

Tenants and Developers Remain Active Despite Economic Headwinds

▼ 2.2%

Warehouse Vacancy

▲ \$6.66

Warehouse Rental Rate

▲ 8.0%

Flex Vacancy

▲ \$17.15

Flex Rental Rate

▲ 4.6M

SF Under Construction

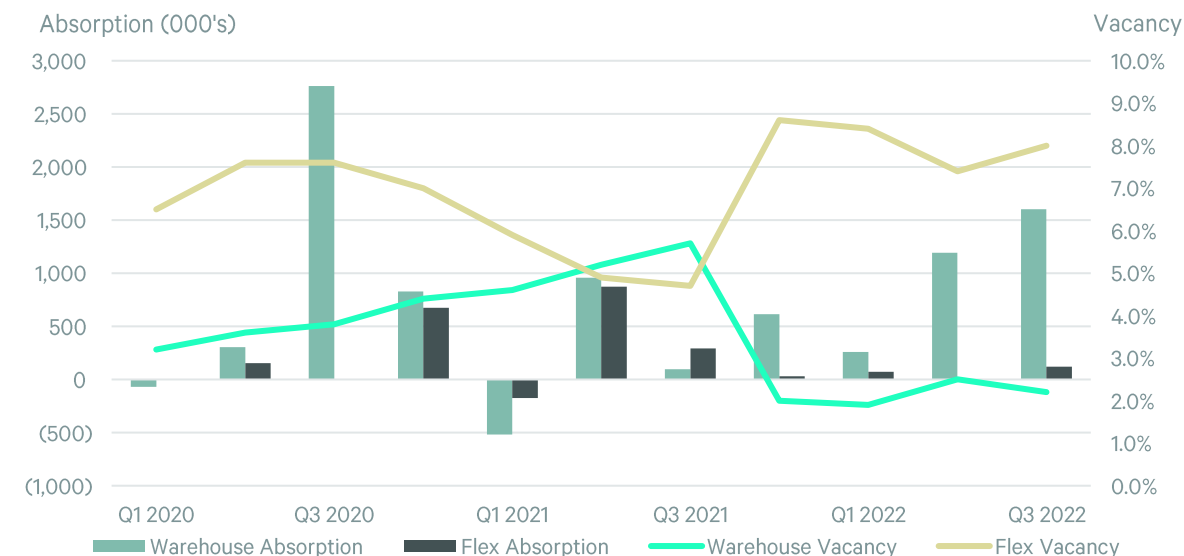
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Strong tenant demand continues to fuel the development pipeline, with 4.6 million sq. ft. underway in Q3 2022.
- The warehouse market recorded its second consecutive quarter with positive net absorption in excess of 1 million sq. ft.
- The flex market recorded 118,920 sq. ft. of positive net absorption.
- With availability severely constrained, leasing activity continues to be strongest in buildings under construction.

CBRE|Raleigh tracks over 66 million sq. ft. of warehouse space and over 21 million sq. ft. of flex space in the Raleigh-Durham market. The industrial market is composed of 6 counties – Wake, Durham, Orange, Johnston, Lee and Chatham – with 13 separate submarkets.

FIGURE 1: Net Absorption and Vacancy Rates



Vacancy and Asking Rates

The Raleigh-Durham industrial market continues to post strong fundamentals. Scarce supply in the face of unrelenting tenant demand is fueling robust construction activity and rising rental rates. Vacancies remain near historic lows for warehouse space and in the single digits for flex space despite deliveries totaling more than 3.9 million sq. ft. since the beginning of the year. Warehouse vacancy fell to 2.2% in Q3, down 30 bps for the quarter and 60 bps year-over-year. Flex vacancy ended the quarter at 8.0%, up 60 bps for the quarter and 80 bps year-over-year.

The average flex asking rental rate rose slightly quarter-over-quarter to \$17.15 per sq. ft. This figure is flat year-over-year but has risen 18% in the last three years. The average warehouse rate ended Q3 at \$6.66 per sq. ft., up 20% year-over-year. When limited to the region’s three primary counties – Wake, Durham and Orange – the average warehouse rate in Q3 was \$7.57 per sq. ft., up 27% year-over-year. Speculative buildings currently under construction typically post asking rates of \$7.50 per sq. ft. or higher, with rates in primary, supply-constrained submarkets exceeding \$8.00 to \$9.00 per sq. ft.

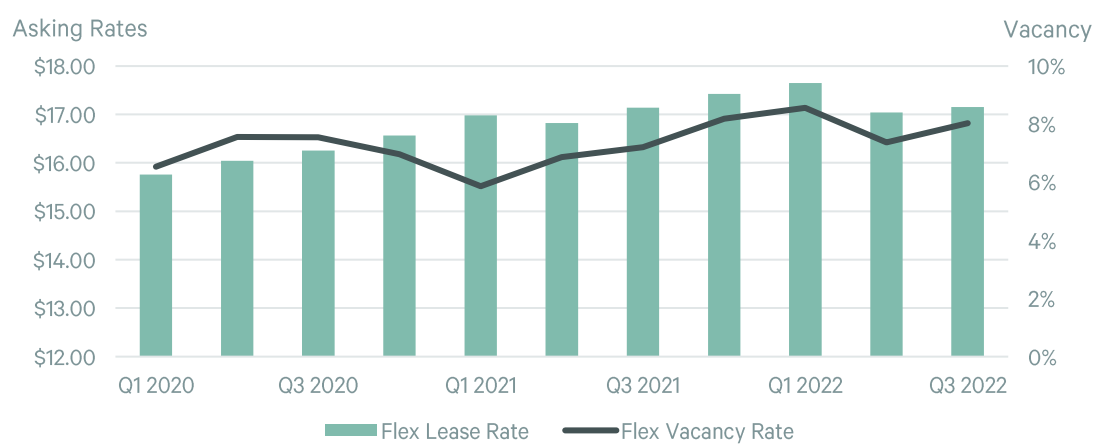
Tenant Demand

Net absorption for flex and warehouse space combined surged to more than 1.7 million sq. ft. in Q3, bringing the year-to-date total to 3.1 million sq. ft. Given limited availability within existing product, leasing activity remains strongest in product under construction. Vacancies in high-quality existing buildings are being readily backfilled, often before the space hits the market. Amazon announced in Q3 it was closing its delivery station at North 70 Distribution Center in North Durham, one of the e-commerce giant's oldest locations in the market. The space has been re-leased to Park Communications. Elsewhere in the market, Amazon took occupancy of a new 600,000-sq.-ft. cross-dock facility in Johnston County and a recently delivered 200,055-sq.-ft. building at Patriot Park in the RTP/I-40 Corridor.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates



FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Construction Activity

The construction pipeline remains full, with 4.1 million sq. ft. of warehouse space and nearly 500,000 sq. ft. of flex space underway in Q3. While the RTP/I-40 Corridor continues to be the region’s dominant industrial submarket, rising land prices are increasingly driving both population growth and development activity to more outlying areas such as Johnston County, Eastern Wake County and Orange County.

Market Outlook

The rapidly growing Raleigh-Durham market is among the best positioned regions in the nation to weather challenges presented by macroeconomic headwinds. New and expanding companies have announced a record-setting 12,300 new jobs for the region thus far in 2022. Overall job growth totaled 4.2% over the last 12 months, with Raleigh-Durham unemployment falling 80 bps to 3.3% in August.

In September, Wolfspeed announced it will invest \$5 billion to build a new silicon carbide semiconductor manufacturing facility in Chatham County. The facility will be the largest of its kind in the world and is expected to employ 1,800 people. Wolfspeed is the most recent in a string of major manufacturers committing to build facilities at shovel-ready megasites along U.S. Highway 421 between Greensboro and Sanford, NC, a corridor dubbed the Carolina Core. Other recent announcements include VinFast (7,500 jobs) in Chatham County, and Toyota (2,100 jobs) and Boom Supersonic (1,760 jobs) in the Greensboro/Winston-Salem, NC region. The projects are expected to drive significant ancillary activity among suppliers and support industries, fueling future demand for industrial space.

While economic headwinds and any resulting softening of tenant demand may slow the pace of rent growth in the short term, elevated land, construction and capital costs will keep a floor under asking rates. Construction activity may slow temporarily, with developers looking for a quick exit hesitant to break ground in the current capital environment. Those with a longer hold horizon will be more likely to move forward with projects.

FIGURE 4: Select Lease/Sale Transactions Q3 2022

Lease: Tenant	Address	Type	Square Feet	Submarket
Southern Industrial Constructors	601 Irving Parkway	New	132,949	Southern Wake
WESCO Distribution*	Alexander Commerce Park 3	New	52,080	RTP/I-40 Corridor
Beacon Roofing	526 United Drive	New	40,000	South Durham
Cambrex Corporation*	Research Tri-Center North I	Renewal	89,989	RTP/I-40 Corridor

Sale: Building	Square Feet	Purchase Price	Price Per Sq. Ft.	Submarket
Buckhorn Industrial Park 1	375,000	\$41.0 million	\$109	Orange County
Regional Commerce Center 4	127,600	\$25.8 million	\$202	RTP/I-40 Corridor
8605 Ebenezer Church Road	87,934	\$25.5 million	\$290	US 70/Glenwood Ave

* Denotes CBRE|Raleigh Transaction

FIGURE 5: Historical Industrial Construction

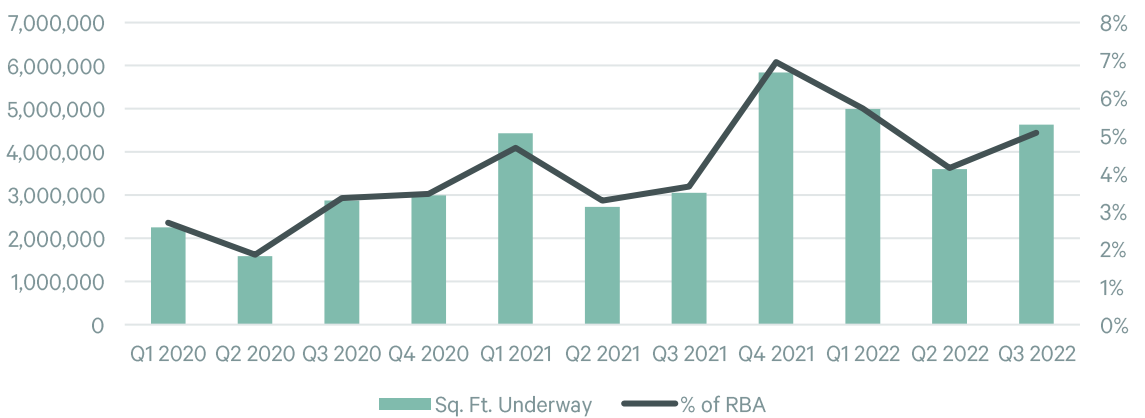


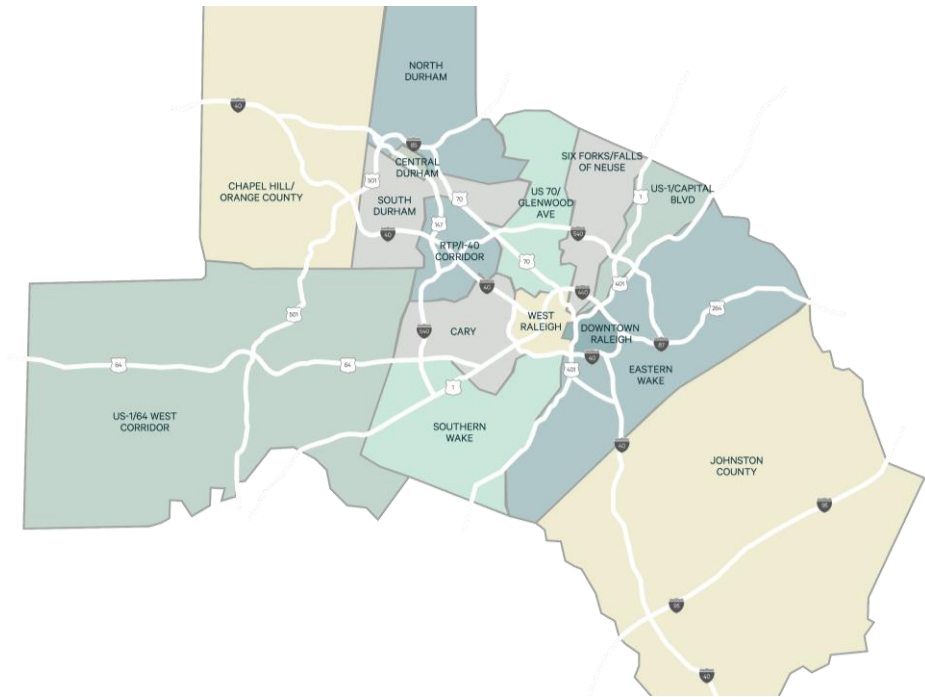
FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Q3 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	1,061,700	0	0.0%	0.0%	0	31,150	0	\$12.50
US 70/Glenwood Ave	1,213,644	0	0.0%	0.0%	0	0	0	-
Six Forks Road/Falls	2,463,792	69,502	2.8%	5.1%	-5,842	-42,100	0	-
US 1/Capital Blvd	3,911,149	38,135	1.0%	1.5%	54,480	77,046	0	\$11.49
Eastern Wake	18,146,173	460,144	2.5%	8.6%	715,393	980,627	968,130	\$9.57
Southern Wake	4,034,857	263,748	6.5%	13.8%	40,000	0	405,768	-
Cary	1,224,925	197,092	16.1%	16.1%	-9,892	0	0	-
RTP/I-40 Corridor	14,640,749	16,160	0.1%	5.6%	278,467	342,885	968,130	\$8.57
North Durham	3,119,432	0	0.0%	0.0%	0	0	0	\$5.25
South Durham	2,990,522	26,000	0.9%	10.0%	0	0	0	\$9.61
Orange County	3,527,642	255,000	7.2%	24.0%	-5,000	1,012,700	580,200	\$4.77
Johnston County	9,988,107	96,164	1.0%	16.4%	587,883	537,130	1,276,302	\$7.04
US 1/64 West Corridor	2,161,424	52,000	2.4%	5.8%	-52,000	74,785	117,185	\$5.46
Warehouse Totals	68,484,116	1,473,945	2.2%	9.1%	1,603,489	3,014,223	4,130,227	\$6.66

FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Q3 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	1,187,291	37,066	3.1%	6.7%	-37,066	-39,346	0	\$14.25
US 70/Glenwood Avenue	1,213,644	0	0.0%	0.0%	0	0	0	-
Six Forks Road/Falls	458,242	300	0.1%	11.1%	50,501	57,766	0	-
US 1/Capital Boulevard	2,538,583	147,688	5.8%	12.1%	47,850	47,952	25,709	\$15.44
Eastern Wake	2,454,953	232,478	9.5%	19.7%	9,512	14,012	282,250	\$14.03
Southern Wake	1,196,857	142,147	11.9%	41.4%	16,859	14,347	14,976	\$21.08
Cary	1,009,510	31,442	3.1%	5.0%	4,328	1,953	0	\$24.71
RTP/I-40 Corridor	10,853,673	991,314	9.1%	13.7%	-22,461	-34,232	60,053	\$22.20
North Durham	670,950	140,933	21.0%	11.7%	-4,007	-2,007	0	\$19.95
South Durham	565,040	61,774	10.9%	10.0%	53,404	49,904	0	\$15.44
Orange County	588,779	41,000	7.0%	26.7%	0	12,000	116,300	-
Flex Totals	22,737,522	1,826,142	8.0%	14.3%	118,920	122,349	499,288	\$17.15

Market Area Overview



Definitions

- Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area.
- Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.
- Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions.
- Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next.
- 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.
- Occupied Sq. Ft.: Building Area not considered vacant.
- Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area.
- Vacant Sq. Ft.: Space that can be occupied within 30 days.

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