

# INDUSTRIAL

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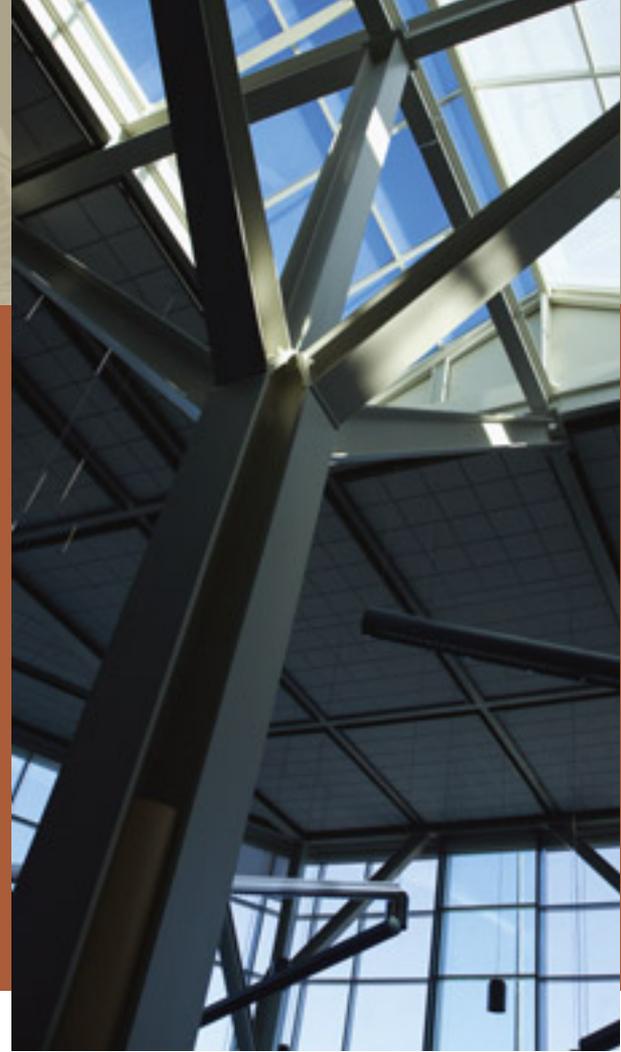
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	<b>Cavalier Industrial Park</b>	Pat Mumey
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# General Overview

This report analyzes the 2010 industrial real estate conditions within the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area (the MSA), also known as Hampton Roads. It provides inventory, vacancy, rent, sale and other data for the MSA. The survey includes properties in the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, plus the counties of Gloucester, James City, York and Isle of Wight.



## METHODOLOGY

This survey includes the following types of properties:

- Office-warehouse, industrial and shop facilities of 5,000 square feet or greater, although some facilities of less than 5,000 may be included.
- Properties must have less than 80% office space to be included in the ODU survey.
- Both owner-occupied and leased properties are included. Owner-occupied is defined as property that is 100% occupied by a business that is the same as or is related to the owner of the building.
- Leased properties are defined as all properties that are available and are listed for sale or lease regardless of whether they are occupied, unless they are strictly available for sale as an investment property, for example, a property that is available for sale and is currently occupied on a short term lease is included.
- All properties that have commenced construction (foundations installed as a minimum).

The survey excludes the following types of properties:

- Land
- Warehouse or shop facilities on shipyard properties.
- Warehouse or industrial facilities on federal government property (e.g. military installations).
- Industrial facilities on government property (e.g. Norfolk International Terminal or Newport News Marine Terminal).

Functional submarket delineations are determined with some regard to city boundaries, but boundaries are not determinative. The entire market is divided into 16 submarkets defined by industrial building concentrations, the transportation network, and pertinent physical features. The area map included in this report provides a location for key reference.

