

MARKETBEAT

Hampton Roads

Office Q2 2017



HAMPTON ROADS OFFICE

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Hampton Roads Employment	772k	770k	▲
Hampton Roads Unemployment	4.7%	4.3%	▼
U.S. Unemployment	4.9%	4.4%	▲

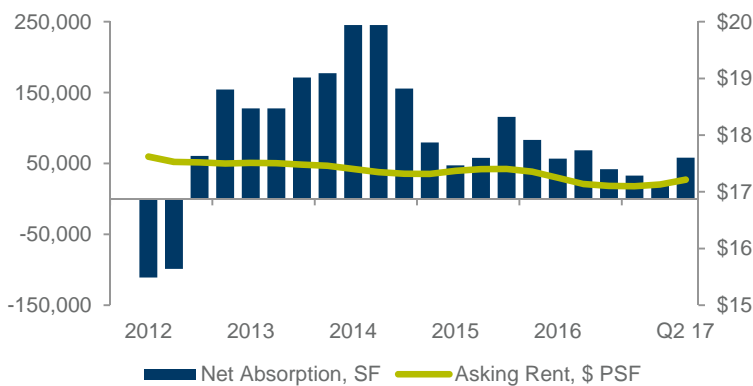
Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	10.8%	10.6%	▼
YTD Net Absorption (sf)	27k	255k	▲
Under Construction (sf)	104k	104k	▼
Average Asking Rent*	\$16.95	\$17.29	▲

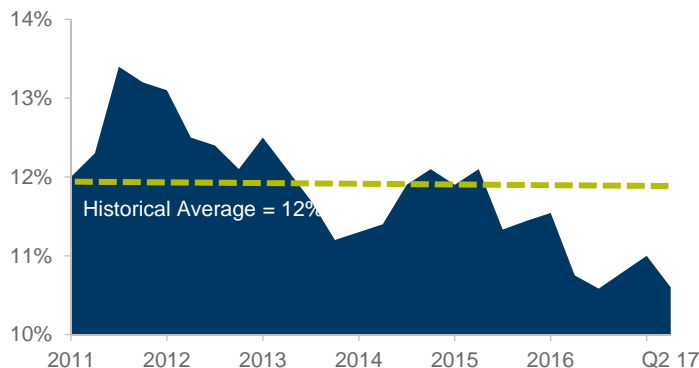
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption vs. Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

As expected, the Trump administration and Congress have not yet had a significant impact on the regional economy. Substantial influence is not expected until late 2018. Although the Hampton Roads economy continues to be heavily dependent on Department Of Defense (DOD) spending, from a peak of 45.1% in 2012, it is now down to 36.7% of Hampton Roads GRP. There are signs that the private sector is starting to pick up some of the slack of the spending drawdown. Contact centers have been very active in the market with several significant transactions on both the Southside and Peninsula. The health and vibrancy of both the Norfolk and Virginia Beach CBD seem to be positive signs for the region as a whole.

Market Overview

Overall vacancy continued to fall and net absorption is positive as a result of several significant transactions involving contact centers as previously mentioned. Wisconsin Physicians Service Insurance Corporation backfilled the 100,000-square-foot (sf) Sprint call center sublease on the Peninsula; Maximus occupied their 42,000-sf space at Hampton's NetCenter; Optima took possession of 45,000 sf at Military Circle; and ADP occupied the final upper floors in their 288,000-sf operation. The sector has identified the potential in the region as there are several national groups looking to continue the momentum of recent transactions in the contact center industry. Contiguous blocks of square footage have all but dried up except in retail conversions such as Military Circle and NetCenter. First Potomac Realty Trust (NYSE:FPO) accepted a buyout offer from RMR Group Inc. for \$1.4 billion in cash and debt assumption which is significant because of the heavy Chesapeake and Norfolk FPO portfolio.

Outlook

The medical office market is showing signs of life as Harbour View new construction absorption has been positive and steady. In addition, there is a large Peninsula practice looking at expanding on the Southside and there are plans for a speculative off-campus, independent medical office buildings (MOB) in the First Colonial corridor in Virginia Beach. Sentara is continuing to expand and update their campuses across the market adding additional on-campus MOB space in Virginia Beach and Suffolk. CIRS is under construction on their new bio-medical facility in Norfolk and several developers are contemplating speculative projects in Virginia Beach's planned biomedical park. This non-DOD demand is critical in maintaining positive absorption and decreasing vacancy for the remainder of 2017 and beyond.

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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	4,600,088	16,039	156,905	5.4%	-9,669	2,540	57,905	84,151	\$17.07	\$19.74
Gloucester	105,068	2,647	0	2.5%	0	0	0	0	\$18.50	N/A
Hampton	3,235,406	8,251	810,864	25.3%	12,618	30,760	32,792	0	\$15.17	\$17.22
Harbourview/ Western Branch	1,708,753	20,000	261,005	19.4%	-16,328	-23,516	37,127	0	\$18.44	\$18.83
Newport News	6,641,532	14,617	626,147	9.6%	48,364	69,801	30,106	0	\$16.75	\$19.74
Norfolk	8,968,614	53,884	829,756	9.9%	-25,806	15,781	75,125	0	\$18.12	\$23.25
Portsmouth	1,073,361	26,064	82,918	10.2%	5,869	5,045	15,650	0	\$13.60	\$17.61
Suffolk	935,480	2,500	51,680	5.8%	700	21,740	6,550	0	\$11.74	N/A
Virginia Beach	10,897,963	20,747	1,109,959	10.7%	213,746	57,603	257,873	0	\$19.12	\$21.63
Williamsburg	1,465,339	5,000	89,905	6.5%	19,859	43,523	19,012	0	\$17.88	\$21.12
York	540,615	0	71,594	13.2%	5,260	14,084	5,335	20,000	\$15.46	\$19.00
HAMPTON ROADS TOTALS	40,172,219	169,749	4,090,733	10.6%	254,613	237,361	537,475	104,151	\$17.29	\$20.80

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1548 Laskin Road	8,217	Wells Fargo Home Mortgage	Renewal	Virginia Beach
118 Great Bridge Boulevard	7,442	Community Counseling Resources	Renewal	Chesapeake
740 Thimble Shoals Boulevard	6,521	William E. Wood & Associates	New	Newport News
2125 Smith Avenue	4,800	McKee Environmental	New	Chesapeake

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2 Commercial Place	289,000	Marathon Development Group / RMR Group	\$57,000,000 / \$197	Norfolk
612 Kingsborough Square	29,767	Kingsborough Associates / 1168 Associates LLC	\$5,000,000 / \$168	Chesapeake
1239 Cedar Road	6,954	Primary Care First, LLC / National Retail Props	\$2,800,000 / \$395	Chesapeake
332 Newtown Road	6,410	Primary Care First, LLC / National Retail Props	\$2,600,000 / \$40	Virginia Beach

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