

Office Q2 2022

	YoY Chg	12-Mo. Forecast
<b>8.4%</b> Vacancy Rate	▼	▼
<b>-52K</b> YTD Net Absorption, SF	▼	▼
<b>\$20.78</b> Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
<b>779K</b> Hampton Roads Employment	▲	▲
<b>3.4%</b> Hampton Roads Unemployment Rate	▼	▼
<b>3.6%</b> United States Unemployment Rate	▼	▼

Source: BLS

## ECONOMY: INFLATION VS PUBLIC PERCEPTION OF INFLATION

Russia's invasion of Ukraine provides two contrasting influences on Hampton Road's local economy. On one hand, it demonstrates the fragility of international supply chains and has helped drive the Federal Reserve to raise interest rates to mitigate inflationary pressures. However, it has also led to increased federal defense spending which directly impacts the local economy. It is key for the three pillars of the local economy: defense spending, the Port, and tourism to rise above inflationary expectations of the public and potential decreased public consumption. 2021 was a banner year for the Port of Virginia, and the midyear economic forecast predicts 2022 will surpass 2021. Hotel revenues are also forecasted to rise by 8.4% buoyed by leisure travel outweighing business travel across the country. Interest rate rise has cooled off the red-hot local residential market, but product is still moving. There are continued reports of out-of-town buyers buying in Hampton Roads' because of quality-of-life factors despite stagnant job growth numbers which suggests remote work might be benefitting the overall local economy.

## FUNDAMENTALS: FLIGHT TO QUALITY

Vacancy rates in the market remain healthy despite continued sluggish leasing velocity. The negative supply growth number continues to be the real factor that is keeping the office market healthy. Functionally obsolete, older vintage product continues to be taken out of the supply side of the curve; not only is there nearly no new speculative construction, Class B and C office buildings are being redeveloped across the market into convenience stores in Chesapeake and Virginia Beach, new residential redevelopments in Norfolk and Virginia Beach, and hotel conversions on the Peninsula and Virginia Beach. The best-in-class office product across every submarket continues to be in high demand and has very little vacancy with the Downtown Norfolk submarket being the one exception. Two potential issues in the CBD could be the parking premium of the city-controlled garages and remote work trends potentially having a higher impact on high rise office demand. The positive for the Hampton Roads office market as always is a lack of supply side pressure and that trend will be further reinforced in 2022 as there is virtually no new office construction in the pipeline. Investment sales are continuing to happen despite rising interest rates; Windwood Centre in Virginia Beach and 850 Greenbrier Circle in Chesapeake closed last month; there are also a number of properties being positioned to take to market early fall.

## FORECAST: BIG HEADLINES, STEADY MARKET

Even as whispers of a recession and inflation crowd the headlines, the local office market will continue to stay steady in the second half of 2022. Rent will continue to slowly tick up, vacancy will dip slightly, the amount of sublease opportunities will diminish, and investors will continue to look for well positioned office opportunities.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



## MARKET STATISTICS

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 AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Chesapeake	5,290,656	66,313	500,859	10.8%	-61,134	-53,628	68,220	0	\$19.97	\$20.60
Gloucester	121,725	0	773	0.6%	195	-126	0	0	N/A	N/A
Hampton	3,771,908	21,069	358,541	11.1%	159,741	295,692	56,468	0	\$15.61	\$16.30
Harborview / Western Branch	1,802,565	3,644	73,033	4.3%	4,356	26,108	23,423	0	\$15.42	N/A
Newport News	7,669,719	0	659,499	9.1%	-37,487	-91,881	107,945	0	\$20.17	\$20.38
Norfolk	10,084,804	31,750	857,332	9.3%	60,718	4,255	172,728	20,000	\$23.17	\$26.50
Portsmouth	1,203,801	3,155	63,424	5.6%	1,896	3,783	814	0	\$18.32	\$19.10
Suffolk	1,140,726	0	15,698	2.5%	0	6,147	1,375	0	\$26.77	N/A
Virginia Beach	12,175,484	46,995	992,620	9.1%	-107,906	-247,100	294,360	33,524	\$21.18	\$22.63
Williamsburg	1,462,239	0	65,682	4.5%	4,863	10,570	30,915	0	\$18.24	N/A
York	568,265	0	54,423	9.6%	0	-5,896	1,704	0	\$19.95	N/A
<b>HAMPTON ROADS TOTALS</b>	<b>45,291,892</b>	<b>172,926</b>	<b>3,641,884</b>	<b>8.4%</b>	<b>25,242</b>	<b>-52,076</b>	<b>757,952</b>	<b>53,524</b>	<b>\$20.78</b>	<b>\$21.99</b>

\*Rental rates reflect full service asking. Leasing statistics do not include renewals.

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
150 Granby Street	Norfolk	Homes.com	25,737	Renewal
1420 Kristina Way	Chesapeake	Engineering Services Network	19,918	Renewal
11815 Fountain Way	Newport News	GSA	17,671	New Lease
500 E. Main Street	Norfolk	City of Norfolk	14,684	New Lease

## KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
780 Lynnhaven Parkway	Virginia Beach	Continental Windwood Centre, LLC / Seminole Trail Properties, LLC	78,619	\$12.2M / \$155
1553 River Birch Run N	Chesapeake	OVC Chesapeake, LLC / BPC Carlton at Greenbrier, LLC	52,911	\$6.5M / \$123
850 Greenbrier Circle	Chesapeake	G.S.I. Inc. / Gracestone Investments, LLC	81,318	\$11.05M / \$136

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