4Q24

Raleigh-Durham Office Market Overview

Market Observations

Economy

– The market's unemployment rate declined by 6 basis points year over year to 3.1%, remaining below the five-year average of 4.0%.

– Employment growth decelerated by 69 basis points to 1.8% year over year, remaining ahead of the national average of 1.4%.

– Most sectors reported employment growth, with education and healthcare leading the way, up 5.6% over the past year.

– Office-using jobs in the market dipped by 11 basis points to 215,040 jobs from the all-time high of 215,276 office-using jobs recorded at the end of May 2024.

Leasing Market Fundamentals

– Annual full-service rental rates declined from their historic high to $30.63/SF. However, they remain 1.3% higher than rates reported during the fourth quarter of 2023.

– Occupancy declined quarter over quarter, as the market continues to work through the new deliveries that occurred throughout the year, pushing overall vacancy rates up by 40 basis points to a historic high of 20.9%.

– The under-construction pipeline expanded to 203,381 SF under construction but remains well below historic averages as the impacts of higher financing and construction costs have slowed construction starts.

– Total leasing activity closed the quarter 44.8% below the 16-year fourth-quarter average of 1.1 MSF at 661,374 SF.

Major Transactions

– Smith Anderson signed the largest lease of the fourth quarter of 2024 when it renewed its space at 150 Fayetteville Street.

– Firms closed out 2024 by delaying long-term leasing decisions and opting for short-term extensions of their leases as they evaluate and shift their return-to-work policies.

– Many companies have begun to change their policies to require employees be back in the office for four days per week, up from the previous standard of three. This is expected to have major implications on office footprints and occupancy strategies.

– Moving forward, it is expected that companies will be seeking space in locations that that offer high quality amenities and are located near their employees to lessen the burden of returning to office on employees. There are currently several large users in the market seeking space that meets these requirements.

Outlook

– The office market began to show signs of recovery but is projected to experience slower growth in the near term. Office investment activity will be subdued in the near term due to elevated inflation, steeper cost of debt, and muted demand and will pick up as lower construction costs spurs new projects.

– As leases signed pre-pandemic expire, more tenants are likely to reduce their underutilized space, opting for smaller footprints in higher-quality buildings. This coupled with the market's recent historically elevated deliveries will push vacancy rates to new highs, until the market is able to absorb the new inventory that has recently delivered.

– The office market is expected to remain tenant-friendly, with stagnant demand keeping overall asking rates flat or modestly declining.

– Vacancy is expected to remain elevated as the market works through the substantial deliveries that occurred throughout the year.

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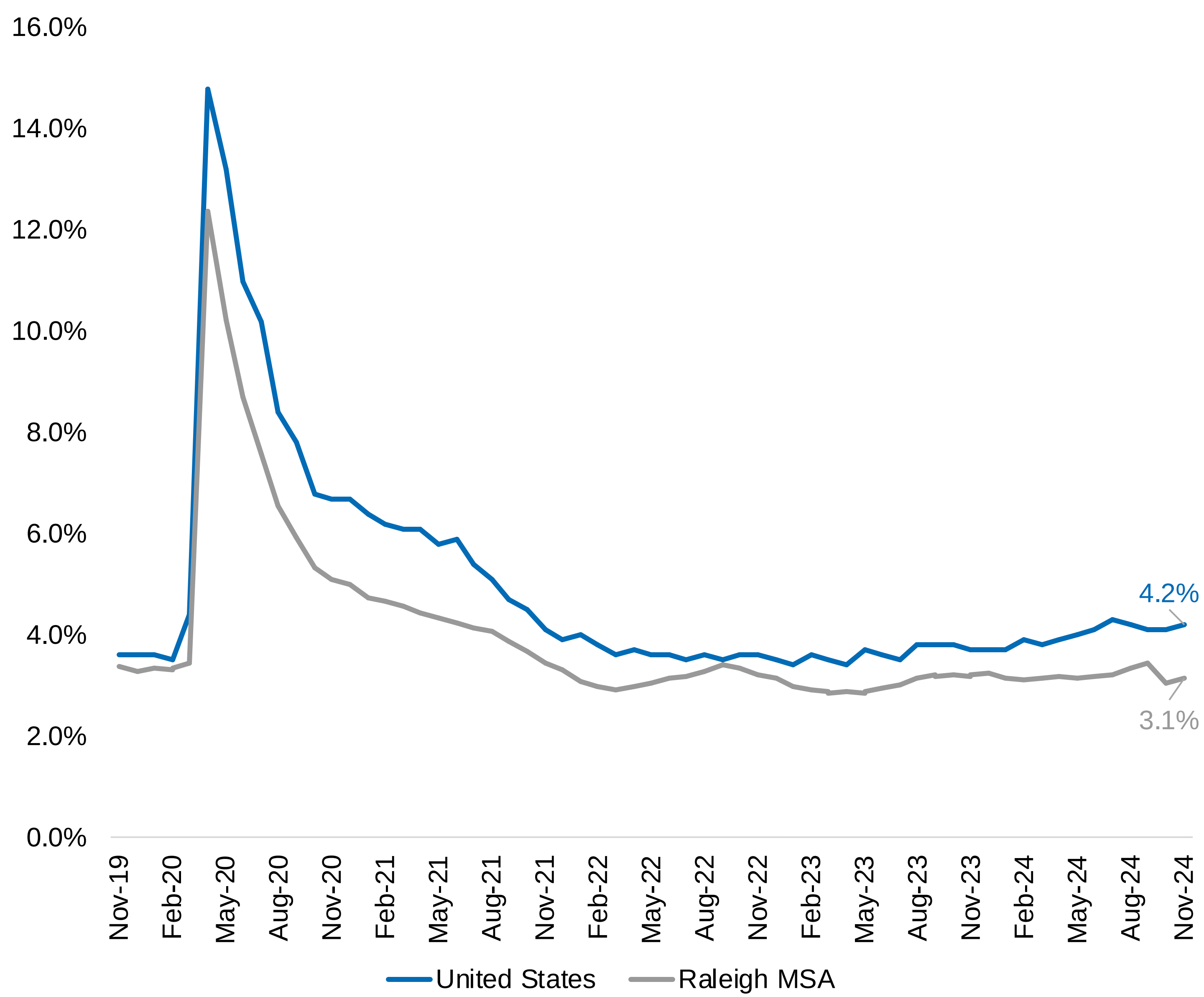
Economy

