
3Q24

Hampton Roads Industrial Market Overview

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Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended Q3 2024 at 3.7%, lower than the national average of 4.4%.
- The industrial market is a primary economic driver in the region, with the Trade/Transportation/Utilities and Manufacturing industries encompassing 26% of the regional workforce. Furthermore, Trade/Transportation/Utilities and Manufacturing both saw positive 12-month growth of 0.7% and 3.2%, respectively.
- Industrial employment ended August 2024 with 191,200 employees within the region, which is 2.5% higher than the decade average. The industry has shown steady employment growth since experiencing historical lows at the beginning of 2020.

Major Transactions

- The largest sale of the quarter was 3321 E Princess Anne Road, which was sold by Schmiley Shick to Industrial Realty Group. The roughly 300,000 SF distribution facility was sold for \$34.9 million, or approximately \$117.06 PSF. The property was 45% leased to Lion Power Systems at the time of sale.
- The largest lease signed during the quarter was LS Greenlink signing a pre-lease for 750,000 SF lease at a proposed development in the Cavalier submarket in Chesapeake, Virginia. This new state-of-the-art manufacturing facility will produce high-voltage submarine power cables for off-shore wind farm. Development on this property is anticipated to break ground in the first quarter of 2025.

Leasing Market Fundamentals

- The market continues to experience positive absorption, seeing 163,000 SF of positive net absorption during Q3 2024. All of this positive absorption has created a tight market, with a vacancy rate of only 4.0% to end the quarter.
- Average asking rents ended Q3 2024 at \$10.07 PSF, an increase of 2.9% year-over-year. Overall, the market has seen an impressive 30.5% increase in rents from the beginning of 2020 through Q3 2024.
- The market’s development remains impressive, experiencing over 6.4 MSF of deliveries in 2022, almost 3.7 MSF of deliveries in 2023, and 1.0 MSF of deliveries during 2024. Furthermore, the market ended Q3 2024 with 14 properties under construction totaling over 4.4 MSF, higher than the decade average of 2.5 MSF under construction.

