

# MARKETBEAT

# Raleigh-Durham

## Industrial Q1 2018



### TRIANGLE INDUSTRIAL

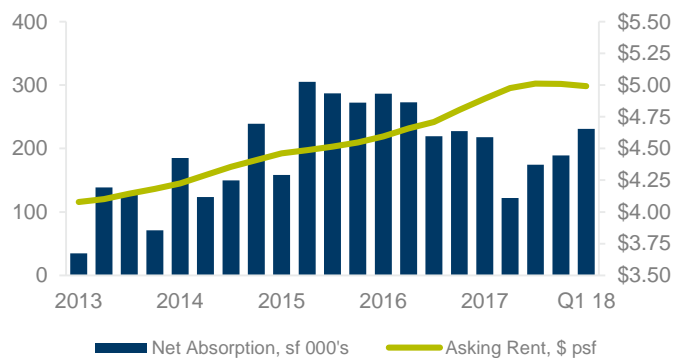
Flex Indicators	Q1 17	Q1 18	12-Month Forecast
Warehouse Vacancy	10.0%	9.1%	▼
Net Absorption (sf)	40k	41k	■
Average Asking Rent*	\$11.00	\$11.40	▲

Warehouse Indicators	Q1 17	Q1 18	12-Month Forecast
Vacancy	12.0%	10.5%	▼
Net Absorption (sf)	83k	371k	▼
Under Construction (sf)	973k	443k	■
Average Asking Rent*	\$5.06	\$4.99	▲

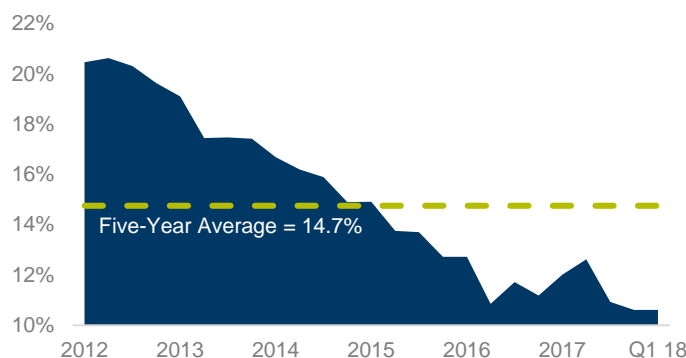
\*Rental rates reflect net asking \$psf/year

### Warehouse Net Absorption/Asking Rent

#### 4-QTR TRAILING AVERAGE



### Warehouse Vacancy



### Economy

The first quarter of 2018 continued the impressive Triangle expansion seen throughout most of 2017. Although the unemployment rate for the Triangle edged up to 4.0% from the 3.6% historical low registered in Q4 2017, this uptick should not be alarming given many economists see the Triangle area at or reaching full employment (at 4.0% or below). In terms of wage growth, North Carolina ranked ninth in the U.S. at 3.8% per a recent Business Insider report. To complement this, on a U.S. level the University of Michigan's Index of Consumer Sentiment recorded its highest reading since 2004 signaling most feel very good about business prospects in the near term. One of the notable local announcements for the quarter came in the form of RDU International Airport's latest expansion, which included adding several international flights, as well as increasing the number of nonstop flights to 54 per day. The nation's economy has just entered the second longest expansion period since World War II. GDP in the first quarter came in at 2.3%, slowing from the 2.9% in Q4 2017 but, activity remained robust in Raleigh-Durham. Cushman & Wakefield forecasts food and eCommerce sales in the U.S. to accelerate by 5.2% and 16.4% respectively, in 2018. Looking at leading indicators including consumer confidence, the labor market, manufacturing orders and a strong job market, the thought of a recession sounds distant. However, experts note rising interest rates, the unpredictability of the current U.S. administration and the threat of a trade war with China could impact this long run of historic growth.

### Warehouse Market Overview

In the first quarter, the overall warehouse market outperformed the previous quarter with three new deliveries totaling 405,800 square feet (sf), net absorption posting 371,941 sf and rental rates slightly increasing. Liberty Ridge III and TBC Industrial Lot 2 and 3A were 49.0% preleased at time of delivery, giving a big lift to absorption levels. Total net absorption posted above the five-year quarterly average of 215,924 sf. The RTP/I-40 Corridor continued robust activity with absorption of 230,542 sf and Eastern Wake Co. contributed absorption of 78,829 sf. Overall vacancy for the Triangle rose slightly to 10.5%, just 10 basis points (bps) from the previous quarter, largely due to the increase in supply. Overall rental rates for warehouse product showed a slight uptick for the third straight quarter as landlords slowly adjusted their rates to meet the market demand. Unlike the office market, sharp increases in rental rates have been slow to hit the industrial sector. Asking rates in the RTP/I-40 Corridor and Eastern Wake Co. submarkets increased 3.7% and 1.5% year-over-year respectively. Looking ahead, 442,800 sf of warehouse space is slated to deliver in the next quarter, which would provide breathing room for tenants as the two-year quarterly delivery average has only been 191,194 sf.

