

# MARKETBEAT INDUSTRIAL SNAPSHOT

## HAMPTON ROADS, VA A Cushman & Wakefield Research Publication

Q4 2013



### ECONOMIC OVERVIEW

The US economy continues to show moderate recovery in 2013. The quoted unemployment rate dropped to 7.0% in November although many observers continue to comment on dropping labor market participation rates as a

driver for the lower unemployment rate as opposed to new job creation. Efficiencies related to advancing technology and a natural reluctance of employers to staff up too quickly continues to affect the overall employment picture.

As of November 2013, the unemployment rate for the Hampton Roads MSA fell to roughly 5.5%, half of a percentage point lower than it was 12 months ago at 6.0%. Over the past year, the labor force has remained practically unchanged; however the number of people currently employed has grown, suggesting there has been a modest improvement in job placement.

### LEASING ACTIVITY & ABSORPTION

Regional industrial leasing activity through the end of 2013 finished strong with over 3.5 million square feet (msf), a 40% improvement over 2012. However, overall net absorption fell about 67% from fourth quarter of last year, ending 2013 with only 286,416 square feet (sf) of positive net absorption.

Leasing activity trends remain relatively unchanged; Southside continues to be the greatest contributor with over 2.3 msf of leasing activity in 2013. In the Peninsula, leasing activity exceeded over 1.2 msf, slightly twice the amount observed in 2012. Overall leasing activity for both sectors as a percentage of inventory stood at 3.2%. According to a Cushman & Wakefield publication, as of Q3 2013 leasing activity as a percentage of inventory for the Hampton Roads industrial market was below the national average by nearly 50 basis points.

An interesting phenomenon occurred this year as it seems the submarket clusters switched places from last year, in regards to overall net absorption. As opposed to 2012, where Southside led the market with over 630,000 sf in positive net absorption; Southside actually ended 2013 with 420,985 sf of negative net absorption. This year the Peninsula led the market with an impressive 707,401 sf of positive net absorption, a 279% increase since fourth quarter 2012.

### TRENDS

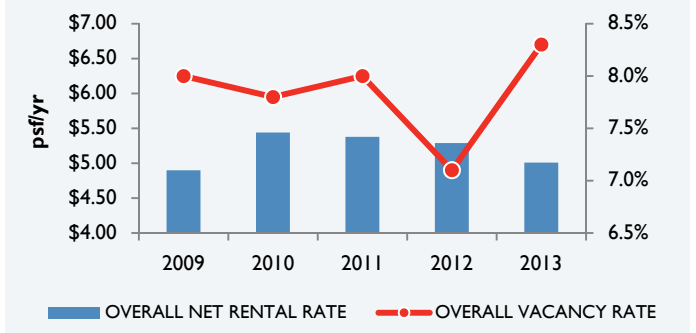
Given the substantial growth in leasing activity this year, does this indicate there was significant market improvement? Not necessarily; although the market experienced substantial overall leasing growth,

overall net absorption suffered a 67% reduction. More importantly, while both submarket clusters exhibited positive net absorption in 2012, year-end 2013 proved to be rather unbalanced with the Peninsula ending with a vivid increase over 2012 and Southside ending the year with over 400,000 sf of negative absorption.

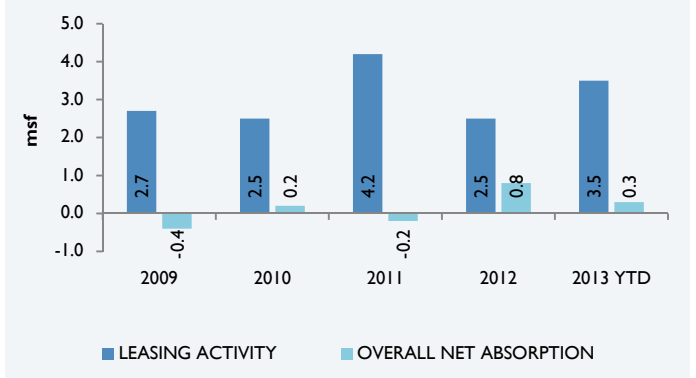
### STATS ON THE GO

	Q4 2012	Q4 2013	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.1%	8.3%	1.2pp	▼
Direct Asking Rents (psf/yr)	\$5.32	\$5.03	-5.5%	◄►
YTD Leasing Activity (sf)	2,503,354	3,550,896	41.8%	▲

