

## Raleigh-Durham Industrial, Q3 2017

# Industrial rental rates continue to rise



**Flex Vacancy**  
9.38%



**Flex Rental Rate**  
\$10.14 PSF



**Warehouse Vacancy**  
13.7%



**Warehouse Rental Rate**  
\$5.25 PSF

The Triangle Industrial market remained active in Q3 and is well positioned moving forward. While warehouse vacancy increased 140 basis points to 13.7%, it had over 124,000 square feet of positive net absorption. Flex vacancy decreased 67 basis points to 9.38%, with positive absorption of over 100,000 square feet. Despite the quarter-over-quarter increase in vacancy for warehouse product, the current vacancy remains low compared to historical rates in the Triangle. Average asking warehouse rental rates have continued an upward trend during Q3 2017 and are now at \$5.25. Average flex rental rates showed the strongest positive growth in over a year and are now at \$10.14, which is up \$.44 quarter-over-quarter. The impact is being attributed to the continued tenant demand and the rising cost of new construction.

Healthy leasing activity continued into Q3 as several noteworthy leases were signed. The largest being Hatch Beauty, which expanded its operations in the Triangle by leasing the last 125,864 square feet of vacancy at 3508 North TriCenter Boulevard. PCX Corporation leased 45,900 square feet in the Johnston County submarket on S. Brightleaf Road. In addition, Iron Box Distribution leased 34,400 square feet at Pope Industrial Park in the Southern Wake submarket.

- There is currently 768,600 square feet of Warehouse product under construction in the Triangle
- Hatch Beauty expanded 125,864 square feet at 3508 North TriCenter Boulevard
- Warehouse and flex average asking rental rates increased quarter-over-quarter
- Grubb Ventures acquired 4.65 acres containing 127,446 square feet of warehouse space at 2315 Atlantic Avenue near their Dock 1053 project

Around the corner from their Dock 1053 project, Grubb Ventures purchased the Pack Rat storage building on Atlantic Avenue for \$43 per square foot. The property is 4.65 acres and contains 127,446 square feet of warehouse space. Earlier this year, Grubb Ventures bought the former Peden Steel 19-acre warehouse campus just across Atlantic Avenue. That property is currently leased by Waste Management. Another notable purchase was Goldsboro Builders Supply acquiring 42,570 square feet at 2505 Wendell Boulevard in the Eastern Wake submarket.

There was only one industrial delivery during the quarter. In the RTP/I-40 submarket, TBC 4 delivered fully preleased to PowerSecure. TBC 4 consists of 258,000 square feet of warehouse product. The warehouse construction pipeline remains steady as several projects are slated to deliver in 2018. There is currently 768,600 square feet of warehouse product under construction, all of which is in the RTP-I-40 submarket. While there is substantial product under construction, vacancy in the RTP/I-40 submarket is extremely tight and tenant demand remains high. Notable projects include Liberty Ridge III, TBC Place, and Patriot Park. Strategic Capital Partners is underway with Phase 1 of Patriot Park, which is being built speculative. Phase 1 will consist of two warehouses, totaling over 300,000 square feet. The total project will consist of approximately 1 million square feet of warehouse space. The flex construction market is not as robust. There is currently 102,400 square feet of flex product under construction and it is all in the Southern Wake County submarket.