## Flex Market Overview

In Q1, the Triangle's flex market also performed well as absorption levels recorded 41,422 sf and vacancy declined to 9.1%. The primary impact was felt in the RTP/I-40 Corridor where a handful of large leases were inked, driving 97,536 sf of absorption and reducing vacancy in the submarket to 9.4%. This figure is important to note because vacancy has not fallen below 10.0% since 2001. Looking at the market from a historical context, whenever the RTP/I-40 submarket fails to perform well, the overall flex market typically follows. This is largely due to the concentration of flex inventory in the submarkets, which in total encompasses over 17.0 million square feet (msf) with the RTP/I-40 making up more than a third of that total. Other notable news was the increase in overall rental rates to \$7.70 per square foot (psf), which translates to a 3.6% year-over-year growth. A growing factor contributing to this increase is the large presence of life science companies in the area choosing flex space. However, these users typically require above standard improvements to the space in order to accommodate a lab or more sophisticated manufacturing component than a traditional flex user. New construction has been relatively complacent over the past year this is expected to change if vacancy continues to decline.

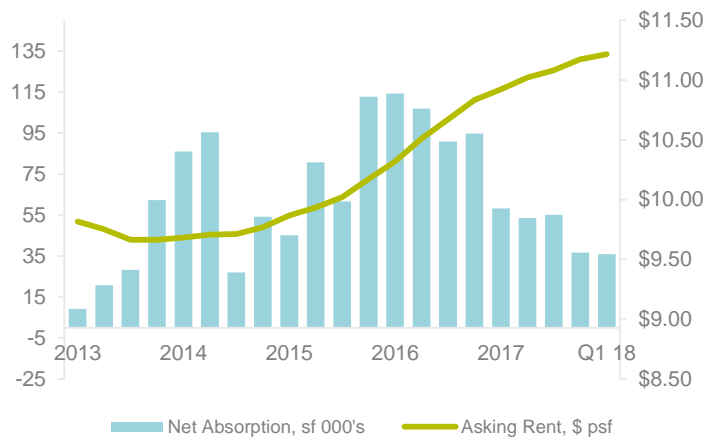
## Investment Sales

Investment activity for the first quarter slowed down from the strong numbers we experienced in 2017, but still produced modest activity of \$86.5 million. The 2017 figures were somewhat misleading given the large sale of the Sentinel Data Center for \$293 million in Q1. However, the current level of activity is strong and mirrors the broader economy. As expected, the Fed implemented a 25-bp rate hike in the first quarter and signaled there would likely be two or three more in the year ahead. With unemployment at historic lows since the Great Recession and corporations predicted to see growth and reinvestment from the recent tax cuts and government spending increases, inflation concerns are starting to pick up. This could impact investors' decisions and will undoubtedly affect the financing markets as borrowing costs slowly start to increase.

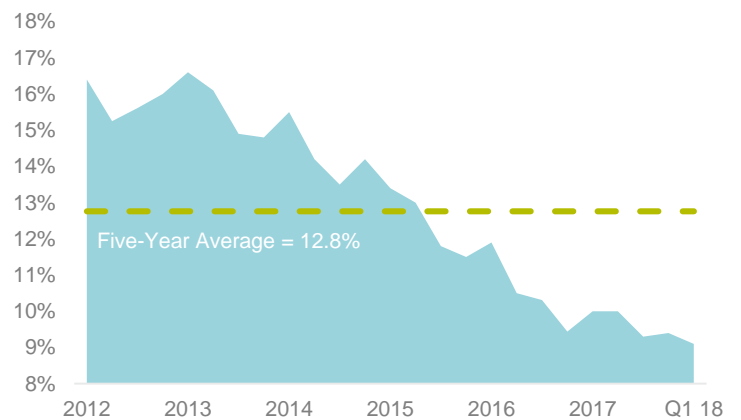
## Outlook

- As warehouse vacancy in the RTP/I-40 corridor inches closer to the historical lows we saw in 2001, upward pressure on rental rates should continue
- Fears of a larger trade war with China could directly impact some American manufacturing companies and their budgets that rely primarily on Chinese companies for their exports

