

Construction deliveries push vacancy higher to end the year as lease rates continue to grow

▲ 6.6%

Vacancy Rate

▼ 497K

SF Net Absorption

▼ 3.2M

SF Under Construction

▲ \$6.61

NNN / Lease Rate

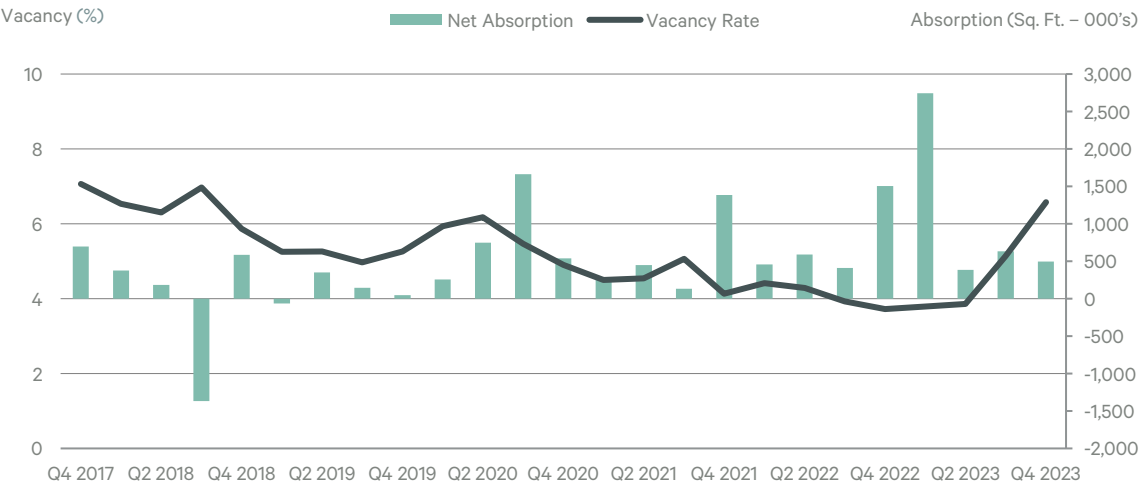
Note: Arrows indicate change from previous quarter.

Highlights

- 497,000 sq. ft. of positive net absorption occurred in Q4 2023, which marks 19 consecutive quarters of positive absorption for the Triad.
- 3.2 million sq. ft. of construction is currently underway. Q4 deliveries totaled 1.47 million sq. ft., while 404,000 sq. ft. started construction.
- Projects totaling 6.3 million sq. ft. were delivered in 2023.
- The average asking rate rose marginally by 0.6% quarter-over-quarter to \$6.61 per sq. ft., signaling a new cyclical high.
- Vacancy rose 144 basis points quarter-over-quarter to end Q4 at 6.6%, which marks the highest level since Q3 2018.

CBRE tracks over 97.3 million sq. ft. of industrial and flex space in the Triad market. The market is composed of four counties – Guilford, Forsyth, Alamance, and Davie Counties – with 18 submarkets.

FIGURE 1: Vacancy Rate vs. Net Absorption



Source: CBRE Research, Q4 2023

Absorption Maintains Strong Momentum

The Triad industrial market experienced 497,000 sq. ft. of positive net absorption in Q4, marking an impressive 19 quarters of positive activity. Net absorption totaled 533,000 sq. ft. in the warehouse sector, while flex product experienced 36,000 sq. ft. of negative absorption. The South Alamance submarket was responsible for the most activity, with 380,000 sq. ft. of positive absorption. The main driver of this submarket's activity was the delivery of a 510,000-sq.-ft. build-to-suit for UPS. Also, in the South Alamance submarket, Pepsi Bottling Co. vacated its space at 709 A O Smith Rd., accounting for 130,000 sq. ft. of negative absorption.

Leasing Activity Slows

While leasing activity slowed to end the year, a handful of sizeable renewals did occur in Q4. CastleGate Logistics LLC renewed its lease for a 150,000-sq.-ft. building at 4747 McConnell Center Dr. in the SE Guilford submarket. In the Airport submarket, Harland Clarke Corp. and Simpson Strong-Tie Company Inc. renewed their leases at 4475 and 4485 Premier Dr.

