

RALEIGH-DURHAM | INDUSTRIAL

Q1 2019

Accelerating Success.

Limited New Construction and Steady Leasing Continue to Drive Vacancies Down in the Raleigh-Durham Market

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Key Takeaways

- > Vacancies in the overall industrial market continue to fall with consistent leasing and minimal supply of new construction.
- > Rents took a slight dip this quarter for warehouse and flex inventory. Strongest rent growth has been in suburban logistics and specialized industrial properties.
- > Deliveries increased this quarter with the completion of Hinton Oaks III. Construction remains light in the industrial market with buildings already being fully leased on major projects currently under construction.
- > Investor interest in the Raleigh-Durham industrial market remains strong. Pricing has generally increased with sales surpassing \$70 per square foot in select submarkets.

Vacancy & Availability

- > Continual demand was evident this quarter as the overall market reported only a slight uptick in vacancy from the previous quarter. Total available space in the overall market was reported at 3.6M, a slight increase from the previous quarter, reporting at 3.2M square feet.
- > Limited supply of new construction and deliveries in recent years has lead to a tight industrial market. All major projects under construction and planned to be delivered this year are almost fully leased.
- > The warehouse market saw an increase in vacancy reporting a 3.34% rate at the end of the first quarter, increasing 0.58% from the prior quarter. The flex market had a decrease in vacancy this quarter, reporting 8.37%, dropping 0.65% from the end of 2018. There is 1.5M square feet of warehouse available in the market with 2.0M square feet of flex space available.

Market Indicators	Raleigh-Durham Flex Q1 2019	Raleigh-Durham Warehouse Q1 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	8.37%	3.34%
Net Absorption (Square Feet)	33,803	(323,465)
Under Construction (Square Feet)	16,800	2.60M
Construction Deliveries (Square Feet)	0	120,000
Asking Rents Per Square Foot Per Year		
Average Quoted	\$11.53	\$6.00

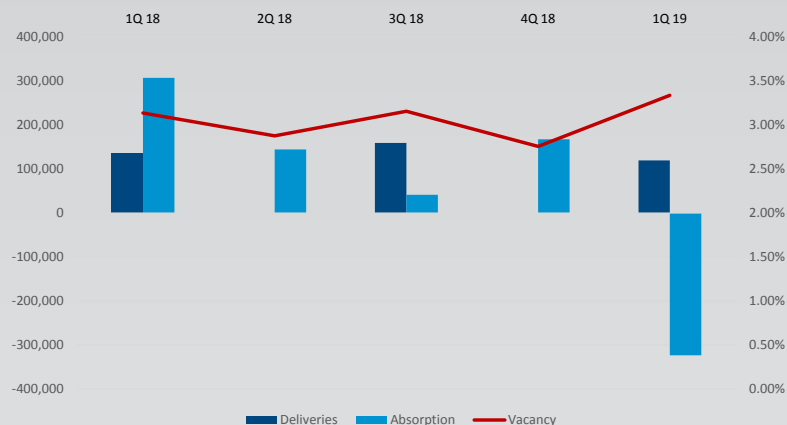
Absorption & Leasing Activity

- Total net absorption was reported negative this quarter. While the flex market reported total net absorption at 33,803, warehouse market absorption fell to (323,465).
- Reduction of force from Flextronics America, a manufacturing company, resulted in negative net absorption being reported in the Warehouse market.
- The Northeast Wake County flex submarket continues to exhibit the strongest demand and leasing activity, reporting a positive net absorption of 16,995 square feet.
- Tech, healthcare, and logistic firms occupy a majority of the space in the industrial market. With increasing demand for online retailers, and shifting consumer behavior to shorter delivery times, logistic spaces have made up the bulk of the absorption in the market. Additionally, tech, clean-energy, and healthcare firms have made up a large share of leasing absorption in the Research Triangle Park submarket.
- Notable leasing activity in the market included Collectis signing 82,985 square feet at 2500 Sumner Boulevard, 163,403 square feet signed at 4032 Patriot Drive, 103,911 square feet signed at 2 Freedom Court, Mid Atlantic Roofing Supply of Raleigh signing 46,913 square feet at 2201 S Wilmington Street and AFR Furniture Rental, Inc signing 40,125 square feet at 4226 Surles Court.

