

MARKETBEAT

HAMPTON ROADS INDUSTRIAL REPORT

2Q11

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

WWW.CUSHWAKE.COM/KNOWLEDGE

Overview

The economic recovery remains disappointingly slow through the first part of 2011. U.S. GDP expanded at a 1.9% annual rate in the first quarter of 2011 after a 3.1% gain in the fourth quarter of 2010. Employment growth moderated in May, adding 54,000 jobs after expanding 244,000 jobs in April. The lackluster job growth caused the national seasonally adjusted unemployment rate to creep up to 9.1% in May.

The Virginia and Hampton Roads economies are faring better than the nation as a whole. The seasonally adjusted unemployment rate for Virginia decreased 0.1% to 6.0% from April to May. The non-seasonally adjusted rate in Hampton Roads decreased 0.4% from March to May to a preliminary estimate of 6.6%. Additional positive labor market news for the region stems from the Newport News shipyard which expects to hire 10,000 skilled workers over the next five years.

The port of Hampton Roads received strong numbers in the month of April with a 9.6% year-over-year increase in container traffic. CSX Corporation, the nation's third-largest railroad, is investing in the region with a \$160 million project that will allow double stack rail service between Hampton Roads and the Midwest similar to Norfolk Southern's Heartland Corridor. Proximity to the port and access to rail continues to drive investment decisions in the region.

Leasing Activity

Leasing activity increased dramatically in the second quarter of 2011 with year-to-date leasing activity reaching 2,738,644 square feet (sf). By contrast, leasing activity for the same time a year ago was only

1,340,108 sf. Brokers report that increased activity exists within the market between the 40- to 80-thousand sf ranges as companies that have delayed expansion in years past seize the opportunity to absorb larger space at reduced rents.

The vacancy rate decreased sharply in the second quarter by 1.8 percentage points from 9.4% to 7.6%. Year-to-date absorption remains in negative territory at negative 43,859 sf, the majority of which, negative 112,376 sf, stems from manufacturing.

A few significant announcements and deals came to light in the second quarter of 2011. The Virginia Port Authority approved funding for a 500,000-sf warehouse for the import and export of paper and pulp by Kruger, a Montreal based paper company, and International Paper announced the repositioning of the paper mill in Isle of Wight County to manufacture fluff pulp, creating 213 jobs.

Major leases include Lumber Liquidators which took 515,486 sf of space in the Copeland submarket of Hampton and California Cartage Co., a Long Beach, CA logistics and distribution firm, which leased 385,320 sf at the Virginia Commerce Center in Suffolk to be near the Target Import Warehouse. Another logistics and distribution company, Total Distribution, signed an 110,000-sf lease in Norfolk Industrial Park.

Outlook

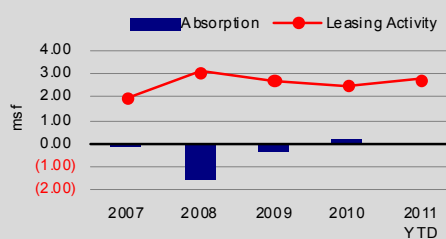
The outlook for Hampton Roads and the economy as a whole continues to improve, if rather slowly. Leasing activity should continue to increase throughout 2011 and absorption should break positive as bulk space becomes occupied.

Employment and income growth, along with business investment and rising international trade, will continue to fuel the economy and create demand for industrial space throughout the rest of 2011 and into 2012.

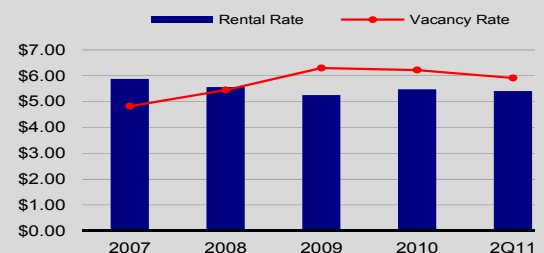
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	9.7%	7.6%	-2.1 pp	▼
Direct Asking Rents	\$5.22	\$5.41	3.6%	◄►
YTD Leasing Activity (sf)	1,340,108	2,738,644	104.4%	▲

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	15,607,289	8.3%	918,683	0	63,226	94,681	135,134	\$11.00	\$4.31	\$7.53	\$3.75
Gloucester	309,150	18.9%	0	0	0	(1,600)	(1,600)	\$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	5,063,267	7.4%	13,455	0	10,344	(101,922)	(101,922)	\$6.70	\$5.69	\$9.32	\$6.82
Oyster Point	5,497,973	4.3%	65,700	0	9,848	(43,477)	(47,369)	\$7.00	\$8.73	\$6.90	\$5.91
Williamsburg Extended	7,736,281	5.6%	14,600	0	5,605	7,817	7,817	\$0.00	\$5.59	\$7.05	\$4.19
Peninsula	34,265,430	7.0%	1,012,438	0	89,023	(44,501)	(7,940)	\$11.00	\$4.77	\$7.20	\$4.39
Airport Industrial Park	3,997,616	12.3%	38,800	0	0	(85,306)	(85,306)	\$0.00	\$4.80	\$7.56	\$5.27
Bainbridge	10,554,346	7.9%	193,229	0	0	22,557	2,017	\$0.00	\$0.00	\$10.56	\$4.96
Cavalier	6,611,038	9.2%	170,351	0	0	(29,064)	(23,064)	N/A	\$4.25	\$11.92	\$5.15
Central Norfolk	5,974,069	6.6%	41,419	33,000	0	9,371	42,959	\$11.20	\$0.00	\$8.05	\$4.68
Cleveland	4,990,862	8.6%	46,808	0	0	75,058	73,058	\$0.00	\$9.25	\$9.29	\$5.89
Franklin City	302,636	4.3%	4,250	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Greenbrier	2,728,119	10.7%	226,080	0	0	(55,470)	(46,672)	\$11.75	\$0.00	\$6.65	\$6.37
Isle of Wight	3,472,720	10.4%	7,000	0	0	(36,462)	(36,462)	\$0.00	\$0.00	\$0.00	\$7.08
Lynnhaven	11,133,339	9.2%	136,108	95,908	4,200	(61,585)	(61,585)	\$0.00	\$7.05	\$9.80	\$5.23
Norfolk Industrial Park	9,045,136	5.3%	86,253	0	0	98,720	123,374	\$6.21	\$7.25	\$6.33	\$4.35
North Suffolk	1,843,052	2.5%	0	0	0	2,183	2,183	\$0.00	\$0.00	\$0.00	\$5.50
Portsmouth	5,596,396	4.0%	217,566	0	0	(51,010)	(51,010)	\$0.00	\$7.17	\$5.75	\$3.65
South Suffolk	10,371,416	8.0%	543,117	0	0	9,414	17,804	\$4.34	\$5.00	\$7.55	\$4.54
West Norfolk	3,467,189	8.2%	15,225	0	0	6,785	6,785	\$6.00	\$3.73	\$6.46	\$5.02
Southside	80,087,934	7.9%	1,726,206	128,908	4,200	(94,809)	(35,919)	\$11.64	\$5.01	\$8.14	\$4.85
Hampton Roads	114,353,364	7.6%	2,738,644	128,908	93,223	(139,310)	(43,859)	\$11.58	\$4.86	\$7.96	\$4.77

* Rental rates reflect asking \$psf/year.

HT= High Tech MF=Manufacturing OS= Office Service W/D = Warehouse/Distribution

Market Highlights

SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	MARKET	TENANT	SQUARE FEET	PROPERTY TYPE
West Park I & II	Copeland	Lumber Liquidators Holdings	515,486	Warehouse/Distribution
Virginia Commerce Center	Suffolk	California Cartage	385,319	Warehouse/Distribution
3700 Village	Norfolk Industrial Park	Total Distribution	110,000	Warehouse/Distribution

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
310 E St	Copeland	Schaubach Rentals	72,000	\$2,750,000
325 E St	Copeland	Synergy Flow Systems	20,786	\$1,250,000

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2512 Aviation	Lynnhaven	ADS Tactical	80,000	1Q12
7400 Gregory	Central Norfolk	N/A	33,000	4Q11