
4Q23

Hampton Roads Industrial Market Overview

NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended 2023 at 2.9%, significantly lower than the national average of 3.7%.
- The industrial market is a primary economic driver in the region, with the Trade/Transportation/Utilities and Manufacturing industries encompassing 22% of the regional workforce.
- Industrial employment ended 2023 at a historic high with 194,400 employees within the region. The industry has shown steady employment growth since experiencing historical lows at the beginning of the pandemic.

Major Transactions

- Sales volume declined year-over-year, totaling \$301 million across 151 transactions during 2023, lower than in 2022 when the market saw 250 transactions totaling \$755 million. Despite this, the market is still seeing sales activity in line with the decade average of 180 transactions per year totaling \$366 million.
- The largest deal of the quarter was a portfolio deal of six buildings totaling 256,800 SF located at 115 Dill Road in Suffolk. The six buildings were sold by Nansemond Storage to Seminole Trail Management for \$7.5 million, or \$29.21 PSF. The buyer purchased the buildings due to high demand for mid-sized distribution space and plans to renovate the buildings prior to leasing them out.

Leasing Market Fundamentals

- After the market saw almost 5.7 MSF of positive net absorption during 2022, the market saw almost 2.3 MSF of positive net absorption during 2023, which is higher than the decade average of 2.0 MSF of annual positive net absorption. All of this positive absorption has created a tight market, with a vacancy rate of only 3.6% to end 2023.
- Average asking rents ended 2023 at \$9.84 PSF, an increase of 6.8% year-over-year. Overall, the market has seen an impressive 35.7% increase in rents from the beginning of 2020 through 2023.
- The market’s development remains impressive, experiencing over 6.4 MSF of deliveries in 2022 and ending 2023 with almost 3.7 MSF of deliveries, much higher than the decade average of 1.7 MSF. Furthermore, the market ended 2023 with over 2.4 MSF under construction, higher than the decade average of 2.3 MSF under construction.

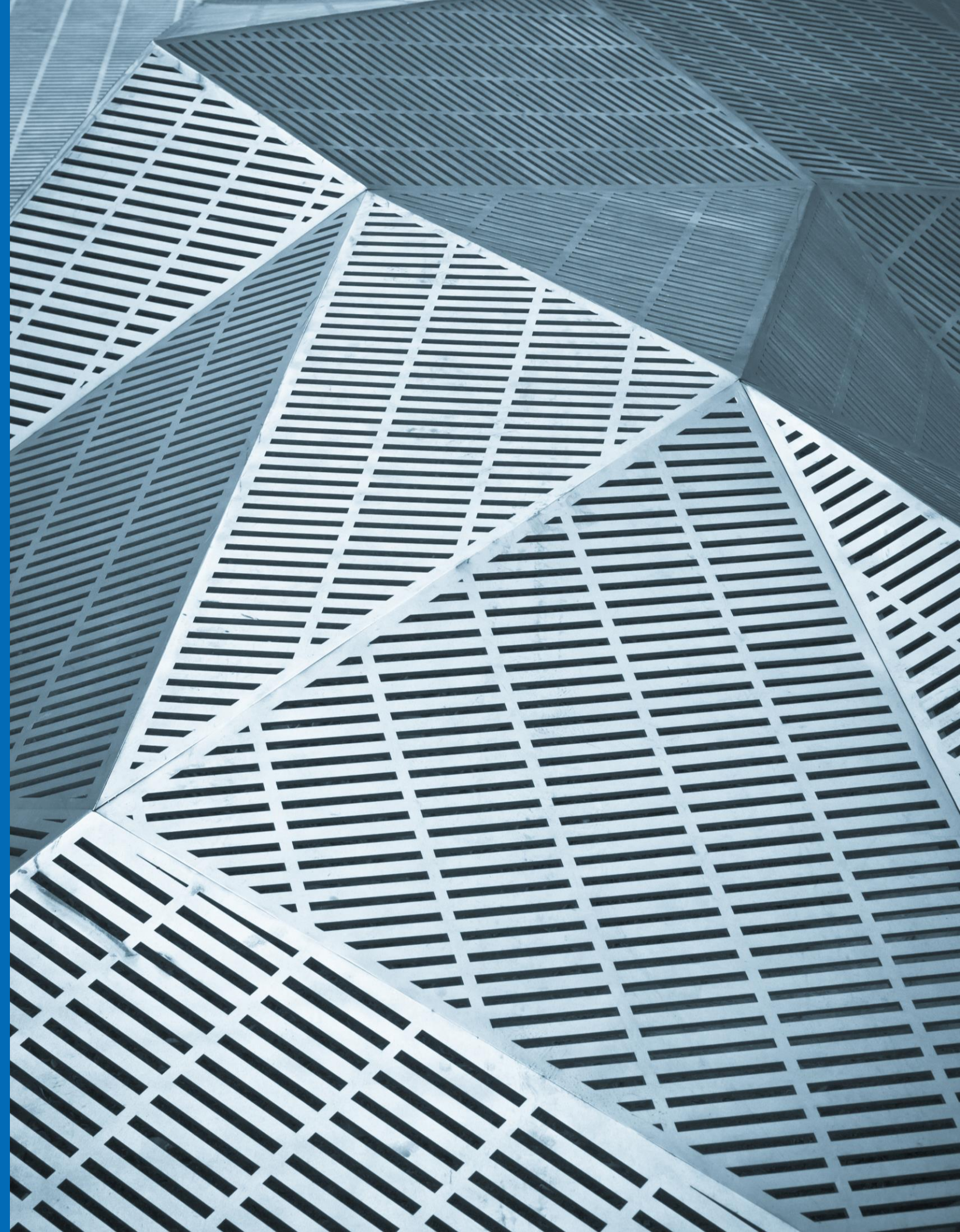
Outlook

- The Hampton Roads Industrial market will continue to perform well in the short term, as evidenced by a strong development pipeline. With over 2.4 MSF under construction, including much of the space pre-leased or owner-occupied, the market will see consistent occupied space delivered, leading to large amounts of positive net absorption.
- While supply remains limited, rent growth will continue increasing at elevated levels, although at a more modest rate than the last 3 years. This will vary on a submarket, size range, and asset-type basis.
- Leasing activity may see a slowdown due to a lack of leasable space, with continued development crucial to satiate user demand. As has been the case historically, Class A space will continue to see the most interest from landlords, tenants, and investors alike.

1. Economy
2. Leasing Market Fundamentals
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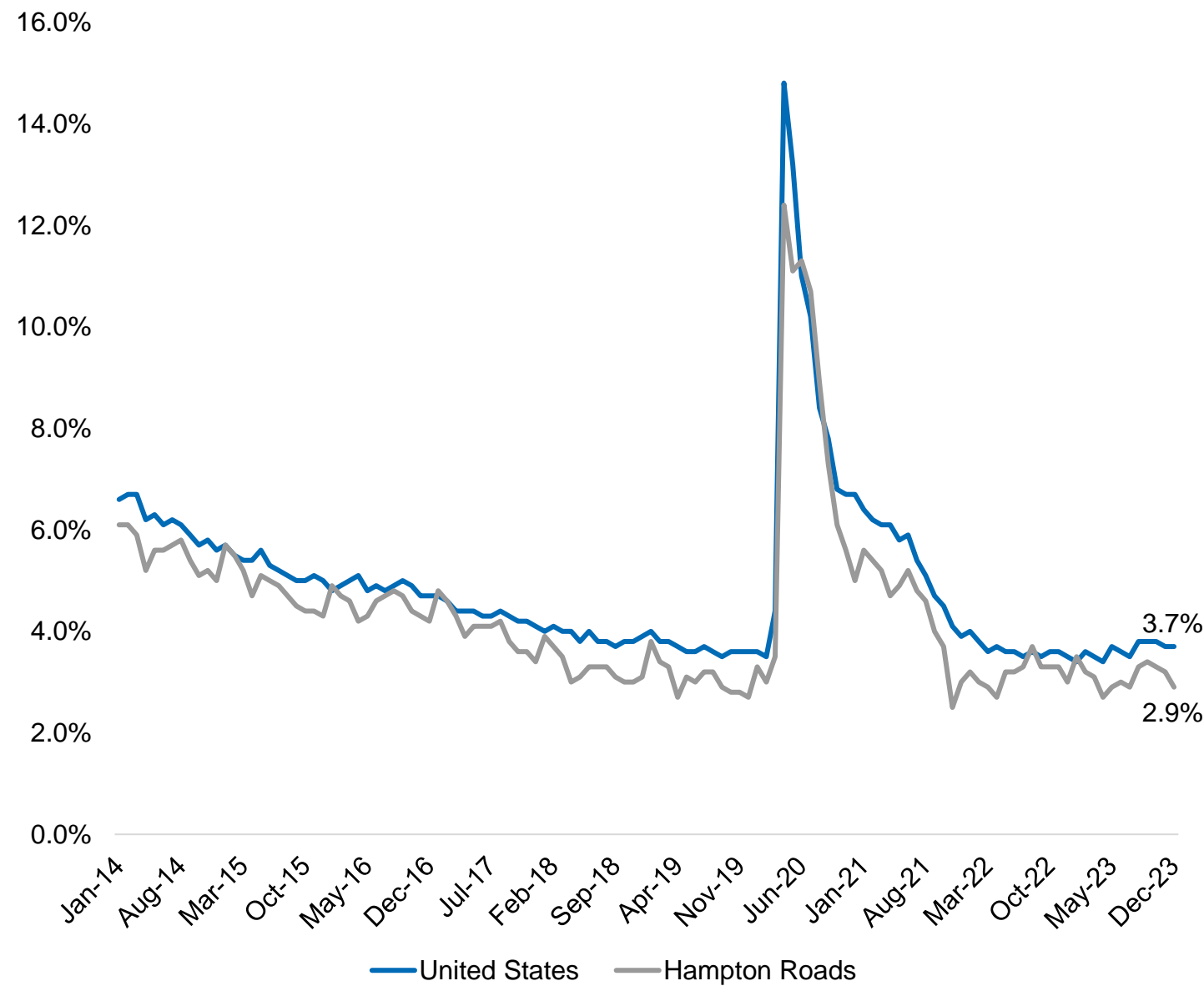
Economy



