

Raleigh-Durham Industrial Market Kicks Off 2023 with Another Quarter of Robust Activity



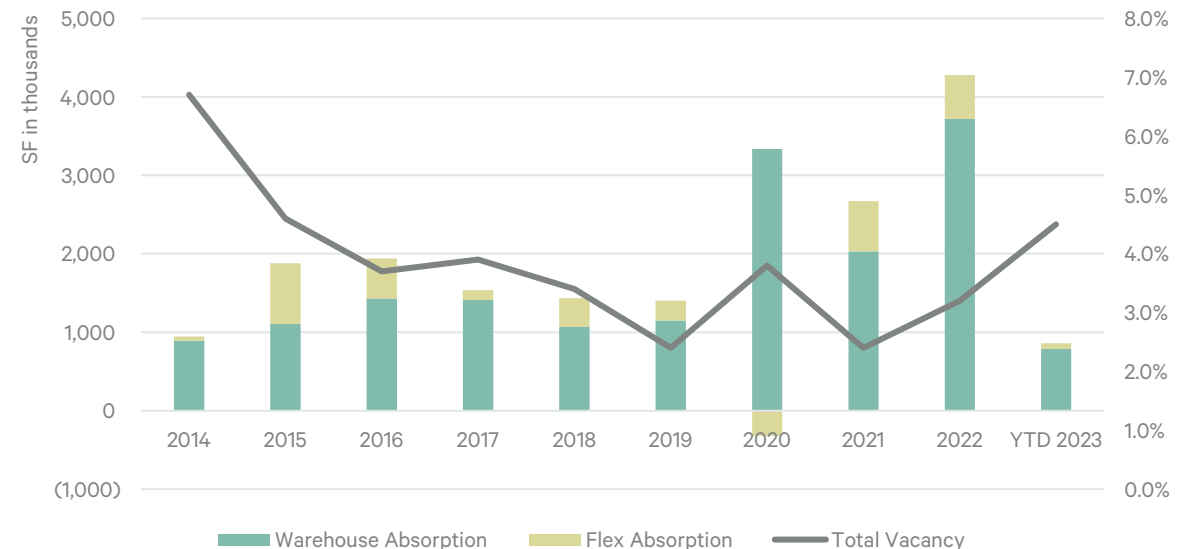
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Net absorption of warehouse and flex space combined totaled 862,302 sq. ft. in Q1 2023. Overall vacancy rose 240 basis points year-over-year to 4.5%.
- Warehouse vacancy rose to 4.1% in Q1, up 170 basis points for the quarter and 270 bps year-over-year.
- Flex vacancy ended Q1 at 6.7%, down 20 bps for the quarter and up 120 bps year-over-year.
- The average warehouse asking rental rate rose 12.8% year-over-year to \$8.54 per sq. ft.
- Projects totaling 2.2 million sq. ft. were delivered in Q1, with another 4.6 million sq. ft. under construction and slated for completion in the next 18 months.

In an effort to provide the most reliable data possible, CBRE|Raleigh has recently undertaken revisions to its methodology for tracking industrial properties. The data contained herein will differ from previously published reports. See page five for detailed methodology and definitions.

FIGURE 1: Net Absorption and Vacancy Rates



Market Fundamentals

On the heels of a record-setting performance in 2022, Raleigh-Durham’s industrial market kicked off 2023 with positive net absorption of 862,302 sq. ft. The delivery of much-needed new product in Q1 resulted in an uptick in vacancy to 4.5%, up 240 bps from a record low of just 2.1% one year earlier. The deliveries also contributed to the quarter’s strong absorption, as more than 60% of the space was leased upon completion. Two notable tenant move-outs offset some of the positive activity. Gildan closed its 386,000-sq.-ft. distribution facility at 7110 E. Washington St. in Orange County as part of a broader effort by the company to streamline operations. In the U.S. 70/Glenwood Avenue submarket, Long Beverage vacated a 144,015-sq.-ft. building at 8605 Ebenezer Church Road.

While tenants are benefiting from increased leasing options, rental rates continue to climb. The average warehouse asking rate rose to \$8.54 in Q1, up 3.1% for the quarter and 12.8% year-over-year. The average flex rate rose to \$16.14, up 1.8% for the quarter and 8.5% year-over-year.

