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MARKET REVIEW & FORECAST

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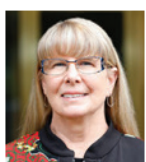

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MESSAGE FROM THE CENTER

It's our pleasure to welcome you to the 2024 Hampton Roads Real Estate Market Review and Forecast. These continue to be uncertain economic, financial and geo-political times. As we all know, real estate is a very distinct asset class. No matter what national and global events may occur, real estate will always be drawn back to the local and the individual sectors. No two real estate markets or sectors will behave exactly the same as each other. We hope that our speakers' insights, drawn from their expertise and knowledge of the Hampton Roads market, will be valuable and thought-provoking. We would like to thank our contributors for their work in preparing their presentations and reports.

The Market Review has been a fixture on the calendar for the real estate community in Hampton Roads for three decades now. Next year will, remarkably, be the 30th Annual Market Review. This is testament to the wide support that the real estate industry has provided. Thank you to all the sponsors of today's event and to those who support the work of the E.V. Williams Center for Real Estate and the Harvey Lindsay School of Real Estate. Sadly, following the passing of Bob Stanton in late 2022, we also lost Harvey L. Lindsay Jr. shortly after last year's Market Review. The Center's fall meeting honored Harvey's contribution to the real estate community in Hampton Roads, and today he will be honored as the recipient of the Robert M. Stanton Legacy Award. Bob and Harvey were the bedrock on which ODU's real estate program was built.

Real estate is an incredibly generous industry in so many ways, including those who give their time. We'd like to thank our Advisory Board, who help guide the work of both the Center and the School, and to all of those professionals who give their time to talk to the Real Estate Club or come into individual classes. We recently collaborated with HRACRE in trying to raise awareness about career opportunities in the commercial sector. The Center is always looking for opportunities to provide additional educational opportunities and to support the local community. If you have any thoughts or suggestions, please reach out to us.

Thank you for attending the 29th Annual Market Review. We appreciate your support of the E.V. Williams Center, and we look forward to seeing you next year to celebrate the 30th Annual Hampton Roads Real Estate Market Review and Forecast.

Simon Stevenson

Robert M. Stanton Endowed Chair in Real Estate & Economic Development

Director, E.V. Williams Center for Real Estate at the Harvey Lindsay School of Real Estate

Finance Department, Strome College of Business

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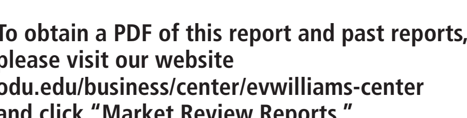
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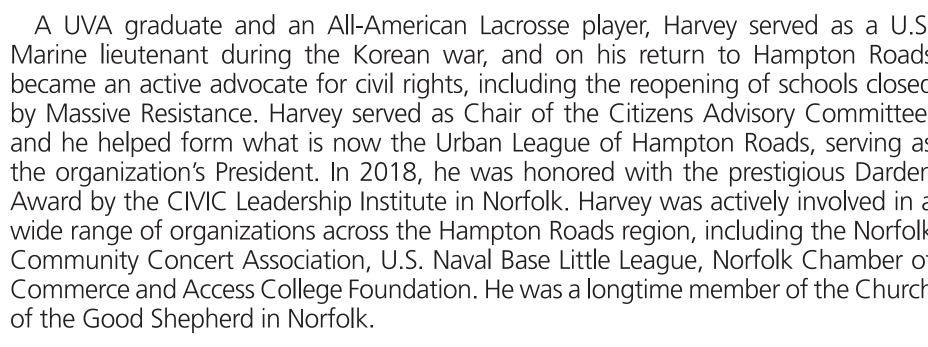
HARVEY L. LINDSAY JR.

(1929-2023)
RECIPIENT OF THE ROBERT M. STANTON LEGACY AWARD

Over the course of a near seven-decade career with the real estate company his father established in 1919, Harvey L. Lindsay Jr. played a central role in forming the landscape of Hampton Roads with numerous iconic developments and projects across the region. He helped shape Norfolk's downtown skyline with projects such as Dominion Tower, the Waterside Festival Marketplace, as well as leading developments throughout the region, such as Military Circle Mall and City Center at Oyster Point in Newport News.



A UVA graduate and an All-American Lacrosse player, Harvey served as a U.S. Marine lieutenant during the Korean war, and on his return to Hampton Roads became an active advocate for civil rights, including the reopening of schools closed by Massive Resistance. Harvey served as Chair of the Citizens Advisory Committee, and he helped form what is now the Urban League of Hampton Roads, serving as the organization's President. In 2018, he was honored with the prestigious Darden Award by the CIVIC Leadership Institute in Norfolk. Harvey was actively involved in a wide range of organizations across the Hampton Roads region, including the Norfolk Community Concert Association, U.S. Naval Base Little League, Norfolk Chamber of Commerce and Access College Foundation. He was a longtime member of the Church of the Good Shepherd in Norfolk.

Closer to home, Harvey was a champion of ODU's real estate program. His desire to support and nurture the next generation of real estate professionals led to the creation of the Harvey Lindsay School of Real Estate, based in the Strome College of Business. The work undertaken in the School, including its close collaboration with the E.V. Williams Center for Real Estate, helping foster students' professional development, would not have been possible without Harvey's support and generous gift.

Sadly, Harvey passed away in April 2023. The E.V. Williams Center's 2023 Fall Meeting at the Barry Art Museum celebrated his contribution to the Hampton Roads region, and this award is a mark of the legacy he has left behind to the real estate industry and community.

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Economic Conditions

In January 2020, 868,037 individuals aged 16 years and over in Hampton Roads reported that they were actively looking for work or employed in some capacity. By May 2020, the civilian labor force had fallen to 825,829 individuals. While the civilian labor force rebounded partially in June and July of 2020, it fell again in the second half of 2020 and would not fully recovery to pre-pandemic levels until early 2020. In November 2023, there were a record 880,760 individuals in the civilian labor force, 11,768 more than January 2020.

Of the 880,760 residents aged 16 and older in the civilian labor force, 852,208 reported that they were employed in some capacity in November 2023, slightly down from the record of 853,321 observed in July 2023. In 2023, the unemployment rate in Hampton Roads started the year at 3.3%, declined to 2.9% in July and August, and was 3.2% in November 2023.

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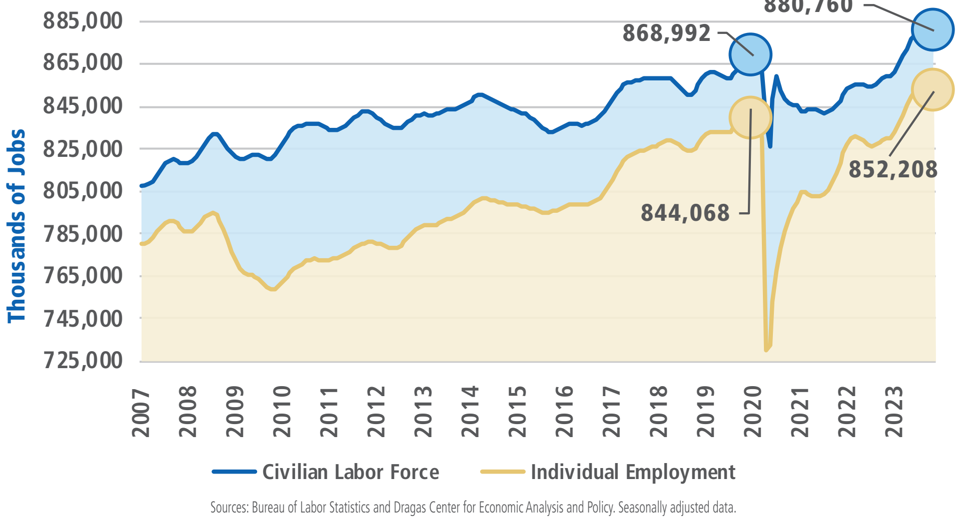

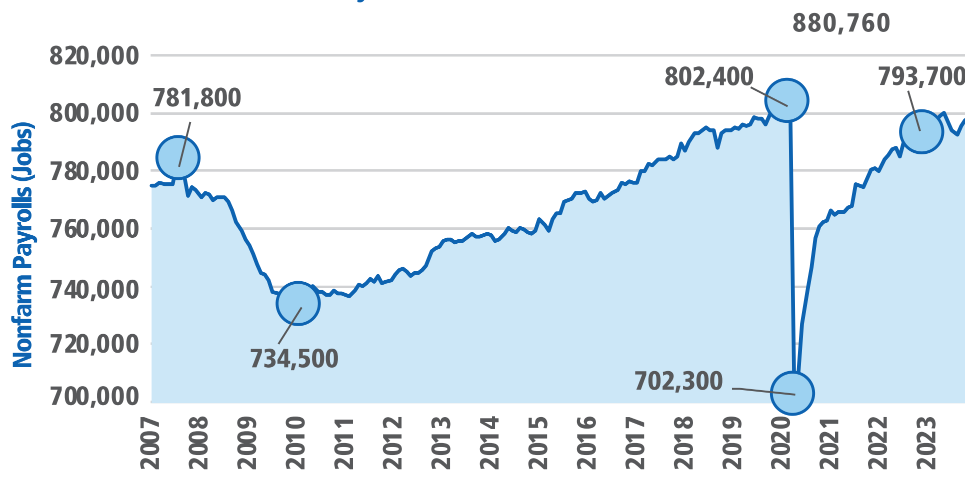

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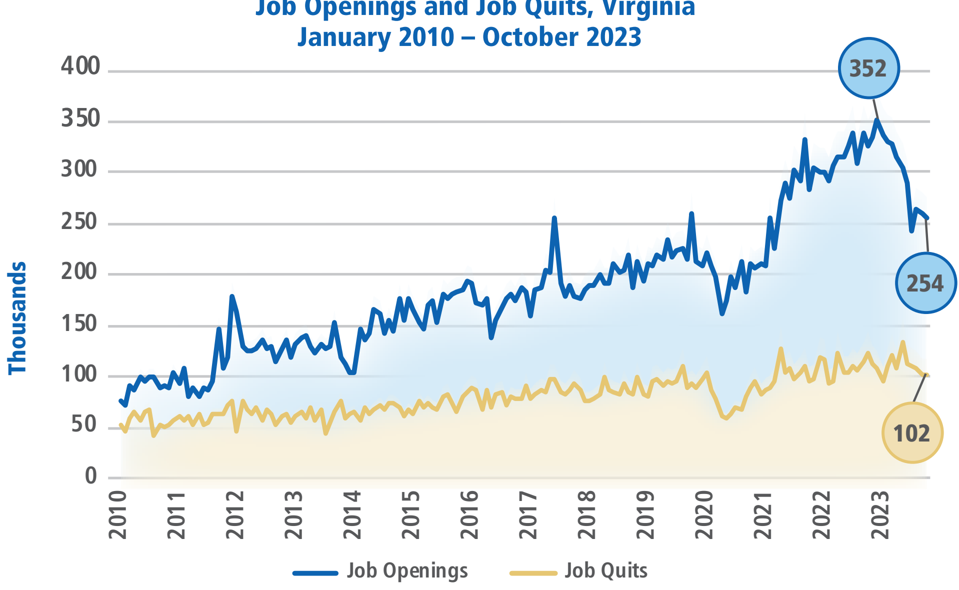
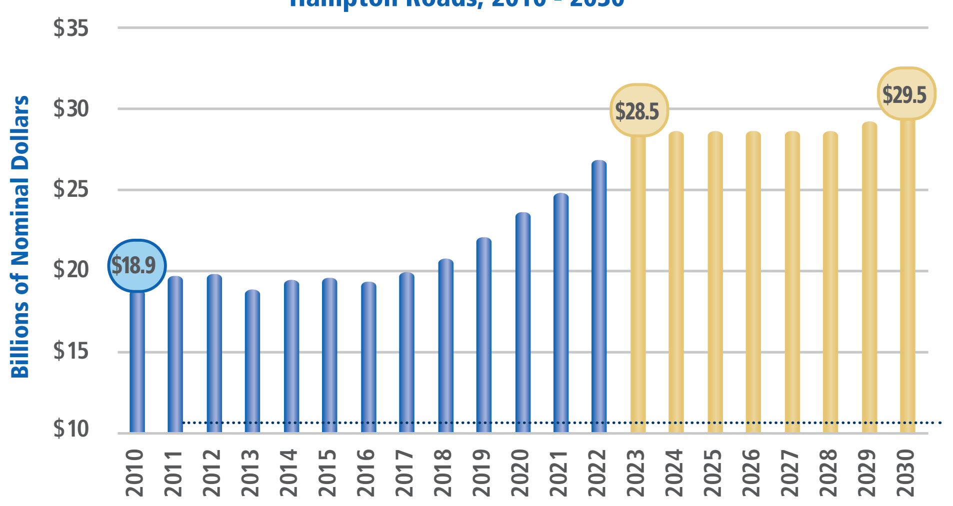
Jobs Mostly Recover in Hampton Roads

From the trough in nonfarm payrolls (jobs) following the Great Recession of 2007-2009 in February 2010 to the pre-COVID-19 peak of jobs in January 2020, employers in Hampton Roads added 70,600 jobs, a pace of job growth below that of the state and the nation. By April 2020, employers shed approximately 1 in 8 jobs (102,800) in the region. Almost 70,000 of these jobs had returned by August 2020, but the region has yet to return to the pre-pandemic peak in jobs. In November 2023, employers reported 798,200 jobs in Hampton Roads, 6,900 fewer than the peak observed in January 2020.

Data on job openings and quits for Virginia suggest that employers may face less of a challenge in filling jobs in 2024. In 2019, there was an average of about 220,500 job openings and 93,300 job quits a month. In 2022, there was an average of 320,700 job openings and 108,700 job quits a month. In 2022, low unemployment, relatively stable quits, and higher openings created significant challenges for employers seeking to fill open positions. In 2023, job openings fell by 24.4% from January to October while job quits increased by 7.4% over the same period. This "softening" of labor market conditions leads us to opine that employers will continue to hire in 2024 but that they will not face the difficulties in finding and retaining employees that occurred in the aftermath of the COVID-19 recession.





More Defense Dollars, If Congress Can Function

Hampton Roads occupies a distinctive role in the national security of the United States. When Department of Defense (DoD) budgets rise, DoD spending in the region typically rises as well. In 2024, the DoD spent almost $28.5 billion in the region which will, in turn, lift overall economic activity by approximately $40 billion. The recently passed National Defense Authorization Act for Fiscal Year (FY) 2024 included increases in military compensation, veterans' retirement benefits, and housing allowances. Unless there is a significant reversal in defense policy, there is a strong possibility that direct defense spending in Hampton Roads will top $30 billion by the end of the decade.

The open question is whether Congress, and, particularly the House of Representatives, will be able to perform its basic duties in 2024. Evidence from 2023 suggests that there is a distinct possibility that performative politics will lead to partisan gridlock and a failure to pass

Continues on page 14

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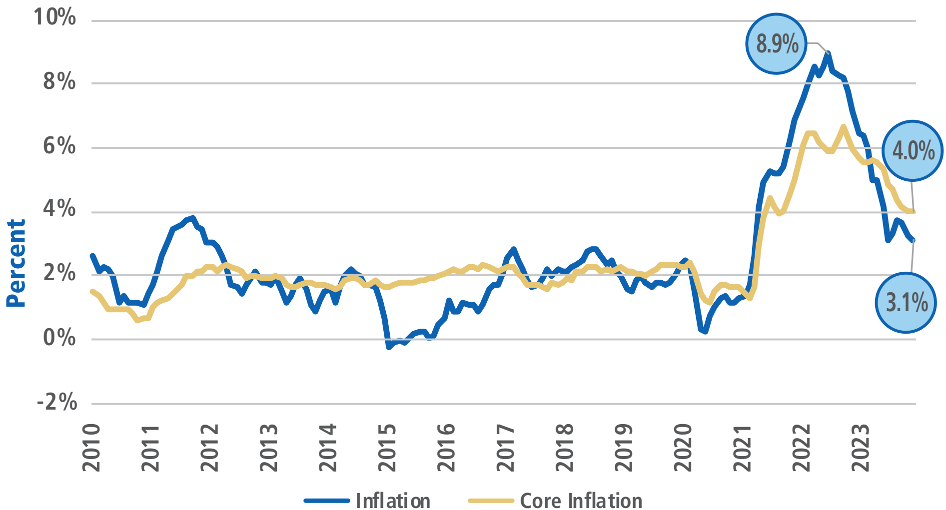
appropriations bills. Even if Congress manages to pass appropriations bills for FY 24, it is almost certain that FY 25 appropriations will not be passed until well after the start of the new fiscal year. With elections in the fall of 2024, we do not expect to see significant bills passed in the second half of 2024, especially with regards to immigration, border security, and aid to Ukraine and Israel.

2024 and Beyond

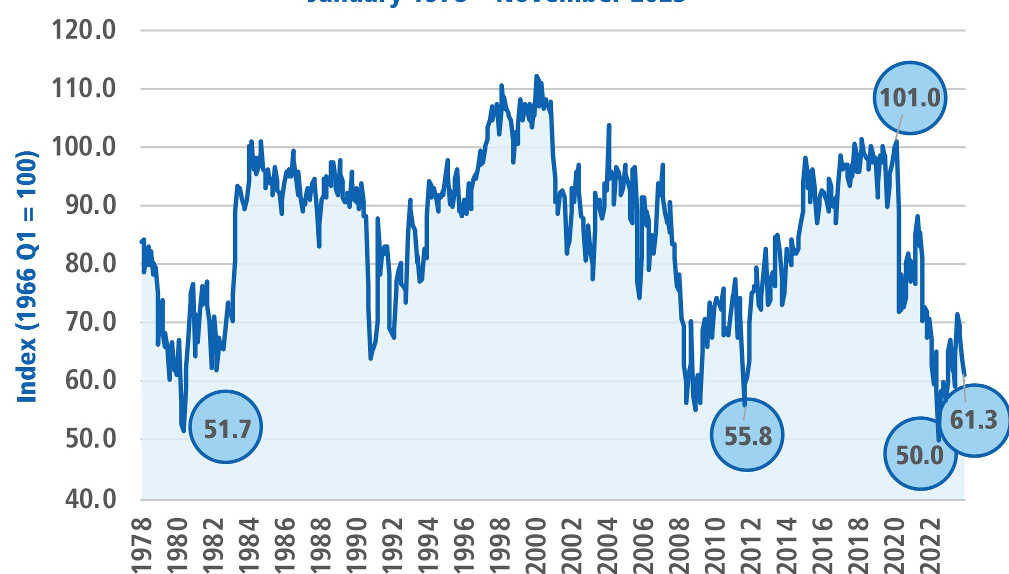
While inflation dominated the headlines in 2022 and the first half of 2023, it is less likely to do so in 2024. Inflation is typically measured as the percentage change in prices over the preceding 12 months. In November 2023, the Consumer Price Index, which measures the price of a basket of goods and services, was 3.1% higher than November 2022. Core inflation, which measures the year-over-year change in consumer prices less food and fuel prices, was at 4.0% in November 2023. We expect inflation to continue to moderate in 2024 and, barring an unexpected shock, for overall inflation to average 2.5% for 2024.

Consumer sentiment, however, appears to be divorced from economic conditions and raises the question of whether sentiment will change the economy or will the economy change consumer sentiment? The University of Michigan has measured consumer sentiment since 1966, and consumer sentiment in 2022 was lower than during the recession of 1980 and the Great Recession of 2007 – 2009. National survey data estimates that a majority of respondents believe that the nation is either in a recession or will be in the next six months. We believe, if the economy performs as expected in 2024, that consumer sentiment will rebound sharply in the second half of the year.

We expect job growth nationally to slow relative to 2023 but remain above levels observed the years immediately before the pandemic. We forecast the national economy will grow by 2.5%, and the Virginia economy will increase at an annual rate of 2.0% in 2024. We estimate that the Hampton Roads economy grew for the third consecutive year in 2023, and we project that the regional economy will grow again in 2024. We expect more residents to be in the civilian labor force and employed and that employers will create enough jobs for the region to exceed the pre-pandemic record. Single-family and multifamily housing prices may not grow as fast in 2022 and 2023, but constrained supply is likely to limit price declines, especially in Hampton Roads. Barring an unexpected political or economic shock, the short-term outlook for Hampton Roads is positive with continued flows of DoD spending into the region, increasing levels of domestic tourism, and continued traffic through the Port of Virginia.



Sources: Bureau of Labor Statistics, University of Michigan, and Dragas Center for Economic Analysis and Policy.
Inflation represents the year-over-year change in the seasonally adjusted Consumer Price Index for All Urban Consumers. Core inflation represents the year-over-year change in the seasonally adjusted Consumer Price Index for All Urban Consumers less fuel and energy prices.



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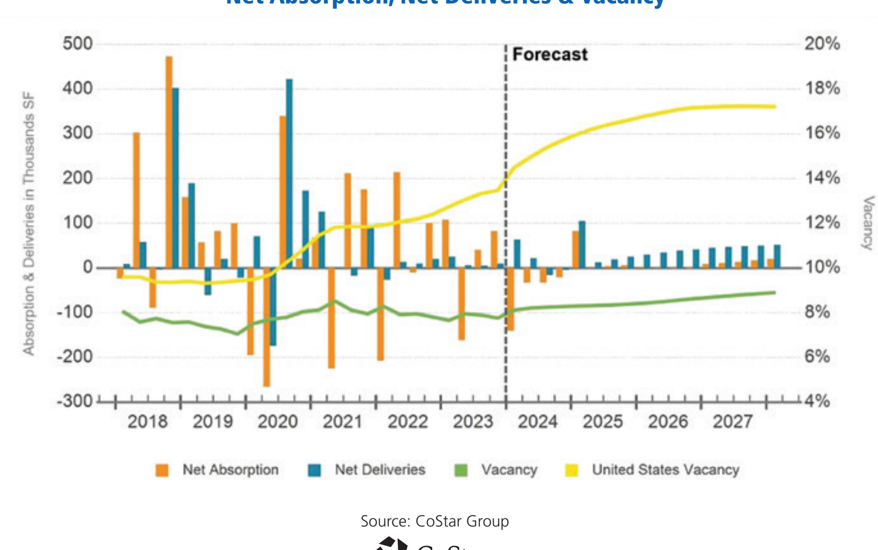
State of the Hampton Roads Office Market

The Hampton Roads office market weathered the many challenges facing a potential national office bubble. Given Hampton Roads' stable economy centered on defense, healthcare, the Port, and tourism and the absence of speculative office development keeping supply-side competition negligible, the standing inventory of office space maintained an average occupancy of 92%. Class A office space lost occupancy in 2023 and is now achieving an 87% overall occupancy rate.

The total Hampton Roads office inventory stands at 56,760,000 SF, of which 11,406,000 is considered Class B. Rental rates achieved nominal increases of 1.2% as landlords are pressured to retain their tenant base. Annual office space absorption of 64,800 SF is very telling to the anemic office leasing environment. The average direct full-service asking rent of Class A and B properties from Q4 2022 to Q4 2023 increased nominally from $21.40 to $21.39 per SF, an increase of only 1.18%. Class C office property rents decreased by 0.02%. Class A vacancy surpassed 13% in 2023. Office space for sublease stubbornly remains above 400,000 SF. The percentage of this subleased space, which is paying rent but vacant, is troubling.

Net Absorption, Net Deliveries & Vacancy



Source: CoStar Group

CoStar

Hampton Roads' Office Market Overview

The Hampton Roads office market continues to digest the effects of the pandemic and the remote working phenomena it accelerated. Overall vacancy across the office portfolio increased slightly from a 4th quarter 2022 vacancy of 7.6% to a 4th quarter 2023 vacancy of 7.8%. Office vacancy rates across Class A, B, and C properties equated to 13.1%, 8%, and 3.5%, respectively. Tenants continue to analyze their space needs through maximizing efficiency, reconfiguring to accommodate collaboration, or rightsizing when lease expirations come in play. Landlords are working hard to retain their current tenants through favorable renewal terms, blend-and-extend strategies, or accepting give-back space in exchange for extended lease terms on the residual. The overall office market occupancy percentage is assisted by minimal new construction. Interest rate rise, combined with substantial increases in construction and land costs, have deterred new development in office properties for the most part.

The 80,000 SF Tech Center, located at 800 Tech Center Parkway in Newport News, is essentially the only significant speculative new construction of its size in Hampton Roads. Leasing is ongoing

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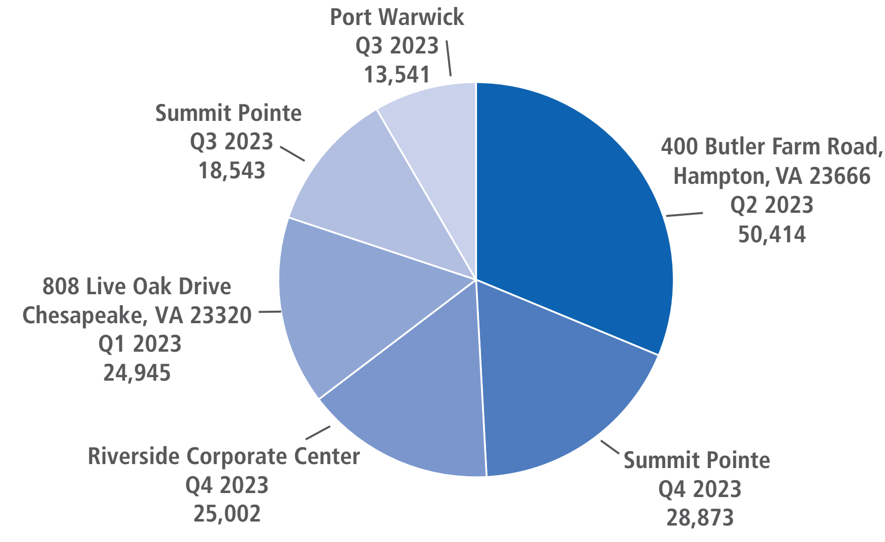
with one lease executed and one 11,000 SF lease out for signature.

Newly vacated space from standing inventories continues to fuel availability. In Newport News, Ferguson Enterprises vacated two owned Class A office properties as it relocated to its new Oyster Point headquarters. These two freestanding, high-quality office properties combined bring 200,000 SF of Class A office space to the Virginia Peninsula market. On the Southside, Optima Health, now Sentara Health Plans, vacated 79,129 SF of Class B office space in Virginia Beach's Town Center area for 212,000 SF of Class A office space located near CBN. Both of these examples add office inventory to the market, thus further deterring new development, perhaps through the end of this decade.

Office sales have proven somewhat active with continuing speculative investing and conversions. 2301 General Booth Boulevard, 814 Kempsville Road, 6320 N. Center Drive, and 6330 N. Center Drive were office building sales achieving a sales range of $202 - $353 per SF. 500 E. Plume Street (c. 1969), an 8-story office building with underground parking in Downtown Norfolk, sold for $83.00 per SF for an apartment conversion. Corporate Center IV, an 80,389 SF, 5-story, Class B office building near Virginia Beach's Town Center sold vacant for $88.32 per SF. 4560 South Boulevard, a 45,201 SF, 4-story, Class B office building at 30% occupancy sold for $99.56 per SF. Both were purchased as a speculative investment.

2023 Top Office Leases Square Footage



2023 Top Office Sales Transactions

Property	Square Footage	Date	Sales Price	Price Per SF
6320 N. Center Drive, Norfolk, VA 23502 (ICC #15-Potomac Building)	33,068	11/30/23	$7,253,875	$279
416 J. Clyde Morris Blvd, Newport News, VA 23601	97,000	09/20/23	$6,700,000	$74
6330 N. Center Drive, Norfolk, VA 23502 (ICC #13-Rappahannock Building)	30,884	11/30/23	$6,505,784	$277
500 E. Plume Street, Norfolk, VA 23510 (Bank of Hampton Roads)	64,522	07/10/23	$5,350,000	$83
110 Wimbledon Square Chesapeake, VA 23320	74,980	01/05/23	$4,590,000	$306
1206 Laskin Road, Virginia Beach, VA 23451	35,534	11/30/23	$4,350,000	$722
99 Old Oyster Point Road, Newport News, VA 23602	25,000	03/15/23	$3,650,000	$746
2301 General Booth Blvd Virginia Beach, VA 23456	70,300	11/08/23	$3,637,500	$353
358 Mowbray Arch, Norfolk, VA 23507	39,832	03/07/23	$3,200,000	$80
100 Landmark Square, Virginia Beach, VA 23452	23,565	03/29/23	$3,000,000	$727
814 Kempsville Road, Norfolk, VA 23502 (ICC #17-Gloucester Building)	73,538	11/30/23	$2,747,001	$202

2024 Office Outlook

The effects of the 2020-2023 COVID-19 pandemic continue to shape the course of office space usage and occupancy. Remote working percentages, while declining somewhat, may be here longer. The labor shortage plays a big part in this. Employers are in a war for talent and are using office space and liberal remote working policies as their weapon to attract and retain workers. This is causing a new trend of "flight to quality," a phenomenon where employers are downsizing to smaller office spaces but upgrading to a higher class of product. Employers are attempting to entice employees with spaces which promote collaboration, culture, and interaction. Employees do not want to perform tasks they can accomplish at home. They want the interactive experience — space that promotes "collision dialogue," where people run into each other and begin a spontaneous conversation. This new trend will show legs within the next 2-4 years as lease expirations burn off and tenants are then free to rightsize or not. We may see 2024 summed up by an executive's answer to this question: "Do you need more space or less space?" Their answer was "yes."

Office Market Trends to Watch

Return to Office

As the effects of the global pandemic become distant, the gradual re-occupancy of office space is of key interest. Whether mandated or voluntary, office workers are returning to the physical workplace. Kastle Systems, a national access control and security company out of Northern Virginia, monitors badge swipes across the United States. These swipes show a gradual return to office trend, especially during the Tuesday, Wednesday, and Thursday work week. Monday attendance has remained unchanged, and Friday attendance has decreased. While the office utilization percentages are likely to increase year after year, national companies like Nike are implementing

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a mandatory four-day, in-office work week effective January 1, 2024. Many other firms are moving toward a full in-office work week. Time will tell with this trend.

Values Dropping/Interest Rates Rising/Loan Calls Looming

Office buildings are in for a rough ride due to several market conditions. Morgan Stanley states that commercial real estate prices will likely decline by as much as 40% in 2023. Worse yet, over $1.5 trillion of commercial real estate debt will mature by 4th quarter 2025. As a result, landlords will have to pay off their debt, infuse additional capital, or refinance their loans at higher interest rates all while at historically low occupancy levels; and the banks aren't lending anyway. According to the Mortgage Bankers Association, commercial real estate lending is at its slowest pace since 2014. Many owners will willingly surrender the keys. This will surely translate into even lower values for office buildings. But like all cycles, where all run out, some run in. There is a historically high amount of cash sitting on the sidelines, dry powder, ready to deploy at the right time.

Flight to Quality

Deloitte's 2023 Human Capital Trends report reveals 85% of executives welcome hybrid working as the future. To this end, a trend of flight to quality is emerging; a downsizing of office space, but upgrading to amenities-rich Class A++. This effort, founded in the recruitment/retention movement of the pandemic, is materializing as lease expirations turn the table on landlords. Offices are becoming centers for collaboration, training, and culture. Management is utilizing technology, wellness features, and sustainable amenities in their shift to quality over quantity. This demonstrates to employees that management is equally serious about investing in their workforce. Companies that choose not to downsize are optimizing their existing office platform, prioritizing efficiency and upgrading quality.

Impending Office Lease Expirations

The current office space inventory in the entire United States stands at 5.56 billion SF. According to Cushman & Wakefield, only 4.61 billion will be needed by the end of this decade. Of this, 1.1 billion SF are housed in obsolete office buildings. According to CRED IQ, a commercial real estate data and analytics platform, over the next five years 500 million SF of overpriced, long-term leases are scheduled to expire; 200 million SF will expire in the next 24 months alone. Lease expirations will put tenants in control of adjusting or rightsizing their office spaces. It is anticipated this will commence a wave of negative absorption on top of the estimated 180 million SF already given back. According to CoStar, 2024 will be the largest single year of negative absorption on record, surpassing both the real estate depression of 1990-1992 and the Great Recession of 2007-2010. The next 36 months may prove this to be a bit optimistic.

Industrial

In 2023, industrial markets across the country began a process of normalizing as the historic and torrid pace of demand and absorption created by the pandemic receded to more normal levels. For the Hampton Roads market, the backdrop of rising interest rates and a substantive deceleration of demand by industrial occupiers did little to alter the structural demand and supply imbalance caused by continued supply constraints related to space availability in the industrial sector. Although there was a rise in vacancy and a slowdown in absorption over 2023, market fundamentals reflected the continuation of a solid and healthy market and a continuing rise in rental rates as Landlord leverage across the competitive set of for lease buildings was generally unchanged. Direct rent growth remained positive with a 16% increase over the trailing 12-month period and rental rate gains recorded across all classes, types and sizes of industrial buildings.

Despite the financial headlines stoking worries about the overall economy and the Port of Virginia showing a small overall decline in loaded TEU volumes, our overall market conditions remained solid for the Hampton Roads Industrial market. Our current vacancy factor across the sector is less than 3% which compares favorably to the national average of 5% or higher. Further underlying the strength of the overall market is the fact that approximately 1.0% of current overall vacancy is related to only one building at 814,000 SF, which delivered for occupancy in the second quarter of 2023. True Class A vacancy continues to hover around 1%. As a practical matter, the market–wide vacancy statistics continue to understate rental rate growth and the very limited supply of space in the market and the continued competition among tenants in all size ranges for available move-in ready space. As a result of this dynamic, current rental rate growth and rental rate average statistical data continue to understate the actual rental rates achieved in our market for new and renewing leases. Although many industrial transactions have taken longer to complete in 2023, most Landlords holding vacancies in the market can still afford to be patient, maintain their rents and continue to offer their available move-in ready space on an "as is, where is" basis with limited tenant improvement allowances.

INDUSTRIAL ABSORPTION, DELIVERIES AND OVERALL VACANCY

2.1% OVERALL VACANCY RATE

5.9 MSF POSITIVE NET ABSORPTION

8.5% 12-MONTH RENT CHANGE

6.1 MSF NEW DELIVERIES

3.7 MSF UNDER CONSTRUCTION

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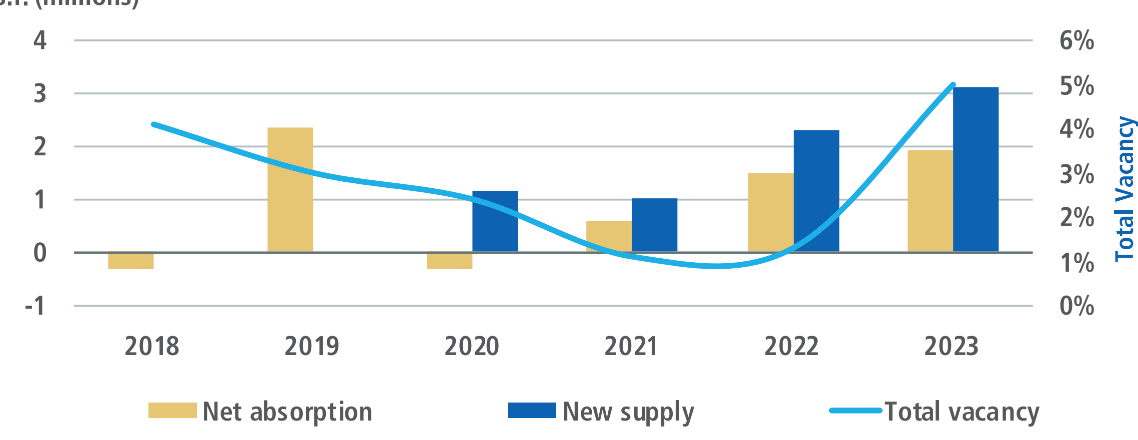

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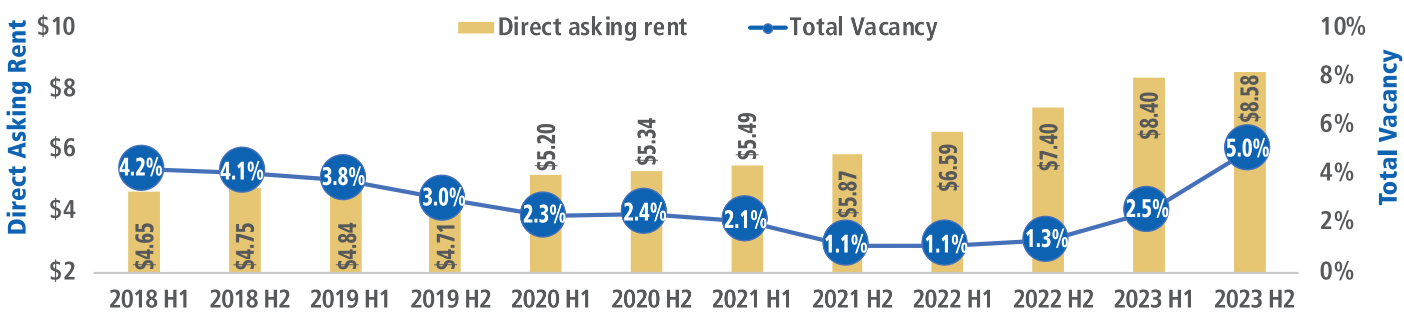

While somewhat muted in terms of the average square footage of transactions in the market for 2023, the chart below shows that local market demand was still strong and active. The data underrepresents a number of large lease transactions that delivered during the year for occupancy:

Largest Leases YTD						
TENANT	**ADDRESS**	**SUBMARKET**	**CLASS**	**SIZE (S.F.)**	**TYPE**	**SIGN DATE**
RoadOne	2000 Northgate Pkwy	South Suffolk	A	227,000	New Lease	Sep 2023
ESKA Graphics	150 Judkins Ct	South Suffolk	A	204,000	New Lease	Oct 2023
Innovative Alliance	324 Moore Ave	South Suffolk	B	123,600	New Lease	Aug 2023
Powertrain Industries	646 Progress Ln	Lynnhaven Industrial Park	B	100,000	Expansion	Aug 2023
Lion Power Systems	3321 E Princess Anne Rd	Norfolk Industrial Park	C	47,788	New to Market	Nov 2023

There are approximately 6 million SF of previously recorded prior lease transactions in the market proceeding with construction and delivery over the course of 2024.

Similarly, in the investment sales market, we continued to have a very active capital inflow from out-of-market investors and substantial investments in second-generation buildings as well as a forward investment in Suffolk, which is clearly representative of institutional capitals conviction in this market:

Largest sales YTD							
DATE	**ADDRESS**	**PRICE ($M)**	**RBA (S.F.)**	**PRICE PSF**	**OCC. (%)**	**BUYER(S)**	**SELLER(S)**
May 2023	150 Judkins Ct	$94.0	814,105	$116	0%	Invesco Limited	Flint Development
Jun 2023	2626 Indian River Rd	$13.4	190,789	$70	100%	Seminole Trail Mgmt.	Phoenix Investors
Sep 2023	3612 LaGrange Pkwy	$11.0	103,795	$106	100%	Schenley Investments	Hendricks Commercial
Jun 2023	2620 Indian River Rd	$10.6	149,425	$71	100%	Seminole Trail Mgmt.	Phoenix Investors
Sep 2023	3800 Cook Rd	$10.0	125,906	$79	100%	B&D Holdings	Real Estate Value Advisors

The story for 2023 and going forward into 2024 is the significant levels of investment by a historic influx of institutional capital- supporting speculative developers and owner/occupiers underwriting new supply at annual levels unprecedented in our market. This fact is clearly reflected in the announcement of new large master-planned parks, speculative industrial projects and corporate occupier projects proceeding to construction, including but not limited to: Matan Companies' Port 460 master-planned park of approximately 560 acres and 5 million SF along Route 460 (Pruden Boulevard) in Suffolk; the construction of the new Amazon 3.6 million SF automated robotics facility and its companion 270,000 SF last-mile facility on Dam Neck Road and Harpers Road in Virginia Beach; the acquisition of approximately 400 acres by LeCangs in Southampton County for their 3PL distribution requirement; the 270-acre Lovett Commerce Center in upper James City County; McDonald Development's projects at Westport and Virginia Commerce Center along Route 58 in Suffolk; the Coastal Logistics Center II along Carolina Road at the US 58 bypass in Suffolk; Northpoint KC's Phenix Commerce Center in Hampton, and InLight's Green Mount Industrial Park development in James City County.

For arguably the first time in our market's history, the construction and delivery for these speculative projects will provide the supply for occupancy-ready logistics and distribution facilities that existing and expanding Hampton Roads market firms, as well as major port-related

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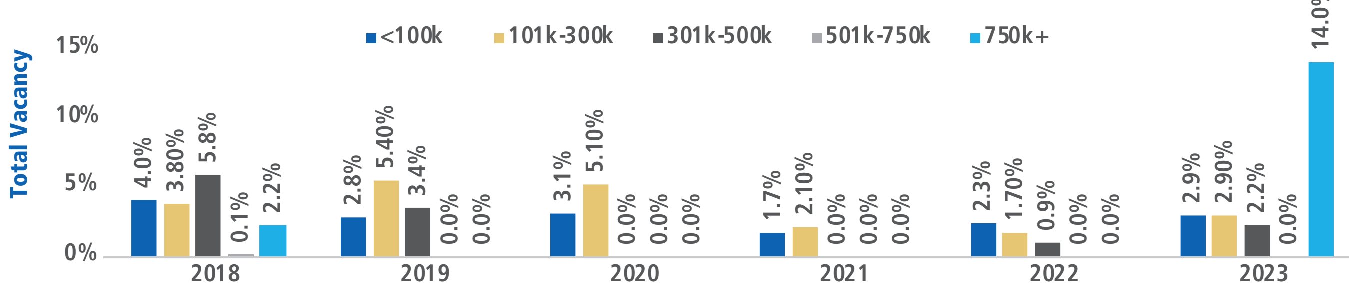

requirements, have needed for the past decade. Based on the construction and delivery schedule for speculative projects planned and proceeding to construction in 2024, 2025, and 2026, we will see nearly 1.2 million SF, on average, of new industrial space delivered on the Peninsula and nearly 1.5 million SF, on average, of new industrial space delivered on the Southside each year. Pending the successful lease up of these projects, we can expect a continued speculative pipeline of new projects for years to come.

Of course, the Port of Virginia plays a crucial role in amplifying the local demand for the industrial space necessary for both import and export needs. With the massive $350 million channel-deepening project reaching completion in 2024, we can expect continued increases in port volumes as well as velocity and volume of industrial trade and facility requirements. Similarly, the Virginia Department of Transportation's more than $15 billion investment in roads, bridges and tunnels along the Interstate 64 system will be substantially completed in 2024. Additionally, with final completion of the Hampton Roads Bridge Tunnel expansion, our market will have achieved a world-class transportation and infrastructure standard of operation unprecedented in our market's history.

The Hampton Roads Industrial market has now enjoyed 10 consecutive years of net-positive absorption and has become a spotlight market on both the national industrial landscape and the international logistics landscape. Continued conviction around the Port of Virginia, a growing Virginia economy, continued defense spending, a burgeoning wind energy industry, and the growth in the capabilities of the Hampton Roads labor force will only continue to improve our reputation as a top-tier national industrial market. As these local market capabilities are engaged by long-term changes in supply chain and port strategies by corporate occupiers, we have every reason to be bullish on the future of our industrial market. Now that we finally have the supply pipeline we have so desperately needed, we are in an excellent position to deliver on the promise of this market.

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WICK SMITH
Senior Vice President, Retail
Cushman & Wakefield | Thalhimer

Retail

For decades, the Hampton Roads retail market has been measured by the health of grocery development activity. Fifty years of market development has seen the build-out of 90 Food Lions, 22 Harris Teeters, 16 Krogers, nine Walmart Neighborhood Markets, along with smaller scale development amongst Whole Foods, Trader Joe's, and Fresh Markets. Grocery anchor-driven development has expanded the market in every direction, turning Virginia Beach farms into regional development, pulling the market towards the oceanfront in the 1970s and '80s, towards Chesapeake/Great Bridge in the '90s and Harborview/Smithfield in the 2000s and 2010s.

Around the time Harborview finished its greater development about six years ago, this development trend came to an end. Hampton Roads (RIP "The 757," good while you lasted) no longer supports development driven by grocery, as our functional greenfield markets are built-out, and grocery development rent cannot compete with other uses for infill development the way that multifamily can. This is jointly a result of economics and user demand.

Food Lion was the champion of user demand for decades. The model was to operate on the lowest margins with market saturation. They would take every development that existed with

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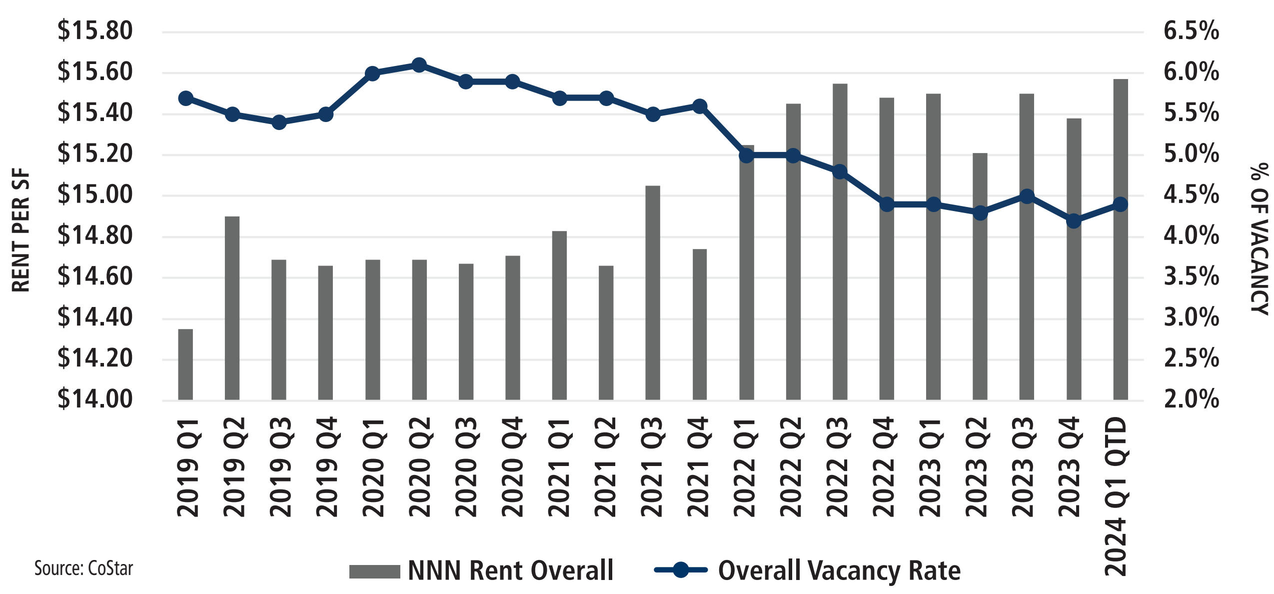
KEY STATISTICS: Hampton Roads Retail Vacancy



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borderline neutral cash flow to the developer and the opportunity to lease small shop space at reasonable rates and offer outparcels as the cash cow. With (relatively) low construction costs supporting mass expansion under this model, Food Lion flooded the market over the course of 30 years, currently operating around 90 locations that account for significant economic impact. This model requires greenfield development with rents, assuming construction costs are around 25% of what is possible in 2024.

In 2024, construction costs are only a part of the narrative to understand the dearth of grocery development in the market. Beyond construction costs and interest rates, the greater headwind to grocery buildout in the market was the Harris Teeter/Kroger acquisition of Farm Fresh, functionally crushing grocery development. The acquisition swamped HT/Kroger and decimated the competition through absorbing a 44-unit operation, with half of the store count converting to HT/Kroger. The balance were left for dead as boxes inside trade areas were already served by high-volume, market-leading grocers. Since the merger, none of our grocery users have materially added to store count other than Aldi and Lidl, with Lidl closing more stores locally than opening since the merger.

For the few remaining operations in the market (Publix & Aldi, with Aldi mostly built-out), none have been able to come close to the absorption seen pre-Farm Fresh/Kroger acquisition. Publix, as a sole entrant to the market, has made minimal headway as they struggle to find suitable sites, seeking locations with most of the sales volume still available in the trade area. Their selectiveness has led to slow deal-making struggles with market requirements to execute.

Market dynamics drive all development, and some of the operations are continuing to work towards a model that worked for others for many years but are failing to modify for current market conditions.

As a quick history lesson, the model for Food Lion was to chase trade areas with $12-13M volumes on the proforma; HT/Kroger developed to $18M while Walmart needed slightly north of $20M. For current 40-50k SF format grocers to justify a project, the model needs to support a sales volume north of $20M. These topline numbers are partially margin constraints, but significantly influenced by functional rent and construction expenses that require greater topline volumes to support new store existence. The concession for this internal battle seems to be that second-generation space works better for the proforma than finding greenfield and building ground up around a new development.

As the market's sole prospect for grocery development, Publix has been much more selective than what the market has been receptive to in decades past. The Publix threat to expand over the last 7-8 years has far outpaced the actual production, and meaningful market development as second-generation/ infill pursuits have outpaced new construction. As an initial move on Publix market strategy, they infilled a well-established Williamsburg grocery site as a connection to their footprint in Richmond for a successful first strike. Since then, Publix has taken down two "traditional" grocery developments with Godwin Boulevard in Suffolk

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and Isle of Wight (Carrolton) getting approval. Outside of those two projects, the Publix market strategy has been following the path of existing development, reversing decades of market development precedent for the brand.

Even if Publix is operating in a silo, the Farm Fresh acquisition fallout has created a vacuum in the development pipeline that forces the market to ignore grocery and focus on what can be done with users who can pay $50/SF triple net lease (NNN) or more. This market is dominated by restaurants (both quick serve restaurants, or QSRs, and sit down), medical users chasing retail visibility, and single-tenant users that want one acre for their own use.

The development pipeline for these single-tenant net lease or drive-thru endcap strip development users (or grocery, for that matter) is reliant upon exit cap rates. There are fewer balance sheet developers and more merchant-type developers that can make lower scale rents work since it won't be held for longer than rent commencement -- but that ecosystem only functions with stable cap rates. This development structure math is a function of market exit rates, and the incoming rents have been escalating in parallel with the market dynamics to support rising cap rates.

The beginning of 2024 is greeting the retail market with bullish tendencies from economic tailwinds on reports of lower interest rates (disclosure: not investment advice). But the entire retail market, irrespective of asset class, will need the single-tenant net lease (STNL) market to work through a backlog of offerings before we'll see our merchant developers open the throttle on new projects. Most of this class will continue to pursue deals with much wider spreads on the proforma than the market was underwriting as recently as the summer/fall of 2022.

The explosion of 2021/2022 low-cost capital development is not relevant to the market for 2024. Retail development that would have been approved from all sides in the 100-150 basic points (bps) spreads, now need to get assembled closer to 300bps to have any real satisfaction that the equity will be safe. Market conditions could change very quickly as rates decline and the appetite for STNL increases with cleared backlogs of offerings. But in the interim, the suffering party will be tenants that continue to push rent upwards as the demand for greater store count requires higher rent to execute deals.

Finding a way to support higher rent may be a math problem; finding a site in this market that can support it is a problem of its own. Without grocery development to push the market out and offer new sites, our market will continue to see users battle over the infill sites. Hampton Roads is a mature market without expansion opportunities to absorb new users and restricted by their ability to find ways to get aging tenants/owners moved out. The longer it takes to get sites made available, the higher the land costs will be for developing tenants. Ten years ago, prior to pharmacy operations going to war over every corner in the market, a 1.5 acre corner would trade for less than half of what the same corners are getting now for convenience stores, car washes, QSRs, and banks for a significant multiple, if they can be purchased at all. Retail users are modifying the development pipeline to accommodate

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ground leases with property owners less willing to sell, requiring the tenant to handle all of the site development.

As infill, small-shop and single-tenant development continues to get more competitive, the market is fiercely competing over dispositions as the only method for expansion. BB&T and SunTrust came and went with much less fallout than originally expected, leaving the end users to fight over the next round, which is being driven by limited Bank of America disposition and Rite Aid bankruptcy. The Rite Aid disposition has left the market with actual corners available, a first in a decade or more to have this type of availability. Very few of these vacated Rite Aid sites are actually hitting the market as users are ahead of the listing process and working to get the better ones tied up in advance of formal marketing.

Regardless of what Bank of America or Rite Aid properties come available, the market will need to see a rent correction as most of the outgoing leases were supported through above-market rent, coupled with many years of rent escalations over a

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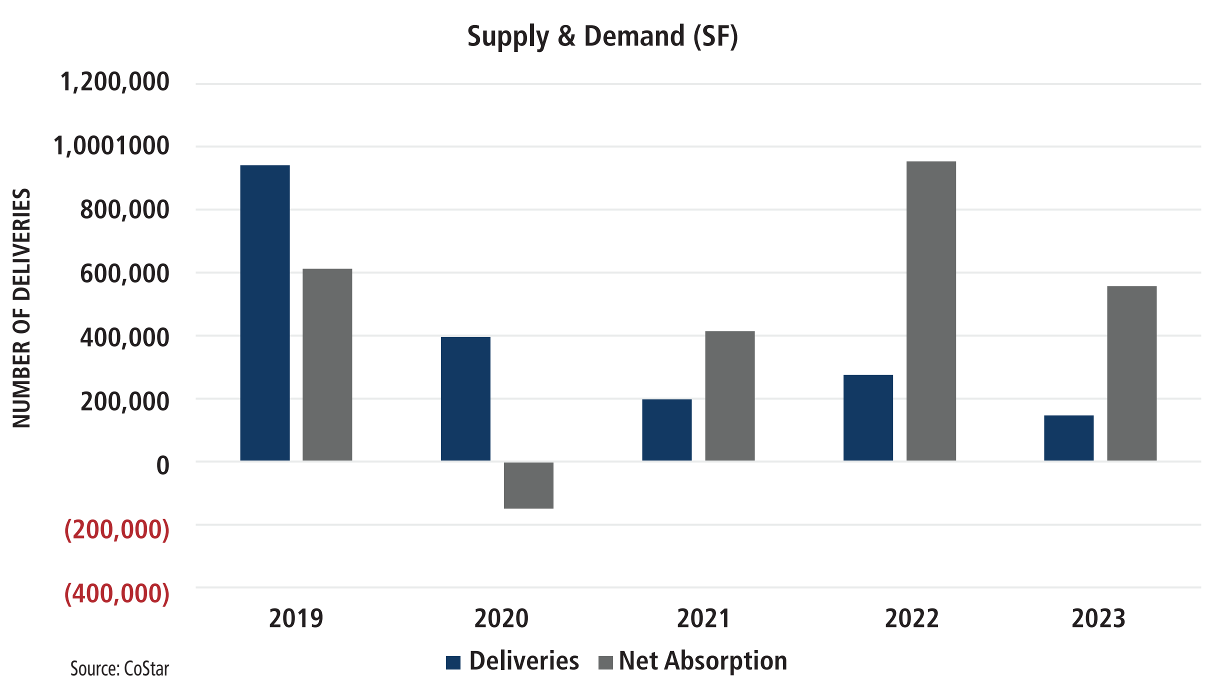

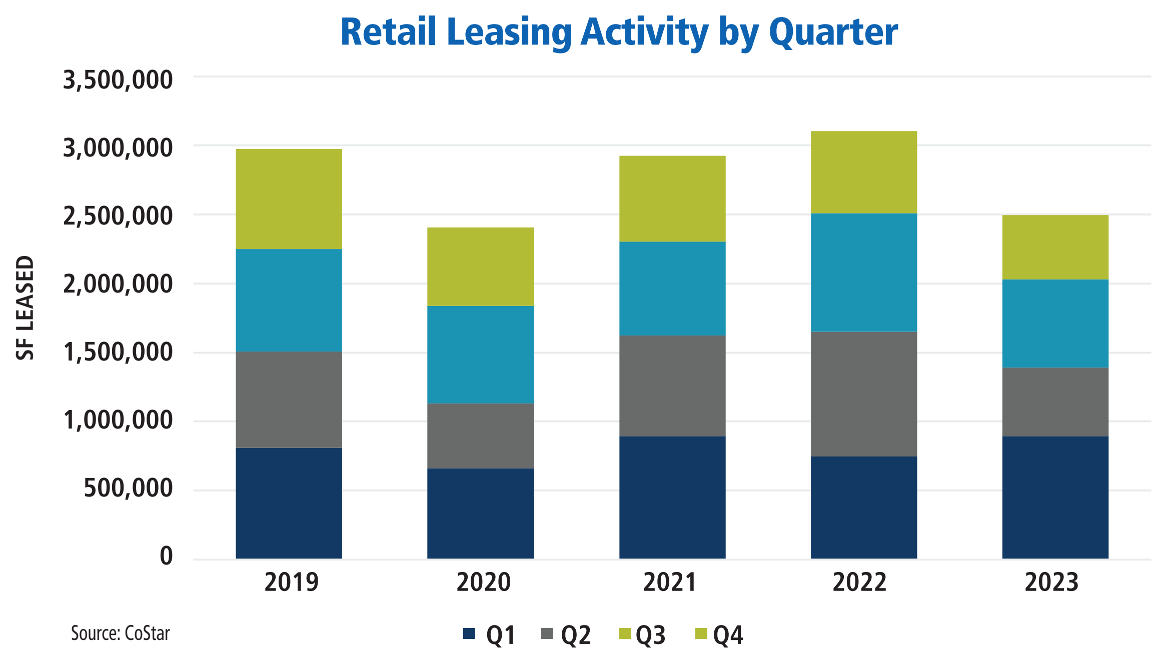

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20-year operating history. Some of the units that are not in A+ locations will need to sit on the market for a while before a mark-to-market pricing reset.

The Hampton Roads Retail market is active and dynamic, but not in the manner with which we are familiar. We continue to see CoStar-type reports that display data supporting the narrative of a "tight market," but neglect to mention that a fair amount of the retail market is being taken offline by dated product to be repurposed for any number of uses. Both MacArthur Center and Military Circle malls are dead with no feasible plan for retail-driven improvement. The Virginia Beach Surf Park is an interesting project but not one that will change the landscape of retail in Hampton Roads. Pembroke Mall, which is one of the best-positioned retail projects in the market, cannot figure out how to make retail work. While it's great news for some of these retail owners who can convert into another use, it's shortsighted to show data that says retail is at an all-time low vacancy when the process of repurposing this product is not without friction. Less total product does not mean a healthier market. The market as a whole, and specifically the developers driving market development since the '80s, no longer has the working model and will need to reset expectations to continue their growth. Grocery development is dead, junior boxes are on life support, and small shop/single tenant is king.

KEY TRANSACTIONS: Hampton Roads Retail

Buyer/Tenant	Property	Submarket	**SF**	Quarter	Year
City of Norfolk	MacArthur Center Mall	Norfolk	1,081,311	2nd	2023
Owner Bankruptcy (PREIT)	Patrick Henry Mall	Newport News	433,764	4th	2023
Moved to Receivership (CBL, CW Capital)	Greenbrier Mall	Chesapeake	563,223	1st	2023
Publix (Represents Only Grocery Store Opening in 2023)	Hickman Place	Virginia Beach	49,235	2nd	2023

Source: CoStar; Cushman Wakefield | Thalhimer Research

HAMPTON ROADS MARKET SNAPSHOT

Hampton Roads Market Overview

The Hampton Roads Multifamily market continues to outperform national trends. This is attributable to a strong workforce based in education, medicine, and defense, coupled with limited new supply outpaced by demand. The year ended at an overall vacancy rate of 6.65% and stabilized vacancy of 5.84%, significantly outperforming the national average of 8.39%. Average asking rents increased modestly in 2023, 2.56% year-over-year, following three consecutive years of record-breaking rent growth, 22.28% in total. While modest compared to recent years, this figure is more than triple the national average of 0.79% and significantly outpaced rapidly growing Sunbelt markets, ranking Hampton Roads 11th in the Top 50 Markets for annual rent growth as of the third quarter. Average asking rents increased to $1,473, up from $1,160 just five years prior. Hampton Roads has not recorded a single year of rent decline in this century, fueling investor demand and attracting national and global capital. The tremendous rent growth in recent years has yielded a higher rent-to-income ratio compared to years past, now on par with the national average of 22.8%. This is comparable to booming markets Raleigh, Charlotte, and Nashville, yet still favorable to our northern neighbors in Richmond (27.0%) and Washington Metro (24.2%). Despite this change in affordability, the spread between renting and owning also accelerated in the third quarter of 2023, increasing 15.4% and representing a $994 savings in rent. With single-family mortgage rates predicted to drop only to 6.5% by year-end 2024 and for-sale inventory dwindling nationally by more than 14%, multifamily will continue to prosper as the preferred housing option.

Overall Vacancy has steadily climbed to 6.65%, up from a record low of 3.20% in the second quarter of 2021, however, this is still favorable to the pre-pandemic 10-year average of 7.45%. While demand has cooled from the leasing frenzy in 2020, Costar and Axiometrics project the uptick in vacancy to stabilize and decline to below 6.00% over the next five years.Concessions remain significantly below pre-pandemic levels, 0.62% in 2023, and are projected to trend to approximately 0.75% through 2028.

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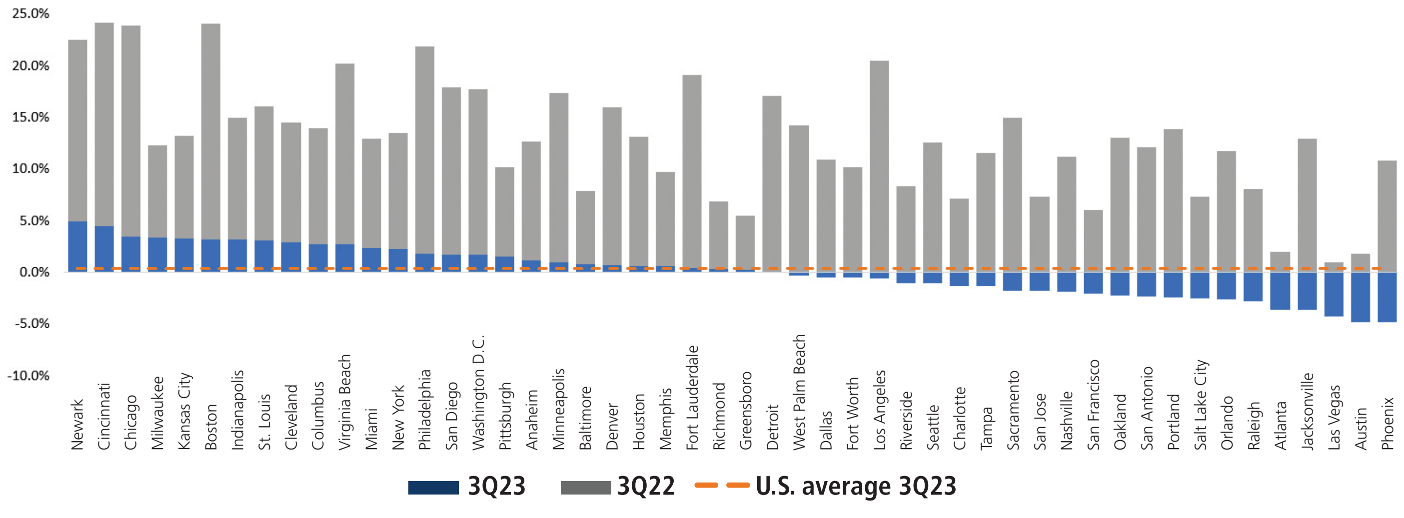

The first building in Town Center, the Armada Hoffler Tower, opened its doors in 2003. Over 20 years later, Virginia Beach Town Center has grown to include more than 800,000 square feet of Class A office space, 700,000 square feet of upscale retail, and 800 residential units. Add in our diverse dining options and business-class hotels, and the result is the model for successful public-private partnerships. At 20 years, Town Center is just getting started – there are waves of possibility for future development opportunities. Contact Virginia Beach Economic Development to learn more.

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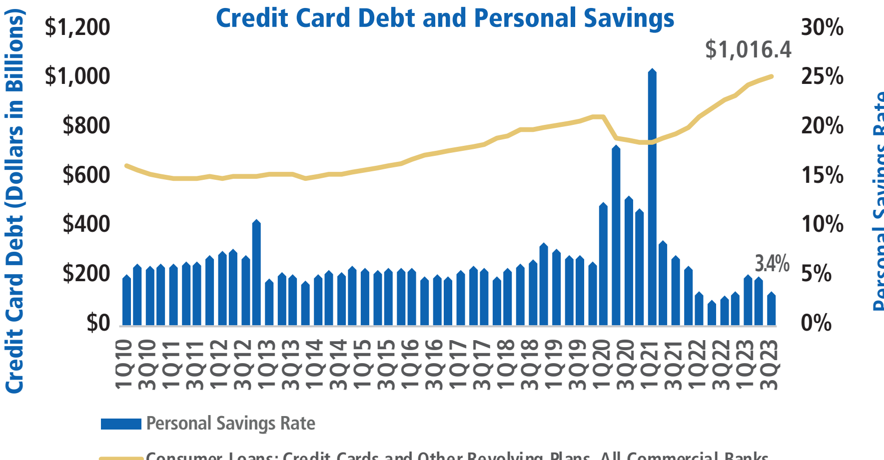

While the year ended on a high note for Hampton Roads' multifamily sector in terms of key fundamentals, 2023 can be summarized by significant changes, new challenges, and operational clean-up. The uptick in vacancy in 2023 can largely be attributed to the expiration of the state-wide eviction moratorium and federal rent relief in mid-2022. Operators worked diligently to fight the "Covid Hangover," resulting in higher turnover and greater apartment downtime as local courts worked through a backlog of evictions delayed in the previous two years. Increased leasing safeguards and asset oversight added pressure to property management teams as the market navigated an onslaught of fraudulent renter practices to further evade the eviction process or falsely qualify for housing they were unable to afford. Rent write-offs resulting from long-overdue evictions, "skips," and fraud reached the highest levels since the Great Recession. Collection loss increased across all asset classes as many households faced overwhelming financial pressures due to the reduced government assistance, coupled with a high inflationary environment. Strict oversight and leasing safeguards will be paramount to overall property performance with affordability concerns top-of-mind; consumer credit card debt in the United States continues to reach all-time highs as national savings rates remain significantly below the long-term average.

Properties falling in the affordable to mid-range (3 Star and 1 & 2 Star) have experienced the most collection loss and turnover, as their renter demographic faces the most exposure to economic headwinds. From the first quarter of 2022 through the first quarter of 2023, this subset experienced -2,400 units in absorption. As of the end of the year, this total recovered remarkably to approximately 480 units of total positive net absorption. While not immune to evictions, 4 & 5 Star properties faired far better in 2023 with strong demand and positive absorption of incoming new supply. The market delivered 1,811 new units, 1.5% of total stock, and experienced steady lease-up, particularly those in the higher-quality segment. For example, Mosaic at Summit Pointe in Chesapeake, a 167-unit community, stabilized within six months of delivery without concessions. While there are nearly 2,500 market rate units under construction, the next four years will produce the fewest new apartments since 2011. With only 4,702 units set to deliver now through 2027, the supply-demand dynamic in Hampton Roads positions the market for continued durable growth and is an exceptional differentiator when compared to peer markets experiencing robust supply. This declining delivery schedule is evidence of the many proposed projects that remain sidelined as equity investors pivot away from development as yields become less attractive due high construction costs, rising cost of capital, and economic uncertainty. Delay in future development will help hedge against near-term economic headwinds; however, it could put the region at risk of being undersupplied if construction delays persist.

OPERATIONAL HEADWINDS

Amplified by the increase in uncollected rent, landlords are experiencing tremendous inflationary pressures and increased expense loads. It is estimated that nationally as of the third quarter, multifamily expenses increased 8.1% year-over-year, led by a 25.4% surge in insurance costs. For coastal markets such as Hampton Roads, the total expense increase is estimated to be much higher with some operators seeing insurance premiums nearly triple, as the quantity of insurance carriers willing to write new policies in coastal markets evaporate, with some carriers pulling out entirely. Insurance carriers for vintage properties, specifically those properties still maintaining non-remediated aluminum wiring, are nearly non-existent, driving owners to look for new policies in the excess and surplus lines market ultimately causing costs to skyrocket. Management, personnel and other expenses also saw double-digit year-over-year increases, putting a strain on landlords who are struggling with tighter operating margins. Many landlords in Hampton Roads experienced real estate assessment increases of more than 17% over the previous year, further exacerbating concern amongst owners as they face falling property values due to the current capital market environment.

Labor shortages have improved from pandemic peak, however, hiring remains an issue for operators in Hampton Roads, creating competition and a rise in payroll costs. While there is discussion in the industry surrounding increased automation and artificial intelligence to help reduce future expense burden, there is still resounding agreement that multifamily is a people business. Reducing face time with residents could be detrimental to long-term operations and creating a sense of community. Qualified maintenance professionals have been difficult to hire and retain, further adding to the occupancy strain. Often, operators in 2023 were required to hire temporary labor to complete unit turns as they faced above average apartment turnovers from the backlogged evictions. The impact of labor shortages is also felt by operators completing capital projects and executing business plans involving property-wide renovations, delaying timelines and reducing profit margins already strained by the inflated costs of building materials and appliances.

NOTABLE SALES AND CAPITAL MARKET TRENDS

Pricing dislocation and an elevated, unstable interest rate environment continued to hinder the investment sales market in 2023, as evidenced by the 64.2% year-over-year decline, in annual sales volume to $637M, the lowest since 2018. Nearly 41% of annual sales in Hampton Roads occurred in the first quarter of the year as eager buyers capitalized on falling treasuries from the 2022 fourth quarter peak. While the 10-year

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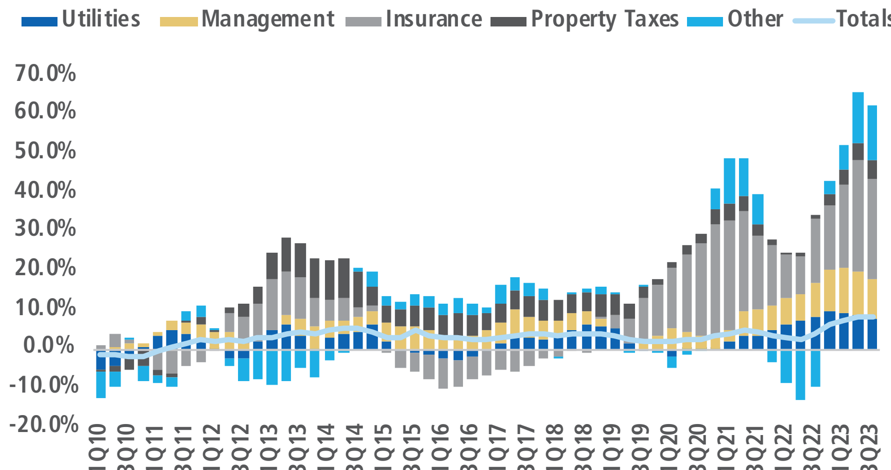

period remained below 4.0% for most of the first half, a steep rise in the summer months halted transactions in process and put both buyers and sellers on the sidelines as the bid-ask gap continued to widen. In October, a deepening selloff in the U.S. bond market drove the yield on the 10-year U.S. Treasury note to 5% for the first time in 16 years, marking a milestone that increased mortgage rates and fueled persistent fears of an economic slowdown. As rates rose, so did cap rates as buyers seek positive leverage, where in-place capitalization rates are higher than the interest rate on the buyer's acquisition loan, yielding immediate returns to investors and ultimately resulting in pricing declines in excess of 15% year-over-year. Cap rates for 4 & 5-star sales averaged 5.6% in 2023, while 3-star sales approached 6.0%. This is up from 2022 levels, where cap rates averaged 4.2% and 4.9%, respectively, for 4 & 5-star and 3-star sales. Loan assumption opportunities became more favorable as sellers, under the right circumstances, could achieve pricing near peak levels given low, locked-in interest rates and a favorable combination of remaining term and interest only periods. .

Multifamily remained the largest share of investment sales of all US commercial real estate property types in 2023, accounting for 45.3% year-to-date through November. Despite capital markets uncertainty, there is an estimated $240B in "dry powder" reserved for multifamily as eager buyers wait for fundamentals to normalize and the bid-ask spread to shrink for the right opportunities. Groups such as FPA, Blackfin, Bonaventure, Oakmark and Conserve Holdings capitalized on opportunity in 2023 and closed the top sales of the year. Most notably, FPA closed on ReNew Marina Shores in February for $101.92M, or $260k/unit, marking the largest single transaction of the year and the highest price per unit ever achieved for pre-2000's construction. ReNew Marina Shores was

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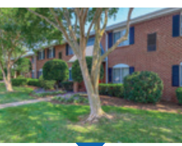
MONTICELLO STATION

NAV850 AT OLDE TOWNE

WYNDHAM AT HAMPTON

WATERFORD APARTMENTS

RENEW MARINA SHORES



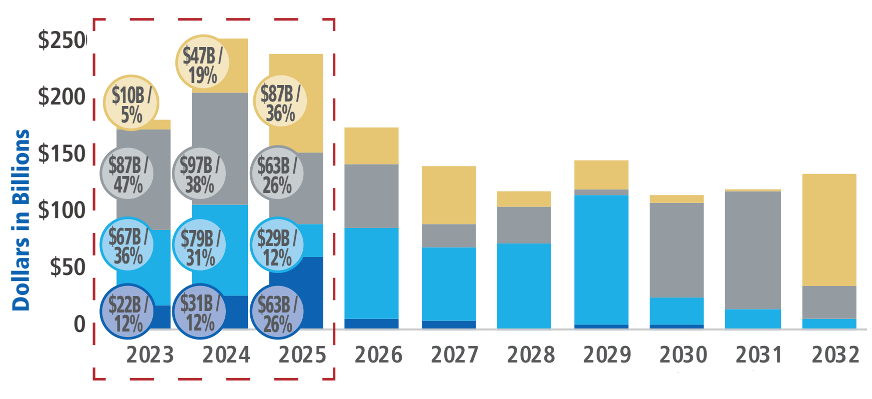
RIVERLANDS APARTMENTS

COTTAGE TRAILS AT CULPEPPER LANDING

Property Name	City	Units	Year Built	Assumption or Free & Clear	Price	Price Per Unit	Cap Rate	Buyer	Seller
Monticello Station	Norfolk	121	2011	Assumption	$42,000.000	$347,107	4.70%	Bonaventure	S.L. Nusbaum
Nav850 at Olde Towne	Portsmouth	246	2006	Free & Clear	$41,500,000	$168,699	6.00%	Foxfield	Blackfin Real Estate Investors
Wyndham at Hampton	Hampton	276	1986	Free & Clear	$50,000,000	$181,159	-	Oakmark Management	Weinstein Properties
Waterford Apartments	Virginia Beach	376	1978	Free a. Clear	$55.350,000	$147,207	5.49%	Blackfin Real Estate Investors	Perrel Management
ReNew Marina Shores	Virginia Beach	392	1991	Free & Clear	$101,920,000	$260,000	5.69%	FPA Multifamily	C-III Investment Mgmt
Riverlands Apartments	Newport News	404	1987	Free & Clear	$42,200,000	$104.455	5.79%	Blackfin Real Estate Investors	Perrel Management
Cottage Trails at Culpepper Landing	Chesapeake	183	2012 I 2015	Free & Clear	$40,750,000	$222,678	6.05%	Conserve Holdings	IRT living

constructed in 1991 and consists of 392 units located near the intersection of Shore Drive and Great Neck Road. Also in the first quarter, Blackfin had back-to-back closings totaling 780 units for $97.55M with their purchase of Riverlands Apartments in Newport News and Waterford Apartments in Virginia Beach, both purchased from Perrel Management. Bonaventure closed a second record-breaking transaction, with a loan assumption, in November when they purchased Monticello Station in downtown Norfolk from S.L. Nusbaum for $42M. Monticello Station included 33,000SF of retail space and carried an existing loan of $29.8M.

Multifamily Loan Maturities by Origination Period



2024 OUTLOOK

Although interest rates are expected to remain elevated through the first half of 2024, projected stability will likely spur multifamily lending and investment sales volume for the year. While rising costs may challenge operators in the short term, the multifamily market will be supported long-term by the overall shortage of housing, an expensive for-sale housing market, and the next generation of renters entering prime renter age. Fundamentals are expected to outperform pre-pandemic norms, allowing operators to grow rents to support future NOI growth and emboldening investor sentiment in the market. Agency financing remains the most attractive today, with rates between 5.5%-6% and leverage between 60%-70%, further bolstering future purchasing power while debt funds and banks continue to cool.

In 2024, multifamily stakeholders will closely monitor the debt maturity wall; $682 billion in multifamily loans are scheduled to mature between 2023 and 2025 with many 2023 expirations either extended or in work-out agreements. Banks account for 52% of maturities from 2023 to 2025, followed by debt funds and securitized lending, totaling 22%. It is troubling, and perhaps not coincidental, that these are the lending sectors that have the most reduced activity as of the end of 2023. Newmark estimates that $322B of these loans have loan-to-value ratios of 80% or higher. Additionally, $247B in loans facing maturity in short-term were originated during the pandemic liquidity bubble, and another $144B were originated from 2022 to the end of 2023. Buyers who financed purchases with max-leverage, floating rate loans at record purchase prices will likely be engaging in workout negotiations with their lenders. For those transactions where agreements cannot be reached, expect a flurry of buying opportunities to arise at the end of 2024 and into 2025.

While operational headwinds and near-term maturities paint a bleak outlook, these are short-term challenges to navigate in a long-term game. There are many reasons to remain optimistic including a projected 20% increase in loan originations year-over-year driven by stabilized, performing loan maturities and an eagerness to buy existing multifamily, as projected by the MBA. Hampton Roads' projected rent growth and occupancy will continue outpacing national trends and strong military ties and government influence will bring stability during potential downturns. In 2024 multifamily professionals should prepare to be "good" rather than "lucky" and ensure as an owner or investor you are aligned with the right resources, relationships, and foresight to navigate headwinds and capitalize on new opportunity!

2023 Year in Review

Hampton Roads' residential sector had a very transitional year in 2023. Much like 2020, which brought the onset of the Covid pandemic, the industry's landscape began to shift, changing the mindset of buyers on where and how to live. Within a few months, we began what was two years of unprecedented sales, almost 40,000 units in 2021.

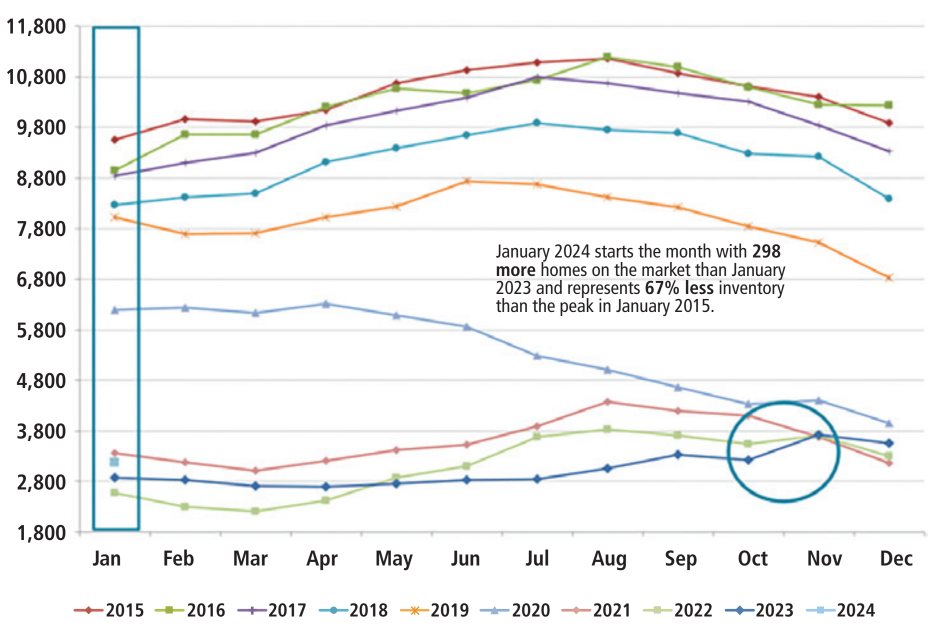
Similarly, 2023 brought big changes with a far different sales outcome. Last year, there were new obstacles and pressures placed on the market, creating dynamic shifts to which we are all still adjusting. The factors which played key roles in the shift:

o We began the year with perilously low inventory, which inched up, but not enough to really make a difference.

o The interest rate, hovering around 7%, kept the first-time homebuyer market well below normal levels. It also kept current homeowners in place, as they were not willing to give up their 2-3% interest rate on a 30-year loan for a new mortgage at 7%, a "double-whammy" for the industry.

o The negative press and national class-action suits across the country regarding the way real estate professionals are compensated began to send dark clouds across the industry from coast to coast.

Resale Report:



With all the headwinds listed above, our market only produced 22,021 resale closings, which represented a 22.7% reduction over 2022 and a 40% reduction since the boom of 2021. That is an 18,000-unit reduction in just two years. The average resale home sold for $367,481. The average market time increased to 27 days from the blistering pace in the first part of 2022 of 7 days. Resale homes accounted for 88% of all the homes sold in our MSA.

The inventory situation that has crippled the industry for the past three years appears to be headed in the opposite direction. In October 2023, the inventory situation moved counter to historical yearly downward trends in the last three months of the year. This may be the start of a much-needed increase in monthly listings.

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This resale reduction is clearly the result of a rapid rise in interest rates and limited inventory for buyers. Yet, home prices continued to increase 6.7%. Since supply is so limited and demand is still sky high, there is very little motivation to lower home prices in this market.

Currently, there are grave concerns as to how buyers, especially first-time home buyers, are going to be responsible for paying their own commissions. Traditionally, sellers have paid agents' commissions, but current pressures seek to transfer that responsibility to buyers. This is going to present real issues for both real estate professionals and for loan officers in assisting homebuyers. These forces combined to shift a large portion of sales from the lower end of the market to the upper end, a major departure from our traditional sales patterns in Hampton Roads and Northeast North Carolina.

Hampton Roads' Resale Market 2019 - 2023 ATT/DET (Source REIN)					
Year	**2019**	**2020**	**2021**	**2022**	**2023**
Closed Sales	26,498	29,898	34,706	28,481	22,021
YoY Change		+12.8%	+16.1%	-17.9%	-22.7%
Median Closed Sales Price	$234,000	$255,000	$320,595	$300,000	$317,777
YoY Change		+8.9%	+25.7%	-6.4%	+5.9%

Let's examine the fallout from all of this for the first-time home buyer. The median price of a resale home rose from $299,500 in January 2023 to its peak of $340,000 by June 2023. Put a 7% mortgage on that home, and the monthly principle+interest (PI) is $2,262 per month. A year ago, the PI for that same home was $1260/month, . The $1000/month increase requires a buyer to make $48,000 more annually to qualify, assuming no other debt, which is highly unlikely. Now, consider that the median household income in Hampton Roads is $79,000 and only rose 2.2% last year. There were few options for most of those buyers to bridge the gap without generational transfer of funds.

The resale scenario was further hampered by the move-up buyer or the empty-nester market which has been a staple of the industry for years. Over the last few years, they have either bought homes with historically low interest rates or have refinanced their existing homes with those same low rates. Critically low inventories and the slim selection of resale homes, coupled with 7% interest rates, have caused those would-be buyers to either stay in place, remodel or cash out and move to apartments to weather the interest rate storm.

New Construction:

The new home sector had a stable year in 2023. Despite all the same factors that affected the resale world, the new homes market managed to hold its own. The primary reason: it brought new inventory to the market. Although prices increased at alarming rates, new home buyers purchased despite the same interest rates. The difference was those buyers found the means to purchase with either equity from their previous homes or with cash. The percentage of cash buyers in 2023 was astonishing, with best estimates around 25%. Additionally, the limited existing home inventory funneled buyers to new construction, where builders were able to offer incentives such as closing costs or rate buydowns.

New construction faced many |challenges, but the overriding one is cost. The cost of both land and building materials continues to plague the industry with no end in sight.

Hampton Roads' New Construction Market 2018 - 2022 ATT/DET (Source REIN)					
Year	2019	2020	2021	2022	2023
Closed Sales	3,351	3,799	3,570	3,160	2753
YoY Change	+6.7%	+13.4%	-6.0%	-11.5%	-12.9%
Median Closed Sales Price	$328,708	$338,290	$403,799	$415,995	$415,000
YoY Change	+.8%	+2.9%	+19.4%	+3.0%	-0.24%

The average price of a new home was $474,014 in 2023 The gap between resale and new homes now exceeds $100,000 which continues to push it further out of reach for the first-time homebuyer. It is becoming almost impossible to offer any new construction home below $300,000 in the Hampton Roads market. The rising cost resulted in shrinking square footage in new construction homes. This past year, the attached product across the market, led in large scale by Ryan Homes, was about 1,823 SF, a cost of $205 per SF. The detached product averaged closer to 2,400 SF at a price of $205 per SF.

The reduction in home size is a function not only of cost, but also homeowner preference. The day of the big "McMansion" appears to be over. Today's lots have moved from an average of a quarter acre a few years ago to 5000–7000 SF. This is due in large measure to the exorbitant cost of land and development. Homebuyers seem to be satisfied with less yard and maintenance.

Hampton Roads' Top Builders

Over the last ten years, the homebuilder landscape has vastly changed. For more than 50 years, Hampton Roads was a market with only local builders and developers; we had a vast list of builders who produced thousands of homes each year. The market always had a big predominate player or two, such as Aragona, Goldrich, Napolitano, RG Moore, or Sandler.

The developer today is more likely to be a builder/developer who works only for himself. This is due to a compression in profits from both building homes and developing lots. It takes a combination to

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produce the same returns of the past.

With that said, the national builders arrived after the major recession of 2009-10. Many lots were in foreclosure, and it gave the cash-rich nationals a foothold in the market. That foothold has turned into absolute dominance here. Ryan Homes (NVR), the nation's #4 builder, has become the single largest home builder in the entire region. In 2023, they sold 871 homes and were located in 28 different communities; this equates to a 49% market share. Ryan's sales are seven times more than the next most successful local homebuilders, Dragas Companies with 124 closings and Chesapeake Homes with 120.

D.R. Horton, the nation's largest homebuilder, appeared on the scene in 2023 and bought out one of the area's largest local homebuilders, Weldenfield & Rowe, with a portfolio of more than 1,000 lots.

This will continue to squeeze the local homebuilders as these two companies fight for dominance in Hampton Roads and Northeast North Carolina.

Hampton Roads + NENC Top Builders

Builder	Closings Recorded	Average Sales Price	# of Sites
Ryan Homes	832	$420,892	28
Dragas Companies	124	$393,218	3
Chesapeake Homes	120	$747,471	5
D.R. Horton	98	$508,654	8
Napolitano Homes	90	$447,243	5
Kirbor Homes	87	$614,852	13
HH Hunt Homes	63	$408,060	4
Wetherington Homes	47	$422,559	21
Franciscus Homes	47	$292,671	3
EDC Homes	44	$544,428	21

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2023–2024 scholarship award recipients gathered at the E.V. Williams Center for Real Estate fall meeting honoring the late Harvey L. Lindsay Jr. Pictured from left to right: Ava Knox, Apryl Albritton, Maria Ruck, Teresa Blount, and Jamar Jarrell.

Kevin Prine, Holt "Billy" Butt, Simon Stevenson (from left to right). Kevin and Billy (from the City of Suffolk) spoke to the Real Estate Club about property assessing and appraising. They provided a lot of great information and resources about careers in their field.

Mariah Williams, Chris McNamara and Georgette (Gigi) Houchins with Virginia Housing spoke to the Real Estate Club sharing information about affordable housing, community outreach, resources for buying a home and potential career opportunities.

2024 HAMPTON ROADS REAL ESTATE
MARKET REVIEW & FORECAST

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