

Raleigh-Durham Retail Sector Stages Impressive Comeback

▼ 5.6%

Vacancy Rate

▲ 504,472

SF Net Absorption

▲ 514,986

SF Under Construction

▲ \$741M

2022 Retail Investment Sales

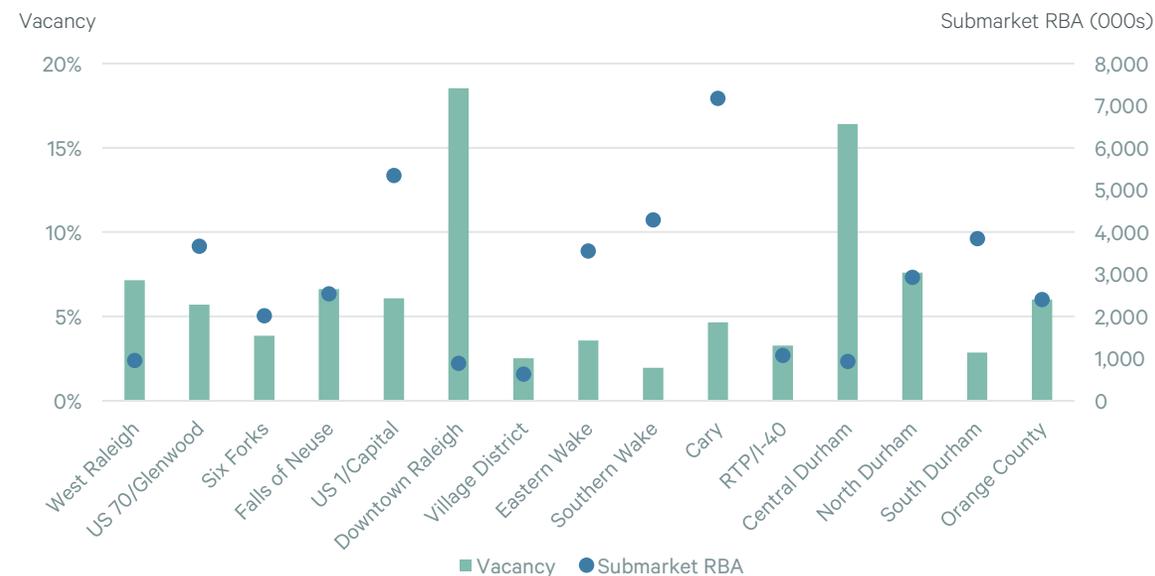
Note: Arrows indicate change from Q2 2022.

Market Report Highlights

- Raleigh-Durham’s retail market recorded 504,472 sq. ft. of net absorption during the second half of 2022, bringing the annual total to 887,602 sq. ft.
- Vacancy ended 2022 at 5.6%, down 70 basis points year-over-year.
- Construction activity remains healthy at 514,986 sq. ft., with a majority of space concentrated in mixed-use, walkable environments.
- Local retail property sales volume reached \$741 million in 2022, the second-highest annual total on record.

CBRE|Raleigh tracks over 42 million sq. ft. of retail space in the Raleigh-Durham market. The market includes three counties—Wake, Durham and Orange—and 15 separate submarkets. The numbers reflected in the report exclude enclosed malls.

FIGURE 1: Submarket Vacancy Rates



Source: CBRE Research

Market Fundamentals

Raleigh-Durham’s retail sector staged an impressive comeback in 2022 despite economic headwinds and ongoing labor and supply-chain challenges. Net absorption of 504,472 sq. ft. in the second half of the year brought the annual total to 887,602 sq. ft. Vacancy ended the year at just 5.6%, down 110 basis points since Q2 2022 and 70 bps since year-end 2021. Market-wide, approximately 423,000 sq. ft. of retail space was delivered in 2022, and 514,986 sq. ft. remained under construction in Q4. Development activity is concentrated primarily in mixed-use projects in the region’s central business districts as well as suburban nodes with increasingly dense, walkable areas.

Reflecting national trends, Raleigh-Durham’s retail sector has emerged from the pandemic with substantial momentum as consumers have been eager to return to in-person shopping and experiences. The sector has also worked its way through a painful period of transition that began prior to 2020 as e-commerce, changing consumer preferences and a wave of bankruptcies by debt-burdened retailers led to substantial store closures. Since that time, limited construction deliveries and the repurposing of large blocks of obsolete space for alternative use have helped to bring supply and demand back in line. As evidenced by recent leasing activity, the Raleigh-Durham market is a prime target for new retail and restaurant expansions. As capital has tightened for both small and large retail users, they have been forced to be more selective with expansion options, a trend from which the local market is exceptionally well positioned to benefit. Recent new-to-market concepts include Taco Bamba, Rothy’s, Jaguar Bolero, PGA TOUR Superstore, Painted Tree, Limani Grille, Woodhouse Spa, Superica, Colletta, Nike Live and Allbirds.

