

# MARKETBEAT

## HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

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### ECONOMY

The end of 2009 reveals a Hampton Roads economy that, while bruised, remains substantially less damaged by the recession than most of the country. The area's not seasonally adjusted unemployment rate was 6.6% in November, 280 basis points below the nation's and only 20 basis points above the statewide rate. With total nonfarm payrolls down by 0.4% since November 2008, local job losses remain well below the 2.7% decline seen across Virginia and the 4.0% drop nationwide, with most of the decline concentrated in industrial sectors. The Hampton Roads economy remained among the 20 healthiest of the nation's 100 largest metropolitan areas in the Brookings Institute's MetroMonitor report for the third quarter, which reported that the area's gross metropolitan product was 0.7% above its pre-recession peak in the fourth quarter of 2008 – the fourth-best performance among the areas surveyed.

### OVERVIEW

Despite the beginnings of recovery, the overall office vacancy rate for all classes in all submarkets rose to 10.6%, an increase of 30 basis points over the quarter. Vacancies rose on the Peninsula and in the suburban Southside, while the Downtown Norfolk CBD showed a modest improvement. The year brought slight negative absorption to the non-CBD Southside and somewhat more downtown, but positive numbers on the Peninsula kept area totals in the black. Asking rents for Peninsula class A space rose to \$22.04 per square foot (psf). This increase was caused by a significant amount of new, expensive space at Peninsula Town Center coming on the market rather than any shortage of supply.

For the most part, fourth-quarter activity adhered to the patterns set in the first three quarters of 2009. Empowered tenants boosted leasing activity by renewing in order to lock in favorable terms. Industries less subject to economic cycles remained a main source of new tenants: for-profit South University took 32,600 sf in Convergence Center IV, just south of an emerging higher education cluster at Virginia Beach Town Center, while medical users drove activity at smaller, patient-friendly suburban properties. Less certain users stayed flexible with short lease terms however, and both buyers and sellers remain confident in their valuation of properties, keeping the ask-bid differential wide and sales volume low.

### FORECAST

The gap between asking rents and actual rents is the prime signifier of the current market. Incentives and concessions cut effective rents substantially in 2009, but some landlords still maintain aggressive face rents to keep pro formas in line and lenders at bay for a little while longer. How much longer is the question for 2010.

The same conservative nature of the market that insulates Hampton Roads from the extremes of the economic cycle will help the area as loans come due on depreciating properties in a credit market much stricter than three years ago. Most tenants remain healthy and, while the current may be slower, the cash still flows. Even solid properties suffer in the current credit market, however, and the overleveraged are in every town.

### BEAT ON THE STREET

"Property owners are resisting lowering the face rent in an attempt to maintain the building's value, which is determined by the income. Instead, they are offering concessions such as free rent and better build out packages to retain and attract tenants."

–Casey O'Hearn, Office Sales and Leasing

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%

Regional	2008	2009F	2010F
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

**BUILDING EQUITY** will decline as new appraisals come in, and many owners will be forced to provide additional cash to make up the difference between new values and old loan amounts.



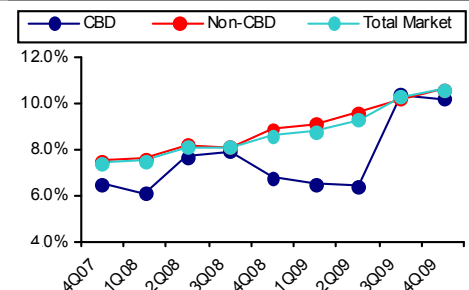
**VACANT SPACE** outside the CBD will peak close to current levels during the first half of 2010, then begin to decline as little new inventory is added to offset absorption.



**NEW LEASE EXECUTIONS** will increase as prospective tenants begin to make plans past the next quarter and commit to longer terms.



