

Leasing activity remains at a record low, but the size of deals has picked up in the Raleigh/Durham market

As occupiers plan to reengage with their office space, they will be able to leverage softening market conditions and take advantage of the landlords that have large availabilities in their portfolio. In the first quarter of 2021, we saw a new record low in leasing activity, 590,554 square feet (sf), down 28% over the quarter and 46% from Q1 2020. Almost half of leasing activity (44%) came from a single transaction closed by California-based company, Adverum Biotechnologies, which leased 262,667 sf in a new facility at 14 Tw Alexander Drive in the Research Triangle submarket. The life sciences sector has been an important demand driver throughout the pandemic. As the vaccinated population increases, leasing activity will likely follow suit with a pick-up in demand as tenants feel safer in their office environments and more comfortable signing new lease agreements.

Record high availability means greater leverage for tenants to ink below market deals

The longevity of the pandemic has weakened the Raleigh/Durham market and shifted the market pendulum away from landlords and into the tenant's favor. Availability sits at 16.3%, up 280 basis points year over year and likely to remain elevated as it will take several quarters for significant demand-shifts to be seen. At the end of Q1, the Raleigh market had more than 1.4 million square feet (msf) of sublet space listed on the market, with an additional 0.4 msf that can be made available to larger occupiers. With rising availability rates, stemming mainly from the abundant sublease space, tenants may continue to see a more deal-friendly market on their side.

Rents see a moderate increase despite the pandemic and developers show confidence in the future of the market with increased projects planned

Asking rents rose 4.0 % year over year to \$29.11 per square foot (psf) as a result of new product being added to the market at pre-pandemic rates, rather than landlords actually increasing asking rents. Despite the weakening market dynamics, landlords have been hesitant to reprice their listings, rather, choosing to offer other incentives and concessions. Regardless of the pandemic, construction projects underway have continued and there is 2.3 msf of development in the pipeline across The Triangle. Notable developments that delivered in Q1 include 421 North Harrington Street (226,000 sf) and Tower Two @Bloc[83] (281,634 sf) in the Downtown Raleigh submarket, Glenlake Seven (130,000 sf) in the Glenwood submarket, and 4000 Paramount (90,000 sf) in the Research Triangle submarket.

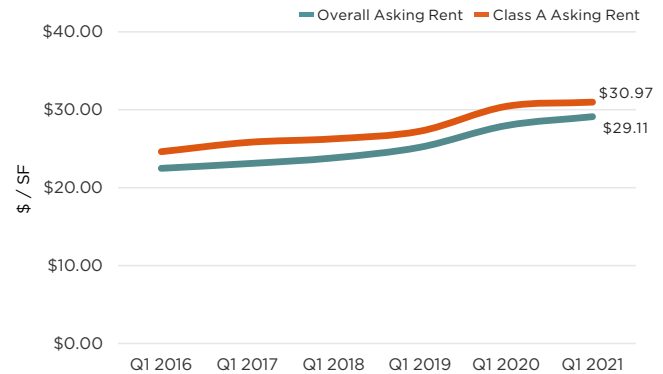
Outlook

- Availability is likely to rise as companies adopt a hybrid work model and look to reduce their footprint by returning space to market.
- Landlord concessions may continue to be more aggressive, notably from landlords with new buildings, as they are competing with discounted sublease space already built out.
- As the COVID-19 vaccine continues to become more widespread, market activity may pick-up and end the year on a higher leasing trajectory than most predicted.

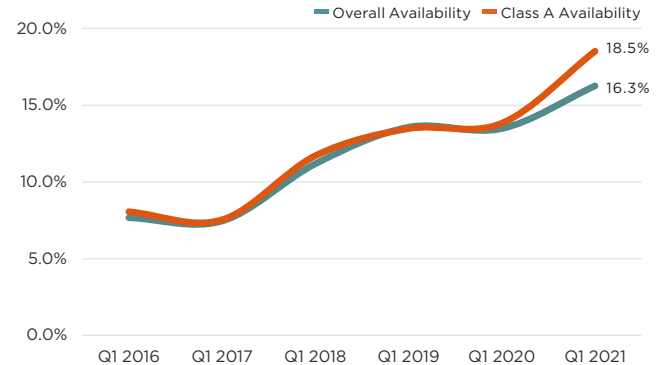
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	53.8 MSF	57.3 MSF	▲
Availability Rate	13.5%	16.3%	▲
Asking Rental Rate	\$27.98	\$29.11	▲
Class A Asking Rental Rate	\$30.44	\$30.97	▲
Quarterly Leasing Activity	1.1 MSF	0.6 MSF	▼