Construction Deliveries

The construction pipeline declined by 16% between Q4 2022 and Q1 2023 as projects totaling 2.2 million sq. ft. were delivered. In Eastern Wake County RWN Real Estate Partners completed two buildings totaling 353,750 sq. ft. at Eagle Crest Industrial Park with 100,000 sq. ft. leased to 1-800-Pack-Rat, and Wake Stone Corporation delivered a 250,000-sq.-ft. building at Hinton Oaks Business Park that is fully leased to multiple tenants. Al. Neyer delivered two buildings totaling 580,500 sq. ft. at Buckhorn Industrial Park I in Orange County. One of the buildings, totaling 375,000 sq. ft., was sold to Thermo Fisher Scientific and will be used to manufacture laboratory pipette tips. In the RTP/I-40 Corridor, Trinity Capital completed construction of 147 Exchange, a 274,370-sq.-ft. building that is 65% leased to multiple tenants. Elsewhere in the submarket, Scannell Properties delivered a 132,000-sq.-ft. building at Regional Commerce Center that is fully leased to LifeScience Logistics, and Capital Associates completed a 120,000-sq.-ft. build-to-suit expansion facility for 3D printing company Protolabs at 3615 Pleasant Grove Church Road. In Johnston County, a new 150,000-sq.-ft. building was completed for Polymer Group, and AdvanceTEC completed construction of a 98,280-sq.-ft. warehouse building with 62,607 sq. ft. available for lease.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates

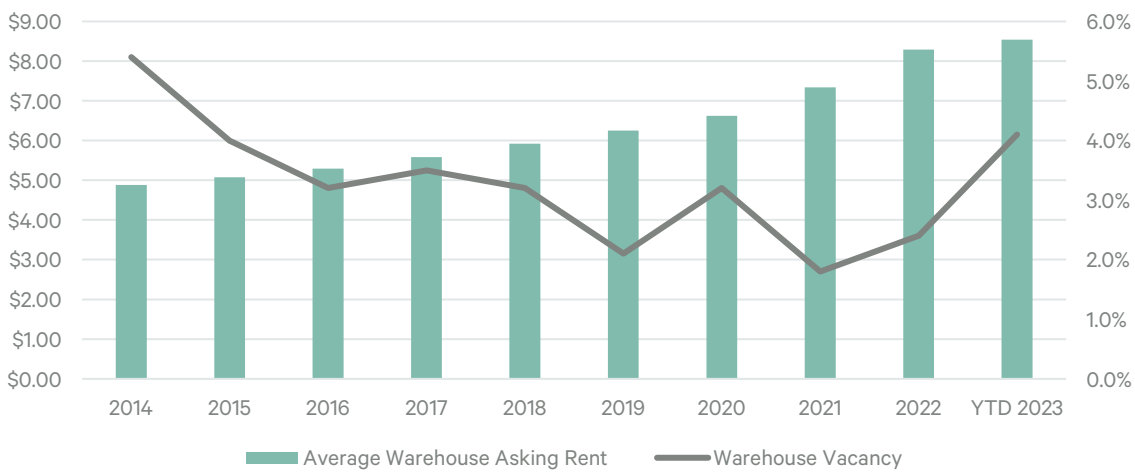
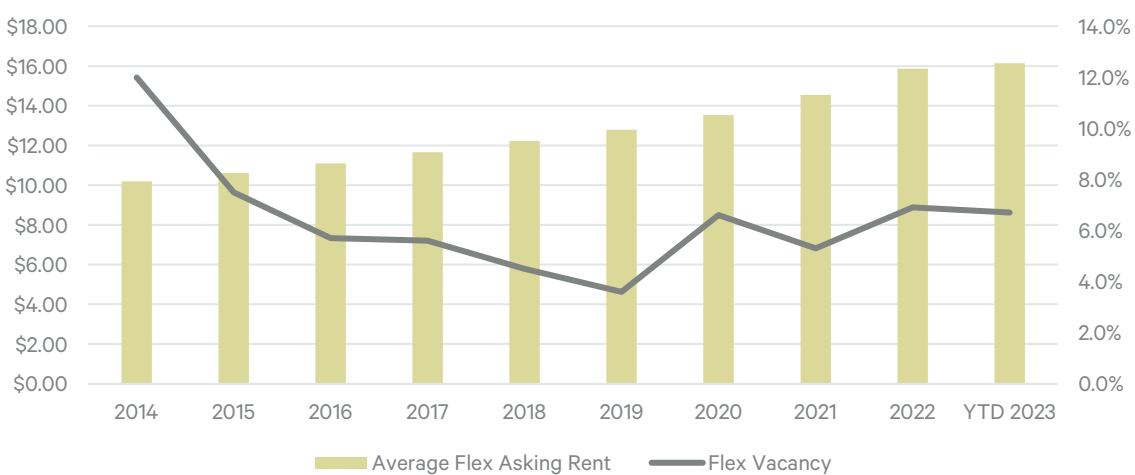


FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Resurgence in Manufacturing

The U.S. industrial market is benefiting from a rise in onshore manufacturing, and those impacts are being felt in North Carolina. The central part of the state is seeing increased industrial activity related to electric vehicles. In Q1, Kempower leased 153,000 sq. ft. at Research Tri-Center South in the RTP/I-40 Corridor for its first U.S. factory. The Finland-based company manufactures electric vehicle charging stations and has announced plans to create 600 local jobs over five years. Automotive supplier Bharat Forge announced plans in February to expand its Lee County production capacity for vehicle components with the construction of a new 150,000-sq.-ft. facility. Wolfspeed has begun work in Chatham County on a \$5 billion silicon carbide manufacturing facility that will be the largest of its kind in the world. Vietnamese automaker VinFast has stated that plans are still underway to construct an EV manufacturing facility in Chatham County despite recent delays, and Toyota is investing \$3.8 billion in a new BEV battery production facility just to the west of the Triangle region in Randolph County.

While lab and biomanufacturing properties are tracked separately from industrial space, the region’s expanding life science industry is also driving demand from related users. DHL Global Forwarding opened a new 40,000-sq.-ft. facility at 110 Roche Drive in the RTP/I-40 Corridor in Q1. The space features advanced cold storage capabilities to meet the needs of life science customers.

Market Outlook

CBRE expects a modest decline in U.S. industrial activity in 2023 as occupiers delay expansion plans in the face of economic uncertainty and the post-pandemic need to hold excess inventory dissipates. Nonetheless, vacancy rates are projected to remain well below the 10-year average, and low available supply will drive continued strong rent growth. These trends are likely to play out at the local level as well, particularly if the Raleigh-Durham region experiences a slowdown in construction starts later this year. Supply chain transformation driven by the digital economy will continue to fuel demand for industrial space in expanding population centers such as Raleigh-Durham. According to data from the U.S. Census Bureau, online spending rose by 11.3% in 2022, demonstrating resilience despite consumers returning to more normal patterns of activity post pandemic. Once an office-centric market with a small industrial presence, the region is now a top destination for industrial investors and developers looking to deploy capital.

FIGURE 4: Select Lease/Sale Transactions Q1 2023

Lease: Tenant	Building	Type	Square Feet	Submarket
Kempower	Research Tri-Center South	New	153,000	RTP/I-40 Corridor
Hubbard Pipe and Supply ¹	1000 Management Way	New	68,000	Eastern Wake
XPO	Research Tri-Center North	Renewal	61,000	RTP/I-40 Corridor
Canteen Vending Services	3300 Waterfield Drive	New	58,000	Eastern Wake
Best Buy	Liberty Ridge	New	57,120	RTP/I-40 Corridor

¹Denotes CBRE|Raleigh Transaction

Sale: Building	Square Feet	Purchase Price	Price Per Sq. Ft.	Submarket
601 Irving Pkwy. ²	130,127	\$20.5 Million	\$158	Southern Wake
150 International Drive	38,200	\$8.6 million	\$225	RTP/I-40 Corridor

