

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q09

ECONOMY

The Hampton Roads economy continues to perform comparatively well in the face of an ongoing recession. The area's not seasonally adjusted unemployment rate climbed to 7.0% in May, only 0.1 percentage points below its recent peak in February. Total nonfarm employment declined by 0.9% over 12 months, with transportation and warehousing down by 2.3%, and manufacturing down by 4.6%. These numbers underscore both the severity of the current recession and the relative insulation from its worst effects that Hampton Roads enjoys, however, as nonfarm employment declined by 2.6% in Virginia and 4.0% across the country, with manufacturing payrolls shrinking by 10.1% in Virginia and 11.8% nationwide.

Traditionally port activity contributed to the local economy's stability, but reduced consumer spending across the globe has cut the number of containers handled by Virginia Port Authority terminals from January to May by 21.3% from the same period in 2008. However, the area's overall economic health led the Brookings Institution to rank it among the 20 strongest economies of the nation's 100 largest metropolitan areas, and the area exceeded the 100-metro average for all criteria measured.

OVERVIEW

The overall vacant available rate for all types of industrial and flex space across all of Hampton Roads is unchanged from the first quarter at 9.4%, and the first two quarters saw net absorption of 546,268 square feet (sf) and leases signed for just under 1.2 million square feet (msf). Any description of the market must be qualified, however. There is another 3.5 msf of available but not yet vacant space that adds to the competitive pressure on landlords. Leasing activity totals from our data provider includes renewals that comprise about 38.0% of activity, and removing the 700,000-sf Oyster Point manufacturing facility Canon opened May 1 would bring net absorption to just under negative 154,000 sf.

While there is tenant interest in smaller spaces, some of these are downsizers, and demand in the 20,000 to 50,000-sf range remains limited. As in all sectors, tenants are taking advantage of their stronger bargaining positions, and early renewals with rent reductions or incentives is one contributor to reports of high renewal volume.

FORECAST

Hampton Roads is insulated from economic swings but is by no means entirely isolated from them. Higher demand for space is contingent on an improved global economy, but predicting economic growth sufficient to spur new investment is beyond our scope, as is any attempt to foretell what may happen as commercial real estate loans made at the height of the boom come due over the next few years.

What we know is local. There is a large – some might say daunting – amount of vacant, recently constructed warehouse space in Suffolk that will be completely absorbed only after a good deal of economic growth. CenterPoint is moving forward with its proposal to operate the state's port facilities, however, and it and others continue to amass land for future development. Business cycles are called cycles for a reason, and the ports are unlikely to move anytime soon.

BEAT ON THE STREET

"Major players are investing heavily in Hampton Roads right now because they expect a lot of opportunity here when the economy starts to grow again and want to have everything in place when the time comes."


–Tom Dana, 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			
Unemployment	4.2%	7.5%	7.0%
Employment Growth	-0.9%	-0.4%	0.1%

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

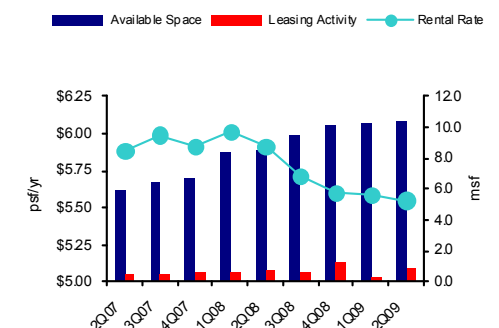
MARKET FORECAST

LEASE RENEWALS will increase as tenants forego expansion and relocation costs and use the uncertain market to improve terms for their existing space. 

CONSTRUCTION will reach a natural floor but will not increase until credit availability improves and excess existing space is absorbed. 

SALES ACTIVITY will remain at low levels until either the bargain-hunting buyer or the discount-resistant seller is forced to blink. 

