

MARKETBEAT

Hampton Roads

Office Q4 2017



CUSHMAN & WAKEFIELD

THALHIMER

HAMPTON ROADS OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Hampton Roads Employment	773k	765k	▼
Hampton Roads Unemployment	4.7%	4.2%	▼
U.S. Unemployment	4.7%	4.1%	▼

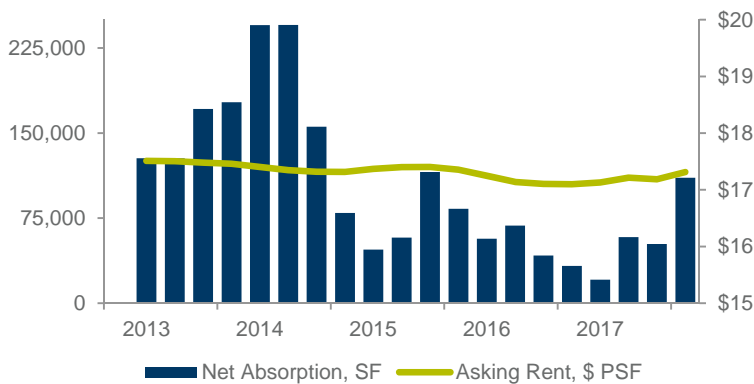
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	10.8%	9.8%	▼
YTD Net Absorption (sf)	132k	537k	▲
Under Construction (sf)	250k	317k	▲
Average Asking Rent*	\$17.16	\$17.67	▲

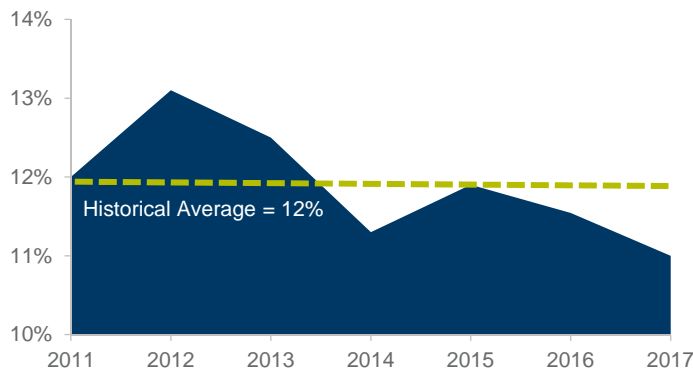
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption vs. Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The economic data on Hampton Roads continues to offer conflicting points of view. Recent indicators show the area taking two steps forward, and then one step back. The region has seen unemployment levels drop and initial unemployment claims remain at their lowest historical levels. National gross domestic product has grown, defense spending has moderately increased, and retail sales remain strong. Hampton Roads has also seen an increase of millennials flocking to the market, and according to the Urban Land Institute, Hampton Roads is the fastest growing home to millennials with a 16%-increase in millennial population since 2010. However, Hampton Roads continues to see a trend of job losses that was highlighted by a recent Wall Street Journal article. The region is also experiencing a drop in labor force participation, which follows the national trend.

Market Overview

Slow and steady remained the theme for the fourth quarter office market. Leasing activity was sluggish and vacancy rates stayed flat from Q3 to Q4. Overall the market vacancy rates declined 150 basis points from Q4 2016 to 9.8% in Q4 2017, the lowest since 2008. Supply remains tight in the most popular submarkets with the vacancy in Greenbrier for Class A and B product at just 4.4%. Rent growth has been flat but should see an uptick, especially in these tighter submarkets come early 2018. Concessions in the way of free rent and tenant improvement allowances should remain steady unless we see a large upswing in activity in Q1 2018.

Significant leases from Q4 2017 were driven by government related spending. The General Services Administration renewed and expanded its lease in Main Street Tower, Huntington-Ingalls leased additional square footage in Newport News, Maximus continued to expand in Hampton, and a community services board leased a new headquarters location in Suffolk.

Outlook

There remains strong optimism in Hampton Roads that 2018 will bring the return of significant, expanded defense spending. The market has the potential to turn from an occupier's market to a landlord's market, especially in some of the tighter submarkets. Larger block users seeking more than 20,000 square feet have very few options in the region and in the popular Greenbrier market there are no remaining large blocks of space. Vacancy will continue to decline as new development remains stagnant due to rent ceiling limitations.

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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 AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Chesapeake	4,629,930	7,743	238,850	5.4%	-38,894	-39	131,606	225,280	\$17.29	\$19.82
Gloucester	105,068	2,647	0	2.5%	0	0	0	0	\$10.50	N/A
Hampton	3,251,201	0	748,238	23.3%	45,724	91,637	223,466	0	\$14.99	\$16.63
Harbourview/ Western Branch	1,722,490	0	220,019	12.9%	46,746	54,915	64,827	5,000	\$18.25	\$19.85
Newport News	6,722,022	35,855	554,265	8.7%	38,118	94,533	143,161	79,600	\$16.35	\$19.67
Norfolk	8,869,488	36,652	853,059	10.4%	24,514	24,388	191,755	0	\$19.03	\$23.57
Portsmouth	1,098,071	26,064	130,727	14.9%	-23,144	-39,187	18,034	0	\$14.07	\$17.61
Suffolk	935,480	2,500	24,465	2.9%	2,375	23,995	10,450	0	\$12.76	N/A
Virginia Beach	11,070,313	2,504	985,582	9.0%	53,677	157,871	733,682	7,000	\$18.59	\$21.39
Williamsburg	1,427,695	0	81,381	5.7%	4,229	53,977	46,912	0	\$18.21	\$21.30
York	560,615	0	19,009	3.4%	29,542	74,448	16,626	0	\$15.88	\$19.00
HAMPTON ROADS TOTALS	40,392,373	113,965	3,855,595	9.8%	182,887	536,538	1,580,519	316,880	\$17.67	\$21.17

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
300 E. Main Street	130,000	General Services Administration	Renewal	Norfolk
500 E. Main Street	32,000	Branch Banking & Trust Company	New	Norfolk
2600 Washington Avenue	31,000	Huntington Ingalls Inc. Facility Dept.	New	Newport News
5200 W. Mercury Boulevard	20,000	Maximus	Expansion	Hampton
7025 Harbour View Boulevard	19,000	Western Tidewater Community Services Board	New	Suffolk

Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1417 N. Battlefield	27,000	Harmony Investments / Pavilion Development Group	\$1,522,000 / \$56	Chesapeake
101 Philip Roth Street	14,000	PGI Properties LLC / Elliott Bay Capital Trust	\$4,300,000 / \$307	Newport News
3600 Pacific Avenue	10,000	Dabney Holt / Suburban Capital Inc.	\$2,900,000 / \$290	Virginia Beach
11721 Jefferson Avenue	9,000	Phoenix Property Holdings LLC / Canavos Holdings LLC	\$740,000 / \$82	Newport News
4665 South Boulevard	5,000	SBO LLC / South Boulevard Property LLC	\$1,270,000 / \$254	Virginia Beach

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