

Solid Fourth-Quarter Performance Caps Stellar Year for Raleigh-Durham Industrial Market

▲ 2.7%

Warehouse Vacancy

▲ \$7.60

Warehouse Rental Rate

▲ 8.4%

Flex Vacancy

▲ \$17.52

Flex Rental Rate

▼ 4.0M

SF Under Construction

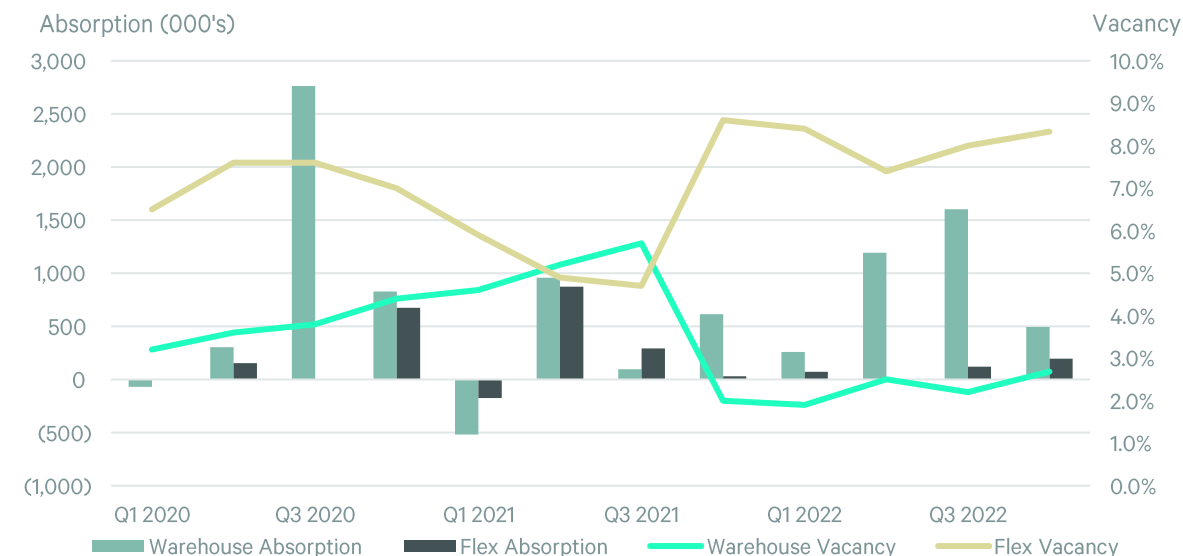
Note: Arrows indicate change from previous quarter.

Market Report Highlights

- Annual net absorption reached 4.1 million sq. ft. in 2022, up 92% over 2021.
- Warehouse vacancy rose to 2.7% in Q4 2022, up 50 basis points for the quarter and 70 bps year-over-year.
- Flex vacancy ended Q4 2022 at 8.4%, up 30 bps for the quarter and 10 bps year-over-year.
- The average warehouse asking rental rate rose 29.7% year-over-year to \$7.60 per sq. ft.
- Projects totaling 4.3 million sq. ft. were constructed in 2022, with another 4 million sq. ft. underway and slated for delivery in 2023.

CBRE|Raleigh tracks over 69 million sq. ft. of warehouse space and over 22 million sq. ft. of flex space in the Raleigh-Durham market. The industrial market includes six counties – Wake, Durham, Orange, Johnston, Lee and Chatham – with 13 separate submarkets.

FIGURE 1: Net Absorption and Vacancy Rates



Market Fundamentals

A solid fourth-quarter performance capped a stellar year for Raleigh-Durham’s industrial market. Demand remains strong as companies look to ensure supply chain resilience and maximize efficiencies by upgrading to modern facilities near points of consumption. Net absorption of 687,774 sq. ft. in Q4 2022 brought the annual total to 4.1 million sq. ft., a 92% increase over 2021. Vacancy edged slightly higher as new product was delivered, opening up much-needed new leasing opportunities for tenants. Low vacancy and high construction costs continue to place substantial upward pressure on rental rates. The average market-wide warehouse asking rate rose to \$7.60 per sq. ft. in Q4, up 29.7% year-over-year. Speculative buildings currently under construction typically post asking rates of \$7.50 per sq. ft. or higher, with rates in the region’s core, supply-constrained submarkets reaching as high as \$12.00 per sq. ft., NNN.

