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HAMPTON ROADS 2023 REAL ESTATE MARKET REVIEW & FORECAST

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



Kenneth Kahn Ph.D.
Dean & Professor,
Strome College of Business



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Mike Corso
Vice President,
Commercial Real Estate
Atlantic Union Bank





Jamar Jarrell
President of the ODU
Student Real Estate Club



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Simon Stevenson Ph.D.
Robert M. Stanton Chair &
Director of the E.V. Williams
Center for Real Estate



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Robert M. Stanton In Memoriam





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Growing the 757. Growing Virginia.

+ MULTIFAMILY + COMMERCIAL + VENTURES

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Economic Trends

Robert M. McNab, Ph.D.

Chair and Professor of Economics
Director, Dragas Center for
Economic Analysis and Policy

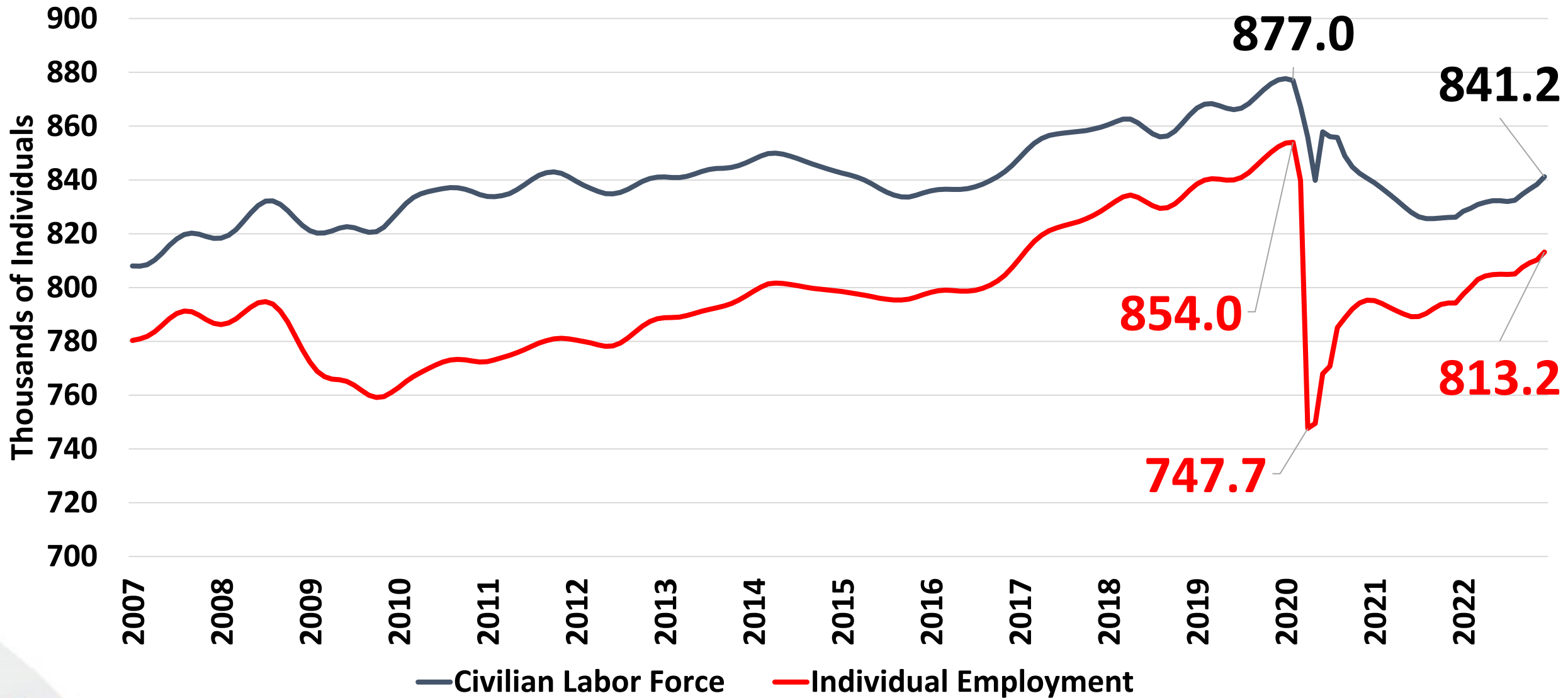


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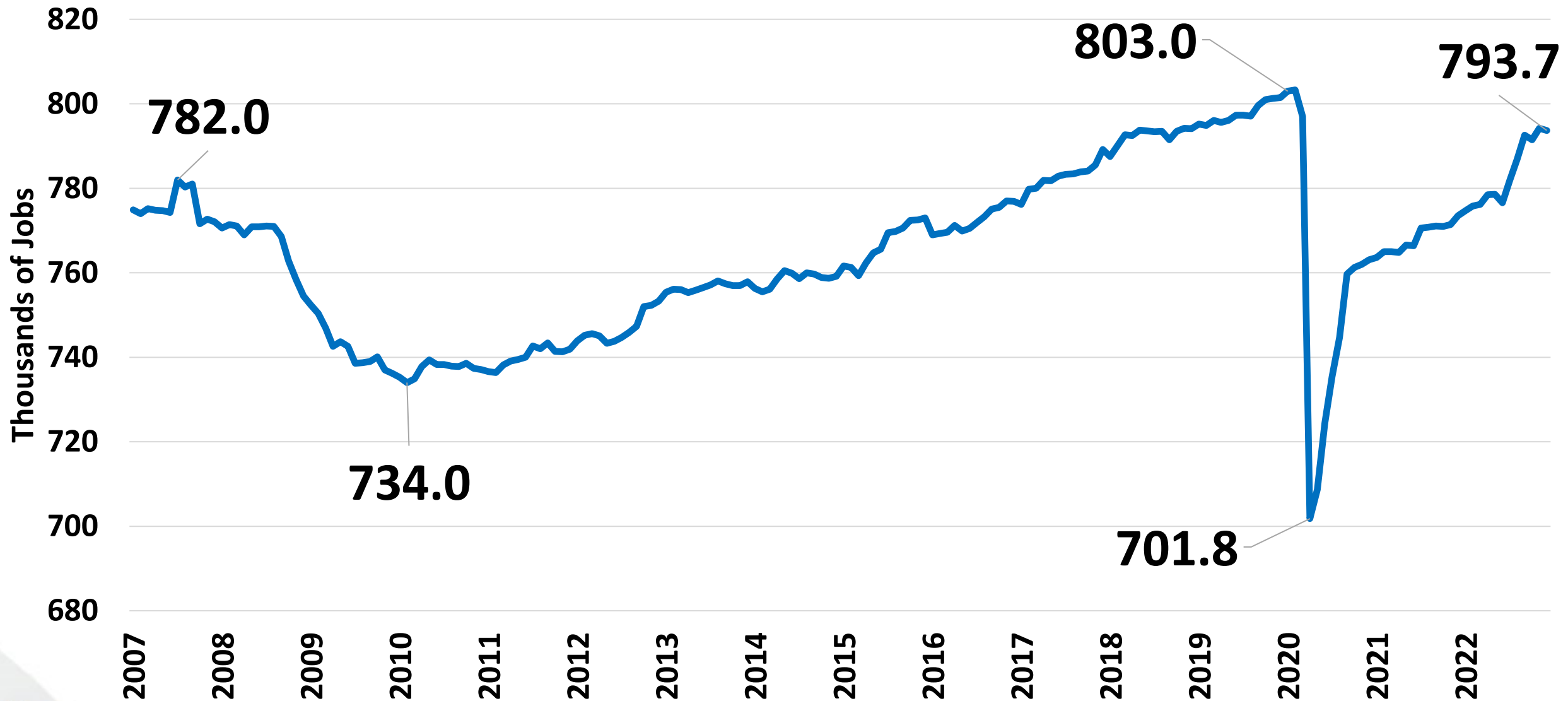


Civilian Labor Force and Individual Employment Hampton Roads, January 2007 – December 2022



Nonfarm Payrolls (Jobs)

Hampton Roads, January 2007 – December 2022

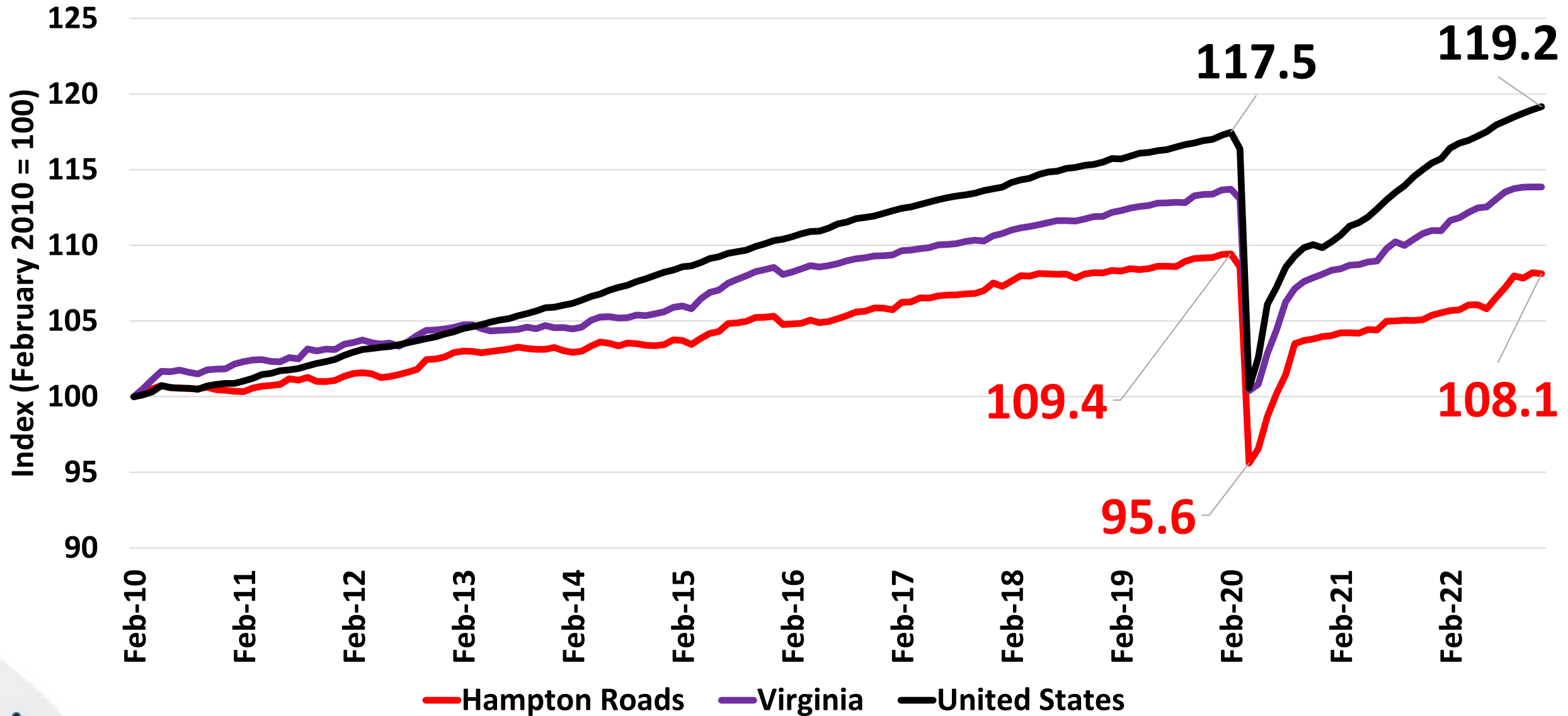


Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data. Pre-recessionary peaks in nonfarm payrolls were July 2007 and January 2020. Troughs in nonfarm payrolls were February 2010 and April 2020.



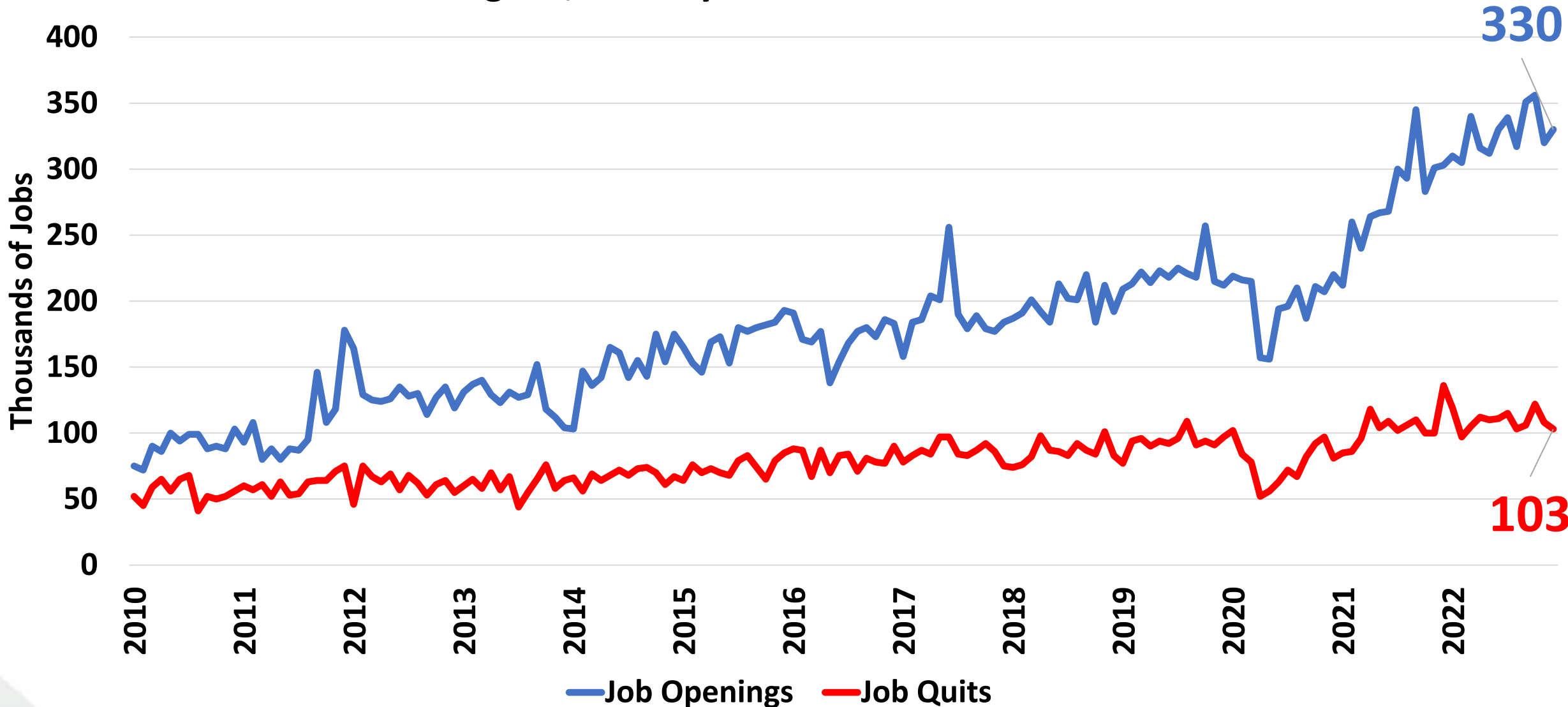
Index of Nonfarm Payrolls (Jobs), Hampton Roads, Virginia, and the United States

February 2010 – December 2022



Job Openings and Job Quits

Virginia, January 2010 – November 2022



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. The job openings rate is equal to the ratio of the number of job openings to the sum of employment and job openings. The job quit rate is equal to the ratio of job quits to employment. Both ratios are multiplied by 100.