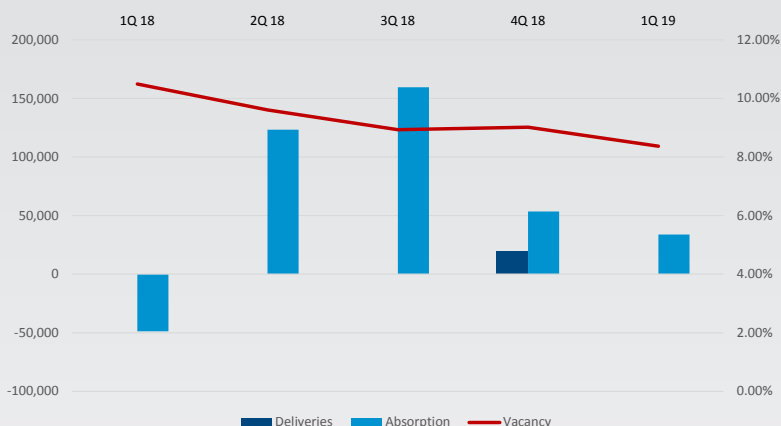
Rental Rates

- Raleigh-Durham's industrial rents have appreciated in recent years, despite a slight dip this past quarter. Research Triangle Park, a research park known for its high-tech usage of industrial space, continues to show competitively high rental rates.
- The average asking rental rate for the Triangle flex market was reported at \$11.53 per square foot this quarter, a \$0.43 increase from the prior quarter. Submarkets reflecting the strongest rent growths include South Durham, Six Forks Falls of Neuse, and Southern Wake County.
- Asking rents in the Triangle warehouse sector were reported at \$6.00 per square foot, a \$0.12 decrease from the prior quarter.

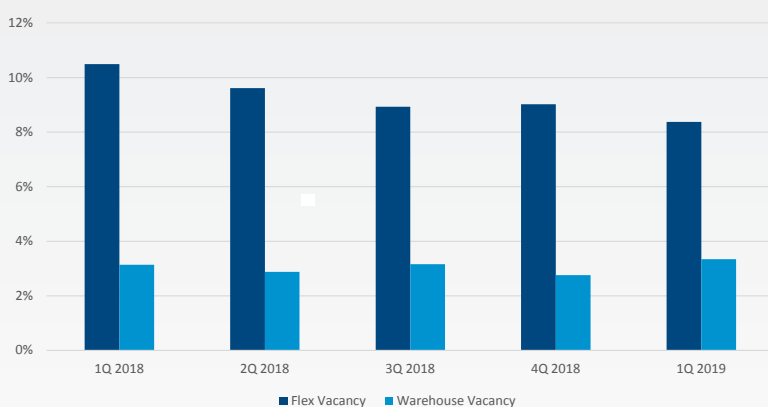
Warehouse Absorption vs. Deliveries, Vacancies



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	1,387,725	57,107	-	4.12%	(1,346)	-	-	\$12.71
Downtown Durham	239,864	392	-	0.16%	(392)	-	-	\$15.00
East Raleigh	243,953	1,626	-	0.67%	(1,626)	-	-	\$12.00
Glenwood/Creedmoor	903,067	19,193	-	2.13%	894	-	-	\$10.31
Johnston County	588,312	44,718	-	7.60%	-	-	-	\$10.24
North Durham	729,214	2,400	-	0.33%	-	-	-	\$10.75
Northeast Wake County	2,438,589	65,991	-	2.71%	16,995	-	-	\$9.87
Orange County	781,006	73,292	-	9.38%	-	-	16,800	\$7.58
RTP I I 40	7,957,931	1,308,114	79,000	16.44%	13,461	-	-	\$16.69
Six Forks Falls of Neuse	666,009	18,780	-	2.82%	(10,357)	-	-	\$9.69
South Durham	820,161	6,001	-	0.73%	-	-	-	\$12.00
Southern Wake County	2,560,096	20,624	23,010	0.81%	17,941	-	-	\$10.49
US 1 Capital Blvd	2,919,309	343,881	-	11.78%	4,523	-	-	\$12.47
West Raleigh	1,398,071	16,015	-	1.15%	(6,290)	-	-	\$11.61
MARKET TOTALS (WEIGHTED)	23,633,307	1,978,134	102,010	8.37%	33,803	-	16,800	\$11.53

