

MARKETBEAT

Hampton Roads

Industrial Q4 2016



HAMPTON ROADS INDUSTRIAL

Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Hampton Roads Employment	769k	770k	▲
Hampton Roads Unemployment	4.7%	4.7%	▼
U.S. Unemployment	5.0%	4.8%	▼

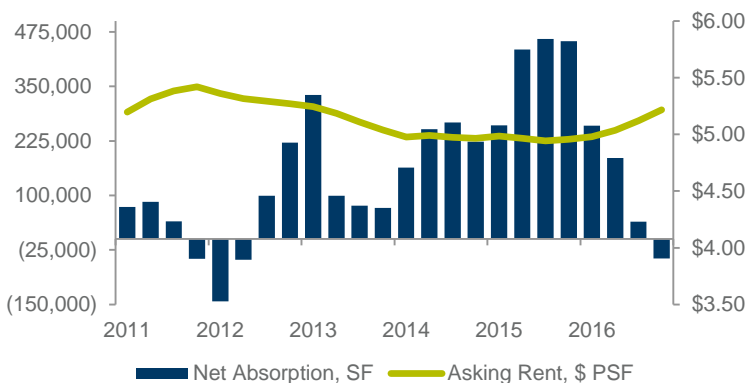
Market Indicators (Overall, All Property Types)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	6.4%	6.6%	■
YTD Net Absorption (sf)	1.8M	-177k	▼
Under Construction (sf)	128k	969k	▲
Average Asking Rent*	\$5.03	\$5.42	▲

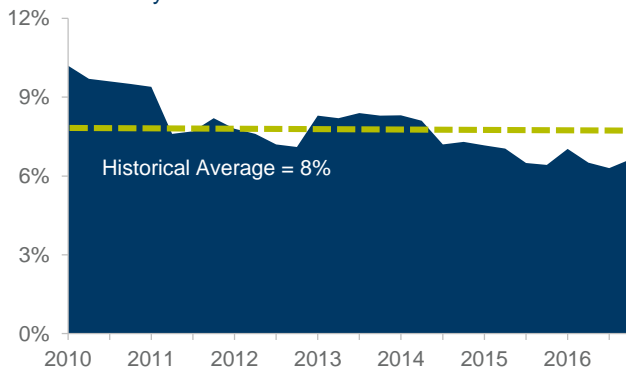
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

With the election of a new Republican President, the direction of the national economy is anyone's guess. However, President Trump has stated a desire to strengthen the military, increase the size of the existing fleet, and focus on infrastructure. Additional dollars spent on any of these programs will provide a significant economic boost for the area. Hampton Roads is home to Huntington Ingalls, one of only two shipbuilding companies in the nation. The Region hosts major defense department installations for each branch of the service. It is expected that there will be improvement in the general economy of Hampton Roads in the coming years.

Market Overview

The year ended on a weak note by finishing with negative 177,491 square feet (SF) of overall net absorption. Leasing activity lagged last year's total, with nearly 2.9 million square feet (MSF) leased compared to 3.7 MSF leased in 2015. Demand for warehouse/distribution space was the primary driver for leasing activity, with Amazon, U.S. Port Services, and International Paper leasing large blocks of space. Third party logistics and warehouse companies have increased short-term deal volume as well. The poor leasing activity numbers for the fourth quarter are expected to be an aberration, with totals for both leasing activity and net absorption improving in 2017 to historical values. Investment sales of larger leased facilities dominated building sales for 2016. Predictably, investors looked to Hampton Roads for properties offered at reasonable cap rates compared to values found in Tier 1 markets.

Outlook

While overall vacancy has increased slightly to 6.6%, it is expected that this number will trend downward in 2017. Rental rates across the industrial spectrum are forecasted to rise in next year. There are other positive indicators for the Hampton Roads industrial market: Peet's Coffee recently selected Suffolk as its new East Coast roasting operation. They plan to invest \$58 million into a 175,000-SF facility. Emser Tile selected Suffolk for its 407,000-SF East Coast distribution center earlier in 2016, with delivery expected mid-year 2017. The Port of Virginia continues to increase TEU volume through its two primary terminals (and looks to add additional capacity at a third terminal. The Port finished the 2016 calendar year over 4% of 2015, with a record 2.66 million TEU's. Additional major economic development announcements are expected in 2017 as the market continues to mature with the addition of new Class A development.

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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	196	10,873,736	228,627	7.6%	-105,298	0	\$5.04	\$7.44	\$7.54
Gloucester	7	227,936	0	13.8%		0	N/A	N/A	N/A
Oakland	47	4,319,979	6,000	3.7%	116,064	0	N/A	N/A	\$7.41
Oyster Point	60	3,993,967	45,121	5.3%	-42,550	0	N/A	\$7.55	\$6.16
Williamsburg	52	8,137,047	32,763	6.5%	20,401	0	N/A	N/A	5.75
Airport Industrial Park	54	3,193,451	320,065	6.7%	88,198	0	N/A	N/A	\$5.90
Bainbridge	142	9,927,898	536,315	4.3%	-177,381	70,000	N/A	\$7.62	\$6.20
Cavalier	96	5,399,360	262,292	3.0%	280,885	0	\$4.25	N/A	\$5.36
Central Norfolk	76	4,978,073	287,066	21.2%	-106,294	0	N/A	\$10.37	\$4.29
Cleveland	72	2,811,485	62,681	10.3%	-51,311	0	\$9.50	\$12.18	\$6.75
Greenbrier	34	2,254,140	411,100	4.9%	124,427	0	N/A	\$7.00	\$4.30
Isle of Wight	15	3,870,270	2,500	4.7%	64,600	0	N/A	N/A	N/A
Lynnhaven	161	7,766,485	72,896	16.3%	77,669	62,979	\$4.65	\$9.83	\$5.33
Norfolk Industrial Park	151	7,561,928	335,056	9.0%	-262,162	0	\$5.75	N/A	\$5.26
North Suffolk	12	2,304,280	0	0.0%		0	N/A	N/A	\$5.50
Portsmouth	93	4,269,113	132,000	8.0%	109,987	150,000	N/A	N/A	\$4.67
South Suffolk	81	10,922,806	77,715	4.0%	-347,983	685,646	\$4.00	N/A	\$3.61
West Norfolk	66	2,332,255	47,059	6.5%	33,257	0	\$5.17	N/A	\$6.35
HAMPTON ROADS TOTALS	1,415	95,144,209	2,859,256	6.6%	-177,491	968,625	\$4.80	\$9.64	\$5.28

*Rental rates reflect asking \$psf/year

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

Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1920 Campostella Road	75,980	Amazon.com, Inc.	New	Bainbridge
1112 Cavalier Boulevard	41,520	Reading Equipment & Distribution, LLC	New	Cavalier
3732 Cook Boulevard	25,580	Cort Business Services	Renewal	Cavalier
1347 Diamond Springs Road	21,333	ThyssenKrupp Materials NA, Inc.	Renewal	Airport Industrial Park

Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
12300 Windsor Boulevard	1,010,903	Inland RE Group / FBCP, LLC c/o Cardinal Industrial	\$70,500,000 / \$70	Isle of Wight
3800 Cook Boulevard	125,906	Abu Dhabi Investment Authority / Allegiancy	\$7,550,000 / \$60	Cavalier
1349 Ingleside Road	20,973	DPJ Partners, LLC / GAR!, LLC	\$1,000,000 / \$48	West Norfolk

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