

Office Q3 2023

YoY Chg 12-Mo. Forecast

8.3%
Vacancy Rate



-313K
YTD Net Absorption, SF



\$22.02
Asking Rent, PSF

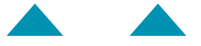


(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

YoY Chg 12-Mo. Forecast

793K
Hampton Roads
Employment



2.7%
Hampton Roads
Unemployment Rate



3.7%
United States
Unemployment Rate



Source: BLS

ECONOMY: Veteran Impact

One in eight adults in Hampton Roads is a veteran, and roughly 5% of working-age adults are military retirees. Federal pensions and benefits received by local veterans total approximately \$200 million each month. These dollars flow directly into the local economy. Additional veteran investment in the local economy includes the potential closure and relocation of the Hampton VA medical center, which sits on 84 acres in Hampton. Currently a community-based outpatient clinic is currently under construction next to Chesapeake Regional Medical Center, and there are plans for brand new VA Medical Centers in Newport News and Norfolk. Old Dominion University (ODU) recently released its annual State of the Region report, and ODU economist Bob McNab called veterans the fourth pillar of the area's economy after defense, the Port, and tourism.

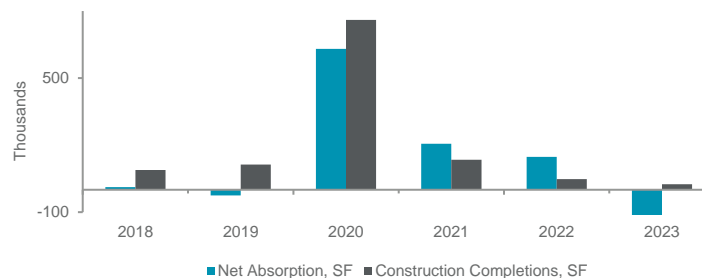
FUNDAMENTALS: Tenant Improvement Cost Increases Biggest Leasing Velocity Hurdle

In this post pandemic world, tenants continue to look for more inviting, collaborative office environments that are ultimately more complex and expensive to build than traditional buildouts. That focus coupled with construction labor force shortages, building supply constraints, and an overall lack of right-sized office build-out contractors make penciling local office deals increasingly challenging. Rent has slightly increased, but nowhere near the almost doubled cost of office buildouts. Tenants are still hesitant to sign long term leases in a fast-moving dynamic market. However, demand for sub-20,000-square-foot (sf) owner-occupant purchase opportunities is red hot. Buildings are trading for 150-200% more than what they would trade for if they were occupied and sold as a stabilized asset to an investor. The flight to quality continues to be the theme. Class A office with walkable amenities is in the highest demand outside of Downtown Norfolk. 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 8.3% is relatively healthy compared to similar sized markets but the lack of new inventory is the bigger driving factor, and the -313k sf absorption echoes that fact.

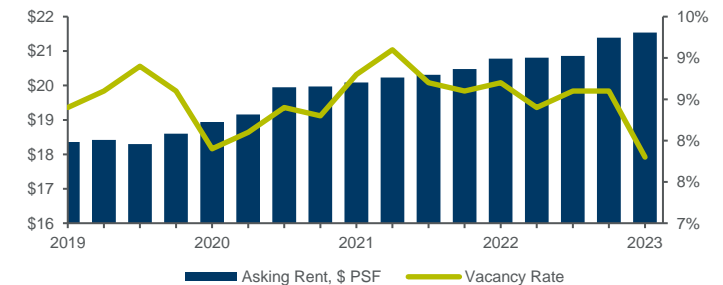
FORECAST: Sticky Tenants

Despite negative absorption across the market, rents will continue to increase. The only way to overcome increased tenant improvement costs are increased rents and increased lease terms. Older product with cheaper rents will continue to struggle and in a market with tight commercial land opportunities, owners of Class B and Class C product might look to pivot to alternative uses. This negative supply growth will continue to keep the market healthy despite continued sluggish absorption and leasing velocity.

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	5,571,306	61,145	526,547	10.7%	64,826	63,049	147,691	0	\$21.48	\$23.55
Gloucester	121,725	0	773	0.6%	0	0	0	0	N/A	N/A
Hampton	3,825,585	0	322,330	7.6%	-1,355	7	124,926	0	\$16.04	\$15.90
Harborview / Western Branch	1,807,953	0	92,201	4.8%	6,909	-209	32,642	0	N/A	N/A
Newport News	7,722,210	0	585,184	5.3%	-2,341	39,742	251,821	80,000	\$17.28	\$19.85
Norfolk	10,212,670	35,048	1,084,891	11.2%	-31,502	-321,879	172,788	0	\$24.73	\$22.20
Portsmouth	1,269,035	3,155	51,787	5.8%	-11,515	47,724	27,312	0	\$18.41	\$18.88
Suffolk	1,174,892	0	32,494	4.0%	0	1,899	7,100	0	\$28.00	N/A
Virginia Beach	12,156,504	77,681	870,720	6.4%	-38,462	-217,458	345,812	10,000	\$20.94	\$23.92
Williamsburg	1,517,443	0	47,857	3.2%	11,017	27,534	40,295	40,000	\$18.87	N/A
York	623,630	340	16,957	2.8%	7,931	46,267	27,485	0	\$18.29	N/A
HAMPTON ROADS TOTALS	46,002,953	177,369	3,631,741	8.3%	5,508	-313,324	1,177,872	130,000	\$22.02	\$23.33

*Rental rates reflect full service asking.

