

# MARKETBEAT

# Hampton Roads

Office Q1 2017



## HAMPTON ROADS OFFICE

### Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Hampton Roads Employment	771k	776K	▲
Hampton Roads Unemployment	4.7%	4.4%	▼
U.S. Unemployment	4.9%	4.8%	■

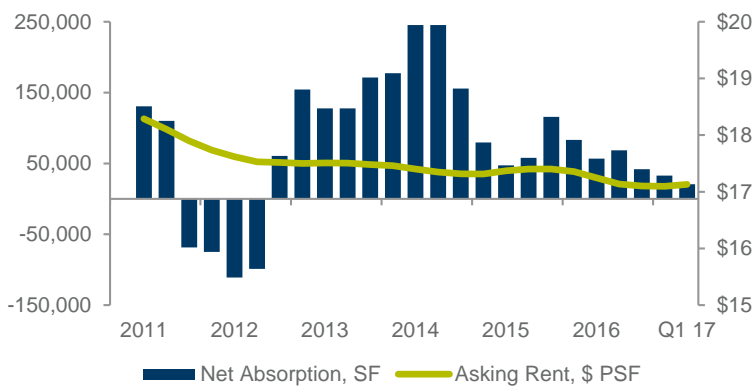
### Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	11.5%	11.0%	▼
YTD Net Absorption (sf)	-78k	-126k	▼
Under Construction (sf)	164k	214k	▲
Average Asking Rent*	\$17.27	\$17.22	▼

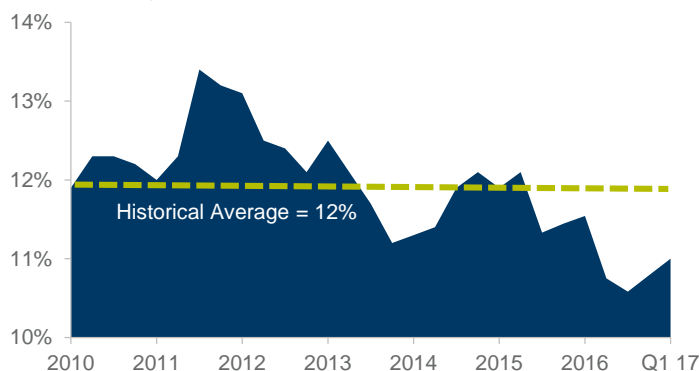
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption vs. Overall Asking Rent

4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

The "new normal" is the most over-used phrase to describe the Hampton Roads economy yet remains the most accurate. The main engine of the local economy continues to be DoD spending which has flat-lined since the Great Recession. Gross Regional Product (Hampton Roads) growth continues to lag behind Gross Domestic Product (U.S.) growth; however, the region's lower than national unemployment rate continues to decline. It should be noted that labor force participation has also declined both locally and nationally. The health services and education sectors are the bright spots in employment growth locally with 20% growth over pre-recession peaks. Construction and finance activities also reported year-over-year growth in 2016.

## Market Overview

The momentum felt in the Downtown Norfolk CBD spread to the Virginia Beach Town Center CBD with positive growth and absorption. Mythics, a technology solutions firm, relocated and expanded from antiquated offices in the Great Neck corridor to occupy 39,000 square feet (SF) at 4525 Main Street, the regions newest and most expensive office product. That deal followed two expansions and relocations within Town Center by Kimley-Horn Engineering and Divaris Real Estate. These transactions brought 4525 Main Street to 95% occupancy. The timeline from delivery to stabilization was over two years for the 15-story Class A building. The case study of 4525 Main serves as a snapshot of the macro market fundamentals, and is significant for several reasons. The length of absorption speaks to overall leasing velocity; the tenant mix is non-organic growth comprised of users pulled within the submarket; and asking rent was over \$12.00 per square foot (PSF) above the market average, exposing continued rent stratification for premium buildings.

## Outlook

Analysts conclude that the Hampton Roads office market is lacking quality Class A medical product and predict speculative development and new office construction could be right around the corner. The office vacancy rate will level over the next four quarters, average rent will continue at a consistent level, and stratification between Class A and B product will be magnified. The two CBD's will remain relatively healthy, as will the top suburban markets including Greenbrier, Lynnhaven, the Newtown- Witchduck corridor and Harbour View. Class B product on the Peninsula and the non-dominant suburban markets will continue to struggle.

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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	4,546,191	16,885	220,590	5.3%	15,067	15,067	35,011	154,151	\$17.07	\$19.42
Gloucester	90,068	2,647	0	2.9%	0	0	0	0	\$18.50	N/A
Hampton	3,235,806	7,251	825,937	25.9%	13,087	13,087	4,992	0	\$15.21	\$17.30
Harbourview/ Western Branch	1,707,433	28,334	229,775	15.2%	-2,742	-2,742	15,369	0	\$18.28	\$18.56
Newport News	6,431,384	25,187	583,547	9.5%	-36,801	-36,801	18,442	0	\$16.65	\$19.16
Norfolk	8,804,947	24,347	870,460	10.2%	-44,868	-44,868	15,507	0	\$18.02	\$22.87
Portsmouth	1,068,142	2,550	122,415	10.1%	-13,938	-13,938	15,125	0	\$12.56	\$17.50
Suffolk	910,616	2,500	36,700	4.5%	19,440	19,440	0	0	\$11.55	N/A
Virginia Beach	10,881,061	18,976	1,153,429	12.1%	-102,875	-102,875	110,743	0	\$19.29	\$21.83
Williamsburg	1,464,390	4,600	114,830	8.2%	18,598	18,598	9,682	40,000	\$17.64	\$21.12
York	540,615	0	76,854	14.2%	8,824	8,824	4,935	20,000	\$15.18	\$19.00
<b>HAMPTON ROADS TOTALS</b>	<b>39,680,653</b>	<b>133,277</b>	<b>4,234,537</b>	<b>11.0%</b>	<b>-126,208</b>	<b>-126,208</b>	<b>229,806</b>	<b>214,151</b>	<b>\$17.22</b>	<b>\$20.67</b>

\*Rental rates reflect gross asking \$psf/year

## Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5200 W. Mercury Boulevard	58,526	Lidl US Operations, LLC	Lease	Hampton
4525 Main Street	39,000	Mythics, Inc.	Lease	Virginia Beach
5200 W. Mercury Boulevard	32,688	PRA Holding I, LLC	Renewal	Hampton
350 Centre Pointe	30,000	MPD, Inc. dba Sentara	Renewal	Virginia Beach

## Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
201 Granby Street	107,420	Economic Development Authority of Norfolk / Suburban Asset Management	\$5,000,000 / \$104	Norfolk
825 Diligence Drive	39,049	CBL / Michael Suttle III	\$3,300,000 / \$83	Newport News
827 Diligence Drive	36,610	CBL / Michael Suttle III	\$3,000,000 / \$82	Newport News
603 Pilot House Drive	34,704	NN Plaza LP / Peck Properties	\$3,400,000 / \$97	Newport News

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