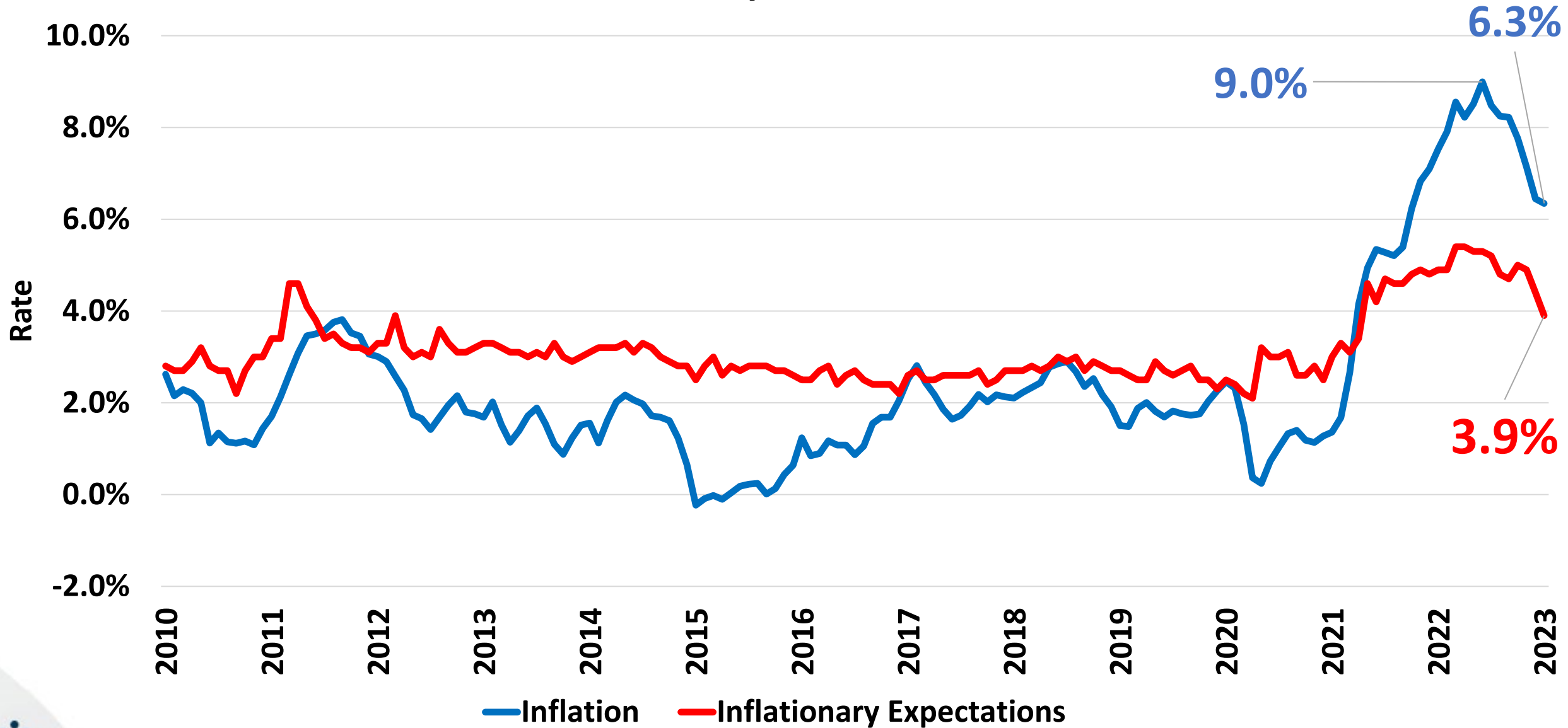
Department of Defense Direct Spending Hampton Roads, 2010 – 2027*



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 2022 are estimates while data for 2023 through 2027 are projections based on DoD spending projections.



Monthly Inflation and Inflationary Expectations United States, January 2010 – December 2022



Sources: Bureau of Labor Statistics, University of Michigan, and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data. Inflationary expectations are the 12-month forward looking expectation for inflation.



Yield Curve

United States, January 2007 – January 2023



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Non-seasonally adjusted data.
The yield curve is the difference between the constant maturity rate of the 10-year U.S. Treasury and the 2-year U.S. Treasury bonds.



Looking Ahead

- China's recovery in the 2nd half of 2023 will ease supply chain constraints globally.
- The Federal Reserve's effort to break inflationary expectations will see interest rates rise in the first half of 2023.
- Rising interest rates will lead to a contraction in single-family real estate values, but residential housing supply constrains decline in median prices.
- Labor market conditions will pivot in favor of employers in the second half of 2023.
- Congress is a major source of downside risk. A failure to extend the debt ceiling would spark a global financial crisis much worse than the Great Recession of 2007 – 2009.





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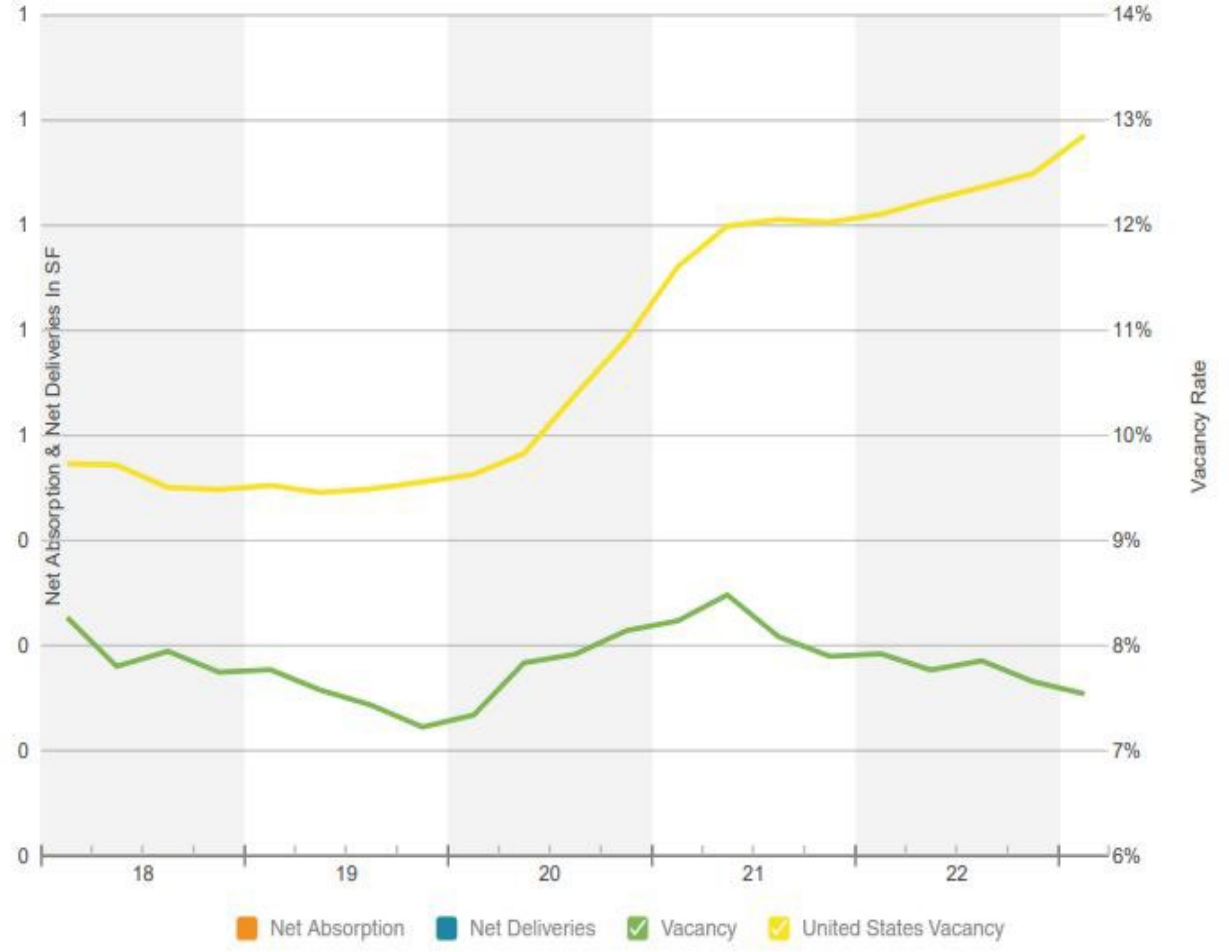
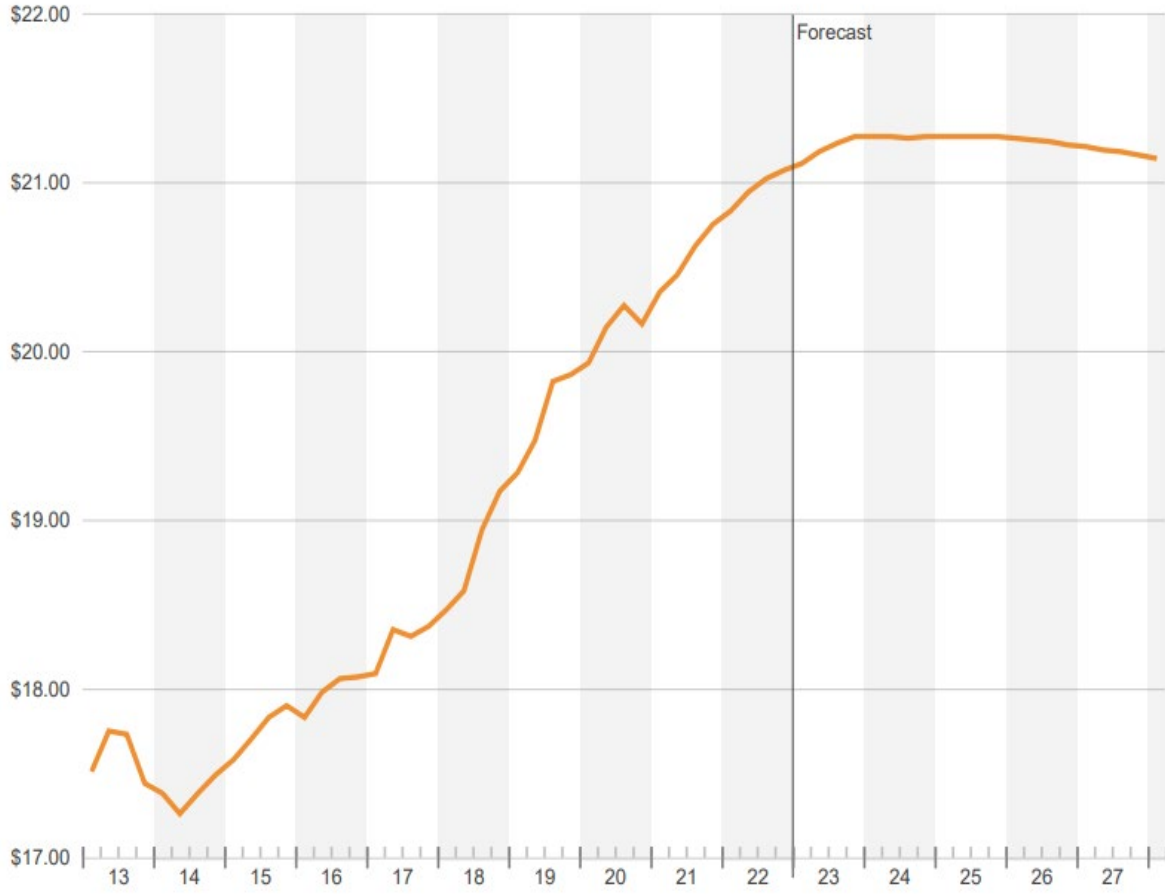
Office

Nicole Campbell

Assistant Vice President,
Office Leasing and Sales







Hampton Roads market rent per square foot

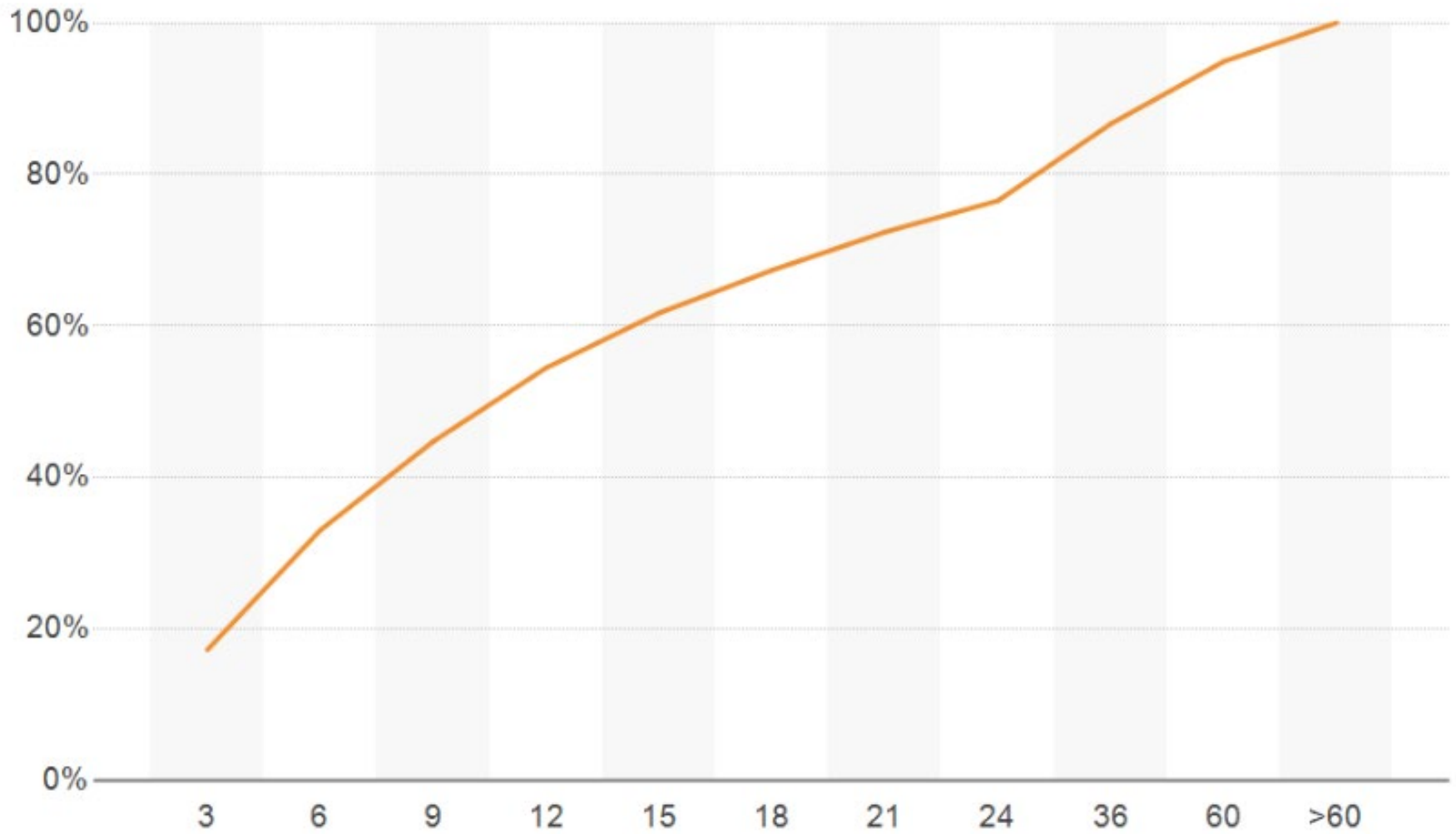
Hampton Roads office vacancy as compared to the US average



50% probability
of leasing space
within 7 months
of being on
market

Probability of Leasing in Months

1Y 3Y 5Y 10Y All 



**1 Month
Free Rent!**

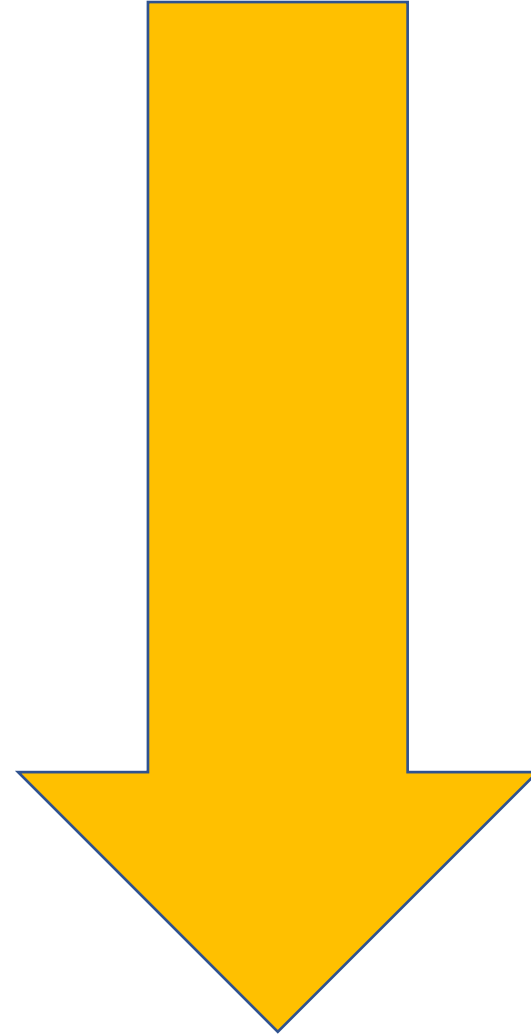
**1 Month
Free Rent!**

**1 Month
Free Rent!**

**1 Month
Free Rent!**



**Office
New
Construction**



200 Corporate Blvd- Norfolk

46,154 SF

\$459 PSF



1434 Crossways Blvd- Chesapeake

213,961 SF

\$24MM





477 Viking Drive- Virginia Beach
98,852 SF
\$15.5MM



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WOMEN'S HEALTHCARE™



Largest lease: 42,144 SF

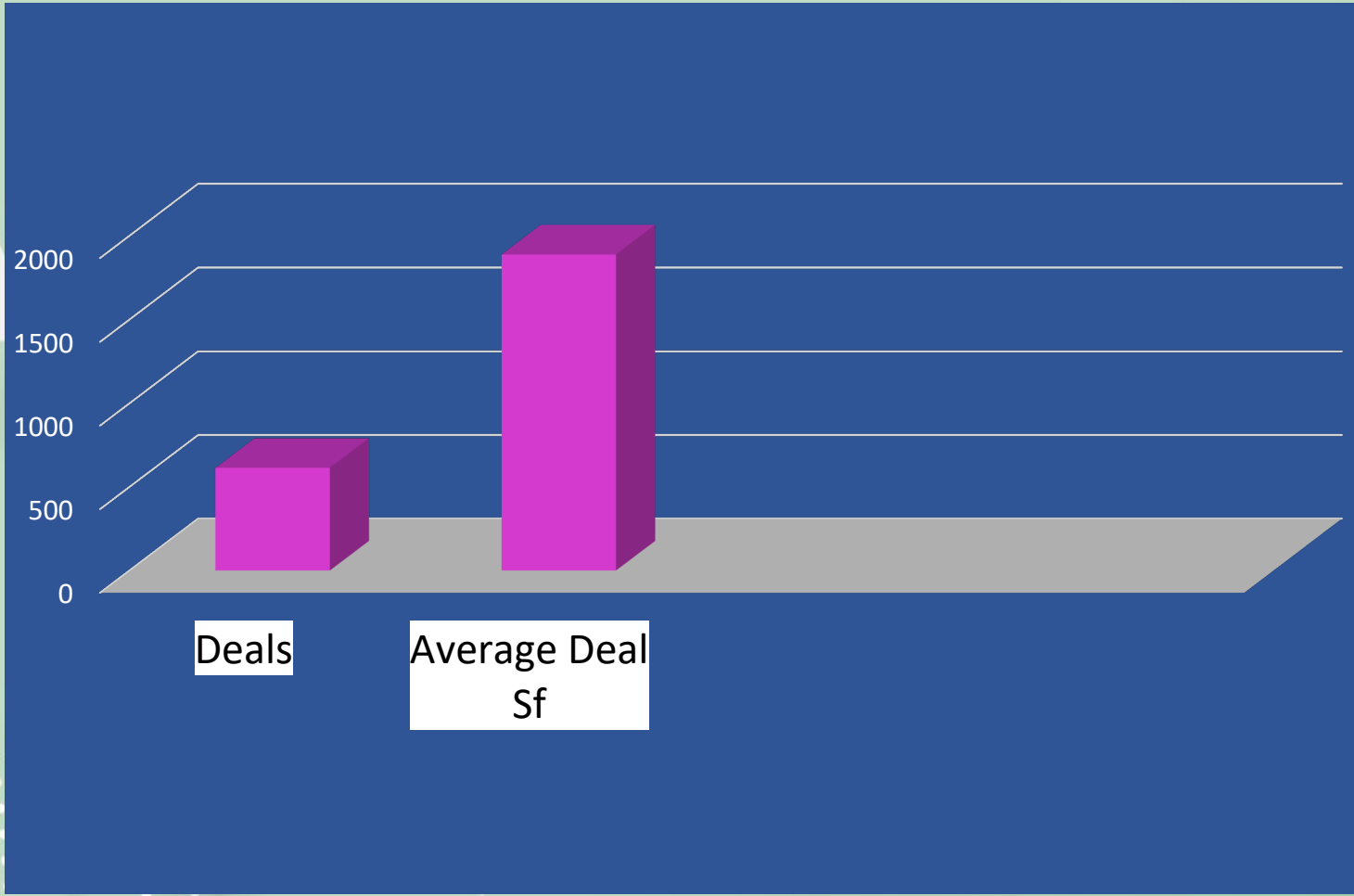
AvalonBay
COMMUNITIES, INC.



38,711 SF renewal



33,460 SF new lease



86% of new and renewal leases were less than 5,000 SF.

The Great Office Glow Up



Before:



After

glow



Defense Training
1-877-73
PROVIDING W
ON-SITE T
SUPPORT IN
AND ADMIN



Many adults are going back to office for their first time

Executives hope to get more employees back in the office.





Image Business Interiors did an office “refresh” for a client.



Pembroke Office Park



Cunningham Dr. plans to redevelop

500 E. Plume St to be turned into apartments



Hampton Roads



GREAT



OFFICE



GLOW-UP



THANK YOU!



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Industrial

Gregg Christoffersen
Senior Vice President



Why Hampton Roads?

Industrial Market Dynamics

Our market has evolved from being a purely build-to-suit market to attracting significant spec development from major national developers



The challenge for the Hampton Roads industrial real estate market is not limited demand...

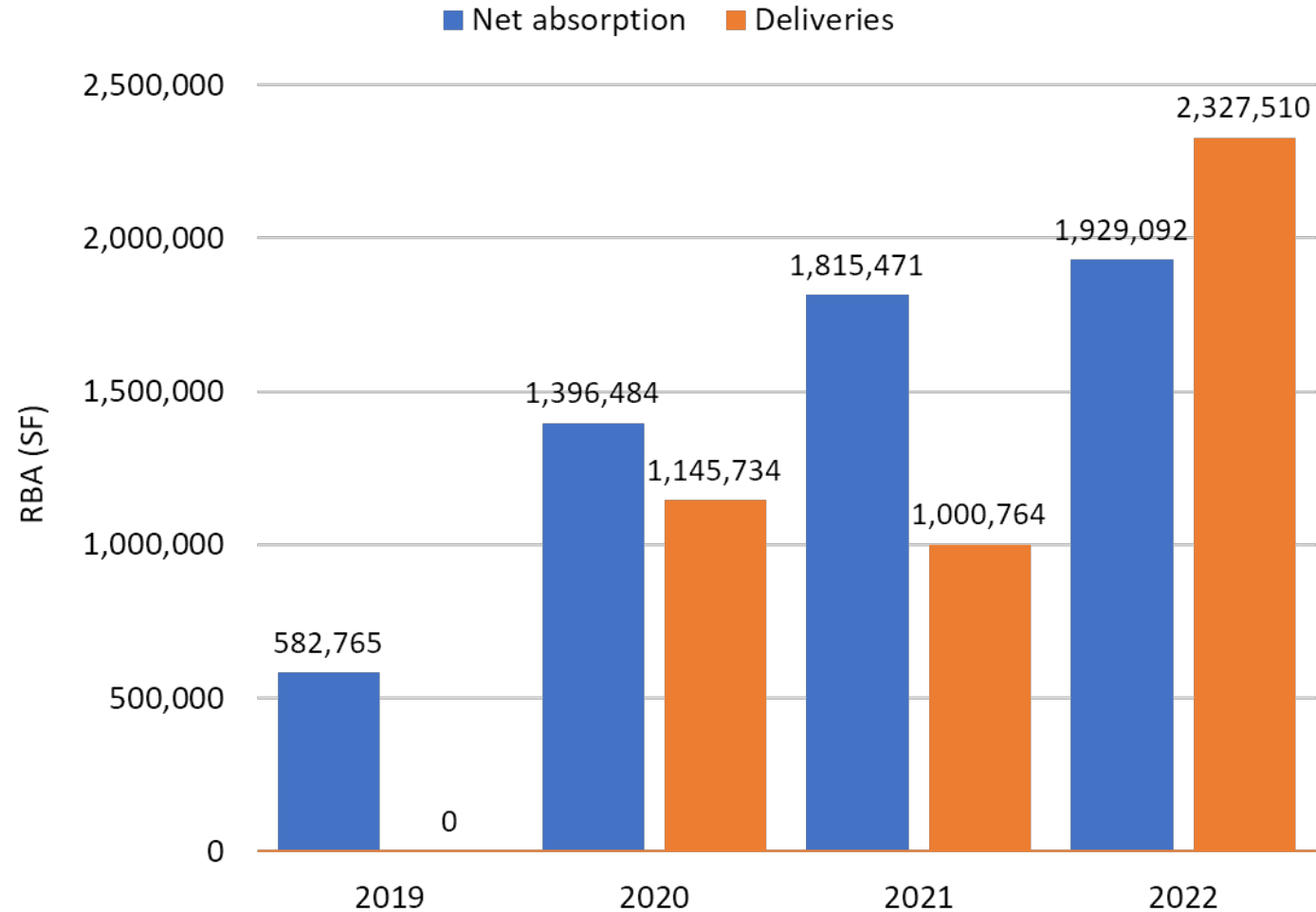


...but limited supply



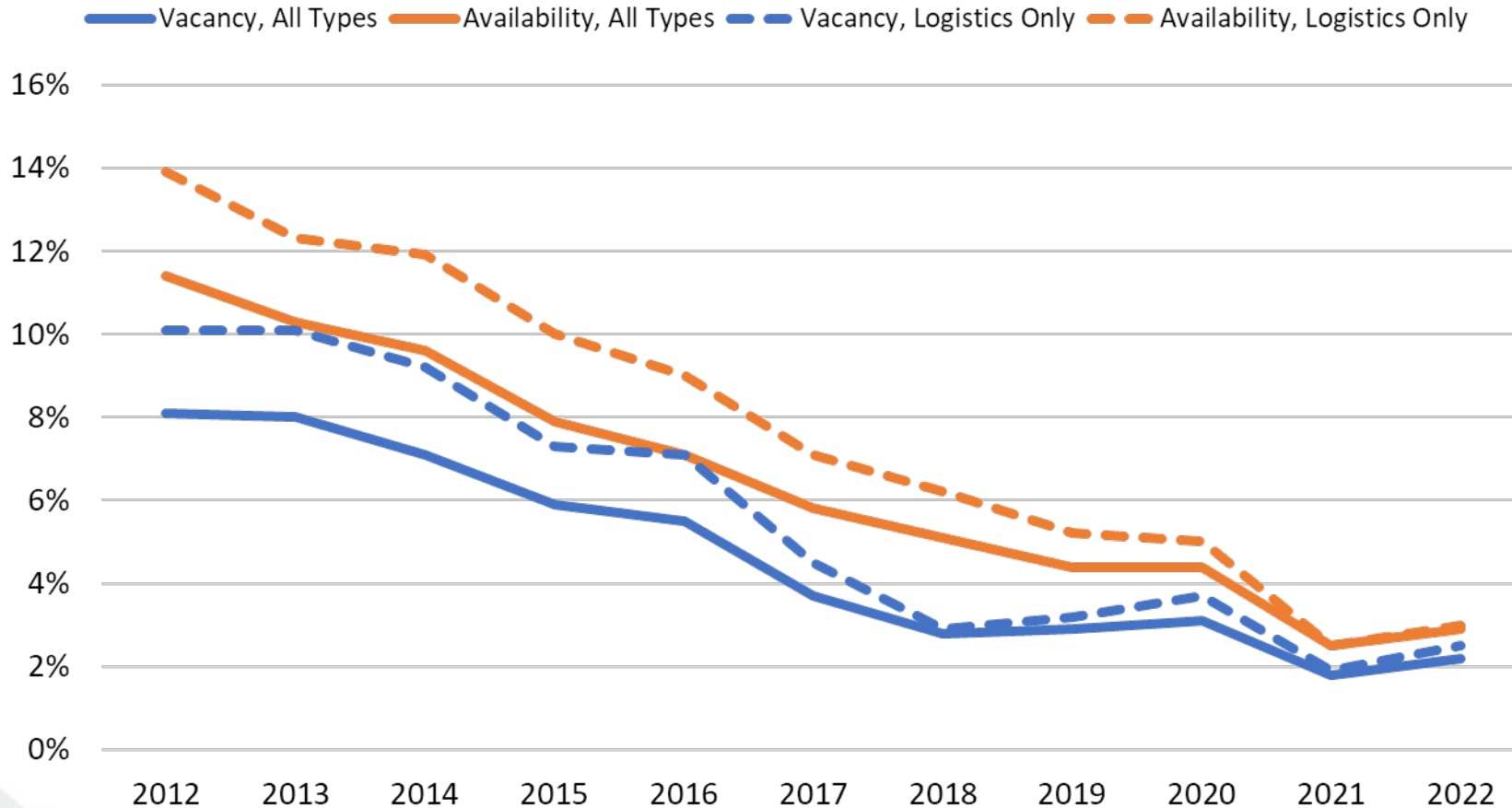
2019 to 2022: New Supply, but High Demand

- Net absorption exceeded new supply in three of the past four years
- From 2019 to 2021 net absorption exceeded new supply by over 1.6 million SF
- Despite record deliveries in 2022, overall net absorption for the four-year period still exceeded new supply by over 1.2 million SF
- This is what demand velocity looks like
- Demand velocity in Hampton Roads will continue for the foreseeable future because it is structural in nature



Historical Vacancy and Availability

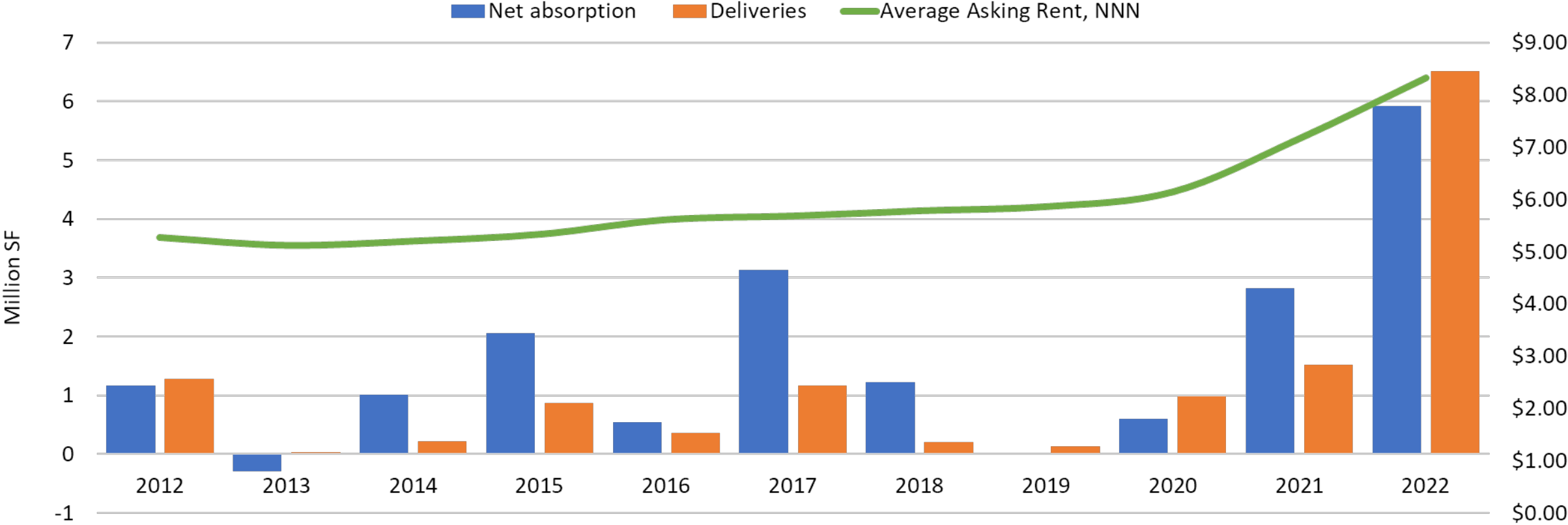
Industrial Vacancy & Availability – All Space Types and Logistics Only



With vacancy and availability rates as low as these, every available lease option below 300,000 SF will typically have multiple tenants competing for it.



Industrial Supply & Demand Across All Size Ranges



With no existing space to undercut new builds, rents rise across the board.



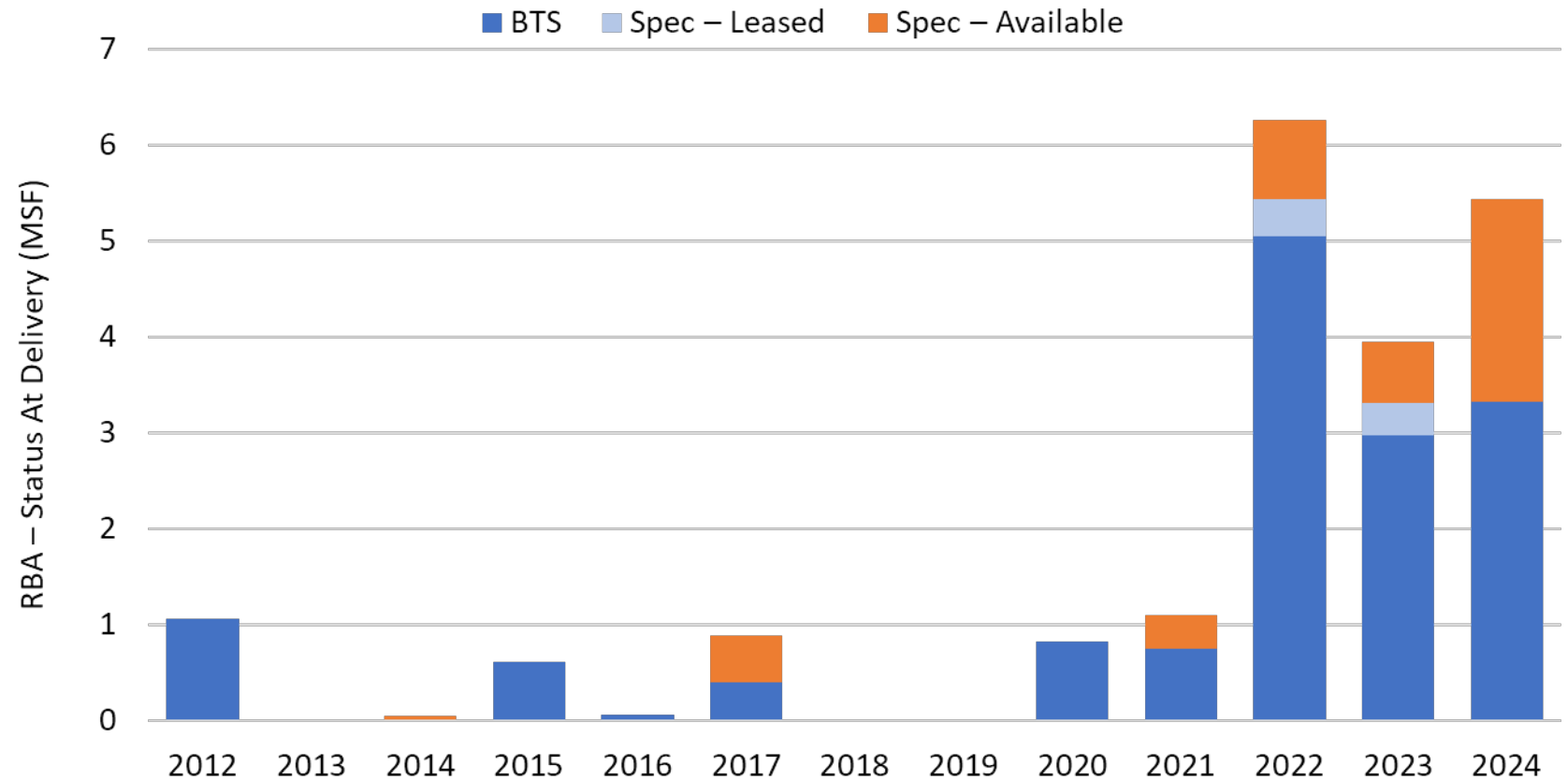
Source: CoStar 2022 Industrial Market Report for the Norfolk, VA market

Leasable Supply Pipeline

Demand keeps growing, but groundbreaking and construction delays limit new supply to meet it.

The main limitations on supply are zoning, water & sewer infrastructure, and the impact of rising interest rates.

Industrial Deliveries in Hampton Roads – Projected through 2024



Looking forward into 2023 and 2024

- The process of supply chain reconfiguration and port diversification by corporate occupiers will accelerate as the benefits of a diversified port strategy attract more and more shippers and logistics companies to East Coast ports. This is outstanding news for the Hampton Roads market.
- Demand for new industrial space returns to pre-pandemic levels. E-commerce will remain a substantial element of industrial demand, but smaller companies are partnering with 3PL and Logistics and Distribution users, which drives demand.
- Over 7.9 million SF of new industrial product is planned to deliver in Hampton Roads over the next three years – equal to about 60% of the over 13 million SF of requirements from tenants in the market.



Looking forward into 2023 and 2024

- Functional industrial vacancy is around 1.8%, with Class A vacancy at 0.1%. There is a limited supply of new Class A assets, with only 12% of Hampton Roads industrial inventory built since 2015 and only 4% offering clear ceiling heights of 36 feet or higher.
- In the near term, rising interest rates are affecting underwriting and price discovery and impacting developer and investment sales momentum.
- Return on Investment (ROI) and rental rates in Hampton Roads are becoming nationalized outside of any local market – industrial space here will no longer rent or sell at a discount.
- Contractors still rank material cost and availability as top concerns for 2023, and the driver for new construction rental rates will continue to be a blend of cost-push and demand-pull dynamics.



Looking forward into 2023 and 2024

- The burgeoning offshore wind industry will spur industrial space demand across the area for years to come – initially at waterfront sites but spreading inland as Hampton Roads becomes a wind technology hub.
- Rising demand for industrial outside storage (IOS) will further increase the scarcity and cost of industrially-zoned land throughout the region.

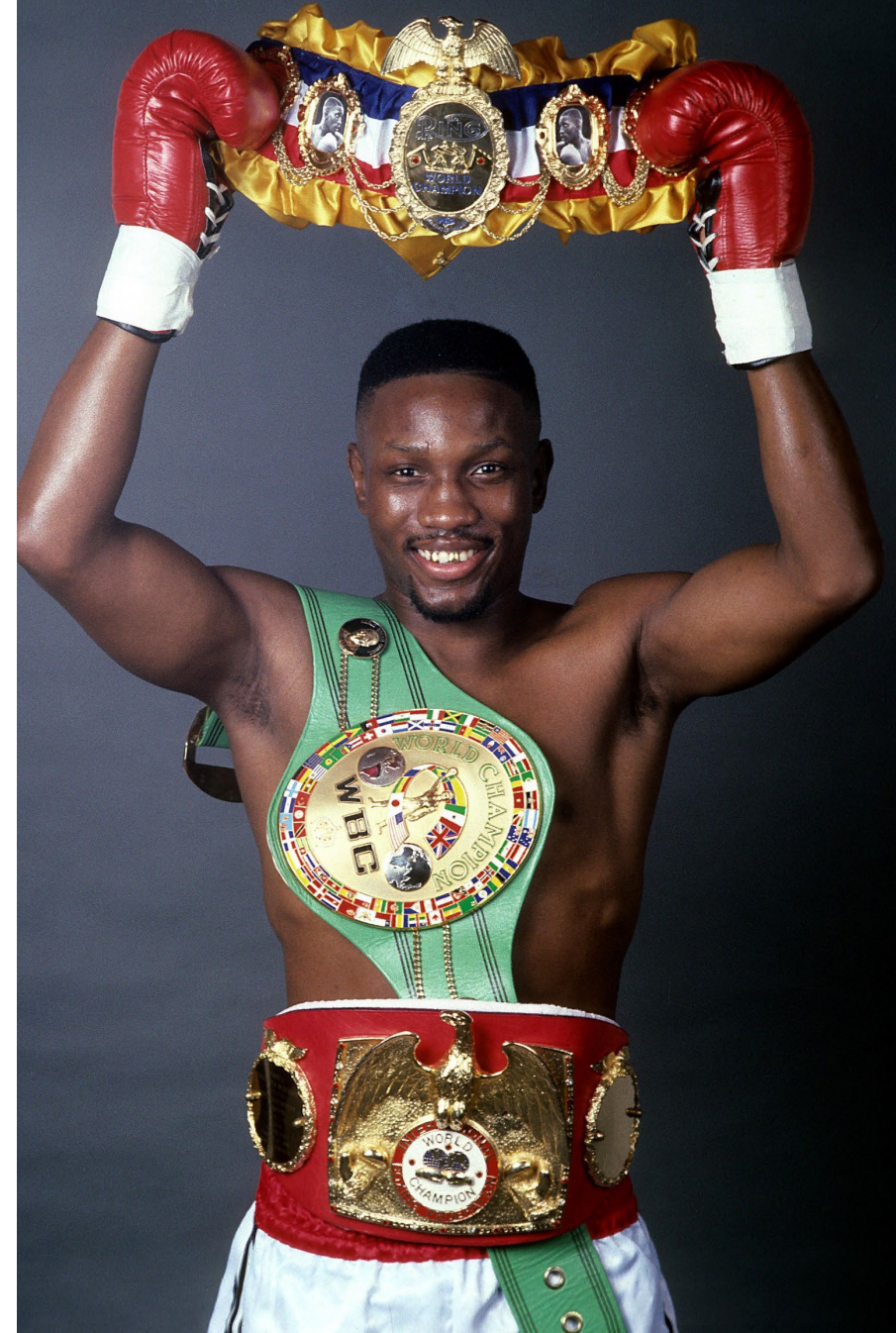


All of these are structural trends that will impact our market for years to come.



Hampton Roads is...

**Punching
above our
weight!**





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Retail

Jeff Fritz, CCIM, CPM
Vice President

Colliers



2022 Retail Overview & Forecast

- 2022 Shopping Center Activity & Trends
- 2022 Retailers Activity & Trends
- 2022 Capital Markets Activity & Trends
- 2023 Forecast

Nassim Nicholas Taleb
ANTIFRAGILE
THINGS THAT GAIN FROM DISORDER
New York Times BESTSELLER AUTHOR OF *The Black Swan*

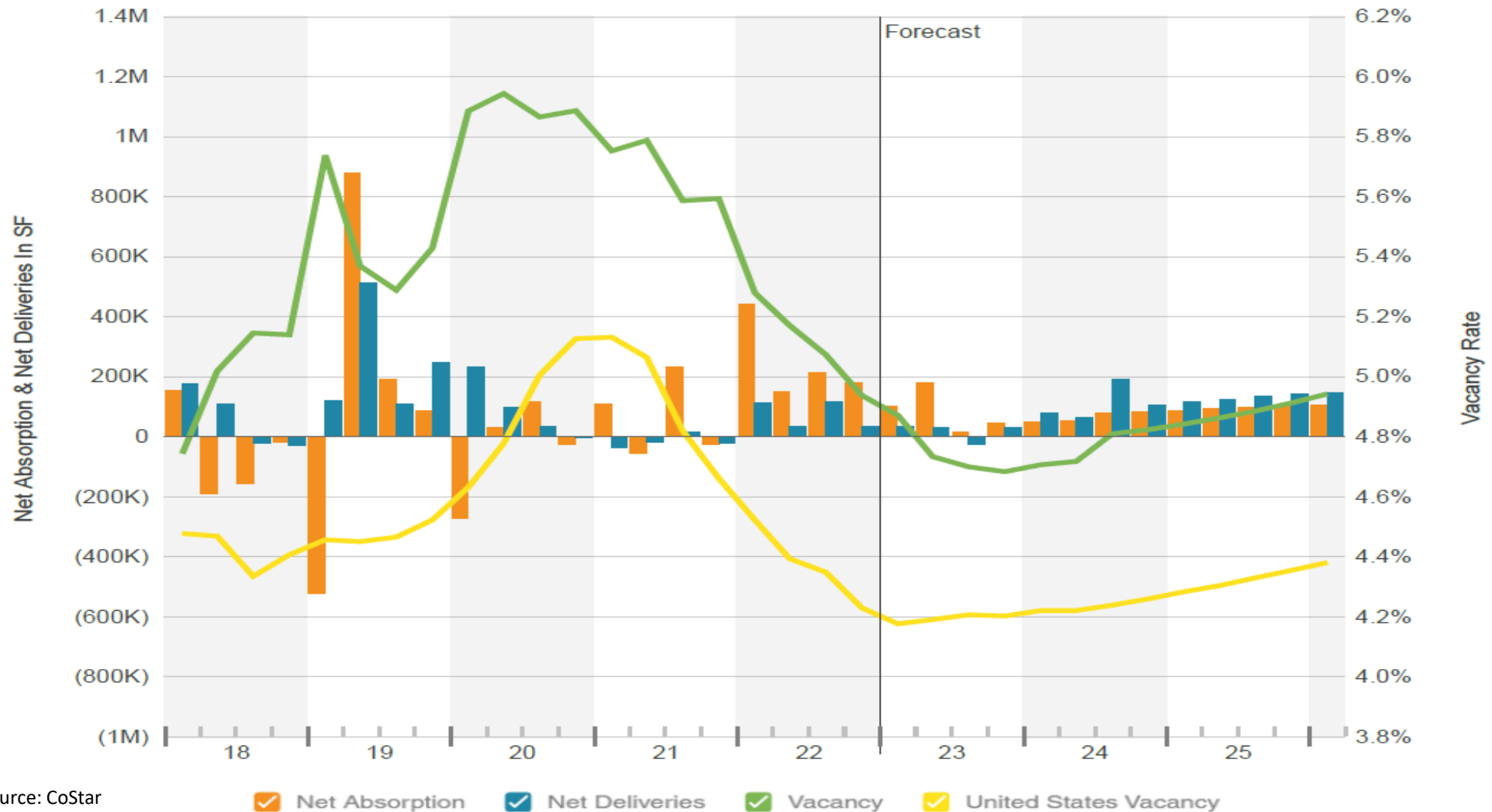
"Startling . . . richly crammed with insights, stories, fine phrases and intriguing asides . . . I will have to read it again. And again."

—Matt Ridley, *THE WALL STREET JOURNAL*



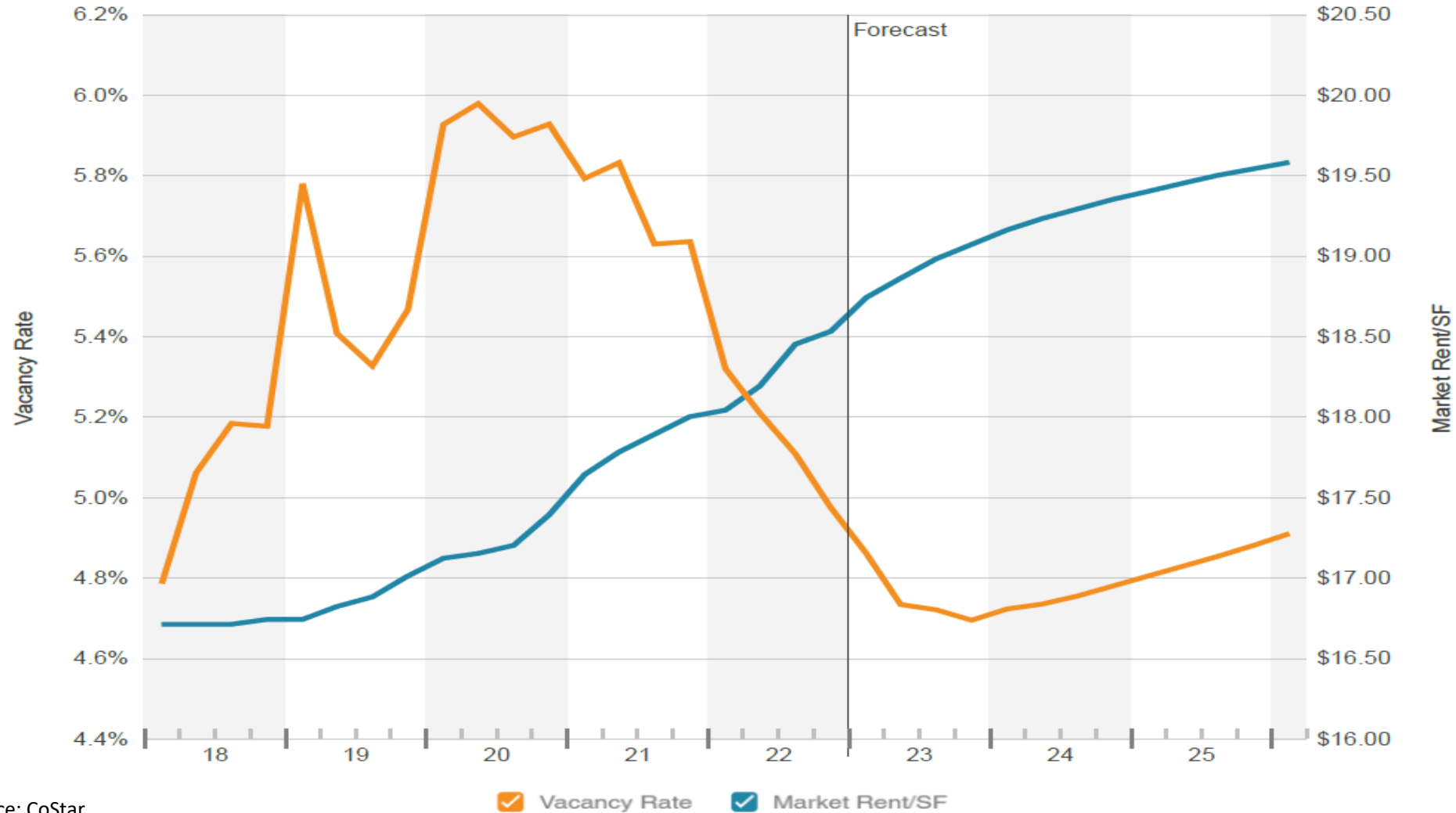
2022 Retail Absorption & Deliveries

929K SF POSITIVE ABSOPTION – 100K SF MORE THAN HISTORICAL AVERAGE



2022 Retail Rents

HISTORIC 3% RENT GROWTH & VACANCY BELOW HISTORIC AVERAGE



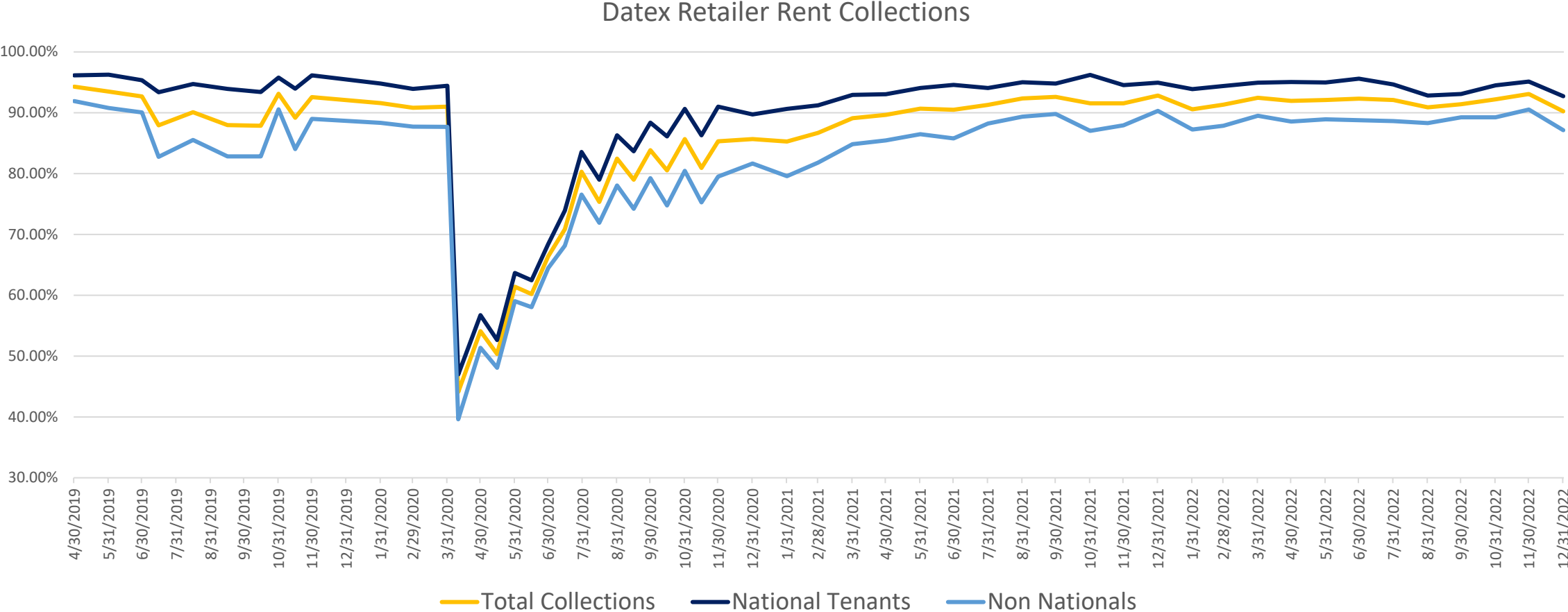
Source: CoStar

Vacancy Rate Market Rent/SF



2022 Retail Collections

AVERAGE RENT COLLECTIONS HAVE SURPASSED PRE-PANDEMIC LEVELS



Source: Datex



2022 Retailers – New & Expanding

GROCERY



OFF-PRICE & DISCOUNTERS



FITNESS



CLUB PILATES

"MEDTAIL"



