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Raleigh-Durham industrial insight report

Q2 2021

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U.S. industrial drivers

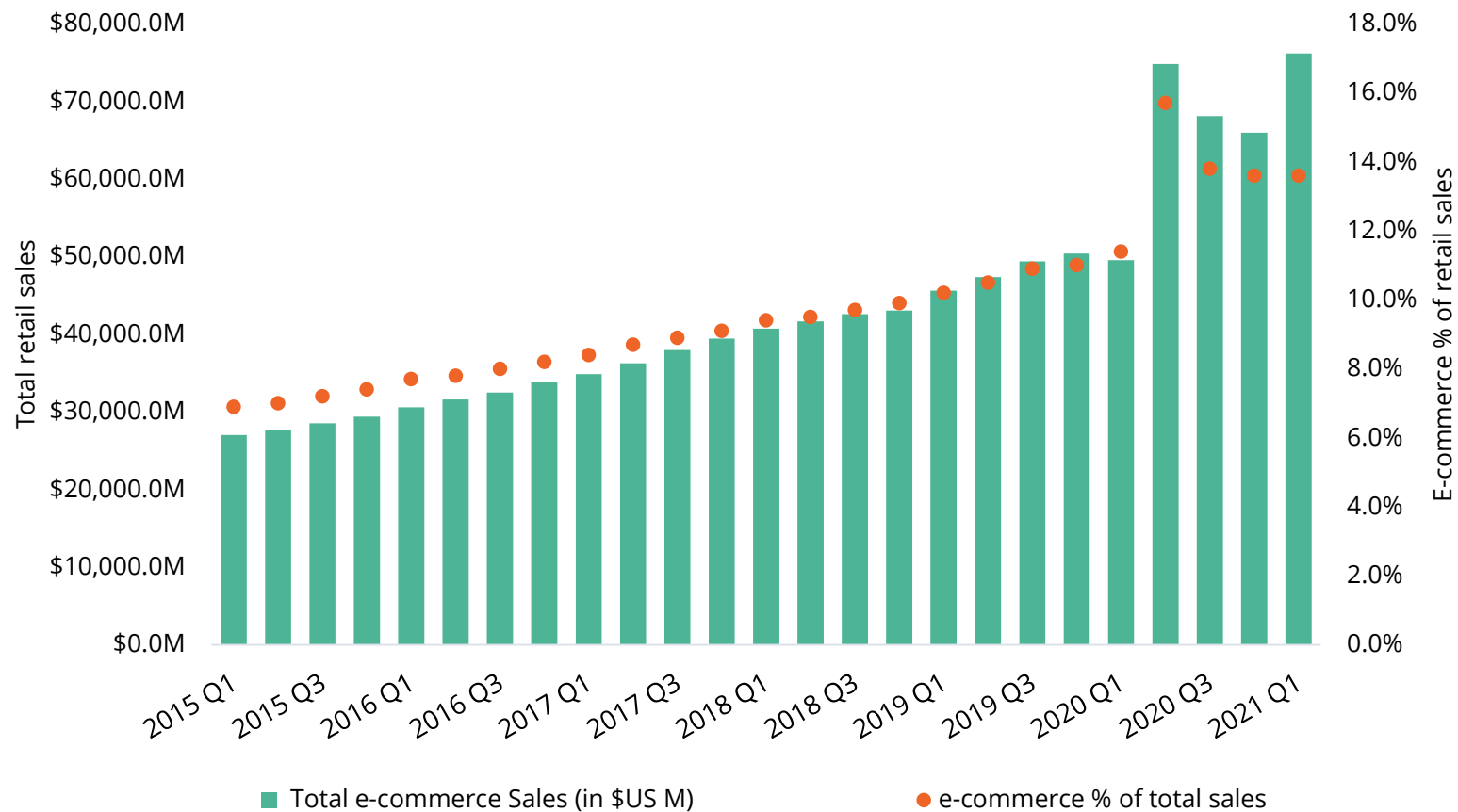
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U.S. total retail and e-commerce sales

15.7%

E-commerce share of overall retail sales in Q1 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



Source: Federal Reserve Bank of St. Louis

Property type job gains and losses

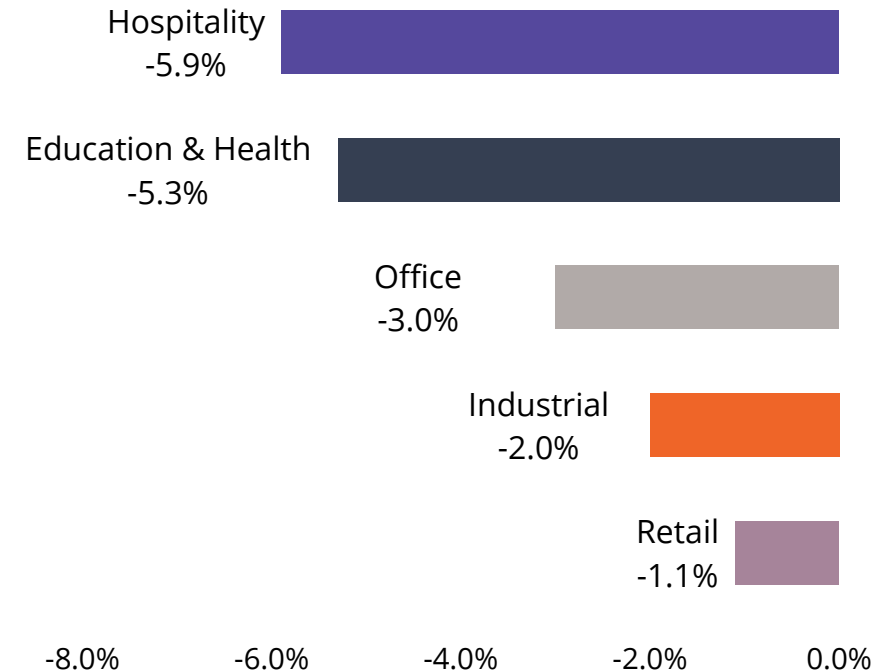
-2.9%

Change in total industrial employment during the pandemic

Post-COVID industrial job losses have been mild compared with other segments of the labor market, underscoring the industry's comparative strength as cities and economies reopen.

