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SECOND QUARTER 2015 TRIAD MARKET REPORT

(By Michael S. Clapp, MAI, CRE, & Paul G. Carter, Jr., MAI, SRA, as of November 13, 2015)

The Piedmont Triad region consists of three major cities: Greensboro, Winston-Salem, and High Point. Winston-Salem's central business district (CBD) is about 27 miles west of Greensboro's CBD and about 19 miles northwest of High Point's CBD. The Piedmont Triad International (PTI) Airport is located between these three cities.

The Piedmont Triad area is located in north-central North Carolina, about midway between Charlotte to the southwest and Raleigh/Durham to the east.

This report includes trends relative to population, income and employment. It also includes overviews of each of the Triad's major real estate markets. The sources of information are:

- Population and Income Data: Site to Do Business Website of the CCIM Institute. The latest available information is from 2015.
- Employment Data: Labor & Economic Analysis Division of the North Carolina Department of Commerce, and the Dixon Hughes Goodman Triad Business Index which is developed and maintained by the Bryan School of Business & Economics at The University of North Carolina at Greensboro.
- Retail, Office, and Warehouse Market Data: The Karnes Report, which is published quarterly by Karnes Research Company, LLC, of Charlotte, NC, second quarter of 2015 (latest available). ***Please note that the rents reported are asking rents and not actual rents.***
- Single Family Residential Market Data: Michael S. Clapp & Associates, Inc. which publishes a report every other month on the residential market.

The significant points to be drawn from this analysis are:

- For the five-year period from 2015-2020, the projected annual population growth rates are 0.83% for Forsyth County, 0.92% for Guilford County, and 0.58% for the entire Piedmont Triad region. These growth rates significantly trail those of Mecklenburg County (Charlotte), Wake County (Raleigh), and Durham County (Durham) which are projected at 2.16%, 2.16%, and 2.02%, respectively.
- The median household income in 2015 for Forsyth County is 20% below that of Mecklenburg County (Charlotte), 32% below that of Wake County (Raleigh), and 11% below that of Durham County (Durham). Guilford County's median household income is 18% below Mecklenburg, 29% below Wake, and 8% below Durham.

- The average household income in 2015 for Forsyth County is 20% below that of Mecklenburg County, 27% below that of Wake County, and 6% below that of Durham County. Guilford County's average household income is 18% below Mecklenburg, 26% below Wake, and 4% below Durham.
- The Piedmont Triad's unemployment rates have fallen significantly over the past five years. Since the fourth quarter of 2014, the rates have generally ranged from about 5% to 6% and have remained at their lowest levels since before the Great Recession started in 2007. The region's job growth has been positive but relatively modest and slow in recent years.
- Vacancy in the retail market was 10.4% in the second quarter of 2015, down 30 basis points from 10.7% from the prior quarter. Asking rents increased \$.06 to \$17.45 in the second quarter of 2015 versus \$17.39 in the first quarter of 2015. Given the improvement in 2013, 2014, and thus far in 2015, relative to both vacancy and rent levels, 2012 marked the bottom of the market for this sector.
- Overall vacancy in the office market for the second quarter of 2015 decreased to 16.8% from 17.3% in the previous quarter. The average asking rent on a quarter-to-quarter basis remained virtually level (actually decreased by \$.01) to \$17.33 per square foot).
- The warehouse market continued to experience a significant decline in vacancy with the rate for the second quarter of 2015 standing at 10.4%. Asking rents increased by \$.06 per square foot to the \$3.80 level.
- Relative to the single family residential market, sales volumes increased 7.1% for the first eight months of 2015 versus the same period in 2014. Prices were up 6.7% over the same period in 2014. The inventory level is improving and stands at about 5.6 months as of October 2015.

Population and Income Data

Ten counties make up the Piedmont Triad region: Alamance, Davidson, Davie, Forsyth, Guilford, Randolph, Rockingham, Stokes, Surry, and Yadkin. In 2015, the estimated population of this region is 1,629,425.

The most populous and urbanized counties in the Piedmont Triad region are Forsyth County, which contains the city of Winston-Salem, and Guilford County, which contains the cities of Greensboro and High Point. The other counties are more rural with smaller cities and towns.

