

RALEIGH-DURHAM | INDUSTRIAL

Q2 2019

Accelerating Success.

Vacancies Continue To Drop As Rental Rates Are On The Rise In The Raleigh-Durham Market

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Key Takeaways

- › Companies including Cree, Honda Aircraft Co., KriGen Pharmaceuticals, Paraxel and Pamlico Air announced plans to expand their footprint and grow in the Triangle and surrounding areas.
- › Project Heidi, a furniture manufacturing operation planned for Johnston County broke ground this quarter. The project will bring 160 jobs to the I-95 corridor.
- › E-commerce giant, Amazon, held a ribbon cutting ceremony for its sorting facility in Durham. The 2.6 million square foot distribution center being built at the old ConAgra plant in Garner is still under construction with an anticipated delivery in late 2019.
- › Unemployment rate in the Raleigh-Durham market continues to remain well below the national average with a reported rate of 3.0%.
- › The U.S. still remains an attractive investment for off-shore and domestic investors alike, as the economy continues to outperform other advanced economies.

Vacancy & Availability

- › Vacancy in both the warehouse and flex market fell this quarter. The warehouse market dipped below 3%, reporting at 2.49%, a 0.85% decrease from the beginning of the year. The flex market reported vacancy at 8.21%, a 0.16% decrease from the prior quarter.
- › The industrial market continues to remain unchanged due to the lack of new construction and supply. All buildings currently under construction this year are almost fully leased.
- › Total available space in the market was 3.5M square feet, a slight decrease from the prior quarter which was reported at 3.6M.

Market Indicators	Raleigh-Durham Flex Q2 2019	Raleigh-Durham Warehouse Q2 2019
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	+	↑
RENTAL RATE	↑	↑

Summary Statistics

Industrial Market	Raleigh-Durham Flex Market	Raleigh-Durham Warehouse Market
Existing Inventory (Square Feet)	23.63M	40.39M
Vacancy Rate	8.21%	2.49%
Net Absorption (Square Feet)	3,960	205,607
Under Construction (Square Feet)	16,800	2.75M
Construction Deliveries (Square Feet)	0	0
Asking Rents (Per Square Foot Per Year)		
Average Quoted	\$11.80	\$6.28

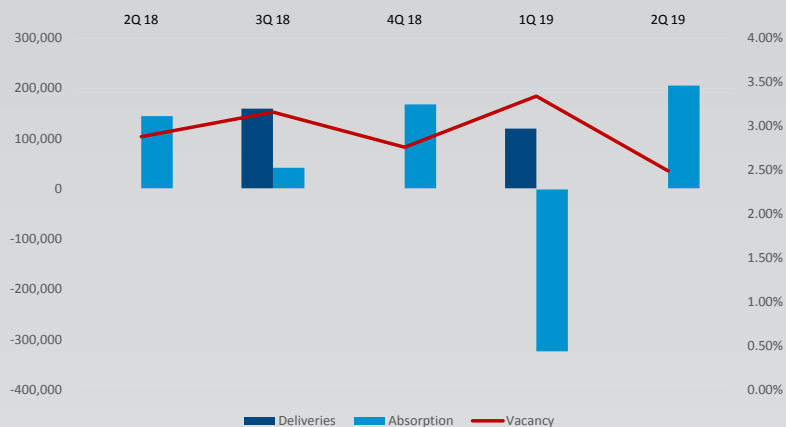
Absorption & Leasing Activity

- After reporting a negative net absorption last quarter, the market bounced back with a positive market total of 209,567 at the close of the second quarter. The flex market reported total net absorption at 3,960 and the warehouse market recorded total net absorption at 205,607.
- The metro is home to a diverse industrial market. In Durham, tech and healthcare related firms have pursued large warehouse spaces near Research Triangle Park while in Raleigh the demand for flex space by clean energy firms has been on the rise.
- Logistic space continues to be in high demand as retailers try to meet consumer needs and decrease the overall delivery time for distributing products.
- Notable lease transactions included Dollar General leasing 343,141 square feet at 1053 Shotwell Road, 120,000 square feet leased at 540 Hinton Oaks Blvd, Doe & Ingles leasing 50,344 square feet at 2532-2534 Whilen Drive and 48,000 square feet leased at 627 Distribution Drive.

