2019 Hampton Roads REAL ESTATE market review & forecast

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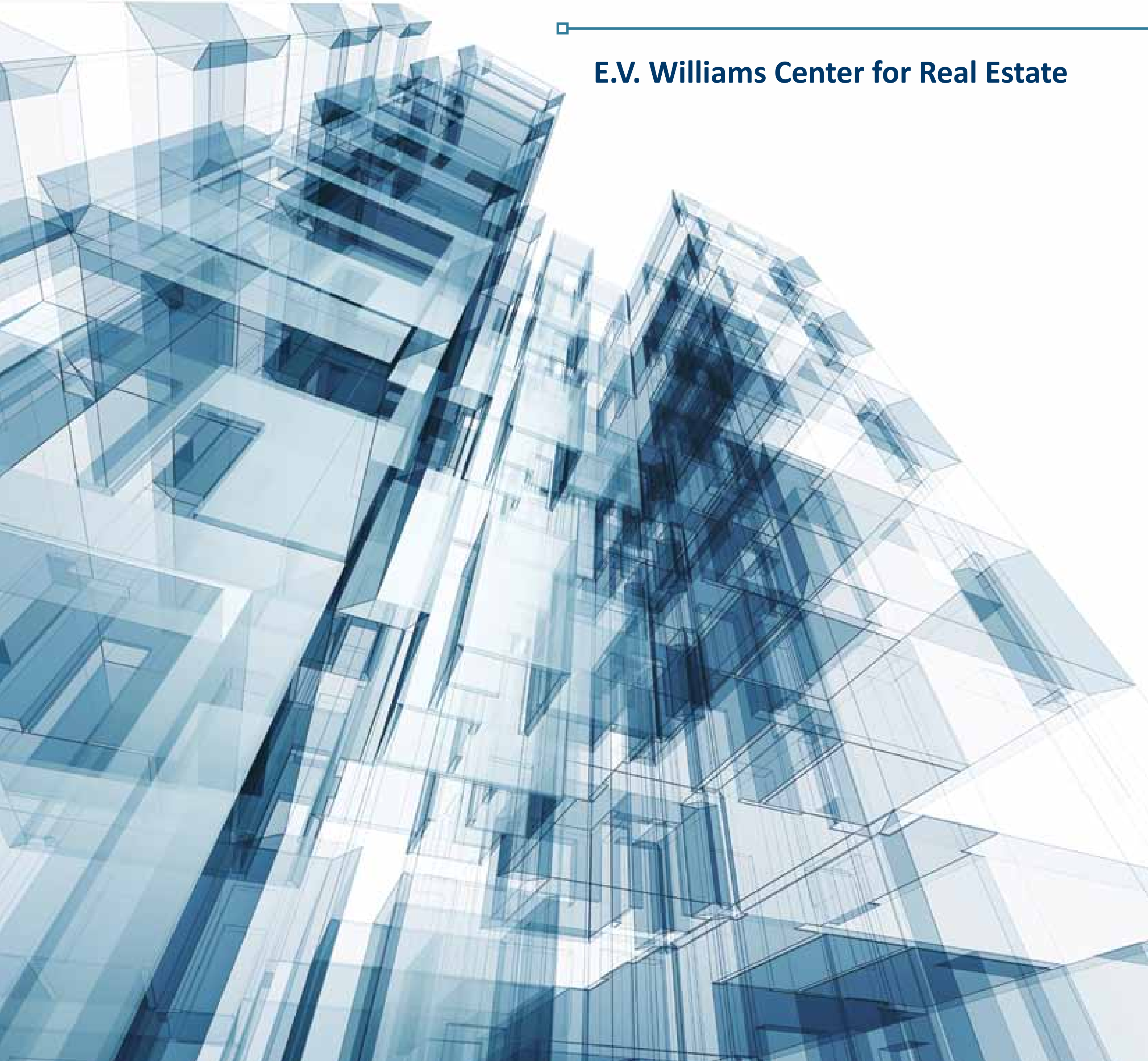

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24th Annual Hampton Roads REAL ESTATE market review & forecast

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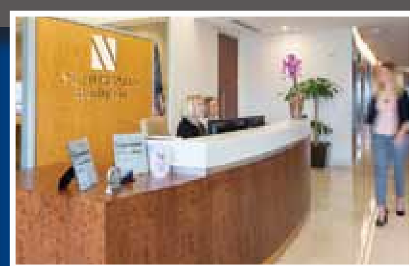

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MESSAGE *from the center*

Welcome to the 2019 Hampton Roads Real Estate Market Review and Forecast. This year's event marks the 24th consecutive offering of detailed, expert analysis of Hampton Roads' real estate markets. We are excited to present information on economic trends, office, industrial, retail, multifamily, residential, and, new this year, lodging. Thank you to this year's speakers/authors for sharing their insight and analysis in the following reports and the event presentations. Their time and efforts ensure that we provide a comprehensive examination of our market sectors.

As part of Old Dominion University's Strome College of Business, the E.V. Williams Center for Real Estate relies on the contributions of its Executive Committee, Advisory Board, and members. Our programs and events are designed to connect the academic and business communities. As partners, we strive to promote academic achievement, professional development, and personal growth by providing career information, mentoring, and networking opportunities to the students, our future real estate workforce. Over the past year, Strome Real Estate students have had the opportunity to participate in industry-coordinated events along with guest lectures and on-site visits. These opportunities provide students with the hands-on experiences necessary to support their academic work. Thank you to all of the members and affiliates that have enriched our real estate students as they continue their educational pursuits and careers.

Additionally, the Strome College added to its distinguished Finance and Real Estate faculty with the hiring of Walter D'Lima. Dr. D'Lima joins ODU having earned his Ph.D. from the Smeal College of Business at the Pennsylvania State University; he previously taught at the University of Notre Dame. Dr. D'Lima has research interests in institutional real estate investment, mortgage markets, and urban economics. As the Center grows, we look forward to offering additional educational programming to support the needs of the local industry. To learn more about the Center or to participate in upcoming events, please contact Director Andrew Hansz or reach out to Chair Larry Colorito.

Thank you for attending the 2019 Market Review and Forecast and for supporting the E.V. Williams Center for Real Estate. We look forward to seeing you at future events.

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Director, E.V. Williams Center for Real Estate
Finance Department, Strome College of Business

Lawrence J. Colorito, MAI
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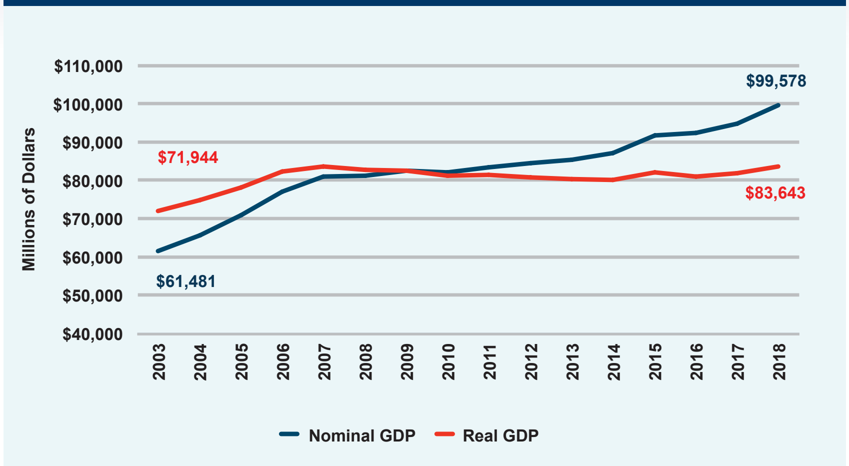
ECONOMIC TRENDS

VINOD AGARWAL, Ph.D.
Deputy Director, Dragas Center for Economic Analysis and Policy
Strome College of Business, Old Dominion University

The Hampton Roads economy, as measured by Real Gross Domestic Product (GDP), is expected to grow at a slightly higher rate in 2019 (2.4%) than in 2018 (2.2%). Regional growth in 2019 will also be higher than the historical annual average growth rate of 2.0%, observed from 1988 through 2017, but slightly slower than that of the nation. Incidentally, Nominal GDP of Hampton Roads approached $100 billion in 2018. If Hampton Roads were a country, its economy would rank in the top 70 world nations.

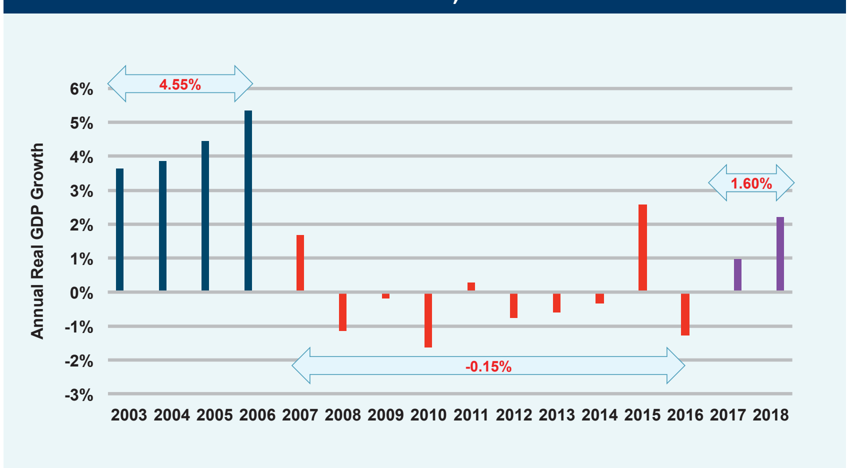
From 2003 to 2006, real GDP in Hampton Roads grew annually on average by about 4.55%. Whereas the inflation-adjusted U.S. GDP increased annually at a compounded rate of 1.42% from 2007 to 2016, Hampton Roads real GDP fell by 0.15%. Primary reasons for our regional economy's poor performance during this period included the Great Recession, the deceleration of Department of Defense (DOD) spending since 2012, and lack of job growth in the private sector. Between 2000 and 2012, nominal DOD spending in the region increased annually at a rate of 5.9%, compounded. However, DOD expenditures from 2012 through 2017 have declined or remained stagnant.

NOMINAL AND REAL GROSS DOMESTIC PRODUCT (GDP) HAMPTON ROADS, 2003 – 2018*



*Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporates latest BEA revisions in September 2018. Data for 2017 for Hampton Roads are advance estimates. *Data for 2018 represent our forecast. Real GDP in 2009 Chained Dollars.*

GROWTH IN REAL GROSS DOMESTIC PRODUCT HAMPTON ROADS, 2003 - 2018*



*Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporate latest BEA revisions in September 2018. Data for 2017 for Hampton Roads are advance estimates. *Data for 2018 represent our forecast. CAGR GDP growth in horizontal bars.*

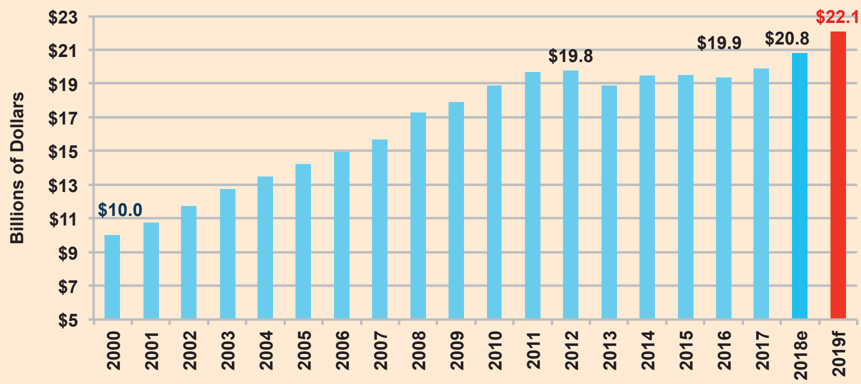
ECONOMIC TRENDS

The Bipartisan Budget Agreement of 2018 raised spending caps by $296 billion over Fiscal Years 2018 and 2019, with the defense caps rising by $165 billion and the non-defense caps by $131 billion. National defense spending increased by $80 billion during FY 2018 and is expected to increase by $85 billion during FY 2019. For Hampton Roads, this is excellent news. Despite the Federal Government's partial shutdown, Congress had appropriated DOD funds for FY 2019. Direct DOD spending in Hampton Roads during 2019 is anticipated to increase by 11% from 2017.

Hampton Roads' economy remains heavily dependent on DOD spending. From a peak of 46% in 2011, DOD spending now provides approximately 40% of Hampton Roads GRP. With a large military and federal presence, the increase in DOD spending is one of the significant factors in Hampton Roads' economic growth in 2018, 2019, and possibly 2020.

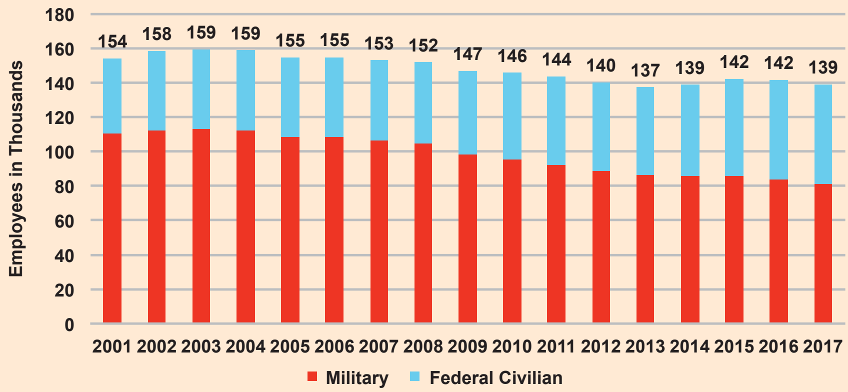
The Great Recession influenced job markets throughout the United States. From January 2008 through February 2010, the U.S. economy lost 8.7 million jobs or about 6.3% of all employment. It took 76 months to recover this jobs loss. The Hampton Roads economy lost about 38,400 jobs from 2007 to 2010. It was not until 2017 that the regional economy recovered all jobs lost during the Great Recession. This region gained about 6,000 jobs in 2018 and can expect continued steady 2019 jobs growth.

