

Market activity continues to increase, but occupiers are still reluctant to lease large blocks of space

By the close of the third quarter, occupier activity hovered near Q2 levels, but fewer large leases were signed. In Q3, leasing activity totaled 0.8 million square feet (msf), down 9% quarter over quarter, but up 33% compared to one year ago – signalling that the market is still in recovery mode, but there is optimism with firmer return-to-office plans. Still a few notable deals closed including Cree LED taking 89,167 square feet (sf) at The Grid, Glaxo Smith Kline leasing 68,000 sf at the American Tobacco Campus, and McAdams leasing 55,000 sf at Tower Two at Bloc [83].

Availability rates drop with increased activity

In the first half of 2021, sublease space caused availability rates to reach an all-time high of 16.4%. As 2021 nears its end, sublease availability has declined as occupiers are taking advantage of flexible, lower cost sublease options and organizations are re-occupying marketed sublease space. With availability now at 16.1%, it has come down some from Q2, but is still much higher than the 14.4% seen one year ago. Notable declines were seen in the downtown Raleigh submarket where availability declined to 16.3% in Q3 (compared to 18.8% in Q2). This drop in availability in the downtown Raleigh submarket is largely in part due to recently delivered buildings and large subleases being leased.

Ongoing pandemic effects keep asking rents depressed in most Raleigh submarkets; premium pricing remains firm for top-of-market space

Overall average asking rents continue to face downward pressure, now at \$28.92 per square foot (psf) for the market. Class A rents have similarly trended down, now at \$30.62 psf. However, for those tenants seeking out trophy-quality space there is not likely to be much movement in base rents. Newly constructed space continues to post premium pricing and demand is strong. Most of the new construction is happening in the RTP submarket and surrounding counties, as the life science and manufacturing industries continue to grow. Downtown Durham has been the most active submarket in the past quarter as many large, multinational companies have made sizeable commitments and developers continue to announce new projects. The asking rents in Downtown Durham for new, Class A space, are at an all-time high of \$37.22 psf - well-above the surrounding submarkets, and organizations are willing to pay top dollar for highly-amenitized space to retain and hire talent.

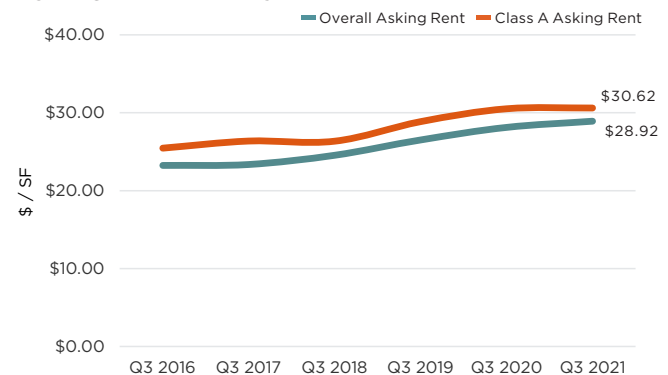
Outlook

- Occupiers in the market will look to the discounted sublet inventory as viable options, but as competition heats up for talent, they may be forced to seek more attractive, high-end offices
- Downtown Durham and RTP will continue to see the majority of activity, and rents will likely elevate due to continued interest from the life science and manufacturing sectors
- The drop-in overall average rental rates could be temporary, as sublease space continues to be leased and landlords will begin to feel more confident in raising their direct asking rents

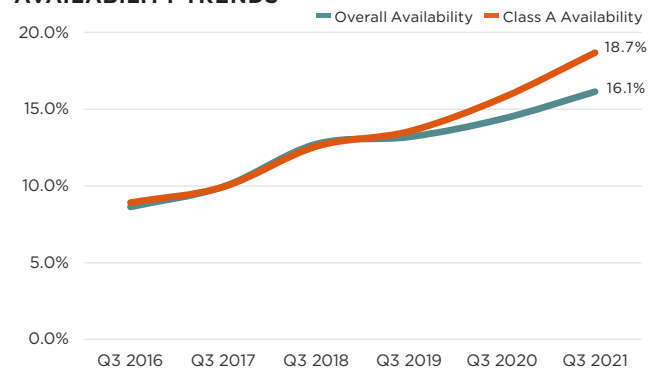
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	55.6 MSF	58.4 MSF	▲
Availability Rate	14.4%	16.1%	▲
Asking Rental Rate	\$28.13	\$28.92	▲
Class A Asking Rental Rate	\$30.51	\$30.62	▲
Quarterly Leasing Activity	0.6 MSF	0.8 MSF	▲

