

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

**Thalhimer**  
commercial real estate

**MID-YEAR 2009**

### ECONOMIC OVERVIEW

Hampton Roads continues to feel the recession's effects, but local indicators remain more positive than national or statewide indicators. The area's not seasonally adjusted unemployment rate rose to 7.0% in May, erasing all but 0.1 percentage points of the decline since the February peak, while total nonfarm employment decreased by 0.9% over 12 months, with payrolls down 2.9% in retail trade but up 1.4% in accommodation and food services. Statewide unemployment also reached 7.0% in May as nonfarm employment shrank by 2.6%, and a 4.0% drop in nonfarm payrolls drove national unemployment to 9.1%. This relative health led the Brookings Institution's MetroMonitor Report to rank the area's economy among the 20 strongest of the nation's 100 largest metropolitan areas.

Retail sales declined at a higher rate locally than in other state metros in 2008, but heavier job losses elsewhere have since almost entirely closed the gap. Local sales tax receipts from January to May 2008 were 3.2% below 2007 levels but down only 1.7% statewide, whereas the year-over-year decline for the same period in 2009 was 6.0% locally and 7.1% statewide.

### BEAT ON THE STREET

"In this market the successful landlords are the ones who've responded by going the extra mile to retain good tenants."

—Chris Good, Retail Sales and Leasing

### RETAIL MARKET OVERVIEW

The second quarter's overall vacancy rate was 6.5%, up 1.8 percentage points on the Southside and 0.8 percentage points on the Peninsula over the year and 0.9 percentage points on the Southside but unchanged on the Peninsula over the quarter. Leasing activity for the first half of the year was slightly less than 230,000 square feet (sf) below 2008 levels, and Kmart's long-planned exit from its Holland Road store released 200,000 sf, pushing year-to-date net absorption down to negative 327,486 sf.

Conditions differ little from those of the first quarter. Retailers with the most activity are either in sectors that benefit from a slower economy (such as quick service restaurants and discount stores) or expanding a limited market presence (CVS continues to establish itself, and Harris Teeter, Trader Joe's, and Fresh Market had successful store openings in the still-underserved upscale supermarket segment.)

Investment sales remain sluggish as lenders continue to restrict borrowing. Properties trading this quarter were usually smaller, with CVS purchasing several prime sites for their land value regardless of improvements.

### ECONOMIC INDICATORS

| NATIONAL                 | 2008      | 2009F     | 2010F     |
|--------------------------|-----------|-----------|-----------|
| Real GDP Growth          | 1.1%      | -3.0%     | 1.2%      |
| CPI Growth               | 3.8%      | -0.6%     | 1.7%      |
| Consumer Spending Growth | 0.2%      | -1.0%     | 0.6%      |
| Retail Sales             | -0.7%     | -6.8%     | 3.6%      |
| REGIONAL                 |           |           |           |
| 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 |
|--------------------------|---------------|-------------|
| Harbour View Marketplace | Harris Teeter | 48,756      |
| Jefferson Plaza          | Fresh Market  | 29,134      |

### KEY INVESTMENT TRANSACTIONS

| PROPERTY                   | SQUARE FEET | PURCHASE PRICE |
|----------------------------|-------------|----------------|
| 233 Independence Boulevard | 6,500       | \$4,000,000    |
| 1341 Kempsville Road       | 3,437       | \$3,375,000    |
| Marketplace Square         | 12,461      | \$1,100,000    |
| Lynnhaven Quarters         | 5,688       | \$1,090,000    |

### 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) |
| Town Center Market Place | OfficeMax                                | 123,577     | Fall 2009 (Phase I)  |
| Brenneman Farm           | Harris Teeter                            | 90,356      | Summer 2009          |
| Quarterpath Crossing     | Harris Teeter                            | 85,610      | Summer 2009          |

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## OUTLOOK

Empowered tenants will continue to aggressively negotiate not only new leases and renewals but even existing leases as competing landlords offer substantial incentives for relocation. Landlords who can retain good tenants and maintain stable properties will consider themselves successful, as lower returns undoubtedly exceed no returns at all. The vacant space in recently constructed centers in Williamsburg will take some time to absorb, but credit constraints and memories of the overbuilt early 1990s should prevent the same occurring in most other submarkets. The amount of space currently under construction in Hampton Roads is already one-third less than in 2008. Troubled retailers will vacate some space, but the area is not disproportionately exposed to vulnerable companies and the stable economy should keep sales volumes at most area stores high enough for national retailers to retain them.

Historically, retail commercial real estate in Hampton Roads has suffered from the perception of the area as a lunchbox town rather than a briefcase town. Although this perception is not entirely unfounded, it has been reinforced by polycentric growth patterns that disperse affluent professionals across a large geographical area, obscuring their spending power from traditional demographic measures. The most obvious regional comparison would be Charlotte, which has approximately the same population as Hampton Roads and had similar income levels 30 years ago. Growth in the financial services industry caused Charlotte's measured income levels to increase faster than they have locally. Employed consumers tend to spend more than the unemployed, however, and turmoil in the sectors that raised Charlotte's demographic profile drove the unemployment rate to 12.0% in May, a 6.2 percentage point increase over 12 months. In an economy where stability is more attractive than risky growth strategies, Hampton Roads will hold its appeal.

### 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                     | 2,015,293         | 170           | 8.4%                 | 8.4%                | 10,015               | 14,550             | 0                            | 19,251                | \$9.81                                |
| Downtown Hampton            | 821,549           | 94            | 4.9%                 | 4.9%                | 561                  | 0                  | 0                            | (2,239)               | \$12.68                               |
| Downtown Newport News       | 630,962           | 74            | 4.4%                 | 4.4%                | 720                  | 0                  | 0                            | 2,096                 | \$6.64                                |
| Fox Hill                    | 1,533,574         | 203           | 7.5%                 | 7.5%                | 29,800               | 24,396             | 0                            | 1,486                 | \$13.69                               |
| Gloucester                  | 1,664,969         | 70            | 8.4%                 | 7.8%                | 2,580                | 0                  | 18,204                       | 70,062                | \$10.51                               |
| Hampton North               | 4,091,435         | 274           | 6.2%                 | 6.2%                | 13,975               | 9,600              | 12,900                       | (31,239)              | \$20.90                               |
| James River                 | 2,031,429         | 212           | 3.9%                 | 3.3%                | 26,303               | 0                  | 0                            | 23,447                | \$12.81                               |
| Lightfoot                   | 2,779,146         | 90            | 9.1%                 | 9.1%                | 5,856                | 0                  | 0                            | (2,638)               | \$14.85                               |
| Mercury Central             | 6,004,027         | 409           | 5.6%                 | 5.1%                | 16,474               | 738,273            | 20,000                       | (3,161)               | \$12.14                               |
| Patrick Henry               | 4,363,936         | 140           | 5.2%                 | 4.4%                | 40,261               | 5,328              | 6,000                        | 37,646                | \$15.18                               |
| Poquoson                    | 1,751,322         | 185           | 6.0%                 | 6.0%                | 22,560               | 0                  | 8,400                        | 21,492                | \$14.96                               |
| Williamsburg                | 4,291,746         | 276           | 9.0%                 | 9.0%                | 13,000               | 123,117            | 117,986                      | 56,550                | \$23.20                               |
| Yorktown                    | 391,955           | 42            | 4.8%                 | 4.8%                | 0                    | 16,600             | 0                            | (1,400)               | \$15.34                               |
| <b>Peninsula Total:</b>     | <b>32,371,343</b> | <b>2,239</b>  | <b>6.6%</b>          | <b>6.4%</b>         | <b>182,105</b>       | <b>931,864</b>     | <b>183,490</b>               | <b>191,353</b>        | <b>\$14.39</b>                        |
| Campostella/S. Norfolk      | 1,438,516         | 144           | 6.1%                 | 5.5%                | 33,525               | 27,449             | 0                            | 16,358                | \$13.07                               |
| Chesapeake Square           | 2,817,013         | 88            | 3.3%                 | 3.3%                | 2,700                | 0                  | 60,000                       | 17,561                | \$12.99                               |
| Churchland                  | 1,629,473         | 127           | 3.1%                 | 2.4%                | 6,550                | 8,000              | 0                            | (10,490)              | \$13.96                               |
| College Park                | 2,007,695         | 187           | 6.9%                 | 6.9%                | 6,784                | 0                  | 0                            | (14,401)              | \$12.85                               |
| Deep Creek                  | 1,350,656         | 89            | 4.2%                 | 4.2%                | 2,100                | 0                  | 0                            | (5,175)               | \$13.63                               |
| Downtown Norfolk            | 4,695,300         | 351           | 4.1%                 | 4.0%                | 14,148               | 8,500              | 15,616                       | (22,457)              | \$12.85                               |
| Downtown Suffolk            | 1,118,119         | 148           | 3.8%                 | 3.0%                | 0                    | 0                  | 0                            | 21,040                | \$10.95                               |
| Franklin City               | 1,472,854         | 74            | 10.7%                | 10.7%               | 1,777                | 0                  | 0                            | 14,177                | \$9.88                                |