ESTIMATED DIRECT DEPARTMENT OF DEFENSE SPENDING HAMPTON ROADS, 2000 - 2019*



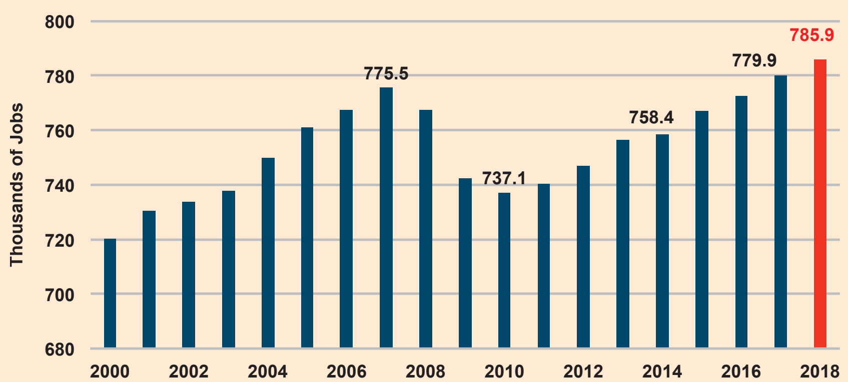
*Sources: U.S. Department of Defense and Dragas Center for Economic Analysis and Policy. Includes Federal Civilian and Military Personnel and Procurement. *Data for 2018 are estimates while 2019 represents our forecast.*

MILITARY AND FEDERAL CIVILIAN EMPLOYMENT HAMPTON ROADS, 2001 - 2017



Sources: U.S. Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Last updated by BEA on November 15, 2018.

AVERAGE CIVILIAN NONFARM EMPLOYMENT (JOBS): HAMPTON ROADS, 2000 – 2018



Source: U.S. Department of Labor CES data and the Old Dominion University Economic Forecasting Project. Annual averages based on non-seasonally adjusted data. Data will be revised in March 2019.

Other indicators also point to a decent recovery in the labor market. The Quarterly Census of Employment and Wage (QCEW) data show that Hampton Roads gained approximately 11,000 jobs during Q1 2018 compared to the Q1 2017. However, we also find that average weekly wages from Q1 2017 to Q1 2018 increased by only 1.8%, barely keeping up with inflation.

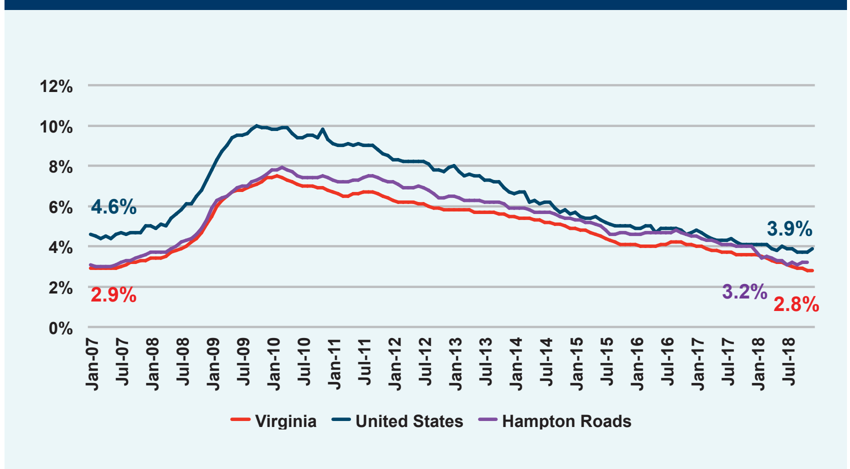
Another indicator of labor market performance is labor force size and the number of employed individuals. Local Area Unemployment Statistics (LAUS) data show that, from November 2009 to December 2018, the labor force increased by about 41,000, and the employed individuals increased by about 74,000 during this same period.

The Great Recession and its aftermath raised the national unemployment rate from about 5% to about 10%. The Commonwealth of Virginia and Hampton Roads saw similar increases. Since the recession, the unemployment rate in all three areas has decreased substantially. However, the gap between the national unemployment rate and the Commonwealth's unemployment rate has been shrinking; Virginia's 2018 unemployment rate was less than 100 basis points lower than the national rate. It should also be noted that before the recession, Hampton Roads' unemployment rate was close to Virginia's. Since the Recession, however, Hampton Roads has been approximately 40 basis points higher than the Commonwealth.

CHANGE IN EMPLOYMENT: SELECTED INDUSTRIES IN HAMPTON ROADS, 2017 Q1 TO 2018 Q1

Sources: Virginia Employment Commission: Covered Employment and Wages by all types of Ownership (VA part of MSA) and the Old Dominion University Economic Forecasting Project.

UNEMPLOYMENT RATE (U3) UNITED STATES, VIRGINIA, AND HAMPTON ROADS, 2007 2018



Sources: Bureau of Labor Statistics and Old Dominion University Economic Forecasting Project. Seasonally adjusted unemployment rates. Virginia data through December 2018 and Hampton Roads data through November 2018 while US data through December 2018.

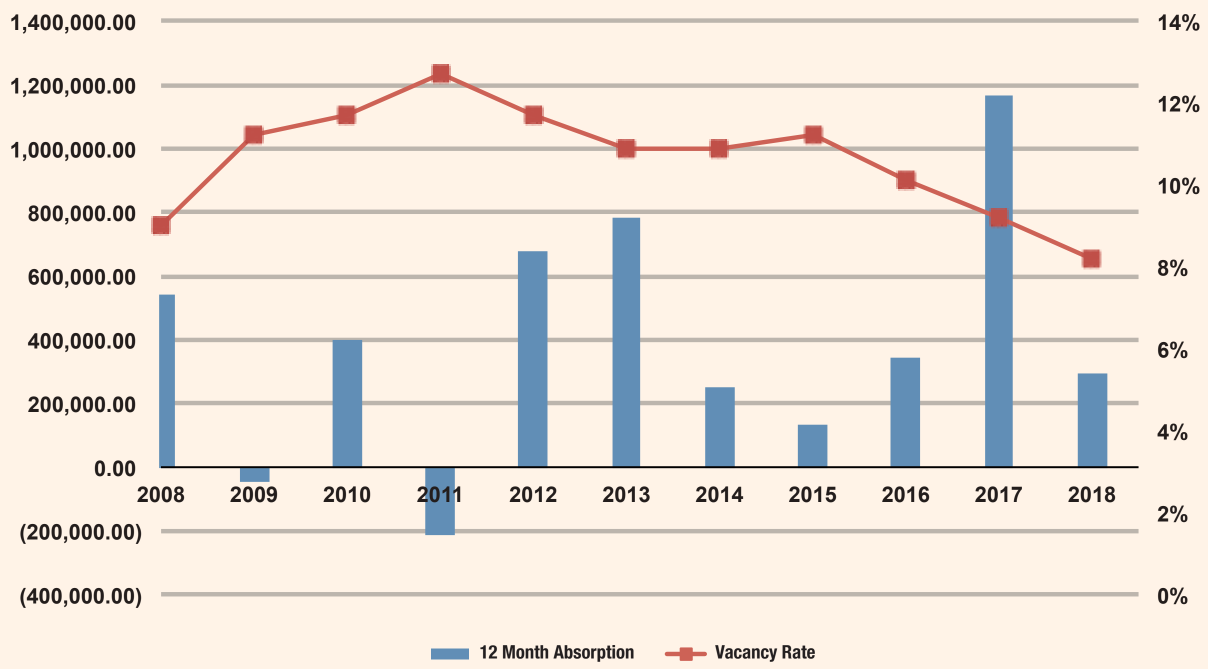
OFFICE

KRISTA COSTA
Senior Vice President, Divaris Real Estate, Inc.

HAMPTON ROADS OFFICE MARKET STATISTICS

The Hampton Roads office market sustained moderate activity in 2018. The office market is comprised of 52,592,993 square feet (SF), with 2,106,201 SF of leases signed in 2018. The vacancy rate declined a point throughout the year to 8.2%. Positive absorption of 297,193 SF was down from the almost record level of 820,076 SF absorbed in 2017. The average asking rental rate, across all office types, increased approximately 3% to $17.90 per SF. The office space available for sublease declined from 99,817 SF to 35,640 SF.

ABSORPTION/VACANCY
HAMPTON ROADS OFFICE



Source: CoStar Group

KEY HAMPTON ROADS TRANSACTIONS

Renewals were the largest lease transactions in 2018, continuing the 2017 trend. The largest "new" lease was Optima Health's expansion at The Gallery at Military Circle of 44,428 SF, where the building is now 100% leased.

2018 TOP OFFICE LEASES				
Tenant	Building	Date	Square Footage	Lease Type
US Air Force	Research Quad III 300 Exploration Way, Hampton	Q2	97,488	Renewal
Canon USA	850 Greenbrier Circle, Chesapeake	Q2	81,318	Renewal
CACI	Dominion Tower 999 Waterside Drive, Norfolk	Q3	49,910	Renewal
Alion Science and Technology Corporation	Norfolk Commerce Center IV 5365 Robin Hood Road, Norfolk	Q4	46,000	Renewal
Optima Health	The Gallery at Military Circle 824 N Military Highway, Norfolk	Q3	44,428	New

Office market sales activity increased in 2018. New-to-market investors conducted several of the highest dollar sale transactions in Downtown Norfolk.

2018 TOP OFFICE SALES			
Building	Square Footage	Sales Price	Sale Price Per Square Foot
Dominion Tower 999 Waterside Drive, Norfolk	403,276	$79,000,000	$195.90
NetCenter 5200 Mercury Blvd, Hampton	557,753	$19,750,000	$35.41
Main Street Tower 300 East Main Street, Norfolk	199,621	$18,550,000	$92.93
Town Point Center 150 Boush Street, Norfolk	131,259	$16,600,000	$126.47
Lakeview Technology Center 2 7511 Burbage Drive, Suffolk	86,400	$16,349,966	$189.24

HAMPTON ROADS MARKET OVERVIEW

As predicted, the pace of office leasing slowed in 2018. The total SF leased in 2018 was almost 900,000 SF less than 2017, and the demand for Class A office space was tepid. Suburban submarkets saw the majority of the absorption over the Central Business Districts (CBDs). Suburban markets absorbed 321,087 SF while the CBDs posted negative absorption of 23,894 SF, unlike the national level where CBD growth far outpaced suburban growth.

OFFICE

Class B office buildings achieved the highest rent growth in 2018, with full service asking rentals increasing by $0.96 per SF to $16.80 per SF. At 6%, that figure is double the asking rate rental growth of 3% achieved by all property types combined.

Office vacancies continued to decline, more as a result of existing business expansions and organic growth than new business entries in the region. The unemployment rate in Hampton Roads reached 3.2% by year-end. Hiring and retaining quality workers remained a challenge for local companies.

While defense spending increased substantially in 2018, few new leases were signed as a result of this spending. Most local defense contractors accommodated new contracts within their existing premises.

Deliveries included the 256,000 SF Dollar Tree headquarters building delivered in the third quarter and the 80,000 SF spec Building One @ Tech Center in Newport News, now 100% leased.

In December, Norfolk Southern formally announced it would vacate its 311,000 SF, 22-story office tower headquarters in Downtown Norfolk and move to Atlanta. The process is scheduled to take a couple of years to complete. The move is expected to have ripple effects in the community far beyond the Class A office space hitting the market.

MARKET TRENDS TO WATCH

Tenants continue to seek office space allowing them to recruit and retain employees. Lack of employees could jeopardize the natural growth driving the Hampton Roads office leasing market. Even in suburban areas, employers are finding amenities critical to location selection, and locations with walkable amenities are most preferred.

The rising costs of construction were cited as the top real estate and development concern according to respondents to ULI's Emerging Trends in Real Estate 2019 survey. Rising construction costs are due to increased materials demand from several devastating storms in 2018, new foreign trade policies limiting imports of materials and a shortage of immigrant construction labor.

Tenants continue to want landlords to deliver a turn-key buildout, with no out-of-pocket costs to the tenant. In order for the economics to work, the cost of improvements is forcing tenants to sign seven to ten-year leases. While landlords benefit from the stability, the return on investment is decreasing.

Nationally, speculative office development is well underway. Locally, some speculative office development has materialized, but on a much smaller scale. One example is the 56,000-square-foot spec building under construction in 2018 at 2 BayPort Way in Newport News. Summit Pointe, the development surrounding the Dollar Tree Headquarters in Chesapeake, will break ground on a 150,000-square-foot Class A spec office building in 2019.

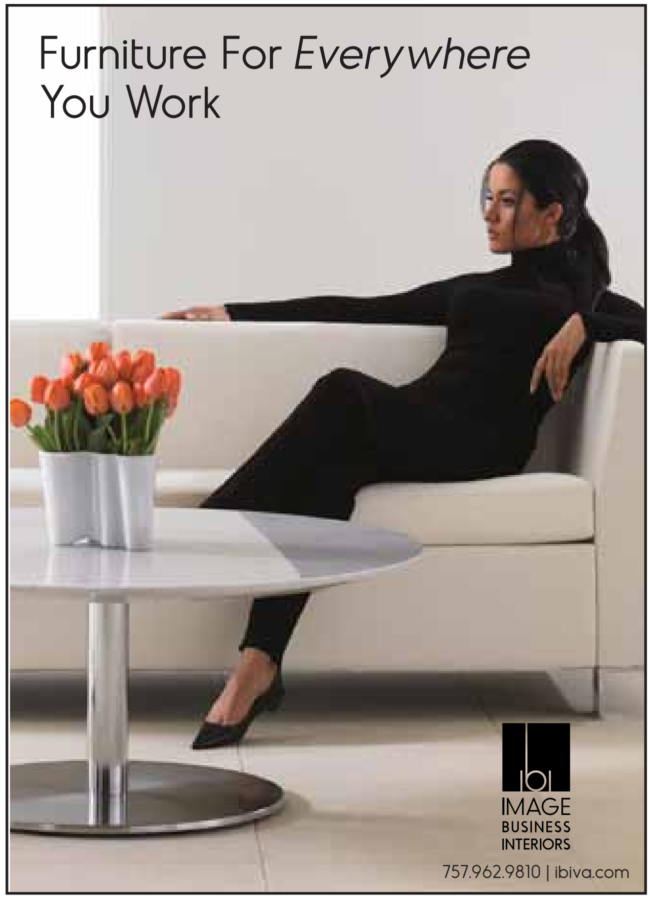
2 BayPort Way, Newport News

The coworking movement saw expansion in Hampton Roads with the Richmond-based company 'Gather' leasing spaces on both the Peninsula and Southside in 2018. We expect to see additional national coworking space providers enter the Hampton Roads market.

Government contractors will require additional space as defense contracts are awarded. Prudent landlords will have move-in-ready suites available.

2019-2020 OFFICE *Outlook*

The positive absorption trend will continue in the Hampton Roads office market in 2019. While the office market is forecasted for moderate performance nationally, demand from defense contracting and healthcare will be higher locally. The office vacancy rate will likely drop below 8% in 2019 but then spike in 2020 when Norfolk Southern finalizes its move to Atlanta. The combination of lower vacancy and continued rent increases will spur additional office construction in 2019. Several local developers have plans in hand to start building.



INDUSTRIAL

BILL THRONE
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GENERAL OVERVIEW
THE HAMPTON ROADS INDUSTRIAL MARKET IN SUMMARY

Three main drivers fuel the Hampton Roads industrial market: the general economy, the Port of Virginia, and defense spending. Since the downturn in 2007, we have endured a long and protracted recovery. The current industrial market can be defined by a healthy overall vacancy rate (4.1%); weak market absorption (2018 total of 16,935 square feet (SF)); and plenty of potential for improvement in 2019.

Tenants have struggled to find quality industrial space in 2018 and will continue to do so in 2019. This low inventory and strong demand dynamic will continue to drive up lease rates and industrial property transaction prices. Land scarcity, land values, and construction costs remain high, limiting development options for investors.

There are areas to watch in 2019, and astute landlords and investors will be able to take advantage of a market expected to bloom in full recovery.

2018 BELLWETHER TRANSACTIONS

Two significant 2018 sales demonstrate the local market's ability to adapt to the pressures to deliver industrial product.

- **1537 Air Rail Avenue, Virginia Beach**
  Airport Industrial Park

Lingerfelt Commonwealth purchased this 18-acre property with 320,000 SF manufacturing facility for redevelopment into a distribution center on behalf of World Distribution Services (WDS), a freight management company operating in Hampton Roads for many years. This creative redevelopment project of an existing building in partnership with a developer will provide WDS a better facility to service their clients and to expand and accommodate new clients moving product through the Port of Virginia.
Sale Price: $8 million, or $25.00 per SF

- **3321 East Princess Anne Road, Norfolk**
  Norfolk Industrial Park

General Foam Plastics has been in business in Hampton Roads for over 50 years. Their main manufacturing and distribution facility is 12.27 acres with approximately 415,000 SF of production/shipping space. This facility sold in early 2017 at a price of $6.4 million and sold more recently for $2.5 million to a discount distributor in late 2018 who will be redeveloping the facility to accommodate their warehousing and distribution needs.
Sale Price: $2.5 million, or $6.02 per SF

The chart below displays vacancy rates by submarket. Many of the Hampton Roads submarkets are in high demand with little product available for lease or purchase. Astute investors and developers should seek out redevelopment opportunities to accommodate anticipated strong demand in 2019.

HAMPTON ROADS INDUSTRIAL LEASING ACTIVITY

Submarket	Total Bldgs	Inventory (SF)	YTD Leasing Activity (SF)	Overall Vacancy Rate	YTD Overall Net Absorption (SF)	Under Cnstr (SF)	Overall Weighted Avg. Net Rent (MF)*	Overall Weighted Avg. Net Rent (OS)*	Overall Weighted Avg. Net Rent (W/D)*
Copeland	198	10,680,608	134,110	2.9%	288,139	0	$5.59	N/A	$5.59
Gloucester	7	222,954	0	0.0%	22,500	0	N/A	N/A	N/A
Oakland	47	4,475,570	151,000	2.8%	-78,938	0	$7.00	N/A	$7.00
Oyster Point	63	4,043,336	86,673	2.9%	112,571	0	N/A	$8.25	N/A
Williamsburg	54	8,426,201	38,700	1.5%	38,656	0	N/A	N/A	$5.77
Airport Industrial Park	58	3,616,576	161,425	15.0%	-465,934	0	$4.82	N/A	$4.82
Bainbridge	144	10,402,233	377,615	1.9%	86,577	20,800	$10.49	$9.86	$10.15
Cavalier	99	5,614,579	73,090	6.8%	-341,712	0	$5.25	N/A	$5.25
Central Norfolk	81	5,192,366	193,434	12.6%	-5,423	0	N/A	$10.63	$10.63
Cleveland	71	2,858,302	48,911	1.6%	-14,197	0	N/A	$11.31	$11.31
Greenbrier	35	2,278,949	290,648	8.2%	-28,158	0	N/A	N/A	N/A
Isle of Wight	15	3,870,270	0	0.0%	180,000	0	N/A	N/A	N/A
Lynnhaven	170	8,272,983	227,301	5.0%	-232,721	680,000	$6.50	$8.56	$8.10
Norfolk Industrial Park	152	7,741,909	158,793	2.9%	195,789	0	$5.51	N/A	$5.51
North Suffolk	12	2,276,942	20,000	3.6%	-61,704	0	N/A	N/A	N/A
Portsmouth	96	4,281,511	228,487	6.4%	240,312	0	$7.50	N/A	$7.50
South Suffolk	88	11,947,226	109,134	3.5%	48,434	0	N/A	N/A	N/A
West Norfolk	68	2,360,194	6,744	1.6%	32,744	0	$6.03	N/A	$6.03
HAMPTON ROADS TOTALS	1,458	98,562,709	2,306,065	4.1%	16,935	700,800	$5.49	$10.03	$5.51

***Rental rates reflect asking $psf/year   MF = Manufacturing   OS = Office Service/Flex   W/D = Warehouse/Distribution**

Source: CoStar Group, 2018 4th quarter sector report

LEASE RATES

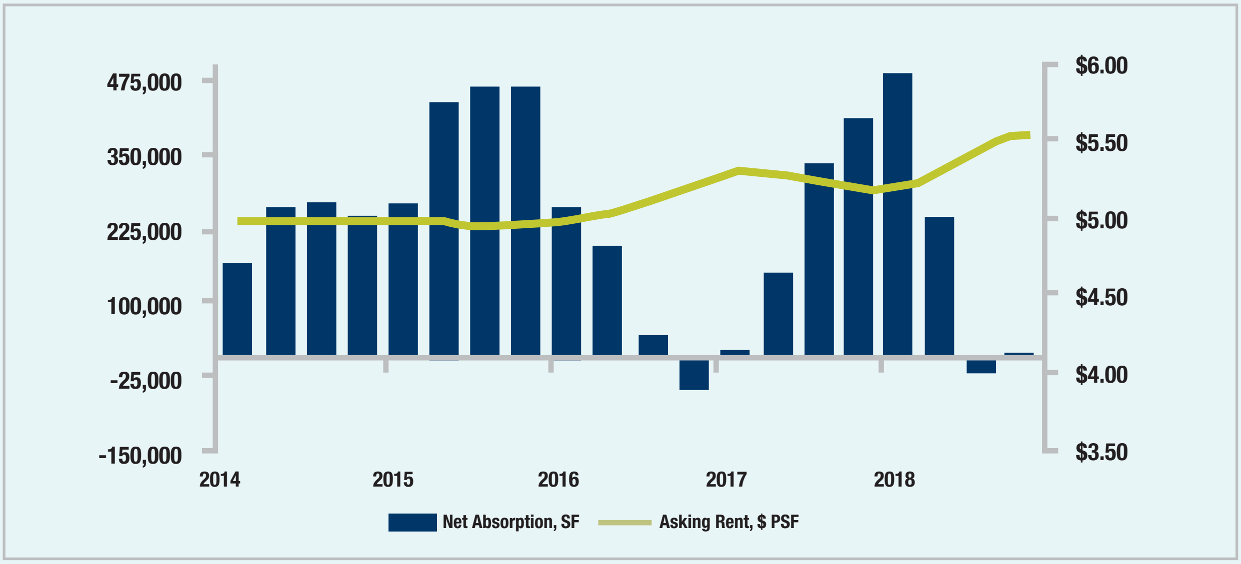
Low vacancy rates inevitably lead to higher rents. In Hampton Roads, industrial lease rates are on a predictable rise. In high demand locations, such as the Greenbrier and North Suffolk submarkets, rental prices are starting to reflect serious competition for available space. Below are two examples of strong warehouse/distribution sector lease rates.

- **401 Woodlake Drive, Chesapeake/ Greenbrier Submarket**
  - 66,300 SF of warehouse space. Minimal office area.
  - $5.90 NNN per SF/per year.
- **6920 Harbourview Boulevard, Suffolk/ North Suffolk Submarket**
  - 31,500 SF of warehouse space. Minimal office area.
  - $6.75 NNN per SF/per year.

Note the increasing average industrial lease rate from the following chart, as shown by year. Absorption appears to have little impact on rent growth. Availability drives rent growth, and in both North Suffolk and Greenbrier, the lack of warehouse space has allowed landlords to achieve rents above the $5.51 per SF market average. In 2019, landlords would be wise to stay current on the supply of competing properties in their submarket when establishing rental rates for new inventory.

INDUSTRIAL

OVERALL NET ABSORPTION/OVERALL ASKING RENT



Source: CoStar Group, 2018 4th quarter sector report

HUNTINGTON INGALLS, HAMPTON ROADS SHIPYARDS, AND WATERFRONT COMPANIES

One of the underreported indicators of health in the Hampton Roads industrial market is shipyard activity. Both private and government contracts have put stresses on regional shipyard employment and facilities. The U.S. Navy has reached an agreement with Huntington Ingalls Shipyard for a block purchase of two aircraft carriers. The intent is to create economies of scale and help local businesses that supply services and component parts to the shipyard. The practical effect on the industrial market will be a scramble to secure space for expansion to meet Huntington Ingalls' demands. Ironically, the shipyard itself has increased demand for warehouse space in its own location, around the Newport News submarket. Note from the previous graph, the Peninsula submarkets of Copeland, Oakland, and Oyster Point all have vacancy rates under 2.9%.

Maritime industrial demand is expected to increase as well. Hampton Roads is home to the finest collection of private shipyards in the country. Each is operating at full capacity and is constrained only by employees and facilities. The following transactions are indicators of where the market will be headed in 2019 and beyond.

- **1201 Terminal Avenue, Newport News**
  Shipyard operator purchase
  - Purchased 85.5 acres total, 43.28 acres available for development
  - Two finger piers of 980' and 1,100'
  - 30' to 40' of depth at the piers
  - $17.5 million purchase price

- **700 Rosemont Avenue, Chesapeake**
  Shipyard welding service provider
  - Leased 21,200 SF of warehouse/shop area
  - $5.45 NNN per SF/month
  - Waterfront access via 400' offset bulkhead
  - Additional rental charges for the use of the bulkhead

Slated and scheduled infrastructure improvements have already begun to influence the Hampton Roads industrial market. The Hampton Roads Bridge-Tunnel and Chesapeake Bay Bridge-Tunnel expansions have both land and buildings in support of their contract work. Laydown yards for construction equipment and component parts are in demand. As the Virginia offshore wind project gears up and makes progress, manufacturing and service facilities will be needed[1].

[1] *For more information, see www.dominionenergy.com/about-us/making-energy/renewable-generation/wind/coastal-virginia-offshor-wind*

Given the scarcity of waterfront real estate, astute investors may want to consider investments in land and facilities that can accommodate these larger facilities supporting Huntington Ingalls and other shipyards. Huntington Ingalls is the largest private employer in the State of Virginia, with approximately 23,000 employees. They added about 400 new workers a month in 2018. Surely there will be a ripple effect on the Hampton Roads maritime industry.

FINAL THOUGHTS

In closing, a few final items to consider:

1. Cannabis.

Portsmouth will be home to the first Hampton Roads cannabis dispensary. The facility will be housed in a warehouse of 66,000 SF. This is an exciting development and may portend additional future cannabis leasing and sale activity as the country unravels cannabis State and Federal cannabis regulations. *As cannabis legalization grows, look for other opportunities to provide warehouse facilities.*

2. CenterPoint Properties brings their CenterPoint Intermodal Center to the market.

CenterPoint Properties has been the leader in larger Hampton Roads build-to-suit developments. With over 900 acres of land and almost 1.7 million SF developed, they are the region's prominent developer. In 2018, they brought the entire Hampton Roads portfolio to the market for sale. *CenterPoint Intermodal Center has been successful in attracting many quality tenants to Hampton Roads. Look for more to land in this premier park, regardless of future ownership.*

3. Industrial evolution of warehouse and fulfillment centers and employment.

Warehouse and fulfillment centers are requiring more employees. Communities expecting to land major facilities need to demonstrate a readily available workforce in the immediate 'neighborhood.' Recent visits by national companies needing 500,000 to 1,000,000 SF listed potential employees as a primary consideration in site selection. Due to land scarcity for large scale development, demand for fulfillment center/last mile delivery sites will ultimately have to settle for smaller sites. *Developers should look for industrially zoned properties located within the core.*

4. The Port of Virginia.

The Port of Virginia continues to grow and improve. The Hampton Roads industrial market is forever tied to the unique set of terminals. Virginia is fortunate to own and operate this valuable asset, and as the Port goes, so goes the Hampton Roads industrial market.

2018 has been a good year for the Hampton Roads Industrial property market. Look for 2019 to be even better as the Port, the shipbuilding industry, and the general economy continue to perform well.

RETAIL

MICHAEL P. ZARPAS
Vice President, S.L. Nusbaum Realty Co.

