrisville	RTP/RDU	Q1 2021	\$27.50	90,000	48.79%
The Stitch	1001 Airport Blvd	Morrisville	RTP/RDU	Q3 2020	\$33.50	250,000	0.00%
Meridian Park	2540 Meridian Pky	Durham	South Durham	Q2 2021	\$30.95	111,871	0.00%
The Block	300 S Main St	Holly Springs	Southwest Wake County	Q3 2020	\$28.00	54,600	58.20%
Tower 2 at Bloc 83	621 Hillsborough St	Raleigh	West Raleigh	Q1 2021	\$37.50	281,634	43.26%
Palisades III	5401 Trinity Rd	Raleigh	West Raleigh	Q3 2021	\$33.00	167,307	0.00%
1309 Annapolis	1309 Annapolis Dr	Raleigh	West Raleigh	Q4 2021	\$36.50	50,000	52.00%
Total Square Feet						3,234,823	



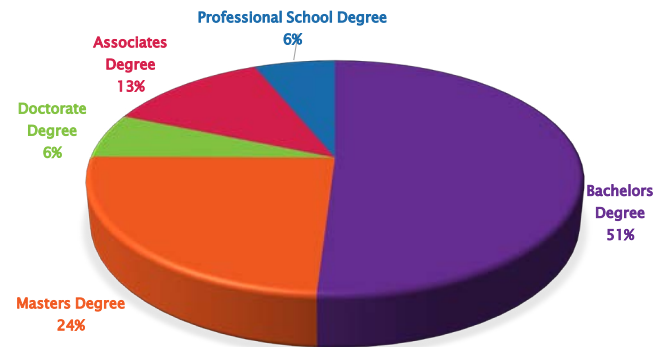
Raleigh-Durham MSA Overview

Scenic beauty, a moderate climate, a culture rich in history and the arts, world-class sports and recreational opportunities all make North Carolina an exceptional place to live and do business. The Raleigh-Durham CSA, commonly referred to as The Triangle, spans seven counties in the central region of North Carolina. The "Triangle" reference was first coined in the late 1950's with the creation of Research Triangle Park, named for its location relative to three tier-one research universities - North Carolina State University, Duke University, and the University of North Carolina at Chapel Hill, and the cities in which they are located - Raleigh, Durham and Chapel Hill.

Education & High-Performance Workforce

Higher education is considered the cornerstone of the Triangle region. With three tier-one research universities and twelve additional colleges and universities that have a combined enrollment of 131,000, all are a major contributor to the region's high-performance workforce. The region sees an average of 42,000 graduates with bachelor's degrees or higher annually. The Raleigh-Durham CSA has a total population of 1.9 million, of which 49% hold bachelor's degrees or higher. Companies relocate and expand here because of the quality and depth of the existing talent pool and the pipeline of graduates coming from these educational facilities.

RDU MSA Educational Attainment



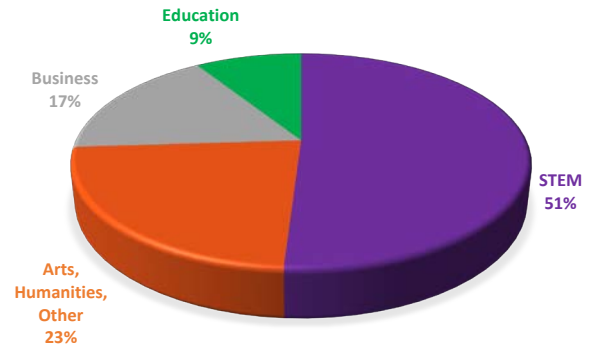
"The Triangle is at an exciting crossroads, continuing to lead the country in nearly every measure of economic success. Our talent bench is already quite deep, especially when compared with many other metropolitan areas of our size across the nation."

Raleigh Chamber of Commerce

"Durham is in the midst of an entrepreneurial boom. Entrepreneurs and startups are attracting national attention from the public sector, Silicon Valley investors, and talented individuals worldwide. From its beginnings in tobacco and textiles to Black Wall Street and the Research Triangle Park, Durham is a community of entrepreneurs who value creative ideas, asking "What if?" and bringing talented people together to answer that very question."

Greater Durham Chamber of Commerce

Field of Study, Bachelor's Degree & Higher



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Market Overview Map

