

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

4Q09

ECONOMY

Hampton Roads was one of the first areas of the country outside the commodity-producing states of Texas and the upper Midwest to commence economic recovery. The Brookings Institute's MetroMonitor project reported a 1.4% increase in gross metropolitan product (GMP) over the third quarter, and GMP now exceeds the pre-recession peak set in the fourth quarter of 2008. November's not seasonally adjusted unemployment rate was 6.6%, still above historical averages but 2.8 percentage points below the comparable national rate, and the 0.4% decline in nonfarm employment over 12 months remained below job loss rates of 2.0% statewide and 3.4% nationally.

The champagne and confetti can wait a bit longer, however. While the 3.6% year-over-year drop in local manufacturing employment was below declines of 10.7% nationally and 8.6% statewide, payrolls in the area's transportation and warehousing sector shrank by 3.1%, and Virginia Port Authority container traffic for the year through November was 17.4% below 2008 levels.

OVERVIEW

The overall vacancy rate for all types of industrial and flex space in all submarkets declined by 30 basis points during the fourth quarter to 10.1%. About a third of the Southside's 1.2 million square feet (msf) of negative net absorption this year occurred in the fourth quarter, and while gains on the Peninsula offset this for an overall fourth-quarter total of 166,233 square feet (sf), net absorption for 2009 remained in the red. Tenants renewing to secure the current market's favorable terms made up a large share of the year's 2.7 msf of leasing activity, down 340,000 sf from 2008.

With direct asking rents for most subtypes 5.0% to 15.0% below their 2007 peak, the average for all space is down \$0.45 per square foot (psf) to \$5.64 psf. This understates the real decline in effective rents, however, as landlords offer substantial incentives while maintaining face rents to keep income projections in line with lender demands. And the reactions of lenders to their own excesses earlier in the decade still shape the commercial market. Demand plummeted as tight credit slashed expansion, even for businesses with solid histories and contracts in hand, while stricter loan-to-value requirements have kept sales activity at a fraction of normal levels.

FORECAST

As are all economies, Hampton Roads is subject to influences both global and local. The main question across the board this year is how owners and lenders will contend with substantial drops in building values as securitized loans come due. While building fundamentals remain stronger here than in many areas, both the highs and the lows of the past few years have shown that real returns may have only a tangential relationship to appraised values, and even strong properties may be caught up in the squeeze.

Local factors are more promising. Virtually no new construction will be added in the near term, and excess space will be absorbed as economic recovery increases port traffic. After three quarters with few large transactions, several new leases and subleases of over 50,000 sf were signed in the fourth quarter, and the effect of large industrial initiatives announced or begun in Newport News in 2009 will be felt.

BEAT ON THE STREET

"This is a fantastic time for industrial tenants and buyers to lock in long-term, low occupancy costs for their businesses."

—Robert L. Phillips, Jr., SIOR
First Vice President, Industrial Brokerage

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	4.2%	6.8%*	6.7%
Employment Growth	-0.9%	-0.8%*	0.1%

*Average January-November not seasonally adjusted monthly rate
Sources: Moody's | Economy.com, U.S. Bureau of Labor Statistics, Old Dominion University Economic Forecasting Project

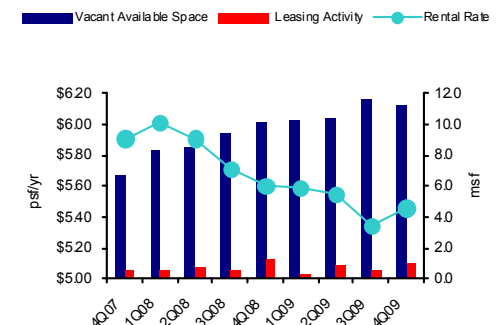
MARKET FORECAST

NET ABSORPTION will rise as the lack of new construction prevents the addition of supply while an improving economy generates demand. ↑

LEASING ACTIVITY will increase, and the proportion comprised by new leases will be closer to historic norms by the second half of the year. ↑

LOAN-TO-VALUE RATIOS will decline further as lenders pull back in the face of lower appraisals and defaults by owners unable to refinance because of more stringent credit requirements. ↓

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	15,213,391	452	8.6%	377,342	0	32,500	652,571	\$3.50	\$4.60	\$8.02	\$5.02
Gloucester	251,741	13	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	4,863,662	143	4.5%	44,775	46,500	4,400	(71,725)	\$6.75	\$5.90	\$0.00	\$6.92
Oyster Point	5,472,879	207	4.0%	67,507	0	700,000	643,645	\$6.87	\$9.35	\$8.89	\$6.05
Williamsburg Extended	7,800,423	105	9.3%	22,800	0	38,059	(380,624)	\$8.00	\$5.89	\$0.00	\$4.00
Peninsula	33,653,566	922	7.4%	512,424	46,500	774,959	843,867	\$5.66	\$5.18	\$8.43	\$4.74
Airport Industrial Park	4,015,533	88	11.5%	161,992	0	16,400	(168,162)	\$9.22	\$4.80	\$8.55	\$5.37
Bainbridge	10,401,692	370	11.5%	475,775	17,500	12,000	(689,967)	\$0.00	\$0.00	\$8.76	\$3.16
Cavalier	6,449,888	200	8.9%	224,676	0	0	(31,423)	\$12.95	\$0.00	\$7.08	\$5.79
Central Norfolk	7,206,852	146	25.6%	98,597	0	0	34,477	\$5.25	\$0.00	\$8.12	\$4.73
Cleveland	4,293,577	207	10.6%	101,118	0	0	(112,983)	\$4.00	\$0.00	\$11.03	\$4.60
Franklin City	288,636	10	1.0%	0	0	0	27,500	\$0.00	\$0.00	\$0.00	\$2.50
Greenbrier	2,693,547	77	9.7%	322,164	0	0	108,621	\$4.75	\$0.00	\$11.32	\$7.62
Isle of Wight	3,763,812	27	9.5%	0	0	0	(12,476)	\$3.95	\$0.00	\$0.00	\$8.00
Lynnhaven	9,676,376	406	10.7%	322,061	0	110,117	121,430	\$5.32	\$6.65	\$9.13	\$6.44
Norfolk Industrial Park	9,073,584	269	6.9%	261,493	0	0	(303,174)	\$4.63	\$5.74	\$5.80	\$4.73
North Suffolk	1,527,965	13	14.0%	73,500	0	95,400	(184,617)	\$3.95	\$0.00	\$26.50	\$5.25
Portsmouth	4,841,009	234	4.9%	62,340	0	77,283	115,055	\$0.00	\$0.00	\$9.16	\$4.86
South Suffolk	10,487,911	117	12.1%	29,492	51,435	0	(85,700)	\$4.19	\$7.50	\$6.73	\$4.71
West Norfolk	3,341,578	154	6.2%	71,780	0	0	(48,299)	\$6.00	\$4.00	\$15.25	\$5.26
Southside	78,061,960	2,318	11.2%	2,204,988	68,935	311,200	(1,229,718)	\$4.38	\$5.34	\$10.92	\$4.83
HAMPTON ROADS	111,715,526	3,240	10.1%	2,717,412	115,435	1,086,159	(385,851)	\$4.47	\$5.23	\$10.58	\$4.81
								2009	2008	2007	2006
Distribution	6,227,866	78	5.8%	6,041	0	0	(5,999)	\$5.66	\$4.29	\$4.48	\$4.72
Manufacturing	11,291,766	239	4.4%	19,823	0	700,000	449,364	\$5.18	\$4.96	\$5.02	\$5.34
Flex	2,383,488	133	10.2%	113,752	10,500	55,490	(5,146)	\$8.43	\$9.12	\$8.32	\$7.69
General Industrial	13,750,446	472	10.2%	372,808	36,000	19,469	405,648	\$4.74	\$4.64	\$6.47	\$5.04
Peninsula	33,653,566	922	7.4%	512,424	46,500	774,959	843,867	\$5.18	\$5.14	\$5.97	\$5.14
Distribution	14,087,506	118	15.5%	296,628	0	0	(273,200)	\$4.38	\$4.58	\$4.62	\$4.33
Manufacturing	14,135,285	262	11.8%	48,087	0	0	(57,733)	\$5.34	\$5.68	\$5.78	\$5.31
Flex	11,339,891	601	12.4%	711,253	17,500	193,994	(92,320)	\$10.92	\$9.56	\$9.52	\$9.26
General Industrial	38,499,278	1,337	9.1%	1,149,020	51,435	117,206	(806,465)	\$4.71	\$5.30	\$5.42	\$5.42
Southside	78,061,960	2,318	11.2%	2,204,988	68,935	311,200	(1,229,718)	\$5.54	\$5.60	\$5.89	\$5.86
Distribution	20,315,372	196	12.5%	302,669	0	0	(279,199)	\$4.47	\$4.55	\$4.60	\$4.37
Manufacturing	25,427,051	501	8.5%	67,910	0	700,000	391,631	\$5.23	\$5.41	\$5.37	\$5.33
Flex	13,723,379	734	12.0%	825,005	28,000	249,484	(97,466)	\$10.58	\$9.48	\$9.39	\$9.16
General Industrial	52,249,724	1,809	9.4%	1,521,828	87,435	136,675	(400,817)	\$4.81	\$5.17	\$5.68	\$5.24
HAMPTON ROADS	111,715,526	3,240	10.1%	2,717,412	115,435	1,086,159	(385,851)	\$5.46	\$5.51	\$5.91	\$5.64

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
West Park One	Copeland	Crate Services, Inc.	150,000	Warehouse/Distribution
3760 East Virginia Beach Boulevard	Norfolk Industrial Park	U.S. Port Services, Inc.	104,000	Warehouse/Distribution
Bridgeway Commerce Center III	North Suffolk	Sparta, Inc.	73,500	Warehouse/Distribution
Indian River Distribution Center	Greenbrier	U.S. Auto Parts Network	45,000	Warehouse/Distribution

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
875 Middle Ground Boulevard	Oyster Point	Advanced Technologies, Inc.	62,052	\$5,161,370
150 South Main Street	Central Norfolk	Norfolk Environmental Services, Inc.	21,662	\$4,200,000
3749 Progress Road	Norfolk Industrial Park	CBCK Properties II, LLC	49,153	\$3,200,000

SIGNIFICANT 2009 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
N/A				



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