

MARKETBEAT RETAIL SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q4 2014



ECONOMIC OVERVIEW

After contracting in the first quarter, U.S. gross domestic product expanded by 4.6% and 5.0% in the second and third quarter of 2014 respectively. Third quarter growth (last available) was the fastest seen in over a decade

and consumer spending, business investment, and net exports all positively contributed to the growth. Retail sales were up 4.0% from 2013 to 2014, and oil prices declined by nearly 50% from June to December. Consumer confidence increased for the sixth consecutive year ending at 86.9 in 2014 up from 73.2 in 2013.

The U.S. economy added 2.95 million jobs in 2014 of which 2.86 million were in the private sector. December was the 51st consecutive month of positive job growth which is the best stretch of growth since 1939. The U.S. unemployment rate decreased to 5.4% in December 2014 from 6.5% in December of 2013.

The economic growth and momentum has extended to the housing sector. Residential building permits increased 4.3% in 2014 over 2013 while housing units started increased 8.8% over the same time period. Both permits and starts crossed the million unit threshold for the first time since 2007. Housing prices increased in November by 5.3% from a year ago according to the FHFA National Housing Price Index (HPI).

Richmond experienced 54 months of year-over-year employment growth in November of 2014 and added 15,100 jobs from January to November. Of the 15,100 jobs added, 14,600 were in the private sector. The unemployment rate for the Richmond area declined to a six-year low at 4.8% in November. According to the FHFA, housing prices increased by 2.2% in Q3 14 from a year ago and marked the ninth consecutive quarter of year-over-year growth in the area.

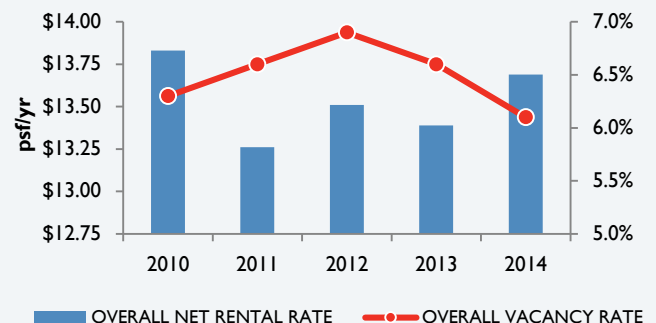
Residential building permits remain depressed in the Richmond Metro. Through November of 2014, 15% fewer units were authorized permits compared to the same time period in 2013 and authorizations remain 59% below the 2005 high. Multifamily permits are down 25% year-over-year but at 1,006 units as of November are in excess of 214% above the 2011 low. The average number of units per multifamily building increased to 42 in 2014 from 25 in 2013. The ten-year average is 24 units per structure.

ECONOMIC INDICATORS

NATIONAL	2013	2014F	2015F
GDP Growth	2.2%	2.4%	3.7%
CPI Growth	1.5%	1.7%	1.1%
Consumer Spending Growth	2.4%	2.5%	3.8%
Retail Sales Growth	4.2%	4.1%	4.8%
RICHMOND MSA	2013	2014F	2015F
Household Income	\$61,342	\$62,648	\$64,029
Population	1,297,000	1,308,000	1,319,000
Population Growth	1.0%	0.9%	0.8%
Unemployment	5.9%	5.4%	5.3%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



RETAIL SALES AND CONSUMER CONFIDENCE TRENDS



RICHMOND RETAIL OVERVIEW

The increase in employment in the Richmond region is driving a healthy recovery in the retail sector. The overall vacancy rate decreased to 6.1% in Q4 14 which is 60 basis points below a year ago. Vacancy was last lower in 2007 in which time the area added 6.3 million square feet (msf) of inventory.