²Majority interest sale

FIGURE 5: Historical Industrial Construction Activity

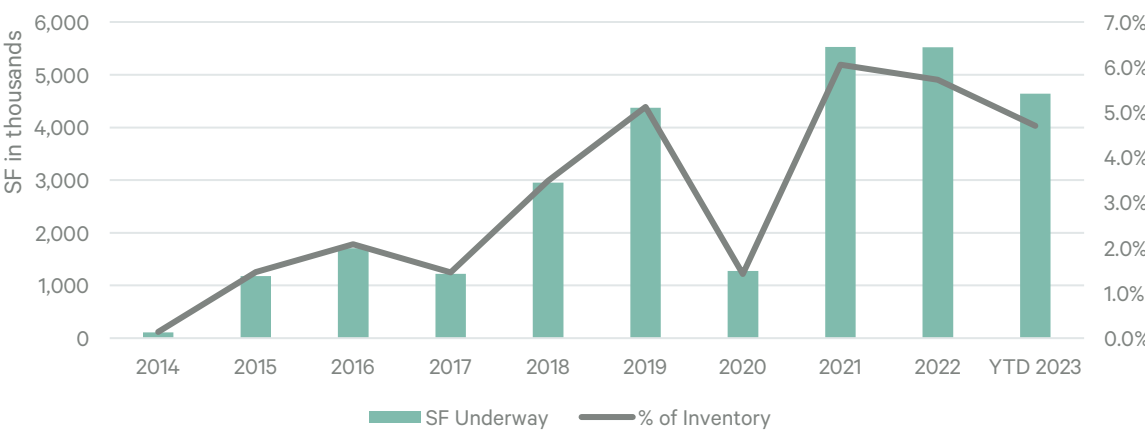
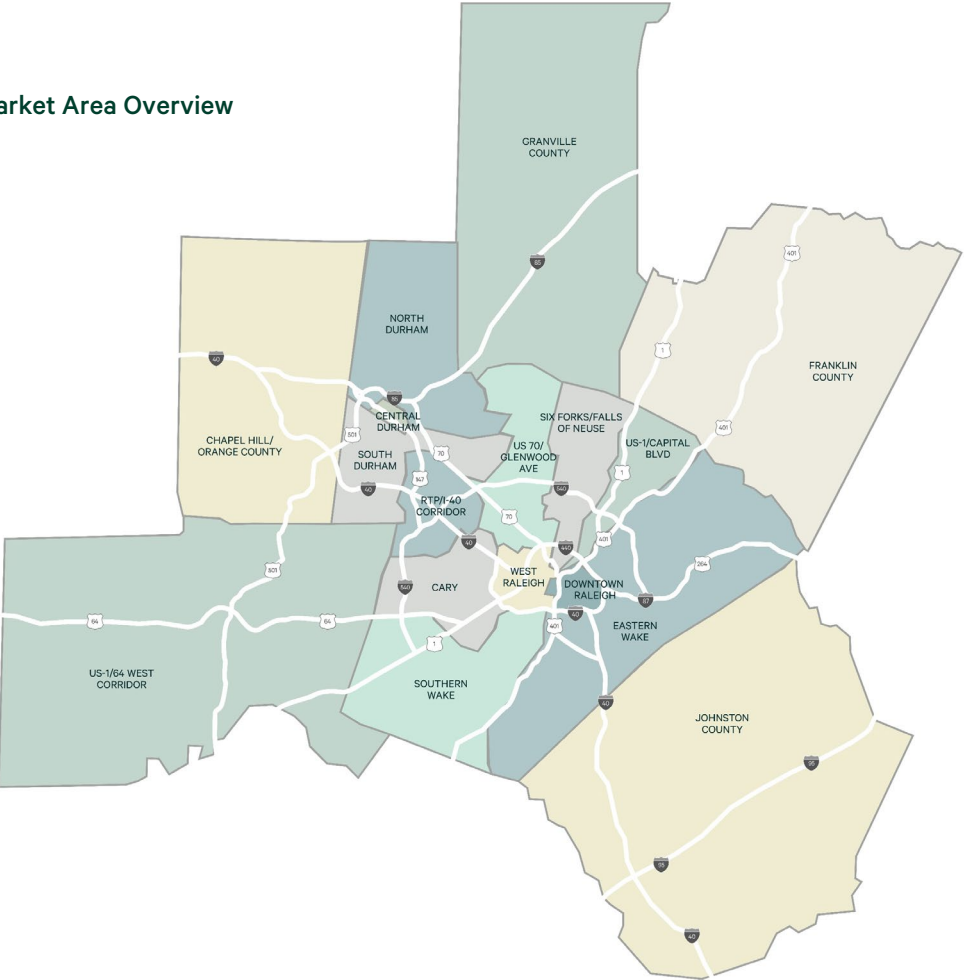


