

MARKETBEAT

HAMPTON ROADS, VA RETAIL REPORT

Thalheimer
commercial real estate

1Q08

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMIC OVERVIEW

Economic indicators for Hampton Roads suggest that its traditional insulation from national economic swings continues. The not seasonally adjusted unemployment rate for the civilian labor force in February was 4.1%, up from 3.4% one year earlier but still significantly lower than the not seasonally adjusted national rate of 5.2%. Year-over-year employment growth was 0.9% year, with private sector employment up by 1.0%, outstripping comparable national rates of 0.6% and 0.5%, respectively.

The most recent data available from the Virginia Department of Taxation state that taxable retail sales in the Virginia portion of the area grew by 4.2% during 2007, but year-over-year fourth-quarter sales were only up by 1.1%. This may be due to consumers responding to higher prices for basic goods by shifting spending to non-taxed military commissaries, and this indicator will bear watching over the coming months.

BEAT ON THE STREET

"While the market has cooled a bit, tenants are still out there looking for quality development. Good real estate is good real estate – if you've got it, somebody's going to want it."

–David Machupa

RETAIL MARKET OVERVIEW

Market statistics remain generally positive. Year-to-date leasing activity is 180,674 square feet (sf), down about 28,000 sf from a year ago, and the overall vacancy rate increased slightly, from 4.7% to 4.9%. At 205,694 sf, net absorption was up over 88,000 sf, and asking rents rose by \$1.03 per square foot (psf) to \$13.76 psf.

With the economy uncertain, retailers are more deliberate when considering deals. Leases are being signed, but the time from site selection to execution and occupancy is significantly longer.

Locally, both fast casual and quick serve restaurants are actively expanding; among them Dunkin Donuts, which announced plans to add 65 stores in the area. A&N's shutdown will darken 15 area stores and Kroger announced the closure of one store each in Newport News and Virginia Beach; but there were several major openings during the quarter, among them four anchor big boxes at Virginia Beach's Landstown Commons.

Investment sales were strong, with three sizeable centers – Jefferson Commons in Newport News, Virginia Beach's Dam Neck Crossing, and the City of Norfolk Shopping Center – changing hands, as did three larger hotels – Virginia Beach's Holiday Inn Executive Center (331 rooms, \$14.25 million) and Radissons in Norfolk (350 rooms, \$10.0 million) and Hampton (172 rooms, \$7.75 million.)

ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	1.5%	2.2%	2.9%
CPI Growth	3.0%	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: US Census, Bureau of Labor Statistics, Wachovia Bank, National Retail Federation

SIGNIFICANT 1Q08 NEW OPENINGS

PROPERTY	ANCHOR TENANT	SQUARE FEET
Landstown Commons	Best Buy	30,000
	Ross	30,000
	PetSmart	19,850
	OfficeMax	18,000
Harbour View East	Kohl's	68,000
Armory Station	Farm Fresh	57,000
Indian Lakes Crossing	Harris Teeter	50,000
The Marquis	Dick's Sporting Goods	45,000

SIGNIFICANT 1Q08 SALE TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Jefferson Commons	306,249	\$79,600,000
Dam Neck Crossing	138,571	\$11,900,000
City of Norfolk Shopping Center	135,720	\$9,600,000

SIGNIFICANT 2008 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, Trader Joe's	350,000	Fall 2008
High Street Williamsburg	The Movie Tavern	250,000	Summer 2008
Red Mill Walk	OfficeMax, Target	240,000	Spring 2008

OUTLOOK

Barring the kind of severe and drawn-out economic contraction not predicted by economists and not seen for thirty years, the Hampton Roads market will remain solid. Unsettled national conditions will boost the appeal of credit tenants, and landlords may offer better deals to secure their stability than in the past. Some new centers with asking rental rates determined by premiums paid for land in a hotter market may encounter resistance from tenants concerned about the future. But vacancy rates are not expected to rise significantly, and demand for desirable and well-located space will remain strong.

Some retailers are facing or will face contraction or even outright disappearance from the local or national scene (The Sharper Image has faded from both Norfolk and Richmond), but those will be companies with troubled concepts, troubled management, or both. Others such as Harris Teeter and WaWa, both of which have expanded aggressively in Hampton Roads over the past few years, will slow down not because of weaker demand or financial pressure, but to allocate resources towards developing expansion sites already in the pipeline.

As Hampton Roads housing prices increased dramatically earlier in the decade, buyers moved further out in search of less expensive homes. With gas prices now rising and both home sales and price inflation abating, fewer home buyers are likely to make that tradeoff, and retail development planned in anticipation of projected population growth will be delayed until that growth takes place. Wary lenders have stalled some new centers, with even a center as substantial as The Marquis at Williamsburg losing mezzanine financing, putting development of its remaining phases in flux.

For the near term, certainty will be more attractive than risk. Infill opportunities in areas with established markets will attract tenants and developers alike, as retailers identify population-rich areas missed by earlier expansion where expected demand can be derived from verifiable demographic data instead of nebulous predictions of opportunities down the road. Among local examples of this are Ghent Station, a mixed-use, office-retail project on one of the last sites able to accommodate such development in Norfolk's densely-built, long-gentrified, and prosperous Ghent; and the Lowe's planned to open in 2009 on the site of the obsolete Giant Square Shopping Center in northern Virginia Beach's Haygood submarket, where any softening of home improvement sales is more than made up for by a location surrounded by a large, affluent population base and situated an optimistic six to ten minutes' drive from any existing Lowe's or Home Depot.

