Old Dominion University
Hampton Roads Real Estate
Market Review and Forecast
2010
Presented by:
E.V. Williams
Center for Real Estate
and Economic Development

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3/10/2010
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<th>Members</th>
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<tr>
<td>Industrial</td>
<td>Bill Throne and Stephanie Sanker</td>
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<td>Scott Adams</td>
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<td>Retail</td>
<td>David Machupa and David Chapman</td>
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<td>Multi-family</td>
<td>Charles Dalton/Real Data</td>
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<td>Residential</td>
<td>Blair Hardesty and Van Rose</td>
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<tr>
<td>Investment</td>
<td>Scott Adams</td>
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<th>Name</th>
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<tr>
<td>Brian Dundon</td>
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### Program Moderator

Michael J. Seiler, Ph.D.
Professor and
Robert M. Stanton Chair of Real Estate and Economic Development

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### Investment Market Review

**TOPICS TO COVER**

- Trends in Property Sales (DOWN!)
  - Nationally
  - Hampton Roads
- Trends in Distressed Assets (UP!)
- The Lending Market Today (IT DEPENDS)
- Commercial Real Estate as an Investment Class (A WINNER OVER THE LONG TERM)

Presented By:

J. Scott Adams, CCIM
President, Mid-South Region

March 10, 2010
Trends in Property Sales

**Nationally**
National Sales Transactions of $5 Million or Greater

- $250,000,000
- $300,000,000
- $350,000,000
- $400,000,000
- $450,000,000
- $500,000,000

Total: $443.4 Billion

**Local Sales Transactions of $5 Million or Greater**

- $0
- $50,000,000
- $100,000,000
- $150,000,000
- $200,000,000
- $250,000,000

Total: $135.4 Billion

Source: Real Capital Analytics

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**Hampton Roads**

Local Sales Transactions of $5 Million or Greater

- $1,083 Billion
- $602.3 Million

Total: $735.5 Million

Source: CB Richard Ellis Market Research

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**2009 Top Local Sales Transactions: Multi-Family**

- Springhouse @ Newport
- The Townes @ Jones Run
- Woodshire Apartments

**2009 Top Local Sales Transactions: Retail**

- Harbour View East

**2009 Top Local Sales Transactions: Office**

- London Bridge Shopping Center
- Lynnwood Plaza
Trends in Distressed Assets

WHAT IS A “DISTRESSED ASSET”?  

- A loan default has occurred or is imminent  
  and/or
- The owner/sponsor of the asset is bankrupt or faces financial trouble

The Lending Market Today

HOW IS THE LENDING MARKET TODAY?  
It Depends!

1) By Property Type  
   Multi-Family vs. all other Property Types

2) By Asset Stability  
   Stable Positive Cash Flow  
   vs.  
   Unstable Positive or Negative Cash Flow

3) By Investor Type (For Office and Industrial Assets)  
   Owner-Occupants vs. Traditional Investors

Commercial Real Estate as an Investment

GAME PLAN FOR SUCCESS FOR SERVICE PROVIDERS  

- Be sensitive to the stress on real estate owners  
- Educate our clients with fresh, thorough information  
- Seize every opportunity for our clients  
- Make a difference in our clients’ lives

Investment Market Review

COMMERCIAL REAL ESTATE vs. Stocks and Bonds  
Higher Returns for real estate over a 5 and 10 year hold period


Note: NCREIF Property Indexes vs. Stocks and Bonds.
Hampton Roads Industrial Vacancy Rate

12.94%

87.06% occupied!

