MARKETBEAT

RICHMOND, VIRGINIA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

YEAR-END 2008

ECONOMIC OVERVIEW

The fourth quarter of 2008 was one of the toughest in recent memory for retailers. Consumers, nervous about job security, are starting to save instead of spend, and that could portend a difficult readjustment to lower levels of consumption. In the final two quarters of 2008, a handful of national chain stores have filed for bankruptcy protection, and others have issued warnings that they will likely close underperforming locations. However, almost none of those store locations are in Richmond.

The unemployment rate in the Richmond area was 5.0% in November. That's up from 3.2% in the same month in 2007 but better than the national unemployment rate of 6.5%.

BEAT ON THE STREET

"We are seeing minimal store closings compared to other markets, but retailers are being very cautious."

–Michael Shaia, Retail Sales/Leasing

RETAIL MARKET OVERVIEW

The operative term for retailers in this economic climate is price point. Walmart, Costco and other discount stores such as Dollar Tree continue to do well. Some are even expanding. But it's a particularly challenging time for upscale shops and restaurants, although the quick service sector continues to perform well. Vacancy across Richmond moved up from 5.6% in the third quarter to 5.9% in the fourth quarter. But the vacancy rate is still down from 6.1% in the fourth quarter of 2007.

At Short Pump, which has been the fastest growing retail submarket for several years, supply outpaced demand. Vacancy was 3.7% in the fourth quarter, up from 2.6% in the same quarter of 2007. The rental rate fell from $32.42 per square foot (psf) in 2007 to $28.75 psf in the fourth quarter of 2008. This market continues to be the number one desired retail market in the MSA, but with continued construction and delivery of space, demand will need to catch up to supply.

And despite a cautious approach by most retailers, more space was leased in 2008 than in 2007, 2.1 million square feet (msf) versus 1.2 msf, respectively. The average asking rate in the fourth quarter was $15.64 psf. That's up from $14.56 psf in the fourth quarter of 2007, the equivalent to a 7.4% increase. This increase in rental rates is mainly due to new space hitting the market at higher rates in areas where previously there was only second generation, and lower priced, space available. However, landlords are feeling the pinch and to avoid prolonged vacancies they are becoming more generous with concessions, especially for the right tenant.

Throughout 2008, national retailers continued to do deals in Richmond, although at a slower pace. BJ's opened at Regency Square, and a handful of big-box stores opened in the fourth quarter at White Oak Village in the East End. Experienced restaurateurs continue to open new concepts despite the trend of slowing sales by moderately priced national chains.

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	2.8%	0.2%	-2.0%
Retail Sales	4.1%	0.0%	-6.0%
REGIONAL			
Household Income	$57,571	$58,534	$59,587
Population	1,210,000	1,389,827	1,528,809
Unemployment	3.2%	5.0%	6.2%

Source: Moody's | Economy.com , U.S. Census, Bureau of Labor Statistics, National Retail Federation

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Shops at White Oak Village	Sam's, Target, Lowe's, Ukrop's, Circuit City, JC Penney, Office Max, PetSmart & others	900,000
The Corner at Short Pump	Kroger	86,000
Rutland Commons	Kroger	70,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
Commonwealth Plaza	16,800	$4,988,200

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Westchester Commons	Target, Regal Cinemas	975,000	Spring 2009
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	Spring 2010
Boulevard Square	Bow Tie Cinemas	73,000	Spring 2009
Alverser Plaza	Fresh Market	23,000	March 2009

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On the investment side, Hull Street was the champion for retail sales closed in the fourth quarter. Vernon Laprade of Model Realty paid $1.5 million for 3.8 acres from Dogwood Partnership for a possible retail complex. The property is at 15100 Hull Street Rd., at the intersection of Cosby Road. The buyer plans to develop a multi-building retail complex. In the same general area, the fully constructed Commonwealth Plaza was purchased at nearly $5 million. The strip center is slightly less than 17,000 sf and is anchored by Lifeway Christian and Men's Wearhouse.

OUTLOOK

There's a saying that retail follows rooftops. Because new housing is almost at a standstill, the development of new retail space will be slower in outlying suburban areas. The retail market sector will probably see a challenging few quarters with an up tick in vacancy. Absorption will be negative as more new space comes online without ready tenants. Looking ahead to 2009, projects in the pre-leasing phase are getting pushed back. But retailers that specialize in cheaper goods will continue to look for bargains around Richmond.

