

MARKETBEAT

RETAIL SNAPSHOT

RICHMOND, VA

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Q4 2011



ECONOMIC OVERVIEW

Little by little, the local and national economies are starting to regain their health, and it's starting with the consumer. Thanksgiving weekend sales — as reported by MasterCard — rose 8.7% in 2011 compared with the previous year. And last year was itself an encouraging shopping season, up 5.5% from 2009. The unemployment rate for Richmond fell to 6.5% in the fourth quarter from 7.2% in the fourth quarter of 2010, and the rate at which workers are filing for unemployment has fallen 14.0% in Virginia compared with 2010.

Thriving retailers are looking at adding locations in Richmond or coming into the market for the first time, but certain kinds of retailers are still suffering. For example, in the fourth quarter, Richmond-based furniture seller RoomStore filed for Chapter 11 bankruptcy protection and said it would close some of its stores. National restaurant Friendly's also filed for Chapter 11 in the fourth quarter.

RETAIL MARKET OVERVIEW

2011 might well be remembered as the year of the frozen yogurt treat. From Carytown to Short Pump to Chesterfield and Mechanicsville, frozen yogurt shops are popping up all over the region. Sweet Frog started the trend in 2009 and now has eight locations in Greater Richmond and 35 outside the region. And me-too concepts such as Zinga! and Yapple Yogurt are working to get in on the craze. Brokers are wondering at what point this use category gets over saturated. Of course, we have a multitude of burger restaurants and sub shops, so maybe everyone can survive. One thing is for sure, they better be on their game.

Also exploding this year are niche fitness studios/health clubs. From kettle-bell-only workout facilities to dance studios and spinning rooms, a host of new concepts have opened in Richmond. Planet Fitness has entered the market as the low cost player and Gold's Gym has opened several Express Clubs which allow a range of pricing for the consumer. Brokers expect this trend to continue in 2012.

Another trend that emerged in 2011 and one to watch next year is increased competition from fueling centers. Wawa is looking to add more locations in Richmond, and Kroger and Martin's are looking to add fuel centers to their grocery stores, while at the same time Farm Fresh is getting out of the fueling business. This hasn't been a major focus for Richmond due to their minimal presence, but with a potential growth in their market presence, it could become a factor.

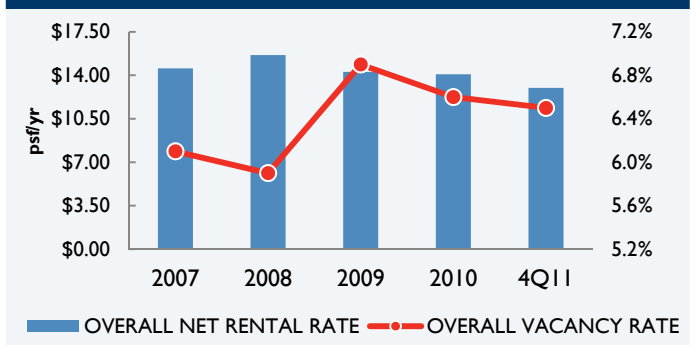
As predicted last year, brokers are seeing more action on leasing and sales. Leasing activity was up a bit from last year to 1.6 million square feet (msf). And with fewer retailers closing locations, absorption was 50% higher in 2011, or 351,845 square feet (sf). Of particular note, vacancy at Short Pump — the hottest local submarket — fell from 5.2% in 2010 to 4.4% in 2011.

ECONOMIC INDICATORS

NATIONAL	2010	2011F	2012F
GDP Growth	3.0%	1.8%	2.6%
CPI Growth	1.6%	3.2%	2.1%
Consumer Spending Growth	2.0%	2.2%	2.3%
Retail Sales Growth	6.4%	8.3%	6.1%
REGIONAL	2010	2011F	2012F
Household Income	\$51,354	\$52,334	\$53,940
Population Growth	0.8%	1.0%	1.0%
Unemployment	7.7%	7.1%	7.2%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



OUTLOOK

Absorption next year could be dampened somewhat by a strategy announced this year by several big-box retailers such as Staples and Best Buy to decrease the size of their stores, although this only affects their older stores which were built in larger footprints and there are only a handful of those existing in the market so the impact is likely to be minimal. More new space will come online at several adaptive reuse projects around the region. Kroger broke ground in the fourth quarter on a 123,000-sf store in Chesterfield at Stonebridge (the former Cloverleaf Mall) and expects it to be open in 2012. The former Interbake cookie factory near the corner of Boulevard and Broad Street was sold for about \$6 million to The Rebkee Company, a local developer. That project could include retail. Also of note, construction is wrapping up on the Willow Lawn mall, which is returning to its roots as an outdoor-only mall.

Winding Brook has continued to plot its new course. Instead of simply selling off the parcels to outside developers, they have decided to develop the project themselves. They have started construction on a 10,000-sf retail building with Subway and Mariachi's and have placed an outparcel under contract for a fast food operator. They have also formed a strategic alliance with Craig Realty Group to develop the Outlets at Richmond.

As the market slowly improves, brokers are reporting that landlords will be offering less free next year than in 2011. However, new projects at the outer rim of the suburban areas will still require aggressive discounts to lock in tenants.

Martin's seems to be struggling to connect with the consumer. Although we have not seen a large exodus of retail merchants in centers anchored by Martin's, the drop of traffic has been evident. Most glaring is the Carytown store where Kroger recently completed its renovation and expansion.

