

MARKETBEAT

Raleigh-Durham

Industrial Q2 2018



TRIANGLE INDUSTRIAL

Flex Indicators

	Q2 17	Q2 18	12-Month Forecast
Warehouse Vacancy	10.0%	8.3%	▼
Net Absorption (sf)	-37k	164k	■
Average Asking Rent*	\$11.00	\$11.65	▲

Warehouse Indicators

	Q2 17	Q2 18	12-Month Forecast
Vacancy	12.6%	9.4%	▼
Net Absorption (sf)	298k	391k	■
Under Construction (sf)	455k	443k	■
Average Asking Rent*	\$5.09	\$4.97	▲

*Rental rates reflect net asking \$psf/year

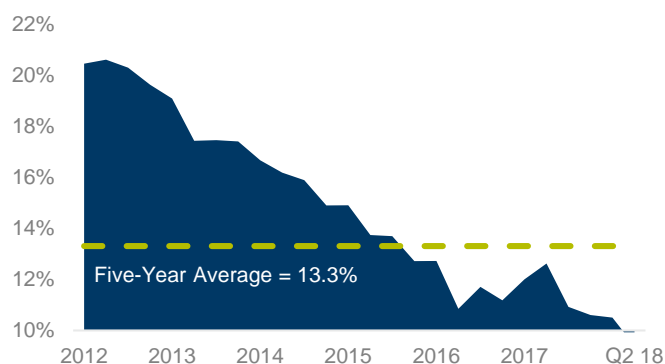
Note: Market Indicators are not reflective of U.S. MarketBeat tables

Warehouse Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Warehouse Vacancy



Economy

Raleigh-Durham's strong start to 2018 continued into the second quarter as key economic indicators like Triangle unemployment declined to 3.8%, and total employment grew 1.4% year-over-year. Several corporate expansion announcements were made reaffirming North Carolina's economic prowess and desirable skilled labor pool. Especially meaningful to the Triangle industrial market was Illinois based gene therapy company AveXis, which announced 200 new jobs for Durham County along with a new \$55 million manufacturing center. As the duration of the current economic cycle endures, most economists are cautiously looking for signs of a slowdown, but the impressive growth in the form of jobs, consumer confidence and transportation measures indicate that the current industrial expansion still has room to run. After solidifying itself as the second longest economic expansion period in history, the U.S. economy posted a solid 4.1% GDP growth rate and U.S. unemployment came in at 3.8% in the second quarter. The impressive GDP growth was the highest rate since Q3 of 2014. Experts have offered differing opinions as to how much the growth rate might have been impacted by President Trump's tariffs as many suppliers rushed to export their products before the tariffs took effect potentially inflating the growth rate. The tariffs have continued to escalate a growing trade war, particularly between the U.S. and China where both countries have showed no signs of backing down. The Fed raised interest rates by 25 basis points (bps) to the target level of 1.75%-2.00% in their June meeting. The meeting notes cited strong economic activity and consumer spending as economic drivers. Economists predict one or two more rate hikes in 2018 and then likely two more in 2019. Regardless, the second half of 2018 will be watched closely as we near the longest economic expansion period in history.

Warehouse Market Overview

In the second quarter of 2018, the warehouse market showed robust activity as net absorption was 391,368 square feet (sf). Much of this activity was driven by existing product in the RTP/I-40 and Eastern Wake Co. submarkets, which together accounted for 61% of market-wide net absorption in Q2. Overall vacancy in the Triangle declined to a historical low of 9.4% given the healthy leasing activity, no new deliveries and still competitive rental rates. Looking ahead, we expect this historical low vacancy to continue a downward trend throughout the rest of 2018 as construction levels are slowing and firm leasing activity remains in place. Overall rental rates in Q2 for the Triangle were stable at \$4.97 per square foot (psf), which is within two cents of last quarter's average. The average rental rate in RTP/I-40 was \$5.63 psf reflecting a 2.9% year-over-year growth, and

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Eastern Wake Co. recorded \$5.34 psf rate showing a 1.8% year-over-year growth. The largest transaction of the quarter came from the aforementioned AveXis, which leased 170,000 sf at Research Tri-Center South I. This will temporarily house their operations as they plan to expand into a new manufacturing facility that is expected to bring 200 new jobs to the area. Another notable lease occurred at North 70 Distribution Center, where Amazon leased 88,560 sf distribution space, not to be confused with the Amazon HQ2 search, which remains a national site selection process.

Flex Market Overview

Flex market leasing activity in the second quarter heated up with net absorption of 156,317 sf and vacancy nearing historical lows. Absorption levels were the highest recorded since Q3 of 2015 and much of this was driven by RTP/I-40 and Eastern Wake Co. submarkets, which registered 89,806 sf and 23,800 sf respectively. Halfway through 2018, market-wide net absorption totaled 207,797 sf already surpassing 2017's total of 117,580 sf. Overall vacancy in the Triangle declined to 8.4%, nearing the historical low of 7.9% last seen in Q1 of 2000. By the end of 2018, we could see vacancy dip below the historical threshold as activity and interest for flex property in the Triangle remains at a high demand with minimal new flex construction. Most notably, Renesas Electronics inked the largest lease in Q2 at the newly renovated Venture Center for 40,000 sf. KBI also leased 19,000 sf in the same building and Laird Technologies leased 22,492 sf at Keystone Technology Park VIII.

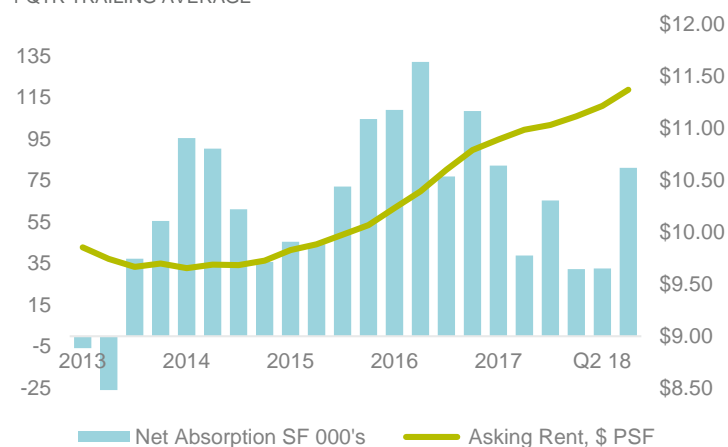
Investment Sales

Investment activity in the second quarter slowed down compared to a modest first quarter, but most experts point to this being a normal trend impacting the summer months. Investment sales volume totaled \$65 million bringing the year-to-date total to \$151.6 million. The sale of the Parker Lincoln Building II located on Capital Boulevard totaled \$27.5 million and was the most notable sale in the second quarter. Rate hikes from the Fed have had little impact on the Raleigh-Durham investment market to date as numerous investors continue to show interest and remain bullish on the long-term prospects for the area.

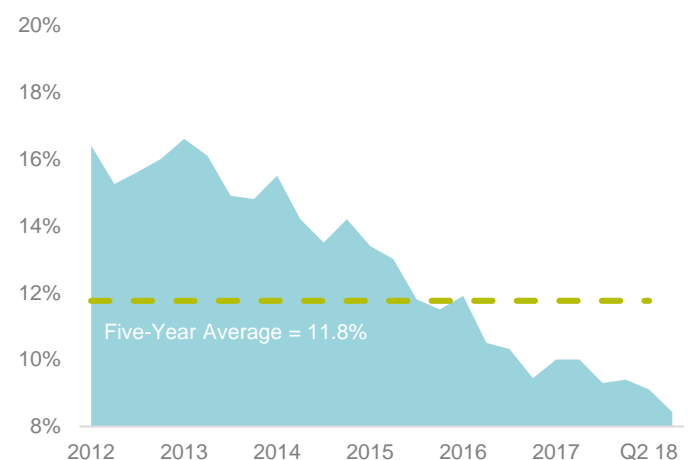
Outlook

- With healthy leasing activity and a slowdown in construction, expect warehouse vacancy to continue on a downward trend
- As vacancy in flex market nears historical lows, we could see an uptick in construction levels as there is a need for new space

