

MARKETBEAT

HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

ECONOMIC OVERVIEW

A new tone in Washington is sending nervous ripples through Hampton Roads. Although final decisions regarding federal spending are still pending, local retailers are taking notice of the budget-cutting rhetoric. The current unemployment rate for Hampton Roads outperforms the nation at 7.2% versus 9.8% respectively; however, the U.S. Joint Forces Command in Norfolk expects to cut 1,900 highly paid staffers, which will likely increase the employment rate. Military and federal contractors expect the cuts to hit them the hardest. The insecurity in future funding has resulted in more cautious planning by contractors.

National indicators are more encouraging. Retailers experienced their best holiday sales season in three years, with sales up 5.5% from last year. Unemployment claims have also fallen dramatically from the past two years.

RETAIL MARKET OVERVIEW

Retailers slowly gained confidence as 2010 progressed. Leasing activity hit a three-year high experiencing a 35% one year increase to 2.2 million square feet (msf) in 2010 from 1.7 msf in 2009 and 1.5 msf in 2008.

Recently, retailers have become increasingly nervous about losing jobs in the defense and contracting business. Potential tenants of Harbour View, a new retail market in Suffolk, are delaying decisions to weigh the impact of staffing reductions at the U.S. Joint Forces Command.

The same intrepid restaurateurs who were making deals in 2009 continued activity in 2010. Brokers report that “fast casual” restaurant chains, described as higher quality than fast food but without sit-down service, continue to seek locations in the Hampton Roads region. Five Guys and Chipotle are among these fast casuals that want to expand their footprints in Hampton Roads. New concepts such as a breakfast wrap and a salad franchise are also looking to enter the market.

Tenants know that they can receive steep discounts on rents compared with the pre-recession days. Asking rates dropped in the fourth quarter of 2010 to \$13.72 per square foot (psf) from \$14.42 psf for the same period in 2009.

Large-dollar deals have been rare for the past two years, but a few small deals closed in the fourth quarter. Arizona-based Cole Real Estate Investments paid \$2.3 million for 2.85 acres that includes a Wawa on Victory Boulevard in Portsmouth.

ECONOMIC INDICATORS

NATIONAL	2009	2010	2011F
Real GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Consumer Spending Growth	-1.2%	1.7%	2.7%
Retail Sales	-6.3%	5.9%	5.0%
REGIONAL			
Household Income	\$51,423	\$50,611	\$51,195
Population	1,674,498	1,683,375	1,693,648
Unemployment	6.8%	7.4%	7.4%

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

“Now that retailers have seen good holiday sales, they will plan to do additional stores in 2012 and get started working on them in 2011.”

– Chris Good Commercial Sales-Leasing

2010 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Chesapeake Square	Burlington Coat Factory	81,721
3421 Virginia Beach Boulevard	hhgregg	37,500
Yoder Plaza	hhgregg	32,653

2010 KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Chesapeake Square Shoppes	13,559	\$3,100,000
3525 N Military Hwy.	32,051	\$2,675,000
2400 George Washington Memorial Highway (Walgreen's)	14,820	\$6,300,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Great Bridge Market Place	N/A	36,169	Winter 2011
Jefferson Marketplace	Walgreens	37,915	April 2011
Walmart- Edinbough	Walmart	185,000	Fall 2011

OUTLOOK

Although jitters about job growth remain, brokers are reporting more tenants looking and signing leases than in the past few years. The thaw in activity likely means that effective rental rates are near bottom and may rise slowly in 2011. Increased demand leaves landlords with an age-old decision: wait for a higher paying tenant or take what you can get right now.

Major chains, including Starbucks, Burger King and Wal-Mart, are active again which should help drive absorption to be at or higher than 2010 levels. Absorption for 2011 will increase in part due to a low 36,000 s.f. under construction at the end of 2010 compared to 1,300,000 s.f. in 2008.