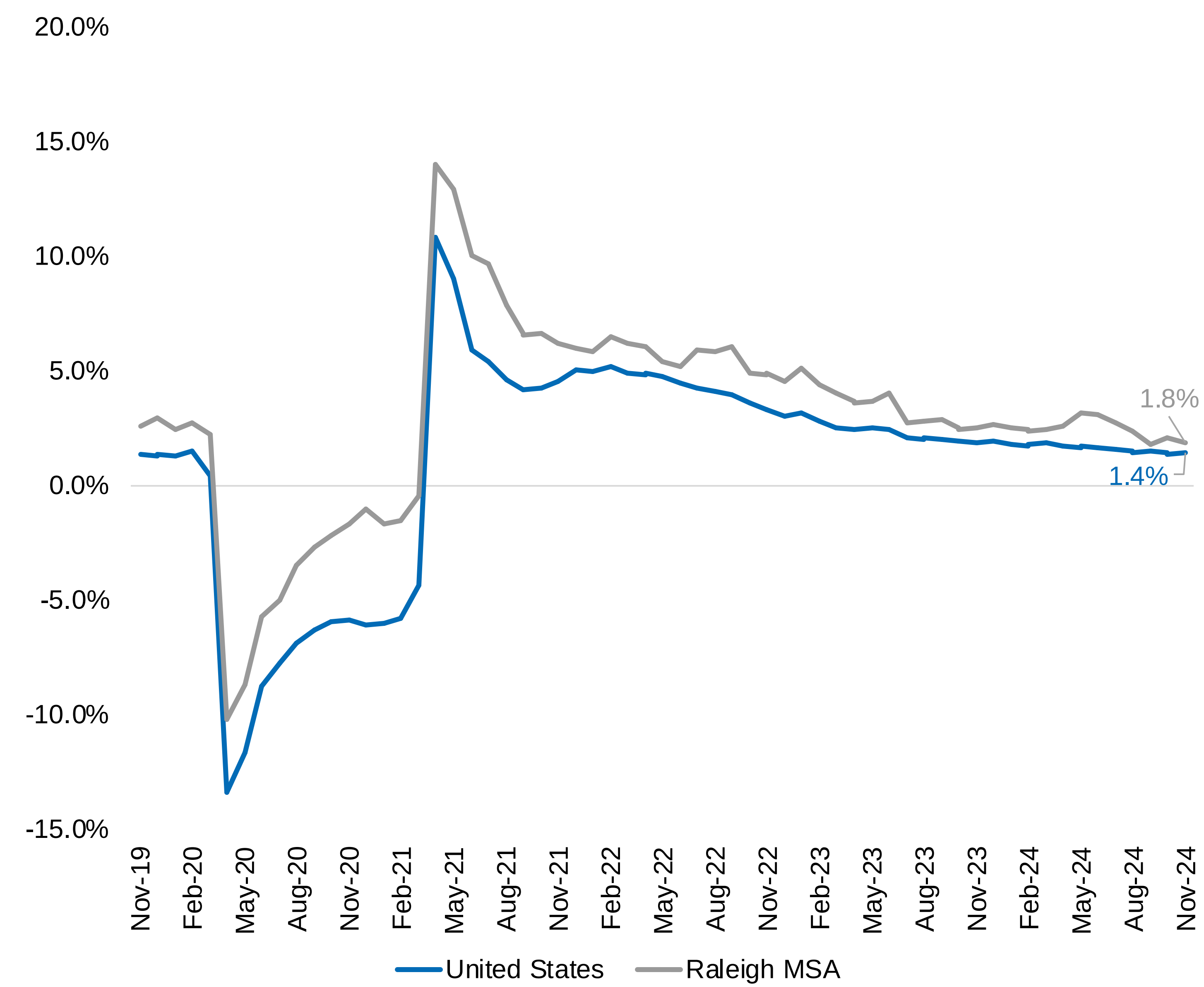
Raleigh Continues To Lead In Job Growth Despite Economic Slowdown

Raleigh has consistently reported lower unemployment rates compared to the national average, while being an outperformer in employment growth. This trend carried into the fourth quarter of 2024, with the market's unemployment rate inching down by 6 basis points year over year to 3.1%, well below the U.S. average of 4.2%. The region's seasonally adjusted nonfarm payrolls also outperformed the national average, with a year-over-year decline of 69 basis points, resulting in a 1.8% growth rate. Despite outperforming the broader U.S. market, Raleigh's employment softened slightly from recent peaks, driven by job losses in the manufacturing, information and trade/transportation/utilities sectors.

