INDUSTRIAL MARKET REPORT
Raleigh-Durham

Q2 2020

Raleigh-Durham CSA Industrial Market

The Raleigh-Durham CSA has a combined 36.6 million square feet of Class A and Class B non-owner-occupied industrial buildings of 50,000 square feet or greater; collectively referred to here as "the market" (1). Leased spaces of over 50,000 square feet are predominantly occupied by manufacturers, wholesalers, and companies dealing in transportation and warehousing.

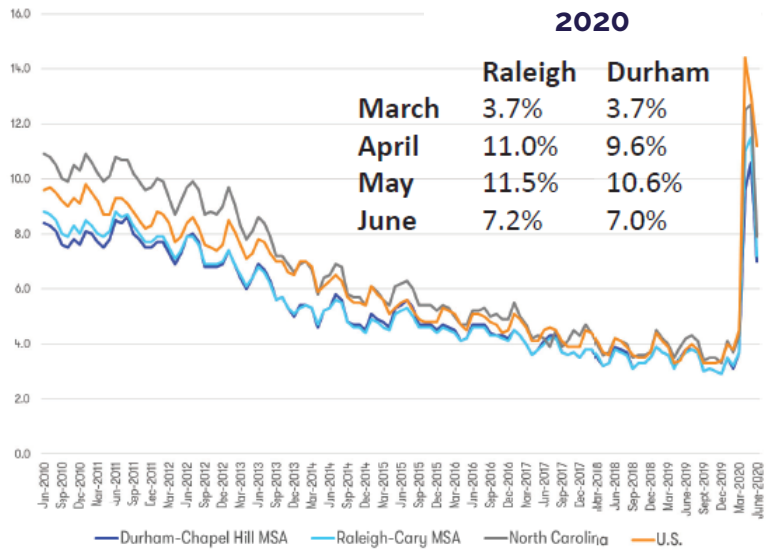
Among the largest tenants in the region are Becton Dickinson, a global medical technology company occupying a 720,000-square-foot manufacturing facility in Johnston County; Dollar General occupying a 343,000-square foot distribution center in Johnston County; FedEx operating a 237,000-square-foot facility in Durham; and Seqirus, one of the largest influenza vaccine companies in the world, occupying a 243,000-square-foot manufacturing facility in southwest Wake County. Overall, spaces leased for manufacturing and warehouse purposes average 144,000 square feet. Industrial spaces leased by retail tenants average 107,000 square feet, and spaces leased by companies dealing in professional and technical services average 83,000 square feet.

Although the COVID-19 pandemic has caused significant economic disruption in the Raleigh-Durham region, statistically the industrial market remained very strong at the close of Q2. Essential businesses including those in the construction industry, food and beverage production and distribution, utility operations, and manufacturing remained open during lockdown; combined, an estimated 30% of the market's tenants. Ninety-five percent of the market's industrial buildings are single story, and multi-tenanted buildings typically do not have entrances or common areas shared by tenants. By all known accounts, industrial landlords have pivoted easily to COVID related safety protocols.

Industrial Market[1] Market Indicators	Q2	QOQ	YOY
Vacant Available % - Direct	2.10%	—	↑
WA Asking Rent - Direct	$6.60	↑	↑
Net Absorption - Direct SF	210,529	↑	↓
Under Construction - SF	3,505,918	↓	↑

A quarterly rent change of +/-1% or less is deemed to be flat.
A quarterly vacancy rate change of ±10 basis points or less is deemed to be flat.

Unemployment Rates



"If you really look closely, most overnight successes took a long time." - *Steve Jobs*

(1) Class A and Class B non-owner-occupied industrial properties of 50,000 SF or greater.

Sources: Costar Group, Real Capital Analytics, Metrostudy, Economic Development Partnership of North Carolina, Wake County Economic Development, and Research Triangle Regional Partnership.

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Year to Date

Year to date 862 thousand square feet of industrial space was added to the market, which combined was 83% leased by end of Q2.. There is a combined 3.5 million square feet of industrial and warehouse space now under construction and expected to deliver by year-end. Among those facilities coming on line is the massive 2.54 million square foot distribution center in Garner to be operated by e-commerce giant Amazon.

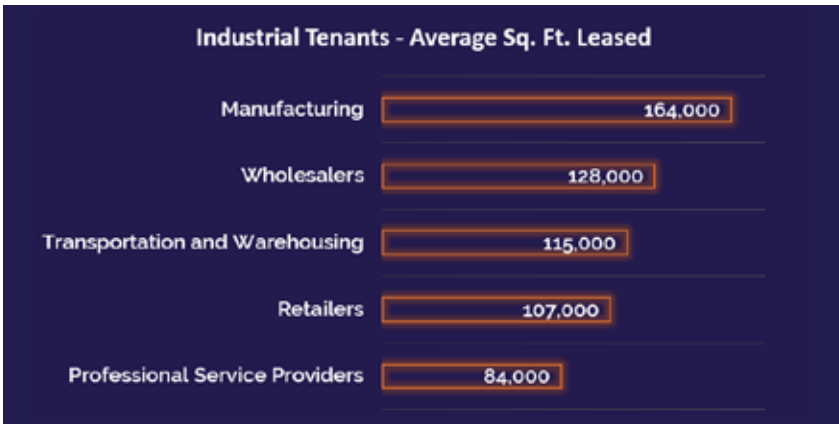
The market showed 210,529 square feet of positive direct net absorption in Q2. Vacancies remain near record lows, contributing to the region's rent growth over several years. Industrial direct asking rents average $6.60 per square foot currently, a 24% increase year over year, and a 73% increase over the last five years. This market environment is favorable to both build-to-suit and spec projects. Representative examples of projects being developed speculatively include:

- Two projects currently under construction by Baltimore-based Merritt Properties, a newcomer to North Carolina, are Merritt TW Crossing in Durham, a 238,000 square-foot business park made up of four light industrial buildings, and Merritt Capital Business Park in Wake Forest, which when completed will have up to seven warehouse and industrial buildings of between 30,000 and 85,000 square feet.

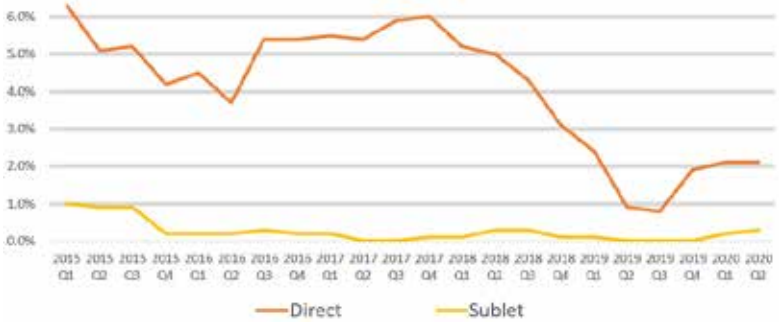
- Indianapolis-based Scannell Properties is well underway with the Regional Commerce Center in south Durham. Originally a 46-building warehouse complex of 1.2 million square feet built in 1929, Scannell Properties is redeveloping the property into five Class A industrial buildings of 52,500 square feet up to 410,000 square feet; a total of 900,000 square feet.

- Cincinnati-based Al Neyer announced it will soon to be underway with Freedom Business Park situated just east of downtown Raleigh, which will have 423,000 square feet of distribution space across two buildings.

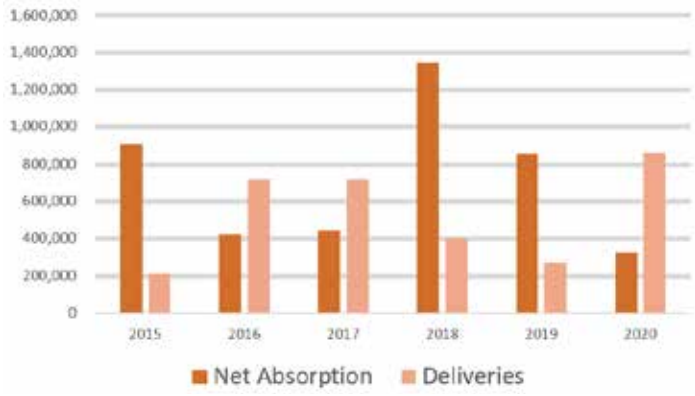
- Wake Stone Corporation announced it leased a 120,000 square-foot building, the last of the available space at 524,000-square-foot Hinton Oaks Industrial Park. The park contains four spec buildings built over the course of several years.



Percent Vacant Available



Supply & Demand



Property Sales

Year-to-date the market saw two individual property sales, each in Q1. In the Franklin County submarket, a Class B distribution facility of 58,678 square feet sold for $57 per square foot; a sale with leaseback with Welsh Paper Company. In the Glenwood-Creedmoor submarket, a Class B distribution facility of 89,577 square feet built in 1973 and renovated in 2011 sold for $133 per square foot. Long time Raleigh beer distributor Mims Distributing was bought out by Long Beverage, Inc.

In Q1, Charlotte-based Spectrum Companies in partnership with investment manager FCA Partners closed on the $59 million acquisition of the Northside Center, a newly redeveloped building park situated in the Six Forks submarket occupied by a collection of office, government and industrial tenants. The portfolio included 549,000 square feet of office, flex and industrial space across 13 building. Six fully leased industrial buildings with a combined 407,100 square feet represented 59% of the portfolio price, a weighted average of $86 per square foot.

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Other Announcements

- The Amazon distribution center in Garner, which is expected to be fully operational by the 2020 holiday season, is bringing up to 2,000 jobs to the region. Amazon's new delivery station in Cary, also planned for opening by year-end, is bringing hundreds more full and part-time jobs.
- Massachusetts-based Beam Therapeutics has targeted Research Triangle Park for a new 100,000-square-foot manufacturing facility, bringing 201 jobs with an average annual salary of $103,000; an $83 million total investment.
- Spanish pharmaceutical giant, Grifols, is expanding its Clayton campus by constructing a new blood-plasma facility and logistics center. The investment totals $351 million and is projected to bring 300 jobs with an average salary of $69,000.
- Indianapolis-based Eli Lilly purchased 110 acres of land at the north end of Research Triangle Park. The company plans a $474 million expansion, constructing a new manufacturing facility that will bring 460 jobs to the region.

Activity by Submarket

Submarket	Bldgs.	Average Building Size SF	Total RBA[1]	Avg. Direct Asking Rate[2]	Market Rate[3]	Direct Vacant Available %	Total Vacant Available %	Net Absorption Direct Q2 2020	Net Absorption Direct YTD
RTP - I40 Corridor	94	136,803	12,859,499	$7.23	$6.49	2.60	3.30	30,801	13,562
SW Wake	14	186,919	2,616,868	$6.61	$6.55	1.00	1.00	-	-
North Durham	7	100,719	705,034	-	$7.36	0.00	0.00	-	-
Johnston County	23	211,931	4,874,402	$7.13	$4.76	1.20	1.20	10,000	182,300
East Wake	68	132,440	7,808,221	$5.98	$6.79	4.10	4.40	143,277	135,696
North Wake	30	97,899	2,936,956	-	$6.91	0.30	0.30	51,888	(3,560)
Western Counties	15	199,799	2,996,942	$3.90	$4.55	0.00	0.00	-	-
Franklin County	20	88,365	1,767,294	$6.75	$5.49	0.00	0.00	(25,437)	(25,437)
Combined Totals	271	134,927	36,565,216	$6.60	$6.22	2.10	2.30	210,529	302,561

(1) Class A & B Industrial buildings of 50K SF or greater, non-owner occupied, non-government.
(2) Weighted Average Asking Rents based on current availability
(3) Costar derived Market Rents are modeled asking rents, informed by current asking rents and lease comps; taking into consideration the entire inventory rather than current availabilities only.

Submarket	Bldgs.	Average Building Size SF	Total RBA	Avg. Direct Asking Rate[2]	Market Rate[3]	Direct Vacant Available %	Total Vacant Available %	Net Absorption Direct Q2 2020	Net Absorption Direct YTD
All Industrial Inventory (4)	1,907	38,881	74,146,052	$6.05	$6.70	2.50	2.60	(76,557)	(310,910)

(4) All CSA Non-Owner Occupied Industrial Buildings (no building class or minimum SF applied)

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Deliveries

Property Name	Property Address	City	Submarket Name	Delivered	RBA
Ashley Furniture Dist. Center	125 Brewer Rd	Four Oaks	Johnston County	Q1 2020	182,300
Hinton Oaks IV	550 Hinton Oaks Blvd	Knightdale	East Wake	Q1 2020	120,000
Garner Bus. Park 70 - Building 1	2301-2337 U.S. Hwy 70	Garner	East Wake	Q2 2020	150,000
Regional Commerce Center	1275 Person Street	Durham	RTP-I40 Corridor	Q2 2020	410,000
Total Square Feet					862,300

Under Construction

Property Name	Property Address	City	Submarket Name	Est. Delivery	RBA
Eastgate 540. Bldg 5	360 Spectrum Dr	Knightdale	East Wake	Q3 2020	280,000
Patriot Park 3	5 National Way	Durham	RTP/I-40 Corridor	Q4 2020	187,500
Patriot Park 4	47 National Way	Durham	RTP/I-40 Corridor	Q4 2020	187,312
Regional Commerce Center	805 S Briggs Ave	Durham	RTP/I-40 Corridor	Q4 2020	260,000
	708 Ellis Rd	Durham	RTP/I-40 Corridor	Q4 2020	50,000
Distribution Center	4851 Jones Sausage Rd	Garner	East Wake	Q3 2020	2,541,106
Total Square Feet					3,505,918

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North Carolina

The state's infrastructure, favorable regulatory environment, corporate tax structure, performance-based incentive programs, energy availability and cost, and competitive labor environment have all earned North Carolina accolades and rankings among the best in the United States for doing business.

North Carolina's extensive highway system, four international airports, two deep water seaports, and the largest consolidated rail system in the U.S. provide efficient access to both domestic and global markets. Its prime location along the eastern seaboard puts almost half the U.S. population within a day's drive.

North Carolina has 67 four-year colleges and universities, of which the 25 largest saw a combined undergraduate enrollment of 227,350 and total enrollment of 293,865 in 2019. North Carolina enrolls over 800,000 students at 58 community colleges, which offer some of the most comprehensive vocational and technical programs in the United States.

Raleigh-Durham Metro Region

Higher education is considered the cornerstone of the Raleigh-Durham metro region. Three tier-one research universities, twelve additional colleges and universities, and the largest community college in the state, Wake Tech, are all a major contributor to the region's high-performance workforce. Companies relocate and expand here because of the quality and depth of the existing talent pool and the pipeline of graduates coming from these educational facilities.

The Raleigh-Durham CSA consistently ranks among the nation's best economies year after year. Wake County's biggest industries – government, education and healthcare – are virtually recession proof. Research Triangle Park is one of the most prominent R&D parks in the United States, and home to over 300 companies that employ 65,000 workers and contractors. Durham is in the midst of an entrepreneurial boom and among the highest ranked in the nation as a growing hub for tech talent.

Advanced manufacturing is a key target industry for our region. There are currently over 190 advanced manufacturing companies operating here, which collectively employ over 12,500 people with average annual earnings of $86,000.
Among the largest manufacturing and distribution sites in the area are those operated by Apex Tool Group, Caterpillar, Cree, Novo Nordisk, Grifols, Sysco Corporation, Amazon, Becton Dickinson, and U.S. Foods.

"Our wide variety of talent attracts a wide variety of industries. Once known for tobacco and textiles, North Carolina has evolved to become a global force, one driven by knowledge-based industries."

- *The Economic Development Partnership of North Carolina*

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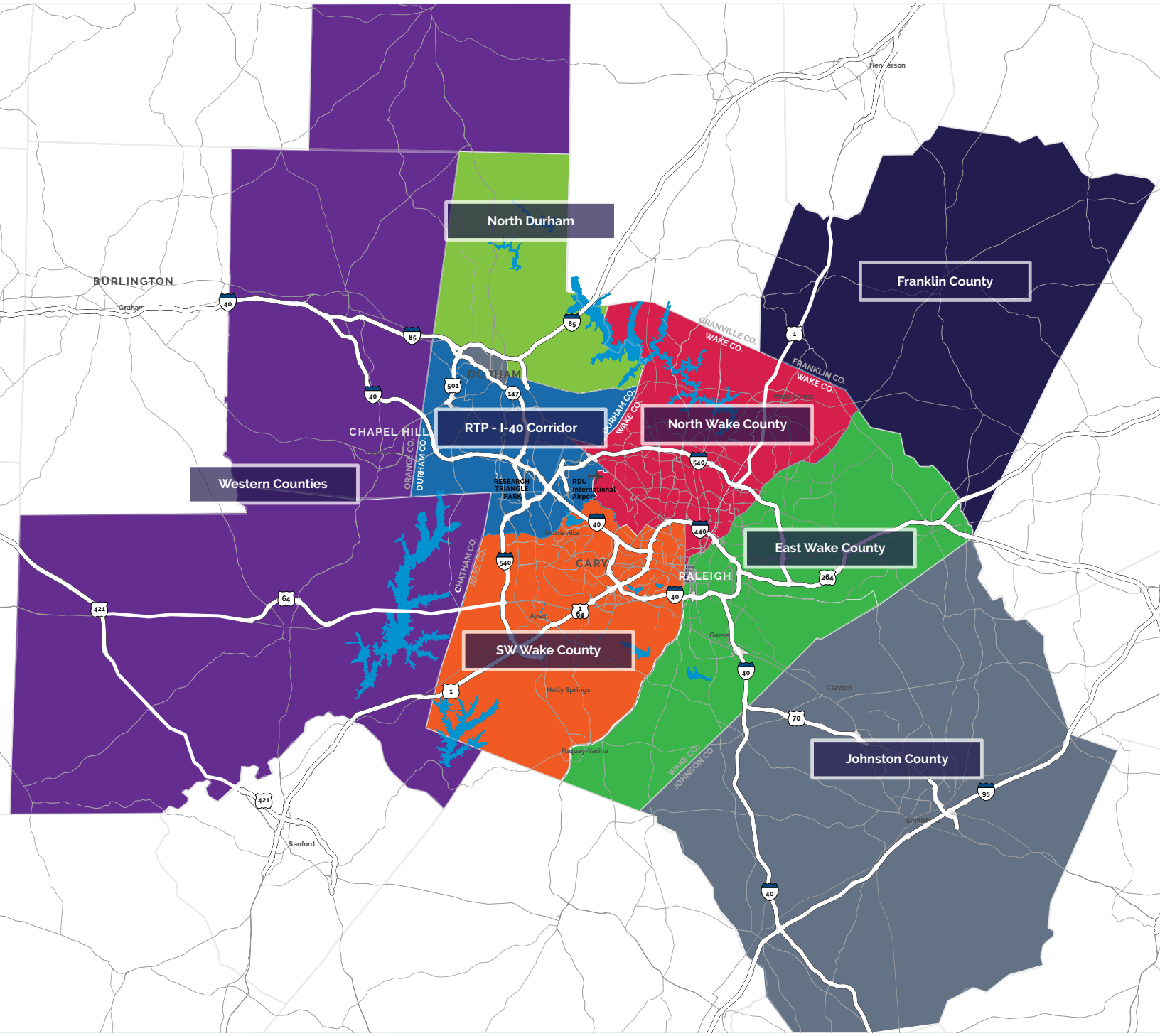

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