



AVISON
YOUNG

Raleigh-Durham industrial insight report

Q3 2021

AVANT
by AVISON YOUNG

U.S. industrial drivers

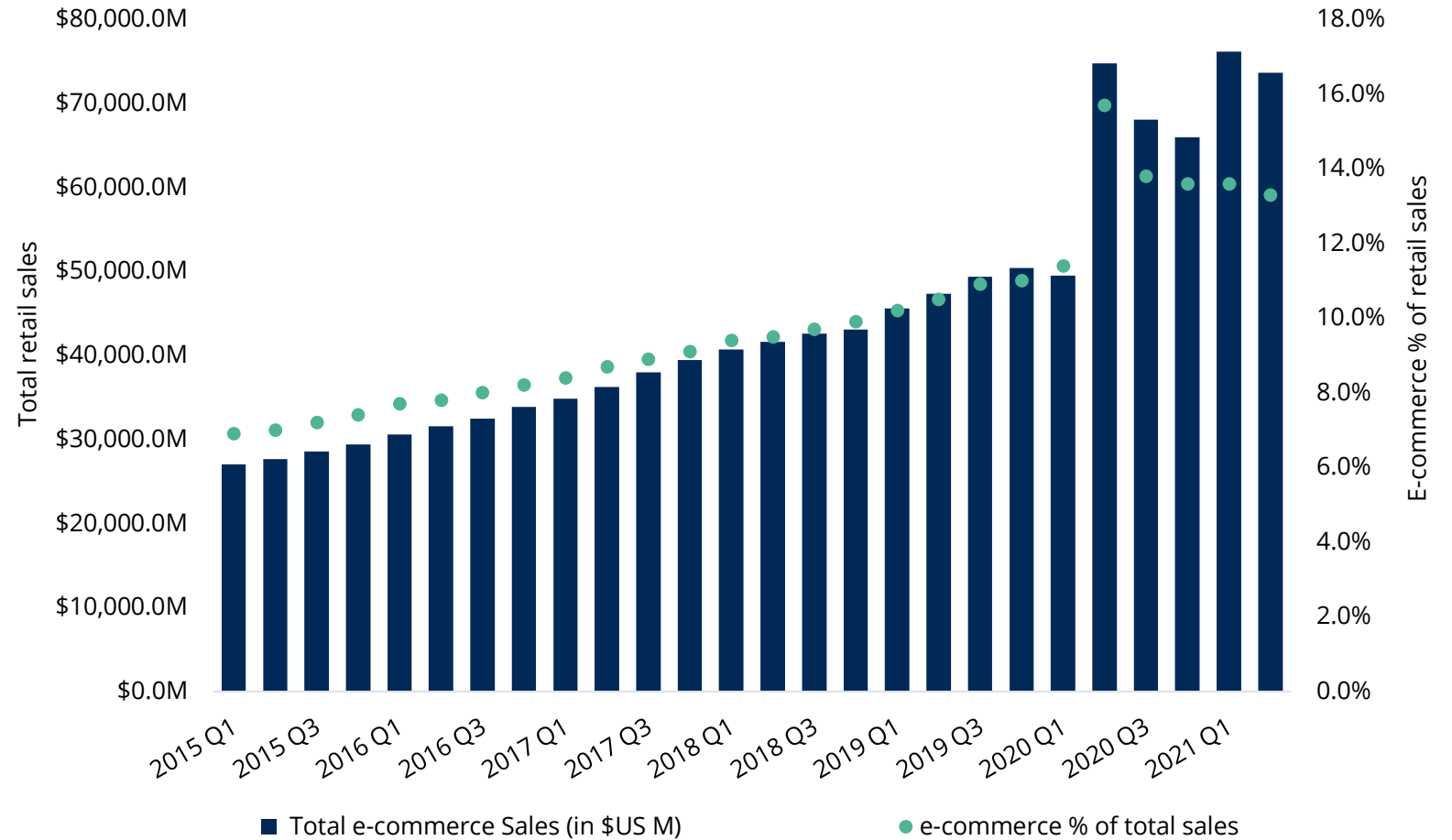
RALEIGH-DURHAM INDUSTRIAL INSIGHT REPORT
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 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.



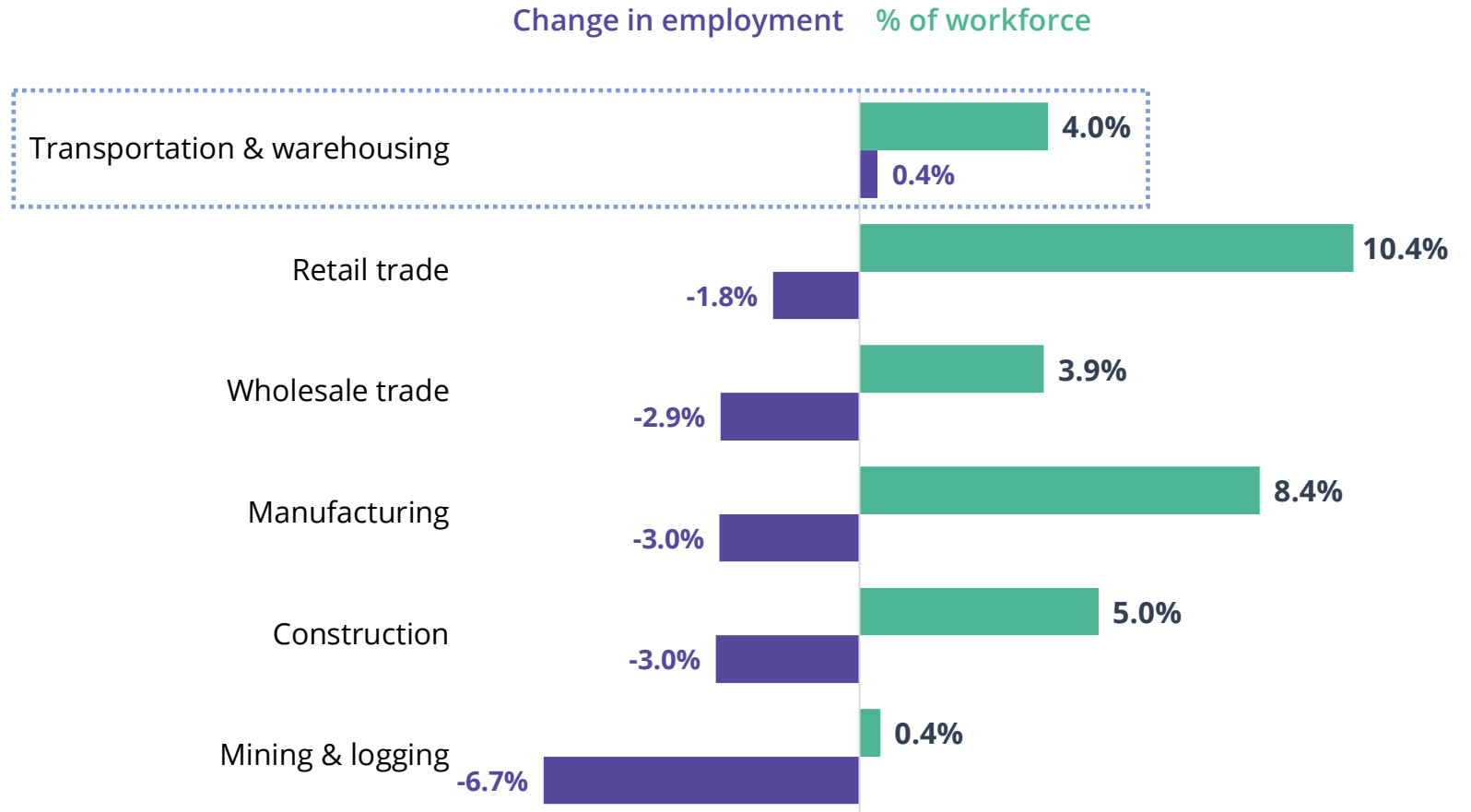
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



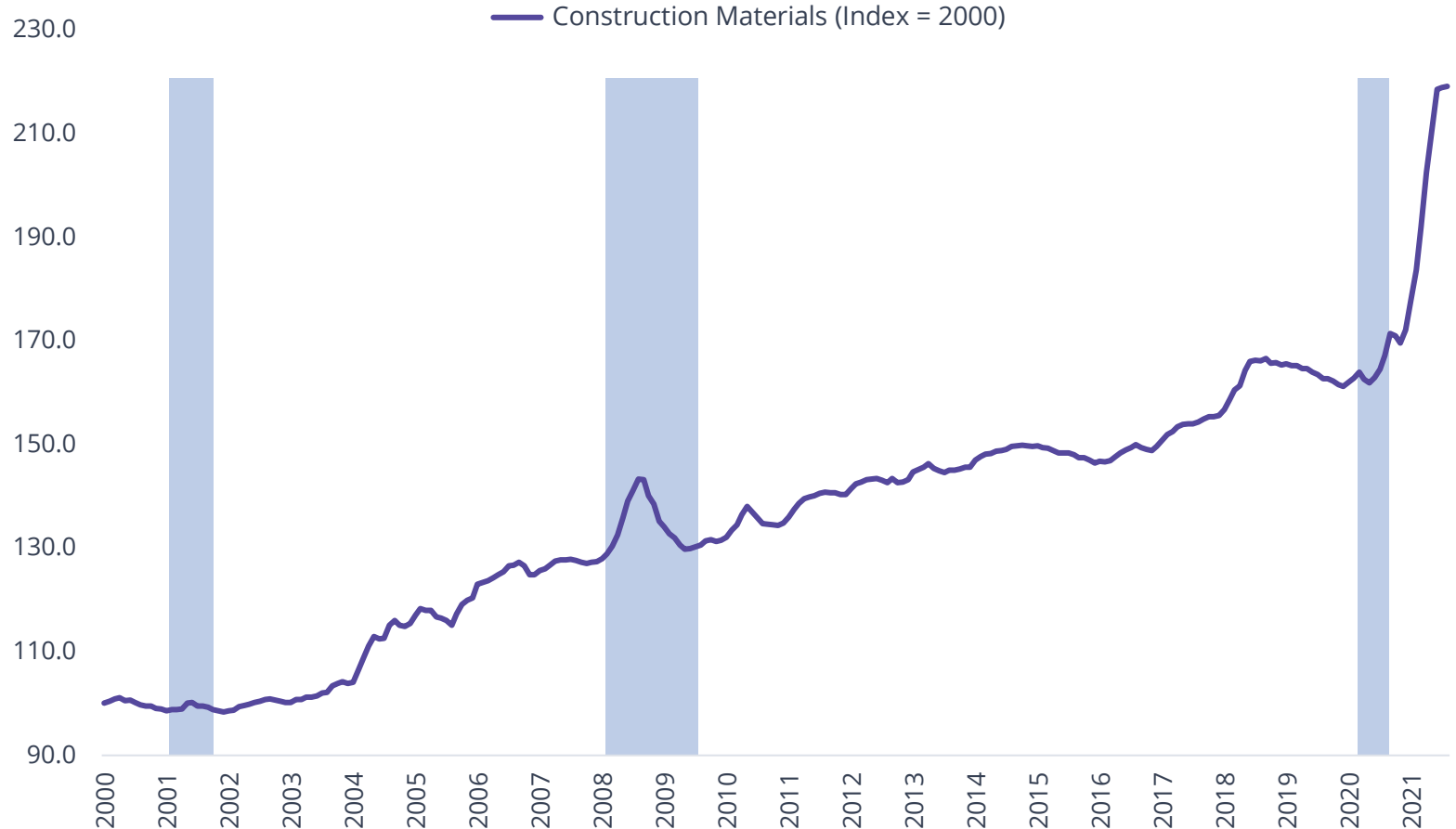
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

**Construction Material
Index cost from year-end
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



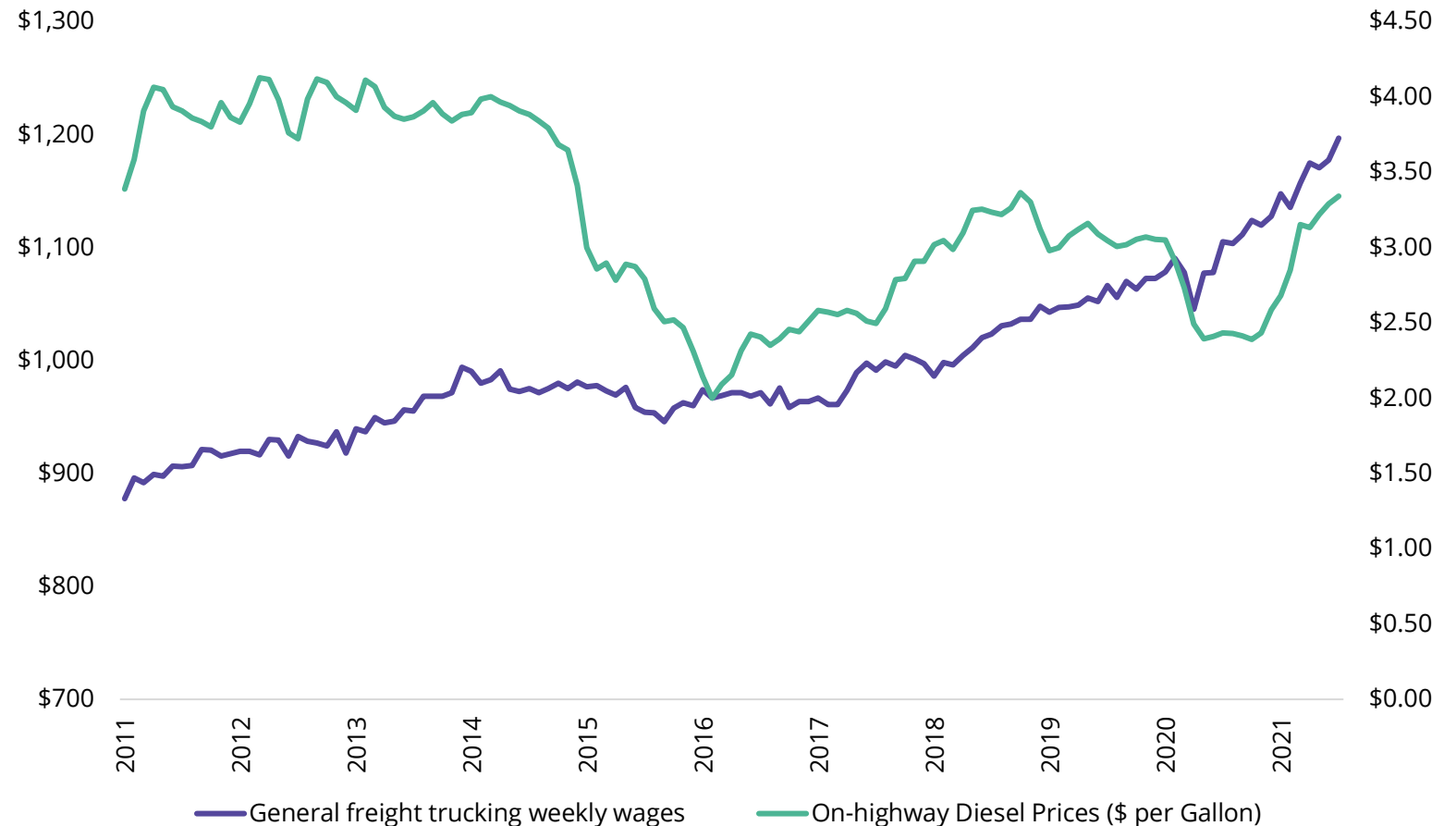
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Raleigh-Durham economic fundamentals

RALEIGH-DURHAM INDUSTRIAL INSIGHT REPORT
Q3 2021

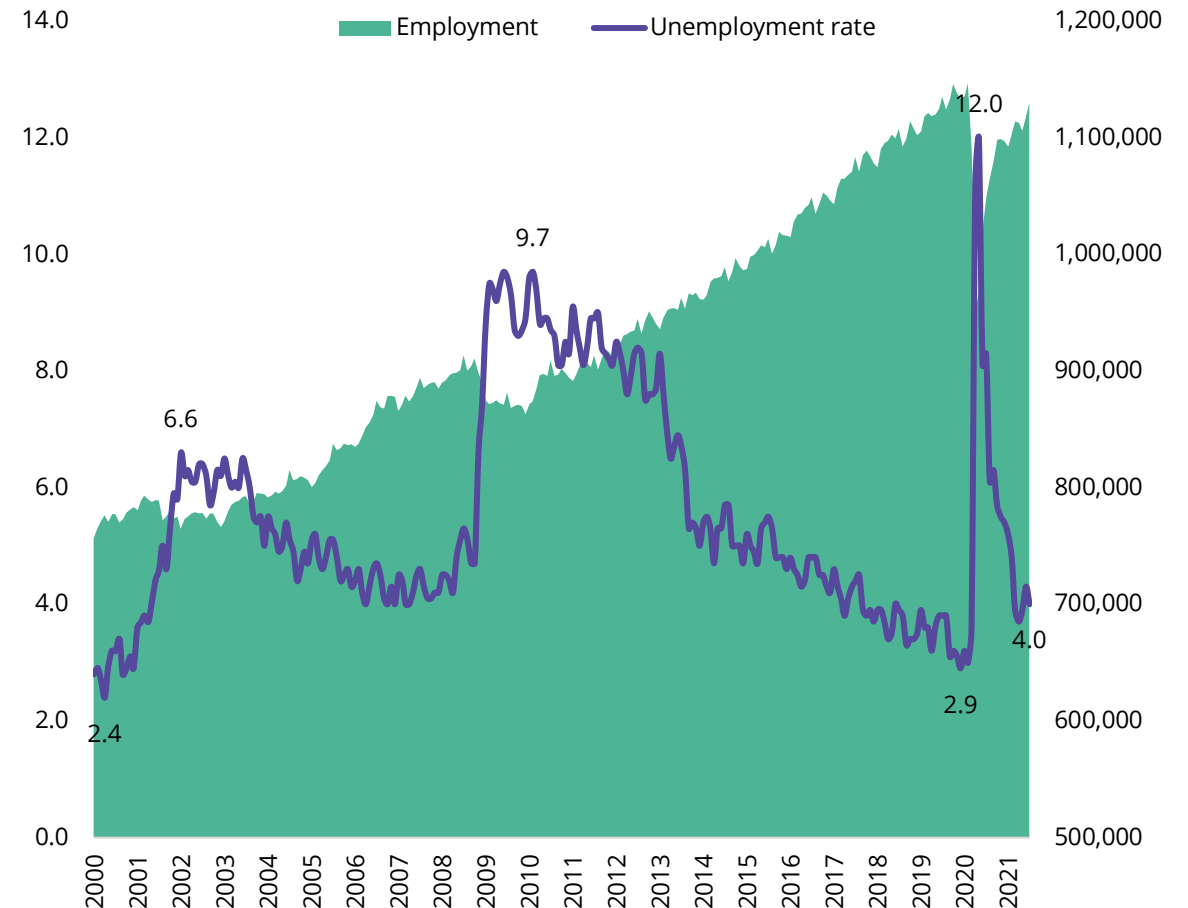
Employment and unemployment rate

4.0%

Raleigh-Durham unemployment rate
as of July 2021

The Triangle's economy has rebounded significantly since unemployment reached a pandemic high of 12% in May of 2020.

Employment rolls have grown by over 177,000 jobs since April 2020, recovering nearly 90% of job losses incurred during the pandemic.



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

Industrial job gains and losses

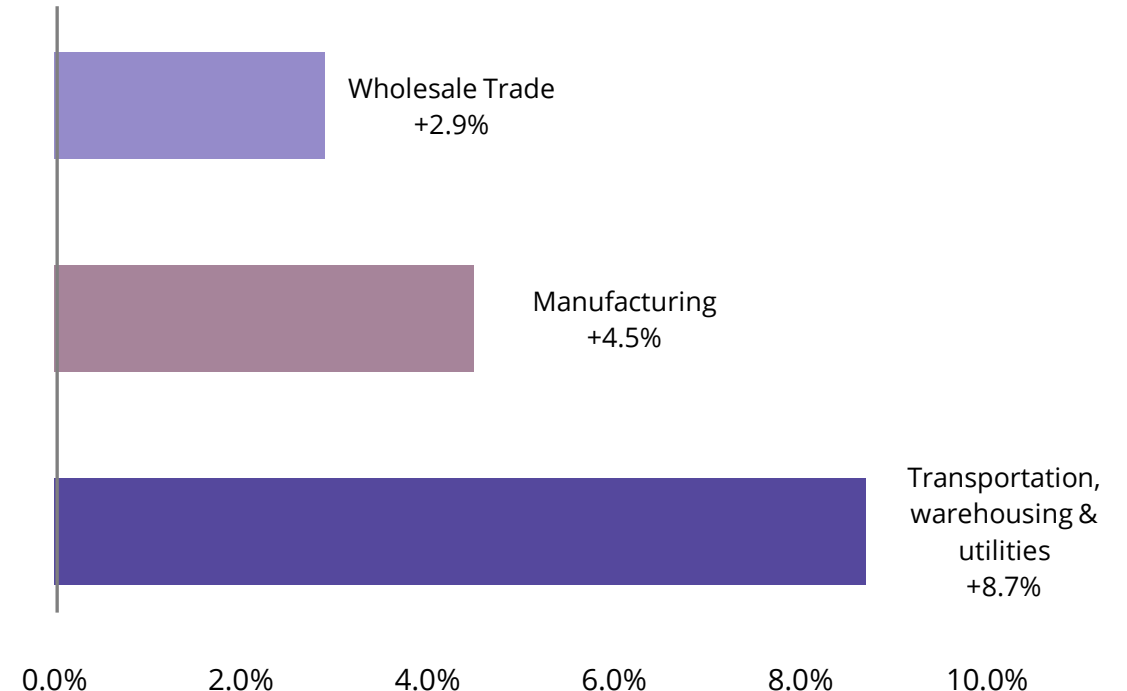
+4.9%

Change in industrial employment
from July 2020 to July 2021

The Raleigh-Durham region's gain in jobs totaled 5.1% in the last year, particularly in the critical areas of transportation and logistics. These job gains have persisted in 2021, with the transportation, warehousing & utilities sector up 8.7% year-to-date.

Total change in Raleigh-Durham MSA* job gains/(losses)

July 2020 to July 2021



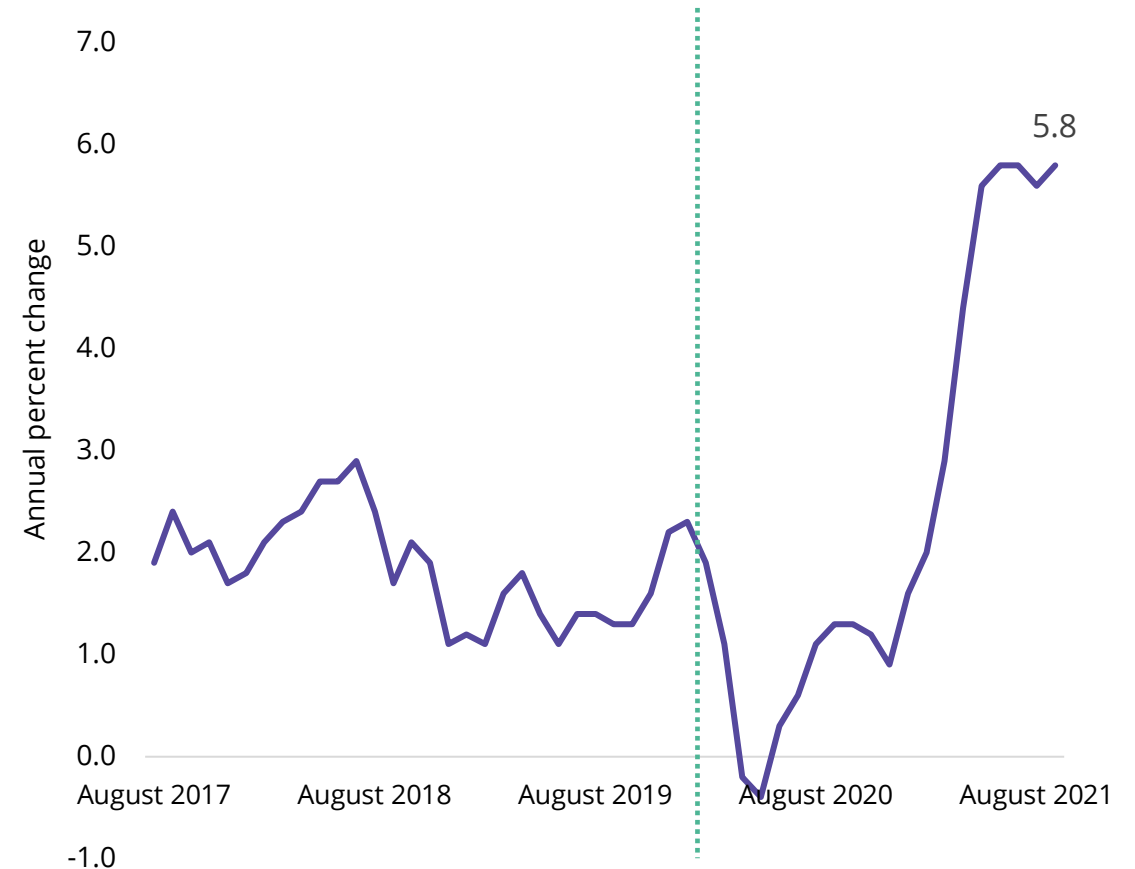
Note: Not seasonally adjusted data. Combined metropolitan statistical area.
Source: Bureau of Labor Statistics

Inflation rates

+5.8%

Year-over-year change in Consumer Price Index for South Region, all items

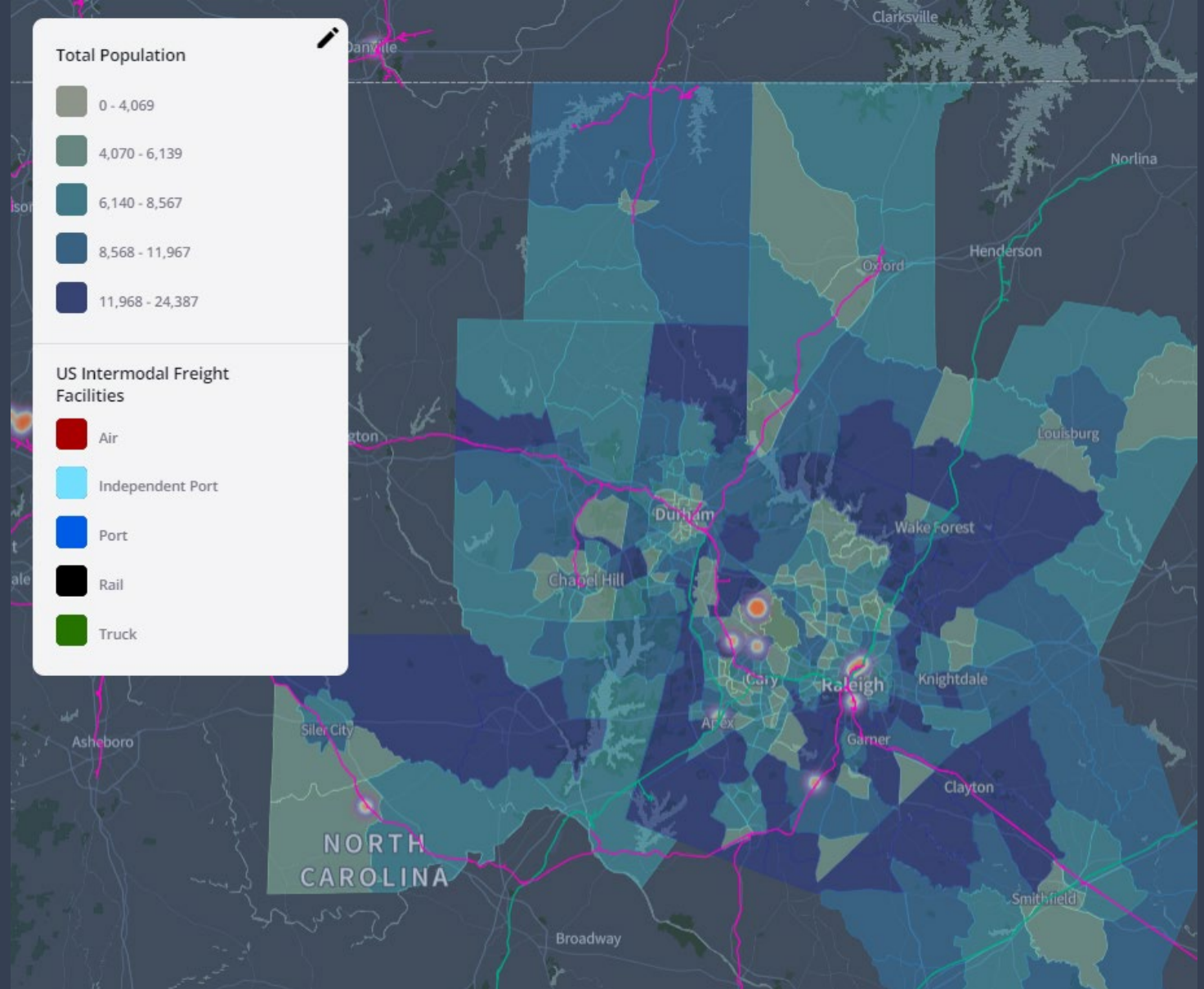
The CPI index in the South region has been increasing sharply as local economies have reopened. Despite stabilizing this summer, lingering supply chain disruptions have impacted many sectors and could keep inflation at higher-than-normal levels. CPI less food & energy increased by 4.5%, while the energy index rose 23.6% for the 12 months ending in September, reflecting a 43.0-percent rise in the gasoline index.



Note: Not seasonally adjusted data.
The South region is comprised of Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia
Source: Bureau of Labor Statistics

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Intermodal facilities are clustered around major interstate corridors, with Class I rail lines providing connectivity throughout the country



Raleigh-Durham market fundamentals

RALEIGH-DURHAM INDUSTRIAL INSIGHT REPORT
Q3 2021

Key industrial takeaways



Economic conditions

- Raleigh-Durham unemployment figures have dipped to **4.0 percent** as of July 2021. Supply chain disruptions felt throughout 2021 have done little to slow growth in market fundamentals, particularly in Class A product.
- As of July, the highest job growth of **8.7 percent** occurred in the transportation, warehousing & utilities sector, followed by the manufacturing industry, which increased by 4.5%.



Recovery

- In ULI's latest Emerging Trends in Real Estate Report, Raleigh-Durham ranks **2nd top real estate markets to watch** in 2022. The Triangle continues to see an explosion in both residential and commercial sectors as more residents and employers alike flock to its regions.
- As office workers across the region still grapple with return-to-work strategies, the industrial workforce has grown by **4.9 percent** in the last 12 months.



Industrial demand

- Industrial leasing activity remains solid in Raleigh-Durham. Increasing momentum is expected to continue with the anticipated delivery of new Class A product and a feverish demand for developable land.
- **REM Transport** and **Cormetech, Inc.** occupied over **263,000 sf** in the third quarter, pushing year-to-date absorption to **1.9 msf** in the third quarter.

Key industrial takeaways



Industrial supply

- As Raleigh-Durham’s industrial market continues to expand at an accelerated pace, owners have been successful in finding tenants swiftly. Preleasing reached **34%** at the close of the third quarter.
- The overall vacancy rate reached a record-setting low of **2.2%** in the third quarter.
- The anticipated delivery of Medline Industries’ **1.2 msf** facility in Orange County will be one of the country’s largest industrial completions by year-end.



Pricing trends

- Asking rents have increased by **12.0 percent** since the start of the pandemic. Lack of available space coupled with new construction will continue to push rent growth across all submarkets.
- With supply chain constraints not likely to dissipate in the near term and record low vacancies, rent growth is expected to continue.



Capital markets

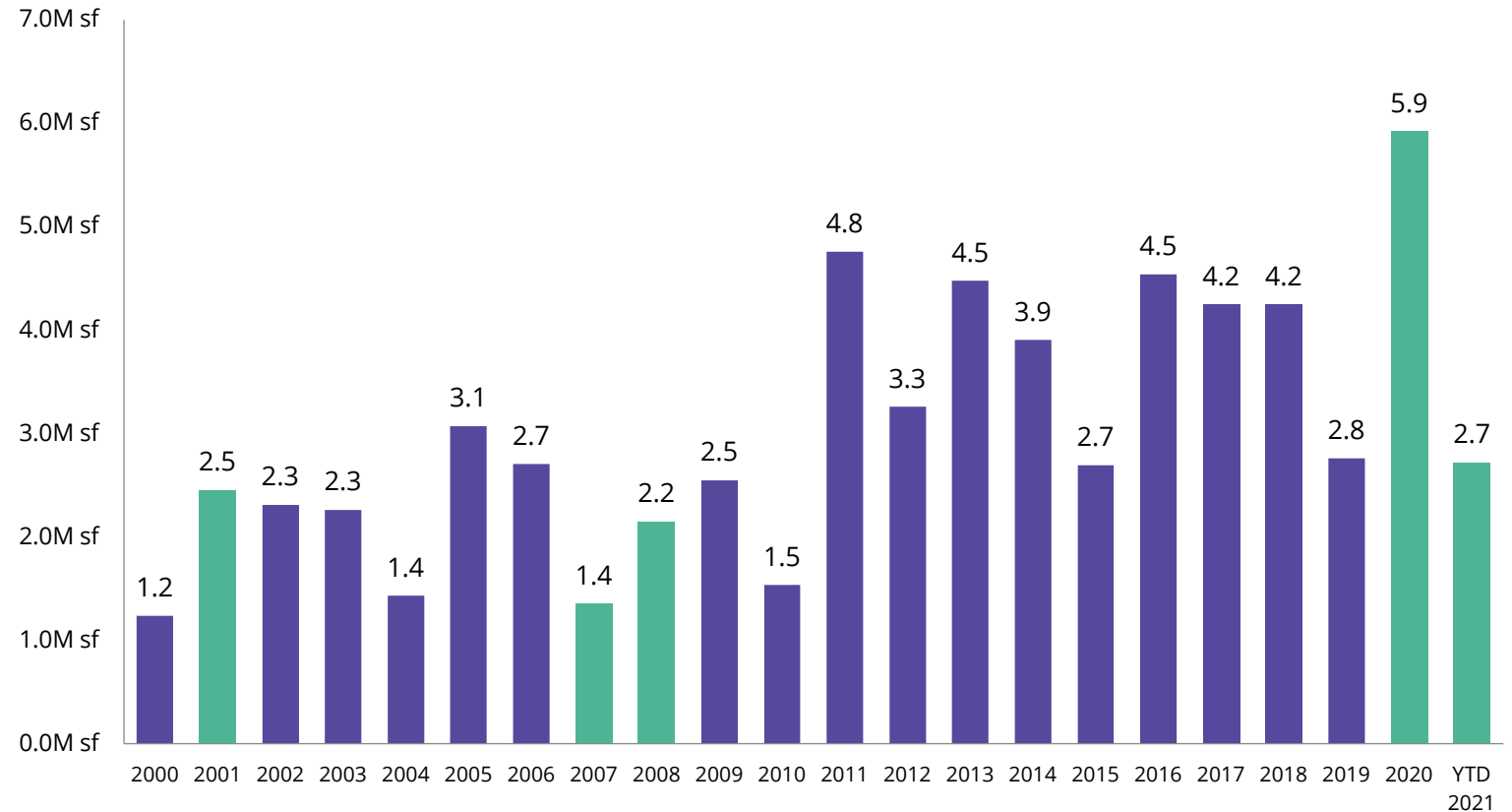
- Raleigh-Durham’s investment activity totaled **\$728M since 2020** as investors deploy capital in the warehouse and logistics sector at a rapid pace.
- **Robust development** and **new deliveries** have presented sought-after industrial opportunities in what has traditionally been a light segment of the local investment market.

