

HAMPTON ROADS OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Hampton Roads Employment	767k	769k	▲
Hampton Roads Unemployment	4.7%	4.4%	▼
U.S. Unemployment	5.2%	4.9%	▼

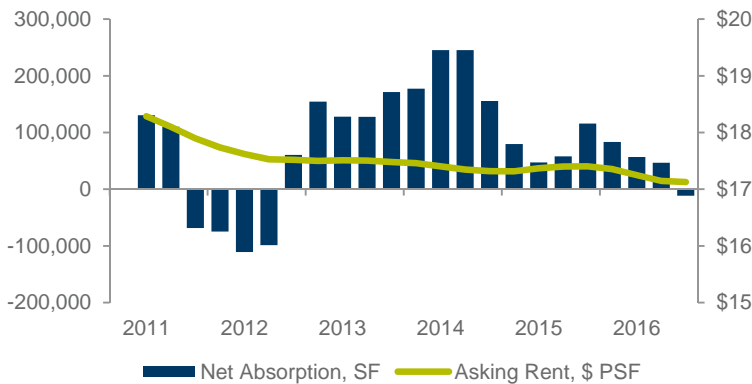
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	11.3%	11.3%	▼
Net Absorption (sf)	262k	29k	▼
Under Construction (sf)	49k	310k	▲
Average Asking Rent*	\$17.33	\$17.25	▼

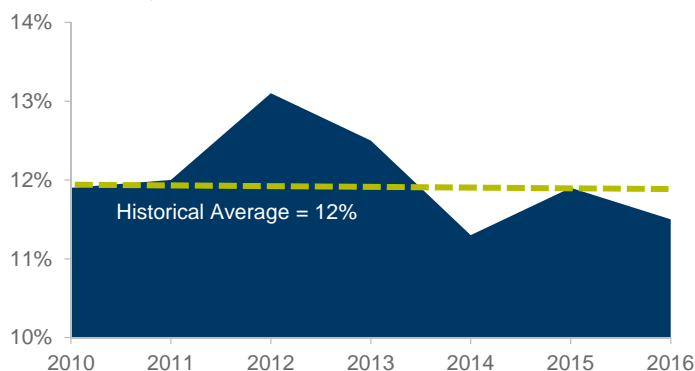
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Hampton Road's economic fundamentals reported signs of stabilizing and the region's unemployment rate remains below the national level at 4.4%. Despite the tight labor market, potential employers are still eyeing the region because of the diverse skill set and talent of the future labor pool, specifically retired military personnel. Personal consumption expenditures have recorded positive increases, tourism rebounded during the summer months, cargo tonnage reported modest increases, and the residential housing market has made a full comeback. Due to the market's heavy dependence on the Department of Defense, all eyes are on the upcoming presidential election.

Market Overview

At 11.3% and with marginal square footage expected to deliver, the overall vacancy rate will continue to move below pre-recession levels. The downside is net absorption has slowed and leasing velocity has been stagnant. The 2,000 to 5,000 square foot (SF) prospects that tend to drive the local office market have exhibited limited demand in the past two quarters. However, a number of large users are struggling to find contiguous available inventory. The demand has not matched the configuration of the supply. Average asking rental rates have actually decreased to \$17.25 per square foot (PSF) despite occupancy gains. This decline is largely attributed to the significant transaction volume occurring in the low A/high B buildings reaffirming Hampton Roads' demand, historically, seeks value. Investment sales volume has reported a positive rebound and cap rates continue to compress. Investors still struggle to find available office opportunities with solid real estate fundamentals.

Outlook

Rebounding tenant demand paired with stabilized office market fundamentals will lead to landlord-favorable conditions for the remainder of 2016 and early 2017 in Hampton Roads. However, as DOD spending slows and job growth decelerates, leasing conditions will begin to soften in 2017. The heightened sensitivity to interest rate risk and moderate local historical net absorption will impact overall investment sales volume leading to stabilized cap rates.

MARKETBEAT

Hampton Roads

Office Q3 2016



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	4,501,805	11,263	248,712	5.8%	35,116	30,106	96,642	70,000	\$17.19	\$19.25
Gloucester	90,068	2,647	0	2.9%	0	800	0	0	\$18.50	N/A
Hampton	3,141,647	8,251	780,429	25.1%	6,447	-13,920	46,559	20,000	\$15.34	\$16.98
Harbourview/Churchland/ Western Branch	1,629,033	25,502	215,806	14.8%	-30,703	37,800	48,131	60,000	\$18.48	\$20.52
Newport News	6,459,305	31,915	473,957	7.8%	2,531	32,936	102,236	20,000	\$16.98	\$20.63
Norfolk	8,815,343	30,800	1,095,988	12.9%	-25,077	6,644	152,317	44,800	\$18.30	\$22.89
Portsmouth	1,067,315	2,550	110,703	10.6%	-11,328	4,625	3,933	0	\$12.74	\$16.61
Suffolk	720,800	0	52,140	5.8%	2,833	15,337	1633	0	\$12.34	N/A
Virginia Beach	10,815,603	19,164	1,141,269	11.0%	38,082	-46,339	235025	0	\$18.59	\$20.69
Williamsburg	1,436,035	0	119,144	8.3%	11,461	-18,604	29,327	40,000	\$17.52	\$22.12
York	511,726	0	63,453	13.2%	0	6,078	9,868	55,200	\$13.78	\$19.00
HAMPTON ROADS TOTALS	39,188,680	132,092	4,301,601	11.3%	29,362	55,463	725,671	310,000	\$17.25	\$20.38

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5200 W. Mercury Boulevard	123,026	Verizon Services Corp.	Renewal	Hampton
11818 Rock Landing Drive	25,030	World Pack	Renewal	Newport News
2829 Guardian Lane	16,940	Buzz Franchise Brands, LLC d/b/a Mosquito Joe	Lease	Virginia Beach
999 Waterside Drive	15,400	Bank of America	Lease	Norfolk

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
125 Saint Pauls Boulevard	52,965	St. Paul's Associates, LLLP / 125 St. Paul Building, LLC	\$2,650,000 / \$61	Norfolk
440 Monticello Avenue	5,863	SLNW Office Company, LLC / Syne Trek LLC	\$558,240 / \$95	Norfolk
335 McLaws Circle	3,206	Chesapeake Bank / Saumier Properties	\$288,500 / \$90	Williamsburg

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