Old Dominion University
Hampton Roads Real Estate Market Review and Forecast
2011

Presented by:
E.V. Williams Center for Real Estate and Economic Development

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John R. Lombard, Ph.D.
Director
E.V. Williams Center for Real Estate and Economic Development

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Moderator
2011 Hampton Roads Real Estate Market Review and Forecast

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

Presentation To
Dr. Jon Crunkleton

Robert M. Stanton, CSM, CPM
Stanton Partners, Inc.

Investment Market Review
Presented By:
J. Scott Adams, CCIM
President, Mid-South Region
March 2, 2011

Topics to Cover
- Positive Signs in the Economy and Property Markets
- Trends in Property Sales (UP!)
- Trends in Distressed Assets (STABILIZED!)
- The Lending Market Today (IMPROVED!)
- Summary Observations

Positive Signs - Economy and Property Markets
Signs are positive in the national economy
- Recession over and protracted expansion phase begun
- Painful reductions in employment begun to turn around
- Corporate America more profitable and productive, so the capacity to hire is increasingly evident
- Return of bank credit for small businesses where the majority of jobs are created

Positive Signs - Economy and Property Markets
Signs are positive for each of the major property types
- Especially positive for Office and Multi-Family
  - Vacancy factors well below previous cyclical peaks
  - Buoyed by job growth expectations and housing market
Positive Signs - Economy and Property Markets

SIGNS ARE POSITIVE FOR EACH OF THE MAJOR PROPERTY TYPES

- Clear signs of stabilization for Retail and Industrial
  - Vacancy factors remain above previous cyclical peaks
  - Buoyed by increased consumer spending and rising trade volumes

Trends in Property Sales

Nationally

Sales Transactions of $5 Million or greater

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$55.6</td>
</tr>
<tr>
<td>2010</td>
<td>$121.4</td>
</tr>
</tbody>
</table>

Source: Real Capital Analytics

Trends in Property Sales

Hampton Roads

Sales Transactions of $5 Million or greater

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$139.5</td>
</tr>
<tr>
<td>2010</td>
<td>$151.4</td>
</tr>
</tbody>
</table>

Source: CB Richard Ellis Market Research

2010 Top Local Sales Transactions: Multi-Family

- Alta Great Bridge
- Battlefield Woods Apartments
- Prime Outlets Williamsburg

2010 Top Local Sales Transactions: Retail

- Prime Outlets Williamsburg
2010 Top Local Sales Transactions: Retail
Cape Henry Plaza

2010 Top Local Sales Transactions: Office
Harbour View Medical Arts Building

2010 Top Local Sales Transactions: Office
Southport Centre

2010 Top Local Sales Transactions: Office
Battlefield Corporate Center

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

Trends in Distressed Assets

VOLUME OF DISTRESSED ASSETS HAS STABILIZED

- Outstanding
- Worked Out
The Lending Market Today

GREAT SIGNS IN THE COMMERCIAL REAL ESTATE LENDING MARKET
- Lending volume in 4Q 2010 was the highest quarterly increase since mid-2007
- Overall lending volume in 2010 was 36% increase over 2009
- All types of lending sources show positive signs
  - Banks
  - Insurance Companies
  - Conduit Lenders

Summary Observations
- Industry has evolved from the phrase “Survival of the Fittest” to “Most Success for the Fittest”
  - Property Types
  - Physical Assets
  - Markets
  - Locations
  - Real Estate Companies
  - Service Providers

Summary Observations
- While much of the first phase of investment volume recovery has been in the “major markets”, Hampton Roads will increasingly participate
  - More space absorption
  - More rental rate growth
  - Higher investment sales volume

2010 ODU / CREED INDUSTRIAL REVIEW
- Presented by: William C. Throne, CCIM, SIOR, ALC

2010 ODU / CREED INDUSTRIAL REVIEW
- BOUNCING ON THE BOTTOM
  - Vacancy incrementally better, but barely
    - 2009: 12.94%
    - 2010: 12.48%
  - Rental rates starting to hold
  - Slow sales volume is good news

