

INVESTMENT FORECAST

RETAIL
Raleigh Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2019

Dynamic Demographic Trends Underpin Raleigh's Retail Performance; New Buyers Entering Market

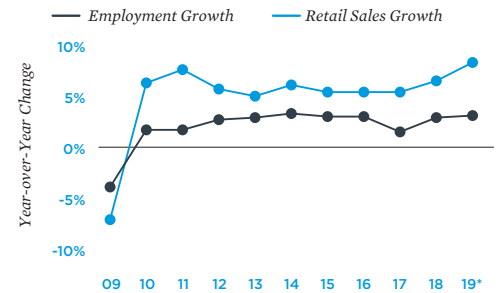
Residential growth bolsters robust retail sector. Raleigh ranks among the top five metros nationwide in terms of the percentage of population gain this year. Many people are moving into the region for employment opportunities and roughly 30,000 additional workers will be hired during 2019. Many of the jobs will be higher wage positions at tech companies such as Pendo, which has committed to creating nearly 600 jobs in downtown Raleigh over the next several years. The median household income is also forecast to rise at a faster pace than the U.S., contributing to the largest jump in retail sales in 20 years and benefiting local retailers. Even with deliveries ticking up in 2019, heavy pre-leasing activity will lessen the impact on vacancy. The largest development due is a 120,000-square-foot Wegmans in Raleigh, although the majority of projects are small multi-tenant centers with less than 15,000 square feet. Metrowide, the vacancy rate has remained below 4 percent for the past four years and it is expected to dip to a 12-year low by year end, producing a seventh consecutive year of rent growth.

Favorable economic outlook and strong operations draw wider range of buyers. Improving property performance is enticing new investors to the market, increasing competition for available buildings. Many buyers are searching for single-tenant assets that exchange hands at an average cap rate that has hovered in the mid-6 percent range for the past four years. Initial yields for newer dollar stores will start below the average in the high-5 percent span. After being outbid in recent years, more local buyers are willing to pay current pricing and are becoming more active. Many have been focusing on assets in high-growth cities in Southwest Wake County, including Apex and Fuquay Varina. Older multi-tenant assets in this area are frequently sought after and can trade at cap rates above the metro average, which has compressed 20 basis points into the high-6 percent range during the past 12 months.

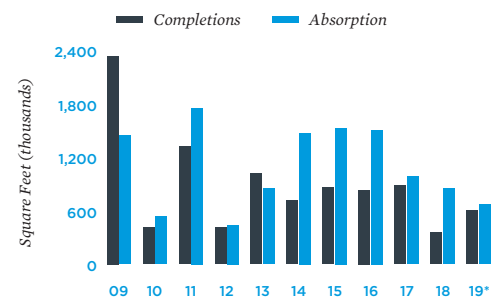
2019 Market Forecast

- Employment** up 3.1%  Roughly 30,000 workers will be added to payrolls during 2019, up from 27,200 last year.
- Construction** 600,000 sq. ft.  During 2019, deliveries will rise by 240,000 square feet above last year's 360,000 square feet. North Raleigh will receive the largest portions of this year's total.
- Vacancy** down 10 bps  Net absorption surpasses deliveries, tightening vacancy to 3 percent in 2019, the lowest annual rate of the cycle.
- Rent** up 2.7%  Building on a 2 percent gain in 2018, the average asking rent will climb to \$18.43 per square foot this year, 30 percent above the 2012 trough.
- Investment**  This year's completion of a number of small strip centers and single-tenant buildings should provide investors with additional buying opportunities as developers sell projects to fund future endeavors.

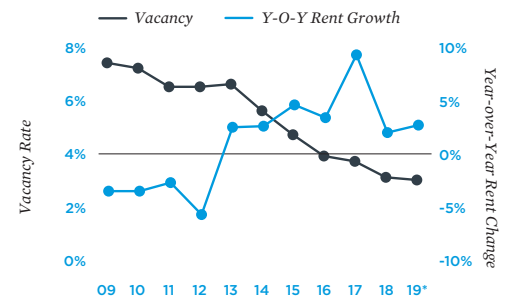
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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