

## COVID-19 hits Raleigh/Durham with unknown impact to a booming market

In the latter half of the first quarter, the COVID-19 pandemic brought business to an unprecedented halt across the country. Starting March 27th, Wake County issued a shelter-in-place order, shortly followed by North Carolina issuing the same ordinance state-wide on March 30th. To slow virus spread, business was limited across The Triangle to essential activities only. While the overall economic effect of COVID-19 on the Triangle is still unknown, historically the market has been resilient through other national crises thanks to a high concentration of institutional industries acting as the backbone of the region. These industries include healthcare, government, higher education, and the growing industries of life sciences and biotechnology.

### Market started the year on stable footing, likely to be upended while uncertainty persists

Prior to uncertainty brought on by the COVID-19 crisis, Raleigh-Durham's office market was poised for growth with strong occupier leasing activity, declining availability and an uptick in asking rents. 1.1 million square feet (msf) were leased in the first quarter, with notable transactions including Q2Solutions (365,366 sf), Martin Marietta (125,000 sf), and Envestnet Inc. (81,810 sf). Availability sits at 13.5%, down only 10 basis points year over year, but still declining even with a robust pipeline. Asking rents continued to trend upward, increasing 11.0% year over year to \$27.98 per square foot (psf). With the pandemic halting market activity, these trends could stall or reverse in coming months, and impact is dependent on how long current circumstances extend.

### Preleasing activity is strong with ongoing flight to quality

With about 4.0 msf of development in the pipeline across The Triangle, progress on construction projects continues as planned and tenants are eager to lease brand new space. Some notable preleases include Envestnet, Martin Marietta, and Golden Corral at Two Tower at Bloc[83], GlenLake Seven, and Palisades III, respectively. A new development at Crabtree Terrace (168,000 sf) delivered this quarter, while The Smoky Hollow development (including 450,000 sf of Class A office space in two phases) in downtown Raleigh, is still on track to deliver at the end of the second quarter of 2020. Future proposed projects may experience delays due to slower permit processes and disruptions in office demand in the immediate future.

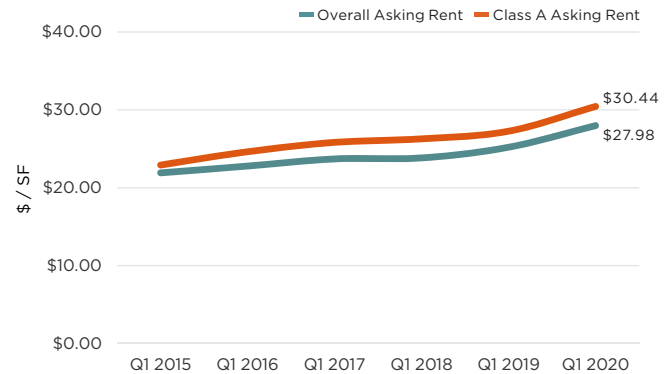
### Outlook

- After several years of steep increases, rent growth is poised to slow notably in the aftermath of COVID-19, as transaction volume decreases in the near term
- As tenants with upcoming real estate decisions pause and re-evaluate leasing needs, office availability will begin to rise and present more tenant-favorable conditions than in previous quarters
- Faced with overwhelming uncertainty, many tenants are opting to renew in place versus initiate a search for new space

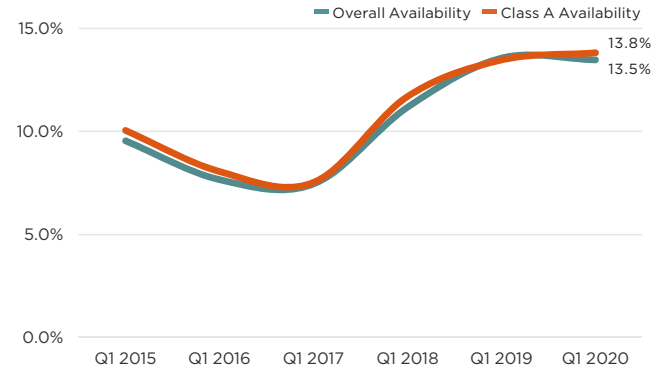
### KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	52.7 MSF	<b>53.6 MSF</b>	▲
Availability Rate	13.6%	<b>13.5%</b>	▼
Asking Rental Rate	\$25.19	<b>\$27.98</b>	▲
Class A Asking Rental Rate	\$27.26	<b>\$30.44</b>	▲
Quarterly Leasing Activity	0.8 MSF	<b>1.1 MSF</b>	▲

