

# INVESTMENT FORECAST

Retail  
Raleigh

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Sound Fundamentals Brighten Long-Term Outlook; Investors Target High-Quality Assets Across the Metro

**Retail sales to grow at nation-leading pace.** The metro has been one of the fastest growing in the last decade, driven by corporate arrivals and prominent high-level academic institutions. This expansion continues in 2022 as the Triangle is expected to gain 26,000 citizens in net migration, spearheaded by high-wage employers like Google, Apple and Fidelity. These factors and a nearly 3 percent increase to the metro's median household income contribute to anticipated retail sales growth of nearly 13 percent year over year in 2022, a figure larger than what is expected in any other major market. Beyond this, 28 percent of the population falls in the 25- to 44-year-old cohort, which correlates with family formation, an additional positive for retail spending. Builders and vendors are responding, with roughly 1 million square feet of space slated for finalization this year, nearly 90 percent of which is pre-leased. Strong demand for newly built space and the recent repurposing of older malls into mixed-use assets are positioned to steer expanding retailers to a smaller inventory of available space, supporting tight conditions in 2022.

**Investors key in on lower-risk properties.** Locally active buyers are following national trends by increasing interest in single-tenant assets with credit-worthy retailers like Walgreens, CVS and Publix. Cap rates are reporting near 6 percent for single-tenant assets on average; returns, however, can be up to 150 basis points lower for assets occupied by tenants with outstanding credit. West Wake County, mainly Cary, remains the most liquid single-tenant submarket in the metro, supported by vacancy compression and average asking rents exceeding pre-pandemic values. Risk-averse behavior by investors has extended into multi-tenant trades as well, evidenced by the frequency of well-leased and grocery-anchored shopping center transactions. Multi-tenant, first-year yields land roughly 100 basis points higher than their single-tenant counterparts, with North Raleigh and West Wake County being the most targeted locales.

### 2022 Market Forecast

- Employment**  
up 2.8%
 

Employers will add 28,000 jobs in 2022, with many being high-income tech and cloud computing roles.
- Construction**  
950,000 sq. ft.
 

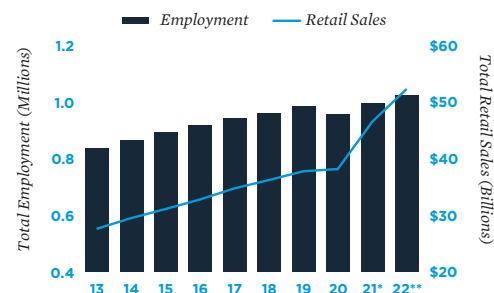
Completions in 2022 will be lower than last year's total of 1 million square feet; annual delivery volume, however, is roughly 120,000 square feet above the five-year trailing average.
- Vacancy**  
down 10 bps
 

Despite a sizable construction pipeline, strong pre-leasing and an improvement in retailer demand near employment hubs will help cut metrowide vacancy to 3.5 percent.
- Rent**  
up 2.4%
 

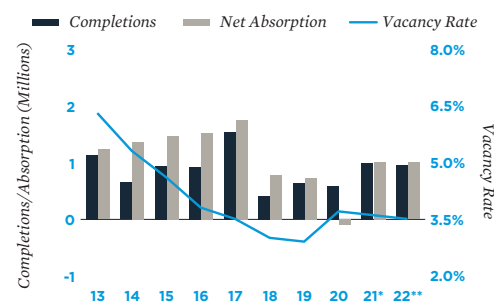
The average marketed asking rent will climb to \$19.20 per square foot, as new projects are opened and filled. This growth more than erases last year's 0.2 percent decrease.
- Investment**

Investors willing to take on more risk are targeting both single and multi-tenant assets in North Raleigh. These assets trade well below the market average pricing of \$337 per square foot.

### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.