

# OFFICE MARKET SNAPSHOT

## Raleigh-Durham

Q3 2020

### Raleigh-Durham CSA Office Market

While leasing velocity has been impacted by the pandemic, statistically the RDU office market remains stable at the close of Q3, and the long-term outlook is positive given the market's diverse tenant base, affordability and access to the region's high-performance workforce.

North Carolina's "Safer At Home Phase 3" of reopening and lifting COVID-19 restrictions has been extended into Q4, and most office employees continue to be restricted to working from home. Remote work is here to stay, at least as a part of the fabric of the workplace. While some companies will move to 100% remote work, most will seek a balance of in-office and remote working. It may be 12 to 18 months before we can identify any trends in space utilization as tenants lease up and occupy the under-construction pipeline.

The RDU office market (1) has a combined 47.9 million square feet of existing Class A and Class B general office space, 16% of which, 7.6 million square feet, is situated in central business districts, and 40.3 million square feet in suburban submarkets. Class A inventory includes a combined 30.3 million square feet of space across 257 buildings, 50% of which are fully leased. Class B inventory includes 17.5 million square feet across 246 buildings, of which 60% are fully leased.

The market realized 605,333 square feet of positive net absorption year to date; 159,616 square feet in Q3 alone. Certain submarkets are seeing slight decreases in direct asking rents, but the Class A market as a whole saw a weighted average direct asking rate of \$29.27 in Q3, a 12% increase over the region's five-year average. Leasing velocity remains low. The deal volume in Q3 was 47% below that of Q1, and 40% below the weighted average deal volume of any quarter in the previous five years.

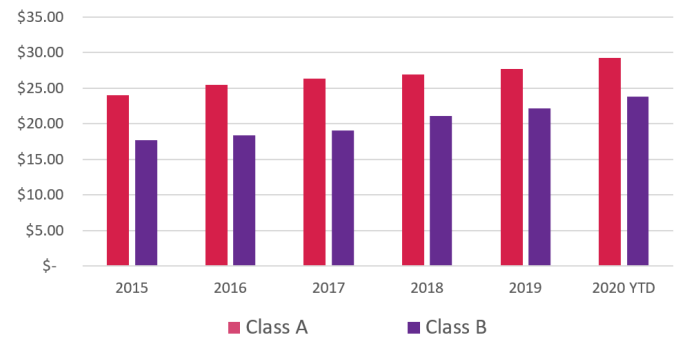
There was 861.3 thousand square feet of Class A non-medical office space added to the market year to date, which collectively was 38% leased by the end of Q3. Another 1.4 million square feet is expected to deliver by year-end, which is 38% pre-leased currently.

Class A's 8.5% vacant available space rate is a 30-basis point increase quarter over quarter, and a 70-basis point increase over the market's five-year average. New delivery and under construction vacancy remain a potential point of concern, and one that has contributed to the sharp rise in vacancy rates in affected submarkets, notably the CBD, West Raleigh and Glenwood-Creedmoor submarkets, where the weighted average vacancy rate of 8.99% represents a 109% increase year over year. We closely monitor new delivery and under construction project lease up activity and will provide a report devoted to the topic with our 2020 year-end review.

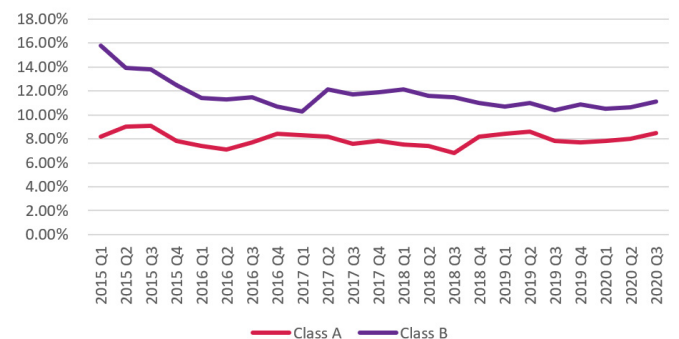
Class A <sup>(1)</sup> Market Indicators	Q3 2020	QOQ Change	YOY Change
Vacancy - Direct	8.50%	↑	↑
Avg. Asking Rent - Direct	\$29.00	—	↑
Market Rent	\$31.74	—	↑
Total Net Absorption (SF)	159,616	↓	↓
Under Construction (SF)	3,225,660	↓	↑
Under Construction Asking Rent	\$33.31	↑	↓

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.

### Average Direct Asking Rents



### Direct Vacancy



*"The secret of change is to focus all of your energy, not on fighting the old, but on building the new."*  
-Socrates

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Class A <sup>(1)</sup>			Vacant Available		Net Absorption - SF		Rent - Direct Asking <sup>(2)</sup>	Rent - Direct Market <sup>(3)</sup>	Under Construction SF	Under Construction Asking
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q3 Total	YTD Total				
DT Raleigh	10	2,807,260	7.40	9.80	23,003	(28,983)	\$33.47	\$35.54	535,000	\$40.00
DT Durham	21	3,008,384	10.50	10.60	14,051	118,441	\$33.08	\$32.36	200,519	\$38.50
Subtotal CBD	31	5,815,644	9.00	10.20	37,054	89,458	\$33.27	\$33.89	735,519	\$39.59
W Raleigh	43	4,627,716	8.00	9.50	(7,019)	(66,286)	\$28.92	\$33.38	498,941	\$35.90
RTP-RDU	36	4,393,605	6.70	7.10	15,671	29,344	\$27.23	\$29.73	340,000	\$27.50
Cary	36	4,414,596	12.50	14.20	(617)	221,882	\$28.56	\$30.14	225,350	\$38.50
Research Triangle	32	3,112,982	6.70	8.50	65,994	232,438	\$26.05	\$27.75	692,999	\$26.75
6 Forks / Falls of Neuse	22	2,720,681	1.90	2.90	(15,631)	41,754	\$32.68	\$34.53	330,380	n/a
S. Durham	21	1,787,761	16.80	16.80	(23,249)	(48,999)	\$26.81	\$28.75	111,871	\$30.95
Glenwood / Creedmoor	14	1,464,812	12.10	12.90	(6,556)	4,108	\$29.74	\$31.28	130,000	-
Orange County	15	1,314,651	16.10	16.30	35,377	40,961	\$30.93	\$30.87	106,000	-
Rt 1 / E. Ral / NE Wake	7	698,049	1.50	1.50	-	(7,888)	\$21.25	\$30.56	-	-
SW Wake									54,600	\$28.00
<b>Class A Totals</b>	<b>257</b>	<b>30,350,497</b>	<b>8.50</b>	<b>9.60</b>	<b>137,355</b>	<b>580,388</b>	<b>\$29.27</b>	<b>\$31.44</b>	<b>3,225,660</b>	<b>\$33.31</b>

Class B <sup>(1)</sup>			Vacant Available		Net Absorption - SF		Rent - Direct Asking <sup>(2)</sup>	Rent - Direct Market <sup>(3)</sup>	Under Construction SF	Under Construction Asking
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q3 Total	YTD Total				
Downtown Raleigh	13	1,110,983	1.50	1.50	19,439	4,336	\$30.84	\$28.77		
Downtown Durham	11	691,658	10.30	10.30	104	(4,688)	\$26.38	\$24.25		
Subtotal CBD	24	1,802,641	4.90	4.90	19,543	9,024	\$29.55	\$27.02		
W Raleigh / SW Wake	30	1,993,861	7.30	7.30	16,871	(48,832)	\$25.30	\$27.48		
RTP-RDU	15	1,241,766	10.80	16.10	(22,886)	(5,099)	\$24.94	\$27.51		
Cary	26	1,661,057	1.90	4.60	(7,401)	(21,433)	\$20.25	\$24.08		
Research Triangle	48	4,747,394	17.90	18.70	36,089	59,292	\$24.74	\$23.35		
6 Forks - Falls of Neuse	39	2,388,844	8.60	8.90	24,217	110,332	\$24.01	\$26.48		
S. Durham	16	927,197	15.00	15.00	3,088	(4,399)	\$21.36	\$21.81		
N. Durham	8	563,248	31.90	31.90	(8,733)	(500)	\$17.17	\$19.66		
Glenwood/Creedmoor	15	762,632	3.00	3.40	(3,382)	6,548	\$22.57	\$21.53		
Orange County	6	369,587	4.80	4.80	(12,601)	6,249	\$21.00	\$25.59		
E. Ral / Rt 1 / NE Wake	19	1,079,726	12.60	18.20	(22,544)	(79,861)	\$22.66	\$22.84		
<b>Class B Totals</b>	<b>246</b>	<b>17,537,953</b>	<b>11.10</b>	<b>12.30</b>	<b>22,261</b>	<b>24,945</b>	<b>\$23.82</b>	<b>\$24.66</b>	<b>-</b>	<b>n/a</b>

Class A&B			Vacant Available		Net Absorption - SF		Rent - Direct Asking <sup>(2)</sup>	Rent - Direct Market <sup>(3)</sup>	Under Construction SF	Under Construction Asking
Submarket	Bldgs	Inventory (SF)	Direct %	Total %	Q3 Total	YTD Total				
RDU Combined (1)	503	47,888,450	9.50	10.60	159,616	605,333	\$27.28	\$29.08	3,225,660	\$33.31
CSA Combined (4)	1,555	61,022,258	9.30	10.30	151,785	505,917	\$25.34	\$27.75		

(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

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

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