E.V. Williams Center for Real Estate and Economic Development (CREED)
Old Dominion University

Presents the

17TH ANNUAL HAMPTON ROADS
REAL ESTATE MARKET REVIEW AND FORECAST

Wednesday, March 14, 2012

WELCOME

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Director
E.V. Williams Center for Real Estate and Economic Development – CREED

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Department of Urban Studies and Public Administration
Old Dominion University

Stephanie Sanker, CCIM, SIOR
S.L. Nusbaum Realty Co.

Chair
E.V. Williams Center for Real Estate and Economic Development (CREED)

Program Moderator
17th Annual Hampton Roads Real Estate Market Review and Forecast
Special Thanks to the 2012 MARKET REVIEW PUBLICATION COMMITTEE

Industrial Review  
Bill Throne, Cushman & Wakefield  
Stephanie Sanker, S.L. Nusbaum Realty Co.

Office Review  
Casey J. O’Hearn, Jones Lang Lasalle

Retail Review  
David Machupa, Cushman & Wakefield  
Kyllie Brinkley, CREED, Old Dominion University

Multi-Family Review  
Charles Dalton, realtor

Residential Review  
New Homes  
Ron Wildermuth and Blair Hardisty, Residential Databank

Existing Homes  
James Pritchard, Lmk inc.

Capital Markets & Real Estate Finance Review  
Victor L. Pickett, GRANDBRIDGE REAL ESTATE CAPITAL, LLC

Special Thanks to the 2012 MARKET REVIEW EDITORIAL COMMITTEE

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John Lombard  
Maureen Rooks  
Brad Sanford  
Lane Shea  
Kristi Sutphin
Loans are subject to credit approval.

MBA Total Debt Outstanding
$2.37 Trillion
as of Third Quarter 2011

Commercial and Multifamily Mortgage Debt Outstanding

Source: Commercial Quarterly Data Book - 3rd Quarter 2011 | Mortgage Bankers’ Association

Commercial and Multifamily Loans

Source: MBA

Commercial/Multifamily Property Sales Volume

Source: Real Capital Analytics

Quarterly Commercial Mortgage Commitments by Life Insurance Companies

Source: MBA

Quarterly Issuance of Commercial Mortgage-Backed Securities (CMBS) and Commercial Real Estate Collateralized Debt Obligations (CDOs)

Source: MBA

Mortgage Bankers Originations
Historical and Forecast ($Billions)

Source: Mortgage Bankers Association

3/18/2012
Loans are subject to credit approval.

UPB of Non-Bank Commercial/Multifamily Mortgages, by Year of Maturity

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>% DSC &lt; 1.0</th>
<th>% DSC &gt; 1.2</th>
<th>% LTV &gt; 100%</th>
<th>% LTV &lt; 80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>271.8B</td>
<td>12%</td>
<td>75%</td>
<td>33.1%</td>
<td>73.2%</td>
</tr>
<tr>
<td>2013</td>
<td>40.6B</td>
<td>6.6</td>
<td>81%</td>
<td>4.1</td>
<td>93.1%</td>
</tr>
<tr>
<td>2014</td>
<td>46.8B</td>
<td>7.9</td>
<td>81%</td>
<td>7.7</td>
<td>85.1%</td>
</tr>
<tr>
<td>2015</td>
<td>89.9B</td>
<td>8.1</td>
<td>81%</td>
<td>8.0</td>
<td>85.3%</td>
</tr>
<tr>
<td>2016</td>
<td>120.5B</td>
<td>10.0</td>
<td>74.6</td>
<td>9.8</td>
<td>84.9%</td>
</tr>
<tr>
<td>2017</td>
<td>139.1B</td>
<td>11.4</td>
<td>87%</td>
<td>11.8</td>
<td>76.9%</td>
</tr>
<tr>
<td>2018</td>
<td>16.4B</td>
<td>5.7</td>
<td>90%</td>
<td>4.0</td>
<td>86.4%</td>
</tr>
</tbody>
</table>

Source: FHFA

Interest Rates

MBA Forecast vs. Actual 10-Yr Treasury Rates 2010

Source: MBA

MBA Forecast vs. Actual 10-Yr Treasury Rates 2011

Source: MBA

Selected Interest Rates (percent)

Source: MBA, Federal Reserve Bank, American Council of Life Insurance and FHFA
Belmont at Providence
Virginia Beach, VA
Multifamily
Permanent Financing
Insurance Company

Stonebridge Apartments
Norfolk, VA
Multifamily
Refinance
Fannie Mae

River House Apartments
Norfolk, VA
Multifamily
New Permanent Financing
HUD

Maple Ridge Apartments
Blacksburg, VA
Multifamily
Refinance
CMBS

Taylor Pointe Apartments
Chesapeake, VA
Multifamily
 Acquisition Financing
Freddie Mac

Chesapeake Square Shoppes
Chesapeake, VA
Retail
Acquisition Financing
Insurance Company
Loans are subject to credit approval.

**Food Lion**
Greenwood, SC
Retail
Acquisition Financing
Insurance Company

**Battlefield Corporate Center**
Chesapeake, VA
Office
Acquisition Financing
Insurance Company

**Towne Bank Center**
Newport News, VA
Office
Refinance
Insurance Company

**ECPI**
Newport News, VA
Office
Refinance
Insurance Company

**Jack Rabbit**
Virginia Beach, VA
Self-Storage
Refinance
Insurance Company

**AAAA**
Norfolk, VA
Self-Storage
Refinance
Insurance Company
1. LEANING: Moving Forward

- Vacancy incrementally better...
  - 2009: 12.94%
  - 2010: 12.48%
  - 2011: 12.12%

- Large deals leading the way...

1. LEANING: Moving Forward

- Large deals leading the way...
  - Cal Cartage: 385,320 New lease
  - Ace Hardware: 340,000 BTS
  - Green Mountain: 330,000 Purchase
  - Navy Exchange: 325,000 BTS
  - Lumber Liquidators: 297,218 New lease
  - Lumber Liquidators: 250,000 Renewal
  - US Auto Parts: 159,294 Expansion
  - Dana Unlimited: 126,000 Expansion
  - Total Distribution: 110,000 New lease
1. LEANING: Moving Forward

- Vacancy incrementally better...
  - 2009: 12.94%
  - 2010: 12.48%
  - 2011: 12.12%
- Large deals leading the way...
- Some sub-sectors are really tightening up

2. LEANING: Still resistance

- Lending
- Foreclosures
- No Speculative building
- Development: EPA, VDEQ, Army Corps
- Roads and infrastructure
- Energy costs
- Tolls?

3. LEANING: Better than we think?

- We are in better shape than before
- Class A warehouse absorption
- Port of Virginia
- Intermodal
- Right to Work State
- Unemployment rate
- Land available
- Development ready sites

Source: Virginian Pilot
Lean into 2012

In 2012, the Hampton Roads industrial market:

- Vacancy rate will continue to decline
- Broker frustration with limited availability
- More large transactions
- New buildings planned, construction started

2011 Economic Recap and 2012 Economic Forecast

- Defense Budget Cuts and the Effects on Hampton Roads
- Jobs and Unemployment
- Office Absorption
  - Leasing
  - Sales
  - 2011 Construction deliveries
  - New deliveries for 2012
- Trends and Opportunities in the Office Market

Government spending

- VA Defense spending: $56.9 billion
- Gov't contract budget: $39 billion
- 11% of the GRP
- 16% of the GSP
- 1,000,000 employed by Government Contract services in VA
- U.S. defense budget cuts:
  - $507 billion over 10 years
  - $259 billion over 5 years

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The Upside

Hampton Roads Office Market

• Information Technology / Cyber Technology
  - United States Joint Forces Command’s 120,000 square-foot vacated office will be back filled by the Navy Cyber Command in 2012
  - 13,000 jobs intact

• Military Strategy
  - Less manpower in war
  - More information and cyber technology
  - Modest continuation of modeling and simulation

Unemployment Trends

Unemployment in Hampton Roads

Where we’ve been…the where we’re headed

Unemployment Past 12 months

Source: Moody’s Analytics / Precis US Metro / South / November 2011

7.4% 7.0% 7.2% 6.9% 5.8% 4.8% 0% 2% 4% 6% 8% 10%

2010 2011 2012 2013 2014 2015

Key Market Indicators

Hampton Roads Office Market

<table>
<thead>
<tr>
<th>Key Market Indicators</th>
<th>13-week trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>36,000,000 sf</td>
</tr>
<tr>
<td>Demand</td>
<td>26,000 sf</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>15.5%</td>
</tr>
<tr>
<td>Total vacancy rate</td>
<td>10.1%</td>
</tr>
<tr>
<td>Under construction (%)</td>
<td>23.2%</td>
</tr>
<tr>
<td>Leasing activity (24 mo. change)</td>
<td>35.6%</td>
</tr>
<tr>
<td>VSC absorption</td>
<td>44,000 sf</td>
</tr>
<tr>
<td>$1/mo Net absorption</td>
<td>$3.45 sf</td>
</tr>
<tr>
<td>Class A overall taking net</td>
<td>525,27 net</td>
</tr>
<tr>
<td>Class B overall taking net</td>
<td>519,48 net</td>
</tr>
</tbody>
</table>

Net new supply: -284,734 sf
Net absorption: 26,000 sf
Total vacancy: 36,000,000 sf

Outlook:
What to expect...Much of the same...

• Landlord expectations
  - Hold onto warm bodies – extended leases; early renewals
  - Expect signs of recovery in 2013

• Tenant expectations
  - Continued control due to double digit vacancy rate
  - Secure longer term leases to lock in below market rates

• Why??
  - More time required for stabilization of the market
  - Adoption of a strong “Wait-and-See” approach by business
  - Presidential Election November 2012
2011 Lease Transactions
Hampton Roads Office Market

<table>
<thead>
<tr>
<th>Top completed lease transactions</th>
<th>Submarket</th>
<th>Tenant</th>
<th>SF</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Navy Blue Waterfront</td>
<td>Downtown</td>
<td>United States Coast Guard</td>
<td>157,350</td>
<td></td>
</tr>
<tr>
<td>Navy Blue Waterfront</td>
<td>Downtown</td>
<td>Naval Facilities Engineering Command</td>
<td>119,795</td>
<td></td>
</tr>
<tr>
<td>Navy Blue Waterfront</td>
<td>Downtown</td>
<td>Norfolk Public Facilities Development Co</td>
<td>71,294</td>
<td></td>
</tr>
<tr>
<td>Navy Blue Waterfront</td>
<td>Downtown</td>
<td>Norfolk Department of Human Services</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Navy Blue Waterfront</td>
<td>Downtown</td>
<td>CACI Enterprise Solutions, Inc.</td>
<td>47,408</td>
<td></td>
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</table>

2011 Office Sales
Hampton Roads Office Market

<table>
<thead>
<tr>
<th>Top completed sale transactions</th>
<th>Submarket</th>
<th>Buyer / Seller</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>780 Lynnhaven Parkway</td>
<td>Lynnhaven</td>
<td>Continental Capital Mgmt / Berman Kappler Properties</td>
<td>$8.45 million</td>
</tr>
<tr>
<td>780 Lynnhaven Parkway</td>
<td>Lynnhaven</td>
<td>First Potomac Realty Trust / VJM, LLC</td>
<td>$8.7 million</td>
</tr>
<tr>
<td>5701 Cleveland Street</td>
<td>Lake View</td>
<td>Olympia Development Corp / Levitt Properties</td>
<td>$12.8 million</td>
</tr>
<tr>
<td>860 / 870 Greenbrier Circle</td>
<td>Greenbrier</td>
<td>First Potomac Realty Trust / Parkway Properties, Inc.</td>
<td>$16.7 million</td>
</tr>
<tr>
<td>115 Lake View Parkway</td>
<td>Harbour View</td>
<td>Salus Government Properties / Inland America Office Mgmt</td>
<td>$22.5 million</td>
</tr>
</tbody>
</table>

2011 Construction Deliveries
Hampton Roads Office Market

<table>
<thead>
<tr>
<th>Top 2011 construction deliveries</th>
<th>Submarket</th>
<th>Building / Address</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nusbaum Realty Co.</td>
<td>Greenbrier</td>
<td>Greenbrier Medical Office II</td>
<td>100%</td>
</tr>
<tr>
<td>Divaris Real Estate, Inc.</td>
<td>Oyster Point</td>
<td>Interstate Professional Center – Phase II</td>
<td>35%</td>
</tr>
<tr>
<td>Towne Bank</td>
<td>Harbour View</td>
<td>Harbour View Blvd.</td>
<td>100%</td>
</tr>
<tr>
<td>Tidewater Physicians Multi-Specialty Group (TPMG)</td>
<td>New Town</td>
<td>5424 Discovery Park Blvd</td>
<td>50%</td>
</tr>
</tbody>
</table>

