

MARKETBEAT RETAIL SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

National gross domestic product contracted in the first quarter for a second year in a row. Most economists see the contraction as weather related and expect a strong rebound in the second quarter.

Retail sales increased 9.8% from Q1 to Q2 2015 and, according to the Conference Board consumer confidence, remains strong at 101.4 in June 2015 up from 86.9 at the end of 2014. Inflation remains low at 0.1% over the last twelve months. Excluding energy, inflation was 1.8% over the same time period.

The U.S. economy added 1.33 million jobs during the first six months of the year. The private sector increased payrolls by 1.74 million while government payrolls contracted by 0.4 million. Year-over-year employment increased for the 60th consecutive month in June extending the best stretch of growth since 1939.

The sale of new single-family homes increased by 19.5% in May compared to a year ago but at a seasonally adjusted annual rate of 546,000 homes remains well below the June 2005 peak of 1,389,000 homes. Inventory at the current sales pace was a low 4.5 months.

Richmond added 2,800 jobs through May of this year and extended its streak of year-over-year job growth to 59 months. The unemployment rate for the Richmond area increased to 5.3% due to a growing labor force. Leisure and Hospitality and the Public Sector contributed the most to this growth with 1,200 and 1,300 jobs, respectively. The financial service industry added 500 jobs.

Single-family home sales increased by 15% across the metro area compared to a year ago with median prices up 4%. Residential building permits authorized through May 2015 increased 25.8% compared to a year ago but with a total of 1,967, permits remain significantly below the 3,431 units authorized over the same time period in 2007.

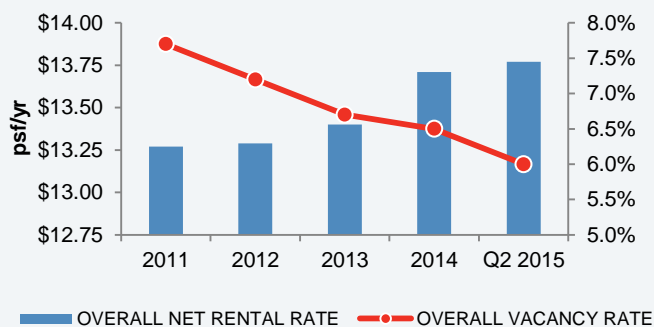
According to Moody's/RCA Commercial Property Price Indices, retail real estate prices increased 12.7% year-over-year in May but remain 11.6% below the peak set in October 2007. Nationally, retail cap rates, according to RCA, are at historic lows of 6.6% in Q2 2015. Retail cap rates in non-major metros at 6.94% are approaching the historic low of 6.85% set in 2007. The spread between Ten Year Treasuries and the overall retail cap rate is 443 basis points. The historic average spread is 396 basis points.

ECONOMIC INDICATORS

NATIONAL	2014	2015F	2016F
GDP Growth	2.4%	2.4%	3.0%
CPI Growth	1.6%	0.4%	2.7%
Consumer Spending Growth	2.5%	3.4%	3.8%
Retail Sales Growth	3.8%	2.8%	5.6%
RICHMOND MSA	2014	2015F	2016F
Household Income	\$59,790	\$60,945	\$63,046
Population	1,206,029	1,272,446	1,283,847
Population Growth	1.1%	1.0%	0.9%
Unemployment	5.5%	4.8%	4.6%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



RETAIL SALES AND CONSUMER CONFIDENCE TRENDS



RICHMOND RETAIL OVERVIEW

The overall retail vacancy rate in the Richmond region was unchanged from a quarter ago but 80 basis points lower than a year ago. Other than Q1 2015, the overall vacancy was last this low in Q2 2007 when there was 6.9 million square feet (msf) less inventory. The direct vacancy rate declined 70 basis points from a year ago to 5.7%; it was last lower in 2006.

A positive 434,436 square feet (sf) of absorption occurred through Q2 2015 in the Richmond metro. Grocery stores and fitness centers are the most active retail users in the market..