AUTOMOTIVE



FOOD



2022 Retailers – Store Closures & At-Risk

NATIONWIDE – 2022 HAD 5,000+ OPENINGS AND 2,600 CLOSURES



Tuesday Morning

**BED BATH &
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2022 Notable Lease Transactions

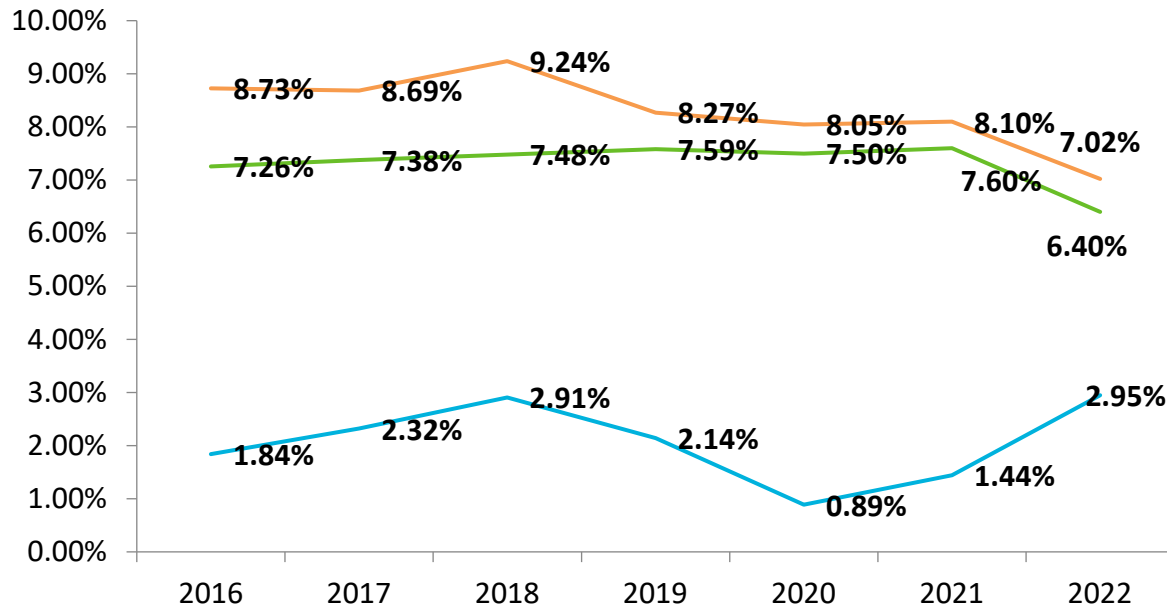
Tenant	Property	Square Footage	City	Quarter	Comments
Old Time Pottery	Little Creek Marketplace	136,550	Norfolk	Q3	New-to-Market Tenant
Onelife Fitness	Coliseum Marketplace	57,662	Hampton	Q4	Grocery store backfill
Publix	Planter's Station	45,000	Suffolk	Q2	New-to-market Tenant
Locke Supply Co	Kingsgate Green	40,000	Williamsburg	Q2	New-to-market Tenant



2022 Retail Capital Market Pricing & Volume

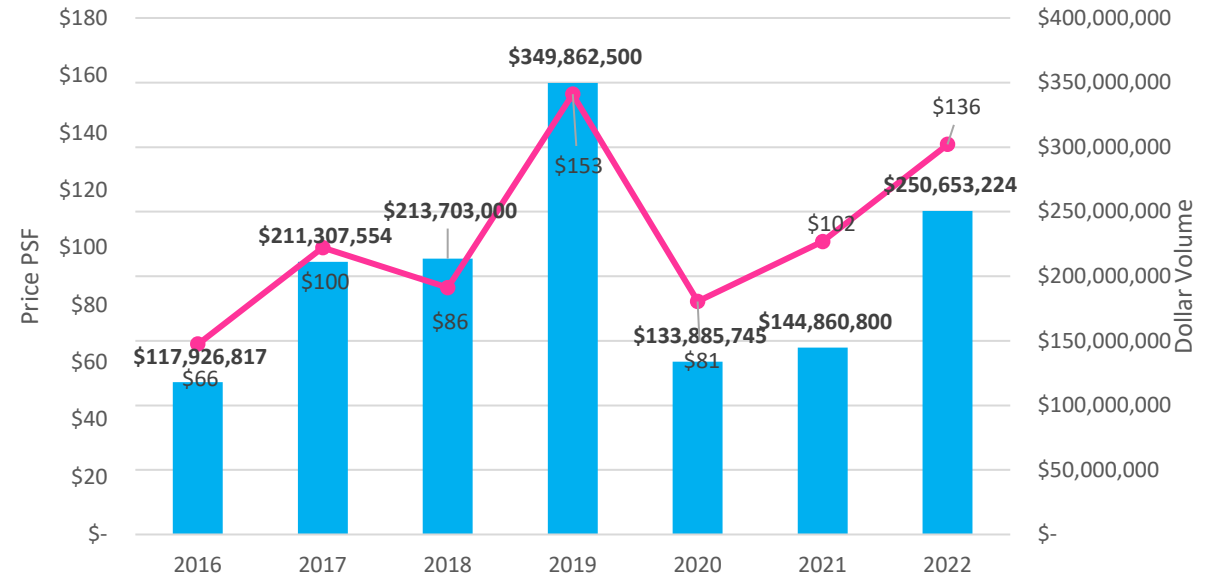
ABOVE AVERAGE VOLUME, COMPRESSING CAP RATES & ACCELERATING PSF PRICING

HAMPTON ROADS RETAIL CAP RATES



- Avg Retail Cap Rates (25K SF+)
- Avg All Retail Cap Rates
- Avg 10-Year US Treasury

HAMPTON ROADS RETAIL SALES VOLUME



- Retail Dollar Volume (25k SF+)
- Price PSF



2022 Notable Sale Transactions

2022 Top Sales (NON-PORTFOLIO)

Property	Sales Price	Square Footage	Price / SF	Quarter	Anchor Tenant(s)
Pembroke Square	\$26,500,000	124,200	\$213	Q4	Fresh Market
Towne Place at Greenbrier	\$23,150,000	76,460	\$303	Q1	Taste, Moe's
Oyster Point Plaza	\$10,600,000	73,197	\$145	Q2	Food Lion

2022 Top Sales (PORTFOLIO)

Property	Sales Price	Square Footage	Price / SF	Quarter	Anchor Tenant(s)
Blackstone Portfolio	\$5.8b	20,284,368	\$286	Q2	Multifamily, office, & grocery-anchored assets. 1 asset in VB
Necessity REIT Portfolio	\$1.3b	9,500,000	\$137	Q3	81 retail assets. 1 asset in Williamsburg
DRA/KPR Portfolio	\$879m	4,983,267	\$176	Q3	35 grocery assets. 4 in Portsmouth, Virginia Beach, & Suffolk. WHLR merger not incl
Stockbridge Portfolio	\$209m	765,969	\$273	Q1	6 grocery-anchored assets. 1 asset in Williamsburg



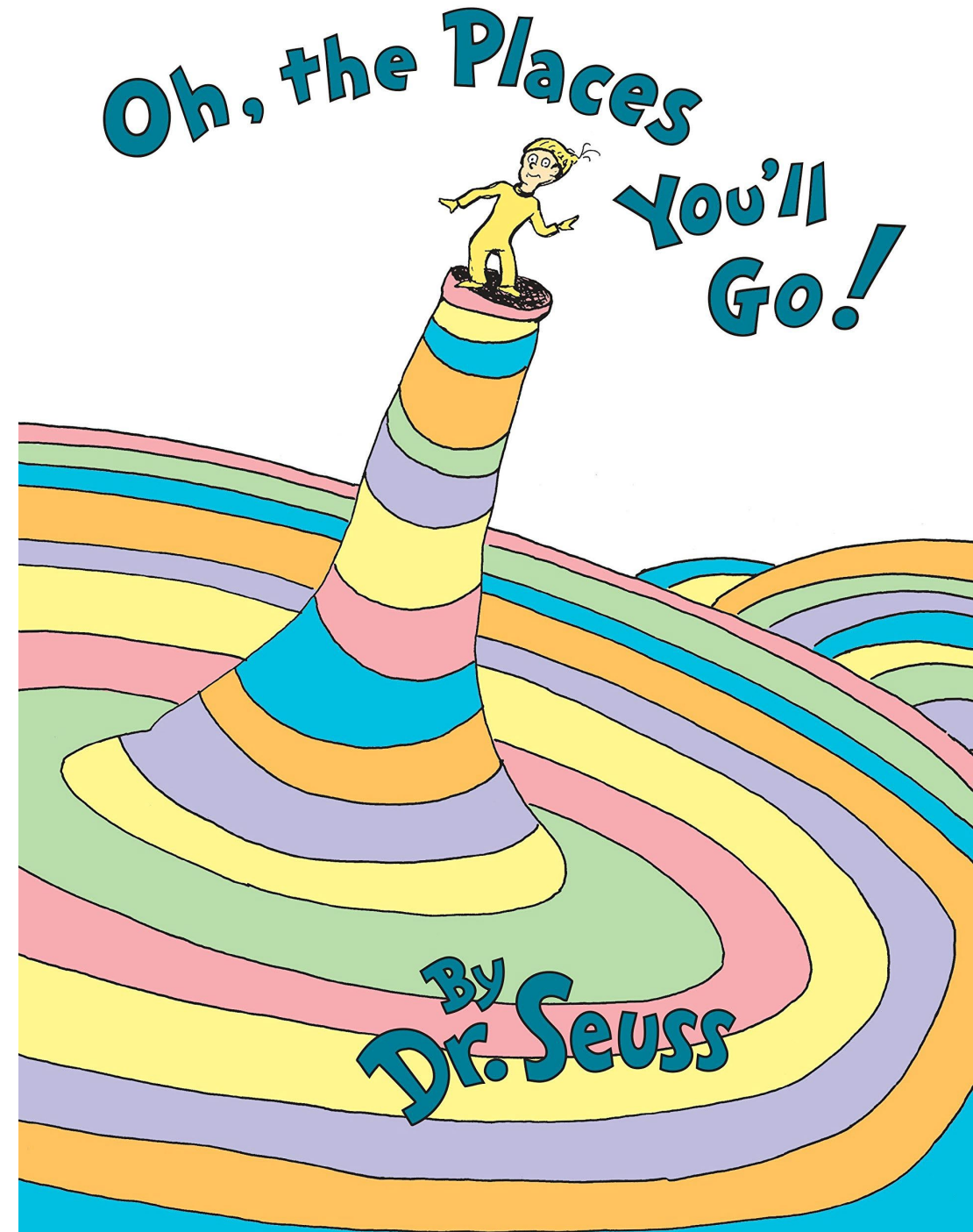
2023 Retail Forecast

Shopping Centers	Retailers	Capital Markets
<i>ABSORPTION</i>	<i>LEASE SQUARE FOOTAGE & LEASE TERM</i>	<i>SALES VOLUME</i>
<i>RENT GROWTH</i>	<i>RETAIL OPENINGS</i>	<i>CAP RATES</i>
<i>COLLECTIONS</i>		<i>PRICE PSF</i>



*“And will you succeed?
Yes! You will, indeed!
(98 and $\frac{3}{4}$ percent
guaranteed).”*

Thank you!





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Multifamily: The End of a Cycle

Paul Van

Chief Executive Officer &
Chief Investment Officer



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The Year Began on a High Note

Q1 2022

- Vacancy near record lows
- Rent growth near peak levels
- Asset values at record highs
- Market liquidity at record highs



Investors Were Active and Bullish

We started the year coming off Q4 2021 record \$755 million in quarterly sales for Hampton Roads

- Hampton Roads Cap rates reached record low: 3.5%-4%
- United States Cap Rates reached record low: 3%-3.5%
- May 2022: Aura at Arbordale sold, First \$100M+ transaction, Record-high \$347k/unit
- Big basis sales: Sterling Manor (\$338k), Diamond North (\$306k), Spring Water (\$298k), Ellipse Urban (\$377/sf)

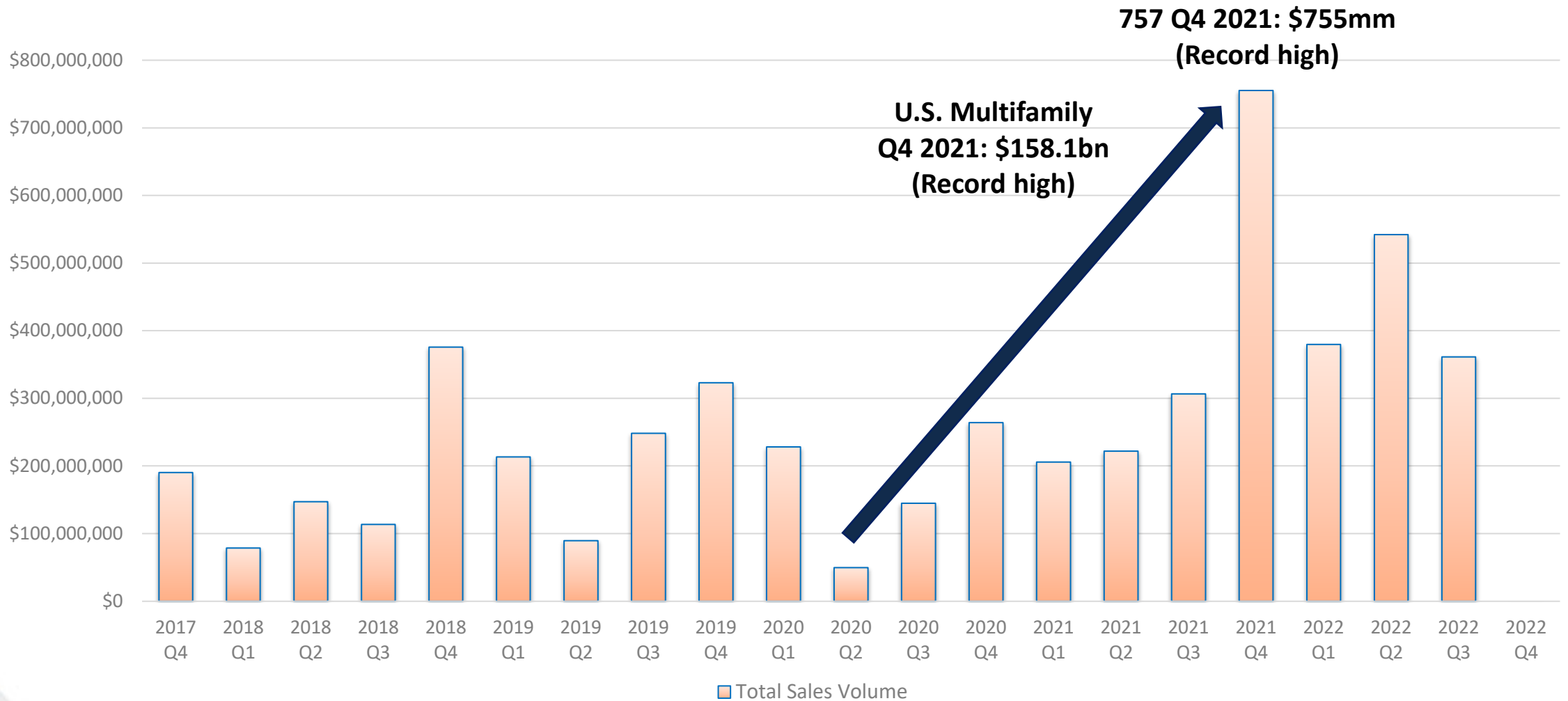
Property	Submarket	Vintage	Units	Sale Date	Price	Price/Unit	Cap Rate
Aura at Arbordale	Williamsburg	2019	288	22-May	\$100,000,000	\$347,222	3.58%
Coastline Apartments	Virginia Beach	1970	600	21-Nov	\$98,500,000	\$164,167	3.18%
Lumen Apartments	Hampton	2020	300	21-Sep	\$82,000,000	\$273,333	3.53%
Ellipse Urban	Hampton	2021	287	22-May	\$80,000,000	\$278,745	2.83%¹
Spring Water	Virginia Beach	2013	252	22-Apr	\$75,200,000	\$298,413	3.52%
Sterling Manor	Williamsburg	2008	207	22-Mar	\$70,000,000	\$338,164	3.63%
Providence Green	Virginia Beach	1973	352	22-Jun	\$69,500,000	\$197,443	3.75%
Diamond North	Virginia Beach	2006	180	22-May	\$55,000,000	\$305,556	3.78%