The following table outlines the projected 2015-2020 population trends for Forsyth County, Guilford County, the Piedmont Triad region, the entire state, and the nation. For comparison purposes, the figures are also shown for three other counties in North Carolina: Mecklenburg County, which contains Charlotte, the state's largest city; Wake County, which contains Raleigh, the state capital; and Durham County, which adjoins Wake County and contains most of the Research Triangle Park.

Population Trends: 2010 - 2020				
	2010	2015	2020	2015-2020 Annual Rate
Forsyth County	350,670	364,154	379,439	0.83%
Guilford County	488,406	507,269	531,134	0.92%
Piedmont Triad (10 counties)	1,589,200	1,629,425	1,676,846	0.58%
North Carolina	9,535,483	10,014,449	10,579,369	1.10%
United States	308,745,538	318,536,439	330,622,575	0.75%
Other NC Counties				
Mecklenburg County (Charlotte)	919,628	999,426	1,112,120	2.16%
Wake County (Raleigh)	900,993	996,427	1,108,672	2.16%
Durham County (Durham)	267,587	294,230	325,191	2.02%

As indicated above, the 2015-2020 projected population growth rates for Forsyth and Guilford counties are slightly lower than that for the state and much lower than those for Mecklenburg, Wake, and Durham counties.

Thus, the expected population growth rates during the next few years in Forsyth and Guilford are probably sustainable but they are modest and do not provide a basis for any major increases in future or potential demand for real estate in the Piedmont Triad region.

As outlined in the next tables, the median and average household income levels in Forsyth and Guilford counties are slightly higher than those for the entire Piedmont Triad and fairly similar to those for the state. However, income levels in Forsyth and Guilford are much lower than those for Mecklenburg and Wake counties, and slightly lower than those for Durham County.

Median Household Income Trends: 2015 - 2020			
	2015	2020	2015-2020 Annual Rate
Forsyth County	\$44,255	\$51,468	3.07%
Guilford County	\$45,797	\$52,596	2.81%
Piedmont Triad (10 counties)	\$43,052	\$50,624	3.29%
North Carolina	\$46,306	\$53,291	2.85%
United States	\$53,217	\$60,683	2.66%
Other NC Counties			
Mecklenburg County (Charlotte)	\$55,628	\$61,852	2.14%
Wake County (Raleigh)	\$64,875	\$73,238	2.45%
Durham County (Durham)	\$49,861	\$55,704	2.24%

Average Household Income Trends: 2015 - 2020			
	2015	2020	2015-2020 Annual Rate
Forsyth County	\$65,694	\$73,713	2.33%
Guilford County	\$67,310	\$75,539	2.33%
Piedmont Triad (10 counties)	\$61,249	\$69,058	2.43%
North Carolina	\$65,018	\$73,670	2.53%
United States	\$74,699	\$84,910	2.60%
Other NC Counties			
Mecklenburg County (Charlotte)	\$82,397	\$92,417	2.32%
Wake County (Raleigh)	\$90,363	\$101,334	2.32%
Durham County (Durham)	\$70,073	\$78,107	2.19%

Employment Data

Since the Great Recession of 2007-2009, the Triad's economy and labor markets have been slowly and gradually improving. The pace of improvement in the Triad has been slower than that of the Charlotte and Raleigh/Durham areas.

The following table outlines the estimated number of persons employed in June 2015 and in the same month during the past five years in Forsyth and Guilford counties, the Piedmont Triad region, and the state. These figures are from the Labor & Economic Analysis Division of the N.C. Department of Commerce, and they not adjusted for seasonal-hiring variations.

Total Employment - Six-Year Trend for Selected Month						
(Figures are not seasonally adjusted)						
	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15
Forsyth County	156,136	155,864	160,358	164,191	165,090	169,345
Guilford County	224,541	225,116	229,035	233,185	233,032	241,998
Piedmont Triad	704,791	704,031	717,130	727,218	729,883	752,896
North Carolina	4,137,291	4,155,549	4,259,146	4,325,281	4,389,233	4,484,928

Because of the Great Recession, the total number of employed persons in the Piedmont Triad region fell sharply during 2008 and 2009, but the region's job growth has been on a positive trend since 2010. For example, the region's total employment reached 752,896 in June 2015 which was up by 54,837 jobs or about 7.8% over the total employment in December 2010.