Vacancy Rises Sharply

For the first time since Q2 2022, the market's vacancy rate has exceeded 6.0%. The Triad's industrial vacancy rate increased 144 basis points quarter-over-quarter to 6.6%. Guilford County's vacancy rate increased 121 bps to 6.5%, Forsyth County's vacancy rate increased 81 bps to 3.4%, and Alamance County's vacancy rate increased 202 bps to 8.4%. The sharp rise in vacancy over the last few quarters is primarily attributed to the high volume of new Class A product being delivered without having tenants secured.

Asking Rates Reach New Cyclical Highs

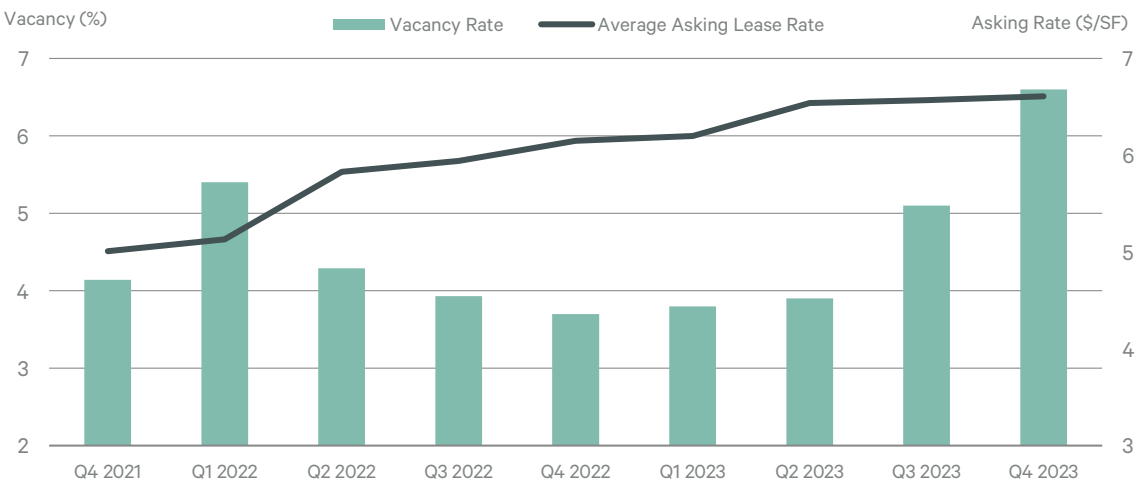
Rent growth has moderated in recent months but remains positive. The average asking rate increased 0.6% quarter-over-quarter and 7.5% year-over-year to \$6.61 per sq. ft. The average asking rate for warehouse product increased 0.3% quarter-over-quarter to \$6.47 per sq. ft., while the average asking rate for flex product increased 1.4% to \$9.27 per sq. ft.

FIGURE 2: Significant Lease Transactions

Tenant	Address	Square Feet
CastleGate Logistics LLC*	4747 McConnell Center Dr. Greensboro, NC	150,000 (Renewal)
Harland Clarke Corp.*	4475 Premier Dr. Greensboro, NC	135,000 (Renewal)
Simpson Strong-Tie Company Inc.*	4485 Premier Dr. Greensboro, NC	80,000 (Renewal)

*Denotes CBRE Transaction

FIGURE 3: Vacancy Rates vs. Average Asking Lease Rate



Source: CBRE Research, Q4 2023

Capital Markets

While interest rate hikes have been put on pause, the continued ramifications of the highest rates in 22 years persist for the Triad market. However, the region did see a handful of sizeable transactions in Q4. The most notable transaction was Blue Ridge Industrial’s acquisition of South Park Business Center, located in the Kernersville submarket. TPG Capital sold the 1.4-million-sq.-ft. flex park portfolio for \$105 million or \$75.66 per sq. ft. In addition, APG Advisors sold 3014 Thurston Ave. in the South Greensboro submarket. This 59,000-sq.-ft. building was acquired by Creggar Capital Investments for \$4.1 million or \$68.96 per sq. ft. Triad Industrial transaction volume totaled \$127 million in Q4, bringing total 2023 volume to \$273 million.

