

4Q23

Raleigh-Durham Office Market Overview



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Market Observations

Economy

- The market's unemployment rate declined by 27 basis points year over year to 3.1%, remaining below the five-year average of 4.0%.
- When compared to November 2022, employment growth declined by 92 basis points.
- Most sectors reported employment growth, with leisure and hospitality leading job gains at 7.2% over the past 12 months.
- Office-using jobs in the market recorded an all-time high of 223,280 jobs as of the end of November 2023, reflecting 23.4% growth since 2019.

Major Transactions

- The largest signed sublease for the fourth quarter of 2023 was North Carolina Department of Health and Human Services's sublease for 90,000 SF of space at Charles Sanders Center.
- Raleigh's designation as a biotechnology hub was reinforced this quarter as two of the largest leases signed were signed by biotechnology companies such as Mercalis and bioMérieux.
- Most of the largest transactions were direct new leases and subleases as office-users looked to take advantage of market conditions to downsize into smaller, better amenitized spaces.

Leasing Market Fundamentals

- Annual full-service class rental rates remain elevated at \$30.66/SF, a 3.2% increase year over year.
- Occupancy declined, causing overall vacancy rates to increase by 180 basis points year over year, to 17.0%.
- The under-construction pipeline dropped to 1.8 MSF currently in progress.
- Total leasing activity closed the quarter at 2.0 MSF, above the 16-year fourth-quarter average of 1.2 MSF.

Outlook

- The Raleigh office market will likely see continued suppressed growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The increasing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly, with continued muted demand. As a result, overall asking rents are projected to stay flat.
- Vacancy is expected to increase as the construction pipeline, which currently accounts for 3.2% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals

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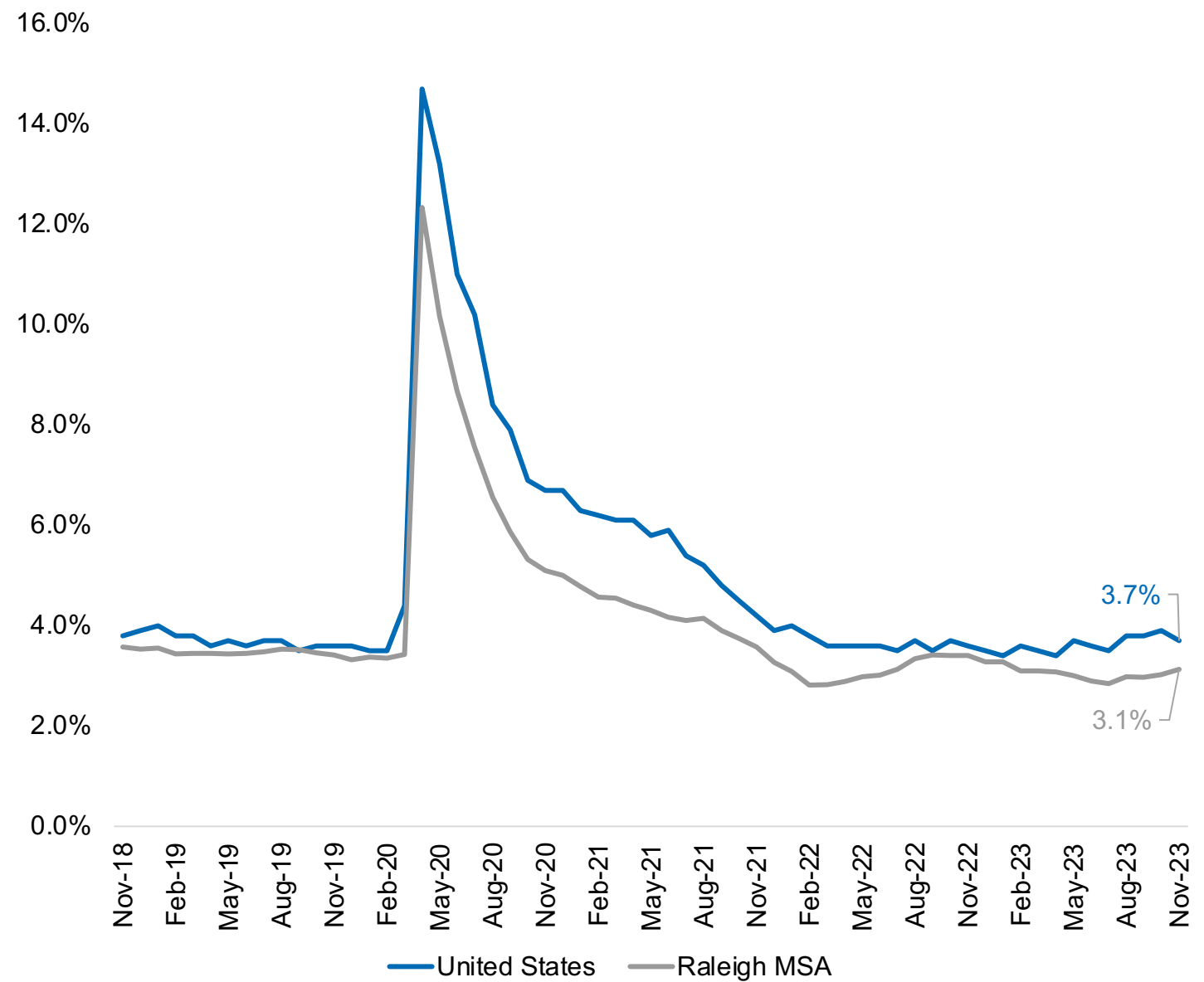
Economy



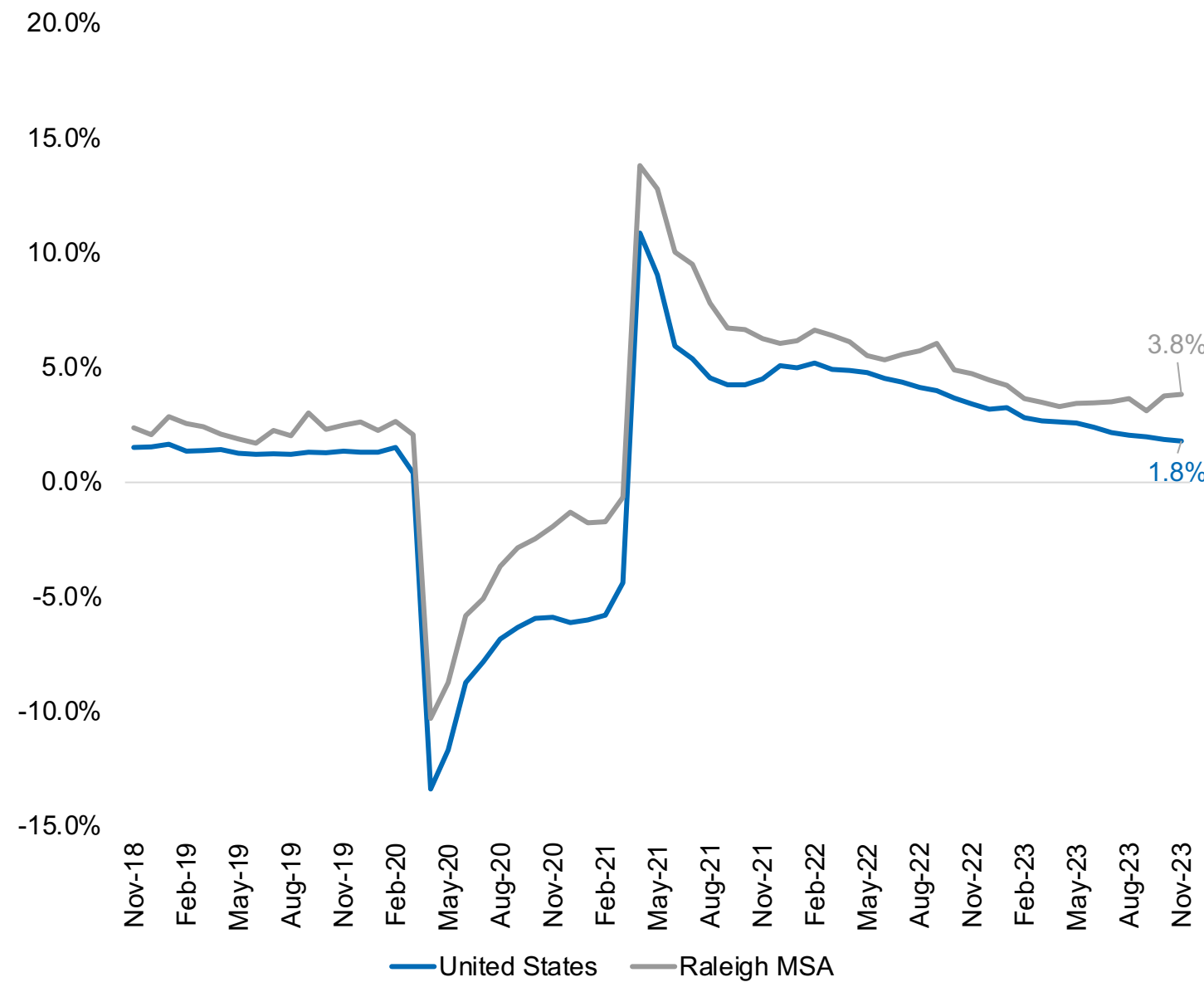
Employment Trends Signal a Slowing Economy