Submarket Trends

Vacancy remains elevated in Downtown Raleigh and Central Durham, but both submarkets witnessed a resurgence in tenant activity in 2022. In Downtown Raleigh, the recently delivered Smoky Hollow project attracted notable tenants such as Midwood Smokehouse, The Crunkleton, Madre, Dose and New Anthem Beer Project. Mixed-use developments such as Raleigh Crossing, Bloc [83] and Seaboard Station also drew substantial retailer interest. In Central Durham, American Tobacco Campus reimaged its restaurant mix to include Five Star, Press Crepes, Coffee & Cocktails, QueenBurger and soon-to-open Seraphine and Ekhaya.

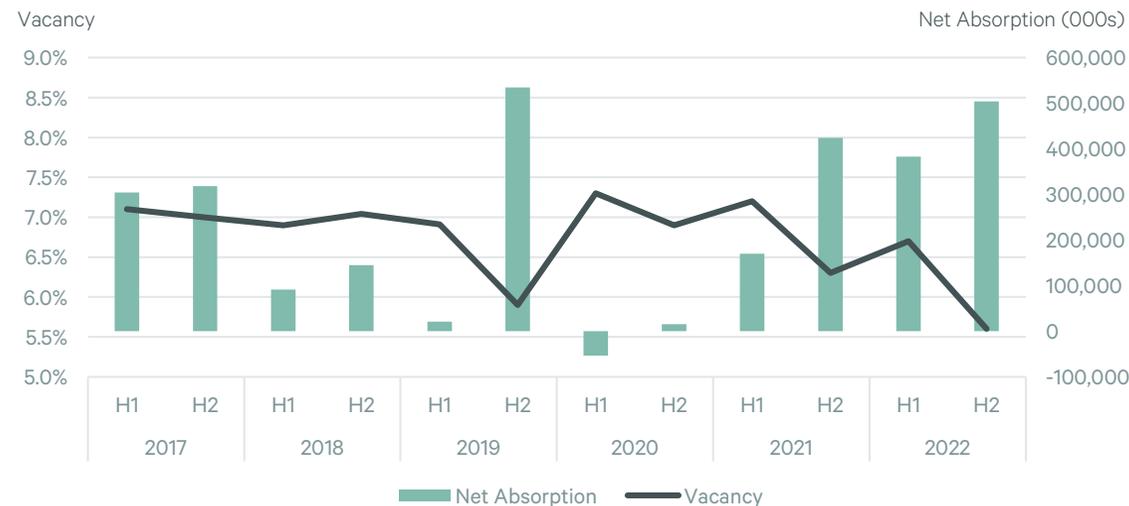
FIGURE 2: Select Lease/Sale Transactions in H2 2022

| Lease: Tenant | Address | Square Feet | Submarket |
|----------------------|---------------------|-------------|--------------------|
| *Painted Tree | Stonehenge Market | 34,097 | US 70/Glenwood Ave |
| Barnes & Noble | Shoppes of Kildaire | 29,050 | Cary |
| *PGA TOUR Superstore | Midtown Corner | 28,473 | Six Forks Road |

| Sale: Building | Square Feet | Purchase Price | Price Per Sq. Ft. | Submarket |
|----------------------|-------------|----------------|-------------------|-------------------|
| Bradford Shops | 76,000 | \$42.2M | \$555 | Cary |
| Wake Forest Crossing | 203,006 | \$40.9M | \$202 | US 1/Capital Blvd |
| Sexton Commons | 49,033 | \$10.6M | \$217 | Southern Wake |

* Denotes CBRE|Raleigh Transaction

FIGURE 3: Vacancy and Net Absorption



Source: CBRE Research, Q4 2022

Submarket Trends, Continued

Similar energy spurred strong activity across Raleigh-Durham’s suburban submarkets. The long-anticipated grand opening of phase one of the mixed-use Fenton development brought a mix of new-to-market retailers and established local brands to Cary. The project is a partnership among Hines, Columbia Development and USAA Real Estate. Jamestown and Grubb Ventures delivered the first buildings at Raleigh Iron Works, an adaptive mixed-use project off Whitaker Mill Road and Atlantic Avenue in Raleigh. Several retailers have been secured for the development’s first phase, including Jaguar Bolera, Ponysaurus Brewing, Andia’s Ice Cream, Eastcut Sandwich Bar and local celebrity chef Scott Crawford’s Brodeto. In the heart of Research Triangle Park, White Point Partners and the Research Triangle Foundation broke ground on Horseshoe at Hub RTP, a walkable urban district with 1,200 multifamily units, 50,000 sq. ft. of retail, and 1 million sq. ft. of office and lab space. The project marks a sea change for a submarket that has historically lacked residential and retail offerings.

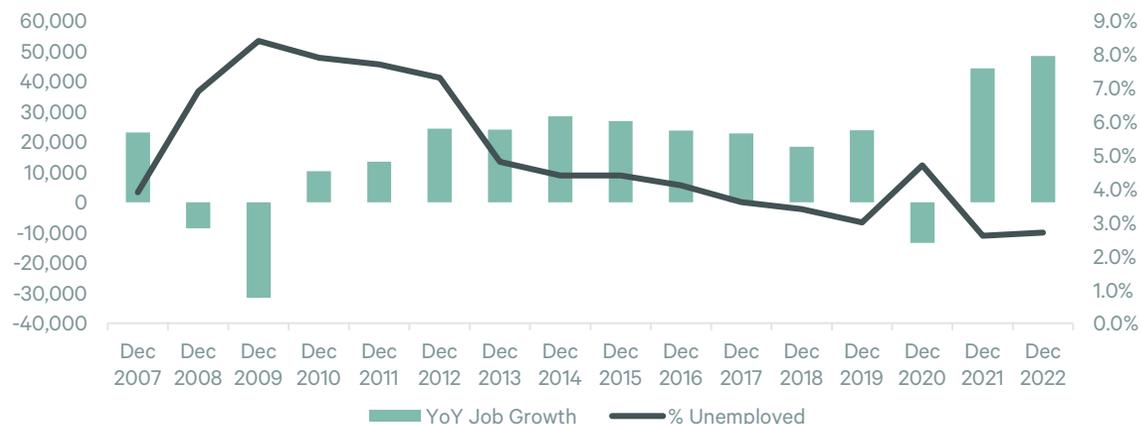
Investor Demand

Investor confidence returned to the retail sector in 2022 following several turbulent years. Raleigh-Durham retail property sales totaled \$741 million, the highest annual total since 2016 and the second-highest on record. The performance mirrored nation-wide investment activity of \$80 billion, the highest level recorded since 2015. While the challenging capital environment is likely to slow sales in 2023, retail has regained favor as an asset class, particularly in high-growth markets such as Raleigh-Durham.

Outlook

Global economic conditions remain murky leading into 2023. While consumers have shown resilience in the face of soaring inflation, signs of strain began to appear late in the year. Consumer spending fell in both November and December 2022, while personal savings fell and debt rose. Raleigh-Durham isn’t immune to current headwinds, and it’s likely the market will experience a lull in the launch of new retail and mixed-use projects of significant scale in the near term. Nonetheless, the region’s outstanding demographics and strong economy will continue to attract new and expanding retailers. Grocers are once again ramping up expansion plans in the market, with the Publix-anchored Wallbrook Marketplace scheduled to break ground in Rolesville and Wegmans planning to do the same in Holly Springs in 2023.

FIGURE 4: Raleigh-Durham Employment



Source: BLS, December 2022

FIGURE 5: Select Construction Activity

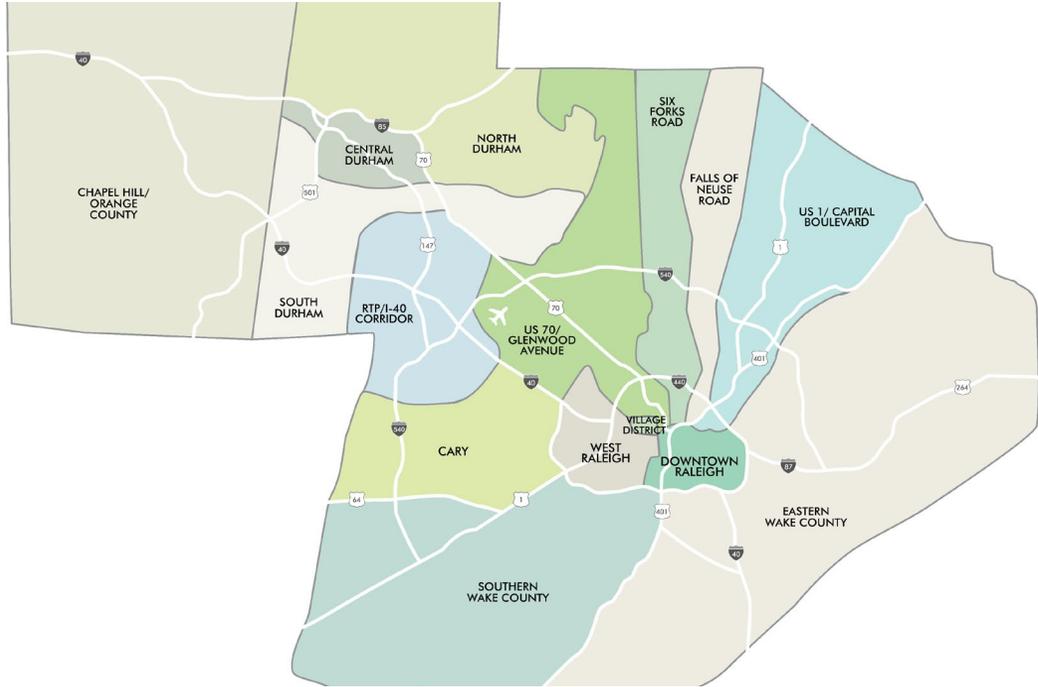
| Project | Submarket | RBA (Sq. Ft.) | Q4 2022 Availability | Scheduled for Completion |
|-----------------------------------|-------------------|---------------|----------------------|--------------------------|
| North Hills Main District | Six Forks Road | 100,000 | 50,000 | Q3 2023 |
| Marketplace at Ellis Crossing | RTP/I-40 Corridor | 71,810 | 11,069 | Q4 2023 |
| North Hills Innovation District | Six Forks Road | 29,368 | 29,368 | Q4 2024 |
| Seaboard Station Blocks A&C | Downtown Raleigh | 58,578 | 58,578 | Q2 2024 |
| Seaboard Station Block B | Downtown Raleigh | 28,856 | 28,856 | Q1 2023 |
| Treelight Square at Wendell Falls | Eastern Wake | 33,053 | 19,996 | Q1 2023 |
| Raleigh Iron Works – Forge | US 1/Capital Blvd | 27,555 | 27,555 | Q1 2023 |

Source: CBRE Research Q4, 2022

FIGURE 6: Submarket Breakdown

| Submarket | Market Rentable Area (SF) | Vacant (SF) | Vacancy Rate | Availability Rate | H2 Net Absorption (SF) | YTD Net Absorption (SF) | Under Construction (SF) |
|----------------------|---------------------------|------------------|--------------|-------------------|------------------------|-------------------------|-------------------------|
| West Raleigh | 957,651 | 68,469 | 7.1% | 7.1% | (2,340) | (9,911) | - |
| US 70/Glenwood Ave | 3,665,807 | 208,933 | 5.7% | 5.7% | 16,884 | 19,045 | - |
| Six Forks Road | 2,014,323 | 77,873 | 3.9% | 8.8% | 35,112 | 44,210 | 129,368 |
| Falls of Neuse | 2,533,452 | 167,949 | 6.6% | 7.4% | 7,267 | (9,302) | 20,014 |
| US 1/Capital Blvd | 5,344,265 | 437,242 | 6.1% | 6.7% | 108,528 | 190,798 | 77,555 |
| Downtown Raleigh | 891,307 | 165,220 | 18.5% | 30.1% | 9,335 | 6,658 | 103,434 |
| Village District | 635,120 | 15,995 | 2.5% | 2.5% | (5,214) | (5,258) | - |
| Eastern Wake | 3,549,126 | 127,152 | 3.6% | 4.1% | 37,743 | 60,499 | 33,053 |
| Southern Wake | 4,289,607 | 83,807 | 2.0% | 2.0% | 62,983 | 83,328 | - |
| Cary | 7,171,892 | 333,590 | 4.7% | 4.7% | 71,461 | 435,157 | - |
| RTP/I-40 Corridor | 1,074,324 | 35,134 | 3.3% | 6.6% | 4,603 | 21,385 | 96,810 |
| Central Durham | 931,415 | 152,870 | 16.4% | 22.0% | 24,684 | 28,478 | 54,752 |
| North Durham | 2,929,376 | 222,630 | 7.6% | 7.6% | 3,565 | (117,448) | - |
| South Durham | 3,848,815 | 109,933 | 2.9% | 2.9% | 150,713 | 148,205 | - |
| Orange County | 2,403,236 | 144,107 | 6.0% | 6.0% | (20,852) | (8,242) | - |
| Market Totals | 42,239,716 | 2,350,904 | 5.6% | 6.4% | 504,472 | 887,602 | 514,986 |

Market Area Overview



Definitions

Vacant Sq. Ft.: Space that can be occupied within 30 days.

Vacancy Rate: Total vacant sq. ft. divided by the total building area.

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant.

Availability Rate: Total available sq. ft. divided by the total building area.

Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building.

Net Absorption: The change in occupied sq. ft. from one period to the next.

Occupied Sq. Ft.: Building area not considered vacant.

Market Rentable Area: Total sq. ft. of tracked inventory in the Raleigh-Durham market. Includes shopping centers with 25,000 sq. ft. or more and ground-level retail space in urban mixed-use projects totaling 10,000 sq. ft. or more. Enclosed malls are excluded.

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