

# MARKETBEAT

## HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

4Q08

### ECONOMY

The stable economic base in Hampton Roads continues to insulate the area from the worst of the recession, but its effects are being felt. While still considerably below national figures, November's 4.8% unemployment rate ties with August's for the highest the area has seen since June 1997. But the month also saw both total nonfarm employment and private sector employment increase by 1.5% over the year, whereas nationally overall employment shrank by 1.5% and by 2.0% in the private sector. But industrial sectors did not see this growth, with manufacturing employment down by 1.8% and transportation and warehousing employment dropping 1.3%.

Port traffic reflects declining economic activity both nationally and worldwide. Trade in consumer goods is a large component of overall container volume, and the Virginia Port Authority reports that the volume of 20-foot container equivalent units (TEUs) handled by its ports during 2008 was 2.1% less than during 2007 – the first year-over-year decline in container volume since 2001.

### OVERVIEW

The overall vacancy rate for all space types in Hampton Roads was 9.3% in the fourth quarter, 3.3 percentage points higher than the previous year. With almost 6.1 million square feet (msf) of space added on the Southside, inventory for the entire area grew 6.6% to just over 108.5 msf. Reported leasing activity for the year is up by more than 1.0 msf – an amount that may be attributable to leases for larger-volume warehouse spaces now coming on line or to incorrect activity reporting. The year saw negative absorption of 1.5 msf, equal to the size of the former Ford assembly plant that was included in this year's statistics. Asking rents for most space types are lower than last year's on both the Peninsula and the Southside, with the rate for all space types across the entire market down \$0.40 to \$5.51 per square foot (psf).

Retention has taken center stage in an uncertain leasing market. Aware of their bargaining power, tenants demand reduced rents, flexible terms, and incentives – and landlords who want to maintain the stability good tenants provide often comply. Credit restrictions continue to hinder investment sales activity, with maximum loan-to-value (LTV) ratios generally around 65% and sometimes as low as 50%.

### FORECAST

The upcoming year should bring some clarity to the market as financial institutions develop some idea of their liabilities and can properly calculate risk. Tenants will be able to appraise how the recession affects their businesses and plan their response. "Vulture" buyers with cash have begun to hunt for desperate sellers, but the stable local economy means few owners will have to succumb.

In the short term, all significant new construction projects have been halted or postponed. But in January Suffolk's city council considers a CenterPoint Properties proposal for a 5.0-msf distribution center on 900 acres, and with land acquisition and approvals in place for other projects, the region can respond quickly to users with large requirements. Moreover, several recently-announced contracts that will bring substantial manufacturing investment to the Peninsula may spark spinoff demand.

### BEAT ON THE STREET

"We haven't entirely escaped the recession, but the diverse economic structure of Hampton Roads provides a steady level of activity that keeps us outperforming many other markets."

–W. Scott Wermers, Industrial Sales and Leasing


### ECONOMIC INDICATORS


National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%


Regional	2007	2008	2009F
Unemployment	3.2%	4.3%	5.6%
Employment Growth	1.6%	1.5%	0.2%

Sources: Moody's | Economy.com, U.S. Bureau of Labor Statistics, Old Dominion University Economic Forecasting Project

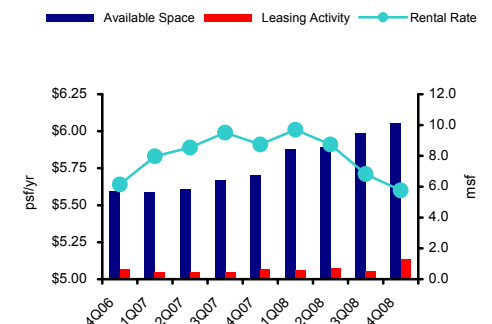
### MARKET FORECAST

**NET ABSORPTION** will remain flat or negative as a few projects already underway are delivered and added to inventory. 

**SALES ACTIVITY** will drop as owner-users regroup and sellers resist the lowball offers of "vulture" buyers. 

**INCENTIVES** will increase in both size and number as landlords try to attract tenants without locking in low rental rates over the lease term. 