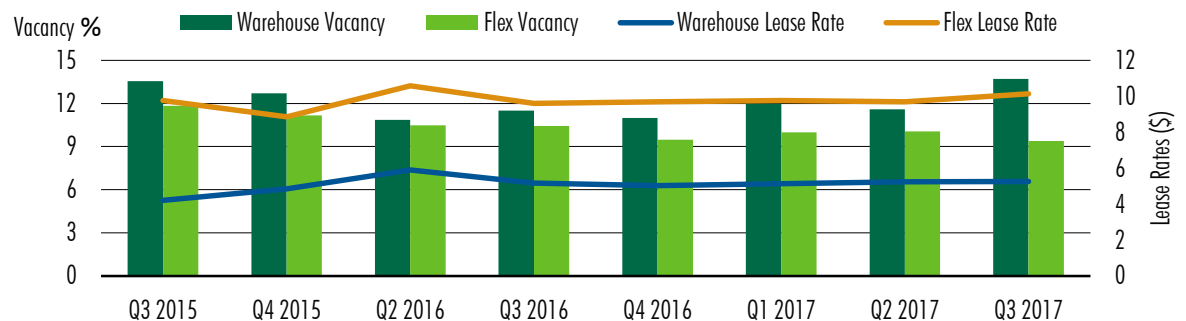
Figure 1: Market Statistics Q3 2017

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Q3 2017 Net Absorption (SF)	Under Construction (SF)	Availability Rate (%)	NNN Avg. Asking Lease Rate (\$/SF/Yr) *4
<b>Warehouse</b>						
US 70/Glenwood Ave	607,290	5.7	(34,728)	0	5.7	5.26
US 1/Capital Boulevard	4,245,234	4.8	11,220	0	4.8	4.93
Eastern Wake	7,175,787	12.9	(590)	0	14.4	5.01
Southern Wake	1,301,515	9.8	(4,000)	0	9.8	6.10
RTP/I-40 Corridor	11,585,874	5.3	80,122	768,600	11.7	5.48
Durham County *2	3,749,245	36.9	8,000	0	36.9	5.37
Johnston County *3	3,391,836	32.5	64,527	0	32.5	3.54
<b>Warehouse Totals:</b>	<b>32,056,781</b>	<b>13.7</b>	<b>124,551</b>	<b>768,600</b>	<b>16.3</b>	<b>5.25</b>
<b>Flex</b>						
West Raleigh	619,345	5.4	(2,471)	0	5.4	9.49
US 70/Glenwood Avenue	1,175,244	2.2	15,521	0	2.2	9.97
Falls of Neuse Road	394,299	3.6	(2,700)	18,000	8.2	9.19
US 1/Capital Boulevard	4,180,064	10.7	15,518	0	13.2	10.46
Eastern Wake	1,592,072	5.4	35,534	0	5.4	8.84
Southern Wake	716,701	5	3,330	102,400	14.8	9.55
Cary	927,912	2.5	0	0	2.5	10.05
RTP/I-40 Corridor	6,440,950	11.4	37,625	0	11.9	12.57
Durham County *2	661,338	25.4	(1,947)	0	25.4	7.13
<b>Flex Totals:</b>	<b>16,707,926</b>	<b>9.4</b>	<b>100,410</b>	<b>120,400</b>	<b>10.7</b>	<b>10.14</b>

Source : TBJ Space, Q3 2017.

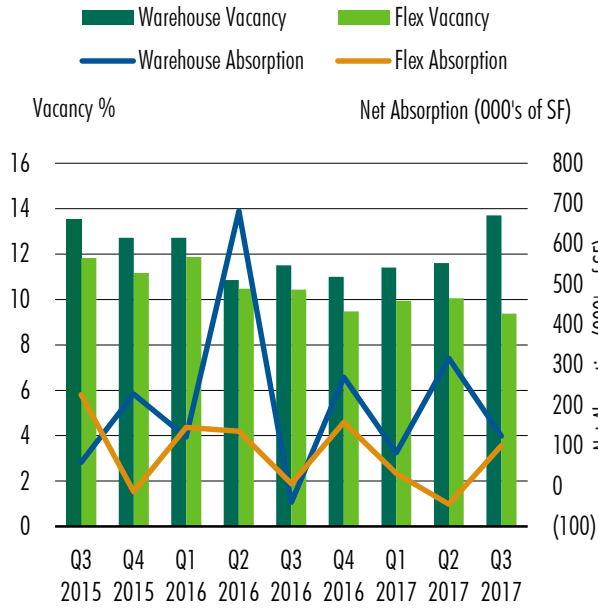
1. West Raleigh, Six Forks Road, Falls of Neuse, Downtown Raleigh and Cary submarkets have been removed from the Industrial Market Report due to the minimal impact on the overall Raleigh/Durham warehouse market.
2. North Durham, Central Durham and South Durham submarkets have been combined to Durham County.
3. Johnston County has been added to the Industrial Market Report.
4. Rates calculated based on current NNN vacancies.

Figure 2: Vacancy and Lease Rates



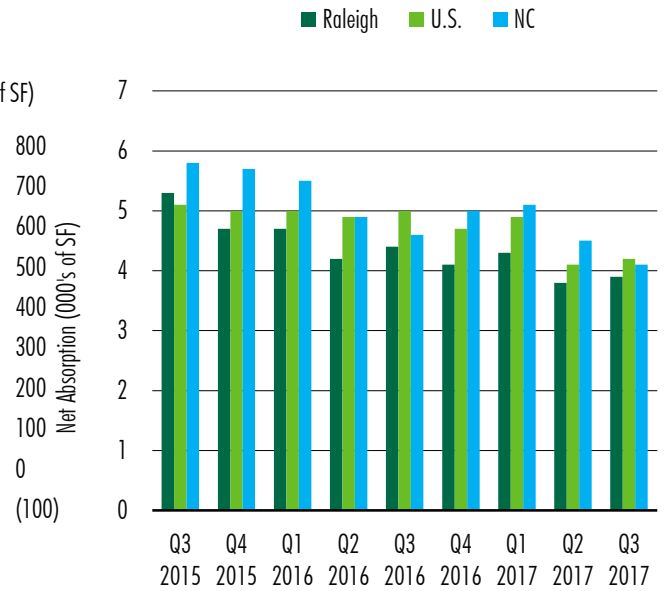
Source : TBJ Space, Q3 2017.