### OVERALL RENTAL VS. VACANCY RATES



### LEASING ACTIVITY VS. OVERALL NET ABSORPTION



What trends can be attributed to such erratic changes? Certainly some of the large leases including the Huntington Ingalls distribution lease of 202,000 sf in Copeland and the Lumber Liquidators warehouse lease of 150,000 sf in South Suffolk made significant contributions to the market. However, deals such as the aforementioned were not common in 2013. On contrary, the market continues to observe very few prospects and the retention of current tenants remains a priority for landlords. Therefore, a large portion of leasing activity witnessed in 2013 was made up of renewals as opposed to move-ins. This assumption can be scrutinized by comparing the year-end leasing activity to the market's net absorption figures; especially the Southside cluster which was also impacted by tenants moving out, therefore increasing vacancy.

Additionally, product conversions or repositioning proves to be a notable trend in 2013. As demand for industrial product remains unchanged, conversions to multi-family or mix-use product seems to be a more viable option. Overall, industrial inventory within the Hampton Roads market has decreased by approximately 7.2 msf since 2012. This has been a clear case in the Copeland submarket where overall vacancy has dropped from 9.3% in 2012 to 7.4% in 2013 with

net absorption of 526,692 sf. Although there has been a significant amount of leasing activity throughout the year, inventory decreased from 15.7 msf in 2012 to 12.8 msf in 2013. It is reported that Camp Morrison Industrial Park, an 860,000-sf park is one of the properties that has been removed from the industrial market and will be converted to mix use.

## OUTLOOK

There is still much work to be done within the industrial market in the Hampton Roads MSA. Overall absorption was comparatively weak over the past 12 months and has been over the last five years with an approximate running average of 0.14 msf in positive net absorption and 3.08 msf in leasing activity. Although leasing activity improved by more than 40% over 2012, overall vacancy increased 90 basis points to 8.0%, and rental rates seem to have fallen by 6.0% as landlords seek to attract new tenants. Tenants in the market are looking for the best deals in the best spaces and as landlords continue to drop their rental rates, moves from one space to another are more prevalent. As a result, it is not likely that we will see a great deal of speculative development in 2014.

## MARKET HIGHLIGHTS

SIGNIFICANT 2013 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
5201 City Line Road	Copeland	Huntington Ingalls, Inc.	Distribution	202,004
150 Industrial Park Drive	South Suffolk	Lumber Liquidators	Warehouse	150,000
5820 Ward Court	Airport Industrial	ACOSTA	Warehouse	62,500
5201 City Line Road, Building 4	Copeland	S&V Warehousing	Distribution	41,052
SIGNIFICANT 2013 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
1960 Diamond Hill Road	Bainbridge	Blackstone	\$34,200,000 / \$48	712,339
2000 Gateway Boulevard	Cavalier	Blackstone	\$32,400,000 / \$77	421,100
4111 Monarch Way	Norfolk	BioMed Realty Trust	\$67,900,000 / \$355	191,200
SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
326 Old York Hampton Highway	Oakland	Speculative	Q1 2013	13,500
3432 Airline Boulevard	Portsmouth	R.E. Michel	Q3 2013	15,479
981 Scott Street	Norfolk Industrial	Speculative	Q4 2013	28,410
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
1028 Bells Road	Lynnhaven	Speculative	Q1 2014	18,750
553 South Birdneck Road	Lynnhaven	Speculative	Q1 2014	11,429
316 Old York-Hampton Highway	Oakland	Speculative	Q1 2014	8,035
5302 West Military Highway	Cavalier	Speculative	Q1 2014	37,553
808 Curtis Saunders Court	Cavalier	Speculative	Q2 2014	17,568
816 Curtis Saunders Court	Cavalier	Speculative	Q2 2014	10,000

