

MARKETBEAT

RICHMOND RETAIL REPORT

Thalhimer
commercial real estate

3Q10

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMIC OVERVIEW

The Richmond economy is holding steady, but most retailers are wishing for a faster recovery. At 7.9%, the unemployment rate was unchanged from last year. That outperforms the national unemployment rate of 9.6%, but it is well above the 4.5% unemployment Richmond saw in the third quarter of 2008. Consumer spending seems stable, but that means less revenue than two years ago for most retailers.

Several worrisome trends have improved over the past year: The state budget has stabilized, the commonwealth has not announced layoffs in several quarters, and the spate of corporate closings and major cutbacks has almost subsided. Still, businesses report growing uncertainty about changes in federal spending, which could have all sorts of consequences, including micro effects on businesses that work for the federal government and macroeconomic changes, such as inflation.

RETAIL MARKET OVERVIEW

The local market is becoming one of hot and cold sectors. As reported in previous reports, health clubs remain one of the most active players. ACAC announced a new 57,000-square-foot (sf) health club in Short Pump in September, American Family Fitness and Planet Fitness both opened gyms in Chesterfield. Other retailers are also taking advantage of opportunities in the market with relocations including Kroger at The Corner at Short Pump while Costco and Garden Ridge are constructing new stores near Chesterfield Town Center and Hobby Lobby is making its entrance into the market with plans to back-fill the vacated Kroger in Short Pump.

Restaurants in all quadrants continue to suffer. Lone Star Steakhouse closed a location on Broad Street, the Ipanema Grill in Innsbrook closed, as did the Shockoe Slip bar Stool Pigeons. The good news is replacement restaurateurs are circling, looking to take over the built-out facilities.

Absorption was a positive 33,512 sf through the third quarter, which is essentially flat. This supports the unchanged vacancy rate of 6.8% from last year at this time. Leasing activity was 1.06 million square feet (msf) through the third quarter, up from 761,770 sf for the same period last year.

This quarter was active in sales of existing properties, which may be a sign of things to come. Three centers sold in the market, one each in the counties of Henrico, Chesterfield and Hanover, while several other properties are under contract. Foreclosures are rare although Chesterfield Marketplace, which was one of the few foreclosed on this year, has been put back on the market by the lender. Land sales continue to be rare, but local car wash chain Car Pool was able to finally gain entrance into Short Pump by paying \$1.48 million for 1.7 acres on West Broad Street just West of Short Pump Town Center.

ECONOMIC INDICATORS

NATIONAL	2009	2010F	2011F
Real GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Consumer Spending Growth	-0.6%	2.5%	3.1%
Retail Sales	-6.3%	6.3%	5.8%
REGIONAL			
Household Income	\$59,587	\$60,182	\$60,750
Population	1,224,125	1,250,000	1,265,000
Unemployment	7.5%	7.9%	7.3%

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

BEAT ON THE STREET



"National tenants are back in the market, looking for and doing deals."

– Loretta Cataldi
Retail Sales/Leasing

3Q10 KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Chesterfield Towne Center	The Shoe Department	14,199
Hanover Village	Floor Trader	12,882
Glen Lea Centre	It's Fashion Metro	12,600
11087 Brook Road	Sprit Halloween Superstore	12,305

3Q10 KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
Towne Crossings	103,917	\$17,500,000
Short Pump Station	91,369	\$30,800,000
Bell Creek Commons	46,743	\$11,100,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Costco	Costco	154,276	Summer 2011
Corner At Short Pump	Kroger	150,456	Summer 2011
Willow Lawn Redevelopment	Old Navy	15,000	Winter 2010/ Fall 2011
Car Pool-Short Pump	Car Pool	NA	January 2011

An independently owned and operated member of the

CUSHMAN & WAKEFIELD
ALLIANCE

OUTLOOK

Brokers are reporting that more tenants are asking for tours of potential locations and tenants are resurfacing on previous deals that had been put on hold. Because deals can take several quarters to close suggests that leasing activity might rise in coming quarters. For some retailers, it will simply depend on how the holiday season shapes up.

The grocery category will be one to watch. Kroger continues to invest in the market with the expansion of Carytown and Stonebridge still on the books and capital dollars allocated toward the Richmond market while Martin's is evaluating its existing market penetration and working towards consumer acceptance of its concept in the wake of the Ukrop's acquisition.

Rental rates have also stabilized and might be close to the bottom. Tenants seem increasingly eager to lock in bargains, and landlords might start raising rates or at least testing the market.

Short Pump will continue being the biggest growth area. With new developments almost non-existent, retailers are beginning to feel the pinch in their expansion plans. Ultimately this should lead to backfilling of existing vacancies with less aggressive terms for tenants than we have seen for the last few quarters. We are also seeing a trend with developers who are marketing new developments being more likely to pass on "buy-me deals" and simply being patient to make deals that make sense before they commit to constructing.

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	6,384,893	494	3.9%	3.9%	19,850	0	0	(6,679)	\$13.34
Downtown Total	6,384,893	494	3.9%	3.9%	19,850	0	0	(6,679)	\$13.34
I-95 / Chamberlayne NE	814,827	93	6.4%	6.4%	12,735	0	11,434	22,837	\$18.87
Laburnum / Route 360	2,861,327	450	5.7%	5.7%	58,122	0	0	(11,010)	\$8.08
Mechanicsville	2,617,729	200	5.4%	5.1%	73,685	0	0	5,005	\$16.84
Northeast Total	6,293,883	743	5.7%	5.5%	144,542	0	11,434	16,832	\$12.16
Broad St. Corridor	2,067,249	128	8.1%	8.1%	28,379	0	0	32,101	\$14.23
Far West End North	427,120	33	1.1%	1.1%	7,550	0	0	(5,956)	N/A
Far West End South	1,373,902	75	8.3%	8.3%	12,190	0	0	(19,457)	\$15.83
I-95 Ashland / NW	2,075,919	185	4.4%	4.4%	8,472	0	0	(26,310)	\$10.04
Near West End	4,075,320	656	4.3%	4.3%	82,097	0	0	(12,269)	\$16.03
Regency	2,363,392	114	4.7%	4.7%	32,978	2,198	0	(10,172)	\$18.40
Short Pump	4,250,969	96	5.4%	5.4%	39,725	165,037	86,750	74,215	\$23.69
Staples Mill / Parham	7,458,183	478	7.2%	6.8%	160,854	6,678	0	(45,496)	\$16.97
Willow Lawn	2,866,723	294	6.5%	6.5%	52,612	0	0	47,540	\$11.79
Northwest Total	26,958,777	2,059	6.0%	5.9%	424,857	173,913	86,750	34,196	\$16.81
East End	4,450,503	492	9.6%	9.5%	24,414	34,642	0	(36,933)	\$10.49
Southeast Total	4,450,503	492	9.6%	9.5%	24,414	34,642	0	(36,933)	\$10.49
Jeff Davis Corridor	3,161,390	506	12.9%	12.9%	5,213	0	0	(33,627)	\$9.49
Midlothian E./ Hull St.	7,602,742	568	8.4%	8.4%	180,682	28,500	0	58,172	\$10.91
Midlothian Village	1,683,433	116	11.5%	11.5%	25,327	0	78,000	(6,580)	\$22.99
Midlothian West	6,519,857	281	7.5%	7.4%	178,927	324,276	0	(7,546)	\$15.98
South Chesterfield	3,870,581	295	3.1%	3.1%	33,375	0	0	28,191	\$13.61
Swift Creek	2,917,028	152	8.9%	8.9%	27,496	263,009	0	(12,514)	\$16.53
Southwest Total	25,755,031	1,918	8.2%	8.1%	451,020	615,785	78,000	26,096	\$13.94
RICHMOND TOTAL	69,843,087	5,706	6.8%	6.7%	1,064,683	824,340	176,184	33,512	\$14.23

* Rental rates reflect NNN \$psf/year



For further information, please contact one of our Brokerage Services Professionals:

Thalhimers
1313 East Main Street, Suite 400
Richmond, VA 23219
(804) 648-5881
www.thalhimers.com

This report contains information available to the public and has been relied upon by Thalhimers on the basis that it is accurate and complete. Thalhimers accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2010 Thalhimers, Inc. All rights reserved.