

MARKETBEAT

RICHMOND, VIRGINIA RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

MID-YEAR 2009

ECONOMIC OVERVIEW

The effects of several large employers declaring bankruptcy, coupled with downsizing at local manufactures, continues to send ripples through Richmond's economy. The unemployment rate for the Richmond region rose to 8.1%, up from 7.9% last quarter, in part because recent college graduates entered the job market and found few positions, according to the Virginia Employment Commission. The new unemployment rate is more than double the 3.9% unemployment rate for the second quarter of 2008 and slightly higher than the rate for the state, which is holding steady at 7%.

Local spending in the metro region is sluggish, down about 6.4% in the first quarter compared with the same time a year ago, according to state tax receipts. But some sectors of the consumer economy are seeing a sales increase, or at least less of a dip than in past quarters, including car sales and home sales.

BEAT ON THE STREET



"Successful restaurants and franchisees are getting more aggressive to take advantage of the flexible terms being offered by landlords."

—Lindsey Floyd, Retail Sales & Leasing

RETAIL MARKET OVERVIEW

Despite the recession, Richmond continues to attract new retailers and restaurateurs while many of the existing Richmond retailers are looking to trade up into better space. Perhaps the biggest news is that discount appliance and electronics store hhgregg announced at the end of the quarter that it will be opening stores throughout the market. Also in the second quarter, Short Pump saw continued activity with Ulta Cosmetics opening in Short Pump Station, West Broad Village continuing to add to their line-up with restaurants Mimi's Café and Dave & Busters opening, and outdoor retailer REI ("Recreation Equipment, Incorporated") and Homegoods breaking ground for new stores. Pleasant's Hardware also opened a store on Patterson Ave.

The opening of nearly 300,000 square feet of retailers (Gold's Gym, Books A Million, Petco & Office Max) at Westchester Commons helped offset some retail closings. Absorption was at 373,201 square feet (sf) through the second quarter, with leasing activity at 465,873 sf so far this year, down from 634,591 sf the same time last year.

Vacancy rose to 6.6%, up from 5.5% in the second quarter last year and up from 6.2% in the first quarter of 2009, due in part to speculative building in newer projects.

One sale of note: Kin Properties Inc. acquired the Office Max building at 10091 Brook Road in Glen Allen from Glen Allen Investors for \$2.87 million.

ECONOMIC INDICATORS

NATIONAL	2008	2009F	2010F
Real GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Consumer Spending Growth	0.2%	-1.0%	0.6%
Retail Sales	-0.7%	-6.8%	3.6%
REGIONAL			
Household Income	\$58,534	\$59,587	\$60,435
Population	1,210,533	1,224,125	1,233,300
Unemployment	4.4%	9.0%	8.3%

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

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Westchester Commons	Gold's Gym	89,330
Chippenham Square	UPS	85,018
Rockwood Plaza	WG-Wellness & Fitness	11,497
9856 W. Broad St.	Centers of Virginia, LLC Woodcraft	10,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	SIZE (SF)	PURCHASE PRICE
10091 Brook Rd.	26,220	\$2,870,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQUARE FEET	COMPLETION DATE
Westchester Commons	Target, Regal Cinemas	975,000	Summer 2009
West Broad Village	Whole Foods, REI, Home Goods	495,000	Fall 2009
Hancock Village	Wal-Mart, JC Penney	428,000	Spring 2010
The Corner at Short Pump	Kroger	200,000	Spring 2010

OUTLOOK

As noted in previous reports, tenants are attempting to renegotiate their existing leases to make them more affordable. Some of this has been accomplished by renewing early or extending existing terms to achieve more favorable rates. That has meant more appealing terms for tenants and slimmer margins for landlords. The trend will most likely continue until the economy rebounds. These renegotiations and vacancies can cause the landlord and lender alike duress with potential foreclosures, reworking of loans, or simply "handing the keys" to the lender in non-recourse loans. Not surprisingly, new construction has slowed considerably, with 2.3 million square feet (msf) under construction, down from 3.7 msf at the same time last year.

