

# MARKETBEAT

# Hampton Roads

Office Q1 2018



## HAMPTON ROADS OFFICE

### Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Hampton Roads Employment	779k	780k	▲
Hampton Roads Unemployment	4.4%	4.8%	▲
U.S. Unemployment	4.7%	4.1%	▼

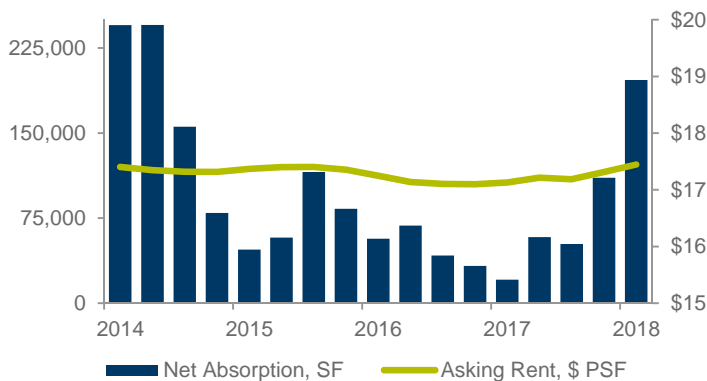
Numbers above are quarterly averages; Feb 2018 data used to represent Q1 2018

### Market Indicators (Overall, All Classes)

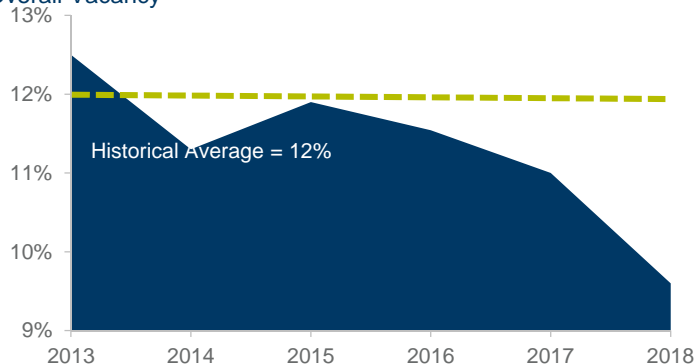
	Q1 17	Q1 18	12-Month Forecast
Vacancy	10.5%	9.6%	▼
YTD Net Absorption (sf)	-5k	218k	▲
Under Construction (sf)	214k	362k	▲
Average Asking Rent*	\$17.22	\$17.75	▲

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

### Overall Net Absorption vs. Overall Asking Rent 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

With the latest \$1.3 trillion federal spending measure passed, the proposed increase in military spending should finally spur growth in the region as the region has lagged behind the national numbers and surrounding Mid-Atlantic markets. As the nation is in the 103rd month of an economic expansion, can the local market make significant gains before the impact of an overall market slowdown is felt? That will be the question for the rest of 2018 for Hampton Roads. Outside of the federal defense budget, the continued growth of the Virginia Port, the emerging biomedical sector and the impact of infrastructure projects have helped advance the local economy.

## Market Overview

Q1 2018 absorption showed significant gains and leasing activity rebounded from a sluggish 2017. Overall market vacancy rates continued to decline, which finally led to a modest uptick in rental rate growth. Developers have reacted to the single digit vacancy by dusting off plans, such as construction in Newport News with the Q4 2018 planned delivery of 80,000 square feet (sf) by W.M. Jordan Development Company. Olympia Development is partnering with the City of Virginia Beach in developing the first 60,000 sf facility at the 155-acre VA Beach-Bio Innovation Park. Half of the building will be wet-lab space and half will be incubator space for startup companies. Downtown Norfolk has also announced preliminary plans for a new Class A tower to be developed by Harvey Lindsay Development. The billions of dollars that have been flowing to major Hampton Roads highway projects (including the HRBT third tunnel, the Chesapeake Bay Bridge-Tunnel expansion and the I-264/64 interchange improvements) have also impacted demand for Class A office as engineering, architectural, and construction firms have all been looking for significant office space to support these projects.

## Outlook

Even if federal defense spending shows only marginal improvement, the market should be poised for significant rental rate growth in 2018. The single-digit vacancy rate will continue to pressure the market for additional new supply. Regionalism will help Hampton Roads to come together to take advantage of a market that is primed and ready before the current cycle comes to a close.

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CUSHMAN & WAKEFIELD

THALHIMER

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	4,629,930	2,175	222,404	4.6%	12,513	12,513	31,011	270,160	\$17.62	\$19.78
Gloucester	105,068	2,647	0	2.5%	0	0	0	0	\$10.50	N/A
Hampton	3,264,967	0	685,639	21.2%	138,950	138,950	5,446	0	\$15.12	\$16.03
Harbourview/ Western Branch	1,722,490	1,498	238,288	14.2%	-17,002	-17,002	29,886	5,000	\$18.72	\$21.60
Newport News	6,763,360	24,181	585,966	9.2%	-43,448	-43,448	10,067	79,600	\$16.60	\$20.43
Norfolk	9,080,609	27,780	944,606	10.9%	9,995	9,995	17,130	0	\$19.01	\$23.76
Portsmouth	1,118,084	26,064	99,266	11.2%	28,855	28,855	8,610	0	\$15.62	\$19.50
Suffolk	946,446	2,500	26,760	3.1%	-2,295	-2,295	0	0	\$12.74	N/A
Virginia Beach	11,134,975	2,504	935,987	8.5%	55,898	55,898	111,870	7,000	\$18.56	\$21.43
Williamsburg	1,455,995	0	76,893	5.3%	33,182	33,182	4,880	0	\$17.79	\$15.96
York	560,615	0	17,174	3.1%	1,835	1,835	4,432	0	\$15.29	N/A
<b>HAMPTON ROADS TOTALS</b>	<b>40,782,539</b>	<b>89,349</b>	<b>3,832,983</b>	<b>9.6%</b>	<b>218,483</b>	<b>218,483</b>	<b>223,332</b>	<b>361,760</b>	<b>\$17.75</b>	<b>\$21.30</b>

\* Renewals are included in YTD Leasing Activity

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

## Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
800-840 Florida Avenue	30,000	New Day Office Products	Renewal	Portsmouth
2600 Washington Avenue	19,856	City of Newport News	Renewal	Newport News
724 Thimble Shoals Boulevard	10,284	William E. Wood & Assoc., Inc.	New	Newport News
2600 Washington Avenue	10,090	Huntington Ingalls	Renewal	Newport News

## Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
555 East Main Street	124,599	Harbor Group Int'l / Norfolk Redevelopment Housing Authority	\$12,000,000 / \$96	Norfolk
241 Corporate Boulevard	34,070	Virginia Eye Development, LLC / Montecito Medical	\$10,750,000 / \$316	Norfolk
4524 Wishart Road	20,956	ABNB Federal Credit Union / Seniorcorps Southside Hampton Roads, LLC	\$1,500,000 / \$72	Virginia Beach
1632 Corporate Landing Parkway	10,000	JTH Properties 1632, LLC / Warehouse 888	\$1,750,000 / \$175	Virginia Beach

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