



# 2018

## Mid-Year Report

## Letter From The President

For over 45+ years, NAI Carolantic has been the Triangle's leader in commercial real estate and has established itself as the region's most authoritative source of verifiable market data on commercial real estate. At our 33rd Annual Triangle Commercial Real Estate Conference held in January, the following was reported to our clients, investors and business leaders:

- The Triangle experienced another year of positive absorption, stable vacancy and an abundance of new construction and deliveries.
- Office, industrial and retail sectors continued to be healthy overall.
- The multi-family market was active with ongoing strong absorption and 6% vacancy.
- Residential land sales were "on fire."
- Investment sales were strong, but in the late stages of this cycle.

We recognize that reliable data analysis is critical, so now at mid-year, we can report that the commercial real estate market indicates sustained positive growth trends, coinciding with our detailed 2018 market sector forecast.

As we look to the next six months, positive job/population growth, along with recent economic development activity, confirms our outlook for robust market activity.

NAI Carolantic has completed over 200 sales and leasing transactions totaling \$110 million through the first half of the year. With 350 active listings, there are numerous real estate opportunities in our expanding market. Please let us know if we can be of service.

Sincerely,



Jimmy Barnes, SIOR  
President





### Industrial:

The Triangle market continues to experience a decrease in vacancy rates as the demand for industrial space has outpaced new construction deliveries. Overall, vacancy in the warehouse sector is approximately 5%, driving the construction of close to 2 million SF. Rental rates have modestly escalated to historical highs of over \$5.00 psf.



### Office:

Office rents continue an upward climb to record highs due to increasing demand with approximately 500,000 SF of positive absorption at mid-year. Tenants are willing to pay higher rents in exchange for high tech work spaces, amenities and preferred locations. Class A vacancy rates have dropped mid-year to 8%, compared to 10% in 2017. However, vacancy rates will increase by year-end, as over 500,000 SF of new construction is expected to hit the market in the next six months. The Downtown markets continue to outpace that of the suburban areas.



### Retail:

There were expectations that the Triangle grocery store market would become overbuilt, but we did not anticipate the fallout to occur this early. However, despite several store closure announcements and the Lidl pull back, the retail sector has continued to experience abundant growth in 2018. Over 300,000 SF of positive absorption, including hardware, restaurants, fitness and dollar stores, has led to a stable low vacancy rate of 3%. At the start of 2018, we reported 745,000 SF of new construction. It is forecasted that construction started before year-end will surpass that of the 1,157,000 SF construction deliveries in 2017.



### Multi-family:

We reported a vacancy rate of 5.4% for multi-family housing in 2017 with projections of a slightly increased vacancy rate of 6% in 2018. Although we had strong absorption, the Triangle did hit 6% vacancy at mid-year due to new supply. In addition, there are projections for over 5,000 new units scheduled to be delivered by year-end. Average pricing for new units is approximately \$1,112 per month. It is expected that the Triangle vacancy rates will remain steady or increase slightly throughout 2018, as demand attempts to contend with supply.



