

Vacancy edges lower as net absorption outpaces construction deliveries

▼ 3.9%	▲ \$8.75	▼ 6.1%	▲ \$16.45	▼ 773,382	▲ 5.7M
Warehouse Vacancy	Warehouse Rental Rate	Flex Vacancy	Flex Rental Rate	SF Quarterly Net Absorption	SF Under Construction

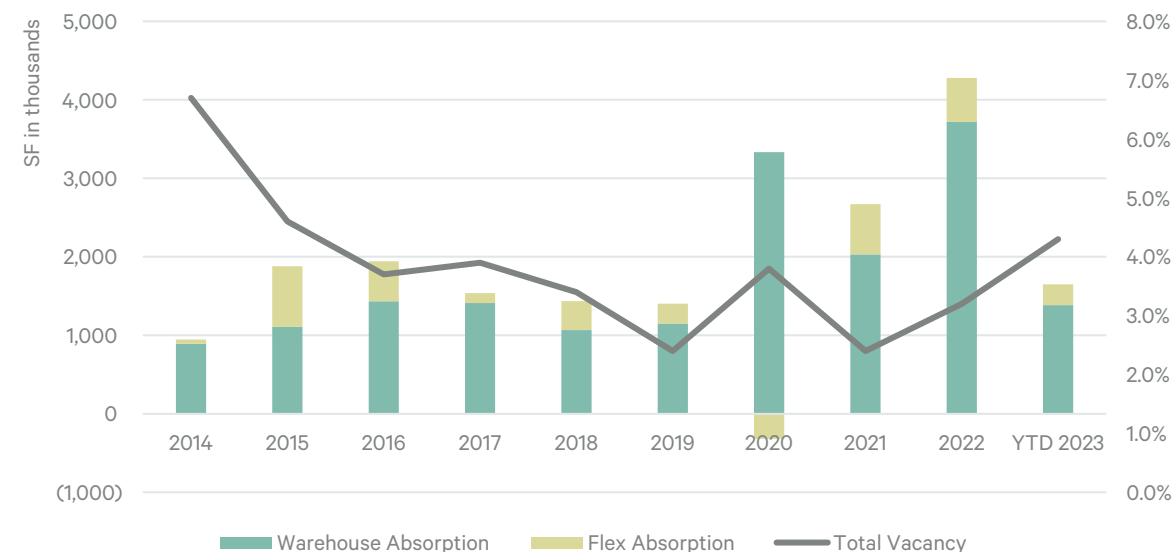
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Net absorption of warehouse and flex space combined totaled 773,382 sq. ft. in Q2 2023, bringing the year-to-date total to 1.6 million sq. ft.
- Overall vacancy ended Q2 at 4.3%, down 20 basis points for the quarter but still up 170 bps year-over-year.
- The average warehouse asking rental rate rose 11.9% year-over-year to \$8.75 per sq. ft., and the average flex asking rate rose 7.7% to \$16.45 in the same period.
- Projects totaling 679,770 sq. ft. were delivered in Q2, while space under construction rose to 5.7 million sq. ft.

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 reports published prior to 2023. See page five for detailed methodology and definitions.

FIGURE 1: Net Absorption and Vacancy Rates



Market Fundamentals

Raleigh-Durham’s industrial market turned in another strong performance in Q2 2023. Net absorption outpaced deliveries, nudging vacancy lower. Warehouse vacancy fell to 3.9%, down 20 bps for the quarter but still up 180 bps year-over-year. Flex vacancy declined to 6.1%, down 60 bps for the quarter and up 80 bps year-over-year.

While tenant demand remains healthy, leasing activity has declined somewhat in response to economic uncertainty, and transactions are taking longer to complete. The market continues to be supply constrained, but abundant construction deliveries have opened up needed new leasing opportunities for tenants.

Strong market fundamentals continue to support rent growth, although the pace of increases has moderated. The average NNN warehouse asking rate rose to \$8.75 per sq. ft. in Q2, up 11.9% year-over-year. The average flex rate rose 7.7% year-over-year to \$16.45 per sq. ft.

