



# RALEIGH-DURHAM

## EXECUTIVE SUMMARY

- Robust population growth and a thriving local economy are benefitting all sectors of Raleigh-Durham's commercial real estate market.
- Raleigh-Durham's population has grown by 21% since 2010, making it one of the fastest growing metros in the U.S.
- The region added 24,200 non-farm payroll jobs between October 2018 and October 2019 for a growth rate of 2.5%.
- Anchored by three tier-1 research universities, Raleigh-Durham has a highly educated workforce, with 48% of residents holding a bachelor's degree or higher.
- Unlike previous expansion cycles, construction activity remains in line with demand, positioning the market to successfully weather a future downturn.

**The Raleigh-Durham (RDU) market remains solidly in expansion mode. The region's office and industrial sectors are experiencing the most landlord-favorable conditions since the dot-com boom in the late 1990s. The impacts of ongoing structural changes in the retail sector have been mitigated by modest construction activity and the strong demographics that make RDU a top target for new and expanding retailers. Sustained population growth, increased household formation and a shortage of single-family housing are driving strong multi-family occupancy and rent appreciation despite abundant new supply.**

Construction deliveries are likely to push office vacancy slightly higher in 2020, but not enough to move the needle significantly in favor of tenants. Soaring construction costs and tight market conditions will keep upward pressure on rental rates, although the pace of growth may moderate. While the region's CBDs will continue to attract tenants and developers, the suburbs will also perform well. As companies place increasing importance on the physical environment and nearby amenities as a talent recruiting and retention tool, the market will witness increased densification of suburban nodes as creative office space and mixed-use environments spread beyond the urban core. Some of the region's aging commercial properties present excellent opportunities for reimagined space and placemaking. In the I-40/RTP submarket, developers will convert a long-vacant outlet mall and a former Nortel manufacturing facility into creative office environments with activated indoor and outdoor common areas.

## KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑	↑↑
Vacant Space	↑	↑	↑
Construction Levels	↑	→	↑
Leasing Volume	→	→	↑
Investment Volume	→	→	→

Record-low vacancy in RDU's industrial market has left tenants with few expansion options, a situation that is unlikely to improve significantly in 2020. While a wave of completions is scheduled over the next 12 months, much of the space is contained in large build-to-suit facilities, including Amazon's 700,000-sf multi-story fulfillment center, the first of its kind in the region. More speculative projects will deliver in 2020, but strong tenant demand driven by the region's expanding logistics and construction industries will keep vacancy tight and rent growth steady.

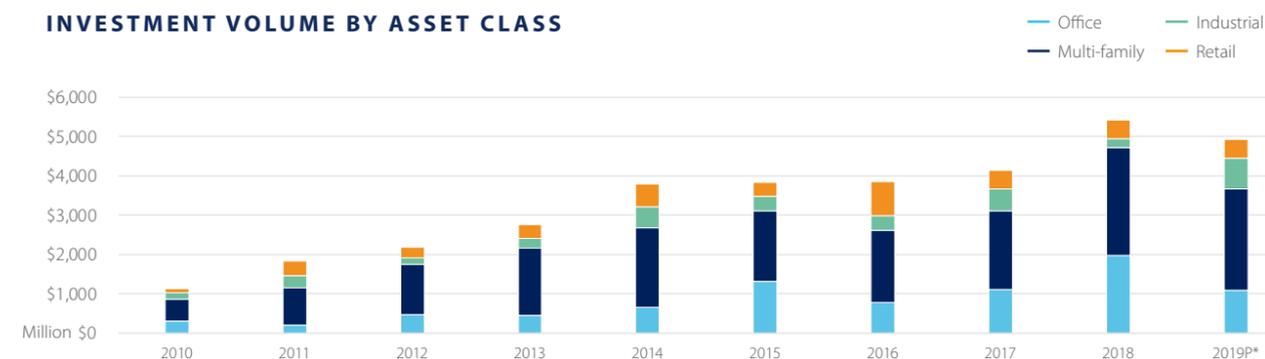
While additional high-profile store closures are expected in 2020, any resulting increase in retail vacancy is likely to be short-lived. Large-box availabilities will be sought-after options for expanding value brands and experiential retailers, and shifting market dynamics are presenting owners with the opportunity to re-purpose well-located properties for higher and better use. In a testament to the region's attractiveness, Wegmans opened its first North Carolina location in Raleigh in 2019 and has five additional local stores in the works.

RDU will remain a top target for investors in 2020, with the multi-family and office sectors driving demand. Amid stock market volatility and declining global growth, RDU's expanding – and affordable – real estate market

offers an attractive destination for abundant capital seeking yield. Multi-family rent control legislation recently passed in markets such as New York and California is likely to buoy RDU multi-family sales and development activity as investors seek opportunities in high-growth secondary markets with fewer regulatory hurdles.

**Healthy leasing fundamentals across all property types, combined with relative affordability compared to larger gateway cities, are creating significant investor interest in the RDU region. In their 2020 Emerging Trends in Real Estate report, the Urban Land Institute and PwC named RDU the number two U.S. market to watch for overall real estate prospects.**

## INVESTMENT VOLUME BY ASSET CLASS



Source: Real Capital Analytics