

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



YEAR-END 2008

### ECONOMIC OVERVIEW

Consumers nationwide have responded to a troubled national economy by cutting spending, and those in Hampton Roads are not exceptions. Taxable sales for 2008 were down by 4.1% from 2007 levels, according to Old Dominion University's Economic Forecasting Project, which projects them to drop by another 3.1% in 2009 and expects strapped tourists to push hotel revenues down by 2.7%.

But the area's large military, government, and port sectors still temper the recession's effects. November's unemployment rate of 4.8% ties with August's for the highest since June 1997 but remains well below the comparable national figure of 6.5%, and labor data exclude the area's 80,000 active-duty military personnel. And total nonfarm employment grew by 1.5% over 12 months, whereas national payrolls shrank at the same rate.

### RETAIL MARKET OVERVIEW

With an overall vacancy rate of 5.4% at the end of the fourth quarter, the Hampton Roads retail market continued to perform well. Redevelopment in Mercury Central reduced surveyed inventory on the Peninsula by just under 1.5 million square feet (msf) over last year, but a 3.6-msf increase in Southside inventory offset the decline and boosted the area's total retail square footage by 2.3% to 96.1 msf. A higher proportion of new space there may explain why Southside asking rents rose by \$1.61 per square foot (psf) to \$14.20 psf, while the Peninsula saw rents drop by \$0.86 psf to \$13.47 psf.

As in other market segments, however, asking rents are often offset by significant incentives. While some retailers remain active – notably those in value-oriented sectors such as quick service restaurants, closeout retailers and dollar stores – most have trimmed expansion plans, and some will be closing as many stores nationwide as they open. National credit tenants are well aware of their negotiating strength, and landlords who are now willing to accept terms they might have rejected less than a year ago face tenants who ask for still more concessions and even renegotiate the terms of signed letters of intent.

### BEAT ON THE STREET

"Locally, retailers and restaurateurs seem to be listening and looking for deals, while many landlords still hold the line. But in this "anything can happen" climate, opportunities can be found."

—Chris Good, Retail Sales and Leasing

### ECONOMIC INDICATORS

NATIONAL	2007	2008	2009F
Real GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Consumer Spending Growth	2.9%	0.2%	-2.0%
Retail Sales	4.0%	0.0%	-6.0%

### REGIONAL

Household Income	\$54,618	\$55,929	\$57,086
Population	1,660,000	1,676,637	1,688,549
Unemployment	3.2%	4.3%	5.6%

Sources: Moody's | Economy.com, U.S. Census, U.S. Bureau of Labor Statistics, National Retail Federation, Old Dominion University Economic Forecasting Project

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Landstown Commons	Walgreen's	14,500

### KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Smithfield Plaza	89,120	\$9,375,000
Coliseum Corner	48,339	\$4,400,000

### SIGNIFICANT 2008 CONSTRUCTION ACTIVITY

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
The Marquis at Williamsburg	JCPenney, Kohl's, Target, Best Buy	1,000,000	Summer 2008 (Target and Best Buy)
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
Red Mill Walk	OfficeMax, Target	240,000	Spring 2008
Prime Outlets Williamsburg (expansion)	Burberry, Hugo Boss, Kate Spade, True Religion	115,000	Spring 2008



### OUTLOOK

All things are relative. A few years ago the 0.6% increase in the area's Gross Regional Product that the Economic Forecasting Project predicts for the upcoming year would have caused concern. But for a year in which the same economists expect the national economy to shrink by 1.8%, it is almost a comparative boom. Most Hampton Roads families, civilian or military, will continue to receive paychecks, eat out once in a while, and consume goods and services. Local retailers and landlords alike will feel less pain than those in areas where rapid job growth suddenly reverses and aspirational buyers living well beyond their means cannot or will not continue to support high-end developments with consumer debt. Things will be different, but not as dramatically different as is feared, and the abrupt lurch backward will be less painful here.

Local shoppers will have the opportunity to evaluate two new concepts by major retailers in 2009. At press time Walmart had just opened its first Virginia store in its Neighborhood Market format on Norfolk's East Little Creek Road, and it will be followed by a Williamsburg location later in the year and a Virginia Beach store in 2010. The fourth quarter saw Target complete its \$4.3-million purchase of the site for its upcoming 143,000-square foot (sf) store at Hampton's Peninsula Town Center, where it will debut a new concept with expanded grocery offerings that combines features of its SuperTarget and general merchandise formats.