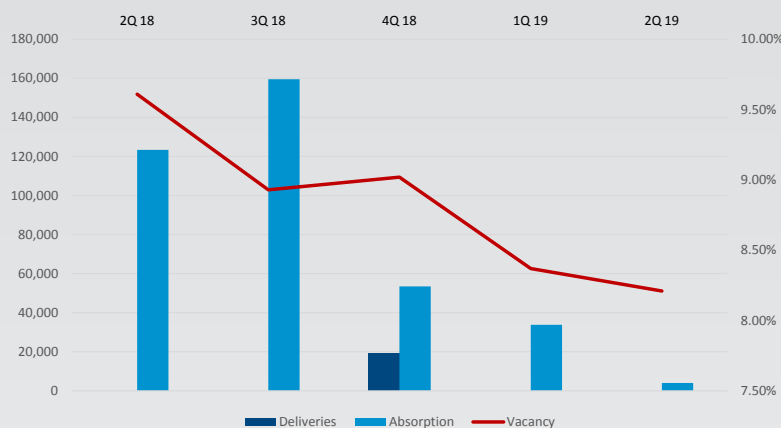
Rental Rates

- Strong absorption this quarter and limited new supply has yielded conditions favorable for rent growth.
- Despite a slight dip in rental rates from the previous quarter, Research Triangle Park continues to show competitively high rental rates.
- The average asking rental rate for the Triangle flex market was reported at \$11.80 per square foot this quarter, a \$0.27 increase from the start of the year.
- US 1 Capital Boulevard, Southern Wake County and Cary show some of the strongest rent growths in the flex market.
- Asking rents in the warehouse sector continue to increase, reporting at \$6.25 per square foot, a \$0.28 increase from the prior quarter.

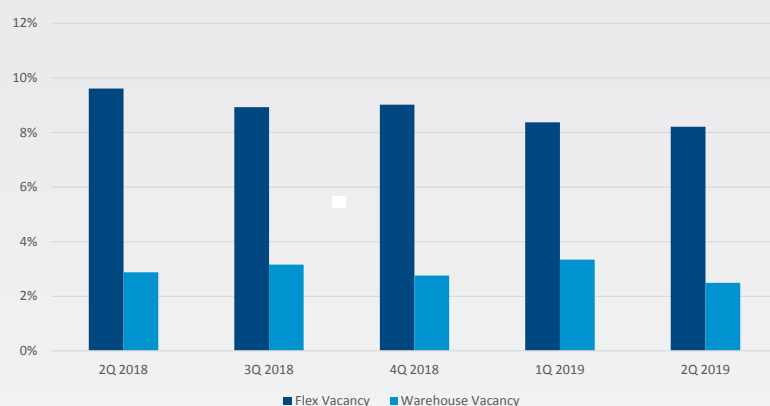
Warehouse Absorption vs. Deliveries, Vacancies



Flex Absorption vs. Deliveries, Vacancies



Flex & Warehouse Market Vacancy



FLEX SUBMARKET COMPARISONS

	EXISTING INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	VACANCY PERCENTAGE (%)	NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (FULL SERVICE)
SUBMARKET NAME								
Cary	1,387,605	92,414	-	6.66%	(28,557)	-	-	\$13.50
Downtown Durham	239,864	300	-	0.13%	92	-	-	\$15.00
East Raleigh	243,772	-	-	0.00%	1,626	-	-	\$12.00
Glenwood/Creedmoor	903,067	37,329	4,385	4.13%	(22,521)	-	-	\$9.99
Johnston County	588,312	46,518	-	7.91%	(1,800)	-	-	\$10.24
North Durham	729,214	14,100	-	1.93%	(11,700)	-	-	\$10.97
Northeast Wake County	2,438,589	63,126	-	2.59%	2,865	-	-	\$9.85
Orange County	781,006	79,292	-	10.15%	(6,000)	-	16,800	\$9.50
RTP I I 40	7,957,931	1,311,700	118,196	16.48%	(45,705)	-	-	\$16.29
Six Forks Falls of Neuse	666,009	11,007	-	1.65%	7,773	-	-	\$11.42
South Durham	820,161	15,974	-	1.95%	(9,973)	-	-	\$12.00
Southern Wake County	2,560,096	29,844	17,010	1.17%	(3,220)	-	-	\$10.25
US 1 Capital Blvd	2,919,309	219,245	-	7.51%	124,636	-	-	\$12.82
West Raleigh	1,398,071	19,571	-	1.40%	(3,556)	-	-	\$11.40
MARKET TOTALS (WEIGHTED)	23,633,006	1,940,420	139,591	8.21%	3,960	-	16,800	\$11.80