| General Booth Corridor      | 1,934,325         | 105           | 5.5%                 | 4.8%                | 0                    | 0                  | 0                            | (6,267)               | \$23.35                               |
| Great Bridge                | 1,674,446         | 118           | 4.0%                 | 4.0%                | 23,303               | 0                  | 19,700                       | 20,572                | \$19.86                               |
| Greenbrier/Battlefield      | 4,149,704         | 164           | 4.3%                 | 4.2%                | 23,391               | 0                  | 0                            | (56,365)              | \$17.60                               |
| Hilltop/Great Neck          | 2,967,014         | 202           | 3.1%                 | 3.0%                | 17,425               | 0                  | 0                            | 4,012                 | \$16.94                               |
| Holland Road                | 1,655,314         | 101           | 17.0%                | 16.8%               | 5,498                | 0                  | 0                            | (199,800)             | \$13.89                               |
| Isle of Wight               | 751,899           | 45            | 10.8%                | 10.8%               | 5,472                | 0                  | 0                            | (3,200)               | \$10.54                               |
| Kempsville                  | 2,011,318         | 132           | 4.1%                 | 4.0%                | 23,866               | 0                  | 0                            | 2,655                 | \$15.18                               |
| Little Creek                | 3,440,780         | 275           | 7.0%                 | 7.0%                | 50,665               | 0                  | 0                            | (57,974)              | \$9.79                                |
| Little Neck                 | 3,310,967         | 135           | 6.9%                 | 6.9%                | 12,358               | 0                  | 0                            | (38,008)              | \$12.17                               |
| Lynnhaven                   | 2,352,527         | 78            | 10.5%                | 10.5%               | 3,700                | 0                  | 0                            | (15,082)              | \$15.32                               |
| Mid-City                    | 2,537,504         | 293           | 3.7%                 | 3.3%                | 3,120                | 0                  | 0                            | (314)                 | \$9.97                                |
| Military                    | 4,811,825         | 280           | 6.2%                 | 5.4%                | 21,309               | 15,000             | 0                            | (23,807)              | \$11.87                               |
| Newtown                     | 2,663,474         | 192           | 8.0%                 | 7.6%                | 1,105                | 0                  | 0                            | (139,437)             | \$13.12                               |
| Northern Suffolk            | 655,995           | 33            | 54.8%                | 54.5%               | 2,800                | 0                  | 160,955                      | 16,305                | \$18.69                               |
| Oceanfront                  | 1,621,946         | 258           | 2.1%                 | 2.0%                | 5,800                | 0                  | 3,223                        | (16,625)              | \$15.46                               |
| Pembroke                    | 3,187,330         | 187           | 3.0%                 | 3.0%                | 26,883               | 123,577            | 0                            | (27,068)              | \$17.73                               |
| Princess Anne               | 1,619,239         | 67            | 5.5%                 | 4.8%                | 13,578               | 0                  | 90,356                       | 40,549                | \$18.51                               |
| Shore Drive                 | 997,285           | 109           | 4.8%                 | 4.8%                | 14,620               | 0                  | 11,500                       | 5,911                 | \$13.38                               |
| Smithfield                  | 693,456           | 82            | 5.5%                 | 5.5%                | 9,623                | 0                  | 0                            | (19,394)              | \$13.55                               |
| Suffolk                     | 1,463,617         | 97            | 9.0%                 | 9.0%                | 16,245               | 0                  | 20,400                       | 2,053                 | \$12.03                               |
| Va. Beach Courthouse        | 610,731           | 22            | 10.2%                | 9.1%                | 10,590               | 0                  | 0                            | (15)                  | \$25.17                               |
| Victory                     | 2,223,998         | 201           | 7.3%                 | 7.3%                | 17,200               | 0                  | 3,000                        | 4,951                 | \$10.30                               |
| Wards Corner                | 749,520           | 48            | 10.7%                | 10.7%               | 11,375               | 3,200              | 0                            | (29,104)              | \$11.18                               |
| <b>Southside Total:</b>     | <b>64,613,840</b> | <b>4,432</b>  | <b>6.4%</b>          | <b>6.2%</b>         | <b>387,510</b>       | <b>185,726</b>     | <b>384,750</b>               | <b>(518,839)</b>      | <b>\$14.08</b>                        |
| <b>HAMPTON ROADS TOTAL:</b> | <b>96,985,183</b> | <b>6,671</b>  | <b>6.5%</b>          | <b>6.2%</b>         | <b>569,615</b>       | <b>1,117,590</b>   | <b>568,240</b>               | <b>(327,486)</b>      | <b>\$14.19</b>                        |

\* Rental rates reflect NNN \$psf/year



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