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	15,112,891	442	15.3%	32,604	32,500	0	(164,132)	\$3.50	\$4.65	\$7.44	\$4.93
Gloucester	257,546	12	8.7%	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,855,144	142	4.2%	32,125	0	4,400	(56,525)	\$5.37	\$5.25	\$0.00	\$6.92
Oyster Point	5,474,444	205	3.1%	21,074	0	700,000	696,280	\$0.00	\$10.17	\$9.10	\$7.20
Williamsburg Extended	7,509,188	101	2.9%	18,000	22,000	9,800	(38,040)	\$0.00	\$0.00	\$0.00	\$4.00
Peninsula	33,209,213	902	8.8%	103,803	54,500	714,200	437,583	\$4.89	\$5.12	\$8.48	\$4.83
Airport Industrial Park	4,024,183	88	10.8%	34,800	0	16,400	(117,875)	\$8.50	\$4.80	\$8.29	\$5.85
Bainbridge	11,180,630	367	3.7%	244,982	19,500	0	44,224	\$6.20	\$0.00	\$9.23	\$5.45
Cavalier	6,457,780	198	7.7%	96,295	0	0	39,612	\$5.95	\$0.00	\$7.08	\$6.17
Central Norfolk	7,436,205	141	25.5%	119,075	0	0	80,290	\$5.25	\$0.00	\$8.84	\$5.27
Cleveland	4,292,909	206	8.3%	53,432	0	0	(20,878)	\$0.00	\$0.00	\$11.00	\$5.36
Franklin City	284,886	9	10.5%	0	0	0	500	\$0.00	\$0.00	\$0.00	\$2.50
Greenbrier	2,701,643	76	10.2%	198,604	0	0	(31,240)	\$4.75	\$0.00	\$11.38	\$7.49
Isle of Wight	3,454,382	25	10.6%	0	0	0	(22,476)	\$4.15	\$0.00	\$0.00	\$8.00
Lynnhaven	9,473,376	393	10.7%	124,791	5,206	61,517	(650)	\$5.32	\$6.72	\$8.83	\$7.11
Norfolk Industrial Park	8,927,342	239	5.1%	149,611	0	0	156,726	\$4.66	\$6.67	\$6.29	\$4.68
North Suffolk	1,558,591	13	6.3%	0	7,500	95,400	(4,400)	\$3.95	\$0.00	\$8.00	\$5.25
Portsmouth	4,719,308	227	5.3%	7,310	0	6,152	23,310	\$0.00	\$0.00	\$9.82	\$5.50
South Suffolk	10,408,926	114	12.2%	0	154,854	0	(27,924)	\$4.60	\$6.10	\$7.45	\$4.64
West Norfolk	3,253,592	150	5.4%	39,040	0	0	(10,534)	\$8.87	\$4.00	\$15.25	\$5.15
Southside	78,173,753	2,246	9.7%	1,067,940	187,060	179,469	108,685	\$4.69	\$5.71	\$9.09	\$5.40
HAMPTON ROADS	111,382,966	3,148	9.4%	1,171,743	241,560	893,669	546,268	\$4.71	\$5.37	\$9.01	\$5.28
								2009	2008	2007	2006
Distribution	6,222,191	79	4.6%	4,024	0	9,200	68,497	\$4.89	\$4.44	\$4.81	\$5.09
Manufacturing	11,301,120	240	4.1%	0	0	700,000	486,753	\$5.12	\$5.03	\$5.03	\$4.87
Flex	2,313,100	129	9.1%	59,804	54,500	5,000	(34,190)	\$8.48	\$9.00	\$8.02	\$7.68
General Industrial	13,372,802	454	14.7%	39,975	0	0	(83,477)	\$4.83	\$6.86	\$7.13	\$5.01
Peninsula	33,209,213	902	8.8%	103,803	54,500	714,200	437,583	\$5.18	\$6.23	\$5.39	\$5.14
Distribution	14,736,706	129	13.7%	213,634	154,854	32,227	80,432	\$4.69	\$4.42	\$4.34	\$4.22
Manufacturing	15,019,950	268	12.4%	55,600	0	0	(168,175)	\$5.71	\$5.90	\$5.66	\$5.32
Flex	11,507,096	593	10.9%	302,468	32,206	138,242	24,757	\$9.09	\$9.87	\$9.30	\$9.38
General Industrial	36,910,001	1,256	6.5%	496,238	0	9,000	171,671	\$5.40	\$5.36	\$5.64	\$5.68
Southside	78,173,753	2,246	9.7%	1,067,940	187,060	179,469	108,685	\$5.65	\$5.84	\$5.98	\$5.78
Distribution	20,958,897	208	11.0%	217,658	154,854	4,142	148,929	\$4.71	\$4.42	\$4.46	\$4.39
Manufacturing	26,321,070	508	8.9%	55,600	0	700,000	318,578	\$5.37	\$5.47	\$5.38	\$5.09
Flex	13,820,196	722	10.6%	362,272	86,706	143,242	(9,433)	\$9.01	\$9.74	\$9.15	\$9.25
General Industrial	50,282,803	1,710	8.7%	536,213	0	9,000	88,194	\$5.28	\$5.57	\$5.92	\$5.44
HAMPTON ROADS	111,382,966	3,148	9.4%	1,171,743	241,560	893,669	546,268	\$5.55	\$5.91	\$5.89	\$5.61

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Diamond Hill Distribution Center	Bainbridge	Windspeed Logistics	32,000	Warehouse
3130 North Armistead Avenue	Copeland	Homeland Security Solutions	19,500	Flex

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
3749 Progress Road	Norfolk Industrial Park	CBCK Properties II, LLC	49,153	\$3,200,000
11848-11850 Canon Boulevard	Oyster Point	Andon, LLC	20,000	\$1,500,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
12000 Canon Boulevard	Oyster Point	Canon USA	700,000	5/09
Lakeview Technology Center 2	North Suffolk	N/A	86,400	6/09

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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