

Omicron variant pushes pause on Raleigh office market recovery at year-end

Despite large amounts of touring activity and chatter in the Raleigh office market, activity was lower than the previous quarter as occupiers decided to take a wait-and-see approach amidst the new Omicron variant. Just 559,483 square feet (sf) was signed in Q4 2021, down from the 811,556 sf in Q3 2021, but ahead of the 460,996 sf seen a year prior. Overall market availability increased to 16.9% in Q4 – a record high rate for the market that reported availability at 12.9% pre-pandemic. Key submarkets such as Downtown Raleigh and Research Triangle Park, where major tenants are located, saw a rise in availability from 16.7% and 17.7% to 19.9% and 18.7%, respectively.

Overall rents rise in Raleigh to end the year on a high

In Q4 2021, the Raleigh office market remained on track with the rise of overall asking rental rates to \$29.23 per square foot (psf), up \$1.24 psf from Q4 2020. Certain submarkets in the Triangle continue to shine, specifically the Downtown Raleigh office submarket seeing the largest jump from \$34.25 psf in Q3 to \$36.07 psf in Q4. As corporate relocations continue to benefit the market, landlords will likely hold their asking rental rates in light of the demand. Submarkets with greater supply of sublet space, such as Research Triangle Park and Downtown Durham, will not likely see overall asking rents climb until most of that discounted space is absorbed.

High construction numbers and new development announcements continue to spur change

A major driver of the increase in rental rates throughout the region is the newly built, class A office space being delivered with elevated asking rates. Downtown Raleigh and Downtown Durham are seeing a major influx of these new developments, mostly office conversions and ground up projects, whereas the Research Triangle Park submarket is seeing an influx of developments in the lab and R&D product class. Market wide, Raleigh has 2.7 million square feet (msf) under construction and more than 3.0 msf of office projects waiting for the green light to begin break ground. The demand for new projects has certainly been a driving factor for these announcements, but the region has an enhanced draw due to the talented labor pools and lower cost of doing business that growing occupiers are keen to utilize.

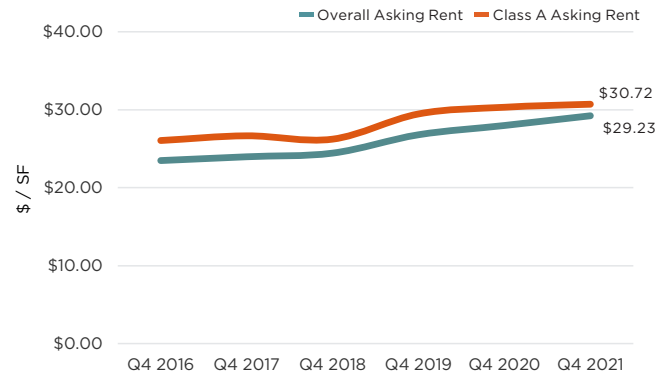
Outlook

- Technology and life science users will continue to relocate and grow their footprint in the region due to the well-educated and growing labor pool, government incentives, and lower cost of doing business
- Developers in the Triangle will likely continue to be bullish, however, this may result in increased availability and asking rental rates up over the short term
- The continued strain of the pandemic and ongoing uncertainty is directly affecting leasing volume, but this may wane as companies have more clarity on return-to-office in 2022

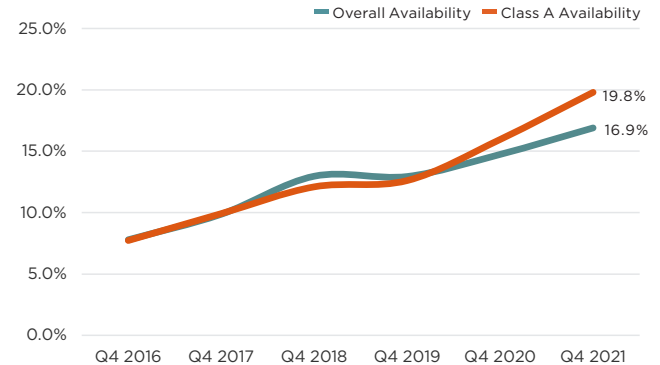
KEY STATISTICS

	Q4 2020	Q4 2021	y-o-y Change
Inventory	55.7 MSF	57.6 MSF	▲
Availability Rate	14.7%	16.9%	▲
Asking Rental Rate	\$27.99	\$29.23	▲
Class A Asking Rental Rate	\$30.33	\$30.72	▲
Quarterly Leasing Activity	0.6 MSF	0.7 MSF	▲

