

MARKETBEAT

RICHMOND, VIRGINIA RETAIL REPORT

Thalheimer
commercial real estate

1Q09

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ECONOMIC OVERVIEW

The local economy in Richmond is not immune from the global recession, but it's still holding its edge and outperforming the nation as a whole. The local unemployment rate was 7.9% in February. That's up from 5.0% at the end of the fourth quarter of 2008 and up from 3.9% in the first quarter of 2008. However, it is still lower than the national rate of 8.5%. Some workers who were notified about being laid off in the fourth quarter left their jobs in the first quarter. That, in turn, could affect consumer spending in Richmond in the coming quarters.

BEAT ON THE STREET



"Tenants are using the slower market to improve not only new but existing deal structures."

—Connie Nielsen, Senior Vice President

RETAIL MARKET OVERVIEW

Retailers have slowed expansion until consumers start spending again, and new shopping centers are being leased more slowly than in the past. However, leasing activity was 311,789 square feet (sf) in the first quarter, up 52.9% from the first quarter of 2008. But the vacancy rate held steady from the fourth quarter of 2008 at 6.2%. This leasing activity can be attributed to deals completed in prior quarters since most national retailers are working on openings 1-2 years out.

Average asking rents rose to \$18.68 per square foot (psf). That's up almost \$4.00 psf from \$14.88 psf in the first quarter of 2008. The increase is attributable in part to the high level of activity at Westchester Commons, a new 900,000 sf development off Route 288 in Chesterfield where Target, JoAnn Fabric & Craft Store, Dress Barn and Famous Footwear recently opened. That center will add a Regal Cinemas, Gold's Gym, Petco, Office Max and Books-A-Million as anchors in the coming quarter.

As reported last quarter, tenants are using the slow economy to try to renegotiate lease terms and get lower rent, many before their leases are up. Landlords started to give in more than a quarter or two ago.

In the Far West End, construction continues at Short Pump, although at a slower pace than in previous years. Due to site issues, Kroger has had to push its relocation and conversion to its new gourmet Marketplace store at The Corner at Short Pump back to mid-2010. But First Market Bank and Kona Grill both opened at Short Pump's West Broad Village, and Mimi's Café and Dave & Buster's plans on opening there in the second quarter.

One active sector is health clubs. Both Gold's Gym and American Family Fitness are both upgrading and leasing more locations. Within this quarter Gold's Gym relocated its Research Road location to Shops at Arboretum on Midlothian Turnpike, both expanding and improving its position to better spacing for its new 45,000-sf luxury club opening in the second quarter at Westchester Commons. American Family relocated on a temporary but possibly now permanent location at SteinMart Festival when they lost their lease on Midlothian, they also plan another club further west in the town of Midlothian as well as a smaller club in Chester in the coming year. That's partly because many consumers consider the gym a necessity and not an extravagance, so gym operators still see room to grow.

ECONOMIC INDICATORS

NATIONAL	2008	2009F	2010F
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%
REGIONAL			
Household Income	\$58,534	\$59,587	\$60,435
Population	1,210,533	1,233,100	1,259,800
Unemployment	4.4%	9.0%	8.5%

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

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Westchester Commons	Target	132,362
White Oak Village	JC Penney	105,000
Boulevard Square	Bow Tie Cinemas	73,000
Westchester Commons	Regal Cinema	70,000
Alverser Plaza	Fresh Market	23,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
Midlothian Center	146,305	\$7,000,000
Shoppes at Bell Creek	65,781	\$9,500,000
8101 West Broad	15,981	\$2,400,000
CVS	12,900	\$5,600,000

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

OUTLOOK

National retailers are eager to get good deals on vacated space while landlords are looking to maintain their asset value. National as well as local merchants are eyeing the six former Circuit City locations in Richmond that were vacated when that chain liquidated in the first quarter and some landlords are looking to split the space to maximize their value. Nationally, certain successful restaurant chains, such as Buffalo Wild Wings and Panera Bread, are also looking to backfill restaurant locations that have closed, in part because they can cut about 30% of the cost of opening. With the pressure on the banking industry you will likely see more bank mergers, as evidenced by the proposed merger of our locally owned First Market Bank with Union Bank & Trust (Union Bankshares) which is anticipated to be completed by the end of the year.

Until the economy picks up, rents will likely continue to face downward pressure, and tenants will continue asking for, and likely getting, rent concessions. One interesting thing to watch is how retailers are able to assuage consumers' jitters with guarantees or special insurance policies that will cover financing payments. Car manufacturers and retailers such as Jos. A Bank are making such offers, and they might help get customers start spending again, which could turn the economy around.

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	6,363,442	490	3.4%	3.4%	3,462	0	73,000	(16,796)	\$13.93
Downtown Total	6,363,442	490	3.4%	3.4%	3,462	0	73,000	(16,796)	\$13.93
I-95 / Chamberlayne NE	753,609	78	8.3%	8.3%	0	0	10,994	4,651	\$21.14
Laburnum / Route 360	2,922,876	434	3.0%	2.8%	1,000	0	0	5,539	\$8.68
Mechanicsville	2,529,289	196	6.0%	6.0%	0	0	0	(7,431)	\$16.12
Northeast Total	6,205,774	708	4.8%	4.8%	1,000	0	10,994	2,759	\$12.87
Broad St. Corridor	1,960,206	123	6.6%	6.6%	536	0	0	8,876	\$19.42
Far West End North	567,858	32	N/A	N/A	0	0	0	0	N/A
Far West End South	1,307,842	60	7.9%	7.1%	3,384	0	0	12,506	\$15.13
I-95 Ashland / NW	1,932,509	162	2.8%	2.8%	0	0	0	(1,800)	\$12.19
Near West End	4,056,257	647	3.3%	3.3%	0	0	0	28,528	\$19.01
Regency	2,184,697	94	6.3%	6.1%	0	0	0	(28,866)	\$19.44
Short Pump	3,610,838	86	4.1%	4.0%	15,010	695,000	28,136	8,740	\$28.51
Staples Mill / Parham	7,360,735	457	5.5%	5.1%	29,670	0	0	10,522	\$18.94
Willow Lawn	2,951,697	296	8.0%	8.0%	22,403	0	0	(11,540)	\$11.89
Northwest Total	25,932,639	1,957	5.2%	5.0%	71,003	695,000	28,136	26,966	\$18.49
East End	4,447,629	467	9.5%	8.7%	5,250	0	909,000	31,459	\$14.51
Southeast Total	4,447,629	467	9.5%	8.7%	5,250	0	909,000	31,459	\$14.51
Jeff Davis Corridor	3,104,251	494	10.9%	10.9%	0	0	0	27,413	\$13.73
Midlothian E./ Hull St.	7,513,625	544	9.1%	9.0%	1,650	6,600	0	(19,992)	\$11.83
Midlothian Village	1,276,074	98	8.6%	8.6%	225,024	1,096,517	185,483	328,599	\$28.78
Midlothian West	6,325,778	264	6.9%	6.1%	0	0	23,000	6,561	\$15.20
South Chesterfield	3,518,918	266	4.7%	4.3%	2,600	30,273	0	(15,541)	\$16.65
Swift Creek	2,577,201	138	7.6%	7.4%	1,800	472,328	0	(26,399)	\$16.02
Southwest Total	24,315,847	1,804	8.0%	7.6%	231,074	1,605,718	208,483	300,641	\$20.89
RICHMOND TOTAL	67,265,331	5,426	6.2%	6.0%	311,789	2,300,718	1,229,613	345,029	\$18.68

* Rental rates reflect NNN \$psf/year



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