Note 1: Purchased during lease-up, NOI not yet stabilized



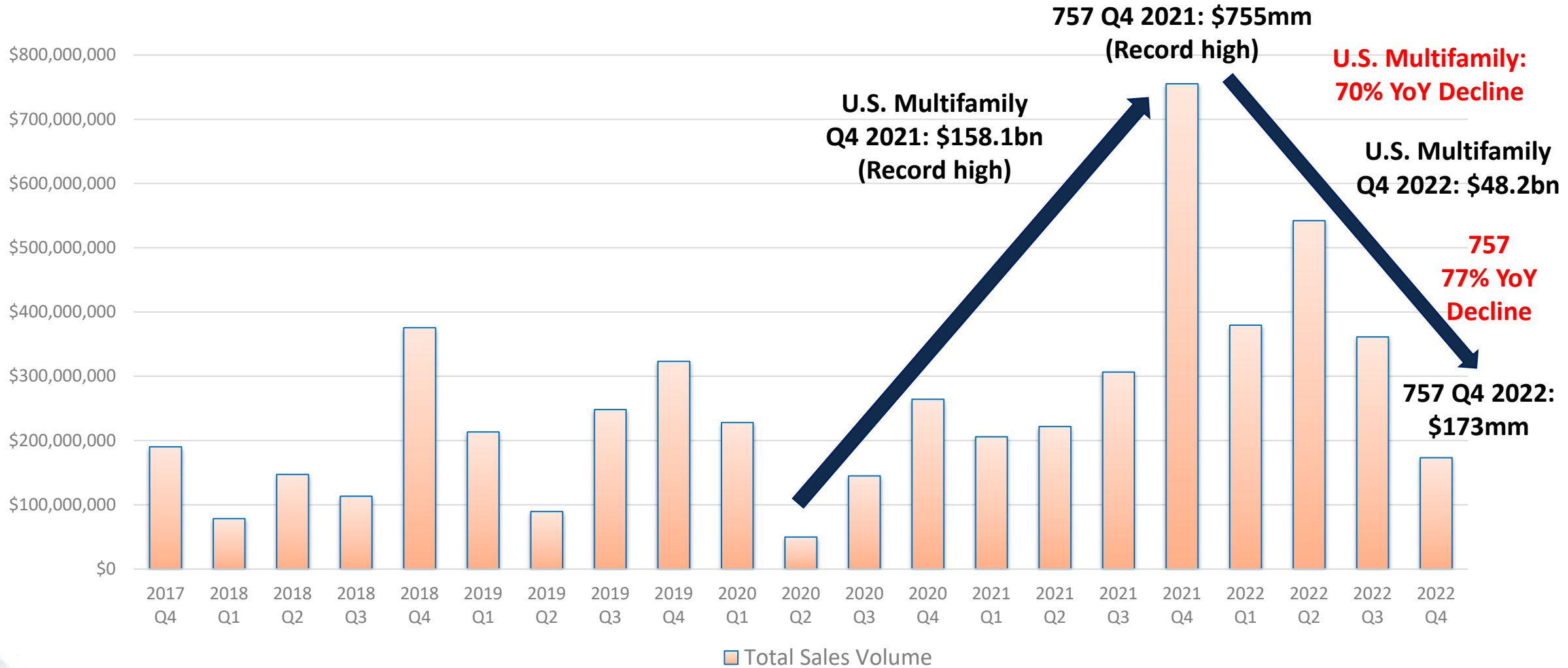
Sales Volume Was Strong...

Hampton Roads Transaction History



...But Plummeted in Q4-22

Hampton Roads Transaction History



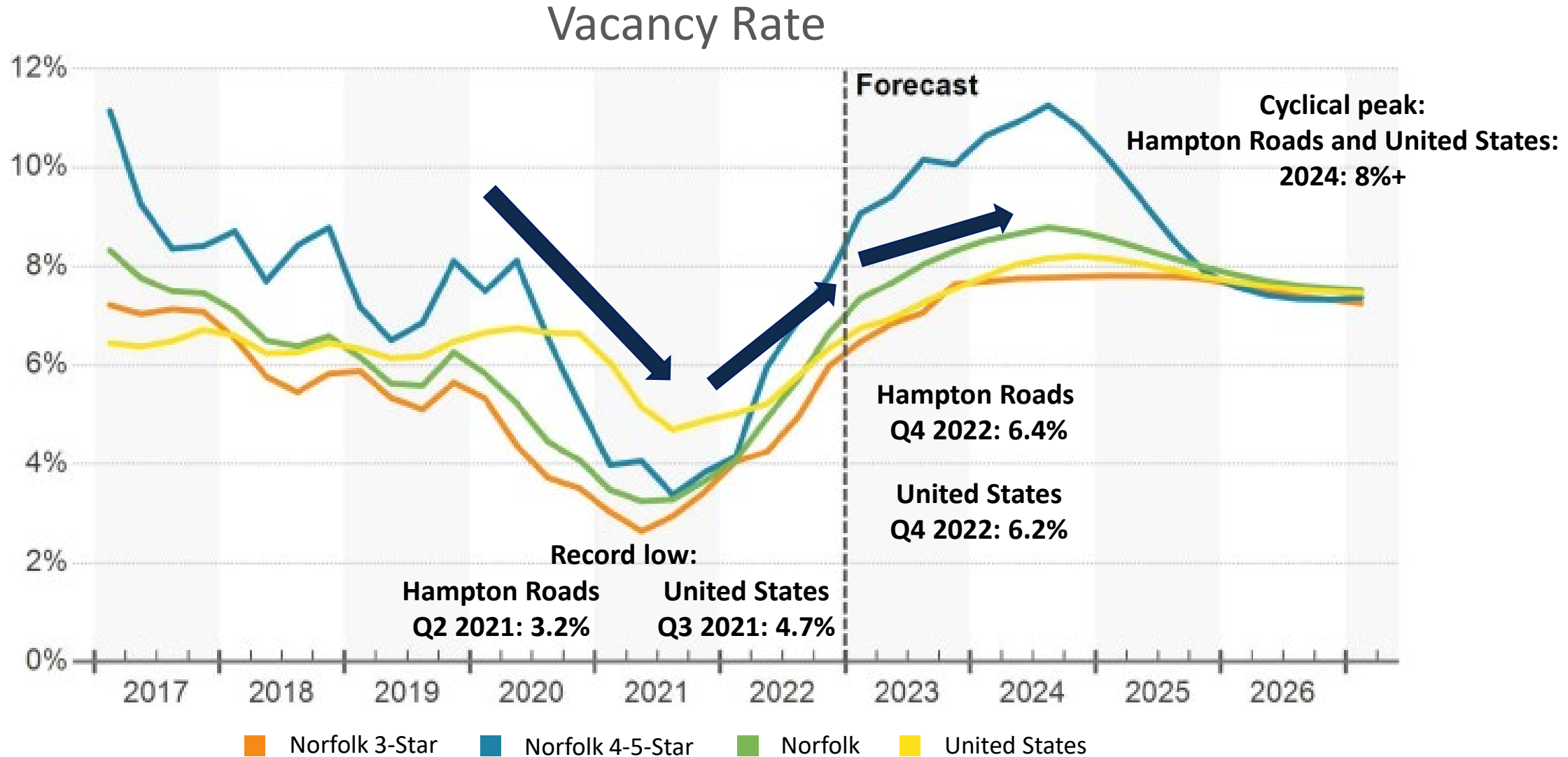
A Stumble to the End of 2022

BY Q4 2022

- Fed rate hikes to fight inflation ignited economic slowdown
- Economic health of consumers deteriorated (savings, credit)
- Household formations declined to drive housing demand lower
- New apartment supply increasing (2023: ~500k new units in U.S.)
- Apartment operating fundamentals softened
- Lower asset values across the board

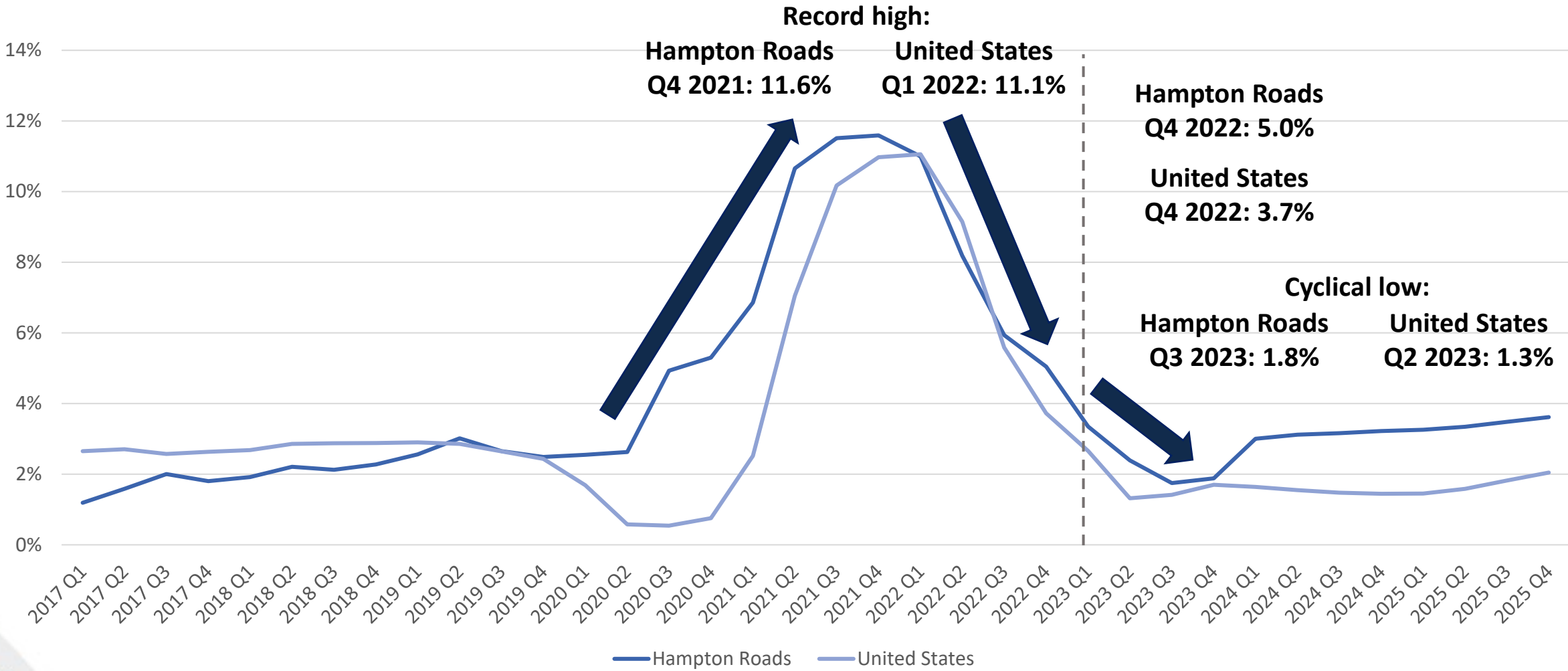


Vacancy Increased from Record Lows



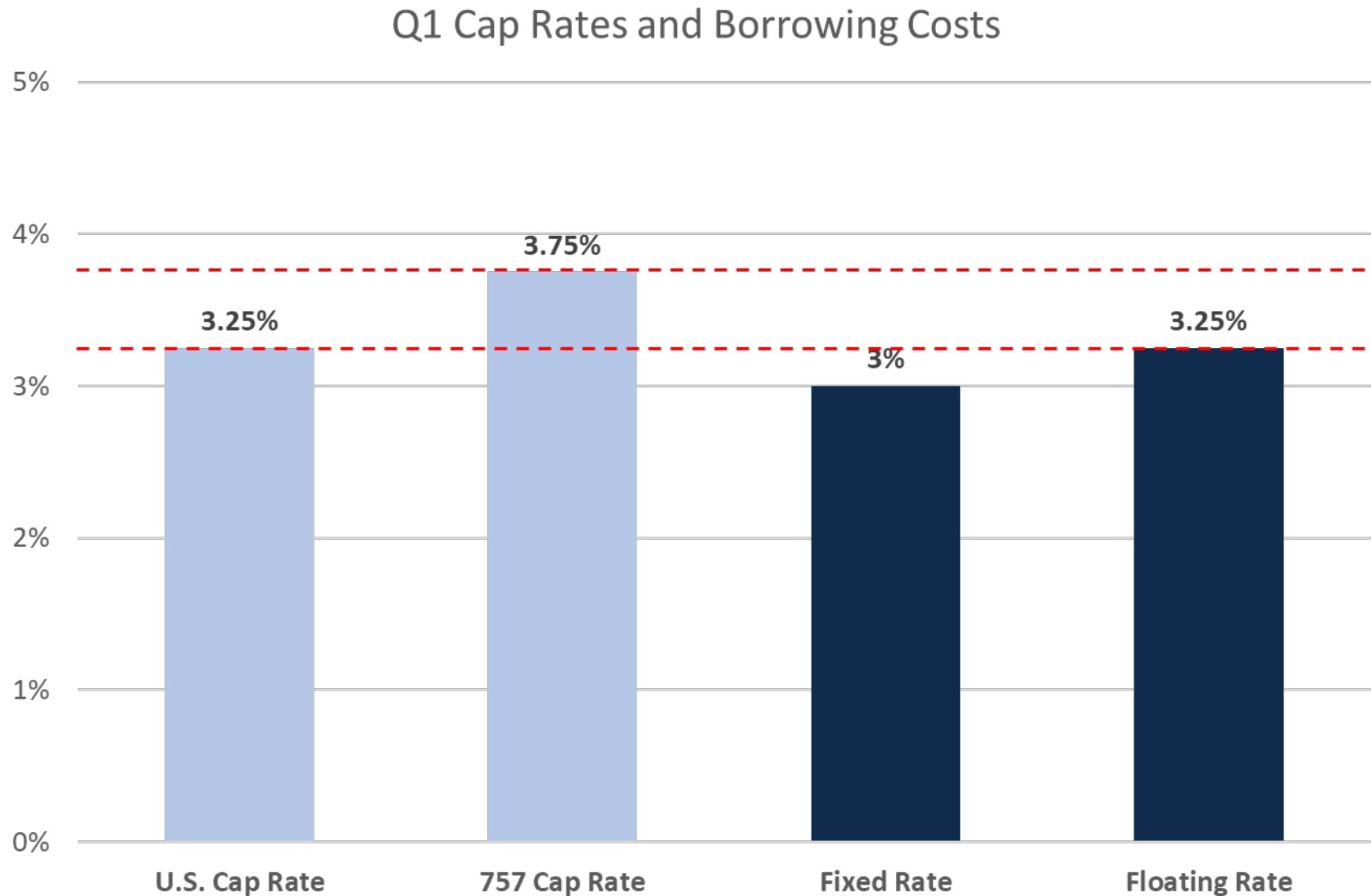
Rent Growth Slowed from Record Highs

12- Mo. Asking Rent Growth



Source: CoStar

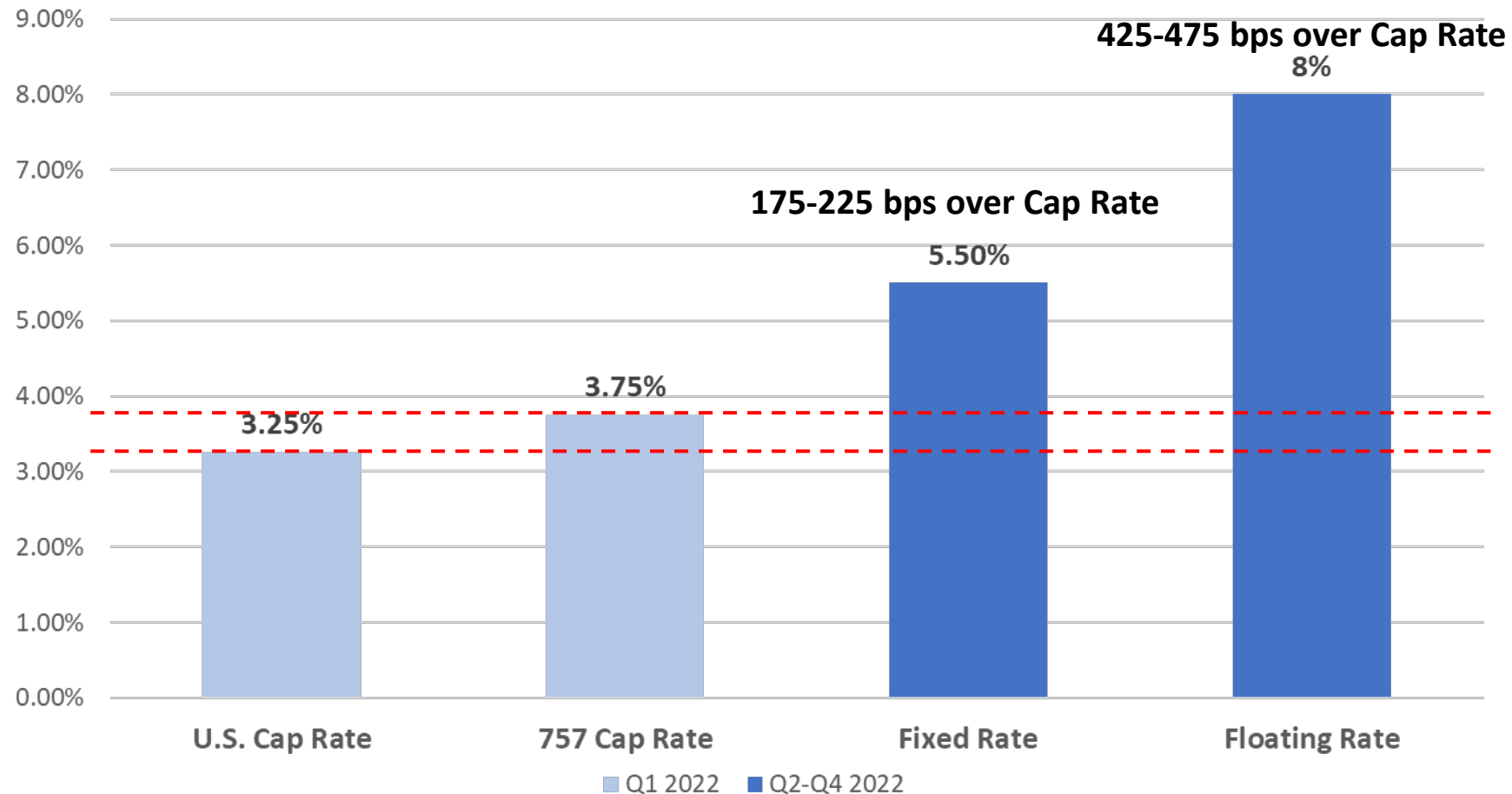
Capital Markets Q1-22: Narrow Risk Premiums