Until the beginning of 2009 the troubles of undercapitalized and poorly managed national retailers had only a limited effect on Hampton Roads. The departure of companies such as CompUSA, Linens 'N Things, Value City Department Stores, and Steve & Barry's left only a few area stores dark, and some of those have already found new tenants. But the demise of Circuit City's demise will be felt more. Certainly the release of five sizeable vacant boxes will have a tangible impact on the market, but their attractive locations in healthy, desirable submarkets will offer new options for retailers looking to enter the area or to expand or enhance their presence. However, the disappearance of a major retailer that was headquartered in the state and has been a local fixture for decades will likely carry significant psychological weight as well.

One store closure is notable not for its direct impact but for what it might portend for its location and others like it. On the last day of 2008, Ukrop's cited slow residential growth as the reason for closing its store in the Lightfoot submarket northwest of central Williamsburg at the end of January. The potential of areas experiencing significant increases in housing and population has sparked a number of retail projects over the past several years, but such growth has now slowed dramatically and is unlikely to return to levels seen in the recent past anytime soon. New retail development in Northern Suffolk's Harbor View enjoys proximity to the Monitor-Merrimac Bridge-Tunnel that connects the Southside to the Peninsula and draws support from established neighborhoods in nearby Churchland and Western Branch; and if areas north of Landstown Commons's location on the border between the Courthouse and Princess Anne submarkets lack the high household incomes that were expected for upscale subdivisions planned to the south and southeast, their population density provides plenty of retail demand to make up for stalled growth. But economic change may keep the number of affluent retirees and prosperous exurban commuters in new developments around Williamsburg from reaching the projected levels that inspired the substantial number of centers that have recently opened or are nearing completion, and an aerial photograph shows that existing neighborhoods begin to thin out a mile or so north of the mammoth Edinburgh development now underway in Southern Chesapeake.

