

# MARKETBEAT

## HAMPTON ROADS, VIRGINIA RETAIL REPORT

**Thalhimer**  
commercial real estate

4Q07

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

### ECONOMIC OVERVIEW

Stability and moderate growth characterize the Hampton Roads economy. The area's December unemployment rate of 3.5% remains tied for third lowest among metropolitan areas with a population of 1 million or more for the second month in a row. Non-farm employment rose by 1.6% in 2007 (and by 2.0% in the private sector), surpassing both state and national employment growth for the first time in several years.

Although Hampton Roads will not be unaffected by national trends, the composition of the area's economy should provide the same insulation from severe shocks that it has in previous downturns. A slight decrease in the growth rate is forecast for both retail sales (from 3.8% in 2007 to 3.6% in 2008, according to the Hampton Roads Planning District Commission) and gross regional product (from 2.6% in 2007 to 2.4% in 2008, according to Old Dominion University's Economic Forecasting Project), but overall conditions will remain quite sound both in absolute terms and relative to the nation as a whole.

### BEAT ON THE STREET

"Historically low vacancy rates, positive absorption, and a solid economy put Hampton Roads retail in an excellent position despite national concerns. We believe retailers know this and will continue to enter or expand in the area."

—Edward A. Kimple, First VP and Managing Broker

### RETAIL MARKET OVERVIEW

Market performance was good during the fourth quarter. The overall vacancy rate was 5.1%, up 0.2% from 2006 but well below the CoStar-reported national rate of 6.6%. The average asking rent increased by 3.6% to \$13.24 per square foot (psf), and the year saw positive net absorption rise by 19,306 square feet (sf) to 932,440 sf.

Fast-growing areas on the metropolitan edge continue to attract development. Wal-Mart closed on its purchase of a 24-acre parcel in Southern Chesapeake, Bed, Bath & Beyond made its well-known plans official by signing a lease for 28,000 sf in Harbour View, and DSW Shoe Warehouse leased 14,000 sf at The Marquis in Williamsburg. Petco chose a more established area for its first Southside store, leasing 17,000 sf at Janaf Shopping Center.

Some retail segments are retrenching in the face of economic change. Casual dining still struggles and slower housing sales have dampened activity at furniture and home improvement stores. Locally-owned Mattress USA filed for bankruptcy, darkening its last six stores, and the end of CompUSA's brick-and-mortar business will empty boxes in the Military and Patrick Henry submarkets. Smaller retailers are riding out current restrictions on credit availability, and some franchise outlets with management issues or less-robust concepts are being offered for sale.

### ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	2.2%	2.2%	2.9%
CPI Growth	2.5%	2.8%	3.2%
Consumer Spending Growth	1.5%	2.9%	3.1%
Retail Sales	3.1%	4.1%	6.1%

### REGIONAL

Household Income	\$55,929	\$54,618	\$52,976
Population	1,670,000	1,660,000	1,647,400
Unemployment	3.7%	3.2%	3.3%

Source: U.S. Census, Bureau of Labor Statistics, Wachovia Bank, National Retail Federation

### SIGNIFICANT 4Q07 NEW OPENINGS

PROPERTY	TENANT	SQUARE FEET
The Marquis at Williamsburg	JCPenney	103,780
	Kohl's	89,911
Landstown Commons	Kohl's	89,000
	Bed, Bath & Beyond	28,160
Janaf Shopping Center	Conway Stores	35,086
Williams Court II	Ollie's Bargain Outlet	33,300

### SIGNIFICANT 4Q07 SALE TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Giant Square Shopping Center	163,950	\$13,500,000
Cypress Point Shopping Center	117,958	N/A

### SIGNIFICANT 2007 CONSTRUCTION ACTIVITY

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
The Marquis at Williamsburg	JCPenney, Kohl's, Target	1,000,000	Fall 2008
Peninsula Town Center	Barnes & Noble, JCPenney, Macy's, Target	900,000	Winter 2009
Settler's Market at New Town	Books-A-Million, Circuit City, Home Goods, Michael's	350,000	Fall 2008
High Street Williamsburg	The Movie Tavern	250,000	Summer 2008
Red Mill Walk	OfficeMax, Target	240,000	Spring 2008
Harbour View Station East	Bed, Bath & Beyond, Kohl's	235,000	Spring 2008

An independently owned and operated member of the



## OUTLOOK

“Cautious expansion” is the term that best describes the outlook for 2008. Market indicators are contradictory – while the national economy is uncertain, the local economy’s underlying strength and history of solid performance during economic downturns means that there are a number of opportunities to be had. Many retailers will continue to expand and invest in Hampton Roads, but they will take longer to make decisions and individual deals and projects will have to withstand more scrutiny than was customary during less wary times.

