

MARKETBEAT

HAMPTON ROADS OFFICE 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 maintenance-delaying operations in Newport News and has caused Hampton Roads contractors to brace for disruptions in funding.

Despite the uncertainty, the U.S. economy continues to provide signals of a strengthening recovery. Consumers have shown resiliency in absorbing the cost of oil as retail sales increased 1.0% in February, led by cars, computers and commodities. Increases in consumer and business spending helped the economy add 192,000 jobs in February. The not-seasonally adjusted unemployment rate continues to improve at the national, state and local level. The national non-seasonally adjusted unemployment rate decreased to 9.8% in January from 10.6% a year ago. Virginia saw a year-over-year decrease to 6.9% from 7.8%, while Hampton Roads experienced a slightly smaller decrease to 7.6% from 8.0%.

Absorption and Leasing Activity

More tenants are looking in the market for deals or concessions for renewals. Many landlords are being proactive in extending and reducing rents to prevent tenants from going to market. Absorption is occurring in class A buildings as tenants are able to upgrade from class B properties, oftentimes without any additional cost.

Rents are stabilizing for high demand buildings and likely will increase soon. Overall absorption for the Hampton Roads market was 42,006 square feet (sf). Class A absorption was just shy of 130,000 sf. 309,359 sf of leasing activity occurred in the first quarter,

42% (128,921 sf) of which occurred in class A buildings.

The overall vacancy rate for office buildings is finally seeing positive trends. The vacancy rate decreased from the fourth quarter of 2010 to first quarter of 2011 to 11.9% from 12.4%. This is the second consecutive quarter to see a decrease in the vacancy rate since it started increasing in 2007. The Hampton Roads office market vacancy appears to have peaked in the third quarter of 2010 at 12.5%.

Outlook

Cautious optimism seems to be the feeling permeating the economic recovery thus far in 2011. Despite the geopolitical events that shook the market in the first quarter of 2011, increases in consumer spending, business investments, and job growth kept the economy expanding and the economic recovery moving ahead. The Hampton Roads region has much to lose, and gain, from decisions in Washington. Those who rely on defense dollars will remain on unstable ground until funding from Washington can be assured.

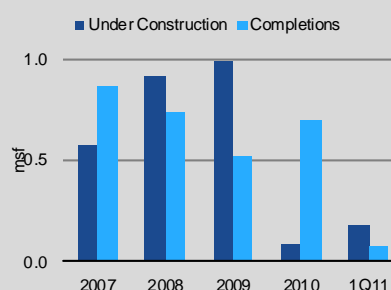
While gross regional product increased in 2010, the Hampton Roads region's employment contracted by 7,300 jobs, roughly half of the 15,000 jobs lost in the state. The professional and business service sector declined the most losing 1,900 jobs. Old Dominion University economists predict that civilian employment will expand by 9,600 jobs throughout 2011.

With little construction in the pipeline and modest employment growth, the Hampton Roads office vacancy rate will continue a lethargic decline while rents bounce along the bottom for all but high demand buildings. While 2011 should experience positive growth trends with an expanding GDP, leasing activity will not expand dramatically until hiring begins in earnest. Demand for Class A buildings in good locations will continue to thrive causing rents to increase.

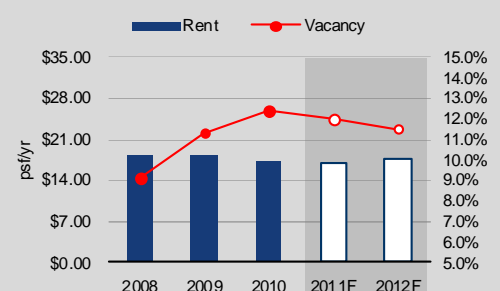
Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	11.4%	11.9%	0.5 pp	▼
Overall Asking Rents	\$17.90	\$17.11	-4.4%	◄►
YTD Leasing Activity (sf)	252,120	309,359	22.7%	▲