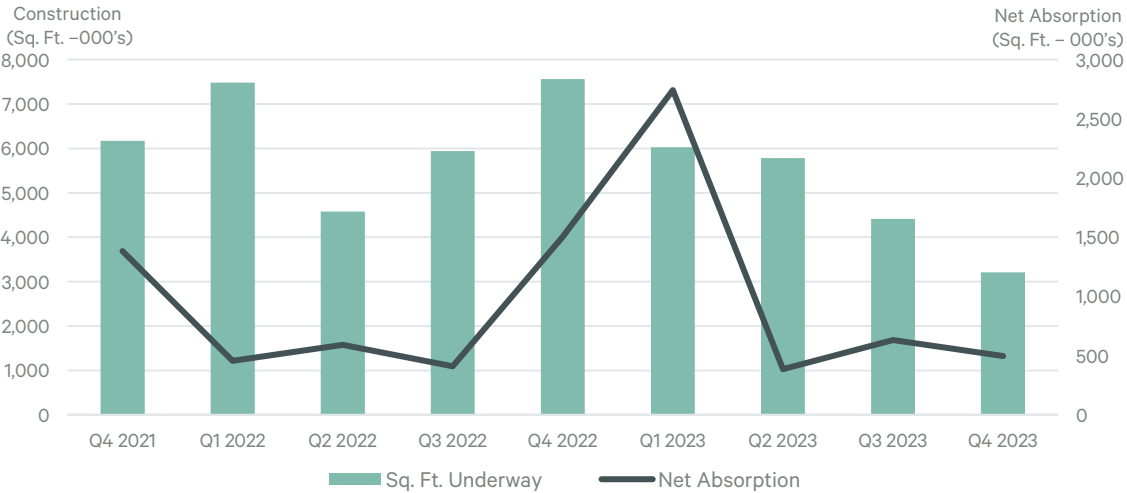
Construction Activity

For the first time in 2023, the Triad market had a significant construction start in Q4. Crow Holdings broke ground on a two-building industrial site totaling 404,000 sq. ft. located at North Carolina Commerce Park in the SE Alamance County submarket. Total industrial space under construction continues to decline, with 1.4 million sq. ft. delivered in Q4. The 3.2 million sq. ft. underway in Q4 represents 3.3% of inventory, which is the lowest level registered since Q3 2020. The largest delivery of the quarter was UPS’ 510,000-sq.-ft. build-to-suit, which is also located in the SE Alamance County submarket. Speculative deliveries accounted for 960,000 sq. ft. of the total industrial space delivered in Q4. The Airport submarket remains the most active with 1.9 million sq. ft. currently under construction.

Analysis

The long-term outlook for the Triad industrial market is strong. With nearly 1 million sq. ft. of new industrial space scheduled to deliver in Q1 2024, vacancy will continue to rise in the first half of the year. Capital markets activity will likely remain subdued in the market due to continued tight lending conditions and a potential oversupply of large warehouse and distribution facilities. Average asking rates are expected to continue their upward trajectory, albeit at a slower pace in the Triad as new Class A product becomes available. The Triad saw a large corporate economic announcement to end the year. Dai Nippon Printing Co., a Japanese company that makes lithium-ion batteries for EV vehicles, announced a \$258 million investment in Davidson County for its first U.S. manufacturing facility. This investment will bring at least 350 jobs to the area.

FIGURE 4: Construction vs. Net Absorption



Source: CBRE Research, Q4 2023

FIGURE 5: Notable Construction Deliveries and Starts

Address	Developer	Total Square Feet	Work Progress
North Carolina Commerce Park 1447 Trollingwood-Hawfields Rd. Mebane, NC	Crow Holdings	404,450	Start
2770 Senator Ralph Scott Pkwy. Mebane, NC	UPS	510,000	Delivered
TriWest Business Center-Bldg. 2 00 Farmington Rd. Mocksville, NC	The Crown Companies	297,600	Delivered
3618 McConnell Rd. Greensboro, NC	Tectonic	293,760	Delivered
McConnell Business Park 3635 McConnell Rd.-Bldgs. 1-2 Greensboro, NC	Al. Neyer	224,000	Delivered