WAREHOUSE SUBMARKET COMPARISONS

	EXISTING INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	VACANCY PERCENTAGE (%)	NET ABSORPTION (SF)	NEW DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVERAGE RENTAL RATE (NNN)
SUBMARKET NAME								
Cary	1,127,507	-	-	0.00%	-	-	-	\$5.21
Downtown Durham	891,700	5,913	-	0.66%	(1,728)	-	-	\$5.50
East Raleigh	1,233,487	-	-	0.00%	-	-	-	\$4.95
Glenwood/Creedmoor	1,448,715	41,677	-	2.88%	(3,880)	-	-	\$7.49
Johnston County	3,731,569	142,104	-	3.81%	(57,304)	-	-	\$4.32
North Durham	1,401,136	-	-	0.00%	-	-	-	\$2.50
Northeast Wake County	4,630,579	142,513	-	3.08%	11,520	120,000	150,000	\$5.58
Orange County	428,024	-	-	0.00%	-	-	-	\$6.00
RTP I I 40	10,314,486	359,941	350,321	3.49%	93,504	-	-	\$5.70
Six Forks Falls of Neuse	2,366,399	46,739	11,856	1.98%	21,040	-	-	\$5.25
South Durham	3,029,552	-	-	0.00%	14,043	-	-	\$12.00
Southern Wake County	6,357,916	206,409	8,252	3.25%	91,032	-	2,600,000	\$6.25
US 1 Capital Blvd	2,532,391	20,700	-	0.82%	37,490	-	-	\$7.71
West Raleigh	903,114	40,250	-	4.46%	(110)	-	-	\$9.50
MARKET TOTALS (WEIGHTED)	40,396,575	1,006,246	370,429	2.49%	205,607	120,000	2,750,000	\$6.28

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	SUBMARKET	TOTAL SF	LEASE TYPE
Dollar General	1053 Shotwell Road	Johnston County	343,141	New
Doe & Ingles	2532-2534 Whilden Drive	Research Triangle Park	50,344	Sublease
Cardinal Health	4234 Surles Ct	Research Triangle Park	30,000	New
Yellow Dot Heating & Air	2400 Sumner Blvd	Route 1	19,922	New
Icagen	4224 Emperor Blvd	Research Triangle Park	11,207	New

Construction & Investment Activity

- Despite rising construction costs and interest rates, investor interest in the Raleigh Durham Industrial market remains strong as prices continue to increase. This past year select sales exceeded \$100 per square foot.
- There was over 2.76M square feet of industrial product under construction in the Raleigh-Durham industrial market at the end of the second quarter.
- While construction activity was relatively light this quarter, upcoming projects including the 2.6 million square foot Amazon facility, Eastgate 540 Building 2, and the 900,000 square foot Novo Nordisk facility will be substantial additions to the market.

NOTABLE DEVELOPMENT ACTIVITY

PROPERTY	SUBMARKET	SIZE (SF)	PRE LEASED %	CONSTRUCTION STATUS	START/DELIV.	PROPERTY TYPE
Tryon Business Center II	Orange County	16,800	0%	Under Construction	Q1 2020	Flex
Amazon Distribution Center	Southern Wake County	2,600,000	100%	Under Construction	Q3 2019	Warehouse
East 540 I Building 2	Northeast Wake County	150,000	0%	Under Construction	Q4 2019	Warehouse
Greenfield North	Southeast Wake County	165,921	0%	Proposed	Q3 2019	Warehouse
Oakwood Business Center	Orange County	160,000	0%	Proposed	Unknown	Warehouse
S Keen Road Shell Building 1	Johnston County	100,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Shell Building 2	Johnston County	140,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Shell Building 3	Johnston County	150,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Shell Building 4	Johnston County	150,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Shell Building 5	Johnston County	315,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Shell Building 6	Johnston County	165,000	0%	Proposed	Q4 2019	Warehouse
S Keen Road Building 7	Johnston County	600,000	0%	Proposed	Q4 2019	Warehouse

NOTABLE INVESTMENT SALES

PROPERTY	SUBMARKET	PROPERTY TYPE	SIZE (SF)	SALES PRICE (MILLIONS)	PRICE/SF	BUYER
4001 E Chapel Hill-Nelson Blvd	Research Triangle	Flex	731,071	\$37	\$50	Trinity Capital Advisors LLC
3829 S Miami Blvd	Research Triangle	Warehouse	200,000	\$7.5	\$37	Atlas Box & Crating Co. Inc
850-880 Lufkin Road	Southwest Wake County	Warehouse	150,907	\$9.0	\$59	LM Real Estate Partners
2114 Atlantic Ave	Route 1	Warehouse	150,045	\$9.7	\$64	Auburndale Properties, Inc.
325 Spectrum Drive*	Northeast Wake County	Warehouse	150,000	\$10.5	\$70	Trinity Capital Advisors, LLC
2800 Slater Road	RTP I I-40	Flex	25,600	\$4.5	\$177	Yogi of Raleigh Inc
6310-6470 Rogers Road	US 1 Capital Blvd	Flex	19,500	\$2.5	\$128	PGP Rolesville Retail LLC
3731 Centurion Drive	Southeast Wake County	Warehouse	18,000	\$1.8	\$104	Integrity Property LLC
101 Green Trace Ct	Southeast Wake County	Warehouse	16,368	\$2.1	\$129	Stock America Inc.

*part of portfolio sale



FOR MORE INFORMATION

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METHODOLOGY

The Raleigh-Durham reports calculate statistics using CoStar Group and Colliers International Raleigh-Durham's database of existing and under construction properties at market and submarket levels. Included in the pool of data are non-owner occupied industrial properties of 10,000+ SF.

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