Meltdown: Negative Leverage

Wide Bid/Ask Gap, Deal Flow Froze

Q1 Cap Rates and Q2-Q4 Borrowing Rates



Deal Flow Resuming at Higher Cap Rates

- February 2023: Marina Shores sold, \$101.9M transaction, 5.6% cap rate (~5.3% including repairs)
- February 2023: Waterford Apartments sold, \$55.4M transaction, 5% cap rate
- This is a meaningful increase in cap rate over the past 12-18 months

Property	Submarket	Vintage	Units	Sale Date	Price	Price/Unit	Cap Rate
Marina Shores	Virginia Beach	1991	392	23-Feb	\$101,900,000	\$259,949	5.3%-5.6%
Waterford Apartments	Virginia Beach	1978	376	23-Feb	\$55,400,000	\$147,340	5.0%
Providence Green	Virginia Beach	1973	352	22-Jun	\$69,500,000	\$197,443	3.75%
Diamond North	Virginia Beach	2006	180	22-May	\$55,000,000	\$305,556	3.78%
Aura at Arbordale	Williamsburg	2019	288	22-May	\$100,000,000	\$347,222	3.58%
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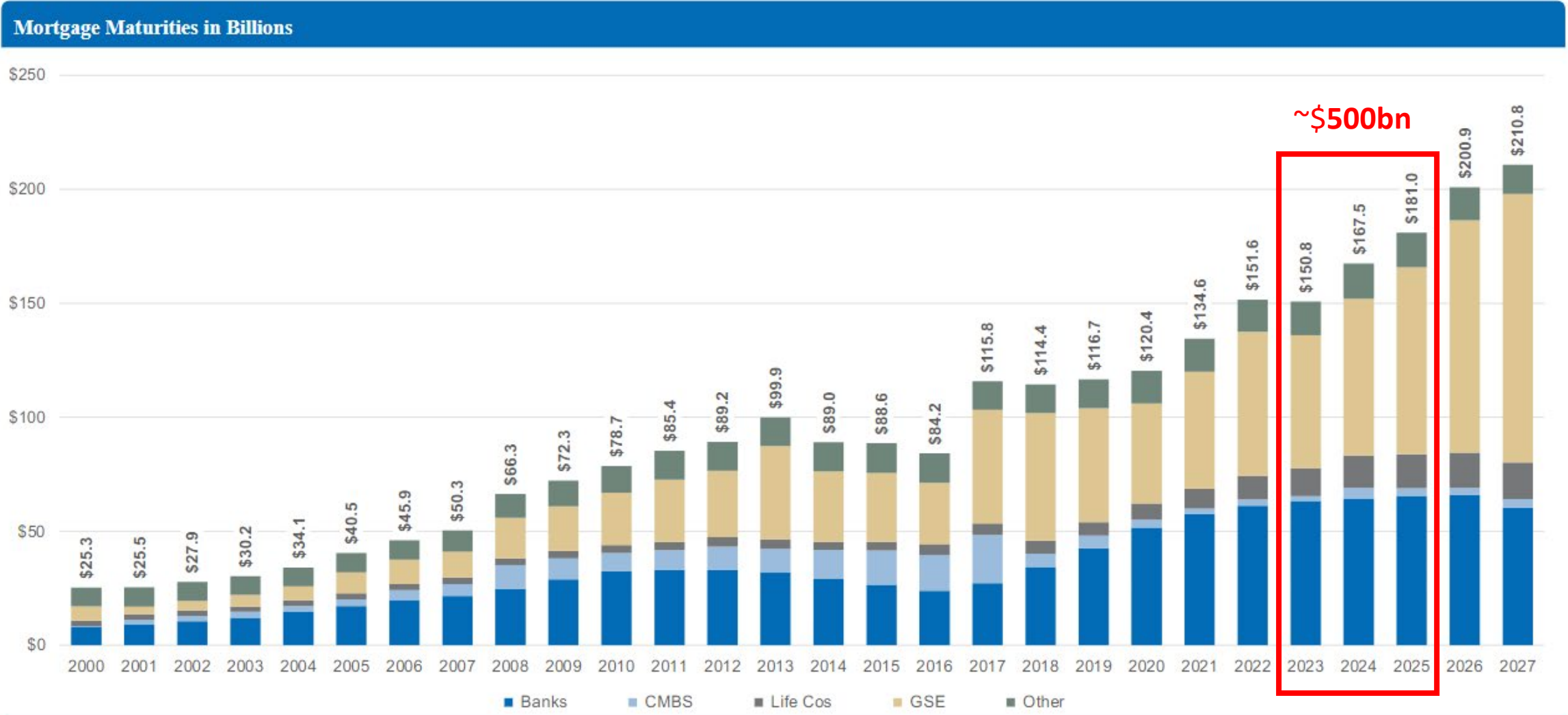


Peak Market Investors Feeling Pain

- Value change on assets purchased two years ago (March 2021)
 - Hampton Roads: negative 5%-10%
 - United States: negative 10%-15%
- Value change on assets purchased one year ago (March 2022)
 - Hampton Roads: negative 20%-25%
 - United States: negative 25%-30%
- Hampton Roads is feeling less pain, but still not great
- Those who locked in cheap, long-term fixed rate debt will likely be able to weather the storm
- Those who financed with short-term floating rate debt may be in trouble



A Wave of Looming Peak Market Loan Maturities



Source: Newmark Research



What Options Do Peak Market Investors Have?

For assets with short-term floating rate debt:

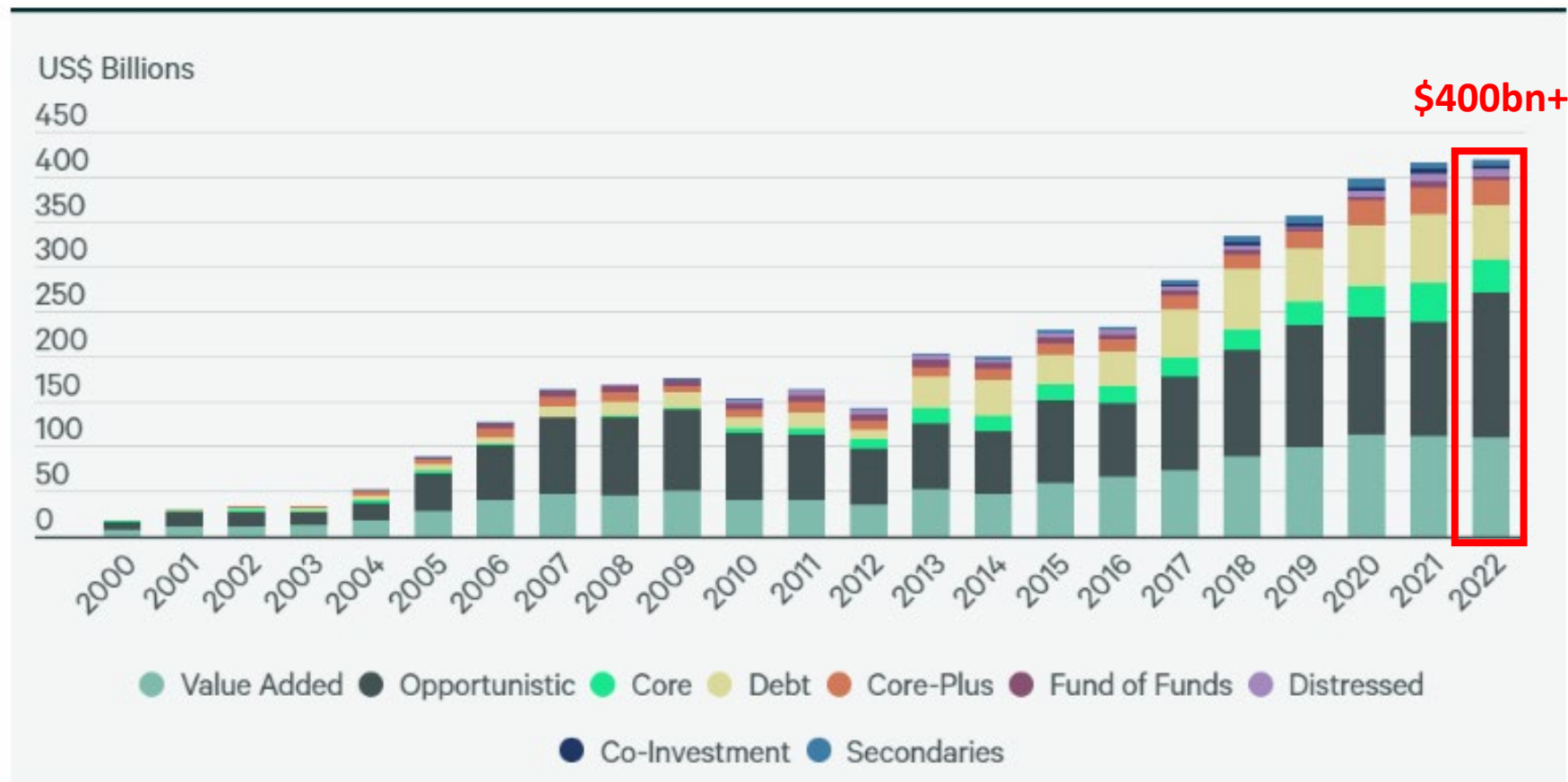
1. Do nothing = negative cash flow after debt, expiring interest rate caps and softening operating fundamentals add more pressure
2. Sell = loss on initial equity investment
 - Hampton Roads: 20%-75% / United States: 40%-100%
3. Refinance = cash-in requirement on initial investment
 - Hampton Roads: 40%-75% / United States: 60%-100%
4. Borrower bankruptcy = high fees, trigger recourse
5. Lender foreclosure = equity investment wiped out
6. Loan workout = restructuring, forbearance (extend and pretend)
 - High fees
 - Will often require loan paydown
 - How will this be funded? Capital call from disgruntled investors?
 - “RESCUE CAPITAL!!”



Record Dry Powder = Distressed Values (Or Not?)

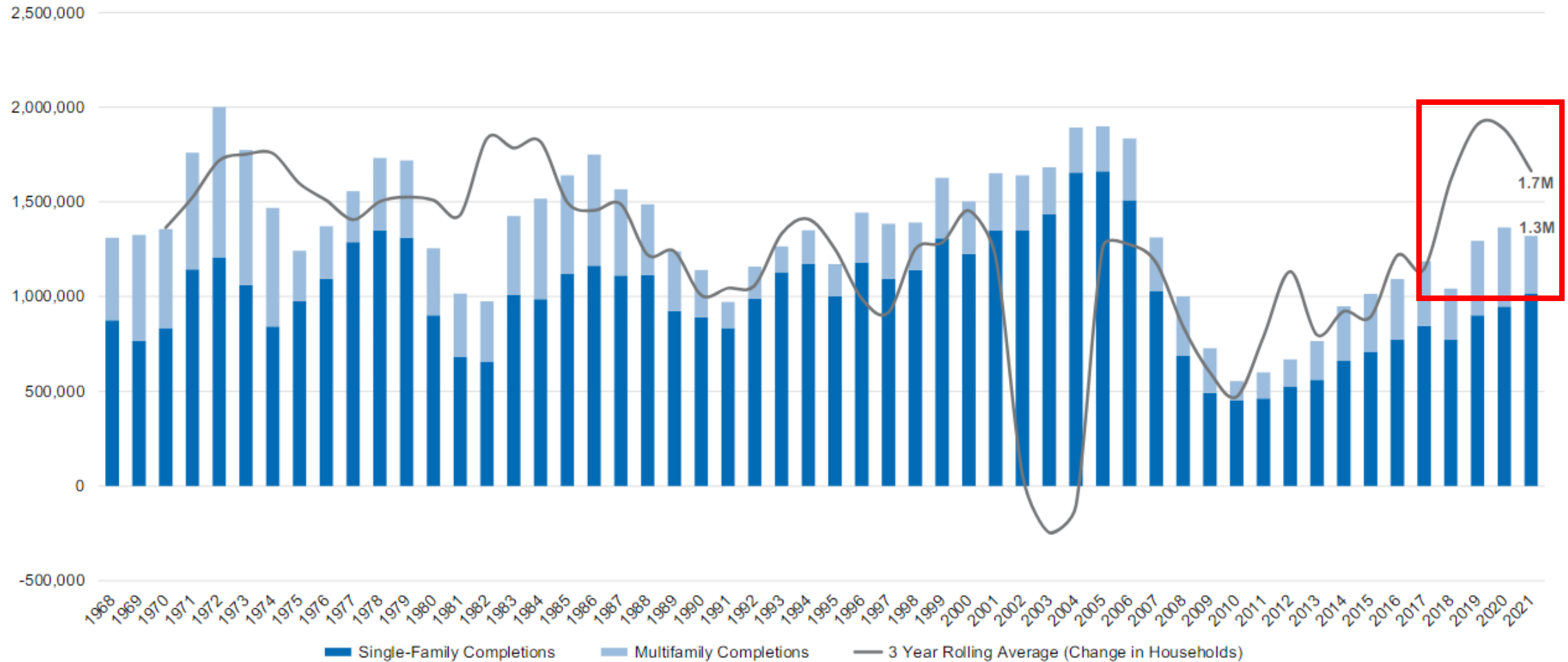
\$400bn+ of Potential Rescue Capital on the Sidelines in 2023+

Global Dry Powder by Sector



Rental Housing Softness Likely Short-Lived

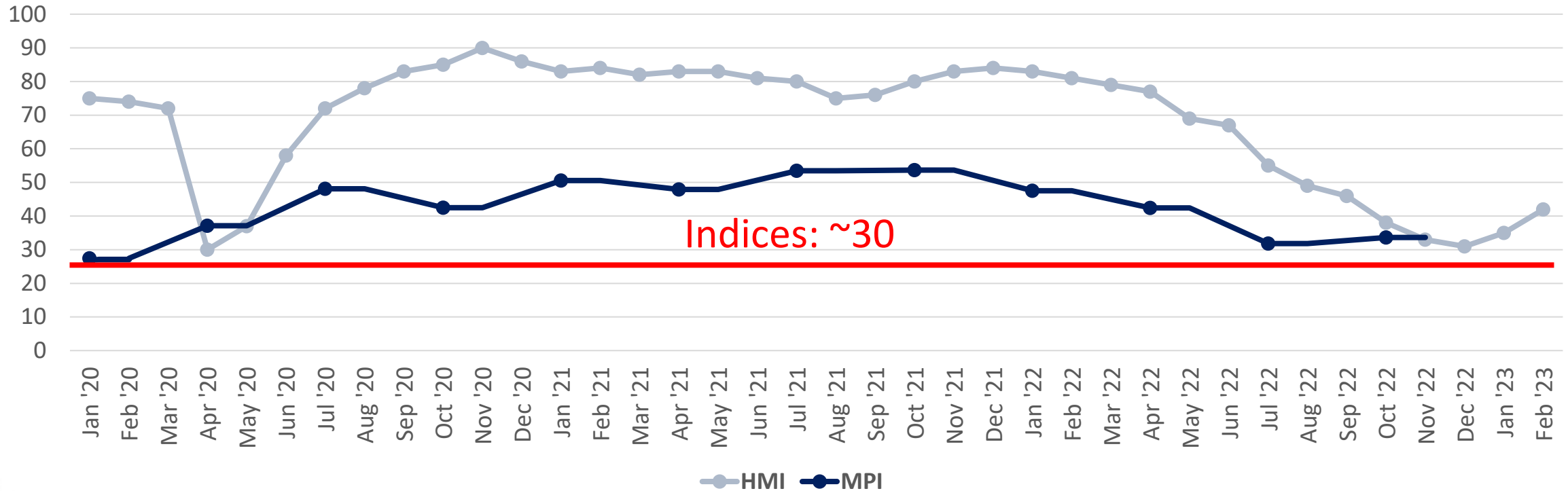
Household Formation Has Outpaced Supply Since 2018