[VIEW DASHBOARD](#)

Total change in U.S. job gains/(losses)
February 2020 to May 2021



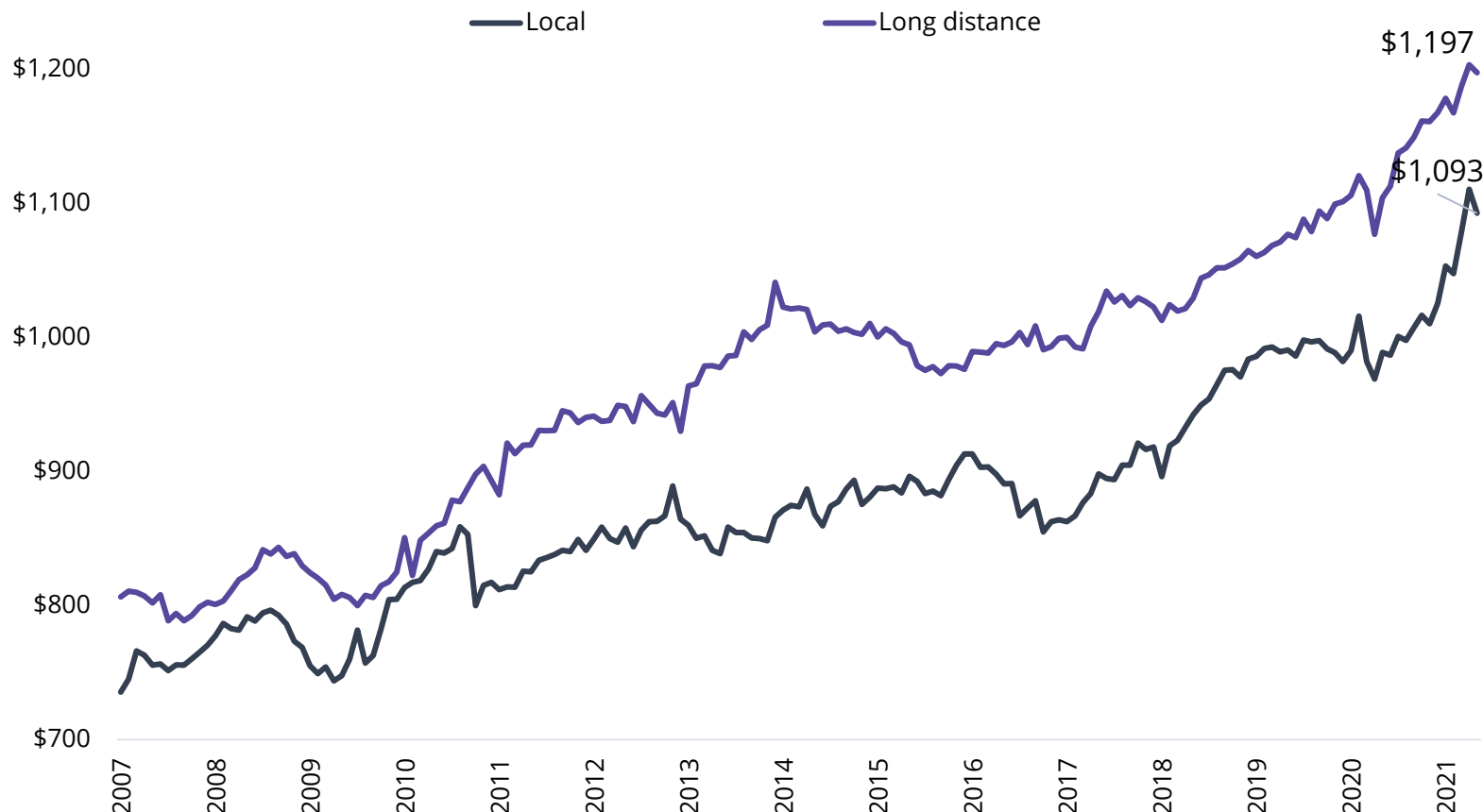
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Weekly earnings for U.S. trucking employees

+10.5%

Annual change in local trucking weekly earnings, 2007 to 2021

As employers compete to fill vacant positions, wage pressure for trucking has accelerated sharply over the past 15 months. Initially focused on long-distance truckers in the early stages of the pandemic, the trend has increasingly spread to local trucking.



Source: Bureau of Labor Statistics

Raleigh-Durham economic fundamentals

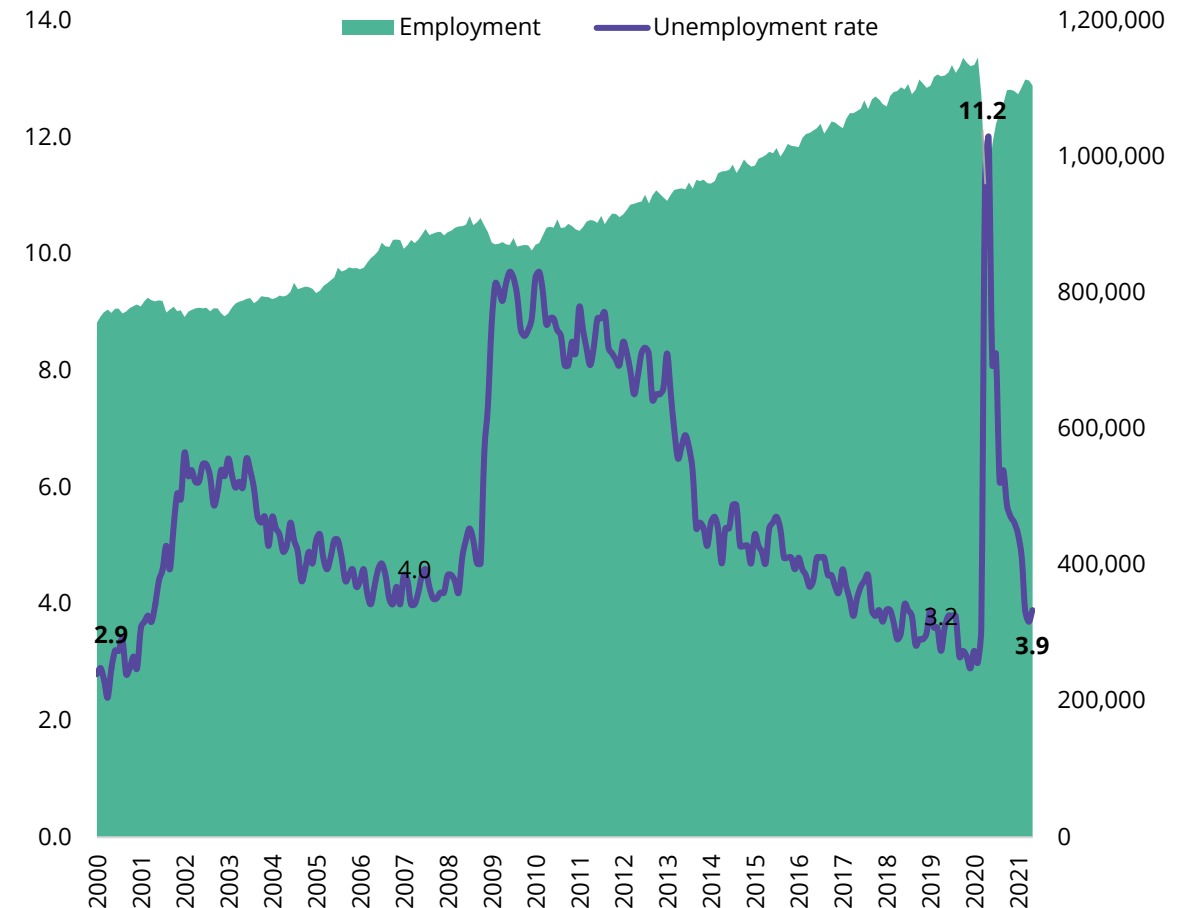
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Employment and unemployment rate

3.9%

Raleigh-Durham unemployment rate as of May 2021

Historically tightened labor market conditions were halted by the pandemic with nearly 197,000 job losses between February and April 2020. However, early reopening efforts enabled the Raleigh-Durham market to recover most lost jobs.



Note: Not seasonally adjusted data, combined Raleigh-Durham-Chapel Hill MSA
Source: Bureau of Labor Statistics

Property type job gains and losses

-1.7%

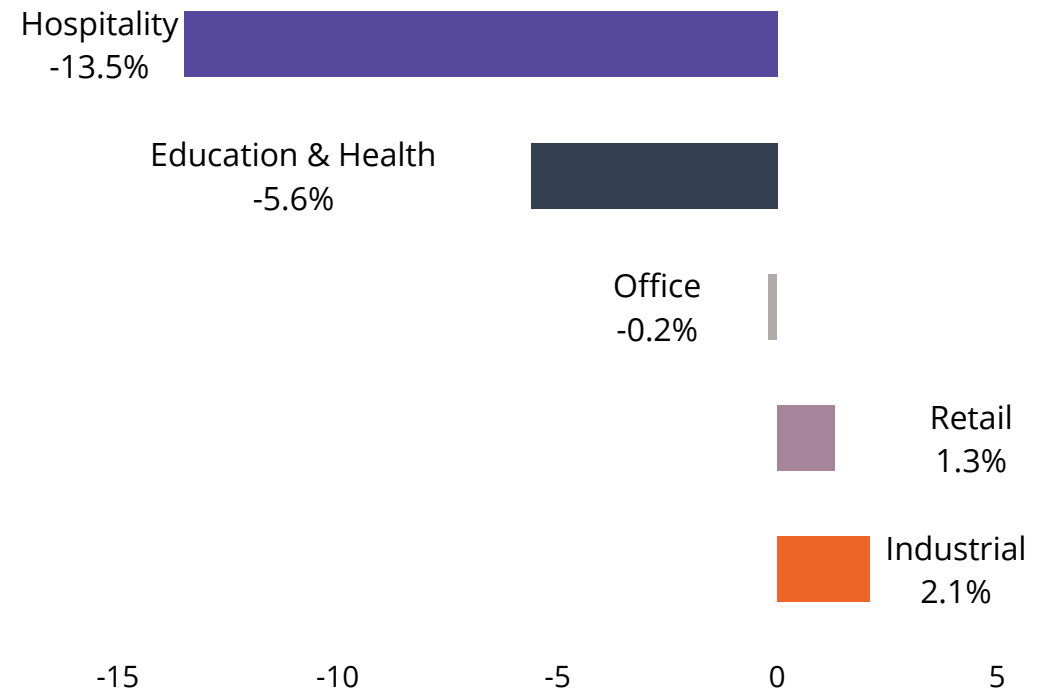
Change in total employment since pre-pandemic

While the Raleigh metro area lost 1.7% percent of its total labor force since February 2020, the overall 12-month metro gain is up by 9.8%. Hospitality nationwide and locally has been particularly hit hard, while the industrial sector regained 2.1% of its labor force.

