Annual Growth Rate in Real GDP: Hampton Roads and the United States, 2001 to 2017

Source: Bureau of Economic Analysis and the Old Dominion University Economic Forecasting Project. Data on GDP incorporates latest BEA revisions in September 2017. For 2017, US GDP is advance BEA estimate, while Hampton Roads GDP is ODU estimate.
Recovery from the Great Recession: Measured in Total Jobs Restored
United States, Virginia, and Hampton Roads, 2007-2017

Pre-Recession Peak Dates:
U.S.: January, 2008
Virginia: April, 2008
Hampton Roads: July, 2007

Source: Bureau of Labor Statistics seasonally adjusted data and Old Dominion University Economic Forecasting Project. Peak Pre-Recession Dates are July 2007 (Hampton Roads), January 2008 (United States), and April 2008 (Virginia). Data are through December 2017 for VA and HR, and January 2018 for U.S..
Estimated Direct DOD Spending in Hampton Roads, 2000 to 2017

Source: U.S. Department of Defense and the Old Dominion University Economic Forecasting Project. *Includes Federal Civilian and Military Personnel and Procurement. Data for 2016 are estimates and data for 2017 are forecasts.
## Estimated Average Compensation Hampton Roads, Selected Categories: 2015 and 2016

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2016</th>
<th>Change in Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military</td>
<td>$91,561</td>
<td>$92,189</td>
<td>0.69%</td>
</tr>
<tr>
<td>Federal Civilian Govt. Employees</td>
<td>$107,322</td>
<td>$109,624</td>
<td>2.15%</td>
</tr>
<tr>
<td>State and Local Govt. Employees</td>
<td>$62,602</td>
<td>$64,164</td>
<td>2.49%</td>
</tr>
<tr>
<td>Private Nonfarm</td>
<td>$42,189</td>
<td>$41,751</td>
<td>-1.04%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis and Old Dominion University Economic Forecasting Project. Compensation includes wages, salaries, and benefits.
Caps on Defense Discretionary Spending, FY 2012 to FY 2021

Billions of dollars

Source: Budget Control Act of 2011, OMB Sequestration Reports (various years), Further Extension of Continuing Appropriations Act, 2018 (HR 1892), and the Old Dominion University Economic Forecasting Project
Annual Civilian Employment (Jobs) in Hampton Roads, 1999 to 2017

Source: U.S. Department of Labor CES data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Data will be revised in March 2018.
Change in Private Sector Employment: Selected Industries in Hampton Roads, 2007 Q1 to 2017 Q1 (in Thousands)

- Health Care and Social Assistance: 19
  - Accommodation and Food: 4
  - Transportation and Warehousing: 1
  - Professional and Scientific: 1
  - Management of Companies: 1
  - Utilities: -1
  - Finance and Insurance: -2
  - Admin and Support: -3
  - Real Estate: -4
  - Information: -5
  - Wholesale Trade: -5
  - Retail Trade: -6
  - Manufacturing: -7
  - Construction: -11

Source: Virginia Employment Commission: Covered Employment and Wages by Private Ownership and the Old Dominion University Economic Forecasting Project.
Civilian Labor Force in Hampton Roads, 1999 to 2017

Source: U.S. Department of Labor LAUS data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Data will be revised in March/April 2018.
Number of Individuals Employed in Hampton Roads, 1999 to 2017

Source: U.S. Department of Labor LAUS data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Data will be revised in March/April 2018.
Unemployment Rates in the United States, Virginia, and Hampton Roads, 2007-2017

Source: Bureau of Labor Statistics seasonally adjusted data and the Old Dominion University Economic Forecasting Project. Data are through December 2017
### Old Dominion University 2018 Forecast for Hampton Roads MSA

<table>
<thead>
<tr>
<th></th>
<th>2017*</th>
<th>2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Gross Regional Product</td>
<td>$95.78B</td>
<td>$100.01B</td>
<td></td>
</tr>
<tr>
<td>Real Gross Regional Product**</td>
<td>$82.01B</td>
<td>$83.81B</td>
<td>+2.19%</td>
</tr>
<tr>
<td>Civilian Jobs</td>
<td>769,425</td>
<td>773,272</td>
<td>+0.50%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.25%</td>
<td>3.90%</td>
<td></td>
</tr>
<tr>
<td>Taxable Sales</td>
<td>$22.80B</td>
<td>$23.48B</td>
<td>+3.00%</td>
</tr>
<tr>
<td>Hotel Revenue</td>
<td>$841.58M</td>
<td>$874.40M</td>
<td>+3.90%</td>
</tr>
<tr>
<td>General Cargo Tonnage</td>
<td>21.97M</td>
<td>22.56M</td>
<td>+2.70%</td>
</tr>
<tr>
<td>Housing Permit Value</td>
<td>$977.99M</td>
<td>$1,011.46M</td>
<td>+2.40%</td>
</tr>
</tbody>
</table>

*Figures for calendar year 2017 may include predicted values for December 2017. ** Base year is 2009
2018 OFFICE MARKET REPORT

KRISTA COSTA
VICE PRESIDENT
DIVARIS REAL ESTATE
HAMPTON ROADS OFFICE MARKET VACANCY AND CLASS A & B RENTAL RATE

Source: CoStar
NET ABSORPTION

Source: CoStar
Why did 2017 appear so unremarkable?
MAIN STREET TOWER

- US Coast Guard Renewal & Expansion
- Totaled 129,968 Square Feet
400 BUTLER FARM

- Large Insurance Corporation took 100,632 SF Sublease
- Committed to a direct lease to extend the term
Sublease Vacancy Rate

Source: CoStar
DOLLAR TREE HEADQUARTERS

- Located on the Dollar Tree campus off Volvo Parkway in Chesapeake
- 256,000 Square Feet
- 100% Occupied by Dollar Tree
Building One @ Tech Center
Increasing Investment in Office Properties
ADP BUILDING
Two Commercial Place, Norfolk

- Sale: $57 Million
- $197.46 psf
THE CONCOURSE AT NORTHAMPTON
5800 Northampton Blvd, Norfolk

- $1.3 Billion Portfolio Sale
225 & 229 CLEARFIELD AVE

- 225 Clearfield - $18,352,000 ($437.00 psf)
- 229 Clearfield - $20,048,000 ($452.00 psf)
The Future of Office Leasing
Fighting for Workers
Medical Build to Suits
500 EAST MAIN STREET

- Lobby Renovation
- Create Seating
- Collaboration Area
- Café
2018

NET ABSORPTION

VACANCY

RENT
LANG WILLIAMS, SIOR
SENIOR VICE PRESIDENT
CBRE | HAMPTON ROADS

NORFOLK INDUSTRIAL & LOGISTICS MARKET
AGENDA

- 2017 Norfolk & U.S. Industrial & Logistics Market Highlights
AGENDA

- 2017 Norfolk & U.S. Industrial & Logistics Market Highlights
- Norfolk & the Global Supply Chain
AGENDA

- 2017 Norfolk & U.S. Industrial & Logistics Market Highlights
- Norfolk & the Global Supply Chain
- CBRE Port of Virginia Economic Development Study – Key Findings
AGENDA

- 2017 Norfolk & U.S. Industrial & Logistics Market Highlights
- Norfolk & the Global Supply Chain
- CBRE Port of Virginia Economic Development Study – Key Findings
- Opportunities in 2018 and Beyond
Norfolk 2017 Highlights

- Record Low Vacancy: 4.4%
  - Less than Half the 9.6% Recession High

- Record Low Availability: 6.6%
  - Down from peak of 13.2% in 2010
Norfolk 2017 Highlights

- Net Absorption >2.1 Million Square Feet
  - Five Year Average Net Absorption: 1.1 Million Square Feet
- New Construction >1.29 Million Square Feet
  - Most Since 2008, 1.73 Million Square Feet

Source: CBRE Research
U.S. Industrial Supply and Demand

Source: CBRE Econometric Advisors, Q4 2017.
Supply Chain Analysis

Shippers decide on how to import product largely based on four criteria:

- **SPEED**
- **COST**
- **RELIABILITY**
- **COMPLEXITY**
Key Shipper Question

Where shall I locate my facility to reach the most consumers with the lowest transportation costs?
Virginia’s Global Gateway

Pursuant to Virginia Code Section 62.1-132.4, this is proprietary information and data furnished in confidence to the Virginia Port Authority. This proprietary information shall not be disclosed outside of Virginia International Terminals and the Virginia Port Authority.
Supply Chain Analysis
Service: Parcel Ground

**Key Finding**
Norfolk offers superior ground parcel transit service, offering two-day transit for the entire East Coast, from Maine to Florida. Few locations can offer comparable coverage.

*Source: UPS*
Supply Chain Analysis
Service: **Parcel Ground**

**Locations in Pennsylvania & Maryland** can also provide two-day ground service with UPS to all Atlantic Coast states and most/all areas east of the Mississippi River.
## Industrial Market, Buildings Over 100,000 Square Feet

<table>
<thead>
<tr>
<th>MARKET SIZE (SQUARE FOOTAGE)</th>
<th>PENNSYLVANIA I-78/I-81</th>
<th>NORFOLK</th>
</tr>
</thead>
<tbody>
<tr>
<td>296,419,007</td>
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Source: CBRE Research
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<td>1,173,290</td>
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<td><strong>2018 UNDER CONSTRUCTION</strong></td>
<td>14,248,182</td>
<td>675,000</td>
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Source: CBRE Research
Pennsylvania & Norfolk Logistics Reach

PORT OF NY/NJ

PORT OF VIRGINIA

PORT OF CHARLESTON

PORT OF SAVANNAH
# Industrial Market, Buildings Over 100,000 Square Feet

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Source: CBRE Research
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*Source: CBRE Research*
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Source: CBRE Research
Opportunities For 2018 & Beyond

- Pursue New Investments By E-Commerce Companies
Opportunities For 2018 & Beyond

- Pursue New Investments By E-Commerce Companies
- Attract More Foreign Owned Advanced Manufacturing
Opportunities For 2018 & Beyond

- Pursue New Investments By E-Commerce Companies
- Attract Foreign Owned Advanced Manufacturing
- Support Local Entrepreneurs

Governor McAuliffe Announces 1,110 New Jobs in the City of Virginia Beach

~Global Technical Systems to invest $54.7 million to build 500,000-square-foot green energy facility~
Opportunities For 2018 & Beyond

- Pursue New Investments By E-Commerce Companies
- Attract Foreign Owned Advanced Manufacturing
- Support Local Entrepreneurs
- Invest in Logistics Workforce
“Virginia is for Logistics Lovers”

- More than $1 billion invested in Virginia by port customers
- World’s largest single RMG purchase
- First East Coast call
- 14,000+ TEU container ship

Momentum:
- $695,000,000 investment in capacity-building projects at NIT and VIG underway
- More than 4,000 potential jobs created across the Commonwealth
- Number one in East Coast rail volume
MICHAEL P. ZARPAS
VICE PRESIDENT
S.L. NUSBAUM REALTY CO.
High Five
Key Hampton Roads Market Statistics & Activity

**Net Absorption**
1,100,000 Square Feet

**Vacancy Rate**
4.8%

**New Construction Deliveries**
732,815 Square Feet
My One Obligatory Chart

Source: CoStar Market Analytics (2017)
Top 5 Retail Leases

130,000 SF  Wegmans, Town Center Marketplace, Va Beach
121,273 SF  Walmart, Hilltop Square, Virginia Beach
114,000 SF  Floor & Décor, Pembroke Place, Va Beach
80,000 SF   One Life Fitness, Dam Neck Crossing, Va Beach
75,783 SF   LeMans Karting, Victory West, Portsmouth
Top 5 Retail Sales

$38,700,000  Greenbrier Square, 267,102 SF, Chesapeake
$35,500,000  Harbour View Marketplace, 184,832 SF, Suffolk
$30,480,000  Kramer Tire Portfolio, 131,960 SF, Hampton Rd's
$24,200,000  Mercury Plaza, 139,750 SF, Hampton
$23,625,000  Tidewater 7-11 Portfolio, 20,741 SF, Hampton Rd's
Top 5 Retail Developments

350,000 SF   Norfolk Premium Outlets Phase I, Norfolk
130,000 SF   Waterside District, Norfolk
62,500 SF    Fox Mill Centre Phase II, Gloucester
35,000 SF    Lidl, Nine Locations, Hampton Roads
22,100 SF    Shops at Centerbrooke Village, Suffolk
Norfolk Premium Outlets
Redevelopments

Waterside District

Town Center Marketplace

Peninsula Town Center
Redevelopments

Chesapeake Square

Military Circle
Retail Closures

- Mattress Firm
- Farm Fresh
- Sam’s Club
- Best Buy Mobile
- bebe
- hhgregg
- American Apparel
- kmart
- NOODLES & COMPANY
- Joe’s Crab Shack
- Family Christian Stores
- Payless ShoeSource
- Macy’s
- RadioShack
Grocery Wars
Omni-Channel

Click and Collect

Computer Enhanced Logistics

Augmented Reality (AR)

Virtual Reality (VR)

Artificial Intelligence (AI)
New Tenant Announcements
Expanding Tenants

Big Lots!

Onelife Fitness

Sky Zone

Williams-Sonoma

Wingstop

Field & Stream

Pottery Barn

Marco’s Pizza

O’Reilly Auto Parts

Dick’s Sporting Goods

Five Below

Tuesday Morning

Aldi

At Home

HomeGoods
Expanding Tenants
Expanding Tenants
Retail Apocalypse?
Evolution of Retail
CoStar, ICSC, National Retail Federation, Sandy Dwyer, Adrianna Davis, Susan Childress

AND ALL OF YOU FOR COMING TODAY!
2018 Multifamily Review

Chris McKee
President of Operations
The Franklin Johnston Group
2017 in Review – Supply & Demand Trend - Hampton Roads

Marked decrease in new deliveries in 2017 while absorption remained strong

Source: CosStar Group - December 2017
2017 in Review – Operating Fundamentals Trend – Hampton Roads

Occupancy and Effective Rent Growth both improved versus 2016 but remained below their respective long-term averages
Transactional Environment

Significant increase in transactional volume since 2010 has compressed cap rates to < 6%
Notable Transactions

**Reflections Virginia Beach**
Virginia Beach, VA
480 units built in 1987
$60.75MM in Dec-17
The Breeden Company

**Banyan Grove**
Virginia Beach, VA
288 units built in 2003
$46MM in Aug-17
Croatan Investments & Bentall Kennedy
Notable Transactions

**Sterling Manor**
Williamsburg, VA
207 units built in 2008
$33.6MM in Aug-17
Chaucer Creek Capital

**Steeplechase Apartments**
Williamsburg, VA
220 units built in 1986
$30MM in Aug-17
Somerset Apartment Management
Notable Developments

**Pinnacle**
Hampton, VA
296 units
Stabilized – 88% occupied
Bonaventure Realty Group

**Claimont at Joliff Landing**
Chesapeake, VA
304 units
Lease Up – 62.5% occupied
Kotarides Developers
Notable Developments

**Southern Pine**
Virginia Beach, VA
240 units
Stabilized – 99% occupied
The Franklin Johnston Group

**Venture Apartments**
Newport News, VA
288 units
Stabilized – 90% occupied
Venture Realty Group
Growth rates in Hampton Roads have significantly lagged the U.S. over the past 5 years.

The gap is expected to close as Hampton Roads growth improves modestly while the U.S. slows down.
The depth of the “renter cohort” in Hampton Roads allows the market to withstand some degree oversupply without an adverse impact on operating fundamentals.

Source: Moody’s Analytics/ Pressis Metro / December 2017
Supply & Demand Projections

Deliveries and Absorption Trend - Hampton Roads

Modest surplus in supply in 2018 should give way to relative equilibrium in out years

Source: CosStar Group - December 2017
Operating Forecast 2018 & Beyond

3rd Party Research Provider Composite Trend & Forecast

Sources: CoStar, AXIOMetrics, CBRE Econometric Advisors, REIS, Inc.
Investment Report

Jeremy R. McLendon, MBA
President and Managing Partner
CCP Commercial Real Estate
What inning are we in this real estate cycle........?

Previous cycles contained clear boom and bust periods.

- S&L crisis, Dot-com bust, the Great Recession of 2008.
Secular vs. Cyclical Pattern

- **Secular economic pattern emerging.**
  - Slower pace of GDP growth coming out of the downturn.
  - Wage growth stagnation.
  - Low worker productivity.
  - Market discipline.
- **Counterbalances on the horizon.**
  - Low official unemployment rate (U-3) but more moderate U-6 rate (defined as all employed).
  - Policy shift towards Fed tightening with currently 3-4 projected rate hikes according to 30-day Fed Fund futures.
  - All time highs reached in the stock market.
  - High asset prices in real estate.
  - National debt and budgetary concerns.
U.S. Bureau of Economic Analysis

Annual real GDP Growth  Annual Total Employment Growth

- 1975-1980: 4.5%
- 1980-1981: 4.0%
- 1982-1990: 4.3%
- 1991-2001: 3.6%
- 2001-2007: 2.7%
- 2009-Sept. 2017: 2.2%
Equity Capital:

- Capitalization rates expected to remain flat.
- More focus on property cash flows to drive returns.
- Investors showing more selectivity as rent recoveries have matured in many markets.
- Seeking yield in more secondary and tertiary markets.
U.S. Sales of Large Commercial Properties
Debt Capital:

- Lenders remain reluctant to lend on spec development.
- LTV ratios averaging between 55%-65%.
- Borrowers still seeking to maximize loan proceeds.
- Mezzanine lenders & preferred equity in the capital stack.
- Lower leverage, moderate assumptions, & accurate risk pricing.
Markets to Watch
U.S. Secondary & Tertiary
The great search for Investment Yield!

- **Seeking better returns outside of primary markets.**
  - Trend of increased investment continues in “18-hour cities” and solid secondary markets.

- **Preferred MSA’s - low cost of living, high quality of life, and amenities.**
  - Access to a talented labor pool becoming more critical to companies choosing their office locations.
Milken Institute of 2017 Best Performing Cities Report 2017
(Southeastern MSA’s rankings inclusive of top 15)

- Raleigh, NC ➔ #2
- Nashville-Davidson-Murfreesboro-Franklin, TN ➔ #8
- Charlotte-Concord-Gastonia, NC ➔ #13
- Atlanta-Sandy Springs-Roswell, GA ➔ #14
- Tampa – St. Petersburg – Clearwater, FL ➔ #15
### Area Challenges

- Low to moderate GRDP forecasted.
- Job growth remains tepid.
- Negative to flat population migration.
- Heavy dependence on DOD spending.

### Potential Surprises to the Upside

- Record volumes in TEU’s and tonnage at Port.
- DOD spending is forecasted to increase.
- Increased investor interest in the area.
- Uptick in 1031 exchange requirements.
Key Investment Transactions in Hampton Roads

- **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.
The Residential Market

J. VAN ROSE, JR.
CHIEF OPERATIONS OFFICER
ROSE & WOMBLE REALTY
2017 Year In Review
Sales moved back to 2006 levels with 26,207 units
Sales Remain Robust

# Sales

Source: REIN MLS
Median Prices Continue to Climb About 3.4%/Year

Source: REIN MLS
Sales Pace Quickens

Median Days on Market

- 2006: 32 days
- 2010: 60 days
- 2017: 41 days

Source: REIN MLS
Sales Pace Quickens

Sold in 30 Days or Less

Source: REIN MLS
Who were our Gold Medal Performers?
The in-fill single family market commanded 30% of entire new homes market.
Top Three Builder for 2017

Ryan Homes - 610 closings - Gold
Chesapeake Homes - 256 closings - Silver
Dragas Homes - 227 closings - Bronze
Slight Shift in Product Sales

Hpt. Rds. Sales by Product Type

2017: DET 5965, ATT 5965, Total 20242
2016: DET 5650, ATT 5650, Total 19396
2015: DET 5224, ATT 5224, Total 17932

70% of Sales < $300K

Source: REIN MLS
Market Rebounds from the Bottom Up

- Custom home buyers
- Move up buyers
- First-time home buyer (renters)

Source: Census Bureau
Some sectors continue to struggle: Single family over $600K
Looking Forward - Challenges
Inventory Remains Critically Low

# Homes on the Market on February 1, 2018

8234 Units
Why is Inventory So Low?

Source: John Burns Real Estate Consulting
Rates Should Continue to Rise… but Incrementally

Source: Freddie Mac
2018 Local Builder Threat

- **Ryan Homes** controlled 30% of market in 2017
  Number #4 Homebuilder in U.S.

- **DR Horton** already bought land positions in market for coming year on both sides of water.
  Number #1 Homebuilder in U.S.
Is There a New Housing Bubble coming?
Looking Forward – Opportunities
Homeownership rebounds
National homeownership rate

Source: Census Bureau
Growth of the 55+ Age Cohort In Hampton Roads 2000 - 2015

Source: US Census/ACS
Notable Mortgage Rate Increases

<table>
<thead>
<tr>
<th>Rate</th>
<th>Year</th>
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</thead>
<tbody>
<tr>
<td>14.67</td>
<td>July 1984</td>
</tr>
<tr>
<td>11.26</td>
<td>Oct 1987</td>
</tr>
<tr>
<td>9.20</td>
<td>Dec 1994</td>
</tr>
<tr>
<td>8.52</td>
<td>May 2000</td>
</tr>
<tr>
<td>4.43</td>
<td>Jan 2014</td>
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Home Price Change During that Period

| Change |%
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<td>+6.6</td>
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<td>+10.9</td>
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<td>+9.8</td>
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Trump seeks billions more for military

THE PRESIDENT WILL ASK CONGRESS for $716 billion for national defense in 2019. But his plan falls short of what some defense hawks sought and is more than deficit hawks recommend.
Hampton Roads has grown a fourth leg on its economic engine:

- Defense Spending
- Tourism
- Port Authority
- BioMedical / Health Care
The Forecast for the future appears to be smooth sailing