

MARKETBEAT

HAMPTON ROADS INDUSTRIAL REPORT

Overview

Political uncertainty at home along with uprisings and earthquakes abroad has overshadowed much of the good news from the first quarter of 2011. A stalemate between deficit reductions and funding popular programs has led to stop gap budgets and threatens to shutdown the government in Washington. The lack of continuity in funding forced the Navy to cancel or postpone ship repairs and has area contractors bracing for a disruptions in funds.

Despite the uncertainty, the U.S. economy continues to provide signals of a strengthening recovery. Manufacturing appears at the forefront of the recovery as businesses accelerate investments in new equipment and exports rise with increasing global demand. Orders for U.S. manufacturing goods increased 3.1% in January, the largest increase since September of 2006, followed by an unexpected February that saw the fastest pace for growth among businesses in the U.S. in two decades. The rise in manufacturing helped the economy added 192,000 jobs in February, decreasing the unemployment rate to its lowest level in two years at 8.9%.

The regional economy in 2011 will be led by defense spending, growth at the port, and jobs in health care. Traffic at the Port of Virginia increased 11.9% in January 2011 as compared to January 2010. Civilian employment in the region is expected to expand by about 9,600 jobs while the loss of jobs at U.S. Joint Forces of Command will not be pronounced until 2012 or 2013.

Leasing Activity

Leasing activity carried over from the fourth quarter of 2010 into the first quarter of 2011 and consisted primarily of small deals between

5,000-15,000 square feet (sf). Total leasing activity for the quarter breached positive terrain at around 275,000 sf leased.

The vacancy rate basically held steady, decreasing from 9.5% in the fourth quarter to 9.4%, but is down 1.8% from the first quarter of 2010. Absorption landed in negative territory at negative 148,834 sf, of which 132,033 sf was warehouse space. Overall rental rate also changed little from the fourth quarter of 2010 increasing \$0.01 to \$5.89. Year over year change in the direct rental rate increased 3.77%.

Alternative energy companies expanded in the market. Enviva, which produces recycled wood pellets and other biomass energy products, purchased a 32 acre marine terminal in Chesapeake to ship its product, and off-shore wind continues to create a buzz in the region.

Outlook

The outlook for Hampton Roads and the economy as a whole continues to tenuously improve. The Port of Norfolk expects to see an increase in container demand boosted by consumer spending at home and rising global demand abroad.

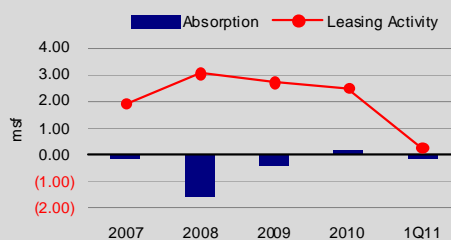
Governor McDonnell recently announced the sale of the old Ford Motor site to Katoen Natie (KTN), a worldwide global logistics provider. The 662,000-sf building sold for \$10.5 million. The project is expected to create 225 new jobs.

2011 should be a positive year overall with an expanding GDP and mild private sector job growth. The absorption of the Ford plant will have a dramatic impact on market statistics, decreasing vacancy and pushing absorption into positive territory. Leasing activity should increase modestly throughout 2011 riding on the back of business investments as well as consumer and global demand.

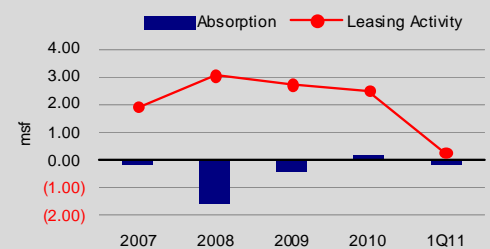
Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	11.4%	9.6%	-1.8 pp	▼
Direct Asking Rents	\$5.31	\$5.51	3.77%	◄►
YTD Leasing Activity (sf)	252,120	274,366	8.8%	▲

