

# MARKETBEAT

## HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

3Q08

### ECONOMY

Economic troubles have hit Hampton Roads, but the area remains less affected than the nation as a whole. The not seasonally adjusted unemployment rate rose to 4.8% in August, one-tenth of a percentage point higher than the 10-year peak of June 2003 but still considerably lower than the national rate of 6.1%. Year-over-year employment growth of 2.1% was third-highest among areas with a labor force of 750,000 or more, more than respectable for a period when national employment declined by 0.2% and exceeding the 0.8% increase projected for 2008 by the Economic Forecasting Project of Norfolk's Old Dominion University.

The quarter's most visible recent local economic casualty was Gateway Bank. At the end of March the bank's parent company signed a 10-year lease for a 50,000-square-foot (sf) headquarters on two full floors of a proposed 22-story, class A office tower in the Town Center of Virginia Beach slated for a fourth-quarter groundbreaking that would carry the bank's name. But Fannie Mae and Freddie Mac holdings worth \$40 million at the end of June lost over 90% of their value by September, and by year's end the company is set to be acquired by smaller rival Hampton Roads Bankshares, which has begun new negotiations with the tower's developer.

### OVERVIEW

Vacancy rates rose modestly to 7.8% direct and 8.1% overall, which is unsurprising given current conditions. The conventional wisdom that sublease listings should increase in such circumstances is contradicted by current data, however. Subleases comprised 9.3% of vacant available inventory in the third quarter of 2006, 6.5% in the third quarter of 2007, and only 3.6% in the third quarter of this year, and total sublease inventory is 34,000 sf below 2007 levels and 91,000 sf less than in 2006. Regardless, brokers report noticeably more sublease flyers crossing their desks, so statistics may not yet reflect recent listings.

The Downtown Norfolk CBD has outperformed the suburbs since the second quarter of 2007, but negative absorption there has shrunk the gap between overall vacancy rates to 0.2 percentage points, and the 2010 delivery of 250,000 sf of class A space at what is now known as Wachovia Center, about 70% of which is pre-leased to large tenants now in other CBD buildings, will test the market further. But this did not deter Norfolk's Harbor Group International from purchasing the 131,000-sf Town Point Center for nearly \$12.8 million and the 366,775-sf World Trade Center for \$54.0 million this quarter, and their plans for the large contiguous blocks of available space, now scarce in both the CBD and the suburbs, will be interesting to see.

### FORECAST

With the future dependent on the success of efforts to restore liquidity and some measure of certainty to capital markets, forecasters now agree that recovery will not commence until the latter part of 2009. Therefore, our expectations are the same as in previous reports, only more so – more pressure on effective rents, more uncertain tenants, and more emphasis on retention and stability. The local economy will temper the downturn's worst effects and even see some growth, but there will be little appetite here or anywhere for high risks, wild strategies, or grand initiatives for some time.

### BEAT ON THE STREET

"Despite existing market conditions and future uncertainty given the disruption of the capital markets, there is a very limited supply of big block office space 40,000 sq ft or larger. Those properties will likely be able to keep rents stabilized despite economic conditions since large tenants have so few choices."

Katherine Campbell, Office Sales and Leasing

### ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.8%	2.0%	1.9%
CPI Growth	3.2%	2.9%	4.4%
Regional			
Unemployment	4.3%	3.2%	3.7%
Employment Growth	0.8%	1.6%	1.5%

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

### MARKET FORECAST

**SUBLEASE** listings will inevitably rise as tenants respond to the economy by pulling back and relinquishing space.



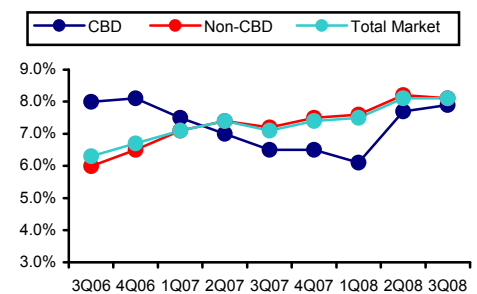
**LEASING ACTIVITY** should remain steady, but attention will shift to the less-costly suburbs and retention efforts may persuade tenants to stay put.



**INCENTIVES** such as rent abatements and large improvement allowances will increase as landlords look to attract tenants while maintaining future returns.



