

HAMPTON ROADS OFFICE

Economic Indicators

| | Q3 18 | Q3 19 | 12-Month Forecast |
|----------------------------|-------|-------|-------------------|
| Hampton Roads Employment | 790k | 794k | ▲ |
| Hampton Roads Unemployment | 3.1% | 3.1% | ▲ |
| U.S. Unemployment | 3.8% | 3.7% | ▲ |

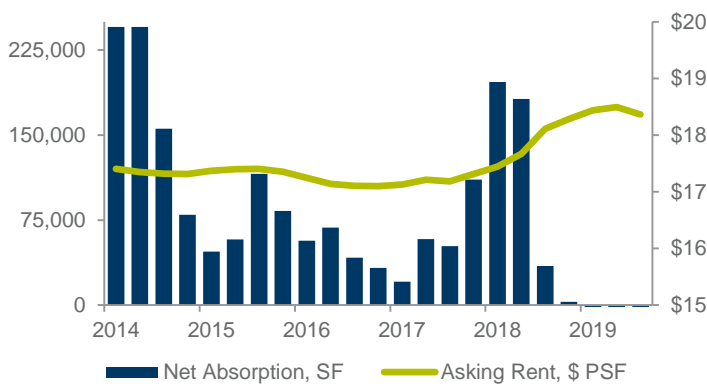
Numbers above are quarterly averages; September 2019 data used to represent Q3 2019

Market Indicators (Overall, All Classes)

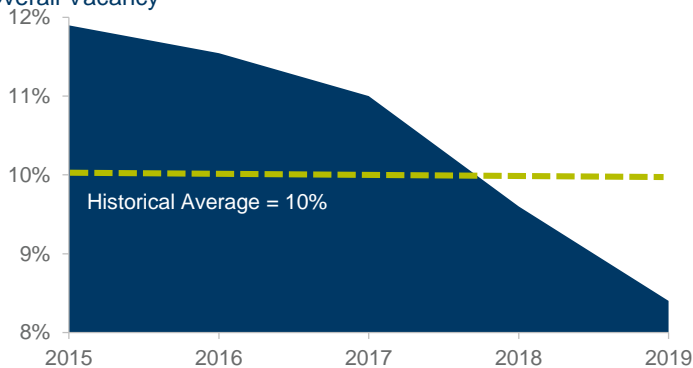
| | Q3 18 | Q3 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 9.6% | 8.9% | ▼ |
| YTD Net Absorption (sf) | -45k | -107k | ▼ |
| Under Construction (sf) | 660k | 1.0M | ▲ |
| Average Asking Rent* | \$18.82 | \$18.30 | ▼ |

*Rental rates reflect gross asking \$psf/year

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



Overall Vacancy



Economy

The third quarter continued the trend of slow but steady growth; for the first time in over a decade, the Hampton Roads economy will grow in three consecutive years and 2019 growth will surpass 2017 and 2018 growth. Employment has increased, household incomes continue to rise, and local GDP continues to surge thanks to wins in defense spending, tourism, and health services. Washington storm clouds will continue to be on the horizon in a market so impacted by the federal political landscape.

Market Overview

Light absorption contrasted with a lack of available inventory and product continues to be the theme in the overall Hampton Roads office market. There are several large blocks of contiguous square footage including Norfolk Southern, Dominion Enterprises, and several former retail boxes that are inflating overall vacancy numbers above true market fundamentals. Almost every submarket is a landlord favorable market, especially on existing tenant renewals as landlords look past sluggish absorption and continue to push rents. The rising cost of tenant improvement work is still impacting deals by creating the need for longer term and higher rents with less incentives.