Developer Sentiment Back to Early Pandemic Levels

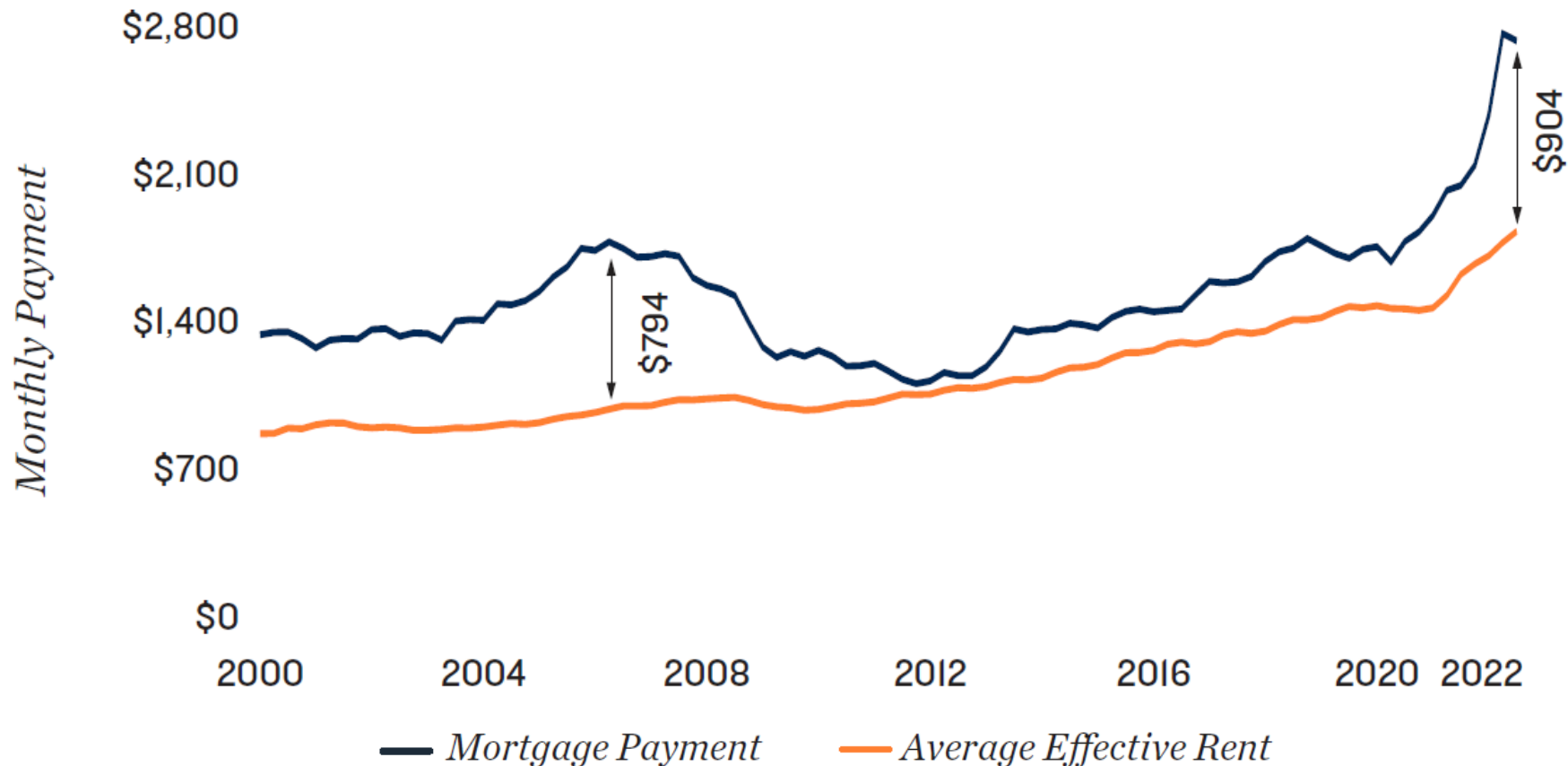
New Supply Likely to Remain Muted Beyond 2024-2025

Housing Market Index (HMI) and Multifamily Production Index (MPI)
(Sub 50 Index = Poor Conditions)



Own vs Rent Favors Renting

Affordability Gap Greater than Pre-Global Financial Crisis



Best Investment Ideas Today

1. Rescue Capital: providing preferred equity or mezz debt to overleveraged owners
2. Buying from distressed sellers
3. Buying from homebuilders affected by weak for-sale housing market
4. Traditional acquisitions: yields are more attractive than ground-up development
5. Hampton Roads: less volatility, typical late cycle market; so get in early

Only a brief window of opportunity

- Rental housing downturn will be mild
- \$400bn+ dry powder: distressed situations but not likely distressed valuations



Survive 2023: Then the Future Looks Bright

- 2023 will be challenging for operating fundamentals and capital markets
- Credit spreads may narrow but debt rates to remain elevated in 2023
- Asset values may drop another 5% to reach neutral leverage (cap rate = debt rate)
- Multifamily to remain a top target for investors
- Market liquidity and deal flow expected to return mid/late 2023
- Start of a market cycle recovery = best opportunities
- Long-term fundamentals for rental housing remain strong
- Hampton Roads will remain one of the most resilient markets in the U.S.





HAMPTON ROADS

**3 REAL
2023 ESTATE
MARKET
REVIEW &
FORECAST**

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



Residential: 2022 Story of 2 Halves



J. Van Rose Jr., MIRM

Principal Owner

Rose & Womble Realty Co., LLC

**Rose &
Womble**
REALTY COMPANY



The 2021 Market





**Second Half of 2022 Market
The Way it Feels**



Pending Sales Tell the Story

December 2021 –
there were **2,275** sales

January 2023 –
there were **1,929** sales



The Truth ...

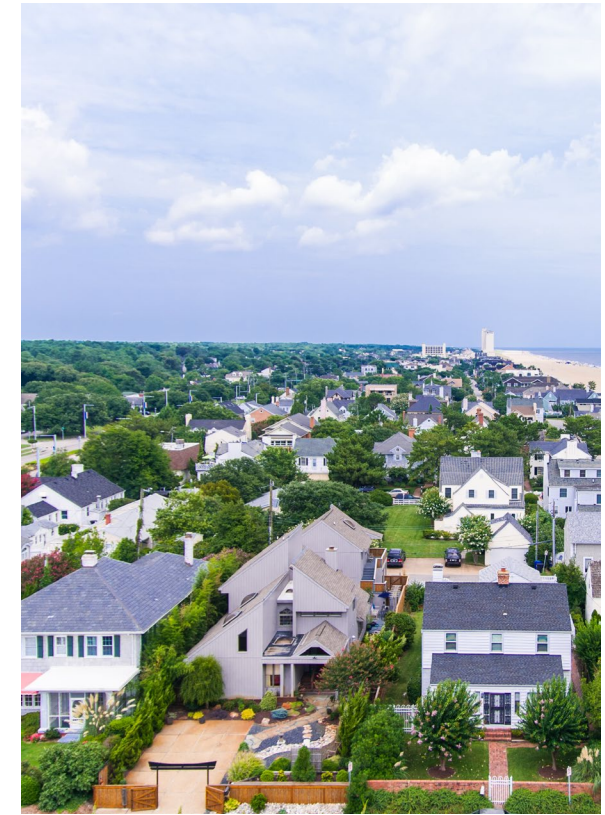
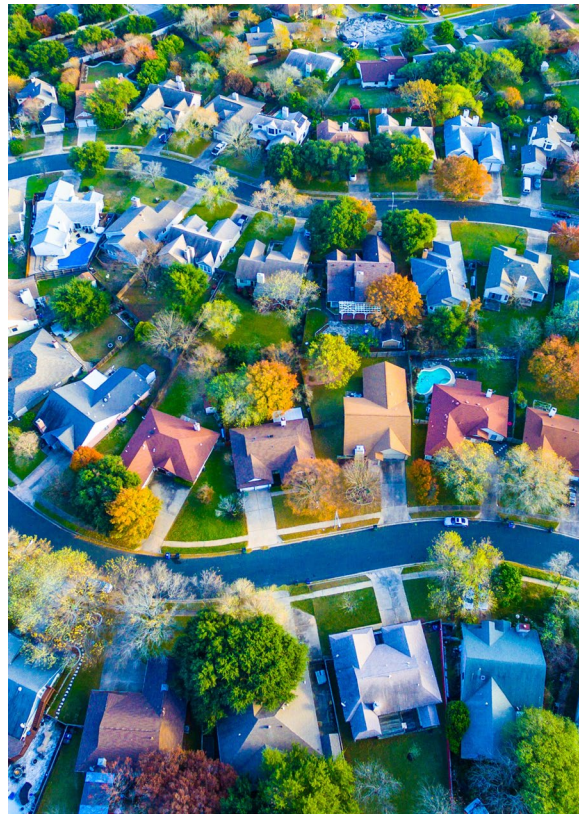
2019 - 28,973 Sales

2021 - 36,891 Sales

2022 - 30,057 Sales

Compared to 2021, the Market *Feels* Like a full



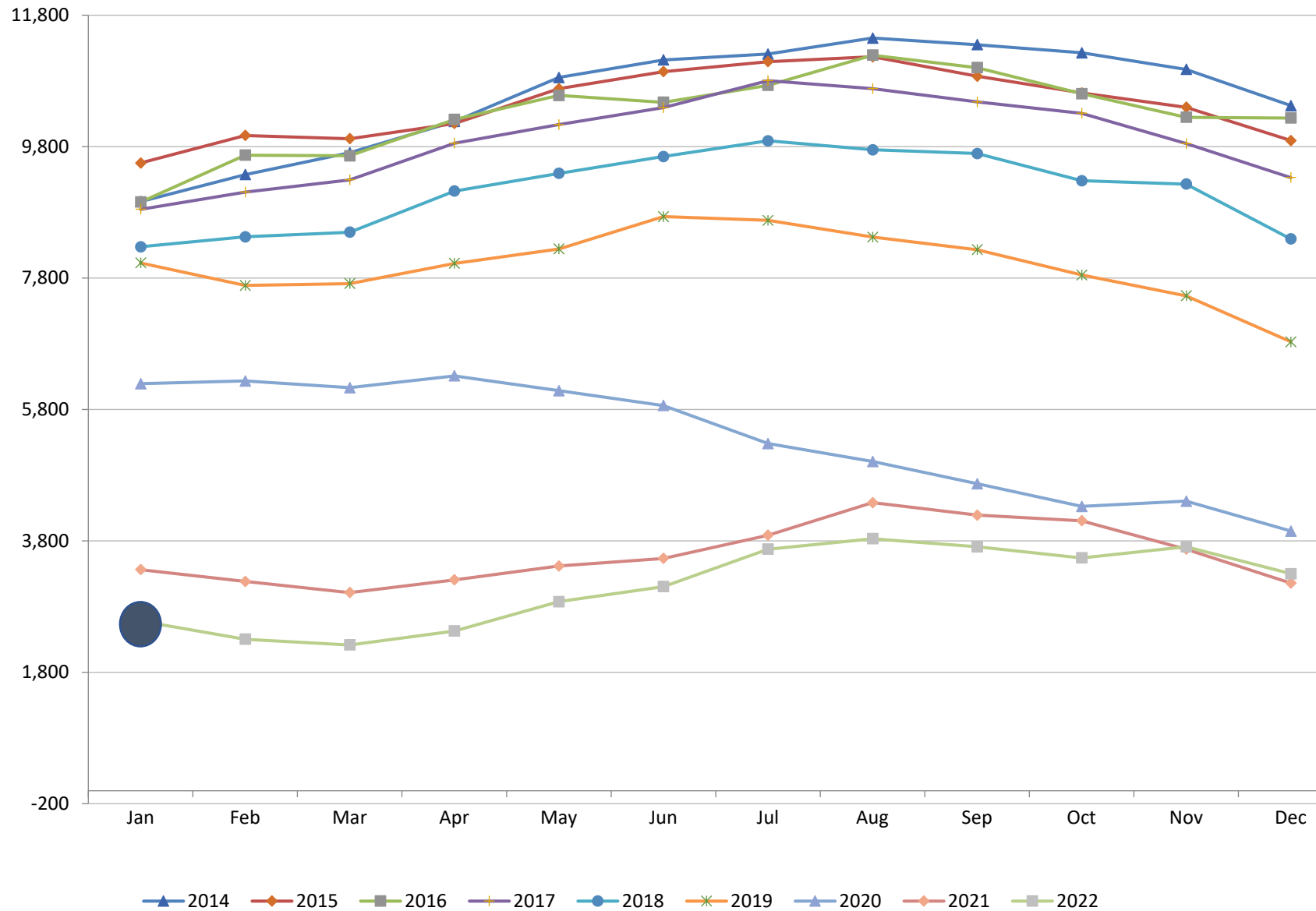


Primary Reasons for Slowdown?

OUT OF STOCK



Homes on the Market – January 2023



The Speed of Interest Rate Changes



Interest Rate Paralysis



Interest Rate Shock!

1st half of 2022 vs. 2nd half of 2022

\$350,000

2.5%

Interest Rate

\$1,382

Payment

6.5%

Interest Rate

\$2,212

Payment

\$830



2022 Resale Market

Average sales price for 2022 - \$344,661, **up 7.5%**

28,481 units, **down 17.9%**

1st half of 2022 median market time - **7** days

2nd half of 2022 median market time - **24** days



2022 New Construction Market



Average sales price \$458,850, up **13.6%**

- 3,160 units **Down 11.5%**, year over year per REIN data
- Building permits **Down 22%** year over year
- It only takes **1.5 Months** to absorb **ALL** New Homes in the market!



2022 Top Builders

NVR Ryan Homes	905
Dragas Companies	142
Napolitano Homes	124
Franciscus Homes	99
Chesapeake Homes	80
Kirbor Homes	63
Weldenfield & Rowe	62
Terry-Peterson Cos	60
Platinum Homes	56
EDC Homes	55



NVR Ryan Homes = **905 homes**
Next 9 builders combined = **681 homes**



Challenges to the Resale Market

Interest rate Uncertainty

Inventory is extremely low

Current Homeowner reluctance to go on market

Lack of good properties



Challenges to the New Construction Market

Development costs out of control

Was \$50K per lot; Now approaching \$90K per lot

Cost of Goods

Prices of materials continue to increase

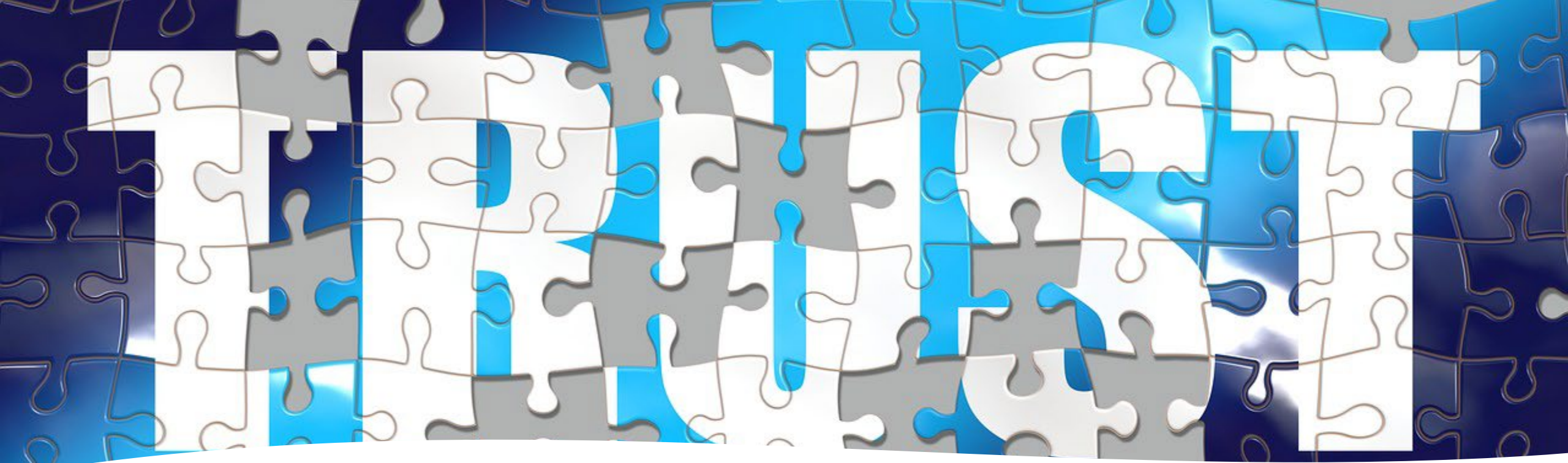
Delivery better but still slow on many products

Interest Rates

To Buyers: ex: \$450,000 at 6.5% = \$3,400 all in
Need **\$163,000 income** to qualify

To Builder: Carrying \$5,000,000
at 2.5% = \$10,000/month
at 7.0%= \$32,000/month





Predictions

Market looking for Interest Rate Stability

Low Inventory will continue keeping **Prices High**

Demand still high, just need the **Caution Flags** to go down

400,000 Millennials and **378,000** Baby Boomers in this market - two largest buying groups in American history.



Strong Local Economy will Guard Against Recession

Tourism



Healthcare



Port Authority



Defense Spending




To the Builders ...

If you build it,
they will come



Residential Report Card



Report Card

BUYERS	C
SELLERS	A-
AGENTS	C
BUILDERS	B+
DEVELOPERS	C-



**Please join us for a
reception in the
Big Blue Room.**

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