Construction Activity

The market’s strong absorption in 2022 was driven in part by the delivery of both speculative and build-to-suit projects. With limited availability in existing product, preleasing activity in new buildings was strong, yielding positive absorption as projects came online. Completions totaled 4.3 million sq. ft. in 2022. Notable Q4 deliveries included a 175,500-sq.-ft. expansion for Berry Global at 1203 Chicopee Rd. in Johnston County and a 117,185-sq.-ft. speculative building at Central Carolina Enterprise Park in Lee County. In Eastern Wake County, Wigeon Capital completed construction of a 97,332-sq.-ft. building at Greenfield Business Park that is fully leased to Lansing Building Products. Realty Income Corp. purchased the newly delivered building for \$16.6 million or \$171 per sq. ft. Projects totaling 4 million sq. ft. were under construction in Q4 with all of the buildings slated for delivery in 2023.

Rising land prices in the region’s core have driven increased population growth and commercial development in outlying communities. Rapidly growing Johnston County currently leads the market in industrial construction activity with 1.1 million sq. ft. underway. In Lee County, a recently approved rezoning request will pave the way for Trinity Partners to begin work on a planned 612-acre industrial park with the first building slated for delivery as early as Q4 2023.

FIGURE 2: Warehouse Avg. Asking Rates and Vacancy Rates

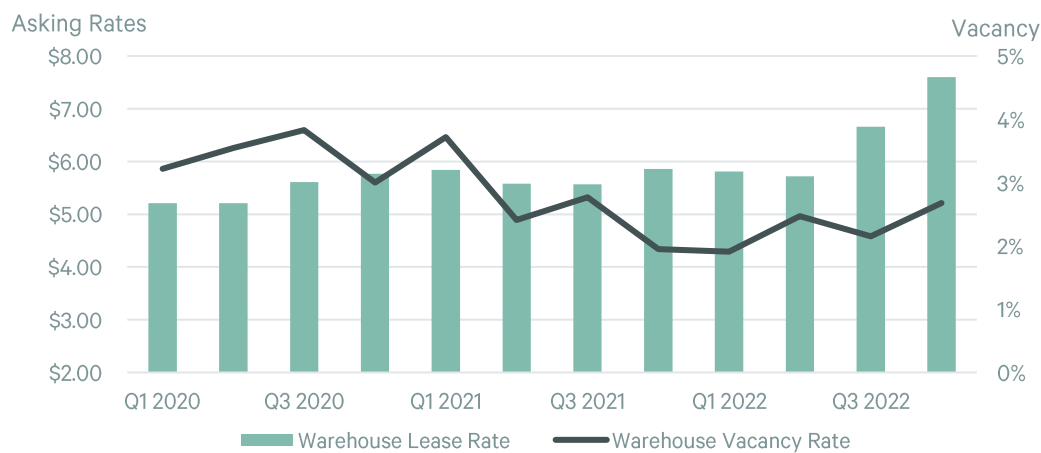
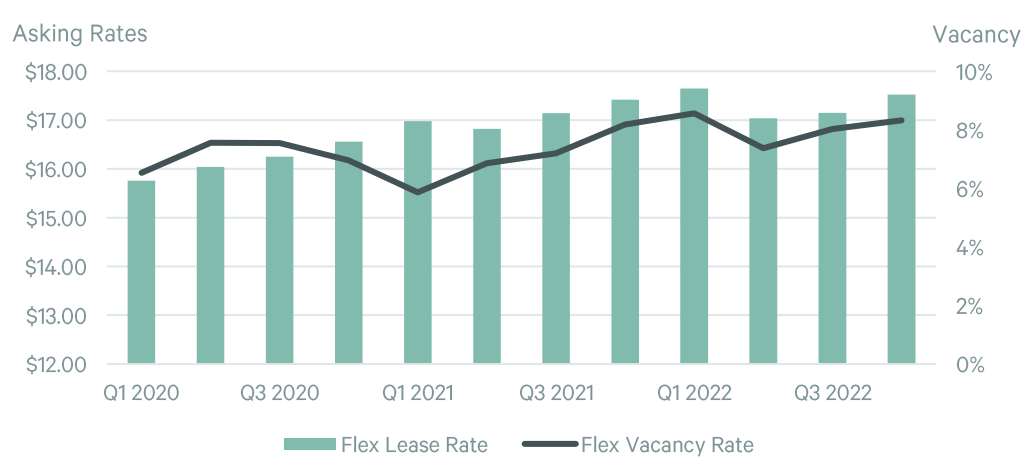


FIGURE 3: Flex Avg. Asking Rates and Vacancy Rates



Resurgence in Manufacturing

The greater Raleigh-Durham region is benefiting from a nationwide resurgence in manufacturing as companies strive to diversify supply chains and the Biden Administration seeks to reduce reliance on foreign manufacturing for critical goods. As plans move forward on major advanced manufacturing facilities along U.S. Hwy. 421 and I-85 – the Carolina Core – developers are lining up to construct projects for suppliers and other businesses to support Wolfspeed and VinFast in Chatham County and Toyota and Boom just west of the Raleigh-Durham region. Wolfspeed broke ground on its \$5 billion semiconductor manufacturing facility in Chatham County in Q4 and is actively searching for suppliers to facilitate construction. Raleigh-Durham is in the running for another Wolfspeed factory, with a decision on site selection expected in the first half of 2023. The company recently signed agreements to supply silicon carbide chips to Mercedes-Benz and Jaguar.

