

MARKETBEAT

HAMPTON ROADS OFFICE REPORT

2Q11

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Overview

The economic recovery remains sluggish through the first half 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 last quarter of 2010. Employment growth moderated in May adding 54,000 jobs after expanding 244,000 jobs in April while the unemployment rate crept up to 9.1%. Supply disruption out of Japan caused manufacturing, which has been at the forefront of the recovery, to slow as factories await supplies. In addition to supply disruptions, high oil and commodity prices led to the moderation of consumer spending in May and April. Despite the slowdown, the U.S. economy continues to expand and appears poised for growth in the second half of 2011.

The Virginia and Hampton Roads economies are faring better than the nation as a whole. The seasonally adjusted unemployment rate for Virginia dropped to 6.0% in May, a 0.1% decrease from April. The non-seasonally adjusted rate in Hampton Roads decreased 0.4% from March to May to a preliminary estimate of 6.6%. Employment in professional and business services, an industry with high office use, increased in Virginia by 18,100 from April 2010 to April 2011 and by 4,800 from March to April. In Hampton Roads, professional and business services employment increased by 1,500 and 2,900 in March and April respectively.

Absorption and Leasing Activity

Leasing activity remains slow and sporadic among office users. Health care, defense contractors, and engineering related industries continue to generate most of the activity.

Leasing activity for the second quarter reached 412,913 square feet (sf) and 836,847 sf year-to-date. A large part of the leasing activity occurred in the Greenbrier submarket due to the data reflecting a downsizing of EDS which signed 112,297 sf at 1434 Crossways; EDS once occupied all 220,501 sf of the building.

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Quarterly absorption for the Hampton Roads market fell to -80,817 sf but remains positive for the year due to an upward revision in the estimate for absorption in the first quarter.

Demand for class A buildings remains strong, as 41% (171,285 sf) of the leasing activity for the quarter and 44% (354,948 sf) for the year occurred within class A space. In addition to strong leasing activity, class A absorption outpaced overall absorption, reaching 142,354 sf for the quarter and 308,967 sf for the year. The demand for class A space increased direct asking rent from \$21.29 per square foot (psf) to \$21.86 psf. Direct asking rent among all classes decreased from \$17.20 psf to \$17.12 psf.

Significant sales of note include 5701 Cleveland, a 136,000-sf building and former hub for Verizon. It sold for \$12.6 million to Olympia Development. The building last sold for \$14.8 million in 1993. Another sale of note occurred at 780 Lynnhaven Parkway, a 79,182-sf building that sold for \$8.4 million.

The overall vacancy rate increased from 11.9% in the first quarter of 2011 to 12.4% after two consecutive quarters of decline.

Outlook

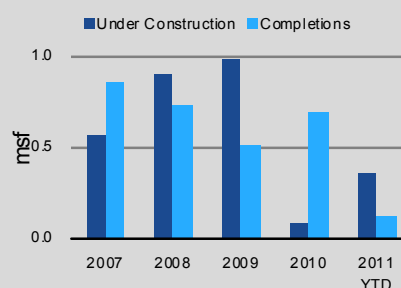
The U.S. economy continues to recover at a moderate pace although far slower than expected. The economy should expand a bit faster in the second half 2011 with positive growth trends to continue with an expanding GDP. Global headwinds and concerns include the sovereign debt crisis in Europe, the federal budget deficit, and a weak U.S. housing sector.

Leasing activity will not expand dramatically until hiring begins in earnest. Demand for office space, meanwhile, will be supported by payroll growth in the professional and business services industry. Demand for class A buildings in good locations will continue, causing rents to increase for this product and putting downward pressure on class B and C rents.

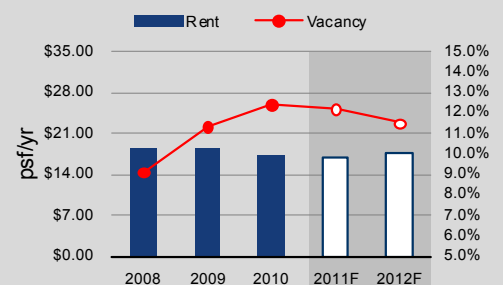
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	12.1%	12.4%	0.3 pp	▼
Overall Asking Rents	\$17.85	\$17.04	-4.5%	▼
YTD Leasing Activity (sf)	677,008	836,847	23.6%	▲