Raleigh has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. This trend has continued into the fourth quarter of 2023, with the market's unemployment rate dropping by 27 basis points year over year to 3.1%, well below the U.S.'s unemployment rate of 3.7%. Seasonally adjusted nonfarm payrolls, which reported a 92-basis-point year-over-year decline to 3.8%, are also outperforming the U.S.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



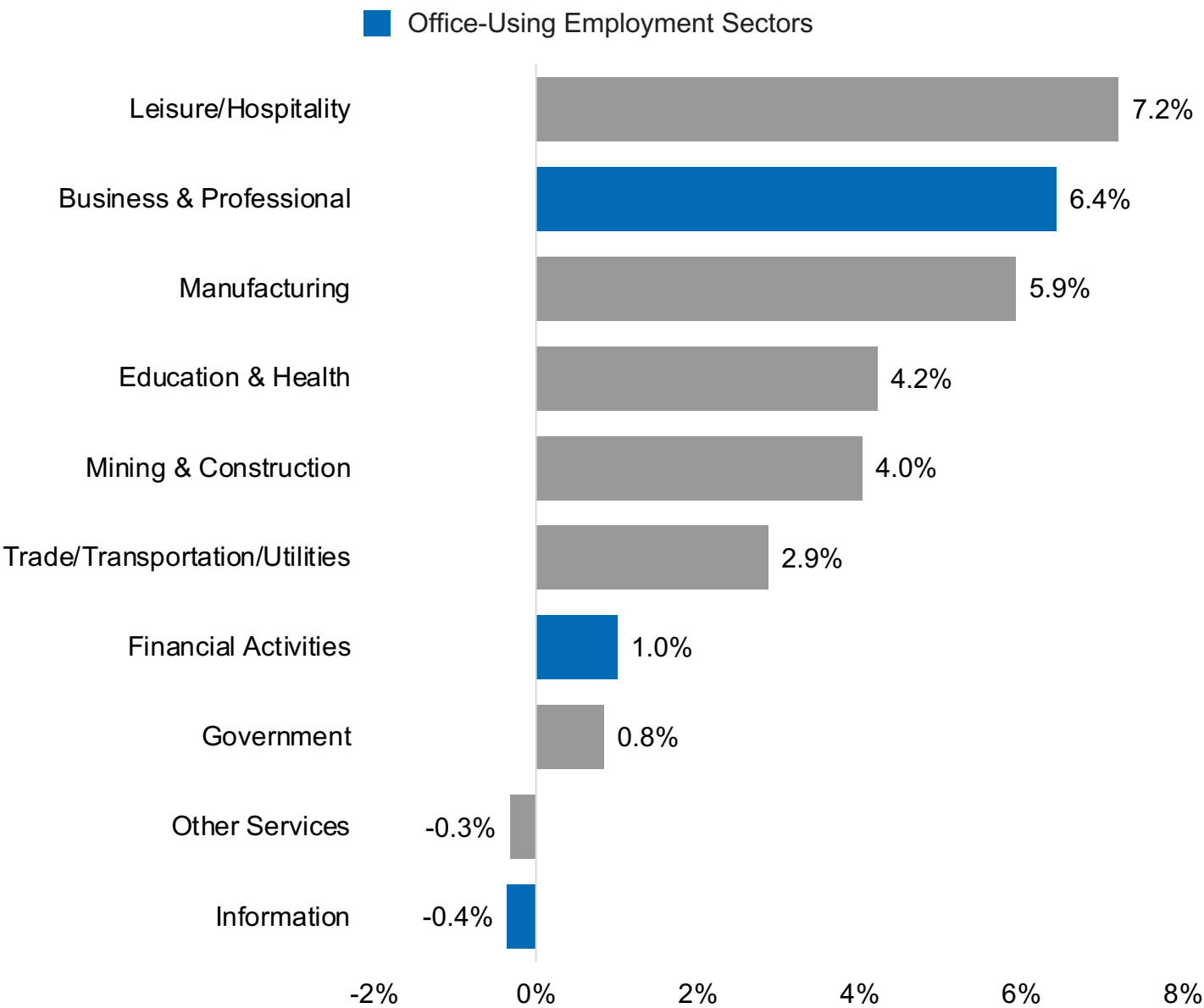
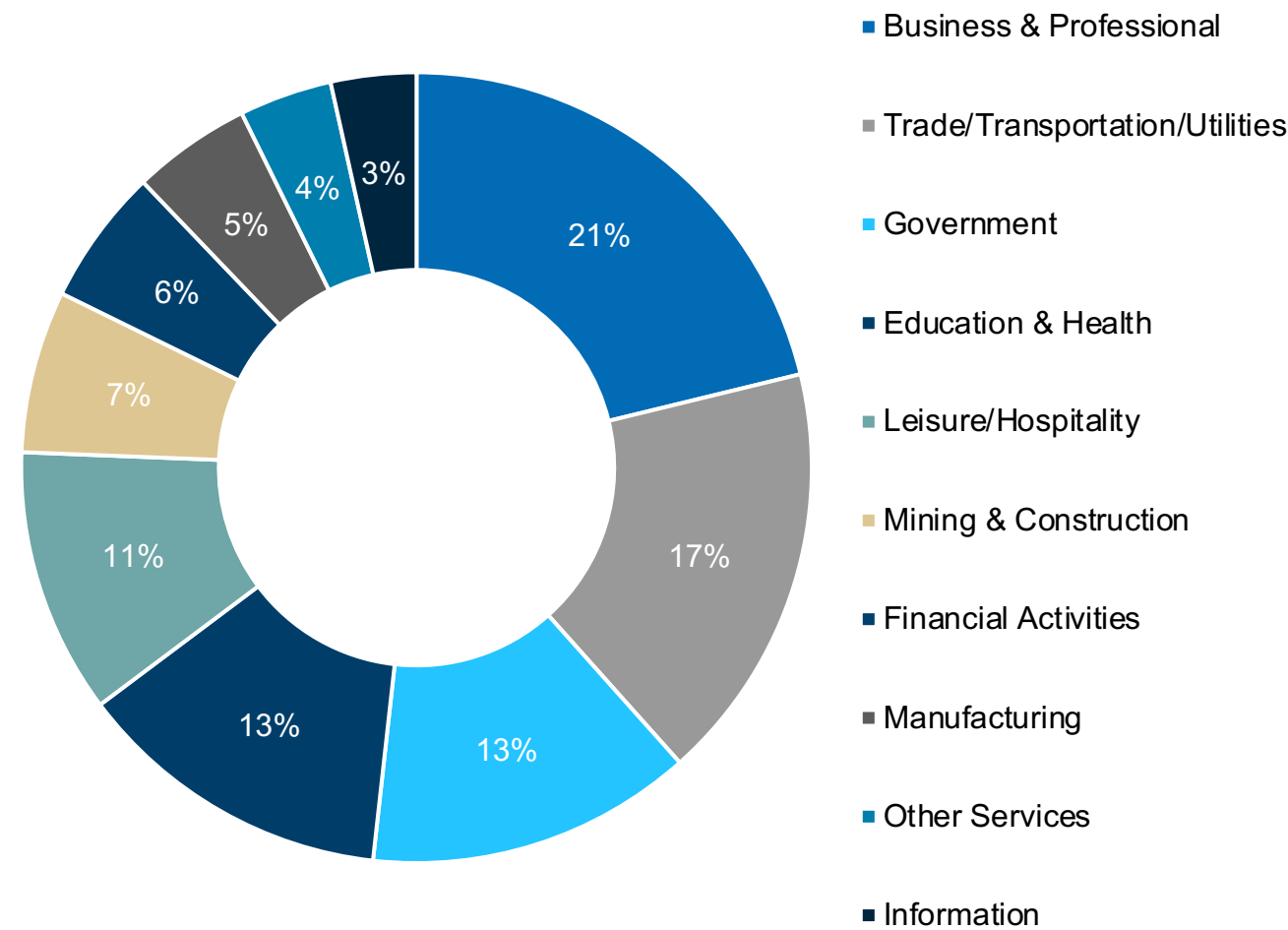
Source: U.S. Bureau of Labor Statistics, Raleigh MSA

