

SEMIANNUAL MARKET REPORT

HILLSBOROUGH STREET Q3 & Q4 2018



Key Takeaways

> Through November Hillsborough Street prepared food and beverage sales increased year-over-year by 3.31%, bringing total gross sales (YTD) in the district to a new all-time high of 43.5 million dollars.

> Business openings and closings netted four new businesses in the second half of 2018, which helped yield a positive, six-month net absorption of +9,452 square feet of combined office and retail space.

> Hillsborough Street retail vacancy continues to remain at an extremely low level (0.5%).

> Three major construction projects were completed in Q3 and Q4. The construction continues to take place with another 1.2 million square feet planned or under construction right now.

Market Indicators

\$43.5M

Year-to-Date Gross
Food & Beverage Sales

+3.31%

Change Year-over-Year
in YTD F&B Sales

9

Business Openings
in Q3 & Q4

5

Business Closings
in Q3 & Q4

+9,452 SF

Combined Office & Retail Net
Absorption (6-Month)

0.5%

Retail Vacancy in the
Hillsborough St. MSD

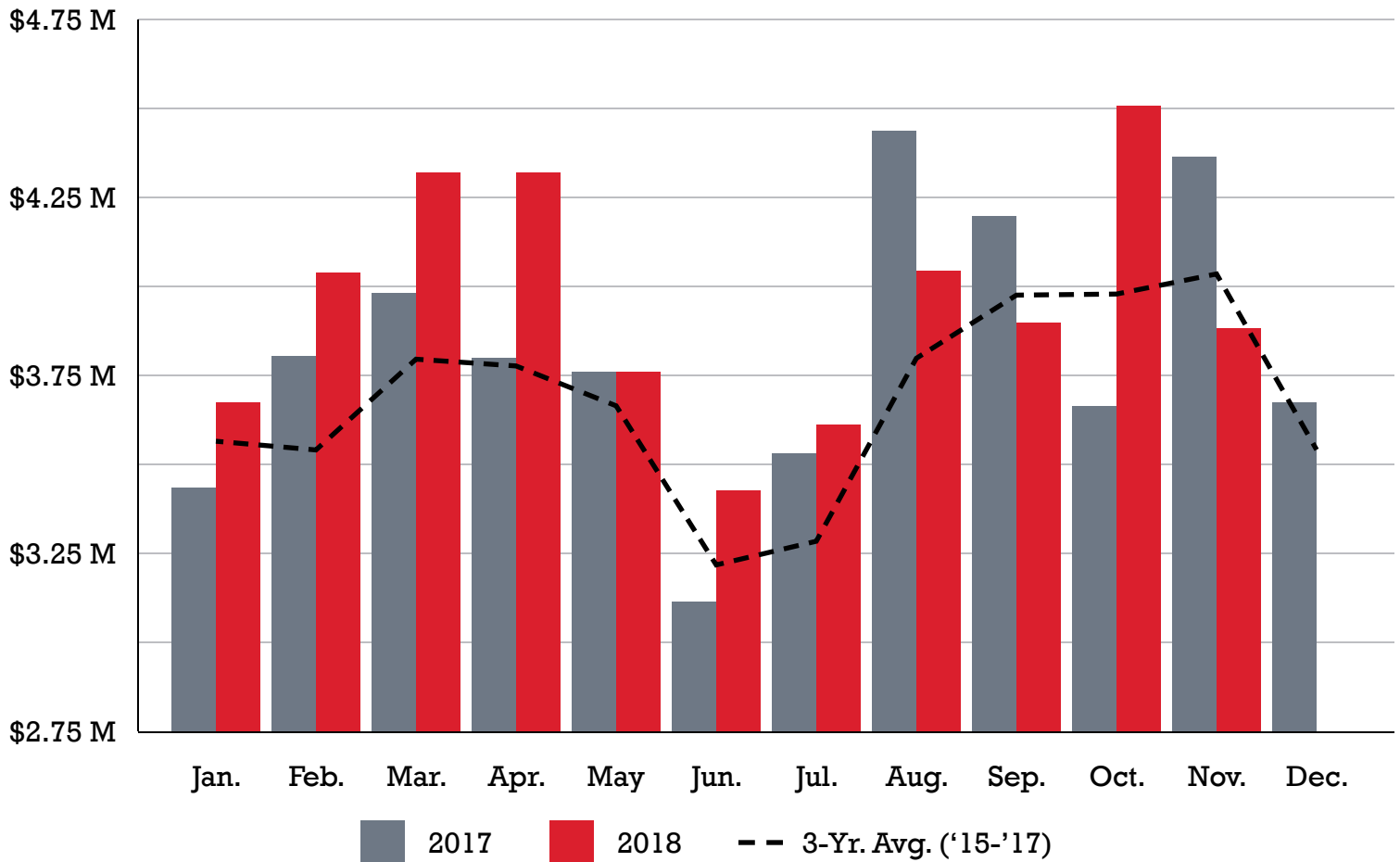
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Major Construction Projects
Completed in Q3 & Q4

