

FIGURES | RALEIGH-DURHAM INDUSTRIAL | Q3 2024

Vacancy declines for first time since Q2 2023 as absorption outpaces deliveries

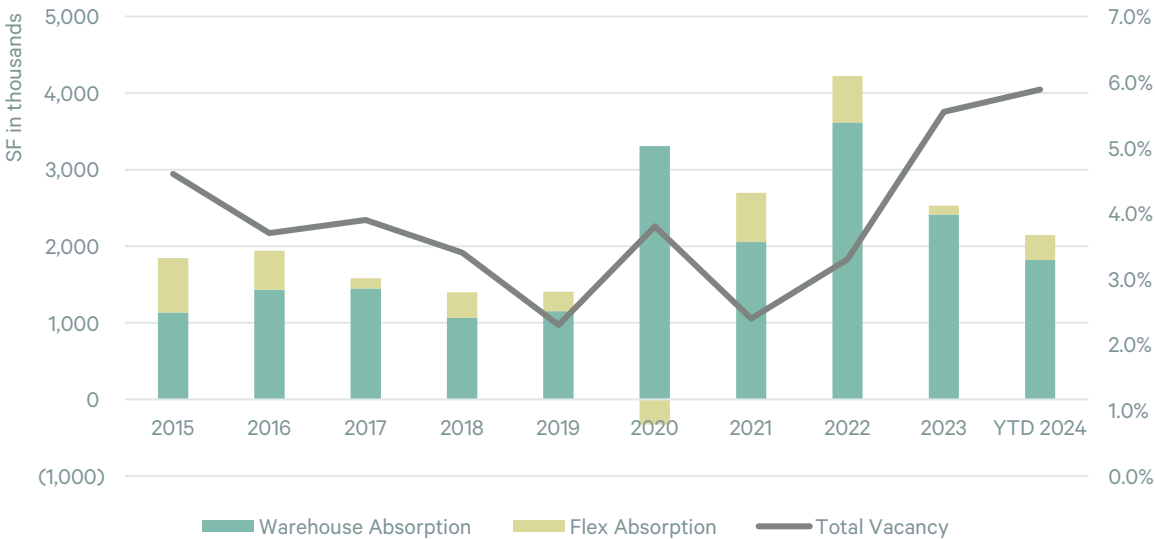
| | | | | | |
|-------------------|-----------------------|--------------|------------------|-----------------------------|-----------------------|
| ▼ 5.1% | ► \$9.41 | ▼ 9.7% | ► \$17.65 | ▼ 733,860 | ▲ 3.8M |
| Warehouse Vacancy | Warehouse Rental Rate | Flex Vacancy | Flex Rental Rate | SF Quarterly Net Absorption | SF Under Construction |

Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Net absorption of warehouse and flex space combined totaled 733,860 sq. ft. in Q3 2024, outpacing construction deliveries and bringing the year-to-date total to 2.1 million sq. ft.
- Overall vacancy fell to 5.9%, down 20 basis points for the quarter but still up 80 bps year-over-year. The decline marked the first quarter of falling vacancy since Q2 2023. Warehouse vacancy fell to 5.1%, down 20 bps for the quarter, and flex vacancy fell 50 bps to 9.7%.
- Rent growth continued to moderate in Q3. Average asking rates for both warehouse and flex space were essentially flat quarter-over-quarter but up 5.3% year-over-year. The average warehouse asking rate ended Q3 at \$9.41, and the average flex rate stood at \$17.65 per sq. ft.
- Construction deliveries totaled 486,563 sq. ft. in Q3, with 100% of the spaced leased upon completion. The construction pipeline swelled in Q3 as developers broke ground on several projects. Buildings totaling 3.8 million sq. ft. were underway, with 45% of the space reported as leased.

FIGURE 1: Net Absorption and Vacancy Rates



Source: CBRE Research, Q3 2024

Market Fundamentals

Net absorption in Raleigh-Durham’s industrial market outpaced completions in Q3. As a result, the sector registered its first quarterly decline in vacancy since Q2 2023. Overall vacancy fell 20 bps to 5.9%. This figure remains up 80 bps year-over-year. Warehouse vacancy ended the quarter at 5.1%, down 20 bps quarter-over-quarter and up 40 bps year-over-year. Flex vacancy fell to 9.7%, down 50 bps quarter-over-quarter and up 240 bps year-over-year.

Overall net absorption totaled 733,860 sq. ft. in Q3, bringing the year-to-date total to 2.1 million sq. ft. Warehouse absorption accounted for 634,328 sq. ft. in Q3 and 1.8 million sq. ft. year-to-date. Flex absorption totaled 99,532 sq. ft. for the quarter and 325,893 sq. ft. year-to-date.

