

MARKETBEAT

HAMPTON ROADS, VA OFFICE REPORT

Thalhimer
commercial real estate

1Q08

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMY

Although Hampton Roads is not unaffected by recent changes in the national economy, the large military and government presence continues to insulate the area and moderate extreme swings. February saw the (not seasonally adjusted) local unemployment rate rise to 4.1%, a level not seen since June 2005 but still well below the comparable national not seasonally adjusted rate of 5.2%. Employment by private companies in Hampton Roads grew by 1.0% over the previous twelve months, a rate twice that for private payrolls nationwide during the same period and equal to the area's year-over-year growth rate for February 2007.

OVERVIEW

The Downtown Norfolk Central Business District (CBD) continues to enjoy higher occupancy than suburban areas, with the overall vacancy rate dropping from 7.5% in the first quarter of 2007 to 6.1% in the first quarter of 2008. The overall vacancy rate in non-CBD submarkets on the Southside nudged up to 7.8% from 7.7% over the same period, while Peninsula submarkets saw the overall rate rise by 0.5%, to 7.3%.

On the street, brokers are reporting quite a bit of interest, but the move from looking to lease execution can take considerably more time. From concerns about economic contraction to uncertainty about the effects of post-election policies on government contracts, prospective tenants are considering every possible factor when evaluating a deal, and larger companies are sending leases up and down the corporate chain for scrutiny before making a decision.

Reported class A asking rents for the entire market are \$20.87 per square foot (psf), up by \$1.25 psf over the past twelve months. But while face rents remain healthy, landlords are becoming more open to negotiating other terms. Although limited to short periods with corresponding extensions of the lease, free rent is now being offered to attractive tenants; and landlords have begun to increase upfront contributions for improvements and amortize any excess costs over the lease term.

FORECAST

Demand is expected to remain steady as businesses get a better sense of where the economy is headed and craft strategies in response. But those with sound financial profiles can benefit from market trends right now, as savvy landlords are offering attractive terms to credit tenants in exchange for their strength and stability.

Prospects may pause, but few will cut back significantly, and they will still pay a premium for sought-after properties with perceived value. To retain tenants and support rents, landlords should consider taking reasonable steps to add intrinsic, non-financial appeal to their buildings, distinguishing them from low-margin, interchangeable, commodity offerings that are able to compete only on price.

Tight credit and high pre-leasing requirements will cut new construction, and much of what is built will be high-quality, class A space that will sustain rental rates rather than pressure them. Reduced loan-to-value ratios will make financing more challenging, but investors who succeed will be well-placed for significant future gains.

BEAT ON THE STREET


"The demands of a hesitant capital market are directing investors to search for original ways of financing acquisitions. The ones who are creative enough, have the vision to see the opportunities, and take quick action when they appear will find themselves in an excellent position to take advantage of the new opportunities surfacing in the market."


—Teresa K. Gibbs, CCIM


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%

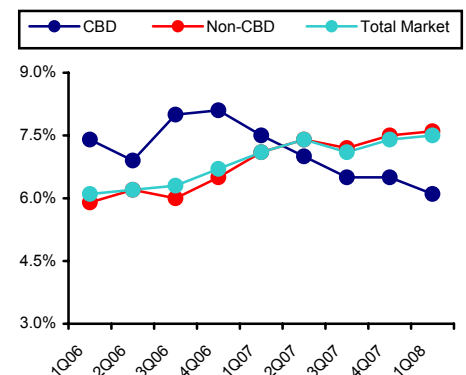
MARKET FORECAST

DIRECT ABSORPTION will pick up as the year progresses and businesses can better appraise future conditions. 

RENTAL RATES will be quoted at or above current levels, but concessions at less desirable buildings will offset effective rent gains. 

CONSTRUCTION: Higher pre-leasing expectations by both lenders and developers will slow the introduction of new space to the market. 