Walmart Neighborhood Market and Aldi opened two new stores of 41,000 sf and 16,000 sf, respectively. In addition, a new Grand Mart opened in 28,000 sf at Chippenham Square. Aldi will open two new stores in August and both Wal-Mart and Aldi have an additional two grocery stores under construction. Aldi also has another store in the City of Richmond that is far along in the planning process. Established grocers Kroger, Martin's, and Whole Foods are all in various stages of opening new stores.

Non-grocer tenants expanding into new space in Q2 include discount clothier GABES at Victorian Square, LL Bean at Short Pump Town Center, and Crunch Fitness, who will open their third location in Gleneagles Shopping Center.

Westpark Shopping Center, a Martin's anchored retail center in the Broad Street corridor submarket, sold for \$33.4 million or \$189 per square foot (psf).

Direct average asking rents declined to \$13.96 psf from a quarter ago but up slightly from Q2 2014. The direct average asking rent in Short Pump is now \$24.76 psf, a 2.2% increase over a year ago and more than \$10.00 psf above the overall market.

CONSTRUCTION PIPELINE

Grocery stores dominate the construction pipeline as four of the five largest developments are either stand-alone grocery stores or have a grocery component. West Broad Marketplace, an approximately 400,000-sf mixed-use retail and office development anchored by Cabela's and Wegmans, broke ground in Q1 2015. Another Wegmans is under construction at Stonehenge Village and as mentioned earlier two Wal-Mart Neighborhood Markets are under construction.

OUTLOOK

Continued job growth, high consumer confidence as well as the growth of home sales bode as positive leading indicators for retailers. Retail absorption remains strong and continued job growth will sustain demand. Investor demand continues to outpace supply particularly for grocery anchored centers. The majority of the development under construction is either built-to-suit or has strong pre-leasing limiting the supply coming on the market. Retail vacancy should stay low placing pressure on rents particularly along the most active retail corridors. The most active retail tenants will continue to be grocery stores and fitness centers.

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS

	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
10939 Hull Street	Midlothian E/ Hull Street	Gabriel Brothers	Community Center	57,599
10426 Ridgefield Pky.	Far West End South	Crunch Fitness	Neighborhood Center	23,287
7100 Midlothian Tpk.	Midlothian E/ Hull Street	Cassandra Scarborough	Community Center	7,000
3601 Cox	Broad St Corridor	Mercedes Food	Strip Center	5,000

SIGNIFICANT Q2 2015 SALE TRANSACTIONS

	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Westpark Shopping Center	Broad St.	InvenTrust	\$33,390,000 / \$189	176,973
Brook Run	Staples Mill/Parham	Wheeler Reit	\$18,500,000 / \$125	147,738
Walmart Neighborhood Market	I-95 N Ashland/NW	Capital Pacific	\$11,600,000 / \$281	41,117
Golfsmith	Short Pump	Golfsmith	\$5,833,000 / \$242	24,142

SIGNIFICANT Q2 2015 CONSTRUCTION COMPLETIONS

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
5700 Hopkins Road	Jeff Davis	Walmart Neighborhood Market	Q1 2015	41,179 (100%)
9714 Sliding Hill Road	I-95 Chamberlayne/NE	Walmart Neighborhood Market	Q1 2015	41,117 (100%)
Corner at Short Pump	Short Pump	OshKosh, Carter, Zoes Kitchen	Q1 2015	20,144 (100%)
Reynolds Crossing	Willow Lawn	Chipotle, Starbucks	Q1 2015	19,000 (90.4%)
465 Charles H. Dimmock Pkwy.	Colonial Heights	Aldi	Q1 2015	16,000 (100%)
1776 N Parham Road	Regency	Aldi	Q1 2015	16,000 (100%)

