

Raleigh-Durham



Market Indicators

	YoY Change	
Vacancy	7.7%	▲
Absorption (TTM)	479,102 sf	▲
Deliveries (TTM)	347,366 sf	▲
Under Construction	479,102 sf	▼
Avg. Asking Rate	\$20.18 psf	▲

Triangle unemployment fell from 11.2% in May to 7.1% in June as the local economy began to add back some of the jobs shed at the height of stay-at-home mandates.

The Triangle retail market showed increased signs of strain in 2Q20 as social distancing mandates and economic challenges continued to significantly alter consumer behavior. Absorption fell into the red by nearly 48,000 sf for the quarter, sending vacancy up 30 bps to 7.7%. More fallout is undoubtedly on the way for the sector. Amid a surge in positive cases and hospitalizations, North Carolina extended Phase 2 of its reopening plan through September 11, keeping bars and gyms closed and mandating limited capacity at restaurants, stores and service providers such as salons. The market will face sustained upward pressure on vacancy through the end of the year and into 2021 as a growing list of bankruptcy filings by major national brands will likely lead to more local closures. Meanwhile, grocers continue to expand and adapt, offering curbside pickup and deliveries. Publix and Wegmans will open new locations in Downtown Raleigh and Cary in 3Q20.

While the Triangle's retail sector faces strong headwinds in the near term, the downside impacts of COVID-19 will be mitigated

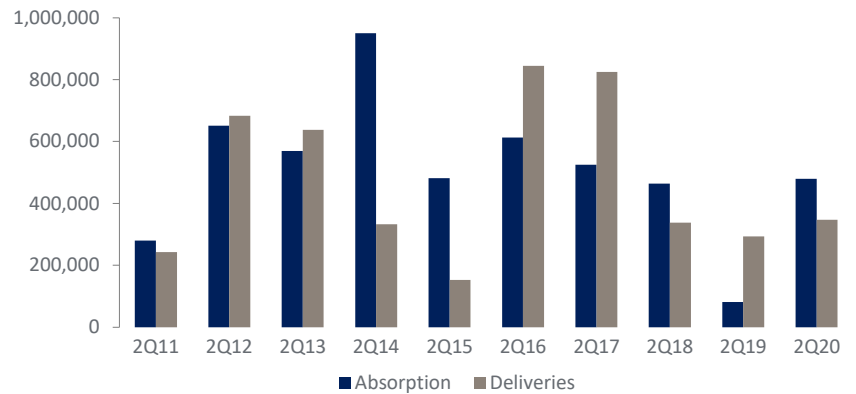
by the region's strong demographics and modest development activity. The 478,159 sf underway in the second quarter has been reported as 61% preleased and represents just 1% of existing inventory.

Commercial real estate investment activity ground to a halt in 2Q20 as buyers and sellers grappled with the profound impacts of COVID-19 and lockdown measures on the property markets and the broader economy. Triangle retail sales totaled a mere \$19 million across just three transactions. In the only retail sale over \$10 million to take place in 2Q20, Ram Realty Advisors paid Weingarten Realty \$13 million (\$410/sf) for Bull City Market in Durham. Constructed in 1995, the 42,500-sf property is anchored by Whole Foods and was fully leased at closing. Other transactions were limited to single-tenant properties leased to essential businesses. COVID-19 has accelerated the trend in recent years of light retail investment volume as the sector right sizes in response to major structural changes driven by shifts in consumer behavior.