Employment Growth Continues across Most Sectors

Known for its technology sector, the Raleigh market’s top two employment industries, business and professional and trade/transportation/utilities, account for 38.4% of jobs. The office-using employment’s business and professional sector is the largest industry sector at 21.2%. Most industries, except other services and information, reported year-over-year job growth. The business and professional and financial activities sectors reported 6.4% and 1.0% year-over-year growth, respectively. Meanwhile, the information sector reported a decline of 0.4% growth year over year.

Employment by Industry, November 2023

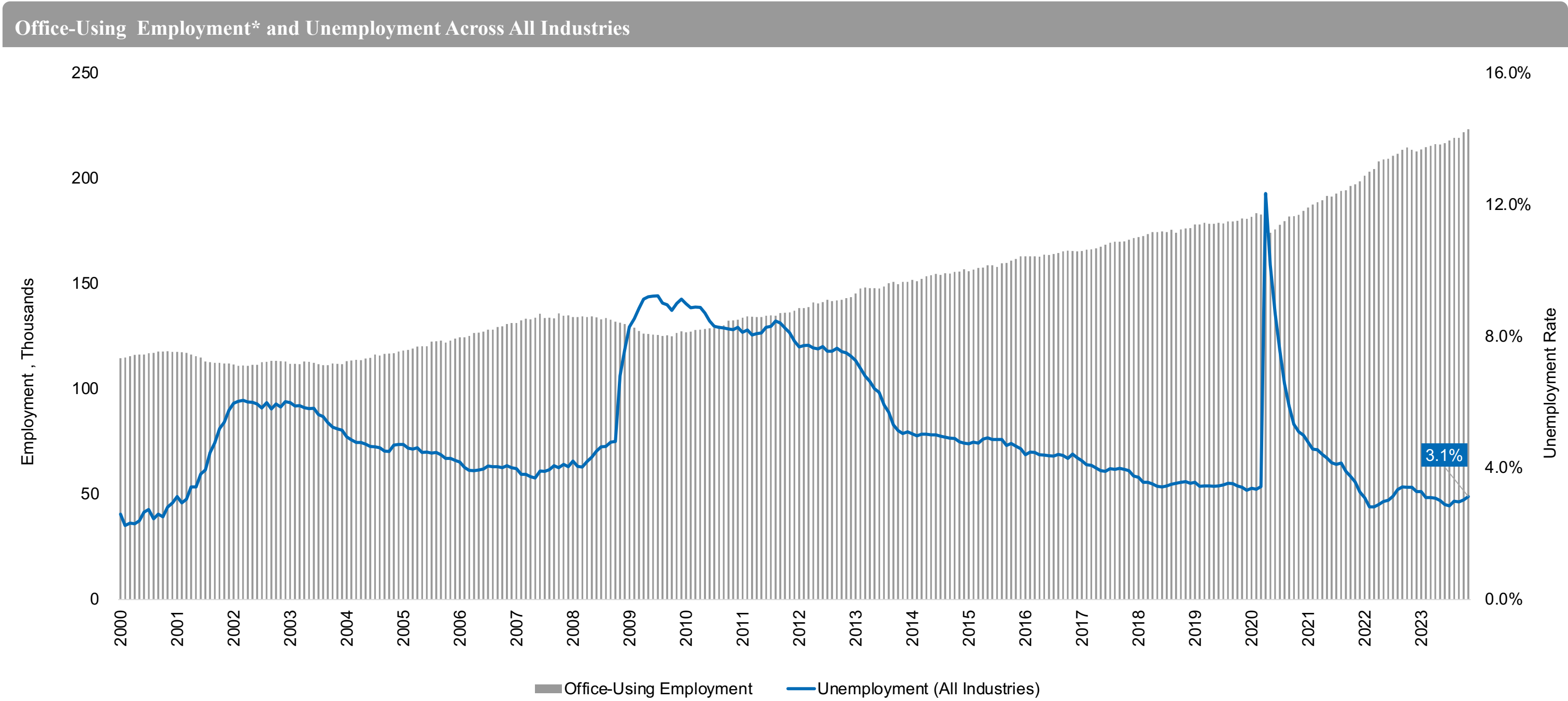
Employment Growth by Industry, 12-Month % Change, November 2023



Source: U.S. Bureau of Labor Statistics, Raleigh MSA

Overall Office-Using Employment Increases to Record High

Office-using employment in the Raleigh market recorded an all-time historical high of 223,280 office-using employees in November of 2023. Currently, the seasonally adjusted unemployment rate is 3.1%, less than the 3.5% average levels reported in 2019, indicating that industries besides office-using jobs are likely contributing to most of the unemployment rate.