HAMPTON ROADS MARKET STATISTICS

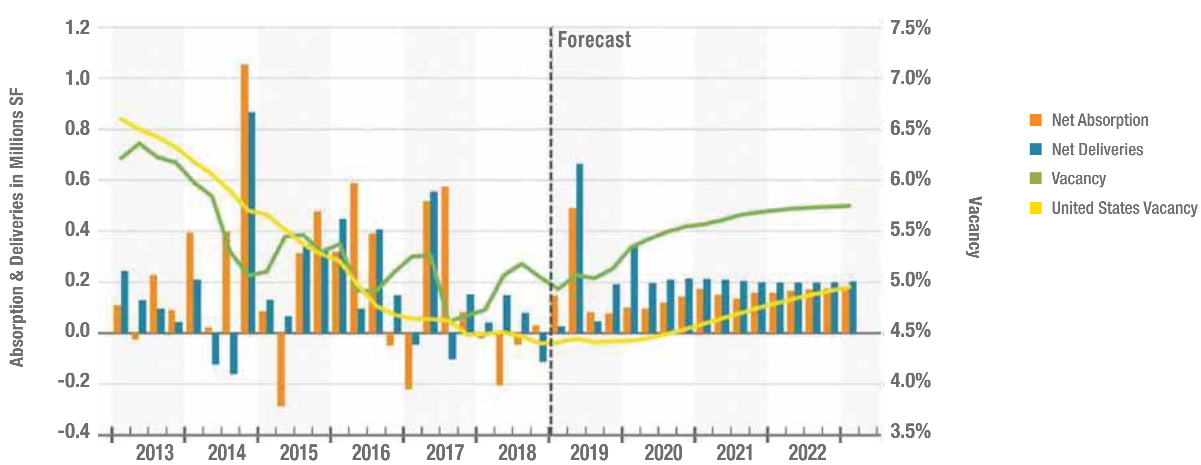
HAMPTON ROADS YEAR END 2018				
Type	Square Feet	Rate Per SF	Vacancy Rate	Availability Rate
Malls	8,582,223	$24.53	2.2%	6.4%
Power Centers	7,956,125	$21.17	5.0%	6.8%
Neighborhood Centers	36,404,198	$17.10	8.2%	10.6%
Strip Centers	6,762,797	$16.07	6.8%	9.0%
General Retail	43,230,552	$15.37	2.8%	4.6%

Source: CoStar Group

The retail landscape in Hampton Roads continued to evolve positively in 2018. Though the retail vacancy rate has crept up slightly to 5.1%, the rate is still below historical levels. However, the spread between the 5.1% vacancy rate and 7.3% availability rate shows a more accurate picture looking forward. Brokers and owners are marketing spaces they anticipate to be shed from non-performing tenants this year. General retail maintains the strongest stability factor in the retail category, while neighborhood centers are showing the most weakness due to a multitude of factors.

Net absorption has fallen into negative territory, showing -259,000 SF compared to 1,100,000 SF of net absorption in 2017. 352,000 SF of new retail product came online in 2018.

NET ABSORPTION, NET DELIVERIES & VACANCY



Source: CoStar Group

KEY HAMPTON ROADS TRANSACTIONS

Top 5 Retail Leases in 2018

1)	114,000 SF	–	Floor & Décor, Virginia Beach
2)	58,000 SF	–	New Realm Brewing Company, Virginia Beach
3)	44,827 SF	–	Conn's Home Plus, Portsmouth
4)	37,500 SF	–	Conn's Home Plus, Virginia Beach
5)	26,051 SF	–	Harbor Freight Tools, Hampton

Top 5 Retail Sales in 2018

1)	$85,650,000	–	JANAF Shopping Yard, Norfolk
2)	$19,900,000	–	Crossways Center II, Chesapeake
3)	$12,900,000	–	Chesapeake Square Mall, Chesapeake
4)	$8,969,007	–	Oyster Point Square, Newport News
5)	$8,700,000	–	Hampton Plaza, Hampton

Top 5 Retail Developments in 2018

1)	331,000 SF	–	IKEA, Norfolk
2)	130,000 SF	–	Wegmans, Virginia Beach
3)	92,158 SF	–	Hickman Place Phases I and II, Virginia Beach
4)	70,000 SF	–	Bridgeport Phase I, Suffolk
5)	21,000 SF	–	The Shops at Lake Wright, Norfolk

HAMPTON ROADS MARKET OVERVIEW

The retail landscape is changing within the market. There has been a push for mixed-use development with a more urban twist. Municipalities are, in many cases, requiring interior parking fields with buildings closer to the curbside. New tenants such as Publix, Earth Fare, Floor & Décor, Conn's Home Plus, and Surge are finding our market appealing. The grocery landscape has greatly diversified within the region. Farm Fresh sold locations to Harris Teeter, Kroger, Food Lion and independent operators, with many locations remaining vacant. Earth Fare opened its first store in the market in Williamsburg, with another expected in Virginia Beach. Sears/ Kmart is looking for a lifeline nationally, with only one Sears Appliance Outlet and three

Floor & Décor, Pembroke Place, Virginia Beach, VA

RETAIL

Kmart stores remaining open in Hampton Roads. The end for Sears is imminent. Toys R Us permanently shuttered all stores across the nation. These and other closures weigh on the retail market. Many new developments have relied heavily on restaurant-style tenants, such as First Watch, Metro Diner, Cooper's Hawk Winery & Restaurant, Bro's Fish Tacos, Dunkin', Smash Burger, Mission BBQ, Mod Pizza, and Starbucks. With more single-tenant net leased assets crossing the block in 2018, the average cap rate fell to 7.2%. Redevelopment is becoming a prevalent trend once again with many grocery and department store boxes coming online. Twenty-three of the top 25 national retailers (by sales volume) all have locations within Hampton Roads.

NATIONAL MARKET OVERVIEW

2018 was the strongest for retail sales in over a decade with year-over-year sales increases exceeding 4.5%. This holiday season did not disappoint. Many retail chains saw 5% sales increases over last season. The clear winners in the retail category were omnichannel retailers who were able to capitalize on the immediate needs of today's consumer. Properties offering experiential retail wooed customers with programmable space and a sense of place. Retailers that maximized efficiencies and invested to enhance the in-store experience realized stellar results. There was a clear case of the haves and have-nots. Deep discounting continued to lead the pack as shoppers from every socio-economic level sought bargains to fill their carts.

MARKET TRENDS TO WATCH

Technology advancements will lead retailers and developers to continually adapt to today's consumer. The ability to analyze vast amounts of data to tailor the retail experience is catapulting retail to new heights. Loyalty programs will be updated and fine-tuned to reward repeat customers and lure new ones. We will see much more pop-up to permanent concepts in 2019 and beyond. Interactive displays and mobile technologies will keep customers within the store engaged and more willing to open their wallets. Increased customer service inside and outside the store with an investment in the employee base will yield high returns. There will be a more considerable emphasis on mixed-use developments and experiential environments. Landlords and tenants will partner to enhance both of their bottom lines, much to the consumers' delight.

Janaf Shopping Yard, Norfolk, VA

New Realm Brewing Company, Virginia Beach, VA

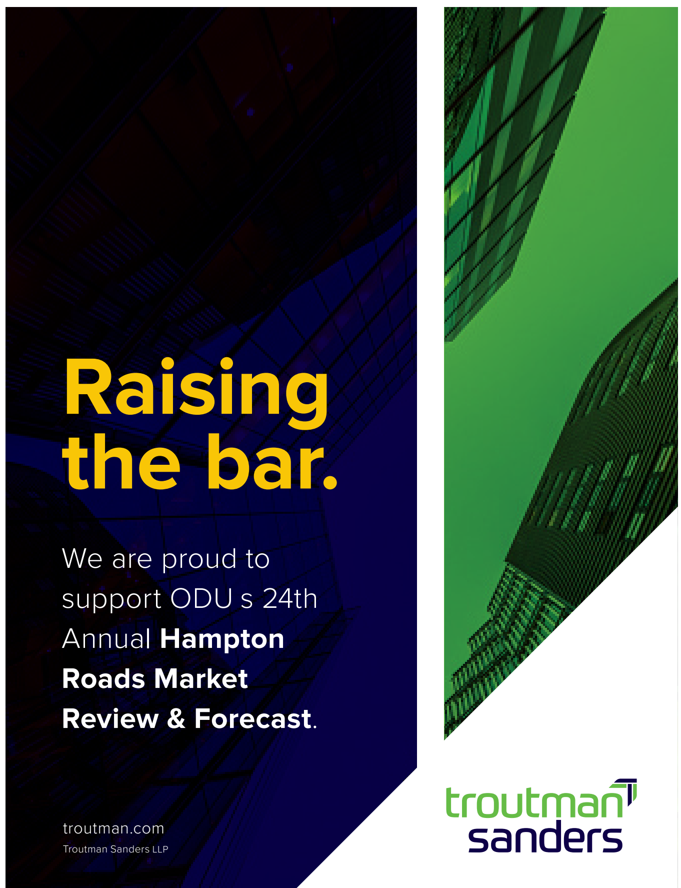
Wegmans, Town Center Marketplace, Virginia Beach, VA

Hickman Place, Virginia Beach, VA

2019-2020 RETAIL *Outlook*

Landlords and brokers will continue searching for sustainable retailers. Interconnectivity between property owners, tenants, consumers, and municipalities will ensure success for those willing to invest both time and financial resources. The government shutdown will create some negative impact on retail sales this year, as consumer confidence falls from all-time highs. Net leased single-tenant retail will continue to fetch the highest prices due to extreme demand. Value-add properties will gain momentum as many current owners cannot sustain properties with large box vacancies. More innovative and well-capitalized investors will seize such opportunities and redevelop many properties by adding entertainment, dining, discount retail and mixed-use elements to the mix. Opportunity zones will spawn huge investments into designated areas all over the region, creating new vibrant corridors. There will be increased emphasis on service tenants to cater to the needs of the busy American consumer. The mantra moving forward can be described as "I want it all. I want it now. I want to feel important. I want it cheap. I want a reward." Those who capitalize on these trends will reap the benefits, as the cream always rises to the top!

IKEA, Norfolk, VA



LODGING

EDWARD C. DENTON
President, Denton Realty Company

HAMPTON ROADS MARKET STATISTICS

DECEMBER 2018 YEAR TO DATE LODGING OPERATING STATS				
	Occ. %	A.D.R.	RevPAR	RevPAR % Chg.
United States	66.2%	$129.83	$85.96	+ 2.9%
Commonwealth of Virginia	64.4%	$110.70	$71.24	+ 1.3%
Chesapeake/Suffolk	72.1%	$78.99	$56.95	+ 6.8%
Norfolk/Portsmouth	66.7%	$96.51	$64.34	+ 7.5%
Virginia Beach	63.2%	$130.51	$82.44	+ 0.9%
Hampton/Newport News	67.7%	$73.60	$49.85	+ 6.8%
Williamsburg	49.5%	$121.36	$60.03	+ 3.2%

Sources: Virginia Hotel, Restaurant & Travel Association / STR Inc.

2018 TRANSACTIONAL RECAP

- 20 Hampton Roads Hotels/Motels sold in 2018
- Average Sale Price: ± $14,000,000
- 16 of the 20 properties were affiliated with national franchise brands
- Median Sale Price: ± $5,500,000
- Per Room Price Range: ± $14,000 - $300,000
- Capitalization Rate Range: 6.9% - 11.4%

Sources: CoStar Group, CBRE, Mumford Company, and Public Records

KEY HAMPTON ROADS TRANSACTIONS

2018 was an active year for hospitality development and investments in Hampton Roads. After significant delays and cost overruns, the iconic Cavalier Hotel in Virginia Beach reopened in the Spring. Branded as an Autograph Collection (Marriott's luxury boutique moniker), the historic restoration added the first top-tier luxury brand to the Hampton Roads market. A second Autograph Collection hotel is under development in downtown Norfolk. The property is a historic office building conversion and expected to open in mid-2019.

The hotel 'deal of the year' in 2018 was Gold Key | PHR's sale of the Virginia Beach Oceanfront Hilton and Hilton Garden Inn properties. Doug Henkel of CBRE brokered the purported $126.5 million sale to Shamin Hotels of Richmond, Virginia. It was a package deal with $50 million (± $300,000 per room) allocated to the newer Hilton Garden Inn and $76.5 million (± $265,000 per room) allocated to the Hilton Hotel, which was due for renovations. The capitalization rate for the package was 7.75%, indicative of the desirable brands, location, and operating history. Gold Key | PHR also sold the oceanfront Ramada in 2018 in an off-market transaction for $22 million.

Another notable transaction was Lingerfelt Commonwealth's purchase of the Virginia Beach Resort Hotel & Conference Center, which it operated through the summer and then shut down for renovations. After an extensive makeover, the formerly independent hotel will reopen under the Delta Hotels by Marriott franchise. The total investment is estimated to be $44 million ($149,000 per suite). The Bayfront hotel will be the only modernized hospitality development on the Chesapeake Bay in Hampton Roads.

HAMPTON ROADS HOTELS UNDER CONSTRUCTION/DEVELOPMENT/ MAJOR REBRANDING

Brand	Location	# of Rooms	Est. Opening	Developer
Autograph Collection	Downtown Norfolk	117	Mid-2019	Suburban Capital
Hyatt Place	Hampton	109	Early 2019	Landmark Hotel Group
Element by Westin	Hampton	127	Early 2019	Tabani Group
Tapestry by Hilton	Hampton Waterfront	173	2020	Shamin Hotels
Delta by Marriott	VB Bayfront	295	2020	Lingerfelt Commonwealth
Marriott Hotel	VB Oceanfront	305	Spring 2020	Gold Key / PHR
Hyatt Place	VB Town Center	127	Spring 2019	Suburban Capital
Fairfield Inn by Marriott	VB Town Center	120	2020	Landmark Hotel Group
Residence Inn by Marriott	VB Town Center	120	Early 2019	Coastal Hospitality

MARKET TRENDS TO WATCH

Hampton Roads is experiencing a significant influx of luxury properties. Hilton Norfolk The Main and The Cavalier opened recently, raising the bar for top-tier hotels in the region. The Glass Light Hotel and Gallery (Autograph) in downtown Norfolk and new oceanfront Marriott are both under construction. All these properties combined represent approximately 800 rooms of new upper-tier, luxury rooms in the market. Time will tell if there is sufficient demand in this sector and how the existing upscale properties react to the new luxury priced competitors.

