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Welcome to the 2018 Hampton Roads’ Real Estate Market Review & Forecast. For over two decades, the E.V. Williams Center for Real Estate has been working with Hampton Roads’ industry leaders to produce the Market Review. This year’s reports examine eight areas of interest in the Hampton Roads’ real estate markets: economic trends, office, industrial, retail, multifamily, investment properties, residential, and market sentiment. Thank you to this year’s speakers for sharing their industry expertise and contributing their valuable time and leadership to this event and to the Center.

As part of Old Dominion University’s Strome College of Business, the E.V. Williams Center for Real Estate strives to connect the Hampton Roads’ real estate community to the research, curriculum, and students at the University. Through our dedicated membership, comprised of community leaders and industry experts, we educate and empower the next generation of professionals and leaders. We would like to thank our growing membership for supporting the Center, and for assisting in the engagement and education of our students. 2017 was an exciting year for the Center as it announced the new B.S.B.A. in Real Estate and the hiring of new full-time Wendell C. Franklin Lecturer in Property Management, Richard Button. The Center would not be able to achieve its mission without the dedication of its Executive Committee, Advisory Board, and members.

Throughout the year, the E.V. Williams Center works to engage its members, the community and ODU students by hosting networking events and conducting research. To learn about our upcoming events or to become more engaged with the E.V. Williams Center please contact, Director, Andy Hansz, jhansz@odu.edu, or, Assistant Director, Natalie Boehm, nmcaugh@odu.edu.

Thank you for attending the 2018 Market Review & Forecast and for supporting the E.V. Williams Center for Real Estate. We look forward to seeing you at future events.

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The Hampton Roads economy is expected to grow at a much higher rate in 2018 (2.2%) than in 2017 (0.8%). But, regional growth in 2018 will, once again, be slower than the historical annual average of 2.4%, seen over the last thirty years, and slower than that of the nation. Whereas real (inflation-adjusted) U.S. Gross Domestic Product (GDP) grew annually at a compounded rate of 2.1% from 2009 to 2016, Hampton Roads real GDP actually fell by 0.2% over the same period.

The twin blows of the Great Recession (2008-2010) and stagnation in Department of Defense (DoD) spending since 2012 significantly contributed to the region’s lackluster economic performance. DoD spending in the region increased at a 5.9% annual rate from 2002 to 2012 and has not grown since 2012. Coupled with anemic private sector job growth, the Hampton Roads economy has simply limped along while the U.S. accelerated ahead.
ECONOMIC TRENDS

Congress has yet to pass appropriations bills for Fiscal Year (FY) 2018, however, the most recent Continuing Resolution (CR) that expires on March 23, 2018 contains good news. The CR suspended the debt ceiling until March 2019, removing this potential stumbling block from Congressional negotiations. More importantly, the CR raised the discretionary spending caps introduced by the Budget Control Act of 2011 by $296 billion over the next two fiscal years. This is not a trivial amount as the national defense caps rose by $165 billion and the non-defense caps by $131 billion. With a large federal presence in Hampton Roads, to include over 80,000 active duty personnel and 40,000 federal employees, the rise in spending will lift economic activity in the second half of 2018 and into 2019. Depending on the final composition of the appropriations bills, real GDP growth may rise from an initial forecast of 1.2% to 2.2% (or more).

The Great Recession impacted job markets throughout the United States. Compared to peak employment prior to the recession, the U.S. and the Commonwealth lost 6.3% and 5.1% of jobs through February 2010. Since the trough in 2010, the U.S. and Virginia have steadily added jobs. In January 2018, the U.S. had 6.8% more jobs than prior to the Great Recession, Virginia 4.7%. Hampton Roads, on the other hand, lost 6.1% of jobs during the Great Recession and has not yet recovered all the lost jobs. At the end of December 2017, Hampton Roads was still 2.4% (17,600) jobs below peak employment observed in 2007.

Unlike the drawdown in defense spending in the 1990s, the private sector has yet to fill in the gap in Hampton Roads. The Quarterly Census of Employment and Wage reports that during First Quarter of 2017, total private sector jobs in Hampton Roads were about 13,500 below peak employment observed in first quarter of 2007. Efforts to spur private sector growth through innovation and entrepreneurship are crucial to building a robust, growing private sector in the region.

CHANGE IN PRIVATE SECTOR EMPLOYMENT: SELECTED INDUSTRIES IN HAMPTON ROADS, 2007 Q1 TO 2017 Q1 (IN THOUSANDS)

Source: Virginia Employment Commission: Covered Employment and Wages by Private Ownership and the Old Dominion University Economic Forecasting Project.
Even though the job situation in Hampton Road has been quite grim for the last ten years, an examination of data from Local Area Unemployment Statistics (LAUS) provides a slightly different (and rosier) picture of the labor force and number of individuals employed. About 10,000 more individuals are in the regional labor force today than in 2008. The number of individuals stating that they are actively employed has also risen by about 10,000 over the same period. The divergence between these two sets of information on the labor market could be explained partly by a possible reduction in the number of part time jobs and due to the emergence of the gig economy where more and more individuals simply prefer to be self-employed.

Unemployment rates at the national, state, and local level all rose in response to the Great Recession. Since the end of the recession, however, we have seen marked declines in unemployment rates. The U.S. economy is near full employment and we are seeing the beginnings of wage increases because of labor shortages. The anemic performance of the Hampton Roads economy can also be seen in the unemployment rate. Prior to the Great Recession, Hampton Roads unemployment was below that of Virginia. Recently, at the end of 2017, the Hampton Roads unemployment rate was the same as the U.S. and higher than Virginia.
The Hampton Roads’ 2017 office market experienced leasing activity similar to the previous two years, with a vacancy rate of 9.2% at the end of the fourth quarter. This vacancy rate was down from 10.8% at the beginning of the year. Overall asking rents increased in the past 12 months by 1.7% in the region – which remain 7% below their pre-recession peak. The year ended with positive absorption totaling 820,076 square feet in 2017. There is minimal new office construction on the horizon. Space available for sublease is just under 100,000 square feet, a little more than 2% of the total available space in the market. Sublease space available is down from 153,000 square feet at the beginning of the year.
KEY HAMPTON ROADS’ TRANSACTIONS

There were several significant lease transactions in 2017 that went under the radar as most were renewals. New to the market, Wisconsin Physicians Service Insurance Corporation removed a big block of sublease space at the beginning of 2017 and further committed to Hampton Roads by signing a direct lease.

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Building</th>
<th>Date</th>
<th>Square Footage</th>
<th>Lease Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Coast Guard</td>
<td>Main Street Tower</td>
<td>4th Qtr</td>
<td>129,968</td>
<td>Expansion/renewal</td>
</tr>
<tr>
<td>WPS MVH</td>
<td>400 Butler Farm Road</td>
<td>1st Qtr</td>
<td>100,632</td>
<td>New to market, sublease/direct lease</td>
</tr>
<tr>
<td>US Air Force</td>
<td>Research Quad III</td>
<td>4th Qtr</td>
<td>97,490</td>
<td>Renewal</td>
</tr>
<tr>
<td>Amerigroup</td>
<td>Corporate Center V</td>
<td>2nd Qtr</td>
<td>70,760</td>
<td>Renewal</td>
</tr>
<tr>
<td>Optima Health</td>
<td>Military Circle</td>
<td>1st Qtr</td>
<td>45,000</td>
<td>New lease</td>
</tr>
</tbody>
</table>

Hampton Roads offered many office investment opportunities in 2017. With sales prices so high in primary and secondary markets, Hampton Roads has proved acceptable to national investors. Total office building sales activity was up 38% compared to 2016. The price per square foot averaged $211.13. Capitalization rates were lower in 2017 thus making properties more expensive, averaging 7.48% compared to the same period in 2016 when they averaged 8.28%. The largest transaction that occurred was the acquisition of The ADP Building in Norfolk at a 7% cap rate.

<table>
<thead>
<tr>
<th>Building</th>
<th>Square Footage</th>
<th>Sales Price</th>
<th>Price Per Square Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>The ADP Building</td>
<td>288,662</td>
<td>$57,000,000</td>
<td>$197.46</td>
</tr>
<tr>
<td>Concourse at Northampton</td>
<td>302,186</td>
<td>Part of $1,300,000,000 Portfolio Sale</td>
<td>$174.74 - Portfolio Price</td>
</tr>
<tr>
<td>225 Clearfield Avenue</td>
<td>42,000 44,377</td>
<td>$18,352,000 $20,048,000</td>
<td>$437.00 $452.00</td>
</tr>
<tr>
<td>Smithfield Building</td>
<td>129,183</td>
<td>$15,900,000</td>
<td>$123.08</td>
</tr>
</tbody>
</table>

HAMPTON ROADS’ MARKET OVERVIEW

The absorption of office space in suburban submarkets outpaced the central business districts. As vacancy tightened, rents in the suburban markets increased by an average of $0.50 per rentable square foot.

Modest to limited new construction and strong absorption, led to very few large blocks of space available. As rents rise only slightly, there is a lack of support for the cost to occupy new construction.

We entered 2018 with five projects, totaling 392,480 square feet, under construction. The largest of the five is the 256,000-square-foot Dollar Tree Office Tower on the company’s 60 acre campus on Volvo Parkway in Chesapeake. It will be 100% occupied by Dollar Tree. Building One @ Tech Center is an 80,000-square-foot speculative office building under construction in the Oyster Point submarket of Newport News.
As unemployment rates remain low, scarcity of qualified workers is taking its toll on the area’s growth. Hampton Roads businesses are now competing for workers who are being lured by big cities companies. Firms are indicating that office locations with the ideal “Live, Work, and Play” environments are critical in the recruitment and retention of employees.

Urban Land Institute reported that at 16.4%, Hampton Roads had the highest growth in millennial residents since 2010 compared to more than 50 urban areas (Time magazine, June 2017). The growth was attributed in significant part to the military, but no doubt can be credited to the lifestyle benefits of the region’s climate and proximity to beaches and major cities.

NATIONAL MARKET OVERVIEW

The nation’s office market continues to hover near business-cycle highs for occupied space. Nationally, rents grew at about 1.8% and were almost $3 per square foot higher than pre-recession peaks. 2017 office vacancy ended at 10.3% across the country. Overall job growth slowed in most markets. The unemployment rate fell to 4.1% in October, a rate not seen since December 2000.

Sales of office buildings were also down from a year earlier, although volume was still well above the historical average.

MARKET TRENDS TO WATCH

Older Class A buildings will renovate as there is a lack of new office inventory in the market and costs of new construction far outweigh the costs of renovations. A prime example is 500 East Main Street in Downtown Norfolk. Office buildings will attack the concept of placemaking, adding seating areas to once sparse office lobbies to create more alternative shared workspaces.

Demand for medical office buildings remains high. The historical stability makes medical office buildings attractive to investors. Healthcare services will also move into nontraditional locations, including struggling retail centers, to reduce costs and make these services more readily accessible to patients.

Locally, executive suites are at capacity, and we could see other national shared office space companies and co-working facilities enter the Hampton Roads market.

2018 OUTLOOK

The pace of office leasing in Hampton Roads will slow in 2018 due to lack of available space. Expansion and relocation of professional services, healthcare, and defense/government contracting sectors should drive demand.

Office relocations are most likely to be fueled by lease expirations. Companies looking to capture and retain employees will expect to upgrade office premises. Amenities such as co-working spaces, nearby apartments, restaurants and shops within walking distance will be critical to tenants.

The effect of the transoceanic cables, transforming the region into a high-speed data hub, is beginning to show momentum. Data centers and other high-speed internet consumers will enter the market in 2018.

Aside from a few build-to-suits, new office construction will be limited, allowing fundamentals to continue to recover in the near term. The limited supply of new properties will favor landlords and lead to the renewal of current leases. With continued modest absorption, vacancy rates are expected to decline further. Average rents should increase slightly in 2018, but that does not mean it is a landlord’s market. Projected rent growth is approximately 1%. As we approach equilibrium, landlords will continue to offer free rent, hefty tenant improvement packages and other incentives to retain and attract tenants while trying to maintain face rate rentals.

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Industrial market fundamentals improved across the board for Hampton Roads in 2017, as expanding businesses absorbed over 2.1 million square feet of industrial space. Since 2012, the vacancy rate has plummeted from 9.5% to 4.4%, the lowest industrial vacancy on record. During the last five years, net absorption totaled over 5.4 million square feet, averaging nearly 1.1 million square feet annually.

<table>
<thead>
<tr>
<th></th>
<th># of Buildings &gt;20,000 Square Feet</th>
<th>Total Square Footage (SF)</th>
<th>2017 Net Absorption (SF)</th>
<th>Vacancy Rate</th>
<th>Average Asking NNN Lease Rate</th>
<th>Completed New Construction (2017 SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southside Industrial</td>
<td>717</td>
<td>56,277,297</td>
<td>1,654,915</td>
<td>4.9%</td>
<td>$4.38</td>
<td>1,142,290</td>
</tr>
<tr>
<td>Peninsula Industrial</td>
<td>193</td>
<td>23,603,795</td>
<td>449,333</td>
<td>3.2%</td>
<td>$5.92</td>
<td>150,000</td>
</tr>
<tr>
<td>Hampton Roads Total</td>
<td>910</td>
<td>79,881,092</td>
<td>2,104,248</td>
<td>4.4%</td>
<td>$4.68</td>
<td>1,292,290</td>
</tr>
</tbody>
</table>

Industrial market fundamentals improved across the board for Hampton Roads in 2017, as expanding businesses absorbed over 2.1 million square feet of industrial space. Since 2012, the vacancy rate has plummeted from 9.5% to 4.4%, the lowest industrial vacancy on record. During the last five years, net absorption totaled over 5.4 million square feet, averaging nearly 1.1 million square feet annually.
2017 LEASE & SALE TRANSACTION HIGHLIGHTS

Of Hampton Roads’ major transactions in 2017, several were expansions by current warehouse users, including CenterPoint Properties’ expansion of the Ace Hardware Import Redistribution Center by 138,060 square feet in Suffolk, and LifeNet Health’s 100,000 square foot lease of a portion of the two building 1440 London Bridge complex in Virginia Beach.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>SF</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ace Hardware</td>
<td>CenterPoint Intermodal Center - Suffolk</td>
<td>475,020</td>
<td>138,060 SF Expansion of Class A Single-Tenant Building</td>
</tr>
<tr>
<td>Welspun USA</td>
<td>Virginia Regional Commerce Park-B - Suffolk</td>
<td>200,880</td>
<td>Indian company, new to market</td>
</tr>
<tr>
<td>U-Play Corporation</td>
<td>1440 London Bridge Rd. - Virginia Beach</td>
<td>200,000</td>
<td>Chinese company, new to market</td>
</tr>
<tr>
<td>Georgia Partners Cold Storage LLC</td>
<td>Commonwealth Commerce Center - Suffolk</td>
<td>120,800</td>
<td>Cold storage industry veteran new venture</td>
</tr>
<tr>
<td>LifeNet Health</td>
<td>1440 London Bridge Rd. - Virginia Beach</td>
<td>100,000</td>
<td>Expansion by Virginia Beach based company</td>
</tr>
</tbody>
</table>

The 284,580 square foot Virginia Regional Commerce Park-B was the first pure speculative development in Hampton Roads in over 10 years, and landed a 200,880 square foot lease with India-based Welspun USA. Another foreign company, China-based U-Play Corporation, leased 200,000 square feet, also at 1440 London Bridge.

Overall, seven projects totaling 1.3 million square feet delivered in 2017, the most square footage completed since 1.7 million square feet opened in 2008.

Sales activity in 2017 included value-add investors acquiring long-vacant buildings with plans to renovate and improve the assets, as well as numerous owner-users seeking to own and improve property in support of their operations. The table below highlights several investor and owner-user sales.
2017 NEW INDUSTRIAL CONSTRUCTION ACTIVITY

Nearly 1.3 million square feet of new industrial buildings were completed in 2017, the largest being CenterPoint Properties’ 401,066 square foot Class A distribution warehouse for Emser Tile, followed by Panattoni’s Virginia Regional Commerce Park-B (284,580 square feet), InterChange’s Portsmouth Logistics Center (199,584 square feet), Printpack’s 150,000 square foot expansion in Oakland Industrial Park in Newport News, the 138,060 square foot expansion of Ace Hardware by CenterPoint Properties, and the owner-occupied build-to-suit for INIT in Chesapeake (70,000 square feet).

Consistent with the long-term trend for industrial & logistics development in Hampton Roads, five of the seven 2017 completed projects were build-to-suit for a single user. The lion’s share of build-to-development over the last 10 years, 1.6 million square feet, was developed by CenterPoint Properties at the 900-acre Class A industrial park, CenterPoint Intermodal Center-Suffolk. Other than Panattoni Development, InterChange Group is the only developer to build a speculative building during the last ten years, delivering the 199,584 square foot InterChange Portsmouth Logistics Center in 2017. InterChange hedged development risk by leasing 25% of the building to a developer owned 3PL business.

2018 OUTLOOK

In December 2017, Global Technical Systems (GTS), a Virginia Beach-based advanced engineering solutions company, announced a planned $54.7 million investment for a new, 500,000 square foot manufacturing facility off Bird Neck Road in Virginia Beach. According to plans announced by GTS, the new plant, which will produce advanced batteries to power machinery, data centers, and other uses, is scheduled to open in March 2019 and will eventually employ 1,100 people.
With only 4.4% of all industrial properties vacant, new and expanding businesses will have to invest in building new warehouse and manufacturing facilities, or on renovations and upgrades to their existing buildings. In order for 2017’s 2.1 million square feet of net absorption to be generated in 2018, the region’s leading developers, brokers, and stakeholders must partner with state, local, and Port of Virginia economic development teams to win more major new warehouse and manufacturing investments across Hampton Roads.

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KEY HAMPTON ROADS MARKET STATISTICS

The Hampton Roads retail market has continued to show positive trends during 2017. The end of year overall retail vacancy rate in the region was 4.8%. Shopping centers had a vacancy rate of 7.4%. Power centers had a vacancy rate of 4.4%. Specialty centers had a vacancy rate of 3.1%. Malls, contrary to popular belief, had a vacancy rate of 2.8%. General retail had the lowest vacancy rate at only 2.7%.

There is a total of 8,057 retail buildings and 923 centers with a total of 105,736,163 square feet in the Hampton Roads region. Of that total, there are 889 shopping centers containing 44,080,706 square feet with an average asking rate of $13.25 per square foot. The power center category is comprised of 17 centers containing 8,027,852 square feet with an asking rate of $18.02 per square foot. The specialty center category doubled to four centers with a total of 1,188,657 square feet of space. The mall category is comprised of 13 regional malls, super-regional malls, and lifestyle centers with an asking rate of $27.47 per square foot. General retail properties house 5,858 buildings totaling 43,891,212 square feet with an asking rate of $13.59 per square foot.

732,815 square feet of new retail product came online in 2017. The grocery sector has continued to develop at a rapid pace. Lidl, Aldi, Kroger, Wegmans, and Publix announced new stores in the region last year.
The Hampton Roads retail market peaked in 2017. There is significant discussion, both inside and outside of the market, that retail is a dying breed. This is anything but true. Retail investment sales activity fully blossomed in 2017. Capitalization rates, however, were inching up locally in 2017, averaging 7.48%. This rate rise was partly due to higher interest rates and partly due to category shifts in purchases made. Hampton Roads, as a tertiary market, became more desirable due to the lack of product and historically low cap rates in major markets.

### KEY HAMPTON ROADS TRANSACTIONS

#### Top 5 Retail Leases in 2017

1) 130,000 square feet - Wegmans, Virginia Beach
2) 121,273 square feet - Walmart Hilltop Square, Virginia Beach
3) 80,000 square feet - One Life Fitness Dam Neck Crossing, Virginia Beach
4) 75,783 square feet - LeMans Karting Victory West, Portsmouth
5) 74,000 square feet - Floor & Décor Peninsula Town Center, Hampton

#### Top 5 Retail Sales

1) $38,700,000 - Greenbrier Square, 267,102 square feet, Chesapeake
2) $35,500,000 - Harbour View Marketplace, 184,832 square feet, Suffolk
3) $30,480,000 - Kramer Tire Portfolio, 131,960 square feet, Hampton Roads
4) $24,200,000 - Mercury Plaza, 139,750 square feet, Hampton
5) $23,625,000 - Tidewater 7-11 Portfolio, 20,741 square feet, Hampton Roads

#### Top 5 Retail Developments

1) 350,000 square feet - Norfolk Premium Outlets Phase I, Norfolk
2) 130,000 square feet - Waterside District, Norfolk
3) 62,500 square feet - Fox Mill Centre Phase II, Gloucester
4) 35,000 square feet - Lidl, Hampton Roads multiple locations
5) 22,100 square feet - Shops at Centerbrooke Village, Suffolk

### HAMPTON ROADS MARKET OVERVIEW

The Hampton Roads retail market peaked in 2017. There is significant discussion, both inside and outside of the market, that retail is a dying breed. This is anything but true. Retail investment sales activity fully blossomed in 2017. Capitalization rates, however, were inching up locally in 2017, averaging 7.48%. This rate rise was partly due to higher interest rates and partly due to category shifts in purchases made. Hampton Roads, as a tertiary market, became more desirable due to the lack of product and historically low cap rates in major markets.
Store closings are nothing new in the retail arena. This trend continued in Hampton Roads last year. Mattress Firm, Farm Fresh, Toys R Us, HH Gregg, Kmart, Joe’s Crab Shack, Family Christian Bookstores, Wet Seal, Radio Shack, Bebe, American Apparel, and Payless Shoe Source among others all announced store closings in the region.

New store opening announcements were made by IKEA, One Life Fitness, Big Lots, Floor & Décor, 5 Below, Tuesday Morning, Home Goods, Lidl, Aldi, Publix, and Wegmans among others. New stores outweighed closings in 2017, with a positive net absorption of 1,100,000 square feet.

NATIONAL MARKET OVERVIEW

According to Jack Kleinhenz, Chief Economist for the National Retail Federation, “the economy was in great shape going into the holiday season, and retailers had the right mix of inventory, pricing, and staffing to help them connect with shoppers very efficiently.” The stock market saw record highs. American consumer confidence hit a 17-year high in 2017. The unemployment rate was lowered to 4.1% at year-end, the lowest level since 2000. New tax cuts were announced and signed off on before year end. All are great attributes for the U.S. consumer and the retail real estate market as a whole.

MARKET TRENDS TO WATCH

Amazon’s purchase of Whole Foods last year was one of the most talked about financial news stories of 2017. Amazon joins the likes of Apple, Warby Parker, Bonobos (acquired by Walmart last year), Nasty Gal, Everlane and Birchbox, who have all found that physical retail stores are a must for continued success. Other online retailers will adopt this strategy. Many key Hampton Roads retailers have found that e-commerce is the perfect complement to their full line stores. Walmart, Staples, Macy’s, The Home Depot, Best Buy and Nordstrom are all among the top ten e-commerce retailers in the U.S.

Click and collect is a new driving force for retail sales. The addition of entertainment elements in retail settings is another trend that continues to gain momentum. Mobile platforms, artificial intelligence (AI), augmented reality (AR), and virtual reality (VR) are all elements that are showing up in retail settings as well. As technology continues to improve, retail sales will continue to rise. Retail landlords and tenants are nimble and can change to meet the ever-changing demands of the retail consumer.
2018 OUTLOOK

Retail apocalypse? I think not. However, we have entered the dawn of a new era in retail real estate due to unprecedented technological advancements. The use of AI, AR, VR, and computer-enhanced logistics is changing the face of retail in magnificent ways. Omni-channel retailers will be the clear leaders in 2018 and beyond. Customer service and engagement will return on a much larger scale.

The investment sales sector will see strong activity again this year with activity tapering off at the end of 2018 and into 2019. This expectation is due to rising interest rates, bank temperament, and lack of available product. The traditional shopping center will continue to lag other retail segments. Medical, office, and entertainment tenants will be suited on a larger scale this year. Power centers will face the challenge of reduced box sizes. Specialty centers will continue to be a preference for many consumers. Bargain shopping has become much more than a cult phenomenon at this juncture. General retail will continue to expand as tenants seek freestanding buildings to meet the needs of today's consumers quickly. The cap rates on these properties will continue to be market leaders. 2018 will see a continued evolution in retail environments to suit the needs of the ever-changing consumer.
NATIONAL APARTMENT FUNDAMENTALS REVERTING TO LONG-TERM MEAN

Moderation was a recurring theme in nearly every national multifamily outlook for 2017. After a sustained period of historically strong apartment fundamentals, driven by a favorable supply/demand imbalance following the recession, construction activity ramped up and new deliveries began to outpace absorption beginning in 2015. The accretive effect of surplus demand became increasingly muted over several consecutive years as the level of new deliveries substantially exceeded the long-term average and slightly outpaced the rate of absorption. Consequently, occupancy levels and effective rent growth are currently trending towards their respective historical averages. The favorable, but tempered, expectations of 2017 were largely realized, and 2018 promises more of the same. The sector as a whole should continue to see steady, albeit modest, growth while specific asset classes and locations have an opportunity to outperform due to strong demand from underserved, lower and middle-income renters.
**HAMPTON ROADS' MULTIFAMILY PERFORMANCE IMPROVED IN 2017 DESPITE LINGERING CHALLENGES.**

While flat occupancy and decelerating rent growth characterized the national market, Hampton Roads ticked up slightly in both categories between 2016 and 2017. Historically speaking, Hampton Roads has enjoyed very low volatility regarding apartment fundamentals. The region does not experience the double-digit rent growth occasionally seen in specific supply constrained core markets but it also rarely endures negative rent growth. The reality is that Hampton Roads often underperforms when the national multifamily market is in an early to mid-expansion period, falls in line during late-expansion and outperforms through the recession and early-recovery phases. As the national market entered the later stages of the most recent expansion, it is not surprising to see apartment fundamentals in Hampton Roads begin to converge with the broader market. As we look towards 2018, the broader national market is experiencing mean reversion, which has traditionally set the stage for Hampton Roads to outperform. There is absolutely an opportunity to realize this scenario, but there are some genuine challenges to overcome.

**NEW SUPPLY - DELIVERIES AND CONSTRUCTION**

The total inventory of apartments in Hampton Roads increased by approximately 10% since 2013. That is a significant increase but is substantially in line with growth at the national level over the same period. New deliveries each year from 2013 to 2016 surged to levels well in excess of the market’s historical average. Development activity decreased significantly in 2017, which contributed to improved fundamentals last year. However, new deliveries are expected to ramp up again in 2018 before a more protracted taper from 2019 to 2022.
Before giving too much or too little import to the anticipated spike in 2018 deliveries, it is essential to bear in mind that the dilutive impact of new supply is experienced more at the micro, neighborhood level than it is at the macro submarket or market level. Multiple projects leasing up in relatively close proximity will invariably have an adverse effect on the communities in that immediate area and on similar product in adjoining neighborhoods. However, new supply, in and of itself, does not necessarily represent a deterioration of fundamentals at the market or submarket level. In addition to surplus demand, the appropriate distribution of new projects, both geographically within a market and by product type, can and will insulate the broader market/submarket against the deleterious effects of a hyper-supply environment.

Virginia Beach and Norfolk are prime examples of this. They were number one and two respectively in terms of gross units added over the last five years, but the relative change to each of their respective inventories was roughly in-line with the market average. The new supply was generally well-distributed across multiple submarkets with relatively strong demand. While there assuredly are pockets within those submarkets that have seen some short-term dilution as a result of the new supply, both submarkets currently have higher occupancy rates than the Hampton Roads average.

**ECONOMIC AND DEMOGRAPHIC DEMAND DRIVERS**

There is perhaps no variable more directly correlated to multifamily performance than job growth. Consequently, it is significant that Moody’s Analytics currently estimates that Hampton Roads lost 1,500 jobs in 2017—a 0.2% reduction versus the prior year. Since 2011, total employment in Hampton Roads grew at an average rate of 0.6% annually while the broader U.S. market gained 1.7% per year. For better or worse, the Hampton Roads economy is still highly sensitive to expansion and contraction in the size of the U.S. military and closely related levels of defense spending. Despite gradual diversification represented by gains in the areas of trade, professional and business services, education and health services and leisure and hospitality services, the area’s short-term employment outlook continues to be weak.
While the impact on multifamily is not quite as pronounced as employment growth, increases and decreases in population, household formation rate, and personal income will also have an impact on the multifamily demand. All else equal, more people seeking housing with more money to spend reduces vacancy and allows for rent growth. Hampton Roads has generated positive figures for each of these variables, but still, the rate of growth has materially lagged the United States average over the past six years.

It is important to note that the apparent convergence between the United States and Hampton Roads averages during the forecast period is a product of the metrics deteriorating at a national level rather than any marked improvement in Hampton Roads economic fundamentals. Some degree of uncertainty in regards to the effectiveness of current U.S. policy-making decisions is leading to muted expectations on growth.

Bearing all of this in mind, Moody’s Analytics concludes that Hampton Roads’ “gap with the U.S. will shrink in 2018 and growth could surprise on the upside if Congress lifts the cap on defense spending. Consumer services will recover, and trade will be a pillar of strength. ...[However,] longer term, [Hampton Roads] will slightly lag the U.S. due to an overreliance on federal spending.”
As cap rates continue to tighten to historically low levels in the core national and regional multifamily markets, secondary regional markets like Hampton Roads have become an attractive alternative for many investors searching for yield. While the vast majority of transactions as recently as five years ago included mostly local and regional players, some large institutional groups have entered the market and are actively looking to acquire and expand. The increased demand over the last couple years has spurred higher deal volume and driven the average cap rate back under 5.5%.

### NOTABLE 2017 TRANSACTIONS

<table>
<thead>
<tr>
<th>Property Name</th>
<th># Units</th>
<th>Built</th>
<th>Location</th>
<th>Price</th>
<th>$/Unit</th>
<th>Sale Date</th>
<th>Buyer</th>
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<tr>
<td>Reflections at Virginia Beach</td>
<td>480</td>
<td>1987</td>
<td>Virginia Beach</td>
<td>$60,750,000</td>
<td>$126,563</td>
<td>Dec-17</td>
<td>The Breeden Company</td>
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<td>Banyan Grove</td>
<td>288</td>
<td>2003</td>
<td>Virginia Beach</td>
<td>$46,000,000</td>
<td>$159,722</td>
<td>Aug-17</td>
<td>Bentall Kennedy/Croatan</td>
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<td>Sterling Manor</td>
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<td>2008</td>
<td>Williamsburg</td>
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<td>1986</td>
<td>James City County</td>
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<td>Somerset Apartment Mgmt.</td>
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<td>Cove Point at the Landings</td>
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<td>2015</td>
<td>Norfolk</td>
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<td>$199,590</td>
<td>Aug-17</td>
<td>Bonaventure Realty Group</td>
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<td>The Reserves at Arboretum</td>
<td>143</td>
<td>2009</td>
<td>Newport News</td>
<td>$21,900,000</td>
<td>$153,147</td>
<td>Sep-17</td>
<td>Lakeside Capital Advisors</td>
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<td>Heather Lake</td>
<td>252</td>
<td>1971</td>
<td>Hampton</td>
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<td>$84,921</td>
<td>Dec-17</td>
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<td>The Courts at Yorkshire Downs</td>
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<td>1987</td>
<td>York County</td>
<td>$19,655,200</td>
<td>$97,303</td>
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<td>Harbor Group International</td>
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<td>1969</td>
<td>Newport News</td>
<td>$19,200,000</td>
<td>$123,077</td>
<td>Oct-17</td>
<td>K2 Real Estate Partners</td>
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<td>Luna Pointe Apartments</td>
<td>210</td>
<td>1986</td>
<td>Hampton</td>
<td>$18,000,000</td>
<td>$85,714</td>
<td>Jul-17</td>
<td>Croatan Investments</td>
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</table>
Despite underperforming the national average relative to several key economic and demographic indicators, the Hampton Roads multifamily market as a whole was still able to increase occupancy and effective rental rates in a year when it was expected to be flat to slightly down. The keys to the short-term success included a brief lull in new supply and a disproportionately large renter population – evidenced by a higher than average percentage of the Hampton Roads population being in the vital renter cohort of 20 to 34-year-olds. The latter is a positive byproduct of the heavy military presence in the area. Nonetheless, average occupancy levels in Hampton Roads continue to lag both the U.S. average and the long-term average for the market while the effective rental rate growth is in line with the national average but still below the historical average.

2018 is shaping up to be a remarkably average year for multifamily in Hampton Roads. Much like 2017, despite job, population, and income growth figures that lag U.S. averages, the market’s broad, existing renter pool should enable it to absorb the uptick in new supply while simultaneously generating effective rent growth that is roughly in line with the historical average for the market.
THE METAPHOR “WHAT INNING ARE WE IN” NO LONGER APPLIES

2018 begins the eighth year of the current real estate cycle with many potential impacts on commercial real estate on the horizon. The passage of the new tax law, potential infrastructure legislation, capital spending, and a tight job market could all have profound impacts. According to the 2018 Emerging Trends in Real Estate Report published by PwC and the Urban Land Institute, most investors are not ready to proclaim that cyclical risk is no longer applicable, but most have a sense that no particular timetable clearly defines the current market cycle. There is a growing belief that we are experiencing more of a secular cycle style pattern versus the boom and bust cycles we have become accustomed to with the S&L crises, the dot-com bust, and the Great Recession of 2008. The slow pace of GDP growth, wage stagnation, low worker productivity, market discipline with equity and debt, and supply and demand remaining in balance all continue to strengthen this outlook. However, a low unemployment rate, a policy shift toward Fed tightening, high asset prices in real estate, and stock market highs work to counterbalance the “soft landing” viewpoint.

ANNUAL REAL GDP AND EMPLOYMENT GROWTH, CURRENT AND FIVE BUSINESS CYCLES

Source: U.S. Bureau of Economic Analysis.
Note: Months = months of growth per cycle, through to peak, as identified by the National Bureau of Economic Research.
SNAPSHOT OF NEW TAX LAW IMPACTS ON CRE:

- For CRE businesses set up as pass-through entities, the 20% deduction will boost after tax-income.
- The like-kind 1031 exchange remains in place.
- For CRE private equity firms, the holding period of investments for carried interest is extended from one year to three years.
- The Bill caps the business deduction for debt interest payments at 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA).
- Most forecasts show a 50-75 basis point increase in economic growth in 2018.

CAPITAL MARKETS

The amount of available capital for U.S. real estate investment remains robust, but favors a more conservative distribution of risk among both equity and debt investors. With the rise in real estate asset valuations over the last several years, capitalization rates are expected to remain flat for the foreseeable future. Investors will continue to focus more on property cash flows to drive returns with less emphasis on speculative returns of capital through capitalization rate compression. Equity investors are showing more selectivity as rent recoveries have matured in many markets and property valuations have risen past previous peak levels. Note the decrease in sales velocity since 2015.

![US Sales of Large Commercial Properties](chart.png)

Lenders remain reluctant to lend on speculative development and Loan-to-Value ratios are still averaging between 55% - 65% for most transactions. This phenomenon holds true even in strong sectors, such as multifamily, or favored regions in sections, such as the Southeastern U.S. With borrowers still seeking to maximize loan proceeds, there is an increased opportunity in the middle of the capital stack for mezzanine lenders and preferred equity. Low leverage, moderate assumption, and accurate risk pricing will continue to shape capital markets for years to come.
MARKETS TO WATCH

The search for yield is driving investors to seek better returns outside of primary markets where there is an adequate risk/return profile. For many investors, this means the continued trend of investing in the “18-hour” cities and robust secondary markets. Access to a talented labor pool is becoming more critical for companies when choosing their locations. MSA’s that offer a low-cost living, high quality of life, and amenities will continually attract the educated workforce that firms are looking for as demographics continue to shift and the overall labor pool tightens. Results of the 2017 Best-Performing Cities report by the Milken Institute, ranked the top 25 cities according to a fact-based set of metrics such as job creation, wage gains, and technology developments to evaluate relative growth of metropolitan areas. Virginia Beach/Norfolk was ranked 180 out of 200.

U.S. MARKETS TO WATCH: OVERALL REAL ESTATE PROSPECTS

<table>
<thead>
<tr>
<th>Metropolitan Statistical Area (MSA)/Metropolitan Division (MD)</th>
<th>2017 Rank</th>
<th>2016 Rank</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Provo-Orem, UT (MSA)</td>
<td>1</td>
<td>2</td>
<td>+1</td>
</tr>
<tr>
<td>Raleigh, NC (MSA)</td>
<td>2</td>
<td>6</td>
<td>+4</td>
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<tr>
<td>Dallas-Plano-Irving, TX (MD)</td>
<td>3</td>
<td>5</td>
<td>+2</td>
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<td>San Francisco-Redwood City-South San Francisco, CA (MSA)</td>
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<td>4</td>
<td>Steady</td>
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<td>Fort Collins, CO (MSA)</td>
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<td>Naples-Immokalee-Marco Island, FL (MSA)</td>
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<tr>
<td>Fort Lauderdale-Pompano Beach-Deerfield Beach, FL (MD)</td>
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<td>Charleston-North Charleston, SC (MSA)</td>
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<td>Denver-Aurora-Lakewood, CO (MSA)</td>
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<td>13</td>
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<tr>
<td>Portland-Vancouver-Hillsboro, OR-WA (MSA)</td>
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<td>14</td>
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<tr>
<td>Fayetteville-Springdale-Rogers, AR-MO (MSA)</td>
<td>25</td>
<td>30</td>
<td>+5</td>
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</tbody>
</table>

Source: Milken Institute
Hampton Roads continued to experience positive momentum in investment sales across all property types in 2017. Key transactions included:

**OFFICE:**
- The ADP Building in Norfolk (288,662 SF) sold for $57,000,000, or $197.46 per square foot.

**RETAIL:**
- Greenbrier Square in Chesapeake (267,102 SF) sold for $38,700,000, or $144.89 per square foot.
- JANAF Shopping Center and its outparcels (totaling 880,250 SF) sold for $85.65 million to Wheeler REIT.

**MULTIFAMILY:**
- Latitudes Apartments in Virginia Beach sold for $55,880,000, or $124,730 per unit.

**INDUSTRIAL:**
- Cavalier Distribution Center in Chesapeake (125,906 SF) sold for $7,550,000, or $59.97 per square foot.
- Care-A-Lot purchased a manufacturing building, a distribution building, and ten developable acres on London Bridge Road in Virginia Beach. The sale price was $8,500,000.

**HOSPITALITY:**
- Waterside Marriott in Norfolk sold to Lingerfelt Commonwealth for an estimated $35 million, or $86,420 per key.

Hampton Roads saw sustained economic growth in 2017 and current trends in the market support another good year as real estate fundamentals continue to improve across the board. There is a possibility of better than expected results if increases in defense spending and infrastructure spending materialize in 2018.
It was another good year for residential for-sale real estate in 2017, marking the third straight year of gains. In Hampton Roads, overall closings were up 3.87%, following substantial increases in 2015 and 2016. Consumer confidence continued to grow thanks to low unemployment, rising wages, low interest rates and significant equity gains since the housing trough in 2008. This confidence helped feed the move-up market in new construction, while resale continued to fill the gap for many first-time buyers. Pricing power remained good, but at a slightly declining rate of growth with YoY gains in the median pricing of 2.4%. With little anticipation of significant shifts in the macro environment, and fueled by demographic changes, we foresee robust growth, but at a diminishing rate, into 2018.

Last year we suggested that in response to rising prices, especially with new construction detached pricing hitting some high marks in Chesapeake and Virginia Beach, buyers would continue to migrate south to the greater Moyock market in search of affordability. That seems to have occurred and the shift was exacerbated by Ryan Homes entry into that submarket. While closings for Northeast North Carolina were only up 1.92% YoY, that number will significantly grow when Ryan starts to close their 2017 sales. Average closed sales prices rose a phenomenal 8.1% YoY but remained well over $100,000 below average closed sales prices in Chesapeake and Virginia Beach.

While the picture is bright for housing, there are always potential limiters on the horizon. In 2017 continued declines in inventory put some real constraints on demand. Single-family housing inventory at the start of 2018 was the lowest it had been in ten years. Months to absorb inventory hit a low of 3.9 months at the end of December. New construction will bear much of the burden of solving this imbalance. However, land is scarce and expensive, keeping upward pressure on pricing and limiting builder’s abilities to serve the first-time buyer market. Rising median prices have already caused some shifts in buying habits as attached new construction closings were up 12.2% YoY while detached closings fell by 3.5%. Interest rates saw some gains, but stayed well below the 5.0% range that most economists had predicted we would see by the end of 2017. There seems to be the general consensus for rates to stabilize in 2018 in the 4.25% range. These rates should not have a significant impact on affordability and, when combined with an ongoing easing of underwriting standards, will continue to help many first time buyers jump onto the housing ladder.
THE RESALE MARKET

Gains continued into 2017 in the resale market in Hampton Roads with closings, revenue, and median closed sales prices all rising YoY. Residential resale closings increased by 4.5% over 2016 to 22,924 closings. Revenues grew by 5.5% to $5,420,942,331 with overall median prices up by 2.4%. Detached homes carried 78.2% of all closings, with resale homes finding much traction with first-time buyers. Resale detached home sales under $300,000 grabbed a 69.94% share on the Southside, contrasted by new construction which only carried a 37.04% share in that same price band. On the Peninsula, the numbers were 72.58% and 26.64% respectively. Rising prices seemed to be the catalyst for a slight shift to both resale (which grabbed 88.0% of the market for sales in 2017) and to attached product (which saw a 2.3% gain in market share YoY), trends that may well continue if inventory remains at such low levels and prices continue to trend up in new construction.

THE NEW CONSTRUCTION MARKET

Builders enjoyed upward movement across almost all metrics in 2017, albeit at a slightly moderated pace from 2016. There were gains in the number of closings, average sales price and revenue. As before, the Southside market accounted for just over 75% of all closings in Hampton Roads. New construction’s share of all residential closings lost some ground in 2017, ending with a 12.0% share. Overall median closed home pricing took a slight dip of -1.9% YoY, but this was driven primarily by the shift from detached to attached sales as attached sales were up 12.2% YoY.

2017 versus 2016 RESIDENTIAL NEW CONSTRUCTION HIGHLIGHTS

Closings were up 1.0% with 33 more closings totaling 3,247
Median Sales Price was down 1.9% to $310,831, marking a shift to attached product
Total Revenue was up 1.06%, an increase of $11.7M to $1.114B
HAMPTON ROADS TOP SUBDIVISIONS
-- 2017

Again in 2017, the #1 position by closings was held by Spence Crossing in Virginia Beach, a Dragas Cos. community, with 160 closings (a gain of almost 26% YoY!). Spence Crossing is comprised of four active neighborhoods offering both attached and detached product. Dragas has a solid foothold in the first time buyer market, with closed prices in the Fernhill neighborhood averaging $212,447 in 2017. Rounding out the Top 5 subdivisions were Culpepper Landing (Chesapeake), newcomer White Hall (James City County), Benn’s Grant (IOW Cty.) and Kings Pointe (Chesapeake). Ranking by revenues tracked pretty closely with closings, but Dominion Meadows (Chesapeake) grabbed the #5 spot thanks to their average closed sales price of $402,525.

<table>
<thead>
<tr>
<th>City/County</th>
<th>Closings thru Q4</th>
<th>Median Sales Price thru Q4</th>
<th>Avg Sales Price thru Q4</th>
<th>Revenue thru Q4</th>
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<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>% Change</td>
<td>2016</td>
</tr>
<tr>
<td>CHES</td>
<td>994</td>
<td>978</td>
<td>-1.6%</td>
<td>355,000</td>
</tr>
<tr>
<td>I of W</td>
<td>114</td>
<td>104</td>
<td>-8.8%</td>
<td>362,468</td>
</tr>
<tr>
<td>NORF</td>
<td>279</td>
<td>303</td>
<td>8.6%</td>
<td>256,100</td>
</tr>
<tr>
<td>PORT</td>
<td>107</td>
<td>151</td>
<td>41.1%</td>
<td>217,900</td>
</tr>
<tr>
<td>SUFF</td>
<td>286</td>
<td>399</td>
<td>39.5%</td>
<td>294,583</td>
</tr>
<tr>
<td>VBCH</td>
<td>644</td>
<td>504</td>
<td>-21.7%</td>
<td>344,847</td>
</tr>
<tr>
<td>Total Southside</td>
<td>2424</td>
<td>2439</td>
<td>0.6%</td>
<td>310,000</td>
</tr>
<tr>
<td>GLOU</td>
<td>97</td>
<td>104</td>
<td>7.2%</td>
<td>299,830</td>
</tr>
<tr>
<td>HAMP</td>
<td>144</td>
<td>148</td>
<td>2.8%</td>
<td>269,200</td>
</tr>
<tr>
<td>JCC</td>
<td>323</td>
<td>331</td>
<td>2.5%</td>
<td>360,503</td>
</tr>
<tr>
<td>NNEWS</td>
<td>107</td>
<td>64</td>
<td>-40.2%</td>
<td>332,381</td>
</tr>
<tr>
<td>WMSBG</td>
<td>37</td>
<td>31</td>
<td>-16.2%</td>
<td>286,167</td>
</tr>
<tr>
<td>YORK/POQ</td>
<td>82</td>
<td>130</td>
<td>58.5%</td>
<td>358,776</td>
</tr>
<tr>
<td>Total Peninsula</td>
<td>790</td>
<td>808</td>
<td>2.3%</td>
<td>326,682</td>
</tr>
<tr>
<td>Hampton Roads</td>
<td>3214</td>
<td>3247</td>
<td>1.0%</td>
<td>317,001</td>
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</table>

<table>
<thead>
<tr>
<th>Subdivision</th>
<th>Closings Recorded</th>
<th>Average Price</th>
<th># Bids</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SPENCE CROSSING, V</td>
<td>160</td>
<td>$275,948</td>
<td>1</td>
</tr>
<tr>
<td>2 CULPEPPER LANDING, C</td>
<td>74</td>
<td>$374,296</td>
<td>3</td>
</tr>
<tr>
<td>3 WHITE HALL, J</td>
<td>68</td>
<td>$314,836</td>
<td>1</td>
</tr>
<tr>
<td>4 BENN’S GRANT, IOW</td>
<td>66</td>
<td>$331,939</td>
<td>1</td>
</tr>
<tr>
<td>5 KINGS POINTE AT WESTERN BRANCH, C</td>
<td>63</td>
<td>$194,213</td>
<td>1</td>
</tr>
<tr>
<td>6 REUNION, C</td>
<td>53</td>
<td>$228,463</td>
<td>1</td>
</tr>
<tr>
<td>7 THE VILLAGE AT CANDLESTATION, J</td>
<td>52</td>
<td>$312,024</td>
<td>1</td>
</tr>
<tr>
<td>8 DOMINION MEADOWS, C</td>
<td>51</td>
<td>$402,525</td>
<td>1</td>
</tr>
<tr>
<td>9 NEW PORT, P</td>
<td>50</td>
<td>$232,505</td>
<td>1</td>
</tr>
<tr>
<td>10 OCEAN VIEW, N</td>
<td>49</td>
<td>$304,946</td>
<td>11</td>
</tr>
<tr>
<td>11 EAGLE POINTE, C</td>
<td>49</td>
<td>$345,103</td>
<td>1</td>
</tr>
<tr>
<td>12 OLAH’S LANDING, C</td>
<td>42</td>
<td>$470,319</td>
<td>2</td>
</tr>
<tr>
<td>13 NEW TOWN, J</td>
<td>41</td>
<td>$344,738</td>
<td>2</td>
</tr>
<tr>
<td>14 THE RESERVE AT WILLIAMSBURG, J</td>
<td>38</td>
<td>$281,452</td>
<td>1</td>
</tr>
<tr>
<td>15 NORFOLK HIGHLANDS, C</td>
<td>36</td>
<td>$270,705</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subdivision</th>
<th>Total Revenue</th>
<th># Bids</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SPENCE CROSSING, V</td>
<td>$44,151,670</td>
<td>1</td>
</tr>
<tr>
<td>2 CULPEPPER LANDING, C</td>
<td>$27,697,897</td>
<td>3</td>
</tr>
<tr>
<td>3 WHITE HALL, J</td>
<td>$21,907,968</td>
<td>1</td>
</tr>
<tr>
<td>4 BENN’S GRANT, IOW</td>
<td>$21,408,860</td>
<td>1</td>
</tr>
<tr>
<td>5 DOMINION MEADOWS, C</td>
<td>$20,528,788</td>
<td>1</td>
</tr>
<tr>
<td>6 OLAH’S LANDING, C</td>
<td>$19,753,383</td>
<td>2</td>
</tr>
<tr>
<td>7 NORTH END, V</td>
<td>$17,228,868</td>
<td>10</td>
</tr>
<tr>
<td>8 EAGLE POINTE, C</td>
<td>$16,910,056</td>
<td>1</td>
</tr>
<tr>
<td>9 THE VILLAGE AT CANDLESTATION, J</td>
<td>$16,225,239</td>
<td>1</td>
</tr>
<tr>
<td>10 LIBERTY RIDGE, J</td>
<td>$15,561,342</td>
<td>1</td>
</tr>
<tr>
<td>11 OCEAN VIEW, N</td>
<td>$14,942,335</td>
<td>11</td>
</tr>
<tr>
<td>12 FIELDSTONE, C</td>
<td>$14,541,539</td>
<td>4</td>
</tr>
<tr>
<td>13 NEW TOWN, J</td>
<td>$14,134,266</td>
<td>2</td>
</tr>
<tr>
<td>14 HANBURY WOODS, C</td>
<td>$13,811,045</td>
<td>4</td>
</tr>
<tr>
<td>15 RIVERVIEW AT THE PRESERVE, C</td>
<td>$12,800,384</td>
<td>1</td>
</tr>
</tbody>
</table>
HAMPTON ROADS TOP BUILDERS -- 2017

Ryan Homes continued their dominance of the Hampton Roads market, booking 610 closings with $218,432,164 in revenues, 138% more than #2 Chesapeake Homes by unit count and 188% more by revenue. Ryan Homes is a portfolio builder who counted closings from thirty-seven active communities. Moreover, these numbers do not include their entree into the NE North Carolina market (whose closings were not tracked in 2017).

Chesapeake Homes jumped into the #2 spot. Like Ryan Homes, they have some nice regional balance, with 23% of their closings coming from the Peninsula. Moreover, they showed some great strength at their Portsmouth community, New Port, with fifty closings there.

Dragas Companies was the #3 builder by closings and revenue. Moreover, what is even more impressive is that the Dragas Cos. operates only on the Southside. These closings came from their closeout of Hadley Park as well as from Kings Point and Spence Crossing.

Rounding out the Top Five builders were HH Hunt Homes and Eagle Construction. The Top 5 builders accounted for 40.6% of all closings in Hampton Roads. It is significant to note that the infill/spot lot builders continue to have a considerable market share in aggregate. After you leave the top twenty builders, 387 builders contributed another 1,204 closings for an average of 3.1 closings/builder and a 37.1% share of the market. Notable among this group are EDC Homes, Wetherington Homes and DSF Development.

The market continues to grow, albeit at a somewhat slower pace. However, the outlook is positive for at least two more years of solid new construction performance!

<table>
<thead>
<tr>
<th>Builder</th>
<th>Closings Recorded</th>
<th>Average Price</th>
<th># Sites</th>
<th>Total Revenue</th>
<th># Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 RYAN HOMES</td>
<td>610</td>
<td>$358,086</td>
<td>37</td>
<td>$218,432,164</td>
<td>37</td>
</tr>
<tr>
<td>2 CHESAPEAKE HOMES</td>
<td>256</td>
<td>$295,787</td>
<td>10</td>
<td>$75,721,538</td>
<td>10</td>
</tr>
<tr>
<td>3 DRAGAS COS</td>
<td>227</td>
<td>$252,428</td>
<td>3</td>
<td>$57,301,169</td>
<td>3</td>
</tr>
<tr>
<td>4 HH HUNT HOMES</td>
<td>142</td>
<td>$323,802</td>
<td>8</td>
<td>$45,979,916</td>
<td>8</td>
</tr>
<tr>
<td>5 EAGLE CONSTRUCTION</td>
<td>84</td>
<td>$386,365</td>
<td>4</td>
<td>$32,454,681</td>
<td>4</td>
</tr>
<tr>
<td>6 EDC HOMES</td>
<td>78</td>
<td>$310,452</td>
<td>34</td>
<td>$31,859,144</td>
<td>6</td>
</tr>
<tr>
<td>7 HEARNDON CONST</td>
<td>77</td>
<td>$372,898</td>
<td>3</td>
<td>$28,713,167</td>
<td>3</td>
</tr>
<tr>
<td>8 NAPOLITANO HOMES</td>
<td>76</td>
<td>$419,199</td>
<td>6</td>
<td>$24,215,222</td>
<td>3</td>
</tr>
<tr>
<td>9 TERRY PETERSON RES</td>
<td>75</td>
<td>$289,696</td>
<td>4</td>
<td>$22,106,369</td>
<td>15</td>
</tr>
<tr>
<td>10 WETHERINGTON HOMES</td>
<td>73</td>
<td>$269,529</td>
<td>25</td>
<td>$19,675,625</td>
<td>25</td>
</tr>
<tr>
<td>11 CORINTH RES</td>
<td>47</td>
<td>$256,495</td>
<td>2</td>
<td>$17,900,418</td>
<td>6</td>
</tr>
<tr>
<td>12 BISHARD HOMES</td>
<td>46</td>
<td>$480,573</td>
<td>15</td>
<td>$16,636,576</td>
<td>9</td>
</tr>
<tr>
<td>13 DSF DEVELOPMENT</td>
<td>35</td>
<td>$303,297</td>
<td>9</td>
<td>$15,257,497</td>
<td>3</td>
</tr>
<tr>
<td>14 PLATINUM HOMES</td>
<td>34</td>
<td>$526,483</td>
<td>6</td>
<td>$13,039,687</td>
<td>6</td>
</tr>
<tr>
<td>15 HAV INC</td>
<td>34</td>
<td>$419,338</td>
<td>3</td>
<td>$11,074,906</td>
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</tr>
</tbody>
</table>
The E.V. Williams Center for Real Estate created the *Hampton Roads Real Estate Markets Sentiment Survey* in fall 2015. This survey, conducted annually via email, intends to gather a greater understanding of the Hampton Roads real estate community’s attitude towards the current and the future real estate market sectors. The 2018 Sentiment Survey, collected in January, had 117 respondents. Survey questions 1 and 3 requested information on respondents and their Hampton Roads real estate market activities.

**Q.1.** Please identify your primary Hampton Roads real estate activity (select one).

**Q.3.** Please identify your primary real estate market affiliation (select one).
Questions 4 and 5 show high levels of sentiment (all sectors above ‘neutral’ and three of seven sectors above ‘mild positive’) for all Hampton Roads real estate market segments. Respondents show the most positivity for the industrial real estate market segment followed by the residential sectors. Six-month projections show a decrease in multi-family residential sentiment and sentiment increases to industrial, office, and retail. Respondents may be indicating a rotation from high levels of sentiment in multi-family residential to these other sectors. Retail had the lowest sentiment level but is expected to increase over the next six months.

Respondents suggested that the industrial real estate sector has the best investment potential looking forward. Interestingly, results show a significant decrease in the perceived investment potential of the Hampton Roads’ multi-family residential sector – even though responses in 2016 and 2017 showed that this sector had the best investment potential. Single-family residential also had a significant decrease from recent prior years.
Positive news is reflected in responses to Question 7, as more people intend to expand their real estate space usages rather than contract or reduce their space usage. However, retail is the one exception to this general finding.

Q.7. We would like to understand your anticipated real estate usage over the next 6 months. Please indicate if you plan to expand or contract your use or ownership of space (please answer each row).

Q.8. Over the next 6 months, what is your expectation for the change in general mortgage interest rates? (select one).
Although Hampton Roads’ communities have begun planning for the impending effects of sea-level rise, most survey respondents indicate that sea-level rise currently has generally ‘moderate’ to ‘no impact’ on their Hampton Roads real estate interests.

Q.9. Please choose the statement below that best reflects the impact of sea-level rise on your Hampton Roads real estate interests (select one).

<table>
<thead>
<tr>
<th>Level of Impact</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe Impact</td>
<td>20%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Moderate Impact</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>Minimal Impact</td>
<td>25%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>No Impact</td>
<td>45%</td>
<td>40%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Thank you, Valbridge Property Advisors for sponsoring the 2018 Hampton Roads Real Estate Markets Sentiment Survey.

If you would like to participate in this survey, please contact E.V. Williams Center for Real Estate Director, Andy Hansz at jhansz@odu.edu.
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Larry J. Lombardi, Director
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Larry.Lombardi@CurrituckCountyNC.gov
153 Courthouse Road, Currituck, North Carolina 27929
ThinkCurrituck.com
The E.V. Williams Center for Real Estate strives to connect those engaged or interested in real estate and economic development to the research, curriculum and students at Old Dominion University (ODU). Through programming, research initiatives and publications the Center partners with its members, ODU alumni and business leaders to educate the community and provide ODU students with enrichment experiences that facilitate their professional development.

For membership or programming inquiries, please contact Andy Hansz (jhansz@odu.edu) or Natalie Boehm (nmcgaugh@odu.edu).