

MARKETBEAT

Hampton Roads OFFICE 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 (ODU) 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 the 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.

Leasing Activity & Absorption

Leasing activity reached 1.6 million square feet (msf) for the year, 600,000 square feet (sf) above the same period last year. The majority, 1.3 msf of the leasing activity, has occurred on the Southside, with 316,630 sf occurring on the Peninsula. Leasing activity for the third quarter reached 566,326 sf, 316,814 sf of which occurred in class A space. Although leasing activity increased in

2011 over 2010, year-to-date absorption sheds a different light.

Absorption thus far in 2011 is negative 143,369 sf. The bright spot occurred on the Peninsula with 65,677 sf of positive absorption. Downtown Norfolk and the rest of the Southside have negative absorption at 73,893 sf and 135,153 sf respectively. The increased leasing activity and decreased absorption suggest that many tenants are downsizing in their space requirements and shedding "shadow" vacancy that exists. Overall vacancy increased to 12.9% from 12.4% in the second quarter.

One significant sale of note occurred in the third quarter as First Potomac bought Greenbrier Towers I & II, 172,000 sf of office buildings in the Greenbrier submarket, for \$16.7 million.

Outlook

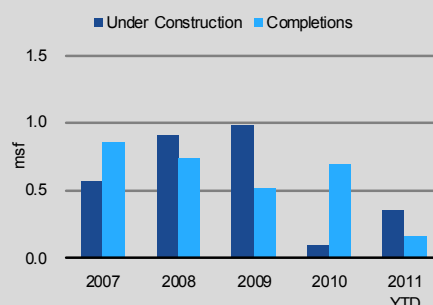
A revision of economic data revealed that the recession was deeper and the recovery weaker than previously thought. The labor market continues to face challenges as businesses which confront uncertain economic conditions are hesitant to expand. However, ODU economists predict job losses to moderate as the private sector increases hiring, off-setting losses in local government.

Caution continues without an end in sight with uncertainty stemming from the public sector and policy from Washington. It continues to be cheaper to buy than to build, and people will continue to look for good deals in the market. Leasing activity will continue to be sporadic and primarily exist of smaller deals. Vacancy might continue to tick up slightly as people give back space but, with no new construction in the pipeline, vacancy should not spike dramatically.

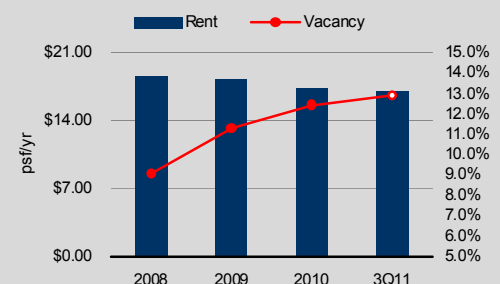
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	12.5%	12.9%	0.4 pp	▲
Direct Asking Rents	\$17.58	\$16.98	-3.3%	▼
YTD Leasing Activity (sf)	1,055,891	1,620,258	53.4%	◀▶