LODGING

Short term rentals (Airbnb, etc.), growing operating costs, and tight labor markets continue to present challenges for the lodging industry. While regulators are still struggling with how to address neighborhood, tax collection, and public-safety concerns surrounding short-term rentals, the popularity among travelers and hosts is booming. According to CBRE's Hotel Horizons report, Airbnb's revenue in Hampton Roads grew an estimated 172% in 2018, to $60 million – approximately 6% of the lodging revenue in Hampton Roads. There is an impact on the traditional lodging industry; the question is how much worse will it get? Hospitality employers continue to battle rising wage expectations, increasing the cost of benefits, and most notably, the challenge of recruiting qualified and motivated talent in a tight labor market. Additionally, operators continue to face increasing technology costs, franchise fees, and other fixed expenses. Their challenge in 2019 is to maintain increases in RevPAR to offset the rising cost of doing business and protect their profit margins.

Delta Hotels by Marriott Virginia Beach Bayfront Suites guest room design. (Courtesy Lingerfelt Commonwealth Partners)

HAMPTON ROADS MARKET OVERVIEW

Consistent with the regional and national trend over the past several years, hoteliers in Hampton Roads reaped the reward of strong fundamentals in 2018 with market-wide growth in revenue per available room. Each of the submarkets experienced year-over-year increase in occupancy and average daily rates, except Virginia Beach which had a slight decline in occupancy but still grew its average rate. Virginia Beach hotel owners reported a significant impact from the deluge of rain in July and the threat of Hurricane Florence which ruined the Neptune Festival weekend in September. (In July, Oceana NAS posted 8.76 inches of rainfall in 2018, compared to 5.46 inches in 2017 according to wunderground.com.) The Peninsula and Chesapeake/Suffolk sub-markets seemed to benefit from the increased government and DOD spending. Not surprisingly, owner/operators in Hampton Roads continue to rely on good weather and government/military spending as the fundamental demand drivers for the lodging market.

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2019-2020 LODGING *Outlook*

Operationally, hoteliers are cautiously optimistic about 2019, and most are budgeting modest increases of 2% to 5% growth in revenue. The resort area hoteliers are enthusiastic about the new Virginia Beach Sports Center groundbreaking, but that will not have an impact on demand until its opening in the Fall of 2020. Beach owners are equally excited about the Dome site redevelopment which is expected to include an entertainment venue backed by Pharrell Williams. It is also in early development stages and, if ultimately approved, it is not scheduled to open until 2023. Supporters expect these two projects will have a material positive impact on demand in the non-peak Spring and Fall seasons, a boost that could stabilize Virginia Beach with more consistent year-round occupancy.

Virginia Beach Town Center is the Hampton Roads submarket that will experience the highest percentage of influx in new rooms over the next 18-24 months. While the developers are confident they have selected the right brands and locations, it is logical to expect a dip in average occupancy for the submarket as those new properties come online. Some theorize the Newtown Road corridor will feel the brunt of Town Center's increased inventory of hotel rooms, shifting demand from the 64/264 interchange area to Town Center, where guests can enjoy more walkable amenities.

Investors in the lodging sector are opportunistic, and the sentiment is seemingly consistent: There is plenty of capital on the sidelines ready to deploy for the "right" opportunity. Owners acknowledge a slowdown is inevitable and continue to be selective when underwriting. Due to construction costs, most are focused on acquiring existing assets versus developing new. Many of the recent new construction hotel projects in Hampton Roads have at least some incentives from the state or municipality, ranging from nominal grants for infrastructure to very substantial tax rebate deals.

Hilton Virginia Beach Oceanfront (photo courtesy of Shamin Hotels)

MULTIFAMILY

RICHARD COUNSELMAN
Vice President, Partner, S.L. Nusbaum Realty Co.

KEY HAMPTON ROADS MARKET STATISTICS

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rates	12 Mo. Asking Rent Growth
1,615	**2,641**	**6.2%**	**2.1%**

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Construct Units
4 & 5 Star	23,842	7.9%	$1,342	$1,323	4	0	915
3 Star	48,511	5.6%	$1,053	$1,041	3	0	191
1 & 2 Star	36,737	5.8%	$874	$865	(3)	0	0
Market	**109,090**	**6.2%**	**$1,063**	**$1,050**	**4**	**0**	**1,106**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change	-1.0%	6.4%	6.2%	8.8%	2004 Q3	3.3%	2002 Q2
Absorption Units	2,641	1,145	973	3,578	2006 Q3	(2,719)	2003 Q4
Delivered Units	1,615	1,383	1,148	3,179	2017 Q1	144	2005 Q3
Demolished Units	0	73	75	467	2015 Q4	0	2018 Q4
Asking Rent Growth (YOY)	2.1%	2.6%	1.4%	6.9%	2001 Q2	-0.1%	2011 Q3
Effective Rent Growth (YOY)	3.4%	2.5%	1.5%	6.9%	2001 Q3	-0.2%	2011 Q3
Sales Volume	$608M	$290.4M	N/A	$662.8M	2017 Q3	$14.8M	2006 Q3

Source: CoStar Group

HAMPTON ROADS MARKET OVERVIEW

Despite mixed population fundamentals, Hampton Roads' multifamily market continues to grow, and vacancies hover near all-time lows. A total of 1,593 apartments were built in 2018 – a 70% increase over 2017 – with the Norfolk, Newport News, Suffolk, and Virginia Beach submarkets experiencing the bulk of the construction activity. Even so, annual net absorption steadily outpaced supply in 2018, indicative of the metro's housing shortage. Hampton Roads has a large renter pool that sustains apartment demand as many residents are military employees in the 20 to 34 age cohort, a prime renter age group.

In 2018, the market added more than 1,500 new units, representing a 1.3% supply increase. Since 2013, Hampton Roads' apartment inventory has increased by almost 10%, and over 1,200 units are under construction in the metro as of 2019Q1, with about 880 units in the Virginia Beach submarket. The bulk of new properties in the pipeline are near modern retail amenities, such as the Waterside District in Downtown Norfolk and the Virginia Beach Town Center.

Developers are also buying existing and blighted real estate for conversion opportunities, often earning historic tax credits for improving the real estate. For example, the Hampton Roads Housing Company converted the former Kempsville High School building in Virginia Beach into 168 units, with asking rent starting around $1.40 per square foot (SF). Marathon Development Group is active in Hampton Roads, particularly in Downtown Norfolk, where the developer has delivered several new apartment properties, including the Edge @ 450 apartments and 1 Commercial Place. The former Bank of America building at 1 Commercial Place, delivered in early 2018, was a $90 million conversion of a 24-story office tower into 275 luxury units branded as the Icon Apartments.

Hampton Roads was known for affordable apartments, but new construction has increased average rental rates above the $1,000 per month benchmark, resulting in rental prices on par with neighboring metros such as Richmond. Asking rents rose by about 2.1% over the past year, with submarkets such as Poquoson and Gloucester County showing the most robust rental price growth. Marathon Development's Icon Apartments, located in Downtown Norfolk, is yielding the highest effective rents in the metro, at roughly $2.25 per SF.

RECENT SIGNIFICANT SALES

	Property Information			Sale Information					
Property Name/Address	Yr. Built	Units	Vacancy	Sale Date	Price	Price/Unit	CAP Rate	Seller	Buyer
Latitude Apartments 1701 Chase Pointe Circle, Virginia Beach	1989	448	6.0%	11/20/18	$66,595,000	$148,649	5.63%	Chandler Management Corp.	Heritage Capital Group, LLC
Mariner's Cove Apartments 832 Blackfriars Drive, Virginia Beach	1970	458	28.8%	5/31/18	$52,150,000	$113,864	*	BDMG Inc.	Seminole Trail Management, LLC
Arlay Point Apartments 8600 Glen Myrtle Avenue, Newport News	1990	640	9.1%	10/25/18	$48,984,000	$76,537	*	Alexander Builders, Inc.	Dasmen Residential, LLC
Compass at City Center 501 Waters Edge Drive, Newport News	1985	396	3.5%	8/28/18	$46,650,000	$117,803	5.74%	Federal Capital Partners	Drucker & Falk
Trail Creek 2 Abbot Road, Hampton	2006	301	11.0%	10/17/17	$44,250,000	$147,009	5.8%	The Wolff Company	Croatan Investments
Woodshire 149 S. Budding, Virginia Beach	1975	288	4.2%	12/27/18	$42,800,000	$148,611	*	CORE Real Estate Capital	Capital Square 1031
Brookfield Apartments 101 Craftsman Drive, Virginia Beach	1973	352	7.7%	10/10/18	$37,750,000	$107,244	6.34*	Bonaventure Realty Group, LLC	Besyata Investment Group
Meridian Obici 1000 Meridian Obici Drive, Suffolk	2016	224	3.6%	10/12/18	$32,000,000	$142,480	*	Waverton Associates, Inc.	Castle Lanterra Properties
Cottage Trails at Culpepper Landing 3000 Conservancy Drive, Chesapeake	2011	183	7.7%	6/1/18	$30,100,000	$164,480	6.2%	Robinson Development	Steadfast Apartment REIT, Inc.
Meadow View Townhomes 4801 Marshall Avenue, Newport News	1967	400	5.3%	3/12/18	$24,500,000	$61,250	7.9%	Strategic Holdings Real Estate	Brick Lane Real Estate

**not published. Sources: CoStar Group & Newmark, Knight, Frank*

KEY HAMPTON ROADS TRANSACTIONS

The largest transaction over the past five years was the $66.6 million Latitudes Apartments sale in November 2018. The 448-unit apartment complex is a Class B asset located in Northeast Virginia Beach. In another large 2018 transaction, Mariner's Cove Apartments sold for over $52 million in May 2018. This Class C apartment community had previously sold for $49 million in 2014, resulting in a 6% price gain. With these transactions leading the way, apartment asset prices are appreciating impressively at the high-end price range.

ICON Apartments, Norfolk

MULTIFAMILY

Overall, apartment assets have been the primary acquisitions staple for Hampton Roads investors. Since 2014, more than $3 billion in apartment sales have accounted for roughly 30% of total commercial property transactions in the metro. A primary reason Hampton Roads apartment properties have become a hot commodity is that cap rates are getting prohibitively tighter in other mid-Atlantic and Southeastern markets. As apartment investors have balked at the sub-5% cap rates in major metros such as D.C., New York, and Atlanta, some have turned their attention to smaller markets with solid fundamentals like Hampton Roads. 2017 was a banner year for sales, with more than $770 million in apartment assets changing hands, and 2018 was not far behind at $640 million.

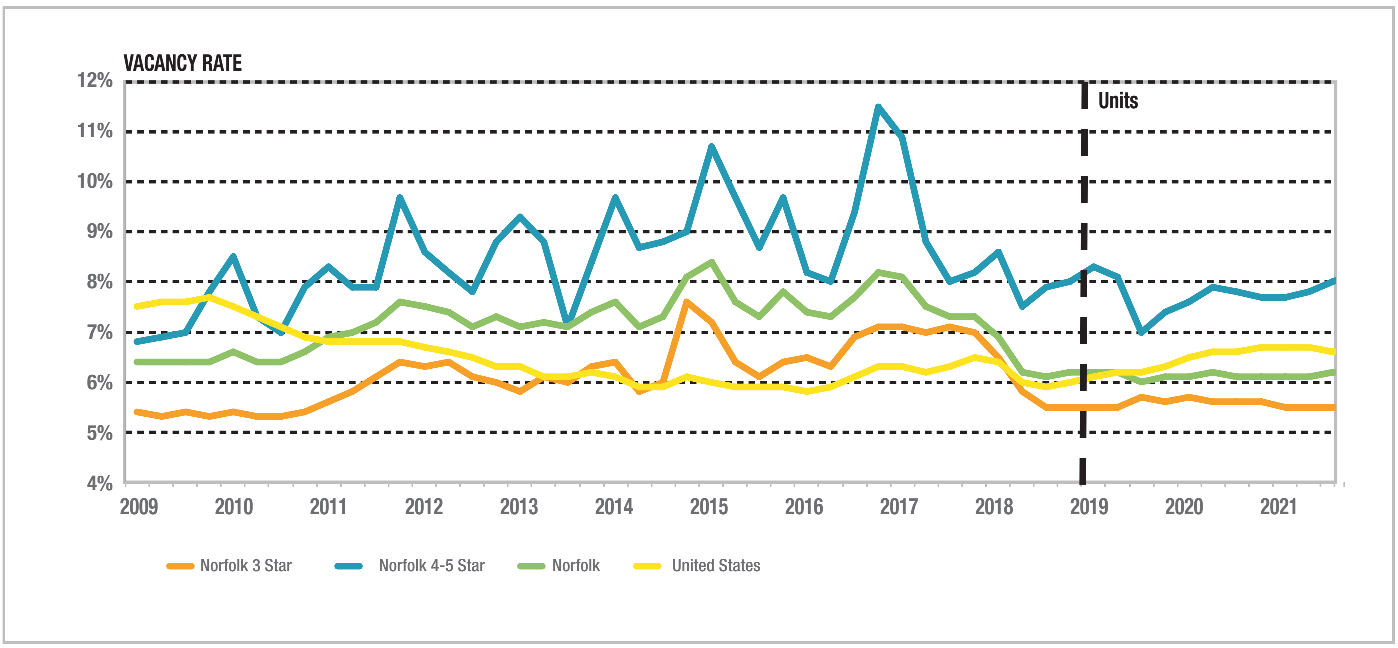
This increased investor interest in smaller markets has been a significant driver of top quality assets trading at nearly double the market's average price per unit. As of 2019Q1, higher quality assets were trading at about $172,000 per unit, almost 50% more than the average apartment unit ($116,000). However, average pricing has also been climbing over several years due to high-impact asset trading. As of 2019Q1, the average market sale price per unit has increased roughly $16,000 since the beginning of 2015. Some of the highest-priced deals are assets with connectivity to the Hampton Roads Beltway near the James and Elizabeth Rivers or the Virginia Beach Oceanfront. Apartment assets in submarkets with less supply-side risk, such as Hampton and Newport News, also have investor appeal.

MARKET TRENDS TO WATCH

While the local economy continues to diversify with private sector employers such as ADP and Optima Health adding jobs, there are two economic blows that could hurt Class A and Class B fundamentals. The first is the furlough of government workers and their contractors and its long-term impact, starting in 2018. The second is Norfolk Southern's departure from Downtown Norfolk to Atlanta, a loss of more than 700 quality jobs and one of Hampton Roads' few Fortune 500 companies. As of 2019Q1, these issues have not made a noticeable impact on the Hampton Roads apartment market with vacancies for higher-end apartments still near the national average of 6%.