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1122 Executive Boulevard	Chesapeake	Sentry Solutions Product Group, LLC	20,000	New Lease
530 Independence Parkway	Virginia Beach	Associated Builders & Contractors	11,809	New Lease
580 E. Main Street	Norfolk	The UP Center	9,538	New Lease

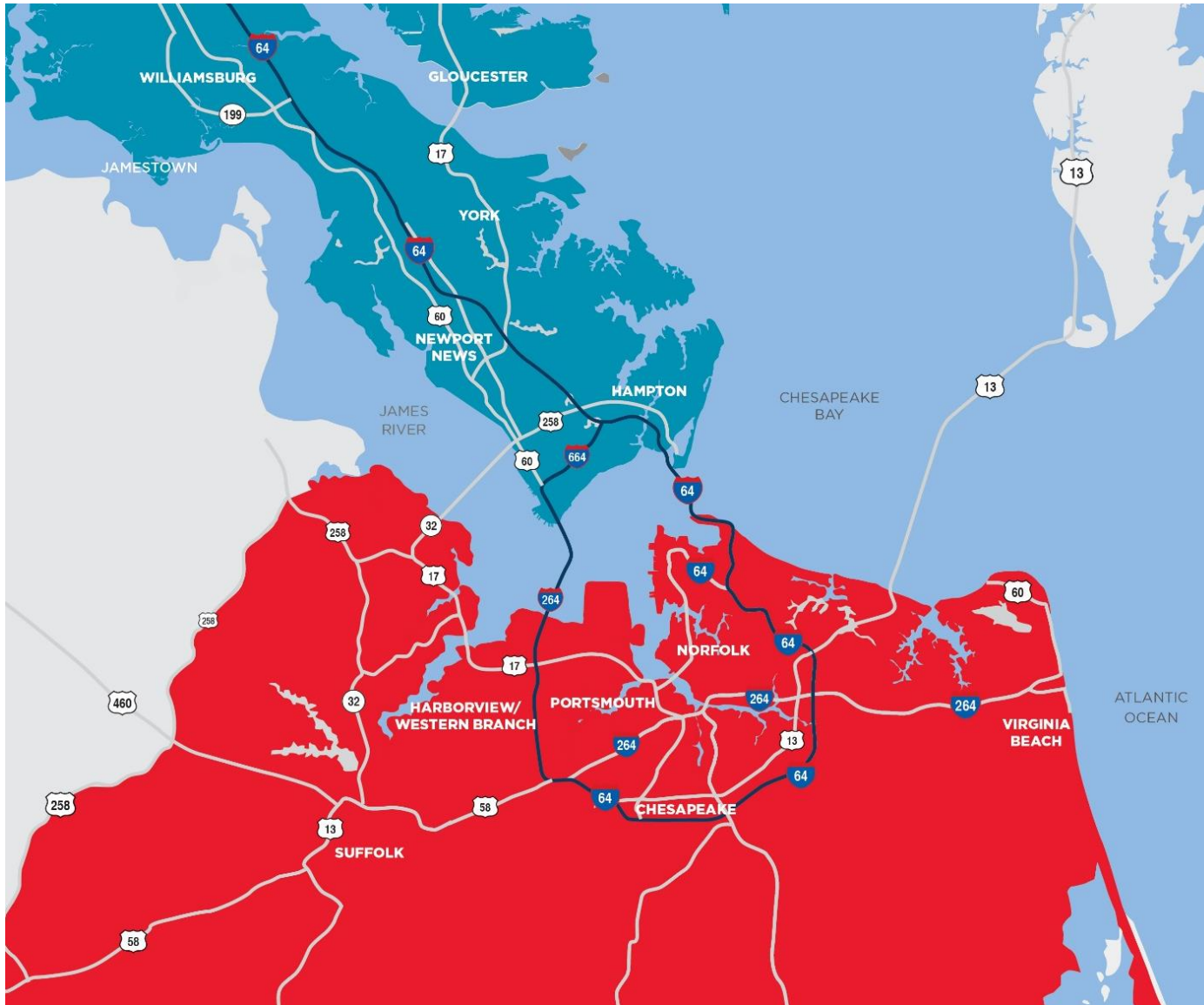
KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
500 E. Plume Street	Norfolk	Plume Street Associates, LLC / 500 E Plume, LLC	63,000	\$5.35M / \$83
9308 Warwick Boulevard	Newport News	BayPort Credit Union / Peninsula Rescue Mission, Inc.	16,520	\$895K / \$54
325 Volvo Parkway	Chesapeake	Parkway Executive Center, LLC / Behl Orthodontics	12,652	\$2.3M / \$182

HAMPTON ROADS

Office Q2 2023

OFFICE SUBMARKETS



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