

MARKETBEAT

HAMPTON ROADS INDUSTRIAL REPORT

Overview

The economy continues to struggle as hopes of a quick and robust recovery fall by the wayside. Optimism from earlier in the year has been subdued by stagnate job and economic growth. No net job growth occurred in August as the government sector shed 17,000 jobs, offsetting any private sector gains. Local government employment has declined by 550,000 jobs since peaking in September of 2008.

Old Dominion University's economist adjusted the gross regional output forecast to 1.9% from 3.1% for 2011. The forecast reflects in part the slowest growth in defense spending in the region for a decade. The July non-seasonally adjusted unemployment rate in the Hampton Roads region increased to 7.0% from 6.5% in April. The Virginia unemployment rate for August was 6.5% while the rate for the U.S. was at 9.1%. A closer analysis of the unemployment is encouraging as the increase from April stems primarily from an expanding labor force rather than from those unemployed. The number of people employed in Hampton Roads increased for the summer tourist season by 20,645 from April to July of 2011 while the labor force increased by 26,234 during the same time.

Container traffic at the Port of Virginia decreased 13% compared to August of 2010 and 10% from July.

Leasing Activity & Absorption

Leasing activity slowed to 649,770 square foot (sf) in the third quarter as compared to a little over a million in the second quarter of 2011. Year-to-date leasing activity for the third quarter reached 3,256,155 sf, over a million square feet above the same time period in 2010. The Copeland, South Suffolk, and Bainbridge submarkets led

the way in leasing activity with 1,603,750 sf in those three submarkets alone. Additionally, 2.6 msf of the year-to-date leasing activity happened in the warehouse space.

Year-to-date absorption is a paltry 46,401 sf and was a negative 56,019 sf for the quarter. The Lynnhaven submarket lost 413,024 sf in absorbed space thus far in 2011, while Cavalier and Airport Industrial Park lost 213,526 sf and 190,753 sf respectively. South Suffolk has by far out absorbed the rest of the market with 503,816 sf year-to-date. The next largest absorption occurred in Copeland with 194,950 sf. The Peninsula fared much better than the Southside with 100,430 sf and negative 54,029 sf, respectively. The Peninsula also saw a decrease in vacancy rates from 7.0% in the second quarter to 6.3%, while the Southside increased from 7.9% to 8.2% over the same time. The overall vacancy for Hampton Roads ticked up 0.1% to 7.7%.

Significant lease deals that occurred in the third quarter include US Auto Parts, which expanded to 159,294 sf in the Indian River Distribution Center. Communications Test Design also signed for 72,558 sf in the Indian River Distribution Center, and the Dixie Group signed for 81,204 sf in the Bridgeway Business Center of Suffolk.

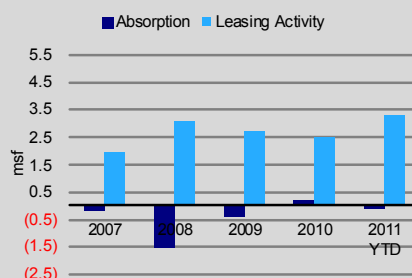
Outlook

The recession turned out to be deeper than previously believed and the recovery thus far weaker than expected. Economic growth should pick up slightly in the last quarter of 2011 and through 2012 but the road will be erratic and full of uncertainties. 2012 is shaping up to look similar to 2011. Look for a few nice deals to occur but expect overall leasing activity to remain flat. Vacancy rates should hold flat and begin to decrease as minimal construction exists in the pipeline.

