

MARKETBEAT

HAMPTON ROADS INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

4Q07

ECONOMY

The Hampton Roads economy continues its steady growth with total non-farm employment up by 1.6% and private employment up by 2.0% in 2007, outpacing both Virginia and the nation as a whole for the first time in several years. Lending policies are stringent locally as well as nationally, but Virginia bankers say lending patterns may return to normal conditions in 2008, and by historical standards interest rates remain attractive.

Port traffic increased by 7% in 2007 and the APM Terminals Virginia facility is now online, but counter to expectations, current demand is being driven not by port activity but by businesses that are expanding existing operations in the region, which affords some measure of confidence in local conditions. And although no region is immune to economic distress, the military and government presence in Hampton Roads has moderated the influence of past downturns. National indicators may cause concern, but the local economy is expected to weather whatever storms may be ahead fairly well.

OVERVIEW

Borrowing has become more difficult for many smaller businesses, so some condominium developers have adapted by offering owner financing and leases with purchase options. More established companies are able to obtain purchase financing at attractive rates, however, and buyer demand for properties larger than 5,000 square feet (sf) is strong.

For 2007, total inventory increased by almost 6.7% over the previous year to 101.8 million square feet (msf). Leasing activity was up by nearly 21% in 2007 and construction completions were down by 45.5%, both welcome changes for landlords from 2006, when completions outnumbered leasing activity by nearly 1.0 msf. Despite this, the year saw negative absorption of 142,977 sf and the overall vacancy rate for all property types rise from 6.0% to 6.6%. This has exerted little pressure on direct asking rents, however, which at \$5.91 psf for all property types are down only 1.8% from the third quarter and up 4.3% for the year.

OUTLOOK

Competition from increased sublease opportunities is expected to put some pressure on direct leasing, but recent activity at two large spaces formerly occupied by Ford suppliers may indicate that sublease offerings are being absorbed. In December, Japanese manufacturer Usui International purchased the 69,018-sf building in the Cavalier submarket formerly occupied by Johnson Controls as part of a \$14 million investment to expand its local facilities, and negotiations are underway to recapture the 73,000-sf former Visteon premises in Greenbrier so that other tenants in the building can expand.

Although the large amount of space added to the market in the past few years has caused vacancy rates to rise, it also provides the area with the infrastructure needed for large space requirements that previously could not have been met quickly in Hampton Roads. If several large users enter the market, the steady, moderate absorption projected for the coming year may be ramped up significantly.

Projects underway will add a significant amount of inventory in the coming year, but further construction will likely be delayed until the new space is absorbed.

BEAT ON THE STREET


"Many new major industrial projects have been developed in Hampton Roads over the past two years. We now have the immediate capacity to accommodate large users that are considering this area of Virginia."


—Patrick Mumej, SIOR, Senior VP


ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	3.3%	3.2%	3.7%
Employment Growth (Regional)	0.8%	1.6%	1.5%

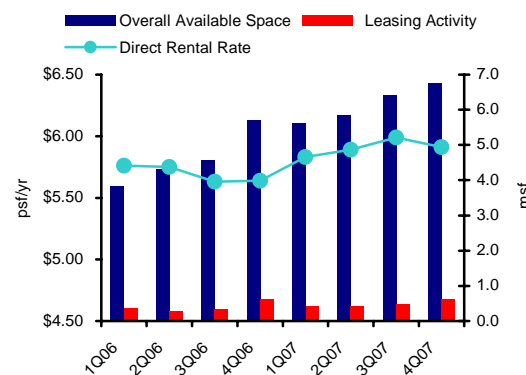
MARKET FORECAST

LEASING ACTIVITY will increase (although at a more modest pace than in 2007) as tenants take advantage of the opportunities offered by new product. 

DIRECT ABSORPTION has improved from 2006 but will face competition from subleased space. 

CONSTRUCTION will decrease after projects underway are completed until recently-built space is absorbed. 

