HAMPTON ROADS

2023 REAL ESTATE MARKET REVIEW & FORECAST

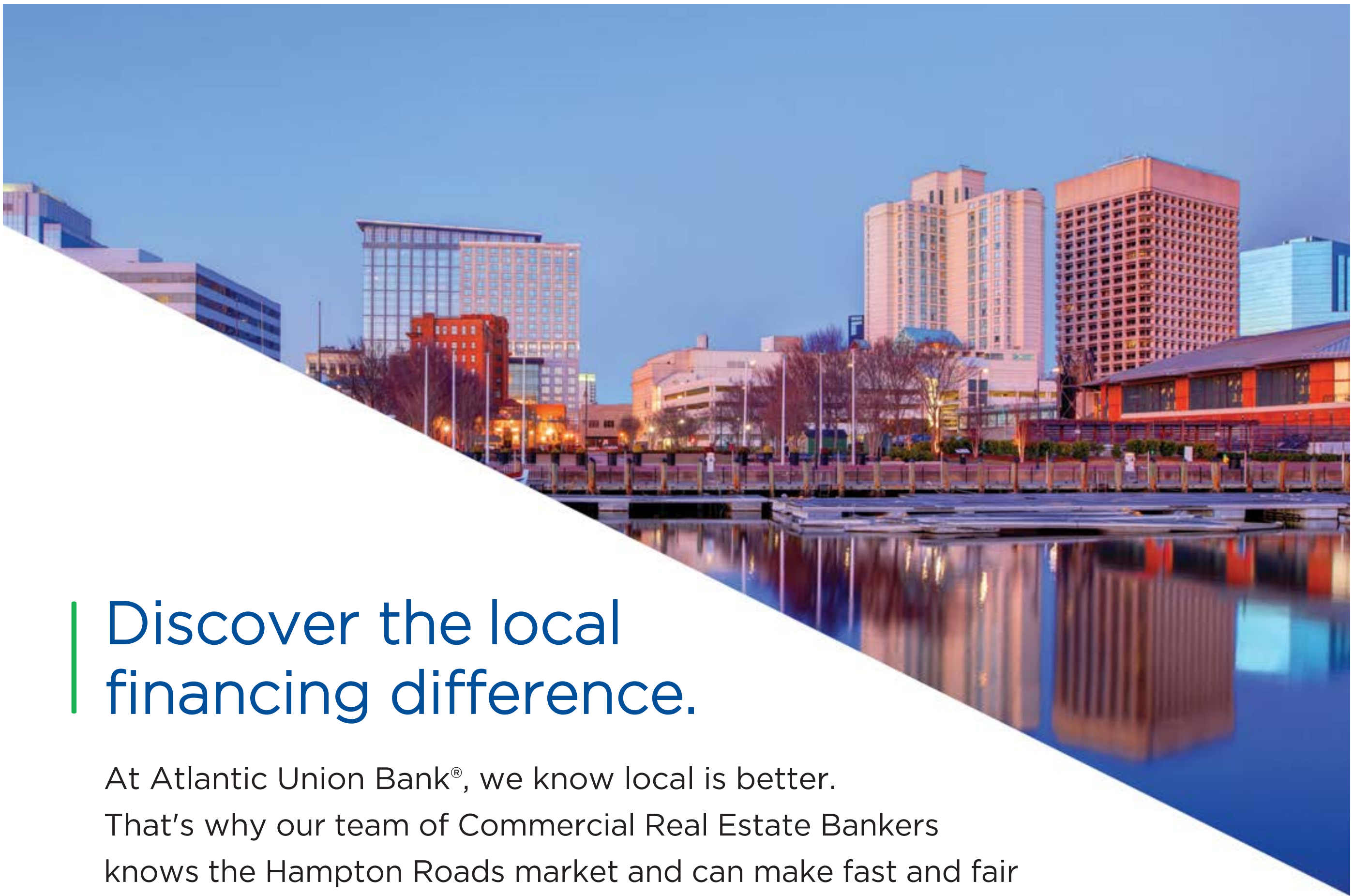
E.V. WILLIAMS CENTER FOR REAL ESTATE
at The Harvey Lindsay School of Real Estate

OLD DOMINION UNIVERSITY
Strome College of Business

Reports/Presentation

Membership

odu.edu/business/center/evwilliams-center



Discover the local financing difference.

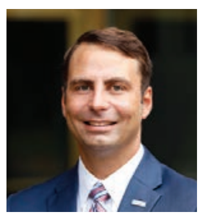
At Atlantic Union Bank®, we know local is better. That's why our team of Commercial Real Estate Bankers knows the Hampton Roads market and can make fast and fair decisions. That way, you can focus on building your business.

Let's talk.

Please contact our local Commercial Real Estate team:

Thresa Joyce
757.473.5861

Ricky Frantz
757.473.5844



Mike Corso
757.672.7746

We're proud to be the Presenting Sponsor of the 28th Annual Hampton Roads Market Review & Forecast.

Atlantic Union Bank®

AtlanticUnionBank.com

Member FDIC EQUAL HOUSING LENDER

Old Dominion University
Strome College of Business

28th Annual
HAMPTON ROADS
REAL ESTATE
Market Review & Forecast

E. V. WILLIAMS CENTER FOR REAL ESTATE
AT THE HARVEY LINDSAY SCHOOL OF REAL ESTATE
odu.edu/business/center/evwilliams-center

MEDIA SPONSOR:
VIRGINIA MEDIA

CONTENTS

There is **strength** in numbers

and we're getting **stronger** all the time.

30K+
Multifamily Units Managed

7.3M
Commercial SF Developed

4.2M
Commecial SF Managed

10.3K
Multifamily Units Developed

$314M
Sale & Lease Volume in 2022

117 Yrs
Commitment. Integrity. Excellence.

MESSAGE FROM THE CENTER

Welcome to the 2023 Hampton Roads Real Estate Market Review and Forecast. For nearly 30 years, this event and report has been a calendar highlight for the Hampton Roads real estate and economic policy communities. It would not be possible without the continued strong relationship between ODU and the private and public sectors across the region.

We would like to start by thanking our speakers/authors for their contributions and expert analysis of the challenges and opportunities facing real estate in 2023. We trust their insights will prove valuable and thought provoking in what continues to be, nationally and globally, a time of uncertain economic conditions.

What we do in the E.V. Williams Center and the Harvey Lindsay School of Real Estate would not be possible without the many people who support our faculty and staff in delivering a world-class, comprehensive educational experience for our students. The financial support of Robert M. Stanton, E.V. Williams, and the Harvey Lindsay family has been central in ensuring that our faculty and students have a dynamic and engaging environment in which to work. Last year, we received the sad news that Bob Stanton had passed away. A tribute to Bob and his contributions to ODU, particularly to the real estate program, is included in this report.

We would like to thank our Advisory Board and all of the industry professionals who help support real estate-related activities at ODU. A full return to campus this year has seen the relaunch of the Real Estate Club; we want to extend our appreciation to all of those who have come and spoken to our students, provided mentoring opportunities and facilitated site visits. Real estate is an industry as much as an academic discipline, and the nurturing of those strong relationships are essential for any real estate program to thrive. We are extremely fortunate at ODU to have so many professionals willing to give of their time to share their experiences with our students and to help encourage the next generation of real estate leaders.

The real estate program at ODU has always enjoyed the strong support of the university and especially the Strome College of Business. Last year saw the retirement of Dean Jeff Tanner, and we would like to take this opportunity to thank him for his ongoing support and, in particular, for the creation of the Harvey Lindsay School of Real Estate during his tenure. The College welcomed our new Dean, Kenneth Kahn, last fall, and a number of exciting initiatives are already in place that will help maintain the continued growth and development of the activities in both the E.V. Williams Center and the Harvey Lindsay School of Real Estate.

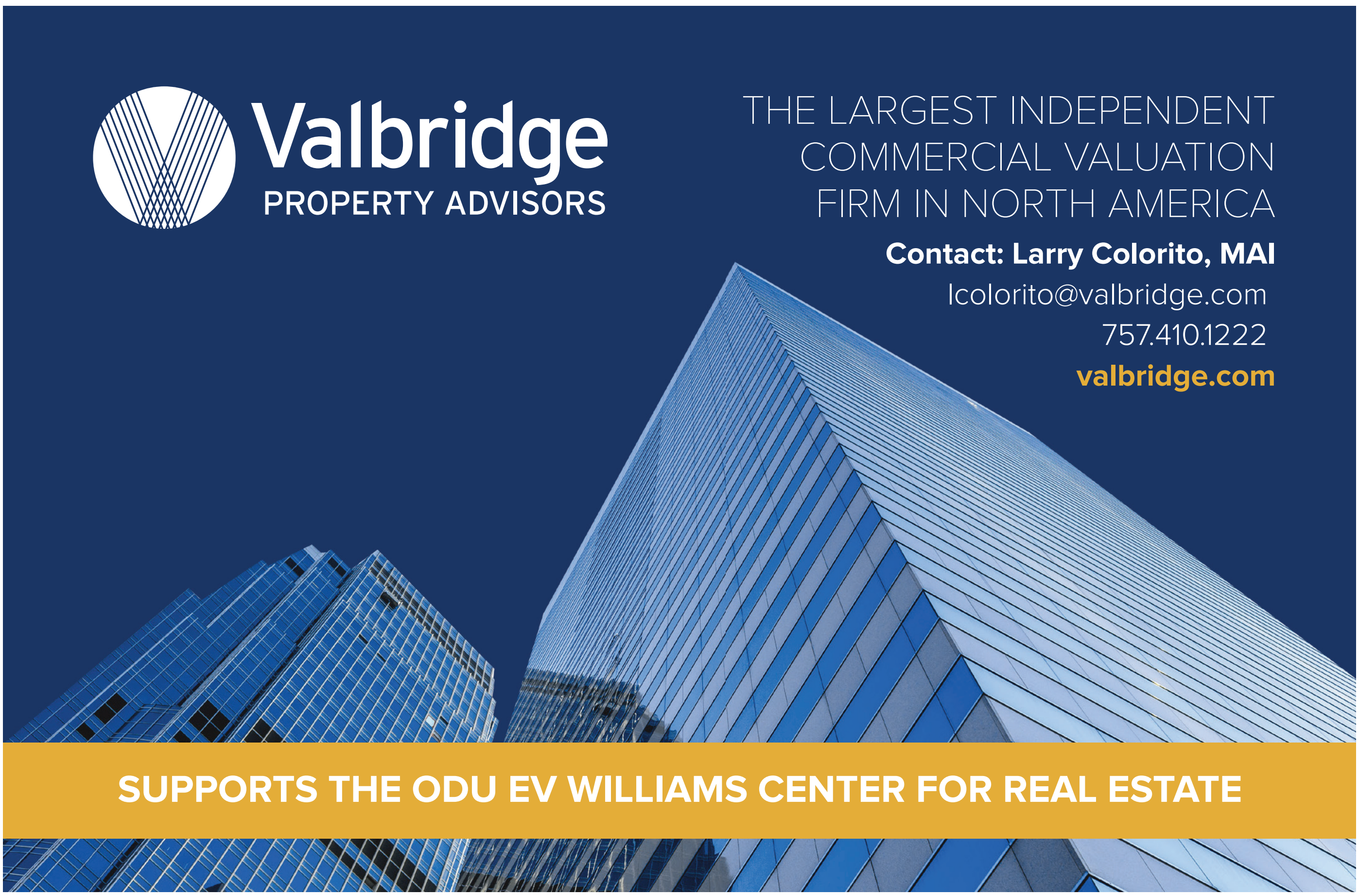
As we gradually return to a more normal environment, the Center's activities are also expanding. Last November, we resumed our Fall Members Reception where Gerald Divaris spoke about the development of Town Center of Virginia Beach. One of our priorities for the coming year is restarting the Center's applied research program to compliment the analysis contained in the Market Review Report. The Center is always looking for opportunities to provide additional educational opportunities and to support the local community. Please reach out to either of us with any thoughts or suggestions.

Thank you for attending this 28th Annual Market Review. We appreciate your support of the E.V. Williams Center and look forward to seeing you at future events.

Simon Stevenson
Robert M. Stanton Endowed Chair in Real Estate & Economic Development
Director, E.V. Williams Center for Real Estate and Harvey Lindsay School of Real Estate
Finance Department, Strome College of Business

Krista Costa
Chair, E.V. Williams Center for Real Estate
Executive Vice-President, Divaris Real Estate, Inc.

LOCAL ROOTS, GLOBAL REACH
There are many reasons to put down roots in Isle of Wight, home of the Shirley T. Holland Intermodal Park
• Publicly-owned manufacturing, distribution & logistics park in the Hampton Roads region
• 44-acre permit-ready site complete in phase II
• Additional parcels in phases II and III available
• Able & ready labor force of 800,000+
• 35 minute drive to Port of Virginia
• Access to interstates 95, 85, 64, 264, & 664
• Enterprise & Foreign Trade zones
• Rail access
• All utilities available to the site
• Proven fast-track site plan review & permitting process
ISLE OF WIGHT MAJOR EMPLOYERS:
Smithfield Foods
Keurig Dr Pepper
International Paper
World Market
ST Tissue
ISLE OF WIGHT COUNTY DEPARTMENT OF ECONOMIC DEVELOPMENT
P.O. BOX 80, ISLE OF WIGHT, VA 23397 I 757.356.1962 I IWCED@IWUS.NET I INSIDETHEISLE.COM
Local Roots, Global Reach
ISLE OF WIGHT
COUNTY, VIRGINIA



Valbridge
PROPERTY ADVISORS
THE LARGEST INDEPENDENT COMMERCIAL VALUATION FIRM IN NORTH AMERICA
Contact: Larry Colorito, MAI
lcolorito@valbridge.com
757.410.1222
valbridge.com
SUPPORTS THE ODU EV WILLIAMS CENTER FOR REAL ESTATE

E.V. WILLIAMS CENTER
FOR REAL ESTATE

ADVISORY BOARD

Thomas Atherton
Atherton Construction & Development, Inc.

Larry Colorito
Valbridge Property Advisors

Krista Costa
Divaris Real Estate, Inc.
Chair

Richard Crouch
Woods Rogers Vandeventer Black

Dawna Ellis
Harvey Lindsay Commercial Real Estate

Jonathan Guion
Jonathan Commerical Properties

Dewey Jones
AECOM

Thresa Joyce
Atlantic Union Bank

Evan Kalfus
KPMG, LLP

Teresa Peters
Stanton Partners

John Profilet
S.L. Nusbaum Realty, Co.

Charles Rigney
City of Hampton, Department of Economic Development

Brad Sanford
Dominion Realty Advisors, Inc.