Market Outlook

Raleigh-Durham’s industrial market is in a strong position to weather the impacts of a potential economic slowdown in 2023. In its recently released forecast, CBRE projects that industrial leasing activity will decline by 10% to 15% nationally in 2023, but fast-growing metros such as Raleigh-Durham will remain a target for tenants and investors as occupiers seek to ensure speedy delivery of online orders. Demand will be led by 3PL companies, while activity among smaller light industrial users is likely to be more significantly impacted by economic uncertainty.

Inflation and interest rates are risks to watch moving forward, as a slowdown in consumer spending will impact demand for industrial space. While consumers have shown resilience in the face of soaring inflation, signs of strain began to appear late in the year. Consumer spending fell in both November and December 2022, while personal savings declined and debt rose.

A challenging capital environment will lead to fewer construction starts in 2023. While another wave of deliveries over the next 12 months will take some pressure off vacancy and asking rates in the near term, an expected bounce-back in tenant demand in 2024 is likely to be met with a lull in construction deliveries, leading to a potential shortage of first-generation space.

FIGURE 4: Select Lease/Sale Transactions Q4 2022

Lease: Tenant	Building	Type	Square Feet	Submarket
UPS	Research Tri-Center South	Renewal	139,511	RTP/I-40 Corridor
FIDELITONE*	147 Exchange	New	130,850	South Durham
1-800-Pack-Rat	Eagle Crest Building 2	New	100,076	Eastern Wake
Alcami Corporation*	Beacon Commerce Park 1	New	65,002	Eastern Wake

Sale: Building	Square Feet	Purchase Price	Price Per Sq. Ft.	Submarket
7300 ACC Blvd.	171,844	\$18.0 million	\$105	US 70/Glenwood Ave.
200 Laurensfield Ct.	97,332	\$16.6 million	\$171	Eastern Wake
110 Roche Dr.	41,300	\$10.5 million	\$254	RTP/I-40 Corridor