Richmond exhibited healthy demand growth in 2014 with an increase of 924,994 square feet (sf) of occupied space compared to an increase of 394,353 sf in 2013. The direct average asking rent increased to \$14.04 per square foot (psf) in the Q4 14 and averaged \$13.94 psf for the year. The direct asking rent was \$13.63 psf in Q3 14 and averaged \$13.57 psf in 2013. The total asking rent increased to \$13.69 psf in Q4 14 up from \$13.44 psf in Q3 14. The total asking rent averaged \$13.71 psf in 2014 up from \$13.40 psf in 2013 and \$13.29 psf in 2012.

Much of the retail news surrounding 2014 centered on grocery stores either expanding or entering the market. Wegmans is coming to the Richmond market with two stores. One will anchor the Stonehenge Village in Midlothian and the other the West Broad Marketplace in Short Pump. Wal-Mart is bringing their Neighborhood Market concept to the area with four stores at Meadowbrook Plaza, 5221 Brook Road, Watermark Town Center, and Sliding Hill Road. Aldi is also in the process of developing new stores while German grocer Lidl continues to appear on site plans. Established grocers, Kroger, Martin's, and Whole Foods, are all in various stages of opening new stores.

RETAIL INVESTMENT SALES

According to Real Capital Analytics (RCA), total investment transactions volume was \$104.6 million across 20 properties in 2014. Transaction volume was \$103.2 million in 2013 and \$139.1 million in 2012. The average price was \$157 psf in 2014 up from \$116 psf in 2013 but down from \$179 psf in 2012.

Dimmock Square, a 106,166-sf retail power center in Colonial Heights traded for \$19.65 million. Six single tenant pharmacies, four Walgreens and two CVS stores, traded at an average of \$400 psf. Single tenant retail cap rates in non-major metros declined to a historic low (RCA data begins Q1 02) at 6.56% in Q4 14 compressing the spread between the ten-year treasury to an all-time low of 4.28 pp. The spread between Baa bonds is 1.82 pp.

OUTLOOK

Economists will watch wage pressures closely in 2015 to see if a tightening labor supply equates to higher incomes. Oil prices are expected to remain low in 2015 keeping inflation at bay and assisting consumers. The combination of low oil prices and increased wages could be a boon for retail sales.

The retail vacancy should decline increasing the pressure on rents. Activity will spill over into secondary submarkets as rents increase and availabilities tighten along the most active retail corridors. Redevelopment of old retail centers that have strong underlying demographics will persist. Grocery anchored centers and pharmacies will continue to entice investors.

MARKET HIGHLIGHTS

SIGNIFICANT 2014 LEASE TRANSACTIONS

	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
West Broad Marketplace	Short Pump	Wegmans	Power Center	140,000
Stonehenge Village	Midlothian Corridor	Wegmans	Power Center	140,000
West Broad Marketplace	Short Pump	Cabela's	Power Center	82,000
Spring Rock Green	Midlothian Corridor	You Fit	Neighborhood Center	20,000
Hanover Village	Mechanicsville	Aldi	Community Center	15,750

SIGNIFICANT 2014 SALE TRANSACTIONS

	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Dimmock Square	Colonial Heights	Armada Hoffer	\$19,650,000/\$185	106,166
Shoppes at Twin Oaks	Broad St Corridor	Cohen Equities	\$5,025,000/\$129	39,117
7039 Mechanicsville (Walgreens)	Mechanicsville	Pinak Mehta LLC/Nikki Mehta LLC	\$10,500,000/\$722	14,550
11300 Nuckols (Walgreens)	Far West End North	Flair Diversified Properties	\$5,822,000/\$422	13,788
6400 Centralia (CVS)	South Chesterfield	NA	\$5,679,767/\$426	13,325

SIGNIFICANT 2014 CONSTRUCTION COMPLETIONS

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Libbie Mill	Willow Lawn	Southern Season	Q3 2014	73,016 (86%)
12200 Harley Club	I-95 North/Ashland	Harley Davidson	Q3 2014	56,000 (100%)

