

Construction deliveries add sought-after new leasing opportunities for tenants

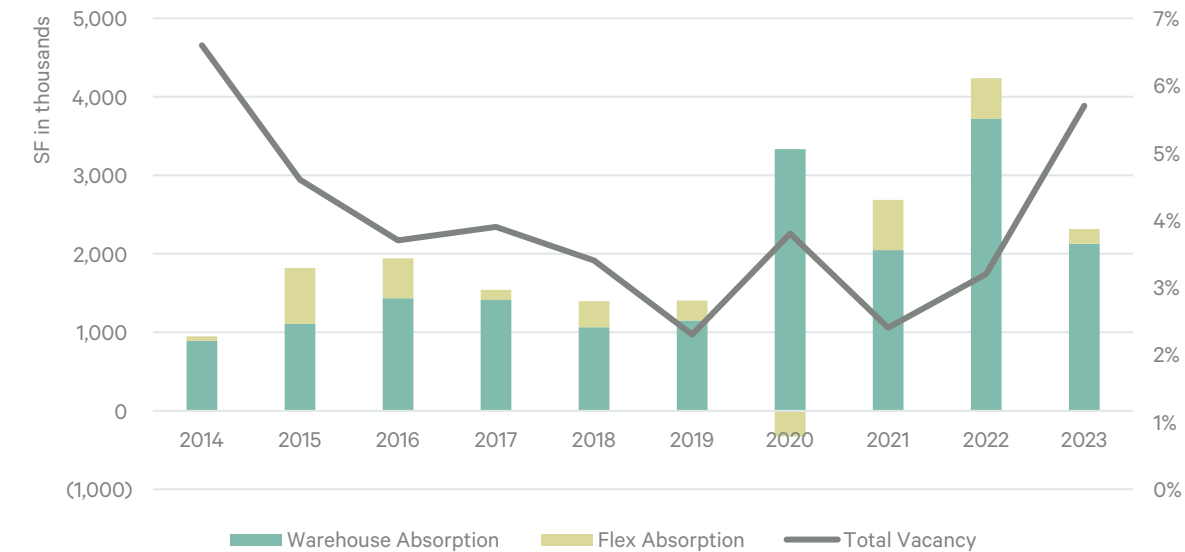
▲ 4.8%	▲ \$9.08	▲ 9.8%	▲ \$17.01	▼ 283,056	▼ 3.8M
Warehouse Vacancy	Warehouse Rental Rate	Flex Vacancy	Flex Rental Rate	SF Quarterly Net Absorption	SF Under Construction

Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Net absorption of warehouse and flex space combined totaled 283,056 sq. ft. in Q4 2023, bringing the annual total to 2.3 million sq. ft.
- Overall vacancy rose to 5.7%, up 50 basis points for the quarter and 250 bps year-over-year. Warehouse vacancy rose 10 bps to 4.8%, and flex vacancy rose 230 bps to 9.8%.
- The average warehouse asking rental rate rose 9.3% year-over-year to \$9.08 per sq. ft., and the average flex asking rate rose 6.1% to \$17.01 in the same period.
- Industrial deliveries totaled 957,837 sq. ft. in Q4, bringing total 2023 completions to 5 million sq. ft.
- Of the 3.8 million sq. ft. underway in Q4, 32% has been reported as leased.

FIGURE 1: Net Absorption and Vacancy Rates



Source: CBRE Research, Q4 2023

Market Fundamentals

Raleigh-Durham industrial demand moderated in 2023 following a record-setting performance in 2022. While tenant activity remains reasonably strong, it has declined due primarily to high interest rates, economic uncertainty and the normalization of demand following unsustainably high pandemic-era levels. Net absorption of warehouse and flex space combined totaled 283,056 sq. ft. in Q4 2023, bringing the annual total to 2.3 million sq. ft. Absorption of warehouse space reached 407,706 sq. ft. in Q4 for an annual total of 2.1 million sq. ft. Quarterly flex absorption fell into the red by 124,650 sq. ft., bringing the total for 2023 to 186,994 sq. ft.

Construction deliveries outpaced net absorption by a wide margin in 2023, driving vacancy sharply higher. Overall vacancy rose to 5.7% in Q4, up 50 bps for the quarter and 250 bps year-over-year. Warehouse vacancy rose to 4.8%, up 10 bps for the quarter and 240 bps year-over-year. Flex vacancy rose to 9.8%, up 230 bps for the quarter and 290 bps year-over-year. The increase in leasing opportunities brings welcome relief to tenants who were faced with record low vacancy rates in 2022.

Rent growth remains strong, but the pace of increases continued to slow in Q4. The average warehouse asking rate rose 9.3% year-over-year to \$9.08 per sq. ft., and the average flex asking rate rose 6.1% to \$17.01 per sq. ft. in the same period.

