



Triangle Industrial Market Remains Stable in the Second Quarter; Flex Market Gains Traction

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Key Takeaways

- > The Triangle's overall industrial market remained stable in the second quarter of 2017. Excellent job and population growth with ongoing tenant demand will continue to create a favorable market for landlords, particularly in the Class A warehouse sector as rents increase.
- > From October 2016 to May 2017, Wake County added 4,975 jobs in 64 new and expanding companies, creating a total investment of \$236M. The unemployment rate dropped from 4.2% to 3.8% as of the end of May 2017. Raleigh has a projected population growth of over 73% through year 2044, outpacing cities such as Boston, Atlanta, Nashville and San Francisco.
- > The Triangle flex market reported positive net absorption totals of 16,010 square feet during the second quarter, a welcomed jump from the reported negative demand the Triangle flex sector experienced in late 2016 and early 2017. The Research Triangle Park submarket is gaining ground again, as employers in the life science and technology sectors take interest in the nation's largest research park once again.
- > The warehouse market's total net absorption reached 124,451 square feet at the close of the second quarter 2017. The Research Triangle Park reported the highest net warehouse absorption with over 56,000 SF that was occupied at the end of the second quarter.
- > The most notable investment sales transaction of the second quarter was the sale of the FedEx Ground Distribution Center in the RTP I-40 submarket. The 237,000 square foot warehouse facility sold for \$44.9M or \$190 per square foot in July of 2017.

Market Indicators Relative to prior period	Raleigh-Durham Q2 2016	Raleigh-Durham Q2 2017
VACANCY	↓	↓
NET ABSORPTION	↑	↓
CONSTRUCTION	↓	↑
RENTAL RATE	↑	↑

Summary Statistics Q2 2017 Industrial Market	Raleigh Durham Flex Market	Raleigh Durham Warehouse Market
Total Square Feet	27,224,265	42,397,139
Vacancy Rate	11.6%	3.3%
Change From Q2 2016 (basis points)	3.2%	0.0
Q2 17 Net Absorption (Square Feet)	16,010	124,451
Under Construction (Square Feet)	158,000	450,500
Deliveries (Square Feet)	20,000	0
Asking Rents Per Square Foot Per Year		
Average Quoted	\$13.80 FSG	\$5.21 NNN
Change from Q2 2016	\$0.63	\$0.13

Absorption & Leasing Activity

- > Total net absorption for the warehouse market reached 124,451 square feet at the close of the second quarter 2017. The Research Triangle Park submarket led the warehouse sector in total net absorption with over 56,000 SF that was occupied. The Johnston County submarket didn't fall far behind, posting second quarter net absorption totals of 43,500 SF.
- > The Research Triangle Park submarket experienced the most positive flex absorption at the close of the second quarter with over 34,000 total square feet absorbed. After several quarters of negative demand, the flex market in the Triangle is finally gaining stability.
- > The largest tenant gain in the Triangle's industrial market during the second quarter was SRS Distribution's occupancy of 54,258 SF at Regent Place in the RTP | I-40 submarket. Dupont executed their 32,000 square foot flex lease at Triangle Business Center, located in the RTP | I-40 submarket.

