

MARKETBEAT

HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q09

ECONOMY

The near-cliché that the recession's effects are softened by the stable government and military sectors of the Hampton Roads economy remains true. That is not to say that the area has not felt a significant impact, however, but speaks to the general severity of the recession. After dipping to 6.8% in March and 6.5% in April, the area's not seasonally adjusted unemployment rate rose to 7.0% in May, just 0.1 percentage points below this cycle's peak in February. Moreover, total nonfarm employment in May was down by 0.9% from the previous year. In a recession as painful as this one, however, these figures are relatively positive. May's not seasonally adjusted rate was also 7.0% in Virginia and reached 9.1% nationally, and total nonfarm employment declined from May 2008 levels by 2.6% across the state and 4.0% across the country.

The resilience and relative strength of the Hampton Roads economy was recognized by the Brookings Institution's MetroMonitor Report, which ranked Hampton Roads among the strongest 20 metropolitan areas in its survey of first-quarter economic performance in the nation's 100 largest metros, with the area exceeding the 100-metro average in every measure.

OVERVIEW

The overall office vacancy rate for all of Hampton Roads rose to 9.3% in the second quarter, 0.5 percentage points over first quarter levels and 1.2 percentage points higher than a year earlier. Despite recession-driven cutbacks and the long-term shift to allocating less space per employee, the amount of occupied space increased by 0.8% over the previous year, with a 1.4% increase in Southside non-CBD submarkets offsetting flat performance on the Peninsula and a 0.4% decline in the CBD. The CBD has seen negative absorption of 16,748 square feet (sf) over the first two quarters, whereas both the Peninsula and the suburban Southside have experienced positive absorption so far this year.

A \$0.52 per square foot (psf) increase in the average class A rental rate over 12 months belies the fact that concessions and incentives continue to depress effective rents. New tenants with good profiles are eagerly sought, and existing tenants have become aware of their bargaining strength and demand lower rents or expanded and improved space well before their current leases expire.

The education, engineering, and government sectors remain among the market's more active prospects, and brokers report that the level of interest from medical providers is as high as or higher than it was in more prosperous times.

FORECAST

Until the economy improves significantly, expect more of the same. Existing and new tenants alike will continue to press for lower rents and higher incentives, and landlords will have to comply to keep their buildings stable. Smaller and more nimble companies are faster to move now and will be the first to react when growth returns, while larger, more conservative businesses will remain slow to conclude a deal. Investment sales and new construction will remain hampered by credit constraints, and bargain hunters are still waiting for prices to drop further.

BEAT ON THE STREET

"If they can, tenants are putting off decisions, renewing short-term, and waiting to see what the economy does. If they have to commit, they know landlords are hungry and they're using that to their advantage."


—Michael D. McOsker, CCIM
Office Sales and Leasing


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
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

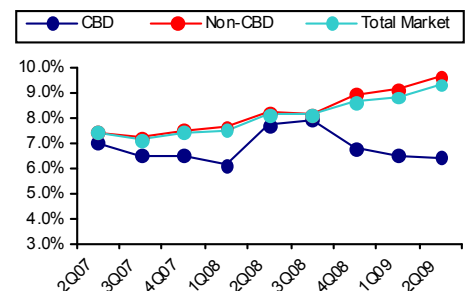
MARKET FORECAST

TENANT INTEREST has leveled off from the increase at the end of the first quarter and will not change significantly beyond usual seasonal fluctuations for the remainder of the year. 

EFFECTIVE RENTS will still be subject to tenant pressures for concessions, but the rate of decline should moderate as the rent cycle nears bottom. 

VACANCY RATES will continue a slow but steady rise until a peak at year's end or the first quarter of 2010. 

