

MARKETBEAT

HAMPTON ROADS, VA RETAIL REPORT

Thalhimer
commercial real estate

2Q10

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMIC OVERVIEW

Economic reports paint a mixed picture of a nascent recovery. On an encouraging note, the unemployment rate for Hampton Roads fell sharply over the past quarter to 7.3% in May from 7.9% in January. Although that is up from 6.3% in the second quarter of 2009, it is significantly lower than the national average of 9.3%. However, the U.S. Bureau of Labor Statistics said that the national dip in unemployment was the result of 400,000 temporary census workers.

Also encouraging, container traffic at the port of Hampton Roads is up 14% compared to the second quarter of 2009, which suggests businesses and consumers are ordering and shipping more goods. However, consumer confidence plummeted in the past month, according to surveys. Also of concern, business owners continue to report difficulty in accessing capital needed for new projects or hiring, and that could mean unemployment will remain elevated for quarters to come.

RETAIL MARKET OVERVIEW

The retail sector has stabilized over the past several quarters. Both vacancy and average asking rents were about the same in the second quarter last year. Vacancy was 6.5%, identical to last quarter, and asking rates were \$14.51 per square foot (psf), up slightly from \$14.19 in the same quarter of 2009. Tenants and landlords are generally coming to agreements on rent more quickly than a year ago, and rates seem more stable, albeit at lower prices than a year or two ago.

Leasing activity is also similar to last year. Slightly more than 1.1 million square feet (msf) has been leased through the second quarter of 2010. Absorption year-to-date is almost 250,000 sf. This compares very favorably to the negative 327,000 sf seen at the same time last year.

The slower pace of tenant leasing has caused several projects to enter foreclosure, including most recently Williamsburg Market Center. That complex formerly housed a Ukrop's grocery store, which closed before the company was sold to another grocery chain.

Restaurant operators – both national players and mom-and-pops – are getting more active with each quarter. One emerging trend to watch: Hampton Roads has seen a handful of new frozen yogurt shops taking retail space, including the Skinny Dip, Tutti Frutti and Yo Mama Yogurt.

ECONOMIC INDICATORS

NATIONAL	2009	2010F	2011F
Real GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Consumer Spending Growth	-0.6%	2.3%	3.1%
Retail Sales	-6.3%	6.0%	5.7%
REGIONAL			
Household Income	\$57,086	\$58,020	\$59,491
Population	1,674,498	1,678,068	1,680,885
Unemployment	6.8%	7.7%	7.1%

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

"There are more restaurants back in the market looking and meeting about additional locations. This includes national chains as well as the locals."

–David Machupa, Retail Services

2Q10 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Chesapeake Square	Burlington Coat Factory	81,721
Chesapeake Crossing	Kaplan University	27,000
Patriot Plaza	Inflation Nation	20,000

2Q10 KEY INVESTMENT TRANSACTIONS

PROPERTY	SQUARE FEET	PURCHASE PRICE
N/A		

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Great Bridge Market Place	N/A	36,169	July 2010
301 Village Ave	N/A	15,365	Fall 2010
Patrick Henry Place	N/A	14,000	Fall 2010

OUTLOOK

As noted in previous reports, several sectors, including low-prices restaurants, health clubs and drugstores, will continue to look for new and better locations. For example, in the second quarter Planet Fitness leased 19,000 sf on West Norfolk Road in Portsmouth.

Landlords will continue to try and work with tenants who fall behind on rent, figuring it is better to have a tenant they know than to try to find one on the open market.

Absorption should turn positive, as not too much new space is hitting the market. However, look for the more vacancy in brick-and-mortar video outlets as movie renters use online services such as Netflix and the fast-growing vending-machine services such as Redbox.

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	2,060,211	171	10.5%	10.3%	6,900	0	0	(70)	\$10.48
Downtown Hampton	844,704	102	5.6%	5.6%	2,761	0	0	940	\$12.12
Downtown Newport News	599,868	81	1.0%	1.0%	3,435	0	0	20,412	\$7.35
Fox Hill	1,509,286	208	9.9%	6.0%	12,595	0	0	15,505	\$13.52
Gloucester	2,188,536	130	9.3%	8.7%	6,947	0	0	508	\$13.05
Hampton North	4,174,125	284	6.5%	6.5%	15,800	15,365	21,600	10,540	\$20.27
James River	2,037,744	214	3.4%	3.1%	10,341	0	11,000	28,816	\$15.08
Lightfoot	2,725,305	107	3.9%	3.9%	7,822	0	0	9,713	\$21.08
Mathews County	108,789	11	4.8%	4.8%	0	0	0	0	\$0.00
Mercury Central	6,405,160	423	6.3%	5.8%	71,784	12,600	0	51,086	\$12.24
Patrick Henry	4,427,425	145	3.4%	3.4%	29,234	14,000	0	4,938	\$14.76
Poquoson	1,808,504	189	7.2%	7.2%	18,751	0	0	(6,139)	\$14.86
Williamsburg	4,161,004	315	10.3%	10.3%	43,515	0	8,000	14,872	\$21.30
Yorktown	420,851	49	8.5%	8.5%	4,000	0	0	(6,540)	\$12.60
Peninsula Total:	33,471,512	2,429	6.6%	6.3%	233,885	41,965	40,600	144,581	\$15.24
Campostella/S. Norfolk	1,747,866	153	4.8%	4.5%	29,500	0	8,500	(5,842)	\$11.34
Chesapeake Square	2,914,694	94	1.9%	1.9%	98,053	0	0	11,707	\$17.58
Churchland	1,696,004	136	6.3%	5.7%	44,143	0	0	1,972	\$11.49
College Park	1,984,555	191	6.9%	6.9%	47,624	0	0	(13,440)	\$13.05
Deep Creek	1,211,354	98	5.8%	5.8%	3,350	0	0	(1,580)	\$18.28
Downtown Norfolk	4,736,015	402	4.5%	4.5%	2,510	0	4,044	11,848	\$14.87
Downtown Suffolk	1,141,092	150	4.5%	4.5%	6,389	0	0	1,289	\$9.49
Franklin City	1,496,765	84	8.7%	8.7%	0	0	0	(6,900)	\$9.84
General Booth Corridor	2,018,889	126	5.4%	4.6%	20,331	0	24,685	22,590	\$19.12
Great Bridge	1,645,535	133	5.7%	5.7%	14,250	36,169	0	(19,970)	\$18.49
Greenbrier/Battlefield	4,248,978	166	2.3%	2.3%	59,767	0	0	28,854	\$17.57
Hilltop/Great Neck	2,927,673	209	2.9%	2.9%	21,926	0	0	(28,593)	\$16.22
Holland Road	1,688,020	104	16.2%	16.0%	14,900	0	0	2,484	\$10.57
Isle of Wight	781,712	58	11.9%	11.9%	0	0	17,200	(9,900)	\$9.66
Kempsville	1,876,073	138	11.2%	11.1%	37,008	0	66,950	(15,379)	\$19.25
Little Creek	3,501,526	301	8.4%	8.4%	22,734	0	0	5,477	\$11.98
Little Neck	3,058,596	143	6.3%	6.3%	24,889	0	0	28,493	\$17.20
Lynnhaven	2,333,735	84	12.3%	12.3%	17,200	0	0	(35,915)	\$16.22
Mid-City	2,688,495	303	4.7%	4.7%	1,215	0	0	9,205	\$11.00
Military	4,914,484	331	5.9%	5.2%	93,007	0	0	27,647	\$11.55
Newtown	2,688,017	202	3.9%	3.4%	6,510	0	0	(2,523)	\$12.16
Northern Suffolk	892,960	44	29.8%	29.6%	67,021	9,800	0	34,076	\$18.21
Oceanfront	1,927,758	273	3.3%	3.3%	28,814	7,223	11,368	2,199	\$13.05
Pembroke	3,785,934	196	4.8%	4.8%	62,117	3,100	0	(8,762)	\$17.33
Princess Anne	1,614,912	74	4.9%	4.2%	15,087	13,225	0	1,335	\$14.51
Shore Drive	1,051,364	118	5.4%	5.4%	21,136	0	0	6,306	\$14.75
Smithfield	700,480	86	5.5%	5.5%	1,400	0	0	132	\$13.71
Suffolk	1,671,893	125	7.6%	7.6%	21,630	0	0	3,067	\$10.56
Surry County	123,140	10	0.0%	0.0%	0	0	0	0	\$0.00
Va. Beach Courthouse	612,269	23	12.7%	12.7%	5,577	0	0	681	\$20.75
Victory	2,285,653	216	7.1%	7.1%	114,099	0	0	49,431	\$14.12
Wards Corner	778,771	51	14.3%	14.3%	15,012	0	0	(455)	\$11.19
Southside Total:	66,745,212	4,822	6.4%	6.2%	917,199	69,517	132,747	99,534	\$14.13
HAMPTON ROADS TOTAL:	100,216,724	7,251	6.5%	6.3%	1,151,084	111,482	173,347	244,115	\$14.51

* Rental rates reflect NNN \$psf/year



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