MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

3Q09

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMY

While economists talk of a nascent recovery and tax credit-driven first-time buyers seem to have stabilized housing prices, the recession continues nationally and in Hampton Roads. The not seasonally adjusted unemployment rate rose to 7.4% in June, the highest rate seen in the area during this cycle, before retreating to 6.6% in August. Total nonfarm employment in August declined by 1.3% over 12 months, with manufacturing employment down 4.2%. With the Virginia Port Authority reporting a 20.0% year-over-year decline in the number of twenty-foot (container) equivalent units (TEUs) handled for the year through August, it is not surprising that transportation and warehousing payrolls shrank by 3.9%.

All things are relative, however. The area's unemployment rate was only 0.1 percentage points above the statewide rate in August, well below the comparable national rate of 9.6%, and below those of every other metropolitan area in the state except university-centered Charlottesville and Harrisonburg and Washington, D.C.'s Virginia suburbs. And the Brookings Institute again ranked the Hampton Roads economy among the 20 strongest of the nation's 100 largest metropolitan areas for the second quarter, reporting a 0.1% quarter-over-quarter increase in gross metropolitan product (GMP.)

OVERVIEW

The vacancy rate broke into double digits in the third quarter, as 10.4% of the total inventory of industrial and flex space was reported as vacant available. The Peninsula enjoyed a vacancy rate 1.6 percentage points lower than the Southside's, where large warehouses built in anticipation of increasing port traffic now sit empty in South Suffolk. So far this year there has been negative absorption of 552,000 square feet (sf), and asking rental rates dropped to $5.35 per square foot (psf). Leasing activity may be a positive indicator, however, as 79.6% of space and 90.5% of transactions were for new occupancy, a significantly higher proportion than in the first half of the year.

Retention remains a principal goal of building owners for now, however, and brokers report that the most aggressive competitors they face when leasing vacant space are often existing landlords who preemptively approach their credit tenants with enticing deals for renewals and extensions before the tenant broaches the subject.

FORECAST

Although the Hampton Roads economy will continue to suffer less than the nation's, there will be painful times ahead, and the large amount of recently constructed warehouse space makes the industrial sector particularly vulnerable to declining port activity. Port traffic will increase only when consumer confidence and demand is restored both domestically and worldwide, and a sluggish recovery with little overall employment growth is unlikely to open many wallets.

While struggling building owners may have difficulty repaying loans, banks have not yet begun to foreclose on any scale and seem to prefer slow payment to assuming expenses and acknowledging losses. Buyers awaiting foreclosure-driven price cuts like those seen in the far more inflated residential market will have to keep circling.

BEAT ON THE STREET

"Deal volume for both leases and sales remains low, but owners are still slow to discount asking sales prices for industrial properties."

–Bill Throne, CCIM, SIOR, ALC
Vice President, Industrial Sales and Leasing

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
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

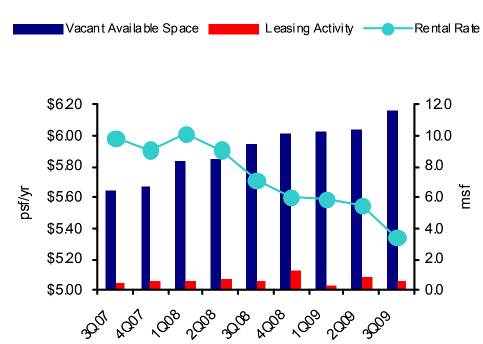
MARKET FORECAST

NEW TENANT INQUIRIES will begin to increase as recovery begins and more stimulus money enters the economy.

CONSTRUCTION cannot decline much further as Prologis postpones spec building at Northgate and only a few small buildings comprising just under 93,000 sf remain under construction.

EFFECTIVE RENTS will continue to fall as landlords fight to attract and retain credit tenants, but the pace will slow and rents will hit bottom by early 2010.

