

MARKETBEAT RETAIL SNAPSHOT

HAMPTON ROADS, VA

A Cushman & Wakefield Research Publication



ECONOMIC OVERVIEW

The quoted national unemployment rate dropped to 7.0% in November, although many observers continue to comment on dropping labor market participation rates as a driver for the lower unemployment rate, as opposed to

new job creation. Nevertheless, we have seen plenty of growth trends this year, indicating that households and businesses are in a better position to increase their spending for the upcoming year.

A recent Cushman & Wakefield Research publication reported that automotive sales topped 15 million units in 2013, possibly the strongest year for auto sales since 2007. Significant growth has also been observed within the technology and energy sectors. Demand for technology services and devices continues to increase as the evolution of technology continues to advance, leaving technology companies with more than enough room for growth. Therefore, it is anticipated that cities with a large technology presence will likely experience a great deal of growth.

Although much progress has been observed over the past year, consumer confidence is still quite low as a result of the uncertainty over the political battle on the US budget. However, it is expected that as soon as the budget issue is resolved, we will begin to see stronger job growth and wage increases – and as income rises, demand for goods will also improve.

HAMPTON ROADS RETAIL

Statistically, the retail market within the Hampton Roads MSA has remained stable over the last 12 months. The year ended with retail vacancy floating at about 6.5%, only slightly higher than year-end 2012. Year-to-date absorption for the entire market ended with over 63,000 square feet (sf) in negative net absorption, with the Southside cluster serving as the main contributor to that figure. The Peninsula cluster ended the year with 177,845 sf of positive net absorption; however, the Southside cluster offset that number with 241,616 sf of negative net absorption.

Although the year ended with negative absorption, the numbers are not necessarily representative of reality for the entire year. Brokers believe demand has steadily increased in the past year. The grocery market within the Hampton Roads MSA has been extremely active over the past 12 months. Significant completions have included the

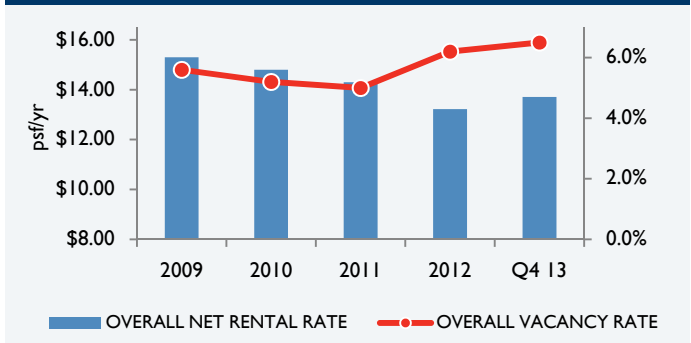
openings of various locations for new Kroger stores, and Wal-Mart has also been expanding throughout the market. In fact, in October, Wal-Mart purchased an 11-acre site where it will deliver a 150,000 sf Supercenter by late 2014. Currently, four projects totaling more than 270,000 sf of retail space are underway for 2014; two of those projects will include a Kroger in Portsmouth and a Harris Teeter in Wards Corner.

ECONOMIC INDICATORS

NATIONAL	2012	2013F	2014F
GDP Growth	2.8%	1.9%	3.2%
CPI Growth	2.1%	1.5%	2.0%
Consumer Spending Growth	2.2%	2.1%	3.4%
Retail Sales Growth	5.3%	4.4%	5.8%
REGIONAL	2012	2013F	2014F
Household Income	\$51,186	\$51,333	\$53,016
Population Growth	0.8%	0.8%	0.7%
Unemployment	6.6%	6.0%	5.5%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar.

INVESTMENT SALES

According to Real Capital Analytics, 25 retail properties were traded over the last 12 months at an average cap rate of 7.3%. Sales volume for the Hampton Roads MSA exceeded over \$121 million for over 1.2 million square feet (msf) of retail product, averaging \$121 per-square-foot (psf). One of the largest transactions that occurred in the last 12 months consisted of the Courthouse Marketplace trade in Virginia Beach, which sold to Phillips Edison-ARC for \$16 million, or \$156 psf. Additionally, Dillard's purchased the 144,000 sf building at 12300 Jefferson Drive for \$12.1 million, or \$84 psf.

OUTLOOK

Defense spending is a major economic driver for the Hampton Roads MSA; therefore, a resolve to the U.S. budget debate will bring not only a wave on increased consumer confidence to the retail sector, but it will also directly affect the local economy within the region. In addition, the grocery market has been quickly expanding within the area and further developments are already underway for 2014. Succinctly, with continuing growth in the grocery sector and an early resolve to the U.S. budget, it is likely the Hampton Roads retail market will see major improvements over the upcoming year.

** HAMPTON ROADS SUBMARKET STATISTICS (TOP FIVE)

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	ASKING RENT	QUARTERLY RENT GROWTH	ABSORPTION
Mercury Central	5,694,240	0	6.7%	5,314,412	\$14.97	(1.7%)	(21,054)
Military	4,980,757	0	6.3%	4,666,907	\$12.30	1.0%	(39,283)
Downtown Norfolk	4,368,740	(16,565)	6.9%	4,067,833	\$13.41	(1.6%)	(75,512)
Patrick Henry	4,463,438	0	4.1%	4,280,939	\$14.60	5.6%	(27,876)
Williamsburg	4,278,567	0	9.2%	3,883,865	\$18.32	0.6%	153,766
PENINSULA	30,998,324	(18,291)	6.8%	28,879,826	\$14.35	(0.1%)	177,845
SOUTHSIDE	63,564,608	(39,444)	6.3%	59,539,316	\$13.29	1.5%	(241,616)
TOTAL MARKET	94,562,932	(57,735)	6.5%	88,422,142	\$13.71	0.8%	(63,771)

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**THIS TABLE INCLUDES TOP FIVE SUBMARKETS BY INVENTORY SIZE. THE TOTAL INCLUDES THE OVERALL MARKET.

MARKET HIGHLIGHTS

SIGNIFICANT 2013 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
N/A				
SIGNIFICANT 2013 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
2476 Ninmo Parkway	VA Beach Courthouse	Phillips Edison-ARC	\$16,000,000/ \$156	103,263
100 Gristmill Plaza	Williamsburg	Cole REIT IV	\$14,300,000/\$106	134,911
12300 Jefferson Avenue	Patrick Henry	Dillard's	\$12,100,000/\$84	144,157
SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
3901 Holland Road	S. Independence/Holland Rd	Kroger Marketplace	Q3 2013	124,000
5225 Settlers Market Boulevard	Williamsburg	Michael's	Q1 2013	88,102
11214 Jefferson Avenue	Hampton North	Walmart Neighborhood Market	Q1 2013	57,812
3201 Holland Road	S. Independence/Holland Rd	Walmart Neighborhood Market	Q2 2013	41,785
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
2900 Turnpike Rd	Portsmouth	Kroger	Q3 2014	174,822
Virginia Beach Blvd & Kellam Rd	Virginia Beach	Wal-Mart Supercenter	Q4 2014	150,000
7550 Granby Street	Wards Corner	Harris Teeter	Q1 2014	73,577
Green Tree Marketplace	Chesapeake	Wal-Mart Neighborhood Market	Q4 2014	65,000
11810 Fountain Way	Hampton North	Movie Theatre	Q2 2014	52,502
3318 Princess Ann Road	Virginia Beach Courthouse	Speculative	Q1 2014	18,300