However, since the Great Recession, job growth in the Piedmont Triad has been relatively modest and slow. For example, from June 2010 to June 2015, the total employment grew 8.5% in Forsyth County, 7.8% in Guilford County, and 6.8% in the Piedmont Triad region. During the same time period, the total employment growth rates were 17.3% for Mecklenburg County, 14.8% for Wake County, 10.9% for Durham County, and 9.3% for the entire state.

The following table outlines the unemployment rates in June 2015 and in the same month during the past five years in Forsyth and Guilford counties, the Piedmont Triad region, and the state. These rates are not adjusted for seasonal-hiring variations.

Unemployment Rates - Six-Year Trend for Selected Month						
(Rates are not seasonally adjusted)						
	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15
Forsyth County	10.2%	10.4%	9.3%	8.1%	6.2%	5.9%
Guilford County	11.3%	11.1%	10.1%	8.9%	6.9%	6.3%
Piedmont Triad	11.3%	11.0%	9.9%	8.6%	6.5%	6.0%
North Carolina	10.9%	10.7%	9.6%	8.5%	6.4%	6.1%
United States	9.6%	9.3%	8.4%	7.8%	6.3%	5.5%

Unemployment rates in the Piedmont Triad region rose sharply during 2008 and 2009 due to the recession, but the rates have dropped significantly since 2010. Since the fourth quarter of 2014, the rates have generally ranged from about 5% to 6% and have remained at their lowest levels since before the Great Recession started in 2007.

Retail Market Overview

The Karnes Triad retail survey covers buildings of 5,000 square feet or more that are located in the Piedmont counties of Forsyth, Guilford, Alamance, Davidson, and Randolph. The survey covers 672 buildings totaling 38,316,988 square feet, of which 3,977,510 square feet (10.4%) are vacant. Historical vacancy on a per quarter basis is summarized in the following table:

Retail Market Vacancy	
Quarter	Vacancy
1Q08	9.6%
2Q08	9.3%
3Q08	9.6%
4Q08	9.6%
1Q09	10.3%
2Q09	10.5%
3Q09	10.4%
4Q09	10.8%
1Q10	10.1%
2Q10	10.0%
3Q10	9.8%
4Q10	9.6%
1Q11	10.4%
2Q11	11.7%
3Q11	11.4%
4Q11	11.5%
1Q12	11.5%
2Q12	11.5%
3Q12	11.3%
4Q12	11.0%
1Q13	11.0%
2Q13	10.8%
3Q13	10.4%
4Q13	10.1%
1Q14	10.2%
2Q14	10.1%
3Q14	10.1%
4Q14	10.2%
1Q15	10.7%
2Q15	10.4%

The vacancy rate for 2011 averaged 11.3%; for 2012 the average vacancy was also 11.3%. In 2013 vacancy declined to 10.6%. For 2014 vacancy averaged 10.2%. For the second quarter of 2015 vacancy is 10.4%, down 30 basis points from 10.7% for the first quarter of 2015. Vacancy topped out in 2011 and 2012. Since the fourth quarter of 2013 vacancy has remained in the range of 10.1% to 10.7% and is only slightly above the 10% equilibrium level. At 10.4%, the second quarter 2015 vacancy is 110 basis points above its lowest level of 9.3% reported in the second quarter of 2008.

For the second quarter of 2015 the trend in vacancy by space type shows vacancy has decreased in four property types, those being those being Specialty, Strip, Community, and Power. For the remaining two property types (Neighborhood and Regional), vacancy has increased only very slightly. The lowest vacancy is found in the Power (4.6%) and Community (8.0%) property types. The highest vacancy is found in the Neighborhood and Strip property types, which are those centers that carry a larger percentage of local shops. Please see the following table.