FIGURE 6: Submarket Breakdown

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (SF/Yr)
Piedmont Triad Airport Area	17,130,928	989,738	5.8%	10.6%	19,731	833,210	1,884,377	\$6.83
North Guilford	7,191,293	147,520	2.1%	2.1%	-	1,329,200	-	\$7.00
South Greensboro	1,905,542	287,832	15.1%	15.1%	4,032	182,163	-	\$7.01
Central Guilford	4,093,200	469,922	11.5%	11.5%	-1,960	-28,832	-	\$7.33
Southeast Guilford	6,937,939	791,460	11.4%	13.4%	-	1,012,850	138,000	\$6.73
High Point	7,774,799	243,886	3.1%	3.1%	37,396	-18,244	-	\$5.48
North Forsyth	6,852,611	313,647	4.6%	4.6%	-2,500	62,131	-	\$5.65
Kernersville	3,972,388	10,000	0.3%	0.7%	-5,000	5,000	-	\$7.87
South Forsyth	3,171,651	75,600	2.4%	2.4%	27,025	152,025	-	\$6.90
Southeast Forsyth	6,359,175	277,705	4.4%	4.4%	-	5,980	500,000	\$6.61
Winston-Salem CBD	1,760,226	-	-	-	-	-	-	-
Clemmons	377,159	55,000	14.6%	14.6%	-	42,700	-	\$6.50
South Alamance	6,015,831	1,070,355	17.8%	21.7%	380,000	380,000	404,450	\$6.31
North Alamance	5,472,150	124,016	2.3%	2.3%	32,698	47,743	-	\$3.95
West Burlington/Airport	614,062	-	-	-	-	-	-	-
SW Alamance	2,389,216	-	-	-	-	111,347	-	-
South Burlington	1,317,504	144,217	10.9%	10.9%	-	143,177	-	\$5.00
Burlington CBD	975,559	71,659	7.4%	7.4%	41,819	105,502	-	\$4.89
Davie County	6,461,896	529,742	8.2%	27.7%	-20,000	-20,000	781,612	\$5.80
Warehouse Totals	91,817,368	6,055,899	6.6%	8.4%	533,241	4,345,952	3,209,479	\$6.47

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Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Availability Rate	Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Net Avg. Asking Lease Rate (SF/Yr)
Piedmont Triad Airport Area	1,568,039	85,893	5.5%	5.5%	-12,125	-27,706	-	\$11.80
North Guilford	320,006	59,992	18.8%	18.8%	-16,000	-13,984	-	\$10.82
South Greensboro	260,976	-	-	-	-	26,268	-	\$6.25
Central Guilford	1,241,563	72,110	5.8%	5.8%	12,170	14,392	-	\$9.16
Southeast Guilford	232,006	-	-	-	-	-	-	-
High Point	362,792	42,617	11.8%	11.8%	-	-37,617	-	-
North Forsyth	696,487	58,601	8.4%	10.1%	-11,035	-32,762	-	\$11.22
Kernersville	551,107	17,650	3.2%	7.8%	-9,150	91,842	-	\$9.43
South Forsyth	191,423	8,075	4.2%	5.7%	-	-2,750	-	\$8.85
Southeast Forsyth	35,083	-	-	-	-	-	-	-
Flex Totals	5,459,482	344,938	6.3%	7.1%	-36,140	17,683	-	\$9.27
Industrial Totals	97,276,850	6,400,837	6.6%	8.4%	497,101	4,363,635	3,209,479	\$6.61

FIGURE 7: Vacancy Rates

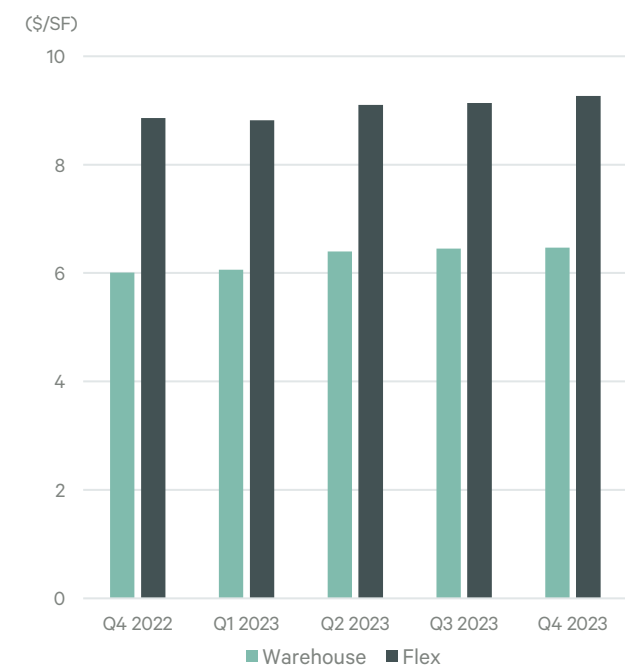


Source: CBRE Research, Q4 2023

Vacancy rises to five-year high

Overall industrial vacancy increased 144 basis points quarter-over-quarter to 6.6%. Warehouse vacancy increased 150 basis points to 6.6%, while flex vacancy increased 65 basis point to 6.3%.

