LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

OFFICE MARKET OVERVIEW

BRIAN FARMER, SIOR, *Managing Director, Vice President*

Another quarter of negative absorption brings the office vacancy in Durham to 9.8%. Rental rates continue to hold for quality Class A office spaces, and concessions are increasing for deals longer than five years. There is less than 400K square feet of office new construction, which should aid in the compression of vacancy. Life science continues to be a very sought-after sector, particularly in Durham, which comprises the Research Triangle Park. Building sales were very slow in Q1 due to interest rates and overall choppiness in the office sector. Despite that, we are seeing office usage climb in the Durham area with more employees going to the office to work at least 3 days per week.

MARKET INDICATORS	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
▼ 12 Mo. Net Absorption SF	369,888	525,766	493,397	445,266	423,642
▲ Vacancy Rate	9.78%	9.27%	9.15%	9.69%	9.65%
▲ Avg NNN Asking Rate PSF	$27.48	$27.46	$27.26	$26.98	$26.69
▼ SF Under Construction	382,640	616,613	343,354	321,754	268,498
▲ Inventory SF	36,375,519	36,117,546	36,117,546	36,117,546	35,912,829

NET ABSORPTION, NET DELIVERIES, & VACANCY

UNDER CONSTRUCTION
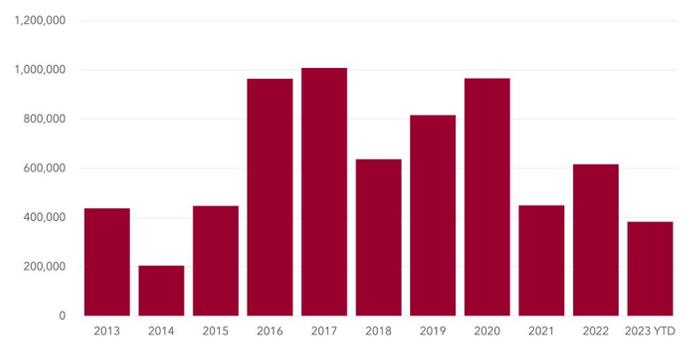
TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
1701 TW Alexander Drive Durham, NC	16,630 SF	$4,270,000 $256.86 PSF	GCF Global Apex School of Theology	Class B
441 S Morgan Street Roxboro, NC	4,290 SF	$325,000 $75.76 PSF	Laze Properties LLC Norman C. Hall	Class C
706 W Corportation Street Durham, NC	4,134 SF	$1,570,000 $379.01 PSF	Magnolia Development Ram Realty	Class C

| TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
710 Slater Road Morrisville, NC	20,643 SF	Strategic Capital Partners	BE&K	Engineering Services
5001 S Miami Boulevard Durham, NC	14,745 SF	Lincoln Advisors	Undisclosed	Undisclosed
4307 Emperor Boulevard Durham, NC	9,492 SF	Blackburn Group Inc	Undisclosed	Undisclosed

OFFICE MARKET OVERVIEW

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The vacancy factor for Raleigh popped in Q1 by over 100 basis points to 9.91%. Add to that approximately 4M SF of sublease space, and the result is roughly 15% vacancy/availability. This time in 2022 there was approximately 1.7M SF of sublease space. Since the mid-1990s, the Triangle has not seen this amount of office vacancy. Rental rates in Raleigh and surrounding submarkets continue to climb quarterly to pace the construction costs and higher proformas from the institutional office owners. The smaller sublease spaces are getting leased while the larger blocks have had much less interest. This is the same for direct leases. Despite all of this, Raleigh Metro is seeing much better activity than many other metros across the USA.

MARKET INDICATORS		Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
▼	12 Mo. Net Absorption SF	(581,446)	216,614	1,091,897	576,498	355,077
▲	Vacancy Rate	9.91%	8.77%	8.36%	8.18%	8.22%
▲	Avg NNN Asking Rate PSF	$28.91	$28.81	$28.68	$28.46	$28.07
▼	SF Under Construction	2,434,235	2,526,495	2,140,902	2,071,755	2,043,281
▲	Inventory SF	77,533,850	77,370,280	77,241,648	76,984,945	76,737,734

NET ABSORPTION, NET DELIVERIES, & VACANCY
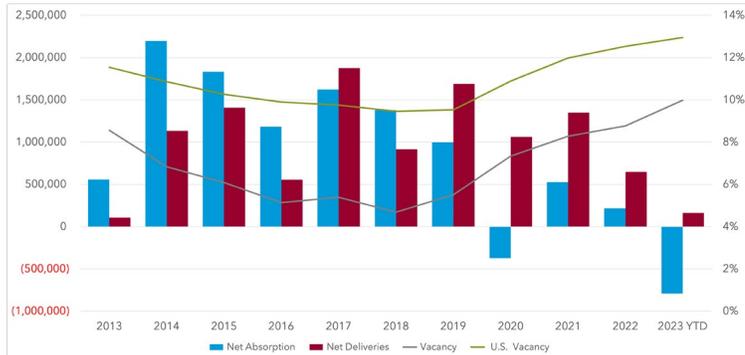
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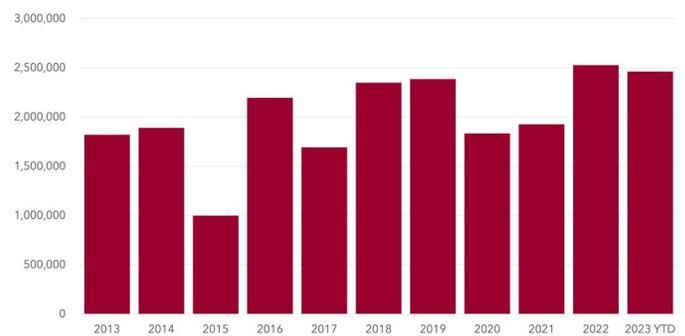
TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
817 New Bern Avenue Raleigh, NC	7,666 SF	$1,120,000 $145.84 PSF	Level Up Kitchen & Barcadium Capitol Group Brokerage LLC	Class C
213 Barden Street Princeton, NC	4,863 SF	$450,000 $92.54 PSF	Donald Butler Rains Revocable Trust Treasury Antiques	Class C
2701 Rowland Road Raleigh, NC	4,800 SF	$900,000 $187.50 PSF	Ellen P Bergdolt Command Construction Services	Class B

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
2610 Wycliff Road Raleigh, NC	64,536 SF	Alvarez & Marsal Holdings, LLC	General Dynamics	Manufacturing
Saint Albans Drive Raleigh, NC	29,664 SF	Dewitt Carolinas, Inc.	Summit Engineering	Technical Services
2100 Gateway Centre Boulevard Morrisville, NC	26,383 SF	CapRidge Partners	Undisclosed	Undisclosed