The E.V. Williams Center for Real Estate and Economic Development (CREED) at Old Dominion University has been tracking the inventory of the Hampton Roads industrial market since 1995. The results of this year's survey (collected during the 4th quarter of 2010) indicate that the Hampton Roads industrial market currently encompasses 106,691,857 square feet of space located in 2,866 buildings throughout the Region. This is a decrease of 2,030,258 square feet, or 1.9% from last year's survey. The decrease is primarily due to the demolition of approximately 1 million square feet on the former Ford plant and increased accuracy of surveyors over previous years. Totals may differ from other market surveys due to the self-imposed limitations established by the ODU CREED methodology described above.

## INTRODUCTION

The Hampton Roads industrial market continues to grow in complexity, while 2010 was mired in mediocrity. In 2010, overall vacancy rates remained essentially steady at 12.48%, deal velocity and absorption slowed, rents and sales prices declined, and there were no substantial deliveries.

On the other side of the coin, interest in the Region continues from outside the area with a number of companies considering Hampton Roads for new manufacturing and distribution centers. Port volumes are increasing and a few large transactions took place in anticipation of a market rebound. John Wright, President of Waverton Associates, developer of a world class 300 acre, rail served industrial park in Suffolk relates: "Interest in Waverton Commerce Park has not abated over the last few years, and in 2010 we got close to landing two national prospects. We see the increase in manufacturing nationwide and the upturn in export traffic through the Port of Virginia as a good leading edge indicator of where Hampton Roads can go in the next few years."

## VACANCIES

In 2010, the Hampton Roads Region saw vacancy rates decrease marginally from a 2009 level of 12.94% to 12.48%. Only four of the 16 submarkets were spared increasing vacancy rates.

Submarkets that improved:

- Norfolk Commerce Park/Central Norfolk saw a decrease in vacancy rate from 38.41% to 16.3%. The former Ford manufacturing plant demolished almost 1.6 million square feet of obsolete space. The result was a decrease in total square footage of space, a reduction in vacant space, and the decline in vacancy rate.
- Suffolk saw a minor reduction from 19.13% to 18.27% with modest absorption. Caspari, Inc., a distribution company, leased 60,762 square feet at the Regional Commerce Center off Rt. 58 and Rt. 460. Northern Suffolk (Northgate and Bridgeway Commerce Park) also saw absorption.
- Oyster Point/Middle Peninsula maintained strong occupancy rates, with only 157,203 square feet available in a market of 4.3 million square feet.
- Isle of Wight. Cost Plus took their excess space off the market, thereby reducing vacancy in the market by 240,000 square feet.

Markets that fared significantly worse in 2010 include:

- The City of Chesapeake (Greenbrier, Cavalier, and Bainbridge/South Elizabeth River) saw overall vacancy rise from 1,795,076 square feet to 2,429,786 square feet, a 35% increase from 8.8% to 11.88%. The addition of the Chesapeake Hardwoods accounted for much of the increase, with Greenbrier and Cavalier each adding vacant space.
- Airport Industrial Park, Virginia Beach. Vacancy rates increased to 18.35% from 9.67%. 318,000 square feet of (primarily) older warehouse and distribution space came on line in 2010.

Southside Hampton Roads finished 2010 with a vacancy rate of 13.24% compared to 14.29% for 2009, improving slightly. The Peninsula edged up to 10.59% from 9.49% a year ago. Overall Hampton Roads actual vacancy in 2010 reached 13,313,836 square feet compared to 14,071,871 in 2009.

**TABLE 1 2011 ODU Hampton Roads Industrial Survey**

**Submarket Totals**

Submarket	City	Bldgs Surveyed	Reporter	Total Sq Ft	Vacancy Sq Ft	Vacancy %
Greenbrier Area	Chesapeake	283	Kaempfe	8,587,634	956,633	11.14%
Bainbridge/S. Elizabeth River Area	Chesapeake	143	Worley	5,835,039	659,621	11.30%
Cavalier Industrial Park Area	Chesapeake	189	Mumey	6,075,045	813,532	13.39%
Norfolk Commerce Park/ Central Norfolk Area	Norfolk	144	Remick	5,442,588	887,018	16.30%
Norfolk Industrial Park Area	Norfolk	352	Dickinson	10,196,224	1,201,596	11.78%
West Side/Midtown Norfolk Area	Norfolk	271	King	6,418,873	576,482	8.98%
Lynnhaven Area	Virginia Beach	283	Baker	8,132,331	1,141,225	14.03%
Greenwich/Cleveland Streets Area	Virginia Beach	125	Beasley	3,063,856	203,304	6.64%
Airport Industrial Park Area	Virginia Beach	72	Beasley	3,637,737	667,375	18.35%
City of Portsmouth	Portsmouth	161	Walker	4,221,156	303,145	7.18%
City of Suffolk	Suffolk	124	Throne	11,578,012	2,115,318	18.27%
Isle of Wight	Isle of Wight	30	King	2,970,400	556,276	18.73%
<b>Southside Totals</b>		<b>2,177</b>		<b>76,158,895</b>	<b>10,081,525</b>	<b>13.24%</b>
Copeland/Lower Peninsula Area	Peninsula	370	Culbreth	12,139,266	2,038,564	16.79%
Oyster Point/Middle Peninsula Area	Peninsula	123	Phillips	4,330,663	157,203	3.63%
Oakland/Upper Peninsula Area	Peninsula	134	Culbreth	4,940,030	571,891	11.58%
Williamsburg Extended Area	Peninsula	62	Phillips	9,123,003	464,653	5.09%
Peninsula Totals		689		30,532,962	3,232,311	10.59%
<b>Totals</b>		<b>2,866</b>	<b>Sanker</b>	<b>106,691,857</b>	<b>13,313,836</b>	<b>12.48%</b>

**Building Sales**

Sales activity levels fell in 2010. Total sales transactions are shown below for the past four years, comparing number of building sales with average sales prices.

Year	Total Sales	Average Size	Average Price Per Square Foot
2007	28	21,901	\$93.02
2008	60	29,828	\$70.15
2009	46	17,377	\$68.44
2010	23	48,200	\$27.63

A few analytical notes:

1. **Number of Sales:** The data certainly reflects the general economy and national industrial market trends. Financing in Hampton Roads has been problematic. Hopefully the trend line has bottomed in 2010.
2. **Average Size:** The 2010 average of 48,200 square feet is a result of four buildings sold over 100,000 square feet, and one over 450,000. At the peak of the market in 2008, only three buildings sold exceeded 100,000 square feet.

### 3. Average Price Per Square Foot:

Buildings sold in 2010 tended to be larger, clearly distressed properties such as 201 West Dexter Street in Chesapeake, 3800 Village Avenue in

Norfolk and 2211 Elliott Avenue in Portsmouth. All suffered from a combination of functional obsolescence/deferred maintenance and were deeply discounted.

As a result, the industrial market has produced a self-induced drag on sales: Healthy companies choosing or needing to wait, and the lack of buyers forcing prices downward, in turn restricting their ability to sell and move to better facilities.

In contrast, few quality industrial buildings from 10,000 to 30,000 square feet (arguably the core size range for industrial users in Hampton Roads) traded in 2010. In 2008, 24 buildings sold in this square footage range. In 2010, only three traded. One possible conclusion: sellers who sell are truly distressed and buyers who buy are looking for deep discounts.

Many companies are choosing to 'stand pat' in lieu of selling and relocating. Reasons include:

1. Uncertainty in the future of business regulation and taxation;
2. Growth and expansion as a corporate goal has generally been replaced with a drive toward greater efficiency and reduction in debt;
3. A depressed real estate market;
4. A shortage of prospective buyers, causing concern about extended marketing periods;
5. Banking pressures to reduce overall debt load, including operational debt, lines of credit, equipment and real estate;
6. Difficulty in obtaining acquisition financing with favorable terms to fund expansion and/or renovation.

