

# MARKETBEAT

## HAMPTON ROADS, VA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

**Thalhimer**  
commercial real estate

1Q10

### ECONOMIC OVERVIEW

The recovery began several months earlier in Hampton Roads than in much of the country, and the local economy continues to outperform both Virginia and the nation overall. While the not seasonally adjusted unemployment rate jumped 100 basis points (bps) to 7.9% from December to January and was unchanged in February, it remains 250 bps below the nation's not seasonally adjusted rate. Job losses have been painful—civilian nonfarm employment was down 1.7% from February 2009— but have been less sharp than Virginia's 2.6% decline and the nation's 2.5% drop. Employment data that is considerably better than the urban average and a gross metropolitan product now exceeding its pre-recession peak kept the local economy among the top 20 of the nation's 100 largest metropolitan areas in the Brookings Institute's fourth consecutive MetroMonitor Report.

Although Hampton Roads has suffered less than much of the nation overall, some indicators began to deteriorate earlier here. Sales tax collections in the year ending in February were down 4.7% from the year before, less than declines of 5.4% in greater Richmond and 5.0% statewide. Local receipts were 8.6% below those for the year ending in February 2008, however, whereas both Richmond and the state saw a two-year drop of 7.6%.

### RETAIL MARKET OVERVIEW

At 6.8%, the overall vacant available rate returned to the peak reached in the third quarter after rising 180 bps in 12 months. Almost 80.0% of the area's 172,274 square feet (sf) of negative net absorption was on the Peninsula, its first negative quarter since the third quarter of 2008. At \$13.81 per square foot (psf), the Southside's average asking rent was \$0.59 psf below its peak one year ago, whereas deliveries at Peninsula Town Center sent average rents north of the James to a new high of \$15.06 psf.

No dramatic liquidations of well-known retailers emptied large spaces, and the quarter's most visible closings were the Godiva and Lindt stores at MacArthur Center's and the conversion of the Southside's only Super Kmart to the Big Kmart format.

The most active retailers either serve basic needs or enjoy a well-defined market position. Goodwill Industries opened 10,000 sf in Portsmouth and leased another 10,000 sf in Yorktown, and regional discounter Roses took 50,000 sf at Portsmouth's Airline Plaza for a summer opening. Electronics and appliance retailer hhgregg occupied the market void and one of the stores left by Circuit City with its first area locations in Newport News and Virginia Beach. Dollar Tree Market, a new concept featuring groceries and housewares next to usual dollar store fare, debuted in part of the former Circuit City at Crossroads at Chesapeake Square, and construction of a Tuesday Morning began in the remainder. National restaurants kept looking and paying for prime sites, while buffets and Mongolian barbecues assumed improvement costs for low-rent deals at aging centers.

### ECONOMIC INDICATORS

NATIONAL	2009	2010F	2011F
Real GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%
Consumer Spending Growth	-0.6%	1.7%	2.8%
Retail Sales	-6.0%	4.5%	5.3%
REGIONAL			
Household Income	\$57,086	\$58,020	\$59,491
Population	1,674,498	1,678,068	1,680,885
Unemployment	6.8%	6.8%	6.5%

Sources: Moody's | Economy.com, U.S. Census Bureau, U.S. Bureau of Labor Statistics, National Retail Federation. Old Dominion University Economic Forecasting Project

### BEAT ON THE STREET

"Both tenants and landlords are seeing plenty of positive indicators out there. Tenants are still the ones controlling the game, however, and most landlords are happy just to keep their seat at the table."

—David Machupa, Retail Services

### 1Q10 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
3421 Virginia Beach Boulevard	hhgregg	37,500
Yoder Plaza	hhgregg	32,653
Crossroads at Chesapeake Square	Dollar Tree Market	23,000

### 1Q10 KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
2400 George Washington Memorial Highway (Walgreen's)	14,820	\$6,300,000
Chesapeake Square Shoppes	13,559	\$3,100,000
11883 Jefferson Avenue (former Ryan's Steak House)	10,938	\$1,700,000

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
1300 Colonial Avenue	Harris Teeter	52,000	Winter 2011
Great Bridge Market Place	N/A	36,169	Fall 2010
Carrollton Village	N/A	32,500	Spring 2010
Carrollton Cove Shoppes	N/A	17,200	Spring 2010

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### OUTLOOK

For the most part, expect current trends to continue over the next few quarters. Strict credit requirements will limit sales activity for some time, although cash-rich REITs may start taking advantage of the lack of competition to acquire properties. National retailers with solid financials such as CVS and Chipotle will continue to implement long-term expansion strategies. Economic stress will not dissuade shoppers willing to pay a premium for high-quality groceries, and Harris Teeter will expand further to exploit an upscale supermarket niche with little local competition, particularly with similar name recognition. With a youthful population still looking for an occasional night out, Hampton Roads will remain attractive to restaurants of many types.

Peninsula Town Center held its official grand opening in March and now hosts several tenants that might otherwise have located in the Patrick Henry and Oyster Point City Center areas—along with a few that once did. The open-air lifestyle center's street grid often remains crowded well into the evening, fueled by crowds attracted by its array of dining options. Its success should not be discounted, especially in times such as these, but the assertion by its developers that it would entice Southside shoppers to brave the tunnels to the Peninsula has not been supported. High asking rents provide its owners with a great deal of room to offer generous incentives, bringing effective rents much closer to the rest of the market. It does offer an attractive destination to the 250,000 or so people in its primary trade area, however, and serves as a reminder why Mercury Blvd. was once the Peninsula's "Main and Main" and the potential it still holds with the right product.

### 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. Rental Rate*
Denbigh	2,141,709	171	9.6%	9.4%	2,500	0	0	(2,612)	\$10.48
Downtown Hampton	850,134	103	5.4%	5.4%	2,200	0	0	2,139	\$11.99
Downtown Newport News	608,499	82	4.2%	4.2%	1,715	0	0	1,224	\$7.35
Fox Hill	1,502,294	208	5.8%	5.5%	10,495	0	0	12,560	\$13.52
Gloucester	2,186,168	130	9.5%	8.9%	0	0	0	(255)	\$12.71
Hampton North	4,205,252	283	6.2%	6.2%	6,100	36,965	0	14,100	\$19.93
James River	2,072,646	214	3.7%	3.5%	1,000	11,000	0	8,825	\$13.13
Lightfoot	2,712,001	103	4.2%	4.2%	0	0	0	9,160	\$19.96
Mathews County	108,789	11	4.8%	4.8%	0	0	0	0	\$0.00
Mercury Central	6,655,416	425	8.1%	7.6%	63,518	12,600	0	(108,579)	\$11.99
Patrick Henry	4,424,935	145	3.8%	3.8%	7,070	5,328	0	(12,559)	\$14.70
Poquoson	1,801,553	189	8.0%	8.0%	15,635	5,929	0	11,527	\$14.86
Williamsburg	4,166,856	315	12.6%	12.6%	4,327	8,000	0	(65,700)	\$22.55
Yorktown	420,851	49	8.8%	8.8%	0	0	0	(6,540)	\$12.60
<b>Peninsula Total:</b>	<b>33,857,103</b>	<b>2,428</b>	<b>7.2%</b>	<b>7.2%</b>	<b>114,560</b>	<b>79,822</b>	<b>0</b>	<b>(136,710)</b>	<b>\$15.06</b>
Campostella/S. Norfolk	1,447,346	151	6.9%	6.3%	0	20,500	0	(4,700)	\$11.91
Chesapeake Square	2,915,080	92	1.9%	1.9%	12,582	0	0	9,379	\$15.97
Churchland	1,725,770	134	7.9%	7.2%	9,504	0	0	(57,211)	\$12.06
College Park	2,019,114	191	6.5%	6.5%	31,262	0	0	(5,830)	\$13.09
Deep Creek	1,208,716	98	5.7%	5.7%	0	0	0	(600)	\$13.09
Downtown Norfolk	4,764,161	398	4.6%	4.6%	0	0	4,044	(10,417)	\$15.23
Downtown Suffolk	1,141,926	150	4.5%	4.5%	6,389	0	0	1,289	\$9.57
Franklin City	1,486,765	83	4.8%	4.8%	0	0	0	49,800	\$9.70
General Booth Corridor	2,035,161	126	5.3%	4.5%	2,550	0	24,685	3,574	\$20.51
Great Bridge	1,702,515	135	5.5%	5.4%	5,000	0	0	(12,027)	\$18.71
Greenbrier/Battlefield	4,220,427	165	3.5%	3.4%	16,303	0	0	(19,039)	\$16.91
Hilltop/Great Neck	2,888,002	203	2.7%	2.7%	0	0	0	(12,506)	\$16.09
Holland Road	1,674,124	104	16.2%	16.0%	11,390	0	0	6,474	\$10.48
Isle of Wight	777,777	59	10.2%	10.2%	0	49,700	0	(2,250)	\$5.96
Kempsville	1,793,660	134	8.5%	8.5%	11,996	0	0	(22,761)	\$16.50
Little Creek	3,521,318	298	7.9%	7.9%	1,500	0	0	(26,662)	\$11.46
Little Neck	3,023,049	138	6.0%	6.0%	16,005	0	0	28,362	\$16.30
Lynnhaven	2,320,250	82	10.9%	10.9%	3,000	0	0	(43,854)	\$15.21
Mid-City	2,681,687	302	4.9%	4.9%	1,215	0	0	(1,710)	\$11.69
Military	4,913,584	328	6.8%	6.1%	51,219	0	0	17,043	\$11.66
Newtown	2,691,867	202	7.1%	6.7%	2,500	0	0	(218)	\$12.32
Northern Suffolk	867,452	43	36.4%	36.2%	10,346	0	0	43,516	\$18.35
Oceanfront	1,901,963	270	3.5%	3.5%	6,187	18,591	0	(30,272)	\$13.80
Pembroke	3,808,828	197	6.2%	6.2%	4,756	3,100	0	(6,614)	\$18.36
Princess Anne	1,632,903	72	4.4%	3.7%	5,873	0	0	(10,102)	\$15.52
Shore Drive	1,051,833	119	6.6%	6.6%	5,363	0	0	(5,448)	\$15.19
Smithfield	700,480	86	5.7%	5.7%	0	0	0	(1,268)	\$13.53
Suffolk	1,674,533	126	7.4%	7.4%	9,839	0	0	8,677	\$11.32
Surry County	123,140	10	0.0%	0.0%	0	0	0	0	\$0.00
Va. Beach Courthouse	613,149	24	12.2%	12.2%	2,200	0	0	7,133	\$22.11
Victory	2,263,404	212	5.1%	5.1%	74,637	0	0	45,211	\$10.30
Wards Corner	780,380	51	14.2%	14.2%	0	0	0	17,467	\$11.36
<b>Southside Total:</b>	<b>66,370,364</b>	<b>4,783</b>	<b>6.6%</b>	<b>6.4%</b>	<b>301,616</b>	<b>91,891</b>	<b>28,729</b>	<b>(35,564)</b>	<b>\$13.81</b>
<b>HAMPTON ROADS TOTAL:</b>	<b>100,227,467</b>	<b>7,211</b>	<b>6.8%</b>	<b>6.6%</b>	<b>416,176</b>	<b>171,713</b>	<b>28,729</b>	<b>(172,274)</b>	<b>\$14.24</b>

\* Rental rates reflect NNN \$/sps/year



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