

HAMPTON ROADS OFFICE

Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Hampton Roads Employment	769k	770k	▲
Hampton Roads Unemployment	4.7%	4.7%	▼
U.S. Unemployment	5.0%	4.8%	▼

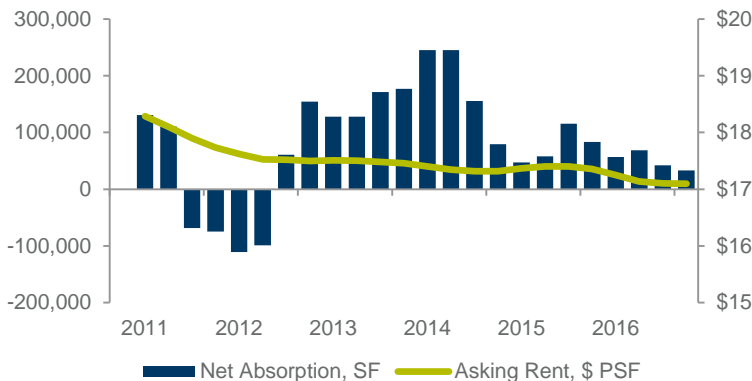
Market Indicators (Overall, All Classes)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	11.4%	10.8%	▼
YTD Net Absorption (sf)	333k	132k	▼
Under Construction (sf)	127k	250k	▲
Average Asking Rent*	\$17.18	\$17.16	▼

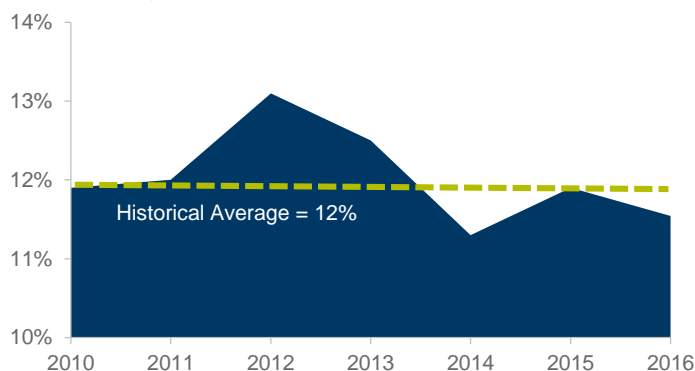
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption vs. Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The uncertainty of the 2016 presidential election is finally over, however, Trump's potential impact on the Hampton Road's economy remains uncertain. Policies that tilt toward lower corporate tax, less regulatory burden, and increased defense spending are largely forecasted to be stimulative to the local economy, but are not without risk. Military and federal employees are slated to receive a 2% pay raise but any other defense related stimulus likely will not be felt until at least 2018. Hampton Roads has \$650 million in road projects underway and over the next year, the state may place \$1 billion more in major projects under contract but long-term economic security will still be driven by diversification of the regional economy.

Market Overview

Fourth-quarter leasing activity was 30% below the third quarter leasing total. However, overall vacancy across all classes increased slightly since third quarter to 10.8%. Asking rental rates continue to remain flat despite occupancy gains. Both Downtown Norfolk and the Virginia Beach CBD reported positive news coming out of year-end 2016. The trickle-down effect of the One Commercial Place residential conversion and resulting relocations coupled with new retail, entertainment, and hospitality offerings have led to a low supply of contiguous office space Downtown. Relocations and expansions within Town Center including Divaris Real Estate and Kimley-Horn's move to 4525 Main Street highlights there is still demand for the region's newest and most expensive Class A product.

Outlook

This next year will represent the "new normal" in Hampton Roads. Speculative construction will remain stagnant, occupancy gains will be steady yet limited, and rent will remain flat for Q1 and Q2. The bedrock of office demand in the market is still the defense and technology sector; Hampton Roads will only see significant gains if the incoming administration remains faithful to campaign promises regarding defense spending. Capital gains tax decreases contrasted with interest rate risk will create challenges in forecasting the 2017 capital markets environment in Hampton Roads.

MARKETBEAT

Hampton Roads

Office Q4 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	4,502,048	9,763	242,620	5.6%	-11,003	19,103	119,710	114,800	\$16.95	\$18.89
Gloucester	90,068	2,647	0	2.9%	0	800	0	0	\$18.50	N/A
Hampton	3,151,062	8,251	743,875	24.0%	38,112	24,192	51,288	20,000	\$15.46	\$16.82
Harbourview/ Western Branch	1,707,433	30,456	227,033	14.8%	2,984	40,928	49,646	0	\$18.10	\$18.20
Newport News	6,448,404	26,187	517,335	8.6%	-51,348	-17,770	152,573	20,000	\$16.90	\$19.63
Norfolk	8,496,219	15,862	834,840	10.2%	-2,956	74,859	340,577	0	\$17.86	\$22.34
Portsmouth	1,068,187	2,550	108,677	10.5%	1,026	5,651	10,253	0	\$12.99	\$17.50
Suffolk	910,616	2,500	58,140	2.8%	-2,500	12,837	2,709	0	\$11.96	N/A
Virginia Beach	10,862,104	11,876	1,188,254	11.3%	-17,987	-20,560	372,149	0	\$18.64	\$20.92
Williamsburg	1,436,692	5,000	112,198	8.2%	-3,654	-10,697	44,358	40,000	\$17.75	\$21.69
York	511,726	0	80,743	15.8%	-3,732	2,346	19,736	55,200	\$13.80	\$19.00
HAMPTON ROADS TOTALS	39,184,559	115,092	4,113,715	10.8%	-51,058	131,689	1,162,999	250,000	\$17.16	\$20.29

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5200 W. Mercury Boulevard	42,547	Maximus	Lease	Hampton
222 Central Park Avenue	22,950	Williams Mullen	Renewal	Virginia Beach
100 Volvo Parkway	17,209	First Home Mortgage	Renewal	Chesapeake
2901 S. Lynnhaven Road	15,389	Wells Fargo Bank, NA	Renewal	Virginia Beach

Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
500 E. Main Street	228,717	LNR Partners OBO ML-CFC 2007-9 / Riverstone Props	\$10,750,000 / \$47	Norfolk
828 Healthy Way	88,478	Welltower / MB Real Estate	\$28,000,000 / \$316	Virginia Beach
225 West Olney Road	32,000	D&C, LLC / KWG Financial, LLC	\$3,300,000 / \$103	Norfolk
1034 Battlefield Boulevard	15,526	TowneBank / Chesapeake Regional Medical Center	\$2,500,000 / \$161	Chesapeake

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