

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

**Thalhimer**  
commercial real estate

3Q09

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

### ECONOMIC OVERVIEW

The not seasonally adjusted unemployment rate for Hampton Roads was 6.6% in August, falling below its pre-2009 peak of 6.7% for only the second time this year, and civilian nonfarm employment fell 1.1% over 12 months. A 2.6% drop in retail employment indicates that retailers themselves are retrenching, and year-over-year declines in the area's sales tax receipts of 4.5% for July and 6.1% since January may indicate why.

The area continues to outperform the state in many measures and the national economy in almost all, however. July sales tax receipts statewide were 5.6% below 2008 levels, and year-to-date receipts were down by 6.6%. August unemployment reached 6.5% in the state and 9.5% nationally, and nonfarm employment shrank by 3.0% in Virginia and 4.4% nationwide. Labor force data and a 0.1% second-quarter increase in gross metropolitan product were among the reasons cited when the Brookings Institute ranked the area's economy among the 20 strongest of the 100 largest metropolitan areas in both the first and second quarters.

### RETAIL MARKET OVERVIEW

Although the Hampton Roads retail sector is outperforming other sectors locally and the retail sector in many markets nationwide, the overall vacant available rate rose by 180 basis points over the year to 6.8%. The Peninsula's vacancy rate remains slightly higher than the Southside's, but its year-to-date net absorption of 442,541 square feet (sf) has offset some of the Southside's substantial negative absorption. The average asking rent on the Southside has changed little over the year, and part of the Peninsula's \$1.11 per square foot (psf) rise may be due to the addition of new, expensive space at Peninsula Town Center and surplus space at new centers in Williamsburg.

As in other sectors and other markets, a sizeable gap between asking and effective rents persists, with some tenants receiving several months of free rent on standard three to five-year terms. And as in past quarters, expansion remains limited to merchants whose appeal is undamaged by or even enhanced by economic concerns and those who are executing long-term expansion strategies that are affected little by quarter-to-quarter changes in consumer demand. Investment sales also offer more of the same, as credit constraints still make assembling funds for investments difficult and the pricing expectations of the willing buyer make sellers very unwilling to capitulate if they are able to hold their properties until the market improves.

### ECONOMIC INDICATORS

NATIONAL	2008	2009F	2010F
Real GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	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	4.2%	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

### BEAT ON THE STREET

"We're starting to see signs of life. They may not be ready to pull the trigger quite yet, but retailers that have an eye to the future are definitely starting to look at the opportunities out there now."

—Ed Kimple, Senior Vice President, Retail Sales and Leasing

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Peninsula Town Center	Target	137,432
Brenneman Farms	Harris Teeter	48,706
Hilltop Plaza	PetSmart	27,565

### KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
2418 Geo. Washington Mem. Hwy.	3,087	\$2,050,000
1640 Richmond Road (Applebee's)	4,780	\$1,875,000
1520 Sam's Circle (Applebee's)	4,670	\$1,825,000

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Town Center Market Place	OfficeMax	123,577	Fall 2009 (Phase I)
Quarterpath Crossing	Harris Teeter	85,610	Fall 2009

## OUTLOOK

Most economists now believe that the recession officially ended sometime during the third quarter, but most also believe that the recovery will be slow and the measures that determine the confidence of the individual consumer—employment stability and real growth in incomes and net worth—will begin to improve later and take longer to recover than those that are more abstract to Main Street. With low unemployment compared to most of the country and another 80,000 active-duty military personnel not counted in unemployment figures, Hampton Roads should remain a safe harbor for retailers for some time to come. As such, the area will be a desirable area for expansion for all but the highest-end retailers, who in any event will be busy weaning themselves from the credit-financed purchases of the now-obsolete aspirational consumer for quite some time. Recognizing this, forward-thinking retailers are beginning to look past the recession and position themselves to take advantage of the recovery.