FIGURE 8: Average Asking Rates

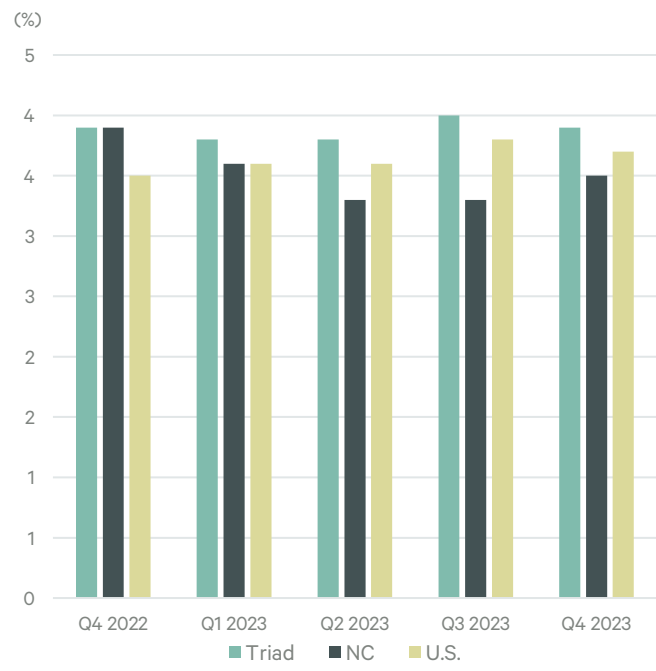


Source: CBRE Research, Q4 2023

Lease rates rise again

Overall asking rates increased 0.6% quarter-over-quarter and 7.5% year-over-year to \$6.61. Asking rates for warehouse space increased 0.3% quarter-over-quarter and 7.7% year-over-year to \$6.47. Asking rates for flex space increased by 1.4% quarter-over-quarter and 4.6% year-over-year to \$9.27.

FIGURE 9: Unemployment Rates

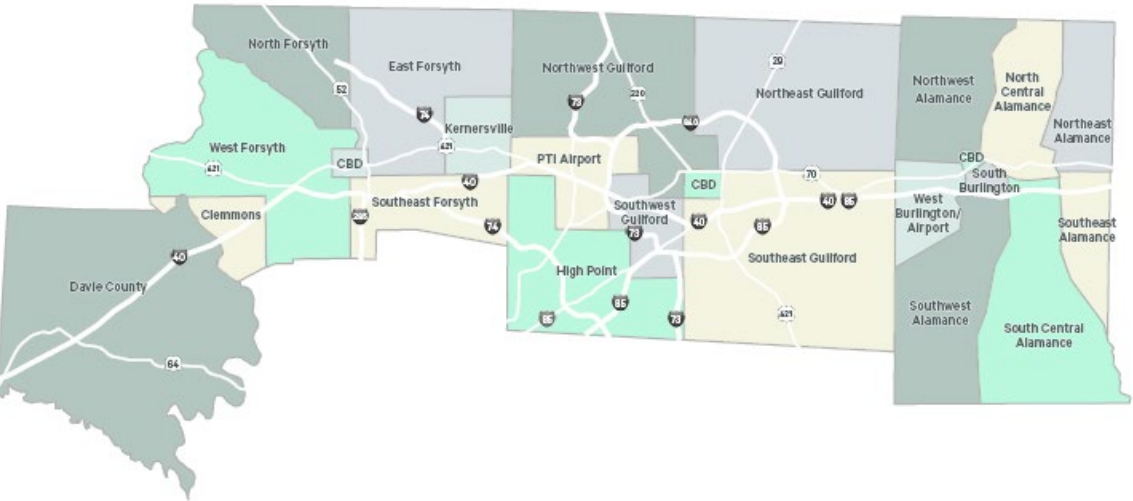


Source: U.S. Bureau of Labor Statistics, November 2023.

Unemployment rates decline in the Triad

The Triad unemployment rate declined to 3.9% in November. North Carolina unemployment increased to 3.5%, while U.S. unemployment slightly decreased to 3.7%.

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.

Net Absorption: The change in Occupied Sq. Ft. from one period to the next.

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.

Survey Criteria

Includes all industrial buildings 20,000 sq. ft. and greater in size in Guilford, Forsyth, Alamance, and Davie counties.

Buildings which have begun construction as evidenced by site excavation or foundation work.

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