

MARKETBEAT

Hampton Roads RETAIL REPORT

1Q11

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Overview

Cautious optimism seems to be the feeling permeating the economic recovery. Geopolitical events shook the markets in the first quarter of 2011. Unrest that began in Tunisia and swept across North Africa and the Middle East has oil trading above 100 dollars a barrel and a devastating earthquake and ensuing tsunami has Japan, the world's third largest economy, reeling. At home, a stalemate between deficit reductions and funding popular programs has led to stop gap budgets and threatens to shut down the government in Washington. The lack of continuity in funding forced the Navy to cancel or postpone ship repairs and maintenance and has contractors bracing for further uncertainty in funding.

Despite the shocks and the uncertainty, increases in consumer spending, business investments, and job growth kept the economy expanding and the economic recovery moving ahead. Consumers have showed resiliency in absorbing the cost of oil so far as retail sales increased one percent in February led by purchases of cars, computers and commodities. Consumer spending helped the economy added 192,000 jobs in February and 216,000 in March. 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 slightly smaller decrease to 7.6% from 8.0%.

Economy

Positive activity in the Hampton Roads retail market has carried over from the fourth quarter of 2010 into the start of 2011. Past concerns over the loss of JFCOM have subsided as tenants continue with plans in the Harbour View area of Suffolk. Big box retailers have begun touring the market for the first time in a few years. Dicks sporting goods opened a store in Harbour View, Target announced a store in Pembroke, Harris Teeter relocated in Ghent and Ashley Furniture opened a store in Greenbrier. Do-it-yourself auto-mechanic stores, such as Auto-Zone and O'Reilly Auto Parts, are expanding and doing deals in the marketplace as well. Many landlords would not have

settled for auto parts stores a few years ago but are now making deals. Additionally, an Asian restaurant, Hibachi Grill and Supreme Buffet, plans to open in a 28,295 square feet (sf) space formerly occupied by Comp USA at 5957 Virginia Beach Boulevard in Norfolk.

Year to date leasing activity and direct absorption are a paltry 125,005 sf and 98,027 sf respectively. Overall vacancy rate for retail held steady at 6.5% from last quarter while direct asking rents dropped \$.07 to \$13.65.

Significant sales that occurred over the first quarter include Settlers Market in Williamsburg which sold for \$13.25 million as well as Landstown Commons Shopping Center, a 409,749 sf retail center in Virginia Beach, which sold to Inland Diversified Real Estate Trust for \$91.2 million.

Outlook

Increasing payrolls and household income boosted consumer spending in the first quarter and has experts believing the economy has transitioned into a self-sustaining expansion. Growth in disposable income also has enabled households to weather rising food and energy cost

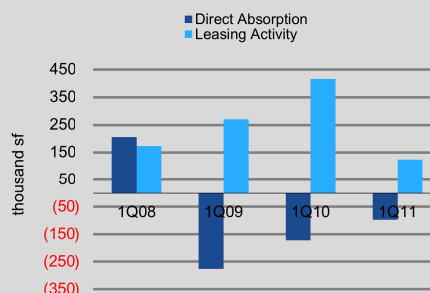
Hampton Roads has much to lose and gain from decisions (or a lack thereof) in Washington. Those in the region who rely on defense dollars will remain on unstable ground until funding can be assured. The Hampton Roads economy will grow but at a slower rate than the nation as a whole. According to Old Dominion University economist, the regional economy will be led by defense spending, growth at the port, and jobs in health care. 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 and absorption should increase throughout the year as large blocks of space come off the market from the expansion of big box stores. Rental rates will troll the bottom in 2011 and begin rising in 2012.

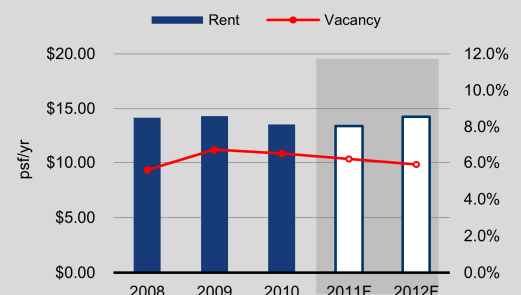
Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	6.8%	6.5%	-0.3 pp	▼
Direct Asking Rents	\$14.24	\$13.65	-4.14%	▲
YTD Leasing Activity (sf)	416,176	125,005	-70.0%	▲

