

# MARKETBEAT

## RICHMOND, VIRGINIA RETAIL REPORT

**Thalhimers**  
commercial real estate

3Q08

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### ECONOMIC OVERVIEW

Times are challenging for many retailers. Consumers unsure about the stability of the overall economy continue to pull back on discretionary purchases. Retailers have reported declining sales and are resorting to deep discounts to move merchandise. The credit crisis is also making it harder for retailers to finance their operations and developers to finance their projects.

Major chains such as Home Depot and Starbucks have announced store closings across the country, although Richmond hasn't been affected so far. Unemployment in the Richmond area nudged up from 3.5% in April to 5.0% in August, in part because home builders and manufacturers cut jobs. Even so, Richmond has one of the lowest unemployment rates in the nation and is well below the 6.1% unemployment rate for the nation.

### BEAT ON THE STREET



"There is still solid activity, but users are taking their time until they find the best deal."

—Loretta Cataldi, Retail Sales/Leasing

### RETAIL MARKET OVERVIEW

Due to the imminent delivery of a large amount of square footage to the market in addition to the slower growth of chain retailers, local merchants are reaping the benefits by getting opportunities not previously afforded them since they are less likely to be outbid by national chains. As a result, some of the smaller operations are starting to find they can compete and secure the prime locations.

The area's vacancy rate ticked up 0.1% from last quarter to 5.6%, though it is still down from 6.0% in the third quarter of 2007. Tenants are pushing landlords for more incentives, but landlords aren't quick to lower the asking rents. Asking rates even rose to \$15.01 per square foot (psf) in the third quarter, up from \$14.67 psf in the second quarter and up almost 8% from third quarter of 2007.

Perhaps the biggest retailing news was the opening of not one but two long-awaited specialty grocers in the Richmond region. Both Trader Joe's (12,400 square feet (sf) at Short Pump Station) and Whole Foods (60,000 sf at West Broad Village) opened in Short Pump. A new 86,000 sf Kroger is under construction at The Corner at Short Pump development, which broke ground in September after years of planning.

New retailers, meanwhile, continue to open along Interstate 95 in Hanover County just north of Richmond. At the new Winding Brook development, Bass Pro opened its fourth largest store in the chain (175,000 sf) where they are anticipating over 2 million visitors per year. An outlet mall, The Outlet Shoppes at Richmond, is also in the works for Phase II of Winding Brook. Several clothing retailers and restaurants have expressed interest, although no names have been released yet.

### ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	1.9%	2.0%	2.8%
CPI Growth	4.4%	2.9%	3.2%
Consumer Spending Growth	1.4%	2.9%	3.1%
Retail Sales	2.1%	4.0%	5.8%

### REGIONAL

Household Income	\$58,534	\$57,571	\$56,277
Population	1,389,827	1,210,000	1,194,008
Unemployment	5.5%	3.2%	3.2%

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

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Winding Brook	Bass Pro	150,000
West Broad Village	Whole Foods	60,000
Short Pump Station	Trader Joe's	12,400

### KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE	PURCHASE PRICE
Cloverleaf Mall Land	83 Acres	\$7,250,000
8200 Midlothian Tpke.	44,232 SF	\$3,000,000
11000 Midlothian Tpke.	15,600 SF	\$2,000,000

### SIGNIFICANT 2008 CONSTRUCTION ACTIVITY

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Westchester Commons	Target, Regal Cinemas	975,000	Spring 2009
Shops at White Oak Village	Sam's, Target, Lowe's, Ukrop's	900,000	Fall 2008
West Broad Village	Whole Foods, REI	495,000	Spring 2009
Hancock Village	Wal-Mart, JC Penney	428,000	Spring 2009
The Corner at Short Pump	Kroger	200,000	Fall 2009
Rutland Commons	Kroger	110,000	Winter 2008
Boulevard Square	Bow Tie Cinemas	73,000	Spring 2009

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### OUTLOOK

Until the economic outlook becomes more stable, the pace of new development will continue to slow as developers have trouble finding banks willing to lend. Well-financed retailers will keep looking for new locations, but many of the big-box retailers will be very selective until credit conditions improve.

At least one project will come on-line in the fourth quarter: White Oak Village, which has 900,000 sf of big-box retail including Target, Lowe's, Sam's Club and Ukrop's, is expected to open early in the fourth quarter. Several projects are due to come on-line in the first quarter of 2009 and developers are scrambling to fill the space prior to delivery. Co-tenancy provisions in existing leases will result in creativity on behalf of the landlords, brokers and tenants to make the deals, with tenants finally having the upper hand. Tenants looking to expand in the market are pulling together strategies to take advantage of the opportunities that not only exist, but those that may become available with the demise of struggling retailers and the delivery of new construction, taking delivery timing into consideration. Today's mantra seems to be "the later the delivery the better" from the retailer's perspective.

### 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	6,197,179	487	3.0%	3.0%	26,264	76,116	0	(44,546)	\$13.80
<b>Downtown Total</b>	<b>6,197,179</b>	<b>487</b>	<b>3.0%</b>	<b>3.0%</b>	<b>26,264</b>	<b>76,116</b>	<b>0</b>	<b>(44,546)</b>	<b>\$13.80</b>
I-95 / Chamberlayne NE	629,964	71	5.3%	5.3%	0	124,250	0	3,950	\$16.33
Laburnum / Route 360	2,910,083	432	3.2%	3.2%	72,104	0	0	47,404	\$8.93
Mechanicsville	2,370,365	191	3.7%	3.7%	64,567	0	0	26,779	\$15.47
<b>Northeast Total</b>	<b>5,910,412</b>	<b>694</b>	<b>3.6%</b>	<b>3.6%</b>	<b>136,671</b>	<b>124,250</b>	<b>0</b>	<b>78,133</b>	<b>\$11.25</b>
Broad St. Corridor	2,125,348	122	8.3%	8.3%	124,487	0	0	12,356	\$19.08
Far West End North	538,527	29	N/A	N/A	0	0	0	0	N/A
Far West End South	1,321,552	61	7.5%	7.5%	16,865	0	0	59,123	\$15.50
I-95 Ashland / NW	1,627,830	158	1.9%	1.9%	20,599	12,000	0	778	\$12.87
Near West End	3,995,575	645	2.4%	2.4%	49,507	0	0	16,520	\$19.32
Regency	2,159,745	92	4.1%	4.1%	47,538	0	0	(11,291)	\$18.77
Short Pump	3,512,159	78	3.7%	3.5%	7,783	782,250	199,103	15,909	\$29.22
Staples Mill / Parham	7,404,908	457	5.3%	4.9%	65,844	0	64,230	(23,102)	\$19.27
Willow Lawn	3,196,593	276	9.0%	9.0%	35,399	0	47,959	9,018	\$12.48
<b>Northwest Total</b>	<b>25,882,237</b>	<b>1,918</b>	<b>5.0%</b>	<b>4.9%</b>	<b>368,022</b>	<b>794,250</b>	<b>311,292</b>	<b>79,311</b>	<b>\$18.69</b>
East End	3,465,560	446	6.8%	6.5%	57,291	879,017	29,983	(76,424)	\$10.74
<b>Southeast Total</b>	<b>3,465,560</b>	<b>446</b>	<b>6.8%</b>	<b>6.5%</b>	<b>57,291</b>	<b>879,017</b>	<b>29,983</b>	<b>(76,424)</b>	<b>\$10.74</b>
Jeff Davis Corridor	3,244,420	500	11.2%	11.2%	95,863	0	7,200	64,722	\$8.09
Midlothian E./ Hull St.	7,806,679	546	8.7%	8.4%	89,876	7,200	0	8,408	\$12.05
Midlothian Village	877,868	85	4.5%	4.5%	4,909	1,282,000	0	(7,748)	\$17.18
Midlothian West	6,258,531	262	5.1%	5.1%	96,818	171,000	21,660	(6,391)	\$18.73
South Chesterfield	3,552,089	262	4.3%	4.3%	92,498	30,273	23,000	37,426	\$16.32
Swift Creek	2,628,609	138	7.4%	7.4%	43,742	442,080	0	(20,201)	\$16.67
<b>Southwest Total</b>	<b>24,368,196</b>	<b>1,793</b>	<b>7.2%</b>	<b>7.1%</b>	<b>423,706</b>	<b>1,932,553</b>	<b>51,860</b>	<b>76,216</b>	<b>\$14.15</b>
<b>RICHMOND TOTAL</b>	<b>65,823,474</b>	<b>5,338</b>	<b>5.6%</b>	<b>5.5%</b>	<b>1,011,954</b>	<b>3,806,186</b>	<b>393,135</b>	<b>112,690</b>	<b>\$15.01</b>

\* Rental rates reflect NNN \$psf/year



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