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Retail Market Bumping Along

The overall retail vacancy rate ticked up slightly from 7.1 percent at the end of the first quarter to 7.2 percent at the end of the second. A closer examination of vacancy by product type, however, reveals widely varying conditions. While vacancy in general retail (4.1 percent), malls (5.7 percent) and power centers (4.1 percent) came in below the overall average, shopping center vacancy was significantly higher at 12.3 percent. Geographic location was also a factor with the southwest quadrant posting the highest shopping center vacancy at 14.2 percent. The northwest and northeast quadrants were 10.1 percent and 10.5 percent respectively.

Overall absorption was flat as closings were offset by new retail openings. Closings included Good Wood Furniture with 14,000 square feet at TJ Maxx Shopping Center and Pleasant's Hardware with 9,620 square feet at Oxbridge Square. Openings included hhgregg with 32,902 square feet at the former Circuit City in Colonial Heights and Coplon's with 16,255 square feet at Cary Court Shopping Center.

New construction slowed to a trickle compared to recent years. Just completed is an 86,750-square-foot Kroger at The Corner at Short Pump. A new Costco of approximately 150,000 square feet is now under construction near Chesterfield Town Center.

Asking rental rates are about 20 percent lower than a year ago and renegotiations with existing tenants to obtain lower rates are common. Aggressive landlords are offering strong incentives to entice tenants away from competing centers. Despite an arguably oversaturated market, creative retailers have been able to hold on and the large numbers of bankruptcies by them predicted for the first half did not occur. Expect the retail market to bump along the bottom until employment and spending statistics improve

FORECAST

- Look for additional backfilling of space in the months ahead as Garden Ridge takes over a former Dillard's space at Chesterfield Town Center and other retailers such as Hobby Lobby, Planet Fitness and Ultimate Electronics secure locations.
- Construction will continue to be constrained as developers wait for increased consumer spending and easier financing.
- Newer unanchored strip centers will be the most vulnerable to foreclosure.

Statistics Source: CoStar Group Mid-Year Report for Richmond Market