Unemployment Rate, Seasonally Adjusted



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

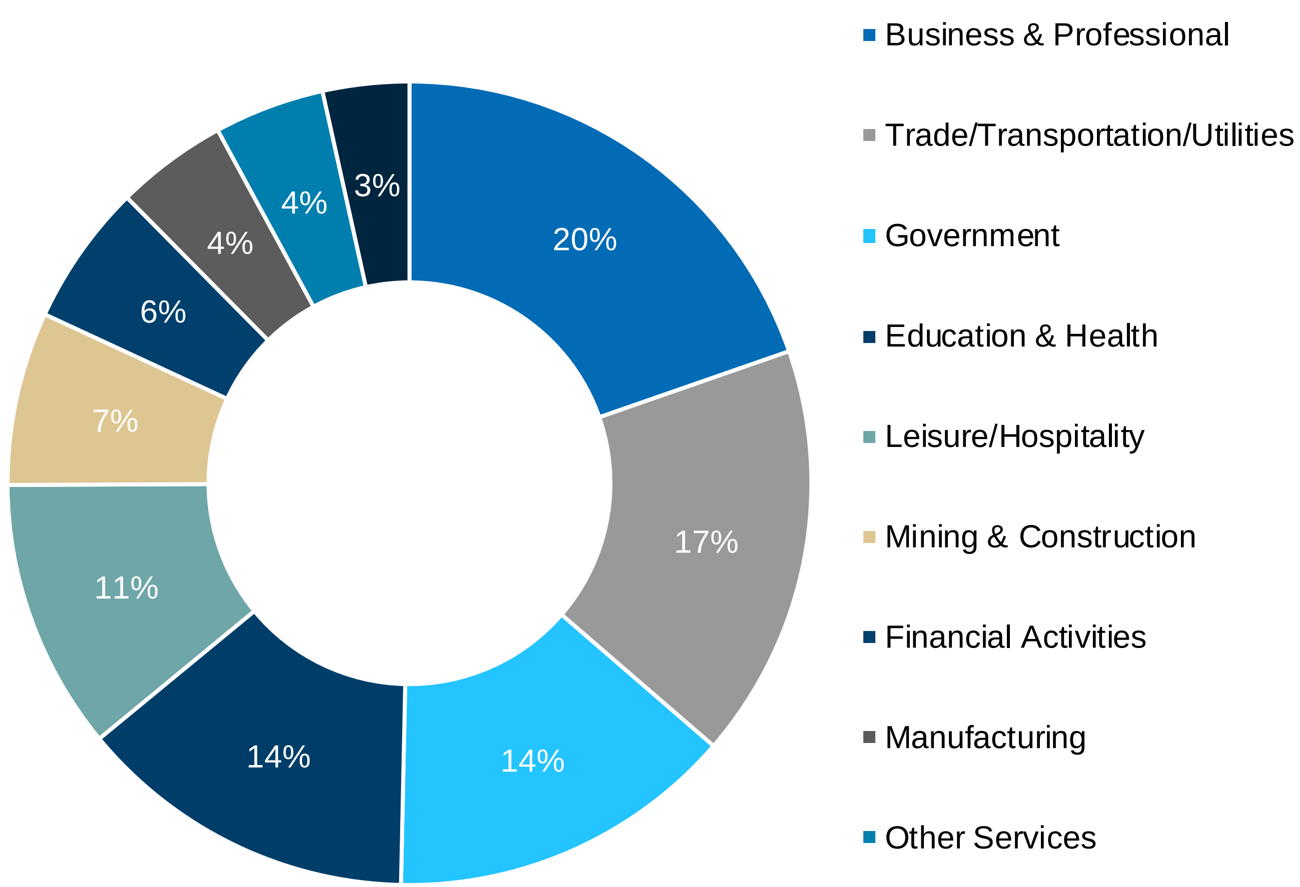


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

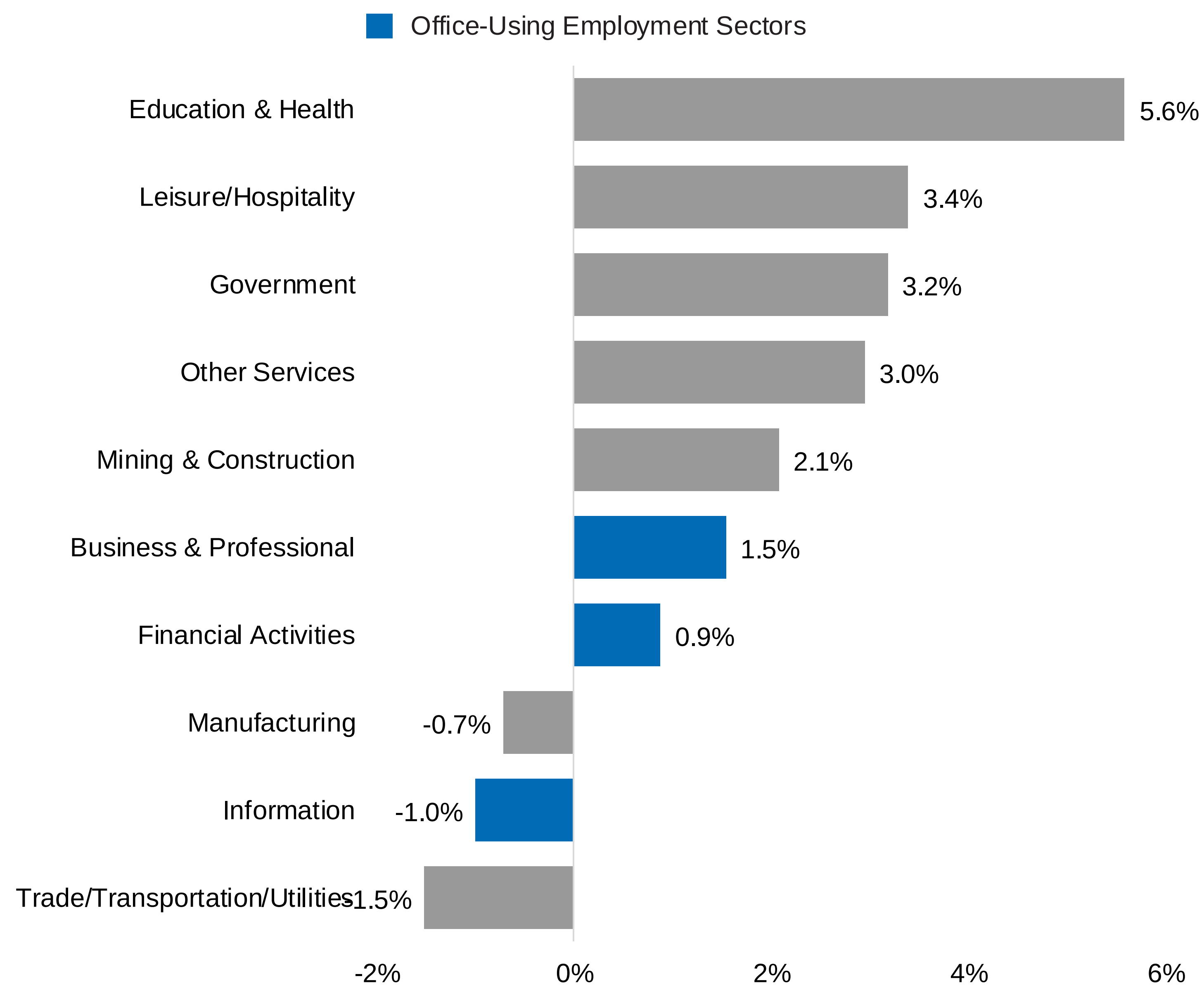
Yearly Employment Growth Continues across Most Sectors

Raleigh's tech-forward market is driven by its top two employment industries: business and professional services and trade/transportation/utilities, which account for 36.3% of total local jobs. The business and professional sector, Raleigh's largest office-based employment industry, makes up 19.7% of the market. Most sectors, aside from manufacturing, information and trade/transportation/utilities, experienced year-over-year job growth. Office-using industries such as business and professional services and financial activities reported yearly growth of 1.5% and 0.9%, respectively. Meanwhile, the information sector declined by 1.0% year over year.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024

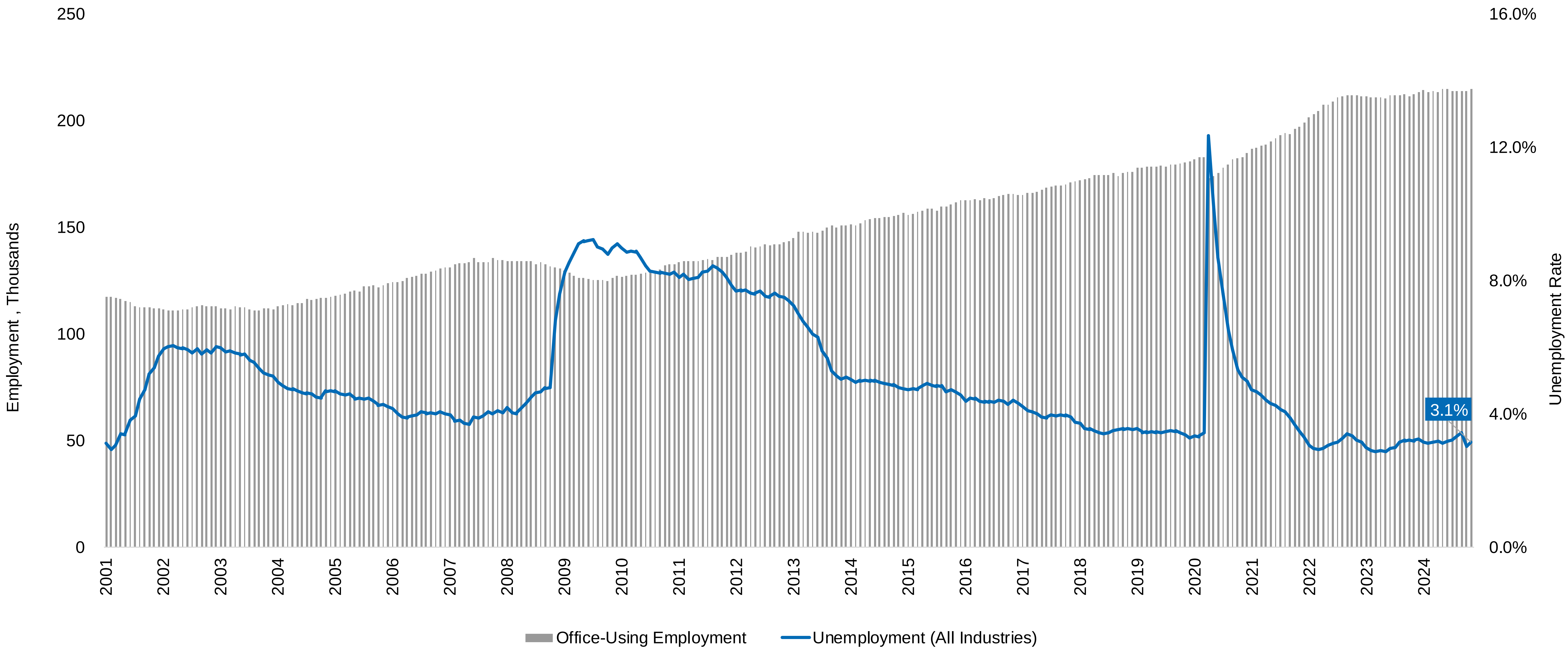


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

Overall Office-Using Employment Remains Marginally Below Historic High

Raleigh's Office-using employment recorded a near historical high of 215,040 office-using employees at the end of November 2024, just 236 jobs shy of the record high set in May 2024. Currently, the seasonally adjusted unemployment rate stands at 3.1%, 31 basis points lower than the 3.5% average levels reported in 2019. While unemployment in the market has recently trended upward, overall office-using employment remains stronger than pre-pandemic levels.

Office-Using Employment* and Unemployment Across All Industries



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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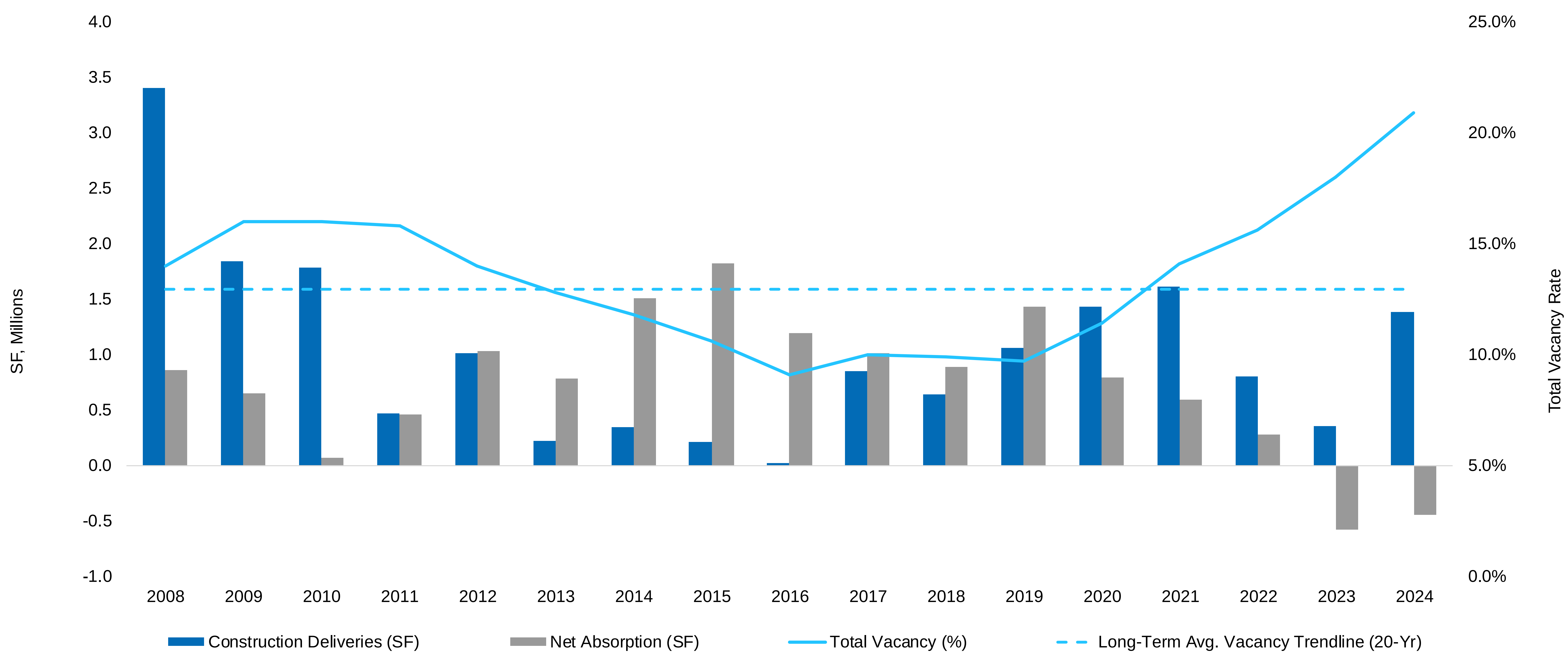
Leasing Market Fundamentals

Elevated Deliveries and Negative Net Absorption Push Vacancy to Historic High

The Raleigh office vacancy rate climbed 290 basis points year over year to 20.9% in the fourth quarter of 2024, well above the 20-year average of 12.9%. Since the fourth quarter of 2019, vacancy rates have generally increased in the market, with the trend continuing in the fourth quarter of 2024 as vacancy rates increased by 40 basis points quarter over quarter. This can be attributed to several factors, including continued historically elevated levels of direct and sublet availability, a surge in recent deliveries of vacant office buildings and recent periods of low or negative yearly absorption. Vacancy is expected to remain elevated as the market absorbs the new deliveries and corporations continue to shed space to “right size” their office footprints.

Historical Construction Deliveries, Net Absorption, and Vacancy

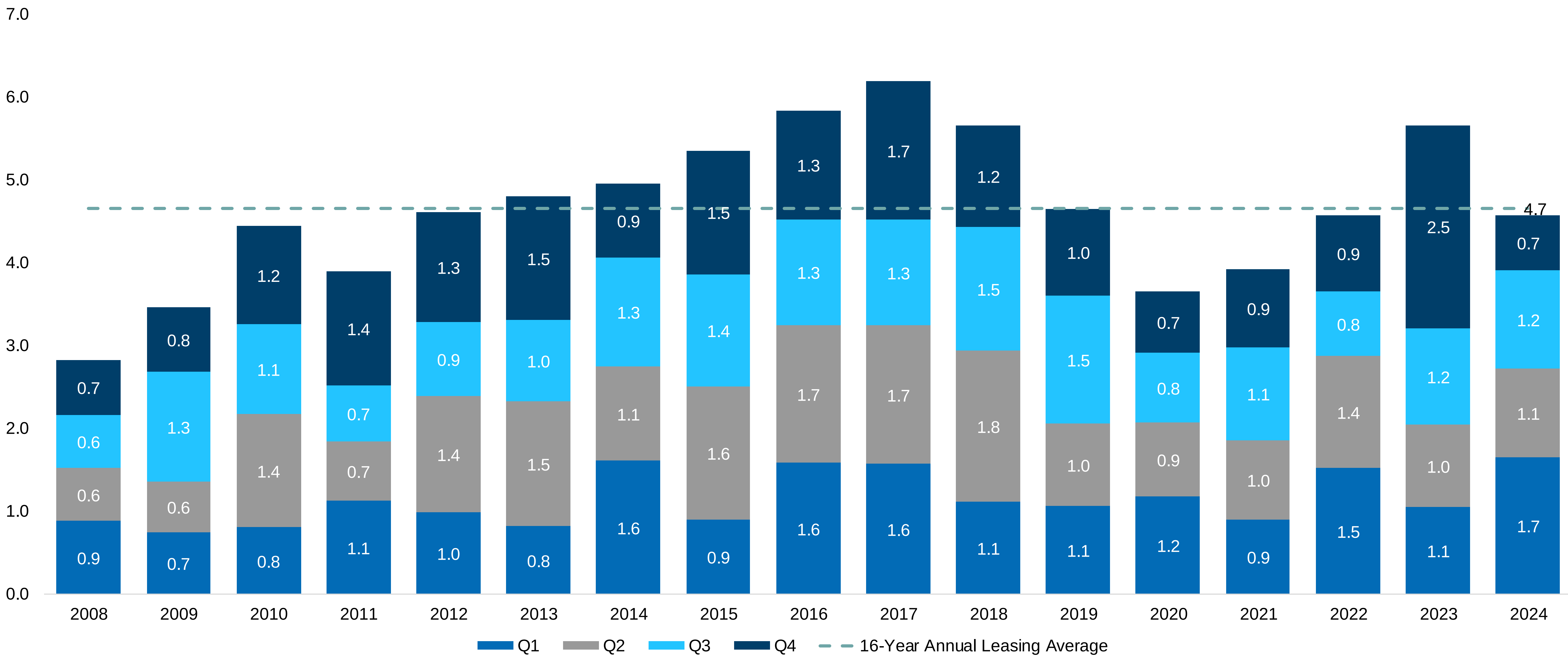


Source: Newmark Research, CoStar

Economic Uncertainty Keeps Leasing Activity Below 16-Year Historic Average

Leasing activity in the fourth quarter of 2024 in the market decreased by 534,234 SF when compared with the third quarter of 2024 and 1.8 MSF when compared with the fourth quarter of 2023. However, total reported yearly leasing activity more normalized with historic averages and remains elevated when compared to the early years of the pandemic. The year's leasing activity of 4.6 MSF remains slightly below the 16-year leasing average of 4.7 MSF. This decline in leasing activity is likely driven by companies reevaluating corporate office space needs amid corporate downsizings and hesitancy to lease space in an uncertain economic environment scarred by stubborn inflation.