Construction Deliveries

Construction completions contributed to Raleigh-Durham’s strong absorption in Q2. Of the 679,770 sq. ft. that delivered during the quarter, 72% of the space was leased. Trinity Capital Advisors completed construction of a 189,087-sq.-ft. building at Alexander Commerce Park in the RTP/I-40 Corridor. The building is fully leased to Wolfspeed. In Johnston County, two buildings totaling 235,668 sq. ft. delivered at Clayton Logistics Center with 81% of the space leased to Novo Nordisk, Forward Air and ABC Supply.

Despite challenges presented by rising interest rates, several buildings broke ground in Q2. In North Durham, Houston-based Welcome Group began work on the first phase of Welcome Venture Park. Four warehouse and flex buildings totaling 392,400 sq. ft. are underway. The park will ultimately total approximately 1.3 million sq. ft. Elsewhere in North Durham, Scannell Properties broke ground on the first of seven planned buildings at Durham 85. The 249,600-sq.-ft. building is fully leased to LifeScience Logistics. Summit Real Estate Group broke ground on two buildings totaling 394,430 sq. ft. at US-1 North Commerce Center in Franklin County, and Al. Neyer began construction of a 264,814-sq.-ft. building at 834 Brogden Road in Johnston County.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates

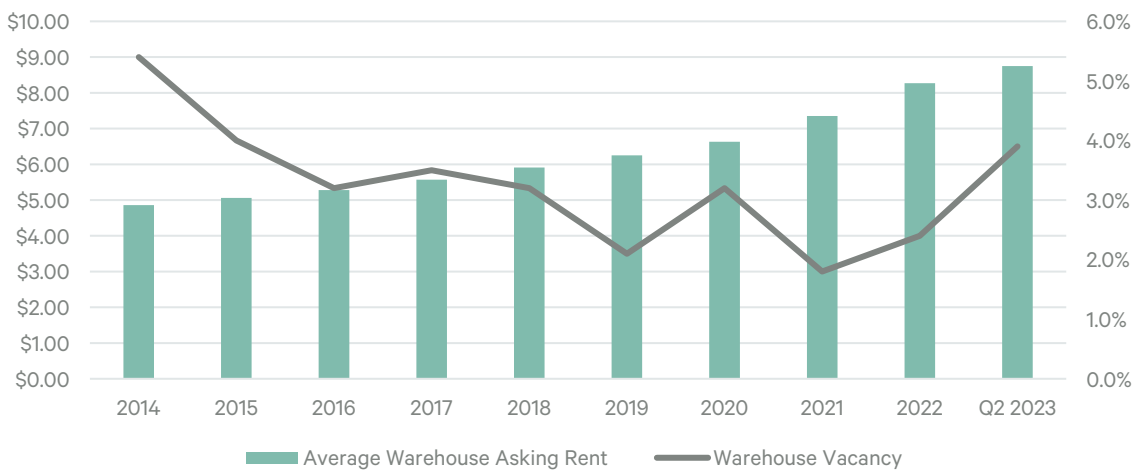
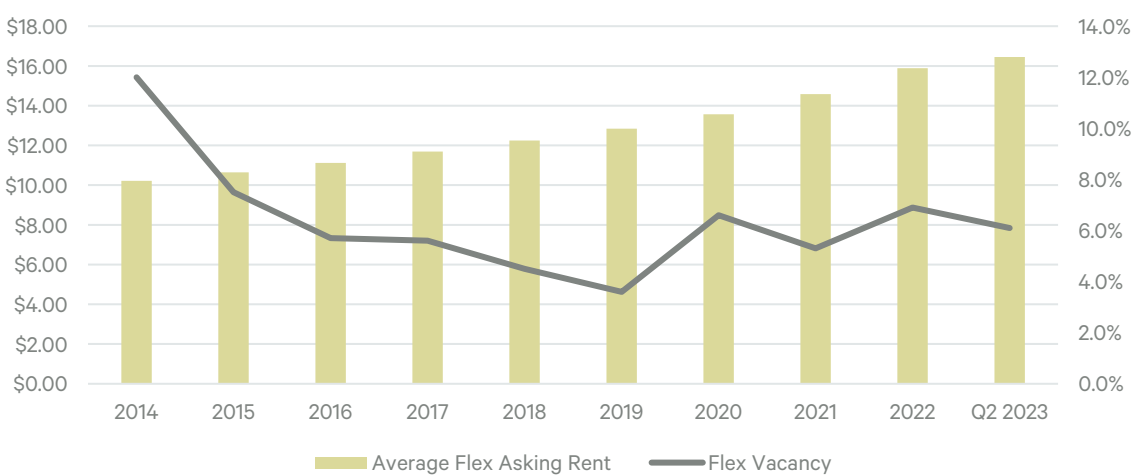


FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Investment Sales

Raleigh-Durham industrial sales activity remains light due to challenging capital markets. Just one sale of scale transacted in Q2. LBA Realty paid Broadstone Net Lease \$35 million (\$113 psf) for 2001 TW Alexander Drive in the RTP/I-40 Corridor. The 309,000-sq. ft. building is fully leased to Implus Footcare.

Market Outlook

Net absorption and rent growth are expected to remain positive in the second half of 2023, while vacancy will likely resume its upward trend as more buildings deliver. The long-term outlook for Raleigh-Durham’s industrial market is exceptionally positive.

According to the U.S. Census Bureau, manufacturing-related construction spending rose to \$108 billion in 2022, the highest annual total on record, as the U.S. strives to bring back production of critical goods and businesses continue to look for ways to increase flexibility and speed to market. A recent report by Reshoring Initiative noted that reshoring of manufacturing resulted in more than 364,000 new U.S. jobs in 2022, up 53% over 2021. The organization reports that 101,500 new jobs were created in Q1 2022, with the number projected to reach 400,000 by year-end 2023. Jobs tied to electric vehicle battery production are leading the way.

Raleigh-Durham is benefiting from this trend with major advanced manufacturing facilities underway. Wolfspeed has begun site work for its \$5 billion semiconductor factory in Chatham County. In July, the company signed a 10-year agreement to supply silicon carbide wafers to Japanese-based Renesas. Electric vehicle manufacturer VinFast hosted a groundbreaking ceremony in July for its Chatham County plant. Despite delays, the company expects to begin production at the site in 2025.

The Semiconductor Industry Association released findings in July that each U.S. worker directly employed in the industry would result in another 5.7 jobs for suppliers. If those figures prove accurate, it would translate to as many as 10,000 ancillary jobs expected to be created by Wolfspeed’s Chatham County facility.

FIGURE 4: Select Lease/Sale Transactions Q2 2023

Lease: Tenant	Building	Type	Square Feet	Submarket
LifeScience Logistics	Durham 85	New	249,600	North Durham
Wolfspeed	Alexander Commerce Park	New	189,280	RTP/I-40 Corridor
Auction Direct	Oxford Industrial Park	New	122,000	Granville County
Novo Nordisk	Clayton Logistics Center	New	109,512	Johnston County
Southern Staircase*	Greenfield 27	New	26,730	Eastern Wake

*Denotes CBRE|Raleigh Transaction

Sale: Building	Square Feet	Purchase Price	Price Per Sq. Ft.	Submarket
2001 TW Alexander Drive	309,000	\$35.0 million	\$113	RTP/I-40 Corridor