Under Construction vs. Completions



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Downtown Norfolk	5,028,832	16.4%	16.3%	5,916	0	2,000	36,166	36,166	\$19.95	\$23.16
CBD	5,028,832	16.4%	16.3%	5,916	0	2,000	36,166	36,166	\$19.95	\$23.16
Coliseum Central	1,234,141	18.0%	17.2%	0	0	0	4,827	4,827	\$14.89	\$22.00
Downtown Hampton	597,387	15.2%	14.8%	550	0	0	(7,117)	(7,117)	\$16.85	\$18.00
Downtown Newport News	1,709,493	5.0%	5.0%	15,584	0	0	(5,971)	(5,971)	\$13.21	\$0.00
Fox Hill	170,489	4.2%	4.2%	0	0	0	(3,677)	(3,677)	\$14.36	\$38.77
Glooucester	148,490	13.2%	13.2%	0	0	0	0	0	\$13.14	\$28.19
Hampton Roads Center	1,004,361	12.9%	11.8%	10,844	0	0	(27,791)	(27,791)	\$16.15	\$20.02
Mathews County	13,286	0.0%	0.0%	0	0	0	0	0	\$0.00	\$26.04
Oyster Point	4,918,647	11.8%	11.4%	40,684	33,000	0	30,297	30,297	\$16.69	\$21.77
Poquoson	74,242	2.3%	2.3%	0	0	0	0	0	\$14.14	\$29.64
Suburban Newport News	1,039,446	7.2%	7.2%	4,782	0	0	2,595	2,595	\$14.33	\$22.00
Williamsburg/James City County	1,953,283	11.9%	11.8%	4,710	0	0	12,823	12,823	\$15.69	\$22.61
York	837,441	12.9%	12.9%	36,635	29,716	0	(1,558)	(1,558)	15.77	\$19.00
Peninsula Non-CBD	13,700,706	11.4%	11.1%	113,789	62,716	0	4,428	4,428	\$15.85	\$20.37
Airport/Norhampton	605,113	13.4%	12.1%	0	0	0	(12,516)	(12,516)	\$14.59	\$0.00
Battlefield	1,389,383	14.1%	13.8%	7,911	0	0	2,630	2,630	\$15.25	\$21.10
Central Norfolk	3,127,791	16.6%	15.9%	42,853	0	0	679	679	\$15.80	\$20.53
Churchland	313,005	2.4%	2.4%	0	0	0	2,391	2,391	\$14.32	\$0.00
Downtown Portsmouth	1,071,199	5.0%	5.0%	0	0	0	(2,730)	(2,730)	\$15.86	\$16.58
Franklin City	237,193	1.4%	1.4%	0	0	0	0	0	\$13.11	\$0.00
Greenbrier	2,551,194	11.1%	10.6%	8,737	27,476	27,476	(1,807)	(1,807)	\$17.91	\$19.10
Harbourview/Northern Suffolk	1,603,259	11.5%	11.2%	0	39,399	32,285	20,230	20,230	\$21.52	\$23.29
Haygood/Bayside	552,250	11.5%	11.5%	0	0	0	(9,647)	(9,647)	\$14.63	\$0.00
Hilltop/Great Neck	1,084,459	14.1%	13.5%	1,400	12,528	0	(9,254)	(9,254)	\$18.58	\$27.00
Isle of Wight	262,112	12.5%	10.6%	236	0	0	(6,057)	(6,057)	\$15.02	\$0.00
Kempsville	467,814	9.3%	9.3%	3,723	7,200	0	5,276	5,276	\$16.36	\$17.70
Little Neck	1,060,274	8.1%	8.1%	2,630	0	0	14,139	14,139	\$14.46	\$0.00
Lynnhaven	1,880,813	17.5%	17.3%	18,412	0	0	(13,924)	(12,414)	\$15.59	\$19.09
Newtown/Witchduck	2,951,079	8.5%	8.0%	29,758	16,500	0	(34,376)	(34,376)	\$17.30	\$19.95
Norfolk ODU/Ghent	1,047,058	18.2%	18.2%	450	17,301	17,301	(6,832)	(6,832)	\$21.06	\$25.85
Oceanfront	624,968	10.3%	10.3%	0	0	0	1,185	1,185	\$19.85	\$27.40
Portsmouth	416,288	10.3%	10.3%	0	0	0	(17,666)	(17,666)	\$13.80	\$15.50
Princess Anne	887,459	11.3%	11.3%	4,233	0	0	3,494	3,494	\$17.53	\$22.05
S. Independence/Holland Rd.	970,439	8.7%	8.7%	1,810	0	0	36,957	39,771	\$17.37	\$19.54
South Norfolk	473,874	11.5%	11.5%	225	0	0	28,052	28,657	\$11.95	\$0.00
South Suffolk	849,842	5.9%	5.9%	0	0	0	(4,631)	(4,631)	\$13.78	\$0.00
Southern Chesapeake	574,370	11.0%	11.0%	0	0	0	(7,094)	(7,094)	\$14.64	\$0.00
Surry County	15,000	0.0%	0.0%	0	0	0	0	0	\$10.00	\$0.00
Virginia Beach CBD/Pembroke	1,968,256	6.2%	6.0%	64,476	0	0	223	4,973	\$20.50	\$23.44
Western Branch	228,255	10.0%	10.0%	2,800	0	0	1,400	1,400	\$14.96	\$0.00
Southside Non-CBD	27,212,747	12.0%	11.8%	189,654	120,404	77,062	(9,878)	1,412	\$17.68	\$21.23
All Non-CBD	40,913,453	11.4%	11.0%	303,443	183,120	77,062	(5,450)	5,840	\$16.67	\$20.61
Hampton Roads Total	45,942,285	11.9%	11.0%	309,359	183,120	79,062	30,716	42,006	\$17.11	\$21.29

Market Highlights

SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
133 Waller Mill	York	SDV Properties	36,000	B
222 Central Park	VA Beach CBD/Pembroke	N/A	23,000	A

SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
225 Clearfield	Newtown/Witchduck	Urology of VA-Sentara Healthcare	45,979	\$4,000,000

SIGNIFICANT 1Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
725 Volvo	Greenbrier	N/A	27,476	1Q11
3345 Bridge	Harbourview	N/A	19,355	1Q11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
6005 Harbour View	Harbour View	Towne Bank	39,999	4Q11