2010 ODU / CREED INDUSTRIAL REVIEW
- BOUNCING ON THE BOTTOM
  - Industrial vacancies higher than national average
    - CoStar: 10.2%
    - Cushman & Wakefield: 10.8%
THE RISE OF THE BOTTOM FEEDER...
Distressed Properties are Selling
- Older, functionally challenged
- Larger floor plates
- Significant deferred maintenance

THE RISE OF THE BOTTOM FEEDER...
201 West Dexter Street, Chesapeake
- 457,501 square feet
- $6,000,000.00
- $13.11 per square foot

A RECEDING TIDE...
High cube distribution still suffering
City          % of vacancy
Suffolk      88%
Cavalier     80%
Isle of Wight 87%
Norfolk Industrial Park 48%
Copeland Lower Peninsula 64%

A RECEDING TIDE...
Other sectors experiencing shortages:
- 5,000 to 15,000 square feet
- Yard space requirements
- Specialty groups: crane and rail

A RECEDING TIDE...
Rents declining in all sectors
- Anxious landlords
- Aggressive tenants
- Focused on national and regional statistics vs. knowledge of surrounding submarket

MAJOR TRANSACTIONS
We had a few...
- Kinder Morgan purchased 41 acres
  3900 Shannon Street, Chesapeake
  Terminaling operation on 41 acres
  Pier, crane, equipment
  $8.12 million
MAJOR TRANSACTIONS
We had a few...
- Kerma Medical purchased 102,000 square feet
  Pharmaceutical manufacturing plant
  Local relocation from Portsmouth
  $4.15 million

MAJOR TRANSACTIONS
We missed a few...
- Becton Dickerson
  600,000 – 1,000,000 square feet
  Proposed assembly and distribution building
  Selected North Carolina

2011 starting off right...
- Nash Finch
  691,000 square feet
  Wholesale food distribution facility
  $27.5 million

- Giant Cement
  750’ terminal pier
  200 car rail served offload facility
  $11.6 million

MAJOR TRANSACTIONS
2011 starting off right...
- Virginia Renaissance/Jacoby Development
  662,450 square feet of industrial space
  101 acres
  Scheduled close in March 2011

LOOKING FORWARD
The Fastenal Company is a supplier of fastener and industrial supplies to industry. With 2,300 stores around the world, and 15 locations in the Hampton Roads MSA, sales volume in 2010 exceeded 2009 by 10% locally. According to Tom Lankford, Regional Manager for the Fastenal Company:

“I have seen a modest up-tick in sales volumes across the board at my stores in Hampton Roads. We are nowhere near peak levels, but the trend line is certainly pointed in the right direction.”
Allied Concrete Products, located in Chesapeake, imports Witelite Pumice for distribution into the market, processes a raw material used in the production of insulation, as well as manufacture block for residential and commercial construction. Kirk Edens, President of Allied Concrete Products offers the following comments:

“Provided normal market influences, our volumes are up, marginally, year over year, and I expect 2011 to continue that trend. That being said, the instability of fuel prices and the increased input costs, will force an increase in market prices for all construction products; then we will see how real the recovery is. Keep in mind that during the last few years our numbers were at levels we have not experienced since the 1950’s demanding drastic changes in the structure of our business. Clearly we have a long way to go, but a slight improvement will make a huge difference.”

Hampton Roads Real Estate Office Market Review and Forecast

Deborah K. Stearns, CPM, SIOR
Harvey Lindsay Commercial Real Estate

ODU 2011 Economic Forecast

- “2010 WAS A YEAR OF RECOVERY...”
- “37,100 CIVILIAN JOBS LOST IN RECESSION”
- “EMPLOYMENT TO INCREASE BY 9,600 JOBS IN 2011”
- “2011 EMPLOYMENT WILL APPROACH 2004 LEVELS”
- “3.1% INCREASE IN GRP IN 2011”