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	15,193,503	450	15.1%	141,484	32,500	0	(124,500)	$3.50	$4.73	$7.44	$4.92
Gloucester	251,741	12	8.9%	0	0	0	0	$0.00	$0.00	$0.00	$0.00
Mathews County	51,470	2	0.0%	0	0	0	0	$0.00	$0.00	$0.00	$0.00
Oakland	4,856,849	142	4.4%	32,125	0	4,400	(64,225)	$5.37	$5.53	$0.00	$6.92
Oyster Point	5,468,246	205	3.4%	46,057	0	700,000	674,884	$7.01	$10.17	$8.86	$7.20
Williamsburg Extended	7,736,997	104	5.3%	18,000	22,000	38,059	(224,519)	$8.00	$5.50	$0.00	$4.00
Peninsula	**33,558,806**	**915**	**9.3%**	**237,666**	**54,500**	**742,459**	**261,640**	**$5.21**	**$5.30**	**$8.34**	**$4.83**
Airport Industrial Park	4,015,533	88	11.7%	83,376	0	16,400	(152,137)	$8.50	$4.80	$8.21	$5.98
Bainbridge	11,098,432	369	8.3%	299,677	17,500	12,000	(451,993)	$5.48	$0.00	$8.88	$3.56
Cavalier	6,596,496	200	9.5%	212,040	0	0	(201,748)	$12.95	$0.00	$7.08	$5.86
Central Norfolk	7,313,572	145	26.1%	119,956	0	0	88,908	$5.25	$0.00	$8.46	$5.34
Cleveland	4,293,861	207	10.6%	76,733	0	0	(123,491)	$4.00	$0.00	$10.90	$5.01
Franklin City	288,636	10	1.0%	0	0	0	27,500	$0.00	$0.00	$0.00	$2.50
Greenbrier	2,704,451	76	8.3%	284,432	0	0	47,924	$4.75	$0.00	$11.23	$7.50
Isle of Wight	3,454,382	25	10.3%	0	0	0	(12,476)	$3.95	$0.00	$0.00	$8.00
Lynnhaven	9,566,853	397	11.0%	159,245	20,998	97,517	92,942	$5.32	$6.77	$8.70	$7.17
Norfolk Industrial Park	9,033,272	266	5.7%	167,760	0	0	91,841	$4.62	$6.28	$6.20	$4.70
North Suffolk	1,558,591	13	11.7%	0	0	95,400	(79,617)	$3.95	$0.00	$0.00	$5.25
Portsmouth	4,831,599	232	5.3%	16,240	0	77,283	26,386	$0.00	$0.00	$9.74	$5.50
South Suffolk	10,473,623	116	13.0%	10,492	0	0	(126,559)	$4.60	$6.71	$7.45	$4.52
West Norfolk	3,298,050	153	6.2%	48,940	0	0	(41,194)	$8.87	$4.00	$15.25	$5.13
Southside	**78,527,351**	**2,297**	**10.9%**	**1,478,891**	**38,498**	**298,600**	**(813,714)**	**$4.65**	**$5.65**	**$8.72**	**$5.04**
HAMPTON ROADS	**112,086,157**	**3,212**	**10.4%**	**1,716,557**	**92,998**	**1,041,059**	**(552,074)**	**$4.71**	**$5.44**	**$8.68**	**$5.00**
								2009	**2008**	**2007**	**2006**
Distribution	6,231,191	79	5.0%	6,041	0	0	38,962	$5.21	$4.29	$4.75	$4.91
Manufacturing	11,301,071	240	4.0%	10,373	0	700,000	508,253	$5.30	$5.44	$4.96	$4.89
Flex	2,343,027	131	8.6%	83,702	54,500	22,990	(24,751)	$8.34	$9.38	$8.34	$7.83
General Industrial	13,683,517	465	15.8%	137,550	0	19,469	(260,824)	$4.83	$4.61	$6.65	$5.05
Peninsula	**33,558,806**	**915**	**9.3%**	**237,666**	**54,500**	**742,459**	**261,640**	**$5.26**	**$5.24**	**$5.86**	**$5.11**
Distribution	14,496,248	119	14.4%	261,192	0	0	38,881	$4.65	$4.50	$4.43	$4.22
Manufacturing	14,518,186	263	12.6%	45,612	0	0	(78,075)	$5.65	$5.95	$5.76	$5.32
Flex	11,413,137	595	12.4%	467,238	23,036	181,394	(68,021)	$8.72	$9.63	$9.56	$9.38
General Industrial	38,099,780	1,320	8.2%	704,849	15,462	117,206	(706,499)	$5.04	$5.48	$5.69	$5.94
Southside	**78,527,351**	**2,297**	**10.9%**	**1,478,891**	**38,498**	**298,600**	**(813,714)**	**$5.37**	**$5.85**	**$6.03**	**$5.91**
Distribution	20,727,439	198	11.6%	267,233	0	0	77,843	$4.71	$4.42	$4.46	$4.39
Manufacturing	25,819,257	503	8.8%	55,985	0	700,000	430,178	$5.44	$5.47	$5.38	$5.09
Flex	13,756,164	726	11.7%	550,940	77,536	204,384	(92,772)	$8.68	$9.74	$9.15	$9.25
General Industrial	51,783,297	1,785	8.9%	842,399	15,462	136,675	(967,323)	$5.00	$5.57	$5.92	$5.44
HAMPTON ROADS	**112,086,157**	**3,212**	**10.4%**	**1,716,557**	**92,998**	**1,041,059**	**(552,074)**	**$5.35**	**$5.71**	**$5.99**	**$5.69**

*Rental rates reflect $psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Indian River Distribution Center	Greenbrier	U.S. Auto Parts Network	45,000	Warehouse
Bay Warehouse - Building 4	Cavalier Industrial Park	Flowserve	23,580	Warehouse

SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
2873 Crusader Circle	Lynnhaven	J.B. Kelly and Associates, LLC	29,925	$2,550,000
Work Flow Building (3701 E. Virginia Beach Blvd.)	Norfolk Industrial Park	A Square, LLC	15,097	$1,150,000

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3959 Garwood Avenue	Portsmouth	AAAA Greenwood Self-Storage	64,979	8/09

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:

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