

MARKETBEAT

Hampton Roads

Industrial Q3 2018



HAMPTON ROADS INDUSTRIAL

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Hampton Roads Employment	781k	786k	▲
Hampton Roads Unemployment	4.0%	3.3%	▼
U.S. Unemployment	4.4%	3.9%	▼

Numbers above are quarterly averages; September 2018 data used to represent Q3 2018

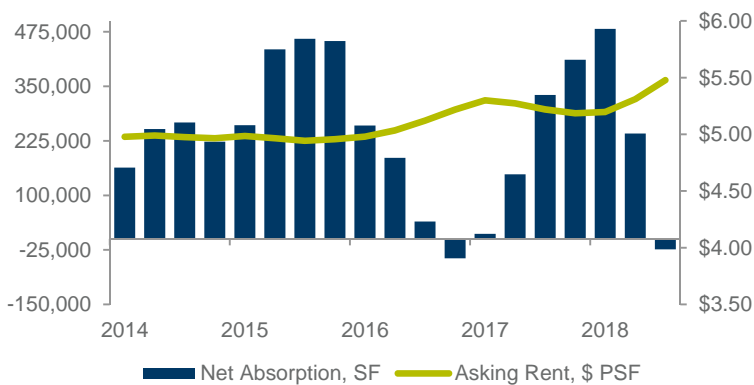
Market Indicators (Overall, All Property Types)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	4.1%	4.2%	▼
YTD Net Absorption (sf)	2.2M	-36k	▼
Under Construction (sf)	620k	50k	▼
Average Asking Rent*	\$5.00	\$5.67	▲

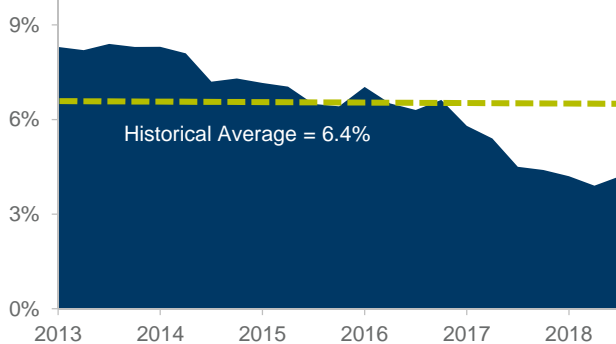
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The overall economy is showing strength. Real gross domestic product (GDP) increased at an annual rate of 4.2 % in the second quarter of 2018, according to the third estimate released by the Bureau of Economic Analysis. This is the strongest growth reported since third quarter 2014. Higher consumer spending and business investment are likely influencing GDP growth. Tax cuts continued to stimulate the economy. The escalating trade war with China may negatively affect GDP growth through the balance of 2018, with tariffs expected to increase import prices, and raise the cost of some exports. Stock market performance appears to be unsustainable, and may be due for a large correction. On the national Industrial front, investor demand still red hot. Cap rate compression is boosting per-square-foot industrial values, demand is intersecting with new construction cost. As a result, warehouse speculative development is on a tear. While generally limited to first tier markets, many second tier markets are likewise benefiting from rent growth and strong investor demand.

Market Overview

The Hampton Roads industrial market is driven in large part by working waterfront properties. Both private and government shipyards service the defense sector, which has seen increases in funding from Washington, D.C. This has driven demand for both employees and facilities to support shipyard work. One of the largest users of industrial warehouse space in Hampton roads is Huntington Ingalls shipyard. In 2015 the company signed a long term lease for over 500,000 square feet (sf) in Hampton. In the third quarter of 2018 another ship repair related lease was signed by Tecnico Corporation for 150,000 sf of warehouse space in Newport News. Other users include coal terminals, roll-on/roll-off terminals, and heavy industrial/manufacturing. In the third quarter of 2018, CSX sold 85 acres of waterfront land in Newport News for \$17.5 million. The property included two piers of approximately 1,000 feet each. Offshore wind development continues to gain traction politically and may see development in and around the port in the coming years.

Outlook

The market cooled significantly, with low deal velocity. Total year-to-date leasing activity is at 1.5 million square feet (msf). Vacancy is up slightly to 4.2%. Look for a rebound in total leasing activity in the fourth quarter. Over the last five years, the historical average for leasing activity has been just over 3.0 msf.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	OVERALL VACANCY RATE	YTD 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	198	10,677,551	148,801	4.7%	142,740	0	\$5.59	N/A	\$6.31
Gloucester	7	227,936	0	0.0%	22,500	0	N/A	N/A	N/A
Oakland	47	4,351,268	151,000	2.4%	-57,938	0	\$7.00	N/A	\$8.25
Oyster Point	61	4,013,621	81,673	2.6%	123,154	0	N/A	\$8.25	\$6.48
Williamsburg	53	8,320,201	32,600	1.9%	9,268	0	N/A	N/A	\$5.77
Airport Industrial Park	57	3,599,989	84,555	13.1%	-379,644	0	\$4.79	N/A	\$5.79
Bainbridge	144	10,372,124	206,931	1.9%	81,007	0	\$11.49	\$8.14	\$7.49
Cavalier	98	5,591,829	32,835	3.6%	-118,617	0	\$5.25	N/A	\$6.10
Central Norfolk	81	5,192,366	78,006	10.8%	150,824	0	N/A	\$10.63	\$4.39
Cleveland	71	2,859,082	20,513	1.3%	-6,089	0	N/A	\$11.36	\$11.17
Greenbrier	35	2,278,871	39,625	7.4%	-9,481	0	N/A	N/A	\$4.88
Isle of Wight	15	3,870,270	0	4.7%	0	0	N/A	N/A	N/A
Lynnhaven	170	8,354,631	125,169	4.9%	-228,501	50,000	\$6.50	\$9.09	\$5.04
Norfolk Industrial Park	152	7,657,482	109,609	3.7%	167,578	0	\$5.53	N/A	\$5.55
North Suffolk	12	2,276,942	20,000	3.6%	-61,704	0	N/A	N/A	N/A
Portsmouth	96	4,280,009	228,487	10.2%	78,783	0	\$7.46	N/A	\$5.15
South Suffolk	88	11,947,226	69,030	3.9%	-700	0	N/A	N/A	\$3.87
West Norfolk	69	2,415,379	6,744	1.7%	28,244	0	\$6.03	N/A	\$4.56
HAMPTON ROADS TOTALS	1,454	98,286,777	1,435,578	4.2%	-58,576	50,000	\$5.53	\$9.67	\$5.54

*Rental rates reflect asking \$psf/year

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

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2000 Enterprise Parkway	155,107	Tecnico Corporation	New	Copeland
6900 Harbour View Boulevard	73,586	Tecnico Corporation	Renewal	North Suffolk
476 Viking Drive	22,500	Paramount Commercial Renovations	New	Lynnhaven
2645 International Parkway	21,349	Alliant Tech Systems LLC	Expansion	Lynnhaven

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
61 Floyd Thompson Drive	198,480	Norman Properties / Exan Capital	\$25,800,000 / \$130	Copeland
2626 Indian River Road	184,660	Indian River Road Associates LLC / Phoenix Investors	\$4,900,000 / \$27	Greenbrier
301 West Park Lane	180,000	MDH Partners JV Harvard Mgmt Co. / Blackstone	\$15,100,000 / \$84	Copeland
2620 Indian River Road	149,315	Indian River Road Associates LLC / Phoenix Investors	\$4,000,000 / \$27	Greenbrier

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