

Norfolk Office, Q4 2015

Suburban tops market as CBD prepares for growth surge

▼ Direct Vacancy Rate
15.7%

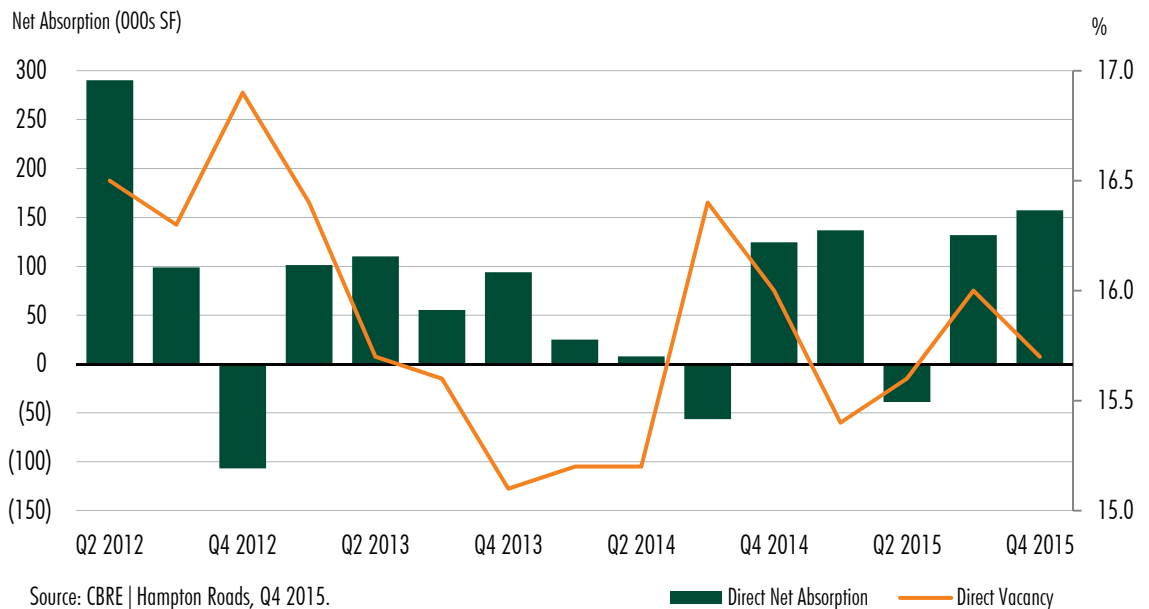
▲ Asking Lease Rate
\$18.78 PSF

▲ Direct Net Absorption
157,174 SF

▲ Construction
105,765 SF

*Arrows indicate change from previous quarter.

Figure 1: Direct Net Absorption and Direct Vacancy



Source: CBRE | Hampton Roads, Q4 2015.

NORFOLK OFFICE MARKET

The Norfolk office market has faced a number of head winds over the last few years, but the market is beginning to see steady, positive growth in a number of submarkets across the region. Overall, Q4 2015 saw improved fundamentals and positive growth with direct vacancy rates down to 15.7% and annual direct net absorption totaling positive 333,847 sq. ft. Q4 2015 was a strategic time for planning and deal structuring, laying a solid foundation for growth as we move into 2016.

The Norfolk office market totals nearly 23.5 million sq. ft. in approximately 330 buildings. This total excludes owner-occupied, medical and government facilities and only includes buildings 20,000 sq. ft. or larger. The region is commonly referred to as the Hampton Roads area or the Virginia Beach-Norfolk-Newport News, M.S.A. CBRE research breaks out the overall market into three market areas with two in South Hampton Roads (downtown Norfolk and suburban Southside) and one on the Peninsula.

CURRENT MARKET CONDITIONS

CBD OFFICE MARKET

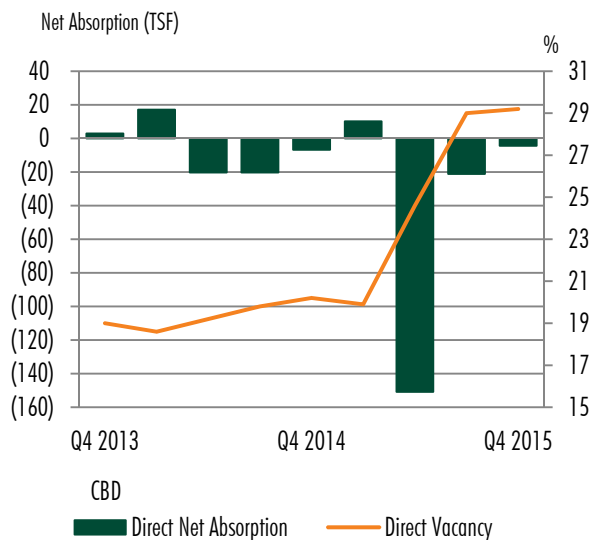
Over the past year downtown Norfolk office gained momentum with a number of positive transactions. Notable deals of 2015 include Norfolk Southern’s major headquarter expansion, filling remaining available space in 3 Commercial Place, and the more recently announced relocations of T. Parker Host and Wall, Einhorn & Chernitzer’s to 150 W. Main, upgrading from their current Class B space and removing almost 60,000 sq. ft. of Class A vacancy from the market. Unfortunately, this momentum was countered by the complete vacancy of Two Commercial Place, a 286,000 sq. ft. former Bank of American credit center, crushing absorption trends and skyrocketing the CBD’s vacancy and availability rates. Good news followed suit with the Q4 announcement that both 1 and 2 Commercial Place, currently 77% vacant in total, are under contract. Plans for the 600,000 sq. ft. of Class B space include multi-family and Class A office conversion. With all other factors remaining the same, removing these assets from the market will drop downtown vacancy to 18.9% (1,030 basis points) from 29.2%, exciting news for the CBD.

SUBURBAN OFFICE MARKET

Suburban Southside leads overall market activity in the Norfolk region with more than 560,000 sq. ft. of annual direct net absorption, marking one of the strongest years for suburban office since the economic downturn. Direct vacancy has plummeted 360 bps since Q3 2014 as a direct result of increased market demand and minimal new deliveries and current construction. I-64/I-264 outperformed all other submarkets with more than 100,000 sq. ft. of direct net absorption during Q4. Major tenants include QED Systems and Pariser Dermatology.

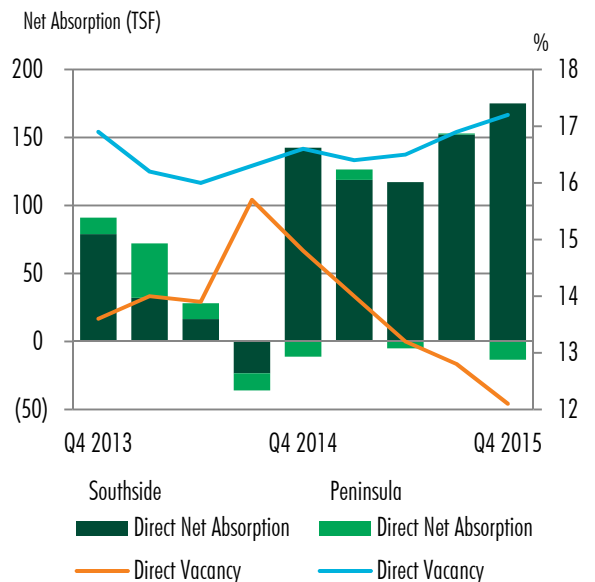
The Peninsula experienced minimal office activity during 2015. Newport News other holds onto its title of lowest vacancy in the market with only 40,000 sq. ft. of vacant space. Oyster Point lead the Peninsula with annual direct net absorption of 28,957 sq. ft. Williamsburg also gained a little traction during the year, but unfortunately not enough to counter tenants leaving the Hampton submarket. The net activity left the Peninsula office market marginally in the red for the year.

Figure 2: CBD Direct Net Absorption and Direct Vacancy



Source: CBRE | Hampton Roads, Q4 2015.

Figure 3: Suburban Direct Net Absorption and Direct Vacancy



Source: CBRE | Hampton Roads, Q4 2015.

Figure 4: Market Overview by Submarket

Submarket	Market Rentable Area (SF)	Direct Vacant (SF)	Direct Vacancy Rate (%)	Avail. Rate (%)	Q4 2015 Direct Net Absorption (SF)	YTD Direct Net Absorption (SF)	Under Construction (SF)	Gross Avg. Asking Lease Rate (\$/SF/Yr)
CBD	3,400,127	992,010	29.2	30.7	(4,428)	(219,912)	-	20.90
Central Norfolk	2,050,965	248,350	12.1	15.3	16,517	43,801	-	16.92
Chesapeake Greenbrier	3,411,375	261,144	7.7	12.6	39,852	171,314	-	18.08
I-64/I-264 Corridor	2,224,552	285,136	12.8	16.4	102,998	166,573	-	17.90
Lynnhaven Area	1,957,577	276,671	14.1	17.9	2,537	67,587	-	17.23
Pembroke	2,833,709	318,693	11.2	14.6	7,132	57,735	-	23.76
Portsmouth	452,702	131,477	29.0	30.7	27	11,255	-	16.45
Suffolk	1,286,575	200,430	15.6	17.0	8,681	32,944	22,000	20.42
Southside Other	745,567	91,186	12.2	25.4	(2,695)	12,016	22,360	15.90
Suburban Southside Totals	14,963,022	1,813,087	12.1	16.2	175,049	563,225	44,360	19.12
Hampton	2,194,975	598,233	27.3	30.0	(29,460)	(48,696)	-	15.58
Newport News Other	531,667	40,468	7.6	13.7	-	-	-	16.40
Oyster Point	2,007,196	183,316	9.1	11.9	14,190	28,957	26,205	19.15
Williamsburg James City County	360,152	53,001	14.7	15.1	1,823	10,273	35,200	18.45
Suburban Peninsula Totals	5,093,990	875,018	17.2	20.1	(13,447)	(9,466)	61,405	16.30
Norfolk Totals	23,457,139	3,680,115	15.7	19.1	157,174	333,847	105,765	18.78

Source: CBRE | Hampton Roads, Q4 2015.

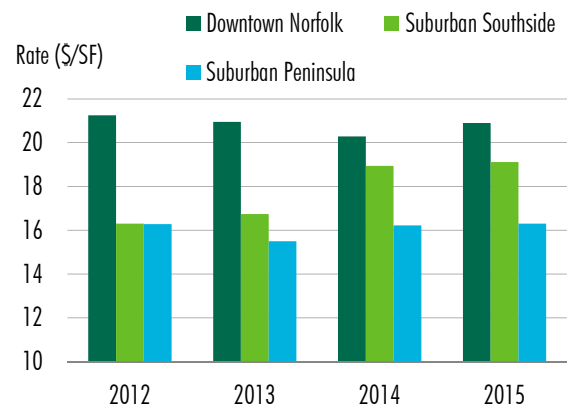
WEIGHTED AVERAGE ASKING RENTS

Overall weighted average asking rents for office space in Norfolk continued to rise, slowly but steadily, to an estimated \$18.78 per sq. ft., full service, \$0.19 year-over-year. Downtown rents show the strongest growth up to \$20.90 per sq. ft., a 3.0% increase over the prior year, despite 2015 Class B losses. Suburban Southside is the only region that has experienced year-over-year annual growth, up 17.3% from 2012. The Pembroke submarket on the suburban Southside currently boasts the highest rents for the region with an average asking rate of \$23.76 per sq. ft., full service.

CONSTRUCTION AND DELIVERIES

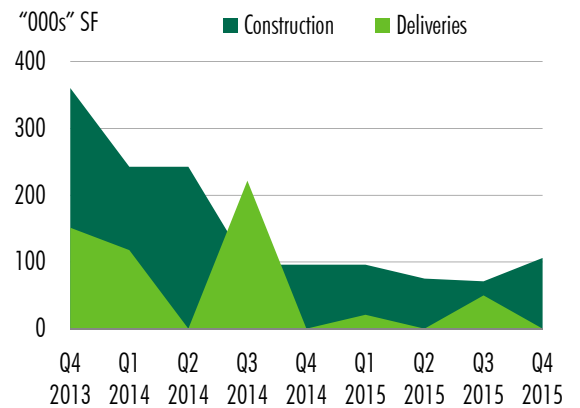
There are currently four properties under construction totaling 105,765 sq. ft., two on the Southside and two on the Peninsula. Both Southside assets are 100% pre-leased while the two properties on the Peninsula, in the Oyster Point and Williamsburg submarkets, offer less than 12,000 sq. ft. of vacancy, combined. There were no deliveries during the quarter. Overall, new office construction in the Norfolk region has significantly slowed. Assets in the pipeline are smaller in size and mixed use, offering office space with a retail feel in hopes to attract tenants in the market with amenities and other conveniences.

Figure 5: Average Full Service Asking Rents



Source: CBRE | Hampton Roads, Q4 2015.

Figure 6: Construction & Deliveries



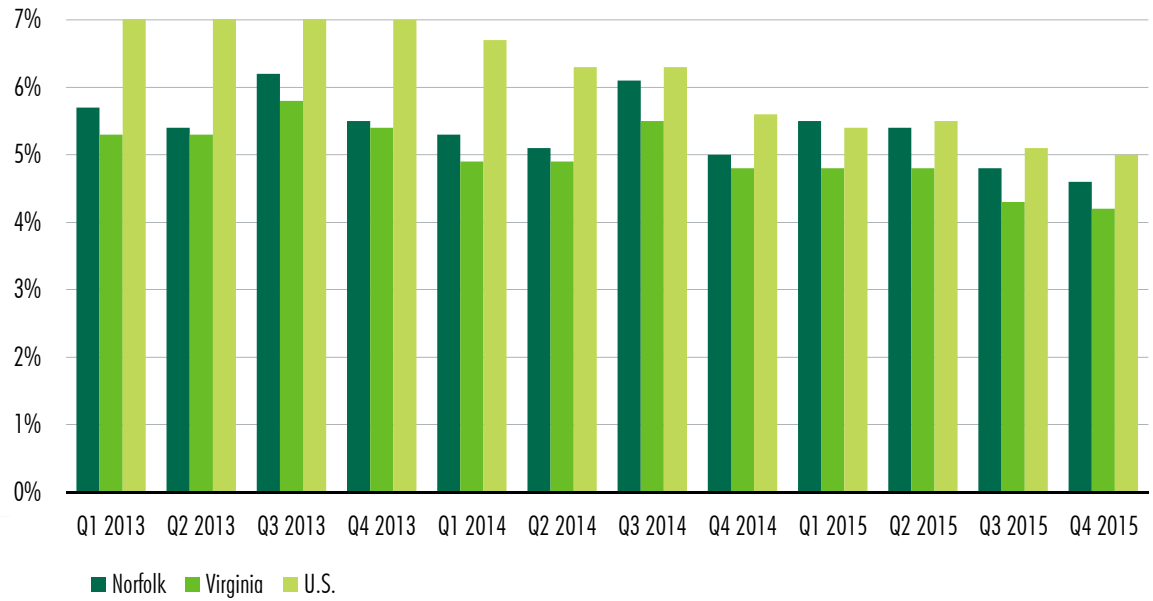
Source: CBRE | Hampton Roads, Q4 2015.

Figure 7: Notable Q4 CBRE Office Transactions

SF	Industry	Submarket	Transaction Type
77,081	Financial Services	Multiple	Expansion/Renewal
55,000	Medical Office	Multiple	New Lease
23,926	Education	I-64/I-264	Renewal Lease
23,884	Information Technology	Chesapeake/Greenbrier	New Lease
17,500	Government	Central Norfolk	Renewal Lease

