

MARKETBEAT

HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q10

ECONOMY

Economic reports paint a mixed picture of a nascent recovery. On an encouraging note, the non-seasonally adjusted unemployment rate for Hampton Roads fell sharply over the past quarter to 7.3% in May from 7.9% in January. Although that is up from 6.3% in the second quarter of 2009, it is down significantly from the national average of 9.3%. However, the U.S. Bureau of Labor statistics said that the national dip in unemployment was the result of 400,000 temporary census workers. Still, the recovery is not as robust as many small businesses would like. Several surveys of small-business owners conclude that businesses are not expanding and are not hiring. Business owners continue to report difficulty in accessing capital needed for new projects or hiring, and that means unemployment might remain elevated for quarters to come.

OVERVIEW

The biggest news this quarter was the opening of the Wells Fargo Center, a 23-story office tower in downtown Norfolk that added 258,000 square feet (sf) to the market. The first tenants took occupancy in June, and more are expected soon with the building over 80% pre-leased. However, the additional space put on the market increased the vacancy rate, and absorption was a negative 102,000 sf. That figure was a positive 160,000 sf in the second quarter of 2009. Leasing activity through the second quarter is similar to last year, at about 750,000 sf so far this year.

Overall vacancy for the region ticked up to 12.1% in the second quarter, up from 11.4% last quarter and up from 9.3% in the second quarter of 2009. As in previous quarters, government contactors and companies in the health-care industry are the most active. For example, a Richmond-based clinic firm, PartnerMD, is looking for space in Hampton Roads. The hospital chains also continue to look for outpatient centers, one of their most profitable lines.

Average asking rents are holding steady at about \$21.50 per square foot (psf). Landlords are willing to sign leases with generous tenant improvement concessions, but only on short-term leases. Many are beginning to feel that the economy will improve in a few years and they want the opportunity to get higher rent when the leases roll over.

FORECAST

With a large government services sector, local businesses are keenly watching the federal government's moves these days. There is growing talk of cutting federal spending to balance the budget, and that could mean fewer projects for Hampton Roads-based contractors. Health insurance firms, hospitals and clinics are also watching to see how the new federal health-care bill will affect businesses.

Another trend to watch: National REITs are raising more capital to buy properties around the country, and that means sale volume could return. For example, this quarter Health Care REIT bought a 49,000-sf building on Harbour View Boulevard in Suffolk for \$12.5 million.

BEAT ON THE STREET



"With a two to three year supply of space in the market, landlords are competing for clients. Recovery is dependent on a sustained decline in the unemployment rate."

—Casey O'Hearn, Office Sales and Leasing

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	6.8%	7.7%	7.1%
Employment Growth	-0.9%	-0.8%	1.2%

Source: Moody's | Economy.com

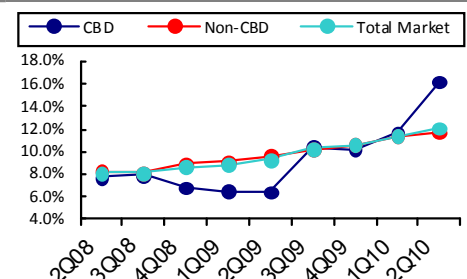
MARKET FORECAST

NEW CONSTRUCTION in the Norfolk CBD will be minimal for the foreseeable future. Now that Wells Fargo Center has delivered, there is ample vacancy to absorb. ↓

NET ABSORPTION is essentially flat and has been for the past 18 months. Once an economic recovery takes hold, absorption will follow as businesses begin to grow again. ↔

LEASING ACTIVITY has been healthy and at the same level as this time last year. Much of this is driven by tenants relocating to take advantage of market conditions. ↔

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. GROSS RENTAL RATE*	AVG. CLASS A
Downtown Norfolk	4,934,322	102	16.2%	16.0%	58,629	0	299,887	14,066		\$23.64
CBD	4,934,322	102	16.2%	16.0%	58,629	0	299,887	14,066		\$23.64
Coliseum Central	1,346,785	83	16.5%	15.8%	8,736	0	0	(18,476)		\$21.89
Downtown Hampton	595,697	48	13.2%	12.7%	2,552	0	0	(4,216)		\$18.00
Downtown Newport News	1,714,894	58	5.9%	5.9%	3,988	0	0	498		\$0.00
Fox Hill	150,450	36	4.9%	4.9%	0	0	0	(5,070)		\$0.00
Gloucester	134,461	20	10.7%	10.7%	0	0	0	0		\$0.00
Hampton Roads Center	990,092	22	10.3%	9.2%	12,298	0	0	29,418		\$19.87
Mathews County	13,286	5	0.0%	0.0%	0	0	0	1,650		\$0.00
Oyster Point	4,974,898	356	12.5%	11.7%	92,158	0	0	(80,954)		\$22.70
Poquoson	78,370	17	2.2%	2.2%	0	0	0	423		\$0.00
Suburban Newport News	1,027,525	103	7.6%	7.6%	3,456	4,332	0	2,885		\$22.00
Williamsburg/James City County	1,827,554	226	13.7%	13.7%	48,353	24,000	0	(6,792)		\$23.01
York	828,773	106	13.2%	13.2%	17,599	48,000	30,000	42,126		\$19.00
Peninsula Non-CBD	13,682,785	1,080	11.1%	11.5%	189,140	76,332	30,000	(38,508)		\$21.46
Airport/Norhampton	544,259	53	10.0%	8.5%	11,360	0	0	336		\$0.00
Battlefield	1,292,663	45	15.9%	15.6%	47,237	0	0	20,395		\$20.53
Central Norfolk	3,123,228	111	18.1%	17.4%	7,798	0	0	(49,171)		\$21.90
Churchland	313,919	50	3.7%	3.7%	0	0	0	(3,871)		\$0.00
Downtown Portsmouth	1,081,176	77	5.1%	5.1%	3,521	0	0	9,670		\$16.25
Franklin City	236,799	15	1.4%	1.4%	0	0	0	(400)		\$0.00
Greenbrier	2,523,485	120	11.3%	10.7%	51,635	27,476	4,400	(47,827)		\$19.52
Harbourview/Northern Suffolk	1,560,432	37	11.4%	11.4%	10,379	26,190	19,318	48,192		\$23.54
Haygood/Bayside	547,427	57	9.3%	9.3%	3,683	0	0	(3,154)		\$0.00
Hilltop/Great Neck	1,067,192	114	14.3%	13.6%	20,399	0	0	(12,469)		\$27.00
Isle of Wight	254,391	32	10.0%	10.0%	630	0	0	(5,966)		\$0.00
Kempsville	456,791	49	9.1%	9.1%	2,600	0	0	(17,715)		\$16.50
Little Neck	987,835	84	4.4%	4.4%	2,053	0	0	22,090		\$0.00
Lynnhaven	1,841,447	66	15.4%	14.2%	75,653	0	0	(79,864)		\$18.79
Newtown/Witchduck	2,978,962	154	8.9%	8.6%	64,362	0	0	6,824		\$19.82
Norfolk ODU/Ghent	837,710	78	10.4%	10.4%	2,979	196,000	0	(15,274)		\$25.71
Oceanfront	624,001	64	10.3%	10.3%	9,427	0	0	(8,783)		\$27.80
Portsmouth	412,879	98	6.0%	6.0%	3,400	0	0	5,109		\$15.50
Princess Anne	911,840	47	11.3%	11.3%	1,200	0	0	35,304		\$20.53
S. Independence/Holland Rd.	867,952	59	11.6%	11.3%	15,503	48,242	13,675	(22,400)		\$19.57
South Norfolk	472,559	62	19.8%	19.8%	3,238	0	0	(11,244)		\$0.00
South Suffolk	837,321	114	4.8%	4.8%	12,150	0	0	(6,313)		\$0.00
Southern Chesapeake	552,683	96	21.8%	21.8%	8,629	0	0	1,994		\$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	9.8%	8.7%	65,892	0	0	55,881		\$23.73
Western Branch	232,038	32	11.7%	11.7%	5,511	0	0	(3,964)		\$0.00
Southside Non-CBD	26,538,913	1,753	11.8%	11.3%	429,239	297,908	37,393	(78,028)		\$21.15
ALL NON-CBD	40,221,698	2,833	11.7%	11.2%	618,379	374,240	67,393	(116,536)		\$21.23
HAMPTON ROADS TOTAL	45,156,020	2,935	12.1%	11.7%	677,008	374,240	367,280	(102,470)		\$21.76

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q 10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Wells Fargo Center	Downtown Norfolk	Willcox & Savage	42,000	A
Corporate Center VI	Virginia Beach CBD / Pembroke	Amerigroup	30,528	A
Wells Fargo Center	Downtown Norfolk	Office Space & Solutions	20,741	A

SIGNIFICANT 2Q 10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5838 Harbourview Drive	Harbourview / Northern Suffolk	Health Care REIT, Inc.	49,000	\$12,500,000
615 Lynnhaven Parkway	Lynnhaven	Hartley, LLC	8,400	\$1,140,000
3221 Commander Shepard Blvd	Coliseum Central	Mawusi Scott Properties	33,400	\$965,000

SIGNIFICANT 2Q 10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Wells Fargo Center	Downtown Norfolk	Wells Fargo	258,000	6/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
301 Riverview Ave	Norfolk ODU/Ghent	Sentara Medical Group	196,000	12/10



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

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