### 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*
Denbigh	1,967,824	170	9.9%	9.9%	168,671	0	0	(25,272)	\$8.96
Downtown Hampton	867,373	92	3.7%	3.7%	0	0	0	(10,575)	\$12.64
Downtown Newport News	630,777	74	4.9%	4.9%	9,443	0	8,000	5,965	\$6.64
Fox Hill	1,527,569	196	7.9%	7.4%	12,375	0	0	(2,145)	\$14.08
Gloucester	1,455,343	49	10.8%	10.1%	63,294	0	0	63,023	\$10.66
Hampton North	4,233,907	272	2.9%	2.9%	36,617	24,741	4,869	(27,065)	\$22.11
James River	1,767,796	215	7.3%	6.8%	7,495	0	2,516	(38,793)	\$11.91
Lightfoot	2,743,856	88	10.8%	10.8%	81,798	0	65,408	37,384	\$14.41
Mercury Central	6,271,317	409	5.4%	4.9%	39,538	19,000	38,724	51,564	\$10.22
Patrick Henry	4,279,605	129	3.8%	3.7%	39,741	21,928	0	(53,399)	\$13.87
Poquoson	1,733,214	183	6.6%	6.6%	19,977	8,400	12,000	22,309	\$15.92
Williamsburg	3,789,258	248	5.7%	5.6%	54,779	604,751	0	116,273	\$18.49
Yorktown	382,854	41	4.6%	4.6%	1,345	6,000	127,239	(4,255)	\$14.33
<b>Peninsula Total:</b>	<b>31,650,693</b>	<b>2,166</b>	<b>6.1%</b>	<b>5.9%</b>	<b>535,073</b>	<b>684,820</b>	<b>258,756</b>	<b>135,014</b>	<b>\$13.47</b>
Campostella/S. Norfolk	1,450,274	144	7.3%	6.8%	18,980	0	0	(11,950)	\$12.26
Chesapeake Square	2,769,626	87	1.9%	1.9%	20,453	63,300	38,599	(1,830)	\$13.45
Churchland	1,629,411	126	2.6%	2.0%	8,624	7,952	0	11,271	\$12.88
College Park	2,006,550	187	6.2%	6.2%	9,580	0	11,600	(8,047)	\$13.13
Deep Creek	1,366,154	88	4.0%	4.0%	9,770	0	6,617	40,907	\$9.83
Downtown Norfolk	4,998,878	346	3.2%	3.1%	28,384	0	37,065	64,655	\$12.80
Downtown Suffolk	1,112,947	144	5.5%	4.7%	17,600	0	0	(24,475)	\$10.79
Franklin City	1,309,106	71	11.2%	11.2%	14,848	0	0	(64,317)	\$10.99
General Booth Corridor	1,966,616	104	5.0%	4.2%	57,657	0	84,057	216,757	\$24.13
Great Bridge	1,640,462	113	4.1%	4.1%	39,789	0	0	(11,594)	\$22.61
Greenbrier/Battlefield	4,239,781	157	2.8%	2.8%	20,831	0	21,722	(17,749)	\$18.31
Hilltop/Great Neck	2,947,005	203	4.3%	3.7%	87,568	16,000	0	(32,350)	\$14.95
Holland Road	1,581,870	98	5.6%	5.4%	21,434	0	5,119	(50,899)	\$15.05
Isle of Wight	710,866	42	8.1%	8.1%	10,628	0	25,371	16,585	\$6.13
Kempsville	1,992,780	130	3.6%	3.6%	66,270	0	74,979	98,253	\$17.17
Little Creek	3,498,502	271	6.3%	6.3%	84,769	0	15,200	(6,781)	\$10.84
Little Neck	3,304,918	134	7.6%	6.5%	56,678	0	26,725	(39,407)	\$12.28
Lynnhaven	2,358,888	77	9.8%	9.8%	47,061	0	0	(27,978)	\$19.50
Mid-City	2,532,419	295	3.8%	3.4%	1,772	0	16,520	(17,283)	\$9.49
Military	4,835,639	284	5.7%	4.9%	44,844	0	0	(71,134)	\$11.87
Newtown	2,648,201	191	2.8%	2.4%	13,105	0	0	3,137	\$13.51
Northern Suffolk	424,784	29	29.8%	29.3%	7,213	317,120	44,174	(68,615)	\$21.87
Oceanfront	1,597,286	255	1.6%	1.5%	11,433	0	0	(17,217)	\$13.17
Pembroke	3,158,737	182	2.2%	2.2%	135,566	54,633	0	72,728	\$16.27
Princess Anne	1,529,099	66	2.8%	2.1%	64,585	90,356	12,854	41,022	\$22.26
Shore Drive	980,306	106	4.4%	4.4%	24,392	11,500	0	(19,076)	\$16.83
Smithfield	762,067	83	5.6%	5.6%	5,393	0	0	(21,365)	\$18.85
Suffolk	1,478,649	92	7.7%	7.7%	10,280	20,400	0	(698)	\$8.82
Va. Beach Courthouse	610,731	22	10.2%	9.1%	75,928	0	205,812	255,078	\$26.03
Victory	2,166,729	197	7.6%	7.6%	95,770	3,000	79,536	42,752	\$11.59
Wards Corner	871,663	49	7.2%	7.2%	4,228	0	0	1,068	\$10.04
<b>Southside Total:</b>	<b>64,480,944</b>	<b>4,373</b>	<b>5.1%</b>	<b>4.8%</b>	<b>1,115,433</b>	<b>584,261</b>	<b>705,950</b>	<b>351,448</b>	<b>\$14.20</b>
<b>HAMPTON ROADS TOTAL:</b>	<b>96,131,637</b>	<b>6,539</b>	<b>5.4%</b>	<b>5.2%</b>	<b>1,650,506</b>	<b>1,269,081</b>	<b>964,706</b>	<b>486,462</b>	<b>\$13.97</b>

\* Rental rates reflect NNN \$psf/year



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at [www.cushmanwakefield.com/knowledge](http://www.cushmanwakefield.com/knowledge)

For further information, please contact one of our Brokerage Services Professionals:  
 Thalhimer  
 5700 Cleveland Street, Suite 400  
 Virginia Beach, VA 23462  
 (757) 499-2900  
[www.thalhimer.com](http://www.thalhimer.com)

\*Market terms & definitions based on BOMA and NAIOP standards.

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield 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.

©2009 Cushman & Wakefield, Inc. All rights reserved.