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
West Broad Marketplace	Short Pump	Wegmans	Q1 2016	440,000 (86%)
Charter Colony	Midlothian Village	Martin's	Q4 2014	110,000 (93%)
7000 Iron Bridge	South Chesterfield	Walmart Neighborhood Market	Q1 2015	42,000 (100%)
5221 Brook Road	I-95 Chamberlayne/NE	Walmart Neighborhood Market	Q1 2015	42,000 (100%)
Corner at Short Pump	Short Pump	OshKosh, Carter, Zoes Kitchen	Q4 2014	20,144 (100%)

RICHMOND, VA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	ASKING RENT	QUARTERLY RENT GROWTH	ABSORPTION
Amelia County	163,026	0	6.20%	152,926	\$16.25	0.0%	-2,100
Broad St Corridor	1,909,278	0	5.20%	1,799,326	\$14.66	1.52%	-13,278
Colonial Heights	3,198,762	0	2.00%	3,132,007	\$21.55	2.77%	-7,328
Cumberland County	53,113	0	4.70%	50,613	N/A	N/A	0
Dinwiddie County	238,951	0	0.00%	238,951	N/A	N/A	0
Downtown	2,572,038	(87,510)	9.40%	2,327,904	\$14.74	-1.0%	17,214
East End	3,326,592	5,700	8.20%	3,039,607	\$12.10	-1.31%	40,284
Far West End North	175,574	0	2.40%	171,389	\$23.35	-33.3%	2,733
Far West End South	1,130,504	0	15.10%	960,132	\$14.02	-0.0%	21,096
Goochland	297,806	0	6.40%	278,720	\$10.95	-5.3%	4,000
Hopewell	977,236	0	14.40%	836,955	\$9.43	0.0%	18,971
I-95 Ashland/NW	1,607,771	0	2.90%	1,561,003	\$13.73	6.27%	106,075
I-95 Chamberlayne/NE	751,887	8,114	8.10%	690,817	\$16.25	-4.0%	-1,488
Jeff Davis Corridor	2,298,039	22,000	14.00%	1,975,874	\$8.37	-8.0%	13,203
King William County	431,433	0	12.60%	377,233	\$10.30	-1.4%	5,380
Laburnum/Rte 360	1,892,697	200	4.70%	1,803,967	\$11.36	2.4%	27,275
Louisa County	626,571	0	1.70%	615,657	\$12.00	1.4%	8,100
Mechanicsville	2,428,546	0	3.50%	2,328,348	\$13.30	3.2%	32,766
Midlothian E/Hull St	6,033,725	(26,171)	9.70%	5,403,112	\$10.98	0.2%	4,980
Midlothian Village	1,456,735	0	10.60%	1,300,940	\$19.32	-0.87%	36,925
Midlothian West	6,771,213	14,304	4.90%	6,437,924	\$13.71	-0.1%	15,261
Near West End	2,550,852	(6,933)	3.10%	2,469,627	\$16.30	12.5%	-17,102
New Kent County	413,705	13,765	6.90%	385,205	\$11.59	0.0%	300
Petersburg	2,111,759	0	11.30%	1,867,415	\$8.73	-0.3%	370
Powhatan	584,931	(6,710)	3.40%	564,875	\$13.87	-1.8%	20,672
Prince George	800,702	0	12.10%	703,702	\$7.03	-26.9%	-54,141
Regency	2,365,362	0	6.60%	2,208,314	\$9.34	0.0%	24,683
Short Pump	4,459,862	42,800	2.70%	4,330,965	\$24.56	1.2%	74,032
South Chesterfield	3,112,217	13,023	4.70%	2,960,583	\$13.77	-0.3%	86,120
Staples Mill/Parham	7,101,182	0	4.10%	6,809,040	\$14.23	-2.3%	233,538
Sussex County	142,465	0	28.10%	102,465	\$5.00	0.0%	-20,000
Swift Creek	3,148,543	0	3.70%	3,032,358	\$18.37	2.0%	55,167
Willow Lawn	2,665,951	52,941	2.50%	2,598,964	\$15.89	-0.4%	208,435
TOTAL MARKET	67,799,028	67,312	6.1%	63,516,918	\$13.69	1.3%	924,994

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

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