

MARKETBEAT

RICHMOND, VIRGINIA RETAIL REPORT

Thalhimer
commercial real estate

3Q09

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMIC OVERVIEW

Retailers remain nervous about the state of the economy, especially those that aren't selling necessities or low-dollar items. The unemployment rate for the Richmond region dropped to 7.7% in August, which is down from 8.1% in May. That doesn't necessarily mean a huge swath of workers have gotten jobs, but it is an improvement from previous quarters, when the rate almost doubled in a year. The unemployment rate for Virginia was 6.5% in August, the most recent month for which figures were available and one of the five lowest rates in the country.

And in an encouraging note for retailers, SBA loan volume, which is an important source of funding for mom-and-pop retailers, has stopped falling. For Virginia (not counting Northern Virginia), loan volume in the fourth quarter of fiscal 2009 was up slightly from 2008. In previous quarters, SBA lending was down 27% to 50%.

RETAIL MARKET OVERVIEW

The vacancy rate continues to rise, hitting 6.8% for the third quarter of 2009. That's up from 5.6% in the third quarter of 2008, and up 0.2% from the previous quarter. But it far outperforms other sectors (industrial and office).

Leasing activity for the year is down from last year, 761,770 square feet (sf) versus 1.01 million square feet (msf), respectively. Absorption was 501,412 sf in the third quarter. That's up from 112,690 sf for the same quarter in 2008.

In a continuing trend from last quarter, potential tenants are asking for rent concessions and generally get several months of free rent and/or tenant improvement allowances on new deals. These concessions combined with more realistic rental expectations on behalf of landlords has been a boon to retailers in aging strip centers who can move to either new space or simply improve their position in the market for similar rent to their existing location.

Two emerging trends deserve special mention. At Short Pump, one of the fastest growing retail centers in Richmond, leasing activity leapt from 7,783 sf through the third quarter of last year to 59,484 this year. Most of this is due simply to the fact that there is finally product on the market that is able to be leased. Also of note and as mentioned in a previous quarter, former big-box space is getting new life. Electronics retailer hhgregg is taking at least two and possibly three Circuit City boxes while Rugged Wearhouse is under construction to take a portion of another in the first week of the fourth quarter. Entertainment users Monkey Joe's and Cinebistro are moving into boxes vacated by other chains. Ross Stores is expanding its footprint in the market and Hobby Lobby is looking at new construction. Stony Point mall is getting a welcome addition, the old Cheesecake Bistro will soon open as a Cinebistro, a chain that is primarily a restaurant but offers movies with food service.

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	\$58,534	\$59,587	\$60,435
Population	1,215,013	1,224,125	1,233,300
Unemployment	4.4%	7.9%	7.7%

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

BEAT ON THE STREET



"Tenants are overfilling the pipeline because not all the developments will be built due to financing constraints."

– Connie Nielsen, Senior Vice President

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Chesterfield Towne Center	hhgregg	43,505
Short Pump Town Center	hhgregg	34,575
4307 W. Broad St.	Indecor Group	16,250
Staples Mill Square	PETCO	14,566
9900 W. Broad St.	Rugged Wearhouse, Inc.	14,112

KEY SALE TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
4300 W. Broad St.	16,813	\$1,200,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Hancock Village	Wal-Mart, JC Penney	428,000	Spring 2010
The Corner at Short Pump	Kroger	225,000	Spring 2010

OUTLOOK

Most likely, growth will remain slow until consumer spending returns to previous levels. Until then, national chains will settle for far more deliberate growth plans, and projects several years out will get pushed back until there is ample evidence of rising demand.

Recently-opened centers, such as White Oak Village, Westchester and Hancock Village, as well as Short Pump will see deal incentives and rent structures not anticipated by developers. And value-centric restaurants and shops will continue looking for new spaces, often getting rent concessions in the process.

Aging retail space or centers that have been neglected by their owners will see rising vacancy as retailers move into more desirable space often for a similar or minimally increased rent. The entry of new retailers into the market will likely keep some of the vacancy at bay, however, there will be centers with increased vacancy for some time to come. Rents have stabilized but incentives are likely to continue as well.

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	6,337,684	493	3.6%	3.6%	10,485	0	73,000	(20,231)	\$13.69
Downtown Total	6,337,684	493	3.6%	3.6%	10,485	0	73,000	(20,231)	\$13.69
I-95 / Chamberlayne NE	770,466	83	8.4%	8.4%	10,310	11,000	10,994	2,597	\$20.83
Laburnum / Route 360	2,916,285	447	4.5%	4.3%	23,675	0	0	(39,228)	\$8.75
Mechanicsville	2,601,521	198	6.1%	6.1%	5,745	0	0	(5,067)	\$14.57
Northeast Total	6,288,272	728	5.6%	5.5%	39,730	11,000	10,994	(41,698)	\$12.33
Broad St. Corridor	2,013,876	125	8.7%	8.7%	25,621	0	0	(47,929)	\$17.59
Far West End North	576,858	32	N/A	N/A	0	0	0	0	N/A
Far West End South	1,366,566	63	7.9%	7.1%	21,424	0	0	8,005	\$14.96
I-95 Ashland / NW	2,028,099	170	2.8%	2.8%	8,650	0	0	(4,903)	\$12.19
Near West End	4,077,990	653	4.3%	4.3%	25,394	0	0	(9,706)	\$17.96
Regency	2,350,563	99	4.9%	4.9%	35,940	0	0	8	\$19.42
Short Pump	3,695,122	89	5.7%	5.6%	59,484	775,810	172,326	10,262	\$27.19
Staples Mill / Parham	7,340,320	463	6.4%	6.0%	131,310	0	0	(49,089)	\$18.41
Willow Lawn	2,908,142	296	8.7%	8.7%	44,289	0	0	(17,582)	\$11.67
Northwest Total	26,357,536	1,990	6.0%	5.8%	352,112	775,810	172,326	(110,934)	\$18.12
East End	4,348,553	472	9.3%	9.2%	31,146	7,500	909,000	23,215	\$13.30
Southeast Total	4,348,553	472	9.3%	9.2%	31,146	7,500	909,000	23,215	\$13.30
Jeff Davis Corridor	3,101,457	498	11.6%	11.6%	10,455	0	0	3,082	\$9.97
Midlothian E./ Hull St.	7,555,909	560	9.4%	9.4%	126,366	6,600	0	(33,929)	\$10.81
Midlothian Village	1,618,843	119	10.2%	10.2%	98,974	444,136	837,864	556,433	\$28.67
Midlothian West	6,369,875	268	8.0%	7.7%	61,543	0	23,000	(95,650)	\$14.81
South Chesterfield	3,695,518	283	5.0%	4.3%	27,819	30,273	0	17,851	\$15.81
Swift Creek	2,790,444	143	7.5%	7.5%	3,140	257,509	214,819	203,273	\$16.92
Southwest Total	25,132,046	1,871	8.5%	8.3%	328,297	738,518	1,075,683	651,060	\$19.60
RICHMOND TOTAL	68,464,091	5,554	6.8%	6.7%	761,770	1,532,828	2,241,003	501,412	\$17.81

* Rental rates reflect NNN \$psf/year



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