Retail Vacancies by Space Type

Quarter	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Specialty	19.5%	17.6%	16.2%	15.9%	15.8%	13.2%	13.6%	9.7%	12.1%	10.9%	10.4%
Neighborhood	14.9%	14.5%	13.7%	13.3%	13.7%	14.0%	14.0%	13.8%	12.7%	12.5%	12.7%
Strip	15.2%	15.4%	16.2%	15.8%	15.3%	15.9%	15.0%	15.1%	15.3%	14.9%	14.6%
Community	8.5%	8.0%	7.9%	7.8%	7.9%	7.7%	8.0%	7.9%	9.6%	9.2%	8.0%
Power	8.1%	8.1%	8.4%	7.0%	5.3%	5.3%	4.9%	4.7%	4.8%	5.0%	4.6%
Regional	5.7%	6.5%	6.1%	6.0%	5.7%	6.1%	6.4%	7.0%	6.8%	10.6%	10.7%

Footnotes:

- Specialty centers are unanchored centers.
- Neighborhood centers contain 50,000 to 125,000 square feet.
- Strip centers contain 20,000 to 50,000 square feet with no large anchors.
- Community centers are in the 125,000 to 400,000 square foot size range.
- Power centers typically contain 250,000sf or more and are heavily anchored.
- Regional centers are typically enclosed malls.

As seen from the table above, vacancy has consistently been high in the Specialty, Neighborhood, and Strip property types due to a lack of major tenant spaces and an orientation to local tenants. However, two of the three property types improved in the second quarter of 2015 with Specialty moving from 10.9% vacancy to 10.4% vacancy and Strip improving from 14.9% to 14.6%. The Neighborhood property type experienced only a very slight increase in vacancy moving from 12.5% to 12.7%.

The normal level of vacancy for the retail market is generally accepted to be 10.0%. Except for the Strip classification (14.6%), the remaining property types are close to 10.0% or below that level. Thus, overall vacancy is approaching the normal level of 10%.

The trend of average retail rents (asking rents) over the last thirty quarters is outlined in the table on the following page:

Average Retail Rents	
Quarter	Avg. Rents
1Q08	\$15.86
2Q08	\$16.60
3Q08	\$16.65
4Q08	\$16.44
1Q09	\$16.44
2Q09	\$16.34
3Q09	\$16.33
4Q09	\$16.12
1Q10	\$16.02
2Q10	\$16.37
3Q10	\$16.38
4Q10	\$16.39
1Q11	\$16.27
2Q11	\$16.39
3Q11	\$16.52
4Q11	\$16.45
1Q12	\$16.41
2Q12	\$16.36
3Q12	\$16.24
4Q12	\$16.46
1Q13	\$16.52
2Q13	\$16.40
3Q13	\$16.47
4Q13	\$16.54
1Q14	\$16.61
2Q14	\$17.18
3Q14	\$17.54
4Q14	\$16.93
1Q15	\$17.39
2Q15	\$17.45

In response to the past recession, rents bottomed out in the first quarter of 2010 at \$16.02 per square foot and had an uneven and weak upward trend to a high of \$16.52 in the third quarter of 2011. From that point, asking rents declined for four straight quarters before recovering \$.22 in the fourth quarter of 2012 to \$16.46. From the fourth quarter of 2012, the trend in asking rents to the third quarter of 2013 was upward (with the exception of the second quarter 2013) with rents increasing to \$17.54 in the third quarter of 2014. However, asking rents could not hold at the very high level and decreased \$.61 to \$16.93 for the fourth quarter of 2014 before rebounding to \$17.39 in the first quarter of 2015. The rebound continued in the second quarter of 2015 with asking rents increasing \$.06 to \$17.45 per square foot.

Net absorption during the second quarter of 2015 was 275,204 square feet while completions (supply) totaled 171,827 square feet; thus, the reduction in vacancy from the first quarter to the second quarter.

On a year-to-date basis, the situation is reversed with net absorption totaling 223,370 square feet versus completions of 311,053 square feet.

The Karnes Report notes that 113,100 square feet of new space was under construction as of the second quarter of 2015. Karnes also reports an additional 1,758,868 square feet of proposed space although some of that space will probably not be built. On page 7 of its report, Karnes advises that “new construction through the end of 2015 should have a positive effect on net absorption, as the 113,100 SF under construction across three centers is nearly 100% pre-leased.”

To sum up, the retail market has historically been healthy with a balance of supply and demand; rental rates steadily increased over time. However, those trends reversed in response to the past recession and weak recovery from that recession with vacancies increasing and rents declining from their peak levels. While vacancy improved in 2013 and held steady in 2014, vacancy has increased slightly during the first two quarters of 2015. Even so, at 10.4% the overall market is virtually at equilibrium in terms of supply and demand. As a result, the upward trend in asking rents experienced over the last four quarters should continue over the foreseeable future.

