

## Office Q2 2023

YoY Chg 12-Mo. Forecast

**8.4%**

Vacancy Rate



**-30K**

YTD Net Absorption, SF



**\$21.92**

Asking Rent, PSF



(Overall, All Property Classes)

### ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

**800K**

Hampton Roads Employment



**3.2%**

Hampton Roads Unemployment Rate



**3.6%**

United States Unemployment Rate



Source: BLS

### ECONOMY: LOGISTICS AND MARITIME

The Port of Virginia, the deepest harbor on the East Coast, continues to be a powerful economic engine in the Hampton Roads region. The MSA's heavy concentration of business involved in freight transportation arrangement, marine cargo handling, logistics consulting services, port and harbor operations, coastal and deep-sea freight transportation, supply chain management, and warehousing and storage have all been in expansion mode locally post pandemic. The Governor recently announced that ZIM American Integrated Shipping Services Ltd. will invest \$30 million in the expansion of its U.S. headquarters in Virginia Beach. Other global shipping giants like Maersk and CMA CGM continue to create new jobs in the region as well. Old Dominion University is the only university in the United States that offers a "Maritime and Supply Chain Management" undergraduate major and one of two schools that offers a "Maritime" major.

### FUNDAMENTALS: MARITIME IMPACT ON LOCAL OFFICE MARKET

The ZIM purchase of the Amerigroup building at Town Center took down one big block of space in the already healthy Virginia Beach Town Center submarket. CMA CGM and Maersk both filled holes in the soft Downtown Norfolk submarket; but leasing velocity in the region's main urban Central Business District (CBD) remains slow. CMA is renovating their corporate headquarters at Lake Wright and subleased space in Dominion. ZIM has their 50,000-square-foot (sf) old headquarters building on the market next door as they finish their buildout in their new VB location. Maersk moved from Norfolk Commerce Center to Dominion Tower Downtown but unfortunately Host announced their official GQ relocation from 150 W. Main in Downtown Norfolk to Avondale, LA. The shipping company movement described above represents the overall office trend in the market - two steps forward, one step back. Leasing velocity and new jobs continue to be created from internal local forces as opposed to organic growth from outside of the market. The overall vacancy rate of 8.4% is relatively healthy compared to similar sized markets but the lack of new inventory is the bigger driving factor, and the -30k sf absorption echoes that concept.

### FORECAST: STICKY TENANTS

In the industrial sector, rents among logistics properties grew over 10% in the second quarter. Despite sluggish leasing velocity, office rents will continue to climb, but unlike the industrial market, not from demand curves but because of very little inventory, especially product that has buildouts that are "plug and play" Class A office space. Tenant improvement costs continue to be a heavy factor in keeping tenants in place, but also keeping outdated spaces vacant. This trend will continue for the foreseeable future.

### 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                  | 5,571,773         | 61,145             | 592,583            | 11.7%                | -18,518                                 | 6,495                           | 76,991                    | 0                | \$21.17                                | \$22.03                            |
| Gloucester                  | 121,725           | 0                  | 773                | 0.6%                 | 0                                       | 0                               | 0                         | 0                | N/A                                    | N/A                                |
| Hampton                     | 3,552,261         | 0                  | 317,165            | 8.9%                 | 4,505                                   | 2,112                           | 111,443                   | 0                | \$16.75                                | \$16.55                            |
| Harborview / Western Branch | 1,807,974         | 3,644              | 91,054             | 5.2%                 | -4,809                                  | -96                             | 10,912                    | 0                | N/A                                    | N/A                                |
| Newport News                | 7,709,354         | 0                  | 713,323            | 9.3%                 | -3,802                                  | 39,786                          | 69,539                    | 80,000           | \$19.87                                | \$20.49                            |
| Norfolk                     | 10,179,834        | 35,048             | 908,106            | 9.3%                 | 1,986                                   | -9,565                          | 114,130                   | 0                | \$24.73                                | \$27.80                            |
| Portsmouth                  | 1,267,267         | 3,155              | 40,937             | 3.5%                 | -1,508                                  | 59,239                          | 36,951                    | 0                | \$18.41                                | \$18.88                            |
| Suffolk                     | 1,139,726         | 0                  | 32,494             | 2.9%                 | -2,001                                  | 1,899                           | 500                       | 0                | \$27.58                                | N/A                                |
| Virginia Beach              | 12,130,515        | 37,935             | 886,042            | 7.6%                 | -114,403                                | -182,806                        | 206,715                   | 10,000           | \$22.05                                | \$22.79                            |
| Williamsburg                | 1,498,456         | 0                  | 59,749             | 4.0%                 | -755                                    | 14,207                          | 29,077                    | 40,000           | \$18.87                                | N/A                                |
| York                        | 623,630           | 0                  | 24,888             | 4.0%                 | 14,515                                  | 38,676                          | 18,995                    | 0                | \$19.76                                | N/A                                |
| <b>HAMPTON ROADS TOTALS</b> | <b>45,602,515</b> | <b>140,927</b>     | <b>3,667,114</b>   | <b>8.4%</b>          | <b>-124,790</b>                         | <b>-30,053</b>                  | <b>675,253</b>            | <b>130,000</b>   | <b>\$21.92</b>                         | <b>\$23.32</b>                     |

\*Rental rates reflect full service asking.

