

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q08

ECONOMY

Although national conditions are being felt in Hampton Roads, the effects remained moderate in the first quarter. The area's not seasonally adjusted unemployment rate for February rose to 4.1% from 3.4% twelve months earlier, but it remains significantly lower than the comparable national rate of 5.2%. Overall employment increased by 1.1% from February 2007, but employment in industrial sectors did not keep up – there were 700 fewer jobs in goods-producing industries and 300 fewer in transportation and warehousing, although this was offset partially by a 400-job increase in wholesale trade employment. An increase in exports caused by the declining dollar boosted freight volumes through the Port of Hampton Roads to 1.5 million twenty-foot (container) equivalent units (TEUs) from July through February, 6.7% more than during the same period in the previous year.

OVERVIEW

The overall vacancy rate for all property types across Hampton Roads rose to 8.1% from 5.8% one year earlier. Leasing activity increased by a healthy 27.1% to 546,211 square feet (sf), but overall absorption was negative 1,137,758 sf – about 1.1% of total inventory. This quarter included the anomalous addition of the 1.5-million-square-foot (msf) former Ford plant to vacancy totals. The actual rentable area of the facility after repurposing is expected to be about 500,000 sf; removing the excess area from inventory, vacant space, and net absorption cuts the overall vacancy rate to 7.2% and boosts absorption for the quarter to 287,892 sf.

Smaller users constituted the bulk of activity for most of the quarter, but interest by users with larger requirements started to rise at quarter's end. But brokers are finding that with economic conditions difficult to assess, prospects of all sizes are uncertain and less willing to commit. Larger companies spend more time considering every possible consequence of a deal, and smaller users who previously would have considered condominium purchases are leasing instead. Leases are getting signed, but tenants want short terms and near-immediate occupancy to maximize their options if business swings in either direction.

FORECAST

With less demand for condominiums, builders are starting to negotiate sales prices and offer leases or lease-options on unsold units. A few developers will wait for deals at target rents, but most landlords are responding appropriately to conditions. With vacancy rates just under the national average and at levels some markets would envy, extremes are not justified, but large credit tenants can expect landlords to reward the stability they bring to a building.

Spec construction will continue to decrease, as lenders and developers alike require 50% of space pre-leased before breaking ground. Developers and investors with cash and clout with lenders will be able to take advantage of market opportunities, however.

The truism about location, location, location will remain true. Fuel prices and traffic congestion are increasing, and intermodal users want to maximize productivity with at least three truck turns per day. When space in facilities with convenient access to the ports is available, expect it to lease more quickly.

BEAT ON THE STREET


"Large users were on the sidelines at the beginning of the year, but we're seeing interest in high cube warehouse and distribution spaces from 60,000 to 300,000 sf increase, and Hampton Roads is very well positioned to accommodate these kinds of requirements."


–Bobby Phillips, SIOR – First Vice President


ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.5%
CPI Growth	3.2%	2.8%	3.0%
Regional			
Unemployment	3.3%	3.2%	3.7%
Employment Growth	0.8%	1.6%	1.5%

MARKET FORECAST

LEASING ACTIVITY will rise as tenants look for flexibility and consider recently-constructed options. 

DIRECT ABSORPTION will be steady with less new construction and fewer subleases available than anticipated 

CONSTRUCTION:—Construction will continue to decline from the high levels of mid-decade as developers become conservative about spec construction. 