VACANCY RATE TRENDS



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MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Norfolk	4,924,358	98	6.1%	5.6%	2,257	0	0	22,990	\$20.80
CBD	4,924,358	98	6.1%	5.6%	2,257	0	0	22,990	\$20.80
Coliseum Central	1,177,867	65	4.8%	4.8%	7,158	0	0	33,336	\$17.50
Downtown Hampton	419,098	34	8.2%	8.2%	0	0	0	1,860	\$18.00
Downtown Newport News	1,533,063	49	3.8%	3.8%	0	0	0	500	N/A
Fox Hill	127,735	29	5.3%	5.3%	0	0	0	(500)	N/A
Gloucester	31,853	7	12.9%	12.9%	0	0	0	(100)	
Hampton Roads Center	1,103,763	24	8.9%	7.7%	6,162	0	0	11,638	\$20.42
Oyster Point	3,991,996	315	6.8%	6.2%	20,912	7,454	0	31,788	\$21.43
Poquoson	66,513	15	2.6%	2.6%	10,633	0	0	2,300	N/A
Suburban Newport News	877,113	90	5.9%	5.9%	0	0	0	(1,794)	\$22.00
Williamsburg/James City County	1,408,603	185	13.0%	13.0%	12,734	18,778	0	(28,140)	\$22.15
York	668,922	99	9.4%	9.4%	4,150	0	0	2,320	\$20.38
Peninsula Non-CBD	11,406,526	912	7.3%	6.9%	61,749	26,232	0	53,208	\$20.95
Airport/Norhampton	499,750	45	16.7%	16.7%	10,521	0	0	42,590	N/A
Battlefield	1,101,195	42	15.7%	14.6%	1,648	75,000	0	(4,848)	\$21.20
Central Norfolk	2,631,887	87	8.4%	8.4%	5,057	0	0	(57,594)	\$19.09
Churchland	280,529	47	1.5%	1.5%	800	0	0	(280)	N/A
Downtown Portsmouth	720,187	69	6.1%	6.1%	0	0	0	(276)	\$14.00
Franklin City	209,483	13	1.4%	1.4%	0	0	0	0	N/A
Greenbrier	2,382,264	101	5.9%	5.8%	6,469	0	0	(27,844)	\$20.51
Harbourview/Northern Suffolk	1,188,188	27	12.2%	12.2%	13,413	119,000	23,000	6,297	\$21.05
Haygood/Bayside	500,818	48	4.8%	4.8%	0	0	0	380	N/A
Hilltop/Great Neck	1,062,690	101	4.2%	3.9%	2,377	9,800	0	390	\$20.00
Isle of Wight	229,753	25	10.5%	10.5%	0	0	0	(5,431)	\$16.00
Kempsville	453,891	45	6.1%	6.1%	0	0	0	1,765	N/A
Little Neck	952,273	77	4.9%	4.7%	18,869	0	0	(22,222)	N/A
Lynnhaven	1,811,911	60	13.4%	11.4%	14,588	0	0	(1,755)	\$19.61
Newtown/Witchduck	2,910,895	151	8.6%	8.4%	12,632	0	0	(3,928)	\$19.75
Norfolk ODU/Ghent	800,639	55	5.4%	5.4%	0	0	0	382	\$22.50
Oceanfront	527,679	53	5.4%	5.4%	0	83,811	0	(10,307)	\$25.95
Portsmouth	300,009	74	4.5%	4.5%	3,200	0	0	0	N/A
Princess Anne	736,363	32	10.3%	10.2%	0	45,000	23,133	13,490	\$22.15
S. Independence/Holland Rd.	836,196	56	3.9%	3.9%	12,200	100,000	0	13,981	\$17.93
South Norfolk	408,674	54	9.2%	9.2%	945	0	0	(4,985)	N/A
South Suffolk	866,717	73	2.9%	2.9%	0	0	0	718	\$17.50
Southern Chesapeake	439,635	73	8.5%	7.8%	3,150	10,000	20,000	(3,554)	N/A
Virginia Beach CBD/Pembroke	1,698,251	31	3.5%	3.5%	9,003	167,897	0	3,208	\$23.32
Western Branch	214,966	28	16.1%	16.1%	1,796	0	0	(5,500)	N/A
Southside Non-CBD	23,764,843	1,467	7.8%	7.5%	116,668	610,508	66,133	(65,323)	\$20.86
ALL NON-CBD	35,171,369	2,379	7.6%	7.3%	178,417	636,740	66,133	(12,115)	\$20.88
HAMPTON ROADS TOTAL	40,095,727	2,477	7.5%	7.1%	180,674	636,740	66,133	10,875	\$20.87

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Gateway Bank Tower	Va. Beach CBD/ Pembroke	Gateway Bank	50,000	A

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Seaboard Center	Downtown Norfolk	City of Norfolk, Virginia	36,085	\$7,200,000
Hampton III	Hampton Roads Center	Commonwealth of Virginia State Board of Community Colleges	39,769	\$4,300,000

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Dominion Business Center	Southern Chesapeake	N/A	20,000	1/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/ RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Two Columbus Center	Va. Beach CBD/ Pembroke	N/A	109,000	12/08
Towne Pavilion Center II	Oceanfront	TowneBank	83,811	1/09
Independence Place	Battlefield	N/A	75,000	5/08
Corporate Center VI	Va. Beach CBD/ Pembroke	Sentara	58,897	8/08



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