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 Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Downtown Norfolk	5,278,891	16.7%	16.3%	37,625	0	2,000	2,1787	11,265	\$ 19.90	\$25.06
CBD	5,278,891	16.7%	16.3%	37,625	0	2,000	21,787	11,265	\$ 19.90	\$ 25.06
Coliseum Central	1,234,141	19.0%	18.3%	31,070	0	0	(35,399)	(35,399)	\$ 14.69	\$20.85
Downtown Hampton	609,729	26.7%	26.3%	11,942	0	0	(72,409)	(72,409)	\$ 12.34	\$ 0.00
Downtown Newport News	1,700,501	4.6%	4.6%	15,584	0	0	14,156	14,156	\$ 13.07	\$ 0.00
Fox Hill	186,058	2.1%	2.1%	0	0	0	(1,300)	(1,300)	\$ 15.18	\$ 0.00
Gloucester	149,060	20.3%	20.3%	0	0	0	(9,040)	(9,040)	\$ 14.31	\$ 0.00
Hampton Roads Center	1,003,342	11.3%	10.2%	34,581	0	0	(8,788)	(8,788)	\$ 15.68	\$20.07
Mathews County	13,286	0.0%	0.0%	0	0	0	0	0	\$ 0.00	\$ 0.00
Oyster Point	4,917,672	12.7%	12.3%	67,012	33,000	33,000	16,556	17,593	\$ 16.30	\$22.18
Poquoson	73,817	7.3%	7.3%	0	0	0	(3,640)	(3,640)	\$ 16.23	\$ 0.00
Suburban Newport News	1,044,883	8.1%	8.1%	4,782	0	0	(3,753)	(3,753)	\$ 13.89	\$22.00
Williamsburg/James City County	1,981,442	13.8%	13.6%	31,933	35,616	0	8,610	8,610	\$ 14.83	\$23.01
York	823,697	12.2%	12.2%	39,408	0	0	45,050	45,050	\$ 15.73	\$ 19.00
Peninsula Non-CBD	13,737,628	12.2%	11.8%	236,312	68,616	33,000	(49,957)	(48,920)	\$ 15.20	\$ 21.73
Airport/Norhampton	601,820	15.5%	14.7%	5,872	0	0	(29,314)	(29,314)	\$ 14.39	\$ 0.00
Battlefield	1,390,370	15.5%	14.7%	18,077	0	0	16,354	10,601	\$ 14.55	\$ 15.98
Central Norfolk	3,086,260	16.8%	16.7%	51,251	0	0	(8,689)	9,060	\$ 15.75	\$20.12
Churchland	313,005	4.9%	4.9%	1,965	0	0	(5,545)	(5,545)	\$ 14.58	\$ 0.00
Downtown Portsmouth	1,111,409	4.9%	4.9%	-	0	0	2,700	2,700	\$ 15.68	\$ 16.58
Franklin City	237,193	14%	14%	-	0	0	0	0	\$ 13.11	\$ 0.00
Greenbrier	2,586,704	10.8%	10.2%	205,464	0	40,790	36,435	36,331	\$ 17.88	\$ 18.77
Harbourview/Northern Suffolk	1,388,899	13.2%	12.7%	14,431	58,754	12,660	36,788	34,410	\$ 21.85	\$22.70
Haygood/Bayside	554,450	11.3%	11.3%	2,056	0	0	(8,797)	(8,797)	\$ 14.44	\$ 0.00
Hilltop/Great Neck	1,087,459	14.1%	14.4%	3,321	0	12,528	(15,409)	(11,149)	\$ 18.75	\$27.00
Isle of Wight	269,112	12.3%	10.4%	474	0	0	(4,900)	(4,900)	\$ 15.20	\$ 0.00
Kempsville	460,194	8.5%	8.5%	5,523	0	7,200	9,865	9,865	\$ 15.91	\$ 19.00
Little Neck	1,060,559	7.9%	7.9%	6,402	0	0	16,259	16,259	\$ 15.31	\$ 0.00
Lynnhaven	1,880,813	18.3%	18.1%	36,462	0	0	(35,127)	(35,791)	\$ 15.49	\$ 18.82
Newtown/Witchduck	2,951,038	9.9%	9.4%	43,301	16,500	0	(34,846)	(34,846)	\$ 17.86	\$ 19.83
Norfolk ODU/Ghent	1,061,572	17.4%	17.4%	9,843	0	17,301	16,120	16,120	\$ 21.14	\$25.85
Oceanfront	626,273	10.2%	10.2%	21,454	61,980	0	803	803	\$23.32	\$28.14
Portsmouth	419,361	9.9%	9.9%	1,500	0	0	(17,666)	(17,666)	\$ 14.11	\$ 0.00
Princess Anne	900,966	11.3%	11.3%	10,098	0	0	645	645	\$ 17.03	\$21.90
S. Independence/Holland Rd.	995,036	7.7%	7.7%	12,520	0	0	46,591	49,405	\$ 17.37	\$ 19.72
South Norfolk	460,022	10.8%	10.8%	2,225	0	0	31,254	31,739	\$ 12.09	\$ 0.00
South Suffolk	858,630	5.8%	5.8%	9,161	0	0	(7,424)	(7,424)	\$ 14.57	\$ 0.00
Southern Chesapeake	574,650	9.1%	9.1%	15,500	0	0	(6,206)	(6,206)	\$ 14.57	\$ 0.00
Surry County	15,000	0.0%	0.0%	-	0	0	0	0	\$ 10.00	\$ 0.00
Virginia Beach CBD/Pembroke	1,968,256	7.3%	7.1%	79,944	0	0	26,680	34,930	\$20.54	\$23.93
Western Branch	232,599	13.8%	13.8%	6,066	0	0	(5,899)	(5,899)	\$ 15.43	\$ 0.00
Southside Non-CBD	27,091,650	12.0%	11.8%	562,910	137,234	90,479	60,672	85,331	\$ 17.26	\$ 21.08
All Non-CBD	40,829,278	11.9%	11.6%	799,222	205,850	123,479	10,715	36,411	\$ 16.68	\$ 20.19
Hampton Roads Total	46,108,169	12.4%	12.1%	836,847	205,850	125,479	32,502	47,676	\$ 17.04	\$ 21.86

* Rental rates reflect asking \$psf/year.

Market Highlights

SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
1434 Crossways*	Greenbrier	EDS	65,132	A
1434 Crossways*	Greenbrier	EDS	47,165	A

* Renewal – not included in Leasing Activity Statistics

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5701 Cleveland	Newtown-Witchduck	Olympia Development	136,000	\$12,600,000
780 Lynnhaven Pky.	Lynnhaven	Continental Capital	79,182	\$8,400,000
6257 E. Virginia Beach	Newtown-Witchduck	Baylor Corp	25,950	\$3,620,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Interstate Professional Center	Oyster Point	Peninsula Metro YMCA	33,000	2Q11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Hampton Technology Incubator	Hampton Roads Center	National Institute of Aerospace	60,000	4Q11
101 E. Queen Street	Downtown Hampton	Old Point National Bank	50,000	2012



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