Industrial leasing activity

2.7 msf

YTD 2021 leasing activity

After a record high of 5.9 msf that was reported in 2020, industrial leasing activity has moderated YTD 2021 totaling 2.7 msf.



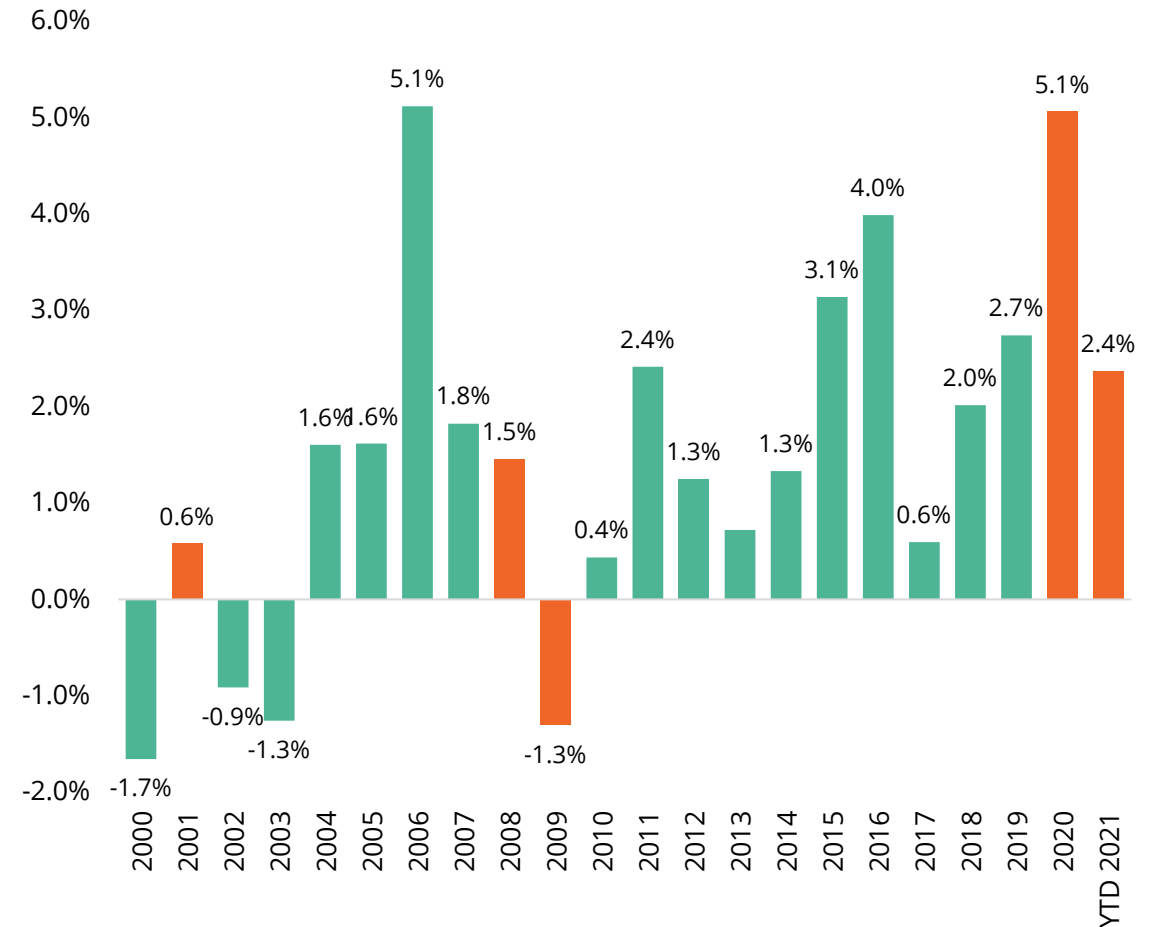
Source: CoStar
Green represents recession years

Industrial net absorption

7.4%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through mid-year remains quite healthy in the Triangle. Total net absorption, measured as year-over-year change in physically occupied space resulted in 1.9 msf at the close of the quarter.