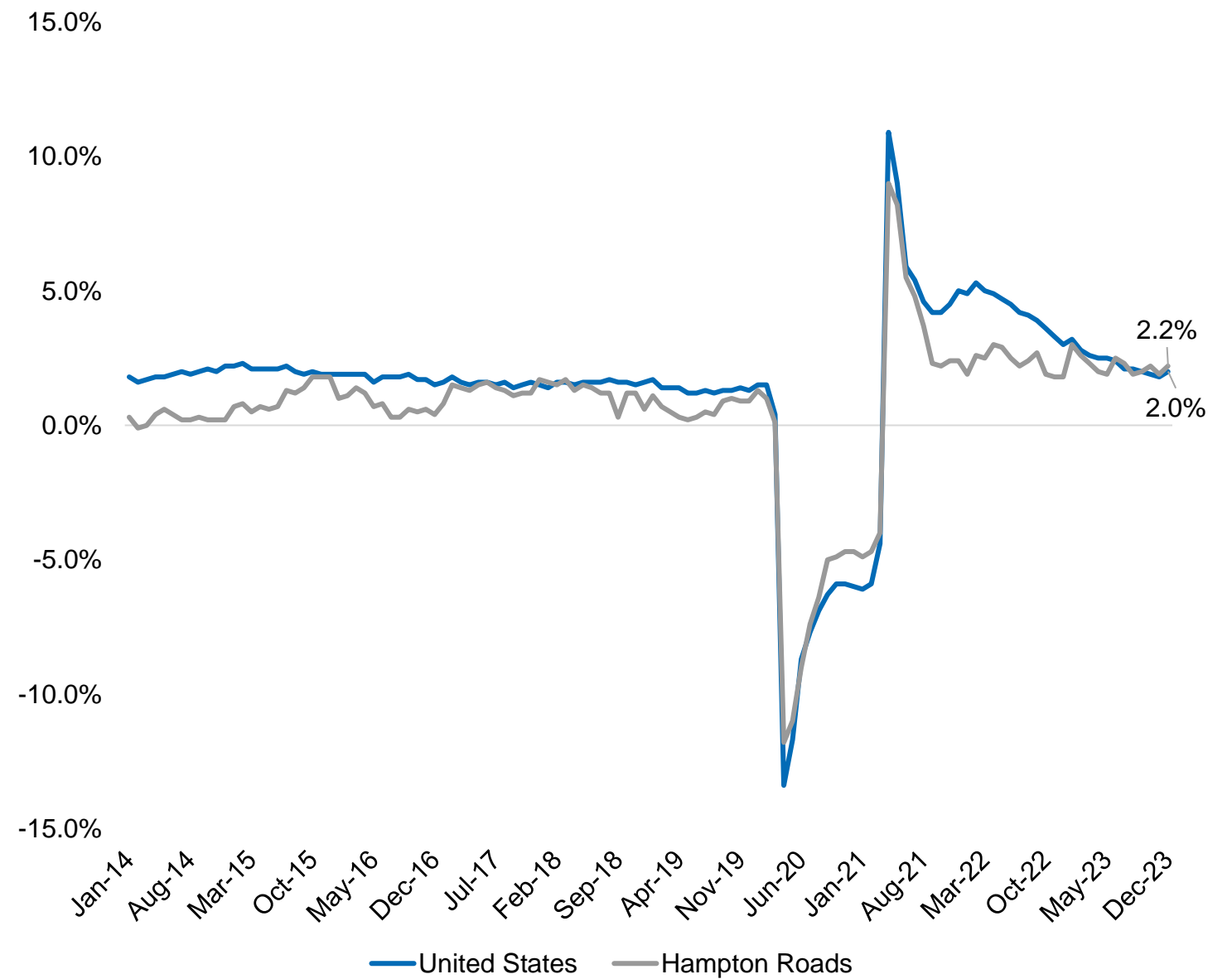
Hampton Roads' Unemployment Rate Outperforms National Average

Hampton Roads' unemployment rate continues to outperform the national average, measuring 2.9% to end 2023. This is 10 basis points lower year-over-year and 80 basis points below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

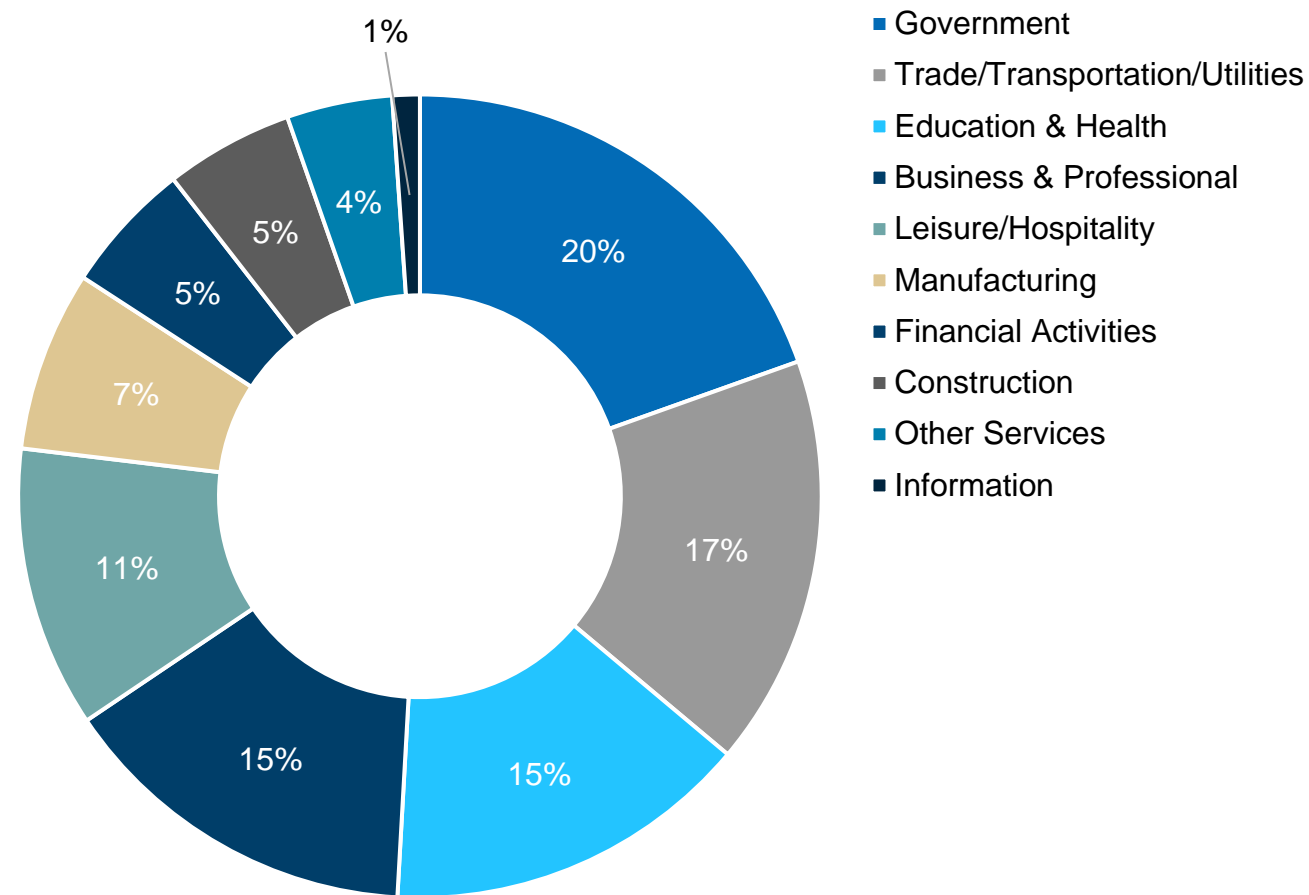


Source: U.S. Bureau of Labor Statistics, Hampton Roads

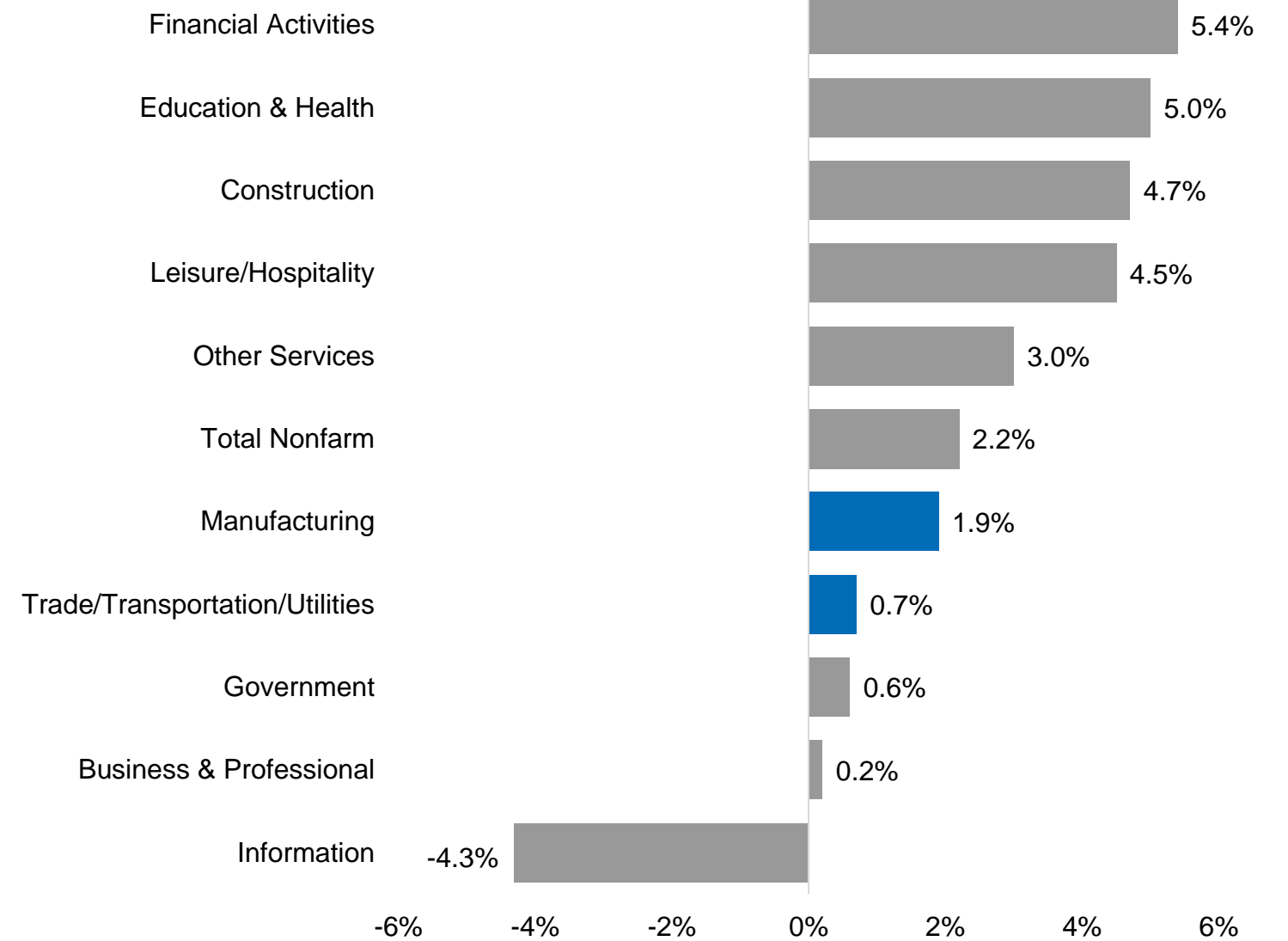
Trade/Transportation/Utilities Continues Growth as a Leading Regional Industry

Trade/Transportation/Utilities remains the second largest industry in the region, constituting 17% of the regional workforce. Furthermore, during 2023, both Trade/Transportation/Utilities and Manufacturing saw positive annual growth, seeing growth of 0.7% and 1.9%, respectively.

