18th Annual Hampton Roads Real Estate Market Review & Forecast

WELCOME

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Old Dominion University

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Batesburg-Leesville, SC

Lumber River Village
Lumberton, NC

Fairfield Shopping Center
Virginia Beach, VA

East Beach Marketplace
Norfolk, VA

Port Crossing Harrisonburg, VA

Culpeper Marketplace
Culpeper, VA
Craig Cope
Liberty Property Trust
Moderator

Office Market Review

Deborah K. Stearns, SIOR, CPM

2012 Year in Review
- Inventory: 39 million rsf
- Absorption: 600,000 rsf
- Vacancy: 12.1%
- Average rate: $17.65

Comparative Markets

<table>
<thead>
<tr>
<th>30,000 rsf+ multi-tenant</th>
<th>Hampton Roads</th>
<th>Richmond</th>
<th>Raleigh/Durham</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory RSF</td>
<td>20,200,000</td>
<td>27,400,000</td>
<td>27,300,000</td>
</tr>
<tr>
<td>Vacancy</td>
<td>16.6%</td>
<td>12.6%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Avg Rate</td>
<td>$18.38</td>
<td>$18.43</td>
<td>$21.03</td>
</tr>
</tbody>
</table>
Amerigroup (315,000 rsf)
The Concourse
USAA Realty / Don Crigger/Gray Randolph

AMSEC (65,000 rsf)
5701 Cleveland Street
Olympia / Chip Cutchins/Lang Williams

Sutherland Global (40,000 rsf)
Liberty IV, Chesapeake
Liberty Property Trust/Brian Devlin

Fort Norfolk Plaza
$148/rsf
Maureen Rooks

Patrick Henry Corporate Center
$142/rsf
Scott Adams/Gray Randolph

Commander Corporate Center
$163/rsf
Scott Adams/Don Crigger
Top Ten Take-Aways

- Sequestration = uncertainty
- Defense is on hold
- Lenders’ impact
- New Courts’ impact

Ten Take-Aways - con’t

- Submarket Disparity
- Rail Service = opportunity
- Market survived JFCOM

Ten Take Aways - con’t

- Mortgage business is hot
- Vacancy will go below 10%
- It’s still about jobs

Industrial Market Review

Bill Throne, SOR, CCIM, ALC
First Vice President
INDUSTRIAL PROPERTIES

MARKET IN BALANCE: SUPPLY AND DEMAND

- Vacancy Rate
- Total SQ FT
- Vacant SQ FT
- Occupied SF
**DRILL DOWN TO FIND THE BRIGHT SPOTS**
- Class A distribution vacancy less than 9%
- Suffolk at 13% vacancy, 3rd straight year of improvement
- Greenbrier stabilizing at ~8% vacancy
- Norfolk Industrial Park at ~8% vacancy
- Oyster Point averaged 3.7% vacancy over the last 5 years...

**SUBMARKETS THAT FARED WELL...**

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**TIME TO BUY?**

**Number of Industrial Properties Sold:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Deals</th>
<th>Average Price per Square Foot</th>
<th>Median Price per Square Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>10</td>
<td>$80.00</td>
<td>$60.00</td>
</tr>
<tr>
<td>2008</td>
<td>20</td>
<td>$100.00</td>
<td>$80.00</td>
</tr>
<tr>
<td>2009</td>
<td>30</td>
<td>$120.00</td>
<td>$90.00</td>
</tr>
<tr>
<td>2010</td>
<td>40</td>
<td>$140.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>2011</td>
<td>50</td>
<td>$160.00</td>
<td>$110.00</td>
</tr>
<tr>
<td>2012</td>
<td>60</td>
<td>$180.00</td>
<td>$120.00</td>
</tr>
</tbody>
</table>

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**2012 BIG WINS**
- Container volume through the Port
- Indian River Distribution Center, Chesapeake
- 2700 International Parkway, Virginia Beach
- Regional Commerce Center, Suffolk
- Panama Canal Expansion