Figure 3: Vacancy and Absorption



Source: TBJ Space, Q3 2017.

Figure 4: Unemployment Statistics

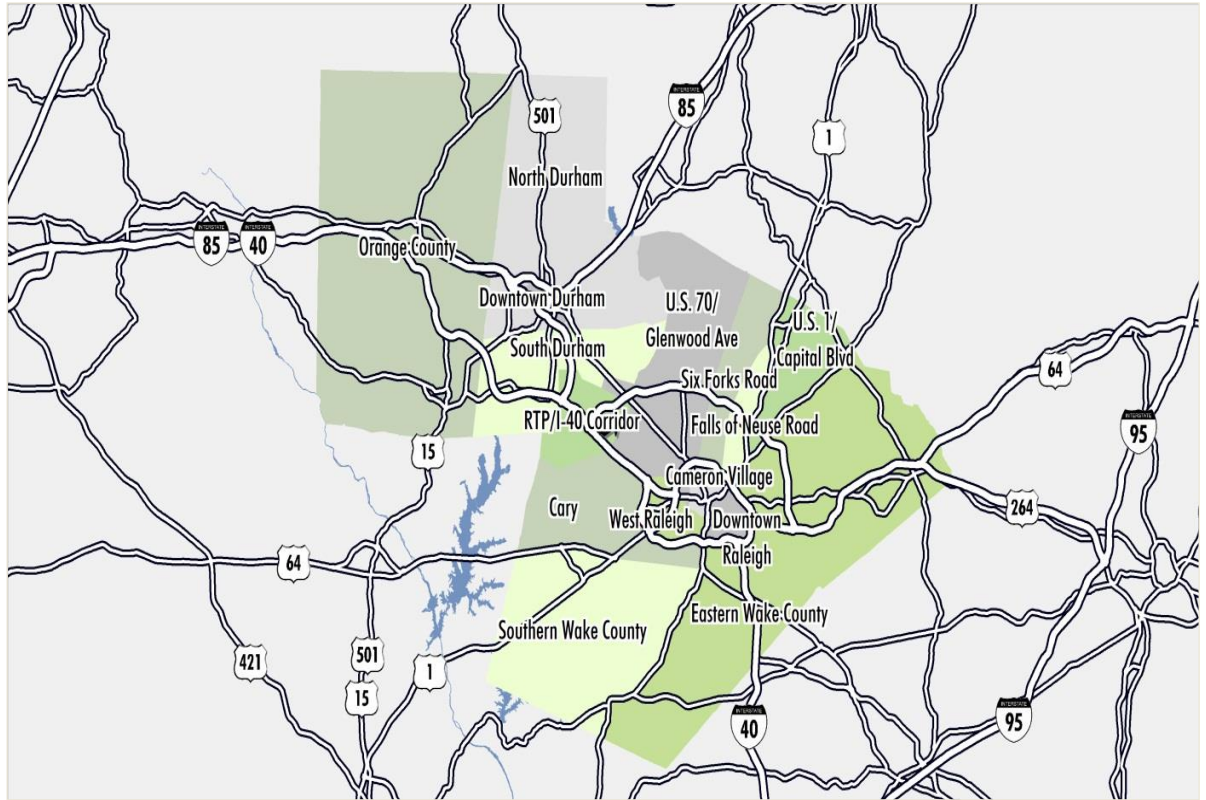


Source: Bureau of Labor Statistics, August 2017.

Figure 5: Notable Lease Transactions

Tenant	Building	SF	Submarket	Lease Type
Hatch Beauty*	North TriCenter Blvd	125,627	RTP/I-40	Expansion
PCX Corporation	1585 S. Brightleaf Blvd	45,900	East Wake	New
Iron Box Distribution	Pope Industrial Park	34,400	Southern Wake	New
Mike's Flooring	Carolinas Distribution Center	15,627	Eastern Wake	New
<b>Notable Q2 2017 Sales Transaction</b>				
Building/Park	Buyer	SF	Submarket	Purchase Price (\$)
2315 Atlantic Avenue (Dock 1053)	Grubb Ventures	127,446	US 1/Capital Blvd	5.5 M
1526 S. Brightleaf Blvd*	CAT Brightleaf, LLC	91,579	East Wake	1.6 M
3401 Spring Forest Road*	TDC Blue VI, LLC	22,000	US 1/Capital Blvd	2.33 M

\* Denotes CBRE | Raleigh Transaction  
Source: CBRE Research, Q3 2017.


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