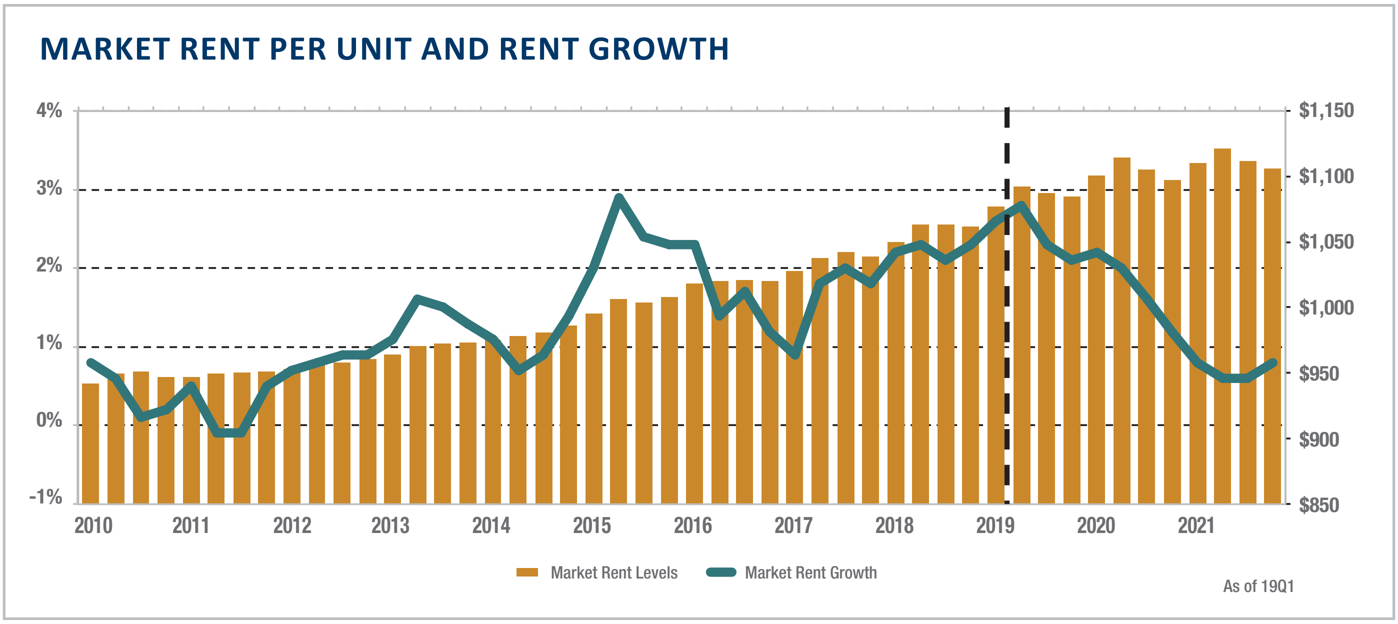
Due to the area's significant military presence, renter cohorts have continued to grow, and vacancies have remained in line with the metro's historic average. Over the past year, annual net absorption more than doubled supply additions. Roughly 15% of Hampton Roads' 1.7 million residents are in the key renter cohort, but the metro has lost about 2,000 20 to 34-year-old residents per year since 2010. Hampton Roads' millennials are opting for a new apartment product, equipped with state-of-the-art amenity packages, and these apartments are being constructed in sought-after urban and waterfront neighborhoods, such as Downtown Norfolk and Virginia Beach.

VACANCY RATES OVER 10 YEARS



Source: CoStar Group

Traditionally, new apartment product in Hampton Roads has constrained rent growth. Rental growth has been 2.1% from 2017-2018, consistently trailing the national average. Unfortunately, job and household growth also continue to lag behind the national average. Major employer losses have already been discussed. On the other hand, Dollar Tree has announced it will move the headquarters of its newly purchased subsidiary, Family Dollar, from North Carolina to Chesapeake, where they will hire more than 500 new employees. Local tourist attractions should also add staff, as the economy continues to recover and leisure travel increases. As a result, apartment rent growth has gained some traction since mid-2018.



Source: CoStar Group

MULTIFAMILY

2019-2020 OUTLOOK

Over 2018, Class A and Class B rents were hurt by supply and demand side pressures and posted growth below the 10-year market average. This trend seems likely to continue in 2019, with rental rate growth of just 0.7%. Supply-side pressure could be largely to blame.

The construction pipeline indicates that 2019 might be a less than robust year for construction, with only 1,200 units under construction as of January 2019. The largest under-construction project is the Class A Mezzo Apartment Homes in Virginia Beach, which is set to start delivering units in Spring 2019.

UNDER CONSTRUCTION

Property Name/Address	Units	Start	Complete	Developer
Mezzo Apartment Homes 305 Mezzo Lane, Virginia Beach	282	March 2018	March 2019	S.L. Nusbaum Realty Co.
Standard 200 200 Price Street, Virginia Beach	152	July 2018	April 2019	Franklin Johnston Group
Nexus Phase II 548 Newtown Road, Virginia Beach	132	January 2017	June 2019	Boyd Homes
Premier Apartments 165 Central Park Avenue, Virginia Beach	131	January 2017	September 2018	Armada Hoffler Properties, Inc.
St. Paul's Apartment Homes 531 Posey Lane, Norfolk	126	May 2017	February 2019	S.L. Nusbaum Realty Co.
Villa Marina Apartments 8146, 8150 & 8158 Shore Drive, Virginia Beach	105	October 2018	March 2020	Waverton Associates
Sterling Manor Apartments 155 Sterling Manor Drive, Williamsburg	96	April 2018	April 2019	Commonwealth Properties
Tidewater Square 529 W 24th Street, Norfolk	65	August 2018	November 2019	The Monument Companies, LLC

Sources: CoStar Group & Newmark, Knight, Frank

Looking at the larger picture, Hampton Roads had economic ground to make up following the recession and continues to post flat employment growth numbers. With its heavy dependence on the military, however, the local economy is poised to benefit from increased military and defense spending under the Trump administration.

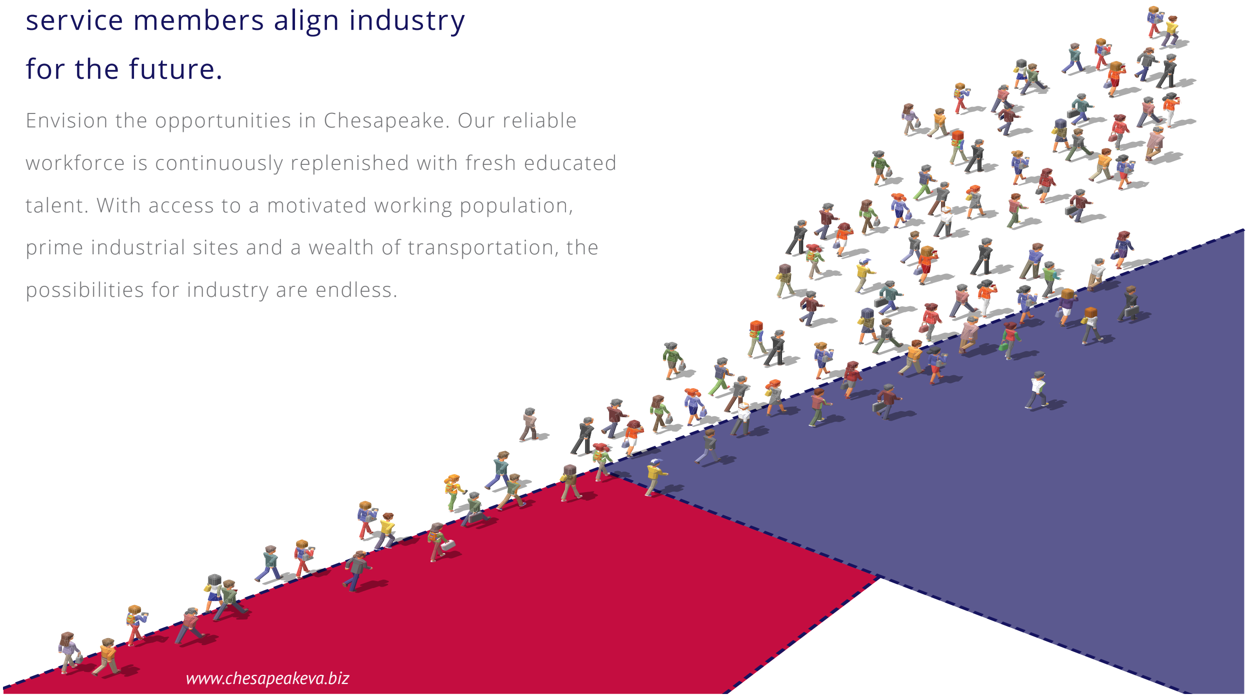
The recently approved $1.3 trillion federal budget, of which over $600 billion is defense-related spending, should have significant ripple effects throughout the regional economy, including in the multifamily market.

Mezzo Apartment Homes, Virginia Beach

Chesapeake VIRGINIA
ECONOMIC DEVELOPMENT

Every year, 30,000 college graduates and military service members align industry for the future.

Envision the opportunities in Chesapeake. Our reliable workforce is continuously replenished with fresh educated talent. With access to a motivated working population, prime industrial sites and a wealth of transportation, the possibilities for industry are endless.



RESIDENTIAL

VAN ROSE JR., MIRM
Principal Owner, Rose & Womble Realty

THE YEAR IN REVIEW – 2018
"HOUSING IS SLOWING...HOUSING IS NOT SLOW"

This observation, by Tim Sullivan of Meyers Research, seems an apt summary of the 2018 residential for-sale sector. Closings were down 5.4% in Hampton Roads, negating some of the early year gains. After a 3-year run of year-over-year growth, we finally saw some moderation as the year ended. The choppiness in the market, evident by Q4, was the by-product of several factors including rising prices, rising rates, and uncertainty driven by federal policies and the government shutdown.

Closings trends followed historical patterns but finished down -6.1% on the Southside and -3.5% on the Peninsula. The only submarket with steady gains throughout the year was the Northeast North Carolina market. Pricing gains, conversely, were spread disproportionately. Southside new construction finished with a +8.3% gain in average pricing while the Peninsula suffered, dropping -5.3%. Average pricing is an interesting metric though. While low inventory levels brought pricing power to most sectors, the shift from detached to attached homes accounted for the average price setbacks on the Peninsula. There, detached closings were down -20.9% with attached closings picking up the slack, growing +26.8% YoY. The lower price points in the attached sector accounted for the average price decline. Pricing power in the resale sector remained strong as the median list price to selling price ratio finished the year at 99.1%, its highest level in three years.

Last year we noted the migration of buyers in search of more affordable housing to the emergent market that runs from Moyock to Elizabeth City. That trend continued, with this sector grabbing an incredible 19.9% share of all detached new construction homes sold in the combined markets of South Hampton Roads and Northeast North Carolina. At 430 sales, this sector broke records dating to the boom times of the 2004 to 2006 housing price run-up. With new communities coming online in 2019, this submarket should remain viable well into the future.

Inventory was a continuing storyline throughout 2018, remaining at 10+ year lows. According to REIN[1] , "...this trend culminated in December 2018 with the lowest recorded number of residential active listings (8,120 units) since March 2006 when there were 7,914 available homes." Low inventory suppresses demand and keeps upward pressure on pricing, playing a significant role in keeping many first-time buyers off the housing ladder.

Heading into the new year, we expect some instability in Q1 followed by some smoothing, resulting in a flat to slightly up year for housing. On the positive side, rates have moderated and are projected to stay in the low 5% range. Demographic changes continue to fuel the housing market as Millennials reach home-buying age, and Boomers underpin growth in both remodeling and new home purchases more suited to their life stage. We are at the front edge of an incredible transference of wealth. The single biggest headwind facing the industry, which includes regulation, rising labor and material prices, crimped margins, and lack of affordable land, may be summed up in a simple word: Uncertainty. Nothing plays havoc with the decision to purchase like uncertainty. Moreover, trying to factor consumer uncertainty into a predictive housing model is a fool's errand.

[1]*Real Estate Information Network (REIN) at www.reinmls.com*

THE RESALE MARKET

The resale sector also suffered from low inventory but still managed to post a year-over-year gain in closings of 4.5%. Low inventories and move-up buyers helped push median pricing up a whopping 16.4% YoY.

On the Southside, resale accounted for 88.3% of all transactions, driven by the median price delta of $119,900 over a detached new construction home.

On the Peninsula, resale accounted for 91.6% of all transactions. For detached homes, the median pricing delta between new construction and resale was $89,900.

Closings	2013	2014	2015	2016	2017	2018
Resale	18162	18174	20045	21930	22947	23980
YoY Change	n/a	+.66%	+10.3%	+9.4%	+4.6%	+4.5%
Median SP	$175,000	$175,000	$185,000	$195,000	$197,600	$230,000

Sources: REIN MLS, Navica MLS and WAAR MLS

2018 Versus 2017 Residential Resale Highlights
Closings were up +4.5%
Median Sale Price was up +16.4% YoY

THE NEW CONSTRUCTION MARKET

The new construction sector started the year strong but finished with a whimper as Q4 saw declines outsizing normal seasonal trends. Overall closings were down -5.4%. The Median sale price was up 6.45% in the market at large but was buoyed by Southside gains as the Peninsula new construction market faltered a bit. However, the price declines north of the Hampton Roads Bridge-Tunnel were driven primarily by a significant shift from detached homes to attached homes. The Southside market accounted for 74.6% of Hampton Roads activity.

