

HAMPTON ROADS OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Hampton Roads Employment	792k	792k	▲
Hampton Roads Unemployment	3.8%	3.1%	▼
U.S. Unemployment	4.1%	3.8%	▼

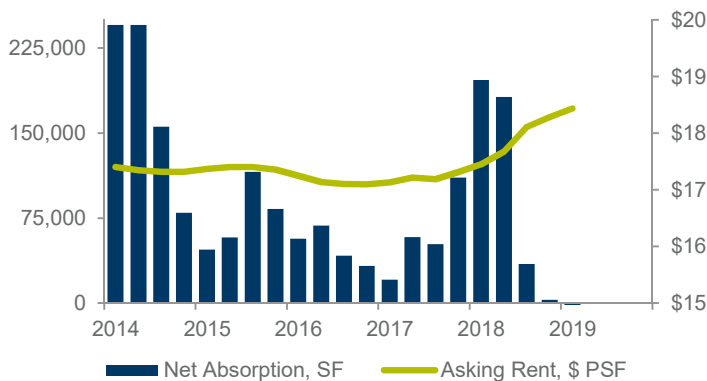
Numbers above are quarterly averages; January 2019 data used to represent Q1 2019

Market Indicators (Overall, All Classes)

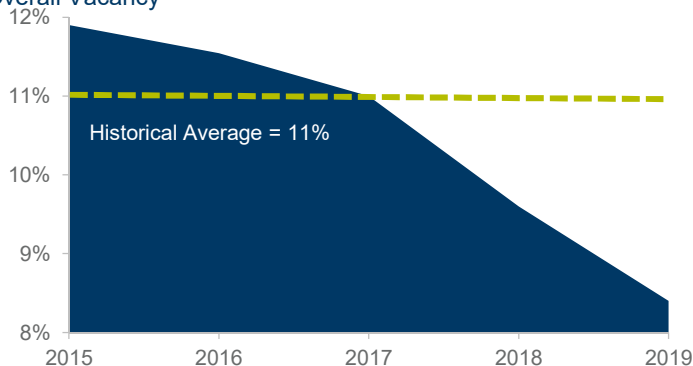
	Q1 18	Q1 19	12-Month Forecast
Vacancy	9.6%	8.4%	▼
YTD Net Absorption (sf)	218k	120k	▼
Under Construction (sf)	362k	1.1M	▲
Average Asking Rent*	\$17.75	\$18.36	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption vs. Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

With direct 2019 Department of Defense (DOD) spending in Hampton Roads is anticipated to increase 11% from 2017, the year is off to a solid start. DOD spending in 2019 still contributes to 40% of overall gross regional product (GRP). Finding talented labor in an extremely tight labor market in the private sector provides one of 2019's biggest hurdles to continued economic growth.

Market Overview

Q1 2019 marked several new trends that have not surfaced in the market since the Great Recession. New supply and construction is finally delivering and the pipeline is gathering momentum with projects being contemplated across multiple submarkets. One of the best examples is the 150,000 square foot (sf) Class A speculative office building that is under construction at Summit Pointe in Greenbrier next to the 2018 Dollar Tree headquarters delivery. Market pressures finally broke through as the vacancy rate in the submarket had fallen to approximately 3.5%.

One trend that is brought to light by the new construction is the shortages in the local construction labor market. As a result, the rising cost of tenant improvements and upfits are drastically outpacing rent growth. This increased cost coupled with employers desires to build more modern, amenity laden work spaces, inspired by the co-working trend, has led to the need for longer lease terms. Lease terms have been historically shorter in Hampton Roads than national averages. This along with stagnant rent growth seem to finally be reversing course and is easing new construction hurdles.

Outlook

2019 will be a telling year for the Hampton Roads office cycle. While the rest of the country is downshifting into the hyper supply phase, Hampton Roads appears poised to slowly climb up the expansion curve. Despite improving market fundamentals, developers will have to ask themselves tough questions as they prepare to take on speculative new construction projects.

MARKETBEAT

Hampton Roads

Office Q1 2019



CUSHMAN & WAKEFIELD

THALHIMER

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)**
Chesapeake	4,779,191	7,370	261,390	5.8%	-72,887	-72,887	25,679	686,303	\$17.66	\$19.63
Gloucester	106,173	0	452	0.4%	2,647	2,647	0	0	\$10.50	N/A
Hampton	3,505,790	0	719,706	20.7%	673	673	41,773	0	\$14.24	\$16.45
Harbourview / Western Branch	1,746,252	0	99,715	6.1%	8,823	8,823	13,744	0	\$19.37	\$22.22
Newport News	6,829,935	2,306	522,562	8.2%	258,295	258,295	49,537	424,013	\$17.43	\$19.91
Norfolk	9,624,598	103,283	743,192	9.3%	-50,386	-50,386	121,557	8,800	\$19.73	\$23.59
Portsmouth	1,092,276	0	88,639	8.1%	-756	-756	506	0	\$16.04	\$18.06
Suffolk	990,600	0	24,605	2.5%	27,800	27,800	0	0	\$10.26	N/A
Virginia Beach	11,759,923	67,999	857,747	8.2%	-103,421	-103,421	64,136	10,500	\$19.31	\$22.31
Williamsburg	1,469,786	1,270	67,261	4.7%	34,926	34,926	2,086	0	\$19.28	\$14.46
York	580,615	0	9,603	1.7%	14,218	14,218	300	0	\$9.89	N/A
HAMPTON ROADS TOTALS	42,485,139	182,228	3,394,872	8.4%	119,932	119,932	352,447	1,129,616	\$18.36	\$21.60

**Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6160 Commander Parkway	65,524	Life Protect 24/7	New	Norfolk
500 E. Main Street	30,140	Gather Workspaces, Inc.	New	Norfolk
724 Thimble Shoals Boulevard	20,000	Leidos	New	Newport News
999 Waterside Drive	18,943	Union Bank & Trust	New	Norfolk
11815 Fountain Way	17,163	Huntington Ingalls Nuclear	New	Newport News

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
5700 & 5800 Lake Wright Drive	166,520	Guardian Realty / SF Partners	\$24,900,000 / \$150	Norfolk
2697 International Parkway – Parkway I & II	32,000	OEP Properties / Prodigy Realty Group	\$2,100,000 / \$65	Virginia Beach
152 Burnetts Way	19,860	Michael A Inman / Roil Burnetts Way, LLC	\$4,000,000 / \$201	Suffolk

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