Source: U.S. Bureau of Labor Statistics, Raleigh MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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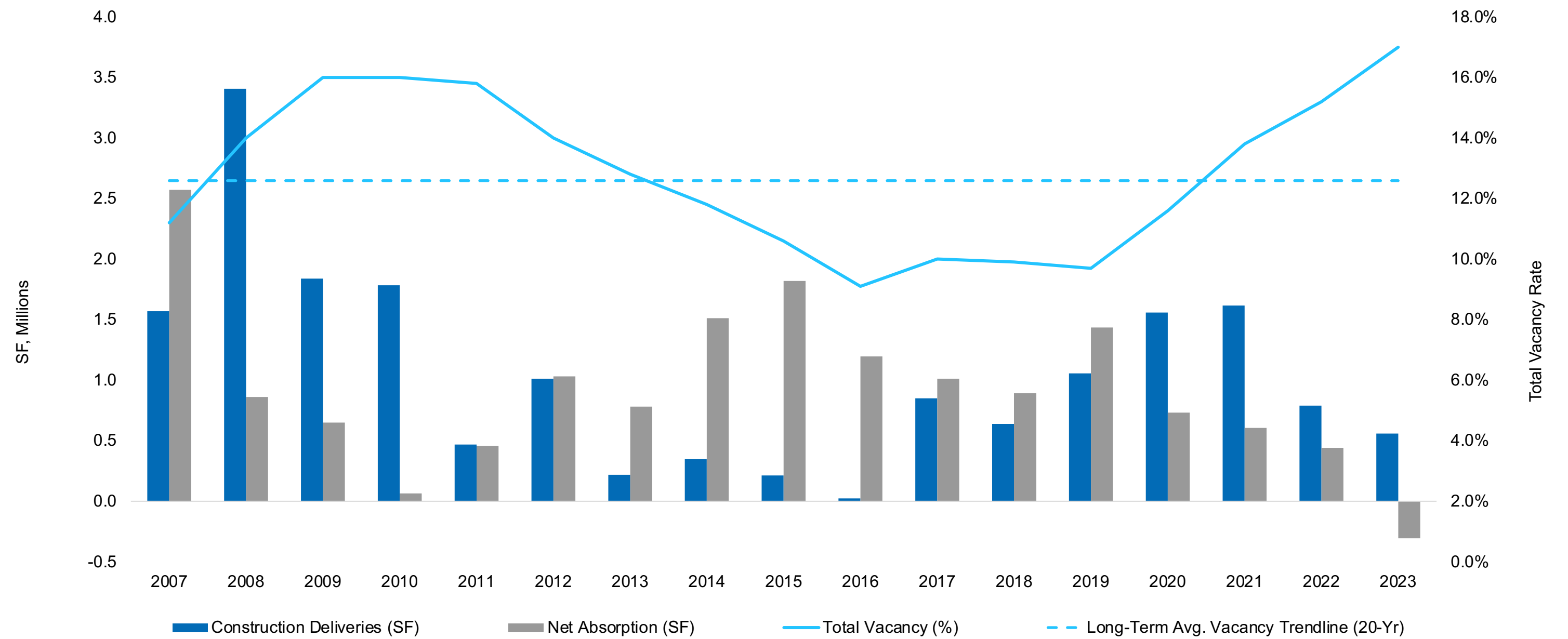
Leasing Market Fundamentals



Vacancy Records Historic High; Net Absorption Records Historic Low

The Raleigh office vacancy rate increased by 180 basis points year over year to 17.0% in the fourth quarter of 2023, above the 20-year vacancy average of 12.6%. Since the fourth quarter of 2019, vacancy rates have generally steadily increased in the market. This can be attributed to a few factors, including continued historically high levels of direct and sublet availability, continued delivery of new office buildings, and several recent years of low yearly absorption. The pandemic era change to hybrid and remote work has only served to exacerbate this trend.

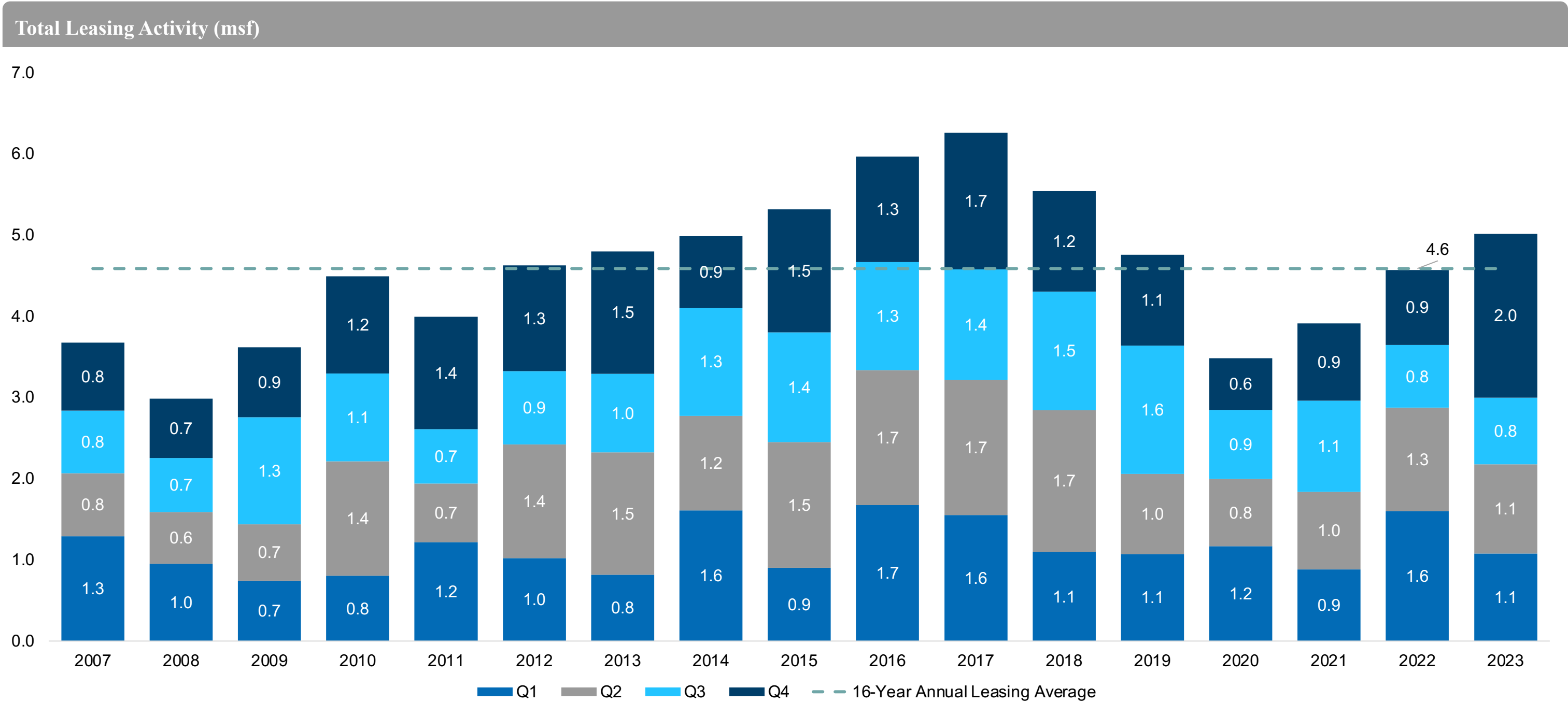
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Picks up in Fourth Quarter