One interesting emerging trend is the creative redevelopment of big-box retail space. Former anchor stores are getting turned into smaller shops or other uses. Buffalo Wild Wings will be one of multiple tenants within a former American Family Fitness gym in Short Pump; Rugged Warehouse is taking a portion of the former Circuit City at W. Broad Street and Gaskins Road, and Ross Stores has the ability to utilize the entire premises of both a former furniture store in Towne Center Plaza on Midlothian Turnpike and a Comp USA box on West Broad Street in Colonnades West. Other big box vacancies are in play around town for similar subdivisions and reuse.

It's less clear what will happen to several car dealerships that have closed, with more closures likely in the near future.

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	6,313,625	491	3.7%	3.7%	8,312	0	73,000	(19,509)	\$13.65
Downtown Total	6,313,625	491	3.7%	3.7%	8,312	0	73,000	(19,509)	\$13.65
I-95 / Chamberlayne NE	752,589	78	8.5%	8.5%	8,310	0	10,994	5,097	\$21.23
Laburnum / Route 360	2,920,507	443	3.4%	3.3%	9,813	0	0	(6,113)	\$8.91
Mechanicsville	2,587,496	193	6.4%	6.4%	3,645	0	0	(10,957)	\$14.73
Northeast Total	6,260,592	714	5.2%	5.2%	21,768	0	10,994	(11,973)	\$12.51
Broad St. Corridor	1,945,833	122	9.7%	9.7%	3,223	0	0	(38,518)	\$17.84
Far West End North	561,858	31	N/A	N/A	0	0	0	0	N/A
Far West End South	1,307,842	60	8.1%	7.3%	5,824	0	0	9,346	\$15.05
I-95 Ashland / NW	1,913,099	161	3.1%	3.1%	6,650	0	0	(6,911)	\$12.19
Near West End	4,064,394	649	3.3%	3.3%	13,365	0	0	31,755	\$18.73
Regency	2,326,452	96	5.9%	5.5%	11,521	0	0	(16,685)	\$19.54
Short Pump	3,678,689	88	5.6%	5.5%	17,384	695,000	28,136	17,054	\$27.48
Staples Mill / Parham	7,376,939	458	6.3%	5.5%	75,140	0	0	(7,711)	\$19.22
Willow Lawn	2,912,057	297	8.9%	8.9%	34,592	0	0	(23,728)	\$11.71
Northwest Total	26,087,163	1,962	6.0%	5.7%	167,699	695,000	28,136	(35,398)	\$18.60
East End	4,331,966	468	10.2%	9.6%	24,471	0	909,000	806	\$13.86
Southeast Total	4,331,966	468	10.2%	9.6%	24,471	0	909,000	806	\$13.86
Jeff Davis Corridor	3,101,632	495	11.6%	11.6%	7,225	0	0	(213)	\$9.93
Midlothian E./ Hull St.	7,443,354	544	9.3%	9.3%	111,727	6,600	0	(24,673)	\$11.11
Midlothian Village	1,558,901	111	8.1%	8.1%	94,413	1,096,517	185,483	564,394	\$28.68
Midlothian West	6,350,390	265	8.3%	7.5%	9,285	0	23,000	(76,931)	\$14.86
South Chesterfield	3,601,528	273	5.0%	4.6%	19,173	30,273	0	10,305	\$16.03
Swift Creek	2,594,973	140	8.4%	8.1%	1,800	472,328	0	(33,607)	\$16.92
Southwest Total	24,650,778	1,828	8.5%	8.2%	243,623	1,605,718	208,483	439,275	\$19.94
RICHMOND TOTAL	67,644,124	5,463	6.9%	6.6%	465,873	2,300,718	1,229,613	373,201	\$18.16

* Rental rates reflect NNN \$psf/year



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