

MARKETBEAT OFFICE SNAPSHOT

HAMPTON ROADS, VA

A Cushman & Wakefield Alliance Research Publication

Q1 2013



ECONOMIC OVERVIEW

The local unemployment rate is 6.2%, down from 7.1% one year ago. In February, employment gains were seen in health care, construction, and professional and business services. Although better than the national

average of 8.1%, many have given up seeking full-time employment, artificially lowering the rate.

Nationally, only 88,000 jobs were added in March, down significantly from 148,000 jobs added in January and 268,000 added in February. Real economic recovery is not expected to gain strength until job creation picks up significantly.

VACANCY

In the last year we have seen the direct vacancy rate drop from 12.7% in first quarter of 2012 to 12.3% in first quarter of 2013. However, the rate is up from last quarter when it was 11.7%. The weighted average direct asking rates for all classes are up to \$16.75 per square foot (psf) in the first quarter of 2013 from \$16.61 psf in the first quarter of 2012. Class A rates fared much better in the past year, up just under 3.0%. One year ago, the direct asking rate for class A space was \$21.08 psf, and it currently is \$21.71 psf. This is directly correlated to the decrease in vacancy for class A space over the past year.

TRENDS

Medical uses continue to lead the way in the office market. Of special note is the four-story, 103,753-sf state-of-the-art Bon Secours DePaul Medical Plaza being built in the Norfolk/ODU Ghent area. It is due to open spring 2014. Job growth is highly correlated to a healthy commercial real estate office market, so employment will bear watching as an indicator of the health of the office market.

OUTLOOK

The Hampton Roads office market has been slowly gaining strength in the last 3 years with lease and vacancy rates stabilizing. Free rent and other concessions have kept the leasing activity positive.

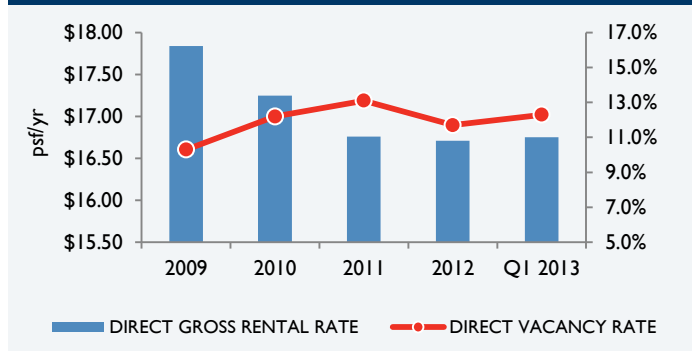
Unfortunately, we have been seeing more foreclosure activity than actual sale activity, which can turn into a positive note by getting the

property off the market and creating opportunities for buyers. Health Care services, medical users and education are certainly businesses with growth potential that can help keep leasing consistent and even slowly improve.

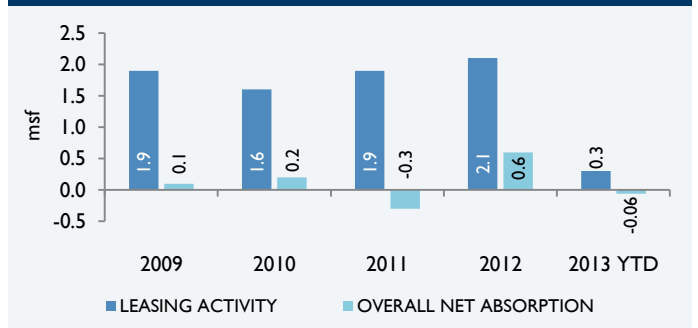
STATS ON THE GO

	Q1 2012	Q1 2013	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	13.0%	12.5%	-0.5pp	▼
Direct Asking Rents (psf/yr)	\$16.61	\$16.75	0.8%	◄►
YTD Leasing Activity (sf)	331,318	260,454	-21.4%	▲