Total Leasing Activity (msf)



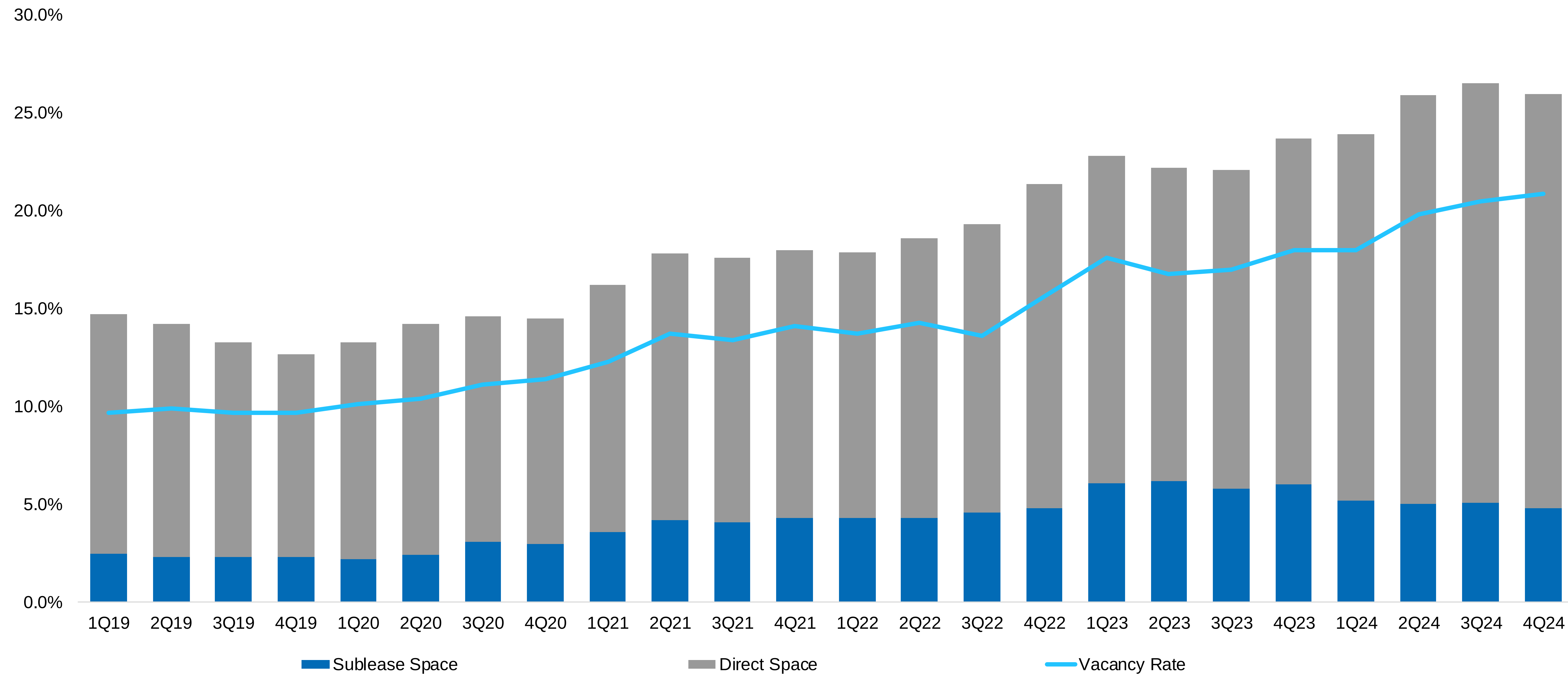
	Q1	Q2	Q3	Q4
2008	0.9	0.6	0.6	0.7
2009	0.7	0.6	1.3	0.8
2010	0.8	1.4	1.1	1.2
2011	1.1	0.7	0.7	1.4
2012	1.0	1.4	0.9	1.3
2013	0.8	1.5	1.0	1.5
2014	1.6	1.1	1.3	0.9
2015	0.9	1.6	1.4	1.5
2016	1.6	1.7	1.3	1.3
2017	1.6	1.7	1.3	1.7
2018	1.1	1.8	1.5	1.2
2019	1.1	1.0	1.5	1.0
2020	1.2	0.9	0.8	0.7
2021	0.9	1.0	1.1	0.9
2022	1.5	1.4	0.8	0.9
2023	1.1	1.0	1.2	2.5
2024	1.7	1.1	1.2	0.7

Source: Newmark Research, CoStar

Elevated Sublet, Direct Availability Push Vacancy to New High

Sublease availabilities in Raleigh, which recorded 4.8% in the fourth quarter of 2024, continued their downward trend. This marks a decrease of 30 basis points quarter over quarter and 120 basis points year over year. Direct availability decreased 20 basis points quarter over quarter and increased 350 basis points year over year to a near record high of 21.2%. The yearly increase in direct space availabilities drove overall vacancy up by 290 basis points year over year to a historic high of 20.9%.

Available Space as Percent of Overall Market

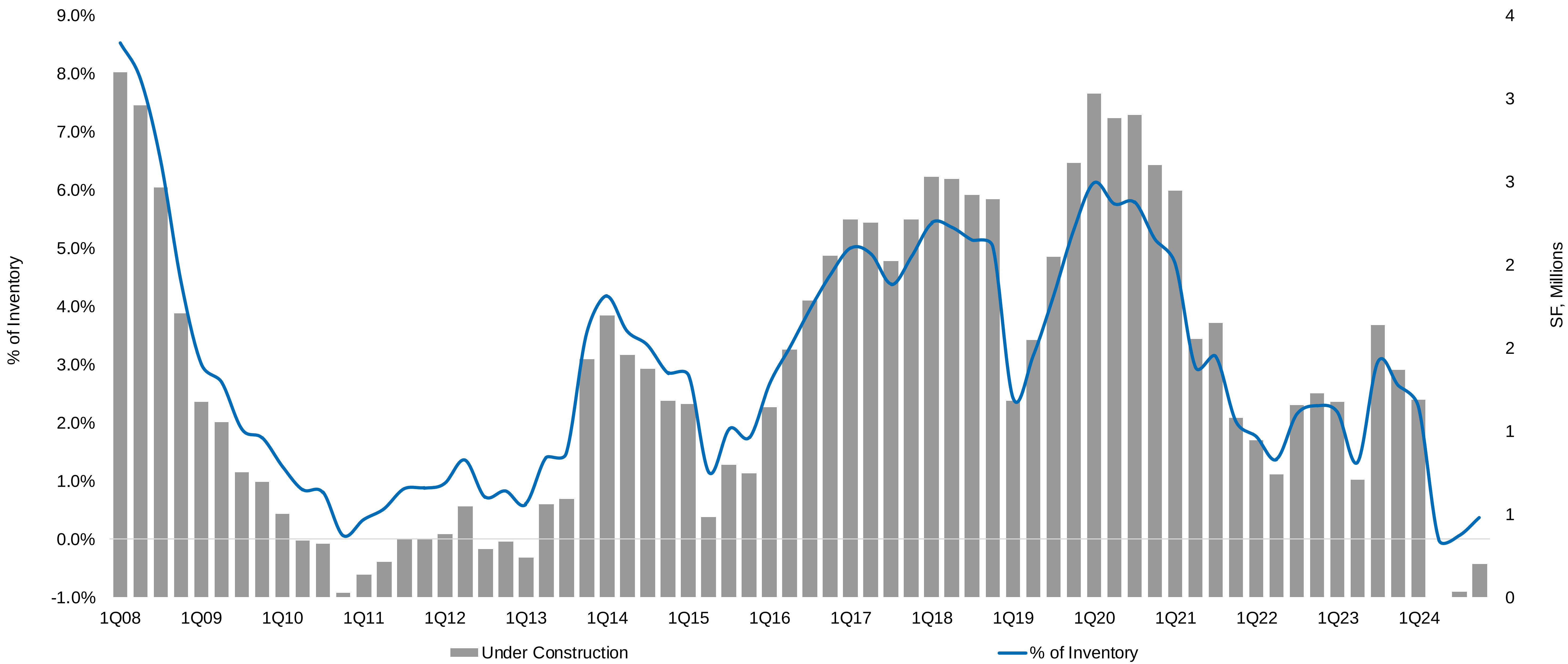


Source: Newmark Research, CoStar

Construction Activity Picks Up

Recent construction activity surged and peaked in the third quarter of 2023, driven by strong office demand by the technology and biotechnology sectors. However, the under-construction pipeline, impacted by the effects of elevated inflation and a higher cost of debt, steadily declined in each quarter through the second quarter of 2024, when that trend reversed. The construction pipeline grew during the fourth quarter of 2024, as it expanded to 203,381 SF by year-end 2024. Raleigh's under-construction inventory only accounted for 0.4% of the market's total inventory as of the end of 2024.