Hampton Roads Office Market - 2010

2010 ODU / CREED INDUSTRIAL REVIEW

IT’S ABOUT JOBS...
LEASE TRANSACTIONS - 2010

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Submarket</th>
<th>SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPMG</td>
<td>Discovery Park Dr.</td>
<td>Williamsburg</td>
<td>40,000</td>
</tr>
<tr>
<td>SPPI</td>
<td>9000 Harbour View Blvd</td>
<td>Suffolk</td>
<td>31,500</td>
</tr>
<tr>
<td>Strayer University</td>
<td>876 Independence Pkwy</td>
<td>Chesapeake</td>
<td>25,022</td>
</tr>
<tr>
<td>Amerigroup</td>
<td>4433 Corporation Ln</td>
<td>Virginia Beach</td>
<td>23,532</td>
</tr>
<tr>
<td>Towne Insurance</td>
<td>301 Bendix Rd</td>
<td>Virginia Beach</td>
<td>19,000</td>
</tr>
</tbody>
</table>

CONSTRUCTION DELIVERIES 2010

<table>
<thead>
<tr>
<th>Building</th>
<th>Developer</th>
<th>sf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo Center</td>
<td>SL Nusbaum</td>
<td>299,887</td>
</tr>
<tr>
<td>Fort Norfolk Plaza</td>
<td>Lauth Property Group</td>
<td>196,000</td>
</tr>
<tr>
<td>Virginia Natural Gas Bldg</td>
<td>Armada/Hoffler</td>
<td>32,000</td>
</tr>
<tr>
<td>101 Production Rd</td>
<td>Four C’s, LLC</td>
<td>30,000</td>
</tr>
<tr>
<td>4388 Holland Rd</td>
<td>T3 Holland Property LLC</td>
<td>27,844</td>
</tr>
</tbody>
</table>

OFFICE SALES 2010

<table>
<thead>
<tr>
<th>Address</th>
<th>Buyer</th>
<th>sf</th>
<th>$ psf</th>
</tr>
</thead>
<tbody>
<tr>
<td>2600 Washington Ave</td>
<td>Sage Realty Partners</td>
<td>134,172</td>
<td>$15</td>
</tr>
<tr>
<td>535 Independence Pkwy</td>
<td>First Potomac Realty</td>
<td>98,720</td>
<td>$90</td>
</tr>
<tr>
<td>1435 Crossways Blvd</td>
<td>Monarch Bank</td>
<td>50,882</td>
<td>$88</td>
</tr>
<tr>
<td>5838 Harbour View Blvd</td>
<td>HC REIT</td>
<td>49,000</td>
<td>$255</td>
</tr>
<tr>
<td>4388 Robin Hood Rd</td>
<td>Robin Hood Road LLC</td>
<td>82,000</td>
<td>$41</td>
</tr>
<tr>
<td>11835 Fishing Point Dr</td>
<td>11835 Fishing Pt LLC</td>
<td>32,174</td>
<td>$93</td>
</tr>
</tbody>
</table>

REGIONAL MARKET COMPARISON

<table>
<thead>
<tr>
<th></th>
<th>Hampton Roads</th>
<th>Richmond</th>
<th>Washington</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>45.5 M</td>
<td>58.7 M</td>
<td>452.2 M</td>
</tr>
<tr>
<td>Vacancy</td>
<td>12.7%</td>
<td>11.4%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Average Rate</td>
<td>$17.84</td>
<td>$16.60</td>
<td>$33.72</td>
</tr>
<tr>
<td>Absorption</td>
<td>281,900</td>
<td>609,400</td>
<td>5,408,300</td>
</tr>
<tr>
<td>Deliveries</td>
<td>663,000</td>
<td>300,500</td>
<td>4,371,000</td>
</tr>
<tr>
<td>U/C</td>
<td>95,500</td>
<td>104,000</td>
<td>3,409,282</td>
</tr>
<tr>
<td>'05-'10 Employment</td>
<td>(14.6%)</td>
<td>(11.5%)</td>
<td>(9.1%)</td>
</tr>
</tbody>
</table>

TRENDS/OPPORTUNITIES

- EDUCATION
- PORT
- HEALTH CARE
- SHIPBUILDING
- GOVERNMENT
- AFRICOM

SUMMARY

- It's About Jobs
- Hampton Roads Ahead of National Averages
- Lease Activity Is Strong
- Sale Transactions Are Few
- Construction Starts are Nominal
- 2011 = Year of Stabilization
ACKNOWLEDGEMENTS

- Regional Studies Institute, Old Dominion University
- Maureen Rooks/Nicolas Politis, Jones Lang LaSalle
- CoStar Group
- Becky Vega, Harvey Lindsay Commercial Real Estate

Real–time Data Collection & Review
 Featuring Turning Technologies

Michael J. Seiler, Ph.D.

Presented by:
David Machupa

**WEATHERING THE STORM**

<table>
<thead>
<tr>
<th>SOUTHSIDE</th>
<th>PENINSULA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF PROPERTIES</td>
<td>274</td>
<td>138</td>
</tr>
<tr>
<td>GLA IN SF</td>
<td>34,019,555</td>
<td>18,548,407</td>
</tr>
<tr>
<td>VACANT SF</td>
<td>2,523,754</td>
<td>2,175,793</td>
</tr>
<tr>
<td>% VACANT</td>
<td>7.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>AVERAGE RENTAL RATE</td>
<td>$16.16 PSF</td>
<td>$16.16 PSF</td>
</tr>
<tr>
<td>OCCUPIED SF</td>
<td>31,495,801</td>
<td>16,372,614</td>
</tr>
<tr>
<td>ABSORPTION IN SF</td>
<td>675,035</td>
<td>604,361</td>
</tr>
</tbody>
</table>

**COMING TO MARKET**
THE CALM AFTER
THE STORM

Multi-Family
Michael Newsome
Partner
Clark Whitehill Enterprises, Inc.

Multi-Family Submarkets
Southside
Chesapeake
Norfolk
Portsmouth
Suffolk
Virginia Beach

Peninsula
Hampton
Newport News
Williamsburg
York County

Multi-Family

THE VIRGINIA BEACH, VIRGINIA APARTMENT MARKET SHOWS SIGNS OF RECOVERY

The strong economic recovery of the past several years has imparted strength to the Virginia Beach, Virginia apartment market. The economic recovery has been reflected in increased employment, rising incomes, and improved consumer confidence. These factors have contributed to an increase in demand for housing, particularly in the apartment market.

The apartment market in Virginia Beach has seen a significant increase in rent over the past several years, with rents rising by approximately 5% per year. This has led to a strong return on investment for apartment owners and managers, and has encouraged developers to invest in new apartment buildings.

In addition to increased demand, the apartment market in Virginia Beach has also seen a decrease in vacancy rates. The overall vacancy rate for the Virginia Beach market has fallen from 7% in 2009 to 3% in 2017, indicating a strong demand for rental properties.

The Virginia Beach market has a diverse mix of apartment types, ranging from studio apartments to three-bedroom units. The market is well-served by public transportation, with convenient access to the Hampton Roads Bridge-Tunnel and the Virginia Beach Star. The market also benefits from a variety of amenities, including parks, restaurants, and shopping centers.

In summary, the Virginia Beach apartment market is experiencing strong recovery and growth. The market is well-positioned for continued success, with a strong demand for rental properties and a supportive economic environment.

General Overview

The Virginia Beach-Norfolk, Newport News-Arlington, VA Metropolitan Division is one of the largest and most dynamic metropolitan areas in the eastern United States. It is home to more than 4 million people, making it the fifth largest metro area in the country.

The metro area is comprised of five major submarkets: Virginia Beach, Norfolk, Portsmouth, Hampton, and Newport News. Each submarket has its own unique characteristics and market dynamics.

Virginia Beach
Virginia Beach is the largest and most populous submarket in the metro area. It is located on the eastern shore of Virginia, and is bordered by the Atlantic Ocean and the Chesapeake Bay. The submarket is known for its beautiful beaches, mild climate, and affordable housing.