## KEY LEASE TRANSACTIONS Q2 2023

| PROPERTY                  | SUBMARKET  | TENANT                    | SF     | TYPE      |
|---------------------------|------------|---------------------------|--------|-----------|
| 600 Butler Farm Road      | Hampton    | Virginia Career Works     | 22,873 | Renewal   |
| 229 W. Bute Street        | Norfolk    | 757 Labs                  | 15,800 | Renewal   |
| 860-870 Greenbrier Circle | Chesapeake | Frontier Technology, Inc. | 14,768 | New Lease |

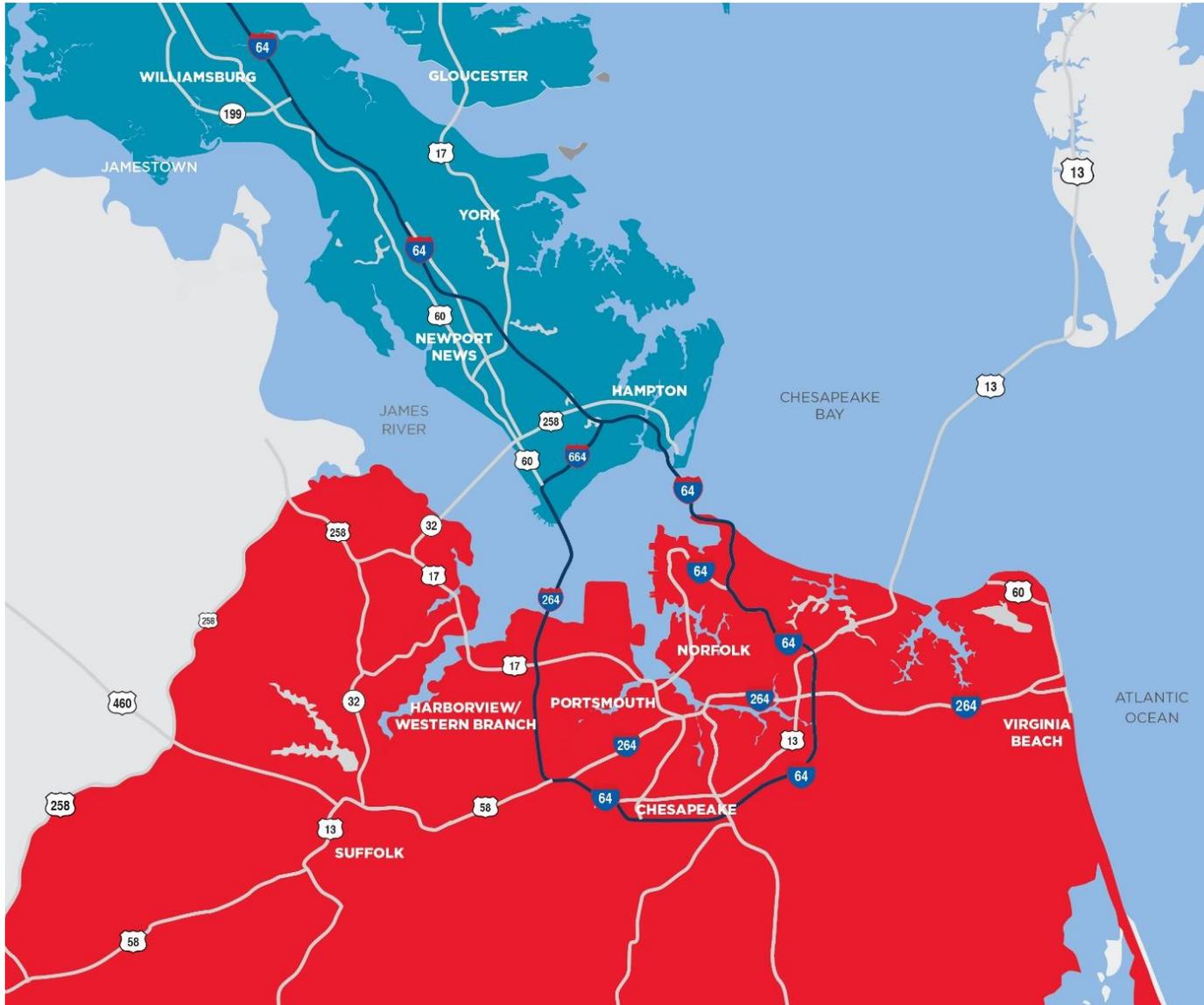
## KEY SALES TRANSACTIONS Q2 2023

| PROPERTY           | SUBMARKET      | SELLER / BUYER                         | SF     | PRICE / \$ PSF |
|--------------------|----------------|--|--------|----------------|
| 4200 Colley Avenue | Norfolk        | Kings Crest, LLC / Meadows CPMG        | 28,840 | \$1.97M / \$68 |
| 325 Volvo Parkway  | Chesapeake     | Parkway Executive Center / Biehl Ortho | 12,652 | \$2.3M / \$182 |
| 381 Edwin Drive    | Virginia Beach | Joshua Coe / LAMM Walker, LLC          | 6,558  | \$1.7M / \$259 |

# HAMPTON ROADS

Office Q2 2023

OFFICE SUBMARKETS



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