

MARKETBEAT

RETAIL SNAPSHOT

RICHMOND, VA

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Q2 2012



ECONOMIC OVERVIEW

The economy is sending mixed signals again. Gas prices have fallen to almost \$3 a gallon, putting a little extra spending money in the wallets of consumers. Retail sales rose 5.0% compared with May 2011, according to U.S.

Census data. But Richmond's unemployment rate nudged up to 6.0% from 5.8% percent in the first quarter. Local governments are also cutting payrolls to reduce their budgets. For example, the City of Richmond has said it will cut 50 staff positions at the public school division. And the stock market has been volatile recently, a sign that investors are worried about future growth. However, the Richmond market is faring rather well with one of the lowest unemployment rates in the country and new employers entering the market (Amazon, BGB Technology and Design Ready Controls). Existing employers such as Capital One and CarMax have also kept the labor market strong with recent expansions.

RETAIL MARKET OVERVIEW

As more and more shoppers make their purchases online, big-box retailers are trying to tweak their business models, starting with smaller spaces. Both Best Buy and Staples have told brokers they need smaller stores than they currently operate, and Best Buy is being hit especially hard with the competition in the electronics market and they have closed their newest store in the market in eastern Henrico.

Dillard's is closing its last non-prototype store in the market in Colonial Heights, and it will be partially back-filled with a Dick's Sporting Goods. Outdoor retailer Gander Mountain announced in the second quarter that it is closing its 67,000-square foot (sf) store in Hanover County. Richmond-based retailer Green Top said it is taking over the space. With Green Top's loyal following in the market and depth of product, this should turn out to be a great move for the landlord as well as Green Top.

But while big-box stores are retracting, local and national restaurants are aggressively looking for new locations. For example, the owners of the Boathouse at Rocketts Landing, one of the region's busiest locally owned restaurants, signed a lease for 4,500 sf at the Reynolds North location along the Canal Walk for an upscale Mexican concept. And chain restaurants such as Panera, Qdoba, WhichWich, Genghis Grill and a list of others are hungry for more deals.

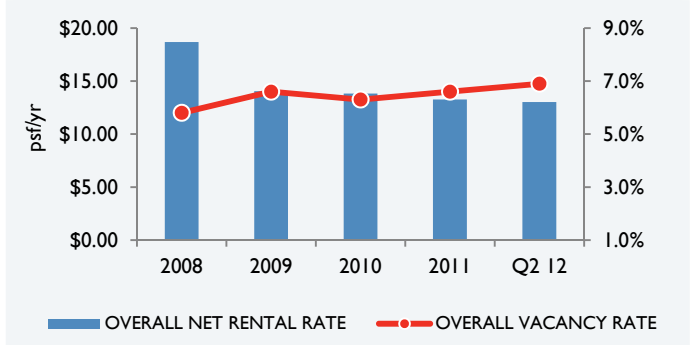
Absorption came in at a negative 244,573 sf through the second quarter, down from 128,776 sf through the second quarter of 2011. The actual closing of two and the impending closing of a third Kmart caused over 300,000 sf of this negative absorption. But leasing activity was comparable to this time last year at 699,407 sf. The vacancy rate rose to 6.9% from 6.3% in the second quarter of 2011.

ECONOMIC INDICATORS

NATIONAL	2011	2012F	2013F
GDP Growth	1.7%	2.1%	2.6%
CPI Growth	3.1%	1.8%	2.0%
Consumer Spending Growth	2.1%	2.2%	2.8%
Retail Sales Growth	8.0%	5.7%	4.4%
REGIONAL	2011	2012F	2013F
Household Income	\$53,942	\$55,189	\$57,115
Population Growth	0.7%	0.8%	0.9%
Unemployment	6.9%	6.2%	5.9%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



NEW RETAILER TO THE MARKET

The local bankruptcy of RoomStore looks to be bringing a new retailer entry into the market. Rooms To Go purchased some of the assets in bankruptcy court with plans to locate at the WestPark Shopping Center at the current RoomStore World location.

OUTLOOK

One exciting — if nascent — trend to watch: Brokers are reporting that several older mall locations are being marketed for redevelopment while other projects that had been on the back burner are finally getting traction. The former Azalea Mall site on the

north side of Richmond is being marketed, and an out-of-town developer is looking at razing Fairfield Commons Mall in eastern Henrico County to build a 300,000-sf center. The former Cloverleaf Mall in Chesterfield County is under construction with a new Kroger Marketplace concept, which will include over 20,000 sf of small shops in its initial phase. The long awaited Charter Colony, Stonehenge Village and Staples Mill Marketplace projects are planning to move forward with their developments. Rents and terms on new deals seem to be holding steady with a few inching up due to the increased activity in the market.

MARKET HIGHLIGHTS				
Significant Q2 12 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
7504 W Broad Street	Staples Mill/Parham	Fashion Gallery, Inc.	Community Center	15,968
10060 Robious Road	Midlothian West	Caremore Medical Enterprises	Neighborhood Center	11,985
1504 N. Parham Road	Regency	Advance Stores Company, Inc.	Community Center	9,736
4300 Pouncey Tract Road	Short Pump	Commonwealth Sports Medicine, PC	Neighborhood Center	6,218
Significant Q2 12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Brandy Hill Plaza	Mechanicsville	7055 Brandy Hill Plaza Assoc, LLC	\$3,300,000 / \$49 psf	68,000
7220 Brook Road	Staples Mill/Parham	Jihong C LLC	\$1,100,000 / \$84 psf	13,141
10135 Hull Street Road	Midlothian E/Hull St	Silver-Honaker Development, Inc.	\$1,450,000 / \$200 psf	7,268
11591 W. Broad Street	Short Pump	TFLP LLC	\$2,500,000 / \$481 psf	5,200
Significant Q2 12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Stonebridge Kroger	Midlothian West	Kroger	Q4 12	123,000
The Corner at Short Pump, Toys "R" Us Bldg.	Short Pump	Toys "R" Us	Q3 12	58,820
6101 Brad McNeer Parkway	Swift Creek	Bowling Alley	Q4 12	57,000
Carytown Place	Near West End	Fresh Market	Q3 12	39,000
The Corner at Short Pump, Bldg. 3 & 6	Short Pump	N/A	Q4 12	31,200

RICHMOND, VA

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	ASKING RENT	RENT GROWTH	ABSORPTION
Amelia County	178,121	(20,000)	6.0%	167,491	\$14.87	19.3%	(4,430)
Broad St Corridor	2,018,584	(21,828)	5.7%	1,903,451	\$15.71	3.9%	16,501
Colonial Heights	3,175,092	5,062	3.6%	3,059,362	\$14.37	4.4%	19,535
Cumberland County	31,579	0	7.9%	29,079	N/A	N/A	0
Dinwiddie County	169,620	(200)	1.7%	166,662	\$17.40	0.0%	(1,200)
Downtown	6,515,191	(10,776)	4.1%	6,245,500	\$13.57	(0.4%)	(8,027)
East End	4,260,497	(23,898)	9.9%	3,838,317	\$9.06	(5.1%)	(22,828)
Far West End North	279,637	0	0.0%	279,637	\$0.00	0.0%	0
Far West End South	1,185,911	0	10.3%	1,063,882	\$16.32	5.2%	(3,926)
Goochland	326,837	4,981	2.4%	318,957	\$15.30	16.0%	(1,180)
Hopewell	1,299,770	800	12.5%	1,137,305	\$9.76	(0.9%)	(17,778)
I-95 Ashland/NW	2,039,688	(6,696)	3.2%	1,975,316	\$12.07	2.0%	13,387
I-95 Chamberlayne/NE	971,733	(7,279)	5.9%	914,607	\$15.72	(3.1%)	7,105
Jeff Davis Corridor	3,148,149	(2,092)	12.3%	2,760,695	\$9.15	3.7%	9,407
King & Queen County	3,600	33,440	0.0%	3,600	\$0.00	0.0%	0
King William County	376,261	(20,396)	18.5%	306,503	\$9.23	(3.1%)	0
Laburnum/Rte 360	2,712,236	(11,012)	5.2%	2,572,336	\$9.16	(5.0%)	(41,489)
Louisa County	533,622	(3,796)	7.3%	494,502	N/A	N/A	(10,680)
Mechanicsville	2,725,726	(6,284)	3.9%	2,618,144	\$14.76	0.3%	1,130
Midlothian E/Hull St	6,911,640	56,623	12.9%	6,017,689	\$10.66	1.3%	(130,036)
Midlothian Village	1,559,268	(2,424)	12.5%	1,363,629	\$18.32	(0.3%)	(13,994)
Midlothian West	7,055,485	74,324	6.1%	6,625,558	\$14.65	(4.6%)	(34,969)
Near West End	3,766,017	72,894	4.4%	3,598,673	\$15.11	6.3%	8,345
New Kent County	246,880	89,801	9.7%	213,168	\$6.00	0.0%	1,978
Petersburg	2,561,448	15,475	9.6%	2,315,804	\$9.55	(1.4%)	(19,161)
Powhatan	554,324	(1,300)	9.9%	499,691	\$12.15	(3.3%)	(5,360)
Prince George	855,809	(39,652)	12.4%	750,051	\$9.11	1.6%	(4,648)
Regency	2,547,177	65,481	3.5%	2,457,644	\$13.31	(36.4%)	(4,109)
Short Pump	4,232,262	806	4.4%	4,045,743	\$25.42	1.0%	10,028
South Chesterfield	3,405,462	(2,778)	3.0%	3,301,879	\$12.70	(1.7%)	2,178
Staples Mill/Parham	7,755,225	18,705	5.2%	7,352,627	\$14.82	(7.4%)	74,134
Sussex County	139,562	(14,285)	32.6%	94,032	\$5.00	0.0%	(8,540)
Swift Creek	3,326,692	(26,385)	6.9%	3,097,087	\$16.17	2.5%	(17,825)
Willow Lawn	2,929,216	(63,211)	6.9%	2,726,140	\$11.59	(50.7%)	(58,121)
TOTAL MARKET	79,798,321	154,100	6.9%	74,314,761	\$13.03	(2.2%)	(244,573)

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