Flex Net Absorption/Asking Rent  
4-QTR TRAILING AVERAGE

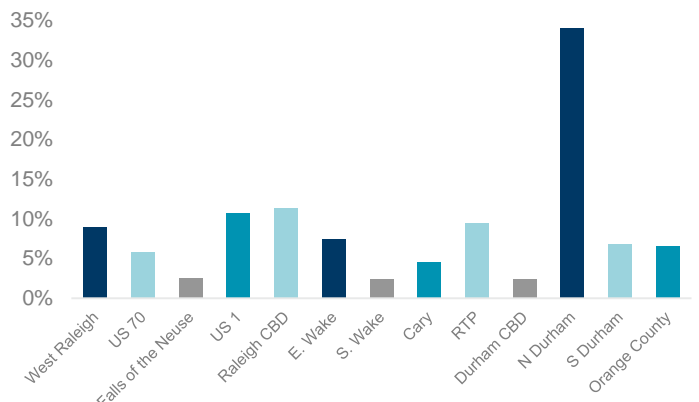


## Flex Vacancy



## Industrial Submarket Comparison

LIMITED AVAILABILITY ACROSS THE MAJOR SUBMARKETS



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Industrial Q1 2018



SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	VACANCY RATE	CURRENT QTR NET ABSORPTION	4 QTR NET ABSORPTION	UNDER CONSTRUCTION	YTD COMPLETIONS	AVERAGE ASKING RENT
Eastern Wake County	95	7,155,787	721,098	10.1%	78,829	345,747	120,000	0	\$5.31
Southern Wake County	22	1,301,515	89,300	6.9%	38,000	88,133	0	0	\$4.20
RTP/I-40 Corridor	86	12,249,674	922,368	7.5%	230,542	522,204	322,800	405,800	\$5.66
Falls of the Neuse	19	1,123,916	34,567	3.1%	0	-5,000	0	0	\$4.87
South Durham	14	2,013,693	1,139,014	56.6%	0	14,377	0	0	\$3.66
US 1/Capital Blvd	65	4,245,234	152,005	3.6%	5,790	62,954	0	0	\$5.19
All other submarkets	78	3,704,935	290,063	7.8%	18,780	-22,337	0	0	\$4.34
<b>WAREHOUSE SUBTOTAL</b>	<b>379</b>	<b>31,794,754</b>	<b>3,348,415</b>	<b>10.5%</b>	<b>371,941</b>	<b>1,006,078</b>	<b>442,800</b>	<b>405,800</b>	<b>\$4.99</b>
Cary	39	956,145	43,372	4.5%	6,695	3,813	0	0	\$11.15
Eastern Wake County	55	1,630,633	120,321	7.4%	-12,718	28,506	12,400	0	\$9.12
RTP/I-40 Corridor	107	6,455,009	609,430	9.4%	97,536	145,435	62,464	0	\$13.33
US 1/Capital Blvd	124	4,164,742	444,093	10.7%	-20,077	-59,502	0	0	\$10.68
US 70/Glenwood Ave	63	1,175,194	68,166	5.8%	-13,869	-18,949	0	0	\$9.71
West Raleigh	29	619,345	58,871	9.5%	-17,645	-19,053	0	0	\$10.82
All other submarkets	80	2,272,386	231,145	10.2%	1,500	48,341	65,000	0	\$9.32
<b>FLEX SUBTOTAL</b>	<b>497</b>	<b>17,273,454</b>	<b>1,575,398</b>	<b>9.1%</b>	<b>41,422</b>	<b>128,591</b>	<b>139,864</b>	<b>0</b>	<b>\$11.40</b>
<b>TRIANGLE INDUSTRIAL TOTALS</b>	<b>876</b>	<b>49,068,208</b>	<b>4,923,813</b>	<b>10.0%</b>	<b>413,363</b>	<b>1,134,669</b>	<b>582,664</b>	<b>405,800</b>	<b>\$7.70</b>