Construction Activity

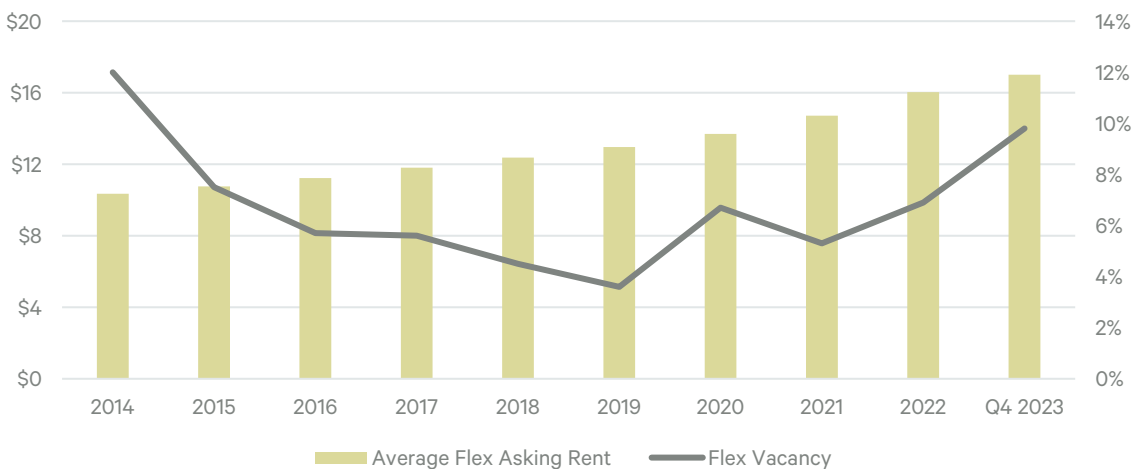
Construction deliveries totaled 957,837 sq. ft. in Q4, bringing annual completions to 5 million sq. ft. or more for a second consecutive year. Since 2020, more than 16 million sq. ft. has been added to the market, swelling inventory by 18%. Among the largest deliveries of the quarter, Beacon Partners delivered Beacon Commerce Park 3, a 260,954-sq.-ft. warehouse building located in Eastern Wake County. The property is 90% leased to Consolidated Electrical Distributors and Greentech Renewables. In Johnston County, Al. Neyer completed construction of a 264,814-sq.-ft. speculative warehouse at Brogden Industrial, and Johnston Flex LLC delivered two flex buildings totaling 125,000 sq. ft. at 42 West Business Park. No tenants have been signed at either project to date. A 120,120-sq.-ft. build to suit for Frito Lay was delivered in the US 70/Glenwood submarket, and in Orange County, Merritt Properties completed two flex buildings totaling 116,300 sq. ft. at North Chapel Business Center with 16% of the space leased.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates



Source: CBRE Research, Q4 2023

FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Source: CBRE Research, Q4 2023

Construction starts have slowed notably, which should keep any concerns about oversupply short-lived. Projects totaling 3.8 million sq. ft. were underway in Q4, the lowest level registered since Q3 2021. While high interest rates have curtailed groundbreakings, developers continue to position themselves for future growth. Oppidan Investment Company purchased the final 75 acres along U.S. Highway 64 in Wendell for its planned 257-acre Wendell Commerce Center in Eastern Wake County. The mixed-use project will feature nearly 2 million sq. ft. of industrial space as well as apartments, retail and hospitality.

Capital Markets

Investment sales activity remains light amid challenging lending conditions. The majority of transactions closed throughout 2023 were valued at less than \$10 million. In the largest sale of the quarter and one of the largest of the year, Westgate Motors purchased 8605 Ebenezer Church Road in the US 70/Glenwood submarket for \$32.5 million (\$226 per sq. ft.). The vacant facility was formerly occupied by Long Beverage.

Market Outlook

Deliveries will continue to push vacancy higher in the near term, but leasing activity is expected to increase by the second half of 2024. With construction starts limited, vacancy should decline at a healthy pace as demand improves. According to Oxford Economics, U.S. industrial production is projected to increase by 7.5% over the next five years. Rising manufacturing activity, combined with continued e-commerce growth, will support demand for industrial space, particularly in growing population centers such as Raleigh-Durham. E-commerce activity continues to grow steadily, reaching 22.7% of total retail sales in Q3 2023. In its [2024 U.S. Real Estate Outlook](#), CBRE projects that this figure will reach 24.4% by year-end 2024.