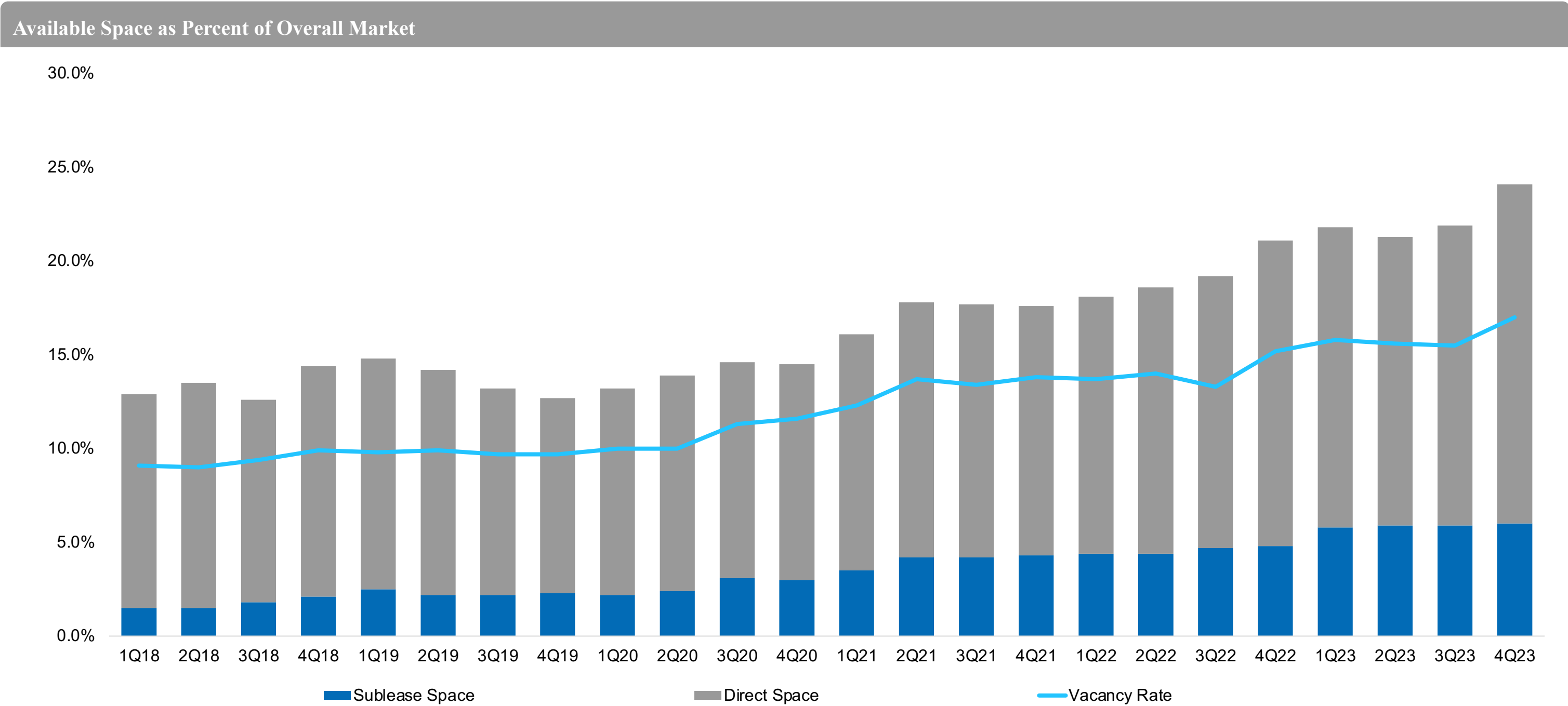
Leasing activity in the market picked up in the fourth quarter of 2023, with 2023’s total leasing activity of 5.0 MSF being above the 16-year average of 4.6 MSF. The fourth quarter of 2023 reported 2.0 SF of leasing activity, above the 16-year fourth-quarter leasing activity average of 1.1 MSF. Overall, the fourth quarter of 2023 had the highest leasing activity on record. The increase in leasing activity is likely being driven by the North Carolina government signing leases for space, as it has relocated its offices due to office modernization projects and biotechnology companies moving into the area.



Source: Newmark Research, CoStar

Vacancy Closes Year at Historic High

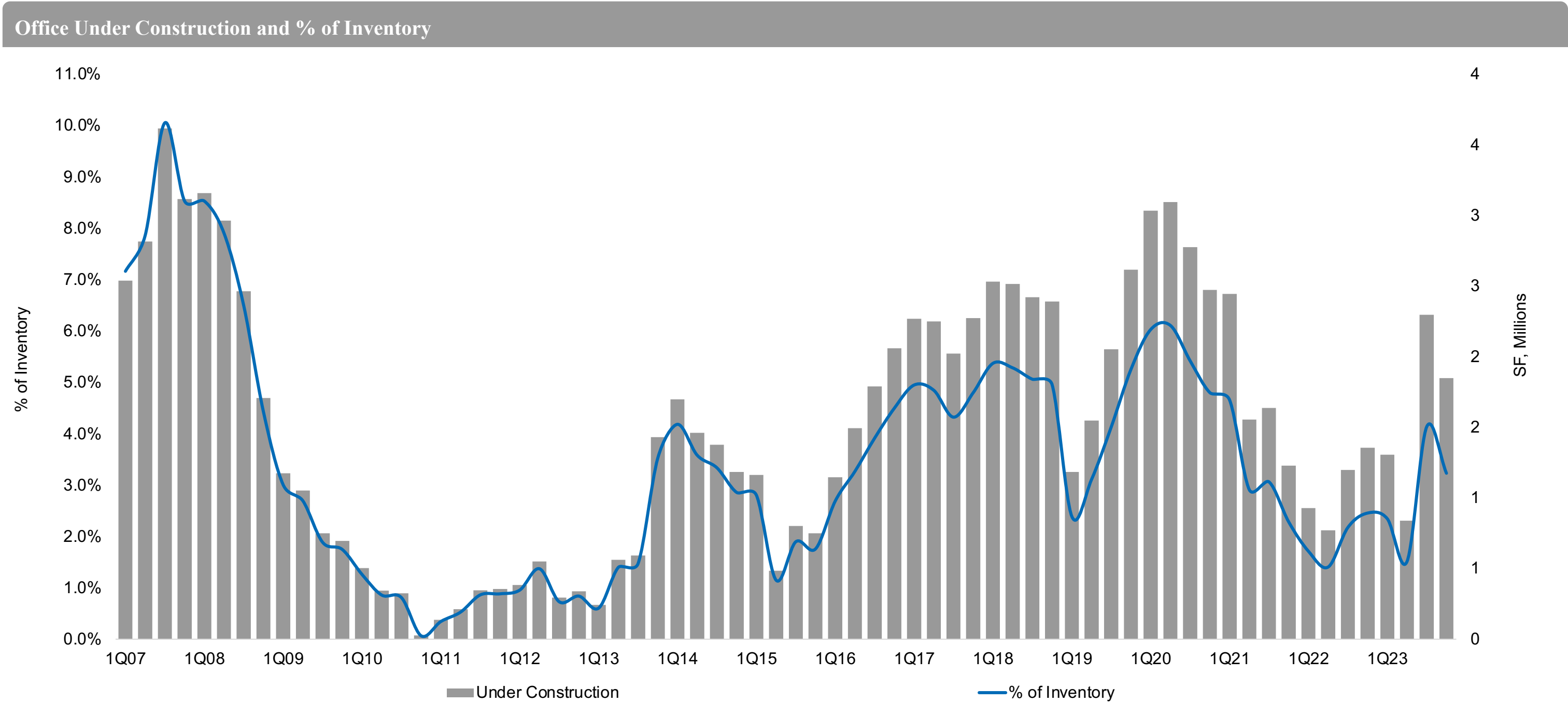
Sublease availabilities in the Raleigh market recorded an all-time high of 6.0% in the fourth quarter of 2023. This reflects a 1.7% quarter-over-quarter increase and a 25.0% year-over-year increase. Direct availability increased 13.1% quarter over quarter and increased 11.0% year over year to 18.1%. Overall, the increase in sublease and direct space resulted in the overall vacancy rate increasing to an all-time high of 17.0%.



Source: Newmark Research, CoStar

Construction Activity Drops

Construction activity rapidly increased between the second and third quarters of 2023, driven by the technology and biotechnology sectors' office usage. The construction pipeline declined quarter over quarter as buildings delivered and as new office starts were impacted by elevated inflation and a higher cost of debt. As of the fourth quarter of 2023, the market had 1.8 MSF under construction, accounting for 3.2% of the market's inventory.