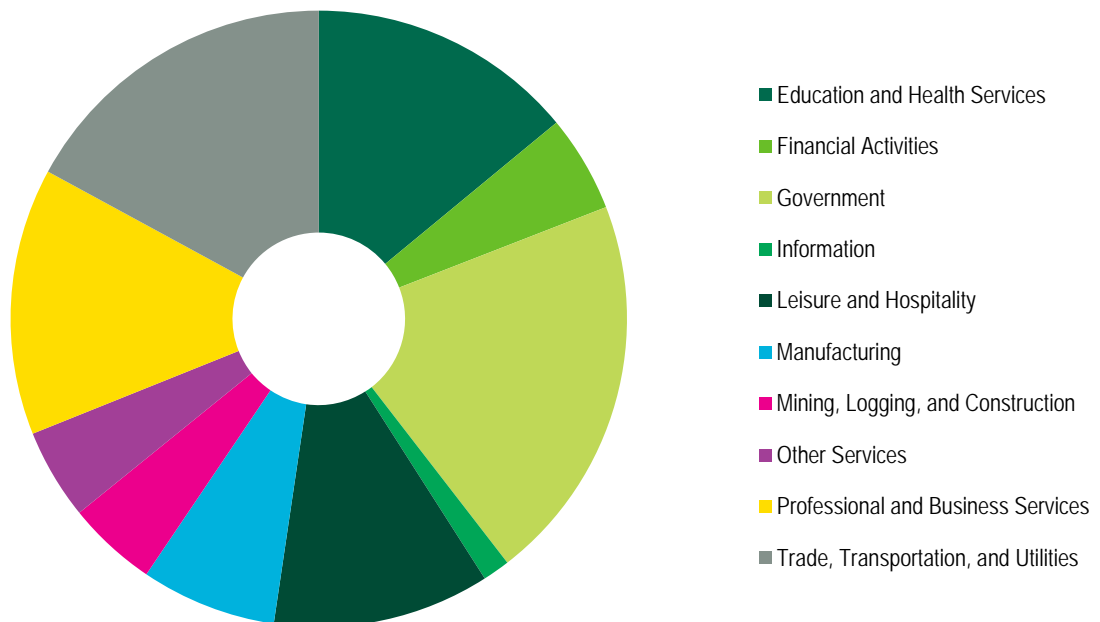
Source: CBRE | Hampton Roads, Q4 2015.

Figure 8: Unemployment

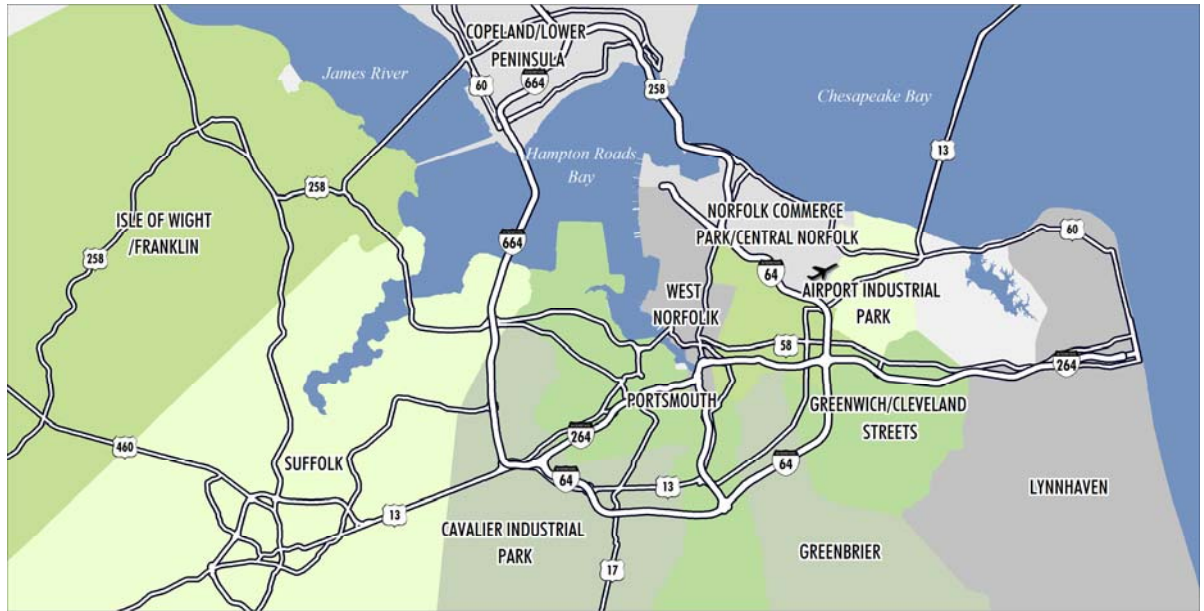


Source: Bureau of Labor Statistics, Q4 2015.

Figure 9: Norfolk Employment by Industry



Source: Bureau of Labor Statistics, Q4 2015.



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