

# Another wave of construction deliveries pushes vacancy higher

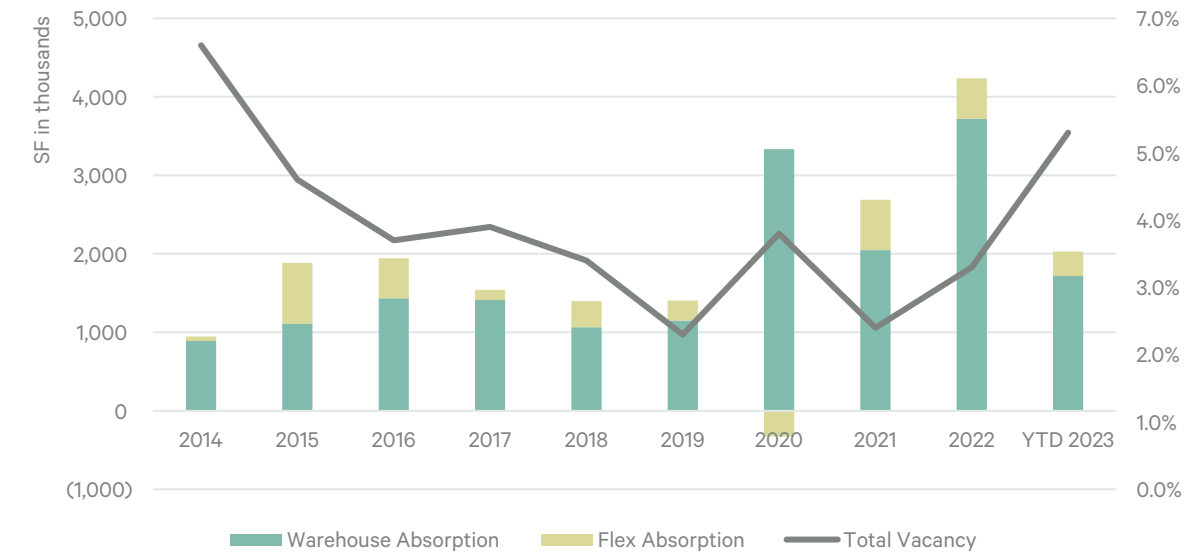
▲ 4.7%	▲ \$8.92	▲ 7.7%	▲ \$16.69	▼ 493,395	▼ 4.6M
Warehouse Vacancy	Warehouse Rental Rate	Flex Vacancy	Flex Rental Rate	SF Quarterly Net Absorption	SF Under Construction

Note: Arrows indicate change from previous quarter.

## Market Report Highlights

- Net absorption of warehouse and flex space combined totaled 493,395 sq. ft. in Q3 2023, bringing the year-to-date total to 2.1 million sq. ft.
- Another wave of construction deliveries drove vacancy to its highest level since 2015. Overall vacancy ended Q3 at 5.3%, up 100 basis points for the quarter and 280 bps year-over-year.
- The average warehouse asking rental rate rose 10.5% year-over-year to \$8.92 per sq. ft., and the average flex asking rate rose 6.6% to \$16.69 in the same period.
- Industrial deliveries totaled 1.3 million sq. ft. in Q3, bringing year-to-date completions to 4.1 million sq. ft.
- Of the 4.6 million sq. ft. underway in Q3, 28% has been reported as leased.

FIGURE 1: Net Absorption and Vacancy Rates



Vacancy Rises Despite Resilient Tenant Demand

Raleigh-Durham industrial vacancy rose in Q3 2023 as deliveries outpaced net absorption. Overall vacancy rose to 5.3%, up 280 bps year-over-year and the highest level registered since 2015. Warehouse vacancy ended the quarter at 4.7%, up 300 bps from a near-historic low of just 1.7% one year earlier. Flex vacancy rose 130 bps to 7.7%.