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Total change in Raleigh MSA job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data.
Metropolitan statistical area (does not include Durham-Chapel Hill MSA)
Source: Bureau of Labor Statistics

Industrial job gains and losses

+2.1%

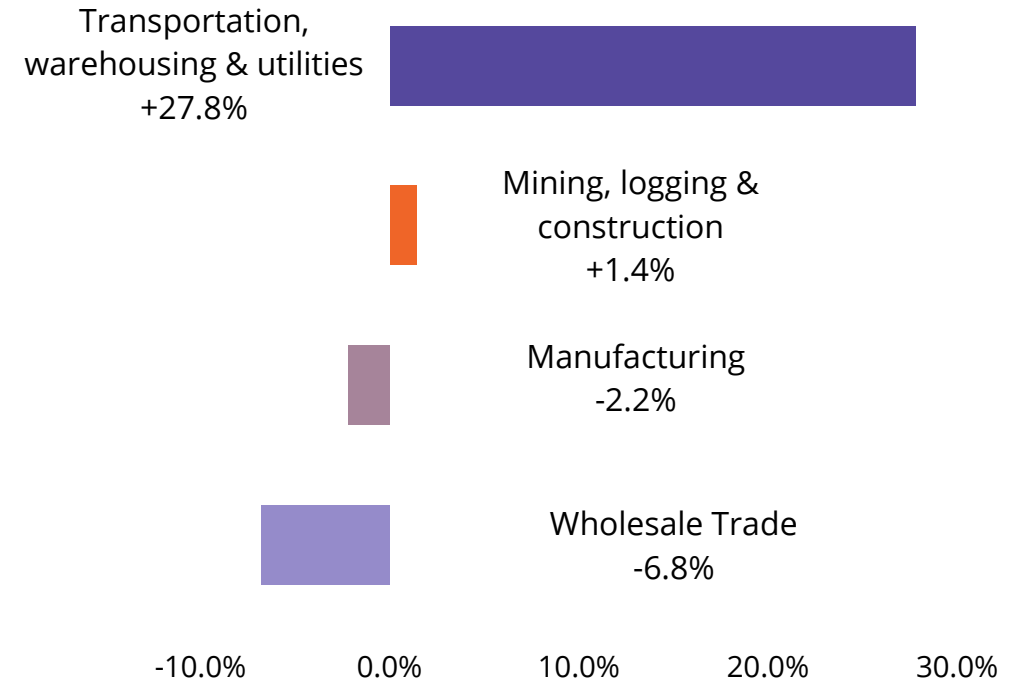
Change in industrial-centric employment since pre-pandemic

Raleigh MSA has recovered industrial related jobs and has moved into positive territory at 2.1%. Transportation and warehousing has led the industrial recovery with employment gains of 27.8%. Mining, logging & construction has also contributed to the industrial recovery up 1.4% since February.

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Total change in Raleigh MSA job gains/(losses)

February 2020 to May 2021



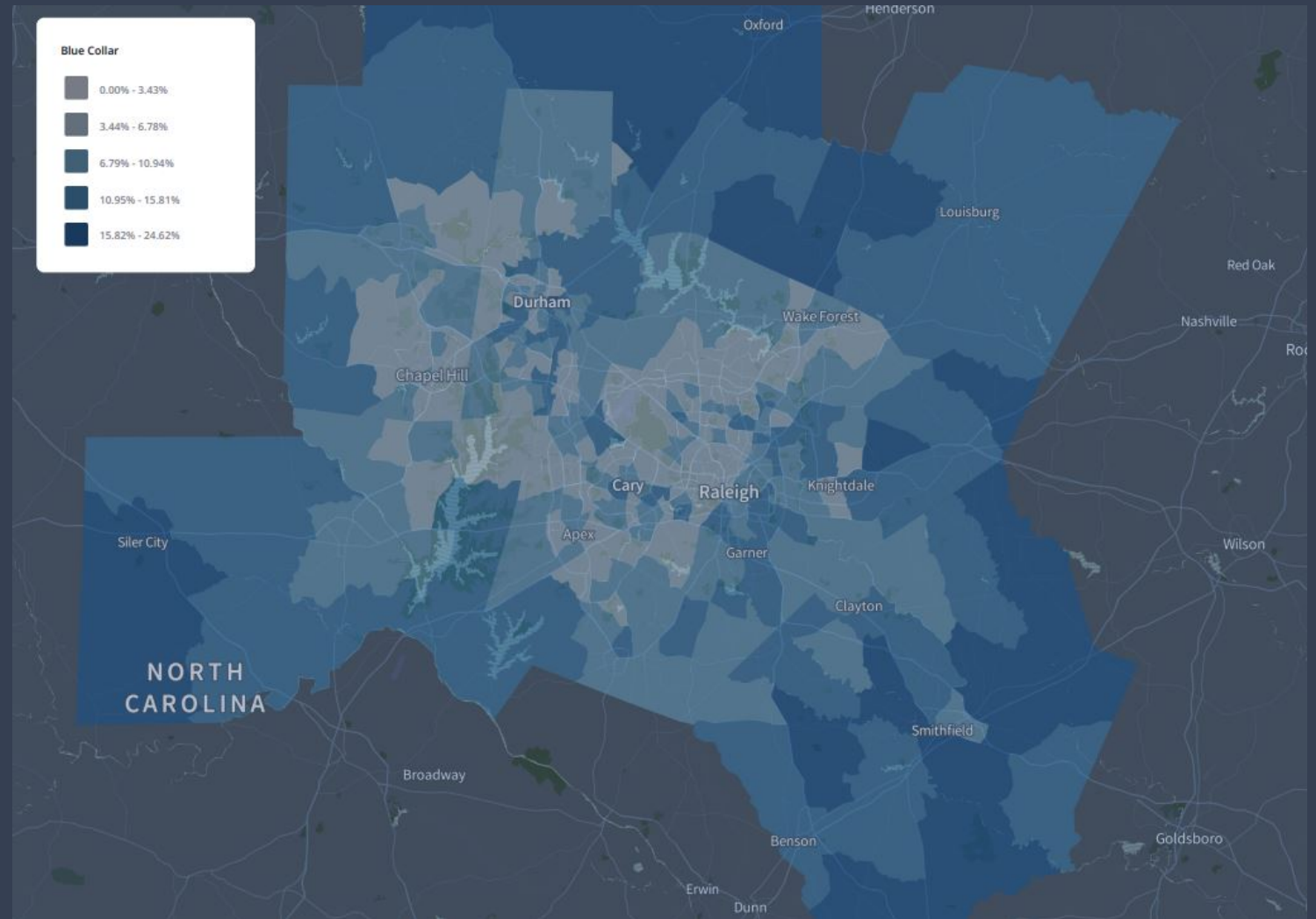
Note: Not seasonally adjusted data.
Metropolitan statistical area. (does not include Durham-Chapel Hill MSA)
Source: Bureau of Labor Statistics

Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI

Blue Collar concentration based upon where labor resides., thus illustrating where companies can access this valuable labor resource.

Large pockets of blue-collar workforce are found throughout the Raleigh MSA and are well distributed across the metro.



Raleigh-Durham market fundamentals

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Key industrial takeaways



Economic conditions

- Reopening efforts have allowed the combined Raleigh-Durham-Chapel Hill MSA unemployment rate to rebound from a high of 11.2 percent down to **3.9 percent**.
- The Raleigh metro area gained **2.1 percent** of total industrial employment since the pandemic began. In the past 12 months, transportation, warehouse & utilities employment experienced a significant **36.2 percent gain**.



Industrial demand

- **1.5 MSF** of leasing activity for the first half of 2021 is down 58 percent compared with the first half of 2020. However, Raleigh-Durham's total leasing activity for 2020 was exceptionally strong at **4.9 MSF** in comparison to overall U.S. leasing activity that started its decline April 2020.
- Demand for industrial space remains healthy as long-term trends for increased e-commerce and distribution show no sign of slowing.

Key industrial takeaways



Industrial supply

- As logistics and e-commerce businesses continue to expand, developers are working to keep up with demand. During the first half of 2021, the market **delivered 9 buildings** for a total of **896,156 SF**, of which **52 percent are preleased**. There are currently 13 properties under construction in the market at an estimated 2.5 MSF.



Pricing trends

- Despite a moderate decrease in the second quarter, asking rents have increased by **4.7 percent** since the start of the pandemic and have continued a steady upward trajectory since 2018.
- The average asking rate mid-year was recorded at **\$5.02 PSF**, up more than **7 percent** since 2Q20.



Capital markets

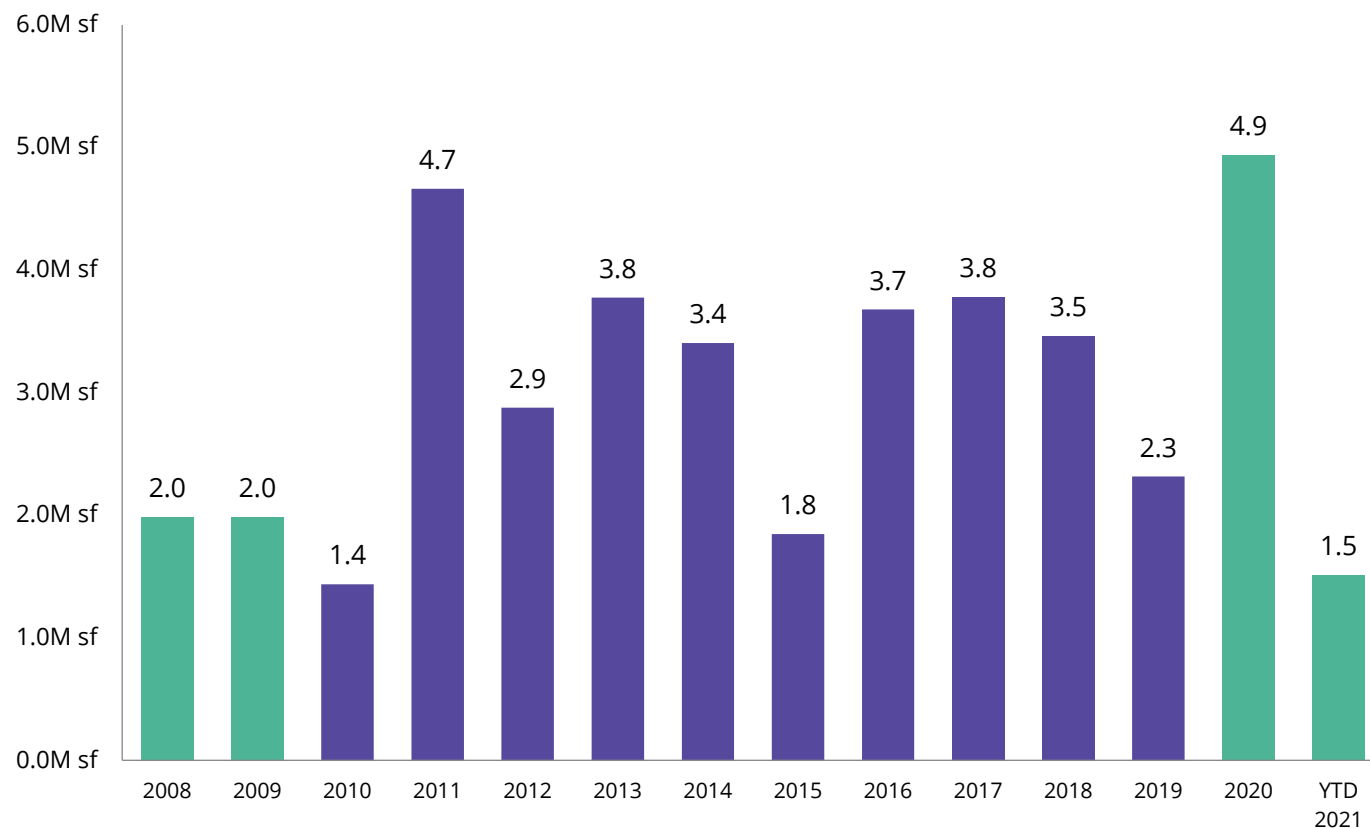
- Industrial investment activity began a downward trend in 2020 as investors continue to evaluate the pandemic's impact. However, Raleigh-Durham sales volume rebounded sharply in the first half of the year.
- Raleigh-Durham's YTD 2021 sales activity of **\$319M** surpassed 2020 totals by **39 percent**.