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Development Pipeline

Two buildings totaling 486,563 sq. ft. were delivered in Q3, with 100% of the space leased upon completion. In Orange County, AL, Neyer completed construction of Building 5 at Buckhorn Industrial Park II. The 265,200-sq.-ft. property is fully occupied by Stihl. Beacon Partners completed construction of Knightdale Gateway Building 2 in Eastern Wake County, with Kitchen Cabinet Distributors occupying the entire 221,363-sq.-ft. building. Projects totaling 2.6 million sq. ft. have been delivered year-to-date.

Prior to Q3, Raleigh-Durham industrial development had reached its lowest point since the first half of 2021. The amount of space underway rose to 3.8 million sq. ft. in Q3 as more developers began gearing up for the next cycle. Beacon Partners began work on two buildings totaling 731,500 sq. ft. at Apex Gateway in the US 1/64 West Corridor, with all of the space available for lease. Scannell Properties broke ground on a 249,600-sq.-ft. speculative building at Durham 85 Phase I in North Durham and a 385,455-sq.-ft. build-to-suit for Kuehne+Nagel in the RTP/I-40 Corridor. In Eastern Wake County, Wigeon Capital began construction of an 80,000-sq.-ft. speculative project at Cornerstone at Walnut Creek.

With site work underway at several developments across the region, additional proposed projects are expected to begin vertical construction in the near term.

FIGURE 2: Warehouse Average Asking Rates and Vacancy Rates



Source: CBRE Research, Q3 2024

FIGURE 3: Flex Average Asking Rates and Vacancy Rates



Source: CBRE Research, Q3 2024

Capital Markets

The Raleigh-Durham region witnessed an increase in industrial building sales in Q3. Prologis paid Trinity Capital Advisors \$80.2 million (\$182 psf) for Alexander Commerce Park in the RTP/I-40 Corridor. The three-building portfolio totals 441,280 sq. ft. and is 100% leased. Prologis indicated in its second-quarter earnings report that it intends spend between \$1 billion and \$1.5 billion to purchase properties in 2024, a significant increase over earlier projections.

As part of a 25-property portfolio spanning North Carolina, Tennessee and Georgia, Stoltz Real Estate Partners purchased two Raleigh-Durham buildings from Dogwood Industrial Properties. Stoltz paid \$71 million (\$122/SF) for a 580,000-sq.-ft. building at 900 Aviation Parkway in Morrisville. The building is 88% leased to multiple tenants. The transaction also included North 540 Distribution Center in Raleigh, which traded for \$26 million (\$108/SF). The 240,000-sq.-ft facility is 30% leased on a direct basis, but the entire building is available for lease or sublease.

Also of note, Ferguson Enterprises paid Al. Neyer \$32.6 million (\$145/SF) for a recently constructed 225,000-sq.-ft. building at Garner Business Park 70 in Eastern Wake County.

Market Outlook

Raleigh-Durham is likely to see another quarter of strong absorption to finish the year as several projects that are fully or substantially leased are scheduled for delivery. Vacancy is expected to tighten further in the near term, but recent additions to the pipeline indicate a more balanced market moving forward than what was witnessed in the aftermath of the pandemic. Tenants will have access to a healthy supply of high-quality options, which will be needed once economic activity increases. Nonetheless, overall fundamentals are expected to remain sound. In addition to rising manufacturing activity, Raleigh-Durham’s strong population growth, active construction industry and healthy economy are providing tailwinds to the local industrial sector.

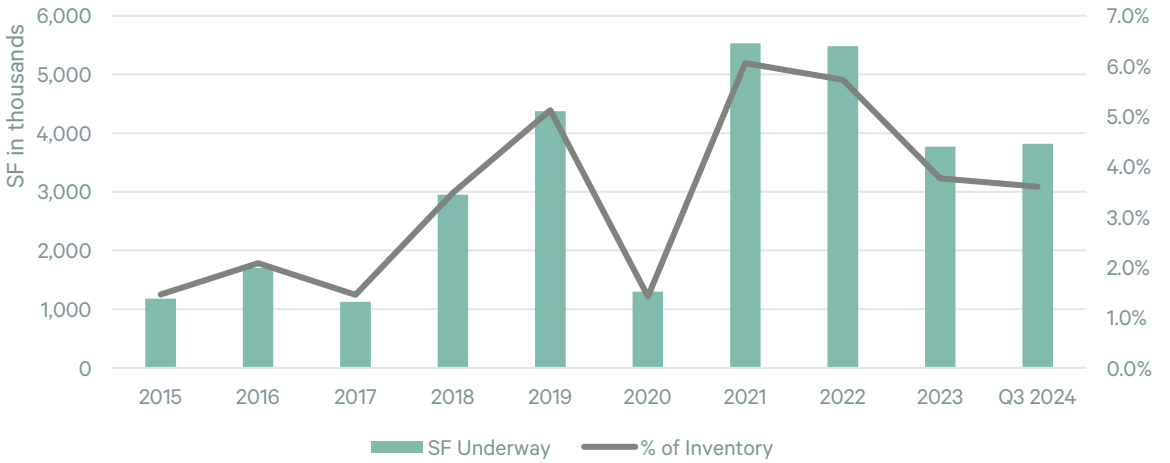
Soft landings are rare, but recent data suggest that this outcome for the U.S. economy is increasingly likely. Business investment is holding its own, and consumer distress is confined to a few vulnerable segments. While many are focused on November’s election, the most consequential policy lever has already been pulled via the FOMC’s 50-bps September cut and signaling another 50 bps by year-end. This easing of financial conditions, combined with continued economic growth, should support modest hiring and consumption that precedes tighter commercial space market fundamentals.