Although the area's retail landscape has not suffered and will not suffer the devastation of heavily overbuilt markets in areas such as the desert Southwest, enough has occurred to allow new retailers and new concepts to enter the market. The demise of Circuit City has left both physical space and room in the market for other players. With 162,000 military personnel and dependents within 12 miles and the offices of the Coast Guard's Morale, Well-Being, and Recreation program nearby, the 43,000-sf former Circuit City at Crossways Shopping Center in Chesapeake's Greenbrier/Battlefield submarket was an ideal site for a new Coast Guard exchange; and electronics retailer Hhgregg's recently-announced expansion into Richmond will likely be followed by a move into Hampton Roads.

Performance at new stores serving customers in established neighborhoods has illustrated why "location, location, location" became a cliché, and why retailers will find new opportunities in submarkets with existing populations increasingly desirable. The July opening of Target's Mercury Central replacement store at Peninsula Town Center, which has an "expanded food format" that includes basic produce, meat, and bakery goods but not the full grocery assortment of the SuperTarget format, was one of the company's most successful openings ever in Virginia and North Carolina. Results at other stores and restaurants that have opened at the mixed-use lifestyle center on the former site of what was the Peninsula's dominant super-regional mall have been positive enough to divert attention from the large retail agglomeration around Patrick Henry Mall and the upscale "new downtown" at City Center at Oyster Point, surprising some observers. The store Harris Teeter opened in Northern Suffolk's Harbour View in June is performing around 30% above expectations, suggesting that the effective trade area for the upscale grocer's only store west of the Elizabeth River may extend beyond usual boundary assumptions to encompass prosperous but underserved neighborhoods throughout Portsmouth and Chesapeake's Western Branch. In contrast, results at Edinburgh Commons, located near the edge of residential development in Southern Chesapeake, have been unexciting; and with low traffic at national big-box retailers at The Marquis and the foreclosure sale of the Settler's Market center adjoining New Town postponed just before the auction date, Williamsburg continues to show the effects of developer overreach.

