

MARKET REPORT

Retail
Raleigh Metro Area

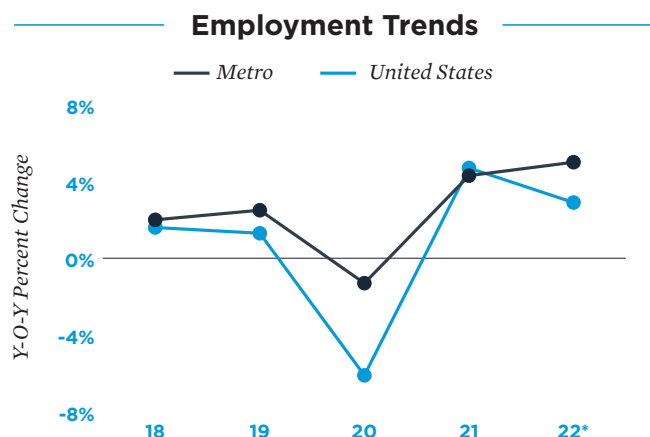
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2Q/22

Rapid In-Migration Spurs Necessity-Based Growth Amid Retail Reorganization

Corporate arrivals spark flurry of demolitions. The entrance of many high-skill jobs has lifted incomes and fostered population growth, spurring expansions by necessity retailers like Publix, Aldi and Food Lion. At the same time, corporations moving to the metro have set in motion the demolition of outdated centers, as they are redeveloped into office campuses or mixed-use multifamily and retail assets. Epic Games is in the process of demolishing the 980,000-square-foot Cary Towne Center. At the same time, the new owners of South Hills Mall, the oldest mall in the metro, are working on redevelopment plans to turn the site into a mixed-use project. Cary is already a high performing retail locale, and this will further aid the outlook for remaining assets in West Wake County.

Trio of submarkets drive recent absorption. Retailers leased the most space in the fastest growing suburbs, highlighted by West Wake County and North Raleigh, the only two submarkets where net absorption surpassed 140,000 square feet in the first quarter. Availability in West Wake County is just 2.2 percent, and retailers have been successful here, due to both population gains and rising incomes near RTP. On the other side of the metro, Durham County reported a surge in leasing, exemplified by a 220-basis-point year-over-year vacancy drop as tech firms set up shop Downtown. West Wake County, Durham County and the Research Triangle area all report vacancy lower than their pre-pandemic levels, while North Raleigh's rate also cut 70 basis points in just the first three months of 2022.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**50,000
JOBS**
will be created

EMPLOYMENT:

After rising 4.3 percent in 2021, the rate of labor growth will continue to increase, roughly doubling the 2019 growth rate this year. Vibrant job creation in 2022 will put metrowide payrolls nearly 60,000 jobs ahead of the pre-pandemic level.



**860,000
SQ. FT.**
will be completed

CONSTRUCTION:

Annual completions will slip back below 1 million square feet after achieving that level in 2021. This year's completion slate is in line with recent trends, as it falls just below the five-year trailing average of 895,000 square feet per annum.



**70
BASIS POINT**
decrease in vacancy

VACANCY:

Following a 20-basis-point drop last year, retail vacancy is set to descend more vigorously in 2022. As more foot traffic returns to office-heavy submarkets, the metro's vacancy rate will reach 3.0 percent by year-end, equal to the rate at the end of 2019.

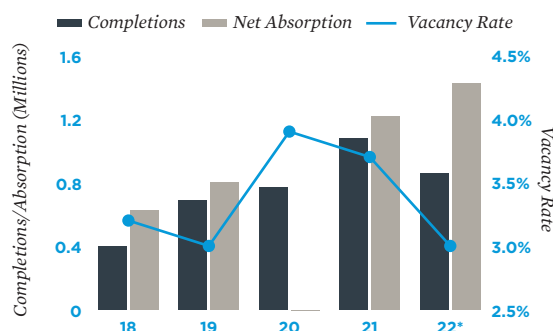


**5.2%
INCREASE**
in asking rent

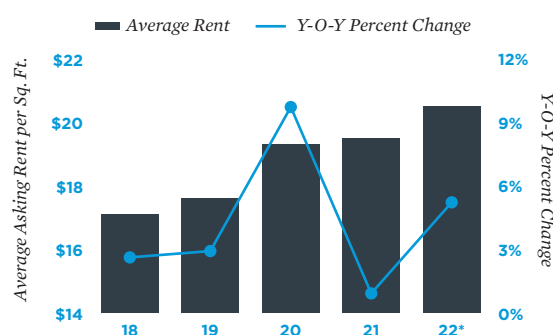
RENT:

A surge in leasing and increased competition for prime retail floorplans will result in the pace of asking rent growth elevating from the 0.9 percent clip observed in 2021. The average asking rent will climb to \$20.50 per square foot this year.

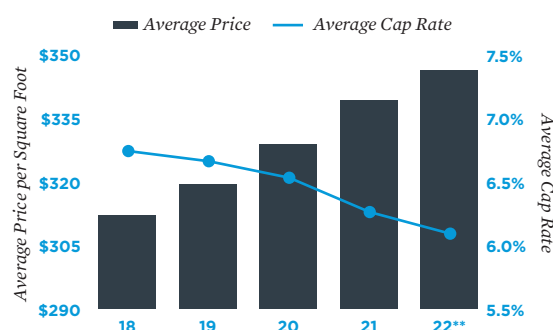
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

775,000 sq. ft. completed

- Development slowed during the 12-month interval ended in March, with roughly 280,000 fewer square feet arriving than the prior yearlong period.
- Builders have roughly 875,000 square feet in the pipeline as of March. Chatham County on the Durham side and Johnston County on the Raleigh side comprise of more than a combined 550,000 square feet of this total.



VACANCY

110 basis point decrease in vacancy Y-O-Y

- Driven by a top five rate of population growth among major metros nationally, the retail vacancy rate fell to 3.3 percent in the first quarter of 2022.
- While single-tenant availability is still 130 basis points below multi-tenant vacancy, multi-tenant assets recorded a substantial 230-basis-point vacancy slide year-over-year in March.



RENT

5.0% increase in the average asking rent Y-O-Y

- The recent demand surge in North Raleigh and the Research Triangle have aided the metrowide pace of asking rent growth, as marketed rents have climbed 16.3 percent and 28 percent year-over-year, respectively.
- The average marketed retail rent climbed to \$20.22 per square foot in March. This is a full \$3.50 higher than the pre-pandemic average.

Investment Highlights

- Transaction velocity reached a record high for retail assets in the Raleigh metro area during the last four quarters ended in March. An increasing number of trades involve the repurposing of older malls and larger centers, like the recent sale of Triangle Town Center in North Raleigh.
- The proportion of multi-tenant assets changing hands has grown in the last year, coinciding with a surge of absorption in multi-tenant properties. These deals represent just under 50 percent of all transactions in the last 12 months, resulting in average entry costs rising to \$282 per square foot. West Wake County and Central Raleigh are consistently high sales volume areas for these assets, but North Raleigh has seen a recent escalation, making it the most liquid submarket for multi-tenant centers. Cap rates are usually in the mid-6 percent range on these trades.
- Single-tenant trades make up just more than half of recent transactions, and six consecutive quarters of positive net absorption within this segment, despite health crisis headwinds, resulted in average prices reaching \$416 per square foot in the 12 months preceding April. Chain restaurants like Wendy's are often targeted in West Wake County and North Raleigh, with cap rates in the mid-3 percent zone for such offerings.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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