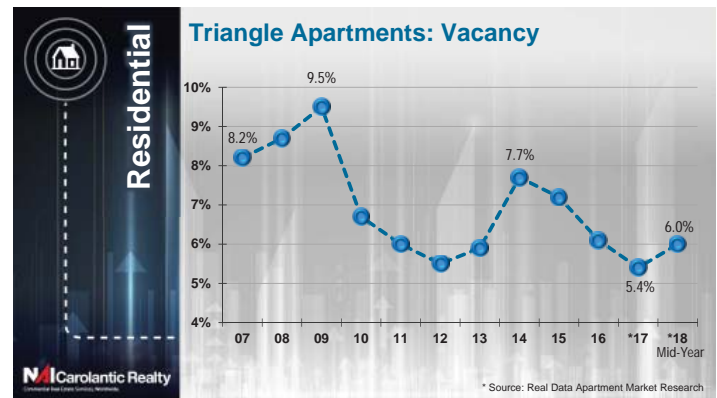
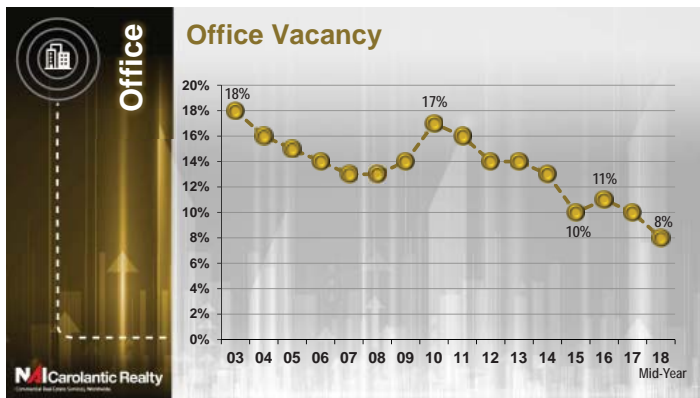
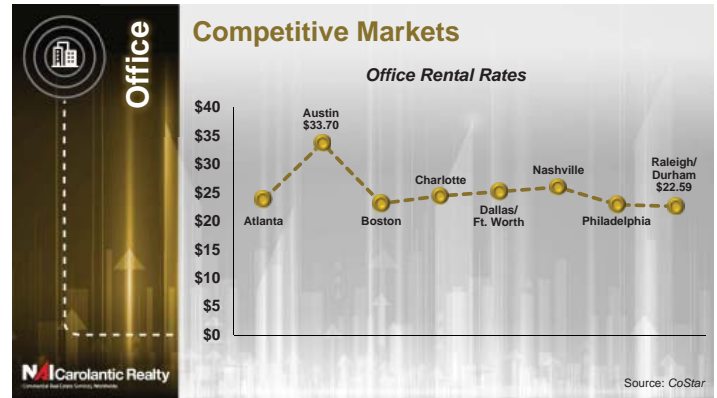
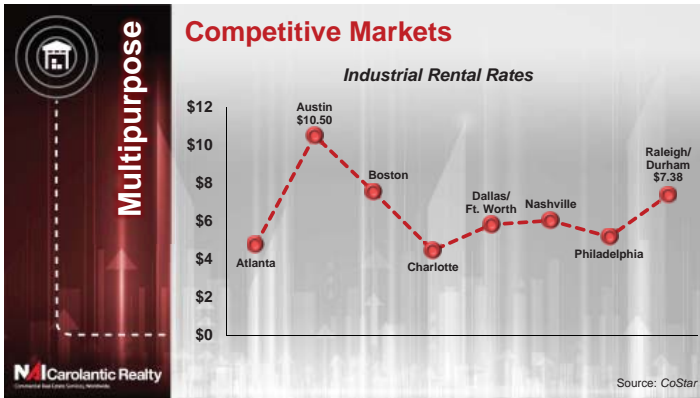
### Land:

With an estimated 80+ people moving to the Triangle per day, the land market has experienced a robust amount of change and development so far in 2018. The confidence in the market has kept land demand high, whether it is for single-family, multi-family, industrial, office or retail development. All well-located properties have buyers looking with interest. New construction success on land parcels fully depends upon the municipalities providing appropriate entitlements. Some land usage such as office and major retail are a “no brainer” for the towns. However, single-family residential and multi-family developments in hot areas have been very difficult to receive support. Opposition has been primarily based on the concerns of a surplus of supply. Land pricing over the past six months has remained stable and the trend is expected to continue throughout the rest of 2018.



## Investment:

As forecasted, the Triangle has continued to experience strong demand in the investment market for all product categories due to the Tier 1 Cities' inability to provide acceptable returns. The industrial sector leads all product categories, as single tenant NNN leases are highly sought after. Investors are also attracted to multi-family housing due to the Triangle's growing population and job opportunities. The Triangle has experienced substantial investment volume growth at mid-year totaling \$1.5 billion. Cap rates remain stable, averaging a bit above the national average at 6%. As projected, even with rising interest rates, increased demand has kept cap rates secure.



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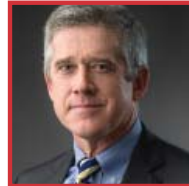
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