**2013: BIG THINGS AHEAD**

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**Investment Sales**

Market Review

Tony Beck
Vice President
First Potomac Realty Trust

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**National Review**
- Sales Volumes Continued to Grow over 2011
- Focus in Primary Markets, Trophy/Class A Properties
- Institutional Investors the Big Players
- Multi-Family Continues to Lead the Way

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**Drivers Behind Growth**
- Historically Low Interest Rates
- Increasing Lender Confidence
- Willing and Active Buyers with Cash
The Challenges

- Valuations/Perception
- Buyers are Winners
- Sellers are Losers
- 10 year Debt Maturity 2016/2017
- European Debt Crisis
- Our Own Government

Green Street Commercial Property Price Index By Sector

<table>
<thead>
<tr>
<th>Change in Commercial Property Values Since Peak</th>
<th>Last Period at Current Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Family</td>
<td>8% N/A</td>
</tr>
<tr>
<td>Mall</td>
<td>8% N/A</td>
</tr>
<tr>
<td>Strip Retail</td>
<td>-3% 2006</td>
</tr>
<tr>
<td>Industrial</td>
<td>-10% 2008</td>
</tr>
<tr>
<td>Office</td>
<td>-15% 2008</td>
</tr>
<tr>
<td>Hotel/Lodging</td>
<td>-22% 2005</td>
</tr>
</tbody>
</table>

Hampton Roads Review

- Mirrored National Trend with Multi-Family Leading the Way
- Top Five Transactions, 3 Multi-Family, 1 Retail, 1 Office
- Over $282,000,000 in Transactions

Fundamentals of Pricing Improvement by Sector

- Multi-Family – Low Vacancy Rates, Pushing Rents
- Retail – Location and Quality
  - Mall
  - Anchored Strip Centers
- Industrial – Rental Rates and Occupancy Bottomed Out
- Office – Push to the Secondary Markets
- Hotel/Lodging – Recession Hurt the Most

Takeaways

- Sales Volumes Will Continue to Improve in 2013
- Pricing Will Continue to Climb in All Sectors
- Focus May Shift Away from Primary Markets
Retail Market Review

David Machupa
Vice President
RETAIL PROPERTIES

Hampton Roads is Open for Business

2012 Theme/Forecast

2012 Market Activity

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>286</td>
<td>138</td>
<td>424</td>
</tr>
<tr>
<td>GLA IN SF</td>
<td>34,924,153</td>
<td>18,532,649</td>
<td>53,456,802</td>
</tr>
<tr>
<td>VACANT SF</td>
<td>2,534,765</td>
<td>1,944,109</td>
<td>4,195,642</td>
</tr>
<tr>
<td>% VACANT</td>
<td>6.32%</td>
<td>10.73%</td>
<td>7.85%</td>
</tr>
<tr>
<td>AVERAGE RENTAL RATE</td>
<td>$16.36 PSF</td>
<td>$15.06 PSF</td>
<td>$15.96 PSF</td>
</tr>
<tr>
<td>OCCUPIED IN SF</td>
<td>32,717,539</td>
<td>16,543,621</td>
<td>49,261,160</td>
</tr>
</tbody>
</table>

Watch List
Overview

1. The Changing Landscape

There are 80 Million Millennials, ranging in age from 16-29. Over 80% of all households aged 25 or under are renters, along with 65% of those aged 25-29.

Psychology

The American Dream: Slower to settle down and start families
- Willing to pay more for convenience and amenities
- 60% More likely to change careers

Economic Reality

Student Loans have grown 511% since 1999.

Renters by Necessity and by Choice

- Tough Economic Conditions: Millennials' unemployment rate: 10.9%
  National Unemployment Rate: 7.7%

- Waiting to Start a Family: 72% of all Millennials are Single
  43% of all Millennials with a Family Member

Lifestyle Driven
- 77% of Millennials want to live in urban areas
- 67% of Millennials want to live in a walkable community

More Women Working
- 96% of Millennials list being independent as their most important life goal.

Overview

1. The Changing Landscape
2. Trend is our Friend
New Multifamily Demand (in thousands units)

Trend towards live work play

77% of Millennials want to live in urban areas
67% of Millennials want to live in a walkable community

Trend towards smaller units

More than 50% of Millennials would trade size for proximity to shopping or work.

Military Homeownership Plummeted

- Nationally, Military Homeownership has dropped 8.2%.
- In Virginia, it has dropped 20% from its peak in 2006.

Overview

1. The Changing Landscape
2. Trend is our Friend
3. Look Who’s Joined the Party
All in all Multifamily still gets a big thumbs up of approval!

Residential Market Review

J. Van Rose, Jr., MIRM
President
Rose & Womble Realty, New Homes

Hampton Roads
Residential Housing Market

Inventory 12.3%
Existing Home Closings 7.6%
Existing Home Average Price 2.0%
New Home Closings 15.7%
New Home Average Price -1.1%
Building Permits 18.5%
Interest Rates -3.3%
New Home Traffic 9.7%

Hampton Roads
Residential Inventory

2012 Existing Home
Detached Sales

2012 New Construction
Detached Sales
Improvements in Compromised Sales

Foreclosures:
- 4,024
- -15%
Short Sales:
- 1,638
- +45%

Lot Costs Normalizing

- Virginia Beach Community:
  - Was: $255,000, Now: $100,000
- Chesapeake Community:
  - Was: $110,000, Now: $80,000
- Suffolk Community:
  - Was: $157,000, Now: $87,500

New Detached Homes Are Smaller

2003
- 2,559 sf
- $105/sf

2007
- 2,746 sf
- $154/sf

2012
- 2,428 sf
- $134/sf

Hampton Roads
2012 Existing Home Average Price & Payment at 3.5%

<table>
<thead>
<tr>
<th>Type</th>
<th>2012 Average Price</th>
<th>2012 Average Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Types</td>
<td>$213,919</td>
<td>$961</td>
</tr>
<tr>
<td>Detached</td>
<td>$228,882</td>
<td>$1,028</td>
</tr>
<tr>
<td>Attached</td>
<td>$160,687</td>
<td>$722</td>
</tr>
</tbody>
</table>

Hampton Roads
2012 New Home Average Price & Payment at 3.5%

<table>
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<th>Type</th>
<th>2012 Average Price</th>
<th>2012 Average Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Types</td>
<td>$306,341</td>
<td>$1,376</td>
</tr>
<tr>
<td>Detached</td>
<td>$335,452</td>
<td>$1,506</td>
</tr>
<tr>
<td>Multistory</td>
<td>$273,065</td>
<td>$1,226</td>
</tr>
<tr>
<td>Multiplex</td>
<td>$225,474</td>
<td>$1,013</td>
</tr>
<tr>
<td>Townhome</td>
<td>$248,287</td>
<td>$1,115</td>
</tr>
</tbody>
</table>

New Homes Are Affordable Again!

- 48% of Households Can Afford This Home!
- $306,300
- 2,400 sf
- $128/sf
- 4 Bedrooms
New Homes Are Affordable Again!

62% of Households Can Afford This Home!

$214,900
1,496 sf, $144/sf
3 Bedrooms

Source: 62% of Households Can Afford This Home!

$214,900
1,496 sf, $144/sf
3 Bedrooms

New Homes Are Affordable Again!

71% of Households Can Afford This Home!

$150,900
1,300 sf, $116/sf
2 Bedrooms

Source: 71% of Households Can Afford This Home!

$150,900
1,300 sf, $116/sf
2 Bedrooms

3 Points: Subject to Sequestration...

Low Inventory Makes a Seller’s Market, Prices Will Rise

3 Points: Subject to Sequestration...

 Builders: Detached Homes $200k to $450k
If You Build It, They Will Come!

3 Points: Subject to Sequestration....

At Current Interest Rates: 70% of Households Can Afford a New Home in Hampton Roads

TAKE THAT DWIGHT!
Save the Dates

Thursday, May 9, 2013

CREED and HRACRE present

Sea Level Rise and the Impact on Hampton Roads

Featuring Dr. Larry Atkinson, Slover Professor of Oceanography
Old Dominion University
Norfolk Area Hotel, 12 Noon – 1:30 p.m.

Register at info@hracre.org

THANK YOU