

MARKETBEAT

RICHMOND RETAIL REPORT

Thalhimers
commercial real estate

1Q10

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMIC OVERVIEW

Certain retail segments are stabilizing. Manufacturers and even certain high-end retailers are reporting improved sales and improved profitability compared to this time last year. However that has not led to new jobs just yet. Richmond's unemployment rate rose to 8.6% in February. It was 7.8% one year ago. One worrisome trend: people who are unemployed are staying unemployed for a record length of time. Additionally the local economy is still feeling the blows from the bankruptcies of major employers, including Qimonda, Circuit City and LandAmerica. State and local governments are also threatening that more positions will have to be cut. That makes for a very challenging retail environment.

RETAIL MARKET OVERVIEW

The biggest news this quarter: one of Richmond's oldest retailers will be changing its name. Ahold, a Dutch grocery conglomerate, bought the Ukrop's grocery store chain on February 8th, and the remaining 25 stores will be converted to Martin's grocery stores in the 2nd quarter. They will be open on Sundays, will sell beer and wine and are looking to add fueling stations at some locations.

Overall, retailers were more active over the past quarter. Some are just starting to inquire after sitting on the sidelines for two years. And bargains always help. Overall market rents have dropped around \$4 per square foot (psf) compared with last year. Overall average asking rates are now \$14.32 psf.

Despite a tough year and a substantial amount of retail square footage being added to the market in 2009, the overall vacancy rate is only slightly above the historical average, at 6.9%. That's up from 6.2% in the first quarter of 2009 and up from 6.1% in the first quarter of 2008. One area that stands out is the Village of Midlothian, where vacancy rose to 13.5% in the first quarter, up from 8.6% in the first quarter of last year. This is primarily due to the new retail space at Westchester that has yet to be filled.

There was a surprising amount of activity this quarter in all sectors. Although most openings represent continued penetration by existing retailers in the market, there are a few new faces. Cinebistro and BCBG are under construction at Stony Point Fashion Park, Petco opened at Staples Mill Square, hhgregg opened in Southpark, Advance Auto and Sleepy's are under lease on several new locations, Ross Dress for Less and Monkey Joe's are under construction at Towne Center Plaza, Alfred Angelo opened in Short Pump Station and West Broad Village signed the Children's Museum of Richmond.

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	\$59,587	\$60,182	\$60,250
Population	1,224,125	1,250,000	1,265,000
Unemployment	6.7%	8.4%	6.9%

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

BEAT ON THE STREET



"Retailers who halted or slowed expansion down to a trickle are now active again. As consumer confidence increases, the retailers will react accordingly. They also realize its a good time to take advantage of a soft real estate market."

– C. Lee Warfield, III, Executive Vice President

1Q10 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
10012 Robious Rd.	Planet Fitness	16,000
3900 Hull St.	Cato	10,007
60 West SC	Beauty Max	9,174
3955 Deep Rock Rd.	Bella Rosa, Inc.	7,378

1Q10 KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
8205 W Broad St.	7,330	\$1,230,000
9498 W. Broad St.	6,816	\$1,450,000
4306 S. Laburnum Ave.	5,000	\$2,400,000
2611 Hundred Rd.	4,476	\$2,350,000
3820 Gaskins Rd.	3,387	\$1,370,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

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

RETAIL MARKET OVERVIEW (cont'd.)

Restaurants seem particularly active. The Wine Loft opened in West Broad Village, Johnny Rockets opened at Hancock Village, and Buz & Ned's BBQ purchased the Fuddrucker's on West Broad for a second location. The Urban Farmhouse opened on Cary Street in Shockoe Slip. Of course, several restaurants have also closed, including the upscale 1 North Belmont in the Museum District and the Shockoe brewery Richbrau.

Investment sales are slower than in years past, partly on account of tight bank lending and partly because bargain hunters aren't seeing the sort of rock-bottom prices they seek. One deal of note: The Nussbaumer family purchased two Applebee's locations for a total of \$4.8 million.

OUTLOOK

Vacancy is probably close to its peak, although certain sectors will likely struggle for a few more quarters. In the largest submarket, the Northwest, absorption was 9,632 square feet (sf) in the first quarter. Although that is a statistically flat figure, it signifies that more tenants are leasing space than giving space back. New construction will remain slow to non-existent until lenders start lending and more retailers sign leases for the existing new space that has already been developed. The large blocks of space that have been delivered in the market in the last 12 months, i.e. Hancock Village, West Broad Village and Westchester Commons are working hard to lease the newly constructed space. It is leasing, but on a much slower pace than the developers anticipated, which will call for continuing creativity on their part to keep the momentum.

With the lack of new development and continued leasing activity taking available spaces off the market, it is likely that we have hit bottom in terms of rent reductions, although incentives are likely to continue for the near term.

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	6,322,642	492	3.5%	3.5%	2,400	0	0	20,397	\$13.81
Downtown Total	6,322,642	492	3.5%	3.5%	2,400	0	0	20,397	\$13.81
I-95 / Chamberlayne NE	799,463	91	6.5%	6.5%	0	0	11,434	23,535	\$20.12
Laburnum / Route 360	2,960,379	452	5.2%	5.0%	9,800	0	0	(13,421)	\$9.38
Mechanicsville	2,579,386	197	5.6%	5.6%	1,400	0	0	5,793	\$14.43
Northeast Total	6,339,228	740	5.5%	5.4%	11,200	0	11,434	15,907	\$12.46
Broad St. Corridor	2,052,099	127	7.3%	7.3%	10,020	0	0	46,573	\$15.24
Far West End North	572,195	32	0.5%	0.5%	0	0	0	0	N/A
Far West End South	1,373,902	75	7.4%	7.4%	0	0	0	(6,380)	\$15.18
I-95 Ashland / NW	2,064,306	183	3.3%	3.3%	2,535	0	0	(3,965)	\$10.45
Near West End	4,119,271	657	5.1%	5.1%	11,211	0	0	(23,964)	\$16.76
Regency	2,323,934	106	4.1%	4.1%	7,057	0	0	574	\$19.57
Short Pump	3,732,621	91	5.2%	5.2%	11,571	225,000	0	(5,465)	\$26.21
Staples Mill / Parham	7,370,662	474	6.7%	6.4%	14,127	0	0	(20,704)	\$17.69
Willow Lawn	2,885,930	297	7.7%	7.7%	27,973	0	0	22,963	\$10.78
Northwest Total	26,494,920	2,042	5.8%	5.7%	84,494	225,000	0	9,632	\$16.98
East End	4,364,772	483	9.4%	9.3%	0	0	0	(21,906)	\$10.60
Southeast Total	4,364,772	483	9.4%	9.3%	0	0	0	(21,906)	\$10.60
Jeff Davis Corridor	3,089,623	503	12.9%	12.9%	0	0	0	(8,597)	\$9.65
Midlothian E./ Hull St.	7,557,698	563	9.2%	9.2%	63,976	0	0	18,342	\$11.19
Midlothian Village	1,690,905	119	13.2%	13.2%	13,257	0	0	(9,095)	\$25.12
Midlothian West	6,242,253	279	8.4%	8.3%	26,841	0	0	(21,416)	\$13.75
South Chesterfield	3,859,080	298	4.5%	4.2%	9,653	0	0	7,327	\$14.40
Swift Creek	2,837,755	150	8.9%	8.9%	1,485	263,009	0	(7,310)	\$16.61
Southwest Total	25,277,314	1,912	8.9%	8.9%	115,212	263,009	0	(20,749)	\$13.97
RICHMOND TOTAL	68,798,876	5,669	6.9%	6.8%	213,306	488,009	11,434	3,281	\$14.31

* Rental rates reflect NNN \$psf/year



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