Office Market Overview

For the second quarter of 2015 vacancy declined 50 basis points to 16.8% versus 17.3% in the first quarter of 2015. Because of the high vacancy, asking rents have remained stable and actually declined this past quarter by \$.01 from \$17.34 in the first quarter of the year to \$17.33 as of the second quarter of 2015. For the past three years the average asking rental rate has experienced a modest upward trend despite the high vacancy.

The Karnes Report includes all for-lease office buildings over 5,000 square feet in size in Forsyth, Guilford, Alamance, Davidson, and Randolph counties. The report covers 654 buildings containing 26,097,873 square feet, of which 4,385,661 square feet (16.8%) were vacant in the second quarter of 2015. Overall office vacancy for the past few years on a quarterly basis is shown in the following table:

Overall Office Market Vacancy	
Quarter	Vacancy
1Q08	17.8%
2Q08	18.0%
3Q08	18.2%
4Q08	18.0%
1Q09	18.0%
2Q09	18.0%
3Q09	18.9%
4Q09	19.2%
1Q10	18.3%
2Q10	18.0%
3Q10	17.9%
4Q10	17.5%
1Q11	17.6%
2Q11	16.1%
3Q11	15.6%
4Q11	15.8%
1Q12	15.9%
2Q12	16.3%
3Q12	15.4%
4Q12	15.2%
1Q13	15.0%
2Q13	15.1%
3Q13	14.5%
4Q13	15.0%
1Q14	15.3%
2Q14	16.8%
3Q14	17.5%
4Q14	17.4%
1Q15	17.3%
2Q15	16.8%

Vacancy peaked in the fourth quarter of 2009 at the 19.2% level before decreasing significantly the following seven quarters to the 15.6% level in the third quarter of 2011. At that point, vacancy ticked up 70 basis points over the next three quarters to 16.3% in the second quarter of 2012 before starting an erratic downward trend to the third quarter 2013 level of 14.5%. The declining trend in the vacancy rate was broken in the fourth quarter of 2013 when the rate rose to 15.0%. Vacancy has continued to increase since then with the vacancy rate standing at 16.8% for the second quarter of 2015, down from 17.3% for the first quarter of 2015.

Despite the high vacancy, the average asking rents (on a full service basis) continue to show modest improvement although there are some signs of rents leveling out the last quarter. Asking rents have increased from \$16.54 per square foot in the first quarter of 2013 to the \$17.33 level for the second quarter of 2015. This is an increase of about 2% per year. Please see the table that follows.

Overall Office Market Rents

Quarter	Avg. Rents
1Q08	\$15.72
2Q08	\$15.65
3Q08	\$15.66
4Q08	\$15.75
1Q09	\$15.79
2Q09	\$15.79
3Q09	\$15.83
4Q09	\$15.80
1Q10	\$15.81
2Q10	\$15.84
3Q10	\$15.89
4Q10	\$15.96
1Q11	\$15.97
2Q11	\$16.22
3Q11	\$16.21
4Q11	\$16.31
1Q12	\$16.30
2Q12	\$16.34
3Q12	\$16.35
4Q12	\$16.42
1Q13	\$16.54
2Q13	\$16.58
3Q13	\$16.64
4Q13	\$16.83
1Q14	\$16.88
2Q14	\$17.00
3Q14	\$17.26
4Q14	\$17.27
1Q15	\$17.34
2Q15	\$17.33

Thus, for the second quarter of 2015 the overall vacancy rate decreased 50 basis points to 16.8% from 17.3% for the prior quarter. Asking rents on a quarter-to-quarter basis decreased ever so slightly by \$.01 to \$17.33 in the second quarter of 2015.

The Class A vacancy and rents on a quarterly basis for the past thirty quarters are shown in the following table.