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

## HAMPTON ROADS, VA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	RENTAL RATES			DIRECT WEIGHTED AVERAGE NET RENTAL RATE
								HT	MF	OS	
Copeland	12,882,478	7.4%	864,663	0	0	362,425	526,692	\$6.50	\$4.74	\$5.00	\$4.83
Gloucester	289,628	12.9%	0	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Mathews County	61,194	3.5%	0	0	0	0	0	\$0.00	\$0.00	\$0.00	\$0.00
Oakland	4,962,360	8.5%	156,409	8,035	13,500	38,326	62,326	\$0.00	\$5.07	\$10.39	\$6.74
Oyster Point	4,978,266	4.3%	118,471	0	0	15,925	10,689	\$0.00	\$0.00	\$9.18	\$6.33
Williamsburg Extended	8,561,467	5.2%	82,740	0	0	107,694	107,694	\$0.00	\$4.47	\$6.11	\$6.02
<b>PENINSULA</b>	<b>31,735,393</b>	<b>6.5%</b>	<b>1,222,283</b>	<b>8,035</b>	<b>13,500</b>	<b>524,370</b>	<b>707,401</b>	<b>\$6.50</b>	<b>\$4.71</b>	<b>\$7.46</b>	<b>\$5.15</b>
Airport Industrial Park	3,445,229	5.7%	222,809	0	0	116,659	116,659	\$0.00	\$2.50	\$6.90	\$4.80
Bainbridge	10,530,963	4.1%	404,178	0	0	51,883	65,745	\$0.00	\$0.00	\$7.68	\$6.43
Cavalier	6,281,991	11.0%	306,597	65,121	0	65,407	65,407	\$0.00	\$4.25	\$10.48	\$5.07
Central Norfolk	5,563,571	16.0%	136,890	0	0	(173,699)	(170,565)	\$9.67	\$0.00	\$5.76	\$5.35
Cleveland	3,769,893	15.0%	140,533	0	0	37,015	37,015	\$0.00	\$3.00	\$10.89	\$5.04
Franklin City	378,840	81.4%	0	0	0	0	(138,800)	\$0.00	\$0.00	\$0.00	\$2.00
Greenbrier	2,699,608	9.9%	117,702	0	0	47,679	29,163	\$0.00	\$0.00	\$6.60	\$6.46
Isle of Wight	3,658,713	0.3%	29,222	0	0	11,250	11,250	\$0.00	\$0.00	\$0.00	\$8.00
Lynnhaven	9,810,439	16.4%	297,493	30,179	0	(95,514)	(95,514)	\$0.00	\$4.71	\$9.10	\$4.57
Norfolk Industrial Park	9,007,052	4.9%	234,146	0	28,410	(79,358)	(79,358)	\$0.00	\$3.50	\$5.80	\$5.18
North Suffolk	2,332,108	7.1%	30,000	0	0	(37,054)	(110,554)	\$0.00	\$0.00	\$0.00	\$0.00
Portsmouth	5,697,291	7.4%	121,156	0	15,479	(44,054)	(31,554)	\$0.00	\$0.00	\$6.18	\$4.65
South Suffolk	10,973,477	7.1%	218,359	0	0	(365)	(365)	\$0.00	\$3.62	\$6.79	\$3.77
West Norfolk	3,106,371	12.6%	52,960	0	0	(128,488)	(119,514)	\$0.00	\$2.93	\$6.81	\$6.12
<b>SOUTHSIDE</b>	<b>77,256,546</b>	<b>9.3%</b>	<b>2,308,045</b>	<b>95,300</b>	<b>43,889</b>	<b>(228,639)</b>	<b>(420,985)</b>	<b>\$9.67</b>	<b>\$3.89</b>	<b>\$7.20</b>	<b>\$4.77</b>
<b>TOTALS</b>	<b>108,991,939</b>	<b>8.3%</b>	<b>3,550,896</b>	<b>103,335</b>	<b>57,389</b>	<b>295,731</b>	<b>286,416</b>	<b>\$7.40</b>	<b>\$4.45</b>	<b>\$7.42</b>	<b>\$5.03</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION