

# Retail Market Trends Raleigh-Durham

Grubb & Ellis Research

First Quarter 2008



## Reason for Concern

### Executive Summary

Retail vacancy ended the first quarter at its lowest level in more than two years thanks to minimal construction completions and big-box leasing activity. There is reason for concern going forward, however, as retailers and consumers alike are increasingly pinched by rising gas and food prices in conjunction with a slowing economy. Restaurants in particular are struggling to keep prices down as their costs rise at the same time that consumers are pulling back. Linens 'n Things, which recently filed for bankruptcy, has thus far indicated none of its seven Triangle stores will be affected. However, national chains Bombay Company and Talbot's have both announced local store closings, and Wal-Mart recently delayed plans for a new super store in Garner. Fortunately, construction activity remains at its lowest level since 1999. Eight projects totaling 699,300 square feet are currently underway with 61 percent of the space reported as pre-leased.

*While overall home values in the area continue to appreciate, year-over-year sales were down by approximately 28 percent in March.*

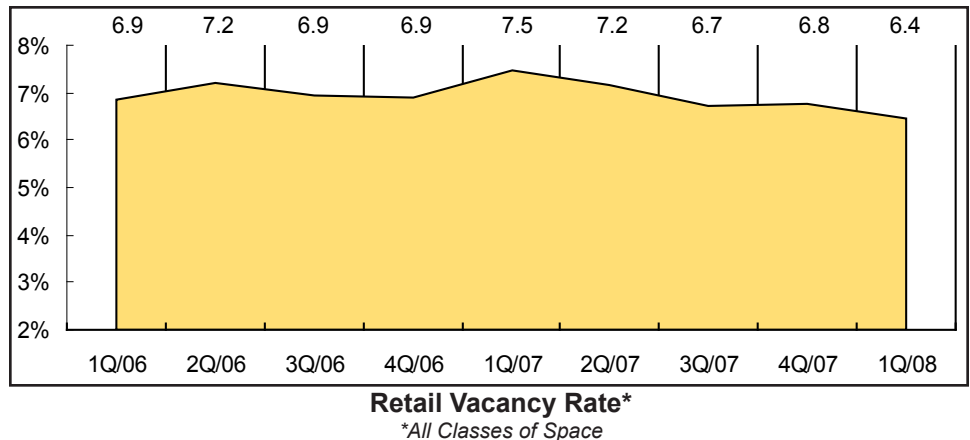
### First Quarter Activity of Note

Two big-box leases accounted for more than half of the absorption witnessed in the first quarter. In Eastern Wake County, Lowe's Home Improvement backfilled approximately 100,000 square feet of former Winn-Dixie space at Wilder's Grove Plaza, sending vacancy in the submarket down by 216 basis points. At Tarrymore Square on Capital Boulevard, Hispanic grocer Compare Foods leased 50,000 square feet for its newest Triangle location. Also worth noting, two non-retail tenants accounted for a combined 39,870 square feet of absorption in the first quarter, not a particularly healthy sign for the sector. The North Carolina Department of Revenue leased 21,000 square feet at North Raleigh's Millbrook Collection shopping center, which has struggled with vacancy since Kroger vacated in 2004. Also in North Raleigh, a charter school filled nearly 19,000 square feet at Six Forks Station.

**Raleigh-Durham Retail Market Trends** is a newsletter published quarterly by Grubb & Ellis|Thomas Linderman Graham. To obtain additional copies or other Grubb & Ellis|Thomas Linderman Graham publications, please contact:

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## Retail Market Snapshot Raleigh-Durham First Quarter 2008

By Submarket (All Product Types)	Total(1) SF	Vacant SF	Vacant %	Net Absorption		Under Const.(2) SF
				Current Qtr. SF	Year-to-Date SF	
Downtown Raleigh	394,560	102,827	26.06%	166	166	30,000
Central Durham	315,926	50,408	15.96%	3,707	3,707	-
<b>CBD Total</b>	<b>710,486</b>	<b>153,235</b>	<b>21.57%</b>	<b>3,873</b>	<b>3,873</b>	<b>30,000</b>
West Raleigh	920,880	29,216	3.17%	4,073	4,073	-
US 70/Glenwood Avenue	4,479,526	198,725	4.44%	1,454	1,454	24,000
Six Forks Road	1,952,711	67,304	3.45%	997	977	-
Wake Forest/Falls of Neuse Road	1,791,871	136,491	7.62%	18,919	18,919	-
US 1/Capital Boulevard	5,389,134	335,344	6.22%	33,323	33,323	88,000
Cameron Village	629,216	6,032	0.96%	-	-	-
Eastern Wake	4,295,622	364,577	8.49%	96,842	96,842	239,300
Southern Wake	2,231,609	106,386	4.77%	(5,580)	(5,580)	-
Cary	5,591,548	370,570	6.63%	103,534	103,534	-
RTP/I-40	666,455	95,299	14.30%	1,080	1,080	152,000
North Durham	3,632,591	384,700	10.59%	(11,168)	(11,168)	-
South Durham	4,601,236	148,903	3.24%	(11,474)	(11,474)	106,000
Orange County	1,909,640	100,563	5.27%	(2,330)	(2,330)	60,000
<b>Suburban Total</b>	<b>38,092,039</b>	<b>2,344,110</b>	<b>6.15%</b>	<b>229,670</b>	<b>229,650</b>	<b>669,300</b>
<b>Totals</b>	<b>38,802,525</b>	<b>2,497,345</b>	<b>6.44%</b>	<b>233,543</b>	<b>233,523</b>	<b>699,300</b>

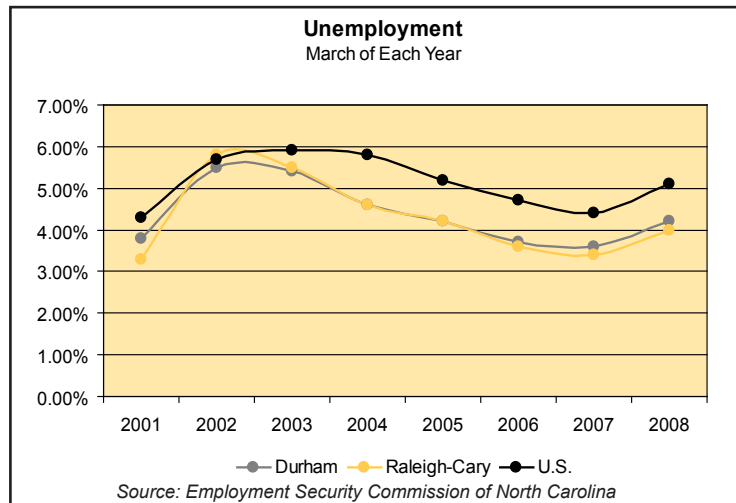
(1) Inventory includes multi-tenant and single-tenant buildings with at least 25,000 SF.

(2) Space under construction includes speculative and build-to-suit for lease projects.

\*Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

## Regional Economy

Triangle unemployment inched up in the first quarter as job creation failed to keep pace with the region's rapidly growing work force. Although the Triangle is faring better than the rest of the nation thus far, the effects of the economic slowdown are showing. While overall home values in the area continue to appreciate, year-over-year sales were down by approximately 28 percent in March. The region's population continues to grow exponentially, but many newcomers who are having difficulty selling their homes elsewhere are renting versus buying. Although job growth has slowed, it is expected to remain in positive territory throughout 2008. The region also has a more diversified employment base than it did before the tech bubble burst in 2000, better positioning it to weather the current economic storm.



## Outlook

The outlook for the Triangle's retail sector in the next 12 months is fair. The decline in development will help keep vacancy in check as the local economy cools and leasing activity slows. Restaurants and small retailers in particular are vulnerable to rising prices and waning consumer demand. The region's population growth, however, will continue to draw new retailers to the market. According to a recent Census Bureau report, Wake County ranked seventh in the nation for the number of residents added between July 2006 and July 2007. In March 2008, *Forbes* named Raleigh the number one metro in the nation for Business and Careers, and Durham placed an impressive 12th on the list. Such statistics and accolades make the Triangle a prime target for retail development and expansion in the long term.