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. OVERALL NET ABSORPTION



HAMPTON ROADS, VA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG. ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Norfolk	5,285,377	16.8%	16.8%	1,888	0	0	(26,050)	(10,643)	\$19.30	\$24.33
CBD	5,285,377	16.8%	16.8%	1,888	0	0	(26,050)	(10,643)	\$19.30	\$24.33
Coliseum Central	1,358,890	17.8%	17.8%	4,671	0	0	19,914	19,914	\$13.56	\$17.69
Downtown Hampton	637,834	13.5%	13.5%	351	0	0	(20)	(20)	\$13.97	\$16.00
Downtown Newport News	1,764,219	4.8%	4.8%	0	0	0	(2,731)	(2,731)	\$13.85	\$0.00
Fox Hill	681,455	45.1%	45.1%	7,380	0	0	83,554	83,554	\$15.14	\$0.00
Gloucester	256,775	17.7%	17.7%	1,944	0	0	514	514	\$14.24	\$0.00
Hampton Roads Center	1,012,609	10.9%	10.0%	2,289	0	0	(6,491)	(6,491)	\$17.36	\$19.38
Oyster Point	5,061,238	11.9%	11.3%	4,433	0	0	11,337	6,434	\$15.74	\$20.70
Poquoson	68,771	10.7%	10.7%	0	0	0	0	0	\$15.04	\$0.00
Suburban Newport News	1,021,405	5.9%	5.9%	1,480	0	0	(15,599)	(15,599)	\$13.08	\$19.35
Williamsburg/James City County	2,176,401	13.4%	13.2%	12,898	0	15,000	17,029	16,176	\$14.78	\$20.92
York	854,437	13.5%	13.5%	4,396	0	0	(10,673)	(10,673)	\$14.61	\$19.00
Peninsula Suburban	14,894,034	13.1%	12.8%	39,842	0	0	96,834	91,078	\$14.97	\$19.29
Airport/Northampton	574,653	22.4%	22.1%	0	0	0	(2,696)	5,371	\$12.79	\$0.00
Battlefield	1,425,646	8.6%	6.9%	81,478	0	0	(9,811)	(34,029)	\$15.63	\$19.80
Central Norfolk	3,021,117	8.3%	8.2%	10,556	0	0	2,491	2,491	\$15.03	\$21.19
Churchland	341,168	7.3%	7.3%	2,377	0	0	(9,220)	(9,220)	\$13.77	\$0.00
Downtown Portsmouth	1,116,921	10.2%	10.2%	0	0	0	1,610	1,610	\$15.89	\$16.89
Franklin City	245,755	0.8%	0.8%	400	0	0	200	200	\$10.44	\$0.00
Greenbrier	2,598,183	12.9%	11.9%	25,300	131,000	0	10,570	(12,923)	\$15.60	\$17.06
Harbourview/Northern Suffolk	1,426,064	14.7%	14.7%	4,988	32,850	0	1,819	4,197	\$21.26	\$22.75
Haygood/Bayside	623,065	11.2%	11.2%	0	0	0	11,658	11,658	\$14.57	\$0.00
Hilltop/Great Neck	1,112,081	16.0%	15.1%	1,600	0	0	(8,140)	(8,140)	\$20.14	\$22.00
Isle of Wight	323,953	18.8%	17.3%	0	0	0	(26,287)	(26,287)	\$14.69	\$0.00
Kempsville	451,739	9.9%	9.9%	3,639	0	0	2,639	2,639	\$17.44	\$23.00
Little Neck	1,119,468	5.3%	5.3%	1,925	0	0	31,926	31,926	\$14.78	\$0.00
Lynnhaven	1,896,102	18.8%	18.2%	17,317	0	0	(98,029)	(110,570)	\$15.91	\$18.33
Newtown/Witchduck	2,966,906	11.9%	11.8%	3,975	0	0	(45,203)	(45,203)	\$17.89	\$20.20
Norfolk OD/Ghent	1,157,086	15.8%	15.8%	5,100	103,753	0	6,740	6,740	\$19.63	\$26.51
Oceanfront	670,909	12.1%	12.1%	16,374	0	61,980	33,999	33,999	\$21.82	\$27.11
Portsmouth	505,285	13.0%	13.0%	0	0	0	(11,138)	(11,138)	\$9.75	\$0.00
Princess Anne	921,658	12.5%	12.5%	739	0	0	(5,084)	(5,084)	\$15.84	\$16.02
S. Independence/Holland Rd.	1,046,694	7.3%	7.3%	9,747	72,300	0	2,255	2,255	\$16.15	\$0.00
South Norfolk	453,329	11.3%	11.3%	900	0	0	900	900	\$11.02	\$0.00
South Suffolk	870,443	5.4%	5.4%	0	0	0	(777)	(777)	\$13.29	\$0.00
Southern Chesapeake	566,473	7.7%	7.7%	11,765	0	0	16,355	16,355	\$14.85	\$0.00
Virginia Beach CBD/Pembroke	1,965,949	7.9%	1.9%	20,547	221,600	0	3,094	3,094	\$23.05	\$27.09
Western Branch	251,539	9.7%	9.7%	0	0	0	0	0	\$14.26	\$0.00
Southside Suburban	27,652,186	12.3%	12.0%	218,727	561,503	76,980	(90,129)	(139,956)	\$16.69	\$22.34
All Suburban	42,546,220	12.0%	11.7%	258,569	561,503	76,980	6,705	(48,878)	\$16.32	\$21.24
TOTALS	47,831,597	12.5%	12.3%	260,454	561,503	76,980	(19,345)	(59,521)	\$16.69	\$21.71

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q1 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
520 Independence Parkway, Battlefield Technology Center II	Battlefield	USAA	B	81,478
161 Enterprise Drive	Oakland	Swisslog Logistics, Inc.	B	20,500
780 Lynnhaven Parkway	Lynnhaven		A	10,348
Significant Q1 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
4410 E. Claiborne Square, Peninsula Town Center Office	Coliseum Central	HSBC Bank	\$3,800,000/ \$26	143,000
125 Independence Boulevard, Wells Fargo Building	Virginia Beach CBD/Pembroke	Oaktree JV National Financial Realty	\$800,000 / \$55	15,127
6669 Short Lane	Gloucester	Realty Income Corp	\$1,900,000/ \$162	11,951
Significant Q1 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
300 32 nd Street	Oceanfront	Speculative	Q1 2013	61,890
432 McLaws Circle	Williamsburg/ James City Co.	Speculative	Q1 2013	15,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
4525 Main Street	Virginia Beach CBD/Pembroke	Speculative	Q1 2015	221,600
509 Resource Road	Greenbrier	FBI	Q3 2013	131,000
150 Kingsley Lane, Bon Secours DePaul Medical Center	Norfolk-ODU/Ghent	Medical	Q2 2014	103,753
3641 Faculty Boulevard	S. Independence/ Holland Rd	Operation Smile	Q2 2013	72,300
217 Meadow View Boulevard	Harbourview/ N. Suffolk	Medical	Q4 2013	13,260
219 Meadow View Boulevard	Harbourview/ N. Suffolk	Medical	Q4 2013	13,260
215 Meadow View Boulevard	Harbourview/ N. Suffolk	Medical	Q4 2013	6,330

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS