

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q11

### ECONOMIC OVERVIEW

The economy continues to struggle as hopes of a quick and robust recovery fall by the wayside. Optimism from earlier in the year has been subdued by stagnate job and economic growth. No net job growth occurred in August as the government sector shed 17,000 jobs, offsetting any private sector gains. Local government employment has declined by 550,000 jobs since peaking in September of 2008.

Old Dominion University's economist adjusted the gross regional output forecast to 1.9% from 3.1% for 2011. The forecast reflects in part the slowest growth in defense spending in the region for a decade. The August non-seasonally adjusted unemployment rate in the Hampton Roads region increased to 7.3% from 6.5% in April. The Virginia unemployment rate for August was 6.5% while the rate for the U.S. was at 9.1%. A closer analysis of the unemployment is encouraging, as the increase from April stems primarily from an expanding labor force rather than from those unemployed. The number of people employed in Hampton Roads increased for the summer tourist season by 20,645 from April to July of 2011, while the labor force increased by 26,234 during the same time.

### RETAIL MARKET OVERVIEW

The positive mood exhibited at the International Council of Shopping Centers Las Vegas conference in May has not borne fruit yet. Post Labor Day activity has picked up after a quiet summer on vacation. Brokers are optimistic that the activity will translate into signed leases in the fourth quarter of 2011 and into 2012.

Although leasing activity was slow through the summer, an upward revision of year-to-date leasing from previous quarters places the figure at 1,634,323 square feet (sf) which is 139,083 sf shy of the third quarter 2010 amount. Overall absorption for the year thus far reached 248,141 sf. Overall vacancy ticked up in the third quarter to 6.6%, a 0.1 percentage point increase over the same time last year. Direct weighted average rent dropped by 5.2% to \$13.54 per square foot (psf) from \$14.28 psf last year.

A few significant announcements of note occurred in this past quarter. The Virginia Pilot reported that the City of Norfolk is close to luring a Harris Teeter to Ward's Corner, as well as an Urban Outfitters downtown along Granby Street. Additional announcements include a Whole Foods, which announced a store in Hilltop, and a Food Lion center that should begin construction in the Williamsburg area soon. Other active retailers include Buffalo Wild Wings, which plans to open stores in Harbour View of Suffolk and the Wells Fargo Center in Downtown Norfolk.

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### ECONOMIC INDICATORS

NATIONAL	2010	2011F	2012F
GDP Growth	3.0%	1.6%	2.7%
CPI Growth	1.6%	3.0%	2.1%
Consumer Spending Growth	2.0%	2.1%	2.4%
Retail Sales	6.4%	7.3%	5.4%

### REGIONAL

Household Income	\$50,431	\$51,372	\$53,403
Population	1,675,950	1,687,720	1,699,460
Unemployment	7.38%	6.86%	6.74%

Sources: Moody's | Economy.com, U.S. Census Bureau, U.S. Bureau of Labor Statistics, National Retail Federation, Old Dominion University Economic Forecasting Project

### BEAT ON THE STREET

"Expect to see new development of retail centers anchored by grocery stores coming out of the ground shortly."

– David Machupa Commercial Sales-Leasing

### 2011 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
1140 S Military	O'Reilly Auto Parts	40,000
6533 Market	Big Lots	38,000
110 S Independence	Priority Auto	37,150

### 2011 KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Landstown Commons	409,749	\$91,200,000
1725 Laskin	151,184	\$14,800,000
500 Settlers Market	350,000	\$13,300,000

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
The Shops at 31Ocean	N/A	50,900	4Q12
6550 Townpoint	N/A	50,000	4Q11
3429 Tyree Neck	Harris Teeter	49,000	2Q12

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### OUTLOOK

The U.S. Department of Commerce estimates that the seasonally adjusted retail and food service sales for August remained virtually unchanged from July, but it is 7.2% above August 2010. Year-to-date retail and food services sales have increased 7.9% thus far over 2010 and have surpassed pre-recession levels. Although consumer spending continues to increase, a few drags on the market include the anemic housing sector and persistently high unemployment. A singular common thread does not exist between the tenants in the marketplace, but leasing activity should increase in the fourth quarter of 2011 through 2012.