Big investment sales will probably be slow in 2011, as banks are extremely cautious on deals that involve commercial real estate. In fact, bank experts are predicting a wave of community bank consolidations, which might mean a few branches close across the region.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	Direct Wtd. Avg. Rental Rate*
Denbigh	2,062,830	172	10.5%	10.2%	76,256	0	0	(49,822)	\$10.45
Downtown Hampton	843,632	100	6.3%	6.3%	2,761	0	0	(4,841)	\$12.08
Downtown Newport News	611,015	82	1.9%	1.9%	4,155	0	0	16,382	\$7.35
Fox Hill	1,509,286	208	8.6%	4.6%	31,855	0	0	26,287	\$12.23
Gloucester	1,985,764	136	8.3%	7.7%	18,347	0	0	41,425	\$11.48
Hampton North	4,261,682	287	6.5%	6.5%	35,839	0	45,818	22,683	\$14.77
James River	2,090,924	215	2.6%	2.4%	34,157	4,800	11,000	42,947	\$15.06
Lightfoot	2,780,778	111	6.6%	6.6%	46,517	0	0	(4,863)	\$17.06
Mathews County	111,242	12	4.7%	4.7%	0	0	0	500	\$0.00
Mercury Central	6,229,302	424	8.0%	7.6%	119,225	8,400	0	(57,233)	\$9.27
Patrick Henry	4,447,610	147	3.2%	3.2%	57,458	0	14,000	35,248	\$14.42
Poquoson	1,815,761	188	7.0%	7.0%	36,331	0	0	(751)	\$13.72
Williamsburg	4,201,718	318	10.0%	10.0%	118,332	0	7,226	27,114	\$21.72
Yorktown	421,091	49	7.2%	7.2%	12,850	0	0	260	\$12.98
Peninsula Total:	33,716,174	2,433	6.9%	6.5%	594,083	13,200	78,084	94,836	\$13.48
Campostella/S. Norfolk	1,754,146	154	4.5%	4.1%	52,100	0	8,500	26,673	\$11.35
Chesapeake Square	2,907,777	93	1.8%	1.8%	106,253	0	0	26,146	\$15.92
Churchland	1,735,582	137	6.0%	5.4%	58,118	0	0	5,447	\$13.38
College Park	1,984,555	191	7.0%	7.0%	61,881	5,400	0	(14,884)	\$12.34
Deep Creek	1,211,354	98	6.0%	6.0%	5,523	0	0	(5,857)	\$18.47
Downtown Norfolk	4,765,032	407	5.8%	5.8%	59,147	0	6,339	(54,021)	\$14.75
Downtown Suffolk	1,131,793	149	4.5%	4.5%	11,089	0	0	1,889	\$7.86
Franklin City	1,502,754	84	7.7%	7.7%	7,160	0	19,097	24,737	\$12.34
General Booth Corridor	2,017,148	127	5.6%	5.6%	60,689	0	24,685	9,517	\$20.00
Great Bridge	1,660,533	134	6.0%	6.0%	40,688	0	3,798	(19,992)	\$18.15
Greenbrier/Battlefield	4,205,583	163	2.3%	2.3%	155,611	0	25,000	52,559	\$19.10
Hilltop/Great Neck	2,952,772	211	3.0%	3.0%	79,663	4,082	0	(28,984)	\$15.09
Holland Road	1,886,596	118	16.1%	15.9%	41,080	0	0	(26,883)	\$10.72
Isle of Wight	698,724	57	18.0%	18.0%	3,516	1,375	17,200	(42,050)	\$5.21
Kempsville	1,833,400	139	8.8%	8.7%	60,312	0	22,199	(5,956)	\$16.72
Little Creek	3,521,212	305	7.9%	7.9%	50,063	0	0	23,912	\$12.22
Little Neck	2,798,668	147	6.6%	6.6%	50,803	0	0	39,061	\$16.84
Lynnhaven	2,336,863	96	12.0%	12.0%	48,503	0	3,626	(15,063)	\$16.05
Mid-City	2,702,083	304	5.2%	5.2%	7,260	0	0	(4,784)	\$10.47
Military	4,982,692	334	3.4%	3.3%	190,946	0	0	92,939	\$11.09
Newtown	2,689,425	201	3.7%	3.3%	18,995	0	0	91,160	\$12.21
Northern Suffolk	888,121	44	29.0%	28.8%	72,701	12,192	9,800	74,189	\$18.82
Oceanfront	1,937,850	274	3.0%	3.0%	52,870	0	18,591	14,638	\$16.41
Pembroke	4,025,632	199	4.6%	4.6%	84,127	0	3,013	43,828	\$15.80
Princess Anne	1,613,951	78	6.0%	5.3%	27,357	0	13,225	(1,870)	\$17.31
Shore Drive	1,055,601	119	4.7%	4.7%	43,357	0	0	10,364	\$15.12
Smithfield	708,936	88	5.5%	5.5%	4,137	0	0	25	\$13.39
Suffolk	1,675,294	126	7.7%	7.7%	39,491	0	0	(4,682)	\$10.99
Surry County	123,140	10	0.0%	0.0%	0	0	0	0	\$0.00
Va. Beach Courthouse	612,269	23	13.5%	13.5%	15,819	0	0	(657)	\$21.14
Victory	2,298,105	220	6.6%	6.6%	156,479	0	0	97,247	\$16.65
Wards Corner	778,771	51	16.4%	16.4%	30,232	0	0	(15,673)	\$10.92
Southside Total:	66,908,759	4,838	6.3%	6.2%	1,695,970	23,049	175,073	392,975	\$13.90
HAMPTON ROADS TOTAL:	100,689,904	7,293	6.5%	6.3%	2,298,153	36,249	253,157	451,923	\$13.72

* Rental rates reflect NNN \$psf/year



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