

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q10

ECONOMY

Hampton Roads saw recovery commence before most of the country, and the area continues to benefit from this head start. The not seasonally adjusted unemployment rate jumped 100 basis points (bps) in one month to 7.9% in January and did not change in February, but it remained 250 bps below the nation's not seasonally adjusted rate. Local job losses have been painful – February nonfarm employment dropped 1.7% over 12 months and private payrolls were down 1.8%— but remain less severe than nonfarm employment declines of 2.6% in Virginia and 2.5% nationally and the 2.9% drop in both state and national private employment. Relatively mild job losses and a gross metropolitan product now exceeding its pre-recession peak kept the local economy ranked among the 20 strongest of the nation's 100 largest metropolitan areas in the Brookings Institute's MetroMonitor Report for the fourth consecutive time.

December saw the first year-over-year increase in import container volume at Port of Virginia terminals since April 2008, and traffic continued to rise in January, February, and March, with first quarter exports 11.8% above 2009 levels and imports up 19.9%. This has not translated into increased employment in the transportation and warehousing sectors, however, as transportation and warehousing employment in February was 9.6% below levels one year earlier.

OVERVIEW

The industrial market softened further during the first quarter as the vacant available rate rose to 10.2%, up 80 bps over 12 months. Overall net absorption approached negative 289,000 square feet (sf), but tenants eager to lock in the attractive terms of the current market pushed leasing activity to just under 669,000 sf, 2.4 times the amount leased in the post-crash uncertainty of the first quarter of 2009. However, the average asking rent for all space types was \$5.49 per square foot (psf), down only \$0.10 psf from one year earlier, and rents for Peninsula distribution space and flex space on both sides of the water show substantial increases.

As space continues to become more available and less expensive, startups and smaller users are beginning to exit their garages and enter the market, driving real increases in both interest and activity at the lower end, whereas larger users are unwilling to expand while the recovery remains fragile. Tight credit continues to constrain investment sales. Buyers that can meet owner-occupancy requirements constitute the bulk of activity, as they can borrow more easily and face little competition for properties from investors.

FORECAST

The dearth of space under construction is an oddly positive harbinger. While demand will be slow to return—vacancies will rise over the near term, although statistics will be skewed if the pending sale of Norfolk's Ford plant for conversion into an alternative energy park closes—there will be no glut of new product to further stress the market.

Credit policies will shape the recovery as they did the recession. Owners and investors face bankers very much aware of declining values and the volume of loans coming due in an environment lacking the easy money of commercial mortgage-backed securities. Hampton Roads may suffer less than many areas, but shrinking equity will sting.

BEAT ON THE STREET

"Smaller users are definitely the most active segment of the market—I'm receiving 20 calls per day on average—and they're serious when they find the right deal. I've written 35 new leases or renewals for smaller users so far this year."

—Janet Whitbeck,
Office/Warehouse-Industrial Specialist

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%

Regional	2009	2010F	2011F
Unemployment	6.8%	6.8%	6.5%
Employment Growth	-0.9%	-0.2%	0.1%

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

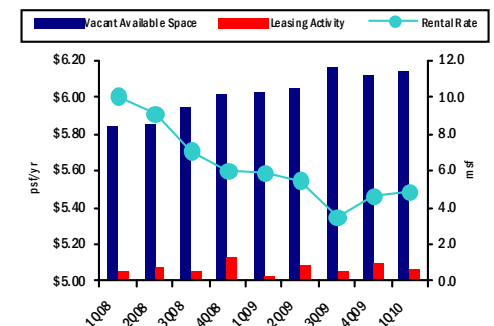
MARKET FORECAST

BUILDING PRICES will continue to decline until banks are more sure of their long-term values and less hesitant to extend credit at attractive terms and reasonable loan-to-value ratios. ↓

VACANT AND AVAILABLE SPACE will increase over the next few quarters as tenants use excess space in existing premises before adding square footage. ↑

LEASE TERMS will be shorter than historic norms as building owners without pressure from lenders to lock in tenants retain the option to renegotiate when the market improves. ↓

OVERALL MARKET TRENDS



An independently owned and operated member of the

CUSHMAN & WAKEFIELD
ALLIANCE

MARKETBEAT

HAMPTON ROADS, VA INDUSTRIAL REPORT 1Q10

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*	MF	Flex	GI
Copeland	15,155,697	454	10.0%	86,271	0	0	(113,097)	\$3.50	\$4.66	\$9.22	\$5.06
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	4,863,971	144	5.5%	0	46,500	0	1,520	\$4.86	\$5.90	\$0.00	\$6.92
Oyster Point	5,438,057	206	4.2%	38,190	30,000	0	(37,185)	\$6.87	\$9.35	\$8.71	\$6.25
Williamsburg Extended	7,798,742	107	4.9%	28,250	0	0	25,150	\$8.00	\$5.68	\$0.00	\$4.12
Peninsula	33,559,678	926	7.2%	152,711	76,500	0	(123,612)	\$4.87	\$5.19	\$8.90	\$4.84
Airport Industrial Park	4,023,638	89	11.9%	61,890	0	0	(13,376)	\$9.22	\$4.80	\$8.16	\$5.46
Bainbridge	10,551,828	377	11.1%	104,572	54,000	0	26,613	\$6.07	\$0.00	\$8.75	\$2.98
Cavalier	6,438,072	204	8.7%	146,880	0	0	(22,280)	\$12.95	\$0.00	\$7.08	\$5.48
Central Norfolk	7,321,813	150	24.9%	23,084	0	0	10,780	\$5.32	\$0.00	\$8.55	\$5.13
Cleveland	4,322,568	209	10.8%	12,880	0	0	(9,410)	\$4.00	\$0.00	\$9.86	\$4.64
Franklin City	288,636	10	10.6%	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Greenbrier	2,702,067	77	10.7%	65,613	0	0	(36,539)	\$4.75	\$0.00	\$11.38	\$6.90
Isle of Wight	3,747,902	27	9.4%	0	0	0	6,238	\$3.95	\$0.00	\$0.00	\$8.00
Lynnhaven	10,023,213	419	11.5%	30,425	32,500	0	(95,451)	\$5.32	\$7.18	\$8.72	\$6.54
Norfolk Industrial Park	9,074,472	269	7.3%	12,410	0	0	(5,765)	\$4.63	\$5.74	\$7.79	\$4.68
North Suffolk	1,529,215	13	14.1%	20,450	0	0	(2,500)	\$3.95	\$0.00	\$26.50	\$4.25
Portsmouth	4,949,028	241	4.9%	3,325	0	0	(1,852)	\$0.00	\$0.00	\$9.16	\$5.45
South Suffolk	10,224,240	122	13.1%	1,800	51,435	0	(6,037)	\$4.19	\$5.00	\$5.82	\$4.70
West Norfolk	3,386,723	158	6.6%	32,847	0	0	(15,598)	\$6.00	\$3.73	\$9.72	\$5.08
Southside	78,583,415	2,365	11.4%	516,176	137,935	0	(165,177)	\$4.47	\$4.81	\$10.80	\$4.84
HAMPTON ROADS	112,143,093	3,291	10.2%	668,887	214,435	0	(288,789)	\$4.50	\$5.04	\$10.62	\$4.84
								2010	2009	2008	2007
Distribution	6,207,724	77	5.8%	0	0	0	(8,480)	\$4.87	\$4.14	\$4.44	\$4.81
Manufacturing	11,225,487	238	4.8%	42,055	0	0	(62,540)	\$5.19	\$5.36	\$5.03	\$5.03
Flex	2,372,667	133	10.5%	34,006	40,500	0	(8,287)	\$8.90	\$7.98	\$8.67	\$8.47
General Industrial	13,753,800	478	9.1%	76,650	36,000	0	(44,305)	\$4.84	\$4.76	\$6.80	\$5.31
Peninsula	33,559,678	926	7.2%	152,711	76,500	0	(123,612)	\$5.13	\$5.19	\$6.10	\$5.37
Distribution	14,206,422	122	15.6%	41,054	0	0	(4,057)	\$4.47	\$4.62	\$4.64	\$4.33
Manufacturing	14,147,766	261	12.0%	26,092	0	0	(34,637)	\$4.81	\$5.71	\$5.78	\$5.68
Flex	11,427,973	607	12.5%	233,472	54,000	0	(43,383)	\$10.80	\$9.41	\$9.82	\$9.92
General Industrial	38,801,254	1,375	9.3%	215,558	83,935	0	(83,100)	\$4.84	\$5.45	\$5.49	\$5.94
Southside	78,583,415	2,365	11.4%	516,176	137,935	0	(165,177)	\$5.59	\$5.69	\$5.99	\$6.19
Distribution	20,414,146	199	12.6%	41,054	0	0	(12,537)	\$4.50	\$4.59	\$4.61	\$4.45
Manufacturing	25,373,253	499	8.9%	68,147	0	0	(97,177)	\$5.04	\$5.52	\$5.39	\$5.35
Flex	13,800,640	740	12.4%	267,478	94,500	0	(51,670)	\$10.62	\$9.16	\$9.69	\$9.72
General Industrial	52,555,054	1,853	9.2%	292,208	119,935	0	(127,405)	\$4.84	\$5.31	\$5.74	\$5.71
HAMPTON ROADS	112,143,093	3,291	10.2%	668,887	214,435	0	(288,789)	\$5.49	\$5.59	\$6.01	\$5.94

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
300 and 500 West Park Lane	Copeland	Crate Services, Inc.	149,795	Warehouse/Distribution
201 West Dexter Street	Bainbridge	Eden Fuels, LLC	60,000	Manufacturing
Seventeen North Warehouse Facility	Cavalier Industrial Park	Sears Roebuck & Co.	33,600	Warehouse/Distribution

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
3800 Village Avenue	Norfolk Industrial Park	Warehouse 888, LLC	101,150	\$2,000,000
2427 Ingleside Road	Norfolk Industrial Park	Q.E.D. Systems, Inc.	32,600	\$1,350,000

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Atlantic Corporate Park	Bainbridge	N/A	54,000	5/10
Northgate 10 Phase I	South Suffolk	N/A	51,435	5/10



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

Thalhimers
5700 Cleveland Street, Suite 400
Virginia Beach, VA 23462
(757) 499-2900
www.thalhimers.com

This report contains information available to the public and has been relied upon by Thalhimers on the basis that it is accurate and complete. Thalhimers accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2010 Thalhimers, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.