

MARKETBEAT

HAMPTON ROADS, VA OFFICE 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.

OVERVIEW

Since the market began to decline in the latter part of 2008, office vacancy rates have increased more rapidly than those for retail and industrial space. The overall vacant available rate across Hampton Roads was 11.4% at the end of the first quarter, up 260 bps over 12 months. Despite the lack of significant deliveries, negative net absorption of almost 124,000 square feet (sf) was close to seven times the amount in the first quarter of 2009. Notable is the 520-bps jump in the Downtown Norfolk CBD's vacant available rate, as it has occurred well before the delivery of Wells Fargo Center draws a large portion of the tenant base away from several other downtown buildings.

Average class A asking rents were \$21.51 per square foot (psf), but landlords began to cut face rents during the quarter to get prospects in the door rather than use incentives to bring effective rents to market levels at the proposal stage. With some large tenants hiring consultants to survey the market and extract rent reductions, aggressive action to secure both new and existing tenants is a prudent tactic.

Credit constraints still hamper investment sales, but the lower rates and higher loan-to-value ratios available to owner-occupants have brought them into the market, and brokers report much interest in the 5,000-10,000 sf range but few available properties.

FORECAST

Some businesses have cut staff and operations without proportionately reducing the amount of space they occupy. While some of this space will return to market as leases are renewed, the most lasting impact of this shadow inventory will be on the speed of recovery, as tenants will expand only after reabsorbing their own excess space.

Neither tenants nor landlords have defaulted in any numbers in Hampton Roads, although declining values and the extinction of securitized mortgages will make for interesting events here and everywhere as loans made in headier times come due in the next few years. Lenders continue to react to the excesses of the mid-2000s by exerting a previously unseen degree of control over deals, however. The stability of a building owner naturally concerns the holder of that building's mortgage, but now some landlords must prove that they have the resources to complete improvements to satisfy tenants' bankers that they will not default and leave their clients with the bill.

BEAT ON THE STREET

"For owner-users with the cash, business stability, and strong banking relationships to take advantage of them, the market offers some great purchase opportunities. I've seen increasing interest from clients near the end of their lease terms who are considering buying over renewal."

—Andy Dallas, Office Sales and Leasing

ECONOMIC INDICATORS

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

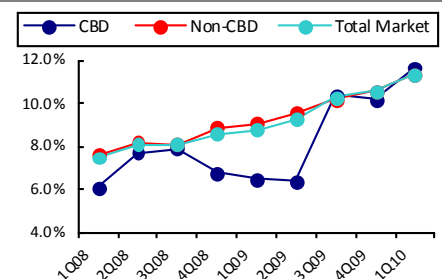
MARKET FORECAST

NEW CONSTRUCTION will peter out after delivery of Wells Fargo Center and Fort Norfolk Plaza and will not return until vacant inventory decreases and lender confidence increases. ↓

NET ABSORPTION will remain at current modestly negative levels as tenants find little need for expansion and their current premises sufficient to meet increasing demand. ↔

LEASE TERMS will be shorter than normal, but this time landlords seeking future recovery of some of the income lost in the current tenant's market will drive the trend. ↓

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	4,783,559	100	11.7%	11.4%	8,783	250,000	0	(16,044)	\$21.99
CBD	4,783,559	100	11.7%	11.4%	8,783	250,000	0	(16,044)	\$21.99
Coliseum Central	1,346,785	83	16.6%	16.0%	5,416	0	0	(24,445)	\$21.89
Downtown Hampton	595,697	48	13.9%	13.9%	2,552	0	0	(11,497)	\$18.00
Downtown Newport News	1,694,757	56	5.8%	5.8%	800	0	0	(3,721)	\$0.00
Fox Hill	150,450	36	4.9%	4.9%	0	0	0	(5,070)	\$0.00
Gloucester	136,802	21	10.5%	10.5%	0	0	0	0	\$0.00
Hampton Roads Center	990,092	22	11.3%	10.2%	0	0	0	4,838	\$20.94
Mathews County	13,286	5	12.4%	12.4%	0	0	0	0	\$0.00
Oyster Point	4,959,832	356	12.2%	11.5%	46,259	0	0	(72,906)	\$22.29
Poquoson	78,370	17	2.2%	2.2%	0	0	0	423	\$0.00
Suburban Newport News	1,022,641	103	7.6%	7.4%	0	4,332	0	3,021	\$22.00
Williamsburg/James City County	1,811,644	223	14.9%	14.9%	10,679	24,000	0	11,431	\$23.05
York	787,535	103	12.0%	12.0%	11,313	0	0	25,639	\$19.00
Peninsula Non-CBD	13,587,891	1,073	11.7%	11.3%	77,019	28,332	0	(72,287)	\$21.45
Airport/Norhampton	534,259	52	8.7%	8.7%	9,160	0	0	187	\$0.00
Battlefield	1,280,518	45	18.5%	18.2%	29,141	0	0	8,148	\$20.38
Central Norfolk	3,744,023	110	14.1%	13.5%	0	0	0	(29,900)	\$21.84
Churchland	381,102	52	12.8%	12.8%	0	0	0	9,020	\$22.50
Downtown Portsmouth	905,839	76	6.1%	6.1%	2,020	0	0	(53)	\$16.25
Franklin City	235,299	14	1.3%	1.3%	0	0	0	0	\$0.00
Greenbrier	2,512,334	119	11.5%	11.1%	21,652	27,476	0	(54,191)	\$19.52
Harbourview/Northern Suffolk	1,672,770	35	3.3%	3.3%	16,874	32,248	0	14,592	\$19.48
Haygood/Bayside	540,926	56	9.4%	9.4%	1,100	0	0	(1,943)	\$0.00
Hilltop/Great Neck	1,013,084	111	15.3%	14.6%	2,200	0	0	(10,871)	\$27.00
Isle of Wight	244,591	31	8.5%	8.5%	0	65,000	0	(1,200)	\$0.00
Kempsville	453,995	48	6.3%	6.3%	2,600	0	0	0	\$16.50
Little Neck	966,257	82	4.3%	4.3%	2,053	0	0	22,024	\$0.00
Lynnhaven	1,815,493	64	16.5%	15.1%	3,422	0	0	(60,025)	\$18.86
Newtown/Witchduck	2,925,856	152	12.7%	12.5%	17,619	0	0	11,023	\$20.11
Norfolk ODU/Ghent	821,130	75	10.0%	10.0%	330	196,000	0	(3,507)	\$22.50
Oceanfront	624,002	65	10.2%	10.2%	1,887	0	0	(6,759)	\$27.80
Portsmouth	410,117	96	6.1%	6.1%	1,600	0	0	6,300	\$15.50
Princess Anne	913,568	46	11.4%	11.4%	0	0	0	35,822	\$20.53
S. Independence/Holland Rd.	854,277	58	10.0%	9.9%	3,530	0	0	(6,202)	\$19.58
South Norfolk	456,952	59	17.7%	17.7%	258	0	0	1,447	\$0.00
South Suffolk	872,316	115	4.5%	4.5%	1,800	0	0	(5,992)	\$16.50
Southern Chesapeake	541,212	93	23.7%	23.7%	3,999	0	0	(5,900)	\$0.00
Surry County	15,000	1	0.0%	0.0%	0	0	0	4,592	\$0.00
Virginia Beach CBD/Pembroke	1,964,924	38	11.9%	10.6%	41,062	0	0	43,219	\$23.69
Western Branch	232,038	32	12.3%	12.3%	4,011	0	0	(5,464)	\$0.00
Southside Non-CBD	26,931,882	1,725	11.1%	10.8%	166,318	320,724	0	(35,633)	\$20.55
ALL NON-CBD	40,519,773	2,798	11.4%	11.3%	243,337	349,056	0	(107,920)	\$20.79
HAMPTON ROADS TOTAL	45,303,332	2,898	11.4%	11.0%	252,120	599,056	0	(123,964)	\$21.51

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Bridgeway Technology Center III	Harbourview/Northern Suffolk	Maryview Hospital	12,123	A
739 Thimble Shoals Boulevard	Oyster Point	GSA/FEMA	10,901	B

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
838 Granby Street	Downtown Norfolk CBD	Retail Alliance Partners, LLC	8,022	\$1,250,000
Discovery Business Park at New Town – 5400 Discovery Park Boulevard	Williamsburg/James City County	Alfred and Beverly Abbitt	30,000	\$1,075,000

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				
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
Carrollton Village Buildings 1 and 3	Isle of Wight	N/A	65,000	4/10



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

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