In addition to new construction, broader economic headwinds and the challenging capital environment resulted in new vacancies. In Johnston County 135,000 sq. ft. previously leased to start-up company Do Good Foods at Eastfield Business Park came back to the market. In Southern Wake County, office furniture manufacturer OFM vacated a 128,385-sq.-ft. building at 161 Tradition Trail in Holly Springs after ceasing operations in June. In Eastern Wake County, approximately 90,000 sq. ft. of space formerly occupied by AMETEK became available at the EastPoint building in Knightdale.

Leasing activity remains resilient despite macroeconomic challenges. Among the largest transactions of the quarter, STIHL signed a 10-year lease for a 266,200-sq.-ft. building currently underway at Al. Neyer’s Buckhorn II Industrial Park in Mebane. Also in Mebane, an undisclosed tenant leased 248,700 sq. ft. of excess space at Medline’s 1.2-million-sq.-ft. facility. In Southern Wake County, Curated Events and MYCO Medical Supplies leased a combined total of 194,807 sq. ft. at Apex Commerce Center Building 1, delivered by Oppidan earlier this year.

Construction Deliveries Contribute to Positive Absorption

Net absorption totaled 493,395 sq. ft. in Q3, bringing the year-to-date total to 2.1 million sq. ft. Leased space within newly delivered product contributed significantly to the market’s 10<sup>th</sup> consecutive quarter of positive absorption. Deliveries totaled 1.3 million sq. ft. for the quarter, bringing year-to-date completions to 4.1 million sq. ft. All three buildings have now been delivered at Trinity Capital’s Alexander Commerce Park in the RTP/I-40 Corridor. The most recent completions totaled 252,000 sq. ft. and are fully leased to The Upper Deck, WESCO Distribution and Running Logistics. In Johnston County, Landmark Industrial completed a 109,412-sq.-ft. building at Clayton Logistics Center with the space fully leased to Novo Nordisk. Merritt Properties delivered two buildings totaling 139,640 sq. ft. at Merritt Capital Business Park in the US 1/Capital Boulevard submarket with 64% of the space leased to multiple tenants.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates

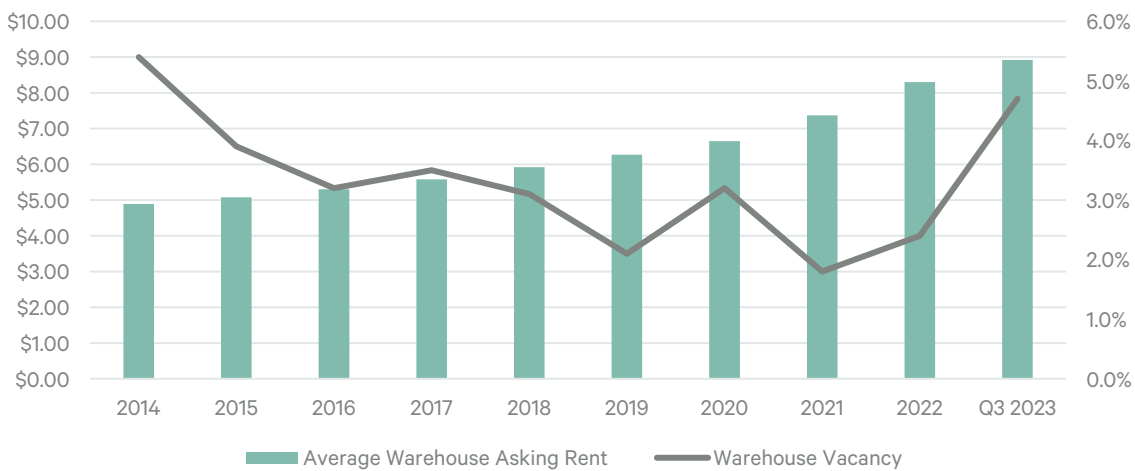
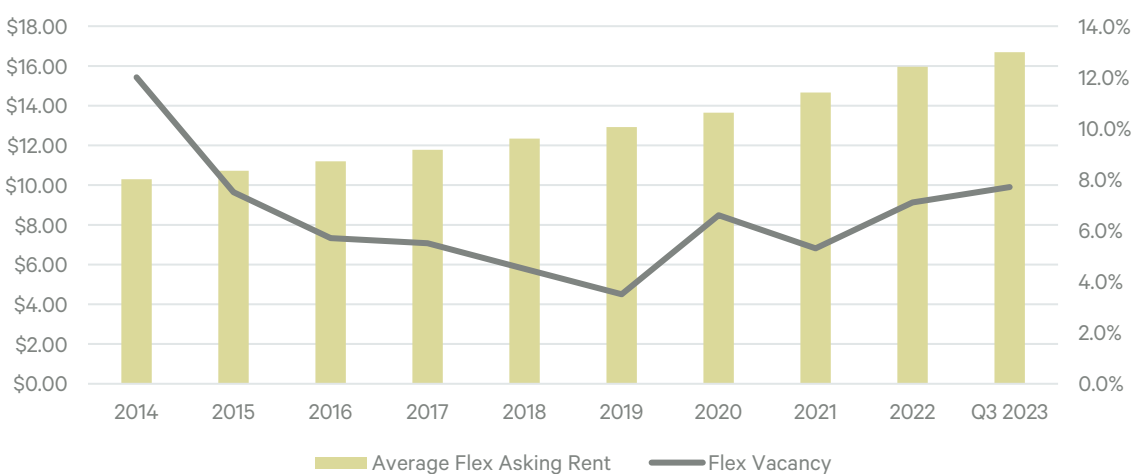


FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Substantial available space was also completed in Q3, pushing vacancy notably higher. At Edgewater Ventures’ Crosspoint Logistics Center in Johnston County, the first building added 501,120 sq. ft. of vacant space to the market upon delivery. In Eastern Wake County, Wigeon Capital completed three buildings totaling 262,780 sq. ft. at Greenfield 27 with 17% of the space leased.

The 4.6 million sq. ft. underway in Q3 represented 4.5% of inventory, the lowest level registered since Q3 2021. While construction activity has slowed after hitting record-high levels in 2022, developers continue to position themselves for future growth in the market. Beacon Partners assembled more land to finish the first phase and begin the second phase of its Apex Gateway project in Chatham County, which will ultimately total more than 1 million sq. ft. In Eastern Wake County, Oppidan Investment Company finished assembling land for its 257-acre Wendell Commerce Center project, which will feature nearly 2 million sq. ft. of industrial space as well as retail and multifamily.

Challenging Capital Markets Dampen Sales Activity

Industrial sales activity remained light in Q3 due to challenging capital markets. The two largest sales took place in the US 1/64 West submarket. Caterpillar purchased a 260,486-sq.-ft. building from GKN Driveline North America for \$21.0 million (\$81 per sq. ft.). Located at 4901 Womack Road in Sanford, the property is situated across the street from an existing Caterpillar facility. Desco Industries paid an individual investor \$14.3 million (\$73 per sq. ft.) for a 196,255-sq.-ft. building located at 914 J.R. Industrial Drive in Sanford.

Market Outlook

The long-term outlook for Raleigh-Durham’s industrial market remains excellent. Vacancy will continue to experience upward pressure in the short term as the construction pipeline empties, but any potential challenges with over-supply are expected to be short-lived. Near-term risks include ongoing capital constraints, the potential for disruption to energy supplies due to rising conflict in the Middle East and an anticipated decline in consumer spending amid protracted inflationary pressures and the resumption of student loan payments. Long-term tail winds include the construction of major advanced manufacturing facilities in the region as well as demand for last-mile distribution centers to serve the area’s rapidly expanding population.

FIGURE 4: Select Lease Transactions Q3 2023

Tenant	Building	Type	Square Feet	Submarket
STIHL	Buckhorn II Industrial Park	New	266,200	Orange County
Undisclosed Tenant	5511 W Ten Road	New	248,700	Orange County
Curated Events	Apex Commerce Center	New	129,751	Southern Wake
MYCO Medical Supplies	Apex Commerce Center	New	65,056	Southern Wake
Bay State Pools	Clayton Logistics Center	New	44,840	Johnston County
Bernhard LLC*	I-40 Innovation Center	New	26,280	RTP/I-40 Corridor
NC Sports Group*	North Chapel Business Center	New	18,160	Orange County
Acousti Engineering*	Greenfield 27	New	18,050	Eastern Wake

\*Denotes CBRE|Raleigh Transaction

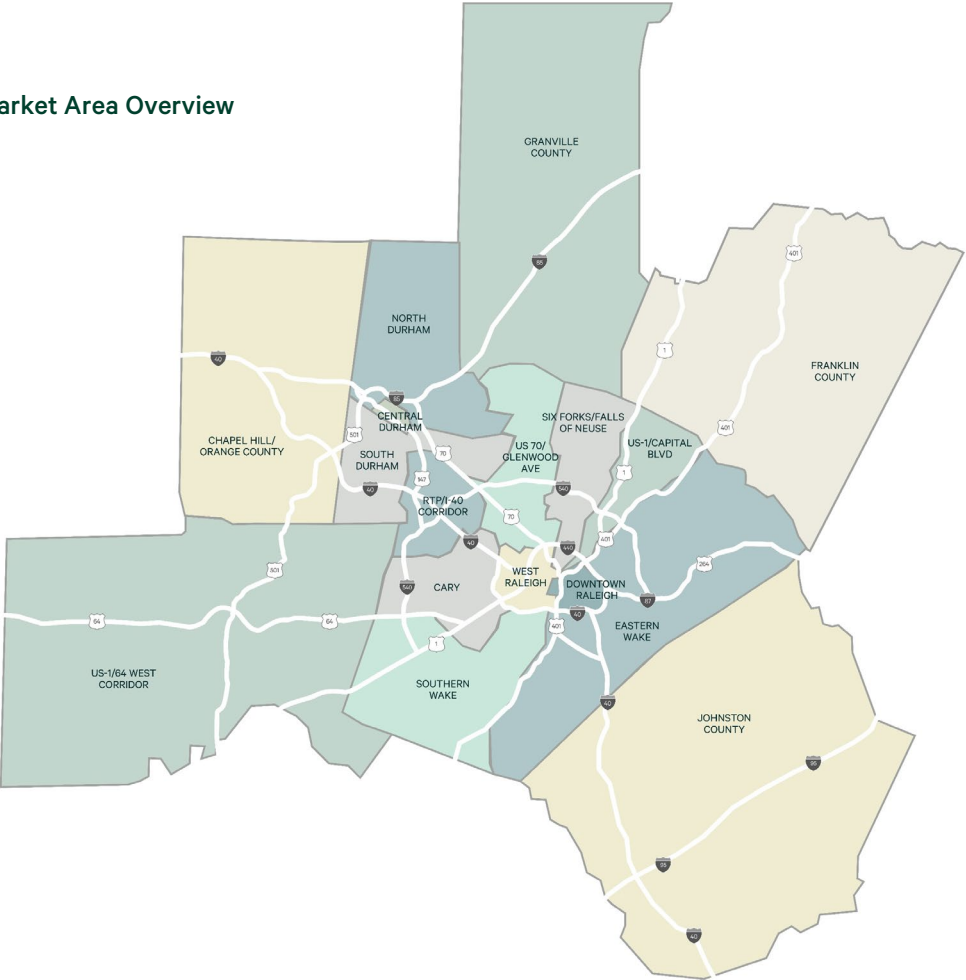
FIGURE 5: Historical Industrial Construction Activity



FIGURE 6: Submarket Breakdown

	Rentable Area (SF)	VACANCY			AVAILABILITY			NET ABSORPTION (SF)		SF Under Construction	AVERAGE ASKING RATE	
		Total	Warehouse	Flex	Total	Warehouse	Flex	Q3	YTD		Warehouse	Flex
West Raleigh	1,388,486	4.1%	-	7.9%	5.1%	-	9.8%	29,423	(20,625)	-	-	\$16.95
US 70/Glenwood Avenue	2,667,877	6.3%	8.9%	2.2%	7.9%	11.1%	3.0%	15,769	(141,080)	120,120	\$9.77	\$14.82
Six Forks/Falls of Neuse Road	2,802,673	3.1%	3.7%	0.3%	12.3%	12.4%	12.0%	(9,110)	650	11,870	\$9.50	\$16.69
US 1/Capital Boulevard	7,883,095	5.2%	3.5%	7.0%	8.2%	3.6%	12.6%	(60,919)	19,420	-	\$10.92	\$17.37
Eastern Wake	20,904,338	5.8%	5.4%	8.1%	7.3%	7.6%	5.5%	(87,704)	488,134	1,124,380	\$9.96	\$14.98
Southern Wake	6,001,662	8.9%	9.3%	8.2%	7.7%	4.3%	13.9%	(152,872)	109,648	63,960	\$10.52	\$17.82
Cary	2,551,883	0.9%	-	2.8%	7.1%	8.6%	3.6%	(15,156)	(12,626)	-	\$10.31	\$18.22
RTP/I-40 Corridor	21,077,903	3.3%	1.5%	11.5%	4.9%	3.4%	11.6%	471,714	924,525	-	\$9.81	\$18.03
North Durham	2,489,256	0.3%	-	3.8%	3.7%	-	34.1%	1,000	5,881	346,800	-	\$13.45
South Durham	1,764,627	0.2%	-	0.7%	0.2%	-	0.7%	-	2,480	-	-	\$16.13
Orange County	5,004,217	12.0%	13.0%	1.5%	20.9%	21.1%	19.1%	250,620	232,992	921,500	\$8.53	\$15.18
Core Market Totals	74,536,017	5.1%	4.5%	7.3%	7.7%	6.9%	10.5%	442,765	1,609,399	2,588,630	\$9.96	\$16.84
Johnston County	9,359,074	9.6%	9.6%	9.2%	16.9%	13.6%	48.2%	(122,050)	222,448	1,002,428	\$6.68	\$14.59
US 1/64 West Corridor	8,718,552	4.4%	3.6%	86.0%	10.2%	9.6%	86.0%	(42,274)	(162,040)	593,000	\$5.55	\$16.62
Franklin County	3,204,527	2.3%	1.8%	7.8%	13.2%	13.7%	6.9%	(6,925)	(40,718)	394,430	\$8.00	\$14.55
Granville County	5,479,329	3.1%	3.2%	-	0.9%	0.9%	-	171,879	399,678	-	\$7.72	-
Outlying Market Totals	26,761,482	5.7%	5.4%	15.4%	11.2%	9.7%	41.3%	630	419,368	1,989,858	\$6.67	\$14.69
Market Totals	101,297,499	5.3%	4.7%	7.7%	8.6%	7.8%	12.7%	443,395	2,028,767	4,578,488	\$8.92	\$16.69

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.

Contact

Elizabeth Gates

Senior Research Analyst  
+1 919 831 8218  
[elizabeth.gates@cbre-raleigh.com](mailto:elizabeth.gates@cbre-raleigh.com)

Ethan Schwindt

Research Coordinator  
+1 919 831 8231  
[ethan.schwindt@cbre-raleigh.com](mailto:ethan.schwindt@cbre-raleigh.com)

Dodson Schenck

Managing Director, Industrial Services  
+1 336 478 0234  
[dodson.schenk@cbre-raleigh.com](mailto:dodson.schenk@cbre-raleigh.com)

Tom Fritsch

Senior Managing Director  
+1 919 831 8200  
[tom.fritsch@cbre-raleigh.com](mailto:tom.fritsch@cbre-raleigh.com)