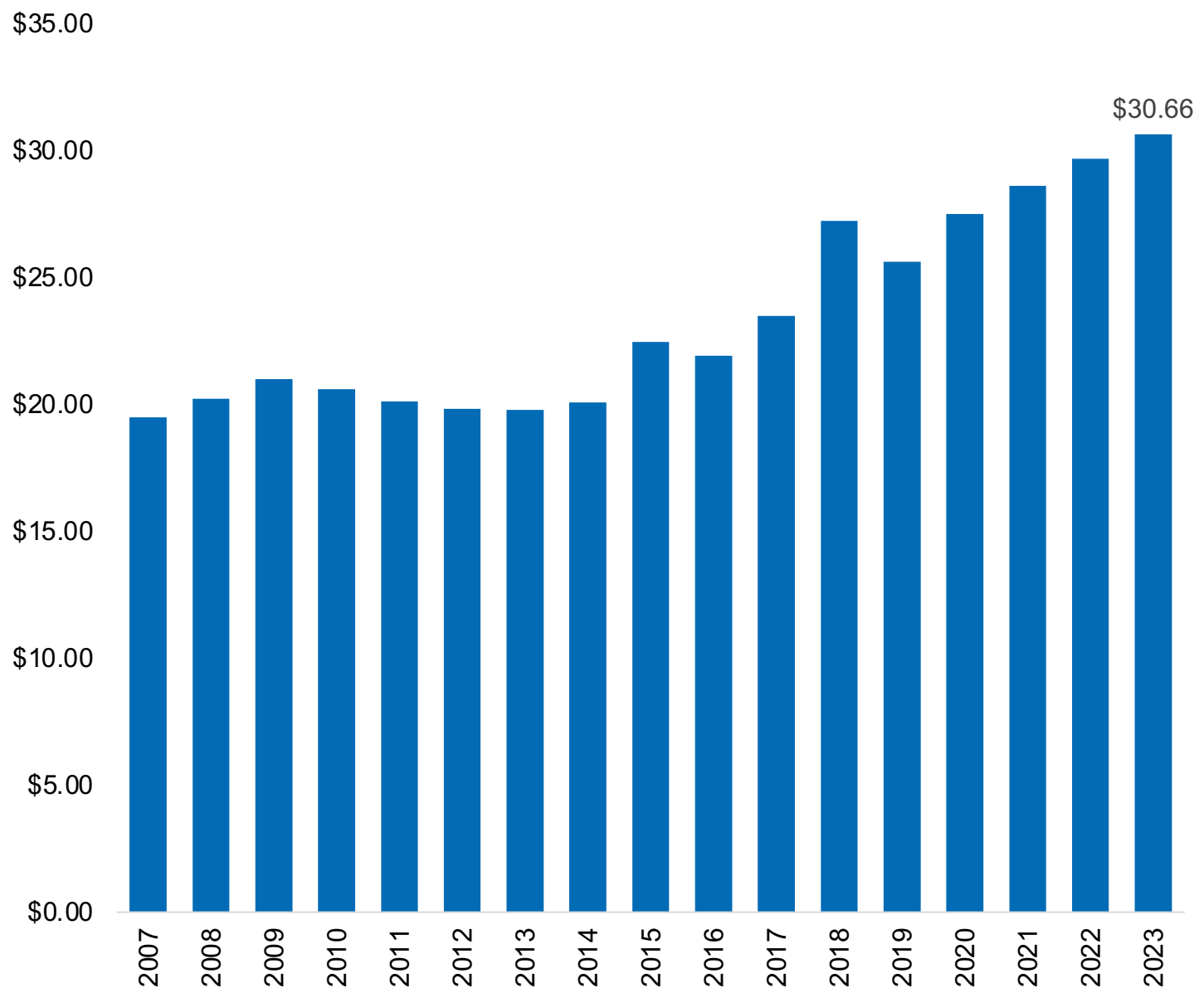


Source: Newmark Research, CoStar

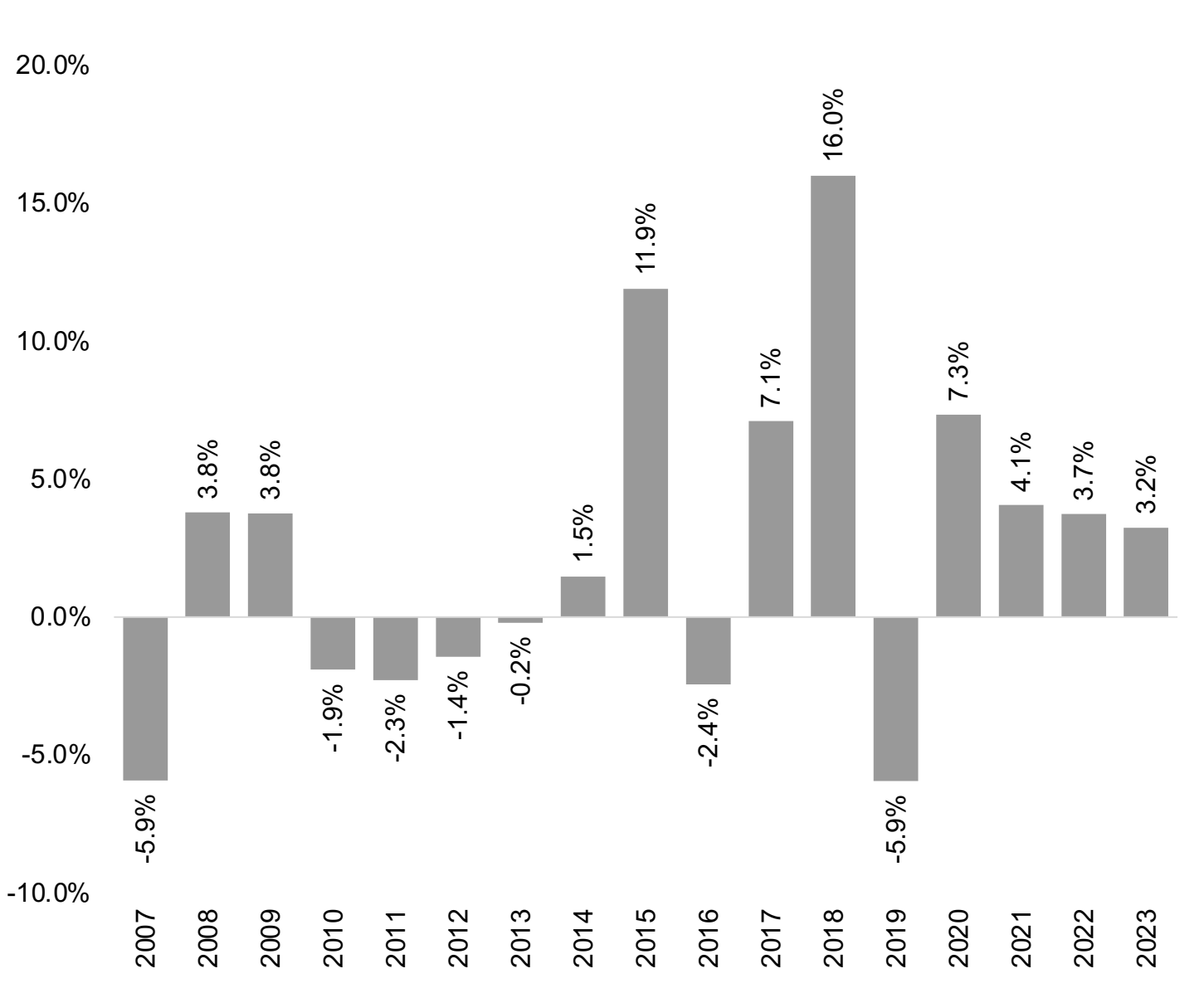
Rents Increase to Historic High

Rents increased by 3.3% quarter over quarter and increased by 3.2% year over year to \$30.66/SF. The flattening of asking rent growth can be attributed to several factors, including rising vacancy, a recent decline in leasing activity and negative absorption.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

