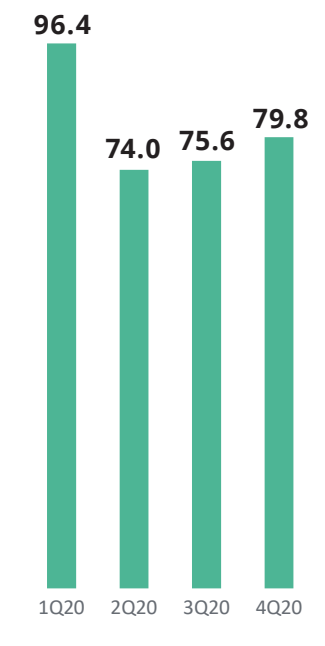


Raleigh-Durham

Consumer sentiment

Consumer sentiment edged higher in the second half of 2020 but remains well below pre-COVID levels, according to the University of Michigan.



A year like no other for the Triangle retail sector ends with reasons for optimism

The Triangle retail market closed out a painful year with continued challenges but also with reasons for optimism. The sector was already being tested by structural changes before the COVID-19 pandemic, but it was holding its own thanks to the region’s outstanding demographics and robust population growth. Some changes—such as online shopping, the decline of enclosed malls and grocery/food delivery—were accelerated by the pandemic, while others—such as food and experiential retailers as demand drivers—were reversed, at least temporarily. Bifurcation in the retail sector was amplified as clear winners and losers emerged in the face of COVID-19. Grocery stores, warehouse clubs, home improvement, sporting goods and discount retailers were among those that experienced surging demand, while restaurants, bars, movie theaters, fitness centers and department stores faced unprecedented difficulties.

Market Fundamentals

Triangle retail vacancy ended 2020 at 8.2%, up 150 bps year-over-year and the highest level registered since 2011. Negative net absorption of 108,717 sf in the fourth quarter brought the annual total to negative 43,464 sf. This figure would have fallen more deeply into the red were it not for the delivery of a new Publix at Smoky Hollow in Downtown Raleigh and a new Wegmans at Twin Lakes Center in Cary.

Construction Activity

As was the case prior to the pandemic, retail construction activity remains limited primarily to grocery-anchored centers and mixed-use projects in walkable neighborhoods. Deliveries were modest in 2020 at just 261,917 sf. Projects totaling

973,644 sf were underway in the fourth quarter, with 74% of the space reported as pre-leased. The greatest concentration of space is underway in Cary, where Hines, Columbia Development and USAA Real Estate broke ground on phase one of the massive Fenton mixed-use development. The project’s first phase will feature 350,000 sf of retail space, including a 99,000-sf Wegmans, 200,000 sf of office space, 357 apartments and a hotel. The developers recently announced that local whiskey bar Dram and Draft will open a fourth Triangle location at the project, and Paragon Theaters will lease space that was originally slated for Cinebistro, which filed for bankruptcy due to COVID. At full buildout, Fenton will include 2.5 msf of commercial and residential space.

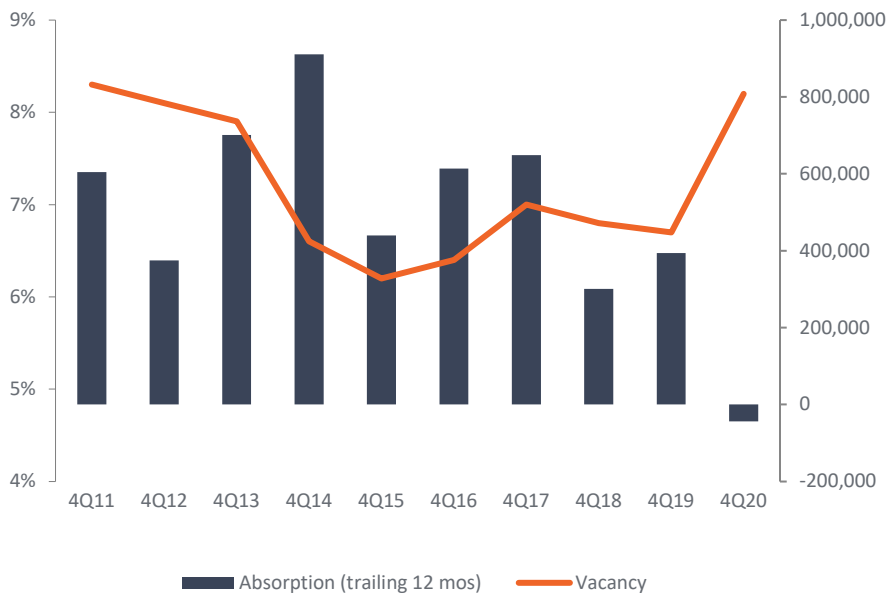
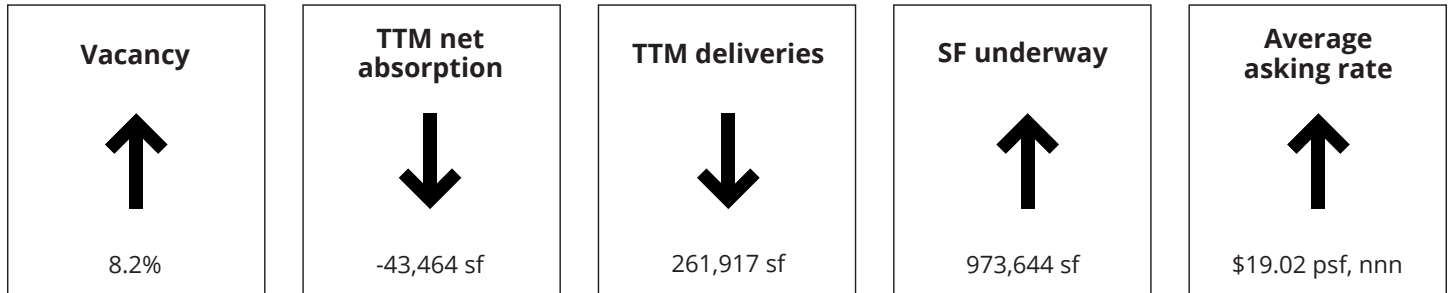
Outlook

Market conditions are likely to soften further in the first half of 2021 as bankruptcies filed in 2020 and prolonged capacity limits and closure mandates result in additional business failures. In the longer term, however, the Triangle remains one of the best positioned retail markets in the U.S. Many of the dynamics that made the region attractive pre-COVID have been enhanced by the challenges faced by larger, more densely populated areas. Recently announced conversions of long-struggling regional malls will positively impact vacancy in the future. In the fourth quarter, Epic Games paid \$95 million for Cary Towne Center with plans to redevelop most of the site for a new corporate campus. The previous owners had announced plans to transform the site into a 4-msf mixed-use development after buying the property in 2019. The mall officially closed in January 2021.



Retail market year-over-year trends

Retail vacancy rose to its highest level since 2011 as the unprecedented challenges presented by COVID-19 drove annual net absorption into the red. Market-wide rent growth was tepid but positive, with widely varying rates across submarkets and specific retail centers.



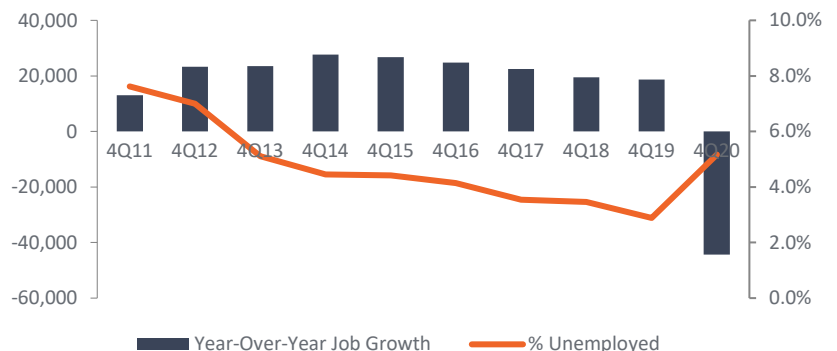
Vacancy and absorption

Triangle retail vacancy spiked in 2020 as consumers abruptly and dramatically altered their behavior and risk-mitigation mandates took a heavy toll on many retailers.