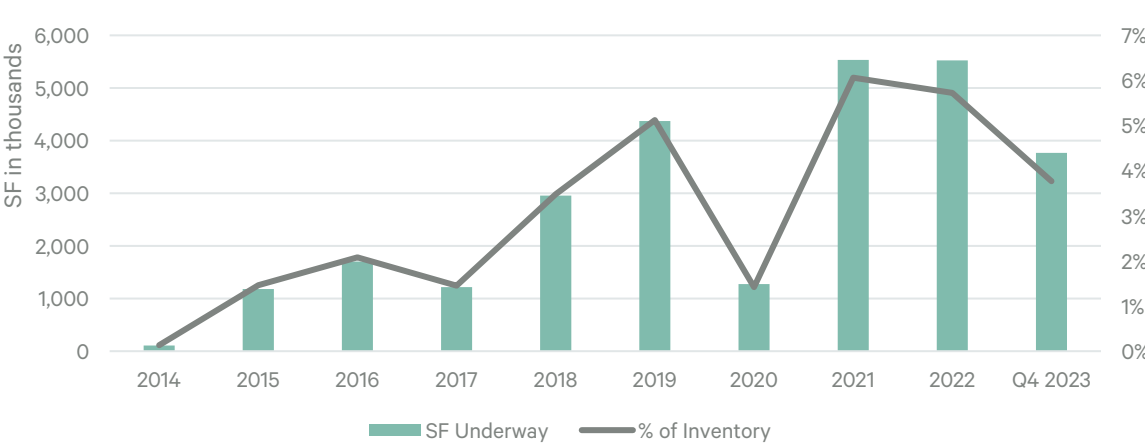
Advanced manufacturing has dominated Raleigh-Durham’s economic development wins in the last two years. Wolfspeed is well underway with its \$5 billion semiconductor facility in Chatham County and expects to begin production in 2024. The 1-million-sq.-ft. materials facility will be the largest of its kind in the world. The Wolfspeed plant, along with VinFast’s planned EV production facility and other large-scale advanced manufacturing facilities underway in central North Carolina, will drive substantial ancillary activity among suppliers. Growth will continue to spread to Raleigh-Durham’s outlying counties as land and occupancy costs drive developers, tenants and residents to seek opportunities outside of the region’s core.

FIGURE 4: Select Lease Transactions Q4 2023

Tenant	Building	Type	Square Feet	Submarket
Sports Endeavors	7110 E Washington Street	New	115,000	Orange County
SMG Hearth and Home	Research Tri-Center South V	Sublease	108,830	RTP/I-40 Corridor
Science Corporation	Liberty Ridge Three	New	56,700	RTP/I-40 Corridor
RCS Moving*	I-40 Innovation Center	New	53,705	RTP/I-40 Corridor
The Woobles*	147 Exchange	New	48,019	RTP/I-40 Corridor
Special Service Freight Company*	147 Exchange	Expansion	48,018	RTP/I-40 Corridor
Pinnacle	5513 Lumley Road	New	25,200	RTP/I-40 Corridor
Blanton’s Air, Plumbing & Electric*	2000 Citation Drive	New	19,088	Eastern Wake

