MARKETBEAT

RICHMOND RETAIL REPORT

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4Q10

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ECONOMIC OVERVIEW

Shoppers are starting to loosen their purse strings, and national retailers are talking again about finding new locations or setting up in new markets. National holiday sales rose 5.5% compared with a year ago, according to MasterCard. That's the biggest jump in three years and comes with national unemployment near 10%. Also encouraging: New unemployment claims are falling.

The unemployment rate for Richmond was 7.6% in November, down from 7.9% in the third quarter. On the local level, the pace of major layoffs seen in 2008 and 2009 slowed dramatically in 2010. One major retailer with a small presence – AJWright – announced in the fourth quarter that it is closing its stores. Of the two stores they have in the Richmond market, one will be closing and the other will likely be converted to a T.J.Maxx or Marshall's.

RETAIL MARKET OVERVIEW

Local and national tenants are more active than even a few quarters ago. And brokers are reporting that the fourth quarter was unusually busy with requests from tenants, although that might not show up on lease statistics for a few quarters. Still, leasing activity was up 34% in 2010 over 2009, increasing to 1.4 million square feet (msf) from 1.1 msf. That's still down dramatically, though, from the 2.1 msf leased in 2008.

Vacancy rates are steady, albeit at a slightly higher level than landlords would wish. The overall vacancy rate in the fourth quarter was 6.6%, down from 6.9% the fourth quarter of 2009. In 2008, the vacancy rate in the fourth quarter was 5.8%.

Much of the activity is in the newest suburban developments where landlord's have either built speculative space and are making aggressive deals to fill these locations or where projects have been on the drawing board and are finally coming to fruition. Hancock Village, located on Hull Street Road in Chesterfield, is adding Dick's Sporting Goods and Bed Bath & Beyond, two deals that have been lingering for the last couple of years.

In the Short Pump section of western Henrico County, Blue Ridge Mountain Sports opened its third Richmond location. Also of note in the fourth quarter: Ashland Hardware leased 23,541 square feet in Ashland to operate an Ace Hardware store.

2010 will likely be known as the year of alternative use deals in the retail sector with health clubs and schools filling large blocks of space throughout the market.

ECONOMIC INDICATORS

NATIONAL	2009	2010F	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	$59,587	$60,182	$60,750
Population	1,224,125	1,250,000	1,265,000
Unemployment	7.5%	7.9%	7.6%

Source: Moody's | Economy.com . U.S. Census. Bureau of Labor Statistics. National Retail Federation

BEAT ON THE STREET

"The period of low rental rates is coming to an end."

– Jim Ashby
Retail Sales/Leasing

2010 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
10012 Robious Rd.	Planet Fitness	16,000
Hanover Square South	Gold's Gym	15,008
Chesterfield Towne Center	The Shoe Department	14,199

2010 KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
Towne Crossings	103,917	$17,500,000
Short Pump Station	91,369	$30,800,000
Kroger Plaza	55,552	$2,390,000
Bell Creek Commons	46,743	$11,100,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Costco	Costco	154,276	Summer 2011
Corner At Short Pump	Kroger	150,456	Summer 2011
Willow Lawn Redevelopment	Old Navy	15,000	Winter2010/ Fall 2011

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RICHMOND, VA RETAIL REPORT YEAR-END 2010

OUTLOOK

The great wave of foreclosures and fire sales that some people predicted never materialized. For 2011, the volume of investment sales will rebound some from 2009 and 2010, and they will likely not be at heavy discounts. Brokers are reporting that more properties are selling, including local "packaged" portfolio's which included Towne Crossings in Midlothian.

With leasing activity on the rebound and little new product hitting the market, absorption will likely be larger in 2011 than in 2010. That will start putting upward pressure on rents, or it will relieve some of the pressure landlords feel to offer incentives, such as tenant improvement or free rent, in order to secure tenants.

As for tenants looking to upgrade their spaces with little rent increase, those days might be in the past. National tenants are getting more aggressive, and landlords will soon sense that.

Several trends to watch will be how the Richmond retail market views the Ukrop's successor, Martin's, as an anchor tenant now that it is no longer locally owned and faces stiff competition from grocery stores like Whole Foods and Trader Joe's. And look for new restaurant concepts (both local and national) that spring up to backfill restaurants that closed over the past year or two. We will also see the redevelopment of older centers bringing life back into assets that have been Richmond fixtures for many years as well as the completion of projects that have been in several stages of development finally getting what they need to move forward.

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. Class A Rental Rate*
Downtown	6,386,937	494	3.5%	3.5%	42,094	180,440	0	17,191	$13.59
Downtown Total	**6,386,937**	**494**	**3.5%**	**3.5%**	**42,094**	**180,440**	**0**	**17,191**	**$13.59**
I-95 / Chamberlayne NE	815,176	93	7.1%	7.1%	15,385	0	11,434	15,840	$17.50
Laburnum / Route 360	2,681,217	447	5.8%	5.6%	67,590	0	0	19,926	$8.09
Mechanicsville	2,643,587	202	5.4%	5.0%	77,081	0	0	18,022	$16.00
Northeast Total	**6,139,980**	**742**	**5.8%**	**5.6%**	**160,056**	**0**	**11,434**	**53,788**	**$11.92**
Broad St. Corridor	2,067,516	128	8.2%	8.2%	30,254	0	0	30,358	$14.43
Far West End North	427,120	33	1.1%	1.1%	7550	0	0	(5,956)	N/A
Far West End South	1,265,171	76	8.5%	8.5%	25,010	0	0	(18,507)	$16.83
I-95 Ashland / NW	2,074,357	185	3.5%	3.5%	35,430	0	0	(32,635)	$10.04
Near West End	3,666,694	653	4.5%	4.4%	96,214	0	0	2,121	$15.98
Regency	2,519,765	115	4.4%	4.4%	38,934	0	2,198	(3,518)	$18.67
Short Pump	4,264,762	97	5.2%	5.2%	61,698	0	104,911	98,527	$23.75
Staples Mill / Parham	7,458,183	478	6.4%	6.1%	248,113	6,678	0	152	$17.32
Willow Lawn	2,868,510	295	6.4%	6.4%	70,286	0	0	49,361	$11.94
Northwest Total	**26,612,078**	**2,060**	**5.7%**	**5.6%**	**613,489**	**6,678**	**107,109**	**119,903**	**$17.06**
East End	4,277,588	492	9.0%	9.0%	66,532	9,302	7,538	(23,020)	$10.62
Southeast Total	**4,277,588**	**492**	**9.0%**	**9.0%**	**66,532**	**9,302**	**7,538**	**(23,020)**	**$10.62**
Jeff Davis Corridor	3,019,672	504	12.9%	12.9%	11,977	0	0	(13,598)	$8.97
Midlothian E./ Hull St.	7,481,518	567	9.1%	9.1%	211,146	0	0	18,491	$10.74
Midlothian Village	1,683,433	116	11.3%	11.3%	28,347	0	70,680	11,508	$23.07
Midlothian West	6,819,126	282	7.0%	6.9%	200,675	0	0	(396)	$15.96
South Chesterfield	3,388,306	295	3.2%	3.0%	43,015	0	0	48,523	$13.24
Swift Creek	2,896,823	152	7.9%	7.9%	75,764	0	0	1,182	$15.86
Southwest Total	**25,288,878**	**1,916**	**8.2%**	**8.1%**	**570,924**	**0**	**70,680**	**65,710**	**$13.54**
RICHMOND TOTAL	**68,705,461**	**5,704**	**6.6%**	**6.5%**	**1,453,095**	**196,420**	**196,761**	**233,572**	**$14.09**

* Rental rates reflect NNN $psf/year

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*The Market terms and definitions in this report are based on NAIOP standards.