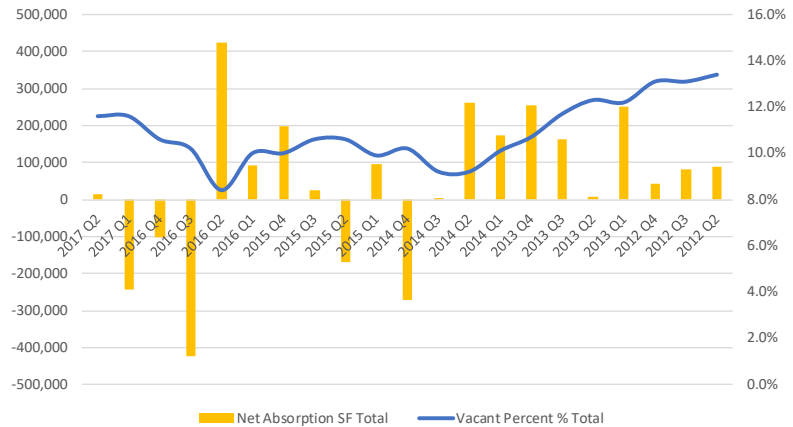
Vacancy & Availability

- > The Class A flex market reported the highest second quarter vacancy rate at 15.4% with just over 1.75 million square feet of total inventory reporting vacant. The overall flex market experienced a 3.2% increase in total vacancy during the second quarter, pushing the total vacancy rate to 11.6%.
- > Over 1.3 million SF of warehouse space was reported vacant during the second quarter of 2017. The warehouse vacancy rate of 3.3% remains exceptionally low as lack of Class A space keeps tenants in place until new construction begins to flood the Triangle market.

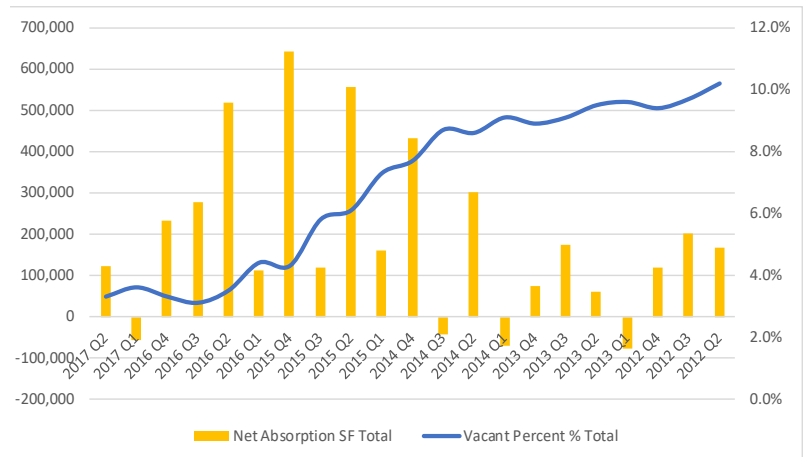
Rental Rates

- > The average asking rental rate for the Triangle flex market was \$13.80 per square foot at the end of the second quarter 2017, which represents a \$0.63 increase since the end of the second quarter 2016.
- > The average NNN asking rate in the Triangle's warehouse sector was \$5.21 per square foot, up from \$5.08 reported at the close of the second quarter 2016.
- > In the flex market, the Research Triangle Park and West Raleigh submarkets reported the highest asking rents of the second quarter. Class A flex rents reached an average of \$17.76 per square foot.
- > Triangle warehouse rents have been on a steady increase since the Great Recession. Class A NNN warehouse rents are averaging \$5.61 per square foot.
- > As new Class A developments continue to deliver in high demand submarkets and locations across the Triangle, asking rents will inevitably begin to escalate.

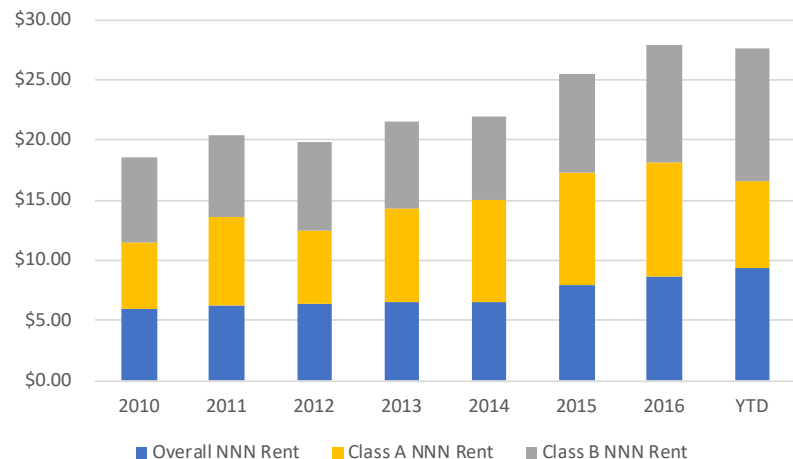
Quarterly Absorption and Vacancy | Triangle Flex Market