Stephanie Sanker
S.L. Nusbaum Realty, Co.

Jeremy Starkey
TowneBank

Deborah Stearns
JLL

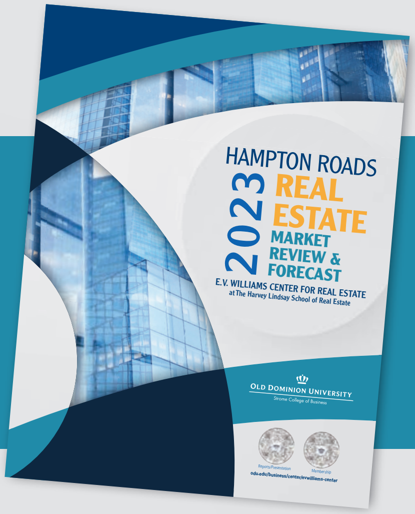
Christopher Todd
CBRE

Jim Vallos
Harbor Group International

Erica Viola
Branch Civil, Inc.

To obtain a PDF of this report and past reports, please visit our website: odu.edu/business/center/evwilliams-center and click "Market Review Reports."

Simon Stevenson
Robert M. Stanton Endowed Chair of Real Estate & Economic Development
Director, Harvey Lindsay School of Real Estate &
E.V. Williams Center for Real Estate
Department of Finance | Strome College of Business
Old Dominion University
2045 Constant Hall, Norfolk, VA 23529
sasteven@odu.edu 757-683-3559



ROBERT M. STANTON *in Memoriam*

1980-1989, Bob Stanton university administrator and alumnus.

It was with great sadness that the entire ODU community learned of the passing of Robert M. Stanton in September 2022. His connection with ODU and the Strome College of Business is long-standing; he was an alumnus, graduating from ODU with a Bachelor of Business Administration. Furthermore, Bob's role in the development of the real estate program at ODU cannot be overstated. His vision, and the endowment of the Robert M. Stanton Chair, helped establish real estate as an academic field at ODU and as one of the core components of the Strome College of Business. Bob also contributed to ODU in other numerous and varied ways. He served as a member of the Board of Visitors, Rector, and as Chair of the university's Educational Foundation, Real Estate Foundation, Annual Fund, and Real Estate Center. He was also recognized as an Outstanding Business School Alumnus and received the Distinguished Alumnus Award and Strome College of Business Legacy Honor.

Bob Stanton's real estate career spanned more than five decades, beginning when he joined Goodman Segar Hogan in 1966. He became President of the company in 1975 and played key roles in several high-profile developments in the Hampton Roads region, including Lynnhaven Mall, Greenbrier Mall, World Trade Center and Harborview. After retiring from Goodman Segar Hogan in 1993, he established Stanton Partners, continuing his innovative work in real estate investment and development. Bob was one of the original founders of the Hampton Roads Association of Commercial Real Estate (HRACRE) and was involved with numerous local and regional organizations. At a national level, Bob was a member of the Board of Trustees of both the International Council of Shopping Centers (ICSC) and the Urban Land Institute (ULI).

As a tribute to his contribution to the development of the real estate field at ODU, Bob is to be the inaugural recipient of the ODU Real Estate Legacy Award. This new honor is to be awarded to an ODU alumnus or person who has made a lasting contribution to the real estate community in Hampton Roads. The award is to be named in his honor: the Robert M. Stanton Legacy Award.

His contributions to ODU and to the Hampton Roads region are immeasurable. He will be deeply missed.

Katharine C. Kersey, chair of child study/special education, thanks those who contributed to the Child Study Center expansion project during a recent reception at the President's House. Also pictured, from left, are: Spurgeon Toney, president of the Lions Charitable Foundation; Robert M. Stanton '61, chair of the fund-raising committee; and President James V. Koch.

1961, Robert M. Stanton receives his degree from President Webb during Commencement Exercises at the Center Theater.

Newly elected officers of the Gavel Club of the College of William and Mary in Norfolk for 1959-60 are from left to right: Raymond Nipper, Vice President; Bob Stanton, President; and Betty Forehand, Secretary.

E.V. WILLIAMS CENTER FOR REAL ESTATE MEMBERS

Chris Ambrosio
Woods Rogers Vandeventer Black

David Anderson
ECS Mid-Atlantic, LLC

Alex Avril
Armada Hoffler

Tony Beck
CBRE

Andrew Blackman
CBRE

Larry Colorito
Valbridge Property Advisors

Krista Costa
Divaris Real Estate, Inc.

Richard Crouch
Woods Rogers Vandeventer Black

Edward Denton
Commonwealth Commercial Partners, LLC

Dawna Ellis
Harvey Lindsay Commercial Real Estate

Tasos Galiotos
Willcox & Savage

Bill Gambrell
Right Coast Properties

Libby Griebel
City of Hampton

Carl Hardee
Lawson Realty

Jeffrey Harris
Harris Advisors

Andrew Hodge
Atlantic Union Bank

Kevin Hughes
City of Suffolk

Evan Kalfus
KPMG

Jon McAchran
AtCoastal Realty

Janet Moore
BHHS Towne Realty | Commercial Division

Teresa Peters
Stanton Partners, Inc.

Bill Pollard
Blue Ridge Bank

Craig Read
Read Commercial Properties

Patrick Reynolds
NAI Dominion

Mark Richardson
Timmons Group

Bradley Sanford
Dominion Realty Advisors, Inc.

Keith Slattum
Dollar Bank

Jeremy Starkey
TowneBank

Deborah Stearns
JLL

Robert Sult
Harvey Lindsay Commercial Real Estate

Stacey Vellines
Old Dominion University

Samuel Walker
Pembroke Commercial Realty

Michelle Ward
South Bay Communications & Security

Eva Wiggins
Harvey Lindsay Commercial Real Estate

Michael Zarpas
Global Real Estate Investment, Inc.

Membership

Membership as of February 15, 2023

THANK YOU

2023 SPONSORS

Presenting Sponsor

Atlantic Union Bank

Reception Sponsor

S.L. NUSBAUM
REALTY CO. | SINCE 1906

Blue & Silver Sponsors

AES CONSULTING ENGINEERS

BREEDEN

Colliers

DIVARIS REAL ESTATE, INC.

THE FRANKLIN JOHNSTON GROUP® "THE FUTURE OF APARTMENT HOME LIVING"

HARBOR GROUP INTERNATIONAL

JLL

OLD DOMINION UNIVERSITY
Strome College of Business

Valbridge PROPERTY ADVISORS

Booth Sponsors

CREW COASTAL VIRGINIA

SOUTH BAY COMMUNICATIONS & SECURITY
Partnering with AVA SECURITY

YesSuffolk

Municipal Sponsors

Local Roots, Global Reach
ISLE OF WIGHT COUNTY, VIRGINIA

newport news BUILT ON BREAKTHROUGHS

PORTSMOUTHVA economic development

Program Sponsors

Dominion Realty Advisors, Inc.
Real Estate Appraisers and Consultants

HAMPTON VA ECONOMIC DEVELOPMENT

KAUFMAN & CANOLES attorneys at law

NAI Dominion
Commercial Real Estate Services, Worldwide.

TowneBank

Wetland Studies and Solutions, Inc.® a DAVEY company

WOODS ROGERS VANDEVENTER BLACK

Staging Sponsor

IMAGE BUSINESS INTERIORS

Media Sponsor

VIRGINIA MEDIA

Table Sponsors

CBRE

COMMONWEALTH COMMERCIAL
Comprehensive Property Solutions

COMMONWEALTH LODGING

CROATAN INVESTMENTS®

DF. DRUCKER+FALK
+ MULTIFAMILY + COMMERCIAL + VENTURES

HAMPTON ROADS ALLIANCE
Growing the 757. Growing Virginia.

HARVEY LINDSAY COMMERCIAL REAL ESTATE

THE CITY OF NORFOLK
OFFICE OF THE REAL ESTATE ASSESSOR

OLD POINT NATIONAL BANK

STANTON

TowneBank

TowneBank Mortgage

VIRGINIA BEACH ECONOMIC DEVELOPMENT

VB CITY OF VIRGINIA BEACH Real Estate Assessor

ECONOMIC TRENDS

ROBERT M. MCNAB, PH.D.
Chair, Department of Economics
Director, Dragas Center for Economic Analysis and Policy
Strome College of Business at Old Dominion University

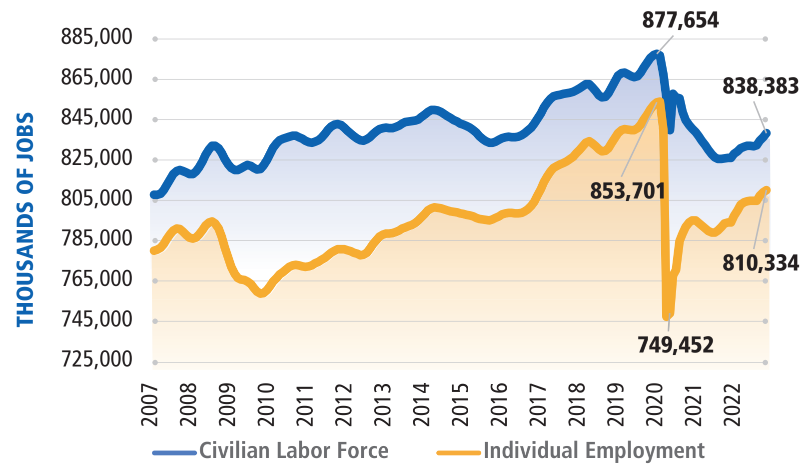
Economic Conditions

After the Great Recession of 2007-2009 and budget sequestration and caps on discretionary federal spending in the first half of the last decade, the civilian labor force and individual employment grew more slowly in Hampton Roads than the Commonwealth or the nation. Following the onset of the COVID-19 pandemic, the civilian labor force in Hampton Roads dropped by almost 38,000 residents, partially recovered in early summer 2020, and then continued to decline though August 2021. In November 2022, there were 39,271 fewer individuals in the labor force in Hampton Roads than in January 2020.

Of the 838,383 residents aged 16 and older in the civilian labor force, 810,334 reported that they were employed in some capacity in November 2022. While individual employment steadily increased throughout 2022, 43,698 fewer individuals reported that they were employed compared to the pre-COVID employment peak of February 2020. The region's unemployment rate in November 2020 was 3.3%, however, if we treated the labor force departures as unemployed, the region's unemployment rate would approach 8%. Without a sustained recovery in the region's labor force, the prospects for future growth are limited.

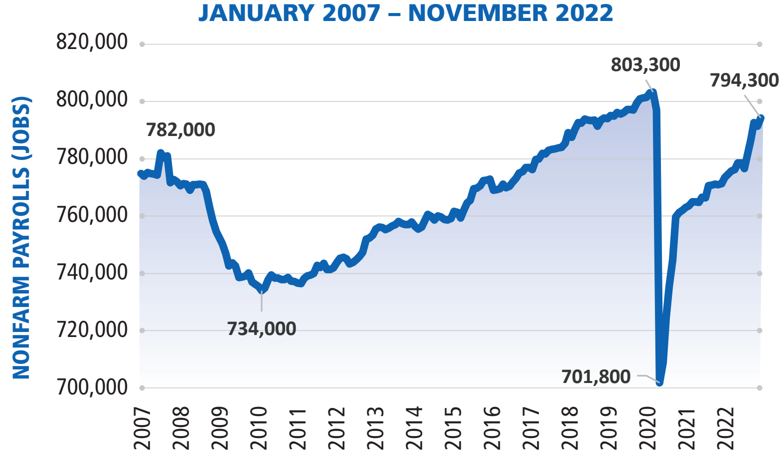
Continued on page 14

CIVILIAN LABOR FORCE AND INDIVIDUAL EMPLOYMENT
JANUARY 2007 – NOVEMBER 2022



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data.

NONFARM PAYROLLS IN HAMPTON ROADS
JANUARY 2007 – NOVEMBER 2022



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data. Pre-recessionary peaks in nonfarm payrolls were July 2007 and January 2020. Troughs in nonfarm payrolls were February 2010 and April 2020.

Continued from page 12

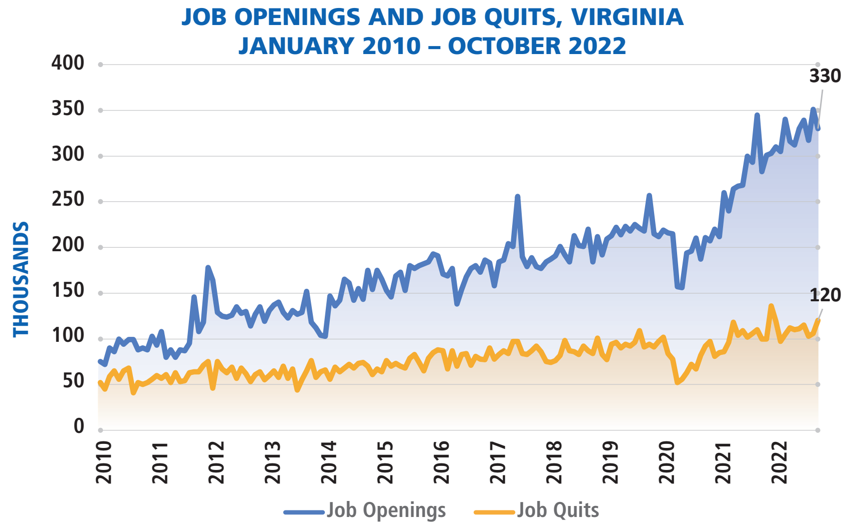
Jobs Recover (Slowly) in Hampton Roads

From the trough in nonfarm payrolls (jobs) following the Great Recession of 2007-2009 to the pre-COVID-19 peak of jobs in February 2020, employers in Hampton Roads added 69,300 jobs, a pace of job growth below that of the state and the nation. By April 2020, employers in the region had shed 101,500 jobs, a shock that was partially reversed in the summer of the same year. By January 2022, there were still 28,600 fewer jobs in Hampton Roads than February 2020 and, by November 2022, there were only 9,000 fewer jobs than the pre-pandemic peak.