A lot of the chains entering or expanding in the market are made up of restaurant users such as Dunkin Donuts, Panda Express, Logan's Roadhouse, Genghis Grill and Steak & Shake to name a few...but these guys aren't the only ones jumping on the expansion bandwagon. Deals have been inked to add new locations for Fresh Market, Petco, Advance Auto, O'Reilly's, Michael's Arts & Crafts, Verizon, WaWa and the list goes on. It looks like 2012 will be an active year in the retail market in Richmond. Maybe we will even see a few developers dip their toe in the "new ground-up development" pool.

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS

	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
The Corner at Short Pump	Short Pump	Toys R Us	Super Community Center	58,075
Hancock Village	Swift Creek	Hobby Lobby	Power Center	55,000
Hancock Village	Swift Creek	Dick's Sporting Goods	Power Center	50,029
Creeks at Virginia Center	I-95 Ashland/NW	Ross Dress for Less	Power Center	32,302

SIGNIFICANT 2011 SALE TRANSACTIONS

	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
Westpark Shopping Center	Broad St. Corridor	Westdale Recap Partners	\$23,300,000	176,973
Oxbridge Square	Hull St Corridor	PMAT Acquisition LLC	\$12,500,000	127,801
Short Pump Station	Short Pump	AmCap Inc.	\$30,800,000	91,369

SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
1401 Mall Drive	Midlothian West	Costco	2Q11	152,615
Hancock Village	Swift Creek	Hobby Lobby	1Q11	55,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Hancock Village-Bldgs. B-H	Swift Creek	Hobby Lobby, Dick's Sporting Goods, Walmart	1Q12	164,728
The Corner at Short Pump	Short Pump	Kroger, Toys R Us, Bassett Furniture	1Q12	150,456
Stonebridge Kroger	Midlothian West	Kroger	4Q12	123,000



RICHMOND, VA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	ASKING RENT	RENT GROWTH	ABSORPTION
Amelia County	154,841	48,011	3.7%	149,141	\$12.00	0.0%	(150)
Broad St Corridor	1,943,949	(285,052)	6.8%	1,812,618	\$14.36	(2.3%)	37,728
Colonial Heights	3,176,058	423	4.0%	3,048,252	\$13.73	4.7%	9,074
Cumberland County	31,579	16,734	2.4%	30,829	N/A	N/A	(750)
Dinwiddie County	169,420	7,594	1.0%	167,662	\$16.01	0.0%	(1,758)
Downtown	6,477,494	(45,904)	4.1%	6,210,639	\$14.13	3.1%	(28,755)
East End	4,239,436	7,388	9.4%	3,841,798	\$9.47	(9.2%)	25,729
Far West End North	279,637	0	0.0%	279,637	\$0.00	0.0%	3,100
Far West End South	1,185,911	(80,835)	9.1%	1,078,430	\$15.38	0.2%	(758)
Goochland	326,713	11,158	2.8%	317,613	\$9.29	0.0%	8,650
Hopewell	1,290,570	28,519	11.3%	1,144,898	\$9.70	0.0%	(8,243)
I-95 Ashland/NW	2,022,992	(78,251)	3.1%	1,960,733	\$12.87	2.7%	19,684
I-95 Chamberlayne/NE	859,108	(25,000)	5.8%	808,947	\$16.23	0.3%	31,000
Jeff Davis Corridor	3,024,922	9,356	12.9%	1,634,950	\$8.91	(0.8%)	21,217
King & Queen County	37,040	0	0.0%	37,040	\$0.00	0.0%	0
King William County	355,865	3,979	19.6%	286,107	\$9.52	1.9%	12,097
Laburnum/Rte 360	2,700,890	(5,811)	3.7%	2,600,524	\$8.45	0.5%	64,022
Louisa County	528,506	15,646	5.1%	501,386	N/A	N/A	50,228
Mechanicsville	2,719,442	(10,632)	4.0%	2,609,530	\$15.88	1.5%	39,658
Midlothian E/Hull St	7,312,595	(354,503)	10.8%	6,523,578	\$10.42	(1.9%)	(142,148)
Midlothian Village	1,555,624	(14,356)	11.8%	1,372,379	\$19.02	(1.6%)	(23,905)
Midlothian West	7,130,678	12,307	5.4%	6,746,510	\$15.63	(1.7%)	237,218
Near West End	3,837,079	11,135	3.6%	3,699,239	\$14.63	(0.2%)	40,238
New Kent County	320,977	48,957	10.1%	288,457	\$6.00	0.0%	(5,970)
Petersburg	2,573,765	28,548	8.9%	2,343,544	\$10.09	(6.3%)	(26,946)
Powhatan	553,024	(5,910)	8.9%	503,751	\$12.44	(0.7%)	(1,245)
Prince George	833,744	395	12.1%	732,634	\$9.10	0.0%	(53,603)
Regency	2,539,132	9,530	3.4%	2,452,148	\$18.78	0.9%	13,915
Short Pump	4,194,846	770	4.4%	4,008,226	\$21.88	(0.3%)	15,658
South Chesterfield	3,367,530	10,200	3.2%	3,259,269	\$13.42	1.0%	27,298
Staples Mill/Parham	7,678,964	117,330	6.6%	7,173,498	\$15.78	(1.4%)	(9,594)
Sussex County	125,277	11,580	32.6%	84,437	\$5.22	0.0%	(8,990)
Swift Creek	3,120,483	52,511	7.3%	2,893,401	\$15.37	1.1%	23,196
Willow Lawn	2,810,540	(58,925)	3.3%	2,718,599	\$17.71	26.3%	(15,050)
TOTAL MARKET	79,478,631	(513,108)	6.5%	74,320,404	\$12.99	(1.0%)	351,845

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