*Denotes CBRE Transaction

FIGURE 5: Historical Industrial Construction Activity

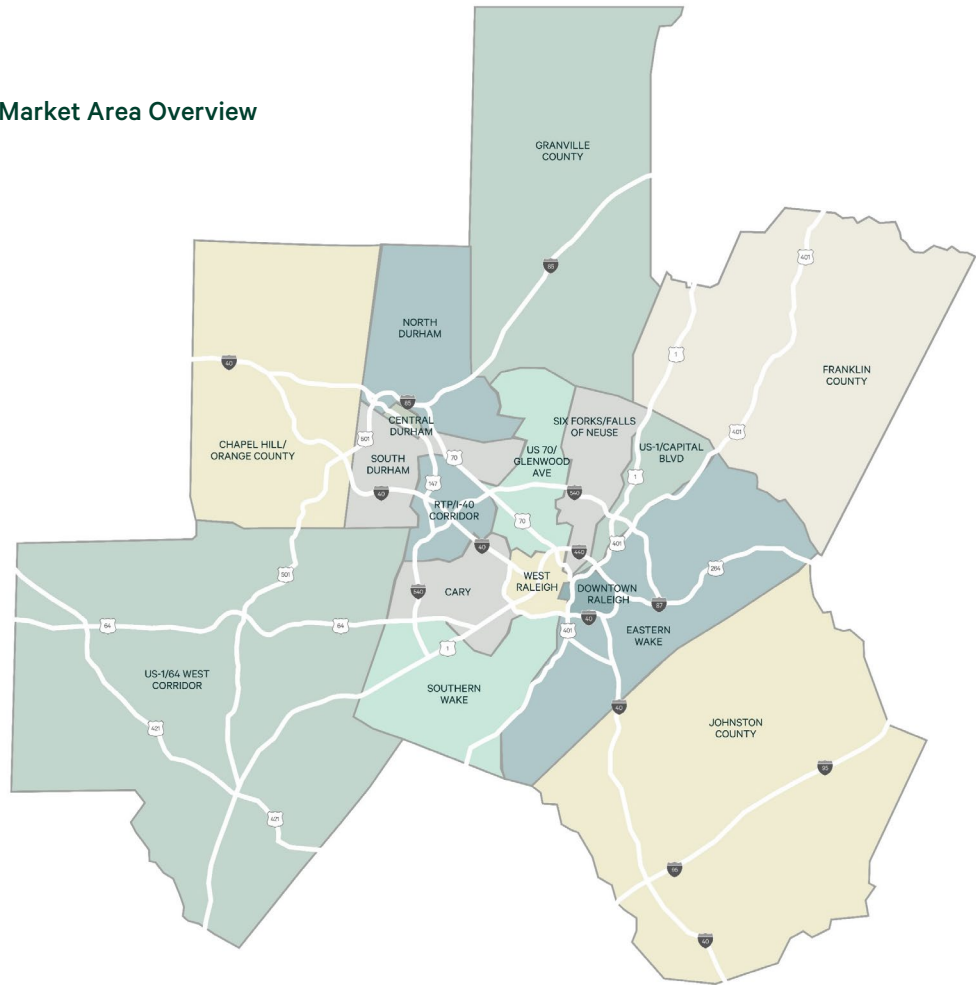


Source: CBRE Research, Q4 2023

FIGURE 6: Submarket Breakdown

	Rentable Area (SF)	VACANCY			AVAILABILITY			NET ABSORPTION (SF)		SF Under Construction	AVERAGE ASKING RATE	
		Total	Warehouse	Flex	Total	Warehouse	Flex	Q4	YTD		Warehouse	Flex
West Raleigh	1,388,486	4.1%	-	7.9%	5.1%	-	9.8%	-	(20,625)	-	\$12.23	\$17.29
US 70/Glenwood Avenue	2,643,537	1.4%	0.5%	2.8%	2.6%	2.2%	3.1%	130,517	(10,563)	-	\$9.88	\$15.23
Six Forks/Falls of Neuse Road	2,797,376	5.5%	5.4%	5.8%	11.8%	14.0%	2.7%	(55,070)	(54,420)	-	\$9.64	\$16.96
US 1/Capital Boulevard	7,813,122	7.1%	3.6%	10.6%	8.0%	3.3%	12.6%	(145,045)	(125,625)	-	\$7.25	\$17.72
Eastern Wake	21,119,878	5.8%	5.8%	6.1%	8.6%	9.0%	6.0%	187,558	675,692	1,043,426	\$10.10	\$15.26
Southern Wake	6,023,485	6.3%	4.3%	10.0%	7.7%	4.3%	13.8%	176,680	286,328	42,960	\$10.62	\$17.99
Cary	2,556,487	0.8%	-	2.4%	6.7%	8.6%	2.4%	2,903	(9,723)	-	\$10.60	\$18.56
RTP/I-40 Corridor	21,080,655	4.0%	2.7%	9.9%	3.3%	1.5%	11.2%	(140,007)	788,338	57,000	\$10.02	\$18.39
North Durham	2,489,256	-	-	-	3.5%	-	32.0%	8,126	14,007	541,200	-	\$13.62
South Durham	1,772,103	0.9%	-	3.3%	2.2%	1.9%	2.9%	(12,320)	(9,840)	-	\$11.52	\$16.60
Orange County	5,120,517	13.8%	12.9%	22.1%	19.1%	19.1%	19.0%	11,000	243,992	805,200	\$8.88	\$15.50
Core Market Totals	74,804,902	5.4%	4.4%	8.5%	7.3%	6.4%	10.1%	164,342	1,777,561	2,489,786	\$10.14	\$17.17
Johnston County	9,786,595	12.1%	10.7%	29.8%	16.4%	12.8%	50.5%	139,242	361,690	254,606	\$6.75	\$14.90
US 1/64 West Corridor	8,718,552	4.1%	3.4%	86.0%	10.3%	9.3%	90.1%	21,600	(140,440)	628,000	\$5.64	\$17.06
Franklin County	3,214,010	3.7%	2.7%	13.8%	9.8%	9.9%	8.5%	(42,128)	(82,846)	394,430	\$8.08	\$14.80
Granville County	5,513,987	3.1%	3.1%	-	0.9%	0.9%	-	-	399,678	-	\$7.93	-
Outlying Market Totals	27,233,144	6.8%	5.8%	29.5%	10.6%	8.9%	44.8%	118,714	538,082	1,277,036	\$6.77	\$15.04
Market Totals	102,038,046	5.7%	4.8%	9.8%	7.8%	7.2%	12.7%	283,056	2,315,643	3,766,822	\$9.08	\$17.01

Market Area Overview



Definitions

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

CBRE’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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