Unemployment and job growth

Triangle unemployment ended the year at 5.2%, up from 2.9% at year-end 2019 but down from the recent high of 11.2% reached in May 2020. The region has regained 60% of the 142,800 jobs lost between March and May at the height of stay-at-home directives.

Raleigh-Durham Employment Trends



Market by the numbers

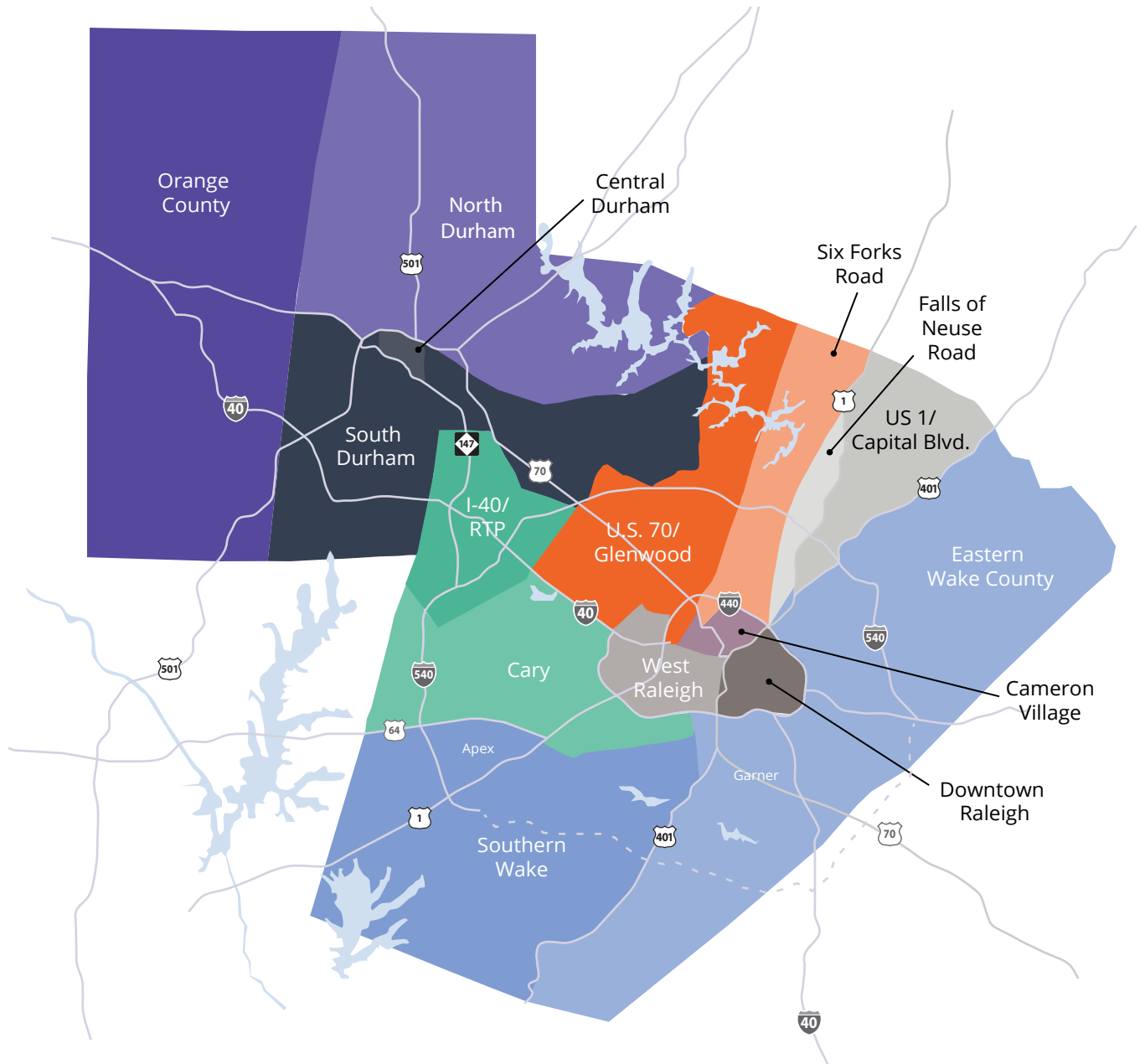
BY SUBMARKET	VACANCY			NET ABSORPTION		
	Inventory	Vacant SF	Vacant %	4Q20	Last 12 Mos.	SF Underway
West Raleigh	953,296	97,427	10.2%	(35,407)	(29,571)	-
US 70/Glenwood Avenue	5,051,836	415,505	8.2%	(33,213)	(9,747)	-
Six Forks Road	2,060,475	188,381	9.1%	3,651	(25,242)	-
Wake Forest/Falls of Neuse Road	2,498,952	169,253	6.8%	(53,078)	(62,092)	-
US 1/Capital Boulevard	6,242,353	446,287	7.1%	17,498	(46,625)	156,244
Downtown Raleigh	778,253	99,837	12.8%	4,932	45,146	74,109
Cameron Village	635,120	48,140	7.6%	(3,062)	(19,967)	-
Eastern Wake	3,919,593	238,764	6.1%	11,426	1,347	48,387
Southern Wake	3,904,201	166,754	4.3%	23,959	(25,733)	69,138
Cary	7,551,721	1,003,356	13.3%	(9,909)	59,229	421,057
I-40/RTP	990,982	42,191	4.3%	10,209	16,009	42,003
Central Durham	761,637	133,646	17.5%	6,388	(12,300)	5,006
North Durham	3,526,334	293,557	8.3%	(2,379)	57,332	-
South Durham	5,146,202	303,866	5.9%	(51,202)	20,333	58,700
Orange County	2,630,945	198,099	7.5%	1,470	(11,583)	99,000
Totals	46,651,900	3,845,063	8.2%	(108,717)	(43,464)	973,644

New/Expanding Retailers

Tenant	Submarket	Comments
RH Raleigh	Six Forks Road	North Hills expansion at JCPenney site will include the Triangle's first Restoration Hardware Gallery.
Lidl	Southern Wake	Opened 13 th Triangle location in Holly Springs.
Costco	Eastern Wake	Announced plans for fourth Triangle location in Garner.
Five Below	Cary	Leased 8,617 sf at Park West Village. Retailer plans to open up to 180 new U.S. stores in 2021.
Trader Joe's	Cary	Partially backfilling former Earth Fare at Park West Village for 4 th Triangle location.
Paragon Theaters	Cary	Will replace previously planned Cinebistro. Phase 1 of Fenton broke ground in 4Q20.
Dollar Tree	North Durham	Backfilling former Walgreens on Guess Road.
Dollar General	Eastern Wake	Backfilling former Pier One at White Oak Crossing in Garner.
Amazon 4-Star	Glenwood/Creemore	Opened NC's first 4-Star store at Crabtree Valley Mall.

Select 2020 Sales

Property	Submarket	Buyer	SF	Sale Price	Price/sf
Cary Towne Center	Cary	Epic Games	983,568	\$95 million	\$97
Future Chapel Hill Wegmans	Orange County	Agree Realty Corporation	99,000	\$32 million	\$323
Twin Lakes Wegmans	Falls of Neuse Road	Realty Income	97,482	\$35 million	\$358
Stonebridge Village	Cary	Fairway Investments	85,499	\$18 million	\$208
Saltbox Village	Cary	Principal Capital, Fairway Investments	53,486	\$15 million	\$284
Bull City Marketplace	Central Durham	Ram Realty Partners	42,500	\$13 million	\$306



Raleigh-Durham Retail Team

John Linderman
Principal, Regional Managing Director
919.420.1559
john.linderman@avisonyoung.com

Banks Hunter
Principal
919.420.1555
banks.hunter@avisonyoung.com

David Stowe
Senior Vice President
919.420.1570
david.stowe@avisonyoung.com

Tommy Honey
Vice President
919.420.1585
tommy.honey@avisonyoung.com

Elizabeth Gates
Principal, Senior VP of Research
919.420.1563
elizabeth.gates@avisonyoung.com

Emily Bostic
Research Analyst
919.866.4274
emily.bostic@avisonyoung.com



Sources and methodology

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