

# MARKET REPORT

Retail  
Raleigh Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

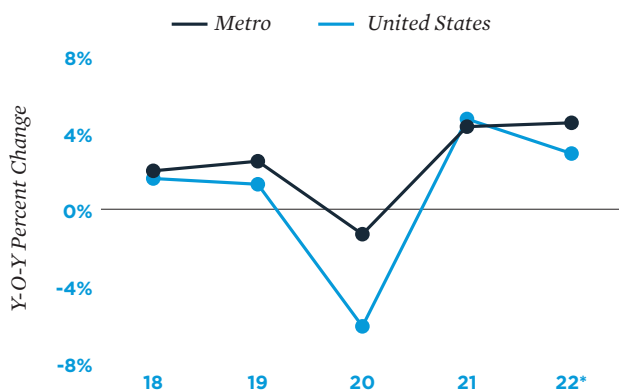
3Q/22

## Billion-Dollar Investments Catalyze Retail Leasing; I-95 Shoppers Cue Johnston County Development

**Large-scale expansions spark leasing demand surge.** Raleigh's retail sector is on the upswing, with strong private sector investment stoking demand tailwinds for vendors. Entering the second quarter of 2021, retail availability had lifted to a five-year high at 4.3 percent. This was just before Apple and Eli Lilly announced billion-dollar investments to expand corporate operations into the metro in April of last year, enticing vendors into absorbing a record-high 2 million square feet on a net basis during the 15-month span ending in June. This surge helped pull vacancy down to 3.1 percent, the lowest rate among major markets east of the Mississippi. Looking forward, this downward momentum should continue into the near term, with retailers rapidly committing to active projects and limiting the speculative pipeline. The mixed-use Eastfield Crossing development in Selma, for example, has already been committed to by seven national retailers, including Hobby Lobby and Burlington.

**Interstate hub draws development.** Interstate 95, spanning from Miami to Maine, cuts right through Johnston County. The submarket's strategic interstate-positioning has led builders to be enthusiastic about developing here. Over 230,000 square feet was delivered in the area over the past year, and builders are currently underway on over 500,000 square feet. Of which, a mere 12,000 square feet was unaccounted for, reflecting high demand for local leasing. Recent inflation pressures have urged many families to travel by car instead of plane, bolstering Johnston County's outlook for consumer spending.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**45,000  
JOBS**

*will be created*

### EMPLOYMENT:

Raleigh's headcount expands by 4.5 percent, with staff counts rising from the metro's growing tech, business services, and life science sectors. Reflecting this, over 12,000 professional and business service positions were filled through August.



**530,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Builders slow down the pace of construction, completing less than one-half of the volume delivered during 2021. This will lead the metro's inventory to grow by 0.6 percent, marking its lowest yearly rate of stock expansion since March 2019.



**80  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

Availability compressed sharply during the first half, as low deliveries aided heightened absorption of existing stock. Strong demand will bump vacancy down 20 more basis points in the final six months, to 2.9 percent.



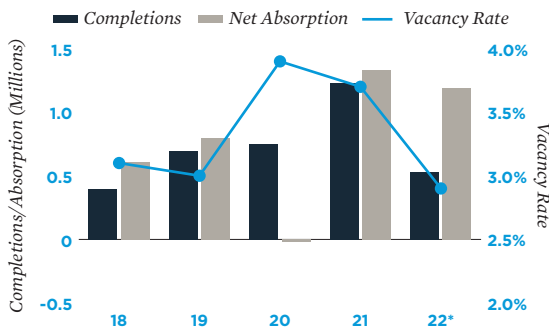
**7.5%  
INCREASE**

*in asking rent*

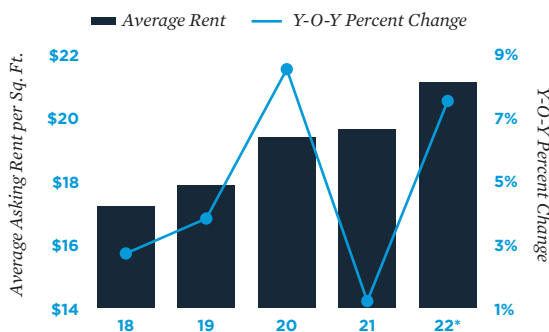
### RENT:

Historically-tight availability supports a yearlong pace of rent growth that exceeds three of the past four trailing years' recordings. The year-end asking rate, at \$21.10 per square foot, will mark an 18.1 percent rent gain since 2019.

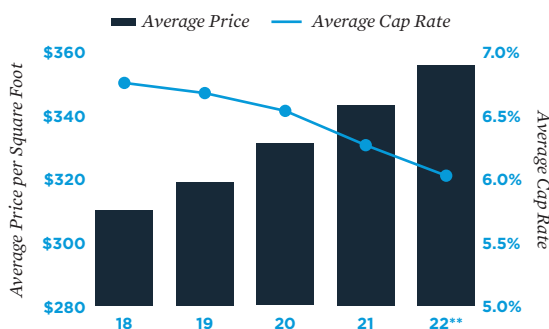
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**786,000 sq. ft. completed**

- Local inventories in Johnston and West Wake counties expanded by 3.3 and 2.2 percent, respectively, during the yearlong span ending in June.
- Johnston County currently has the largest active pipeline in the metro, highlighted by the 500,000 square feet of retail space slated for the mixed-use Eastfield Crossing development in Selma.



### VACANCY

**90 basis point decrease in vacancy Y-O-Y**

- Raleigh recorded a four-year low delivery volume during the first half, heightening demand for existing stock. This fostered tighter conditions, lowering vacancy 60 basis points through the span to 3.1 percent.
- Multi-tenant vacancy fell 180 basis points year-over-year to 3.8 percent, marking the lowest rate for all major Sun Belt markets outside of Florida.



### RENT

**6.8% increase in the average asking rent Y-O-Y**

- Raleigh's average asking rent is on an upward trajectory, after decelerating through four consecutive quarters in 2021. A 4.5 percent gain during the first half brought the mean rate up to \$20.51 per square foot in June.
- The mean multi-tenant asking rate rose 12.3 percent to \$22.33 per square foot, aided by double-digit gains in North Raleigh and Raleigh proper.

## Investment Highlights

- Single-tenant average pricing advanced 4.5 percent to \$419 per square foot during the 12-month span ending in June, as a deeper pool of out-of-state buyers elevated competition for listings and drove up bidding for highly-demanded assets. The rise in valuations facilitated a 30-basis-point decline in the single-tenant mean cap rate, pulling it down to 5.7 percent.
- Restaurants situated just outside the urban core — along southbound Interstate 540 and northbound Highway 98 — are driving a sizable portion of overall deal flow. Entry costs for these assets mostly fall between \$200 to \$400 per square foot, with properties located closer to the urban core fetching higher prices on average. Yields often range in the mid- to high-5 percent band, in line with the single-tenant mean cap rate.
- Home to some of Raleigh's most affluent neighborhoods, such as Hayes Barton, Drewry Hills and Five Points West, the North Raleigh area is drawing an increasing number of out-of-state investors targeting multi-tenant assets. Power centers in the area are fetching prices between \$120 and \$180 per square foot, while community centers are selling slightly higher, ranging from \$200 to \$285 per square foot. These assets mostly transacted at low-6 percent first-year returns.

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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