

Raleigh-Durham Industrial, Q1 2020

Spec developments land major commitments during Q1

 **Flex Vacancy**
7.3%

 **Flex Rental Rate**
\$12.99 PSF

 **Warehouse Vacancy**
6.3%

 **Warehouse Rental Rate**
\$5.87 PSF

*Arrows indicate change from previous quarter.

MARKET FORECAST

The Triangle industrial market experienced an increase in vacancy during Q1, marking the first quarter without declining vacancy for both warehouse and flex product in over two years. Warehouse vacancy increased 70 basis points quarter-over-quarter to 6.3%, while flex vacancy increased 163 basis points quarter-over-quarter to 7.3%. Despite the increase quarter-over-quarter, warehouse vacancy decreased 115 basis points year-over-year. The generally low vacancy across the market and limited available space has caused asking rates to increase through Q1 2020. The warehouse average asking rate increased 6% year-over-year to \$5.87 per sq. ft., while the flex average asking rate increased 8% year-over-year to \$12.99 per sq. ft.

The market experienced negative net absorption during Q1. Warehouse product experienced negative 80,000 sq. ft. of net absorption, while flex product experienced 301,000 sq. ft. of negative net absorption during the quarter. Despite the Q1 absorption numbers, overall industrial 12-month net absorption remains positive. Not included in absorption numbers due to the buildings being currently under construction were two major leases at Regional Commerce Center in South Durham. Amazon leased 410,000 sq. ft. for the entirety of Building 1, while North State Express leased 156,000 sq. ft. of the 260,000 sq. ft. Building 4 development. Both buildings began construction as spec developments before landing these major commitments and are expected to deliver later this year. NoDa Brewing Company leased 25,000 sq. ft. at EastPoint Industrial Park in Eastern Wake, while Fleet Feet Logistics leased 24,000 sq. ft. at Patriot Park II in the RTP/I-40 Corridor submarket. In Southern Wake, Bernhard leased 24,000 sq. ft. at 1215 United Drive, and Collision Veterans leased 24,000 sq. ft. at 1308 Bobbitt Drive.

Investment sales for the quarter were highlighted by Longfellow Real Estate Partners' purchase of a

five-building flex and single-story office portfolio at Perimeter's Edge in Morrisville. The portfolio totaled 399,000 sq. ft. and sold for \$64.7 million, or \$162 per sq. ft. In Cary, the Wake County Board of Education purchased an 80,000 sq. ft. industrial building at 1660 Piney Plains Road for \$13 million, or \$161 per sq. ft. In the US 70/Glenwood Avenue submarket, the 87,000 sq. ft. Mims Distributing Company industrial building sold for \$12.0 million, or \$136 per sq. ft.

Over 2.1 million sq. ft. remains under construction throughout the Triangle. Eastern Wake leads all submarkets with 882,000 sq. ft. currently underway, including new developments at Eastgate 540, Greenfield Business Park and Garner Business Park. The South Durham submarket follows closely behind with 670,000 sq. ft. under construction, while 529,000 sq. ft. of warehouse and flex space is under construction in the RTP/I-40 Corridor submarket.

The Raleigh-Durham industrial market remains well-positioned in the long-term despite a considerable short-term slow down due to the COVID-19 pandemic. The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China's experience—the U.S. government's fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

