



MARKETBEAT

HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

MID-YEAR 2008

ECONOMIC OVERVIEW

The unemployment rate for Hampton Roads was 3.9% in May, exceeding the statewide rate by one-tenth of a percentage point but well below the comparable national rate of 5.2%. Total nonfarm employment grew by 1.3% and private employment rose by almost 1.5% from May 2007, outstripping flat state and national growth and a net gain of 10,300 jobs (9,200 private).

Higher fuel costs have cut into discretionary income, however. For the first five months of 2008, local option sales tax receipts (which do not include gasoline taxes) in the Virginia portion of the region were down by 3.2%, a steeper decline than seen in Richmond, Northern Virginia, or statewide.

BEAT ON THE STREET

“While many retailers have slowed down expansion plans, several value-oriented retailers such as Wal-Mart, Lowe’s, and TJX Brands have maintained their growth plans. However, these retailers expect better economic terms from landlords and sellers because there is less competition among tenants.”

—Christopher A. Rouzie, Senior Vice President

RETAIL MARKET OVERVIEW

At 5.0%, the overall vacancy rate for the entire market is up only two-tenths of a percentage point from the previous year. Year to date leasing activity was 799,413 square feet (sf), over twice the amount at the same point last year; and the same period saw net absorption of 287,346 sf, up from the negative absorption of 56,521 sf in the first half of 2007.

The national slowdown is being felt, however. As in other market sectors, anxious tenants are slow to complete deals. Upscale retailers are quieter, but quick service and fast casual dining and discount stores remain active, and value-oriented centers are getting attention. Brokers report interest from “mom and pop” retailers, but tighter credit may hinder their follow through. National landlords familiar with the difficulties in other markets have responded with incentives, although more insulated local landlords have been a bit slower to react.

Investment sales have slowed as well. Speculators and first-time buyers have pulled back; and stricter lending requirements constrain experienced investors. Some sellers are still offering cap rates that are unrealistic in the current market; and with less demand and few higher-return 1031 exchange opportunities, others have taken their properties off the market for now.

ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	1.6%	2.2%	2.9%
CPI Growth	3.6%	2.9%	3.2%
Consumer Spending Growth	1.4%	2.9%	3.1%
Retail Sales	2.1%	4.0%	5.8%

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: Moody’s | Economy.com, U.S. Census, U.S. Bureau of Labor Statistics, Wachovia Bank

KEY LEASING TRANSACTIONS

PROPERTY	SQUARE FEET
A.C. Moore – Landstown Commons	21,600
Banana Republic – MacArthur Center	4,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Haygood Shopping Center	178,500	\$24,900,000
Freedom Ford	93,300	\$10,300,000

SIGNIFICANT 2008 CONSTRUCTION ACTIVITY

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
The Marquis at Williamsburg	JCPenney, Kohl’s, Target	1,000,000	Fall 2008 (Target only)
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	Summer 2009
High Street Williamsburg	The Movie Tavern	250,000	Summer 2008
Prime Outlets Williamsburg (expansion)	Burberry, Hugo Boss, Kate Spade, True Religion	115,000	Spring 2008

OUTLOOK

The stability of the military, government, and port-related sectors will continue to moderate the effects of the current business cycle. While it would not be surprising to see unemployment rise from its current low rate for such economic conditions, Hampton Roads should avoid high jobless rates.

But the composition of the economy cannot prevent the effects of high prices for fuel and other commodities from affecting the area, so, locally and nationally, consumers will have to redirect their income away from discretionary items to pay for costlier necessities. In this climate, less-expensive retailers – discount and dollar stores, quick service and fast casual restaurants, and the like – will do well. Higher-end retailers will not retreat from the area, however. With affluent consumers relatively underserved in Hampton Roads, those retailers that can move into the area and exploit market niches with little competition will find opportunities. Trader Joe's will expand its Peninsula presence from its first store in Newport News' Patrick Henry area to a second scheduled to open at Williamsburg's New Town this fall, and proposals for its first Southside location in Virginia Beach's Hilltop area have been submitted to the city council. Management of the Brooks Brothers 346 at the Town Center of Virginia Beach, the company's sole non-outlet store in the area, announced in June that it will be converted to a full-line Brooks Brothers in September; and Banana Republic opened its third local store at Norfolk's MacArthur Center on the last day of the second quarter.

Business will be slower for a while and landlords will find it necessary to make an effort to attract and retain good tenants, but the local economy will not significantly impact most retailers, developers, and investors; and companies with solid concepts and sound business strategies will ride out the overall national decline. With reduced demand and stricter credit standards limiting cash flow, however, companies whose poor management and flawed practices left them undercapitalized and overextended even when conditions were better will be pushed over the edge. Steve & Barry's signed a lease for 43,475 sf in Newport News in April but filed for Chapter 11 bankruptcy protection before the planned summer opening, joining Whitehall Jewelers and Linens and Things as the latest national retailers with a Hampton Roads presence to do so; and local stalwart David Nygaard Fine Jewelers closed its seven stores when full repayment of its debt was demanded.

Retailers are being joined by developers: The Marquis at Williamsburg, a lifestyle center with a total of 1.0 million square feet (msf) occupied, under construction, or proposed, was among nine properties taken over by the mezzanine lender after Premier Properties's default and subsequent bankruptcy filing. With many of its touted amenities and design features unfinished, contractors' liens threatening occupancy by major tenants, and completion of the current phase now pushed into the indefinite future, the high-concept center may cast a pall over the market for some time if another developer does not take control.

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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	1,959,058	165	9.5%	9.5%	110,575	0	0	(8,327)	\$11.37
Downtown Hampton	868,195	90	3.8%	3.8%	0	8,000	0	(9,875)	\$12.64
Downtown Newport News	643,994	73	5.1%	5.1%	7,714	0	0	(2,564)	\$6.64
Fox Hill	1,448,856	181	7.4%	7.4%	4,375	0	0	1,851	\$13.45
Gloucester	1,431,892	45	10.2%	9.4%	44,516	0	0	15,380	\$9.93
Hampton North	4,085,482	265	2.9%	2.8%	10,500	11,841	20,000	(20,411)	\$22.61
James River	1,862,130	212	7.1%	6.9%	2,720	18,304	0	(53,885)	\$12.89
Lightfoot	3,066,435	85	8.7%	8.7%	72,153	0	112,879	108,600	\$13.72
Mercury Central	6,113,861	374	5.5%	4.9%	9,914	31,217	0	8,912	\$10.45
Patrick Henry	4,407,962	130	4.0%	4.0%	17,445	140,100	0	(60,715)	\$13.69
Poquoson	1,672,020	183	6.3%	6.3%	2,700	0	12,000	34,931	\$15.69
Williamsburg	3,657,437	239	4.7%	4.6%	20,870	661,275	0	(7,379)	\$20.43
Yorktown	300,118	28	4.5%	4.5%	1,345	0	12,000	1,345	\$14.50
Peninsula Total:	31,517,440	2,070	5.8%	5.6%	304,827	870,737	156,879	(177)	\$13.55
Campostella/S. Norfolk	1,469,337	142	7.1%	7.1%	1,908	0	0	(14,947)	\$10.59
Chesapeake Square	2,759,004	84	2.8%	2.8%	0	28,306	0	(19,795)	\$7.52
Churchland	1,537,963	123	3.4%	3.4%	1,224	7,952	0	3,021	\$12.56
College Park	1,939,479	183	5.7%	5.2%	7,180	17,100	0	24,324	\$12.09
Deep Creek	1,418,304	85	0.8%	0.8%	8,470	6,617	0	61,875	\$13.80
Downtown Norfolk	4,766,057	335	3.8%	3.8%	5,620	0	0	(19,409)	\$13.78
Downtown Suffolk	1,106,980	140	4.6%	4.6%	1,200	0	0	(22,810)	\$10.69
Franklin City	1,395,454	71	7.1%	7.1%	14,848	0	0	(19,845)	\$10.99
General Booth Corridor	1,916,661	97	1.7%	1.7%	46,493	82,228	72,892	214,610	\$23.99
Great Bridge	1,668,249	113	5.4%	5.4%	19,630	0	0	(9,284)	\$22.84
Greenbrier/Battlefield	4,232,923	156	2.2%	2.2%	10,475	3,722	36,800	5,607	\$20.09
Hilltop/Great Neck	2,919,773	202	5.5%	5.5%	38,184	0	0	(102,188)	\$13.65
Holland Road	1,563,784	97	4.7%	4.5%	3,900	5,119	0	(40,200)	\$15.67
Isle of Wight	669,003	37	7.3%	7.3%	6,786	0	25,371	20,911	\$6.42
Kempsville	2,011,468	129	3.3%	3.1%	53,424	0	56,179	106,278	\$13.51
Little Creek	3,606,475	260	4.9%	4.9%	68,569	35,322	15,200	(1,254)	\$10.54
Little Neck	3,270,030	133	4.9%	4.9%	22,300	0	26,725	4,668	\$12.76
Lynnhaven	2,377,654	75	8.6%	8.5%	21,477	0	26,225	(29,188)	\$20.67
Mid-City	2,281,252	280	2.9%	2.9%	1,772	126,687	14,550	4,763	\$10.01
Military	4,853,593	281	5.4%	4.6%	16,549	0	0	(101,546)	\$12.42
Newtown	2,599,444	188	3.2%	2.8%	5,072	0	0	(6,572)	\$14.84
Northern Suffolk	371,416	26	3.1%	2.7%	3,300	385,618	39,511	41,363	\$17.58
Oceanfront	1,583,269	254	0.8%	0.8%	5,100	0	0	(5,530)	\$14.62
Pembroke	3,139,223	180	4.1%	4.1%	13,100	54,633	0	10,630	\$17.20
Princess Anne	1,484,389	64	4.4%	4.4%	55,047	0	0	(5,873)	\$17.27
Shore Drive	946,184	99	3.0%	3.0%	16,692	0	0	(7,178)	\$16.38
Smithfield	758,071	81	4.1%	4.1%	4,193	0	0	(9,750)	\$18.83
Suffolk	1,416,328	91	7.8%	7.8%	2,400	20,400	0	278	\$10.04
Va. Beach Courthouse	594,639	20	18.1%	18.1%	0	24,601	235,192	188,236	\$26.97
Victory	2,118,197	191	8.2%	7.1%	35,445	4,536	75,000	13,310	\$11.86
Wards Corner	875,935	48	6.9%	6.9%	4,228	0	0	3,018	\$9.95
Southside Total:	63,650,538	4,265	4.6%	4.5%	494,586	802,841	623,645	287,523	\$13.90
HAMPTON ROADS TOTAL:	95,167,978	6,335	5.0%	4.8%	799,413	1,673,578	780,524	287,346	\$13.71

* Rental rates reflect \$psf/year



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