* Denotes CBRE|Raleigh Transaction

FIGURE 5: Historical Industrial Construction

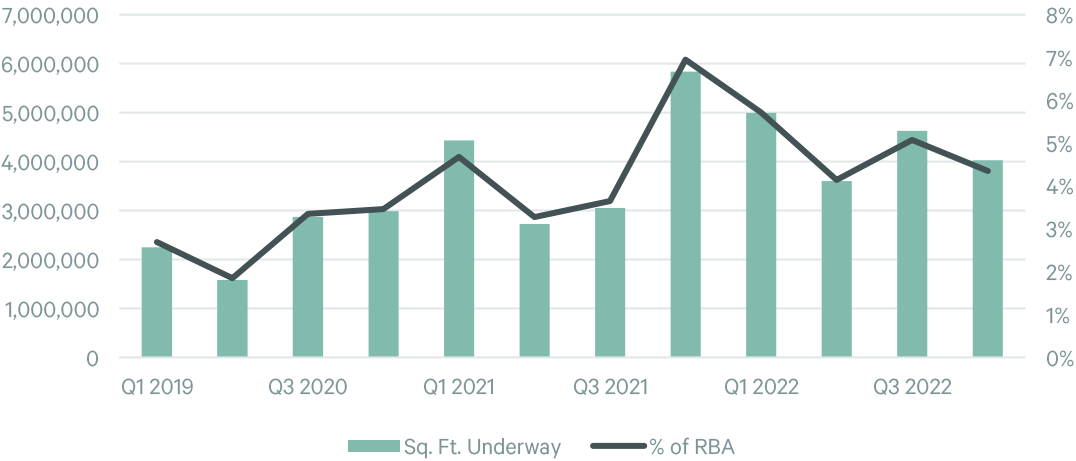


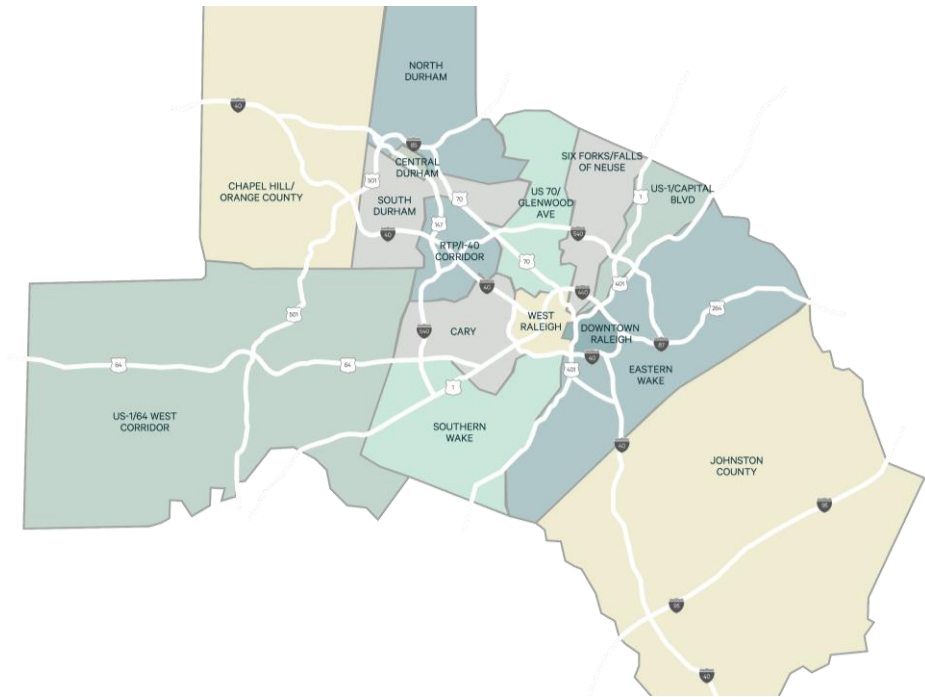
FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	1,058,824	-	-	-	-	31,150	-	12.50
US 70/Glenwood Ave	1,213,644	7,500	0.6%	1.6%	-7,500	-7,500	120,120	-
Six Forks Road/Falls	2,463,728	91,462	3.7%	4.6%	-21,960	-64,060	-	-
US 1/Capital Blvd	3,956,053	44,805	1.1%	3.3%	33,330	110,376	-	12.89
Eastern Wake	18,409,713	568,227	3.1%	8.7%	194,137	1,174,764	866,530	9.45
Southern Wake	4,234,857	295,145	7.0%	14.2%	-31,397	-31,397	266,268	15.00
Cary	1,224,925	192,085	15.7%	15.7%	5,007	5,007	-	-
RTP/I-40 Corridor	14,993,255	194,077	1.3%	5.4%	-35,317	307,568	782,642	8.57
North Durham	3,119,432	-	-	-	-	-	-	-
South Durham	2,990,522	-	-	5.1%	26,000	26,000	-	9.78
Orange County	3,535,282	255,000	7.2%	23.9%	-	1,012,700	580,200	4.77
Johnston County	10,276,880	101,453	1.0%	17.8%	279,219	816,349	1,105,802	6.23
US 1/64 West Corridor	2,300,323	117,185	5.1%	11.5%	52,000	126,785	-	5.64
Warehouse Totals	69,777,438	1,866,939	2.7%	9.4%	493,519	3,507,742	3,721,562	\$7.60

FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (\$/SF/Yr)
West Raleigh	1,187,291	16,506	1.4%	6.6%	-4,800	-41,866	-	14.47
US 70/Glenwood Avenue	1,213,644	-	-	-	-	-	-	-
Six Forks Road/Falls	458,242	300	0.1%	11.1%	-	57,766	-	n/a
US 1/Capital Boulevard	2,538,583	107,831	4.2%	8.5%	39,857	166,813	110,149	16.58
Eastern Wake	2,537,331	201,539	7.9%	16.4%	9,512	33,036	19,800	13.42
Southern Wake	1,406,857	337,788	24.0%	47.2%	14,359	42,218	-	20.79
Cary	1,009,510	31,442	3.1%	4.0%	-	1,393	-	24.71
RTP/I-40 Corridor	10,580,144	991,116	9.4%	15.1%	100,787	230,058	60,053	22.29
North Durham	670,950	100,393	15.0%	5.7%	40,540	38,533	-	19.95
South Durham	565,040	67,774	12.0%	11.1%	-6,000	43,904	-	15.44
Orange County	588,779	41,000	7.0%	26.7%	-	12,000	116,300	-
Flex Totals	22,756,371	1,895,689	8.3%	14.6%	194,255	583,855	306,302	\$17.52

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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