

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q09

ECONOMY

While the Hampton Roads economy continues to benefit from the stability of its large military and government sectors, it has been affected by the ongoing deterioration of the national and world economies. Employment growth reported for 2008 by the U.S. Bureau of Labor Statistics began to look unlikely before revised data was released. Payrolls have shrank – local employment declined by 0.9% during the twelve months ending in February, while the unemployment rate rose to 7.2%, a level unseen since the early 1980s. Economists at Old Dominion University's Economic Forecasting Project now expect the unemployment rate to average 7.5% in 2009 and the gross regional product to decline by 0.3%. The area remains healthier than both the state and the nation, however, as February data showed employment down by 2.2% in Virginia and 3.0% nationwide over 12 months, while economists expect the state's gross domestic product to decline by 1.4% this year and the nation's to drop by 2.9%.

Reduced demand both nationally and worldwide increasingly affects port traffic. The year ending in February saw a 6.3% year-over-year decline in the number of 20-foot container equivalent units (TEUs) handled by Virginia Port Authority (VPA) facilities, but volume was down by 18.6% for the three-month "rolling quarter" and 20.9% for the first two months of 2009.

OVERVIEW

At 9.4%, the overall vacancy rate for all types of industrial and flex space in Hampton Roads rose by 1.3 percentage points over the past 12 months. While the quarter's positive overall absorption of 111,815 square feet (sf) certainly improved upon the nearly 1.0 million square feet (msf) of negative absorption seen a year ago, the addition of the vacant 1.5 msf in Norfolk's shuttered Ford plant skewed numbers for the first quarter of 2008. The average asking rent of \$5.59 per square foot (psf) was down by \$0.42 psf from one year ago, and leasing activity dropped by 49.2% to 277,731 sf.

For leasing, the landscape remains much the same as in previous quarters. Retention remains important to landlords, who are lowering effective rents for good tenants in temporary distress and for those in better shape that demand improved terms at renewal time or even years before. Stability can be expensive and fleeting, however, as tenants reluctant to commit may require significant concessions to extend for one year.

Sellers continue to face a limited number of buyers. While owner-occupants remain eligible for Small Business Administration loans, banks still demand 25% to 35% down from investors, and some are pooling cash to reduce or eliminate the need to borrow.

FORECAST

The short term will remain challenging. Leasing interest will increase as businesses adapt to changed circumstances, but the effort needed to convert that into deals will keep landlords competing for good tenants. Buyers with ready cash are searching for the distress sales and foreclosures that may appear if recovery is delayed. Once it begins, however, port investment such as the CenterPoint Properties Trust proposal to operate VPA facilities and an overall economy likely to lack tolerance for the risks of more cyclical markets should position Hampton Roads well for the next decade.

BEAT ON THE STREET

"Activity among entry-level spaces is still down because the economy hit their users harder, but interest in larger ones keeps rising as established companies see what they can get in this market."

—Janet Whitbeck, Industrial Sales and Leasing


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%


Regional	2008	2009F	2010F
Unemployment	4.2%	7.5%	7.0%
Employment Growth	-0.9%	-0.5%	0.1%

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

MARKET FORECAST

MARKET INTEREST will continue to rise, but fresh memories of economic havoc will keep prospects wary and the time and effort to get them to sign high. 

LEASE TERMS will continue to shrink as landlords yield to tenants averse to commitment in an uncertain economy. 

DIVISIBLE SPACE will decline as tenants pare down to essentials and large warehouse landlords accept smaller users in a glutted market. 