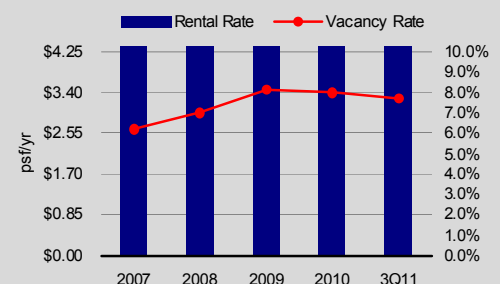
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	9.6%	7.7%	-1.9 pp	◀▶
Direct Asking Rents	\$5.39	\$5.43	0.7%	▼
YTD Leasing Activity (sf)	2,001,506	3,256,155	62.7%	◀▶

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	15,767,642	7.0%	626,553	0	63,226	123,801	194,950	6.50	\$4.57	\$8.05	\$3.57
Gloucester	320,471	18.9%	0	0	0	(3,100)	(3,100)	0.00	\$0.00	\$0.00	\$0.00
Mathews County	86,790	0.0%	0	0	0	0	0	0.00	\$0.00	\$0.00	\$0.00
Oakland	5,041,954	6.1%	33,955	0	10,344	(32,434)	(32,434)	0.00	\$5.29	\$9.32	\$6.90
Oyster Point	5,616,356	4.6%	97,301	0	9,848	(37,011)	(40,903)	0.00	\$8.73	\$6.66	\$5.91
Williamsburg Extended	7,799,625	5.9%	35,840	0	5,605	(18,083)	(18,083)	0.00	\$5.59	\$7.05	\$4.19
Peninsula	34,632,838	6.3%	793,649	0	89,023	33,173	100,430	6.50	\$5.03	\$6.89	\$4.46
Airport Industrial Park	3,998,729	15.0%	90,942	0	0	(190,753)	(190,753)	0.00	\$4.80	\$7.30	\$4.96
Bainbridge	10,881,140	6.7%	444,980	0	0	118,778	112,438	0.00	\$0.00	\$10.39	\$5.62
Cavalier	6,630,751	11.7%	191,479	0	0	(213,526)	(213,526)	0.00	\$4.25	\$11.92	\$5.19
Central Norfolk	6,017,255	5.8%	72,715	0	33,000	62,426	96,014	7.54	\$0.00	\$7.93	\$4.53
Cleveland	4,944,906	9.0%	77,640	0	0	59,209	59,209	0.00	\$0.00	\$10.18	\$5.94
Franklin City	303,212	4.5%	4,250	0	0	(576)	(576)	0.00		\$0.00	\$0.00
Greenbrier	2,710,890	6.4%	365,431	0	0	(6,642)	(2,644)	11.75	\$0.00	\$8.65	\$6.37
Isle of Wight	3,631,649	9.9%	7,000	0	0	(28,262)	(28,262)	0.00	\$0.00	\$0.00	\$6.73
Lynnhaven	11,249,280	13.0%	222,023	0	105,100	(413,024)	(413,024)	0.00	\$5.97	\$9.72	\$5.70
Norfolk Industrial Park	9,075,635	5.4%	122,931	0	0	85,488	110,142	0.00	\$5.98	\$6.07	\$4.25
North Suffolk	2,270,751	1.9%	86,052	336,969	0	(38,121)	(38,121)	0.00	\$0.00	\$0.00	\$0.00
Portsmouth	5,669,940	4.3%	227,466	0	0	(68,393)	(68,393)	0.00	\$6.95	\$4.91	\$3.65
South Suffolk	10,351,625	7.1%	532,217	0	0	495,471	503,861	0.00	\$5.00	\$7.55	\$4.38
West Norfolk	3,429,460	8.2%	17,380	0	0	19,606	19,606	0.00	\$3.73	\$6.46	\$5.02
Southside	81,165,223	8.2%	2,462,506	0	138,100	(118,319)	(54,029)	10.14	\$4.99	\$8.32	\$4.88
Hampton Roads	115,798,061	7.7%	3,256,155	336,969	227,123	(85,146)	46,401	\$9.43	\$5.01	\$7.72	\$4.82

* Rental rates reflect asking \$psf/year.

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

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	MARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2601 Indian River	Greenbrier	US Auto Parts	159,294	Warehouse/Distribution
Bridgeway Business Center	North Suffolk	Saddle Creek Corporation	81,204	Warehouse/Distribution
Indian River Distribution Center	Greenbrier	Communications Test Design	72,558	Warehouse/Distribution

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2512 Aviator	Lynnhaven	ADS Tactical	81,900	3Q2011

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Ace Distribution Center	Suffolk	Ace Hardware	336,969	4Q12