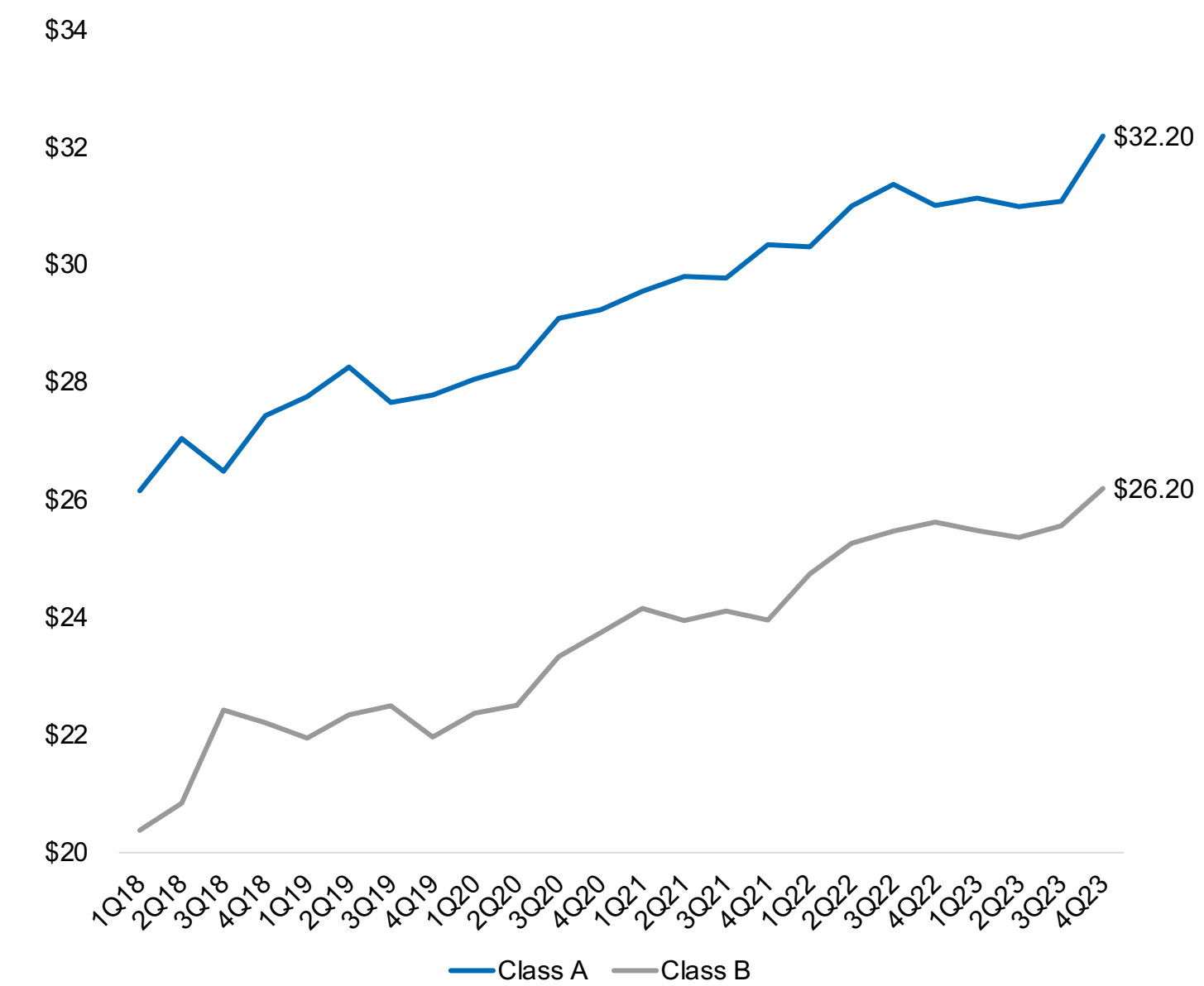


Source: Newmark Research, CoStar

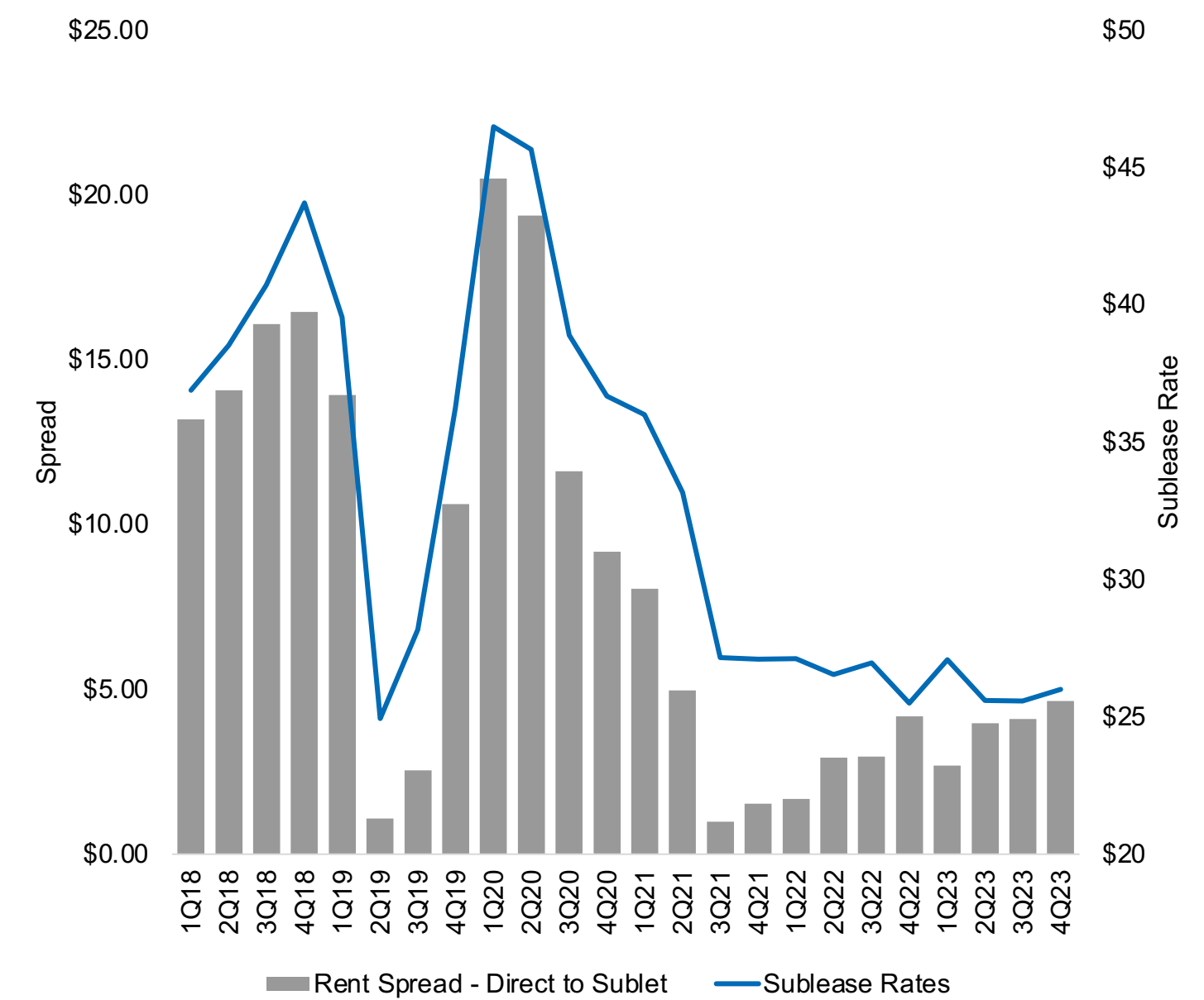
Rent Spread between Class A and Class B Records Recent High

