

# MARKETBEAT

## HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

3Q09

### ECONOMY

Although the Hampton Roads economy remains protected by its large, stable government and military sectors, it has by no means escaped the damage wrought by the nation's longest recession since the 1930s. The unemployment rate has been at or above the previous high of 6.7% set in January 1992 for six of the first eight months of the year, with August's 6.6% rate the result of an 80 basis point decline from the June peak, and nonfarm payrolls shrank by 1.3% from 12 months earlier.

Those figures are enviable in 2009, however. Unemployment and job loss rates in Hampton Roads are lower than in any other Virginia metropolitan area except the university towns of Charlottesville and Harrisonburg, and unemployment in August was third lowest among the 49 metros with a 2000 population above one million. The Brookings Institute cited this data and a gross metropolitan product (GMP) only 0.8% below its pre-recession peak when it ranked the local economy among the strongest 20 in the nation's 100 largest metropolitan areas for the second quarter in a row.

### OVERVIEW

The overall vacant available rate crossed into double digits, reaching 10.3% for all classes in all submarkets. The most dramatic change was in the Downtown Norfolk CBD, where the release of 47,000 square feet (sf) at Norfolk Southern Tower and the addition of 59,500 of the newly renovated former Hotel Madison's 81,932 sf helped drive a 400 basis point rise. The Peninsula's vacancy rate remained just above those for the CBD and suburban Southside, but it alone has seen positive absorption this year.

The \$0.42 per square foot (psf) rise in asking rents this quarter masks ever-increasing incentives and concessions. Retention remain key—with those whose national holdings give them experience in far more distressed markets leading the way, landlords are preempting renegotiation by offering tenants attractive early renewals and extensions before they ask. Tenants are biting, securing favorable deals for the long term while providing landlords with the income stability and reduced vacancy risk they seek.

Investment sales remain limited by more stringent credit standards and the continuing gap between seller expectations and buyer willingness. Cap rates have risen but sales are rare, as most owners remain sufficiently solvent to resist lowball buyers.

### FORECAST

There are now definite signs of recovery in Hampton Roads, and economists expect the National Bureau of Economic Research to determine that the national recession ended during the third quarter. Unemployment is not expected to improve until early next year, however, and some businesses—and some of their landlords—are too unhealthy to benefit and will finally topple in the coming months.

This will likely be a sluggish recovery and demand for office space usually trails the activity that drives expansion. Hampton Roads does not face anything like the glut of space left behind by the wild overbuilding of 20 years ago, however. Tenants should determine possible needs and secure space or options while the market is favorable, while landlords may begin to consider the future cost of current incentives when credit markets relax and leasing demand improves.

### BEAT ON THE STREET

"Now the shock is finally wearing off and businesses have to do something – either renew, or go to market."

—Casey O'Hearn, Office Sales and Leasing

### ECONOMIC INDICATORS

	2008	2009F	2010F
National			
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%	-0.5%	0.1%

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

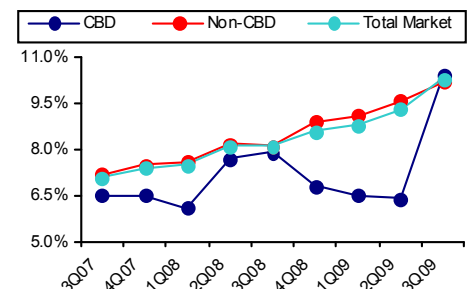
### MARKET FORECAST

**NEW CONSTRUCTION** will remain at low levels until the market absorbs current and projected vacancies and developers and lenders are convinced that demand for new space is sufficient. ⇔

**LEASE TERMS** will grow longer as rising demand for their services and recognition that effective rents are approaching their floor persuade tenants to make longer commitments while the market is favorable. ↑

**VACANCY RATES** in the CBD will shoot up past those in the suburbs when the 250,000-sf office component of the Wells Fargo Tower is delivered next spring. ↑

