

HAMPTON ROADS OFFICE

Economic Indicators

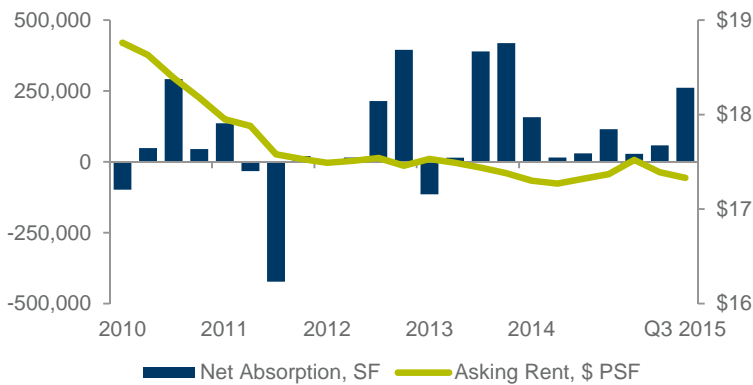
	Q3 14	Q3 15	12-Month Forecast
Hampton Roads Employment	754k	764k	▼
Hampton Roads Unemployment	5.6%	5.2%	▼
U.S. Unemployment	6.1%	5.1%	▼

Market Indicators

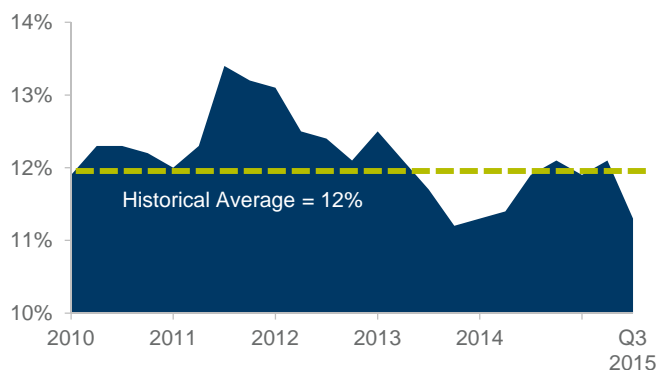
	Q3 14	Q3 15	12-Month Forecast
Overall Vacancy	11.9%	11.3%	▼
Net Absorption	32k	262k	■
Under Construction	121k	49k	▲
Overall Average Asking Rent	\$17.32	\$17.33	▲

Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The Hampton Roads economy experienced gradual improvement in the unemployment rate, which decreased from 5.6% in Q3 2014 to the current rate of 5.2%. While low defense spending has prevented strong economic growth, the area has consistent activity from medical users and government contractors. The recent decrease in gas prices should contribute to increased consumer spending.

Market Overview

The overall office vacancy in Hampton Roads decreased slightly over the past year, from 11.9% in Q3 2014 to 11.3% currently. There has not been a significant amount of new construction in the area. The office market has plenty of inventory, but many buildings are in need of improvement. Brokers are closely following the auction of Interstate Corporate Center in Norfolk. The 440,205-square-foot (sf) office park has significant potential due to its convenient interstate access and neighboring Sentara Leigh Hospital. The activity in the Newtown/Witchduck corridor is echoed throughout the office market: the market is not fully recovered, rents are low, and the bountiful existing inventory does not quite meet the needs of out-of-town prospects. Existing users in the market remain active, particularly in the 6,000-8,000 sf range. Another bright spot in the market will be 2877 and 2829 Guardian Lane in Virginia Beach, which will create new life in the Lynnhaven submarket under new ownership. The 88,000-sf building at 2829 Guardian Lane is undergoing a planned \$2-million renovation and the new owners plan to seek LEED certification once complete.

Outlook

Brokers expect medical tenants to remain active in the market. Sentara will potentially open several new facilities throughout Hampton Roads in the coming years to meet patient demand. There are a steady number of small deals happening throughout the market which will gradually erode vacancy.

Office Snapshot Q3 2015

Hampton Roads



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
Chesapeake	121	4,505,442	16,279	335,542	7.8%	4,338	25,151		\$ 17.68	\$ 19.75
Gloucester	4	94,587	2,547	0	2.8%	(647)	(647)	0	\$ 18.75	N/A
Hampton	78	3,181,627	8,251	808,173	25.2%	(18,969)	(3,914)		\$ 17.86	\$ 22.67
Harbourview/Churchland/Western Branch	50	1,635,803	0	236,935	14.5%	26,650	(10,767)	0	\$ 18.91	\$ 22.57
Newport News	148	6,409,940	29,130	451,928	7.6%	9,356	19,944	25,540	\$ 16.77	\$ 21.45
Norfolk	168	9,118,530	11,653	1,090,917	12.0%	135,267	161,798	0	\$ 17.75	\$ 21.47
Portsmouth	37	1,092,174	2,391	142,635	13.4%	770	4,092	0	\$ 15.09	\$ 17.94
Suffolk	34	903,773	0	85,408	9.5%	0	7,955	0	\$ 15.12	\$ 22.57
Virginia Beach	317	10,768,276	15,294	1,015,446	11.4%	95,264	110,302	23,360	\$ 18.78	\$ 22.47
Williamsburg	73	1,454,740	2,050	176,322	7.2%	9,224	34,106	0	\$ 17.57	\$ 18.40
York	17	463,627	0	60,029	13%	0	(278)	0	\$ 16.12	\$ 18.43
HAMPTON ROADS TOTALS	1,047	39,628,519	87,595	4,403,335	11.3%	261,553	347,742	48,900	\$17.33	\$20.77

*Rental rates reflect gross asking \$psf/year

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	140	13,338,650	51,167	1,410,367	15.8%	80,361	85,910	0	\$20.77	\$21.20
Class B	720	22,249,220	34,338	2,685,042	11.2%	174,968	157,389	26,900	\$16.32	\$16.17
Class C	187	4,040,895	2,090	307,926	6.8%	6,224	6,565	22,000	\$14.89	\$14.74

Key Lease Transactions Q3 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5151 Bonney Rd	33,000	QED Systems	New Lease	Virginia Beach
6160 Kempsville Circle	31,591	Pariser Dermatology Specialists	New Lease	Norfolk
5935 Thurston Ave	21,816	Preferred Direct Marketing Inc.	New Lease	Norfolk
600 Independence Pkwy	13,279	Chesapeake Regional Hospital Authority	New Lease	Chesapeake

Key Sales Transactions Q3 2015

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
2829 Guardian Lane	88,000	Leidos Realty/Dominion Realty Partners	\$3,500,000	Virginia Beach
432 McLaws Circle	15,000	LEEBCOR Properties/Atlantic Leasing Associates	\$2,514,760	Williamsburg
2244 General Booth	9,878	West Suffolk/General Booth	\$1,000,000	Suffolk

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