Office Under Construction and % of Inventory

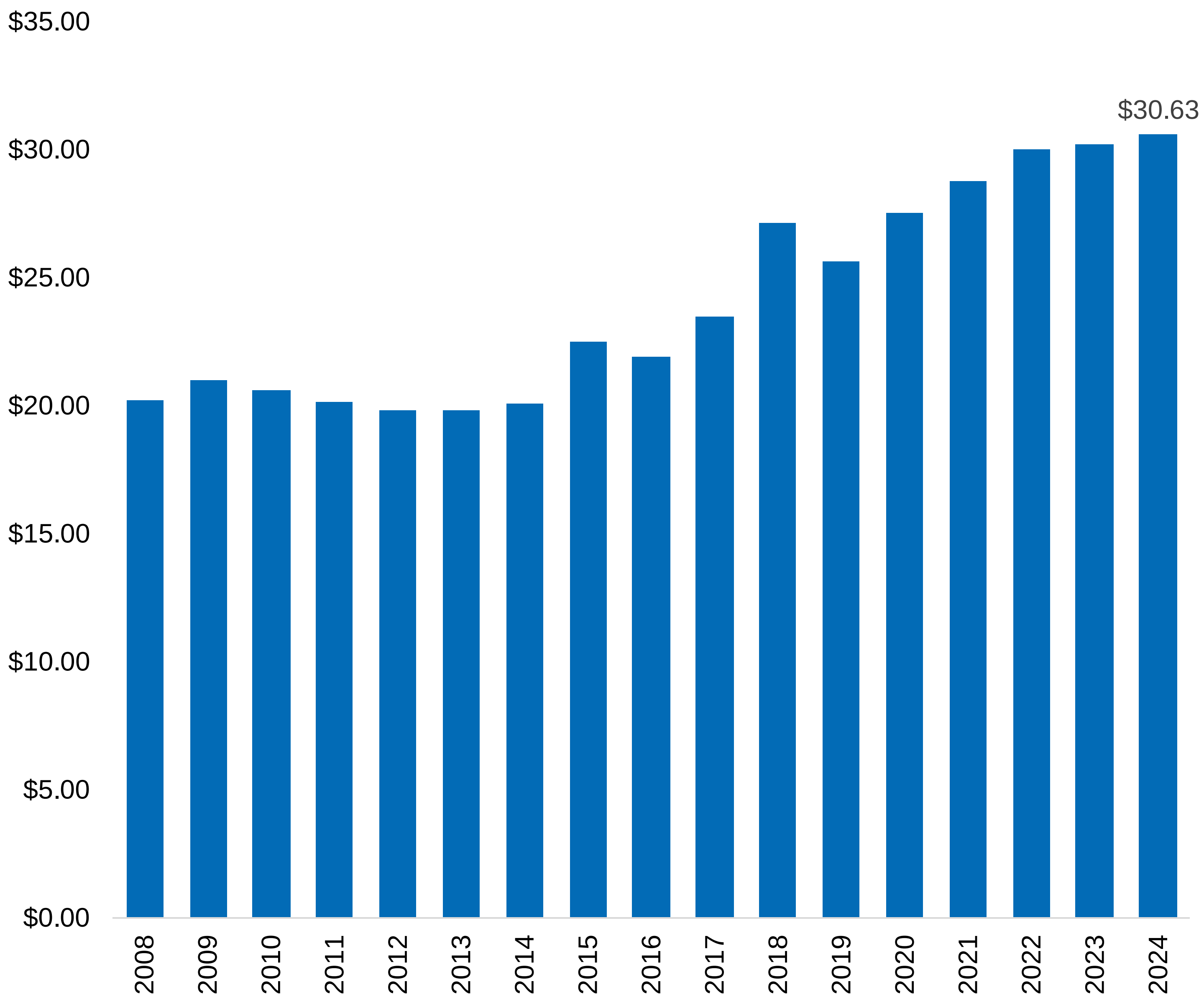


Source: Newmark Research, CoStar

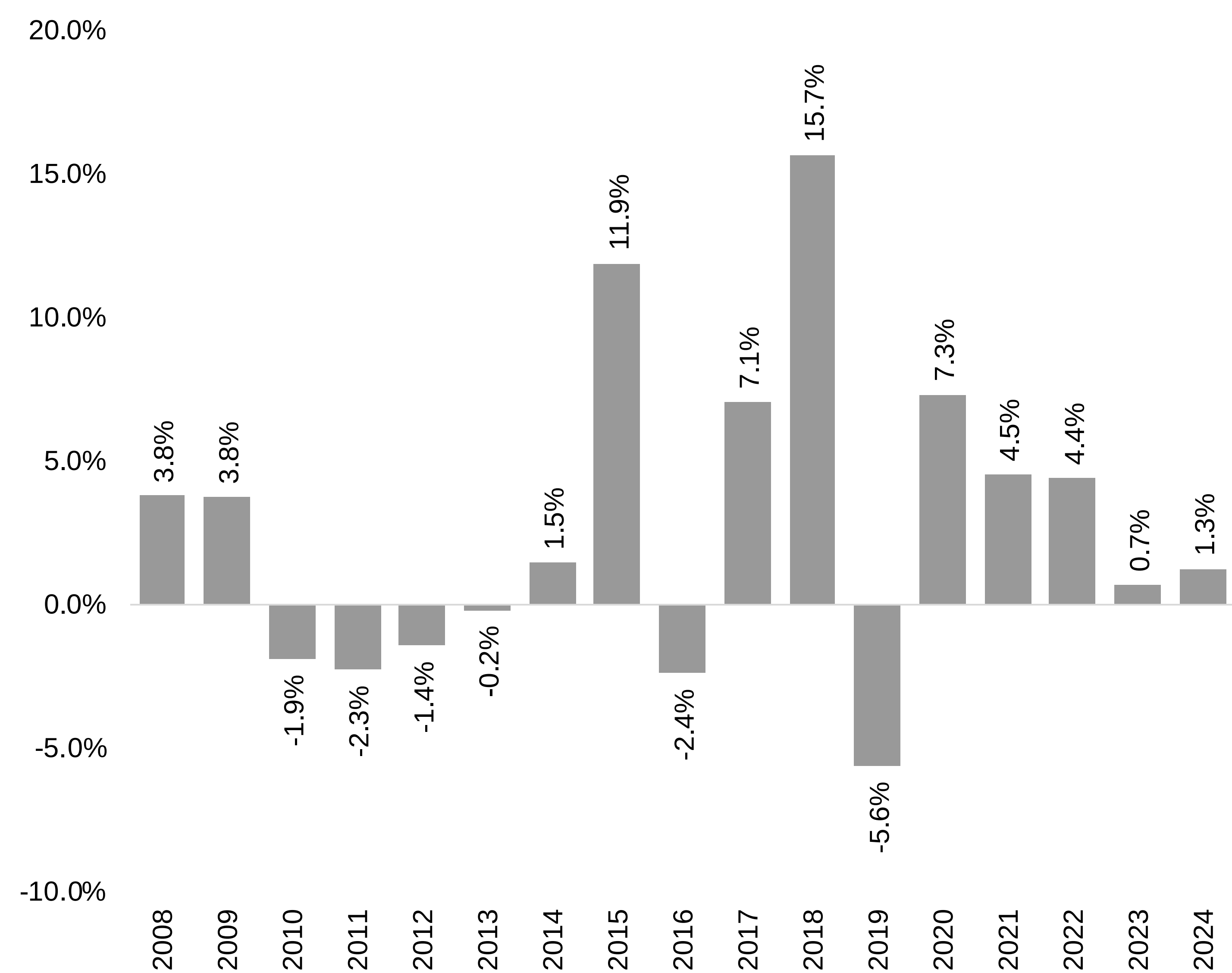
Rents Inch Lower from Historic High, Reflect Yearly Growth

Fourth-quarter asking rents declined by 0.5% quarter over quarter to $30.63/SF but remain 1.3% higher on a yearly basis. Raleigh has reported positive yearly asking-rent growth since 2020, however recent years have shown more subdued growth. This rental growth flattening is driven by several factors, including generally rising vacancy in recent years, historically low leasing activity, and several recent quarters of subdued demand for space due to economic headwinds and uncertainty. While new high-quality space deliveries and higher inflation-driven costs have pushed rents higher, historically high vacancy levels, stemming from low leasing activity and net absorption, have tempered overall growth.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

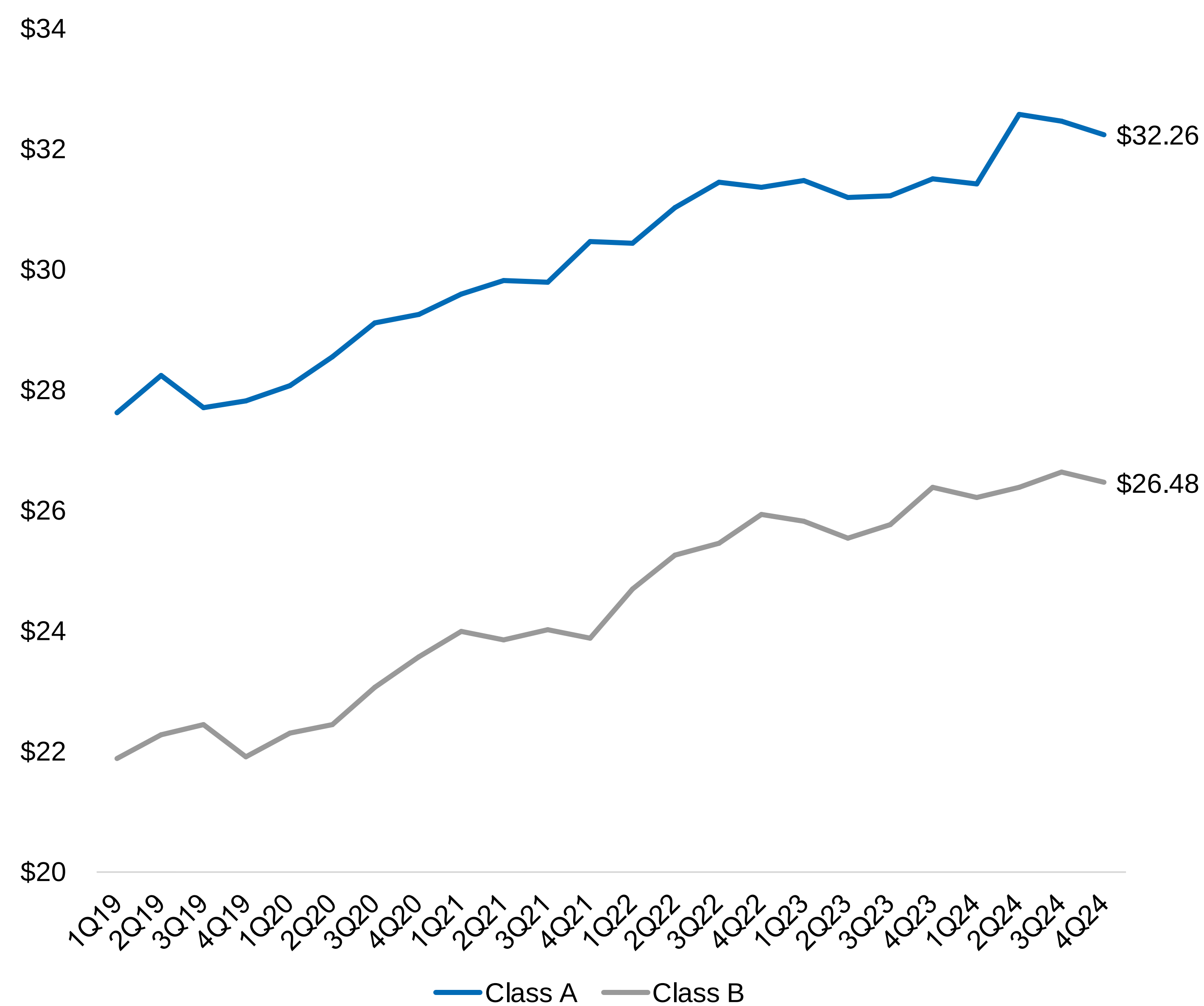


Source: Newmark Research, CoStar

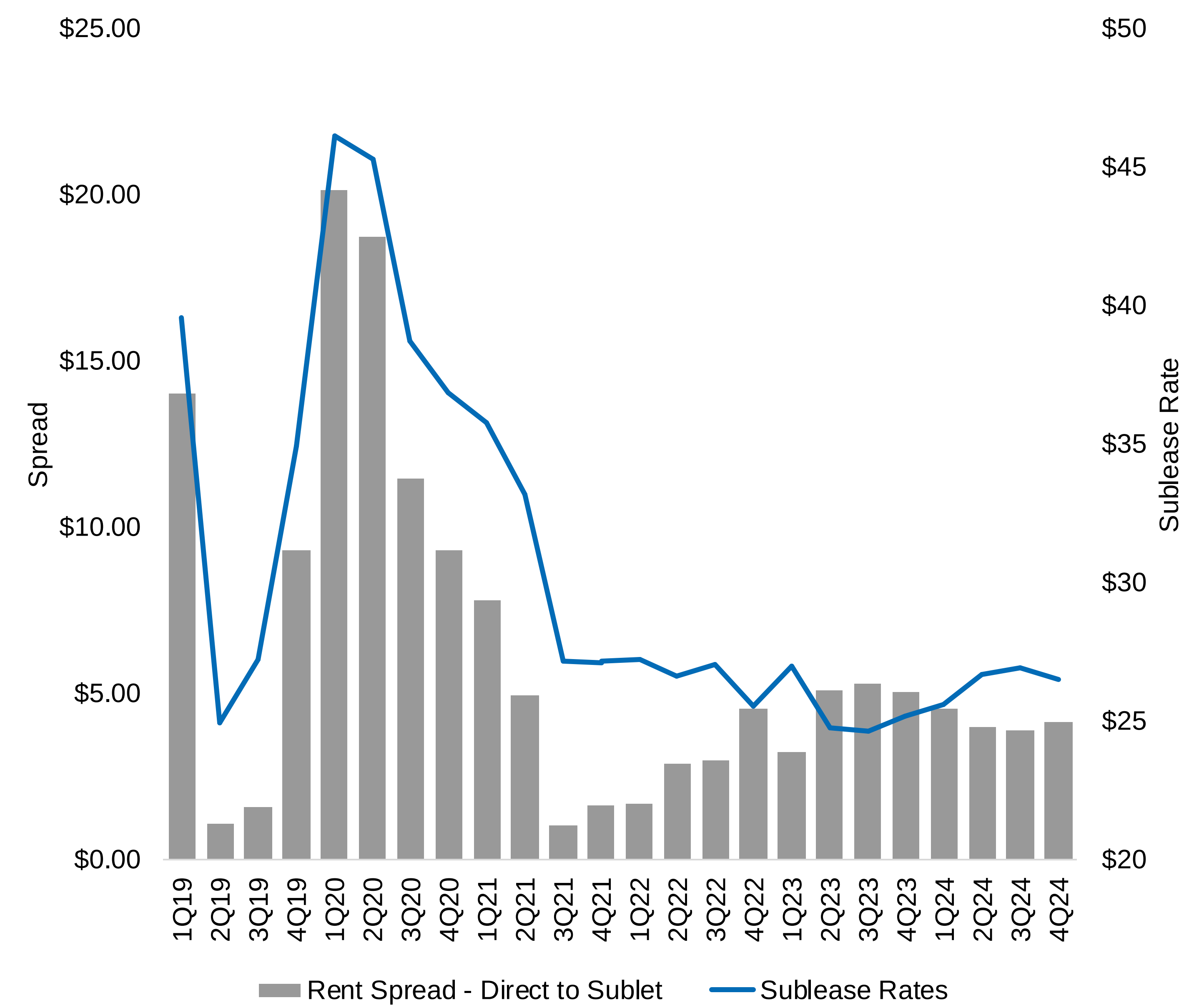
Class A and Class B Asking Rents Decline from Historic Highs