### 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	2,060,213	171	9.2%	8.9%	11,236	0	94,890	10,516	\$11.36
Downtown Hampton	825,651	94	6.2%	6.2%	561	0	0	(13,439)	\$12.59
Downtown Newport News	616,209	76	4.3%	4.3%	720	0	0	2,896	\$6.97
Fox Hill	1,533,574	203	7.6%	7.3%	34,025	24,396	0	6,701	\$13.58
Gloucester	1,922,352	85	10.6%	10.0%	39,536	0	83,472	51,187	\$11.25
Hampton North	4,111,534	276	6.5%	6.5%	20,775	9,600	12,900	(50,522)	\$20.34
James River	2,031,429	213	4.0%	3.5%	26,303	0	0	19,556	\$12.69
Lightfoot	2,695,409	98	4.4%	4.4%	15,062	0	0	133,070	\$14.82
Mathews County	108,789	11	7.7%	7.7%	0	0	0	(4,401)	\$0.00
Mercury Central	6,382,504	415	7.5%	7.0%	38,487	12,000	449,683	210,351	\$12.47
Patrick Henry	4,412,076	140	5.2%	4.5%	60,512	5,328	6,000	8,340	\$14.54
Poquoson	1,751,322	186	6.2%	6.2%	24,960	0	8,400	18,876	\$15.09
Williamsburg	4,311,272	281	9.5%	9.5%	18,029	113,610	127,493	45,610	\$21.96
Yorktown	411,114	44	7.4%	7.4%	0	0	16,600	3,800	\$14.53
<b>Peninsula Total:</b>	<b>33,173,448</b>	<b>2,293</b>	<b>7.0%</b>	<b>6.7%</b>	<b>290,206</b>	<b>164,934</b>	<b>799,438</b>	<b>442,541</b>	<b>\$14.56</b>
Campostella/S. Norfolk	1,426,516	143	6.5%	5.9%	33,525	12,000	0	(482)	\$13.79
Chesapeake Square	2,819,778	89	3.5%	3.5%	3,800	0	60,000	11,826	\$13.21
Churchland	1,637,473	128	3.8%	3.1%	14,095	0	8,000	(12,194)	\$14.75
College Park	2,011,250	188	6.3%	6.2%	25,815	0	0	(4,639)	\$12.80
Deep Creek	1,189,598	90	5.3%	5.3%	2,100	0	0	(8,680)	\$13.95
Downtown Norfolk	4,671,893	357	4.6%	4.5%	27,874	8,500	15,616	(33,590)	\$14.34
Downtown Suffolk	1,119,199	149	4.3%	3.5%	0	0	0	15,640	\$11.28
Franklin City	1,472,854	74	10.5%	10.5%	2,777	0	0	17,977	\$9.83
General Booth Corridor	1,949,016	107	5.6%	4.9%	0	0	0	(8,348)	\$23.01
Great Bridge	1,668,467	126	4.6%	4.6%	28,231	0	19,700	12,272	\$18.26
Greenbrier/Battlefield	4,158,880	165	3.6%	3.5%	78,194	0	0	(30,824)	\$17.72
Hilltop/Great Neck	2,973,394	203	2.5%	2.4%	44,294	0	0	16,733	\$20.67
Holland Road	1,655,498	101	16.9%	16.7%	22,340	0	0	(196,917)	\$11.00
Isle of Wight	745,808	44	10.0%	10.0%	5,472	28,524	0	6,096	\$10.37
Kempsville	1,757,004	130	8.0%	7.9%	37,445	0	0	(57,265)	\$15.91
Little Creek	3,457,690	278	6.9%	6.9%	51,865	0	2,871	(15,703)	\$10.21
Little Neck	3,310,967	135	6.6%	6.6%	34,345	0	0	(27,611)	\$12.62
Lynnhaven	2,355,191	79	8.8%	8.7%	50,010	0	0	(7,044)	\$15.40
Mid-City	2,591,625	297	3.1%	3.1%	19,504	0	28,331	7,982	\$11.54
Military	4,778,940	300	6.0%	5.2%	24,104	13,000	0	(21,358)	\$11.77
Newtown	2,663,474	192	8.7%	8.3%	5,485	0	0	(159,828)	\$12.81
Northern Suffolk	814,037	37	45.5%	45.2%	2,800	0	335,955	(116,791)	\$18.63
Oceanfront	1,618,412	258	5.1%	4.9%	15,861	0	3,223	(3,397)	\$15.43
Pembroke	3,170,505	187	5.6%	5.6%	45,158	123,577	0	(65,941)	\$17.72
Princess Anne	1,626,179	69	5.1%	4.4%	34,164	0	90,356	33,589	\$18.47
Shore Drive	1,007,681	111	4.0%	4.0%	39,317	0	11,500	15,663	\$13.00
Smithfield	693,456	82	4.8%	4.8%	13,938	0	0	7,188	\$13.64
Suffolk	1,497,336	103	8.2%	8.2%	24,648	0	20,400	7,006	\$11.86
Surry County	120,800	9	0.0%	0.0%	0	0	0	0	\$0.00
Va. Beach Courthouse	612,219	22	10.9%	9.8%	14,790	0	0	(8,792)	\$25.10
Victory	2,235,709	205	7.2%	7.2%	22,170	0	3,000	3,687	\$10.40
Wards Corner	774,068	49	14.4%	14.4%	11,375	3,200	0	(49,048)	\$10.99
<b>Southside Total:</b>	<b>64,584,917</b>	<b>4,507</b>	<b>6.5%</b>	<b>6.3%</b>	<b>735,496</b>	<b>188,801</b>	<b>598,952</b>	<b>(672,793)</b>	<b>\$14.14</b>
<b>HAMPTON ROADS TOTAL:</b>	<b>97,758,365</b>	<b>6,800</b>	<b>6.8%</b>	<b>6.6%</b>	<b>1,025,702</b>	<b>353,735</b>	<b>1,398,390</b>	<b>(230,252)</b>	<b>\$14.28</b>

\* Rental rates reflect NNN \$psf/year



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