Absorption vs. Leasing Activity



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. Rental Rate*
Denbigh	2,062,955	10.9%	10.7%	0	-	0	(10,552)	(10,552)	\$9.82	\$10.47
Downtown Hampton	847,844	6.4%	6.4%	1,513	-	0	(687)	(687)	\$12.37	\$12.37
Downtown Newport News	615,541	0.9%	0.9%	0	-	0	6,050	6,050	-	-
Fox Hill	1,526,866	9.5%	5.5%	0	-	0	2,493	2,493	\$12.74	\$13.10
Gloucester	2,027,643	8.6%	8.0%	1,180	-	0	(7,441)	(7,441)	\$11.43	\$11.43
Hampton North	4,241,435	6.4%	6.4%	9,995	-	0	(539)	(539)	\$14.72	\$14.72
James River	2,089,904	3.1%	3.1%	0	-	4800	(18,330)	(13,330)	\$13.27	\$13.27
Lightfoot	2,731,078	6.7%	6.7%	0	-	0	(2,560)	(2,560)	\$16.36	\$16.36
Mathews County	111,242	0.0%	0.0%	1,200	-	0	5,200	5,200	\$0.00	\$0.00
Mercury Central	6,243,096	8.0%	7.8%	0	-	8400	(14,834)	(14,834)	\$9.33	\$9.33
Patrick Henry	4,447,610	3.4%	3.4%	1,058	13,300	13300	(2,224)	(2,224)	\$15.36	\$15.36
Poquoson	1,822,250	6.7%	6.7%	0	-	0	4,838	4,838	\$13.72	\$13.72
Williamsburg	4,198,542	9.0%	9.0%	7,330	77,051	13239	29,631	29,631	\$19.71	\$20.06
Yorktown	418,886	6.9%	6.9%	0	-	0	1,400	1,400	\$12.65	\$12.65
Peninsula Total:	33,384,892	6.9%	6.7%	22,276	90,351	39739	(7,555)	(2,555)	\$12.86	\$13.12
Campostella/S. Norfolk	1,777,237	4.6%	4.3%	40,000	-	0	(17,859)	(17,859)	\$12.05	\$12.29
Chesapeake Square	2,910,459	1.8%	1.8%	7,776	-	0	1,844	1,844	\$15.79	\$15.79
Churchland	1,736,662	5.3%	4.6%	0	-	0	15,742	15,742	\$13.50	\$13.39
College Park	1,990,142	7.1%	7.1%	3,530	-	5400	2,994	2,994	\$12.11	\$12.11
Deep Creek	1,212,809	6.1%	6.1%	0	-	0	200	200	\$15.22	\$15.22
Downtown Norfolk	4,764,994	5.4%	5.4%	731	4,854	0	25,752	25,752	\$13.99	\$13.99
Downtown Suffolk	1,113,038	7.1%	7.1%	0	-	0	(28,150)	(28,150)	\$8.88	\$8.88
Franklin City	1,502,706	7.6%	7.6%	0	-	0	1,408	1,408	\$11.40	\$11.40
General Booth Corridor	2,019,982	6.4%	6.4%	1000	-	0	(16,722)	(16,722)	\$20.59	\$20.53
Great Bridge	1,659,372	6.9%	6.9%	7,770	183,975	0	(22,132)	(22,132)	\$17.03	\$17.03
Greenbrier/Battlefield	4,233,925	2.2%	2.2%	7,407	-	0	3,556	3,556	\$18.47	\$18.46
Hilltop/Great Neck	2,947,859	3.1%	3.1%	2,700	-	0	6,088	6,088	\$14.82	\$14.82
Holland Road	1,899,181	17.0%	16.9%	0	-	0	(25,741)	(25,741)	\$10.72	\$10.72
Isle of Wight	666,831	16.3%	16.3%	4,200	-	0	1,650	1,650	\$6.12	\$6.12
Kempsville	1,836,778	10.2%	10.1%	1,350	-	0	(22,103)	(22,103)	\$15.27	\$15.26
Little Creek	3,497,759	7.1%	7.1%	4,160	-	0	390	390	\$12.92	\$12.92
Little Neck	2,798,668	6.5%	6.5%	1,000	-	0	1,861	1,861	\$16.73	\$16.73
Lynnhaven	2,377,658	11.8%	11.8%	0	-	0	300	300	\$16.00	\$16.00
Mid-City	2,748,903	5.2%	5.2%	1,250	-	0	(4,051)	(4,051)	\$10.65	\$10.65
Military	4,985,464	3.5%	3.4%	1,574	-	0	12,211	12,211	\$11.49	\$11.49
Newtown	2,697,843	3.7%	3.3%	0	-	0	(1,184)	(1,184)	\$12.37	\$12.37
Northern Suffolk	889,868	28.9%	28.7%	1,364	20,308	0	0	0	\$18.12	\$18.12
Oceanfront	1,908,141	2.5%	2.5%	0	52,619	7619	(12,112)	(12,112)	\$18.22	\$18.22
Pembroke	3,899,216	5.1%	5.1%	0	-	0	(15,968)	(17,947)	\$16.14	\$16.14
Princess Anne	1,524,220	6.5%	5.7%	0	-	0	(1,099)	(1,099)	\$17.25	\$17.25
Shore Drive	1,039,124	7.4%	7.4%	4,400	240,000	0	(27,133)	(27,133)	\$13.32	\$13.32
Smithfield	708,464	5.5%	5.5%	0	-	0	0	0	\$13.39	\$13.39
Suffolk	1,696,648	7.6%	7.6%	0	-	0	9,161	9,161	\$16.22	\$16.22
Surry County	123,140	0.0%	0.0%	0	-	0	0	0	\$0.00	\$0.00
VA. Beach Courthouse	619,000	11.3%	11.3%	0	-	0	12,152	12,152	\$20.94	\$20.94
Victory	2,303,051	5.9%	5.9%	5,307	-	0	2,171	2,171	\$16.82	\$16.82
Wards Corner	781,771	15.2%	15.2%	7,210	-	0	6,302	6,302	\$10.93	\$10.93
Southside Total:	66,870,913	6.4%	6.3%	102,729	501,756	13,019	(90,472)	(92,451)	\$14.01	\$14.01
Hampton Roads Total:	100,255,805	6.5%	6.4%	125,005	592,107	52,758	(98,027)	(95,006)	\$13.55	\$13.65

Market Highlights

SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
1140 S. Military	South Norfolk	O'Reilly Auto Parts	40,000	A
7623 Granby*	Wards Corner	AutoZone Development	19,500	B

* Renewal – not included in Leasing Activity Statistics

SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Landstown Commons Shopping Center	VA Beach Courthouse	Inland Diversified Real Estate	409,747	\$91,200,000
500 Settlers Market	Williamsburg	Federal Capital Partners	25,943	\$13,250,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1276 Baker Road	Shore Dr.	DLH Sports complex	240,000	3Q11
201 Hillcrest	Great Bridge	Wal-Mart	147,806	3Q11