For a change of pace, retail openings in the first quarter will most likely focus around the Northeastern quadrant of the MSA. Incorporating both Hanover and Henrico Counties, projects to watch in 2009 include the continued development of Rutland Commons, a mixed-use project in Hanover County anchored by Kroger, the tenancy at White Oak Village and Best Buy Station where multiple tenants are still under construction and the breaking ground of The Outlet Shoppes at Richmond in Winding Brook, Richmond's first outlet center.

The City of Richmond will also see the opening of its first new movie theater in decades. Bow Tie Partners will be opening its 17-screen all stadium Movieland at Boulevard Square, planned for the first quarter of 2009.

Not to be left out, Southwestern Chesterfield County will have its share of projects coming on-line in early 2009. Hancock Village and Westchester Commons both come on-line in the first part of 2009. With strong anchors but lots of square footage to fill, these projects are definitely feeling the affect of the slowing residential growth. Both projects are looking at smart phasing to protect their asset.

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	6,231,243	488	3.2%	3.2%	28,357	80,000	0	(50,630)	$13.81
Downtown Total	**6,231,243**	**488**	**3.2%**	**3.2%**	**28,357**	**80,000**	**0**	**(50,630)**	**$13.81**
I-95 / Chamberlayne NE	742,615	76	7.6%	7.6%	11,588	54,250	70,000	80,407	$21.35
Laburnum / Route 360	2,920,625	433	2.6%	2.4%	89,104	0	0	55,224	$8.56
Mechanicsville	2,415,205	193	4.6%	4.6%	75,182	0	0	6,805	$16.83
Northeast Total	**6,078,445**	**702**	**6.4%**	**6.2%**	**175,874**	**54,250**	**70,000**	**142,436**	**$12.92**
Broad St. Corridor	1,938,268	123	7.4%	7.4%	176,692	0	0	37,051	$19.52
Far West End North	541,403	30	N/A	N/A	0	0	0	0	N/A
Far West End South	1,307,842	60	8.0%	8.0%	18,615	0	0	53,493	$15.11
I-95 Ashland / NW	1,793,505	160	2.9%	2.9%	27,899	0	12,000	141,963	$12.34
Near West End	4,012,797	646	2.8%	2.7%	68,841	0	0	2,158	$19.25
Regency	2,172,155	94	4.4%	4.4%	52,338	0	117,286	(17,680)	$19.13
Short Pump	3,586,260	83	3.7%	3.5%	22,807	782,250	199,103	120,960	$28.75
Staples Mill / Parham	7,396,194	457	5.6%	5.2%	120,672	0	64,230	(39,380)	$19.09
Willow Lawn	2,977,581	296	7.9%	7.9%	61,205	0	47,959	78,476	$12.13
Northwest Total	**25,726,005**	**1,949**	**5.6%**	**5.1%**	**549,069**	**782,250**	**440,578**	**377,041**	**$18.48**
East End	4,343,576	464	8.7%	8.5%	697,397	0	900,000	630,685	$15.41
Southeast Total	**4,343,576**	**464**	**8.7%**	**8.5%**	**697,397**	**0**	**900,000**	**630,685**	**$15.41**
Jeff Davis Corridor	3,216,636	498	11.4%	11.4%	187,450	0	7,200	58,320	$8.17
Midlothian E./ Hull St.	7,492,391	543	9.1%	8.9%	138,017	7,200	0	(6,539)	$11.64
Midlothian Village	905,668	89	7.3%	7.3%	32,369	1,282,000	0	(4,804)	$22.43
Midlothian West	6,261,141	263	5.8%	5.8%	140,976	171,000	21,660	(43,904)	$19.48
South Chesterfield	3,528,584	264	3.9%	3.9%	111,964	30,273	23,000	79,957	$16.91
Swift Creek	2,580,158	138	7.8%	7.6%	63,830	442,080	0	(17,281)	$16.00
Southwest Total	**23,984,578**	**1,795**	**7.6%**	**7.5%**	**674,606**	**1,932,553**	**51,860**	**65,749**	**$14.46**
RICHMOND TOTAL	**66,363,847**	**5,398**	**5.9%**	**5.8%**	**2,125,303**	**2,849,053**	**1,462,438**	**1,165,281**	**$15.64**

* Rental rates reflect NNN $psf/year

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