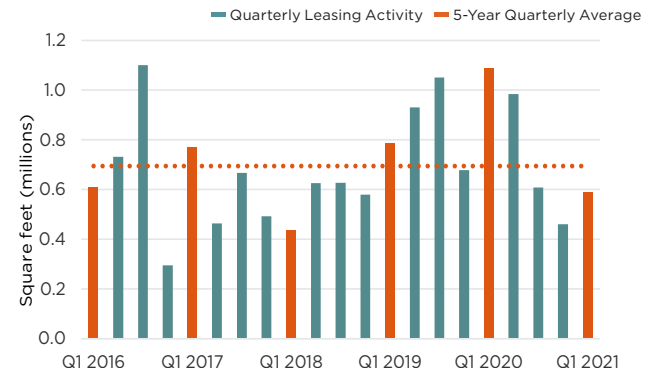
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

66.6%

major transactions were new locations by square footage

88.7%

of large transactions occurred in the RTP/RDU submarket by square footage

59.1%

Pharmaceuticals sector tenants represented 59.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Adverum Biotechnologies, Inc.	262,667	14 Tw Alexander Drive	New Location	RTP/RDU	Pharmaceuticals
Schneider Electric USA	65,000	1101 Shiloh Glenn Drive	Relocation	RTP/RDU	Energy
Charles & Colvard, Ltd.	36,344	170 Southport Drive	Renewal	RTP/RDU	Retail
Lulu Press, Inc	19,537	700 Park Offices Drive	New Location	RTP/RDU	TAMI
EBSCO	15,703	2800 Meridian Parkway	Renewal	South Durham	TAMI
Martin Marietta	13,844	2235 Gateway Access Point	New Location	West Raleigh	Agriculture
Liberty Healthcare Corp. of North Carolina	10,801	5540 Centerview Drive	Renewal	West Raleigh	Healthcare
Unicorn HRO	10,326	2505 Meridian Parkway	Renewal	RTP/RDU	Financial Services
TKO Suites	10,008	5540 Centerview Drive	Renewal	West Raleigh	Real Estate

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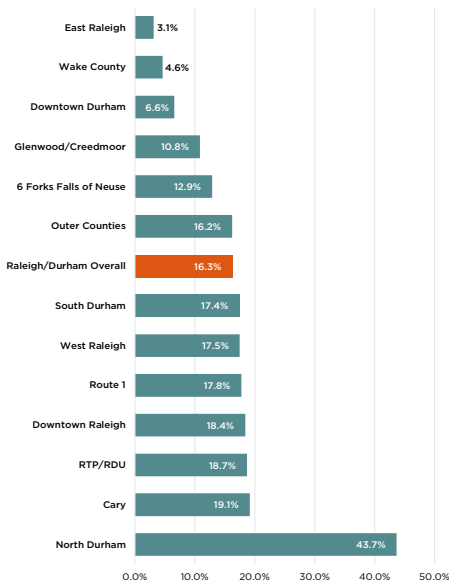
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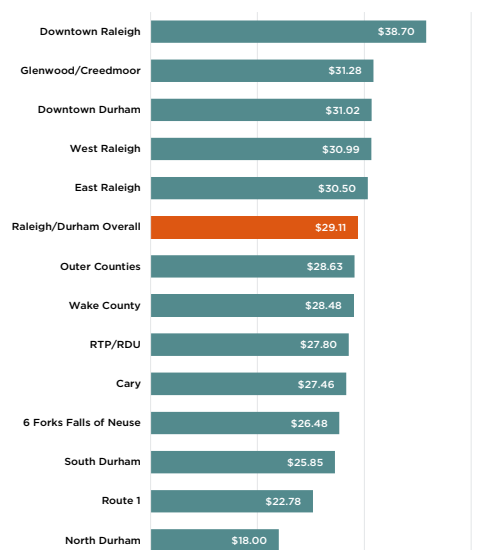
AVAILABILITY RATE COMPARISON

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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