

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

**Thalhimer**  
commercial real estate

1Q09

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

### ECONOMIC OVERVIEW

Economists with Old Dominion University's Economic Forecasting Project responded to revised labor force data by increasing their forecast of the average unemployment rate for Hampton Roads in 2009 from 5.6% to 7.5%. But the stable economic base should continue to limit the area's pain, as the 0.3% drop in the local gross regional product they now expect this year is significantly less than predicted declines of 1.4% in Virginia and 2.9% nationwide. March's 6.9% not seasonally adjusted unemployment rate compared favorably to the 9.0% national rate; and while the loss of 0.9% of area jobs over 12 months was substantial, it was well below the state's 2.4% drop and national losses of nearly 3.6%.

Consumer retreat pushed sales tax receipts for the year ending in February down by 4.1% in the Virginia portion of Hampton Roads and 3.0% statewide. But while local receipts declined at the same annual rate for the December-to February "rolling quarter", job losses elsewhere cut the state's take by 5.1%.

### BEAT ON THE STREET

"That's the nature of the Hampton Roads market – the pendulum does not swing as high in the upticks, nor does it swing as low in the downticks."

–David Machupa, Retail Sales and Leasing

### RETAIL MARKET OVERVIEW

The overall vacancy rate rose to 5.9%, 1.0 percentage points higher than a year earlier but still at a level many markets might envy in a turbulent economy. Leasing activity on both sides of the harbor was more than 50% above 2008 levels, but the quarter's negative direct absorption of 276,189 square feet (sf) was not distributed as evenly, as substantial negative absorption Southside more than offset positive figures on the Peninsula.

The most active tenants continue to be those who benefit from the buying patterns of the newly frugal. Discounters who may have been received unenthusiastically a year or two ago are now welcomed and even courted by landlords. Quick service restaurants remain attracted by the area's young population, and dark restaurant spaces entice their operators with existing buildouts that can reduce startup costs significantly.

As in other sectors, owners able to wait for better times before selling properties are doing so, as investors who are still active now expect desperation-driven pricing and ask for double-digit cap rates and lists of properties approaching the courthouse steps – neither of which have yet appeared in any number.

### ECONOMIC INDICATORS

	2008	2009F	2010F
<b>NATIONAL</b>			
Real GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Consumer Spending Growth	0.2%	-2.0%	1.5%
Retail Sales	0.5%	-1.5%	0.8%
<b>REGIONAL</b>			
Household Income	\$55,929	\$57,086	\$58,020
Population	1,676,637	1,688,549	1,698,770
Unemployment	4.23%	7.5%	7.0%

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
Peninsula Town Center	Barnes & Noble	29,600

### KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
Salem Lakes Marketplace	42,807	\$2,550,000
561 First Colonial Rd. (Applebee's)	4,201	\$2,080,000

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Peninsula Town Center	JCPenney, Barnes & Noble, Macy's, Target	900,000	Summer 2009 (Target)
Harbour View Marketplace	Harris Teeter	300,000	Summer 2009
High Street Williamsburg	The Movie Tavern	250,000	Fall 2009
Town Center Market Place	OfficeMax	123,577	Fall 2009 (Phase I)
Brenneman Farm	Harris Teeter	90,356	Spring 2009
Quarterpath Crossing	Harris Teeter	85,610	Summer 2009

An independently owned and operated member of the



## OUTLOOK

In the past few quarters reports for this sector and others have referred to empowered tenants and compliant landlords, stable asking rental rates masking generous concessions and declining effective returns, mid-term renegotiations driven sometimes by tenant distress and sometimes by tenant opportunism, bidding wars to retain good tenants or tempt them to leave, and so forth. All of these can be found in virtually every market in the country right now and will continue to be found in virtually every market for some time to come, and the degree to which these circumstances improve or decline depends on whether current reports of increasing activity that will eventually restart the economy signal a trend or the eye of a storm still on the move.

Certainly not all economic news is negative. It is far too soon to determine if unemployment is approaching its peak for the cycle, but a significant number of well-paid manufacturing jobs have just come or will soon come to Newport News. Most of the recently announced defense spending cuts were already accounted for, and in any event, their impact on Hampton Roads was limited. Retailers who sell the basic goods that everyone buys – the retailers that have the most to gain from current conditions if they are well managed – are still looking for expansion opportunities here, as the recent public announcement by CVS of an assertive expansion into Hampton Roads illustrates. And while the stable economy and generally modest character of Hampton Roads may have left it overlooked as the bubble diverted money and attention to nearby markets whose population, employment, and income growth seemed boundless, unemployment in some of those markets now exceeds 11.0%, and stability and modesty seem more desirable and better attuned to the changing zeitgeist.

A minor bit of statistical data can sometimes serve to establish the coordinates of the market's current position. Space available for sublease comprises a small share of total vacant available space (currently about 4.3%) and a miniscule amount of inventory, and therefore standard reports with vacant available inventory and vacancy rates may fail to illustrate changes in a meaningful way. At the end of the first quarter of 2007 there was 1.82 sf of vacant available sublease space for every 100 sf of vacant available direct space in Hampton Roads. That ratio increased to 1.91 sf per 100 direct sf for the first quarter of 2008, then swelled to 5.25 per 100 direct sf for the fourth quarter before the introduction of a large amount of direct space lowered it to 4.53 sf per 100 direct sf in the first quarter of 2009. While absolute numbers remain small – there was just under 337,000 sf of vacant available sublease space at the end of the first quarter – the rapid rate of increase may serve as a leading indicator of pullbacks the market might see over the next few quarters.

### 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	2,012,871	172	8.3%	8.3%	5,075	14,550	0	18,680	\$9.68
Downtown Hampton	864,147	93	3.7%	3.7%	561	0	0	1,661	\$12.68
Downtown Newport News	630,777	74	4.1%	4.1%	0	0	0	4,956	\$6.64
Fox Hill	1,509,977	196	7.9%	7.4%	800	24,396	0	786	\$13.89
Gloucester	1,526,874	63	9.8%	9.0%	1,400	83,676	0	9,657	\$10.63
Hampton North	4,065,089	272	5.6%	5.6%	4,957	24,741	0	(89,986)	\$21.81
James River	1,746,185	211	4.0%	3.5%	24,903	0	0	5,497	\$12.40
Lightfoot	2,768,306	90	9.3%	9.2%	767	0	0	43,335	\$13.88
Mercury Central	5,989,680	408	5.7%	5.2%	9,350	630,737	20,000	14,524	\$10.09
Patrick Henry	4,363,586	140	5.8%	5.0%	5,780	21,928	6,000	13,921	\$16.56
Poquoson	1,748,654	185	6.3%	6.3%	10,560	0	8,400	12,100	\$15.88
Williamsburg	4,515,279	266	7.4%	7.4%	13,199	381,702	77,020	58,623	\$22.22
Yorktown	387,878	42	6.2%	6.2%	0	0	0	(6,450)	\$14.33
<b>Peninsula Total:</b>	<b>32,129,303</b>	<b>2,212</b>	<b>6.6%</b>	<b>6.3%</b>	<b>77,352</b>	<b>1,181,730</b>	<b>111,420</b>	<b>87,304</b>	<b>\$14.22</b>
Campostella/S. Norfolk	1,452,474	145	7.9%	7.3%	0	27,449	0	(7,580)	\$12.88
Chesapeake Square	2,753,070	86	3.4%	3.4%	1,100	63,300	0	(40,439)	\$13.36
Churchland	1,683,892	128	2.0%	2.3%	900	7,952	0	(7,182)	\$14.10
College Park	2,007,645	187	6.9%	6.9%	4,974	0	0	(14,997)	\$12.80
Deep Creek	1,369,673	90	4.2%	4.2%	0	0	0	(3,375)	\$13.59
Downtown Norfolk	4,654,001	347	3.4%	3.3%	9,105	15,616	0	(9,522)	\$13.11
Downtown Suffolk	1,112,448	144	3.6%	2.8%	0	24,000	0	23,390	\$10.92
Franklin City	1,372,446	73	10.9%	10.9%	1,777	0	0	12,500	\$9.99
General Booth Corridor	1,933,583	105	5.3%	4.6%	0	0	0	(3,545)	\$23.44
Great Bridge	1,652,238	116	3.7%	3.7%	9,261	14,752	0	5,579	\$22.75
Greenbrier/Battlefield	4,177,593	163	3.0%	2.9%	2,901	8,250	0	(3,999)	\$19.06
Hilltop/Great Neck	2,968,784	203	3.0%	3.0%	13,900	0	0	11,131	\$15.87
Holland Road	1,582,127	99	5.9%	5.7%	976	0	0	(7,968)	\$14.77
Isle of Wight	745,899	44	10.5%	10.5%	2,800	0	0	2,800	\$10.56
Kempsville	2,011,591	132	3.3%	3.3%	11,222	0	0	18,940	\$16.50
Little Creek	3,466,582	274	6.7%	6.7%	41,200	0	0	(49,158)	\$10.14
Little Neck	3,310,967	135	6.7%	6.7%	8,648	0	0	(28,037)	\$13.92
Lynnhaven	2,360,699	78	10.0%	9.9%	3,700	0	0	(5,685)	\$16.39
Mid-City	2,532,894	293	3.6%	3.2%	3,120	106,933	0	(1,000)	\$9.62
Military	4,795,000	279	6.0%	5.2%	6,023	7,800	0	(11,026)	\$11.99
Newtown	2,662,528	191	7.8%	7.4%	1,105	0	0	(135,294)	\$13.57
Northern Suffolk	555,990	32	33.6%	33.2%	0	317,120	18,835	(39,500)	\$20.52
Oceanfront	1,618,524	257	1.6%	1.5%	5,800	0	0	1,540	\$13.21
Pembroke	3,162,565	182	3.1%	3.1%	22,848	123,577	0	(29,303)	\$17.21
Princess Anne	1,528,883	66	3.3%	2.5%	4,409	90,356	0	(12,269)	\$19.92
Shore Drive	1,000,542	109	6.2%	6.2%	9,744	0	11,500	(16,580)	\$13.23
Smithfield	686,124	80	2.3%	2.3%	5,423	0	0	(27)	\$16.83
Suffolk	1,461,635	96	8.8%	8.8%	1,200	0	20,400	4,108	\$10.38
Va. Beach Courthouse	610,731	22	9.1%	8.0%	10,590	0	0	(2,280)	\$25.78
Victory	2,220,453	200	7.0%	7.0%	10,163	0	3,000	6,350	\$11.24
Wards Corner	749,520	48	11.1%	11.1%	0	3,200	0	(21,065)	\$10.68
<b>Southside Total:</b>	<b>64,201,101</b>	<b>4,404</b>	<b>5.5%</b>	<b>5.3%</b>	<b>192,889</b>	<b>810,305</b>	<b>53,735</b>	<b>(363,493)</b>	<b>\$14.40</b>
<b>HAMPTON ROADS TOTAL:</b>	<b>96,330,404</b>	<b>6,616</b>	<b>5.9%</b>	<b>5.6%</b>	<b>270,241</b>	<b>1,992,035</b>	<b>165,155</b>	<b>(276,189)</b>	<b>\$14.34</b>

\* Rental rates reflect NNN \$psf/year



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

This report contains information available to the public and has been relied upon by Thalhimer on the basis that it is accurate and complete. Thalhimer 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 Thalhimer, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.