

# Market Research

RETAIL | SECOND QUARTER | 2009



## MARKET INDICATORS

CHANGES FROM  
SAME QUARTER  
ONE YEAR AGO

CHANGES FROM  
LAST QUARTER

|                             |   |   |
|-----------------------------|---|---|
| Vacancy %                   | ↑ | ↑ |
| Net Absorption              | ↓ | ↑ |
| Construction/<br>Deliveries | ↓ | ↓ |
| Asking Rates                | ↓ | ↓ |

### PEGGY SELLS

Retail Division Leader



*"While Nashville has not suffered like other metropolitan areas, vacancy has increased but appears to be stabilizing. We are looking for a bright 2010 as consumer confidence comes back."*

## National Retail Market Trends

Due to recessionary conditions, the retail real estate industry has been significantly affected as a large number of consumers are drastically scaling back. Industry experts have indicated that recent retail sales numbers might disappoint those who remain hopeful that the current downturn is nearing an end and we have hit the bottom. Although the U.S. Department of Commerce reported a seasonally preliminary adjusted 0.5% increase in total retail sales for the past month, to \$340 billion from approximately \$338 billion in April, the big picture reveals some concerns. Retailers' same-store sales figures were off considerably from last year's levels and sales figures are down almost 10% year over year. Evidence indicates that the majority of consumers continue to hold back on discretionary purchases, which are directly affecting the national retail market.

Approximately 1,000 households were surveyed by America's Research Group in early May. Results indicated only 29.9% of consumers planned to spend more money in June than in May. On the other hand, 43.9% of those surveyed planned to make fewer purchases, primarily due to pressing debt payments and higher gas prices. Approximately 26.7% planned to buy only those items that were on sale for half price or less. The Deloitte Consumer Spending Index, which tracks consumer cash flow as an indicator of future consumer spending, reported a decline to 1.35% in May after a 1.44% gain in April. This decrease was partially driven by an increase in the consumer savings rate to 5.7% from 0% during the same period a year ago and falling housing prices.

## Local Outlook

The retail market remains soft in the Nashville MSA with lingering worries about the economy. Although, according to The Brookings Institution, Nashville's economy is faring better than several other major cities', based on a review of recent jobs, data, wages and home prices. Experts indicate that Music City will bounce back from the recession faster than other cities thanks to its diverse economy. Nashville fared better on housing prices, which have not been battered as badly as some other regions or states, particularly Florida, California and several in the Northeast. Nashville finished 25th of 100 cities on home price stability. The Brookings report concluded that overall, greater Nashville beat at least 40 other metro areas in most categories of the study, which took into account local job markets, real estate sales, gross metropolitan product and wages during the first quarter compared with a year earlier.

There has been a significant slowing of National tenant expansion in 2009, relative to the past two or three years. New developments in the area will continue to ease until the next wave of National tenant expansion, which will most likely coincide with the recovery of the broader economic environment. With that being said, the Nashville MSA has seen a slow down in its retail growth in general. Landlords and brokers remain focused on getting the existing new construction leased out and retaining valuable tenants in existing space.

## Statistics (CoStar and Xceligent)

Nashville's average retail vacancy rate hit 7.2% for the second quarter, which is the highest level of vacancy CoStar has recorded since it started tracking the data in 2000. Over the past four quarters



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**LAURA FRAZIER**  
Retail Sales & Leasing



*“As the retailers of 2009 are challenged with decreased sales in a weak economy that offers little capital available for reorganization, survival appears to be the name of the game.”*

Why do quarterly market statistics vary from company-to-company? Two of the major reasons are: Commercial real estate companies report data using a different set of properties. Methodologies used to compute absorption, vacancies, and the treatment of sublet space are also unique to the reporting company. Any questions concerning our research processes should be directed to Nick Minadeo, 615.301.2839.

The information contained in this report was provided by sources deemed to be reliable; however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.



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the local market has seen an increase from 6% to the current rate of 7.2%. The vacancy rate has increased 50 basis points over the last quarter and 100 basis points over the last year.

While the National overall average asking retail rental rate is up 1.7% over yearend 2007, landlords finally showed a response to this recession by lowering asking rental rates during the last quarter of 2008 and continued the trend into the first half of 2009. Various forecasts report that asking rental rates will decline as much as 10% in 2009 while most are hesitant to express an absolute rate but agreed that rents will “continue to fall.”

### Downtown/West End/Vanderbilt/Belle Meade/Green Hills

Downtown Nashville has recently seen a surge in trendy high rise condominium developments. The influx of residential space downtown has also provided thousands of retail square footage available on the bottom floors of these buildings. Some of the major developments include: Encore, Icon, Viridian, Terrazzo and Rhythm.

The Gulch incorporates advanced urban concepts and is predicted to be the center of a rapidly evolving Nashville. It has recently attracted Urban Outfitters and Cantina Laredo. The growing popularity of Urban Flats, coupled by the promise of oenological bliss soon to be offered by the Wine Loft, along with the continued success of veteran eateries such as Watermark, Sambuca and Ru San’s, proves The Gulch continues to be a “hot spot” in Nashville.

The Shops at Demonbreun near Music Row remain one of the city’s hippest spots, offering a variety of chic fashion boutiques, patio dining eateries and happening nightspots. The trendy Harlow Hair Salon is the most recent addition. The high-end 14-story condominium development, Rhythm, recently opened adjacent to the retail block.

Nordstrom is still on track to put the first store in Tennessee at the Mall at Green Hills. While the project was pushed back a year to 2011, construction is about to begin on two common areas at the mall.

### Charlotte/Bellevue/West Nashville

The Hill Center at Nashville West broke ground on a new Publix anchored center off of Charlotte Pike that offers 25,000 square feet of mixed-use space. This is set to be delivered in the summer of 2010. Other tenant’s already signed include: Bank of America and Barge Cauthen and Associates.

The Shoppes on the Harpeth, a 38,200 square feet shopping center located strategically next to one of the best performing Publix’s in the Nashville area, continues to have great success. New tenants include; Jet’s Pizza, Gentle Touch Family Dentistry and Brewhouse 100. The Corner Pub, Sun Tan City, Sports Clips and Edward Jones all opened early in 2008.

### Brentwood/Franklin/Cool Springs

Construction is well underway at McEwen, an exciting mixed-use development concept that will be located on 93 acres in the heart of Cool Springs, Middle Tennessee’s most vibrant shopping district. Developed by Southern Land Company, McEwen is poised to be the place to “live, play, work”. The community will be self-contained and efficient. McEwen will include retail shops, boutiques, offices, restaurants and entertainment venues, as well as residential and hotel uses. The office building and “Dwell,” the upscale apartments, are complete.

### Hendersonville/Gallatin

The Streets at Indian Lake in Hendersonville, a 500,000-square-foot lifestyle center in the Indian Lake Village multi-use development, opened with huge success in 2008. But in 2009, the Streets has shown signs of the recession as several stores including an anchor restaurant have closed.

Kennesaw Farms is a mixed-use development set for completion in early 2011. Highlights will include Thoroughbred Park, an open plaza with 350,000 square feet of retail space; a 43-acre business park suitable for building Class A office space; and more than 700 residential units ranging from \$180,000-plus town homes to single-family homes priced up to \$400,000.