

Industrial Q3 2021

YoY
Chg12-Mo.
Forecast

4.0%

Vacancy Rate



162K

Net Absorption, SF



\$11.65

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q3 2021YoY
Chg12-Mo.
Forecast

978.2K

Triangle
Employment

3.7%

Triangle
Unemployment Rate

5.2%

U.S.
Unemployment Rate

Source: BLS

ECONOMIC OVERVIEW

Raleigh-Durham's unemployment rate dropped to 3.7% in Q3 2021, 150 basis points (bps) below the U.S. average. Raleigh posted a 5.7% increase in manufacturing jobs, and Durham posted a 6.0% increase in trade, transportation, and utilities year-over-year (YOY) in Q3. U.S. e-commerce sales totaled \$222.5 billion this quarter, a 9.1% YOY increase. The explosion of e-commerce and fast pandemic recovery work in tandem to establish Raleigh-Durham as a bright market for industrial real estate expansion in the Southeast.

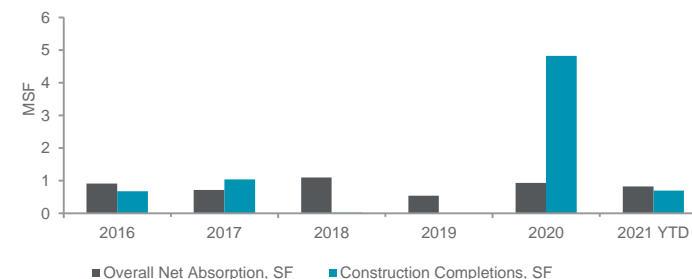
SUPPLY AND DEMAND

The overall vacancy rate rose quarter-over-quarter (QOQ) in Q3 2021 to 4.0% due to a significant amount of new flex product that delivered. Despite this, vacancy has still improved substantially since a year ago, down 270 bps from 6.7% in Q3 2020. More than 300,000 square feet (sf) of new flex space delivered in Q3, which was 47% preleased. The new vacant space pushed the flex vacancy rate to 6.6%, up 170 bps from 4.9% in Q2 2021. New warehouse deliveries also added 186,123 sf to the inventory, which delivered 68% preleased. Warehouse vacancy rate increased more modestly, recording a slight uptick to 2.7%, an increase of 50 bps QOQ.

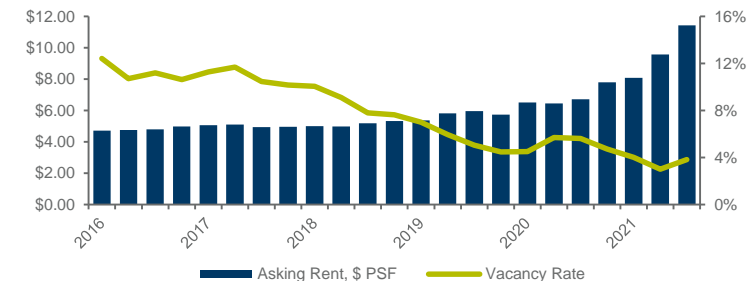
More than 160,000 sf of positive overall absorption was recorded for the quarter, with the largest move in happening in the Eastern Wake County submarket. J & K Cabinetry occupied its 100,000-sf space at Walnut Creek V after signing the lease in Q2 2021. Home Depot moved into its 59,776-sf space at Eastgate 540 Building 3 upon construction completing in Q3. Absorption is expected to increase in the final months of 2021 as tenants that signed leases in previous quarters move into their space.

Although leasing activity slowed from Q2 to Q3 2021, there was still almost 400,000 sf of activity recorded bringing year-to-date (YTD) leasing activity to 2.37 million square feet (msf). The South Durham and RTP/I-40 Corridor submarkets saw 75% of total activity. The largest warehouse lease of the quarter was signed at the 132,000 sf Regional Commerce Center Building 3 which is still under construction. Life Science Logistics preleased the entire building and will occupy once the building delivers in Q1 2022. The company specializes in cold storage and logistics for the health care sector and works exclusively with life science firms. The space will serve as their storage and distribution facility and could create up to 100 jobs in the market. A confidential life science tenant leased 61,625 sf of flex space at TBC Place III, bringing the building to 95% leased. Newcastle North also had two tech tenants sign leases this quarter bringing the building to 60% preleased: Smart Wires (45,127 sf) and Icagen (27,438 sf). Smart Wires plans to invest \$21.5 million over five years in its headquarters in Durham, creating 250 new jobs.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



RENTAL RATES

Overall industrial asking rents posted at \$11.65 per square foot (psf) for Q3 2021, a 24.7% increase YOY. Newly delivered vacant space contributed to this increase. The overall warehouse rate rose to \$5.08 psf, up 6.9% from \$4.75 psf in Q2 2021, while the flex rate increased to \$18.79 psf, up 17.5% QOQ from \$15.99 psf. This increase for flex rates was a direct result of high asking rates at flex buildings with life science space. Due to the amount of lab space in flex buildings and the high price tag associated with the lab space, specifically in the RTP/I-40 submarket, flex rates overall are inflated. The overall asking rate for flex buildings in the RTP/I-40 submarket reached \$22.69 psf in Q3. The true flex buildings in the same submarket are seeing asking rates closer to \$12.13 psf. The flex market as a whole excluding lab spaces have asking rates of \$13.76 psf. Similarly in the warehouse sector, warehouse buildings with laydown yards and outside storage are seeing higher asking rates than typical warehouse space. There is a scarcity in the marketplace of laydown yards which is driving demand for buildings that contain this feature.

DEVELOPMENT PIPELINE

More than 438,000 sf of industrial product delivered during the third quarter, bringing the year-to-date (YTD) construction completions to almost 700,000 sf. The projects that delivered Q3 2021 were 55% preleased. Three buildings at the I-40 Innovation Center completed adding 94,000 sf of warehouse and flex space to the park, 50,000 sf of which was occupied by Capital Discount Furniture upon completion. The final three buildings at Merritt TW Crossing also delivered adding 235,590 sf of flex space to the park, putting it at 54% leased. An additional 1.6 msf remains under construction, with 192,123 sf expected to deliver in the final months of 2021. The product currently under construction is 44% preleased as a whole.

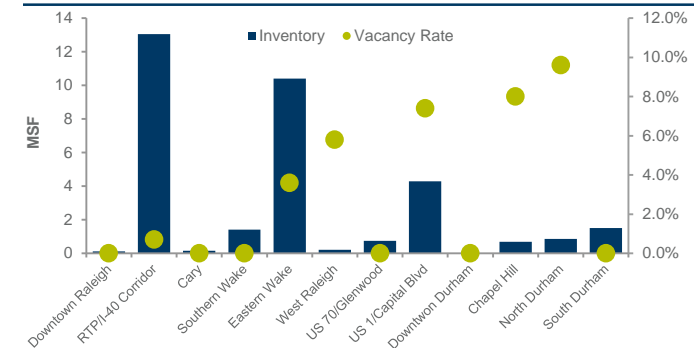
INVESTMENT SALES

Throughout the market there were multiple industrial buildings that traded this quarter with the total sales volume reaching \$276.9 million. The most expensive trade happened in the RTP/I-40 submarket where buyer Nuveen purchased the 84,164-sf flex building at 1100 Perimeter's Edge for \$253 psf from Singerman Real Estate. This flex building achieved a particularly high psf sales price as it was purchased with the intent of converting the space into lab/life science. In the Eastern Wake County submarket, BentallGreenOak purchased three buildings at Eastgate 540 in July and another building at the same park in September. The portfolio of warehouse buildings sold for between \$174 and \$193 psf. Additionally, in South Durham Blackstone Real Estate purchased two warehouse buildings at Regional Commerce Center. The 404,000sf portfolio sold by Scannell Properties traded for \$166 psf.

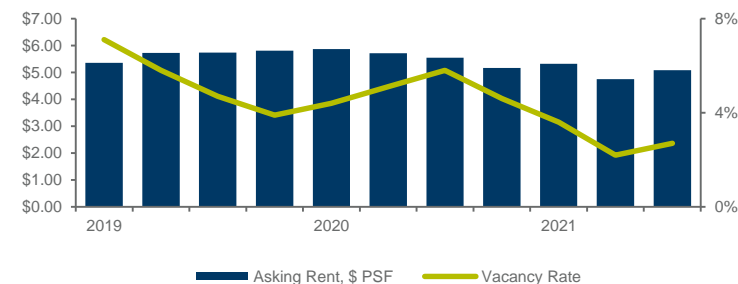
OUTLOOK

- Leasing activity is expected to pick up in the final months of 2021. An abundance of new construction deliveries in Q4 will keep the vacancy rate stable and cause rental rates to continue to rise. As the positive momentum in Raleigh-Durham is expected to persist, the national industrial market may see a tempering in new deliveries in the coming quarters as the effects of rising construction costs, labor shortages, and supply chain issues are felt.

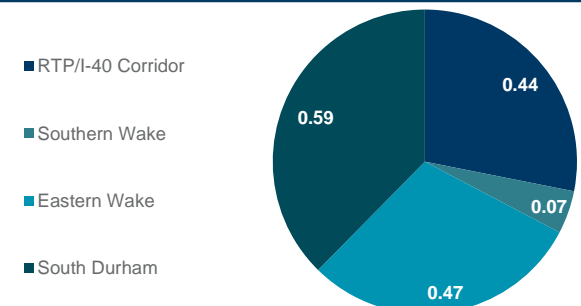
WAREHOUSE SUBMARKET COMPARISON



WAREHOUSE DIRECT VACANCY AND ASKING RENTS



2021 CONSTRUCTION PIPELINE, MSF



Industrial Q3 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL FLEX VACANCY RATE	OVERALL W/D VACANCY RATE	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	FLEX		WAREHOUSE/DISTRIBUTION	
									OVERALL VACANT WEIGHTED AVG NET RENT	TOTAL INVENTORY ASKING RENT	OVERALL VACANT WEIGHTED AVG NET RENT	TOTAL INVENTORY ASKING RENT
Chapel Hill (Orange County)	1,115,356	124,492	16.4%	8.0%	11.2%	28,000	-	-	\$8.01	\$10.29	\$5.50	\$5.50
Downtown Durham	549,362	0	0.0%	0.0%	0.0%	0	-	-	N/A	N/A	N/A	N/A
North Durham	1,338,603	83,000	0.0%	9.6%	6.2%	-83,000	-	-	N/A	N/A	\$5.25	\$7.31
South Durham	1,682,227	0	0.0%	0.0%	0.0%	0	589,970	144,000	N/A	\$10.50	N/A	\$6.01
Downtown Raleigh	229,239	0	0.0%	0.0%	0.0%	5,000	-	-	N/A	N/A	N/A	\$6.42
Cary	1,131,249	21,926	2.2%	0.0%	1.9%	-2,355	-	-	\$18.06	\$15.15	N/A	\$4.06
Eastern Wake County	11,854,411	377,155	0.0%	3.6%	3.2%	188,424	465,343	146,758	N/A	\$10.13	\$4.62	\$5.83
Falls of Neuse Rd	1,491,602	0	0.0%	0.0%	0.0%	0	-	-	N/A	\$12.08	N/A	\$9.63
RTP/I-40 Corridor	20,462,664	933,124	11.5%	0.7%	4.6%	-40,030	441,072	378,240	\$22.96	\$24.23	\$5.88	\$6.53
Six Forks Rd	110,000	0	0.0%	0.0%	0.0%	0	-	-	N/A	N/A	N/A	N/A
Southern Wake County	2,425,744	110,602	10.8%	0.0%	4.6%	26,217	71,850	11,850	\$13.35	\$12.94	N/A	\$6.20
US 1/Capital Blvd	8,589,293	463,596	3.4%	7.4%	5.4%	18,549	-	-	\$14.13	\$13.61	\$5.43	\$5.94
US 70/Glenwood	1,894,282	0	0.0%	0.0%	0.0%	18,281	-	11,900	N/A	\$11.04	N/A	\$6.58
West Raleigh	952,734	52,434	5.4%	5.8%	5.5%	2,459	-	-	\$12.10	\$12.66	\$6.50	\$6.50
TRIANGLE INDUSTRIAL TOTAL	53,826,766	2,166,329	6.6%	2.7%	4.0%	161,545	1,568,235	692,748	\$18.79	\$17.83	\$5.08	\$6.07

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

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	PROPERTY TYPE	LEASE TYPE
Regional Commerce Center 3	South Durham	Life Science Logistics	132,000	Warehouse/Distribution	New Lease
TBC Place III	RTP/I-40 Corridor	Confidential Technology Firm	61,625	Flex	New Lease
Newcastle North	RTP/I-40 Corridor	Smart Wires	45,137	Flex	New Lease
Newcastle North	RTP/I-40 Corridor	Icagen	27,438	Flex	New Lease

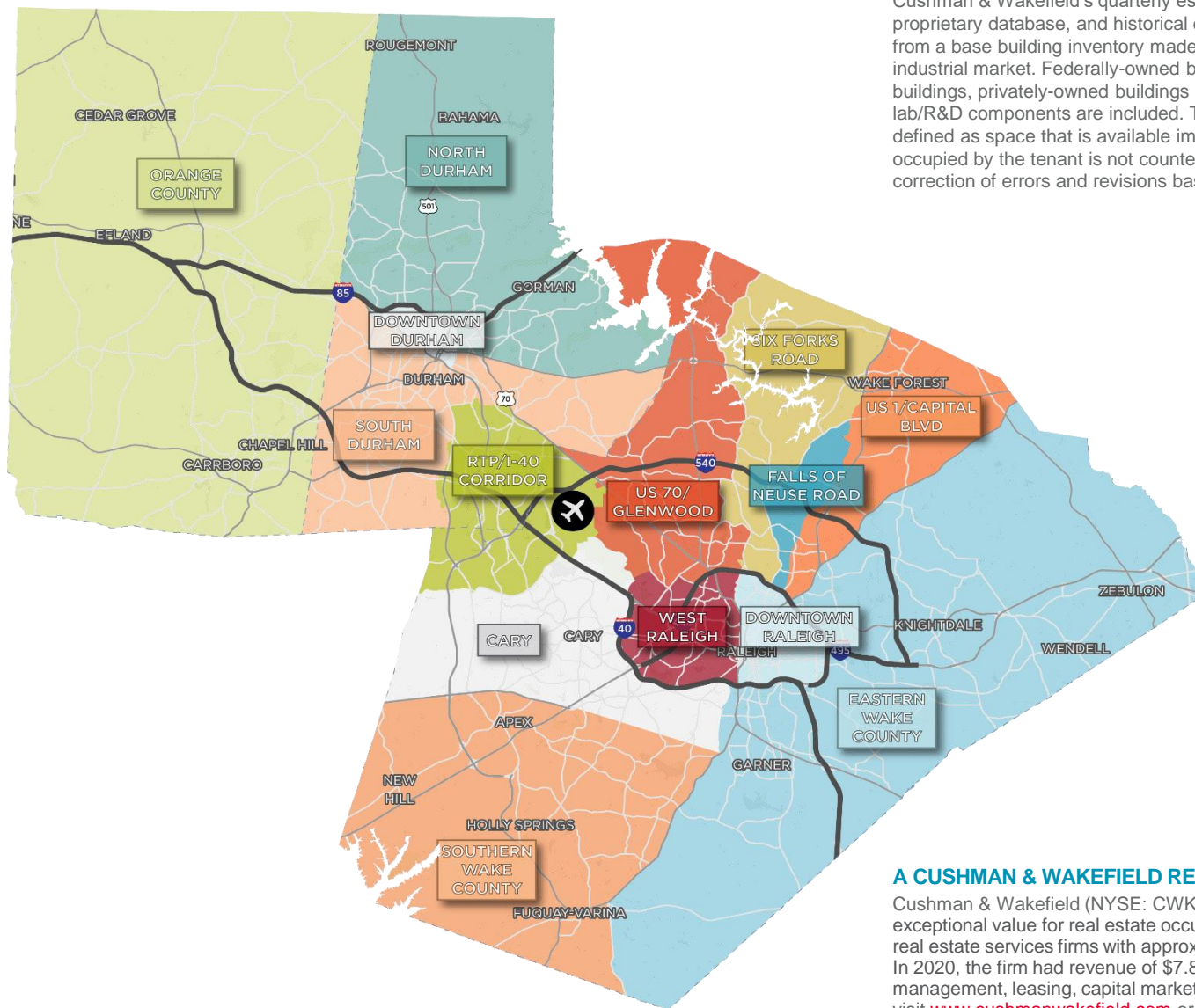
KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF	PROPERTY TYPE
Eastgate 540 Building 1, 2 & 5	Eastern Wake County	Trinity Capital Advisors / BentallGreenOak	580,040	\$111.7M / \$193	Warehouse/Distribution
Regional Commerce Center Building 2 & 6	South Durham	Scannell Properties / Blackstone Real Estate	404,000	\$67.0M / \$166	Warehouse/Distribution
1100 Perimeter's Edge	RTP/I-40 Corridor	Singerman Real Estate / Nuveen	84,164	\$21.3M / \$253	Flex

KEY CONSTRUCTION COMPLETIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	OWNER/DEVELOPER
Merritt TW Crossing Building 1, 2 & 3	RTP/I-40 Corridor	Pendergraph Machines, Artesian Future Technology Inc.	235,590	Flex
Eastgate 540 Building 3	Eastern Wake County	Home Depot	120,123	Warehouse/Distribution
I-40 Innovation Center Building 1, 2 & 3	RTP/I-40 Corridor	Capital Discount Furniture	94,000	Warehouse & Flex

INDUSTRIAL SUBMARKETS



METHODOLOGY

Cushman & Wakefield's quarterly estimates are derived from a variety of data sources, including its own proprietary database, and historical data from third party data sources. The market statistics are calculated from a base building inventory made up of industrial properties deemed to be competitive in the local industrial market. Federally-owned buildings are not included. Single tenant buildings, owner-occupied buildings, privately-owned buildings in which the federal government leases space, and flex buildings with lab/R&D components are included. The inventory is subject to revisions due to resampling. Vacant space is defined as space that is available immediately or imminently after the end of the quarter. Sublet space still occupied by the tenant is not counted as vacant space. All information contained in the report is subject to correction of errors and revisions based on additional data received.

EXPLANATION OF TERMS

Total Inventory: The total amount of office space in buildings 10,000 sf or greater that can be rented by a third party.

Overall Vacancy Rate: The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

Absorption: The net change in occupied space between two points in time. Transactions positively impact absorption upon tenant occupancy, not upon lease signature. However, new-to-market tenants in Raleigh-Durham are factored into absorption upon lease signature and the beginning of build-out as opposed to upon occupancy.

Overall Weighted Asking Rents: Net average asking rents weighted by the amount of available direct and sublease space in Class A, B and C properties.

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