OVERALL MARKET TRENDS



An independently owned and operated member of the



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								D	MF	Flex	GI
Copeland	15,210,476	415	10.1%	10,082	60,000	428,090	392,406	\$3.50	\$5.00	\$7.52	\$6.71
Gloucester	174,221	6	8.8%	0	0	0	2,100	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,808,533	128	1.6%	90,000	93,000	0	(48,390)	\$4.50	\$5.25	\$9.00	\$0.00
Oyster Point	4,718,573	194	2.3%	1,635	14,000	0	9,703	\$8.50	\$0.00	\$9.59	\$7.65
Williamsburg Extended	7,472,328	91	2.6%	7,000	0	0	(10,050)	\$0.00	\$4.50	\$0.00	\$0.00
Peninsula	32,384,131	834	6.0%	108,717	167,000	428,090	345,769	\$4.44	\$5.03	\$8.67	\$6.80
Airport Industrial Park	3,893,301	84	3.3%	34,166	0	0	65,516	\$0.00	\$0.00	\$8.11	\$8.56
Bainbridge	10,131,650	356	6.7%	22,290	45,500	0	(127,235)	\$0.00	\$0.00	\$9.42	\$8.10
Cavalier	6,352,512	195	6.9%	99,975	27,000	0	168,925	\$5.25	\$0.00	\$6.50	\$5.82
Central Norfolk	5,506,233	123	36.4%	62,637	0	0	(1,536,540)	\$5.25	\$0.00	\$10.13	\$4.59
Cleveland	4,296,170	208	6.9%	11,800	0	0	(180,139)	\$0.00	\$0.00	\$11.89	\$6.42
Greenbrier	2,683,380	74	13.5%	22,933	0	0	63,741	\$0.00	\$9.72	\$11.75	\$4.91
Isle of Wight	3,436,426	22	9.9%	0	0	0	0	\$4.15	\$0.00	\$0.00	\$8.00
Lynnhaven	8,681,456	352	6.6%	19,350	324,996	145,014	39,224	\$0.00	\$7.00	\$9.30	\$7.15
Norfolk Industrial Park	8,673,132	224	5.6%	42,243	0	0	(5,917)	\$4.40	\$6.50	\$7.60	\$7.28
North Suffolk	1,417,949	11	6.3%	115,500	400,000	0	27,634	\$3.95	\$0.00	\$8.00	\$0.00
Portsmouth	4,477,162	204	4.7%	6,600	0	40,000	90,831	\$0.00	\$0.00	\$9.96	\$6.04
South Suffolk	9,584,536	97	7.2%	0	820,520	0	213,947	\$5.15	\$6.71	\$9.53	\$4.02
West Norfolk	2,859,150	131	7.1%	0	0	0	42,435	\$0.00	\$4.28	\$0.00	\$4.98
Southside	71,993,057	2,081	9.0%	437,494	1,618,016	185,014	(1,137,578)	\$4.64	\$5.78	\$9.82	\$5.49
HAMPTON ROADS	104,377,188	2,915	8.1%	546,211	1,785,016	613,104	(791,809)	\$4.61	\$5.39	\$9.69	\$5.74
								2008	2007	2006	
Distribution	7,035,697	101	11.1%	97,000	0	0	(61,973)	\$4.44	\$4.81	\$5.09	
Manufacturing	11,108,590	267	2.1%	8,282	0	0	30,972	\$5.03	\$5.03	\$4.50	
Flex	2,205,361	114	5.9%	1,635	107,000	0	(7,251)	\$8.67	\$8.47	\$7.30	
General Industrial	12,034,483	352	6.5%	1,800	60,000	428,090	384,021	\$6.80	\$5.31	\$5.05	
Peninsula	32,384,131	834	6.0%	108,717	167,000	428,090	345,769	\$6.10	\$5.37	\$5.13	
Distribution	13,636,455	129	11.7%	60,810	400,000	0	(95,375)	\$4.64	\$4.33	\$4.33	
Manufacturing	12,805,043	260	14.7%	9,660	0	0	(1,500,224)	\$5.78	\$5.68	\$4.38	
Flex	11,427,643	579	9.2%	82,693	121,575	89,614	91,089	\$9.82	\$9.92	\$9.54	
General Industrial	34,123,916	1,113	5.8%	284,331	1,096,441	95,400	366,932	\$5.49	\$5.94	\$5.77	
Southside	71,993,057	2,081	9.0%	437,494	1,618,016	185,014	(1,137,578)	\$5.99	\$6.19	\$5.82	
Distribution	20,672,152	230	11.5%	157,810	400,000	0	(157,348)	\$4.61	\$4.45	\$4.48	
Manufacturing	23,913,633	527	8.8%	17,942	0	0	(1,469,252)	\$5.39	\$5.35	\$4.41	
Flex	13,633,004	693	8.7%	84,328	228,575	89,614	83,838	\$9.69	\$9.72	\$9.31	
General Industrial	46,158,399	1,465	6.0%	286,131	1,156,441	523,490	750,953	\$5.74	\$5.71	\$5.46	
HAMPTON ROADS	104,377,188	2,915	8.1%	546,211	1,785,016	613,104	(791,809)	\$6.01	\$5.94	\$5.63	

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Bridgeway Commerce Center III	North Suffolk	AMSEC	115,500	Warehouse
Bridgeway Business Center	North Suffolk	Dixie Box and Crating of Virginia	81,204	Distribution
3808 Cook Boulevard	Cavalier Industrial Park	Comerstone Systems	41,990	Warehouse

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1401 Kelland Drive	Bainbridge	Otis Warren & Co.	92,611	\$9,810,000
3800 Cook Boulevard	Cavalier Industrial Park	Exeter Property Group	125,906	\$6,800,000
3745 Progress Road	Norfolk Industrial Park	Meritage-Progress Road, LLC	67,700	\$3,000,000

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1345 Taylor Farm Road	Lynnhaven	Vulcan Materials	95,400	3/08
700 Port Centre Parkway	Portsmouth	N/A	40,000	2/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Virginia Regional Commerce Park	South Suffolk	N/A	400,000	7/08
Virginia Commerce Center	South Suffolk	N/A	385,320	5/08
2505 Aviator Drive	Lynnhaven	N/A	269,121	4/08



For further information, please contact one of our Brokerage Services Professionals:
 Thalhimer
 5700 Cleveland Street, Suite 400
 Virginia Beach, VA 23462
www.thalhimer.com

This report contains information available to the public and has been relied upon by Thalhimer on the basis that it is accurate and complete. Thalhimer accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.