1.2M SF

Planned or Under
Construction Projects

Prepared Food & Beverage Sales



\$43.5M

Year-to-Date Gross F&B Sales

After a very strong start to 2018, Q3 saw a slight drawback in pace. Two out of the three months in Q3 outperformed the 3-year average, while Q3 overall was down -5.0% from the strong performance of Q3 of 2017.

Gross Increase in YTD F&B Sales

+\$1.4M

Q4 began with record October sales (\$4.51M), up +23% in comparison to 2017. So far in 2018, Q4 has been a return to pace with year-over-year growth of +4.5% versus Q4 of 2017 to date through November.

+3.31%

Change Year-over-Year in YTD F&B Sales

While Q3's numbers were slightly down from last year's numbers, as a whole year-to-date (YTD) sales continue to trend upwards with the current year-over-year growth rate at +3.31% (+\$1.4M gross). Overall, Hillsborough Street has seen 43.5 million dollars in gross sales through November of 2018 and is on track to continue the multi-year trend of positive year-over-year growth.

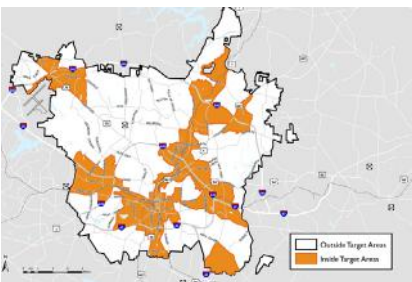
Business Openings & Closings

Q3 & Q4 2018

Openings	Address	Type	SF	Month
TLC Wings & Grill	3625 Hillsborough St.	Full Service Restaurant	4,950 SF	July
Pisco Mar	2502-1/2 Hillsborough St.	Full Service Restaurant		July
109 Park Apartments	109 Park Ave.	Apartment	96,200 SF	August
Taco Bell Cantina	2304-102 Hillsborough St.	Quick Service Restaurant	1,650 SF	August
The Theory Apartments	1505 Hillsborough St.	Apartment	271,250 SF	August
College Beverage 1	2808 Hillsborough St.	Convenience Store		October
Eastern Gate Cafe	3625 Hillsborough St.	Coffee / Snack Restaurant	4,950 SF	October
University Cuts	1205 Hillsborough St.	Prof. Serv. - Health & Beauty		October
King Tobacco	2 Dixie Tr.	Specialty Retail - Tobacco		November
Closings	Address	Type	SF	Month
Subway	2808 Hillsborough St.	Quick Service Restaurant		July
Wolf Mart	2808 Hillsborough St.	Convenience Store		August
Bocci Italian Pizzeria & Trattoria	2412 Hillsborough St.	Full Service Restaurant	4,300 SF	September
TLC Wings & Grill	3625 Hillsborough St.	Full Service Restaurant	4,950 SF	October
Mama Jee - Sushi Thai Bar	105 Friendly Dr.	Full Service Restaurant	3,600 SF	October

Q3 and Q4 had nine openings and five closings leading to a net increase of four businesses. Of note - several of the openings & closings are more accurately changes in ownership, re-brandings and store relocations ahead of redevelopment set to occur in the footprint of the newly renovated section of Hillsborough Street.

Business & Development News



Building Up-Fit Grant Applications Now Open

The City of Raleigh's Building Up-fit Grant encourages growth and development by assisting property owners and businesses with improvements, renovations and/or additions to their interior spaces. This quarter's round of applications are being accepted through Monday, February 18, 2019. For more info about this and other City of Raleigh incentives, click [here](#).

Hillsborough Street Now Has Pedestrian Counters

Starting in July of 2018 Hillsborough Street rolled out new, automated pedestrian counters on the street. Two counters are now in operation, using infrared lasers to log data on pedestrian activity levels along Hillsborough Street's sidewalks. The data collected will be used to better inform both existing and new businesses on the pedestrian activity of the street.

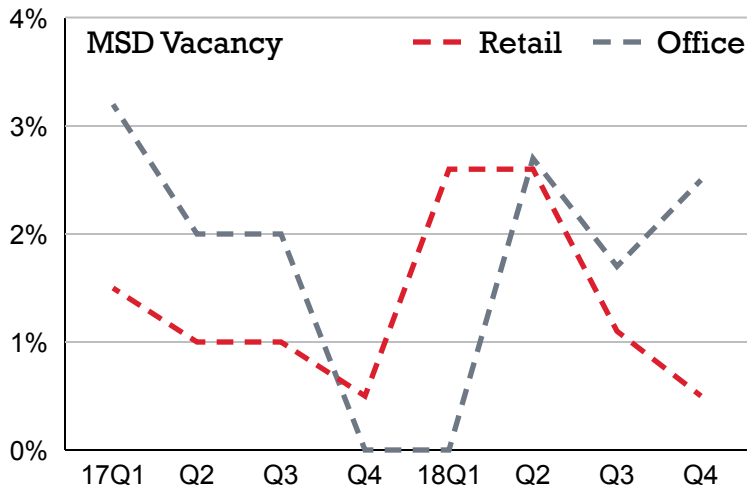


Commercial Space Inventory

	Hillsborough St. MSD*		Hillsborough St. MA**		West Raleigh MA		City of Raleigh	
Leasable SF	2018 Q4		2018 Q4		2018 Q4		2018 Q4	
Office - Class A	N/A		958,779 SF		5,165,645 SF		17,850,699 SF	
Office - Class B	87,951 SF		630,255 SF		4,397,147 SF		18,196,341 SF	
Office - Class C	211,150 SF		529,189 SF		1,646,629 SF		6,498,465 SF	
All Office	299,101 SF		2,118,223 SF		11,209,421 SF		42,547,905 SF	
All Retail	425,217 SF		1,472,104 SF		3,461,233 SF		33,291,857 SF	
Net Absorption (SF)	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4
Office - Class A	N/A	N/A	1,866 SF	1,539 SF	47,060 SF	51,658 SF	95,099 SF	67,418 SF
Office - Class B	3,000 SF	-2,585 SF	969 SF	7,494 SF	4,797 SF	22,643 SF	-10,765 SF	77,873 SF
Office - Class C	0 SF	0 SF	6,541 SF	-1,600 SF	6,393 SF	3,655 SF	45,741 SF	13,019 SF
All Office	3,000 SF	-2,585 SF	9,376 SF	7,433 SF	58,250 SF	77,956 SF	130,075 SF	158,310 SF
All Retail	6,415 SF	2,622 SF	11,890 SF	2,622 SF	14,477 SF	14,934 SF	6,851 SF	-101,760 SF
Vacancy (%)	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4
Office - Class A	N/A	N/A	2.9%	2.7%	7.2%	6.2%	7.2%	6.9%
Office - Class B	5.7%	8.6%	5.5%	4.3%	4.1%	3.6%	4.0%	3.6%
Office - Class C	0.0%	0.0%	0.2%	0.5%	1.3%	1.1%	1.7%	1.5%
All Office	1.7%	2.5%	3.0%	2.6%	5.1%	4.4%	5.0%	4.7%
All Retail	1.1%	0.5%	0.6%	0.4%	0.9%	0.5%	2.9%	3.2%
Market Rent per SF	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4
Office - Class A	N/A	N/A	\$33.37	\$33.76	\$29.46	\$29.72	\$29.92	\$30.28
Office - Class B	\$22.36	\$22.48	\$24.25	\$24.30	\$24.06	\$24.19	\$22.18	\$22.33
Office - Class C	\$21.95	\$22.00	\$21.96	\$22.03	\$22.16	\$22.25	\$20.61	\$20.69
All Office	\$22.07	\$22.15	\$27.82	\$28.02	\$26.27	\$26.46	\$25.19	\$25.41
All Retail	\$21.75	\$21.90	\$23.18	\$24.14	\$21.86	\$22.31	\$20.61	\$20.75

* See back page for MSD boundary. ** 1.25-mile radius from MSD centerpoint.

Source: CoStar



Overall, vacancy rates for both office and retail space along Hillsborough Street continue to sit at low levels in general (2.5% and 0.5%) and in comparison to the City of Raleigh as a whole (4.7% and 3.2%). This is reinforced in the positive six-month net absorption of +9,452 square feet of combined office and retail space on the street.

Market rents across asset classes continued their upward trend - now averaging in the low \$20's per SF for both office and retail space on the street.

Construction Activity

3

Major Projects Completed
in Q3 & Q4

Bedrooms added in Q3 & Q4

+674

1.2M SF

Planned or Under Construction



Featured Project: The Standard

Planned redevelopment of the former Lulu Press site (originally the NC Equipment Co. bldg.) by Landmark Properties of Athens, GA. Plans call for a four-to-five story, 235-unit student apartment building with an anticipated 5,000 SF of retail space. The developers have worked to incorporate the original “tractor” sign as an aesthetic feature of the project.