	2013	2014	2015	2016	2017	2018
New	2911	2360	3072	3214	3247	3071
YoY Change	n/a	-18.9%	+30.2%	+4.6%	+1.0%	-5.4%
Median SP	$286,845	$295,000	$312,784	$317,001	$310,831	$330,875

Sources: REIN MLS, Navica MLS and WAAR MLS

2018 Versus 2017 Residential New Construction Highlights
Closings were down -5.4%
Median Sale Price was up +6.45%
Total Revenue was down .78%, marking a slight shift to attached product

RESIDENTIAL

CLOSINGS AND KEY METRICS BY CITY

HAMPTON ROADS BY CITY

City/County	Closings thru Q4			Median Sales Price thru Q4			Avg Sales Price thru Q4			Revenue thru Q4		
	2017	2018	% Change	2017	2018	% Change	2017	2018	% Change	2017	2018	% Change
CHES	978	965	-1.3%	368,051	389,760	5.9%	358,363	380,017	6.0%	350,479,023	366,716,825	4.6%
I of W	104	70	-32.7%	357,566	392,415	9.7%	350,418	403,624	15.2%	36,443,471	28,253,704	-22.5%
NORF	303	278	-8.3%	268,900	277,000	3.0%	296,953	307,791	3.6%	89,976,816	85,565,992	-4.9%
PORT	151	135	-10.6%	225,000	225,000	0.0%	224,172	225,841	0.7%	33,849,963	30,488,554	-9.9%
SUFF	399	394	-1.3%	300,024	322,860	7.6%	306,315	335,277	9.5%	122,219,717	132,099,110	8.1%
VBCH	504	449	-10.9%	356,000	400,000	12.4%	413,267	473,871	14.7%	208,286,369	212,768,011	2.2%
Total Southside	2439	2291	-6.1%	312,900	354,500	13.3%	344,918	373,589	8.3%	841,255,359	855,892,196	1.7%
GLOU	104	64	-38.5%	276,957	295,650	6.7%	282,544	293,304	3.8%	29,384,595	18,771,467	-36.1%
HAMP	148	115	-22.3%	275,000	259,900	-5.5%	293,451	271,285	-7.6%	43,430,793	31,197,741	-28.2%
JCC	331	257	-22.4%	329,555	317,140	-3.8%	373,382	342,356	-8.3%	123,589,278	87,985,525	-28.8%
NNEWS	64	90	40.6%	326,155	343,668	5.4%	329,499	344,351	4.5%	21,087,964	30,991,603	47.0%
WMSBG	31	58	87.1%	281,990	280,315	-0.6%	300,990	297,233	-1.2%	9,330,680	17,239,501	84.8%
YORK/POQ	130	196	50.8%	319,650	297,900	-6.8%	353,705	322,960	-8.7%	45,981,685	63,300,154	37.7%
Total Peninsula	808	780	-3.5%	308,388	299,990	-2.7%	337,630	319,854	-5.3%	272,804,995	249,485,991	-8.5%
Hampton Roads	3247	3071	-5.4%	310,831	330,875	6.4%	343,105	359,941	4.9	1,114,060,354	1,105,378,187	-0.8%

Sources: REIN MLS, Navica MLS and WAAR MLS

HAMPTON ROADS TOP SUBDIVISIONS

For yet another year, Spence Crossing in Virginia Beach, a Dragas Cos. Community, held the #1 position by closings and total revenue. Spence Crossing posted 119 closings, moderating from the prior year's 160 closings. Culpepper Landing remained strong but ceded their spot to Whittaker's Mill and newcomer, Promenade@5. Ryan Homes participated in seven of the Top 15 finishers.

HAMPTON ROADS TOP SUBDIVISIONS

	Subdivision	Closings Recorded	Average Price	# Bldrs
1	SPENCE CROSSING, VB	119	$304,802	1
2	WHITTAKER'S MILL, JCC	62	$366,075	1
3	PROMENADE@5, JCC	62	$234,660	1
4	FIELDSTONE, C	58	$464,303	4
5	THE HOMESTEAD, C	57	$339,613	1
6	CULPEPPER LANDING, C	56	$422,238	4
7	THE RESERVE AT WILLIAMSBURG, JCC	56	$283,451	1
8	REUNION, C	54	$249,795	1
9	DOMINION MEADOWS, C	53	$436,371	1
10	ALL OTHER AREAS SUFFOLK, SU	48	$301,730	16
11	THE VILLAGES AT CANDLESTATION, JCC	45	$287,810	1
12	SHERBORNE MANOR, C	44	$400,049	2
13	WHITE HALL, JCC	44	$333,278	1
14	SUMMERWOOD, C	43	$458,970	1
15	JOLLIFF LANDING TOWNHOUSES, C	42	$257,757	1

	Subdivision	Total Revenue	# Bldrs
1	SPENCE CROSSING, VB	$36,271,475	1
2	FIELDSTONE, C	$26,929,578	4
3	NORTH END, VB	$24,849,000	15
4	CULPEPPER LANDING, C	$23,645,326	4
5	DOMINION MEADOWS, C	$23,127,663	1
6	WHITTAKER'S MILL, JCC	$22,696,671	1
7	SUMMERWOOD, C	$19,735,690	1
8	THE HOMESTEAD, C	$19,357,913	1
9	SHERBORNE MANOR, C	$17,602,161	2
10	THE CAVALIER RESIDENCES, VB	$16,554,931	3
11	THE RESERVE AT WILLIAMSBURG, JCC	$15,873,271	1
12	PATRIOTS WALKE, SU	$14,975,521	1
13	WHITE HALL, JCC	$14,664,231	1
14	PROMENADE@5, JCC	$14,548,895	1
15	ALL OTHER AREAS SUFFOLK, SU	$14,483,051	16

Sources: REIN MLS, Navica MLS and WAAR MLS

HAMPTON ROADS TOP BUILDERS

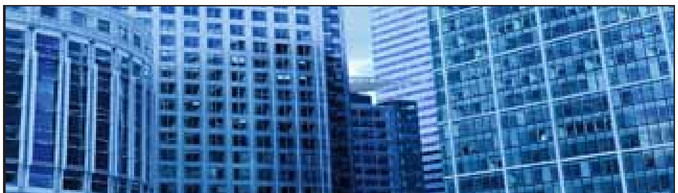
Ryan Homes dominated the Hampton Roads market by finishing #1 again, a streak running back to 2011 and 178 closings. If you include their Northeast North Carolina activity, they closed a total of 664 homes for their biggest year ever in Hampton Roads.

Chesapeake Homes held the #2 position again in 2018 but dropped their closing count by 24.2% YoY. Dragas Cos., which operates only on the Southside, came in 3rd again on the strength of their Spence Crossing community, while kicking off their new Hickory Manor development. The Top 5 builders accounted for 36.0% of all closings in Hampton Roads, while the spot lot/infill builders – as a group – accounted for about a 33% market share again with their pricing advantage over conventional subdivisions. While anticipating a rocky Q1, the outlook for the for-sale sector remains positive for 2019, finding some balance between head and tailwinds.

HAMPTON ROADS TOP BUILDERS

	Builder	Closings Recorded	Average Price	# Sites		Builder	Total Revenue	# Sites
1	RYAN HOMES	586	$346,243	23	1	RYAN HOMES	$202,898,277	23
2	CHESAPEAKE HOMES	194	$371,253	11	2	CHESAPEAKE HOMES	$72,023,111	11
3	DRAGAS COS	154	$299,023	3	3	DRAGAS COS	$46,049,559	3
4	HH HUNT HOMES	97	$342,100	9	4	HH HUNT HOMES	$33,183,736	9
5	TERRY PETERSON RESIDENTIAL	76	$269,144	4	5	HEARDON CONSTRUCTION	$28,162,046	2
6	WETHERINGTON HOMES	75	$274,596	25	6	PLATINUM HOMES	$26,243,360	7
7	CORINTH RESIDENTIAL	74	$269,631	2	7	NAPOLITANO HOMES	$25,389,520	4
8	HEARNDON CONSTRUCTION	69	$408,146	2	8	EAGLE CONST OF VA	$25,207,700	6
9	FRANCISCUS HOMES	63	$233,713	2	9	BISHARD HOMES	$21,512,869	11
10	NAPOLITANO HOMES	62	$409,508	4	10	WETHERINGTON HOMES	$20,594,735	25
11	EAGLE CONST OF VA	60	$420,128	6	11	TERRY PETERSON RESIDENTIAL	$20,454,923	4
12	EDC HOMES	58	$340,478	24	12	CORINTH RESIDENTIAL	$19,952,718	2
13	PLATINUM HOMES	54	$485,988	7	13	EDC HOMES	$19,747,716	24
14	BISHARD HOMES	46	$467,671	11	14	STEPHEN ALEXANDER HOMES	$16,095,099	9
15	KIRBOR HOMES	33	$481,848	7	15	KIRBOR HOMES	$15,900,983	7

Sources: REIN MLS, Navica MLS and WAAR MLS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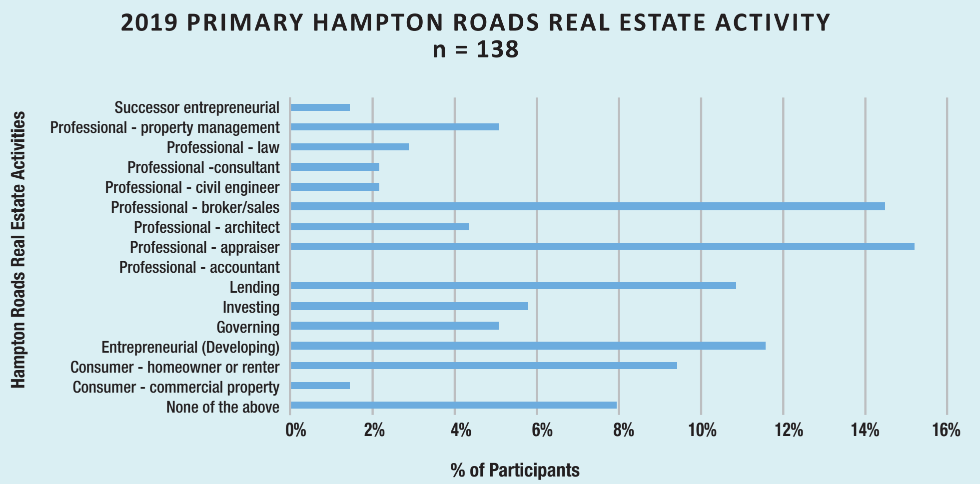
E.V. Williams Center for Real Estate

The Hampton Roads Real Estate Market Sentiment Survey (or Sentiment Survey) was initiated in 2016 and is distributed annually in early January to all members and contacts of the E.V. Williams Center for Real Estate. This survey intends to gather a greater understanding of the Hampton Roads real estate community's attitude toward the current and future regional market sectors. The 2019 Sentiment Survey had an unprecedented 138 real estate professionals, and space users respond. Questions 1 and 3 requested information on participants themselves and their Hampton Roads real estate market activities.

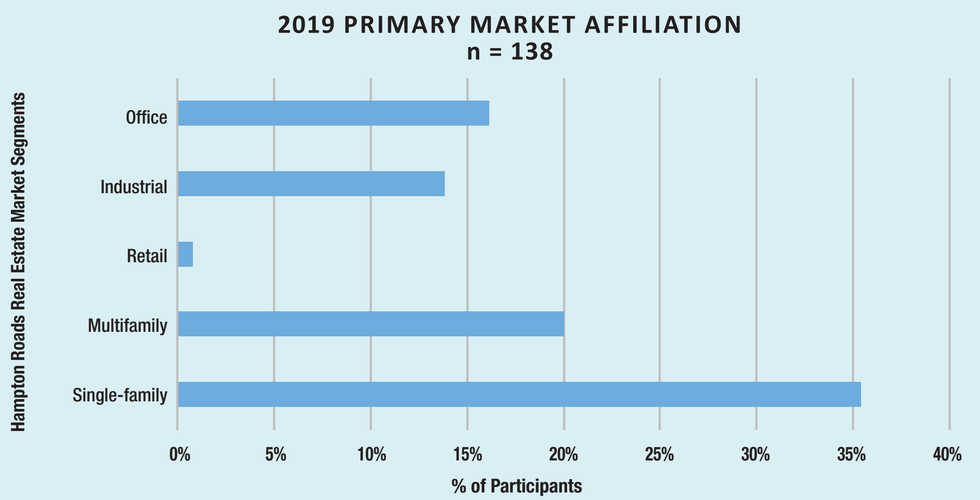
Q.1

Please identify your *primary* Hampton Roads real estate activity.



Q.3

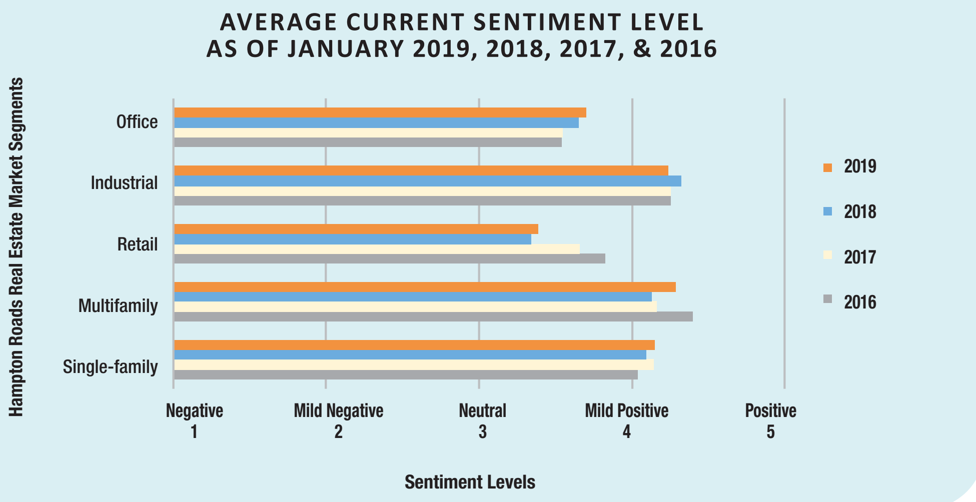
Please identify your *primary* real estate market affiliation.



Question 4 tracks participant market sentiment since the survey's inception. Note that the attitude toward Industrial, Multifamily, and Single-family sectors has consistently remained at or above the 'mild positive' level. In 2018, Industrial had the highest positive sentiment level; however, in 2019, the Multifamily is most positive due to an increase in Multifamily sentiment and a decline in Industrial sentiment. From 2016 to 2019, Office and Retail have consistently remained between 'neutral' and 'mild positive,' with Office sentiment increasing slightly and Retail declining.

Q.4

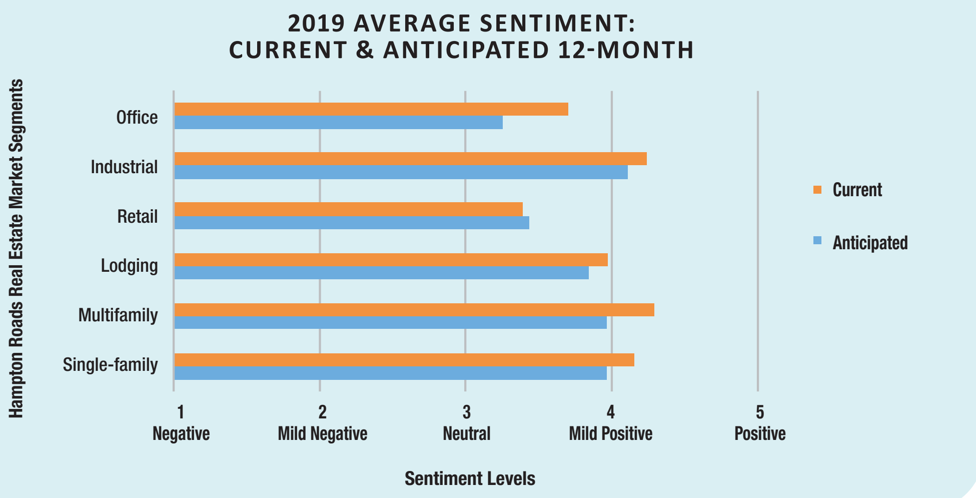
Please rate your current sentiment levels for the following Hampton Roads real estate market segments.



Question 5 combines current and 12-month anticipated sentiment levels. The graph below shows that the 12-month expected sentiment is lower than current sentiment for all sectors, with the single exception of Retail. Retail 12-month anticipated sentiment is modestly higher than current levels. Collectively, survey participants may be anticipating a general slowdown in regional real estate markets with a current bottom in Retail. Office and Multifamily sectors show the most significant sentiment decreases in 2019.

Q.4 & 5

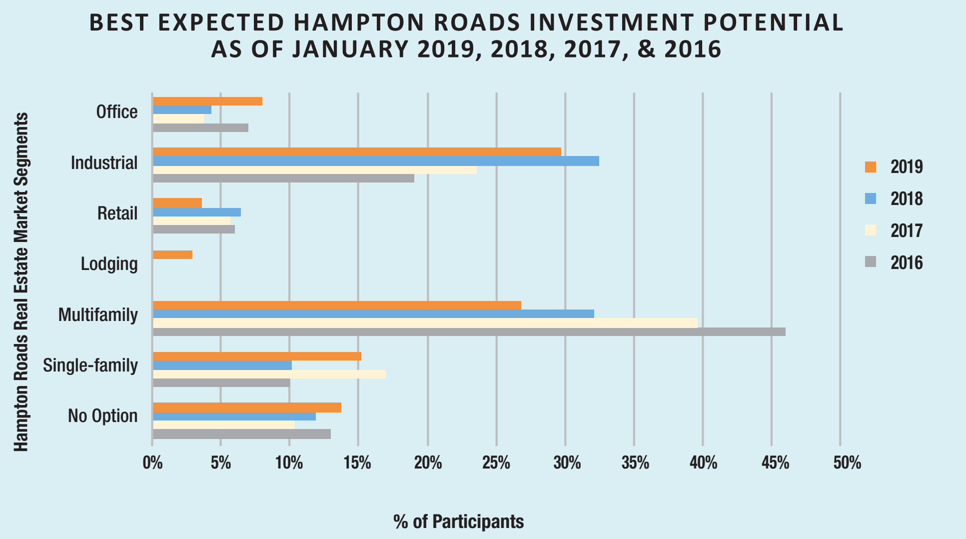
Please rate current and anticipated 12-month sentiment levels for the following Hampton Roads real estate market segments.



In 2018, the Industrial market edged out Multifamily as the best Hampton Roads real estate market for investment. The 2019 top slot belongs again to Industrial with another modest, but increasing, lead over Multifamily. Compare these results to 2016 when Multifamily dominated the best investment question. Office was last in 2018, but increased nicely in 2019 to beat out Retail and Lodging as the most infrequently selected sectors for best investment potential.

Q.6

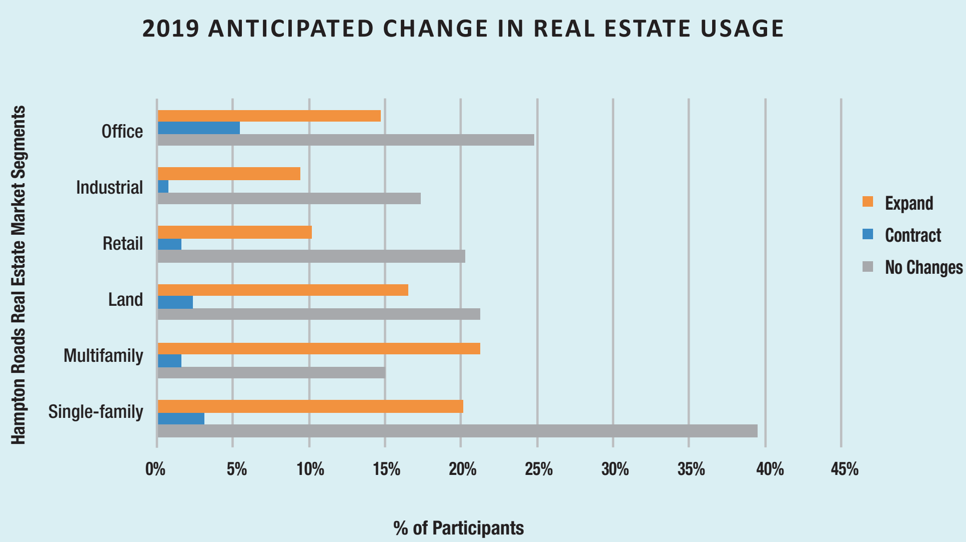
For the next 12 months, which Hampton Roads real estate property sector has the best investment potential?



Question 7 responses reveal positive news for real estate professionals as more people intend to expand, rather than reduce or contract, their real estate space usage. The largest expected space-use expansions are in the two residential markets, and the most substantial contraction is expected in the Office market.

Q.7

We would like to understand your anticipated real estate usage over the next 12 months. Please indicate if you plan to expand or contract your space use or ownership.

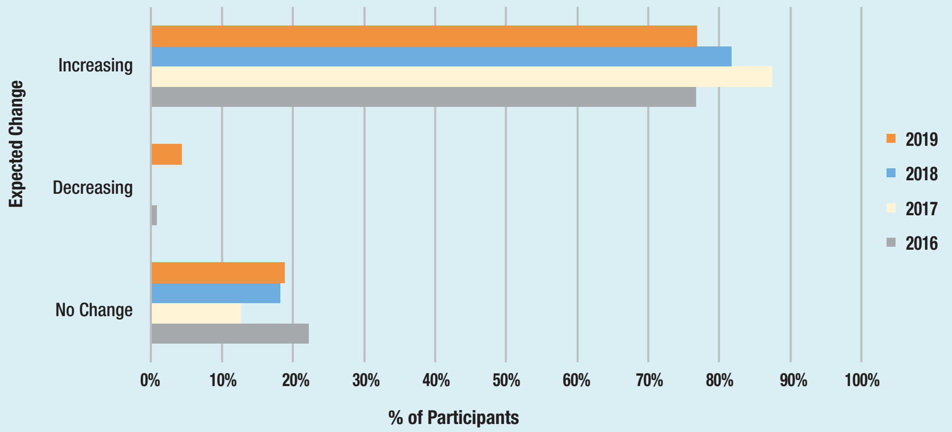


For the fourth year, respondents overwhelmingly predict that general mortgage interest rates will increase in the coming year.

Q.8

For the next 12 months, what is your expected change in general mortgage interest rates?

EXPECTED CHANGES IN MORTGAGE INTEREST RATES: JANUARY 2019, 2018, 2017, 2016

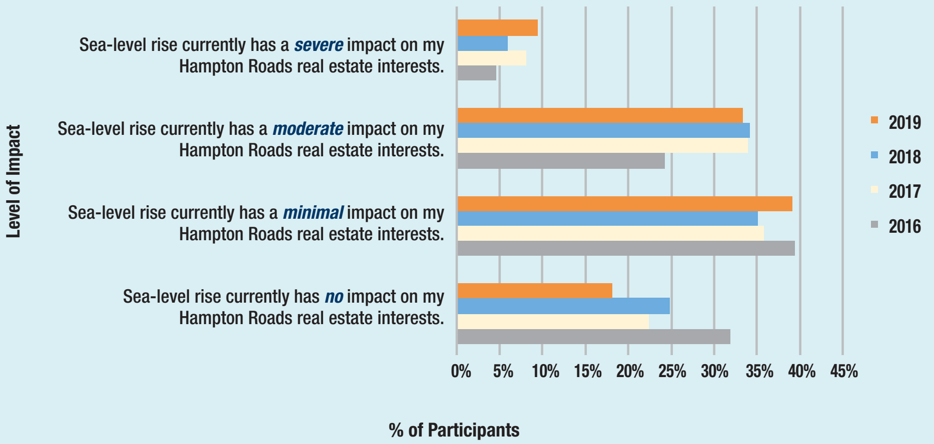


Hampton Roads communities have begun planning for the impending effects of sea-level rise, and Question 9 shows the 'severe' impact on personal real estate interests increasing and a decrease in the 'no impact' responses. Most indicate that sea-level rise currently has 'minimal' to 'moderate' impact on their Hampton Roads real estate interests.

Q.9

Please choose the statement below that best reflects the impact of sea-level rise on your Hampton Roads real estate interests.

IMPACT OF SEA-LEVEL RISE ON PERSONAL REAL ESTATE INTERESTS: JANUARY 2019, 2018, 2017, & 2016



The E.V. Williams Center for Real Estate would like to thank the ***138 survey volunteers.*** This study would not be possible without your time and input.

The E.V. Williams Center for Real Estate would also like to thank ***Valbridge Property Advisors*** for the advisory and financial support for this project.

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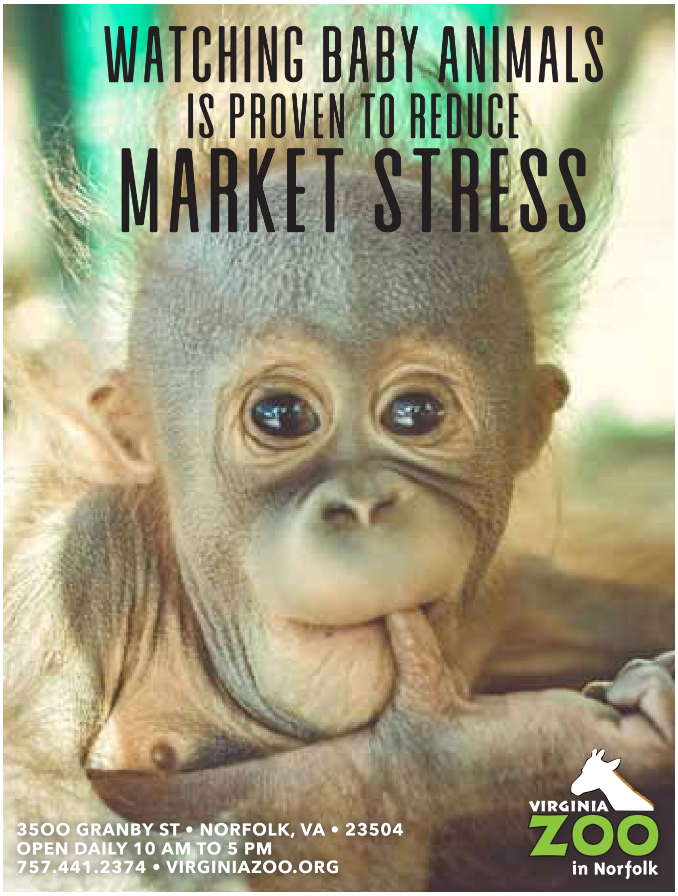
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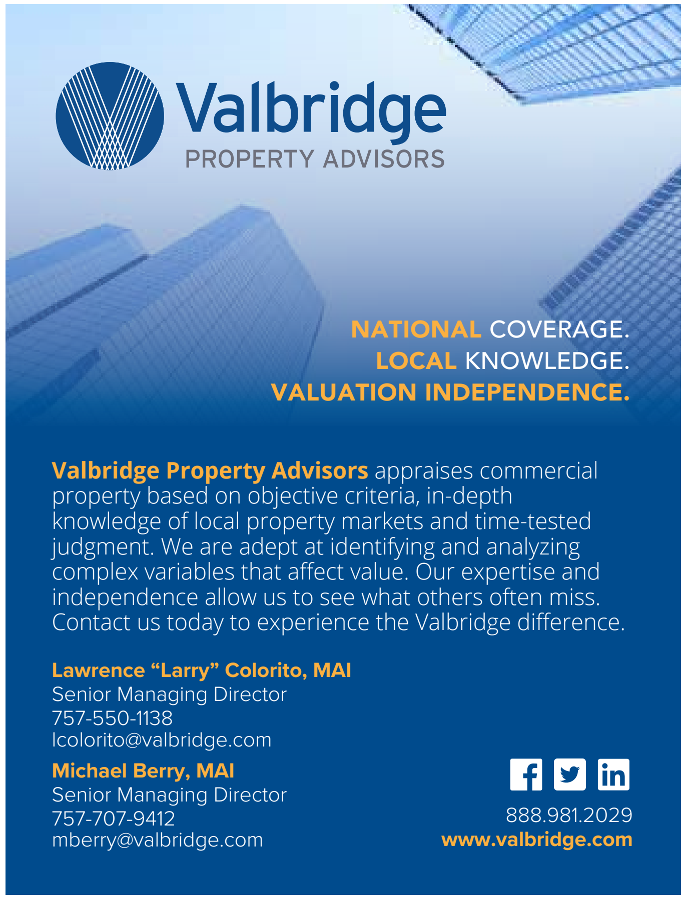
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