2012 Construction – To Be Delivered
Hampton Roads Office Market

<table>
<thead>
<tr>
<th>Top 2012 construction properties</th>
<th>Submarket</th>
<th>Building / Address</th>
<th>Expected Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.L. Nusbaum Realty Co.</td>
<td>Greenbrier</td>
<td>Chesapeake Eye Center</td>
<td>50%</td>
</tr>
<tr>
<td>Harvey Lindsay Commercial Real Estate</td>
<td>Hampton</td>
<td>NIA Laboratory Building</td>
<td>30%</td>
</tr>
<tr>
<td>Operation Smile Global Headquarters</td>
<td>Virginia Beach</td>
<td>Sidney Kellam Office Building at 31 Ocean</td>
<td>100%</td>
</tr>
</tbody>
</table>

Trends and Opportunities
Hampton Roads Office Market

- Government contracting
- Information / Cyber technology / Cyber security
- Healthcare (Baby Boomers)
- Education (Generation Y)
- Legal and Financial

Summary
Acknowledgments
Hampton Roads Office Market

- CoStar Realty Information, Inc.
- Moody’s Analytics
- Virginia Unemployment Commission
- Geoff Thomas, Research Analyst – Jones Lang LaSalle
- Casey J. O’Hearn, Author of 2012 Hampton Roads Office Market Review
OVERVIEW

<table>
<thead>
<tr>
<th></th>
<th>Southside</th>
<th>Peninsula</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF PROPERTIES</td>
<td>279</td>
<td>130</td>
<td>417</td>
</tr>
<tr>
<td>GLA IN SF</td>
<td>34,150,108</td>
<td>18,494,461</td>
<td>52,644,569</td>
</tr>
<tr>
<td>VACANT SF</td>
<td>2,024,765</td>
<td>1,944,109</td>
<td>3,968,874</td>
</tr>
<tr>
<td>% VACANT</td>
<td>7.42%</td>
<td>10.51%</td>
<td>8.51%</td>
</tr>
<tr>
<td>AVERAGE RENTAL RATE</td>
<td>$16.03 PSF</td>
<td>$15.28 PSF</td>
<td>$15.79 PSF</td>
</tr>
<tr>
<td>OCCUPIED IN SF</td>
<td>31,615,343</td>
<td>16,550,352</td>
<td>48,165,695</td>
</tr>
</tbody>
</table>

COMING TO MARKET

WATCH LIST

NEW DEVELOPMENTS
**2012 HAMPTON ROADS REAL ESTATE MARKET REVIEW**

**MULTI-FAMILY**

Presented by: Dwight D. Dunton III, President

Bonaventure Realty Group, Inc.

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**Hampton Roads Overview**

- The average rent is currently $926/month ($0.98/SF)
  - +26 over 2010 and +64 since 2007
- Vacancy is 6.4%
  - +0.7% over 2010 and +1.3% since 2007
- Rent growth is currently at 2.81%**
- There are currently 90,378 completed units in this market.
  - +853 over 2010 and +6,502 over 2007.
- There are currently 1,940 units under construction
  - +833 increase over units U/C in 2010

**Rent growth versus previous calendar year**

*Data from Apartment Index*
Despite record low home mortgage rates, credit still remains tight without the best credit history and capability to make a large down payment.

Cost of home mortgages may soon meet or dip under the cost to rent in our market; but only for few qualified loan applicants.

Homeownership rates continue to fall.

The apartment sector’s recovery is supported by favorable demographic trends such as echo boomers, government sponsored entity financing and a limited supply pipeline.

Household formation dropped to 500,000 from 2008-2010, well below the long-term average of 1.2 million.
Hampton Roads Market Breakdown

Average Rents by Age

Vacancy by Age

Submarket Scorecard

National Transaction Overview 2011

Transaction/Buyer Trends
Transaction/Buyer Trends

- 2011 Transaction Breakdown
  - 88% Private Capital (28)*
  - 6% REIT (1)
  - 6% Community Redevelopment Corp (1)

- 2010 Transaction Breakdown
  - 80% Private Capital (4)
  - 20% University (1)

- NO Transaction Growth w/o Great Atlantic Management

-National Average CAP: ~6.3%

*One Portfolio Transaction accounts for 9 properties under Private Capital

Data from Real Capital Analytics

Apartment Mortgage Originations by Lender

- Private/Other
- Reg'l/Local Bank
- Int'l/Nat'l Bank
- CMBS
- Financial/Insurance
- Govt. Agency

- Transaction Growth w/o Great Atlantic Management

What Does it All Mean?