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## Representative Building Sales

201 Dexter Street, Chesapeake	December 2010	457,501 SF	\$6,000,000	\$13.11 per SF
215 Suburban Drive, Suffolk	December 2010	102,055 SF	\$4,150,000	\$40.66 per SF
2211 Elliot Avenue, Portsmouth	April 2010	76,046 SF	\$1,600,000	\$21.04 per SF
3800 Village Avenue, Norfolk	March 2010	100,000 SF	\$2,000,000	\$20.00 per SF
715 Industrial Park Drive, Newport News	January 2010	4,480 SF	\$305,000	\$68.08 per SF
1201 West Olney Road, Norfolk	April 2010	4,979 SF	\$350,000	\$70.30 per SF
615 Chautauqua Avenue, Portsmouth	July 2010	8,206 SF	\$360,000	\$43.87 per SF
1445-1453 Miller Store Road, Virginia Beach	October 2010	40,000 SF	\$2,915,000	\$72.83 per SF

## Leasing

As expected, current vacancy rates have driven lease rates downward as landlords have worked to attract or retain tenants. In 2009 smaller spaces were less susceptible to rate retreat, but in 2010, all square foot sizes were vulnerable. High bay distribution buildings continued to suffer, with older obsolete buildings begging for tenants. In outlying areas, rents could be found as low as \$1.00 per square foot.

Free rent is a preferred concession, with financing for high levels of tenant improvements difficult to obtain for some landlords. One to two months of free rent for each year of lease term is not uncommon.

## Representative Leasing

1140 Azalea Garden Road, Norfolk	44,450 SF	\$4.00	3 years
1431 Baker Road, Virginia Beach	38,580 SF	\$4.35	7 years
6701 Bridgeway Business Center, Suffolk	20,450 SF	\$3.50	5 years
3732 Cook Boulevard, Chesapeake	23,580 SF	\$4.95	7 years
905 Live Oak Drive, Chesapeake	5,000 SF	\$5.25	3 years
4840 Brookside Court, Norfolk	18,900 SF	\$4.76	5 years
3745 Progress Road, Norfolk	32,000 SF	\$3.25	4 years
680 Carolina Road, Suffolk	7,695 SF	\$3.50	3 years
6900 Harbour View, Suffolk	31,500 SF	\$5.45	5 years
2101 Aluminum Avenue, Hampton	32,000 SF	\$4.75	7 years
720 Greenlawn Avenue, Hampton	44,000 SF	\$3.50	3 years

## Rents For Available Spaces By Size Range 2010

<5,000 square feet	\$5.00-\$6.50
5,000 to 20,000 square feet	\$4.50-\$6.00
20,000-40,000 square feet	\$3.25-\$5.25
40,000-60,000 square feet	\$2.00-\$4.50
>60,000 square feet	\$1.00+



## Major Market Activity

Aside from normal market transactions, there have been a number of significant industrial market developments worthy of note.

1. *Jacoby Development, former Ford Plant.* Purchase of the property was imminent as 2010 came to a close by Atlanta Developer Jacoby Development. The City of Norfolk approved bond financing of \$12 million to assist in the purchase, demolition and improvement of the property including the demolition of 1.6 million square feet in specialized manufacturing space, while 662,450 square feet of warehouse and manufacturing space remains along with acreage available for development.
2. *International Paper.* A major employer in western Hampton Roads, this closure was a blow to the employment market. In addition to the Franklin mill, International Paper owns a number of other available industrial buildings in Hampton Roads in Cavalier Industrial Park in Chesapeake, Suffolk and Newport News submarkets. The International Paper property is not included in the ODU Survey due to its location in Isle of Wight County traditionally outside the survey boundaries.
3. *Kinder Morgan* purchased 41 acres to add to their terminaling operations on Freeman Avenue in Chesapeake along the Elizabeth River.
4. *201 West Dexter Street, Chesapeake.* The sale of this 457,501 square foot industrial building on 21 acres on South Dexter Street demonstrates that creativity helps in today's market. The sale included a corporate bankruptcy filing; a sale of debt on the property; an auction of the real estate; and investors looking for a great deal to hold for future development. Ultimate sales price: \$6 million, or \$13.11 per square foot.
5. *215 Suburban Drive, Suffolk.* One local company expanded in 2010 with the purchase of a 102,000 square foot building in eastern Suffolk. Kerma Medical relocated from Portsmouth almost doubling in size and achieving greater manufacturing efficiencies.
6. *Becton Dickenson.* One that got away. Becton Dickenson was searching for 600,000 square feet with expansion to 1,000,000 square feet in Virginia and North Carolina. North Carolina got the requirement. This deal reflects the strengths and some of the challenges facing Hampton Roads in attracting top quality industrial companies to the area.

## Regional Influences on the Local Market

Beyond real estate transactions, the following events occurred in 2010 that will influence the Hampton Roads Industrial market for years to come.

### 1. The Port of Virginia

- MAERSK/Port of Virginia lease. In Fall 2010, the Port of Virginia and APM Terminals signed a 20 year lease agreement assigning operational control of this 'state of the art' terminal to Virginia International Terminals, the operating arm of the Port of Virginia. The APM facility is equipped with advanced automated cranes and immediate rail access to the CSX and Norfolk Southern Class I rail lines.
- TEU volumes (import and export) at the Port of Virginia were up in 2010 by 8.9% to 1,859,018 TEU's, but still less than 2005 levels. Export volume exceeded import volume 54% to 46%.

Commenting on port volumes, Neil Doyle of CenterPoint Properties relates: "Though port volumes, as measured by the Virginia Port Authority in TEU's, seem to indicate a clear rebound in trade in 2010, its effect on the industrial real estate market in Hampton Roads has yet to be realized. Or has it? One would argue that the local industrial market is undersized for the port volumes, yet we still see double digit vacancy. There is disconnect there (be it product type, location, or other factor) with space offered to users. 2011 and 2012 should offer us a few more pieces of this puzzle and begin to foreshadow the future of the ports and the local industrial real estate market allowing those with a vested interest a road map going forward."

- Norfolk Southern and the Heartland Corridor. In September, trains rolled to Columbus, Ohio and Chicago, Illinois along the new Heartland Corridor. An investment of \$320 million in both public and private funds allow double stacked trains to reduce the distance to Chicago by 230 miles, cutting delivery time by a day and a half, and doubling the potential container volume per car.

## Conclusion: HREDA and the Year Ahead

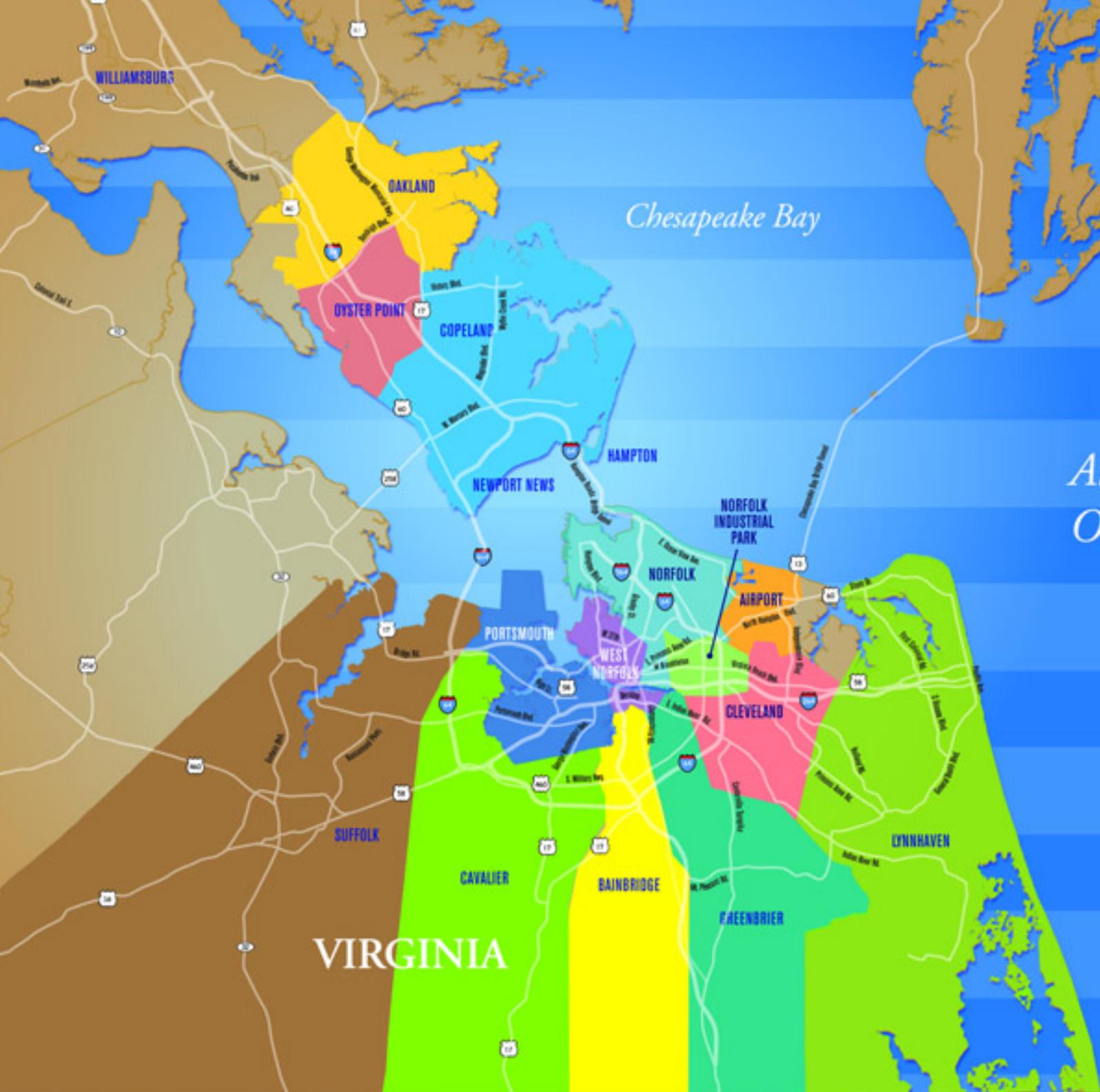
The *Hampton Roads Economic Development Alliance December Business Attraction Report* for 2010 is one report card for the Region. Reporting on activity for 2010 as it compares to previous years, the report presents the following:

Project Year	2007	2009	YTD December 2010
Projects	n/a	146	160
Prospect Visits	206	42	51
Announcements	20	5	5
Capital Investment (millions)	\$94.27	\$18.75	\$8.2
Square footage	772,850	115,700	88,100

Clearly the Hampton Roads industrial market is suffering. Whether 2010 represented 'bottom' is open to speculation. The last time the local industrial market experienced vacancy rates above 12%, the recovery took three years to return to less than 10%, and another five years to reach a norm of around 7%.

Looking forward to 2011, 'ground level' business users are looking at varied economic indicators in the marketplace to gauge where their businesses are going. Industrial companies in the Hampton Roads MSA are setting their sights on a wide variety of market influences, including trend lines in sales volumes, energy costs and production expenditures, in projecting performance levels in 2011.

For industrial companies, both large and small, the instability in the marketplace experienced during the last several years has changed the structure of how business is done. Recovery efforts and sales volume in 2010 indicate that the trend line is pointed in the right direction offering a modest degree of optimism for 2011 and beyond. As we move out of 2010, the Industrial real estate market is looking for measured steady growth back to health.



## Industrial Submarkets

### Southside

Airport Industrial Park  
 Bainbridge  
 Cavalier  
 Central Norfolk  
 Cleveland  
 Greenbrier

Lynnhaven  
 Norfolk Industrial Park  
 Portsmouth  
 Suffolk  
 West Norfolk

### Peninsula

Copeland  
 Oakland  
 Oyster Point  
 Williamsburg Extended