MARKETVIEW RALEIGH-DURHAM INDUSTRIAL

Figure 1: Market Statistics Q1 2020

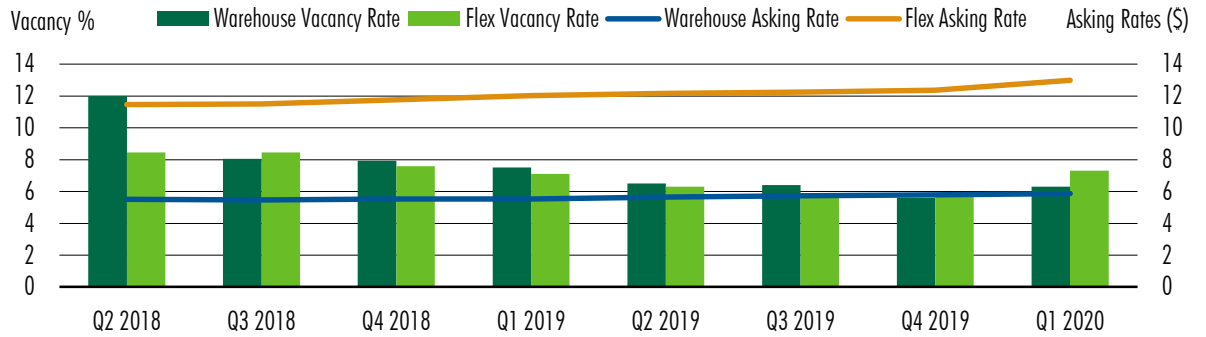
Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Q1 2020 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avail. Rate (%)	NNN Avg. Asking Lease Rate (\$/SF/Yr)
Warehouse							
US 70/Glenwood Avenue	699,238	4.8	16,000	16,000	0	4.8	7.04
US 1/Capital Boulevard	3,885,488	1.3	754	754	0	4.9	5.67
Eastern Wake	7,427,904	8.7	(9,108)	(9,108)	882,321	13.6	5.55
Southern Wake	1,430,842	12.6	(50,000)	(50,000)	0	12.6	6.61
RTP/I-40 Corridor	12,315,361	1.9	24,000	24,000	375,000	7.0	6.15
Durham County*	2,526,383	4.9	6,800	6,800	670,000	4.9	N/A
Johnston County	3,730,899	20.1	(68,476)	(68,476)	0	20.1	5.27
Warehouse Totals:	32,016,115	6.3	(80,030)	(80,030)	1,927,321	9.8	5.87
Flex							
West Raleigh	642,805	8.0	(16,152)	(16,152)	0	8.0	11.72
US 70/Glenwood Avenue	1,153,682	1.2	0	0	0	1.2	11.18
Falls of Neuse Road	350,182	2.0	2,070	2,070	0	2.0	N/A
US 1/Capital Boulevard	4,349,277	5.9	(6,132)	(6,132)	0	5.9	11.35
Eastern Wake	1,538,299	7.3	(23,358)	(23,358)	0	7.3	9.38
Southern Wake	961,823	13.3	0	0	49,400	18.5	11.41
Cary	988,661	12.0	(23,804)	(23,804)	0	12.0	11.31
RTP/I-40 Corridor	6,581,288	7.5	(234,285)	(234,285)	154,521	10.1	15.84
Durham County*	707,667	11.3	0	0	0	11.3	N/A
Flex Totals:	17,273,684	7.3	(301,661)	(301,661)	203,921	8.6	12.99

1. North Durham, Central Durham and South Durham submarkets have been combined to Durham County.
 2. 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.

Source : CBRE Research, Q1 2020.

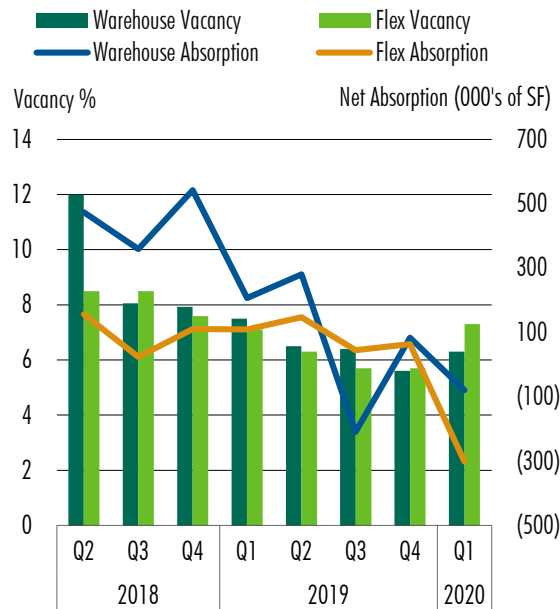
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Figure 2: Vacancy and Lease Rates



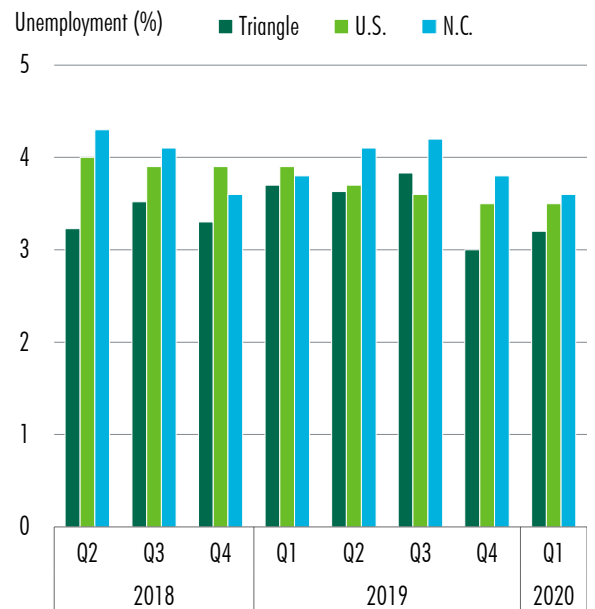
Source: CBRE Research, Q1 2020.

Figure 3: Vacancy and Absorption



Source: CBRE Research, Q1 2020.

Figure 4: Unemployment Statistics



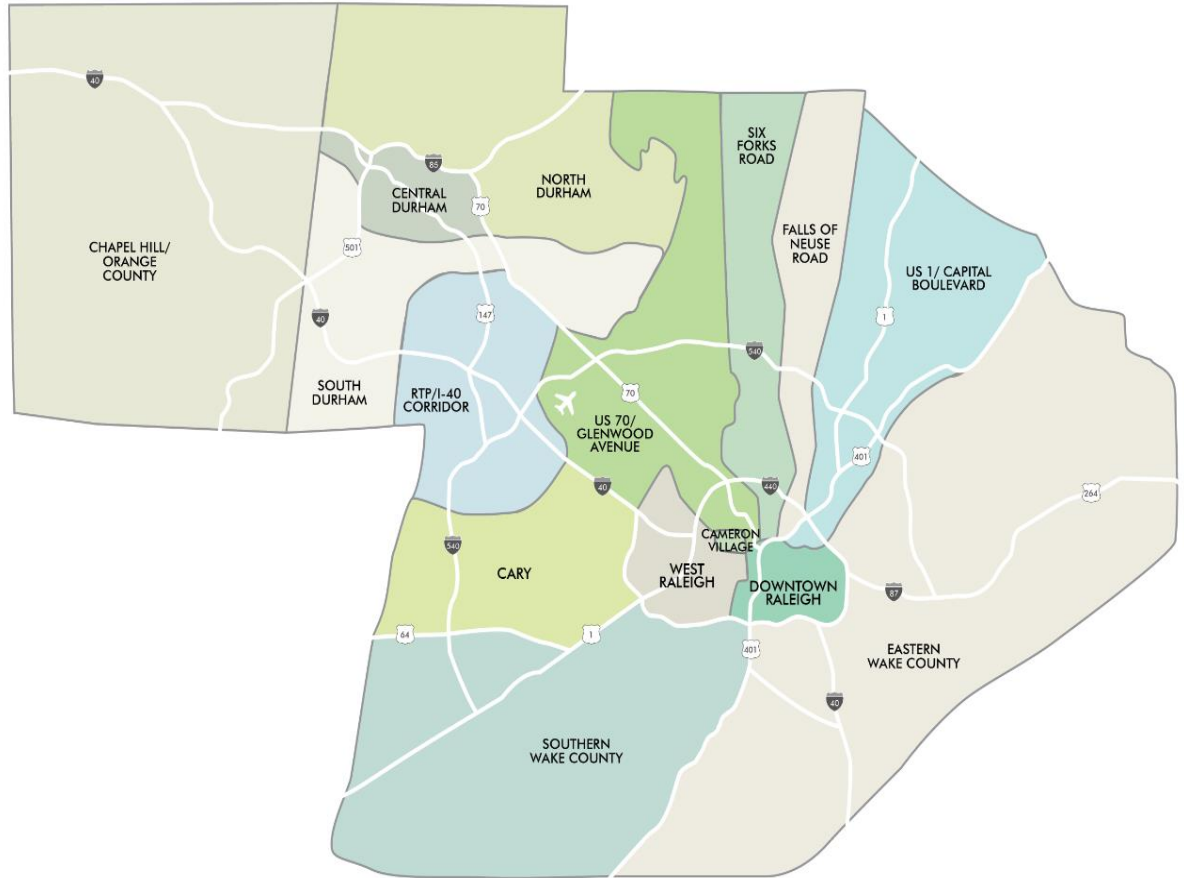
Source: Bureau of Labor Statistics, February 2020.

Figure 5: Top Lease/Sale Transactions: Q1 2020

Lease: Tenant	Building	Sq. Ft.	Submarket	Lease Type
Amazon	Regional Commerce Center 1	410,000	South Durham	New
North State Express	Regional Commerce Center 4	156,000	South Durham	New
NoDa Brewing Company*	EastPoint Industrial Park	25,200	Eastern Wake	New
Sale: Building	Buyer	Sq. Ft.	Submarket	Sale Price
Perimeter's Edge Portfolio (Flex/SSO, 5 buildings)	Longfellow Real Estate Partners	398,988	RTP/I-40 Corridor	\$64.7 M
1660 Piney Plains Road	Wake County Board of Education	80,631	Cary	\$13.0 M
Mims Distributing Company	David Long	87,934	US 70/Glenwood	\$12.0 M

* Denotes CBRE | Raleigh Transaction

Source: CBRE Research, Q1 2020.

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