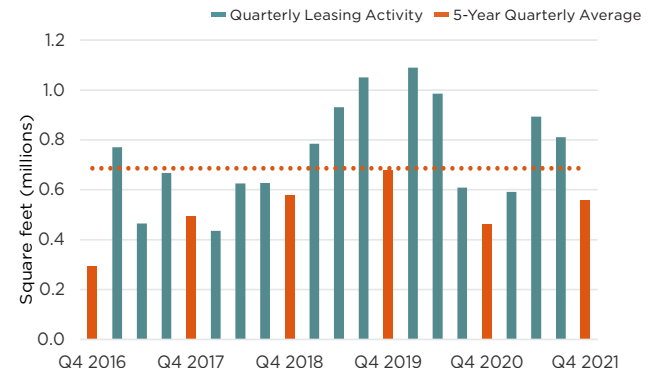
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

78.3%

of major transactions were **relocations** by square footage

43.6%

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

35.2%

Healthcare sector tenants represented 35.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Undisclosed	71,032	5827 S Miami Boulevard	Relocation	RTP/RDU	Healthcare
Garmin	62,463	12040 Regency Parkway	Relocation	Cary	TAMI
Undisclosed	36,206	5927 S Miami Boulevard	Relocation	RTP/RDU	Healthcare
Fifth Third Bank	28,061	305 Church At North Hills Street	Relocation	6 Forks Falls of Neuse	Financial Services
ServiceTrade	25,883	5003 S Miami Boulevard	Relocation	RTP/RDU	TAMI
Undisclosed	19,038	5000 Falls Of Neuse Road	New Location	6 Forks Falls of Neuse	N/A
Tranzact	18,913	421 Fayetteville Street	New Location	Downtown Raleigh	Financial Services
Progressive Casualty Insurance Company	16,182	1616 E Millbrook Road	Renewal	6 Forks Falls of Neuse	Financial Services
Oxford University Press	15,343	4000 CentreGreen Way	Relocation	Cary	TAMI
BioDelivery Sciences International	11,925	4130 Parklake Avenue	Renewal	Glenwood/Creedmoor	Pharmaceuticals

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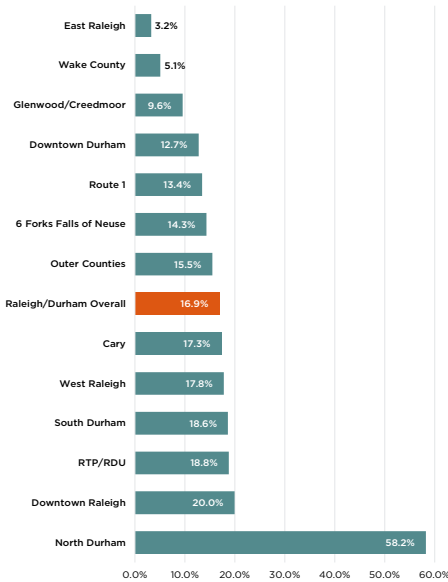
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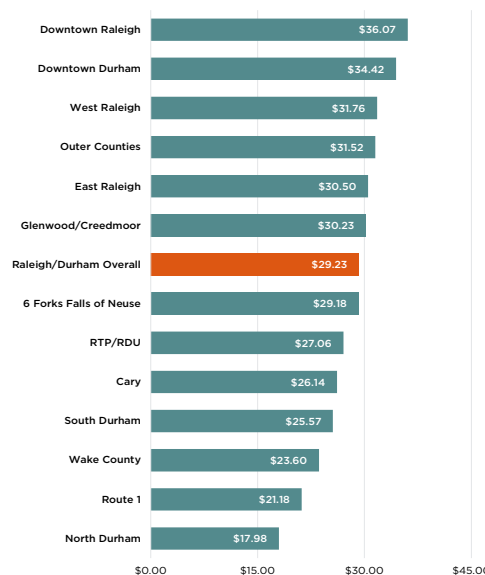
AVAILABILITY RATE COMPARISON

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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