### 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	15,056,367	432	13.8%	728,880	0	499,044	(151,269)	\$3.50	\$4.36	\$7.49	\$5.22
Gloucester	227,621	9	9.9%	0	0	0	(2,270)	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,828,712	140	3.0%	100,690	56,900	36,100	(77,325)	\$4.50	\$5.25	\$0.00	\$8.82
Oyster Point	4,763,560	205	3.4%	46,450	0	31,880	(19,919)	\$0.00	\$10.01	\$9.86	\$9.09
Williamsburg Extended	7,444,134	94	2.4%	19,050	0	0	15,860	\$0.00	\$0.00	\$0.00	\$3.75
<b>Peninsula</b>	<b>32,320,394</b>	<b>880</b>	<b>8.0%</b>	<b>895,070</b>	<b>56,900</b>	<b>567,024</b>	<b>(234,923)</b>	<b>\$4.29</b>	<b>\$4.96</b>	<b>\$9.12</b>	<b>\$4.64</b>
Airport Industrial Park	4,004,286	86	7.9%	124,256	0	0	(91,188)	\$0.00	\$4.80	\$8.30	\$5.81
Bainbridge	10,360,181	362	4.2%	324,619	5,000	48,740	120,795	\$6.20	\$0.00	\$9.20	\$7.73
Cavalier	6,492,884	199	7.6%	292,154	0	37,200	106,466	\$0.00	\$0.00	\$6.50	\$5.93
Central Norfolk	7,409,846	140	27.0%	358,148	0	7,800	(1,450,899)	\$5.25	\$0.00	\$9.90	\$5.42
Cleveland	4,314,161	205	8.0%	56,761	0	0	(229,683)	\$0.00	\$0.00	\$11.52	\$6.08
Franklin City	269,974	7	11.3%	0	0	0	(26,500)	\$0.00	\$0.00	\$0.00	\$2.50
Greenbrier	2,686,509	75	14.1%	93,079	0	0	37,035	\$0.00	\$0.00	\$11.98	\$7.24
Isle of Wight	3,439,626	23	10.0%	0	0	0	(3,200)	\$4.15	\$0.00	\$0.00	\$8.00
Lynnhaven	8,977,889	365	11.5%	208,901	56,100	344,466	(344,591)	\$5.32	\$7.58	\$9.32	\$7.39
Norfolk Industrial Park	8,679,874	228	5.8%	264,724	0	0	(136,425)	\$4.54	\$6.61	\$7.15	\$4.95
North Suffolk	1,413,455	11	0.5%	196,704	0	0	224,944	\$4.25	\$0.00	\$8.00	\$0.00
Portsmouth	4,646,633	217	3.3%	74,525	0	40,000	113,497	\$0.00	\$0.00	\$9.77	\$5.13
South Suffolk	10,392,448	108	13.2%	66,300	154,854	850,520	315,225	\$4.60	\$6.10	\$0.00	\$4.50
West Norfolk	3,111,378	139	4.3%	100,228	0	10,000	64,266	\$7.75	\$4.00	\$0.00	\$5.29
<b>Southside</b>	<b>76,199,144</b>	<b>2,165</b>	<b>9.9%</b>	<b>2,160,399</b>	<b>215,954</b>	<b>1,338,726</b>	<b>(1,300,258)</b>	<b>\$4.58</b>	<b>\$5.68</b>	<b>\$9.56</b>	<b>\$5.30</b>
<b>HAMPTON ROADS</b>	<b>108,519,538</b>	<b>3,045</b>	<b>9.3%</b>	<b>3,055,469</b>	<b>272,854</b>	<b>1,905,750</b>	<b>(1,535,181)</b>	<b>\$4.55</b>	<b>\$5.41</b>	<b>\$9.48</b>	<b>\$5.17</b>
								<b>4Q08</b>	<b>4Q07</b>	<b>4Q06</b>	
Distribution	6,264,035	81	4.7%	158,497	4,400	0	(44,070)	\$4.29	\$4.48	\$4.72	
Manufacturing	10,609,664	242	2.3%	42,222	0	0	22,612	\$4.96	\$5.02	\$5.34	
Flex	2,336,866	128	8.5%	35,565	52,500	63,380	(2,861)	\$9.12	\$8.32	\$7.69	