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
West Broad Marketplace	Short Pump	Wegmans, Cabela's	Q1 2016	440,000 (86%)
Stonehenge Village	Midlothian West	Wegmans	Q1 2016	120,000 (100%)
12400 Tennessee Plz	Swift Creek	Chevrolet	Q3 2015	60,000 (100%)
7000 Iron Bridge Road	South Chesterfield	Walmart Neighborhood Market	Q3 2015	42,000 (100%)
5221 Brook Road	I-95 Chamberlayne/NE	Walmart Neighborhood Market	Q2 2015	42,000 (100%)

RICHMOND, VA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	OVERALL ASKING RENT	QUARTERLY RENT GROWTH	YTD OVERALL NET ABSORPTION
Amelia County	163,026	0	6.2%	152,926	\$16.25	0.0%	0
Broad St Corridor	1,909,532	0	4.7%	1,811,389	\$14.39	(0.1%)	17,009
Colonial Heights	3,239,129	17,000	2.2%	3,166,891	\$21.71	0.7%	11,517
Cumberland County	54,852	0	4.6%	52,352	N/A	N/A	500
Dinwiddie County	244,605	0	0.0%	244,605	N/A	N/A	0
Downtown	2,651,410	0	9.2%	2,405,121	\$14.96	1.2%	59,681
East End	3,338,994	0	8.6%	3,049,135	\$12.42	4.5%	17,728
Far West End North	175,574	0	0.7%	175,374	\$20.00	(14.4%)	2,985
Far West End South	1,139,172	0	14.6%	959,728	\$13.61	(2.2%)	(9,072)
Goochland	297,806	0	6.5%	278,420	\$13.04	0.0%	(300)
Hopewell	995,845	0	13.2%	864,014	\$9.40	0.0%	8,450
I-95 Ashland/NW	1,618,192	0	2.5%	1,575,624	\$12.88	(5.6%)	4,200
I-95 Chamberlayne/NE	803,425	0	5.0%	763,338	\$17.32	(1.2%)	62,100
Jeff Davis Corridor	2,264,341	0	11.6%	2,001,300	\$9.55	12.8%	90,403
King William County	439,889	0	12.0%	387,189	\$10.10	(0.8%)	1,500
Laburnum/Rte 360	1,892,479	0	4.7%	1,803,371	\$11.29	3.1%	-378
Louisa County	640,955	0	1.7%	630,041	\$12.00	0.0%	0
Mechanicsville	2,428,546	0	3.8%	2,319,359	\$12.59	3.0%	(12,189)
Midlothian E/Hull St	6,034,161	6,800	9.5%	5,412,696	\$10.62	(1.7%)	69,896
Midlothian Village	1,494,975	0	13.1%	1,299,442	\$19.66	1.1%	4,163
Midlothian West	6,677,008	0	4.6%	6,353,861	\$13.74	(2.1%)	19,542
Near West End	2,550,776	0	2.6%	2,461,017	\$16.66	1.9%	10,666
New Kent County	503,458	0	5.3%	476,823	\$11.59	0.0%	5,265
Petersburg	2,226,609	0	9.9%	2,005,486	\$9.01	(0.7%)	34,121
Powhatan	598,931	0	3.7%	577,052	\$13.62	0.0%	(1,823)
Prince George	800,702	0	12.3%	702,207	\$7.37	0.0%	(1,495)
Regency	2,227,221	16,000	6.1%	2,076,174	\$10.85	14.2%	22,001
Short Pump	4,455,724	0	2.6%	4,335,310	\$24.76	0.4%	15,422
South Chesterfield	3,125,923	0	4.4%	2,988,417	\$14.80	0.0%	14,128
Staples Mill/Parham	7,118,883	0	4.3%	6,809,707	\$14.34	(1.0%)	(11,434)
Sussex County	157,466	0	25.4%	117,466	\$5.00	0.0%	0
Swift Creek	3,153,616	0	4.0%	3,024,603	\$17.15	(3.1%)	(12,828)
Willow Lawn	2,683,788	19,000	2.6%	2,613,563	\$14.52	(0.7%)	14,678
TOTAL MARKET	68,107,013	58,800	6.0%	63,893,001	\$13.77	0.4%	434,436

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

As of 1Q2014, only properties 5,000 sf and larger included