Planned	Address	Size	Units (BRs)	Est. Completion
University Park Condominiums	3411 Hillsborough St.	93,413 SF	93 (133 BRs)	TBD
Hillsborough Pointe	2812 Hillsborough St.	29,555 SF	29 (46 BRs)	TBD
Enterprise Condominiums	101 Enterprise St.	101,686 SF	51 (89 BRs)	TBD
Hillstone Cameron Village	305 Oberlin Rd.	237,654 SF	203 (265 BRs)	TBD
The View on Pullen Circle	1912 Hillsborough St.	60,000 SF	35	TBD
The Standard	3101 Hillsborough St.	271,500 SF	232 (671 BRs)	Q3 2020
3020 Hillsborough	3020 Hillsborough St.	246,350 SF	142 (326 BRs)	Q3 2020
Under Construction	Address	Size	Units (BRs)	Est. Completion
Logan & Chamberlain (Bldg. 1)	102 Logan Ct.	73,472 SF	81 (192 BRs)	Q3 2019
Logan & Chamberlain (Bldg. 2)	113 Chamberlain St.	41,155 SF	42 (113 BRs)	Q3 2019
Completed	Address	Size	Units (BRs)	Completion
The Theory Apartments	1505 Hillsborough St.	271,215 SF	150 (525 BRs)	August 2018
109 Park Avenue Apartments	109 Park Ave.	96,188 SF	119 (149 BRs)	August 2018
Hillsborough Street - Phase II	Gardner to Shepherd	0.5 Miles	N/A	August 2018

Q3 and Q4 delivered three major projects that added a total of 367,000 SF of new space to the street. Two of the three major projects completed were apartment complexes adding another 674 bedrooms to the market. Q3 also celebrated the completion of Phase II of the Hillsborough Street Streetscape Renewal Project. The development outlook for Hillsborough Street continues to be very positive with the current development pipeline of planned or under construction projects including nine major projects (1.2 million SF) that will add another 1,835 bedrooms.

Real Estate For Sale & Lease



2420 Hillsborough

Location: 2420 Hillsborough St.

Type/Use: For Lease - Retail

Available Space: 5,800 SF

Unique retail space available with excellent exposure on Hillsborough Street across from NC State University... [See More](#)



2702 Hillsborough

Location: 2702 Hillsborough St.

Type/Use: For Lease - Retail or Office

Available Space: 6,000 SF

Directly across from NC State, the property is in the heart of NC State Campus, and minutes... [See More](#)



Stanhope

Location: 3001 Hillsborough St.

Type/Use: For Lease - Retail

Available Space: 2,350 - 3,450 SF

Ground floor retail available including the corner space. Multi-story student housing & retail complex... [See More](#)



Valentine Commons Deck

Location: 3101 Stanhope Ave.

Type/Use: For Lease - Office or Retail

Available Space: 1,950 - 4,100 SF

Partial 2nd floor and full 3rd floor office/retail space available. Numerous amenities within walking distance.... [See More](#)

About This Report

The goal of this report is to track the market of Raleigh's Hillsborough Street Municipal Service District with data and metrics on a quarterly basis. This report includes trends in food and beverage sales, businesses openings and closings, business and development news, commercial space, construction activity and properties for sale or lease.

Going forward, we plan to produce and distribute this report semiannually to allow our stakeholders the ability to view the progress and success of their community.

To view the most current version of this report, visit:

www.hillsboroughstreet.org/doing-business

This information has been secured from sources we believe to be reliable, but Hillsborough Street Community Service Corporation (HSCSC) makes no representations or warranties, expressed or implied, as to the accuracy of the information.

About Hillsborough Street C.S.C.

The Hillsborough Street Community Service Corporation (HSCSC) is an independent, 501(c)(3), not-for-profit, municipal service district created in the fall of 2009 by the City of Raleigh in partnership with N.C. State University and the property owners, merchants and residents on and around Hillsborough Street.

The HSCSC territory is a 3-mile long corridor that runs on both sides of Hillsborough Street, from St. Mary's School to the I-440 Beltline, including W. Morgan Street and a few side streets. The territory connects to, but does not include, Cameron Village. The territory includes a diverse collection of businesses, organizations, institutions and residential options.

The organization's mission is to make the Hillsborough Street community a distinct destination in Raleigh by providing services and programs that improve the economic sustainability of the territory's businesses and increase the market value of its properties.

