

## HAMPTON ROADS OFFICE

### Economic Indicators

|                            | Q4 17 | Q4 18 | 12-Month Forecast |
|----------------------------|-------|-------|-------------------|
| Hampton Roads Employment   | 779k  | 790k  | ▲                 |
| Hampton Roads Unemployment | 4.0%  | 3.2%  | ▼                 |
| U.S. Unemployment          | 4.1%  | 3.7%  | ▼                 |

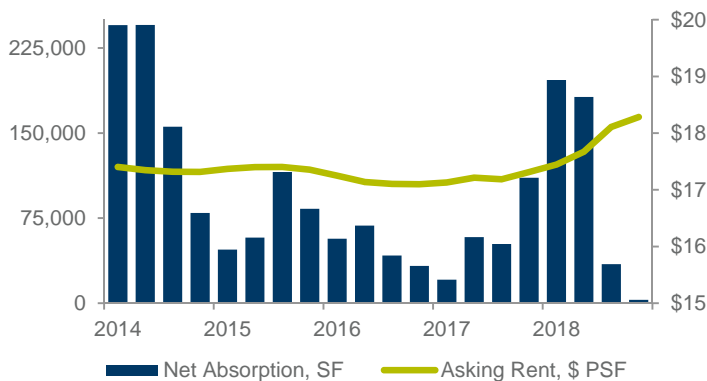
Numbers above are quarterly averages; November 2018 data used to represent Q4 2018

### Market Indicators (Overall, All Classes)

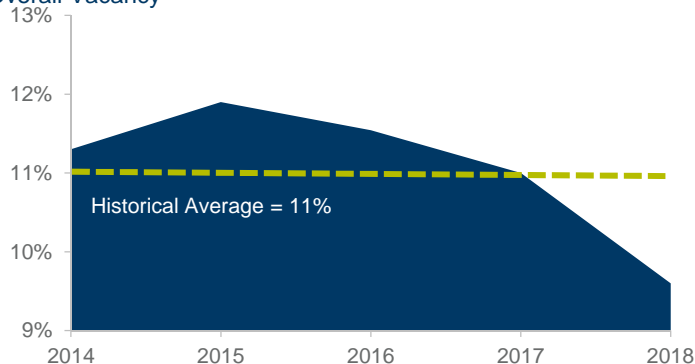
|                         | Q4 17   | Q4 18   | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy                 | 9.5%    | 8.9%    | ▼                 |
| YTD Net Absorption (sf) | 537k    | 12k     | ▼                 |
| Under Construction (sf) | 317k    | 647k    | ▲                 |
| Average Asking Rent*    | \$17.67 | \$18.37 | ▲                 |

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

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



### Overall Vacancy



## Economy

Hampton Roads turned the corner in 2018 with more jobs than pre-recession levels and a regional gross domestic product that will break the \$100 billion barrier. However, all eyes are on the future with the current federal fiscal imbalance. Military spending accounted for 42% of the region's gross domestic product in 2018; the challenge of bolstering the area's most dependable economic driver contrasted with the need for diversification will loom large in 2019

## Market Overview

Average asking rents continue to be at record highs and vacancy rates continue at historical lows despite almost flat absorption for the fourth quarter. However, sales volume in the market exploded in the last weeks of Q4 with several major transactions and rumors of a number of significant assets under contract. DSC Partners, LLC closed on more than 1.6 million square feet of office, flex and industrial properties in Chesapeake and Norfolk, VA in a deal valued at \$167 million for the former RMR portfolio. Hertz Investment Group closed on the 400,000 SF Dominion Tower for \$79 million from Harbor Group and The Fallstaff Group closed on the 140,000 SF Town Point Center for \$19.6 million for both the building and the underlying ground lease in Downtown Norfolk. Despite the trades, absorption remained flat again for Q4 and the market officially received the news of a Norfolk Southern relocation to Atlanta. Both the Dominion Enterprises HQ and Three Commercial Place (Norfolk Southern HQ) offer tremendous contiguous square footage opportunities in tough to find CBD markets.