### 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	5,002,248	101	10.4%	10.3%	134,525	250,000	81,932	(133,037)	\$21.62
CBD	5,002,248	101	10.4%	10.3%	134,525	250,000	81,932	(133,037)	\$21.62
Coliseum Central	1,247,478	79	13.1%	12.7%	37,851	132,734	136,000	50,659	\$21.39
Downtown Hampton	595,640	48	8.4%	8.4%	4,300	0	0	(4,344)	\$18.00
Downtown Newport News	1,697,667	55	5.4%	5.4%	4,550	0	0	(23,826)	\$0.00
Fox Hill	150,450	36	2.2%	2.2%	2,300	0	0	9,400	\$14.03
Gloucester	130,510	19	9.9%	9.9%	0	0	10,000	8,183	\$0.00
Hampton Roads Center	1,025,008	22	12.2%	11.2%	16,912	0	0	11,408	\$20.42
Mathews County	10,752	4	15.3%	15.3%	0	0	0	(1,650)	\$0.00
Oyster Point†	4,957,017	349	10.6%	10.4%	139,492	0	191,532	183,863	\$22.46
Poquoson	63,712	15	2.6%	2.6%	0	0	0	0	\$0.00
Suburban Newport News	997,507	101	7.6%	7.6%	15,340	4,332	0	(27,917)	\$22.00
Williamsburg/James City County	1,790,771	220	14.6%	14.4%	77,248	24,000	70,000	(6,063)	\$23.51
York	763,802	101	14.0%	14.0%	5,966	0	0	5,529	\$20.38
<b>Peninsula</b>	<b>13,430,314</b>	<b>1,049</b>	<b>10.6%</b>	<b>10.3%</b>	<b>303,959</b>	<b>161,066</b>	<b>407,532</b>	<b>205,242</b>	<b>\$21.86</b>
Airport/Norhampton	530,737	51	8.2%	8.2%	2,204	0	0	9,182	\$0.00
Battlefield	1,291,057	45	18.2%	17.7%	66,420	0	0	13,204	\$21.60
Central Norfolk	2,896,024	104	6.8%	6.8%	81,649	0	110,000	(28)	\$19.34
Churchland	284,396	48	2.8%	2.8%	6,990	0	0	(413)	\$0.00
Downtown Portsmouth	808,503	75	6.1%	6.1%	27,584	0	10,000	11,342	\$16.00
Franklin City	209,483	13	1.4%	1.4%	0	0	0	0	\$0.00
Greenbrier	2,511,085	117	9.6%	9.5%	88,654	15,500	30,000	(30,222)	\$21.30
Harbour View/Northern Suffolk	1,732,270	35	8.2%	7.9%	27,626	19,318	32,500	41,113	\$21.91
Haygood/Bayside	536,950	53	11.0%	11.0%	2,100	0	0	(14,509)	\$0.00
Hilltop/Great Neck	1,054,216	106	15.0%	14.3%	8,728	0	0	(28,102)	\$0.00
Isle of Wight	248,534	29	7.8%	7.8%	0	0	0	(1,925)	\$0.00
Kempsville	452,249	47	5.6%	5.6%	11,359	0	0	(3,424)	\$16.50
Little Neck	958,410	80	6.5%	6.5%	12,428	0	0	(9,187)	\$0.00
Lynnhaven	1,790,046	62	15.8%	13.1%	142,319	0	12,000	(5,003)	\$18.89
Newtown/Witchduck	2,932,660	153	9.4%	9.3%	54,723	0	0	(11,397)	\$20.71
Norfolk ODU/Ghent	771,306	71	7.8%	7.8%	10,923	196,000	5,000	(20,422)	\$22.50
Oceanfront	618,873	55	8.4%	8.4%	41,870	0	0	19,935	\$24.68
Portsmouth	382,864	91	1.6%	1.6%	12,893	25,000	0	4,700	\$0.00
Princess Anne	905,272	42	15.5%	15.1%	10,842	0	0	32,870	\$21.01
S. Independence/Holland R.d.	842,786	55	9.5%	9.1%	8,383	0	0	(47,540)	\$20.37
South Norfolk	452,829	56	14.7%	14.7%	7,016	0	28,000	6,116	\$0.00
South Suffolk	808,811	112	3.1%	3.1%	15,190	0	0	4,111	\$17.50
Southern Chesapeake	526,098	83	20.7%	20.7%	6,250	0	0	(67,057)	\$0.00
Surry County	15,000	1	30.6%	30.6%	0	0	0	(4,592)	\$0.00
Virginia Beach CBD/Pembroke	1,963,624	36	13.6%	12.9%	131,267	0	92,000	(3,641)	\$24.46
Western Branch	231,540	32	9.7%	9.7%	2,217	0	0	6,588	\$0.00
<b>Southside Non-CBD</b>	<b>25,755,623</b>	<b>1,652</b>	<b>10.2%</b>	<b>9.8%</b>	<b>779,635</b>	<b>255,818</b>	<b>319,500</b>	<b>(98,301)</b>	<b>\$21.84</b>
<b>ALL NON-CBD</b>	<b>39,185,937</b>	<b>2,701</b>	<b>10.3%</b>	<b>10.0%</b>	<b>1,083,594</b>	<b>416,884</b>	<b>727,032</b>	<b>106,941</b>	<b>\$21.85</b>
<b>HAMPTON ROADS TOTAL</b>	<b>44,188,185</b>	<b>2,802</b>	<b>10.3%</b>	<b>10.0%</b>	<b>1,218,119</b>	<b>666,884</b>	<b>808,964</b>	<b>(26,096)</b>	<b>\$21.83</b>

\*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 before the second quarter of 2009, so these statistics are not directly comparable to those in earlier reports.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Compass Pointe	Oyster Point	SAIC	25,875	A
Harbour View Medical Arts I	Harbour View/Northern Suffolk	Bon Secours Hampton Roads	20,000	A
Convergence Center IV	Virginia Beach CBD/Pembroke	Brown & Caldwell	18,400	A

#### SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Discovery Business Park at New Town - Scott Thomas Office Building	Williamsburg/James City County	Henry S. Branscome LLC	20,000	\$2,410,000
532 Viking Drive	Lynnhaven	Stihl International	11,116	\$1,700,000

#### SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
The Madison (historic hotel conversion)	Downtown Norfolk CBD	N/A	81,936	9/09
City Center at Oyster Point: Town Center One	Oyster Point	The General Services Administration	60,000	8/09

#### 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



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