FIGURE 4: Select Lease Transactions Q3 2024

| Tenant | Building | Type | Square Feet | Submarket |
|------------------------------|----------------------------|---------|-------------|-----------------------|
| Aisin | 7110 E Washington St | New | 286,112 | Orange County |
| Southwire | US 1 North Commerce Center | New | 169,940 | Franklin County |
| Romanoff Heating & Cooling | 2728 Capital Blvd | New | 140,000 | US 1/Capital Blvd |
| Reico Kitchen & Bath | 2728 Capital Blvd | Renewal | 84,971 | US 1/Capital Blvd |
| Siemens | Knightdale Gateway 1 | New | 78,712 | Eastern Wake |
| Pactiv* | Beacon Commerce Park 1 | New | 74,927 | Eastern Wake |
| Conklin Metal | Apex Gateway 1 | New | 66,254 | US 1/64 West Corridor |
| Honeywell | 208 S Rogers Lane | Renewal | 58,926 | Eastern Wake |
| Garner Appliance & Mattress* | Beacon Commerce Park | New | 27,298 | Eastern Wake |

*Denotes CBRE Transaction

FIGURE 5: Historical Industrial Construction Activity

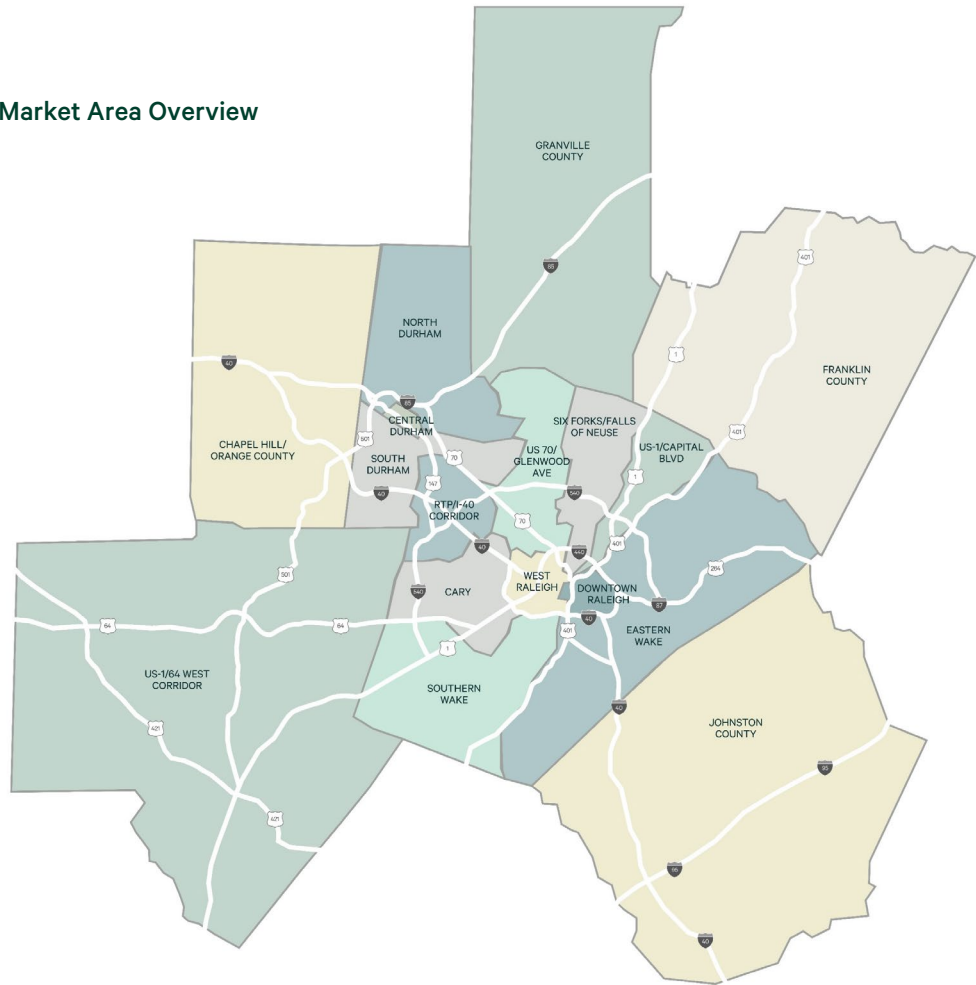


Source: CBRE Research, Q3 2024

FIGURE 6: Submarket Breakdown

| | Rentable Area (SF) | VACANCY | | | AVAILABILITY | | | NET ABSORPTION (SF) | | SF Under Construction | AVERAGE ASKING RATE | |
|-------------------------------|--------------------|---------|-----------|-------|--------------|-----------|-------|---------------------|-----------|-----------------------|---------------------|---------|
| | | Total | Warehouse | Flex | Total | Warehouse | Flex | Q3 | YTD | | Warehouse | Flex |
| West Raleigh | 1,376,849 | 5.3% | - | 10.0% | 4.4% | - | 8.3% | (24,067) | (15,401) | - | - | \$18.06 |
| US 70/Glenwood Avenue | 2,672,038 | 0.4% | 0.1% | 0.9% | 3.1% | 4.5% | 0.7% | 217,348 | 25,175 | - | \$11.09 | \$16.01 |
| Six Forks/Falls of Neuse Road | 2,800,156 | 21.9% | 23.1% | 17.3% | 23.8% | 25.4% | 17.1% | (336,451) | (461,683) | - | \$10.02 | \$17.96 |
| US 1/Capital Boulevard | 7,799,575 | 6.6% | 1.1% | 11.9% | 6.3% | 3.5% | 9.0% | 12,678 | 111,074 | - | \$11.74 | \$18.48 |
| Eastern Wake | 22,308,655 | 3.8% | 4.0% | 2.8% | 5.7% | 6.0% | 3.7% | 414,101 | 747,774 | 1,174,870 | \$10.56 | \$16.29 |
| Southern Wake | 6,079,781 | 5.8% | 4.8% | 7.6% | 6.5% | 5.2% | 9.0% | (3,839) | 70,611 | 116,555 | \$11.00 | \$18.59 |
| Cary | 2,612,692 | 3.0% | 3.7% | 1.5% | 4.5% | 3.7% | 6.3% | (72,906) | (59,668) | - | \$10.95 | \$19.44 |
| RTP/I-40 Corridor | 21,128,278 | 2.8% | 1.8% | 7.1% | 5.9% | 4.2% | 13.0% | 43,940 | 221,887 | 639,572 | \$10.41 | \$18.94 |
| North Durham | 2,664,856 | 1.2% | 1.2% | 2.4% | 9.0% | 3.2% | 59.6% | (33,178) | 216,422 | 644,400 | \$10.91 | \$13.03 |
| South Durham | 1,768,646 | 2.8% | 1.9% | 5.3% | 0.8% | 0.0% | 2.8% | (8,396) | (34,476) | - | \$11.90 | \$17.50 |
| Orange County | 5,971,736 | 15.1% | 15.1% | 16.0% | 19.7% | 21.5% | 0.7% | 513,812 | 608,407 | - | \$8.54 | \$16.29 |
| Core Market Totals | 77,183,262 | 5.3% | 4.6% | 7.5% | 7.4% | 6.9% | 9.2% | 723,042 | 1,430,122 | 2,575,397 | \$10.51 | 17.85 |
| Johnston County | 10,083,114 | 13.0% | 10.1% | 40.2% | 11.1% | 8.6% | 34.5% | 65,418 | 129,038 | - | \$6.99 | \$14.91 |
| US 1/64 West Corridor | 8,972,768 | 6.0% | 5.2% | 86.0% | 8.5% | 7.5% | 86.0% | (78,500) | 177,510 | 1,224,820 | \$6.10 | \$17.08 |
| Franklin County | 3,617,412 | 4.2% | 3.4% | 13.1% | 4.6% | 4.1% | 10.4% | (26,100) | 360,962 | 20,000 | \$8.06 | \$15.22 |
| Granville County | 5,334,599 | 2.3% | 2.3% | - | - | - | - | 50,000 | 50,000 | - | \$7.98 | - |
| Outlying Market Totals | 28,007,893 | 7.6% | 6.1% | 36.8% | 7.4% | 6.0% | 32.2% | 10,818 | 717,510 | 1,244,820 | \$7.00 | \$15.15 |
| Market Totals | 105,191,155 | 5.9% | 5.1% | 9.7% | 7.4% | 6.6% | 10.9% | 733,860 | 2,147,632 | 3,820,217 | \$9.41 | \$17.65 |

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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