

Raleigh-Durham



Market Indicators

	YoY Change	
Vacancy	7.4%	▼
Absorption (TTM)	524,278 sf	▲
Deliveries (TTM)	336,983 sf	▼
Under Construction	427,976 sf	▲
Avg. Asking Rate	\$20.05 psf	▲

The spread of COVID-19 and resulting containment policies are changing rapidly. While information contained herein is current as of the date written, the views expressed are subject to change as circumstances unfold.

First-quarter statistics serve as an indicator of the Triangle retail market’s position prior to the COVID-19 crisis, which began to unfold locally with widespread social distancing measures in March. The leasing and sales environment has changed dramatically since that time, and those impacts will begin to materialize in the data in the second quarter.

New COVID-19 Reality

Triangle retail vacancy stood at 7.4% in 1Q20, down 70 bps year-over-year but up 90 bps for the quarter. Quarterly net absorption was flat at just over 2,000 sf. Outside of the hospitality sector, the retail sector has been the hardest hit commercial real estate segment amid the COVID-19 crisis. Ironically, the retailers that were thriving and expanding in the age of e-commerce – experiential retailers such as restaurants, gyms, boutique theatres, nail salons, etc. – have been among the hardest hit. Apparel and department stores have also been severely impacted, and not all will reopen. Grocers, home improvement stores, drug stores and household essential giants

such as Walmart, Target and Costco have fared well and are upping their digital platforms in response to the crisis and surging demand for delivery and curbside pick-up.

Outlook

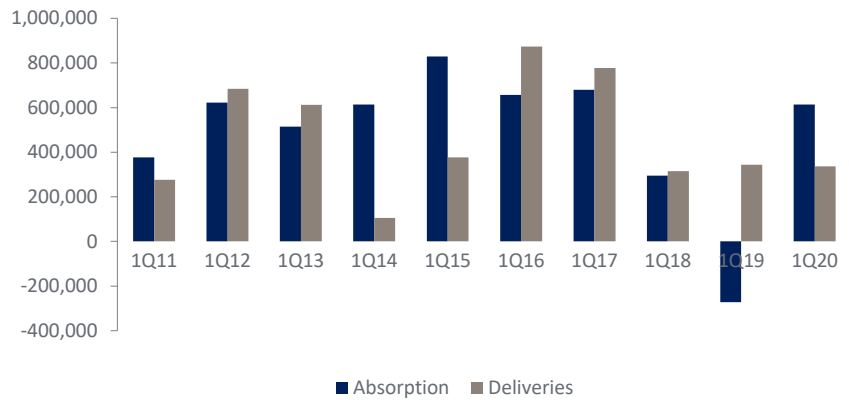
The official reopening of North Carolina’s economy, which began in May, will not immediately solve the crisis. Ongoing requirements for social distancing, fear of potential infection and weak consumer confidence amid the broader economic fallout will remain significant challenges throughout 2020. US retail sales fell by 8.7% in March, the steepest decline on record.

The COVID-19 crisis is acting to accelerate trends that were already in place. It has created a surge in demand for delivery of items where consumers had previously been resistant – i.e. groceries and other household essentials. The amount of time consumers have been forced to alter their behavior will be habit forming for some people, leading new trends to endure to some degree post-crisis.

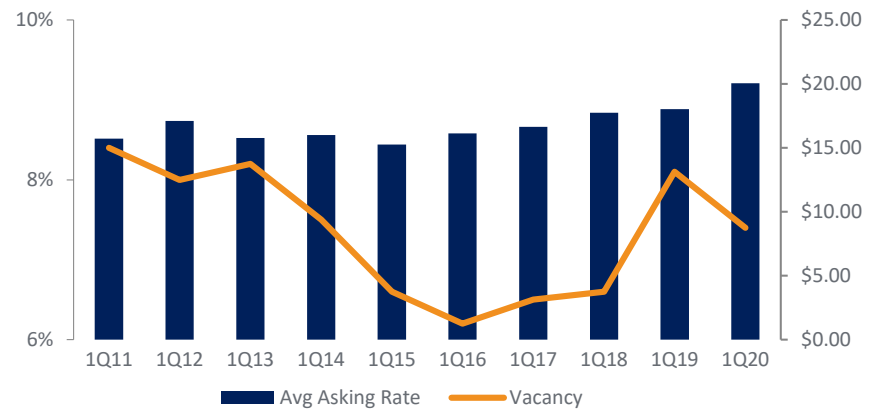
Market Highlights

- Amid surging online sales, **Bed Bath & Beyond** is converting 25% of its stores to regional fulfillment centers and recalling hundreds of furloughed employees.
- Durham's long-struggling **Northgate Mall** became the first US super regional mall to permanently cease operations as a result of COVID-19. Owner Northwood Retail has not yet disclosed future plans for the site.
- Some national brands that were already struggling prior to the COVID-10 crisis have filed for **Chapter 11 bankruptcy protection**, including J.C. Penney, J. Crew, Neiman Marcus and CMX Cinemas (parent company of CineBistro).
- Sycamore Partners filed suit in April to back out of its deal to acquire **Victoria's Secret**. Victoria's Secret parent company, L Brands, has since counter-sued.
- Stein Mart** received temporary relief in April from the threat of being delisted on the Nasdaq in April. The retailer's pre-COVID plan to go private via a merger with Kingswood Capital Management was called off amid the pandemic.
- Gap** ceased rent payments in April, stating it would need more cash within the next 12 months to continue operations. The retailer is renegotiating leases in an effort to avoid widespread store closures.
- The impacts of local stay-at-home orders began to materialize in the Triangle's unemployment statistics in March. **Employment** fell by 7,942 people, and nearly 7,500 people dropped out of the labor force. While unemployment held steady at 3.6% on a year-over-year basis, this figure was up from 2.9% in December 2019. More than 1.1 million North Carolinians filed for unemployment benefits between March 15 and May 11, 2020.

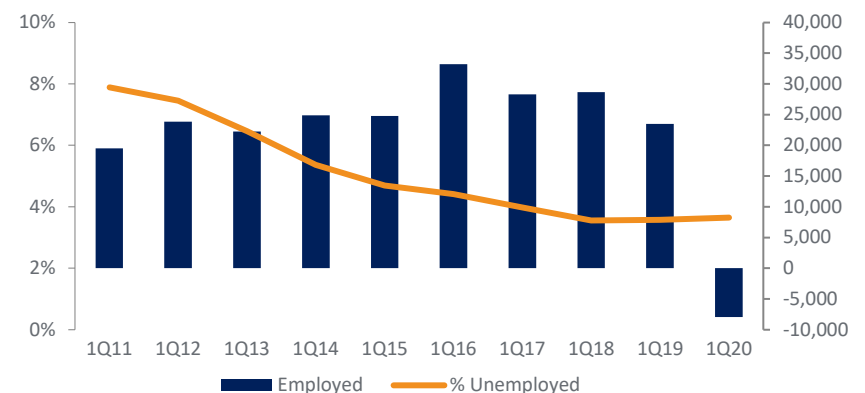
Absorption and Deliveries (trailing 12 months)



Vacancy and Average Asking Rental Rate (all classes - \$/sf/full service)



Unemployment (YoY - March of each year)



Market By The Numbers

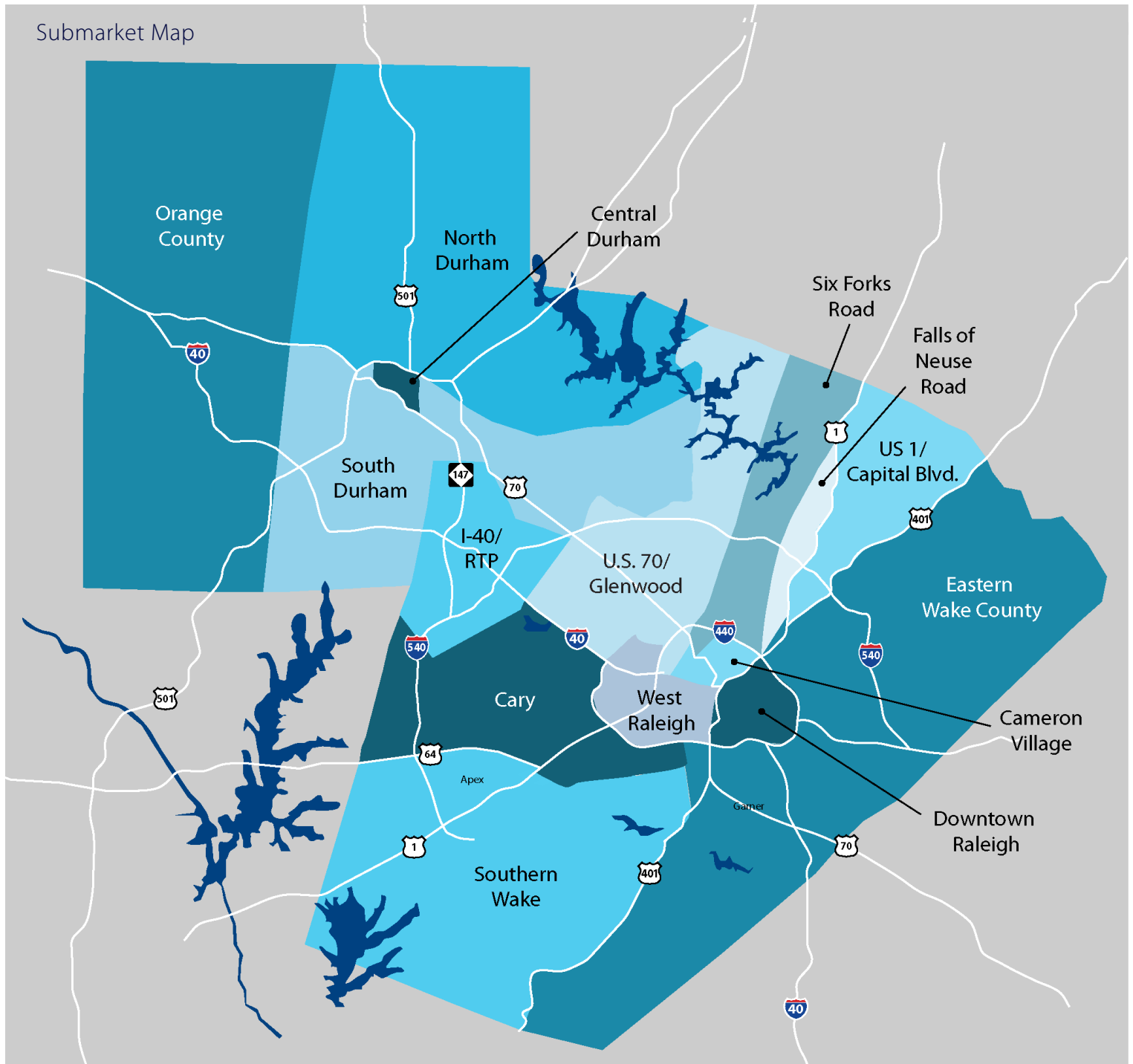
BY SUBMARKET	VACANCY			NET ABSORPTION		
	Inventory	Vacant SF	Vacant %	1Q20	Last 12 Mos.	SF Underway
West Raleigh	953,296	53,403	5.6%	14,453	(27,486)	-
US 70/Glenwood Avenue	5,029,549	377,660	7.5%	6,278	7,375	-
Six Forks Road	2,046,011	77,016	3.8%	(92)	7,457	8,215
Wake Forest/Falls of Neuse Road	2,502,251	110,510	4.4%	(3,349)	157,153	-
US 1/Capital Boulevard	6,282,702	501,130	8.0%	(63,920)	47,590	-
Downtown Raleigh	716,769	85,576	11.9%	3,615	14,644	124,991
Cameron Village	635,120	26,614	4.2%	1,559	1,533	-
Eastern Wake	3,907,682	240,930	6.2%	(819)	12,093	-
Southern Wake	3,925,693	95,620	2.4%	9,717	49,464	-
Cary	7,505,424	938,138	12.5%	1,447	131,278	126,000
I-40/RTP	1,015,982	51,724	5.1%	6,476	21,082	26,603
Central Durham	768,554	109,687	14.3%	(9,015)	23,138	28,467
North Durham	3,486,332	342,532	9.8%	15,357	2,912	-
South Durham	4,935,647	259,497	5.3%	11,202	1,974	113,700
Orange County	2,623,825	177,228	6.8%	9,288	74,071	-
Totals	46,334,837	3,447,265	7.4%	2,197	524,278	427,976

Recent Triangle Retailer Activity

Tenant	Type	Comments
Aldi	Opening	Opened new location at the Lynnwood Collection in Raleigh ahead of schedule amid surging demand.
Lidl	Opening	Opened new location on Hwy. 55 in Cary ahead of schedule amid surging demand.
A.C. Moore	Closing	Closed all stores nationwide, including three in the Triangle, following 4Q19 announcement.
Pier 1 Imports	Closing	Announced plans in January to close up to 450 stores, including four in the Triangle.
Chuck's	Closing	Local restaurant will close permanently due to COVID-19; will combine space with adjacent concept.
Linus and Peppers, Virgil's	Closing	Two local restaurants will close permanently due to COVID-19; owner will focus efforts on other existing concepts.

Select First Quarter Sales

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Millpond Village (retail/office)	Cary	Alidade Capital	211,885	\$34.9 million	\$165
Stonebridge Village	Cary	Fairway Investments	85,499	\$17.8 million	\$208
Saltbox Village	Cary	Fairway Investments	53,486	\$15.2 million	\$284
Walmart - Fuquay-Varina	Southern Wake County	Agree Realty Corporation	151,980	\$13.6 million	\$90



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