Expect construction activity to increase in Hampton Roads for build-to-suit projects. Currently, a dearth of big boxes and spaces for anchored retailers currently exists within the market. As noted in the significant announcements section, grocery stores will anchor many of the new developments. Vacancy rates will continue to trend down until new construction outpaces absorption.

### MARKET/SUBMARKET STATISTICS

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Classes Rate*	Avg. All Gross Rental	Direct Wtd. Avg. Rental Rate*
Denhigh	2,051,315	10.5%	10.3%	9,009	-	0	51,824	51,824		\$9.10	\$10.56
Downtown Hampton	846,664	7.5%	7.5%	5,957	-	0	(9,286)	(9,286)		\$12.15	\$12.15
Downtown Newport News	619,070	2.0%	2.0%	1,576	-	0	(1,949)	(1,949)		\$5.30	\$5.30
Fox Hill	1,553,695	9.8%	9.5%	10,022	-	0	(60,612)	(10,371)		\$13.53	\$14.05
Gloucester	2,028,209	7.1%	6.6%	68,550	40,800	0	(24,356)	(24,356)		\$11.45	\$11.45
Hampton North	4,254,056	6.6%	6.6%	70,371	-	0	(27,126)	(27,126)		\$14.83	\$14.83
James River	2,115,163	3.7%	3.7%	30,804	-	4,800	(25,326)	(20,326)		\$11.86	\$11.86
Lightfoot	2,735,010	6.2%	6.2%	21,055	-	0	11,341	11,341		\$16.07	\$16.07
Mathews County	124,494	0.0%	0.0%	1,200	-	0	6,000	6,000		\$0.00	\$0.00
Mercury Central	6,131,043	6.4%	6.2%	55,842	3,750	8,400	(12,427)	(9,671)		\$11.17	\$11.17
Patrick Henry	4,481,482	3.9%	3.9%	42,139	-	55,599	34,800	34,800		\$15.98	\$15.83
Poquoson	1,818,690	6.4%	6.4%	10,788	-	0	11,301	11,301		\$13.37	\$13.37
Williamsburg	4,245,957	8.9%	8.9%	94,499	-	51,809	76,575	76,575		\$17.19	\$17.51
Yorktown	424,503	14.7%	14.7%	4,000	-	0	(3,000)	(3,000)		\$12.68	\$12.68
<b>Peninsula Total:</b>	<b>33,429,351</b>	<b>6.7%</b>	<b>6.6%</b>	<b>425,812</b>	<b>44,550</b>	<b>120,608</b>	<b>27,759</b>	<b>85,756</b>		<b>\$13.36</b>	<b>\$13.13</b>
Campostella/S. Norfolk	1,787,474	5.0%	4.7%	37,485	-	0	(2,077)	(2,077)		\$12.57	\$12.85
Chesapeake Square	2,918,960	2.5%	2.5%	37,258	3,697	0	(29,548)	(29,548)		\$15.38	\$15.24
Churchland	1,709,632	4.5%	3.9%	52,367	99,000	0	25,685	25,685		\$12.62	\$12.47
College Park	2,002,569	6.5%	6.5%	48,510	-	5,400	11,543	11,543		\$12.17	\$12.17
Deep Creek	1,204,525	5.5%	5.5%	8,730	-	0	6,110	6,110		\$14.92	\$14.92
Downtown Norfolk	4,665,337	6.0%	6.0%	51,817	-	2,000	3,456	3,456		\$14.58	\$14.74
Downtown Suffolk	1,121,942	4.9%	4.9%	6,972	-	0	(3,525)	(3,525)		\$6.85	\$6.85
Franklin City	1,509,269	8.0%	8.0%	2800	-	0	(3,498)	(3,498)		\$11.80	\$11.80