Industrial leasing activity

-58%

2021 YTD leasing activity compared to first half 2020

Leasing activity for the first half of 2021 at 1.5 MSF is down 58% from this time last year. Total leasing for 2020 was very healthy (4.9 MSF) given the pandemic and as compared to U.S. industrial leasing activity.



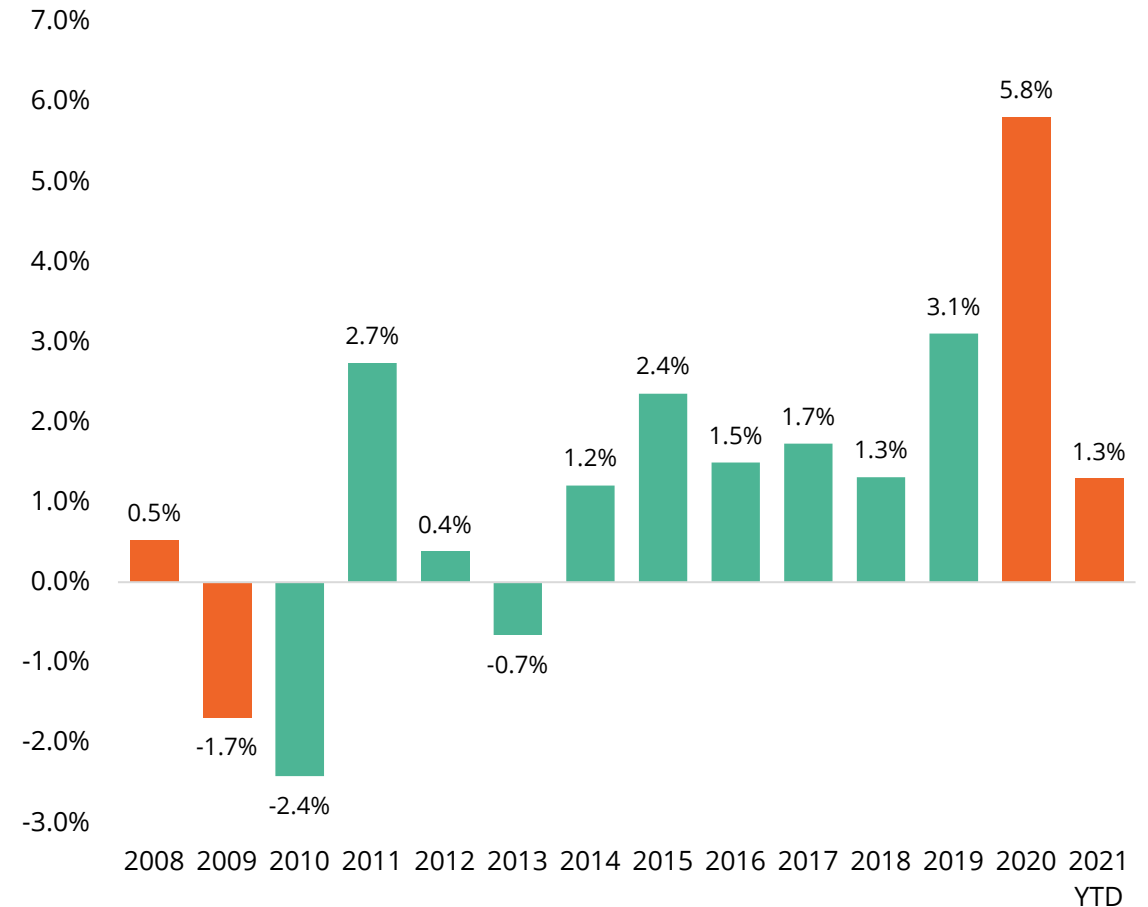
Source: CoStar, total SF leasing activity in millions. Green represents recession years.

Industrial net absorption

3.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Industrial absorption slowed in the first half of 2021 after a record-setting 2020. A high of 4.2 MSF in total net absorption occurred in 2020 resulting in an increase of 50% from 2019 totals.



Note: Absorption is measured as the year-over-year change in occupied square feet. Total net absorption. Orange represents recession years.
Source: CoStar

Industrial vacancy rate

2.6%

Record low vacancy rate

Raleigh-Durham is at a record low vacancy rate YTD 2021. Although vacancy experienced a temporary uptick in 2020, it has been on a steady decline for over a decade. Given low vacancy rates, YTD 2021 average asking rents were \$5.02 PSF, up 7.4% since 2Q20.



