

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q08

ECONOMY

The not seasonally adjusted unemployment rate for Hampton Roads rose from 2.9% in May 2007 to 3.9% in May 2008, one-tenth of a percentage point higher than the statewide rate but still lower than the comparable national rate of 5.2%. Year-over-year net employment increased by 1.3% for all employers and almost 1.5% for private employers, outperforming the state and the nation, but employment in transportation and warehousing dropped by 0.9% and manufacturing employment declined by 2.9%.

General cargo tonnage at marine terminals operated by the Virginia Port Authority was 10% higher from January to April than for the same period in 2007, with a 22.7% increase in exports more than offsetting a nearly 3% drop in imports. Container volume for the period was up by 2.5%, but the authority's budget projects a 6.5% decline over the upcoming fiscal year.

OVERVIEW

The second quarter overall vacancy rate for all industrial properties across Hampton Roads was 8.1%, up from 5.8% in 2007, and the first half of the year saw negative overall net absorption of 363,654 square feet (sf). The 11.2% vacancy rate for Southside distribution properties supports opinions that Portsmouth's new APM Terminals Virginia facility has not yet spurred demand, but the vacancy rate for the general industrial category, which includes warehouses, was 6.8% for the entire area and 5.6% for the Southside, despite an 11.2% rise in Southside inventory from 2007.

While asking rents generally remain steady, net returns are down as landlords offer free rent and higher improvement allowances to both new and renewal tenants and even broker bonuses. Year-to-date leasing activity was just over 1.2 million square feet (msf), up 46.6% from 2007, but tenants still take longer to complete deals, and some have reduced their requirements. Demand for medium-sized spaces is steady, but it has softened both for very large spaces and for small, entry-level spaces.

Ford received four other unsolicited offers for a 19,500-sf building on eight acres adjoining its vacated assembly plant site that it sold to Old Dominion Truck Leasing for \$3 million. The Kogok Corporation bought a 51,168-sf office/warehouse in Cavalier Industrial Park for \$4.45 million for its own use, and the 82,806-sf Witchduck Exchange in the Cleveland submarket traded for just under \$6 million. Swift Garages will lease back its premises in the 67,365-sf Norfolk Industrial Park building that it sold for \$3 million, and despite recent additions to inventory and plans for more, Prologis plans to build 2.1 msf of warehouse space on 83 acres in Suffolk's Northgate Commerce Park for which it paid a total of nearly \$4.2 million.

FORECAST

Liberty's decision to wait for 50% pre-leasing rather than construct its next Bridgeway building on spec reinforces the view that development will be delayed until demand and credit are more plentiful, but some speculate that developers may choose to build now if the rapidly increasing cost of construction materials outweighs carrying costs.

Owner-users will find purchase opportunities due to uncertain leasing demand, but cap rates for stabilized properties are in the 7-8% range, and sales will be limited not by credit availability but by the scarcity of good properties for 1031 exchanges.

BEAT ON THE STREET

"With fewer people willing to take on the risk of starting a new business in this economy, there's been a sizeable drop in both leasing and condo purchase demand for the smaller spaces that attract startups."

—Jenny Whitbeck, Commercial Sales & Leasing

ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%

Regional	2006	2007	2008F
Unemployment	3.3%	3.2%	3.7%
Employment Growth	0.8%	1.6%	1.5%

Source: Moody's | Economv.com. U.S. Bureau of Labor Statistics

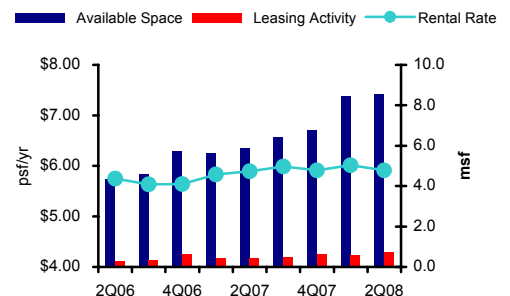
MARKET FORECAST

VACANCY RATES will remain at or near current levels for the rest of the year, with decreases awaiting a more certain economy and the rise in port activity expected in the medium term. ➡

SALES ACTIVITY may decline despite solid investor demand because of the lack of appropriate properties. ↓

CONSTRUCTION: Lower demand was expected to reduce construction, but this may be offset if some developers choose to break ground now in order to beat inflating material costs. ➡