Flex Net Absorption/Asking Rent
4-QTR TRAILING AVERAGE

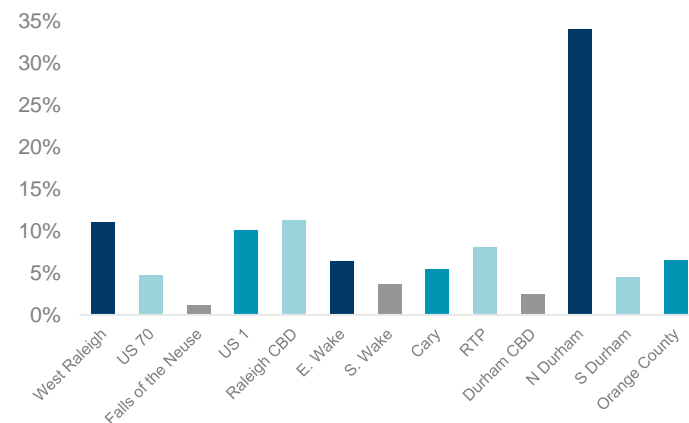


Flex Vacancy



Industrial Submarket Comparison

LIMITED AVAILABILITY ACROSS THE MAJOR SUBMARKETS



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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	7,277,455	649,514	8.9%	71,584	272,241	120,000	0	\$5.34
Southern Wake County	22	1,315,515	81,300	6.2%	8,000	42,000	0	0	\$3.83
RTP/I-40 Corridor	86	12,410,837	770,111	6.2%	152,257	583,529	322,800	405,800	\$5.63
Falls of the Neuse	19	1,123,916	24,320	2.2%	10,247	5,247	0	0	\$4.87
South Durham	14	2,013,693	1,050,454	52.2%	88,560	107,437	0	0	\$3.66
US 1/Capital Blvd	65	4,214,824	161,987	3.8%	-9,982	51,120	0	0	\$5.18
All other submarkets	78	3,778,744	290,774	7.7%	46,289	53,229	0	0	\$4.38
WAREHOUSE SUBTOTAL	379	32,134,984	3,028,460	9.4%	366,955	1,114,803	442,800	405,800	\$4.97
Cary	39	941,145	51,526	5.5%	-8,154	141	0	0	\$11.16
Eastern Wake County	55	1,508,965	96,521	6.4%	23,800	24,526	12,400	0	\$9.11
RTP/I-40 Corridor	107	6,464,220	519,624	8.0%	89,806	250,679	62,464	0	\$13.74
US 1/Capital Blvd	124	4,192,092	425,310	10.1%	31,503	59,073	0	0	\$10.87
US 70/Glenwood Ave	63	1,175,194	55,034	4.7%	13,132	-13,177	0	0	\$9.74
West Raleigh	29	619,345	68,166	11.0%	6,966	-20,859	0	0	\$11.06
All other submarkets	80	2,272,386	231,381	10.2%	-736	22,010	65,000	0	\$9.46
FLEX SUBTOTAL	497	17,173,347	1,448,062	8.4%	156,317	322,393	139,864	0	\$11.65
TRIANGLE INDUSTRIAL TOTALS	876	49,308,331	4,476,522	9.1%	523,272	1,437,196	582,664	405,800	\$7.76

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*Rental rates reflect asking \$psf/year

Key Lease Transactions Q2 2018

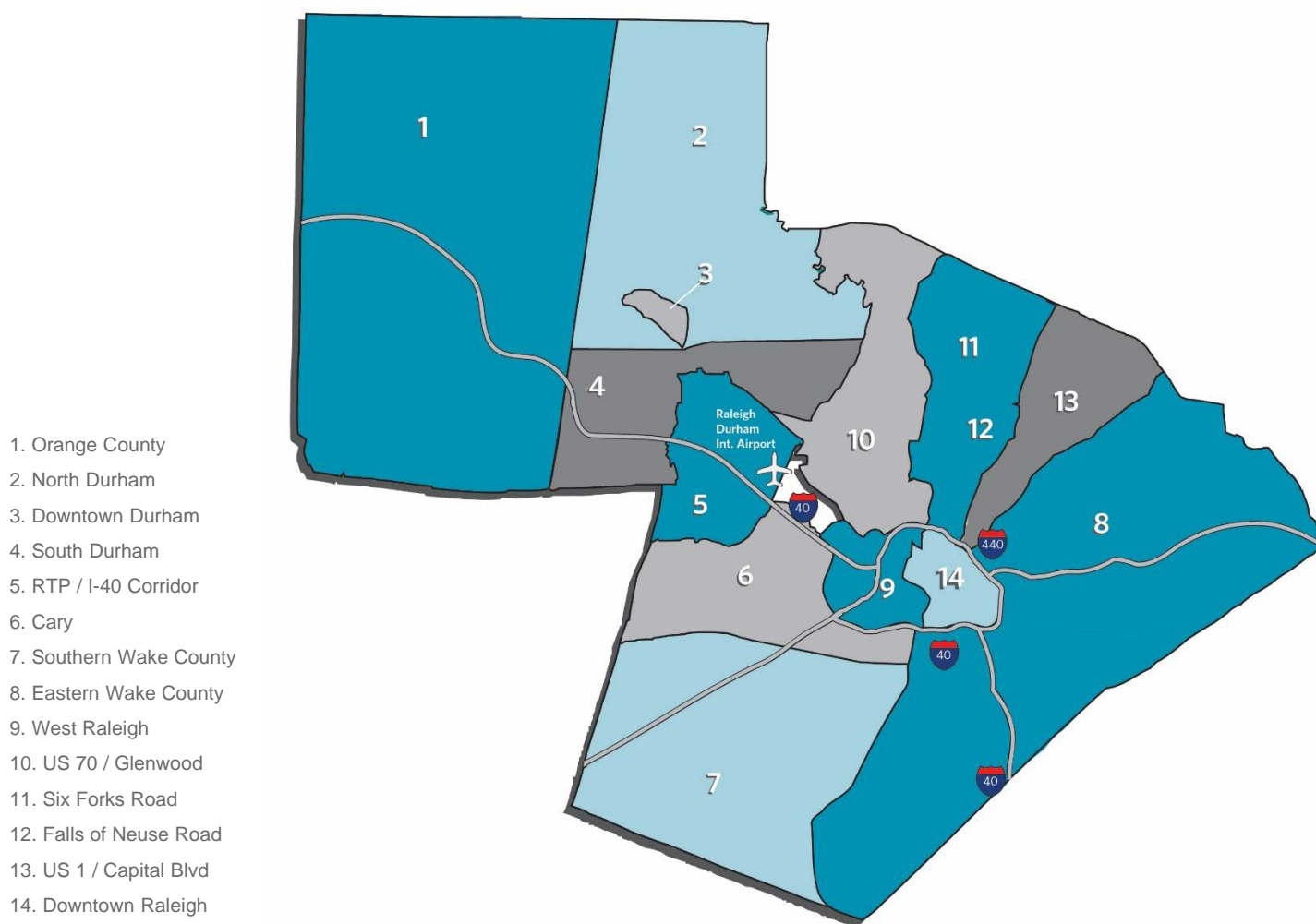
PROPERTY	SF	TENANT	PRODUCT TYPE	SUBMARKET
Research Tri-Center South I	170,000	AveXis	Warehouse	RTP/I-40 Corridor
North 70 Distribution Center	88,560	Amazon	Warehouse	South Durham
Venture Center	40,000	Renesas Electronics	Flex	RTP/I-40 Corridor
Keystone Technology Park VIII	22,492	Laird Technologies	Flex	RTP/I-40 Corridor
Venture Center	59,000	KBI Biopharma	Flex	RTP/I-40 Corridor

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2728 Capital Blvd	520,994	Equus Capital Partners / New Market Strategies	\$27,500,000 / \$53	US 1 / Capital Blvd
2710 & 290 Weck Drive	276,995	Trinity Capital Advisors & SilverCap Partners / Rialto Capital Management	\$14,325,000 / \$52	RTP/I-40 Corridor

INDUSTRIAL SUBMARKETS

RALEIGH / DURHAM



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