General Booth Corridor	2,130,438	5.5%	5.5%	41,775	11,500	0	(6,424)	(6,424)		\$24.48	\$21.44
Great Bridge	1,855,313	7.7%	7.7%	52,731	-	200,271	135,227	135,227		\$14.62	\$14.62
Greenbrier/Battlefield	4,251,407	2.2%	2.2%	71,407	18,708	14,000	(5,983)	(5,803)		\$18.49	\$18.49
Hilltop/Great Neck	2,961,529	2.7%	2.7%	89,181	-	0	13,629	13,629		\$15.60	\$14.40
Holland Road	1,681,681	6.9%	6.9%	34,534	30,000	0	158,993	162,193		\$11.22	\$11.22
Isle of Wight	671,717	16.7%	16.7%	8,050	-	0	3,420	3,420		\$5.83	\$5.83
Kempsville	1,782,764	9.7%	9.7%	22,825	-	1,752	(26,212)	(24,292)		\$14.82	\$14.82
Little Creek	3,502,893	7.9%	7.9%	117,546	-	0	(48,778)	(48,778)		\$10.83	\$10.83
Little Neck	2,798,373	7.0%	7.0%	39,707	-	0	(14,691)	(14,691)		\$16.66	\$16.66
Lynnhaven	2,365,905	11.1%	11.1%	38,942	-	0	18,179	18,179		\$16.88	\$16.88
Mid-City	2,746,210	5.1%	5.1%	23,129	-	0	(1,214)	(1,214)		\$10.70	\$10.70
Military	4,880,185	3.9%	3.9%	50,961	-	0	13,925	20,899		\$11.77	\$11.77
Newtown	2,711,944	5.9%	5.9%	15,382	-	0	(58,688)	(58,688)		\$12.11	\$12.15
Northern Suffolk	904,497	28.1%	27.9%	56,345	-	20,308	23,491	23,491		\$19.12	\$19.12
Oceanfront	2,421,225	1.9%	1.9%	24,152	50,900	9,462	21,091	21,091		\$21.13	\$21.13
Pembroke	3,301,212	5.6%	5.5%	74,205	-	0	(44,933)	(46,533)		\$17.05	\$17.05
Princess Anne	1,504,401	5.8%	5.1%	27,986	-	0	10,337	10,337		\$15.67	\$15.67
Shore Drive	1,052,733	6.8%	6.8%	39,029	-	0	(30,662)	(30,662)		\$13.36	\$13.36
Smithfield	726,356	2.1%	2.1%	24,942	-	0	23,742	23,742		\$10.04	\$10.04
Suffolk	1,685,805	8.3%	8.3%	39,968	-	0	(5,425)	(5,425)		\$14.11	\$14.11
Surry County	123,140	0.0%	0.0%	0	-	0	0	0		\$0.00	\$0.00
VA. Beach Courthouse	621,411	11.2%	11.2%	2,043	-	0	13,498	13,498		\$20.34	\$20.34
Victory	2,314,866	8.6%	8.6%	25,239	24,392	0	(57,213)	(57,213)		\$14.04	\$14.04
Wards Corner	787,681	14.4%	14.4%	42,493	-	0	8,256	8,256		\$11.23	\$11.23
<b>Southside Total:</b>	<b>66,703,394</b>	<b>6.1%</b>	<b>6.2%</b>	<b>1,208,511</b>	<b>238,197</b>	<b>253,193</b>	<b>151,711</b>	<b>162,385</b>		<b>\$13.70</b>	<b>\$13.64</b>
<b>Hampton Roads Total:</b>	<b>100,132,745</b>	<b>6.4%</b>	<b>6.3%</b>	<b>1,634,323</b>	<b>282,747</b>	<b>373,801</b>	<b>179,470</b>	<b>248,141</b>		<b>\$13.49</b>	<b>\$13.54</b>



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 Thalhimmer  
 5700 Cleveland Street, Suite 400  
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 (757) 499-2900  
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