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	5,242,026	18.4%	18.1%	244,259	0	0	(62,983)	(73,893)	\$ 19.29	\$24.41
CBD	5,242,026	18.4%	18.1%	244,259	0	0	(62,983)	(73,893)	\$ 19.29	\$ 24.41
Coliseum Central	1,234,141	18.8%	18.7%	62,413	0	0	(13,333)	(5,454)	\$ 14.74	\$22.00
Downtown Hampton	609,729	18.4%	18.0%	12,692	0	0	(2,185)	(2,185)	\$ 13.26	\$0.00
Downtown Newport News	1,700,501	5.6%	5.6%	17,947	0	0	(3,298)	(3,298)	\$ 14.19	\$0.00
Fox Hill	180,939	2.2%	2.2%	0	0	0	(1,800)	(1,800)	\$ 15.18	\$0.00
Gloucester	155,062	19.0%	19.0%	1,250	0	0	(8,218)	(8,218)	\$ 14.10	\$0.00
Hampton Roads Center	966,300	12.9%	11.8%	38,077	60,000	0	(13,412)	(13,412)	\$ 18.73	\$20.19
Mathews County	13,286	-	-	-	0	0	-	-	\$0.00	\$0.00
Oyster Point	4,948,455	12.5%	12.1%	113,089	33,000	33,000	37,162	34,928	\$ 16.18	\$22.08
Poquoson	74,241	8.2%	8.2%	0	0	0	(4,340)	(4,340)	\$ 16.06	\$0.00
Suburban Newport News	1,022,143	7.5%	7.5%	11,399	2,469	0	5,367	5,367	\$ 13.84	\$22.00
Williamsburg/James City Cour	2,047,477	12.0%	11.9%	40,227	5,900	40,000	43,732	43,732	\$ 14.70	\$24.00
York	826,155	12.1%	12.1%	42,545	0	0	40,024	40,024	\$ 15.56	\$ 19.00
Peninsula Non-CBD	13,778,429	12.0%	11.7%	316,630	101,369	73,000	60,032	65,677	\$ 15.56	\$ 21.32
Airport/Norhampton	609,444	14.5%	12.9%	11,325	0	0	(15,969)	(17,689)	\$ 13.46	\$0.00
Battlefield	1,391,386	15.2%	14.3%	79,291	0	0	5,811	(2,488)	\$ 14.58	\$20.20
Central Norfolk	3,140,731	17.3%	16.9%	62,413	0	0	(10,918)	(2,195)	\$ 15.94	\$ 19.96
Churchland	313,005	5.7%	5.7%	3,480	0	0	(8,011)	(8,011)	\$ 14.82	\$0.00
Downtown Portsmouth	1,121,748	5.7%	5.7%	10,783	0	0	(7,978)	(7,978)	\$ 14.70	\$ 16.62
Franklin City	236,199	0.8%	0.8%	-	0	0	500	500	\$ 13.11	\$0.00
Greenbrier	2,588,703	12.7%	12.3%	337,743	0	40,790	(16,855)	(36,889)	\$ 17.14	\$ 19.14
Harbourview/Northern Suffolk	1,389,225	11.4%	11.4%	58,891	67,840	12,660	44,558	42,180	\$ 21.22	\$22.76
Haygood/Bayside	563,250	11.5%	11.5%	6,884	0	0	(8,412)	(8,412)	\$ 14.45	\$0.00
Hilltop/Great Neck	1,091,470	14.9%	14.7%	3,321	0	12,528	(21,341)	(17,081)	\$ 18.70	\$27.00
Isle of Wight	269,112	12.3%	10.4%	474	0	0	(4,900)	(4,900)	\$ 14.65	\$0.00
Kempsville	460,194	9.4%	9.4%	5,523	0	7,200	5,640	5,640	\$ 15.79	\$0.00
Little Neck	1,060,559	8.2%	8.2%	13,179	0	0	10,797	10,797	\$ 15.51	\$0.00
Lynnhaven	1,895,621	17.9%	17.9%	98,819	0	0	(11,059)	(6,604)	\$ 15.34	\$ 18.81
Newtown/Witchduck	2,951,086	13.8%	13.4%	92,391	16,500	0	(172,010)	(169,476)	\$ 17.71	\$ 19.83
Norfolk ODU/Ghent	1,018,301	17.6%	17.6%	28,533	0	17,301	14,863	14,863	\$ 20.57	\$25.85
Oceanfront	620,273	11.5%	11.5%	25,455	61,980	0	(7,442)	(7,442)	\$ 22.99	\$28.55
Portsmouth	465,998	10.4%	10.4%	12,556	7,308	0	(23,466)	(23,466)	\$ 13.78	\$0.00
Princess Anne	897,170	13.4%	13.4%	15,902	0	0	(14,048)	(14,048)	\$ 16.43	\$21.90
S. Independence/Holland Rd.	979,294	7.6%	7.6%	34,553	72,300	0	42,610	45,424	\$ 17.18	\$ 19.72
South Norfolk	460,022	9.4%	9.4%	7,639	0	0	35,690	36,175	\$ 12.04	\$0.00
South Suffolk	859,681	5.0%	5.0%	16,748	0	0	(4,152)	(4,152)	\$ 13.56	\$0.00
Southern Chesapeake	554,999	8.5%	8.5%	20,894	0	0	9,091	9,091	\$ 14.38	\$0.00
Surry County	15,000	-	-	-	0	0	-	-	\$0.00	\$0.00
Virginia Beach CBD/Pembroke	1,966,096	7.4%	7.2%	99,794	0	0	25,076	33,326	\$ 20.12	\$23.91
Western Branch	249,079	11.5%	11.5%	12,777	0	0	(2,318)	(2,318)	\$ 15.30	\$0.00
Southside Non-CBD	27,167,646	13.3%	13.1%	1,303,628	225,928	90,479	(134,243)	(135,153)	\$ 17.45	\$ 21.98
All NON-CBD	40,946,075	12.2%	11.9%	1,375,999	327,297	163,479	(74,211)	(69,476)	\$ 16.50	\$ 21.25
Hampton Roads Total	46,188,101	12.9%	12.6%	1,620,258	327,297	163,479	(137,194)	(143,369)	\$ 16.91	\$ 21.85

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
741 Monticello*	Downtown Norfolk	N/A	60,000	C
3641 Faculty	Independence/Holland	Operation Smile	20,000	B

* Renewal – not included in Leasing Activity Statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Greenbrier Towers I & II	Greenbrier	First Potomac Realty	172,000	\$16,700,000
549 Brambleton	Downtown Norfolk	Jen Care Neighborhood Health	16,334	\$625,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
5425 Discovery Park	James City	N/A	40,001	3Q11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
6005 Harbour View	Harbour View	Towne Bank	67,840	4Q11

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