Newer areas on the urban fringe such as the Peninsula’s Williamsburg and Lightfoot submarkets and the Southside’s Deep Creek, Great Bridge, Northern Suffolk, and Virginia Beach Courthouse submarkets will continue to grow. But construction in established submarkets, whether it takes the form of more intensive uses of existing areas (such as the Town Center of Virginia Beach and City Center at Oyster Point projects) or redevelopment of areas with attractive population and traffic counts but declining building standards (such as the Wal-Marts and associated development in Norfolk’s Little Creek submarket and Portsmouth’s Mid-City submarket), will also be popular as developers and retailers realize the underserved potential of these areas.

One example of the latter trend is the burgeoning redevelopment of Hampton’s Mercury Central submarket, which once was the Peninsula’s “Main Street” and still contains the largest amount of retail square footage of any submarket in Hampton Roads. The transformation of the enclosed, 1970s-vintage Coliseum Mall into the open-air, mixed-use Peninsula Town Center that owner Mall Properties is now undertaking is the area’s most visible project, but other existing centers, including Mercury Plaza (another Mall Properties center) and Riverdale Plaza (for which a major national developer is close to signing a sales contract), are either currently undergoing redevelopment or are targeted for it, and new mixed-use projects are in the works. National retailers that thought they could support the entire Peninsula from Patrick Henry-area locations are now executing a new strategy of expansion into Williamsburg while returning to Mercury Central to serve the neglected, higher-density areas of Hampton and southern Newport News.