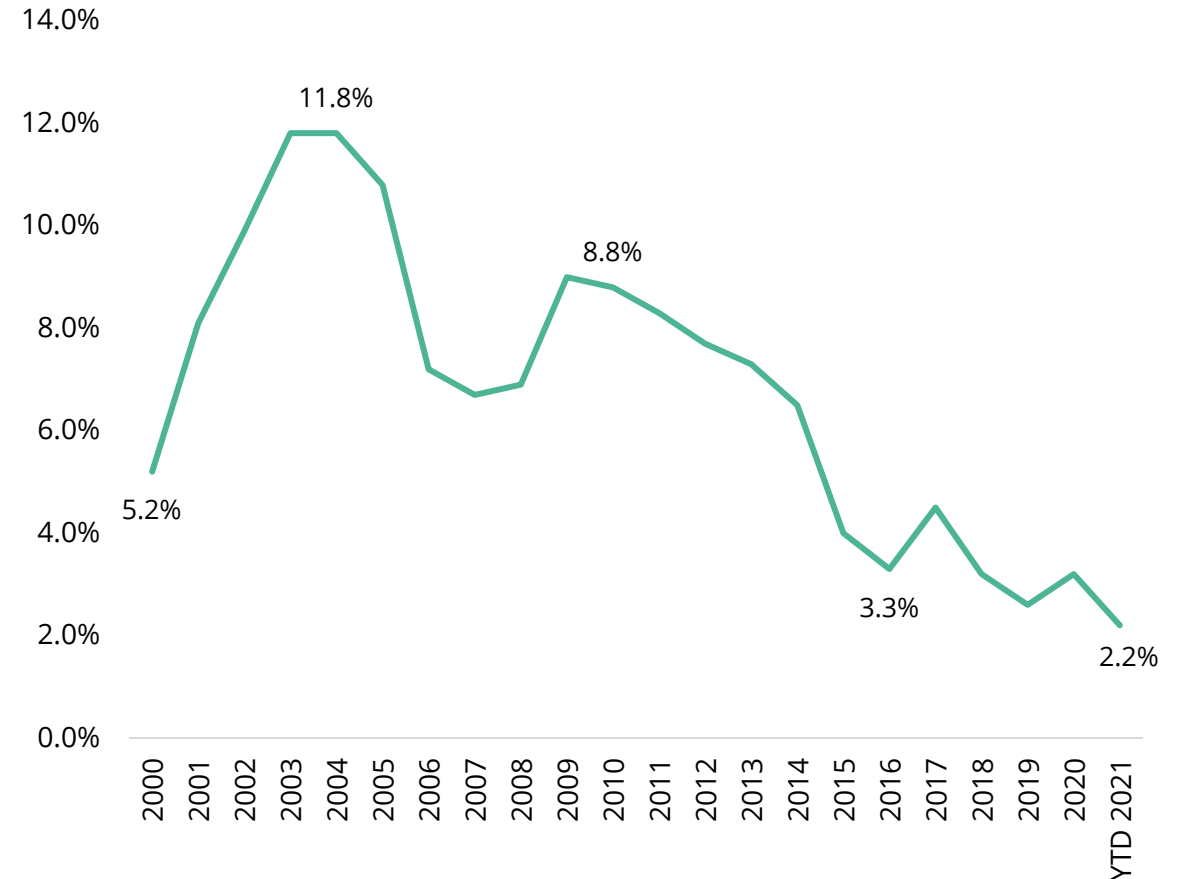
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

2.2%

Overall vacancy rate as of Q3 2021

The Q3 2021 total vacancy rate reached 2.2%, a record-setting low in the Triangle. Average asking rents have increased 7.1% year-over-year, emphasizing that industrial demand has surpassed supply in the region.



Source: CoStar

Asking rents

+12%

Asking rents since the onset of the pandemic

Average asking rents have increased by 12% since the beginning of the pandemic and reached a high of \$5.91 psf in the third quarter as industrial demand soars and vacancies remain at an all-time low.



Source: CoStar

Industrial development pipeline

12 properties

under construction

4.3 msf

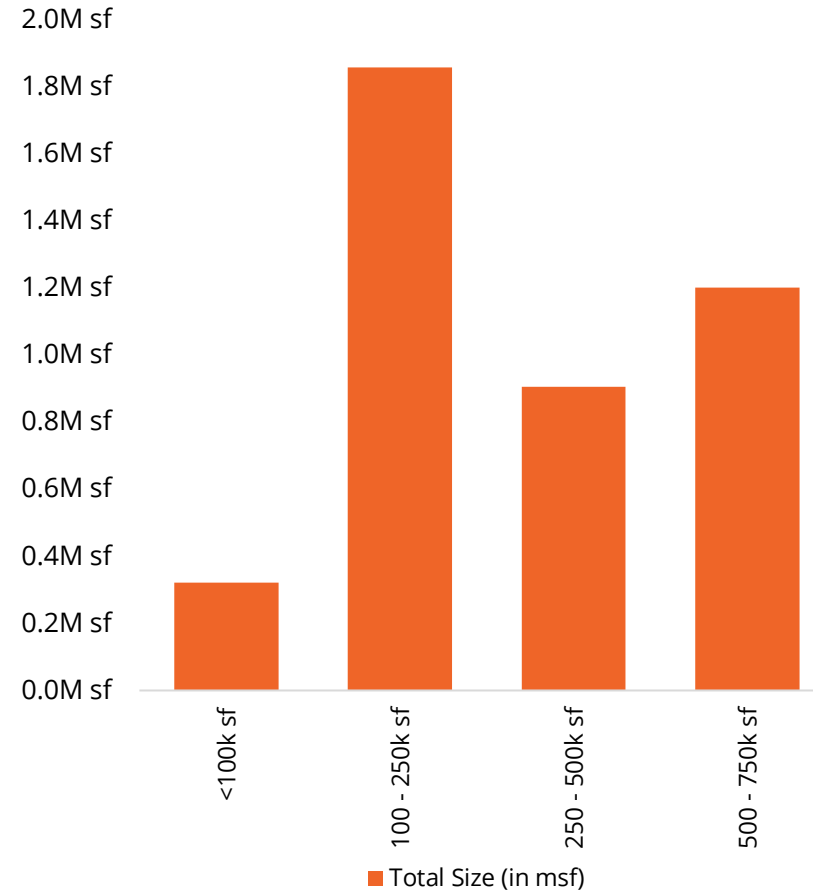
under construction

34%

preleased

Southeast Wake

Submarket with most
ground-broken projects at 7



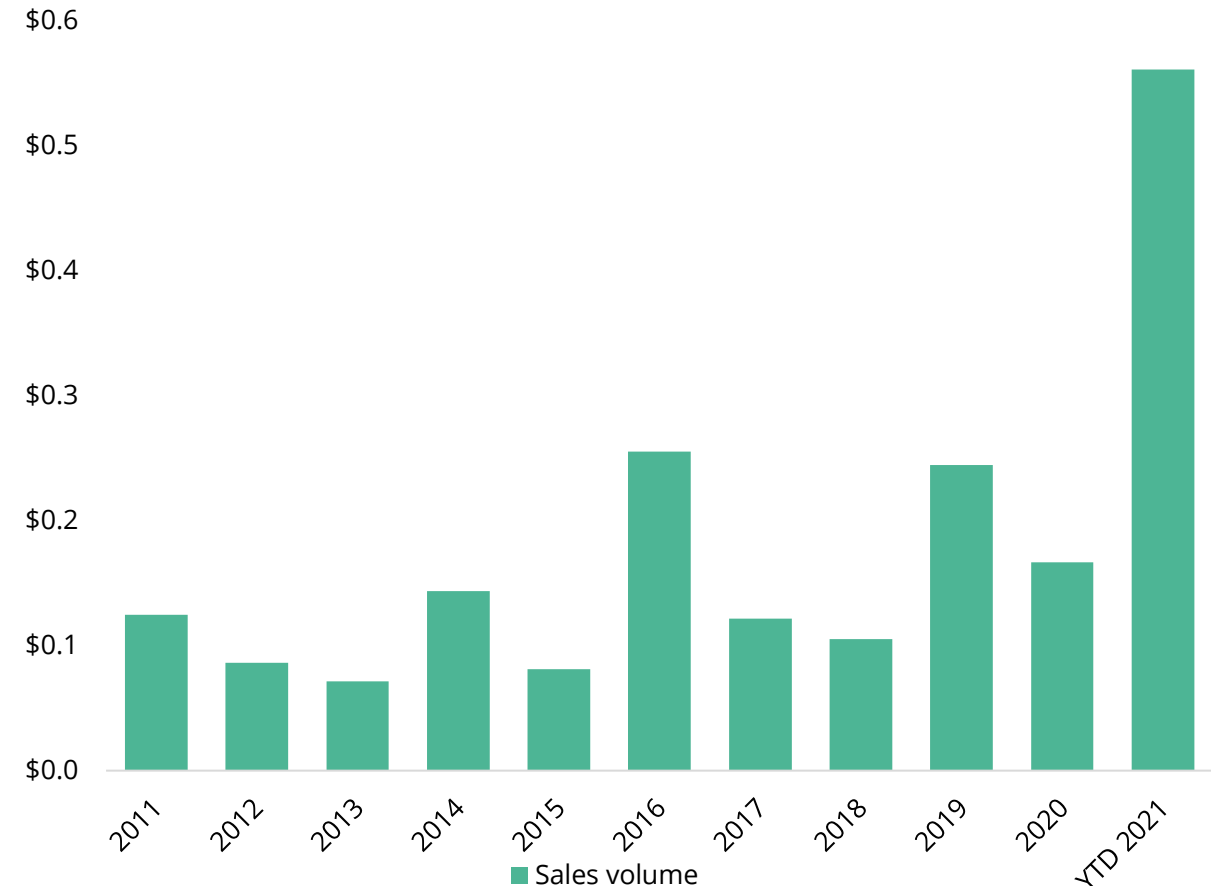
Source: AVANT by Avison Young, CoStar

Investment dollar volume

\$561M

YTD 2021 sales volume

Year-to-date 2021 investment totals were reported at \$561M in Raleigh-Durham. In the largest portfolio sale of the third quarter, BentallGreenOak purchased Buildings 1,2 and 5 at Eastgate 540 for \$111M (\$189 psf). The property was 100% occupied at the time of sale.



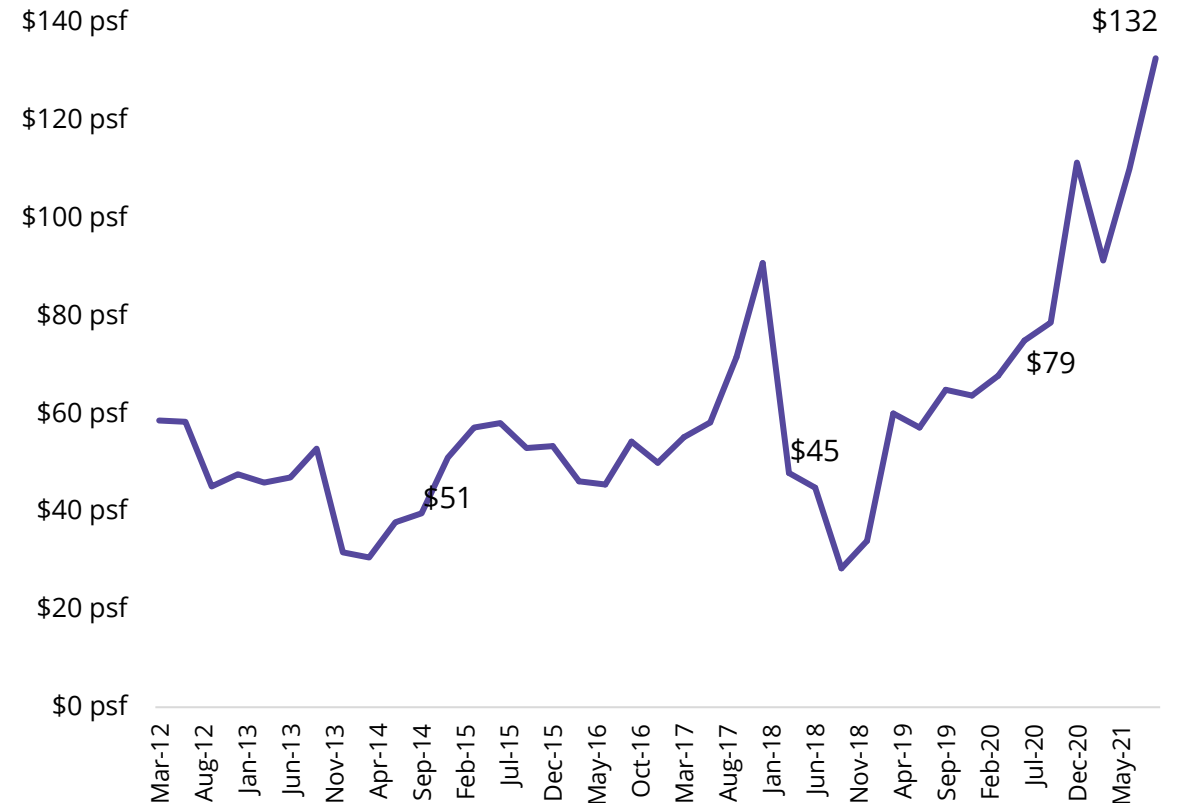
Source: RCA, AVANT
Note: 50,000+ SF

Industrial asset pricing

+49%

Raleigh-Durham industrial pricing March 2020 to June 2021

Investor demand in Raleigh-Durham has outpaced the supply of asset offerings, leading to a spike in industrial pricing. The demand for infill industrial space and a competitive land market have led to a flurry of forward speculative sales – a trend that is expected to show no signs of letting up.



Source: AVANT by Avison Young
RCA

Looking forward and contacts

RALEIGH-DURHAM INDUSTRIAL INSIGHT REPORT
Q3 2021

Looking forward



Here's what we can expect

- **An impressive amount of industrial demand** is expected throughout 2021 and into 2022. Levels of activity are expanding rapidly in Orange County Southern Wake County corridors as access and infrastructure in outlying areas continues to improve.
- It is expected that **third-party logistics companies** will continue to expand, competing for warehouse space. Continued supply chain constraints will provide even further growth in the 3PL sector.
- Despite shortages and delays stressing logistics infrastructure, the **opportunity for growth and expansion** in Raleigh-Durham's industrial market will continue as consumer demand continues to surge.



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



AVISON
YOUNG

Let's talk

© 2021 Avison Young – North Carolina, LLC. All rights reserved.

E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

AVANT
by AVISON YOUNG