12.94%

11.1% in 2008
Hampton Roads Industrial Vacancy Rate

12.94%

11.1% in 2008
10.51% in 2007
5.87% in 2006

12.94% 12.94% 11.1% in 2008 10.51% in 2007 5.87% in 2006

12.94% 12.94%

National Vacancy Rate:
C&W: 10.8%
CoStar: 10.1%

Compared to other Markets:
Savannah, GA 19.9%
Chicago, IL 11.4%
Richmond, VA 10.9%
Seattle, WA 9.3%
L.A. (South), CA 5.7%
Hampton Roads Industrial Vacancy Rate

**First Number:**

12.94%

**HR Submarkets (the good):**

- Peninsula: 9.49%

**Lowered Vacancy in 2009:**

*Bainbridge* *Lynnhaven* *Portsmouth*

*Copeland* *Oakland* *Williamsburg*

**Second Number:**

- Norfolk Commerce Park: 38.41%
- Isle of Wight: 28.45%
- Suffolk: 19.13%

Rental Rate a Landlord would love to get for distribution space

$4.00 NNN psf/yr

*This will remain something of a benchmark for warehouse space.

*Market rents for other subgroups will cluster around:

- $4.75-$5.75 NNN for general industrial
- $5.50-$6.50 NNN for higher rent submarkets
The number of predictions I got wrong last year:

1. GVA Advantis is bullish for 2009.
2. There are two big deals about to be announced in the market.
3. The local industrial market is healthy with a modestly successful 2009.
4. Vacancy rates are not expected to rise.
The number of ‘big’ deals in the market this year:

4

1. Virginia Beach
2. Chesapeake
3. Norfolk
4. Suffolk

Wish list for additional building sales in 2010:

10
more than last year!

*2009 had 20 industrial building sales compared to 34 for 2008, or a 42% reduction in sales volume.

*2009 average sales price: $69.18 per square foot.

*2008 average sales price: $70.89 per square foot.

*Financing will become even more of a challenge.

Hopeful for a vacancy rate in 2010 of:

10%
+1%? +2%?

1. Ford Plant sold? 2.3 million square feet off the market.
2. One large warehouse deal, please?
3. NO INDUSTRIAL LAND SALES IN 2009.
4. No speculative development.

1. More general manufacturing properties may come to market.
How can I be successful in 2010?

1. You have to search for the hard-to-find eggs...
2. Get your equity piece secure.
3. Treat good tenants like the partners they are.
4. Stay in touch with your lenders.
5. Keep your sense of humor.
How can I be successful in 2010?

1. You have to search for the hard-to-find eggs…
2. Get your equity piece secure.
3. Treat good tenants like the partners they are.
4. Stay in touch with your lenders.
5. Keep your sense of humor.
6. You want your friends to stay friends…

Agenda

- Review of 2009
- Acknowledge the top deals/projects in 2009
- Discuss expectations for this year
- Tips for 2010

2009 Review

- Tenant market
- Momentum
- Positive absorption for 5th straight year
- Outperformed mid-south regional competitors
- Vacancy below national average of 16%

HAMPTON ROADS OVERALL OFFICE MARKET SUMMARY
VACANCY RATE BY SUBMARKET AT YEAR-END 2009

<table>
<thead>
<tr>
<th>AREA</th>
<th>TOTAL SQ. FT</th>
<th>VACANT SQ. FT</th>
<th>VACANCY %</th>
<th>AVERAGE ASKING RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOWNTOWN NORFOLK</td>
<td>2,220,566</td>
<td>263,129</td>
<td>11.9%</td>
<td>$21.21</td>
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<tr>
<td>SUBURBAN SOUTH SIDE</td>
<td>14,715,101</td>
<td>2,086,168</td>
<td>14.2%</td>
<td>$19.24</td>
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<tr>
<td>SUBURBAN PENINSULA</td>
<td>5,118,154</td>
<td>901,906</td>
<td>17.6%</td>
<td>$17.97</td>
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<tr>
<td>TOTALS</td>
<td>23,069,803</td>
<td>3,341,203</td>
<td>14.5%</td>
<td>$19.11</td>
</tr>
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Downtown Norfolk
2010 Forecast

• Gap between asking rents and actual rents
• Vacancy rates will climb
• Momentum from 2009
• No new development
• Expect better 2010 vs. 2009
2010 Tips

• Cater to existing tenants
• Reduce operating expenses
• Increase energy efficiency
• Offer appealing properties
• Overall environment for tenants/employees

2009 Retail Market Overview

Presented by:
David Machupa
Thalhimer, a Member of the Cushman & Wakefield Alliance

Overview

<table>
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<tr>
<th></th>
<th>Southside</th>
<th>Peninsula</th>
<th>Total</th>
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<tbody>
<tr>
<td>Number of Properties</td>
<td>273</td>
<td>136</td>
<td>409</td>
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<tr>
<td>GLA in SF</td>
<td>33,535,280</td>
<td>18,160,963</td>
<td>51,696,243</td>
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<tr>
<td>Vacant SF</td>
<td>2,714,514</td>
<td>2,392,710</td>
<td>5,107,224</td>
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<tr>
<td>% Vacant</td>
<td>8%</td>
<td>13%</td>
<td>10%</td>
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<tr>
<td>New Construction in SF</td>
<td>302,352</td>
<td>961,463</td>
<td>1,283,815</td>
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<tr>
<td>Occupied in SF</td>
<td>30,820,766</td>
<td>15,768,253</td>
<td>46,589,019</td>
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<tr>
<td>Absorption in SF</td>
<td>288,440</td>
<td>362,777</td>
<td>651,217</td>
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Presented by:
William H. Halprin
Senior Vice President,
Director of Operations, Multifamily Property Management
SL Nusbaum Realty Co.

2010 Multifamily Market Review & Forecast

Market Overview

- Stronger demand and a slower pace of construction improved the region’s average vacancy rate to 6.9%.
- During the 4th quarter of 2009, just 463 new units were completed and 813 units absorbed in the Hampton Roads market.
- There were 1,753 units under construction and an additional 1,522 units proposed.
- Based on the development pipeline, vacancy rates will move closer to 8% in 2010.
- Average rents are expected to remain flat.

Employment Summary


Under Construction/Proposed

Area Overview

- Proposal
- Under Construction

Average Rents are expected to remain flat.
RESIDENTIAL MARKET UPDATE 2010
Van Rose, MIRM
President, Rose and Womble New Homes

2005

2007

2009

15 Year Closing
New Construction & Resale History

Source: REIN, Inc.
Average Market Time
Existing Homes

Hampton Roads Residential Inventory
2007 to 2009

Inventory
Resale
11,091 units
9.4 months supply

New Homes
1,289 units
7.1 months supply

Hampton Roads Residential Inventory
by Price Range

LET’S JUST TALK ABOUT IT....
11 MILLION HOMEOWNERS ARE UNDERWATER!!
Source: CNN Money

7 MILLION FORECLOSURES STILL TO COME!!
Source: Amherst Securities Group

1.35 YEARS TO SELL CURRENT FORECLOSURE INVENTORY
Source: Amherst Securities Group

Hampton Roads Short Sale/Foreclosure Market Share

Foreclosures by City/County

Source: REIN

Source: Amherst Securities Group
Existing Home Average Closing Prices

VERSUS STANDARD APPRECIATION

Existing Home Average Price

4% Appreciation

New Construction Average Closing Prices

VERSUS STANDARD APPRECIATION

New Construction Average Price

4% Appreciation

Interest Rates will Rise

30-Yr Fixed Avg

Source: Freddie Mac

Hampton Roads

Employment to Permit Ratio

DATA SOURCES: BUREAU OF ECONOMIC ANALYSIS, BUREAU OF LABOR STATISTICS, U.S. CENSUS BUREAU. 2009 #'S ARE PRELIMINARY

IF YOU BUILD IT... THEY WILL COME
Hampton Roads
Top 5 Builders

AND THE
WINNERS ARE……..

Source: Hampton Roads

# 5
# 4
# 3
# 2
# 1

Franciscus Homes
Hearndon
Ryan Homes
Chesapeake Homes
The Dragas Companies

93
98
133
154
233
Closing

Bradley R. Sanford, MAI
Chair, Executive Committee
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CREED Membership

Interested???

Please send a note of interest to the Membership Chair, Craig Cope (ccope@libertyproperty.com)

Thank you for attending!
Please Join Us for the Reception

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