

MARKETBEAT

Hampton Roads

Industrial Q3 2017



HAMPTON ROADS INDUSTRIAL

Economic Indicators

| | Q3 16 | Q3 17 | 12-Month Forecast |
|----------------------------|-------|-------|-------------------|
| Hampton Roads Employment | 772k | 768k | ▼ |
| Hampton Roads Unemployment | 4.6% | 4.3% | ▼ |
| U.S. Unemployment | 4.9% | 4.4% | ▼ |

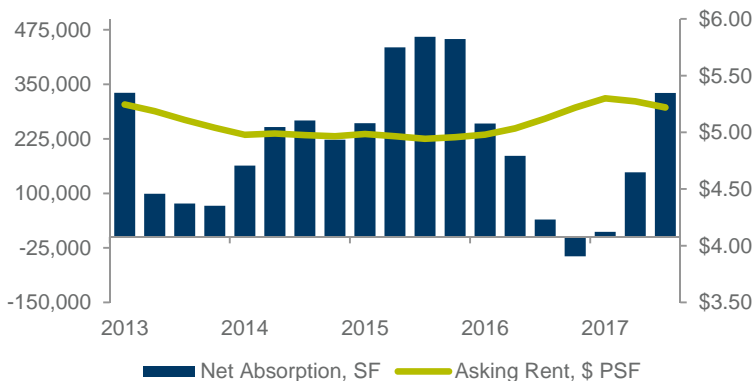
Market Indicators (Overall, All Property Types)

| | Q3 16 | Q3 17 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Vacancy | 6.3% | 4.5% | ▼ |
| YTD Net Absorption (sf) | 182k | 2.2M | ▲ |
| Under Construction (sf) | 534k | 620k | ▲ |
| Average Asking Rent* | \$5.21 | \$5.00 | ▼ |

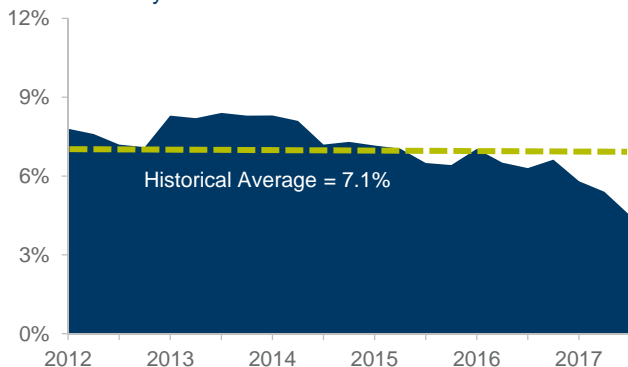
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Dow Jones continued its bull run in the third quarter. Interest rates have not taken a dramatic uptick in the first half of 2017, and predictions point to only a modest increase by year-end. Inflation remained flat. A newly proposed tax plan, uncertainty about health care, and political unpredictability have not seemed to deter economic growth for the third quarter of 2017. The annual GDP for the third quarter was 3%. Natural disasters in the southeast and gulf coast are expected to negatively influence the economy in the fourth quarter.

National industrial performance continued on its own bull run since roughly 2011. Cap rates began to stabilize across the country, albeit at historic lows. While industrial investors are beginning to suspect an end may be in sight, investment activity in the sector continued unabated.

Market Overview

Year-to-date (YTD) leasing activity and net absorption rebounded nicely, with third quarter YTD totals for both at almost 2.2 million square feet (msf). A strong fourth quarter is expected to push absorption over the 3 msf mark for the year. Submarkets that reported strong net absorption include Airport Industrial Park in Virginia Beach; Bainbridge in Chesapeake; and Central Norfolk. All-star submarkets were Lynnhaven in Virginia Beach and South Suffolk. Overall vacancy rate ended the quarter at 4.5%. Eight out of 18 submarkets posted vacancy at less than 4%, while 11 submarkets are less than 5% which are very healthy statistics.

Outlook

Early this month the Hampton Roads Chamber of Commerce hosted the State of Region address. Economists from Old Dominion University presented an optimistic assessment of the Region. "We are on the way to recovery..." was the primary message. Defense spending is on the rise, as is hiring. The Port of Virginia continues its growth surge with record levels of containers. The recent 'bounce' of leasing activity in the third quarter is viewed as a leading edge indicator of further market gains. Rents are expected to increase in each of the industrial sectors, from manufacturing to distribution. Submarket performance has been very strong in core markets, and rents and vacancies are firming in submarkets further from the core. Tenants in the market would do well to extend current facilities and/or prepare to expand in anticipation of diminishing supply.

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| SUBMARKET | TOTAL BLDGS | INVENTORY (SF) | YTD LEASING ACTIVITY (SF) | OVERALL VACANCY RATE | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | OVERALL WEIGHTED AVG. NET RENT (MF) | OVERALL WEIGHTED AVG. NET RENT (OS) | OVERALL WEIGHTED AVG. NET RENT (W/D) |
|-----------------------------|--------------|-------------------|---------------------------|----------------------|---------------------------------|------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| Copeland | 197 | 10,828,202 | 114,611 | 5.3% | -171,545 | 0 | \$5.03 | N/A | \$3.14 |
| Gloucester | 7 | 227,936 | 0 | 9.9% | 0 | 0 | N/A | N/A | N/A |
| Oakland | 48 | 4,475,878 | 66,167 | 1.9% | -32,988 | 0 | \$7.20 | N/A | \$7.71 |
| Oyster Point | 60 | 3,993,833 | 48,136 | 5.6% | -14,498 | 0 | N/A | \$8.25 | \$7.16 |
| Williamsburg | 53 | 8,327,488 | 1,000 | 3.9% | 43,556 | 150,000 | N/A | N/A | \$5.75 |
| Airport Industrial Park | 55 | 3,512,105 | 151,135 | 3.3% | 266,447 | 0 | N/A | N/A | \$5.79 |
| Bainbridge | 144 | 11,346,957 | 189,376 | 2.5% | 207,246 | 0 | N/A | \$8.15 | \$6.18 |
| Cavalier | 97 | 5,420,330 | 165,042 | 1.3% | 94,518 | 0 | \$5.25 | N/A | \$8.75 |
| Central Norfolk | 78 | 5,166,407 | 138,375 | 14.8% | 270,747 | 50,000 | N/A | \$10.83 | \$3.83 |
| Cleveland | 71 | 2,859,286 | 51,853 | 1.9% | 104,699 | 0 | N/A | \$12.16 | \$3.60 |
| Greenbrier | 34 | 2,279,344 | 146,973 | 7.7% | -65,751 | 0 | N/A | \$7.00 | \$4.79 |
| Isle of Wight | 15 | 3,880,270 | 0 | 4.7% | 0 | 0 | N/A | N/A | N/A |
| Lynnhaven | 167 | 7,913,600 | 356,085 | 4.2% | 914,566 | 30,000 | \$6.90 | \$9.11 | \$4.86 |
| Norfolk Industrial Park | 151 | 7,852,792 | 258,963 | 4.8% | 120,557 | 0 | \$5.86 | N/A | \$5.31 |
| North Suffolk | 12 | 2,376,942 | 199,500 | 0.8% | -20,000 | 0 | N/A | N/A | \$5.50 |
| Portsmouth | 95 | 4,569,516 | 66,500 | 7.1% | -23,120 | 215,000 | \$6.51 | N/A | \$4.74 |
| South Suffolk | 88 | 12,518,979 | 201,222 | 5.6% | 490,947 | 175,000 | \$3.50 | N/A | \$3.23 |
| West Norfolk | 68 | 2,434,297 | 6,829 | 3.9% | 14,066 | 0 | \$4.59 | N/A | \$6.16 |
| HAMPTON ROADS TOTALS | 1,440 | 99,984,162 | 2,161,767 | 4.5% | 2,199,447 | 620,000 | \$5.85 | \$9.73 | \$4.74 |

*Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q3 2017

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|---------------------------------|---------|--|------------------|---------------|
| 5001, 5401, 5151 City Line Road | 202,379 | Huntington Ingalls Inc. Facility Dept. | Renewal | Copeland |
| 1400 Cavalier Boulevard | 93,500 | MCO Transport Inc. | Sublease | Cavalier |
| 6900 Harbour View | 73,500 | Tecnico Corporation | Renewal | North Suffolk |
| 1345 Taylor Farm Road | 59,625 | US Homecare, LLC | Renewal | Lynnhaven |

Key Sales Transactions Q3 2017

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|---------------------------------|---------|--|--------------------|-------------------------|
| 6969 Tidewater Road | 167,541 | Atlantic Environmental Construction Co. / Paul H. Peck | \$5,000,000 / \$30 | Central Norfolk |
| 3801 Princess Anne Road | 62,974 | Yucaipa Cos / Norman V Chalmers | \$1,800,000 / \$29 | Norfolk Industrial Park |
| 1965 Northgate Commerce Parkway | 51,435 | Northgate Investors, LLC / Blackberry Realty, LLC | \$4,062,500 / \$79 | South Suffolk |

Cushman & Wakefield | Thalhimer
11100 W. Broad St.
Glen Allen, VA 23060
thalhimer.com

For more information, contact:
Basil Hallberg
Research Coordinator
Tel: +1 804 697 3560
basil.hallberg@thalhimer.com

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