## Outlook

As developers added roughly 68 million square feet to the US office inventory in 2018 and a projected 55 million square feet for 2019, the new supply is expected to hurt overall national rent growth. However, Hampton Roads has added little new inventory and with continued record low vacancy, this will be a landlord favorable market with continued rent growth, fewer concessions and less tenant improvement funding. One trend that will start to follow the national curve in 2019 will be increased demand in the abundant CBD opportunities.

# MARKETBEAT

# Hampton Roads

Office Q4 2018



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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                   | 4,778,519         | 2,989              | 208,555            | 4.4%                 | 6,278                                   | 35,013                          | 222,606                   | 510,000          | \$17.29                                     | \$19.73                                 |
| Gloucester                   | 105,068           | 2,647              | 0                  | 2.5%                 | 0                                       | 0                               | 0                         | 0                | \$10.50                                     | N/A                                     |
| Hampton                      | 3,505,790         | 0                  | 706,268            | 20.7%                | -52,233                                 | 97,526                          | 183,220                   | 0                | \$14.17                                     | \$16.40                                 |
| Harbourview / Western Branch | 1,746,252         | 0                  | 115,041            | 6.6%                 | 19,941                                  | 131,510                         | 40,231                    | 0                | \$19.19                                     | \$22.22                                 |
| Newport News                 | 6,769,424         | 4,796              | 783,691            | 11.9%                | 47,442                                  | 187,926                         | 79,764                    | 136,565          | \$17.37                                     | \$19.35                                 |
| Norfolk                      | 9,632,375         | 6,868              | 876,296            | 9.4%                 | 460                                     | -155,286                        | 179,904                   | 0                | \$19.48                                     | \$23.42                                 |
| Portsmouth                   | 1,092,276         | 0                  | 80,083             | 7.4%                 | 1,327                                   | 16,829                          | 17,840                    | 0                | \$15.59                                     | \$18.00                                 |
| Suffolk                      | 969,600           | 0                  | 20,155             | 2.1%                 | 0                                       | 6,810                           | 3,750                     | 0                | \$9.68                                      | N/A                                     |
| Virginia Beach               | 11,492,510        | 21,945             | 810,465            | 7.4%                 | 31,442                                  | 72,946                          | 352,735                   | 0                | \$19.20                                     | \$21.13                                 |
| Williamsburg                 | 1,469,786         | 500                | 99,843             | 6.8%                 | 3,145                                   | 929                             | 14,938                    | 0                | \$19.19                                     | \$14.46                                 |
| York                         | 560,615           | 0                  | 23,821             | 4.2%                 | -686                                    | -6,415                          | 17,341                    | 0                | \$13.61                                     | N/A                                     |
| <b>HAMPTON ROADS TOTALS</b>  | <b>42,122,215</b> | <b>39,745</b>      | <b>3,724,218</b>   | <b>8.9%</b>          | <b>57,116</b>                           | <b>11,936</b>                   | <b>1,112,329</b>          | <b>646,565</b>   | <b>\$18.37</b>                              | <b>\$21.54</b>                          |

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

## Key Lease Transactions Q4 2018

| PROPERTY            | SF     | TENANT                   | TRANSACTION TYPE | SUBMARKET      |
|---------------------|--------|--------------------------|------------------|----------------|
| 999 Waterside Drive | 33,008 | CACI International, Inc. | New              | Norfolk        |
| 6300 Center Drive   | 26,110 | Fortis College           | Renewal          | Norfolk        |
| 2929 Sabre Street   | 17,396 | Prosper Insurance Group  | Renewal          | Virginia Beach |

## Key Sales Transactions Q4 2018

| PROPERTY                  | SF      | SELLER/BUYER   | PRICE / \$PSF        | SUBMARKET |
|---------------------------|---------|--|----------------------|-----------|
| 999 Waterside Drive       | 403,276 | Harbour Group International / Hertz Investment Group | \$79,000,000 / \$196 | Norfolk   |
| 150 Boush Street          | 140,000 | Cohen Investment Group / The Fallstaff Group         | \$14,500,000 / \$104 | Norfolk   |
| 744 City Center Boulevard | 13,200  | Jay-Lyn Land Trust / William Kevin Harrison          | \$1,100,000 / \$83   | Hampton   |

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