Absorption vs. Leasing Activity



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Submarket	Inventory	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Net Absorption	YTD Overall Net Absorption	Direct Weighted Average Net Rental Rate*			
								HT	MF	OS	W/D
Copeland	15,462,003	9.4%	78,082	52,000	0	(46,469)	(46,469)	\$11.00	\$4.37	\$7.31	\$4.35
Gloucester	299,993	19.0%	0	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Mathews County	51,470	0.0%	0	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,946,284	6.1%	1,900	0	0	(36,544)	(36,544)	\$6.70	\$5.69	\$12.00	\$6.82
Oyster Point	5,466,596	3.6%	2,300	0	0	25,141	21,249	\$7.00	\$8.73	\$8.00	\$5.91
Williamsburg Extended	7,812,720	5.6%	0	0	4,932	(1,711)	(1,711)	\$8.00	\$5.59	\$0.00	\$4.89
Peninsula	34,039,066	7.2%	82,282	52,000	4,932	(59,583)	(63,475)	\$11.00	\$4.83	\$7.92	\$5.01
Airport Industrial Park	4,007,952	10.3%	16,200	0	0	3,128	3,128	\$0.00	\$4.80	\$8.13	\$5.28
Bainbridge	10,540,151	10.2%	30,195	0	0	(63,847)	(63,847)	\$6.07	\$0.00	\$10.55	\$4.35
Cavalier	6,599,620	9.0%	31,843	0	0	16,947	16,947	N/A	\$4.25	\$12.00	\$5.09
Central Norfolk	7,317,499	26.2%	17,086	33,000	0	(40,057)	(40,057)	\$11.20	\$0.00	\$8.53	\$4.57
Cleveland	4,898,930	8.5%	10,318	0	0	87,976	85,976	\$4.00	\$9.25	\$9.19	\$6.05
Franklin City	307,136	4.2%	0	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Greenbier	2,752,040	12.8%	38,957	0	0	(62,109)	(53,311)	\$11.75	\$0.00	\$6.65	\$6.21
Isle of Wight	3,470,220	10.4%	0	0	0	(36,762)	(36,762)	\$0.00	\$0.00	\$0.00	\$7.30
Lynnhaven	11,181,178	9.3%	11,825	93,999	4,200	(40,184)	(40,184)	\$5.32	\$8.35	\$10.11	\$5.82
Norfolk Industrial Park	8,814,815	6.5%	7,500	0	0	3,148	27,802	\$4.46	\$7.25	\$6.05	\$4.47
North Suffolk	1,445,633	3.3%	0	0	0	500	500	\$3.95	\$0.00	\$0.00	\$5.50
Portsmouth	5,707,775	3.6%	0	0	0	(5,058)	(5,058)	\$0.00	\$7.17	\$4.31	\$3.26
South Suffolk	10,367,930	13.2%	26,960	0	0	(10,560)	(10,560)	\$4.34	\$5.00	\$6.07	\$4.70
West Norfolk	3,468,747	7.3%	1,200	0	0	30,067	30,067	\$6.00	\$3.73	\$6.30	\$5.22
Southside	80,879,626	10.7%	192,084	126,999	4,200	(116,811)	(85,359)	\$11.64	\$4.94	\$7.77	\$4.93
Hampton Roads	114,918,692	9.6%	274,366	178,999	9,132	(176,394)	(148,834)	\$11.58	\$4.87	\$7.79	\$4.94

Market Highlights

SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	MARKET	TENANT	SQUARE FEET	PROPERTY TYPE
3100 Elmhurst*	Portsmouth	RPM Warehouse	120,000	Warehouse/Distribution
713 Fenway	Bainbridge	MID INC.	38,000	Warehouse/Distribution

* Renewal – not included in Leasing Activity Statistics

SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Norfolk Assembly (Ford) Plant	Norfolk	Katoen Natie	662,000	\$10,500,000
4808 Commerce Dr.	Copeland	LPI Technical Services	24,000	\$840,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2512 Aviation	Lynnhaven	ADS Tactical	80,000	1Q12
2401 Aluminum	Copeland	Foodbank VA	52,000	2Q11