Quarterly Absorption and Vacancy | Triangle Warehouse Market



YTD Overall NNN Rents by Asset Class



Source: Colliers Research, CoStar Group

Q2 2017 | FLEX SUBMARKET COMPARISONS

	TOTAL # BLDS	EXISTING INVENTORY (SF)	TOTAL VACANCY (SF)	VACANCY RATE (%)	Q2 17 NET ABSORPTION (SF)	DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVG RENTAL RATE (FULL SERVICE)
SUBMARKET NAME								
Cary	64	1,392,159	33,535	2.4	(13,750)	0	0	\$11.87
Downtown Durham	13	239,862	18,815	7.8	(18,815)	0	0	\$13.87
East Raleigh	14	320,970	11,371	3.5	1,800	0	0	\$13.40
Glenwood Creedmoor	66	1,101,331	31,202	2.8	(4,910)	0	0	\$9.33
Johnston County	26	576,527	0	0.0	0	0	0	\$11.20
North Durham	24	801,049	114,631	14.3	0	0	0	\$10.62
Northeast Wake County	52	2,433,919	176,638	7.3	9,772	0	0	\$12.29
Orange County	29	814,890	32,600	4.0	4,100	0	0	\$7.34
Research Triangle Park	93	6,648,745	1,806,672	28.5	34,772	0	40,000	\$16.29
RTP I-40	63	3,119,412	330,099	11.0	(9,357)	0	0	\$14.36
Six Forks Falls of Neuse	30	666,009	14,822	2.2	6,301	0	0	\$10.41
South Durham	39	973,938	20,751	2.3	(9,600)	0	0	\$10.08
Southern Wake County	139	3,348,873	105,062	3.1	28,486	20,000	100,000	\$11.76
US 1 Capital Blvd.	117	3,143,607	328,921	10.5	(9,003)	0	18,000	\$11.56
West Raleigh	59	1,643,974	32,042	1.9	(1,986)	0	0	\$15.62
FLEX MARKET TOTALS	828	27,224,265	3,037,645	11.6	16,010	20,000	158,000	\$13.80

Q2 2017 | WAREHOUSE SUBMARKET COMPARISONS

	TOTAL # BLDS	EXISTING INVENTORY (SF)	TOTAL VACANCY (SF)	VACANCY RATE %	Q2 17 NET ABSORPTION (SF)	DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVG RENTAL RATE (NNN)
SUBMARKET NAME								
Cary	19	1,226,911	0	0.0	0	0	0	\$4.75
Downtown Durham	36	1,124,000	1,500	0.1	0	0	0	\$4.50
East Raleigh	43	1,310,528	9,500	0.7	0	0	0	\$6.75
Glenwood Creedmoor	69	1,614,867	3,600	0.2	2,000	0	0	\$8.48
Johnston County	97	4,234,954	188,000	4.4	43,500	0	0	\$2.51
North Durham	41	1,532,222	99,107	6.5	0	0	0	\$5.53
Northeast Wake County	106	4,441,551	148,021	3.3	12,719	0	188,000	\$6.28
Orange County	15	533,870	0	0.0	0	0	0	\$6.00
Research Triangle Park	60	7,068,280	304,660	4.6	56,701	0	262,500	\$5.60
RTP I-40	55	3,329,396	22,378	0.7	39,031	0	0	\$6.86
Six Forks Falls of Neuse	58	2,471,769	13,420	0.7	(1,020)	0	0	\$6.86
South Durham	62	3,019,978	46,049	1.5	(16,640)	0	0	\$5.77
Southern Wake County	182	6,516,352	470,380	7.2	(26,135)	0	0	\$4.51
US 1 Capital Blvd.	74	2,848,309	66,800	2.3	10,700	0	0	\$6.20
West Raleigh	42	1,111,682	10,125	0.9	3,595	0	0	\$8.00
WAREHOUSE MARKET TOTALS	960	42,397,139	1,383,450	3.3	124,451	0	450,000	\$5.21