As of the end of the fourth quarter of 2023, Class A rents ended at \$32.20/SF, while Class B reported \$26.20/SF. The rent difference between the two assets is \$6.00/SF, a 3.1% spread increase since the fourth quarter of 2019. Quarter over quarter, the rent spread increased by 8.5%. The increasing divergence between Class A and Class B assets will likely drive more tenants to shed unused space in less desirable assets and lease smaller footprints in higher-quality assets. As more sublease space has entered the market, asking rents for sublease space have increased. Fourth-quarter asking sublease rates have decreased by 1.7% quarter over quarter and increased 2.0% year-over-year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues as a trend in the Raleigh office market. Raleigh’s emergence as a biotechnology hub was on full display this quarter as all the largest nongovernmental leases were signed by biotechnology companies. North Carolina Department of Health and Human Services, subleasing 201,056 SF of space, signed the largest sublease of the quarter. Most of this quarter’s deals were new subleases and direct leases as organizations looked to downsize and take advantage of increasing rent spreads to downsize and relocate into higher-quality assets.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
North Carolina Department of Health and Human Services	Charles Sanders Center	Research Triangle	Sublease	90,000
North Carolina Families Accessing Services through Technology (F.A.S.T) signed the largest sublease of the quarter with its 201,056-SF sublease for the first and second floors of 65 Moore Drive in Durham.				
Mercalis	2250 Perimeter Park Drive	RTP/RDU	Renewal	79,000
Biotechnology data analytics firm Mercalis, formerly TrialCard, has renewed its space on the first, second, and third floors of 2250 Perimeter Park Drive in Morrisville.				
bioMérieux, Inc.	Perimeter Park Three	RTP/RDU	Direct	41,327
French biotechnology company bioMerieux signed a 41,327-SF lease on the second floor of 3015 Carrington Mill Boulevard in Morrisville.				
North Carolina State University	Center for Technology & Innovation	West Raleigh	Sublease	40,035
North Carolina State University subleased 40,035 SF of space on the second and third floors of 1010 Main Campus Drive in Raleigh.				
State of North Carolina	Capital Bank Plaza	Downtown Raleigh	Direct	25,000
The Office of State Human Services relocated to the third, seventh, eighth, and eleventh floors of 333 Fayetteville Street in Raleigh as their old building is demolished and re-built.				

Source: Newmark Research, CoStar



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Raleigh-Durham Office Submarket Overview (Page 1 of 2)

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent	Total Asking Rent (Price/SF)
Durham CBD	4,131,549	-	16.0 %	-19,097	71,302	\$37.17	\$33.79	\$36.31
Raleigh CBD	5,334,796	207,000	16.5 %	19,331	55,254	\$35.81	\$27.01	\$34.92
CBD Total	9,466,345	207,000	16.3 %	234	126,556	\$36.41	\$32.08	\$35.58
Six Forks/Falls of Neuse	6,516,765	819,782	13.8 %	-23,363	35,324	\$38.19	\$25.79	\$34.44
Cary	6,467,047	160,415	14.1 %	-26,866	-65,814	\$28.85	\$25.30	\$28.18
East Raleigh	514,299	-	4.0 %	-464	40,406	-	\$39.75	\$39.75
East Wake County	381,051	-	3.1 %	-	-	-	\$25.62	\$25.62
Franklin County	76,377	-	78.6 %	-	-58,130	-	\$19.95	\$19.95
Glenwood/Creedmoor	2,617,501	-	15.2 %	14,947	68,536	\$37.37	\$24.49	\$34.46
North Durham	569,263	12,500	26.8 %	-	-	-	\$17.92	\$17.92

Source: Newmark Research

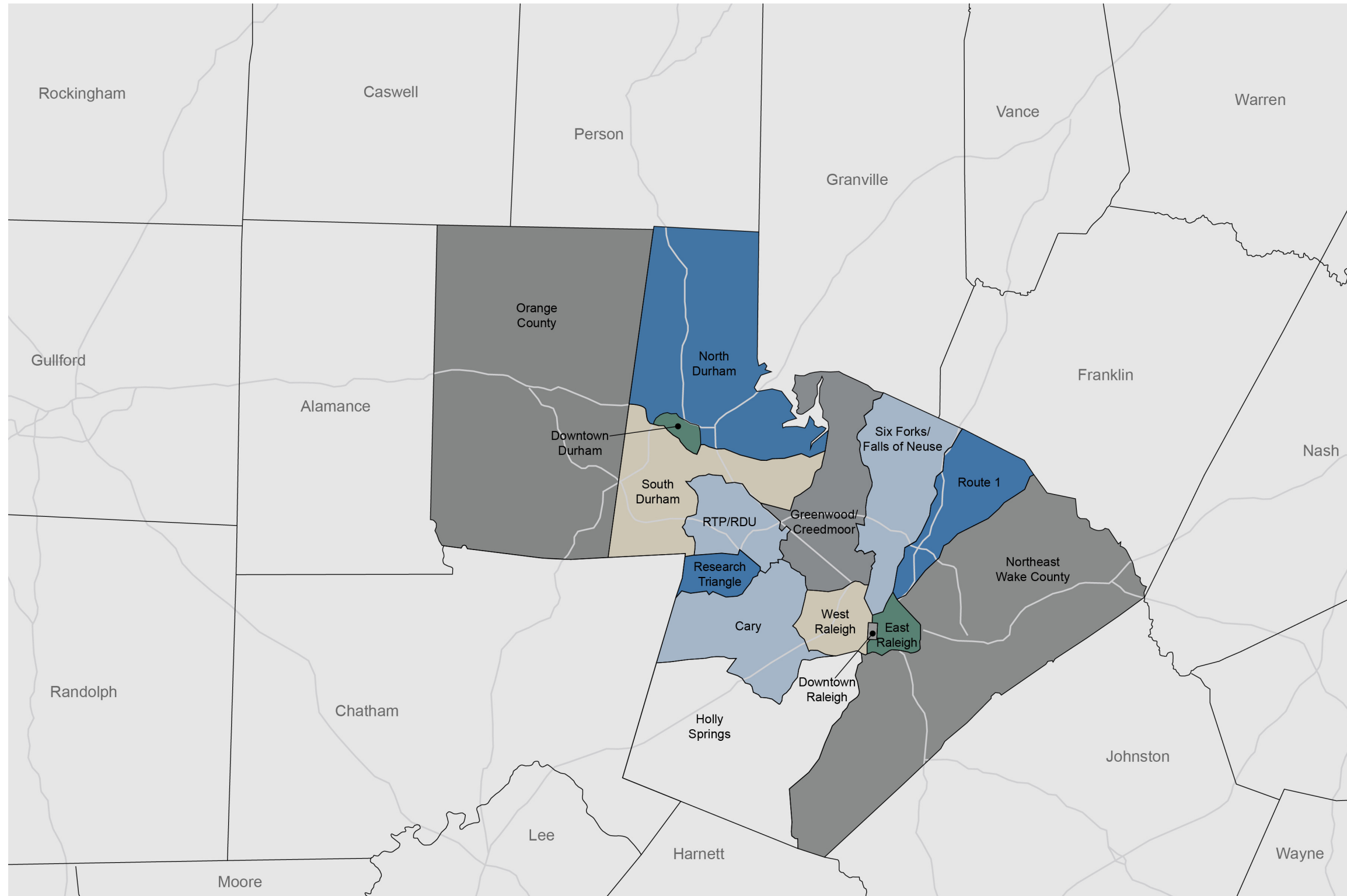
Raleigh-Durham Office Submarket Overview (Page 2 of 2)

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Northeast Wake County	37,190	-	8.2 %	-3,039	1,413	-	\$32.48	\$32.48
Orange County	1,827,261	-	18.5 %	-31,726	23,018	\$31.95	\$27.19	\$29.16
Research Triangle	7,883,270	150,259	12.4 %	-17,816	-239,212	\$26.81	\$28.78	\$27.25
Route 1	1,581,256	31,854	23.8 %	-	-10,140	\$37.91	\$28.09	\$33.98
RTP/RDU	6,282,792	35,000	22.2 %	-38,375	-309,566	\$29.78	\$23.13	\$28.84
South Durham	2,278,289	-	27.4 %	-24,137	-126,447	\$28.05	\$23.73	\$26.99
Southwest Wake County	210,908	200,626	28.4 %	3,652	48,122	\$31.88	\$29.25	\$31.64
West Raleigh	6,768,534	120,694	19.9 %	55,532	150,903	\$31.08	\$29.54	\$30.74
Suburban Total	44,011,803	1,640,630	17.2 %	-91,655	-441,587	\$31.42	\$25.59	\$29.84
Market Total	53,478,148	1,847,630	17.0 %	-91,421	-315,031	\$32.20	\$26.20	\$30.66

Source: Newmark Research

Raleigh-Durham Office Submarket Map



Source: Newmark Research

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