

MARKETBEAT OFFICE SNAPSHOT



HAMPTON ROADS, VA

A Cushman & Wakefield Alliance Research Publication

Q4 2011



ECONOMIC OVERVIEW INDICATORS

The U.S. economy ends 2011 similar to how it began with mixed signals and uncertainty, but it continues to grow albeit at a tepid pace. Payrolls climbed by 120,000 workers in November and 100,000 in October.

The Hampton Roads unemployment rate stood at 7.0% in October, the same level as a year ago. The regional unemployment rate continues to trend below the national rate of 8.2% but above the Virginia rate of 5.7%. The Hampton Roads economy increased by 5,412 jobs year-over-year but failed to keep pace with the expanding labor force during the same time period. Meanwhile, year-over-year container traffic at the Port of Virginia increased 1.2%.

VACANCY & RENTAL RATES

The weak labor market continues to drag on office fundamentals as the markets continue to show signs of weakness. Overall vacancy continued its upward trend and ended the fourth quarter at 13.1% up from 12.4% a year ago. Asking rental rates decreased with the rising vacancy by \$0.49 per square foot (psf) from the last quarter of 2010. Class A asking rates fared better through 2011 increasing \$0.32 psf.

LEASING ACTIVITY & ABSORPTION

Year-to-date leasing activity in 2011 outpaced 2010 by nearly 400,000 square feet (sf). Momentum in leasing activity seemed to wane from the third to the fourth quarter. Leasing activity reached 198,000 sf in the fourth quarter compared to 600,000 sf of the previous two quarters. Class A leasing activity remained strong, comprising 43% of the 1.9 million square feet (msf) total leasing activity for the year.

Year-to-date absorption remained negative throughout 2011 suggesting that office tenants are giving back space. Class A absorption barely breached positive territory outside of the central business district at 43,000 sf while absorption in the central business district was negative 16,000 sf.

The Greenbrier submarket experienced the greatest absorption with 100,000 sf for the year. The Williamsburg submarket experienced the next best absorption with 52,000 sf. Downtown Norfolk, meanwhile, experienced negative 61,000 sf of absorption.

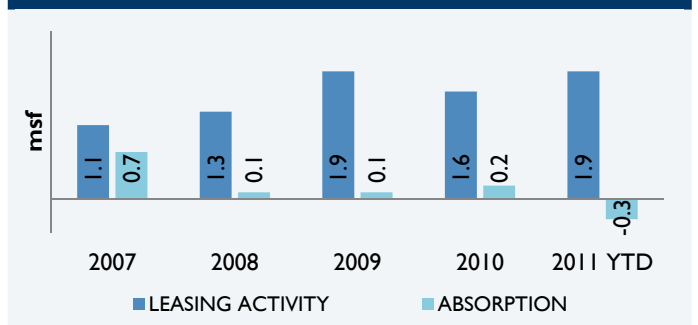
OUTLOOK

Corporate profits continue to show positive numbers, but profits have not translated into significant increase in employment. Businesses find that employees need to occupy less space to be productive and are utilizing alternative workspace strategies to increase the density of office space; meaning that when hiring does pick up gains in absorption will be muted as compared to past recoveries. Increased leasing activity might not equate to increased absorption as businesses give up shadow vacancy when lease terms come up for renewal.

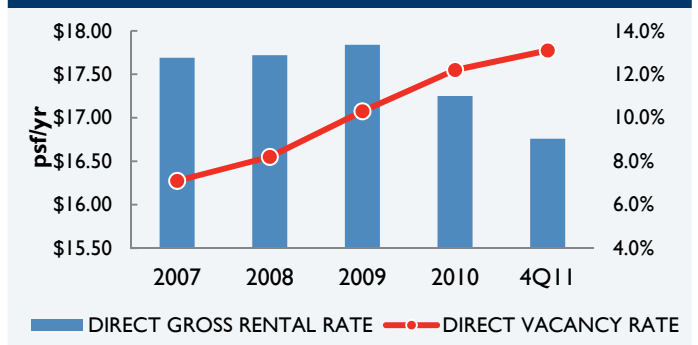
STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.4%	13.1%	0.7pp	▲
Direct Asking Rents (psf/yr)	\$17.25	\$16.76	-2.8%	◄
YTD Leasing Activity (sf)	1,590,445	1,918,401	20.6%	▲