FIGURE 6: Submarket Breakdown

	Rentable Area (SF)	VACANCY			AVAILABILITY			NET ABSORPTION (SF)		SF Under Construction	AVERAGE ASKING RATE	
		Total	Warehouse	Flex	Total	Warehouse	Flex	Q1	YTD		Warehouse	Flex
West Raleigh	1,388,486	3.2%	-	6.2%	3.5%	-	6.7%	(8,274)	(8,274)	-	-	\$16.45
US 70/Glenwood Avenue	2,680,787	6.8%	9.3%	2.8%	7.8%	9.3%	5.4%	(154,869)	(154,869)	120,120	\$9.35	\$14.38
Six Forks/Falls of Neuse Road	2,795,392	3.1%	3.7%	0.7%	9.2%	8.4%	12.4%	-	-	11,870	\$9.08	\$16.22
US 1/Capital Boulevard	7,547,134	2.9%	2.3%	3.5%	8.1%	2.3%	14.5%	3,988	3,988	165,349	\$10.48	\$16.53
Eastern Wake	20,513,962	5.1%	4.8%	6.8%	9.5%	9.8%	7.5%	364,240	364,240	1,150,560	\$9.55	\$14.59
Southern Wake	5,980,128	11.0%	10.9%	11.3%	11.6%	11.4%	11.8%	(40,298)	(40,298)	32,268	\$10.24	\$17.54
Cary	2,548,480	0.4%	-	1.2%	1.4%	-	4.5%	480	480	-	-	\$17.70
RTP/I-40 Corridor	20,481,156	3.5%	1.7%	11.5%	6.4%	4.7%	13.9%	288,880	288,880	568,325	\$9.34	\$17.54
North Durham	2,489,256	0.4%	-	4.3%	13.9%	-	4.3%	4,881	4,881	-	-	\$16.42
South Durham	1,766,352	0.3%	-	1.2%	0.3%	-	1.2%	-	-	-	-	\$15.62
Chapel Hill/Orange County	4,924,845	17.3%	21.5%	1.9%	29.0%	29.6%	23.6%	(17,628)	(17,628)	921,500	\$8.39	\$18.69
Core Market Totals	73,115,978	5.2%	4.8%	6.6%	9.7%	9.3%	11.1%	441,400	441,400	2,969,992	\$9.56	\$16.34
Johnston County	8,562,316	1.4%	1.2%	5.1%	17.6%	16.4%	33.2%	197,608	197,608	1,494,122	\$6.42	\$13.20
US 1/64 West Corridor	8,717,688	2.5%	2.5%	-	8.1%	8.1%	-	(66,600)	(66,600)	178,670	\$5.87	-
Franklin County	3,174,975	2.7%	1.8%	11.3%	2.7%	1.8%	11.3%	(50,793)	(50,793)	-	\$6.34	\$14.17
Granville County	5,109,556	4.5%	4.5%	-	4.5%	4.5%	-	340,687	340,687	-	\$7.59	-
Outlying Market Totals	25,564,535	2.5%	2.4%	7.1%	10.3%	9.7%	26.4%	420,902	420,902	1,672,792	\$6.28	\$13.37
Market Totals	98,680,513	4.5%	4.1%	6.7%	9.9%	9.4%	12.0%	862,302	862,302	4,642,784	\$8.54	\$16.14

Market Area Overview



Definitions

To more accurately reflect the dramatic growth in Raleigh-Durham’s industrial market CBRE|Raleigh has added Franklin and Granville Counties to its geographical coverage area. Wake, Durham, Orange, Johnston, Chatham and Lee Counties are also included.

CBRE|Raleigh’s competitive industrial inventory includes warehouse buildings with 20,000 sq. ft. or more of building area and flex buildings with 10,000 sq. ft. or more of building area. Government-owned, medical and life science properties are excluded.

Average asking rental rates are weighted by the amount of direct available space per building and are quoted on a triple-net basis, per sq. ft., per year.

Vacancy: Physically vacant space that can be occupied within 30 days.

Availability: Space in a building, ready for occupancy within six months; can be occupied or vacant.

Net Absorption: The change in occupied sq. ft. from one period to the next.

Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building.

Gross Lease Rate: Rent typically includes real property taxes, building insurance and major maintenance.

Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.

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