OVERALL MARKET TRENDS



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	YTD		YTD		YTD		Direct Weighted Average Triple Net Rental Rate*		
				Leasing Activity	Under Construction	Construction Completions	Overall Absorption	Flex	WD	MF	GI	
Copeland	14,613,800	410	10.0%	199,345	446,090	180,000	44,704	\$7.52	\$3.50	\$5.00	\$6.44	
Gloucester	157,369	8	9.7%	0	0	0	(7,777)	\$0.00	\$0.00	\$0.00	\$0.00	
Oakland	4,808,533	128	0.6%	69,425	0	0	130,366	\$9.00	\$4.50	\$5.25	\$0.00	
Oyster Point	4,651,665	193	2.3%	66,834	59,000	0	60,009	\$9.09	\$8.50	\$0.00	\$7.19	
Williamsburg Extended.	7,451,267	91	2.6%	786	0	70,000	(70,962)	\$0.00	\$0.00	\$4.50	\$0.00	
Peninsula Total:	31,682,634	830	5.7%	336,390	505,090	250,000	156,340	\$8.32	\$4.48	\$5.02	\$6.47	
Airport Industrial Park	3,827,868	83	5.3%	107,122	0	0	(77,436)	\$8.05	\$0.00	\$0.00	\$8.56	
Bainbridge	9,950,405	355	5.2%	222,476	22,350	118,111	(218,837)	\$9.92	\$0.00	\$0.00	\$6.79	
Cavalier	6,232,944	192	8.2%	159,842	121,330	482,948	250,320	\$6.50	\$5.25	\$0.00	\$6.30	
Central Norfolk	4,598,130	121	10.9%	368,787	0	14,059	176,199	\$9.71	\$5.25	\$0.00	\$4.76	
Cleveland	4,215,103	204	2.7%	42,358	0	4,910	(16,119)	\$11.90	\$0.00	\$0.00	\$6.42	
Greenbrier	2,601,893	73	14.2%	54,535	0	20,807	13,370	\$11.37	\$0.00	\$0.00	\$4.96	
Isle of Wight	3,436,426	22	9.9%	0	0	0	(11,843)	\$0.00	\$4.15	\$0.00	\$8.00	
Lynnhaven	8,408,199	343	5.5%	69,810	467,816	103,245	62,199	\$8.85	\$0.00	\$7.00	\$7.84	
Norfolk Industrial Park	8,663,154	220	5.5%	48,142	0	0	(229,757)	\$6.95	\$4.40	\$6.50	\$7.03	
North Suffolk	1,416,333	10	16.2%	20,641	424,000	0	(25,896)	\$7.50	\$3.95	\$0.00	\$0.00	
Portsmouth	4,467,428	200	5.8%	47,782	0	73,000	38,381	\$9.96	\$0.00	\$0.00	\$5.97	
South Suffolk	9,521,973	95	7.7%	383,726	785,320	300,000	(316,682)	\$9.53	\$5.15	\$6.71	\$4.02	
West Norfolk	2,779,138	131	7.6%	63,696	0	0	56,786	\$0.00	\$0.00	\$4.28	\$4.65	
Southside Total:	70,118,994	2,049	7.0%	1,588,917	1,820,816	1,117,080	(299,317)	\$9.52	\$4.62	\$5.78	\$5.42	
HAMPTON ROADS TOTAL:	101,801,628	2,879	6.6%	1,925,307	2,325,906	1,367,080	(142,977)	\$9.39	\$4.60	\$5.37	\$5.68	

*Rental rates reflect \$psf/year
 WD = Warehouse/Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 4Q07 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2000 Enterprise Parkway	Hampton Roads Center	Guardian Services Group	135,000	Warehouse
1400 Cavalier Boulevard	Cavalier	Arrow Forklift & Parts	20,120	Warehouse

SIGNIFICANT 4Q07 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Airport Industrial Center II	Airport Industrial Park	Cambridge Hanover	146,000	\$6,700,000
2513 58th Street	Copeland	DFI Systems, Inc.	138,369	\$4,500,000
Cavalier Distribution Center	Cavalier	Exeter Property Group	125,906	\$6,800,000
1140 Princess Anne Road	Central Norfolk	1235 Courtney LLC	135,000	\$1,315,000
3824 Cook Boulevard	Cavalier	Usui International Corp.	69,018	\$6,400,000

SIGNIFICANT 4Q07 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Preferred Freezer Services Whs.	Cavalier	Preferred Freezer Services	174,088	12/07
James River Commerce Center	Williamsburg Extended	N/A	70,000	10/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Virginia Regional Commerce Pk.	South Suffolk	N/A	400,000	01/08
Virginia Commerce Center	South Suffolk	N/A	385,320	05/08



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