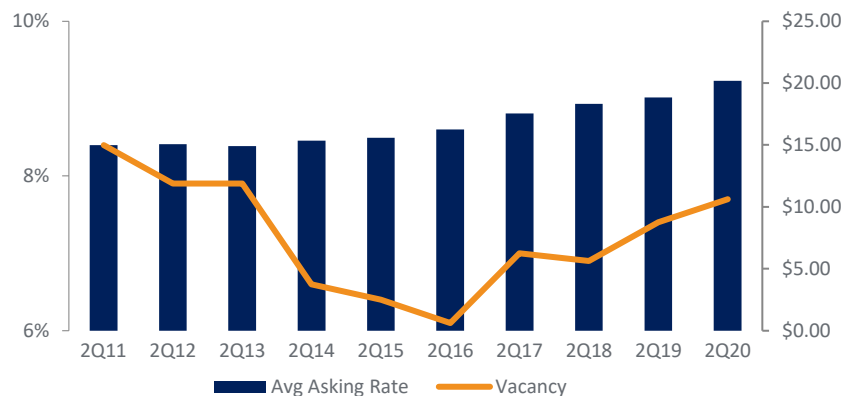
Market Highlights

- According to S&P Global Market Intelligence, 40 major retailers have filed for **bankruptcy protection** thus far in 2020, compared to 32 in all of 2019. Department and apparel stores have been particularly hard hit. Notable filings include Tailored Brands, Ascena, Sur La Table, Brooks Brothers, Lucky Brand, GNC, Tuesday Morning, J.C. Penney, Aldo, Neiman Marcus, J. Crew, New York & Co., True Religion, Pier 1 and 24 Hour Fitness.
- In response to COVID-19, **Starbucks** announced it will close up to 400 U.S. stores and will scale back planned openings from 600 to 300. Most new locations will be small-format stores focused on pick-up service.
- The owners of Durham's struggling **Northgate Mall** decided to permanently close the center's interior shops in 2Q20 in light of substantial challenges faced by tenants as a result of COVID-19. Northwood Investors acquired and quickly foreclosed on the mall's debt in 2018 and indicated plans to ultimately redevelop the 60-year-old property. Duke University Health System purchased the vacant Macy's box at the property in 2017 and recently filed plans to redevelop the site into a 3-story medical complex.
- Following the cumulative loss of 142,800 jobs over the course of March, April and May, the Triangle **job market** began to bounce back in June with the addition of 35,500 jobs, according to seasonally adjusted data from the Bureau of Labor Statistics. While the notable improvement is a welcome development, additional near-term gains are likely to be hampered by the state's decision to pause in Phase Two of its reopening plan amid significant increases in COVID-19 cases and hospitalizations.

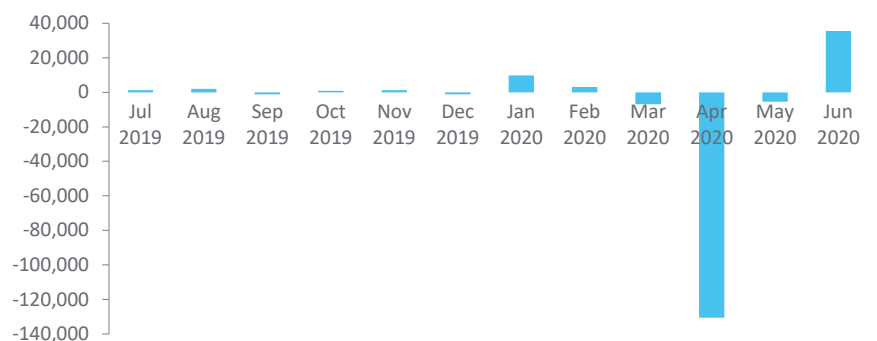
Absorption and Deliveries (trailing 12 months)



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



Triangle Monthly Job Growth (seasonally adjusted)



Market By The Numbers

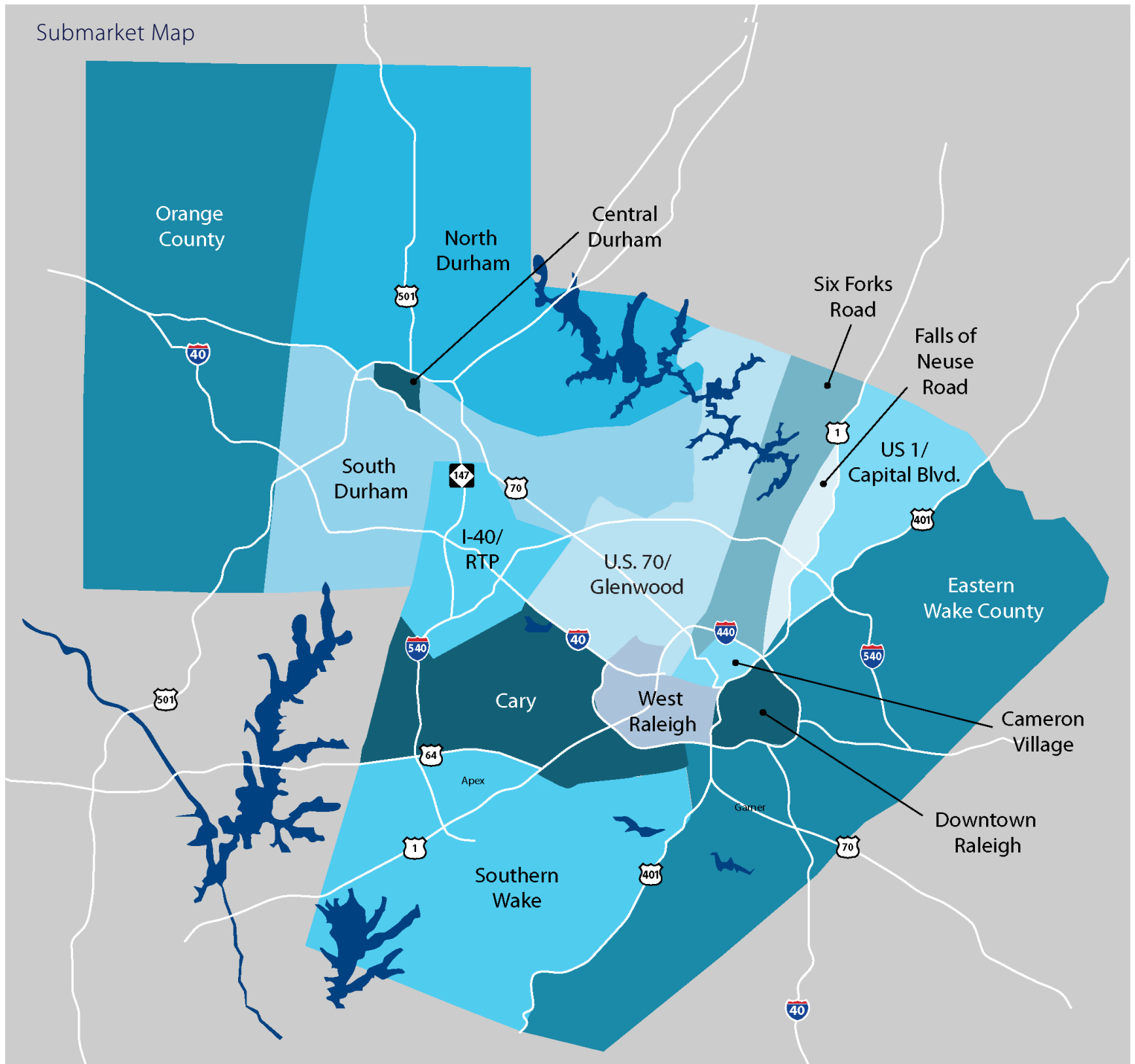
BY SUBMARKET	VACANCY			NET ABSORPTION		
	Inventory	Vacant SF	Vacant %	1Q20	Last 12 Mos.	SF Underway
West Raleigh	953,296	59,291	6.2%	(5,888)	(18,921)	-
US 70/Glenwood Avenue	5,051,369	413,977	8.2%	(14,497)	(844)	-
Six Forks Road	2,042,781	81,722	4.0%	(4,706)	2,659	8,215
Wake Forest/Falls of Neuse Road	2,502,251	119,433	4.8%	(8,923)	144,881	-
US 1/Capital Boulevard	6,245,987	466,807	7.5%	19,652	3,322	58,244
Downtown Raleigh	727,054	81,791	11.2%	3,785	22,044	124,991
Cameron Village	635,120	59,369	9.3%	(32,755)	(29,166)	-
Eastern Wake	3,919,582	249,990	6.4%	(9,060)	2,214	-
Southern Wake	3,925,693	138,879	3.5%	(7,259)	51,922	-
Cary	7,493,501	954,881	12.7%	(16,743)	115,982	126,000
I-40/RTP	1,015,982	51,694	5.1%	30	27,588	42,003
Central Durham	792,015	140,425	17.7%	(7,277)	6,846	5,006
North Durham	3,534,837	310,924	8.8%	31,608	49,877	-
South Durham	4,935,647	234,272	4.7%	25,225	38,401	113,700
Orange County	2,635,825	198,290	7.5%	(21,062)	62,297	-
Totals	46,410,940	3,561,745	7.7%	(47,870)	479,102	478,159

New/Expanding Retailers

Tenant	Submarket	Comments
Amazon 4-Star	US 70/Glenwood Avenue	Amazon will open North Carolina's first 4-Star concept at Crabtree Valley Mall.
Big Lots	US 1/Capital Boulevard	Leased former Food Lion space at the Market of Wake Forest.
Onward Reserve	Cameron Village	Opened first Triangle store at Cameron Village following a delay related to COVID-19.
Burlington	South Durham	Backfilled former Bed Bath & Beyond store at New Hope Commons.
Rug + Home	US 70/Glenwood	Backfilled former Thomasville Furniture store at Brier Creek.
Tropicana Supermarket	North Durham	Opened new store at The Village shopping center.
Starbucks	Multiple	Announced new small-format to-go stores in Raleigh, Apex and Chapel Hill.

Closing/Contracting Retailers

Tenant	Submarket	Comments
Pier 1 Imports	Multiple	Closed all U.S. stores, including six in the Triangle, after failing to find a buyer.
Gonza Tacos y Tequila	Downtown Durham	Did not renew its West Village lease due to COVID-19 uncertainty. Other Triangle locations remain open.
Tuesday Morning	US 1/Capital Boulevard	Announced plans to close 230 stores, including one at Plantation Point in the Triangle, after filing for bankruptcy.
CrossFit Brier Creek	I-40/RTP	Permanently closed following North Carolina's extension of gym closures due to COVID-19.



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