

Office Q4 2022

YoY Chg 12-Mo. Forecast

8.6%
Vacancy Rate



147K
YTD Net Absorption, SF



\$21.39
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

YoY Chg 12-Mo. Forecast

793K
Hampton Roads
Employment



3.2%
Hampton Roads
Unemployment Rate



3.7%
United States
Unemployment Rate



Source: BLS

ECONOMY: EVMS MERGER

Virginia Governor Glenn Youngkin announced the framework and timeline in Q4 for a merger between Eastern Virginia Medical School and Old Dominion University. This is important news for the market as the local healthcare labor force has been a challenge. In general, labor force shortages continue to be the biggest hurdle the Hampton Roads economy faces to catch up with state and national growth.

FUNDAMENTALS: LOCAL MARKET FORCES BUCK NATIONAL TRENDS

A recent WSJ article discussed the trend of office developers looking for alternative uses for product across national metro markets as a result of decreased demand from Work From Home (“WFH”) trends. This shift was happening here in Hampton Roads pre-pandemic with numerous functionally obsolete office buildings being converted to multi-family, hospitality, and retail redevelopments. This coupled with a complete lack of new product in the market created a negative supply curve that has allowed the market to weather the decreased demand brought on by the pandemic. The lack of developable land in the local market mainly driven by the natural geography of the landscape will require infill development to continue in the future. Even with weaker demand, occupiers are faced with limited options in the market which will continue the trend to a landlord-favorable market. Occupiers also keep absorbing big blocks of inventory with several large acquisitions to end 2022. Sentara purchased the former Anthem buildings on the Regent campus which took 200,000 square feet (sf) out of the market inventory and ZIM purchased the 70,000 sf Corporate V former Amerigroup building in Town Center. Local developers also took notice of the lack of supply with two transactions in Town Center of an empty 76,000 sf 5-story building a nearly vacant 45,000 sf 3-story medical/office building.

FORECAST: INCREASED RENT, LANDLORD MARKET IN 2023

There is no doubt the pandemic forever changed the office environment including changes in dress codes, modifications to office layouts, new emphasis on flexible office furniture, and a new definition of the 9-5 workday. But these changes will eventually reinforce why collaborative office environments matter even more for companies that value teamwork, culture, and leadership. Locally because of the lack of new supply, the market will be healthier in the post pandemic office world. The capital involved in modifying existing office layouts is the challenge both landlords and tenants will have in 2023; market rent ceilings do not justify the historically high tenant unfit costs. Occupiers still want flexibility with term so rent increases will be the only way to pencil these conflicting demands by users. Even with slowed down demand, the market rent growth might actually lead to speculative new development.

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	5,468,180	66,313	606,243	12.3%	-27,194	-53,463	124,980	0	\$20.69	\$21.85
Gloucester	121,725	0	773	0.6%	0	-126	0	0	N/A	N/A
Hampton	3,704,159	0	371,364	10.0%	-2,339	321,149	91,854	0	\$16.75	\$16.50
Harborview / Western Branch	1,835,136	5,045	83,623	5.0%	-6,603	48,149	47,603	0	\$15.35	N/A
Newport News	7,695,322	2,297	806,073	10.5%	-20,902	-224,436	163,828	0	\$19.63	\$19.77
Norfolk	9,995,629	33,845	905,648	9.4%	61,323	-3,817	198,940	0	\$23.61	\$27.36
Portsmouth	1,231,294	3,155	64,030	5.5%	-4,505	3,595	3,538	0	\$18.38	\$19.00
Suffolk	1,150,726	0	34,393	3.0%	-500	-11,173	8,175	0	\$26.98	N/A
Virginia Beach	12,091,863	69,755	709,524	8.5%	65,058	69,509	443,981	0	\$21.77	\$23.29
Williamsburg	1,491,042	0	68,996	4.6%	4,732	10,561	65,848	0	\$18.50	N/A
York	608,758	0	56,792	9.3%	-2,486	-12,551	5,990	0	\$19.95	N/A
HAMPTON ROADS TOTALS	45,393,834	180,410	3,707,459	8.6%	89,790	147,397	1,154,737	0	\$21.39	\$23.03

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
676 Independence Parkway	Virginia Beach	Team Fishel Engineering, LLC	17,867	New Lease
2 Eaton Street	Hampton	Faneull, Inc.	10,007	Renewal
113 Gainsborough Square	Chesapeake	Chesapeake Internists, LTD	9,083	Renewal

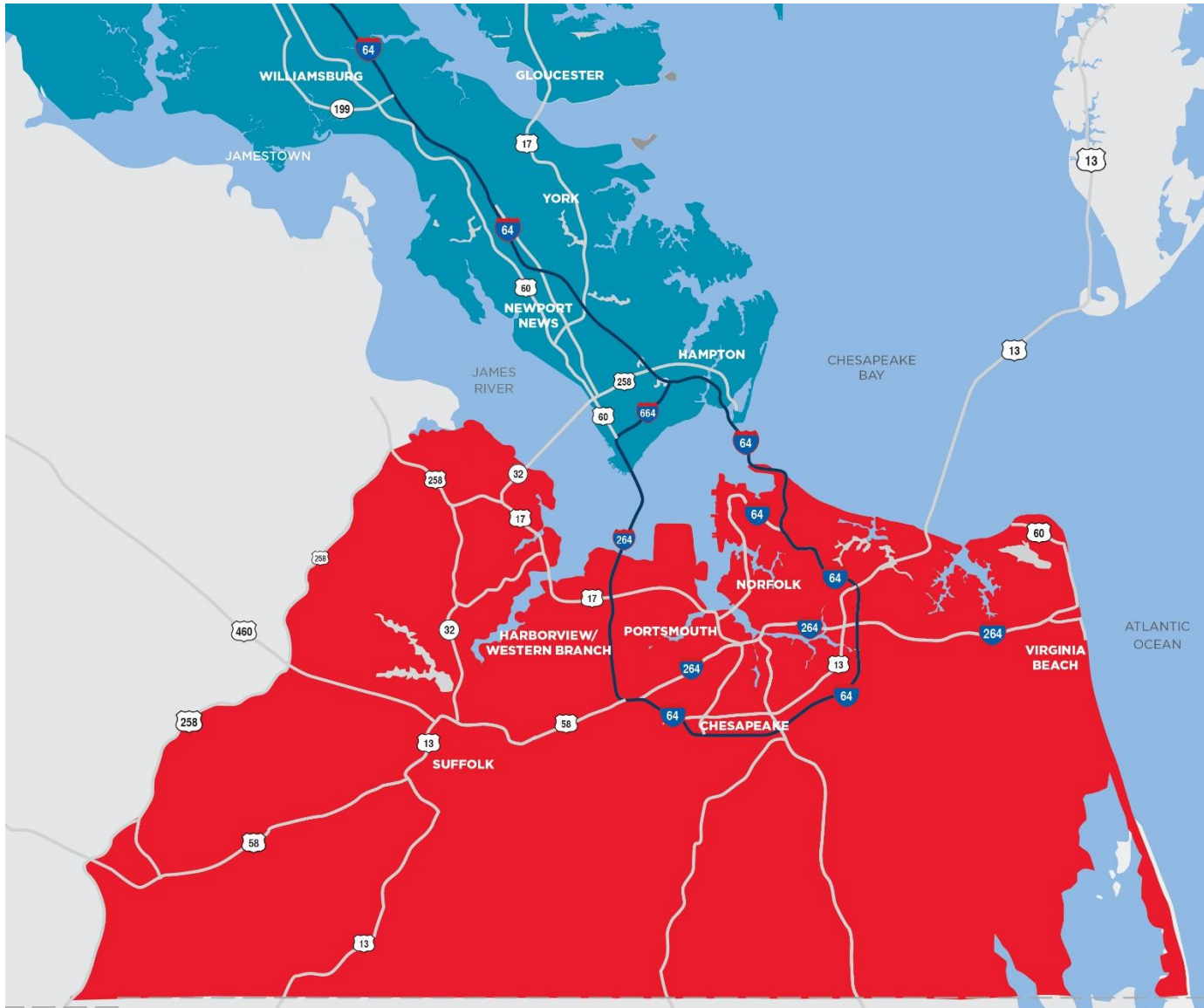
KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1300 Amerigroup Way	Virginia Beach	VTC One, LLC / MPB, Inc.	202,197	\$39M / \$194
4417 Corporation Way	Virginia Beach	SCVB, LLC / OSS Village Avenue, LLC	76,012	\$7.1M / \$93
4425 Corporation Lane	Virginia Beach	4425 Corporate Center Fee, LLC / ZIM Integrated Shipping Services	70,760	\$12M / \$170

HAMPTON ROADS

Office Q4 2022

OFFICE SUBMARKETS



ROB WRIGHT

Senior Vice President
+1 757 499 2896
rob.wright@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 2021, the firm had revenue of \$9.4 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.

©2023 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.

thalhimer.com

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