OVERALL VACANCY RATE 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	4,970,526	102	6.4%	6.2%	117,720	331,932	0	(16,748)	\$21.62
CBD	4,970,526	102	6.4%	6.2%	117,720	331,932	0	(16,748)	\$21.62
Coliseum Central	1,109,358	77	7.0%	6.5%	20,761	58,090	4,000	5,881	\$18.32
Downtown Hampton	586,326	46	7.1%	6.9%	2,432	0	0	4,070	\$18.00
Downtown Newport News	1,725,715	56	5.4%	5.4%	3,050	0	0	(23,826)	\$0.00
Fox Hill	150,450	36	2.2%	2.2%	2,300	0	0	9,400	\$0.00
Gloucester	126,582	18	10.2%	10.2%	0	0	8,413	6,983	\$18.00
Hampton Roads Center	1,097,896	23	12.7%	11.7%	9,429	0	0	(5,427)	\$20.42
Oyster Point†	4,938,014	349	10.4%	10.3%	96,657	60,000	131,532	106,954	\$21.79
Poquoson	62,972	15	2.6%	2.6%	0	0	0	0	\$0.00
Suburban Newport News	975,458	100	8.2%	8.2%	10,541	0	0	(28,667)	\$22.00
Williamsburg/James City County	1,675,471	213	12.8%	12.4%	27,016	86,000	0	(8,387)	\$23.44
York	750,827	102	14.9%	14.3%	2,791	0	0	54	\$19.13
Peninsula	13,199,069	1,035	9.8%	9.5%	174,977	204,090	143,945	67,035	\$20.68
Airport/Norhampton	530,737	51	8.7%	8.7%	1,150	0	0	6,550	\$0.00
Battlefield	1,291,057	45	18.2%	17.8%	45,358	0	0	29,100	\$21.60
Central Norfolk	3,016,068	100	7.5%	7.5%	20,850	0	100,000	22,426	\$18.30
Churchland	284,106	48	2.2%	2.2%	3,250	0	0	1,411	\$0.00
Downtown Portsmouth	806,304	75	6.3%	6.3%	25,838	0	10,000	(739)	\$14.00
Franklin City	209,483	13	1.4%	1.4%	0	0	0	0	\$0.00
Greenbrier	2,494,741	116	9.3%	9.2%	45,944	15,500	30,000	22,560	\$21.10
Harbourview/Northern Suffolk	1,722,845	35	7.7%	7.3%	27,626	0	20,000	19,571	\$21.91
Haygood/Bayside	533,582	52	8.4%	8.4%	200	0	0	(11,988)	\$0.00
Hilltop/Great Neck	1,043,412	105	13.8%	13.1%	8,728	0	0	(14,102)	\$20.00
Isle of Wight	226,043	28	7.7%	7.7%	0	0	0	0	\$16.00
Kempsville	446,220	46	6.4%	6.4%	4,492	0	0	(1,948)	\$16.50
Little Neck	958,880	80	6.8%	6.8%	3,080	0	0	(11,593)	\$0.00
Lynnhaven	1,809,203	62	14.1%	11.4%	97,015	0	12,000	43,721	\$18.44
Newtown/Witchduck	2,923,386	151	8.2%	8.1%	33,123	0	0	15,522	\$20.08
Norfolk ODU/Ghent	795,472	71	5.6%	5.6%	6,703	196,000	0	(4,320)	\$22.50
Oceanfront	615,368	54	9.1%	9.1%	8,151	0	0	(789)	\$29.31
Portsmouth	406,054	91	8.5%	8.5%	9,478	20,000	0	(24,214)	\$17.00
Princess Anne	882,417	41	16.1%	15.7%	10,842	0	0	21,610	\$21.87
S. Independence/Holland Rd.	847,086	56	5.6%	5.3%	3,900	0	0	(15,474)	\$20.37
South Norfolk	424,624	55	10.6%	10.6%	3,443	0	0	(467)	\$0.00
South Suffolk	802,454	111	2.5%	2.5%	10,490	0	0	9,151	\$17.50
Southern Chesapeake	461,424	79	11.0%	11.0%	1,250	0	0	(8,757)	\$0.00
Virginia Beach CBD/Pembroke	1,960,624	35	13.7%	12.9%	78,979	0	92,000	6,057	\$24.46
Western Branch	231,540	32	9.7%	9.7%	1,000	0	0	6,588	\$0.00
Southside Non-CBD	25,723,130	1,632	9.5%	9.2%	450,890	231,500	264,000	109,876	\$21.65
ALL NON-CBD	38,922,199	2,667	9.6%	9.3%	625,867	435,590	407,945	176,911	\$21.40
HAMPTON ROADS TOTAL	43,892,725	2,769	9.3%	8.9%	743,587	767,522	407,945	160,163	\$21.41

*Rental rates reflect \$psf/year

†An anomaly at our data provider excluded NetCenter, a former enclosed mall with 560,000 sf of class B space, from Oyster Point data in previous quarters. Without NetCenter, the submarket would have 348 buildings with 4,378,014 sf of inventory and overall and direct vacancy rates of 8.0% and 7.9%, respectively.

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Two Columbus Center	Virginia Beach CBD/Pembroke	The Art Institutes	28,351	A
Liberty III	Battlefield	RRMM Architects	24,688	A
Compass Pointe	Oyster Point	Spectrum Communications	19,476	A
Compass Pointe	Oyster Point	Bosh Global Services	19,416	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
ODU Virginia MASC	Harbourview/Northern Suffolk	Old Dominion University	50,000	\$13,885,000
The Amelia Building and The Halifax Building	Newtown/Witchduck	SNH Medical Office Properties Trust	64,660 / 69,584	\$10,665,967

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Riverside Medical Office Building	Oyster Point	Riverside Health Systems	104,532	5/09
Innovation Research Park II	Norfolk ODU/Ghent	N/A	100,000	5/09
Convergence Center IV	Virginia Beach CBD/Pembroke	N/A	92,000	5/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Wells Fargo (Wachovia) Center	Downtown Norfolk CBD	Wells Fargo	250,000	6/10
Fort Norfolk Plaza	Downtown Norfolk CBD	Sentara Medical Group	190,000	4/10
Peninsula Town Center, Kilgore Building	Coliseum Central	N/A	56,000	7/09



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

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