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	15,069,366	436	14.4%	6,000	32,500	0	(8,033)	\$3.50	\$4.79	\$5.57	\$5.19
Gloucester	241,426	11	11.0%	0	0	0	(4,000)	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,879,155	142	4.2%	2,475	0	4,400	(58,125)	\$4.50	\$5.25	\$0.00	\$6.92
Oyster Point	4,783,179	205	3.6%	10,424	0	0	(3,720)	\$0.00	\$10.16	\$9.20	\$7.52
Williamsburg Extended	7,457,934	96	2.6%	0	0	4,800	(18,040)	\$0.00	\$0.00	\$0.00	\$3.75
Peninsula	32,431,060	890	8.6%	18,899	32,500	9,200	(91,918)	\$4.14	\$5.36	\$7.98	\$4.76
Airport Industrial Park	4,011,059	87	10.7%	11,500	16,200	0	(119,080)	\$8.50	\$4.80	\$8.40	\$5.85
Bainbridge	10,421,873	365	4.1%	17,982	15,000	0	33,041	\$6.20	\$0.00	\$9.16	\$5.00
Cavalier	6,495,780	198	7.4%	38,750	0	0	59,031	\$5.95	\$0.00	\$7.08	\$6.19
Central Norfolk	7,443,509	140	26.7%	13,332	0	0	5,210	\$0.00	\$0.00	\$9.43	\$5.38
Cleveland	4,318,705	206	8.1%	13,101	0	0	(13,441)	\$0.00	\$0.00	\$11.78	\$5.36
Franklin City	284,886	9	10.7%	0	0	0	0	\$0.00	\$0.00	\$0.00	\$2.50
Greenbrier	2,701,643	76	10.3%	87,270	0	0	32,026	\$0.00	\$0.00	\$11.53	\$7.49
Isle of Wight	3,439,087	24	10.4%	0	0	0	(12,476)	\$4.15	\$0.00	\$0.00	\$8.00
Lynnhaven	9,027,533	369	11.1%	36,757	0	19,088	40,256	\$5.32	\$7.40	\$9.50	\$7.18
Norfolk Industrial Park	8,808,720	236	4.9%	15,900	0	0	177,387	\$4.45	\$6.61	\$6.21	\$4.94
North Suffolk	1,463,191	11	6.1%	0	7,500	0	(81,800)	\$4.25	\$0.00	\$8.00	\$0.00
Portsmouth	4,685,714	223	5.0%	1,200	0	0	39,975	\$0.00	\$0.00	\$9.92	\$5.38
South Suffolk	10,408,332	111	12.2%	0	154,854	0	77,971	\$4.60	\$6.10	\$9.50	\$4.64
West Norfolk	3,148,988	143	5.4%	23,040	0	0	(34,367)	\$6.25	\$4.00	\$0.00	\$5.33
Southside	76,659,020	2,198	9.8%	258,832	193,554	19,088	203,733	\$4.62	\$5.71	\$9.41	\$5.45
HAMPTON ROADS	109,090,080	3,088	9.4%	277,731	226,054	28,288	111,815	\$4.59	\$5.52	\$9.16	\$5.31
								2009	2008	2007	2006
Distribution	6,272,342	82	4.7%	4,024	0	0	58,497	\$4.14	\$4.44	\$4.81	\$5.09
Manufacturing	10,618,362	243	3.7%	0	0	0	(137,299)	\$5.36	\$5.03	\$5.03	\$4.50
Flex	2,341,774	129	8.2%	6,400	32,500	0	(9,390)	\$7.98	\$8.67	\$8.47	\$7.30
General Industrial	13,198,582	436	14.4%	8,475	0	9,200	(3,726)	\$4.76	\$6.80	\$5.31	\$5.05
Peninsula	32,431,060	890	8.6%	18,899	32,500	9,200	(91,918)	\$5.19	\$6.10	\$5.37	\$5.13
Distribution	13,979,095	126	14.4%	72,558	0	0	189,297	\$4.62	\$4.64	\$4.33	\$4.33
Manufacturing	14,109,210	263	13.1%	7,600	0	0	(61,575)	\$5.71	\$5.78	\$5.68	\$4.38
Flex	11,465,789	592	9.8%	71,262	31,200	19,088	118,228	\$9.41	\$9.82	\$9.92	\$9.54
General Industrial	37,104,926	1,217	6.8%	107,412	162,354	0	(42,217)	\$5.45	\$5.49	\$5.94	\$5.77
Southside	76,659,020	2,198	9.8%	258,832	193,554	19,088	203,733	\$5.69	\$5.99	\$6.19	\$5.82
Distribution	20,251,437	208	11.4%	76,582	0	0	247,794	\$4.59	\$4.61	\$4.45	\$4.48
Manufacturing	24,727,572	506	9.1%	7,600	0	0	(198,874)	\$5.52	\$5.39	\$5.35	\$4.41
Flex	13,807,563	721	9.6%	77,662	63,700	19,088	108,838	\$9.16	\$9.69	\$9.72	\$9.31
General Industrial	50,303,508	1,653	8.8%	115,887	162,354	9,200	(45,943)	\$5.31	\$5.74	\$5.71	\$5.46
HAMPTON ROADS	109,090,080	3,088	9.4%	277,731	226,054	28,288	111,815	\$5.59	\$6.01	\$5.94	\$5.63

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1569 Diamond Springs Road	Airport Industrial Park	Global Supply Solutions, LLC	19,300	Warehouse
300 McLaws Circle	Williamsburg Extended	Play N' Learn, Inc.	18,000	Flex

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
875 Middle Ground Boulevard	Oyster Point	Advanced Technologies	62,052	\$5,100,000
200 Newsome Drive	Oakland	Traviani Pumps USA, Inc.	59,646	\$2,625,000

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Prologis Park Northgate, Building 4	South Suffolk	N/A	154,854	9/09



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

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