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	2,073,337	170	8.1%	8.1%	6,000	0	0	522	\$11.42
Downtown Hampton	942,689	89	2.4%	2.4%	0	0	0	(1,875)	\$11.54
Downtown Newport News	603,424	69	4.7%	4.7%	2,714	0	0	114	\$6.64
Fox Hill	1,439,668	181	8.1%	8.1%	375	0	0	(7,699)	\$13.59
Gloucester	1,431,892	45	12.7%	11.9%	0	0	0	24,388	\$9.10
Hampton North	3,679,535	261	3.7%	3.6%	9,600	11,841	20,000	(12,067)	\$20.58
James River	1,931,716	201	3.8%	3.8%	1,320	0	0	(3,630)	\$14.87
Lightfoot	2,958,878	82	9.3%	9.3%	0	0	0	(5,882)	\$13.06
Mercury Central	6,252,243	372	5.2%	4.7%	2,474	31,217	0	8,330	\$9.98
Patrick Henry	4,804,819	129	3.3%	3.2%	12,500	0	0	(57,522)	\$13.31
Poquoson	1,669,112	182	6.6%	6.6%	0	0	12,000	33,464	\$15.81
Williamsburg	3,662,779	240	4.5%	4.4%	15,187	650,275	0	21,848	\$20.31
Yorktown	300,118	28	4.0%	4.0%	1,345	0	0	0	\$17.29
Peninsula Total:	31,750,210	2,049	5.6%	5.4%	51,515	693,333	32,000	(9)	\$13.65
Campostella/S. Norfolk	1,469,337	142	7.6%	7.6%	0	0	0	(26,007)	\$10.26
Chesapeake Square	2,742,309	82	2.5%	2.5%	0	0	0	(10,615)	\$7.51
Churchland	1,587,193	124	2.8%	2.8%	0	7,952	0	11,688	\$14.91
College Park	1,861,797	170	5.7%	5.7%	4,780	0	0	27,360	\$12.91
Deep Creek	1,410,864	84	4.9%	4.9%	4,235	6,617	0	(300)	\$10.01
Downtown Norfolk	4,729,127	333	3.5%	3.5%	7,400	0	0	(8,462)	\$13.78
Downtown Suffolk	1,399,107	108	1.6%	1.6%	0	0	0	8,340	\$11.00
Franklin City	1,406,931	72	5.9%	5.9%	8,920	0	0	(3,473)	\$11.15
General Booth Corridor	1,784,408	95	1.7%	1.7%	23,037	152,339	34,637	45,760	\$21.28
Great Bridge	1,663,153	111	5.9%	5.9%	15,677	7,308	0	14,020	\$19.59
Greenbrier/Battlefield	4,262,241	158	2.4%	2.4%	3,900	3,722	18,000	(6,702)	\$20.18
Hilltop/Great Neck	2,918,236	202	4.2%	4.2%	2,760	0	0	(45,043)	\$13.75
Holland Road	1,563,544	97	4.8%	4.6%	0	5,119	0	(42,180)	\$15.74
Isle of Wight	643,632	36	7.2%	7.2%	0	25,371	0	1,972	\$4.23
Kempsville	1,956,338	128	5.5%	5.2%	4,380	60,138	14,841	3,835	\$15.03
Little Creek	3,527,259	257	5.3%	5.3%	9,400	0	0	56,847	\$10.60
Little Neck	3,302,307	135	5.1%	5.1%	4,100	0	26,725	4,687	\$12.43
Lynnhaven	2,377,654	75	8.7%	8.5%	1,897	0	0	(271)	\$19.42
Mid-City	2,215,139	280	3.1%	3.1%	0	0	14,550	(1,427)	\$12.13
Military	4,856,645	282	3.8%	3.5%	7,181	0	0	(12,452)	\$12.82
Newtown	2,631,434	190	2.7%	2.3%	2,192	0	0	5,175	\$14.42
Northern Suffolk	371,416	26	4.0%	3.6%	0	85,618	39,511	121,164	\$17.58
Oceanfront	1,581,300	251	1.1%	1.1%	0	0	0	(10,630)	\$16.70
Pembroke	3,188,585	182	3.9%	3.9%	7,100	16,000	0	9,952	\$17.31
Princess Anne	1,484,269	64	4.2%	4.2%	0	0	0	(2,798)	\$14.61
Shore Drive	933,315	95	3.3%	3.3%	6,660	0	0	(7,272)	\$17.04
Smithfield	758,071	81	4.7%	4.7%	0	0	0	(13,943)	\$18.83
Suffolk	1,181,252	83	12.5%	12.5%	0	0	0	1,063	\$9.82
Va. Beach Courthouse	514,515	14	18.2%	18.2%	0	86,601	114,180	112,347	\$26.65
Victory	2,102,286	191	7.7%	7.7%	5,100	73,536	6,000	(30,520)	\$8.15
Wards Corner	875,935	48	6.8%	6.8%	3,588	0	0	3,588	\$9.95
Southside Total:	63,299,599	4,196	4.6%	4.5%	122,307	530,321	268,444	205,703	\$13.81
HAMPTON ROADS TOTAL:	95,049,809	6,245	4.9%	4.8%	173,822	1,223,654	300,444	205,694	\$13.76

* Rental rates reflect \$psf/year



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