OVERALL MARKET TRENDS



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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	15,264,328	421	10.5%	68,112	14,000	447,890	309,930	\$3.50	\$5.00	\$7.52	\$6.79
Gloucester	198,621	7	7.7%	0	0	0	2,100	\$0.00	\$5.25	\$0.00	\$0.00
Oakland	4,808,533	128	1.6%	90,000	0	15,000	(44,890)	\$4.50	\$0.00	\$0.00	\$0.00
Oyster Point	4,752,215	196	2.6%	15,457	0	0	4,496	\$0.00	\$0.00	\$9.65	\$9.14
Williamsburg Extended	7,472,328	91	2.4%	7,000	0	0	13,570	\$0.00	\$0.00	\$0.00	\$0.00
Peninsula	32,496,025	843	6.1%	180,569	14,000	462,890	285,206	\$4.44	\$5.03	\$9.00	\$6.86
Airport Industrial Park	3,984,682	86	3.6%	36,166	0	0	62,191	\$0.00	\$0.00	\$8.11	\$5.78
Bainbridge	10,205,079	361	6.1%	106,705	0	45,500	(7,762)	\$0.00	\$0.00	\$9.44	\$8.33
Cavalier	6,393,992	196	7.9%	113,100	0	37,200	141,031	\$0.00	\$0.00	\$6.50	\$5.91
Central Norfolk	5,691,285	128	35.3%	306,726	0	0	(1,611,749)	\$5.25	\$0.00	\$10.24	\$4.60
Cleveland	4,261,887	207	7.0%	21,078	0	0	(186,242)	\$0.00	\$0.00	\$12.16	\$6.42
Greenbrier	2,686,770	75	13.8%	55,652	0	0	67,963	\$0.00	\$0.00	\$11.79	\$4.49
Isle of Wight	3,436,426	22	9.9%	0	0	0	0	\$4.15	\$0.00	\$0.00	\$8.00
Lynnhaven	8,793,019	354	6.2%	43,130	40,000	261,474	162,505	\$5.32	\$7.00	\$9.40	\$7.63
Norfolk Industrial Park	8,660,593	224	6.3%	90,910	0	0	(78,150)	\$4.36	\$6.61	\$7.73	\$5.05
North Suffolk	1,412,949	11	0.5%	196,704	0	408,520	109,444	\$3.95	\$0.00	\$8.00	\$0.00
Portsmouth	4,425,121	207	6.0%	24,600	0	40,000	20,622	\$0.00	\$0.00	\$9.90	\$4.64
South Suffolk	10,019,261	104	7.0%	36,300	400,000	0	649,842	\$4.75	\$6.71	\$0.00	\$4.47
West Norfolk	2,841,181	129	6.8%	26,500	10,000	0	21,445	\$0.00	\$4.00	\$0.00	\$4.94
Southside	72,812,245	2,104	9.0%	1,057,571	450,000	792,694	(648,860)	\$4.42	\$5.90	\$9.87	\$5.36
HAMPTON ROADS	105,308,270	2,947	8.1%	1,238,140	464,000	1,255,584	(363,654)	\$4.42	\$5.47	\$9.74	\$5.57
								2Q08	2Q07	2Q06	
Distribution	6,503,149	89	5.4%	97,000	0	0	(44,494)	\$4.44	\$4.81	\$5.09	
Manufacturing	11,004,376	260	2.1%	18,782	0	0	21,472	\$5.03	\$5.03	\$4.87	
Flex	2,222,309	115	6.3%	17,657	14,000	15,000	(10,749)	\$9.00	\$8.02	\$7.68	
General Industrial	12,766,191	379	10.0%	47,130	0	447,890	318,977	\$6.86	\$7.13	\$5.01	
Peninsula	32,496,025	843	6.1%	180,569	14,000	462,890	285,206	\$6.23	\$5.39	\$5.14	
Distribution	13,679,688	130	11.2%	142,014	400,000	0	(29,791)	\$4.42	\$4.34	\$4.22	
Manufacturing	12,907,574	261	15.2%	45,960	0	0	(1,612,147)	\$5.90	\$5.66	\$5.32	
Flex	11,446,787	584	9.7%	274,710	32,000	186,174	83,652	\$9.87	\$9.30	\$9.38	
General Industrial	34,778,196	1,129	5.6%	592,887	18,000	606,520	909,426	\$5.36	\$5.64	\$5.68	
Southside	72,812,245	2,104	9.0%	1,055,571	450,000	792,694	(648,860)	\$5.84	\$5.98	\$5.78	
Distribution	20,182,837	219	9.3%	239,014	400,000	0	(74,285)	\$4.42	\$4.46	\$4.39	
Manufacturing	23,911,950	521	9.2%	64,742	0	0	(1,590,675)	\$5.47	\$5.38	\$5.09	
Flex	13,669,096	699	9.1%	292,367	46,000	201,174	72,903	\$9.74	\$9.15	\$9.25	
General Industrial	47,544,387	1,508	6.8%	640,017	18,000	1,054,410	1,228,403	\$5.57	\$5.92	\$5.44	
HAMPTON ROADS	105,308,270	2,947	8.1%	1,236,140	464,000	1,255,584	(363,654)	\$5.91	\$5.89	\$5.61	

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
N/A				

SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Witchduck Exchange	Cleveland	Meritage-Witchduck, LLC	82,806	\$5,975,000
1100 International Plaza S.	Cavalier	Kogok Corporation	51,168	\$4,450,000
3745 Progress Road	Norfolk Industrial Park	Perrine Invstmnts/Meritage-Progress Road	67,365	\$3,000,000
2608 Indian River Road	Greenbrier	Old Dominion Truck Leasing	19,486	\$3,000,000

SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Virginia Commerce Center, Bldg. 300	South Suffolk	N/A	385,320	6/08
2505 Aviator Drive - Oceana South Ind. Park	Lynnhaven	N/A	81,400	6/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Virginia Regional Commerce Park	South Suffolk	N/A	400,000	7/08



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