FIGURE 5: Historical Industrial Construction Activity

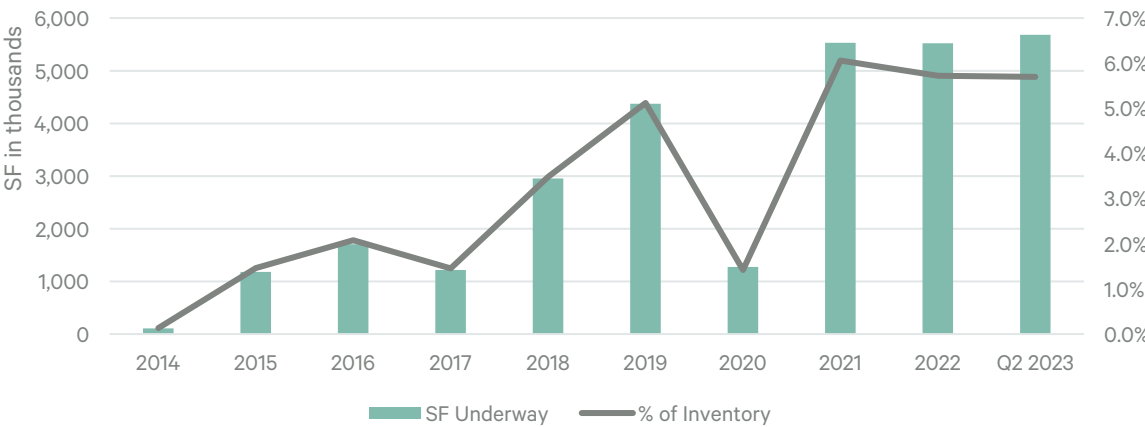
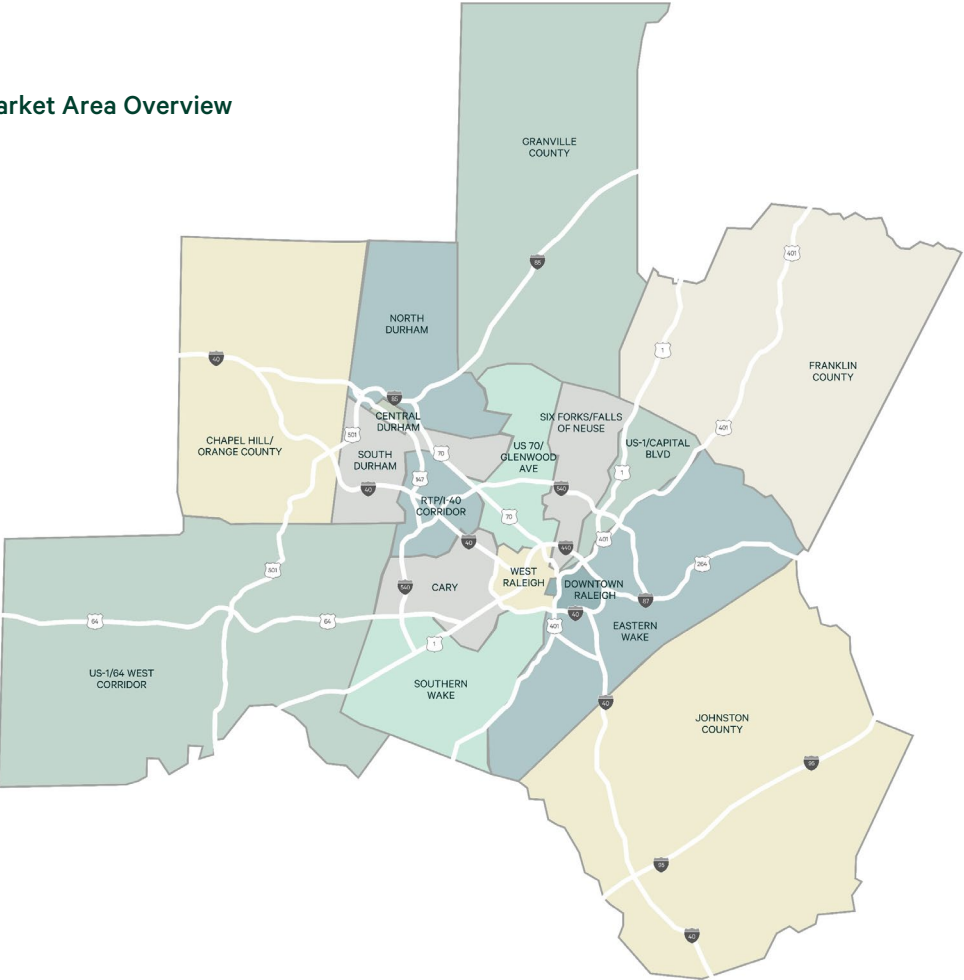