Class A Office Market Vacancy & Rents

Quarter	Vacancy	Avg. Rents
1Q08	16.7%	\$17.40
2Q08	16.9%	\$17.38
3Q08	17.4%	\$17.36
4Q08	17.1%	\$17.52
1Q09	17.4%	\$17.61
2Q09	17.7%	\$17.62
3Q09	18.2%	\$17.64
4Q09	18.6%	\$17.65
1Q10	17.4%	\$17.67
2/Q10	17.1%	\$17.72
3/Q10	16.6%	\$17.75
4Q10	16.3%	\$17.84
1Q11	16.2%	\$17.89
2Q11	15.2%	\$17.82
3Q11	14.3%	\$17.74
4Q11	14.5%	\$17.77
1Q12	14.7%	\$17.74
2Q12	14.7%	\$17.80
3Q12	14.1%	\$17.83
4Q12	14.0%	\$17.99
1Q13	13.6%	\$18.16
2Q13	13.3%	\$18.23
3Q13	13.3%	\$18.32
4Q13	13.6%	\$18.76
1Q14	13.5%	\$18.77
2Q14	16.4%	\$18.89
3Q14	17.0%	\$19.09
4Q14	16.8%	\$19.12
1Q15	16.8%	\$19.18
2Q15	16.5%	\$19.15

For Class A space, the second quarter 2015 vacancy declined 30 basis points to 16.5% versus 16.8% for the first quarter. Historical vacancy in the Class A market peaked at 18.6% in the fourth quarter of 2009 and then began a steady downward trend to the 13.3% level in the third quarter of 2013. However, that downward trend was broken in the fourth quarter of 2013 and has continued to increase in an erratic fashion over time. Asking rents rose \$.03 per square foot in the second quarter of 2015 despite the continued high vacancy. Asking rents for Class A space are only slightly below the top experienced last quarter.

Trends in Class B vacancy and rents since 2008 are shown in the following table.

Class B Office Market Vacancy & Rents

Quarter	Vacancy	Avg. Rents
1Q08	15.3%	\$13.29
2Q08	15.6%	\$13.08
3Q08	15.6%	\$13.10
4Q08	16.1%	\$13.20
1Q09	15.6%	\$13.26
2Q09	15.0%	\$13.22
3Q09	16.8%	\$13.35
4Q09	16.6%	\$13.19
1Q10	16.6%	\$13.19
2Q10	16.4%	\$13.26
3Q10	16.7%	\$13.28
4Q10	16.3%	\$13.22
1Q11	16.7%	\$13.15
2Q11	16.2%	\$13.73
3Q11	16.2%	\$13.78
4Q11	16.6%	\$13.93
1Q12	16.5%	\$13.90
2Q12	17.6%	\$13.90
3Q12	17.0%	\$13.89
4Q12	16.8%	\$13.93
1Q13	16.9%	\$14.03
2Q13	17.6%	\$14.05
3Q13	16.2%	\$14.01
4Q13	17.0%	\$13.95
1Q14	17.9%	\$14.00
2Q14	18.0%	\$14.10
3Q14	18.7%	\$14.25
4Q14	18.7%	\$14.18
1Q15	18.5%	\$14.25
2Q15	17.7%	\$14.27

As seen from the above table, vacancy in the Class B market decreased 80 basis points from 18.5% in the first quarter of 2015 to the 17.7% level for the second quarter of 2015. Vacancy in the Class B market has moved below 18% for the first time in the past four quarters. Asking rents have shown a slight increasing moving from \$14.25 in the first quarter of 2015 to \$14.27 in the second quarter of 2015. In reality, Class B asking rents have been stable for the past four quarters. For Class B space over the past thirty quarters, vacancy has ranged from 15.0% to 18.7% while rents have ranged from \$13.08 to the current high of \$14.27. While Class B rents are at the upper end of the range, annual growth in asking rental rates since the first quarter of 2008 has only been about 1%.

Class C space continues to suffer very high vacancy (14.8% for the second quarter of 2015) with asking rents up \$.05 to \$12.09 per square foot.

Net absorption during the second quarter of 2015 was 183,568 square feet while new completions during the quarter were 77,592 square feet leading to the decrease in the market-

wide vacancy rate. For the first two quarters of the year, net absorption was 212,916 square feet versus completions of 77,592 square feet.

Karnes reports 388,000 square feet of office space was under construction in the second quarter of 2015. This space, per Karnes, is contained in three buildings that are reported to be 100% leased. It is likely that some of these tenants for the new buildings are relocating from existing space so there may not be a significant impact upon vacancy. Karnes also notes that 872,151 square feet of office space was proposed as of the second quarter of 2015 but it is unlikely that all proposed space will actually be built.