### 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	4,792,316	98	10.2%	10.0%	155,147	250,000	81,932	(147,931)	\$22.05
CBD	4,792,316	98	10.2%	10.0%	155,147	250,000	81,932	(147,931)	\$22.05
Coliseum Central	1,326,616	82	14.5%	14.1%	63,299	0	268,734	152,092	\$19.91
Downtown Hampton	595,640	48	14.4%	14.4%	7,908	0	0	(38,776)	\$18.00
Downtown Newport News	1,697,667	55	5.7%	5.7%	4,550	0	0	(28,326)	\$0.00
Fox Hill	150,450	36	1.6%	1.6%	3,200	0	0	10,300	\$0.00
Gloucester	136,802	21	10.5%	10.5%	0	0	25,000	13,870	\$0.00
Hampton Roads Center	990,092	22	11.3%	10.2%	65,494	0	0	181	\$20.61
Mathews County	13,286	5	12.4%	12.4%	0	0	0	(1,650)	\$0.00
Oyster Point†	4,938,328	354	10.6%	10.4%	210,667	0	191,532	184,823	\$22.55
Poquoson	66,862	15	2.5%	2.5%	0	0	0	500	\$0.00
Suburban Newport News	1,010,213	102	7.9%	7.8%	18,640	4,332	0	(27,553)	\$22.00
Williamsburg/James City County	1,792,881	221	15.5%	15.4%	95,304	24,000	70,000	(5,105)	\$23.02
York	768,599	103	14.4%	14.8%	17,866	0	0	(9,385)	\$19.00
<b>Peninsula</b>	<b>13,487,436</b>	<b>1,064</b>	<b>11.2%</b>	<b>10.9%</b>	<b>486,928</b>	<b>28,332</b>	<b>555,266</b>	<b>250,971</b>	<b>\$22.04</b>
Airport/Norhampton	534,210	52	9.9%	9.9%	27,224	0	0	582	\$0.00
Battlefield	1,279,889	45	18.9%	18.4%	94,049	0	0	9,997	\$20.44
Central Norfolk	3,012,237	105	11.5%	11.4%	139,892	0	110,000	(9,032)	\$22.04
Churchland	378,326	50	12.7%	12.7%	27,353	0	0	10,367	\$22.50
Downtown Portsmouth	900,513	75	5.5%	5.5%	27,584	0	10,000	21,942	\$16.26
Franklin City	235,299	14	1.3%	1.3%	0	0	0	0	\$0.00
Greenbrier	2,511,086	118	9.8%	9.4%	167,618	15,500	30,000	9,772	\$19.63
Harbour View/Northern Suffolk	1,672,770	35	4.2%	3.9%	39,343	32,248	32,500	44,411	\$20.09
Haygood/Bayside	536,951	54	8.9%	8.9%	2,100	0	0	(14,609)	\$0.00
Hilltop/Great Neck	1,054,712	106	15.1%	13.5%	15,649	0	0	(31,675)	\$0.00
Isle of Wight	245,580	31	8.0%	8.0%	0	0	0	(1,665)	\$0.00
Kempsville	453,093	48	6.4%	6.4%	13,237	0	0	(1,093)	\$16.50
Little Neck	964,335	81	5.4%	5.4%	26,076	0	0	(10,424)	\$0.00
Lynnhaven	1,790,462	61	12.7%	11.2%	216,811	0	12,000	28,100	\$18.85
Newtown/Witchduck	2,933,762	153	9.1%	9.0%	94,441	0	0	(24,799)	\$17.79
Norfolk ODU/Ghent	788,512	73	6.8%	6.8%	25,295	196,000	5,000	(11,958)	\$22.50
Oceanfront	630,093	60	8.6%	8.6%	49,397	0	0	22,292	\$27.83
Portsmouth	407,686	92	7.8%	7.8%	12,893	0	25,000	3,321	\$17.00
Princess Anne	909,499	43	14.0%	14.0%	18,570	0	0	38,327	\$20.77
S. Independence/Holland R.d.	843,866	55	9.0%	8.9%	16,914	0	0	(43,980)	\$19.56
South Norfolk	455,002	56	10.5%	10.5%	13,037	0	28,000	(5,252)	\$0.00
South Suffolk	872,316	115	3.8%	3.8%	16,890	0	0	(4,393)	\$16.50
Southern Chesapeake	521,559	86	22.7%	22.7%	16,312	0	0	(72,350)	\$0.00
Surry County	15,000	1	30.6%	30.6%	0	0	0	(4,592)	\$0.00
Virginia Beach CBD/Pembroke	1,964,924	38	12.8%	11.7%	197,658	0	92,000	11,736	\$23.83
Western Branch	231,540	32	10.0%	10.0%	3,528	0	0	5,842	\$13.30
Southside Non-CBD	26,143,222	1,679	10.4%	10.0%	1,261,871	243,748	344,500	(29,133)	\$20.75
<b>ALL NON-CBD</b>	<b>39,630,658</b>	<b>2,743</b>	<b>10.6%</b>	<b>10.3%</b>	<b>1,748,799</b>	<b>272,080</b>	<b>899,766</b>	<b>221,838</b>	<b>\$21.12</b>
<b>HAMPTON ROADS TOTAL</b>	<b>44,422,974</b>	<b>2,841</b>	<b>10.6%</b>	<b>10.3%</b>	<b>1,903,946</b>	<b>522,080</b>	<b>981,698</b>	<b>73,907</b>	<b>\$21.27</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Two Columbus Center	Virginia Beach CBD/Pembroke	The Art Institutes	35,000	A
Convergence Center IV	Virginia Beach CBD/Pembroke	South University	32,600	A
Compass Pointe	Oyster Point	SAIC	25,875	A
Battlefield Technology Center I	Battlefield	United States Coast Guard	23,568	B

#### SIGNIFICANT 2009 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
Lynnwood Plaza	Lynnhaven	Tactical Office, LLC	82,250	\$7,800,000

#### SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Innovation Research Park II	Norfolk ODU/Ghent	Old Dominion University	100,000	5/09
Towne Pavilion Center II	Oceanfront	TowneBank	83,811	1/09
Convergence Center IV	Virginia Beach CBD/Pembroke	South University, Wolcott Rivers Gates	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	Norfolk ODU/Ghent	Sentara Medical Group	190,000	4/10



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

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