As of the end of the fourth quarter of 2024, Class A and Class B rents declined to $32.26/SF and $26.48/SF, respectively. This reflects a difference of $5.78/SF. The difference in rents between the two assets reflects a 2.0% spread decrease since the fourth quarter of 2019, though the rent spread increased by 12.9% year over year. The widening divergence between Class A and Class B assets is expected to push tenants to downsize in lower-quality buildings and opt for smaller spaces in higher-quality, amenity-rich properties and is likely to increase as Class B office owners look to lower asking rates to entice tenants to lease space. Fourth-quarter asking sublease rates decreased by 1.5% quarter over quarter and increased by 5.2% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

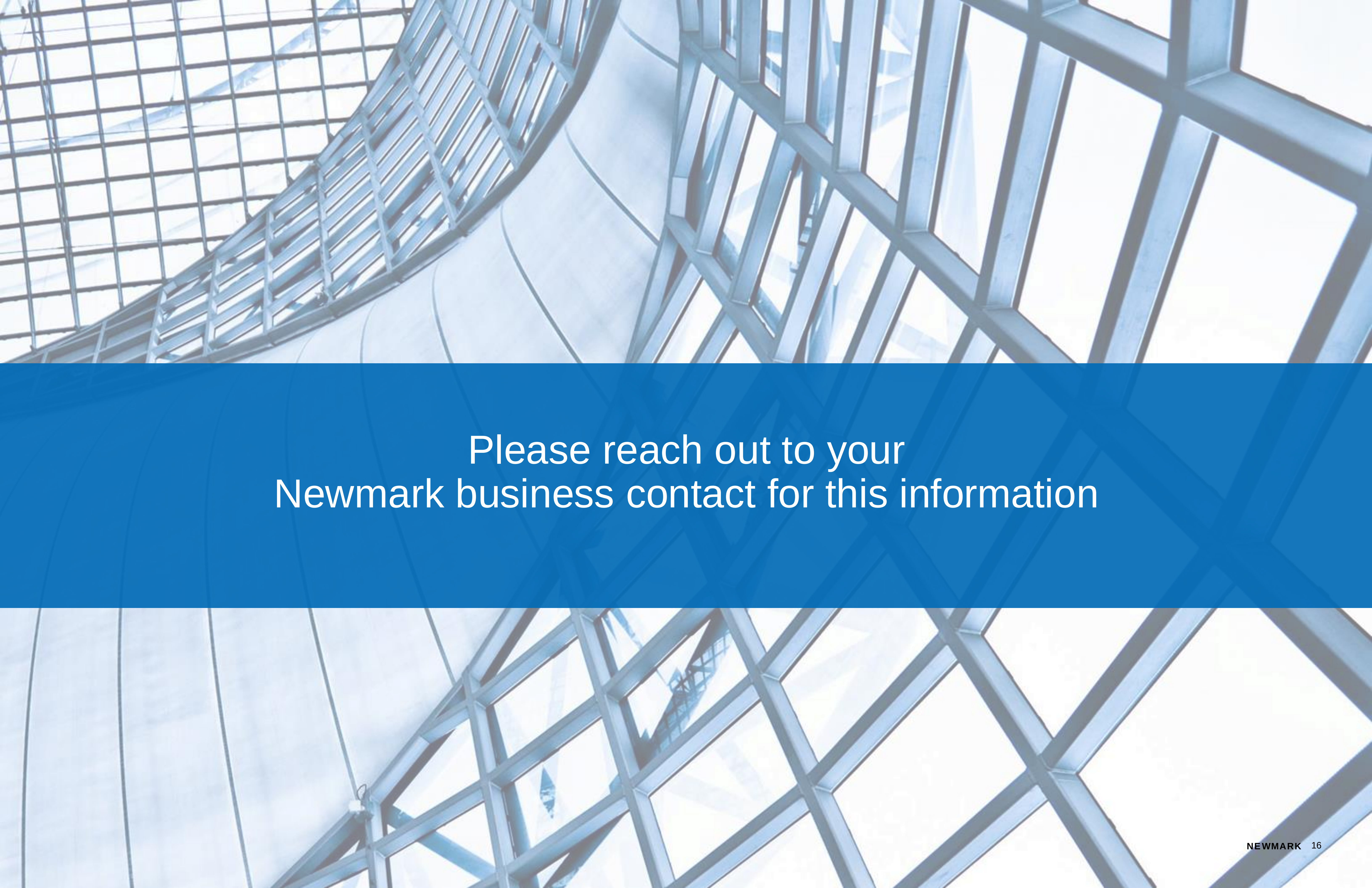
Firms Pause During 4Q24 to Evaluate Real Estate Strategy

Firms closed out 2024 by delaying long-term leasing decisions and opting for short-term extensions of their leases as they evaluate and shift their return-to-work policies. Many companies have already begun to change their policies to require employees be back in the office for four days per week, up from the previous standard of three. This is expected to have major implications on office footprints and occupancy strategies. Moving forward, it is expected that companies will be seeking space in locations that that offer high quality amenities and are located near their employees to lessen the burden of returning to office on employees. There are currently several large users in the market seeking space that meets these requirements.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Oracle	5200 East Paramount Parkway	RTP/RDU	Renewal	150,000
Tech giant and software company Oracle inked the largest deal of the quarter when it renewed its 150,000-SF space at 5200 East Paramount Parkway in Morrisville.				
Hitachi Energy	Alliance One	West Raleigh	Renewal/Expansion	146,000
Multinational renewable energy technology company Hitachi Energy renewed and expanded its space at 901 Main Campus Drive in Raleigh. Raleigh currently serves as Hitachi Energy's North American headquarters.				
Smith Anderson	150 Fayetteville Street	Downtown Durham	Renewal/Expansion	120,000
Law firm Smith Anderson renewed and expanded its lease at 150 Fayetteville Street in Raleigh.				
Lennar Homes	Regency Forest I	Cary	New Lease	33,000
Homebuilder Lennar Homes signed a 33,000-SF lease at 100 Regency Forest Drive in Cary.				
Ultra Electronics	136 Capcom Avenue	Route 1	Renewal	31,000
British defense and security company Ultra Electronics renewed its 31,000-SF office space at 136 Capcom Avenue in Wake Forest.				
Veloxis Pharmaceuticals	2000 Regency Parkway	Cary	Renewal	26,500
Transplant immunology drug producer Veloxis Pharmaceuticals renewed its 26,500-SF lease at 2000 Regency Parkway in Cary.				

Source: Newmark Research, CoStar



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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