Employment by Industry, December 2023



Employment Growth by Industry, 12-Month % Change, December 2023

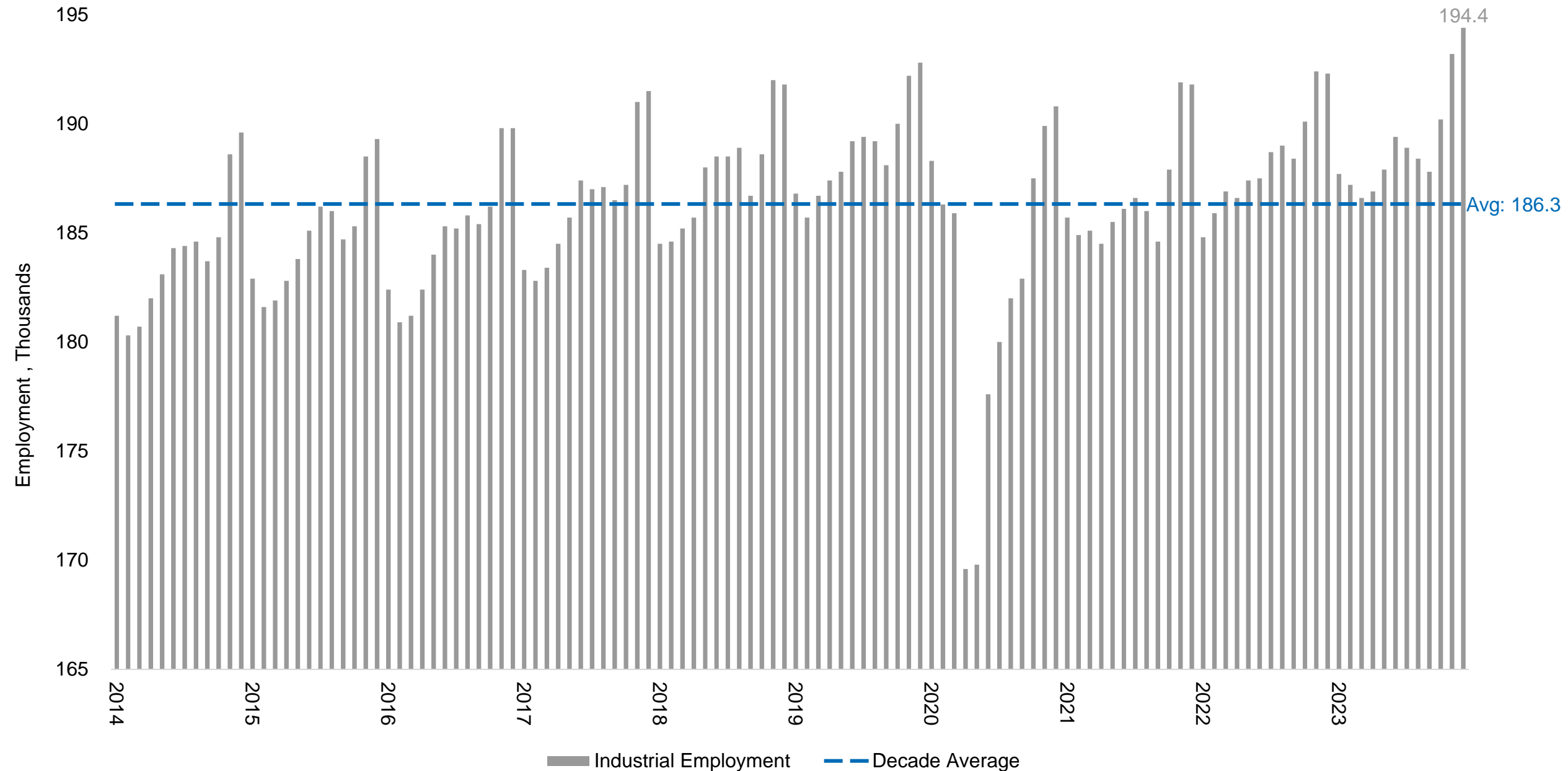


Source: U.S. Bureau of Labor Statistics, Hampton Roads

Industrial Employment Ends 2023 at a Historic High

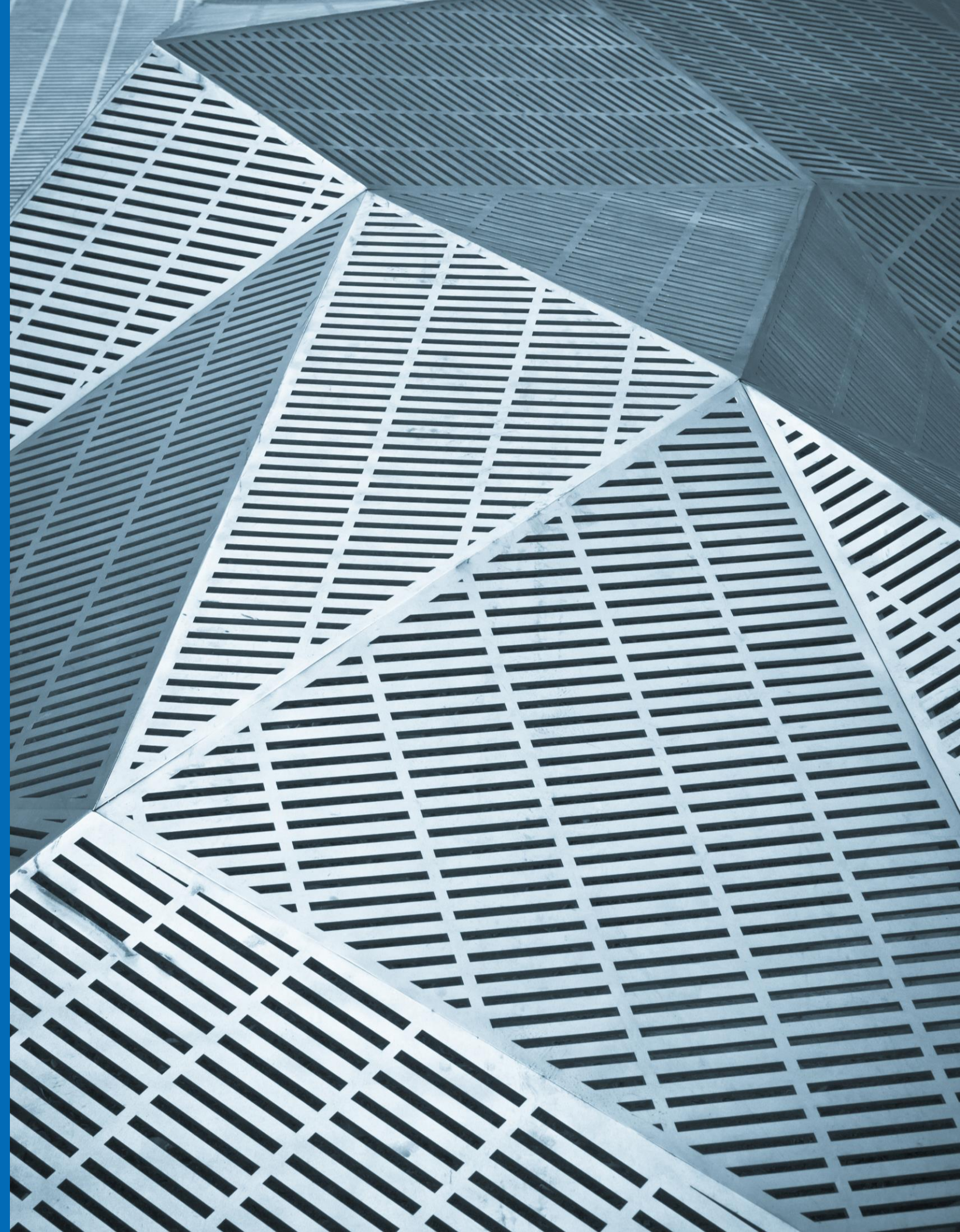
The number of industrial jobs has rebounded and now sits above pre-pandemic levels. Employment ended 2023 at a historic high of 194,400 employees, 4.3% higher than the decade average and an increase of 14.6% since the market reached a pandemic-related low in April of 2020.

Industrial Employment



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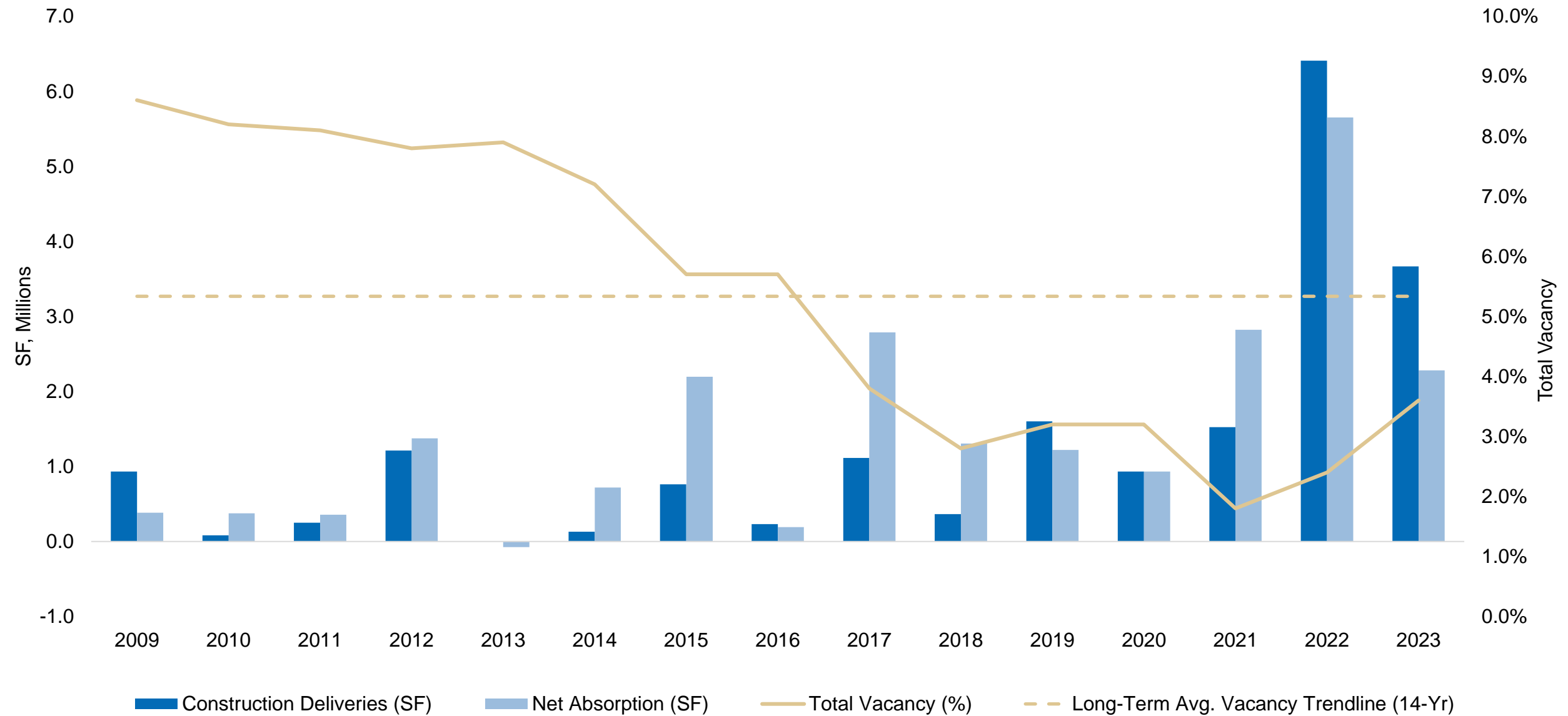
Leasing Market Fundamentals



Fundamentals Remain Healthy to End 2023

The Hampton Roads Industrial market continues to perform exceptionally well, as evidenced by its fundamentals. During 2023, Hampton Roads experienced almost 3.7 MSF of deliveries while seeing almost 2.3 MSF of positive net absorption. This continues the trend of occupied deliveries leading to large amounts of positive net absorption and tight vacancies, as the market ended 2023 with a vacancy rate of 3.6%, tighter than the 14-year average of 5.3% albeit up from its historic sub-2% vacancy in 2021.