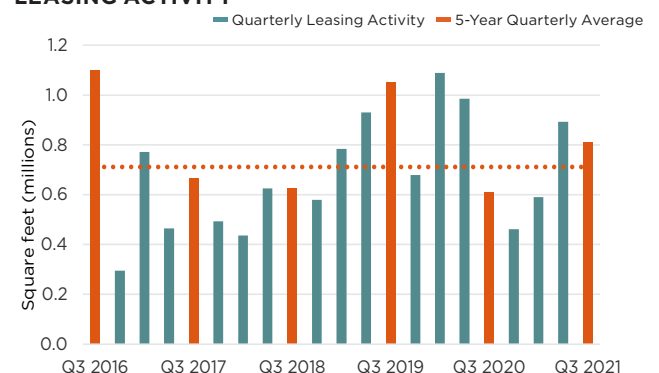
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

56.0%

of major transactions were new locations by square footage

43.5%

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

48.8%

Manufacturing and Healthcare sector tenants represented 48.8% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Cree LED	89,167	4001 E NC Highway 54	New Location	RTP/RDU	Manufacturing
Glaxo Smith Kline	68,000	410 Blackwell Street	New Location	Downtown Durham	Healthcare
McAdams	55,000	621 Hillsborough Street	Relocation	West Raleigh	Engineering
IXL Learning	45,300	1600 Perimeter Park Drive	Relocation	RTP/RDU	TAMI
Pacific Western Bank	36,500	555 S Mangum Street	Relocation	Downtown Durham	Financial Services
Pike Engineering	31,304	4721 Hargrove Road	New Location	Route 1	Engineering
Icagen, Inc	27,438	1030 Swabia Court	Relocation	RTP/RDU	Healthcare
Industrious	27,052	101 Glen Lennox Drive	New Location	Outer Counties	Coworking
Clark Nexsen	25,000	421 N Harrington Street	New Location	Downtown Raleigh	Architecture
NHanced Semiconductors	25,000	800 Perimeter Park Drive	Renewal	RTP/RDU	Manufacturing

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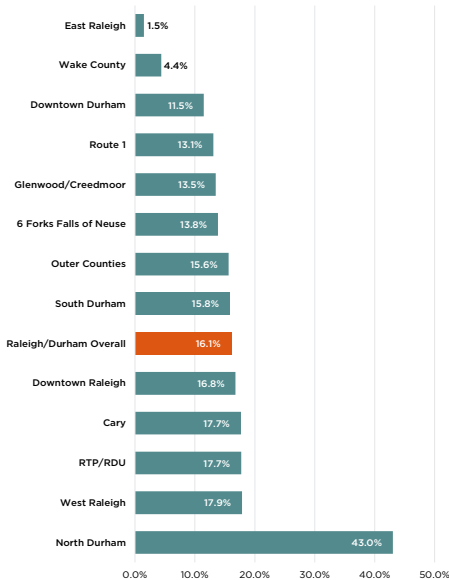
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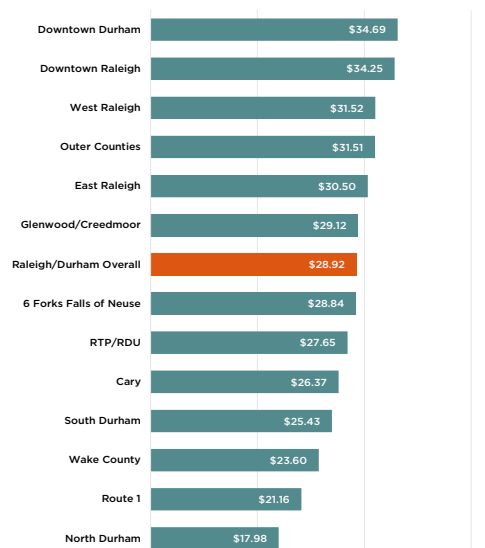
AVAILABILITY RATE COMPARISON

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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