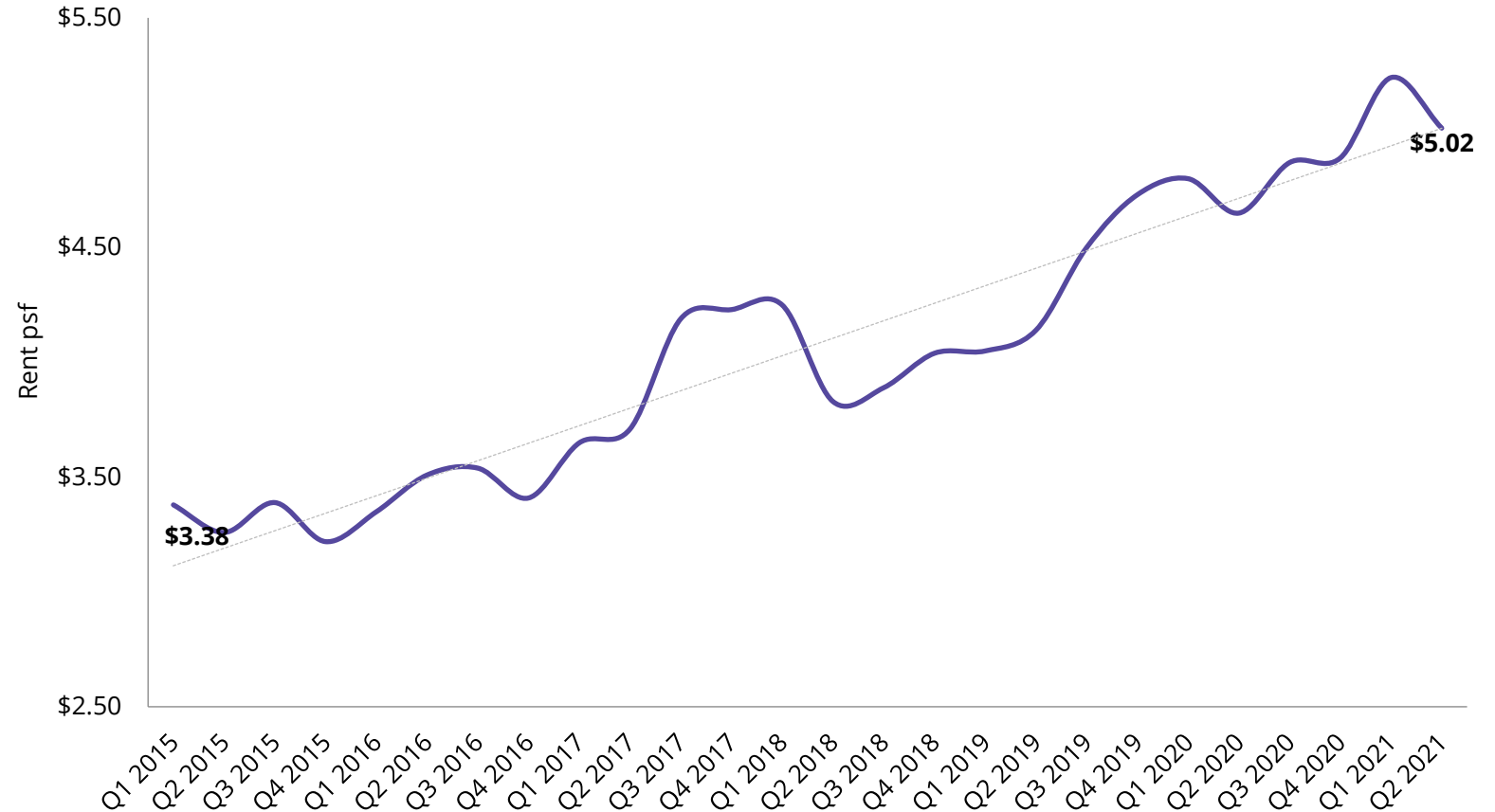
Source: CoStar, total vacancy

Asking rents

+4.7%

Asking rents since the onset of the pandemic

Asking rents softened in the second quarter, but overall have trended upward since 2Q18. In the near-term asking rents are expected to continue to increase but at a moderate pace.



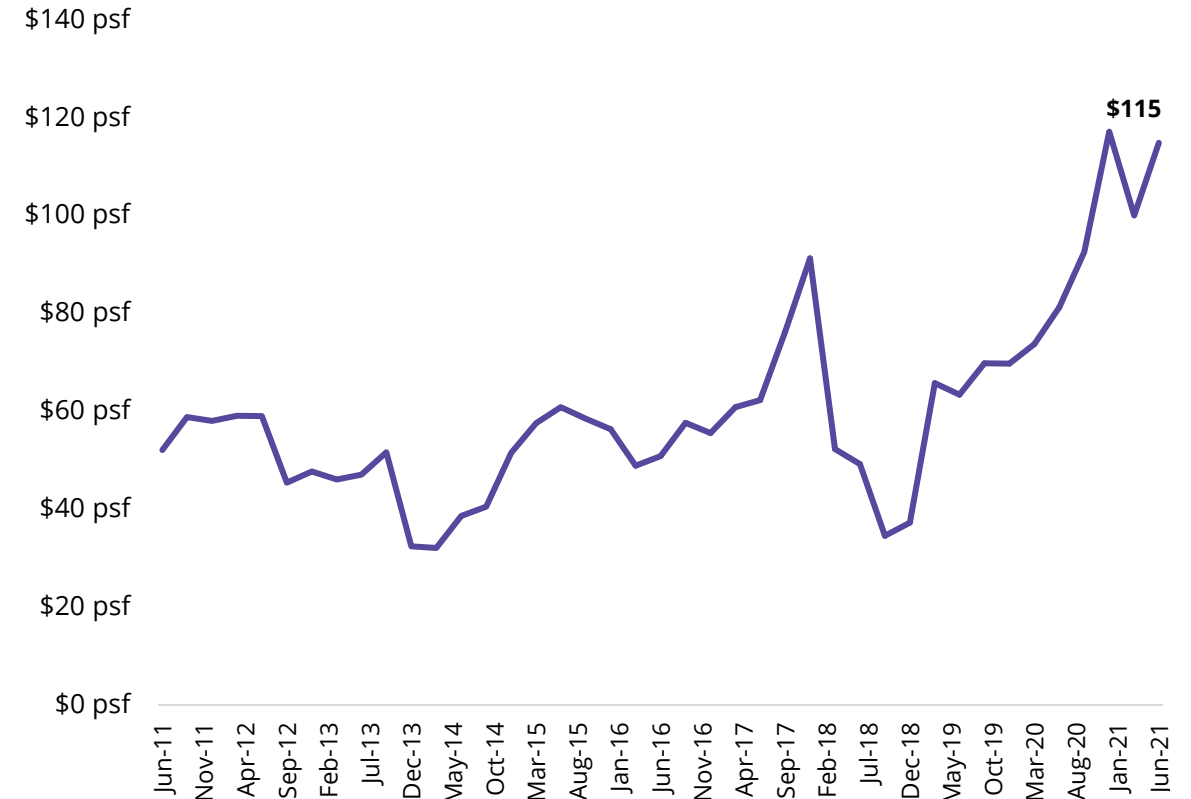
Source: CoStar, NNN rent

Industrial asset pricing

+35.7%

Raleigh-Durham industrial pricing, March 2020 to June 2021

Pricing for industrial assets has continued to increase since March of 2020. After a moderate decline in the first half of 2021, Raleigh-Durham asset pricing landed at an average of \$115 PSF at the close of 2Q21.



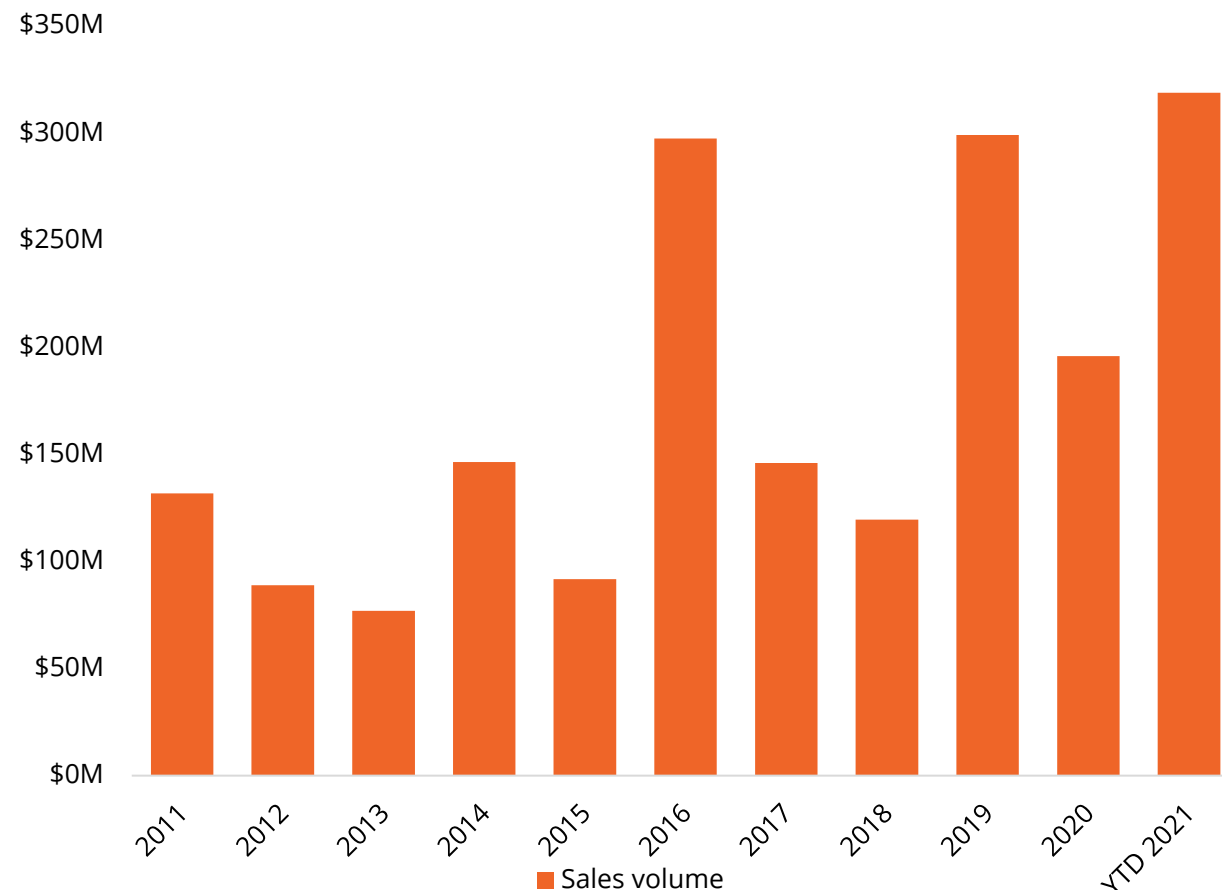
Source: RCA
Note: Data does not include flex properties

Investment dollar volume

\$514M

Industrial dollar volume, 2020 to Q2 2021

Raleigh-Durham experienced a pause in sales activity in 2020 due to the risk-pricing crisis of the pandemic. The market hit a high of \$319M closed deals year to date as more investment opportunities have emerged, particularly by life science and construction-related users.



Source: RCA

Note: Data does not include flex properties

Looking forward



Here's what we can expect

- Recent plans by **Google** and **Apple** to launch major East Coast hubs in the Raleigh-Durham region will continue to support the market's profile among occupiers, employers and investors.
- Increased construction activity should continue to **push rental rates higher** as occupiers pursue a centralized location and more cost friendly environment as compared to other gateway markets.
- Raleigh-Durham's **high-growth metrics and solid leasing fundamentals** will continue to drive investment interest to the industrial sector.
- **Rising construction costs** could dampen the current optimism regarding the market's favorable fundamentals in the near term.





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Get in touch



John Linderman

Principal, Regional Managing Director
919 420 1559
john.linderman@avisonyoung.com



Justin Booth

Senior Vice President
Industrial, Sales & Leasing
919 866 4262
justin.booth@avisonyoung.com



Emily Bostic

Carolinas Region Lead, Insight
Innovation and Insight Advisory, U.S.
+1 919 866 4247
emily.bostic@avisonyoung.com



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Let's talk

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