Norfolk
Norfolk is the second largest submarket in the metro area, and is home to the largest naval base in the world. The submarket is known for its rich history, diverse culture, and vibrant economy.

Portsmouth
Portsmouth is located on the southern tip of the peninsula, and is home to the Portsmouth Naval Shipyard. The submarket is known for its thriving military economy, as well as its affordable housing and beautiful beaches.

Hampton
Hampton is located just north of Norfolk, and is known for its historic sites and beautiful beaches. The submarket is home to the Hampton Roads Bridge-Tunnel, and is well-served by public transportation.

Newport News
Newport News is located on the western side of the peninsula, and is known for its industrial history and diverse culture. The submarket is home to the Newport News Park and Zoo, and is well-served by public transportation.
TABLE I: Top 10 Management Companies

TABLE II: Annual Multi-Family Permit Activity

TABLE III: Historical Apartment Development

TABLE IV: Apartment Development Activity (October 2010)

TABLE V: Absorption

TABLE VI: Overall Vacancy
Influential Market Forces and Trends

Moderate job growth of 1.3%

Unemployment rate reduction from 7.4% to 7%

Taxable sales increase of 2.5%

General cargo tonnage increase of 3.2%

National Trends

- Lending environment
- Department of Defense spending/distribution
- SF Home foreclosures
- Auto/Home furnishings sales trends
- Pent-up demand
- Household debt down to 12% of DI
- Savings rate up at 5% of DI
- Strict mortgage standards and elevated DP

Challenges Over The Horizon

- Future of Fannie Mae and Freddie Mac
- Mortgage Interest Deduction
- Aging rental unit stock
- Others…
RESIDENTIAL MARKET UPDATE 2011

Van Rose, MIRM
President, Rose and Womble New Homes

15 Year Closing
New Construction & Resale History

Hampton Roads
Average Closing Price

Hampton Roads
Average Price per Square Foot

New Construction Product Mix
2010 Closings
### Existing Home Inventory
- **Single Family Detached:**
  - 8,635 units
  - 10.4 month supply

- **Single Family Attached:**
  - 2,317 units
  - 11.9 month supply

- **Multi-Story Condominium:**
  - 425 units
  - 21.3 month supply

### New Construction Inventory
- **Single Family Detached:**
  - 688 units
  - 5.8 month supply

- **Single Family Attached:**
  - 261 units
  - 4.6 month supply

- **Multi-Story Condominium:**
  - 420 units
  - 36 month supply

### Southside Detached Inventory
- **Chesapeake**
- **Ips of Wight**
- **Portsmouth**
- **Norfolk**
- **Suffolk**
- **Virginia Beach**

### Peninsula Detached Inventory
- **Gloucester**
- **Hampton**
- **James City County**
- **Newport News**
- **Williamsburg**
- **York County**
The Year of the FORECLOSURE......

Hampton Roads Short Sale/Foreclosure Market Share

Foreclosure Inventory by City/County

The Year of RECOVERY............

Existing Home Average Closing Price Versus Standard Appreciation
Interest Rates will Rise

Source: Freddie Mac

Closings as % of Total Households

Source: Credit Suisse
From the IMF: Assessing Risks to Global Financial Stability

Hampton Roads Employment to Permit Ratio

Data Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Census Bureau (Permits), U/HF's as preliminary

Hampton Roads Net Migration

Source: Internal Revenue Service
Analysis by:
2005: 309 builders
2010: 187 builders

39%

Source: *Builders with more than 1 closing

Hampton Roads
Top 5 Builders

# 5 LENNAR

68

# 4 THE terry-peterson companies

93

# 3 Ryan Homes

127

# 2 CHESAPEAKE HOMES

137
CREED Membership

Interested???

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

Closing

Bradley R. Sanford, MAI
Chair, Executive Committee
E. V. Williams Center for Real Estate and Economic Development

Thank you for attending!
Please Join Us for the Reception

Old Dominion University
Hampton Roads Real Estate Market Review and Forecast

Presented by:
E.V. Williams
Center for Real Estate and Economic Development