General Industrial	13,109,829	429	14.1%	658,786	0	490,044	(210,604)	\$4.64	\$6.47	\$5.04	
<b>Peninsula</b>	<b>32,320,394</b>	<b>880</b>	<b>8.0%</b>	<b>895,070</b>	<b>56,900</b>	<b>553,424</b>	<b>(234,923)</b>	<b>\$5.14</b>	<b>\$5.97</b>	<b>\$5.14</b>	
Distribution	14,054,146	129	15.8%	308,082	154,854	0	(420,170)	\$4.58	\$4.62	\$4.33	
Manufacturing	14,099,081	263	12.5%	207,140	0	0	(1,440,101)	\$5.68	\$5.78	\$5.31	
Flex	11,371,673	584	10.3%	563,163	24,088	206,689	2,465	\$9.56	\$9.52	\$9.26	
General Industrial	36,674,244	1,189	6.5%	1,082,014	37,012	636,574	557,548	\$5.30	\$5.42	\$5.42	
<b>Southside</b>	<b>76,199,144</b>	<b>2,165</b>	<b>9.9%</b>	<b>2,160,399</b>	<b>215,954</b>	<b>843,263</b>	<b>(1,300,258)</b>	<b>\$5.60</b>	<b>\$5.89</b>	<b>\$5.86</b>	
Distribution	20,318,181	210	12.4%	466,579	159,254	0	(464,240)	\$4.55	\$4.60	\$4.37	
Manufacturing	24,708,745	505	8.1%	249,362	0	0	(1,417,489)	\$5.41	\$5.37	\$5.33	
Flex	13,708,539	712	10.0%	598,728	76,588	270,069	(396)	\$9.48	\$9.39	\$9.16	
General Industrial	49,784,073	1,618	8.5%	1,740,800	37,012	1,126,618	346,944	\$5.17	\$5.68	\$5.24	
<b>HAMPTON ROADS</b>	<b>108,519,538</b>	<b>3,045</b>	<b>9.3%</b>	<b>3,055,469</b>	<b>272,854</b>	<b>1,396,687</b>	<b>(1,535,181)</b>	<b>\$5.51</b>	<b>\$5.91</b>	<b>\$5.64</b>	

\*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

## MARKET HIGHLIGHTS

### SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Bridgeway Commerce Center III	North Suffolk	AMSEC	115,500	Warehouse
Diamond Hill Distribution Center	Bainbridge	FedEx Ground	75,000	Warehouse
Indian River Distribution Center	Greenbrier	U.S. Auto Parts Network, Inc.	72,558	Warehouse

### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1090 West 35th St., Norfolk and 5684 Haden Rd., Virginia Beach 2505 Aviator Drive	West Norfolk Airport Industrial Park	Morningstar Properties	169,998	\$14,250,000
Witchduck Exchange	Lynnhaven	Tactical Warehouse LLC	77,708	\$6,400,000
	Cleveland	Meritage-Witchduck, LLC	82,806	\$5,975,000

### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterchange at Hampton Building B	Copeland	N/A	470,244	2/08
Virginia Regional Commerce Center, Building A	South Suffolk	N/A	400,000	10/08
Virginia Commerce Center, Building 100	South Suffolk	N/A	385,320	9/08

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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

Thalhimers  
5700 Cleveland Street, Suite 400  
Virginia Beach, VA 23462  
(757) 499-2900  
www.thalhimers.com

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