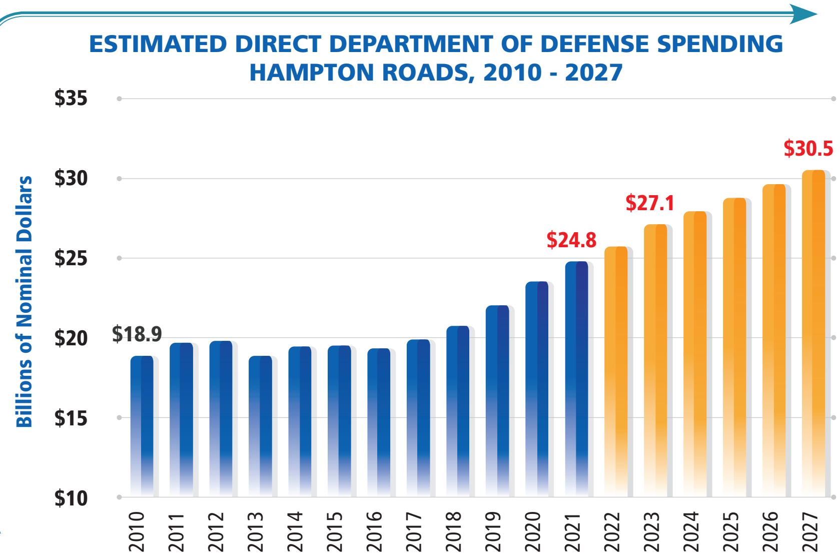
More Defense Dollars (For Now)

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 2022, the DoD spent almost $26 billion in the region which will, in turn, lift overall economic activity by approximately $40 billion. The passage of the National Defense Authorization Act and omnibus appropriations package for Fiscal Year (FY) 2023 raised the base DoD budget to $797.7 billion and 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.

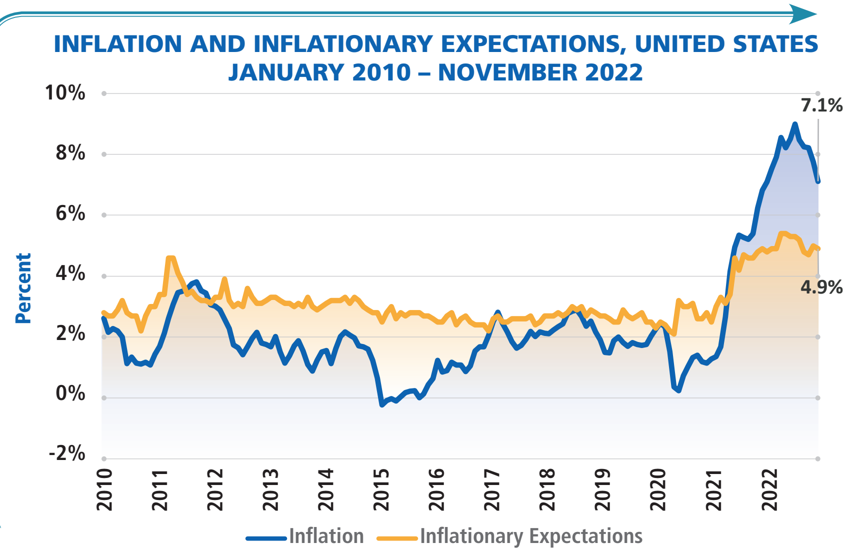
The open question is whether Congress and, in particular, the House of Representatives, will be able to perform its basic duties in 2023. In the near term, Congress must act to pass debt ceiling legislation to avoid a debt default. Failure to do so would undermine confidence in the U.S. government, wreak havoc on global financial systems, and spark a prolonged financial crisis. Even if Congress manages to navigate this potential crisis, there is a distinct possibility of a government shutdown in the fall of 2023 if Congressional appropriators fail to agree on how to fund the federal government



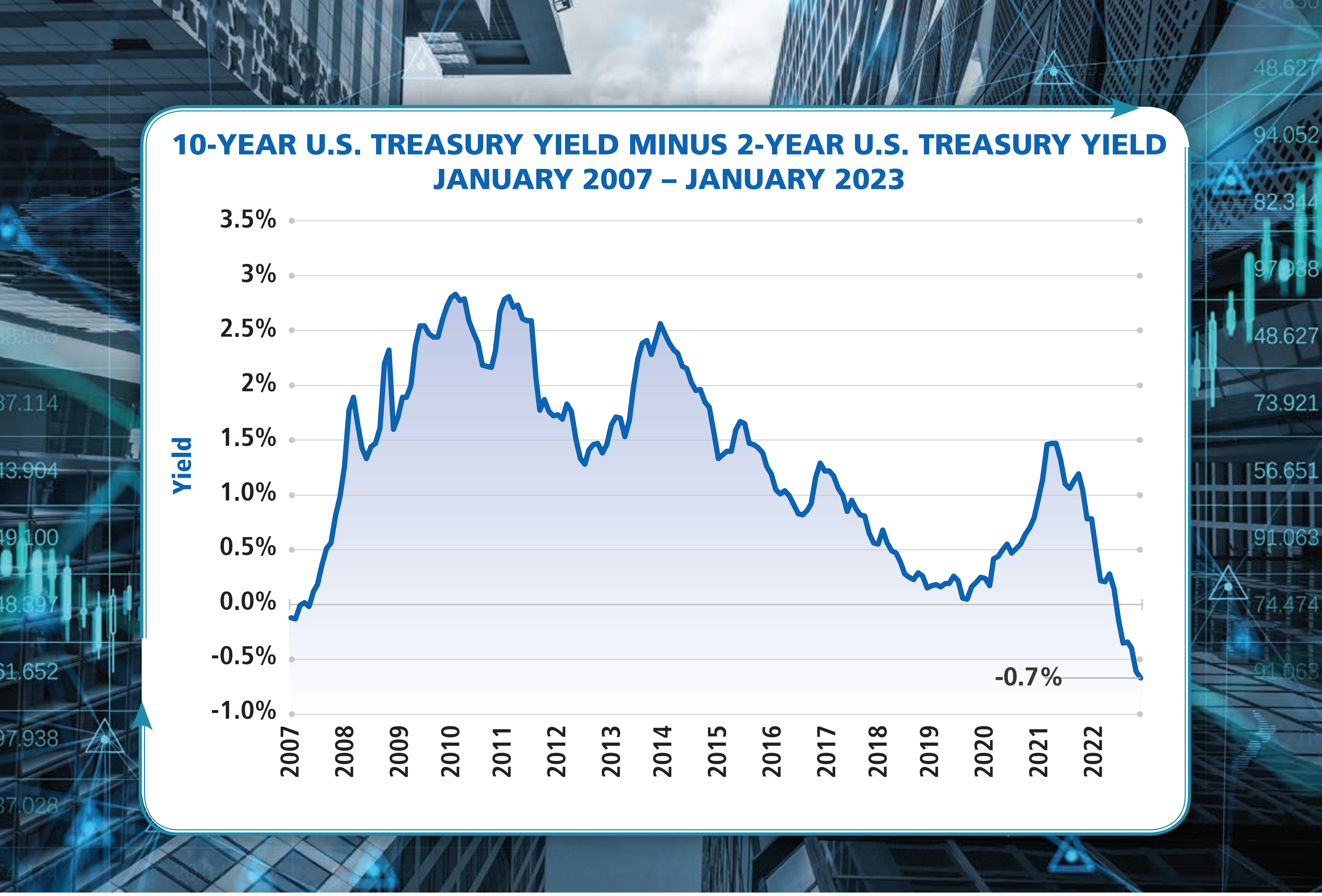
Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data.



Sources: United States Department of Defense, Office of Management and Budget, and Dragas Center for Economic Analysis and Policy. Includes federal civilian and military personnel and procurement spending. Data for 2021 are estimates while data for 2022 through 2027 are projections based on DoD spending projections.



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. Inflationary expectations measures the change in the price of goods and services that consumers expect over the next two months.



for the coming fiscal year. Either event would negatively affect economic growth in Hampton Roads.

2023 and Beyond

While inflation dominated the headlines in 2022, it is less likely to do so in 2023. Inflation is typically measured as the percentage change in prices over the preceding 12 months. In November 2022, the Consumer Price Index, which measures the price of a basket of goods and services, was 7.1% higher than November 2021. However, if we examine the month-to-month change in prices on an annualized basis, a different picture emerges for 2022. In the first half of 2022, monthly annualized inflation averaged 11.2%. In the second half of the year, monthly annualized inflation averaged 2.5%. While an unexpected commodity price shock or supply chain disruption could reverse these gains, there is a strong possibility that price growth will decelerate sharply in the first half of 2023.

Combatting inflation, however, comes at a cost. The Federal Reserve increased the discount rate seven times in 2022, from 0.25% to 4.50%, and is likely to continue to increase the discount rate in the first half of 2023. The Federal Reserve has allowed mortgage securities and corporate bond holdings to expire, which, in turn, has reduced the money supply. Given there is a 6-12-month lag between changes in monetary policy and macroeconomic activity, it should come as no surprise that short-term expectations have soured in recent months. The yield curve, which is equal to the difference between the yields on 10 and 2-year U.S. treasuries, inverted in the second half of 2022. While not a perfect predictor of recessions, the inversion of the yield curve strongly suggests that markets believe that economic activity will slow, if not contract outright, at some point in 2023.

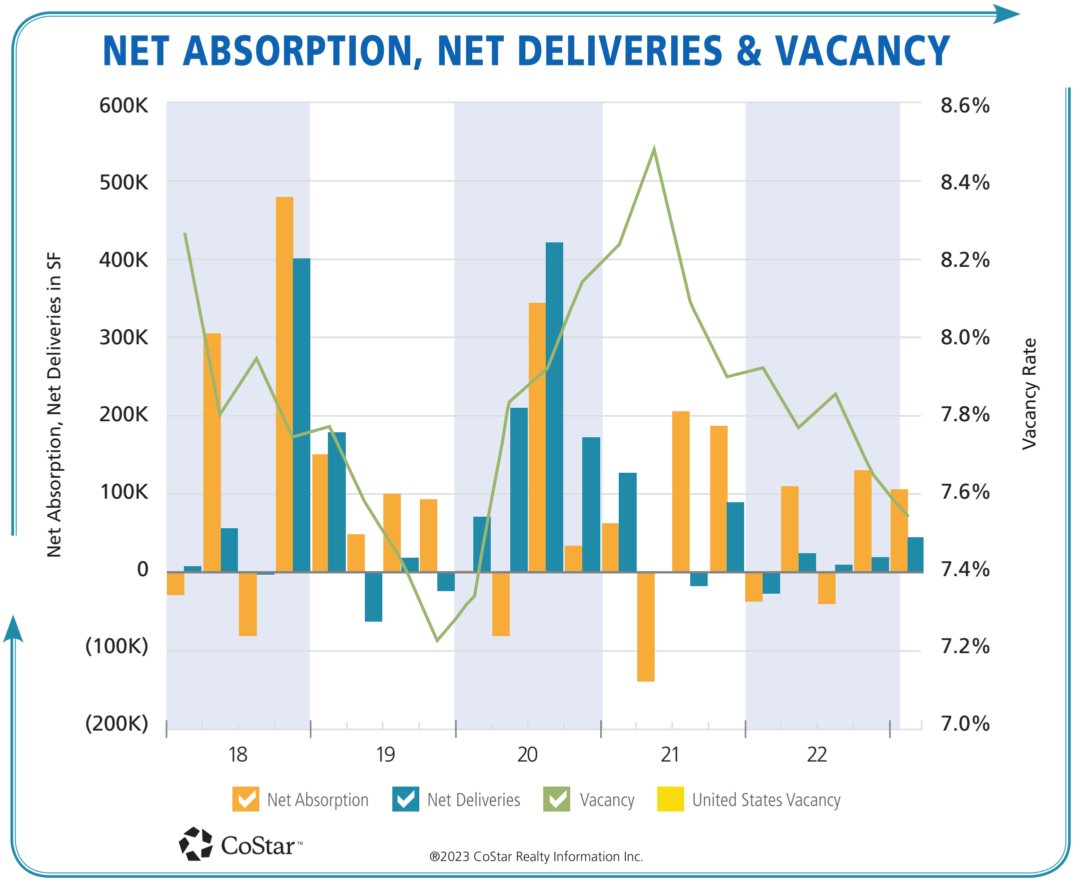
While job growth remains strong nationally, the contraction in real estate prices in some major metropolitan areas suggests that 2023 will, at best, be a year in which the economy 'muddles through' at a slower pace of growth and, at worst, experiences an outright recession in the second half of the year. Equity markets are likely to continue to retrench given layoffs in the technology sector, and supply-chain issues may persist as China grapples with the impact of COVID-19. Real economic growth nationally may approach 1.5% in the best case and be negative if there is deeper-than-expected recession. In Virginia, real growth may approach 2% as increases in defense spending are likely to fuel growth in Hampton Roads and, to a lesser extent, Northern Virginia. Barring a political or economic shock, the short-term outlook for Hampton Roads is mildly positive with continued flows of DoD spending into the region, increasing levels of domestic tourism, and continued traffic through the Port of Virginia.

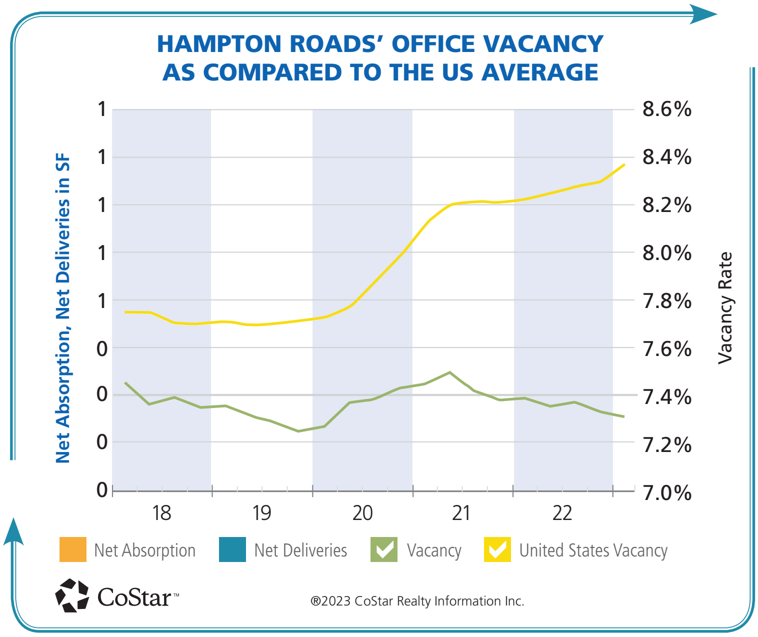
OFFICE

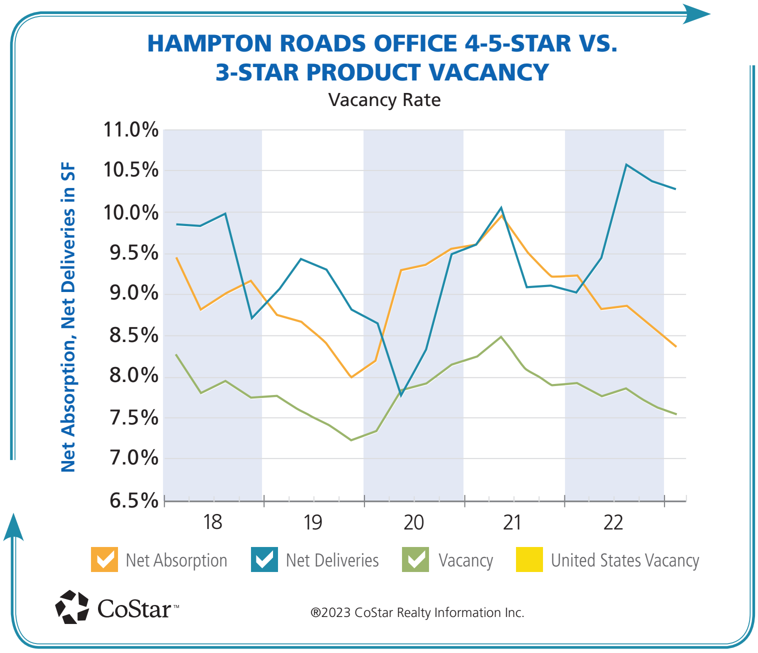
NICOLE CAMPBELL
Assistant Vice President, Office Leasing and Sales
Divaris Real Estate, Inc.

Hampton Roads Office Market Statistics

The Hampton Roads office market continues to remain stable in the midst of geopolitical and economic events with some local submarkets experiencing greater leasing and sales volume than others. Leasing activity remains below 2019 pre-pandemic norms throughout the region, but the lack of office development has benefitted existing office landlords and sustained minimal rent growth. CoStar reports total office inventory in Hampton Roads at 56,135,296 SF. The overall vacancy rate is essentially holding flat at 7.6% as compared to the average U.S. vacancy rate of 12.5%. The availability rate of 4–5-star office product increased overall in 2022 while 3-star office product decreased in availability. The Hampton Roads office market experienced an overall positive net absorption of 161,152 SF. The average direct full-service asking rent increased minimally from $20.35 per SF to $21.00 per SF.







Key Hampton Roads Transactions

2022 TOP OFFICE LEASES

Tenant	Property	Date	Square Footage	Lease Type
Unified Women's Healthcare, L.P.	880 Kempsville Road Norfolk, VA 23502	Dec 22	42,144	New
AvalonBay Communities Call Center	2901 Sabre Street Virginia Beach, VA 23452	Mar 22	38,711	Renewal
Portfolio Recovery Associates, LLC	400 Butler Farm Road Hampton, VA 23666	Mar 22	33,460	New
U.S. Government Fleet Human Resources Office	1151 Azalea Garden Road Norfolk, VA 23502	Feb 22	28,131	Renewal
Homes.com	150 Granby Street Norfolk, VA 23510	May 22	25,737	Renewal

2022 TOP OFFICE SALES TRANSACTIONS

Property	Square Footage	Date	Sales Price	Price Per SF	Buyer Type
1434 Crossways Boulevard Chesapeake, VA 23320	213,955	Sept 22	$24,000,000	$112.17	Private
1330 & 1300 Amerigroup Way Virginia Beach, VA 23464 (part of a 2-property sale)	106,000 (1330) 96,197 (1300) 202,197 (total)	Oct 22	$19,610,000	$185.00 (1330) $203.85 (1300) $96.98 (average)	User
477 Viking Drive Virginia Beach, VA 23452	98,855	Dec 22	$15,500,000	$156.80	Private
200 Corporate Boulevard Norfolk, VA 23502	46,154	Sept 22	$21,200,000	$185.00	Private
1800 Camelot Drive Virginia Beach, VA 23454	40,000	Sept 22	$13,750,000	$343.75	Institutional

Hampton Roads Office Market Overview

The Hampton Roads office market experienced a slow yet overall positive cycle throughout 2022, despite economic uncertainties, a rise in interest rates, and higher costs of construction. Flexibility will remain a key factor in office leasing as employers establish a "new normal" for the workplace. Office utilization and the space needed per employee will reach a new equilibrium as companies optimize their space over the next few years. A hybrid work environment is here to stay, but most employees still want to collaborate and will come to the office for teamwork, to network, and for social events. Vacancy rates remained stable; however, minimal office inventory was delivered. The construction pipeline has slimmed to its lowest total in almost a decade with 20,000 SF being delivered in 2022 and 80,000 SF under construction at Tech Center Building II in Newport News. Lack of new construction will cause minimal supply-side pressures and alleviate the lower-than-average leasing activity. Increased construction costs continue to impact the office leasing world, forcing tenants to participate in buildout costs by writing a check, committing to longer-term leases, amortizing a portion of the buildout costs over the base rent, or in most cases, a combination thereof. Lingering effects of COVID-19, the war in Ukraine and other economic uncertainties have continued to disrupt the supply chain impacting these costs. Investors have been active in the Hampton Roads office market over the past three years; however, with increasing interest rates that activity has begun to slow. Certain asset classes, such as medical office or stable properties with long-term leases in place, will continue to outperform in the office investment sector.

2022-2023 OFFICE OUTLOOK

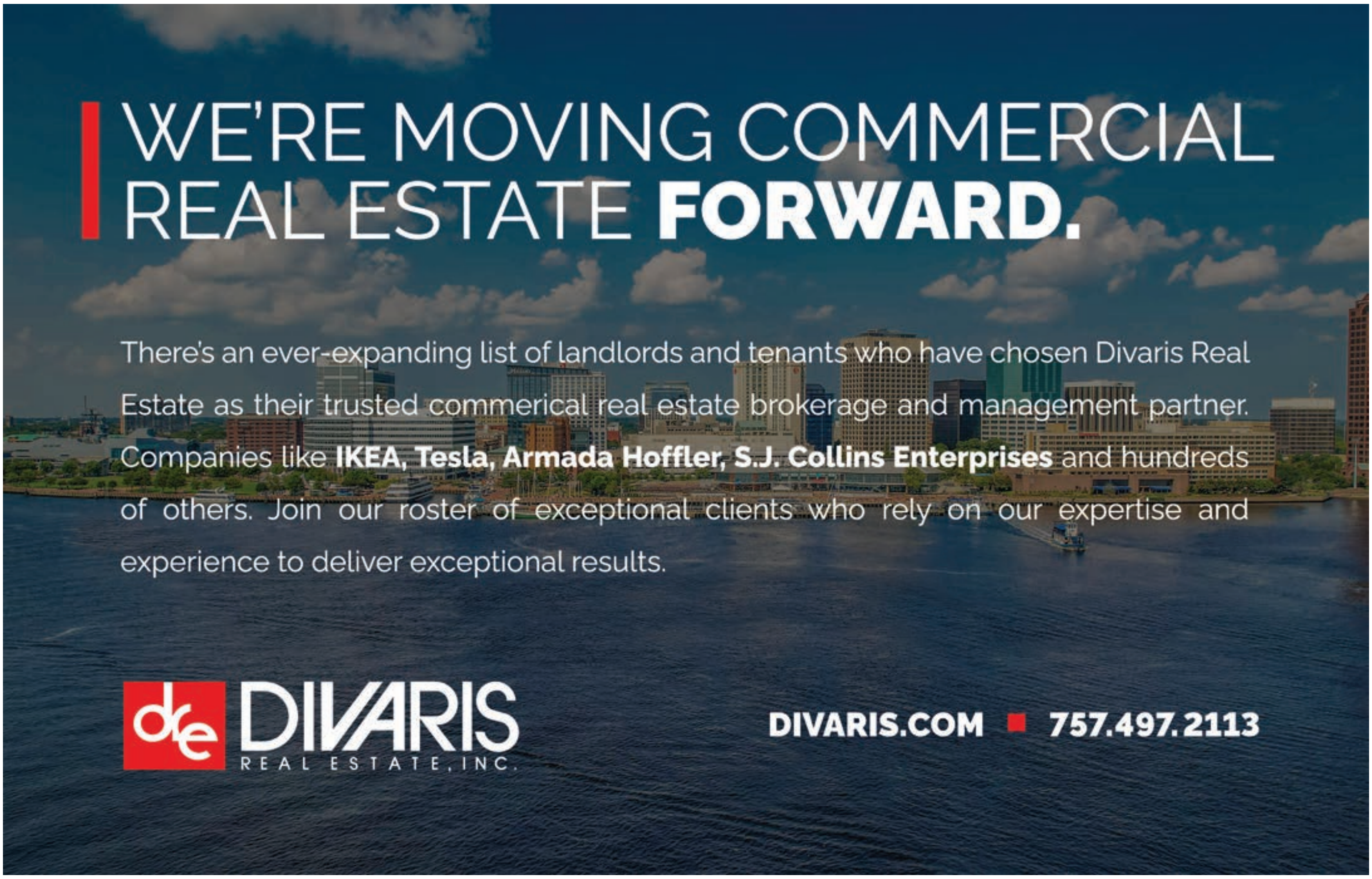
Geopolitical issues, record-high inflation, and rising interest rates together may lead to a moderate recession in 2023 that would have a lasting impact on all asset classes. The Hampton Roads local market fundamentals are insulated from the larger macroeconomy by three main pillars: defense spending, tourism, and the Port. The Hampton Roads office market will remain stable throughout 2023 as flexibility and convenience continue to drive the next decade. The right location with the right amenities may be enough to bring employees back to the office, but hybrid work will be a permanent fixture to the office environment. The anemic supply of new construction will benefit existing landlords and insulate the market from supply-side pressures, keeping vacancy rates stable and rent growth minimal. Functionally obsolete office product will continue to be converted into alternative uses, driving the negative supply curve. Increased costs of construction, interest rates and inflation will limit new construction in the near future. Owners will combat rising inflation over the next few years by passing inflationary pressure to the tenants in the form of operating expenses and firm annual escalations on rent. Seasoned property owners and investors who understand the cyclical nature of real estate and have fortress balance sheets may be able to take advantage of the potential downturn and grow their portfolio at a lower cost. Despite recent shifts in the economy, Hampton Roads continues to offer an excellent quality of life, competitive cost of living, and attractive rents for corporations in and around the region.

OFFICE MARKET TRENDS TO WATCH

✦ **Hybrid Work From Home (WFH)**
While in-office work offers collaboration, culture, and training, employers will turn to a post-pandemic hybrid work model and strike a balance between virtual and in-office work. The hybrid work-from-home model will impact workplace design, provide greater space utilization, and potentially retain valuable talent.

✦ **Innovative Spaces**
A hybrid workplace will need to be a destination that attracts employees and will require good office planning. Organizations will think differently about shared spaces and services they provide, as well as the technology and amenities to make a workplace highly attractive.

✦ **Repositioning Assets**
Owners of Class B and C buildings in underperforming submarkets will redevelop or reposition as businesses continue to demand Class A products to enhance their recruiting efforts. Functional obsolescence and low demand will dictate the transition of buildings from multi-family, retail, or something in between.


WE'RE MOVING COMMERCIAL
REAL ESTATE FORWARD.
There's an ever-expanding list of landlords and tenants who have chosen Divaris Real Estate as their trusted commerical real estate brokerage and management partner. Companies like IKEA, Tesla, Armada Hoffler, S.J. Collins Enterprises and hundreds of others. Join our roster of exceptional clients who rely on our expertise and experience to deliver exceptional results.
DIVARIS
REAL ESTATE, INC.
DIVARIS.COM
757.497.2113


OLD DOMINION UNIVERSITY
Strome College of Business
Strome College of Business engages participants in scholarly exploration and active learning, solving business and community challenges in a global arena to accelerate success. The college is fortunate to have local business leaders who are willing to bring their experiences to the classroom, share their insights, and mentor and help prepare students for the "real world" of business and government.
THE BUSINESS OF PROBLEM-SOLVING.
For more information please visit our website, ODU.edu/business

INDUSTRIAL

GREGG CHRISTOFFERSEN
Senior Vice President,
Brokerage and Industrial Lead,
JLL

Year in Review – Industrial 2022

HAMPTON ROADS INDUSTRIAL 2022 KEY METRICS

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

Source: CoStar 2022 Year-End Report (includes industrial and flex space)

For the Hampton Roads Industrial market in 2022, tenant demand levels continue to remain at an all-time high, even as construction delays limited new supply to meet it. Record levels of demand and absorption carried over from 2020 and 2021 and throughout 2022 as the continued robust growth of the local economic base was amplified by the Virginia Port Authority's significant and increasing market share of port business. The Port of Virginia's growth and the continued historical record of year-over-year container volumes, as well as the Port's market share growth, has attracted and will continue to attract large national tenants and national developer interests to the market.

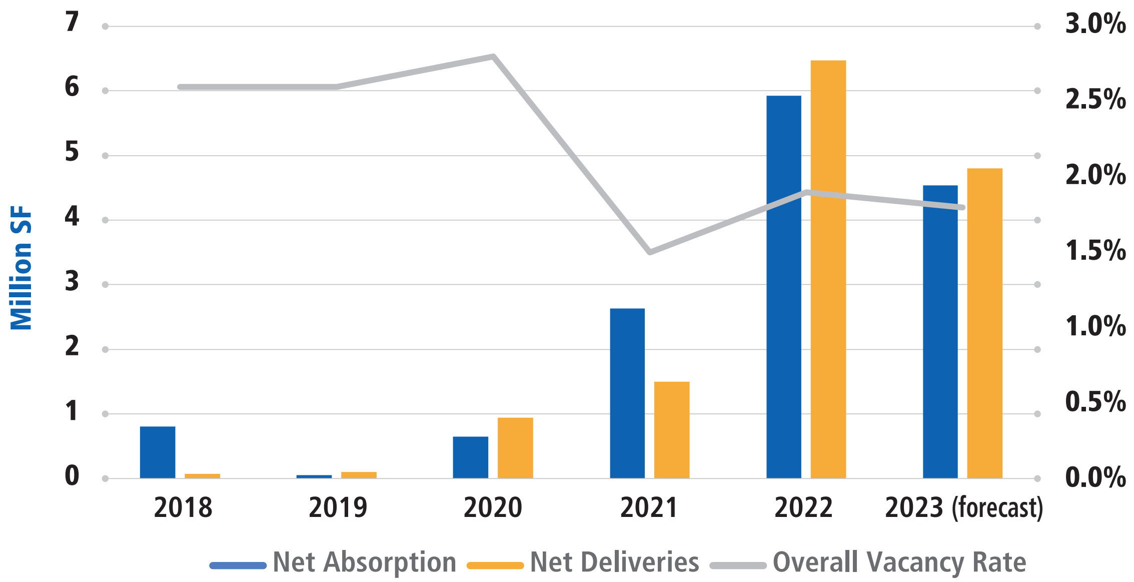
The demand and supply imbalance resulted in historic rent increases of 25% to 40% for industrial product across the region for 2022. Landlords are in a "mark to market" environment for rate, term, and tenant credit. Irrespective of the historic rent increases, there was *and continues to be* pronounced pent-up demand for industrial lease options from tenants at all size ranges from 10,000 to 300,000 SF. Over the course of the year, corporate occupiers were in competition for very limited space and very few, if any, readily available lease options were available to accommodate their leased facility requirements. For existing tenants with near-term lease rollover, it will be increasingly important to take proactive steps to identify and commit to facilities early on if expansion is a requirement. Otherwise, they should be prepared to play defense for their current facility holdings as competition for lease option and rental rates only continues to increase.

Hampton Roads is finally outgrowing its historical role as a build-to-suit market and now has leasing and rent dynamics which support speculative development. As noted in the last ODU market report, the development pipeline mushroomed going into 2022, with nearly all those available sites that transitioned from "proposed" to "entitled and under construction" absorbed. Those developers who have built spec have been rewarded by the full lease up and absorption of their facilities prior to construction and delivery for occupancy.

The Hampton Roads industrial leasing market is as favorable to landlord interests as it has ever been in its history, and only the limitations on supply prevented the Hampton Roads Region from producing even stronger demand and absorption results. At the end of the year, there were less than a handful of vacant Class A lease options, and, in many instances, both existing building lease options and speculative building lease options were absorbed prior to delivery to the market. It is important to note that this trend is structural and not cyclical and can be expected to continue for several years. Further, as

Continued on page 22

INDUSTRIAL ABSORPTION, DELIVERIES & OVERALL VACANCY



Source: CoStar (data for industrial space only – excludes flex).

2022 TOP INDUSTRIAL LEASE TRANSACTIONS			
Tenant	**Property**	**Leased SF**	**Comments**
Amazon	2500 Harpers Rd, Virginia Beach	3,250,000	New build-to-suit in Virginia Beach
QVC	1 QVC Dr, Suffolk	1,032,838	Sold and leased back from buyer as part of a four-property portfolio
UNIS	271 Benton Rd, Suffolk	910,000	New build-to-suit in Suffolk
MSI	2821 Holland Rd, Suffolk	548,000	New build-to-suit in Suffolk
Tradeport Logistics	600 Curtis Saunders Ct, Chesapeake	334,800	Full lease up of new speculative building in Chesapeake

Source: CoStar 2022 Year-End Report

2022 TOP INDUSTRIAL SALE TRANSACTIONS					
Property	**Buyer**	**RBA (SF)**	**Sale Price**	**Price PSF**	**Comments**
1 QVC Dr, Suffolk	Oak Street Real Estate	1,032,838	$104.7 M	$101	Part of a four-property sale-leaseback
1107 W Olney Rd, Norfolk	Oak Street Real Estate	65,891	$44.6 M	$677	Part of a five-property sale-leaseback
1016 Enterprise Cir, Chesapeake	Realterm US, Inc.	48,511	$26.9 M	$554	Single-tenant net leased to FedEx Freight
201 W Dexter St, Chesapeake	Reich Brothers	437,870	$26.5 M	$61	Sale-leaseback with RPM Warehousing & Transportation
1500 Steel St, Chesapeake	The Criterion Group	147,876	$26 M	$176	Full lease up of new speculative building in Chesapeake

Source: CoStar 2022 Year-End Report

Continued from page 20

more national "household" name tenants enter the market as the result of the growth of national supply chains with more diversified port-centric logistics, the dynamic has resulted in the construction of ever larger distribution, warehouse and logistics facilities with larger developments typically preleased by single tenants. Those buildings truly under construction with a projected occupancy date within six months can be expected to be leased by their delivery date.

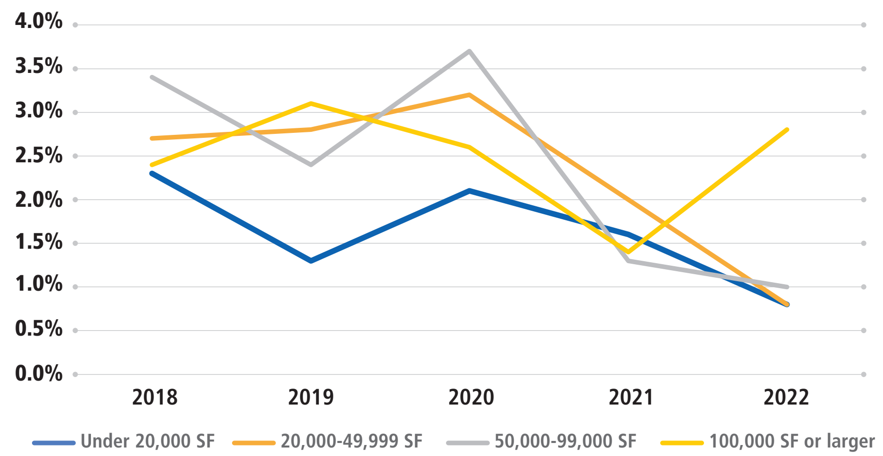
With the continued scarcity of available existing space and industrially zoned land for new construction, 2023 should continue to see rent growth of at least 8% to 10%. Underlying this trend of rising rates and the continued supply/demand imbalance are: the increase in physical and capital costs to bring these new large scale distribution buildings to market; the continued tenant competition for very limited space; the flight to quality for infill locations and Class A buildings which will see the most robust demand; the "mark to market" rent dynamics in effect due to land and facility scarcity; the rent increase dynamics as the result of the regionalization and nationalization of rental rates for national port logistics providers; the growth of industrial outside storage as an asset class; and the growth of the

Offshore Wind Energy industry. We have already witnessed some tenants losing existing facilities due to market competition, and more will continue to lose their space entirely and get pushed around over time if they are not proactive on their renewal or expansion strategies. In addition, keep in mind that at the beginning of 2022, supply chain disruptions were impacting the cost and availability of steel and roofing materials, fueling increased costs for new project deliveries. In this market, we now have the combination of demand pull and cost push dynamics, fueling ever-increasing construction costs for new facilities. This can only continue to result in rising rental rates.

Going forward: Our region is now enjoying the results of the Port of Virginia's investment in automation that brought about world-class throughput efficiencies. The industrial commercial real estate results of this investment have been amplified by the multibillion dollar investments by the Virginia Department of Transportation to expand and upgrade bridges, roads and tunnels. These investments will all come on line throughout 2023 and into 2024, removing long-standing structural traffic bottlenecks throughout the region and dramatically improving the region's profile as a national transportation hub. Our market also benefits from a very healthy labor market. Due to unique port market dynamics and their impact on industrial real estate, we are witnessing in real time the fact that for port markets, the average vacancy trends below the national vacancy average by about 15% to 20%. Simultaneously, rents and rent growth can be expected to achieve rent levels of at or about 20% compared to many of their inland counterpart markets.

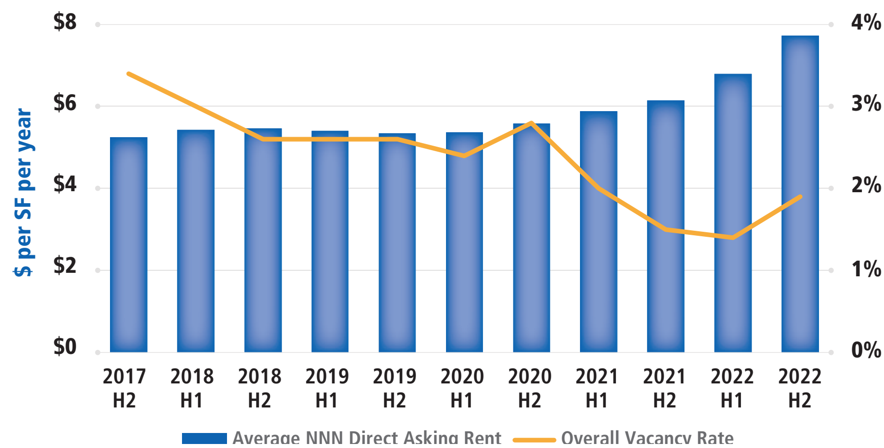
This report builds on similar results for the 2020 and 2021 ODU Industrial Real Estate reports, and the trend lines for the industrial market as described above can be expected to continue for the foreseeable future, subject to new supply coming on line to meet the robust levels of tenant demand for the asset class. For the Hampton Roads Industrial market, the future is bright!

OVERALL VACANCY RATE BY BUILDING SIZE TRANCHE



Source: CoStar (data for industrial space only – excludes flex)

AVERAGE ASKING RENT & OVERALL VACANCY RATE



Source: CoStar (data for industrial space only – excludes flex)

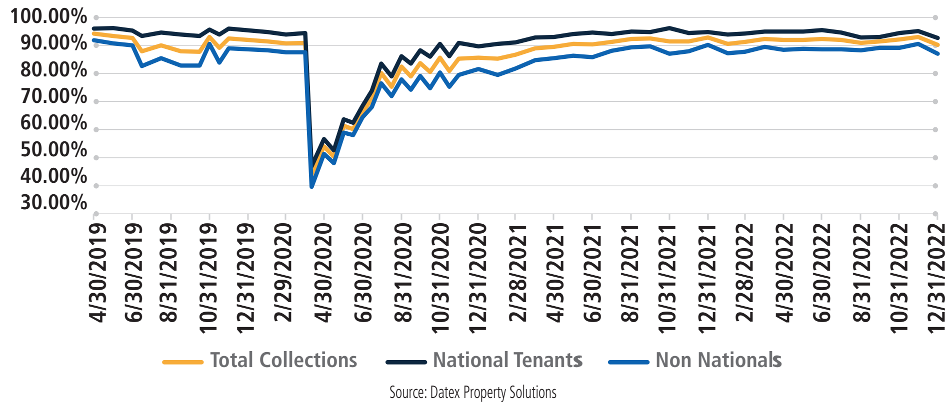
RETAIL

JEFF FRITZ, CCIM, CPM
Vice President, Colliers

Key Hampton Roads Market Statistics Dashboard

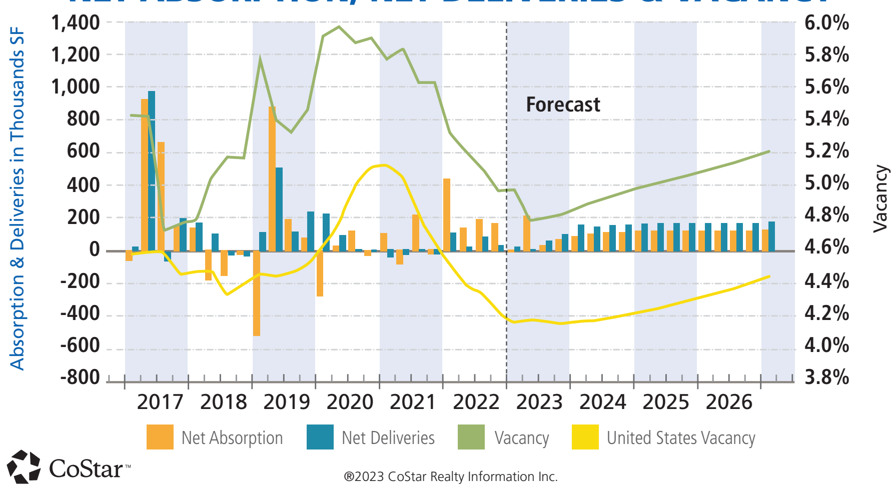
The Hampton Roads retail sector continues to show its resiliency in the face of headwinds. The fundamentals of rent growth, high collections, and occupancy remain at or above the historical averages. Positive net absorption figures have assisted in keeping the market's vacancy rate in line with the long-term average of less than 6% and, given the lack of inventory, asking rents grew by over 3% in 2022 to an average of $18.50/sf. This is only the second time in 15 years the Hampton Roads market has seen 3%+ rent growth with the first occurring in 2021. New and expanding tenants continue to make moves, and due to majority of store closures taking place in 2018 – 2019 and little speculative development, the region saw positive net absorption figures of 929,000 SF in 2023 according to CoStar. Furthermore, according to Datex Property Solutions, nationwide retail rent collections in 2022 averaged almost 92% and now surpassed 2019 collection levels of 88%.

DATEX RETAILER RENT COLLECTIONS



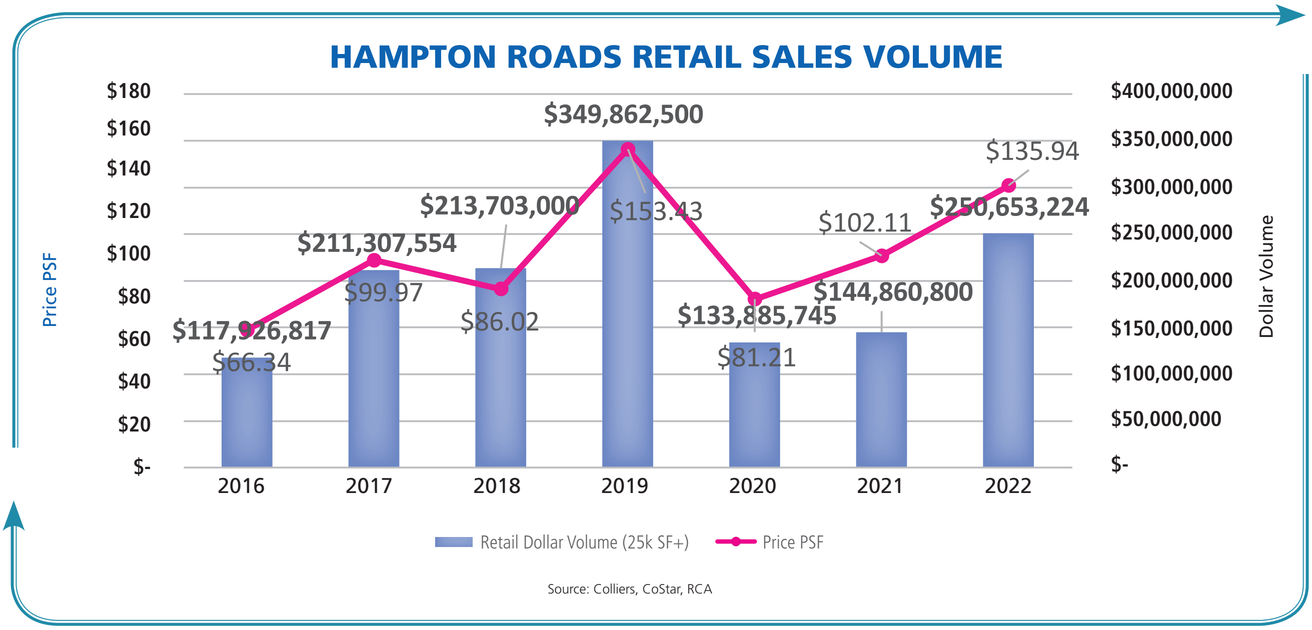
Source: Datex Property Solutions

NET ABSORPTION, NET DELIVERIES & VACANCY

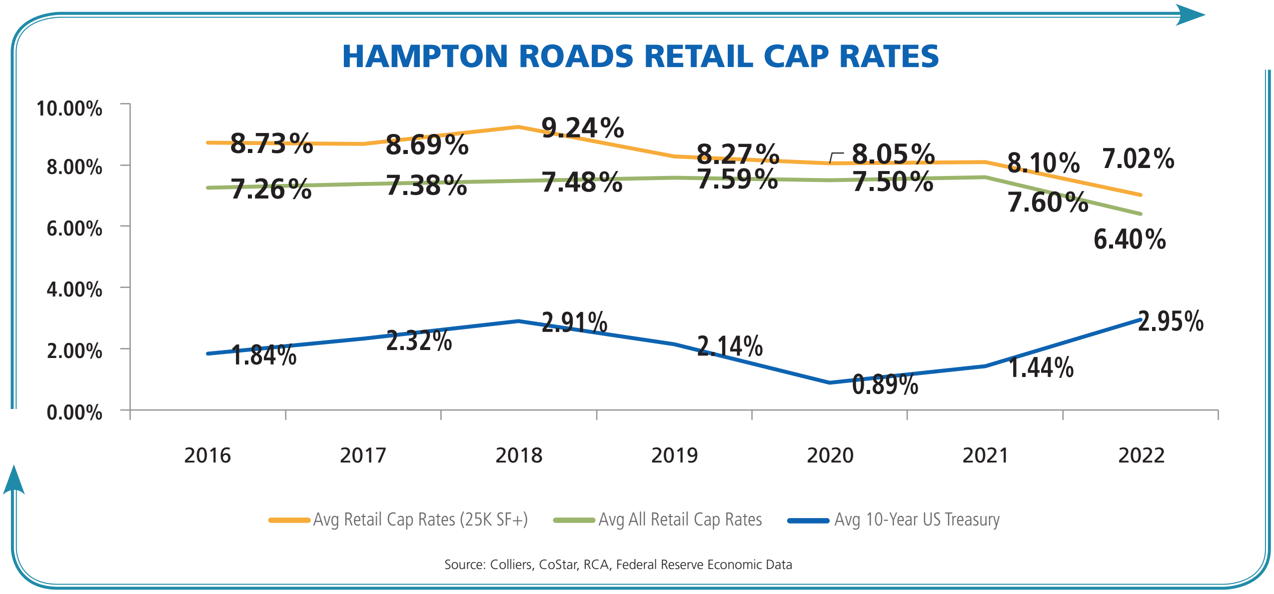


Retail investment volume grew and cap rates compressed at a healthy clip in 2022 as well. A good number of individual shopping center and single tenant net leased assets traded in the first two quarters, with a few larger transactions drifting from year end 2021 closings into 2022 closings to help buoy numbers. However, it was a few sizeable multi-state portfolio transactions that helped to launch the Hampton Roads market to new heights in the third quarter with over $808 million in total transaction volume for the year. Rapidly increasing interest rates and bonds negatively affected the single tenant net leased market though, with fewer than 20 deals taking place in 2022, vs. almost 50 in 2021.

Continues on page 26



Continued from page 25



Key Hampton Roads Transactions

KEY HAMPTON ROADS ACTIVITIES

2022 TOP LEASE TRANSACTIONS

Tenant	Property	Square Footage	City	Quarter	Comments
Old Time Pottery	Little Creek Marketplace	136,550	Norfolk	Q3	New-to-market tenant
Plum & Post Home & Garden Outlet	The Marquis	104,000	Williamsburg	Q2	New-to-market tenant
Publix	Planter's Station	45,000	Suffolk	Q2	New-to-market tenant
Locke Supply Company	Kingsgate Green	40,000	Williamsburg	Q2	New-to-market tenant

2022 TOP SALE TRANSACTIONS (NON-PORTFOLIO)

Property	Sales Price	Square Footage	$/SF	Quarter	Comments
Pembroke Square	$26,500,000	124,200	$213.37	Q4	Fresh Market and Nordstrom Rack-anchored center in Virginia Beach Town Center
Towne Place at Greenbrier	$23,150,000	76,460	$302.77	Q1	Lifestyle center shadow anchored by Target and Dollar Tree's Summit Pointe
Oyster Point Plaza	$10,600,000	73,197	$144.81	Q2	Food Lion-anchored center and Starbucks/Bonefish Grill outparcel

2022 TOP SALE TRANSACTIONS (PORTFOLIO)

Property Portfolio	Sales Price	Square Footage	$/SF	Quarter	Comments
Blackstone Portfolio	$5,800,000,000	20,284,368	$285.93	Q2	Preferred Apartment Communities sold a portfolio of multi-family, office, and grocery-anchored retail centers in a common stock all-cash transaction. Included one center in Virginia Beach
Necessity REIT Portfolio	$1,300,000,000	9,500,000	$136.84	Q3	The total CIM portfolio sale price included up to $1.27B in cash, $53.4M in Necessity Retail REIT common stock, and additional consideration based on certain performance measures of the sites during a 180-day period post-closing. 81 property portfolio, including one property in Williamsburg
DRA/KPR JV Portfolio	$879,000,000	4,983,267	$176.39	Q3	Cedar Realty sold 35 grocery-anchored centers. Includes properties in Virginia Beach, Suffolk, Portsmouth & Hampton
Stockbridge Portfolio	$209,205,000	765,969	$273.12	Q1	Branch Properties sold majority stake in 6 grocery-anchored centers. Including one in Williamsburg

Hampton Roads Market Overview

Hampton Roads brick-and-mortar retail has contended with its fair share of obstacles in recent years. It began with the Retail Apocalypse and corporate bankruptcy headlines over the past several years, followed by the COVID-19 lockdowns of 2020, the seemingly never-ending COVID variants of 2021, and then outsized inflation in 2022. Regardless of each new challenge, retailers have provided flexibility in how and where they offer service, and consumer demand for brick-and-mortar retail has remained strong.

New retailers, large and small, have moved into the both the Hampton

Roads Southside and Peninsula markets. Unsurprisingly, grocery operators continue their push into the Hampton Roads markets. Publix has finally made the long-anticipated announcement of their anchor position in two new retail developments in the Southside submarkets of Suffolk and Norfolk, and more will be announced in the coming quarters as leases are finalized and they look to create scale in the Hampton Roads area and Virginia. Additionally, Lidl announced their anchor position in the adaptive reuse Railyard at Lambert's Point project in the Downtown Norfolk submarket.

Value-oriented and off-price tenants continue their expansion in the market as their resiliency to e-commerce and experiences fuel growth. Dollar General's new on-trend value concept, pOpshelf, has signed leases for four new locations in Hampton Roads: a 10,450 SF location in the Little Neck submarket of Virginia Beach, a 12,000 SF location in the Greenbrier submarket of Chesapeake, a 10,800 SF location in the Patrick Henry submarket of Newport News, and a 13,484 SF location in the Coliseum submarket of Hampton. Dollar Tree opened a new 19,000 SF Family Dollar/Dollar Tree location in the Janaf Shopping Yard in Norfolk. HomeGoods opened a new 28,000 SF location in the Harbour View submarket of Suffolk, and Homesense (a TJX owned company) opened its first Hampton Roads location measuring 25,000 SF in the Oyster Point submarket of Newport News. Burke's Outlet signed a lease for a 30,600 SF location in the Gloucester submarket, and Ollie's had signed a lease for a 36,600 SF space in the DW Center in Newport News.

Largely thanks to COVID, a renewed interest in fitness has become a beacon for those looking for communal experiences, and gym operators are finding their stride once again. Onelife Fitness backfilled a 63,500 SF Gold's Gym box in the Oyster Point submarket of Newport News, and Planet Fitness signed a lease for a 26,300 SF space in the New Town Shops on Main shopping center in Williamsburg. Boutique fitness concepts taking much smaller footprints, such as Club Pilates, F45 Training, and Orange Theory Fitness, are expanding in the Hampton Roads market as well. Expect more 2023 activity from other large-format gyms as they actively seek locations in the market.

Vacant big box leases continue their momentum as locations become scarcer and speed to market becomes a priority for many large format retailers. On the Southside, Old Time Pottery, a new-to-market home décor concept, signed a lease for over 136,000 SF in the former Sam's Club box in the Little Creek submarket of Norfolk. On the Peninsula, Plum & Post Home & Garden Outlet, a new-to-market home décor concept, signed a lease for a former 104,000 SF JCPenney box in Williamsburg's Marquis project.

Investors continue the push to place capital in the Hampton Roads market as well, and a lot of that interest has come in the form of private out-of-state investment groups. More than 68% of deal volume and 63% of total transactions for retail investments over 25,000 SF in 2022 were attributable to groups with home offices outside of Virginia.

Market Trends to Watch

Many retail companies uncovered opportunities to establish new channels and grow into new markets over the past few years. Retail is increasingly being defined by a push to adaptability and flexibility – in the overall size of stores, in the products sold within them, and in the places where they are located.

Omni-channel (selling products and services both online and instore) strategies will continue to grow and be an integral part of any retailer's business plan. Digital brands that once were solely designated as online businesses are evolving their model to include traditional brick-and-mortar opening strategies, as online customer acquisition becomes more expensive, returns through shipping becomes a logistical headache, and brands look to be physically closer to their customers to create relationships, experiences, and to reduce reliance on increasing shipping expenses. And shipping expenses are rising steeply. Both FedEx and UPS have raised rates annually for the past several years and both have increased rates for holiday surcharges. As illustrated by Table 1 below, the average shipping price increase has been roughly 5% each year with 2022 coming in around 6% and 2023 expected to average a 7% increase. In 2022 and 2023, both FedEx and UPS oversized packages freight costs increased 17.3% and 18% respectively. Expect continued omni-channel adoption from traditional brick-and-mortar retailers as well. Many retail operators have moved to provide click-and-collect, curbside pickup, and

Continues on page 28

Table 1: CARRIER AVERAGE PRICE INCREASES 2017 - 2023

Carrier	2017	2018	2019	2020	2021	2022	2023
UPS	4.9%	4.9%	4.9%	4.9%	4.9%	5.9%	6.9%
FedEx	3.9%-4.9%	4.9%	4.9%	4.9%	4.9%	5.9%	6.9%

Source: Company reports & Telsey Advisory Group estimates

Continues from page 27
ship-from-store options for their products via phone apps and websites to reduce friction and to aid in consumer convenience.

Many retailers are adapting store layouts to do more with less square footage and emphasize convenience. For example, Burlington has made a move in recent years to downsize store formats from 100,000 SF to 25,000 SF, and Walgreen's has a program to reduce stores from 13,500 SF to a new 2,500 SF format that is geared more towards pharmacy drive-thru consumers. Fast-food concepts such as Chick-Fil-A, Taco Bell, and McDonald's are rolling out new drive-thru and pick-up only concepts. On the flipside, retailers are not just shrinking their footprints; Target made the recent announcement of a new stores to optimize products and design elements that will come in at 150,000 SF (roughly 20,000 SF more than traditional Target stores).

Landlords are making concerted efforts to 'bulletproof' rent rolls through tenant diversity and blurring traditional tenancy perspectives that will help draw more consumers, strengthen the non-peak periods and create more reasons for a visit. These efforts have been primarily achieved through leasing to non-traditional retail businesses such as healthcare providers, veterinary services, and office users that have a need to be close to neighborhoods and population. The recent inflationary environment will not soon be forgotten, and a focus on regular rent increases and triple net leases is a focus from landlords with an eye on their exit as investors are placing additional importance on this inflation hedge. An otherwise attractive deal may be viewed unfavorably if a majority of leases have long-term control with flat rent structures and/or the inability to pass through operating expenses.

Multi-tenanted retail cap rates have compressed in 2022, although they have been historically higher than other comparable asset classes; any upward pressure on cap rates seen has not been as pronounced as lower-rate property types. However, single tenant net leased deals have been more negatively impacted by the rising interest rate environment, and will continue to show slow activity until bond rates shift downward and 1031 buyers return to the market in mass.

Outlook/ Forecast

Expect 2023 to be a tale of two halves for retailers and investors, with the first half expected to be a continuation of recent trends.

For retailers, strained discretionary spending and a focus on inventory reduction through promotions will be commonplace in the first half of 2023. Retail consumers will be further bifurcated, and middle-tier retailers may find struggles as middle-income consumers trade down to help save money as recessionary fears loom, and the value-oriented retailers become the winner of those dollars. Grocery concepts, value-oriented and off-price retailers, fitness, and "medtail" (e.g. dentist, physical therapy, health/wellness tenants, and veterinary services) will continue expansion in the market. Shopping centers with strong grocery anchors will continue to be the gold standard for tenants looking to break into the market or expand operations. The second half of the year should see retailer profit recover from easier comparisons, leaner inventory levels, and moderating inflation. Retail openings will outpace closings, and limited new construction starts will all continue to aid in the market's absorption figures and rent growth, although strained discretionary spending may slow the pace of rent growth seen over the past two years.

For investors, deal volume in the first half of 2023 will continue to be hindered by little on-market inventory as interest rate increases continue to keep many would-be-sellers on the sidelines. Only motivated sellers with a reason to transact will have assets for sale. Deal volume in the second half of 2023 picks up steam as Fed fund rate increases slow and become more predictable. And while there has been a slight increase in cap rates in the back half of 2022 with rising interest rates, retail asset supply and demand are so out of balance that cap rates won't move as far as investors would like in the first half of the year. Expect in the second half of the year that cap rates will level off as spreads between debt and cap rates return to a more normalized point and more product hits the marketplace. Nationwide, retail deal volume was up 14% YOY at 2022 year end, the strongest showing of all asset classes, but we wouldn't expect that to be the same case for 2023 with a soft first half.

MULTIFAMILY

PAUL VAN
CEO, Chief Investment Officer, Croatan Investments

Key Hampton Roads Market Statistics

KEY HAMPTON ROADS AND NATIONAL STATISTICS							
Hampton Roads 12 Mo. Delivered Units	National 12 Mo. Delivered Units	Hampton Roads 12 Mo. Absorption Units	National 12 Mo. Absorption Units	Hampton Roads Vacancy Rate	National Vacancy Rate	Hampton Roads 12 Mo. Asking Rent Growth	National 12 Mo. Asking Rent Growth
1,921	435,560	(1,872)	125,375	6.9%	6.5%	4.0%	3.2%

KEY MARKET INDICATORS

Current Quarter	HR Units	National Units	HR Vacancy Rate	National Vacany Rate	HR Asking Rent	National Asking Rent	HR Effective Rent	National Effective Rent	HR Absorption Units	National Absorption Units	HR Delivered Units	National Delivered Units	HR Under Construction Units	National Under Construction
4 & 5 Star	31,488	5,378,752	8.2%	8.6%	$1,711	$2,081	$1,689	$2,060	29	19,504	159	26,316	1,508	664,668
3 Star	52,381	7,415,263	6.2%	6.2%	$1,370	$1,501	$1,361	$1,491	(147)	3,340	0	13,684	336	267,332
1 & 2 Star	36,626	5,953,318	6.9%	4.9%	$1,110	$1,235	$1,105	$1,229	(88)	(5,050)	0	519	0	18,669
Market	120,495	18,747,333	6.9%	6.5%	$1,391	$1,633	$1,379	$1,620	(206)	17,794	159	40,519	1,844	950,669

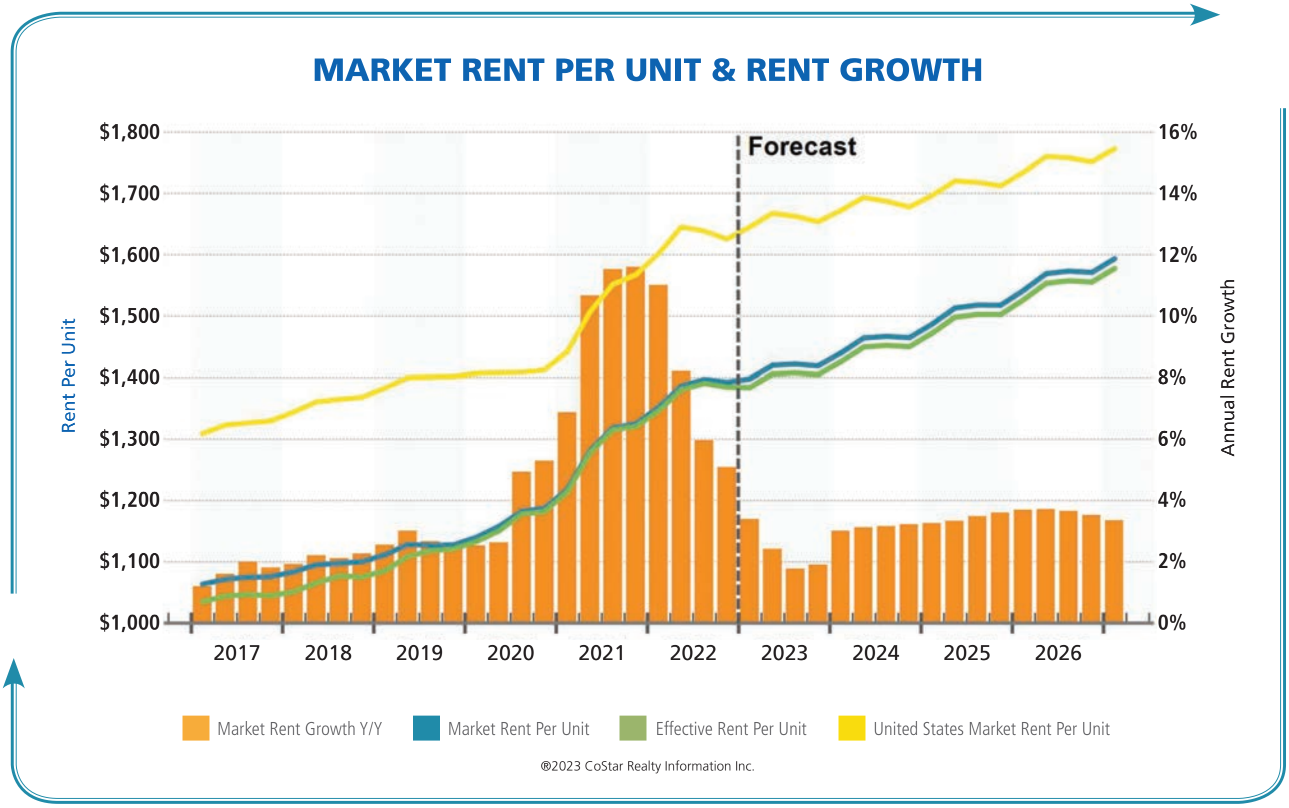
Annual Trends	HR 12-Month	National 12-Month	HR Historical Average	National Historical Average	HR Forecast Average	National Forecast Average	HR Peak	When	HR Trough	When	National Peak	When	National Trough	When
Vacancy Change (YOY)	3.1%	1.5%	6.7%	6.5%	7.9%	7.6%	9.8%	2004 Q2	3.2%	2021 Q2	7.7%	2009 Q4	4.7%	2021 Q3
Absorption Units	(1,872)	125,375	1,352	227,567	294	253,473	5,334	2021 Q1	(2,985)	2003 Q4	735,500	2021 Q3	71,251	2002 Q2
Delivered Units	1,921	435,560	1,522	254,230	906	357,330	3,197	2017 Q1	98	2000 Q4	451,175	2020 Q4	80,268	2011 Q4
Asking Rent Growth (YOY)	4.0%	3.2%	3.2%	2.3%	3.1%	1.9%	11.6%	2021 Q4	0%	2011 Q3	11.1%	2022 Q1	-4.0%	2009 Q4
Effective Rent Growth (YOY)	3.5%	3.0%	3.3%	2.3%	3.0%	1.8%	11.7%	2021 Q4	0%	2011 Q3	11.9%	2022 Q1	-4.0%	2009 Q4
Sales Volume	$1.4B	$214B	$473.7M	$87.7B	N/A	N/A	$2B	2022 Q3	$14.8M	2006 Q3	$314.5B	2022 Q2	$16.8B	2009 Q3

Hampton Roads Market Overview

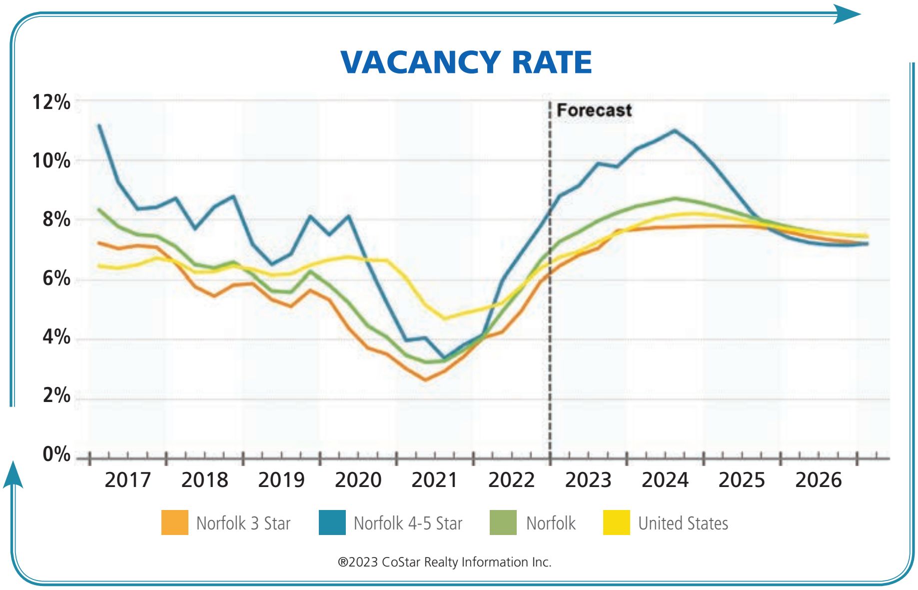
After a red-hot 2021, Hampton Roads' multifamily market has begun to soften since its peak in the fourth quarter of 2021. This marks a significant change from the second half of 2020 and 2021 when demand soared to all-time highs amid the pandemic. The metro's vacancy rate has expanded since the historically low levels witnessed in 2021, after dropping as low as 3.2%. Vacancy rates are now expected to rise to roughly 8% by 2024 before settling to both pre-pandemic and the metro's 10-year historical average of 6.7%.

Continues on page 30

Continues from page 29



While some of the recent vacancy increases can be attributed to the rise in evictions that have stemmed from the expiration of the state-wide eviction moratorium at the end of June, we believe more material forces are at play. After enduring asking rent growth of 20%, or $275, since the beginning of 2020, renters are getting squeezed as inflation erodes purchasing power. As rental demand abates, supply-side pressure may become more notable, with Hampton Roads' under-construction pipeline of roughly 1,900 units, or 1.6% of the market's inventory, underway, outpacing population growth and household formation, which are both expected to grow at an annualized growth rate of 0.1% over the next five years. It is anticipated that the majority of the units underway will be delivered over the next year. Given the broader market pullback and demand weakening, the units forecast to be delivered over the next year could be potential headwinds for vacancy rates.



Rent growth reached unprecedented levels in 2021 at 11.7%, cooling throughout 2022 at 3.5% YoY, and is expected to settle at more historical levels of 2.5-3.0% in 2023. This was catalyzed by a migration shift from larger urban areas towards smaller suburban markets during the pandemic and a post-pandemic pull-forward in household formations, driving six of the single largest quarters of rent growth in the market's history. Despite this record rent growth, Hampton Roads remains a more affordable market than other competing markets within the Mid-Atlantic and Southeast, with an average asking rent of $1,390/month compared to $1,533 in Raleigh and Charlotte and $1,403 in Richmond. A key metric for affordability is the percentage of income allocated to rent. In the Hampton Roads market, renters allocate just 20% of their monthly income for rent while, on average, the U.S. renter allocates over 25% of their income to rent. This indicates that fundamentals are stronger, on average, for Hampton Roads than for the rest of the country.

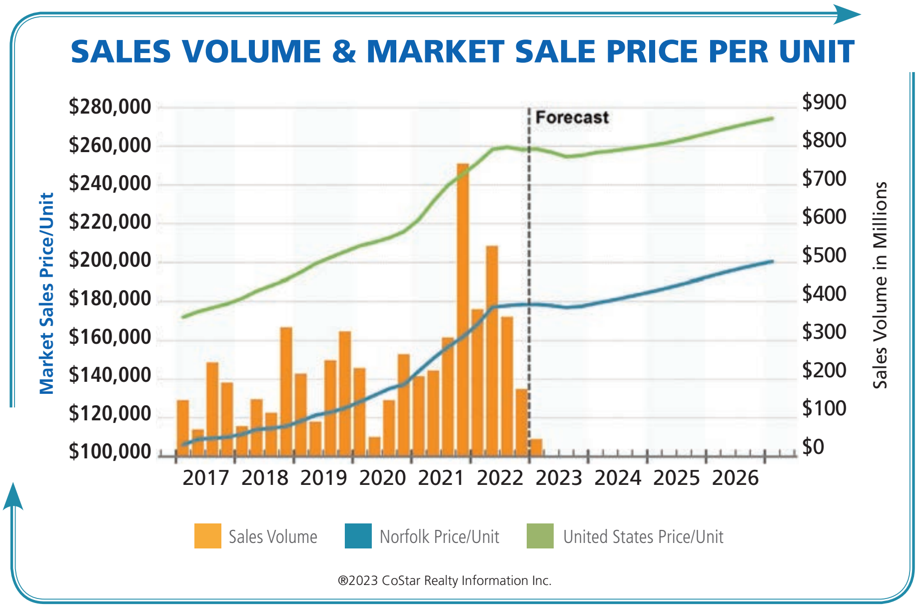
Key Hampton Roads Transactions

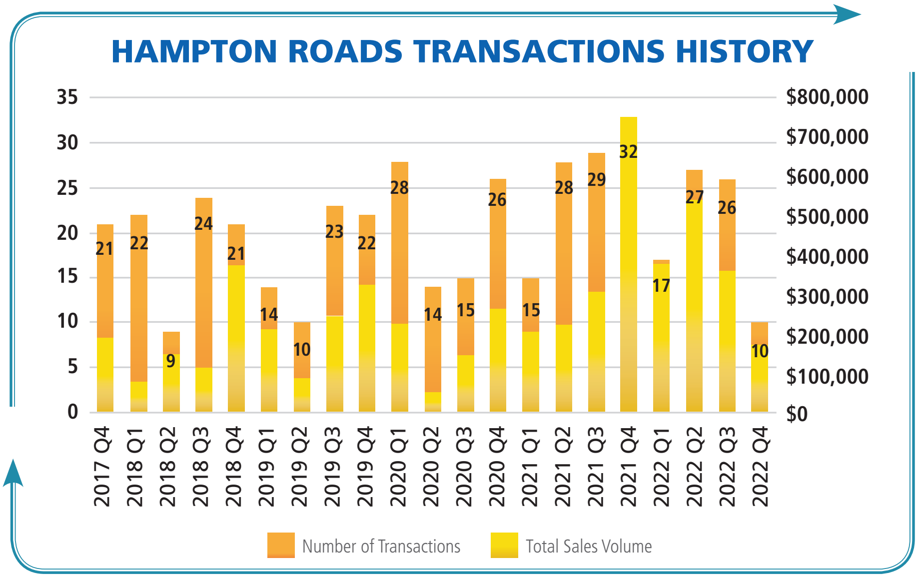
Property	Submarket	Vintage	Units	Sale Date	Price	Price/Unit
Aura at Arbordale	Williamsburg	2019	288	22-May	$100,000,000	$347,222
Coastline Apartments	Virginia Beach	1970	600	21-Nov	$98,500,000	$164,167
Reserves at Tidewater	Norfolk	1990/2019	640	21-Nov	$91,000,000	$142,188
Lumen Apartments	Hampton	2020	300	21-Sep	$82,000,000	$273,333
Ellipse Urban	Hampton	2021	287	22-May	$80,000,000	$278,745

As cap rates in primary and secondary Sun Belt markets started compressing to record lows in 2021, many investors targeted Hampton Roads to chase higher yields. Thus, both data and anecdotes indicate smaller tertiary markets such as Hampton Roads have been on the radar of many investors throughout the country for the better part of the past two years. However, similar to the rest of the country, our record transaction velocity quickly faded in the year's second half, given the difficult lending environment created by rising interest rates.

For the second year in a row, total sales volume in Hampton Roads has surpassed $1.3 billion in 2022. That follows 2021's record-setting output, which saw new records set for the number of transactions that closed and total sales volume. In fact, both the fourth quarter of 2021 and the second quarter of 2022 saw total sales volume exceed $500 million. To demonstrate the scale of this volume, those quarterly amounts exceed the entire annual figures from six of the 10 years leading up to 2021. In addition, pricing soared leading up to the second quarter of 2022, with new records consistently set for submarkets within the metro. One such record was set in May 2022 when Bonaventure Realty Group sold the 288-unit property known as The Bend Arbordale for $100 million ($347,200/unit). Formerly known as Aura at Arbordale, the 2019-built Class A community located in Williamsburg was acquired by Inland Private Capital Corporation. Not only did that mark the first single-property sale of at least $100 million in the market's history, but it also marked the first property of at least 50 units to trade for more than $340,000/unit.

That wasn't the only notable sale in Williamsburg this year, either. Just six weeks prior, Capital Square Realty Advisors acquired the Sterling Manor





Apartments for $70 million ($338,200/unit). The 2008-built Class A property was sold by Chaucer Creek Capital of Raleigh, with about two-thirds of the units recently renovated. Capital Square intends to continue with that renovation plan for the remaining 70 units.

Each of these sales represents the rapid rise in pricing over the past two years leading up to the second quarter of 2022. Cap rates for 4 & 5-star sales averaged 4.2% in 2022, while 3-star sales touched 4.8%. This is down from 2020 levels, where cap rates averaged 5.4% and 7.9%, respectively, for 4 & 5-star and 3-star sales. As cap rates trended toward historical lows, valuations rose

Continues on page 32

Continues from page 31
dramatically from the first quarter of 2021 to the second quarter of 2022.

On March 16, 2022, when the Federal Reserve increased interest rates for the first time since 2018 and signaled additional rate hikes to combat inflation, it had a paralyzing effect on the capital markets. The Federal Funds Effective Rate went from zero to 4.25%-4.50% in the 2022 calendar year. The aggressive tightening by the Fed caused debt markets to seize up temporarily. When lenders began quoting again, financing rates came in higher than prevailing cap rates to create an environment of negative leverage. Deal flow halted as a bid-ask gap emerged between purchasers requiring a lower price and sellers slow to adjust to revaluations. After setting a quarterly record of $755 million in 2021, fourth quarter volume in 2022 plummeted roughly 82% to $173 million, with only 10 deals executed compared to 32 a year prior.

2022-2023 Multifamily Outlook

Operating Fundamentals

We anticipate moderating operating fundamentals with rent growth and vacancy trending back to historical levels after two strong years of outperformance. Housing demand across the nation benefited from a surge of household formations due to pent-up demand during the pandemic, geographic flexibility from remote work, a growing preference to spread out in lower-density living situations, and a stimulus-driven rapid economic recovery. As recent high levels of inflation have squeezed renter budgets, their ability to endure rental rate hikes has diminished.

Additionally, housing demand in smaller suburban markets such as Hampton Roads benefited from pandemic-driven work-from-home policies causing a migration exodus away from larger employment hub cities. Our belief is this “COVID bump” for smaller markets will soon transition to a “COVID rebound” in larger urban markets. Amidst a likely softening job market and economic slowdown in 2023, we expect a meaningful portion of the population to move back to larger urban markets closer to the office, as the cost-of-living differential has narrowed due to outsized recent rent growth in smaller suburban markets.

While we expect them to soften in 2023, operating fundamentals will be supported by rising interest rates and the disruption caused to the for-sale housing and overall financing markets. As the cost to purchase a home has more than doubled over the past year due to elevated home prices and mortgage rates, many potential home purchasers will remain renters for an extended period of time. Next, the tumultuous financing market that stemmed from rapid rate hikes has made obtaining favorable apartment construction financing extremely difficult, as most money center banks, life insurance companies, and private debt funds are sitting out of the lending market. Local banking relationships remain one of the limited ways to fund development projects today. Lastly, equity investors will pivot away from development as its yields have become less attractive than acquisition yields due to dramatic asset value declines over the past several quarters. This pullback in liquidity should result in a delay in new units being delivered over the near term. Over the long term and looking more broadly, our region and nation’s continued undersupply of housing stock should keep multifamily’s supply-demand in a healthy balance once we navigate beyond any near-term economic downturn.

Capital Markets

Given the expectation for interest rates to continue climbing and remain elevated in 2023, along with decelerating operating fundamentals, the capital markets will remain choppy in Hampton Roads but will hold up better than the overall nation.

Whereas many new investors quickly entered smaller markets such as Hampton Roads over the past several years to chase yield as part of typical late-cycle behavior, these purchasers have just as quickly exited as we enter a market correction cycle. As a significant number of private debt fund lenders are on the sidelines, and those that do quote are offering less competitive floating rate financing debt at rates of over 8%, we don't anticipate this major form of flexible financing for many deals over the past several years to be utilized except for rare situations. Agency financing remains the most attractive today, with rates between 5.5%-6% and leverage between 55%-60%. Assuming 7.5% NOI growth and a movement of cap rates up to 5.5%-5.75%, this would represent a total asset valuation loss of 15%-20% from the 4%-4.25% cap rates of the past 12 months. Assuming an investment was originally financed at 65%-80% leverage, the resultant equity value loss could range from 40%-100%!

Investors that purchased assets in Hampton Roads at prevailing cap rates of 4%-4.5% over the past two years will fall into two camps. The first camp will be those that managed to secure moderately leveraged long-term fixed-rate debt at 2.75%-4% rates. These investors will likely be able to weather the current capital market storm. The second camp will be those that financed their purchases with max-leverage short-term floating rate debt with a likely current rate of 6.5%-7.5% that will soon rise to over 8%, depending on the expiration of the interest rate cap purchased at the loan origination. These investors will likely soon be engaging in workout negotiations with their lenders, if they are not already. Given the record amount of transaction volume achieved in 2021 and early 2022, there is a substantial amount of peak-value deals that may soon be stressed due to financing issues.

While the local capital market's outlook is gloomy, we expect Hampton Roads to outperform many other markets, such as those in the Sun Belt, which saw cap rates as low as 3%-3.5%. Assuming 10% NOI growth and a movement of cap rates up to 5.25%-5.5%, this would represent a total valuation loss of 25%-35% over the past 12 months. If a purchase were initially made with 65%-80% leverage, this would be a complete loss of equity value. Additionally, some extraordinarily low cap rates were seen in apartment markets that tend to be more cyclical and experience more significant negative swings during downturns. As construction levels in these other markets are also at decades-long highs, we foresee vacancy and rent growth to soften meaningfully over the near term. We expect substantial levels of distress to emerge with deals purchased over the past two years in many Sun Belt cities.

What will differentiate the current market correction from our last major downturn, the Global Financial Crisis of 15 years ago, is the substantial amount of dry powder currently on the sidelines awaiting distressed opportunities to emerge. According to Prequin, over $400 billion in dry powder was sitting on the sidelines. Should it be deployed, this amount of liquidity will keep the asset valuation floor from falling out completely.

While the slow but consistent rent growth and vacancy levels due to Hampton Roads' dependency on the government may be less exciting during growing markets, they are huge positives during downturns such as the one we are likely facing. Due to the stable nature of our apartment market, we expect it to outperform relative to other markets in 2023.

RESIDENTIAL

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

2022 Year in Review

Last year was one of adjustment for the housing market. The momentum from 2021 carried into the first half of 2022 as active listings and interest rates remained historically low, fueling demand. While challenging for buyers, sellers benefited from the shortage of inventory with approximately 80% of homes selling over list price. Through the first quarter, every sector of the housing market could absorb its active listings in less than one month!

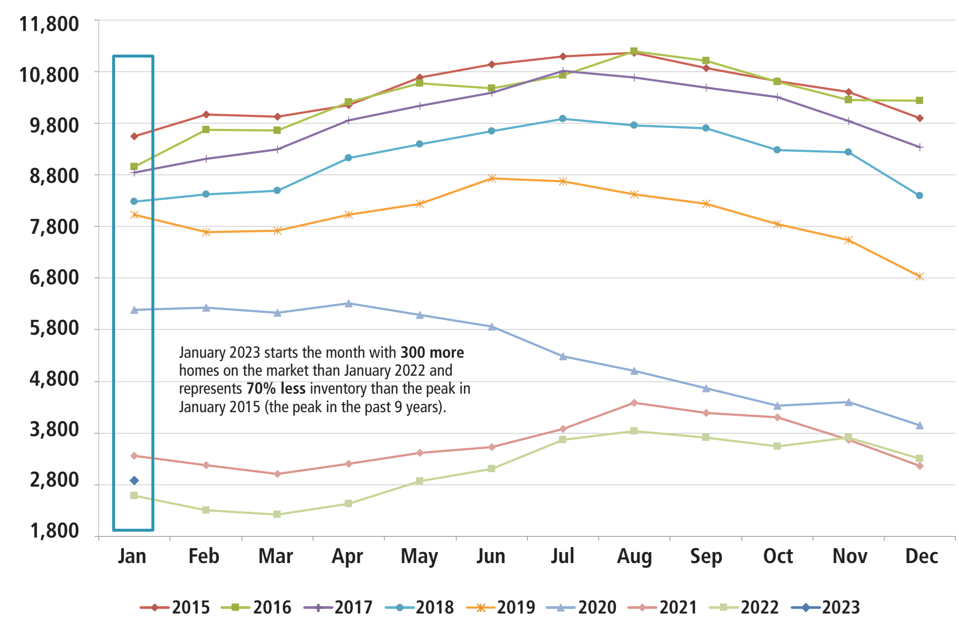
The spring market brought with it slightly more inventory as well as apprehension in the home buying public and investors. On the national level, news stories of a possible housing bubble featuring significant declines in the major markets increased concern for local buyers. Consumer confidence started to weaken as inflation rates climbed, interest rates gradually increased and, at the same time, home prices continued to rise. The year started with a median sales price of $291,000 and peaked at $328,797 by May.

Sales weakened through the second half of the year as buyers faced sticker shock after years of historically low interest rates, and some buyers chose to sit on the sidelines. No one can completely escape the psychological impact interest rates played on the market during the second half of 2022. The rate change came faster than any time in the past 30 years. This was no doubt a shock to the buying public.

However, buyers appear to be adjusting to rates as they always have. The mortgage industry reacted and, as in times past, the mortgage industry offered products to help ease the pain, such as buydowns and adjustable rates. Buyers are looking for stability. The biggest factor in the game is probably uncertainty about rising or falling rates due to the Federal Reserve's effort to curb inflation.

At present, it appears we may have topped out. We anticipate that stability will send buyers back out shopping for the first quarter of 2023.

OF HOMES ON THE MARKET ON JANUARY 1, 2023



The Resale Market

The resale market was responsible for 90.2% of all 2022 sales transactions in Hampton Roads. Sales in the resale sector were down 18.5% over year-end 2021, and average Days on Market for resale listings rose to 39 days by year's end. Contrast that with 2016, which was a good year for housing, when that number stood at 125 days.

The New Construction Market

According to Source, Inc. a total of 2,884 building permits were issued in 2022, down 22.2% from year-end 2021. New construction permits for the Southside and Peninsula peaked in March with a total of 321 issued. In the first half of the year, 1,691 building permits were issued; that number fell to 1,193 in the second half.

New construction is approximately 10% of the total market transactions. Small movements in inventory can cause big impacts to the overall market activity. New construction pending sales for 2022 were down 18.3% compared to year-end 2021. With only 488 available quick-move-in new homes and a decline in building permits, it's no surprise to see an 11.5% decline in new home sales for the year.

Hampton Roads' Top Builders

The top builders in the market jockeyed for position, but Ryan Homes continues to maintain a seemingly impenetrable hold on the #1 spot. Dragas Companies and Napolitano Homes held onto the #2 and #3 spots, respectively. Kirbor Homes entered the top ten this year on the strength of Chesapeake sites Flagstone Quay (with 17 closings) and Sanderson Estates (with 11 closings). Franciscus Homes continues to impress as they are one of the top builders with only three sites and 99 closings for the year. With the concern of rising home prices, Franciscus Homes leads the pack in affordable homes with an average sales price of $291,275.

Hampton Roads' Resale Market 2018 - 2022 ATT/DET (Source REIN)

Year	2018	2019	2020	2021	2022
Closed Sales	24,586	26,498	29,898	34,706	28,481
YoY Change	+7.8%	+12.8%	+16.1%	-17.9%	
Median Closed Sales Price	$225,000	$234,000	$255,000	$320,595	$300,000
YoY Change		+4%	+8.9%	+25.7%	-6.4%

Hampton Roads' New Construction Market 2018 - 2022 ATT/DET (Source REIN)

Year	2018	2019	2020	2021	2022
Closed Sales	3,139	3,351	3,799	3,570	3,160
YoY Change		+6.7%	+13.4%	-6.0%	-11.5%
Median Closed Sales Price	$326,090	$328,708	$338,290	$403,799	$415,995
YoY Change		+.8%	+2.9%	+19.4%	+3.0%

Hampton Roads + NENC Top Builders

Builder	Closings Recorded	Average Sales Price	# of Sites
Ryan Homes	905	$405,355	22
Dragas Companies	142	$440,395	4
Napolitano Homes	124	$459,093	5
Franciscus Homes	99	$291,275	3
Chesapeake Homes	80	$604,384	8
Kirbor Homes	63	$629,876	13
WeldenField & Rowe	62	$488,314	2
Terry-Peterson Residential	60	$519,811	4
Platinum Homes	56	$375,851	2
EDC Homes	55	$524,253	15

E. V. WILLIAMS CENTER FOR REAL ESTATE

EDUCATE
CONNECT
INSPIRE

The E.V. Williams Center for Real Estate strives to connect those engaged in real estate and economic development to the research, curriculum and students at Old Dominion University. Through programming, research, and publications, the Center partners with its members to educate the community and provide ODU students with enrichment experiences that facilitate their professional development.

Join Today!

odu.edu/business/center/evwilliams-center

MEMBER BENEFITS

- Networking opportunities at member exclusive events.
- Recognition in the Hampton Roads Market Review and Forecast (11,000) copies).
- Help support the research conducted by ODU faculty.
- Opportunity to participate in student events and serve as internship hosts and mentors.
- Admission to all events including the Hampton Roads Real Estate Market Review.

STROME COLLEGE OF BUSINESS

OLD DOMINION UNIVERSITY