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	4,185	-	0.47%	1,728	-	-	\$5.50
East Raleigh	1,233,487	-	-	0.00%	-	-	-	\$4.95
Glenwood/Creedmoor	1,448,715	37,797	-	2.61%	(2,400)	-	-	\$7.57
Johnston County	3,731,569	84,800	-	2.27%	(6,016)	-	-	\$3.48
North Durham	1,401,136	-	-	0.00%	-	-	-	\$2.50
Northeast Wake County	4,630,579	304,033	-	6.57%	10,022	120,000	-	\$5.60
Orange County	428,024	-	-	0.00%	-	-	-	\$6.00
RTP I I 40	10,314,486	452,995	174,370	4.39%	(235,392)	-	-	\$5.91
Six Forks Falls of Neuse	2,366,399	67,779	11,856	2.86%	(37,561)	-	-	\$5.25
South Durham	3,029,552	-	14,043	0.00%	4,928	-	-	\$8.75
Southern Wake County	6,357,916	297,441	8,252	4.68%	(11,804)	-	2,600,000	\$5.67
US 1 Capital Blvd	2,532,391	58,190	-	2.30%	(48,370)	-	-	\$8.10
West Raleigh	903,114	40,140	-	4.44%	1,400	-	-	\$9.50
MARKET TOTALS (WEIGHTED)	40,396,575	1,347,360	208,521	3.34%	(323,465)	120,000	2,600,000	\$6.00

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	SUBMARKET	TOTAL SF	LEASE TYPE
Collectis SA	2500-2540 Sumner Blvd	US 1/ Capital Blvd	82,985	New
N/A	4032 Patriot Drive	Research Triangle Park	163,403	New
N/A	2 Freedom Court	Research Triangle Park	159,838	New
Mid Atlantic Roofing Supply Inc.	2201 S Wilmington St	Southeast Wake County	46,913	New
AFR Furniture Rental, Inc	4226 Surles Ct	Research Triangle Park	40,125	Renewal

Construction & Investment Activity

- There was over 2.6M square feet of warehouse and flex product under construction in the Raleigh-Durham industrial market at the end of the first quarter. Hinton Oaks III, an industrial warehouse building totaling 120,000 square feet, was delivered this quarter.
- Nearly all deliveries in the past decade have been in the Research Triangle area. While construction was relatively light this quarter, several upcoming projects including the 2.6 million square foot Amazon facility and 900,000 square foot Novo Nordisk facility will be significant additions to the market. Majority of the upcoming deliveries are fully preleased or owner-occupied.
- Sales and investor interest remain healthy in the market with select sales exceeding \$100 per square foot. This quarter DSH Capital LLC purchased 3411 Integrity Drive for \$2.5M, Stitch Golf purchased 1021 Classic Road for \$2.9M and Storage Max VI LLC purchased 2001-2045 Progress Court for \$5.7M.

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
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
S Briggs Avenue & 147 HWY	South Durham	410,000	0%	Proposed	Q2 2019	Warehouse

NOTABLE INVESTMENT SALES

PROPERTY	SUBMARKET	PROPERTY TYPE	SIZE (SF)	SALES PRICE (MILLIONS)	PRICE/SF	BUYER
3411 Integrity Drive	Southern Wake County	Flex	21,057	\$2.5	\$120	DSH Capital LLC
1021 Classic Road	Southern Wake County	Flex	24,400	\$2.9	\$119	Stitch Golf
2001-2045 Progress Court	Six Forks Falls of Neuse	Flex	51,000	\$5.7	\$112	Storage Max VI LLC
3700 S Miami Blvd	Research Triangle Park	Warehouse	293,000	\$22.9	\$78	Beacon Partners
4001 Stirrup Creek Drive	Research Triangle Park	Warehouse	208,800	\$17.2	\$82	Gramercy Property Trust, Inc
2728 Capital Blvd	Northeast Wake County	Flex	520,994	\$27.4	\$52	Shapvue Capital
Investcorp NC Portfolio	RTP I-40	Flex	329,052	\$48.0	\$146	Accesso Partners
TriCenter North III & IV	Research Triangle Park	Warehouse	272,400	\$16.8	\$62	Dalfen America
FedEx Ship Center	US 1 Capital Blvd	Warehouse	96,054	\$10.0	\$104	Philip R. Wood
2101 Harrod Street	US 1 Capital Blvd	Warehouse	70,108	\$3.4	\$48	Harrod Associates
2420 Reliance Avenue	Southern Wake County	Flex	28,181	\$3.3	\$117	Gary Wang
6321 Angus Drive	Glenwood Creedmoor	Flex	30,100	\$2.8	\$91	2420 Reliance



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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