The sale of 240 Corporate Boulevard marks a significant 90,000 square foot (sf) positive absorption in the market and highlights the strong demand for owner occupant opportunities in the overall Hampton Roads market. Vacant office buildings are achieving historic high per square foot prices. The significant negative absorption numbers in Norfolk were a result of the Norfolk Southern headquarters being listed, the Nordstrom retail box marketed as office space, and the former Farm Fresh opportunity at 260 Boush Street that is currently under contract. Negative absorption in Virginia Beach was marked by the former Stratford University building which is under contract to an owner occupant. The 310,000-sf Norfolk Southern Tower, the 125,000-sf availability in Dominion Enterprises, and the 160,000-sf speculative new construction at Summit Pointe will provide major positive absorption opportunities moving forward into 2020.

Outlook

Asking rent growth has continued to accelerate through the summer of 2019. Leasing activity was sluggish through the summer but appears to be picking up post Labor Day. The market will need a hot fourth quarter to make up for the past two quarters of negative absorption.

MARKETBEAT

Hampton Roads

Office Q3 2019



CUSHMAN & WAKEFIELD

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| 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 | 4,808,306 | 8,883 | 174,693 | 4.5% | -6,223 | -55,626 | 104,084 | 682,803 | \$18.11 | \$20.79 |
| Gloucester | 106,173 | 0 | 452 | 0.4% | 0 | 2,647 | 0 | 0 | \$10.50 | N/A |
| Hampton | 3,541,367 | 8,138 | 730,705 | 19.3% | -5,621 | -4,570 | 54,855 | 0 | \$14.12 | \$16.18 |
| Harbourview / Western Branch | 1,746,252 | 0 | 95,898 | 6.0% | -2,113 | 8,049 | 33,336 | 0 | \$17.05 | \$22.50 |
| Newport News | 6,964,862 | 1,796 | 545,902 | 7.9% | 42,094 | 334,889 | 95,483 | 316,565 | \$17.30 | \$20.63 |
| Norfolk | 9,644,010 | 99,270 | 1,019,063 | 12.1% | -219,025 | -311,665 | 208,109 | 20,000 | \$19.85 | \$23.69 |
| Portsmouth | 1,092,276 | 0 | 94,453 | 8.6% | -8,504 | 4,030 | 4,698 | 0 | \$16.40 | \$18.02 |
| Suffolk | 990,600 | 0 | 31,705 | 3.2% | -6,800 | 20,700 | 0 | 24,883 | \$8.83 | N/A |
| Virginia Beach | 11,764,385 | 38,600 | 875,189 | 8.4% | -54,050 | -142,351 | 316,195 | 0 | \$19.10 | \$21.14 |
| Williamsburg | 1,462,146 | 0 | 80,302 | 5.6% | -1,720 | 25,714 | 3,356 | 0 | \$19.49 | \$17.47 |
| York | 590,297 | 0 | 12,982 | 2.2% | -2,874 | 10,839 | 805 | 0 | \$16.84 | \$19.75 |
| HAMPTON ROADS TOTALS | 42,710,674 | 156,687 | 3,661,344 | 8.9% | -264,836 | -107,344 | 820,921 | 1,044,251 | \$18.30 | \$21.33 |

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

Key Lease Transactions Q3 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|----------------------------|--------|------------------------------|------------------|----------------|
| 5425 Robin Hood Drive | 59,648 | Aecom Management, Inc. | New | Virginia Beach |
| 510 Independence Parkway | 23,424 | Dollar Tree Management | New | Virginia Beach |
| 2875 Sabre Street | 21,400 | Gift of Life Marrow Registry | New | Virginia Beach |
| 7025 Harbourview Boulevard | 20,000 | US Army Engineer District | Renewal | Suffolk |

Key Sales Transactions Q3 2019

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|--------------------------------|--------|--|----------------------|----------------|
| 240 Corporate Boulevard | 87,497 | FHC Property Holdings, Inc. / Hampton Roads Connector Partners | \$12,970,000 / \$148 | Norfolk |
| 672 Independence Parkway | 38,466 | NOAA / WMC Chesapeake, LLC | \$6,800,000 / \$177 | Chesapeake |
| 2020 S. Independence Boulevard | 10,535 | Davison Physician Association / L&TJ Enterprises | \$1,095,000 / \$104 | Virginia Beach |

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