LEASING ACTIVITY VS. ABSORPTION



DIRECT RENTAL VS. VACANCY RATES



HAMPTON ROADS, VA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG. ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Norfolk	5,242,026	18.5%	18.2%	281,562	0	0	(49,262)	(61,909)	\$19.01	\$24.93
CBD	5,242,026	18.5%	18.2%	281,562	0	0	(49,262)	(61,909)	\$19.01	\$24.93
Coliseum Central	1,250,807	18.8%	18.7%	44,166	0	0	(12,071)	(4,192)	\$15.00	\$22.00
Downtown Hampton	607,897	18.3%	17.9%	13,867	0	0	(21,292)	(21,292)	\$12.82	\$0.00
Downtown Newport News	1,707,115	6.6%	6.6%	17,947	0	0	(20,166)	(20,166)	\$14.17	\$0.00
Fox Hill	629,522	22.5%	22.5%	0	0	0	(119,915)	(119,915)	\$14.93	\$0.00
Gloucester	165,053	25.5%	25.5%	1,678	0	0	(19,445)	(19,445)	\$13.39	\$0.00
Hampton Roads Center	1,011,300	14.6%	12.0%	48,029	60,000	0	(27,827)	(43,357)	\$18.65	\$20.19
Mathews County	13,286	0.0%	0.0%	0	0	0	0	0	\$0.00	\$0.00
Oyster Point	4,896,130	13.3%	12.7%	146,608	33,000	33,000	21,541	11,877	\$15.95	\$22.63
Poquoson	74,241	8.2%	8.2%	0	0	0	(4,340)	(4,340)	\$25.45	\$0.00
Suburban Newport News	1,023,868	7.5%	7.5%	12,769	0	3,469	4,959	4,959	\$13.91	\$22.00
Williamsburg/James City County	2,081,652	11.7%	11.7%	57,992	0	45,900	49,727	52,366	\$14.61	\$24.00
York	827,235	15.1%	15.1%	47,373	0	0	13,487	13,487	\$15.04	\$19.00
PENINSULA NON-CBD	14,288,106	13.2%	12.8%	390,429	93,000	82,369	(135,342)	(150,018)	\$15.40	\$21.50
Airport/Norhampton	606,594	17.2%	15.6%	17,212	0	0	(31,787)	(33,507)	\$13.29	\$0.00
Battlefield	1,396,046	14.3%	13.4%	145,375	0	0	12,554	4,255	\$14.25	\$20.23
Central Norfolk	3,004,876	16.7%	16.3%	63,706	0	0	(17,836)	(9,113)	\$15.95	\$20.19
Churchland	313,052	3.9%	3.9%	4,524	0	0	(2,317)	(2,317)	\$14.35	\$0.00
Downtown Portsmouth	1,121,748	4.9%	4.9%	10,783	0	0	2,768	2,768	\$14.82	\$16.62
Franklin City	236,199	0.8%	0.8%	0	0	0	500	500	\$11.28	\$0.00
Greenbrier	2,598,835	8.9%	8.5%	258,152	20,000	40,790	94,692	100,158	\$17.07	\$19.11
Harbourview/Northern Suffolk	1,389,225	12.3%	12.3%	58,891	67,840	12,660	42,407	47,207	\$21.93	\$22.78
Haygood/Bayside	601,049	10.8%	10.8%	9,688	0	0	(3,749)	(3,749)	\$14.61	\$0.00
Hilltop/Great Neck	1,094,470	15.0%	14.7%	4,933	0	12,528	(22,194)	(17,934)	\$18.27	\$27.00
Isle of Wight	272,131	12.1%	10.3%	474	0	0	(4,900)	(4,900)	\$14.49	\$0.00
Kempsville	456,772	8.9%	8.9%	8,099	0	6,200	8,216	8,216	\$15.62	\$0.00
Little Neck	1,060,559	7.7%	7.7%	27,076	0	0	18,675	18,675	\$15.55	\$0.00
Lynnhaven	1,895,621	17.0%	17.0%	138,416	0	0	(51,097)	(46,642)	\$15.21	\$18.78
Newtown/Witchduck	2,953,817	13.4%	13.1%	131,254	16,500	0	(165,060)	(159,685)	\$17.77	\$19.87
Norfolk ODU/Ghent	1,139,763	20.3%	20.3%	33,403	0	17,301	11,423	11,423	\$20.62	\$25.85
Oceanfront	620,273	11.9%	11.5%	28,442	61,980	0	(5,918)	(8,018)	\$21.72	\$26.96
Portsmouth	463,469	12.0%	12.0%	12,556	7,308	0	(30,626)	(30,626)	\$13.92	\$0.00
Princess Anne	902,026	13.2%	13.2%	18,552	0	0	(13,123)	(13,123)	\$16.11	\$21.90
S. Independence/Holland Rd.	979,294	8.4%	8.4%	47,785	72,300	0	32,413	35,227	\$17.13	\$19.72
South Norfolk	469,502	8.2%	8.2%	11,953	0	0	32,299	39,904	\$11.60	\$0.00
South Suffolk	859,681	5.2%	5.0%	16,749	0	0	(4,152)	(5,971)	\$13.19	\$0.00
Southern Chesapeake	559,020	8.1%	8.1%	22,394	0	0	14,153	14,153	\$14.21	\$0.00
Surry County	15,000	0.0%	0.0%	0	0	0	0	0	\$0.00	\$0.00
Virginia Beach CBD/Pembroke	1,966,096	8.1%	7.9%	160,660	0	0	(29,761)	(21,511)	\$19.46	\$23.86
Western Branch	253,899	10.3%	10.3%	15,333	0	0	(2,118)	(2,118)	\$15.23	\$0.00
Southside Non-CBD	27,229,017	12.0%	11.7%	1,246,410	245,928	89,479	(114,538)	(76,728)	\$17.35	\$22.01
All NON-CBD	41,517,123	12.4%	12.1%	1,636,839	338,928	171,848	(249,880)	(226,746)	\$16.38	\$21.30
Hampton Roads Total	46,759,149	13.1%	12.8%	1,918,401	338,928	171,848	(299,142)	(288,655)	\$16.76	\$21.91

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
836 J Clyde Morris	Oyster Point	Campus Realty Investors	Office	92,000
1434 Crossways*	Greenbrier	EDS	Office	65,132
741 Monticello*	Downtown Norfolk	N/A	Office	60,000
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
Greenbrier Towers I & II	Greenbrier	First Potomac Realty	\$16,700,000	172,000
5701 Cleveland	Newtown/Witchduck	Olympia Development	\$12,600,000	136,000
780 Lynnhaven	Lynnhaven	Continental Capital	\$8,400,000	79,182
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
5425 Discovery Park	James City	N/A	3Q11	30,000
Interstate Professional Center	Oyster Point	YMCA	2Q11	33,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS