

# MARKETBEAT

## RICHMOND, VIRGINIA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

**Thalhimer**  
commercial real estate

**YEAR-END 2009**

### ECONOMIC OVERVIEW

The past 12 months have been extremely challenging for retailers, but local and national economic indicators point to a recovery from one of the longest recessions in decades.

The unemployment rate for the Richmond area has fallen for two quarters, settling at 7.5% in November. That's down from 7.7% in the third quarter and 8.3% in the second quarter. However, the current unemployment rate is still well above the 5.6% rate in the fourth quarter of 2008. The chances of a rapid rebound seem slim considering that several major employers went out of business or left town and the State government is still contracting.

However, consumers rediscovered their appetite for shopping. Holiday spending rose 3% in 2009 compared with the previous year, according to one credit card firm. Nevertheless, consumers are still careful with their dollars, especially on big-ticket items. Consumers spent 7.7% less in the third quarter than in the previous year, according to data from the Virginia Department of Taxation.

### RETAIL MARKET OVERVIEW

With the building boom the last few years and retailer failures, demand hasn't kept up with availabilities. Absorption was a positive 412,000 square feet (sf) in 2009, down from 1.165 million square feet (msf) in 2008. Vacancy rose to 6.9% in the fourth quarter, up from 6.8% in the third quarter and 5.9% in the fourth quarter of 2008. The hardest hit has been new construction, regardless of location, where storefronts remain empty despite center completion.

1.08 msf was leased in 2009; a substantial decrease from 2.1 msf leased in 2008. Mom-and-pop retailers are still actively looking for new or better locations and still signing leases. Franchises and chains such as Subway, Chipotle, Panera and Advance Auto continue to scout for and open new locations in Richmond.

Several new entrants to the market opened in Richmond in the fourth quarter, including household furnishings discounter HomeGoods and outdoor gear provider REI, both in newly constructed spaces. Electronics retailer hhgregg has leased three former Circuit City locations.

With more space on the market, landlords have increasingly been willing to sign deals at lower rents and with more concessions. Asking rents fell from \$17.81 per square foot (psf) in the third quarter of 2009 to \$14.27 psf in the fourth quarter. That's down from \$15.64 psf in the fourth quarter of 2008.

### ECONOMIC INDICATORS

NATIONAL	2008	2009	2010F
Real GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Consumer Spending Growth	-0.2%	-0.6%	1.0%
Retail Sales	-0.8%	-6.4%	2.6%

  

REGIONAL			
Household Income	\$58,534	\$59,587	\$60,435
Population	1,215,013	1,224,125	1,259,800
Unemployment	4.4%	7.6%	7.1%

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

### BEAT ON THE STREET



"Landlords are extending leases with rent reductions prior to expiration dates of current leases."

— Lindsey Floyd, Retail Sales & Leasing

### 2009 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Westchester Commons	Target	132,362
Chippenham Square	UPS/Foremost Sales	85,018
Westchester Commons	Regal Cinema	70,000
Westchester Commons	Gold's Gym	45,000
Chesterfield Towne Center	hhgregg	43,505
Short Pump Town Center	hhgregg	34,575
West Broad Village	REI Inc.	26,500
West Broad Village	HomeGoods	22,564

### 2009 KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
Midlothian Center	146,305	\$7,000,000
Shoppes at Bell Creek	65,781	\$9,500,000
Office Max-10091 Brook Rd.	26,220	\$2,870,000

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
The Corner at Short Pump	Kroger	225,000	Fall 2010

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### OUTLOOK

Higher vacancy and rent reductions have pressured shopping center owners, forcing several into foreclosure. Foreclosures are likely to persist into 2010 if the financial markets continue to keep tight reins on new lending and cash requirements. This, combined with fewer tenants looking for space and other tenants renegotiating their existing terms, is wreaking havoc on cash flows. With banks reticent to lend, investment sales were slow for most of 2009, and that trend will probably continue until banks become more comfortable assessing what real estate is worth and what loan-to-value ratios they are comfortable with.

Buyers with cash have been sitting on the sidelines, mostly because sellers are not willing to part with properties at fire-sale prices. The pipeline for new shopping centers will be slow for several years until the current supply is absorbed. Rents are likely close to bottoming out, although it might still take generous incentives to sign quality tenants. It's also likely that tenants will try to upgrade to better space at the same rental rate, extending a trend that emerged throughout 2009. With positive retail sales in the fourth quarter, some national retailers are creeping back into the market to take advantage of lower rates.

Trends to watch include the redevelopment of existing centers and anchor spaces, the continued expansion of retail in Short Pump, and the sale of Ukrop's to Ahold, which will most certainly change the face of the grocery market.

### 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	6,317,813	493	3.9%	3.9%	38,118	0	73,000	(32,344)	\$13.92
<b>Downtown Total</b>	<b>6,317,813</b>	<b>493</b>	<b>3.9%</b>	<b>3.9%</b>	<b>38,118</b>	<b>0</b>	<b>73,000</b>	<b>(32,344)</b>	<b>\$13.92</b>
I-95 / Chamberlayne NE	787,794	91	8.4%	8.4%	10,310	0	21,994	4,597	\$20.95
Laburnum / Route 360	2,920,313	450	4.7%	4.6%	30,175	0	0	(43,858)	\$9.33
Mechanicsville	2,600,221	198	5.8%	5.8%	24,454	0	0	3,849	\$14.32
<b>Northeast Total</b>	<b>6,308,328</b>	<b>739</b>	<b>5.5%</b>	<b>5.4%</b>	<b>64,939</b>	<b>0</b>	<b>21,994</b>	<b>(35,412)</b>	<b>\$12.50</b>
Broad St. Corridor	1,992,143	125	10.2%	10.2%	38,756	0	0	(52,336)	\$15.07
Far West End North	572,195	32	0.5%	0.5%	0	0	0	12,500	N/A
Far West End South	1,373,829	64	6.9%	6.9%	23,424	0	0	(717)	\$14.88
I-95 Ashland / NW	2,148,068	184	3.0%	3.0%	11,850	0	0	(14,503)	\$11.11
Near West End	4,075,985	653	4.1%	4.1%	55,961	0	0	(563)	\$15.70
Regency	2,370,100	101	4.4%	4.4%	49,030	0	0	8,198	\$20.31
Short Pump	3,717,686	90	4.8%	4.7%	95,604	738,455	209,681	59,279	\$26.70
Staples Mill / Parham	7,369,028	470	6.3%	6.0%	157,021	0	0	(47,561)	\$18.55
Willow Lawn	2,920,232	298	8.4%	8.4%	88,021	0	0	(11,910)	\$10.84
<b>Northwest Total</b>	<b>26,539,266</b>	<b>2,017</b>	<b>5.8%</b>	<b>5.7%</b>	<b>519,667</b>	<b>738,455</b>	<b>209,681</b>	<b>(47,613)</b>	<b>\$17.16</b>
East End	4,359,560	482	8.8%	8.8%	59,317	7,500	909,000	40,988	\$11.27
<b>Southeast Total</b>	<b>4,359,560</b>	<b>482</b>	<b>8.8%</b>	<b>8.8%</b>	<b>59,317</b>	<b>7,500</b>	<b>909,000</b>	<b>40,988</b>	<b>\$11.27</b>
Jeff Davis Corridor	3,122,009	502	13.2%	13.2%	10,455	0	0	(47,743)	\$9.57
Midlothian E./ Hull St.	7,552,400	562	9.2%	9.2%	178,668	0	6,600	(40,321)	\$10.61
Midlothian Village	1,668,832	117	12.5%	12.5%	103,814	224,552	1,057,448	515,084	\$26.02
Midlothian West	6,459,790	272	9.0%	8.7%	70,755	0	23,000	(165,899)	\$13.91
South Chesterfield	3,719,899	293	5.1%	4.5%	34,788	0	30,273	18,531	\$16.06
Swift Creek	2,814,530	148	8.3%	8.3%	7,052	278,984	221,080	187,694	\$16.89
<b>Southwest Total</b>	<b>25,337,460</b>	<b>1,894</b>	<b>9.0%</b>	<b>8.8%</b>	<b>405,532</b>	<b>503,536</b>	<b>1,338,401</b>	<b>467,346</b>	<b>\$13.66</b>
<b>RICHMOND TOTAL</b>	<b>68,862,427</b>	<b>5,625</b>	<b>6.9%</b>	<b>6.8%</b>	<b>1,087,573</b>	<b>1,249,491</b>	<b>2,552,076</b>	<b>392,965</b>	<b>\$14.27</b>

\* Rental rates reflect NNN \$psf/year



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