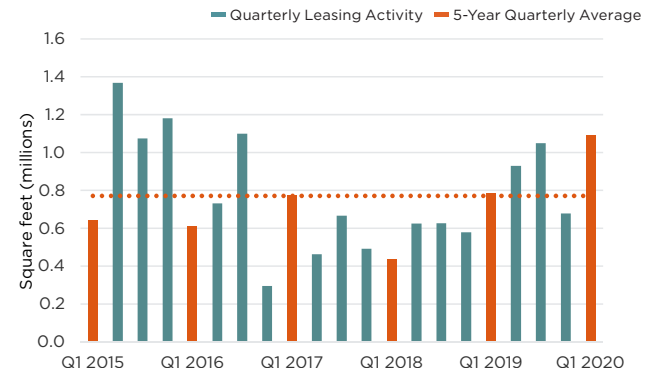
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

9 of 10

major transactions were new locations or relocations

57.5%

of large transactions occurred in the RTP/RDU submarket

50.5%

Healthcare sector tenants represented 50.5% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Q2 Solutions	365,366	2400 Ellis Road	New Location	RTP/RDU	Healthcare
Martin Marietta	125,000	4143 Parklake Avenue	New Location	Glenwood/Creedmoor	Professional Services
Investnet	81,810	621 Hillsborough Street	New Location	West Raleigh	Financial Services
UCB Biosciences, Inc.	50,000	4000 Paramount Parkway	New Location	RTP/RDU	Pharmaceuticals
Golden Corral	42,500	5401 Trinity Road	Relocation	West Raleigh	Retail
Vontier	36,411	5438 Wade Park Boulevard	New Location	West Raleigh	Transportation
Patheon	16,447	4721 Emperor Boulevard	New Location	RTP/RDU	Pharmaceuticals
United States Department of Agriculture	14,240	4405 Bland Road	New Location	6 Forks Falls of Neuse	Government
SignalPath	14,000	1101 Haynes Street	New Location	East Raleigh	Healthcare
PrimeLending	5,749	5400 Glenwood Ave	Renewal	Glenwood/Creedmoor	Financial Services

Source Savills Research

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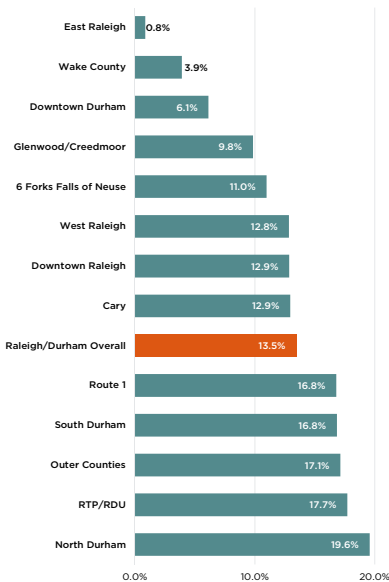
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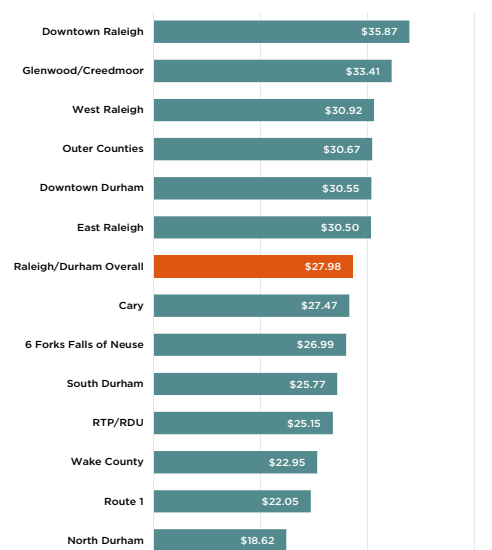
AVAILABILITY RATE COMPARISON

Raleigh/Durham Submarkets



RENTAL RATE COMPARISON (\$/SF)

Raleigh/Durham Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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