### AVAILABLE SPACE 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	5,031,462	102	7.9%	7.7%	60,231	250,000	0	(46,794)	\$21.45
CBD	5,031,462	102	7.9%	7.7%	60,231	250,000	0	(46,794)	\$21.45
Coliseum Central	1,172,919	66	5.9%	5.9%	36,137	0	0	21,185	\$18.32
Downtown Hampton	419,360	35	9.2%	9.2%	3,893	0	0	(2,343)	\$19.00
Downtown Newport News	1,539,675	50	3.5%	3.5%	4,271	0	0	5,107	\$0.00
Fox Hill	138,102	35	8.3%	8.3%	250	0	0	(4,766)	\$0.00
Gloucester	49,302	10	12.4%	12.4%	1,000	0	0	(500)	\$0.00
Hampton Roads Center	1,103,763	24	7.7%	6.8%	14,758	0	0	31,013	\$20.42
Oyster Point	4,295,747	344	6.9%	6.6%	92,004	107,075	7,454	(22,302)	\$21.59
Poquoson	70,705	16	2.3%	2.3%	11,233	0	0	2,350	\$0.00
Suburban Newport News	877,680	92	6.0%	6.0%	21,917	0	0	(4,610)	\$22.00
Williamsburg/James City County	1,493,514	192	12.6%	12.4%	83,218	30,000	0	25,505	\$22.11
York	719,777	103	15.1%	15.1%	17,703	0	20,000	(19,245)	\$20.38
Peninsula	11,880,544	967	7.7%	7.5%	286,384	137,075	27,454	31,394	\$20.93
Airport/Norhampton	506,341	49	12.9%	12.9%	27,004	0	0	68,423	\$0.00
Battlefield	1,180,406	43	22.4%	22.4%	28,419	0	73,845	(37,893)	\$20.82
Central Norfolk	2,683,426	92	5.5%	5.4%	74,330	100,000	0	56,218	\$19.05
Churchland	280,920	47	2.0%	2.0%	5,810	0	0	(1,896)	\$0.00
Downtown Portsmouth	778,320	75	5.9%	5.9%	7,075	0	0	(1,304)	\$14.00
Franklin City	209,877	13	1.6%	1.6%	0	0	0	(394)	\$0.00
Greenbrier	2,408,174	102	6.3%	6.2%	94,558	10,000	0	(41,747)	\$19.94
Harbourview/Northern Suffolk	1,746,717	31	8.0%	8.0%	46,373	21,000	122,170	128,674	\$21.84
Haygood/Bayside	500,868	48	5.6%	5.6%	1,800	0	0	(5,319)	\$0.00
Hilltop/Great Neck	1,037,648	102	9.0%	9.0%	7,841	0	9,800	(29,633)	\$20.00
Isle of Wight	229,043	29	7.6%	7.6%	0	0	0	(8,222)	\$16.00
Kempsville	450,816	46	9.3%	9.3%	3,334	0	0	(12,642)	\$16.50
Little Neck	954,769	78	5.5%	5.3%	17,048	0	0	(13,330)	\$0.00
Lynnhaven	1,835,292	62	13.0%	10.5%	91,810	0	0	(11,314)	\$18.81
Newtown/Witchduck	2,931,689	152	8.7%	8.1%	90,998	0	0	(26,142)	\$22.08
Norfolk ODU/Ghent	836,622	59	4.6%	4.6%	6,580	0	10,000	12,607	\$22.50
Oceanfront	527,694	53	3.0%	3.0%	2,664	83,811	0	2,421	\$25.95
Portsmouth	365,701	88	1.4%	1.4%	3,200	20,000	0	24,375	\$0.00
Princess Anne	855,974	36	18.8%	18.7%	7,242	0	92,347	42,872	\$21.87
S. Independence/Holland Rd.	837,674	56	4.0%	3.8%	19,903	0	0	15,164	\$20.37
South Norfolk	411,000	54	11.5%	11.5%	2,978	0	0	(14,492)	\$0.00
South Suffolk	836,094	113	4.1%	4.1%	2,739	0	0	(3,051)	\$17.50
Southern Chesapeake	455,565	75	11.8%	11.8%	7,581	0	20,000	(5,238)	\$0.00
Virginia Beach CBD/Pembroke	1,756,511	32	5.8%	5.0%	52,547	201,000	58,897	14,997	\$23.54
Western Branch	220,278	28	12.6%	12.6%	8,463	0	0	3,181	\$0.00
Southside Non-CBD	24,837,419	1,563	8.3%	8.0%	610,297	435,811	387,059	156,315	\$20.90
ALL NON-CBD	36,717,963	2,530	8.1%	7.8%	896,681	572,886	414,513	187,709	\$20.90
HAMPTON ROADS TOTAL	41,749,425	2,632	8.1%	7.8%	956,912	822,886	414,513	140,915	\$20.96

\* Rental rates reflect \$psf/year

## MARKET HIGHLIGHTS

SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Interstate Corporate Center - Maury Building	Newtown/Witchduck	Education Affiliates, Inc.	26,111	B
SIGNIFICANT 3Q08 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
World Trade Center	Downtown Norfolk CBD	Harbor Group International	366,775	\$54,000,000
Town Point Center	Downtown Norfolk CBD	Harbor Group International	131,000	\$12,750,000
1 Symantec Way	Oyster Point	Municipal Partners, LLC	98,506	\$11,170,000
SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Sentara BelleHarbour Medical Campus, Building 1	Harbourview/Northern Suffolk	Sentara Healthcare	76,170	7/08
Corporate Center VI	Va. Beach CBD/Pembroke	Southern Trust Mortgage	58,897	9/08
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Wachovia Center	Downtown Norfolk CBD	Wachovia Bank	250,000	6/10
Two Columbus Center	Va. Beach CBD/Pembroke	N/A	109,000	12/08
Convergence Center IV	Va. Beach CBD/Pembroke	N/A	89,000	4/09
Towne Pavilion Center II	Oceanfront	TowneBank	83,811	12/08

For further information, please contact one of our Brokerage Services Professionals:

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