Historical Construction Deliveries, Net Absorption, and Vacancy

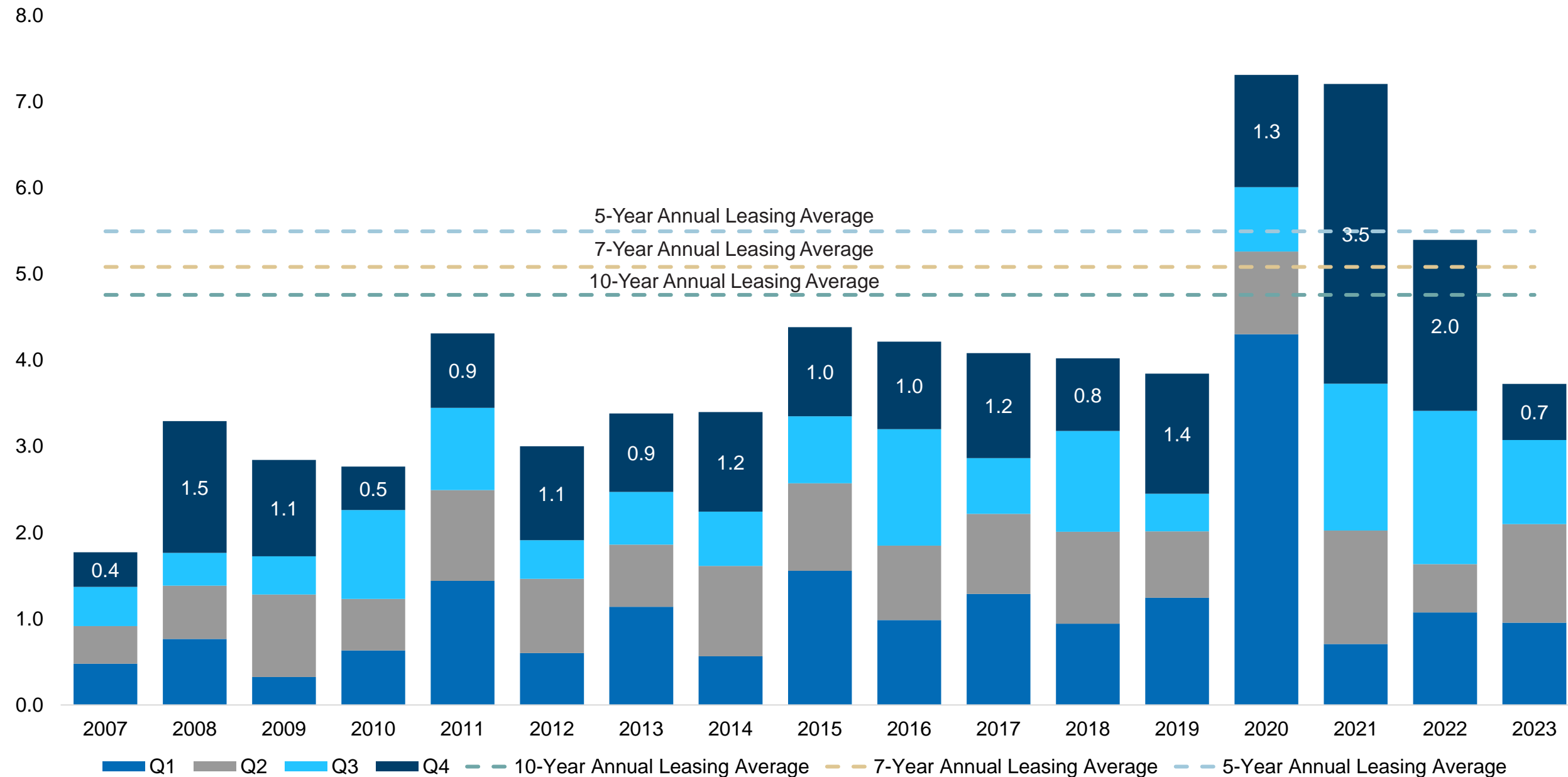


Source: Newmark Research, CoStar

Industrial Leasing Activity Decelerates Below Decade-Average

Leasing activity decelerated in Q4 2023, ending the quarter with 0.7 MSF of activity. Overall, during 2023, the market experienced almost 3.7 MSF of activity. This is lower than the decade-high, when the market experienced 7.3 MSF of activity during 2020, and lower than the decade average of 4.8 MSF of annual activity. The market must continue delivering new product in order to meet tenant demand and accelerate leasing activity.

Total Leasing Activity (tsf)

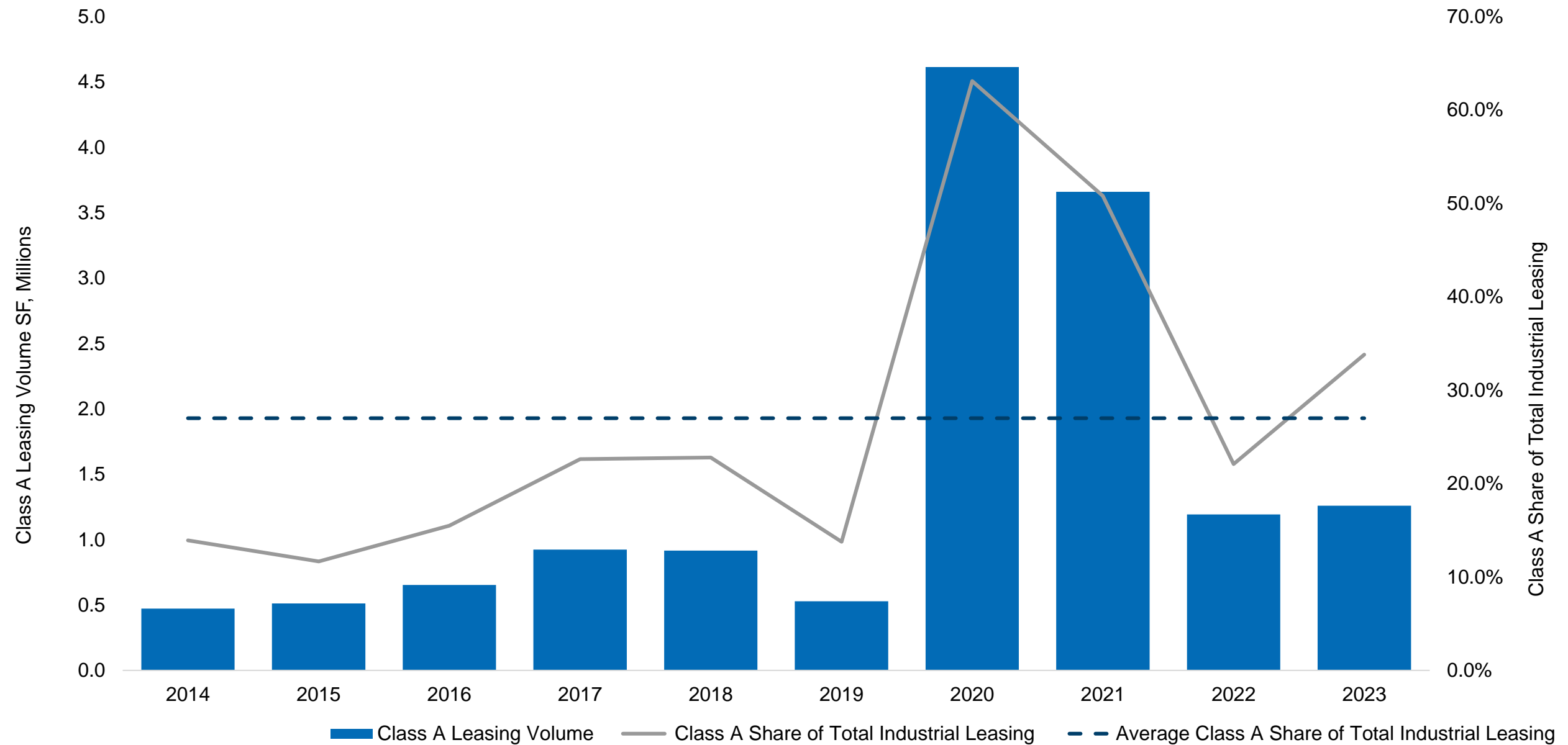


Source: Newmark Research, CoStar

Class A Industrial Leasing Above Long-Term Average

Although Class A industrial leasing activity remains below the levels of activity from 2020-2021, Class A product saw a 33.8% share of total industrial leasing in the market during 2023, which is higher than the decade average of 27.0% and highlights the elevated interest in quality Class A space by occupiers. The Hampton Roads market had trailed its peers in new construction for years, which resulted in low historical Class A leasing volume prior to 2020. The market started seeing an increase in Class A deliveries during 2020, which is when Class A leasing volume accelerated. Class A leasing activity is directly correlated to new deliveries, therefore continued development is required to keep leasing activity elevated.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

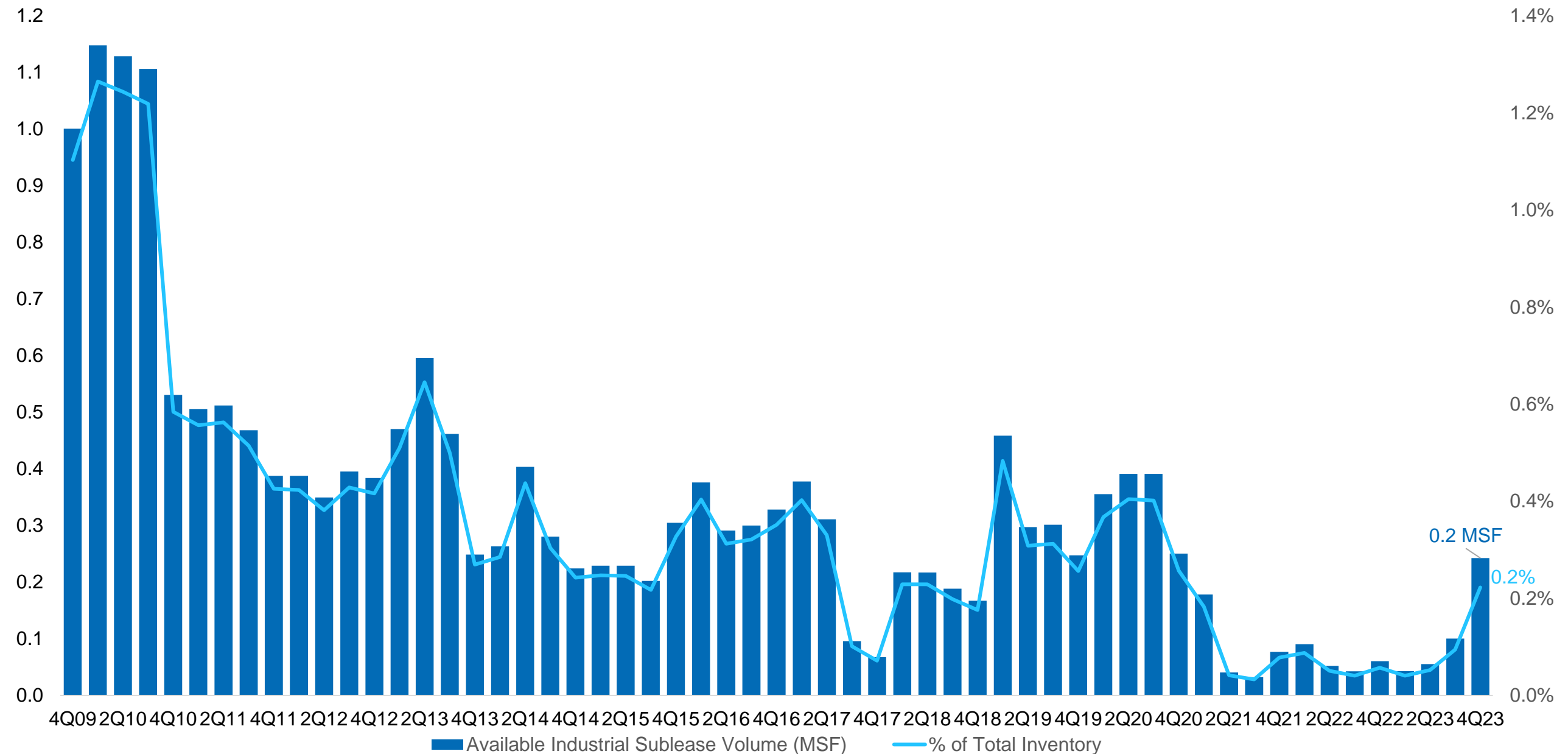


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains Low Highlighting a Tight Market

The market has seen a large dip in sublease available space since the beginning of the pandemic, as demand for industrial space has soared. However, during 2023 available sublease space increased slightly, with the market seeing 243,000 SF of available sublease space to end the year. Although available sublease space increased slightly, it accounts for only 0.2% of industrial space in the market, highlighting the current tightness of the market.

Available Industrial Sublease Volume (MSF) and % of Total Inventory

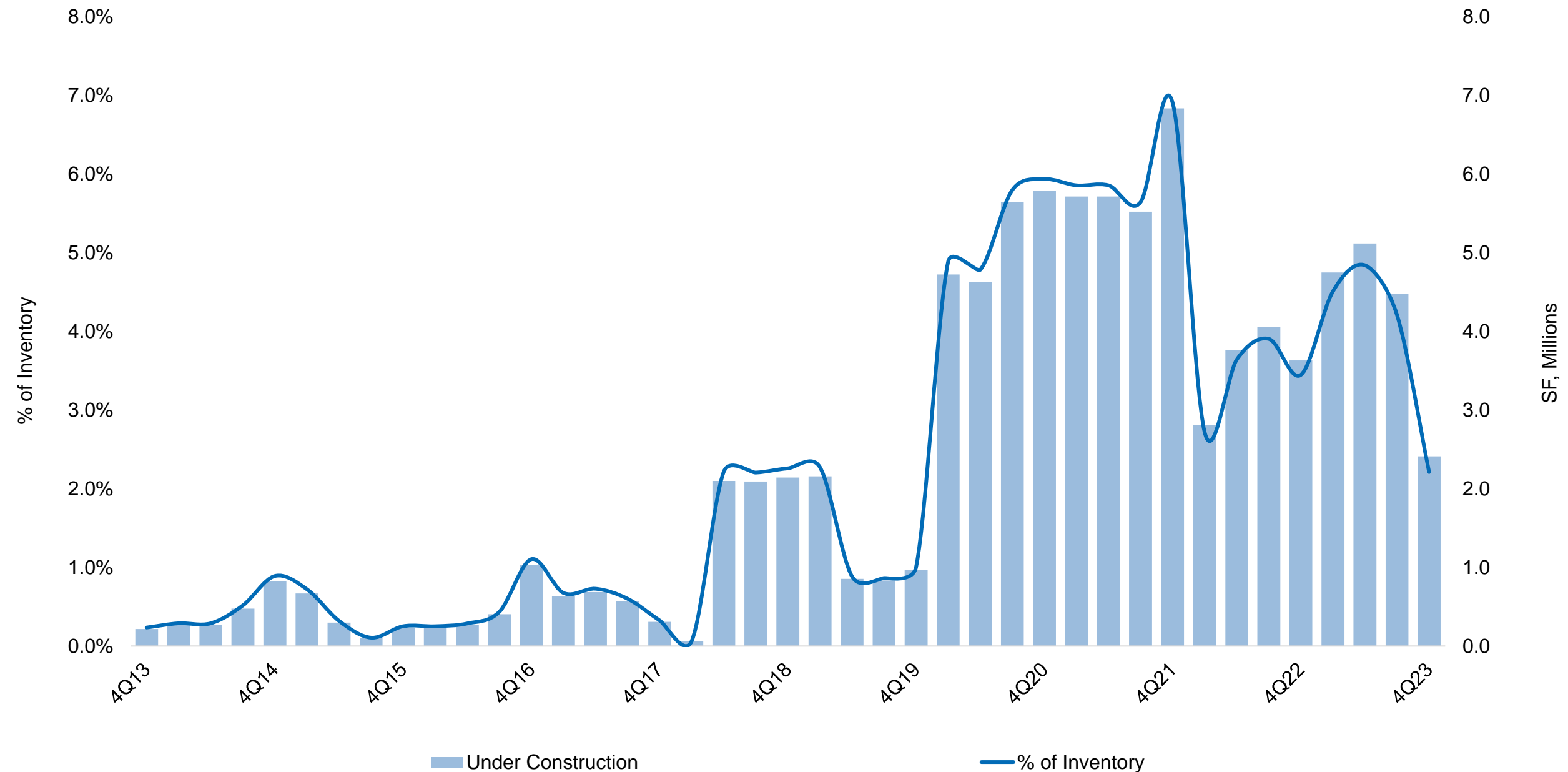


Source: Newmark Research, CoStar

Construction Supply Remains Elevated

Industrial development has exploded in the Hampton Roads region during recent years, ending Q4 2023 with 12 properties under construction totaling over 2.4 MSF. After the market averaged only 745,000 SF under construction from 2013 to 2019, development began accelerating in 2020 and reached a peak of 6.8 MSF under construction in Q4 2021. Since then, the market has maintained an elevated level of construction much higher than historical averages, although future development is expected to slow considerably during 2024 with a pipeline much more limited in scale due to macro market headwinds.

Industrial Under Construction and % of Inventory

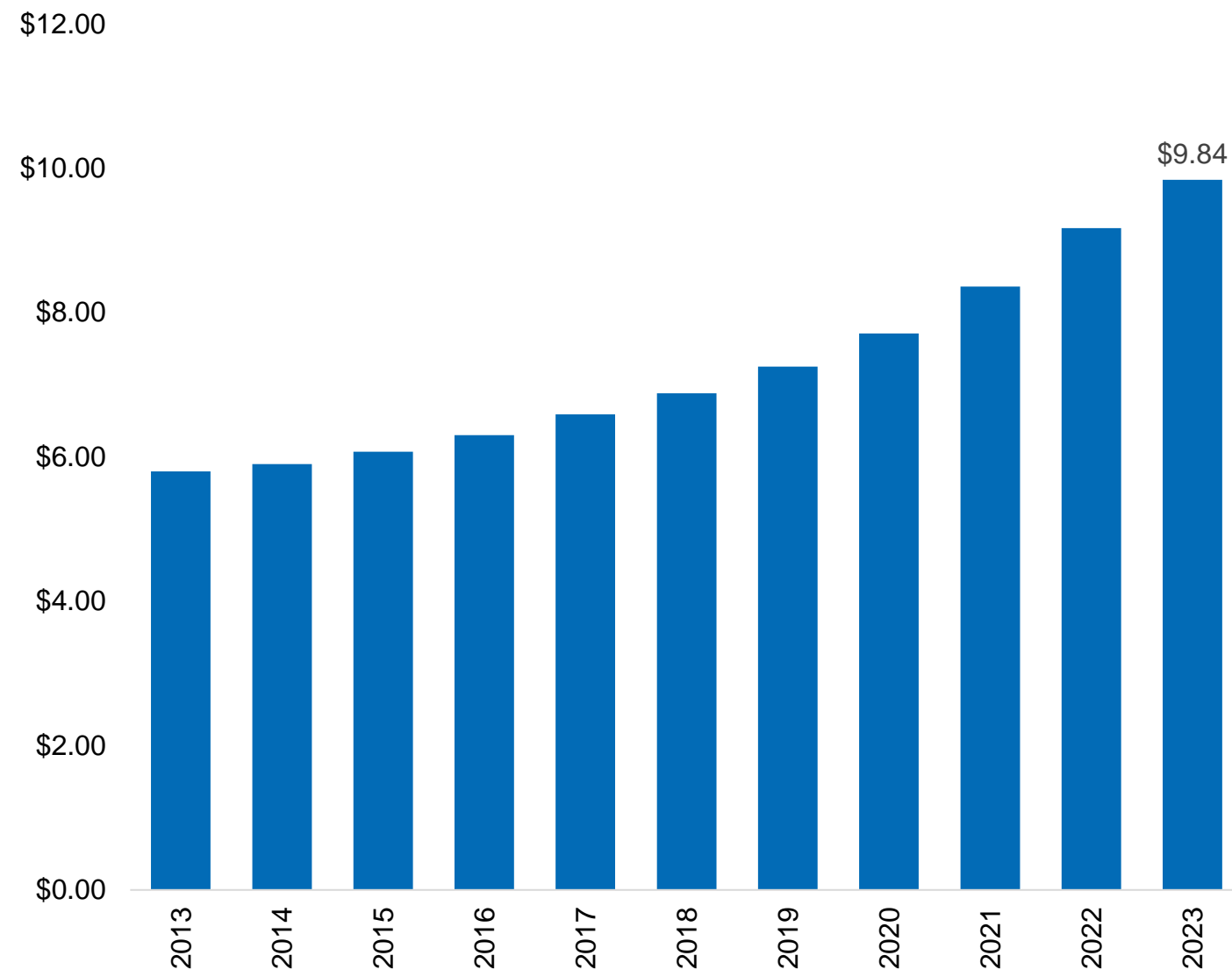


Source: Newmark Research, CoStar

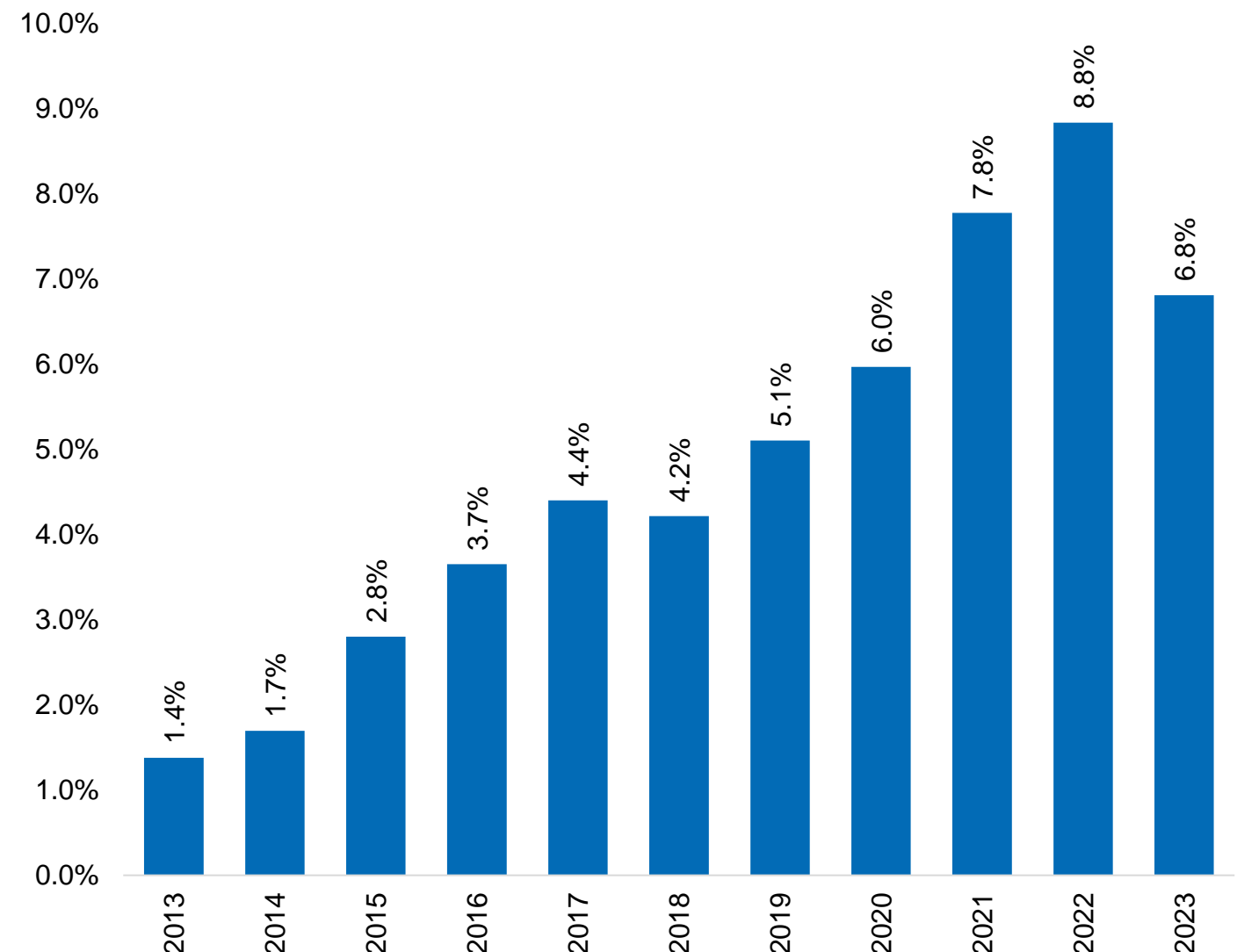
Asking Rents Continue Rapid Growth

Average asking rents ended 2023 at \$9.84 PSF, an increase of 6.8% year-over-year. Although rent growth decelerated in 2023 after the market experienced 8.8% rent growth in 2022, the market is still seeing elevated rent growth. Overall, the market has seen an impressive 35.7% increase in rents from the beginning of 2020 through 2023.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

New leases were a theme of leasing activity during Q4 2023, as four of the five largest leases signed were new deals. All five leases were located on the Southside, highlighting the recent activity in that area of the region. ESKA, a manufacturer of cardboard, signed the largest deal of the quarter, a 204,000-square-foot deal within the newly delivered warehouse at 150 Judkins Court in the Coastal Logistics Center of Suffolk.

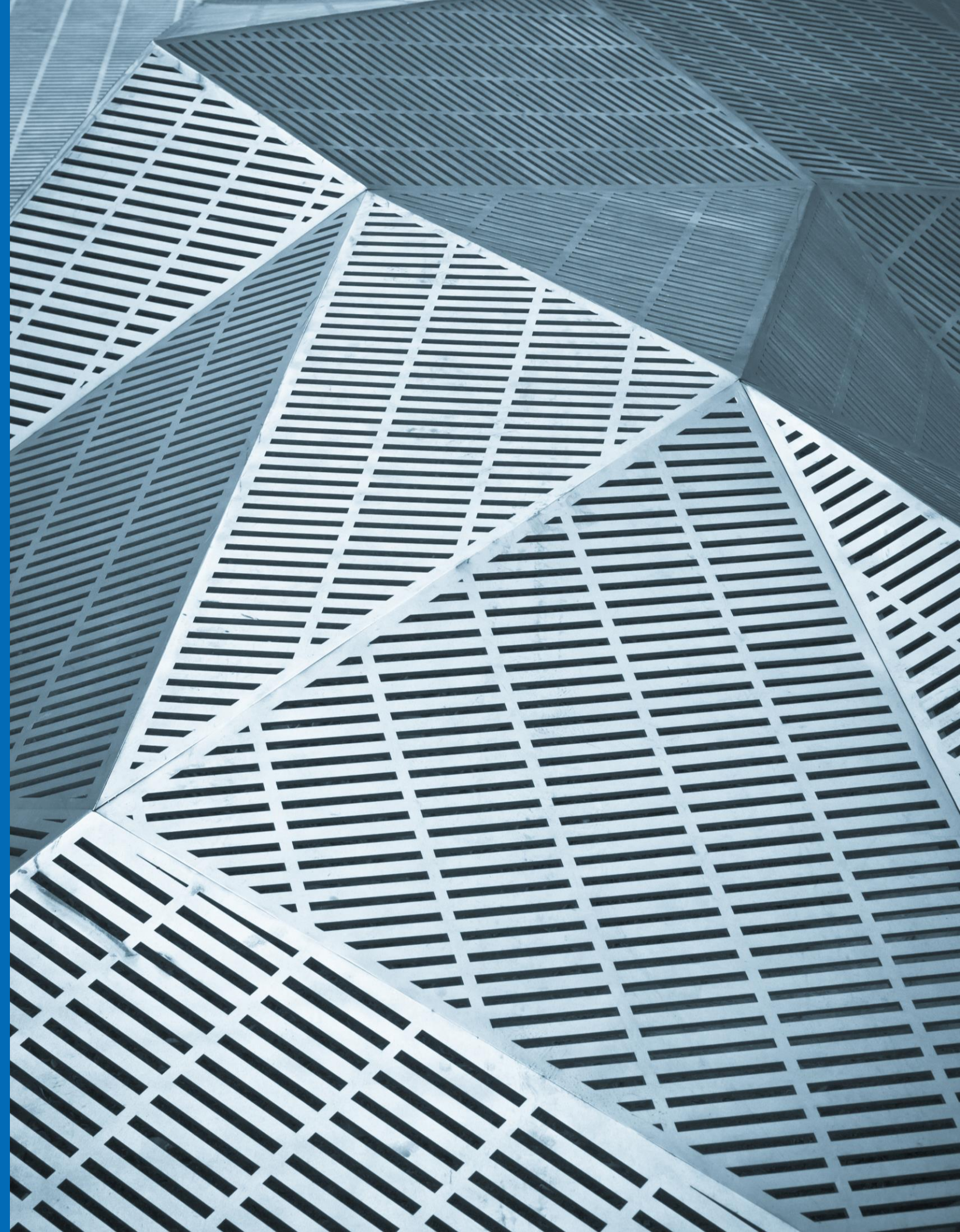
Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
ESKA	150 Judkins Ct	South Suffolk	Direct Lease	204,000
Fiserv	1449 Kristina Way	Bainbridge	Lease Renewal	117,336
Lion Power Systems	3321 E Princess Anne Rd	Norfolk Industrial Park	Direct Lease	47,788
American Road Markings	731 Rugby St	West Norfolk	Direct Lease	35,064
Horizon Ground Maintenance	2043 Church St	West Norfolk	Direct Lease	21,488

Source: Newmark Research, CoStar

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Sales Activity





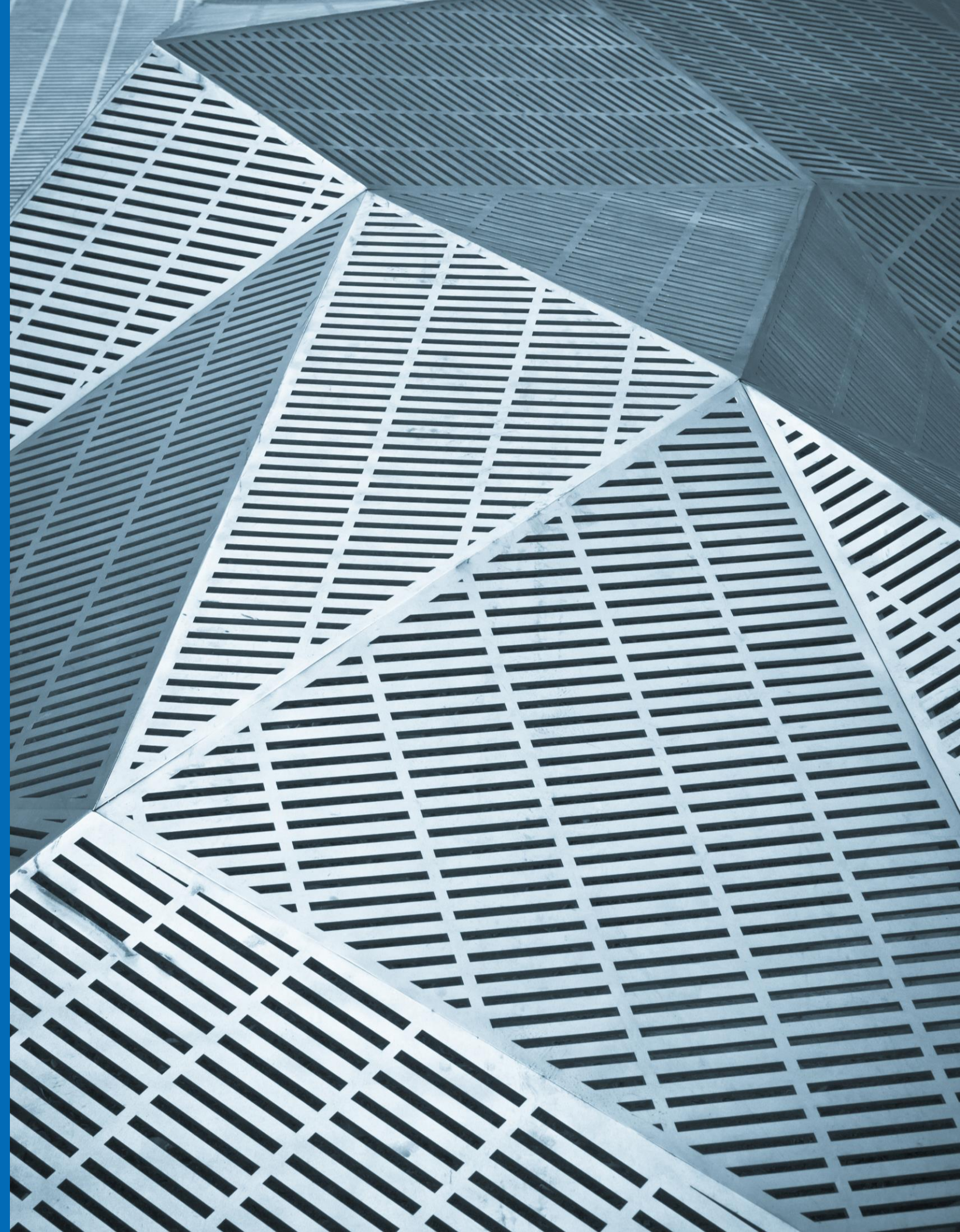
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Market Statistics





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