### 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 Gross Rental Rate*
Denbigh	1,992,572	168	8.3%	8.3%	14,482	0	0	7,004	\$11.41
Downtown Hampton	886,332	88	2.3%	2.3%	2,000	0	0	(3,198)	\$11.49
Downtown Newport News	621,184	65	4.6%	4.6%	0	0	0	(10,674)	\$6.64
Fox Hill	1,438,236	181	7.6%	7.6%	53,000	0	5,600	(1,468)	\$14.32
Gloucester	1,394,767	43	11.2%	11.2%	69,257	0	16,000	54,025	\$8.93
Hampton North	3,555,599	256	3.4%	3.4%	53,022	116,613	17,000	(8,503)	\$19.65
James River	1,804,938	198	3.8%	3.8%	14,550	0	0	14,198	\$16.46
Lightfoot	3,452,560	82	10.4%	10.4%	195,510	0	1,364	329,901	\$20.47
Mercury Central	7,675,930	367	6.1%	5.7%	63,728	49,521	0	203,860	\$10.72
Patrick Henry	4,761,915	127	2.3%	2.2%	20,007	110,000	0	(11,769)	\$13.48
Poquoson	1,646,905	179	7.7%	7.7%	13,870	15,850	26,820	(49,367)	\$14.43
Williamsburg	3,607,864	238	5.4%	5.3%	44,595	731,974	201,691	(41,520)	\$20.81
Yorktown	265,042	25	5.0%	5.0%	5,078	20,000	0	(9,400)	\$17.36
<b>Peninsula Total:</b>	<b>33,103,844</b>	<b>2,017</b>	<b>5.9%</b>	<b>5.8%</b>	<b>549,099</b>	<b>1,043,958</b>	<b>268,475</b>	<b>473,089</b>	<b>\$14.33</b>
Campostella/S. Norfolk	1,428,146	140	5.7%	5.7%	13,069	0	4,700	22,989	\$8.94
Chesapeake Square	2,732,621	80	2.1%	2.1%	12,787	25,006	0	15,892	\$7.07
Churchland	1,590,619	120	3.5%	2.7%	19,299	0	9,700	22,101	\$14.72
College Park	1,850,213	169	6.6%	5.0%	5,400	0	11,211	(3,974)	\$11.59
Deep Creek	1,410,897	84	5.2%	5.2%	0	6,617	223,091	(459)	\$9.96
Downtown Norfolk	4,537,495	324	3.2%	3.2%	17,462	0	0	(70,490)	\$13.75
Downtown Suffolk	1,467,534	107	2.1%	2.1%	0	0	0	15,007	\$10.76
General Booth Corridor	1,553,911	89	1.4%	1.4%	14,950	158,884	65,000	38,822	\$20.59
Great Bridge	1,706,361	112	11.2%	11.2%	17,869	7,308	35,490	18,770	\$17.93
Greenbrier/Battlefield	4,229,254	153	1.9%	1.9%	101,478	22,522	183,980	158,770	\$20.47
Hilltop/Great Neck	2,872,252	199	2.1%	2.1%	42,438	0	0	(3,372)	\$14.46
Holland Road	1,571,511	97	2.1%	1.9%	7,430	0	0	8,896	\$15.49
Isle of Wight	639,532	36	7.6%	7.6%	7,650	25,371	0	1,330	\$3.96
Kempsville	1,894,580	124	4.3%	4.1%	45,834	56,179	4,680	(60,660)	\$13.60
Little Creek	3,445,943	253	7.0%	7.0%	108,801	0	263,884	(29,132)	\$12.51
Little Neck	3,244,306	131	4.8%	4.8%	12,520	13,225	23,500	485	\$11.75
Lynnhaven	2,285,647	68	7.4%	7.2%	32,131	0	0	(136,078)	\$18.82
Mid-City	2,092,845	271	1.6%	1.6%	37,452	0	205,000	221,398	\$9.49
Military	4,810,972	282	3.0%	3.0%	91,050	0	38,342	68,029	\$13.60
Newtown	2,651,318	190	2.9%	2.5%	21,849	0	0	6,082	\$15.43
Northern Suffolk	606,667	22	51.9%	51.6%	5,201	69,174	114,300	113,594	\$17.18
Oceanfront	1,555,382	250	0.5%	0.5%	5,212	0	0	26,509	\$18.44
Pembroke	3,297,907	181	4.3%	4.3%	17,948	0	3,769	7,504	\$18.16
Princess Anne	1,497,359	64	4.0%	4.0%	28,384	0	0	(47,583)	\$14.23
Shore Drive	921,519	95	2.7%	2.7%	30,992	0	0	(19,349)	\$14.74
Smithfield	730,568	77	2.8%	2.8%	1,120	0	0	7,072	\$17.22
Suffolk	1,166,752	82	12.7%	12.7%	12,250	0	33,000	16,601	\$9.76
Va. Beach Courthouse	147,499	10	7.1%	7.1%	9,486	125,728	354,631	49,842	\$21.17
Victory	2,048,299	183	6.5%	6.5%	58,630	75,000	0	24,245	\$7.43
Wards Corner	872,735	48	7.3%	7.3%	11,075	0	0	(13,490)	\$10.16
<b>Southside Total:</b>	<b>60,860,644</b>	<b>4,041</b>	<b>4.7%</b>	<b>4.5%</b>	<b>789,767</b>	<b>585,014</b>	<b>1,574,278</b>	<b>459,351</b>	<b>\$12.59</b>
<b>HAMPTON ROADS TOTAL:</b>	<b>93,964,488</b>	<b>6,058</b>	<b>5.1%</b>	<b>5.0%</b>	<b>1,338,866</b>	<b>1,628,972</b>	<b>1,842,753</b>	<b>932,440</b>	<b>\$13.24</b>

\* Rental rates reflect \$psf/year



For further information, please contact one of our Brokerage Professionals:  
Thalhimers/Cushman & Wakefield  
5700 Cleveland Street, Suite 400  
Virginia Beach, VA 23462  
(757) 490-2900  
www.thalhimers.com

This report contains information available to the public and has been relied upon by Thalhimers on the basis that it is accurate and complete. Thalhimers accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2008 Thalhimers All rights reserved.