\*Rental rates reflect asking \$psf/year

### Key Lease Transactions Q1 2018

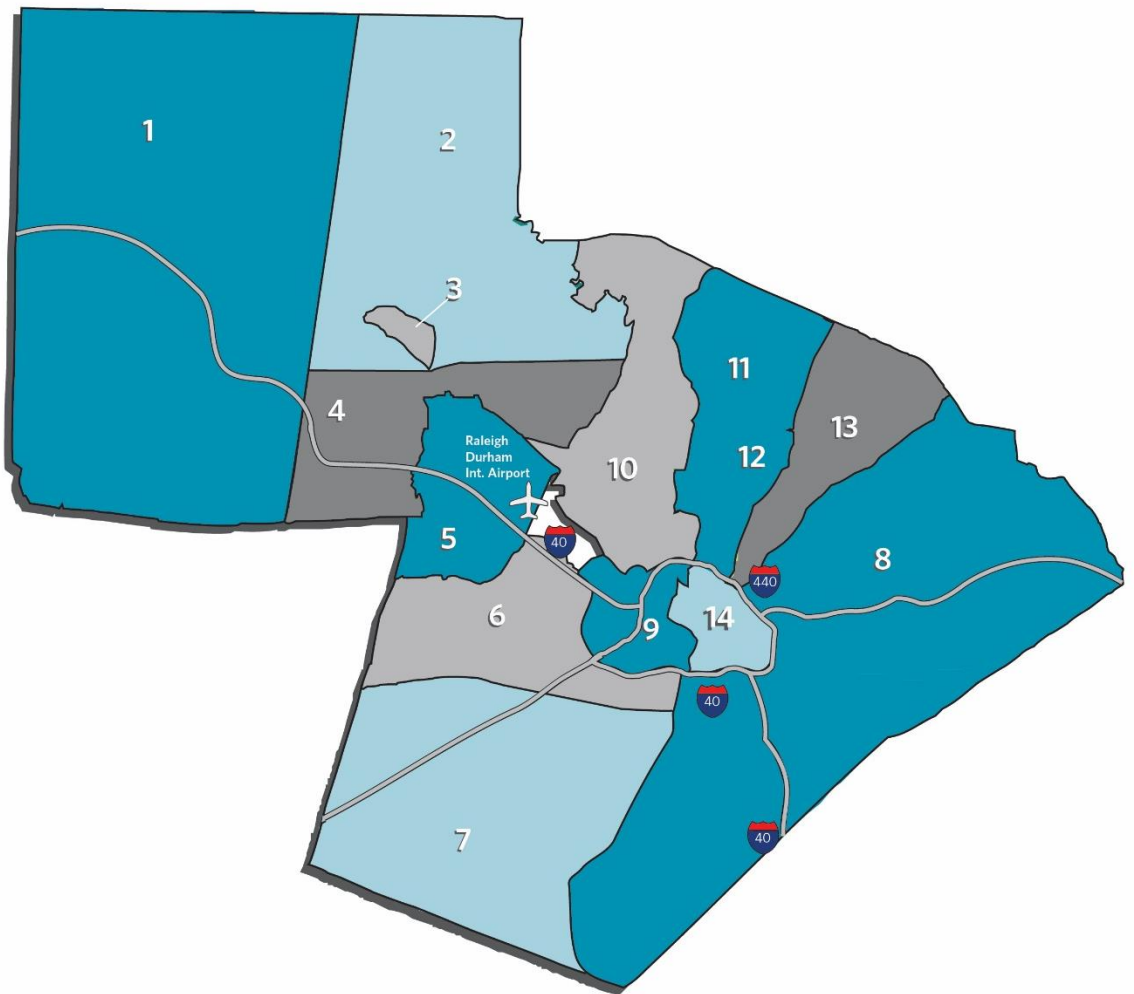
PROPERTY	SF	TENANT	PRODUCT TYPE	SUBMARKET
Beltline Center	68,347	Andrews & Hamilton	Warehouse	Eastern Wake Co.
400 Perimeter Park Dr	55,466	Sensus Metering Systems	Flex	RTP/I-40 Corridor
4117 Emperor Blvd	38,822	Renasas	Flex	RTP/I40 Corridor
3321 Hobby Court	15,450	Lambert Cable	Warehouse	Eastern Wake Co.

### Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3508 Tri-Center Blvd	272,282	Investcorp / Accesso Partners JV Torchlight Investors	\$16,800,000 / \$162	RTP/I-40 Corridor
2500-2810 Meridian Pkwy	269,180	R. Wayne Bailey / Trinity Capital Advisors & SilverCap Partners	\$35,800,000 / \$133	RTP/I40 Corridor
4301-4305 Atlantic Ave	96,054	Zingale Land, LLC / BAP Properties	\$10,000,000 / \$104	Six Forks

## INDUSTRIAL SUBMARKETS

RALEIGH / DURHAM



1. Orange County
2. North Durham
3. Downtown Durham
4. South Durham
5. RTP / I-40 Corridor
6. Cary
7. Southern Wake County
8. Eastern Wake County
9. West Raleigh
10. US 70 / Glenwood
11. Six Forks Road
12. Falls of Neuse Road
13. US 1 / Capital Blvd
14. Downtown Raleigh

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### About Cushman & Wakefield

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