- Lenders want to lend to multi-family projects.
- SFH Mortgages may be affordable, but not necessarily accessible
- Tenants are moving from Class B/C properties, to class A.
- Class A rents are increasing much faster than B/C—can it continue?
- Construction pipeline remains in check. Can developers be trusted to overdue a good thing

Residential Market Update 2012

Van Rose, MIRM
President, Rose and Womble New Homes

MULTI-FAMILY IS STILL
THE PRETTIEST GIRL AT THE DANCE
15 Year Closing
New Construction & Resale History

Hampton Roads Residential Inventory
2007 to 2012

FORECLOSURES GOING DOWN…..

Hampton Roads
2011 Average Closing Price

Existing Homes:
$208,409 ▼ 9.6%

New Homes:
$309,221 ▼ 3.3%

Hampton Roads
Average Closing Price History

The Return to Detached…. #1
New Construction Closing Mix

Existing Home Average Closing Price Versus Standard Appreciation

Returning to a Balanced Market

New Construction

Average Size
New Construction Single Family Detached

2003
2,559 SF $105 per sq ft

2007
2,746 SF $154 per sq ft

2011
2,484 SF $125 per sq ft

Returning to a Balanced Market

New Construction

months to absorb current inventory

Returning to a Balanced Market

Existing Homes

months to absorb current inventory

Existing Home Average Closing Price

Versus Standard Appreciation

Returning to a Balanced Market
Hampton Roads Net Migration

Hampton Roads
2011 Top 5 Builders

# 5
MCQ Builders

# 4
Chesapeake Homes

# 3
HH Hunt Homes

# 2
The Dragas Companies

Source: Internal Revenue Service
Analysis by: Hampton Roads Net Migration
The Housing Cycle has Bottomed

Building Permits 1984-2011 with 2015 Forecast

Inventory is Going Down

Source: Analysis by:

Interest Rates are LOW!

Source: Freddie Mac

Construction Lending

Short Sales

Existing Homes Current Inventory

Source: Analysis by:
Ever Changing Buyer Profile

LOCAL MARKET IMPROVEMENT INDICATORS

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<thead>
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<th>Indicator</th>
<th>Improvement</th>
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<tbody>
<tr>
<td>Resale Inventory</td>
<td>21%</td>
</tr>
<tr>
<td>New Homes Inventory</td>
<td>14%</td>
</tr>
<tr>
<td>Price Changes</td>
<td>26%</td>
</tr>
<tr>
<td>Foreclosure Sales</td>
<td>26%</td>
</tr>
<tr>
<td>Building Permits</td>
<td>37%</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>0.25%</td>
</tr>
<tr>
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2012?
Cautiously Optimistic

CREED UPCOMING EVENTS
Ted C. Constant Convocation Center
Old Dominion University

CREED Annual Meeting
June 2012

Hampton Roads Residential Market Review
November 2012

Commercial Real Estate Institute

Monday, May 7th – Tuesday, May 8th
"Introduction to Commercial Investment Real Estate"

Wednesday, May 9th – Thursday, May 10th
"Real Estate Financial Analysis Using Excel"

Friday, May 11th
"Ethics and Leadership Management"

Hampton Roads Real Estate Market Review & Forecast

CREED Annual Meeting
June 2012

Hampton Roads Residential Market Review
November 2012
It’s coming…don’t miss out

SAVE THE DATE:
May 17, 2012
Ted Constant Convocation Center
Old Dominion University
www.realitycheckhr.org

Reality Check Hampton Roads
One Region One Future One Day

Presented by the Hampton Roads Chapter of the Urban Land Institute, in partnership with Old Dominion University and the E.V. Williams Center for Real Estate and Economic Development (CREED), Hampton Roads Planning District Commission, and the Hampton Roads Partnership

RAISE A RAQUET at the
1st Annual CREED Tennis Pro-Am
Coming September 2012!
Folkes/Stevens Indoor Tennis Center
Sponsored by:
E.V. Williams Center for Real Estate and Economic Development

CREED ANNUAL ADVISORY BOARD MEMBERSHIP OPPORTUNITIES
• Industry Professional Advisors to the Center
  • CREED Council

For membership inquiries, please contact:
Craig Cope, Membership Chair, ccope@libertyproperty.com
or
Kyllie Brinkley, CREED Program Manager, kbrinkle@odu.edu

Thank You for Attending!
Please join us for the 17th Annual Hampton Roads Real Estate Market Review Cocktail Reception…