Q2 2017 | NOTABLE LEASE TRANSACTIONS

TENANT	PROPERTY	SUBMARKET	SIZE (SF)	PROPERTY TYPE	DEAL TYPE
SRS Distribution	Regent Place	RTP I-40	54,258	Warehouse	New
Dupont	Triangle Business Center	Research Triangle Park	32,000	Flex	New
Merillat Industries	6221 Westgate Road	Glenwood Creedmoor	28,000	Warehouse	New
Insulation Distributors	Liberty Ridge	Research Triangle Park	29,100	Warehouse	New
Industrial Supply Solutions	1228 United Drive	Southern Wake County	24,000	Warehouse	New

Q2 2017 | NOTABLE DEVELOPMENT PROJECTS

PROPERTY	SUBMARKET	SIZE (SF)	PRELEASE %	STATUS	DELIVERY / START DATE	PROPERTY TYPE
TBC Lot 2	Research Triangle Park	208,000	0%	Under Construction	Q1 2018	Warehouse
Oakwood Business Center	Orange County	160,000	0%	Proposed	Unkown	Warehouse
Greenfield North	Southern Wake County	149,000	0%	Proposed	Unkown	Warehouse
Liberty Ridge III	RTP I-40	136,500	0%	Under Construction	Q4 2017	Warehouse
Innovation II	Research Triangle Park	62,464	0%	Proposed	Q4 2017	Flex

RALEIGH DURHAM INDUSTRIAL | CLASS A MARKET COMPARISONS

	TOTAL # BLDS	EXISTING INVENTORY (SF)	TOTAL VACANCY (SF)	VACANCY RATE (%)	Q2 17 NET ABSORPTION (SF)	DELIVERIES (SF)	UNDER CONSTRUCTION (SF)	AVG RENTAL RATE
CLASS A MARKET BREAKDOWN								
Class A Flex	25	1,758,974	271,443	15.4	44,843	0	0	\$17.76
Class A Warehouse	48	6,202,451	143,676	2.3	107,440	0	412,500	\$5.61
Overall Industrial Class A	73	7,961,425	567,402	7.1	95,572	0	412,500	\$8.61 NNN

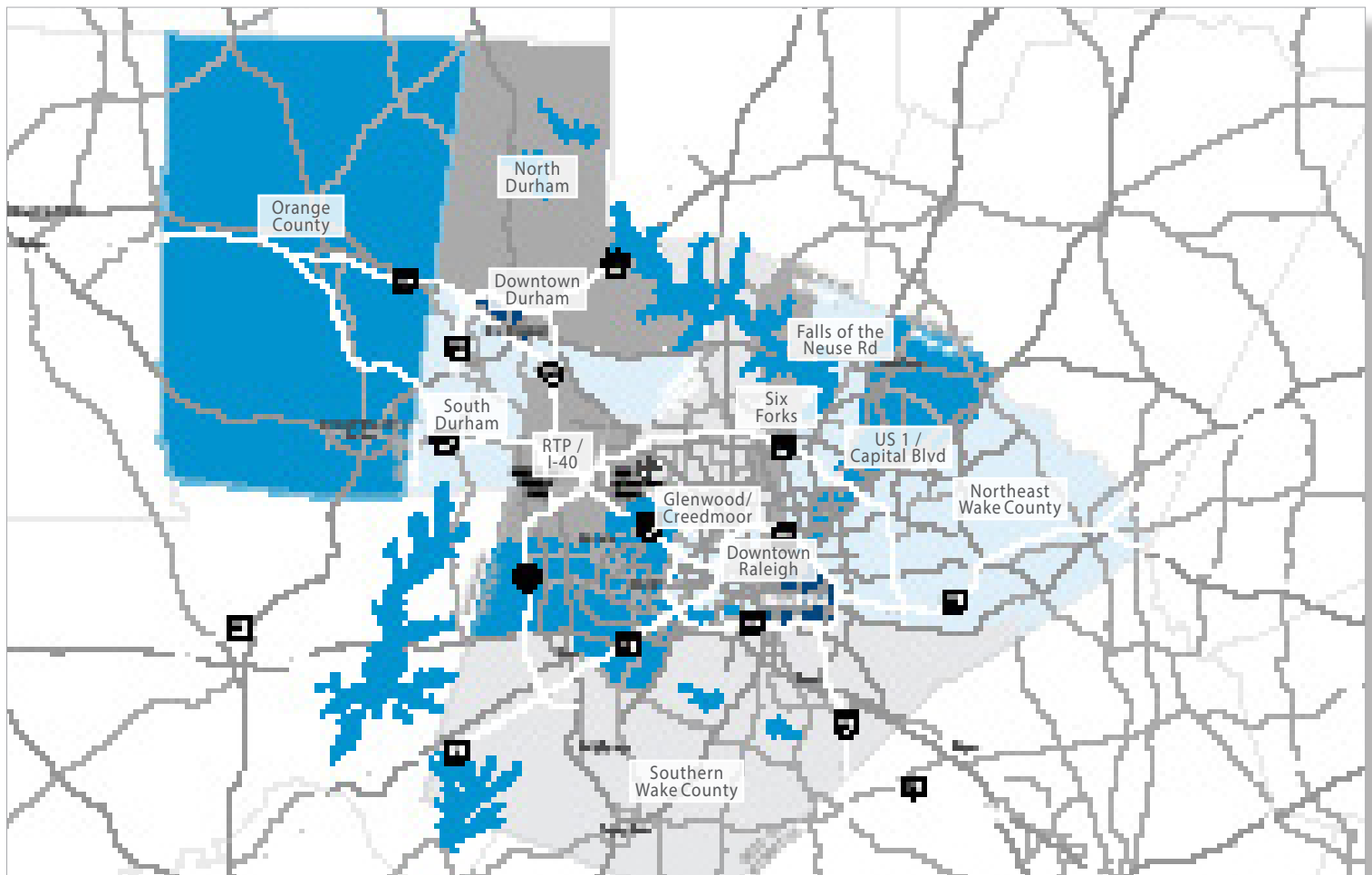


NOTABLE INVESTMENT SALES | Q2 2017

PROPERTY	SUBMARKET	PROPERTY TYPE	SIZE (SF)	SALES PRICE (IN MILLIONS)	PRICE/SF	BUYER
FedEx Ground Distribution Center	RTP I-40	Warehouse	237,000	\$44.9	\$190	Centrum Partners
221 S Rogers Lane	East Raleigh	Warehouse	158,954	\$16.4	\$103	Stockbridge
4018 Stirrup Creek Drive	RTP I-40	Warehouse	97,000	\$7.8	\$80	Lifestar Pharma
102 Kitty Hawk Drive	Cary	Flex	28,600	\$3.9	\$135	Atlantic Investment Mgmt
2721 Spring Forest Road	6 Forks Falls of Neuse	Warehouse	29,784	\$3.3	\$111	State Employees Credit Union

Construction & Investment Activity

- > In the second quarter of 2017, overall industrial deliveries totaled 20,000 square feet with an additional 608,000 square feet currently under construction.
- > The most notable industrial transaction of the second quarter was the sale of the FedEx Ground Distribution Center in the RTP I-40 submarket. The 237,000 square foot warehouse facility sold for \$44.9M or \$190 per square foot in July of 2017. The property was sold to Centrum Partners from SunCap and was 100% leased at the time of the sale. SunCap had previously purchased the warehouse facility from Sumitomo Electric Company in March of 2016.



396 offices in 68 countries

United States: 153

Canada: 29

Latin America: 24

Asia: 36

EMEA: 111

ANZ: 43

\$105

billion in
annual revenue

2.0

billion square feet
under management

15,000

professionals
and staff

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