The lack of job growth continues to be a problem for the office sector. As new space comes on the market during the remainder of the year, both vacancy and rental rates will continue to be under pressure.

Warehouse Market Overview

The Karnes Triad industrial survey covers buildings of 5,000 square feet or more in size that are located in the Piedmont counties of Forsyth, Guilford, Davidson, Alamance, and Randolph.

Relative to warehouse properties, the survey covers 551 buildings totaling 51,372,667 square feet, of which 5,330,635 square feet (10.4%) were vacant in the second quarter of 2015. Vacancy on a quarterly basis since 2008 has historically been very high until decreasing significantly in the fourth quarter of 2012. That decreasing trend continues today as shown on the table that follows.

Warehouse Market Vacancy	
Quarter	Vacancy
1Q08	22.6%
2Q08	22.2%
3Q08	22.4%
4Q08	22.2%
1Q09	22.5%
2Q09	22.6%
3Q09	22.5%
4Q09	22.6%
1Q10	22.0%
2Q10	21.4%
3Q10	22.5%
4Q10	21.5%
1Q11	23.0%
2Q11	22.5%
3Q11	22.0%
4Q11	22.3%
1Q12	22.6%
2Q12	22.7%
3Q12	20.9%
4Q12	16.8%
1Q13	16.6%
2Q13	15.7%
3Q13	14.8%
4Q13	13.8%
1Q14	13.7%
2Q14	13.4%
3Q14	13.3%
4Q14	12.2%
1Q15	11.8%
2Q15	10.4%

The sharp decline in vacancy reported in the fourth quarter of 2012 was due to two primary factors. First, Karnes reported that 400,000 square feet of demand was the result of the demolition of outdated space in Davidson County. Second, Karnes removed 343,000 square feet in the Guilford-Airport market as Ralph Lauren’s occupancy of that space had not previously been reported.

Even so, vacancy as of the fourth quarter of 2012 was at its lowest point since Karnes began covering the market in 2008. The positive trend has continued through 2013, 2014, and thus far in 2015 with vacancy for the second quarter of 2015 standing at 10.4%, the lowest since the survey began in 2008.

For the second quarter of 2015, average asking rents (on a triple net basis) for warehouse properties increased by \$.06 per square foot to \$3.80. Average asking rents are slightly above their peak of \$3.77 experienced in the first quarter of 2011. For all of 2011 asking rents averaged \$3.69 versus the 2012 annual average of \$3.60 per square foot. The average asking

rent for 2013 was \$3.53 per square foot but increased to \$3.59 for 2014. As noted, for the second quarter of 2015, asking rents stand at \$3.80 per square foot. Rents are in the midst of an increasing trend as illustrated on the table below:

Average Warehouse Rents	
Quarter	Avg. Rents
1Q08	\$3.53
2Q08	\$3.53
3Q08	\$3.55
4Q08	\$3.50
1Q09	\$3.52
2Q09	\$3.52
3Q09	\$3.50
4Q09	\$3.49
1Q10	\$3.47
2Q10	\$3.41
3Q10	\$3.42
4Q10	\$3.75
1Q11	\$3.77
2Q11	\$3.66
3Q11	\$3.70
4Q11	\$3.60
1Q12	\$3.60
2Q12	\$3.62
3Q12	\$3.61
4Q12	\$3.57
1Q13	\$3.53
2Q13	\$3.52
3Q13	\$3.53
4Q13	\$3.53
1Q14	\$3.55
2Q14	\$3.55
3Q14	\$3.60
4Q14	\$3.64
1Q15	\$3.74
2Q15	\$3.80

Karnes reports that net absorption for the second quarter of 2015 totaled an astonishing 652,051 square feet while there were no new completions. Karnes notes that positive net demand was reported in nine warehouse submarkets during the quarter. On a year-to-date basis, net absorption was 871,498 square feet while new completions totaled only 75,000 square feet; thus, the decline in the vacancy rate.

The Karnes Report advises that 1,177,000 square feet of warehouse space was under construction as of the second quarter of 2015. An additional 1,386,459 square feet shown is shown as proposed space, however, it is not likely that all of that space will be built.

From 2008 through 2012, the warehouse market experienced high vacancy rates in the range of 22%. The breakthrough to the current 10.4% level has been sustained for the past eleven

quarters. Asking rents are certainly increasing. Future increases are contingent upon how well the market absorbs the 1,177,000 square feet of space that is currently under construction. Since 843,000 square feet of the under construction space is for Ralph Lauren (I-74 Corporate Park), the near term bodes well for future increases in the warehouse asking rent levels.

Single Family Residential Market Overview

The information for this section was derived from periodic reports prepared by Michael S. Clapp & Associates, Inc. The firm has been compiling reports on the residential market since 1989. The report focuses on Forsyth, Davie, Davidson, Stokes, and Yadkin counties. While the eastern half of the Triad is not included in the report, the trends found in the aforementioned counties are most likely applicable to the eastern part of the Triad as well.

The information from the September 1, 2015 report shows the following trends in residential sales and prices.

YEAR TO DATE COMPARISONS

Period	New Listings	# Sales	% Change	Avg. Price	% Change	Sales/New Listings
1/1/13-8/31/13	10,317	5,449	NA	\$149,345	NA	52.8%
1/1/14-8/31/14	10,603	5,643	3.6%	\$155,328	4.0%	53.2%
1/1/15-8/31/15	10,588	6,043	7.1%	\$165,762	6.7%	57.1%

- Under the current MLS software vendor, the days-on-market and list price only track the current listing and not previous listings by the same or different agents. Those statistics do not reflect a true marketing time and sale/list price ratio; consequently the statistics have not been included in the analysis.
- The volume of sold units (demand indicator) during the first eight months of 2015 is 6,043, up 7.1% over the same period in 2014 and up 10.9% over 2013. Sales for the January – August period over the past three years have been in the range of 5,449 to 6,043 with an average of 5,712.
- New listings (supply indicator) declined slightly during the January – August period of 2015 versus 2014. The slight decline, coupled with the increase in sales activity, helps to eliminate the oversupply.
- MLS shows a total of 3,971 active listings in Forsyth, Davie, Davidson, Stokes, and Yadkin counties as of 10/9/2015. Sales in 2014 averaged 703/month according to the **new MLS vendor**. With 3,971 active listings and a monthly sales rate of 703 units, the inventory level for October 2015 equates to 5.6 months. This compares to the 7 to 9 months generally experienced the past two years.

5. An important indicator of market strength, “the percentage of sales to the number of new listings” ratio, stands at 57.1% for the first eight months of 2015. This is up from 53.2% for the same period in 2014 and is also up from 52.8% over 2013. **The “number of new listings” ratio is beginning to approach a more normal level.**
6. The average sale price for the January – August period of 2015 was \$165,762, up 6.7% over the \$155,328 average price for the same period in 2014 **per the new MLS vendor.** Due to stronger demand relative to supply (see Sales/New Listings ratio) prices in the overall market are increasing, although this may not be true for individual submarkets.

In summary, sales for the January – August period of 2015 are up 7.1% over the same period in 2014 and are up 10.9% over the January – August 2013 period. The March 1, 2013 newsletter reported that “prices may be on the verge of stabilizing” and not only have they stabilized, but for the most part they have increased. The unemployment picture is improving. The inventory level for existing housing has shown improvement. Competitive pricing and excellent condition remain key factors for the successful marketing of residential real estate given current market conditions.

Summary

The Piedmont Triad is one of the North Carolina’s major metropolitan areas. The Triad’s growth has historically been only moderate when compared to Charlotte and Raleigh/Durham, North Carolina’s other major metropolitan areas. Income levels in those markets significantly exceed those found in the Triad as well.

The Piedmont Triad’s unemployment rates have fallen significantly over the past five years. Since late 2014, the rates have generally ranged from about 5% to 6% have been at their lowest levels since 2007. However, the region’s economy continues to be impacted by relatively slow job growth.

The real estate markets in all sectors remain very competitive with high vacancies found in the office market while the retail and warehouse markets are approaching equilibrium. Single family residential sales volumes are down but prices are increasing on a year over year basis.

Thus, the local economy is slowly and gradually improving but growth is only moderate. That growth should remain moderate over the short run and long run as well.