

MARKETBEAT HAMPTON ROADS

CUSHMAN &
WAKEFIELD
THALHIMER

Office Q2 2024

9.9%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



127K

YTD Net Absorption, SF



\$22.29

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2024

821K

Hampton Roads
Employment

YoY
Chg



12-Mo.
Forecast



2.9%

Hampton Roads
Unemployment Rate



4.1%

United States
Unemployment Rate



Source: BLS

ECONOMY: Developable Land Shortage

Hampton Roads' civilian employment gains continue to be outpaced by peer and aspirant metro areas, such as Richmond, Raleigh/Cary, North Carolina, and Jacksonville, Florida. In response, every local municipality is pushing for land development to enable job growth. However, because of the geographic constraints of our water-bordered region, developable land is hard to find for any project. This includes land for affordable residential housing, land for warehouse and distribution sites to sustain port growth, and land that will trade at a price supporting new construction. Virginia Beach, Chesapeake, and Suffolk have all proposed major industrial projects that have caused tension in surrounding communities. Norfolk and Portsmouth are battling major inclusionary housing shortages. The components of our natural geography that fuel the pillars of our economy – defense, the port, and tourism – are the same components that hinder local economic growth.

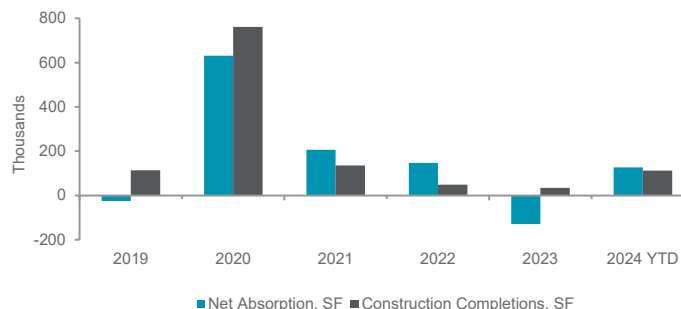
FUNDAMENTALS: Rising Rates

The land shortage directly impacts the fundamentals of the local office market. The obvious factor is the limited supply of affordable office land. However, in recent years, Hampton Roads' office rent ceiling has not allowed new construction to occur even if the land basis was zero. The cost of new construction has limited new supply in the market for many years. A more impactful recent trend has been negative supply growth. Some functionally obsolete product has been taken off the market because there has been a higher and better use for older office buildings, providing occupiers with less office inventory to choose from. Average asking rents continue to rise because higher quality product has become a larger percentage of the overall inventory. This reduced inventory, coupled with the challenge of higher cost buildouts, has caused rental rates to rise over each of the last eight quarters despite continued sluggish leasing velocity. Spaces requiring heavy tenant improvement packages continue to sit, while plug-and-play spaces move soon after hitting the market. Therefore, landlords with deep pockets will be able to grow rent at historical levels for this Hampton Roads market, and the \$30.00-per-square-foot full service rent ceiling will finally be broken through.

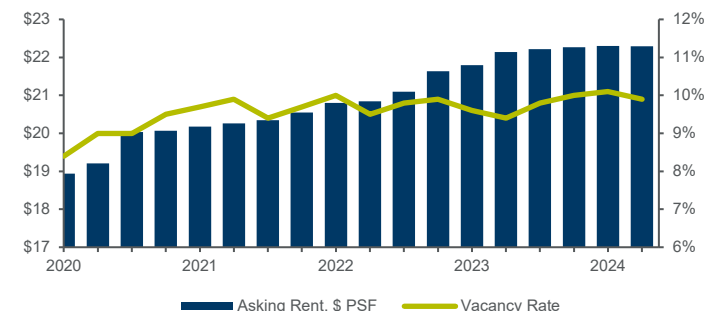
FORECAST: Vacancy Will Stay Below 10%

Negative supply growth will keep the market healthy despite continued sluggish absorption and leasing velocity. Subleases in the market have almost completely dried up, which will allow absorption to proceed on direct vacancy. The market needs job growth to justify new construction; however, it is unlikely that a speculative office building (outside of medical) will be built in the next five years.

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	4,412,710	39,601	423,391	10.1%	1,368	132,206	134,422	26,197	\$22.11	\$22.14
Gloucester	81,565	0	773	0.9%	0	0	0	100,000	N/A	N/A
Hampton	3,397,574	15,670	356,390	10.4%	19,452	-6,522	30,191	0	\$16.29	\$16.20
Harborview / Western Branch	1,394,721	0	63,686	4.6%	4,932	9,198	38,386	0	N/A	N/A
Newport News	6,568,050	0	632,767	9.6%	29,614	20,722	63,951	0	\$21.33	\$22.12
Norfolk	8,816,903	37,067	1,053,936	18.1%	-32,945	-4,182	98,487	0	\$24.47	\$27.00
Portsmouth	862,648	3,155	39,608	7.6%	0	-1,146	2,494	0	\$18.15	\$18.88
Suffolk	1,012,513	0	15,066	2.2%	2,100	3,645	4,480	0	\$28.00	N/A
Virginia Beach	10,042,431	60,863	993,017	10.5%	10,847	-76,261	216,285	0	\$22.97	\$24.25
Williamsburg	1,245,685	0	39,298	3.1%	60,768	65,856	21,643	15,000	\$20.29	N/A
York	489,837	340	32,973	3.3%	-9,408	-16,573	3,583	0	\$19.54	\$19.00
HAMPTON ROADS TOTALS	38,324,637	156,696	3,650,905	9.1%	86,728	126,943	613,922	141,197	\$22.29	\$23.82

*Rental rates reflect full service asking.

KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1545 Crossways Boulevard	Chesapeake	Regus	14,789	Renewal
5 Manhattan Square	Hampton	Riverside	17,068	New
850 Greenbrier Circle	Chesapeake	Canon	49,751	Downsize/Renewal

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
223 E. City Hall Avenue	Norfolk	AC 36 Norfolk / 223 City Hall Avenue, LLC	55,237	\$4.8M / \$87
625 Independence Parkway	Chesapeake	Gregory Frederic Jay / JMEA Properties	7,689	\$1.6M / \$208
236 Mustang Trail	Virginia Beach	Diversified Management, LLC / 232 Jersey Ave., LLC	7,592	\$950K / \$125

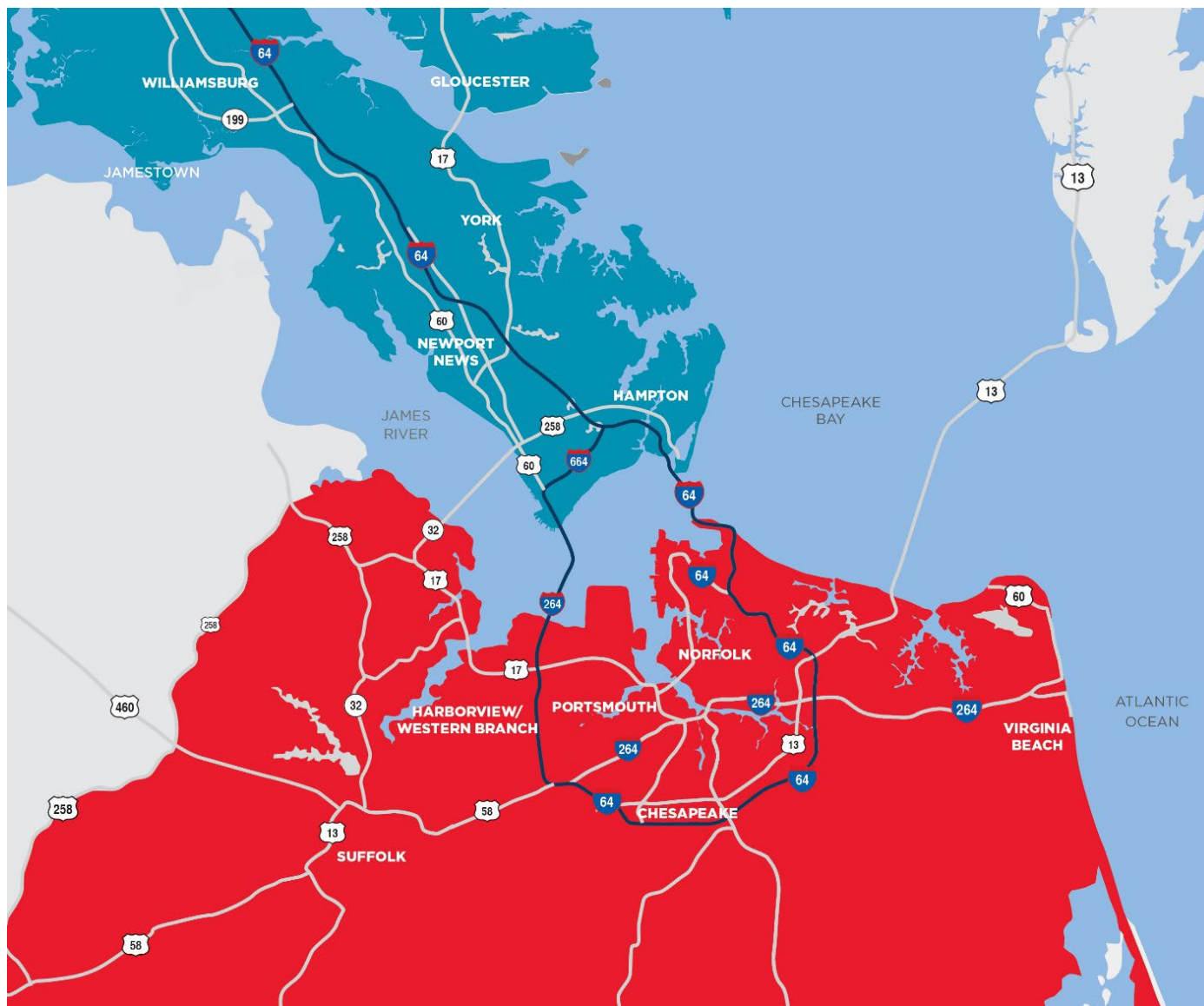
MARKETBEAT

HAMPTON ROADS

Office Q2 2024

CUSHMAN &
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OFFICE SUBMARKETS



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