

| | YoY Chg | 12-Mo. Forecast |
|--------------------------------------|---------|-----------------|
| 9.0% Vacancy Rate | ▲ | ▼ |
| 17K YTD Net Absorption, SF | ▼ | ▼ |
| \$20.27 Asking Rent, PSF | ▲ | ▲ |

(Overall, All Property Classes)

**ECONOMIC INDICATORS
Q3 2021**

| | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| 760K Hampton Roads Employment | ▲ | ▲ |
| 4.6% Hampton Roads Unemployment Rate | ▼ | ▼ |
| 5.2% United States Unemployment Rate | ▼ | ▼ |

Source: BLS

ECONOMY: Hospitality the Star

The annual State of the Region report was released by ODU's Dragas Center for Economic Analysis and Policy last week and although this year's economy could grow faster than anytime in the past decade, diversification away from the reliance on the Department of Defense is still needed. The Hampton Roads labor pool has shrunk with about 50,000 people leaving the labor force altogether which provides a significant challenge at a time when local employers are struggling to find talent across all wage levels. The labor supply shortage has however led to wage increases. The hotel industry has continued to be a star in the region as the sector has recovered faster from the COVID-19 pandemic than almost any other market in the United States. Hampton Road's overall hotel revenue was 10% higher this June than it was in June 2019. Two new casino projects that are planned in Norfolk and Portsmouth could be an interesting future wrinkle to the overall sector. The 2020 census data is also in after pandemic related delays. The Hampton Road's population increased by roughly 5% from 2010 to 2020, however, this marks the lowest decadal growth since 1930.

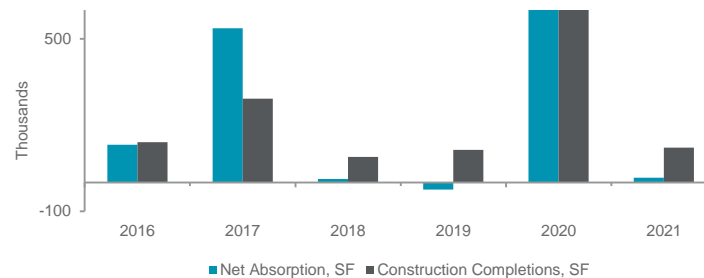
FUNDAMENTALS: Slight Vacancy Increase Contrasted with Continued Rent Increases

The combination of sluggish leasing velocity, new supply via Q2 and Q3 2021 construction deliveries, and pandemic related variant emergence has led to a slight increase in overall vacancy, but relatively minimal compared to other Mid-Atlantic office markets. Average asking rent continues to increase, although increases leveled off slightly compared to previous quarters. Last year's corporate build to suits including Dollar Tree and Ferguson coupled with new medical deliveries at Sentara Leigh, Harbour View, and First Colonial finally have had a lag effect on individual submarket vacancy. However, following those deliveries, the construction pipeline has completely trailed off. This is important as occupiers will be forced to make some real decisions regarding the future of their space needs after Landlords allowed short term extensions during the pandemic. Two major shipping companies are out in the market looking for more space while architects and engineers continue to be lead prospects in the regions Class A office product.

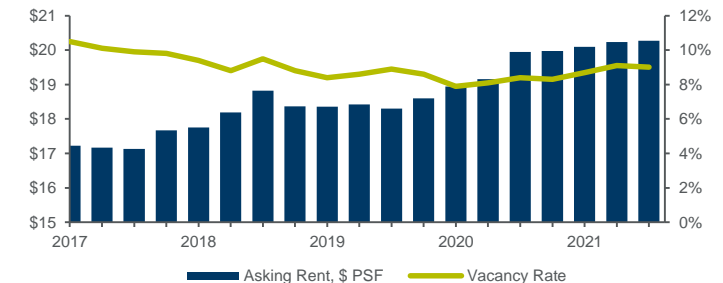
FORECAST: Small Owner-Occupied Office Demand

One area of continued demand throughout the pandemic and into the future is 20,000 square feet (sf) and below owner-occupant opportunities. Interest rates and aggressive lender terms for owner-occupant office users has led to per square foot pricing and transactions higher than stabilized income producing asset sales. Inventory has been low, but across all vintages and classes of office buildings, demand has been insatiable. With tenant improvement costs at record high levels, and rents not keeping pace, owners should consider putting their property for sale if leasing velocity has been sluggish.

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 | 5,207,555 | 26,308 | 550,118 | 11.4% | 13,981 | -16,116 | 82,105 | 0 | \$20.12 | \$21.31 |
| Gloucester | 121,725 | 0 | 452 | 0.4% | 0 | 0 | 0 | 0 | N/A | N/A |
| Hampton | 3,571,569 | 11,781 | 823,075 | 24.3% | -105,332 | -107,605 | 109,246 | 0 | \$15.91 | \$16.63 |
| Harborview / Western Branch | 1,815,574 | 0 | 87,431 | 5.5% | 18,390 | -211 | 68,870 | 0 | \$15.50 | N/A |
| Newport News | 7,482,619 | 17,897 | 476,126 | 6.6% | -21,604 | 132,045 | 115,437 | 0 | \$19.92 | \$19.83 |
| Norfolk | 10,363,005 | 59,881 | 860,342 | 8.9% | 70,601 | 53,661 | 145,819 | 46,154 | \$21.87 | \$25.47 |
| Portsmouth | 1,229,596 | 3,155 | 83,754 | 7.2% | 13,140 | -4,192 | 21,446 | 0 | \$18.32 | \$18.93 |
| Suffolk | 1,098,049 | 0 | 37,724 | 3.4% | 2,750 | 0 | 2,750 | 0 | \$26.87 | N/A |
| Virginia Beach | 12,154,307 | 130,585 | 779,817 | 7.7% | 76,806 | -19,780 | 258,760 | 117,570 | \$20.79 | \$22.98 |
| Williamsburg | 1,479,322 | 0 | 71,596 | 4.9% | 933 | -19,890 | 15,947 | 0 | \$19.27 | \$23.00 |
| York | 607,431 | 0 | 46,126 | 7.6% | 5,268 | -1,095 | 14,369 | 0 | N/A | N/A |
| HAMPTON ROADS TOTALS | 45,130,752 | 249,607 | 3,816,561 | 9.0% | 74,933 | 16,817 | 834,749 | 163,724 | \$20.27 | \$22.04 |

*Rental rates reflect full service asking.

KEY LEASE TRANSACTIONS Q3 2021

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---------------------------|----------------|-------------------|--------|-----------|
| 4588 Virginia Beach Blvd. | Virginia Beach | Decisions | 52,638 | New Lease |
| 5151 Bonney Rd. | Virginia Beach | QED Systems, Inc. | 43,686 | Renewal |
| 222 Central Park Avenue | Virginia Beach | Ameriprise | 5,920 | New Lease |
| 509 Viking Drive | Virginia Beach | DoorDash | 5,800 | New Lease |

KEY SALES TRANSACTIONS Q3 2021

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / \$PSF |
|----------------------------------|----------------|--|---------|------------------|
| 291, 293, 297 Independence Blvd. | Virginia Beach | Suburban Capital / NA | 167,660 | \$15.77M / \$94 |
| 2901 S. Lynnhaven Rd. | Virginia Beach | Whitehall, LLC / Friedman Organization | 76,768 | \$10.45M / \$136 |
| 1001 Scenic Parkway | Chesapeake | DCP Office, LLC / Olds Enterprise, LLC | 53,548 | \$5M / \$93M |

ROB WRIGHT

Senior Vice President

+1 757 499 2896

rob.wright@thalhimer.com

thalhimer.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2020, the firm had revenue of \$7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

Independently Owned and Operated / A Member of the Cushman & Wakefield Alliance

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.