FIGURE 6: Submarket Breakdown

	Rentable Area (SF)	VACANCY			AVAILABILITY			NET ABSORPTION (SF)		SF Under Construction	AVERAGE ASKING RATE	
		Total	Warehouse	Flex	Total	Warehouse	Flex	Q2	YTD		Warehouse	Flex
West Raleigh	1,388,486	6.2%	-	11.9%	5.0%	-	9.6%	(41,774)	(50,048)	-	-	\$16.77
US 70/Glenwood Avenue	2,667,471	6.9%	8.9%	3.7%	7.5%	8.9%	5.3%	(1,980)	(156,849)	120,120	\$9.56	\$14.69
Six Forks/Falls of Neuse Road	2,802,673	2.7%	3.4%	0.1%	11.5%	11.5%	11.4%	9,760	9,760	11,870	\$9.33	\$16.50
US 1/Capital Boulevard	7,587,851	2.2%	2.5%	3.3%	7.0%	6.6%	12.4%	76,351	80,339	139,640	\$6.80	\$16.99
Eastern Wake	20,553,794	4.2%	3.7%	7.4%	7.6%	7.7%	6.9%	211,598	575,838	1,162,160	\$9.82	\$14.86
Southern Wake	5,994,807	6.2%	6.0%	6.6%	9.8%	9.3%	10.7%	290,242	262,520	42,960	\$10.33	\$17.65
Cary	2,551,883	0.3%	-	0.9%	7.6%	8.6%	5.4%	2,050	2,530	-	\$10.16	\$18.06
RTP/I-40 Corridor	20,796,262	4.2%	2.7%	10.8%	6.1%	1.4%	13.4%	163,931	452,811	252,000	\$9.61	\$17.91
North Durham	2,489,256	0.4%	-	4.3%	12.5%	1.0%	28.3%	-	4,881	642,000	\$10.63	\$13.36
South Durham	1,766,352	0.2%	-	0.7%	0.2%	-	0.7%	2,480	2,480	-	-	\$15.97
Orange County	5,008,038	17.0%	18.4%	1.9%	29.9%	30.5%	23.6%	-	(17,628)	921,500	\$8.39	\$15.00
Core Market Totals	73,606,873	4.7%	4.3%	6.2%	9.1%	8.6%	10.9%	712,658	1,166,634	3,292,250	\$9.79	\$16.66
Johnston County	8,699,052	1.4%	1.4%	1.3%	13.5%	10.2%	46.0%	146,890	344,498	1,503,548	\$6.55	\$13.51
US 1/64 West Corridor	8,717,868	3.1%	3.1%	-	8.7%	8.7%	-	(53,166)	(119,766)	493,000	\$5.18	-
Franklin County	3,174,975	2.2%	1.8%	5.3%	13.1%	13.6%	7.1%	17,000	(33,793)	394,430	\$8.05	\$14.28
Granville County	5,109,556	6.7%	6.8%	-	2.7%	2.7%	-	(50,000)	290,687	-	\$7.53	-
Outlying Market Totals	25,701,451	3.1%	3.1%	2.7%	9.9%	8.7%	36.1%	60,724	481,626	2,390,978	\$6.45	\$13.63
Market Totals	99,308,324	4.3%	3.9%	6.1%	9.3%	8.6%	12.6%	773,382	1,648,260	5,683,228	\$8.75	\$16.45

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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