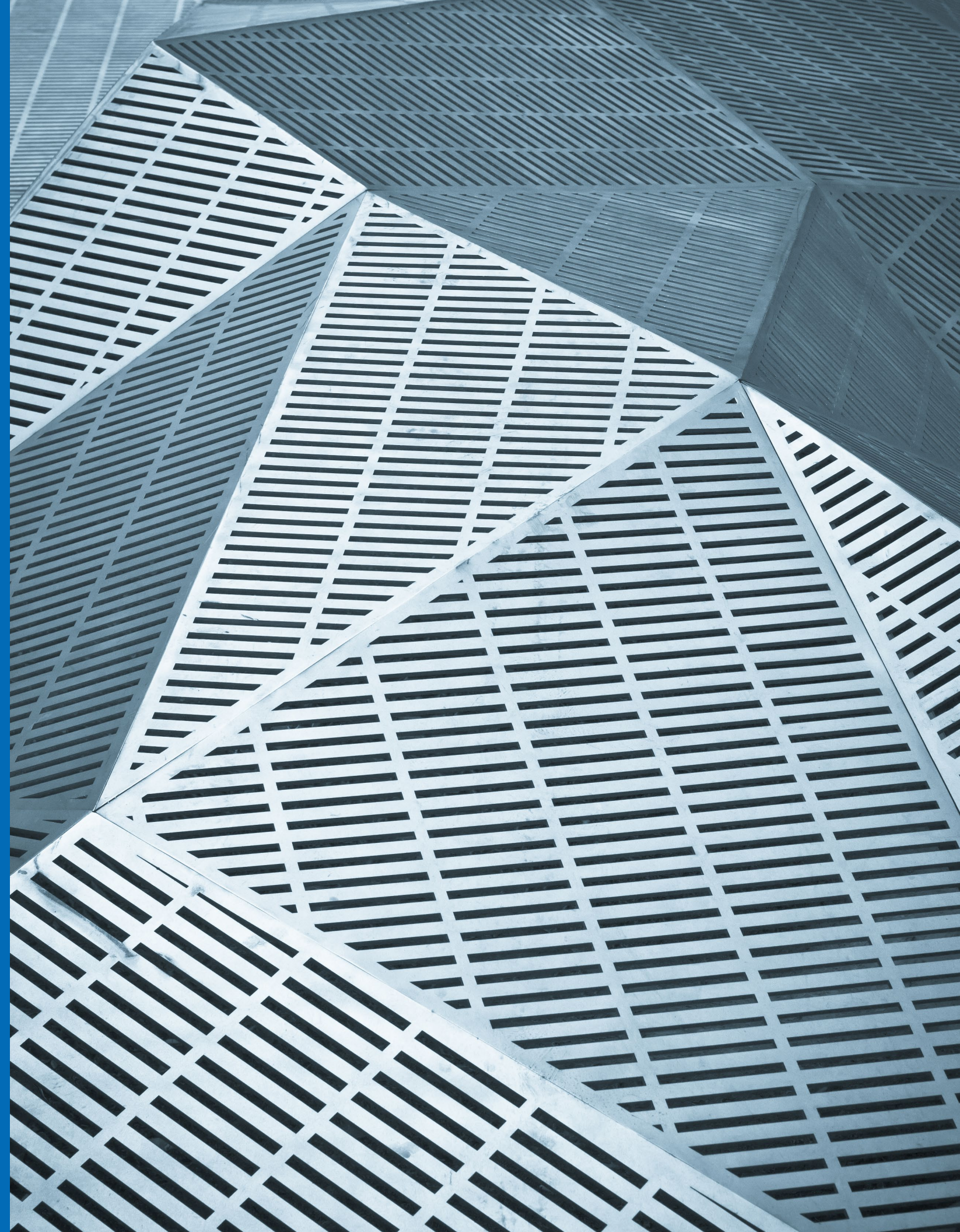
Outlook

- The Hampton Roads Industrial market will continue to perform well in the short term, as evidenced by a strong development pipeline. With over 4.4 MSF under construction, including much of the space pre-leased or owner-occupied, the market will see consistent occupied space delivered, leading to large amounts of positive net absorption.
- While supply remains limited, rent growth will continue increasing at elevated levels, although at a more modest rate than the last 3 years. This will vary on a submarket, size range, and asset-type basis.
- Market vacancy is expected to rise with slower year-to-date leasing activity, specifically within the larger user market looking for 100,000 SF and up. This is especially evident with much of the new speculative development targeting this larger user market.

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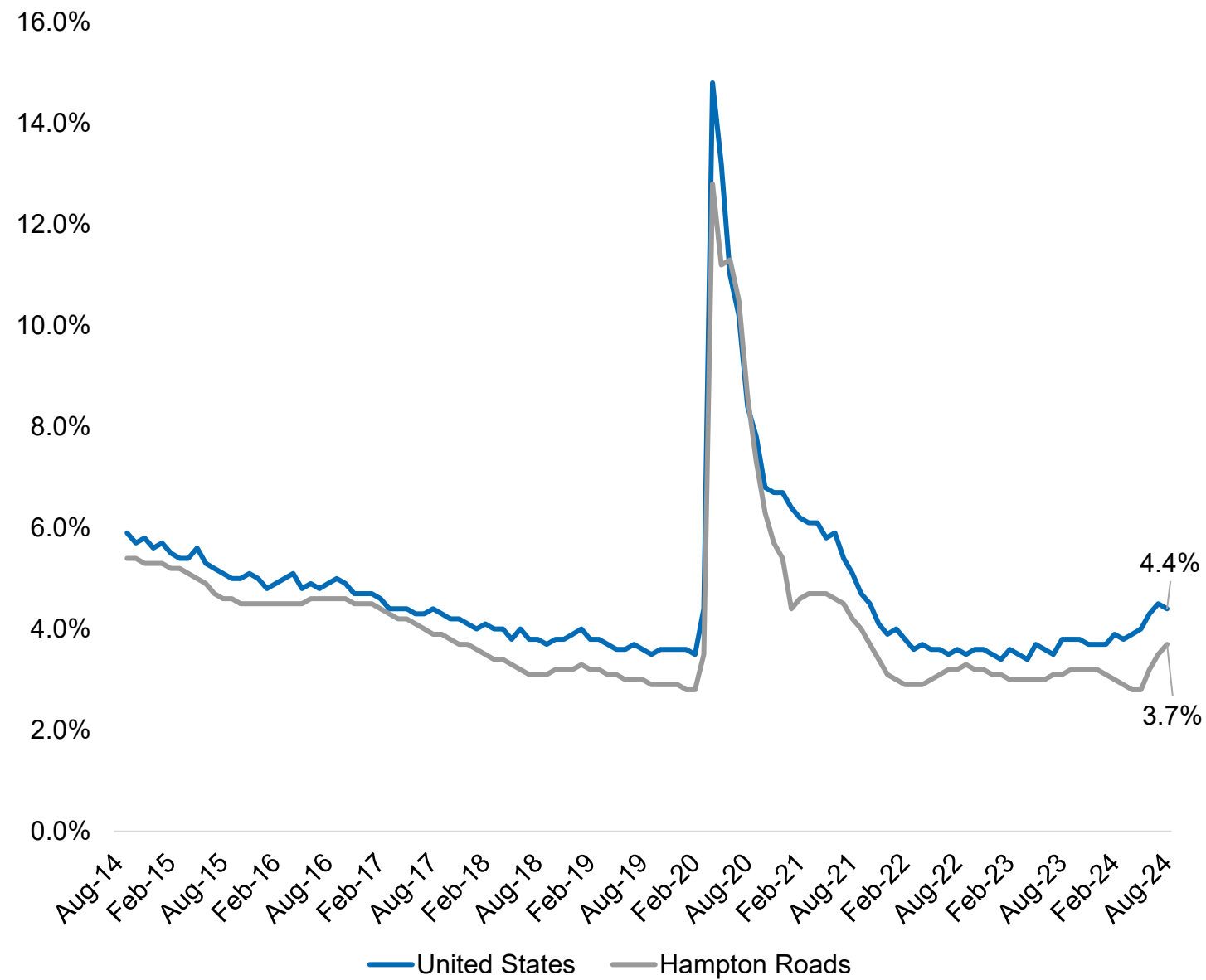
Economy



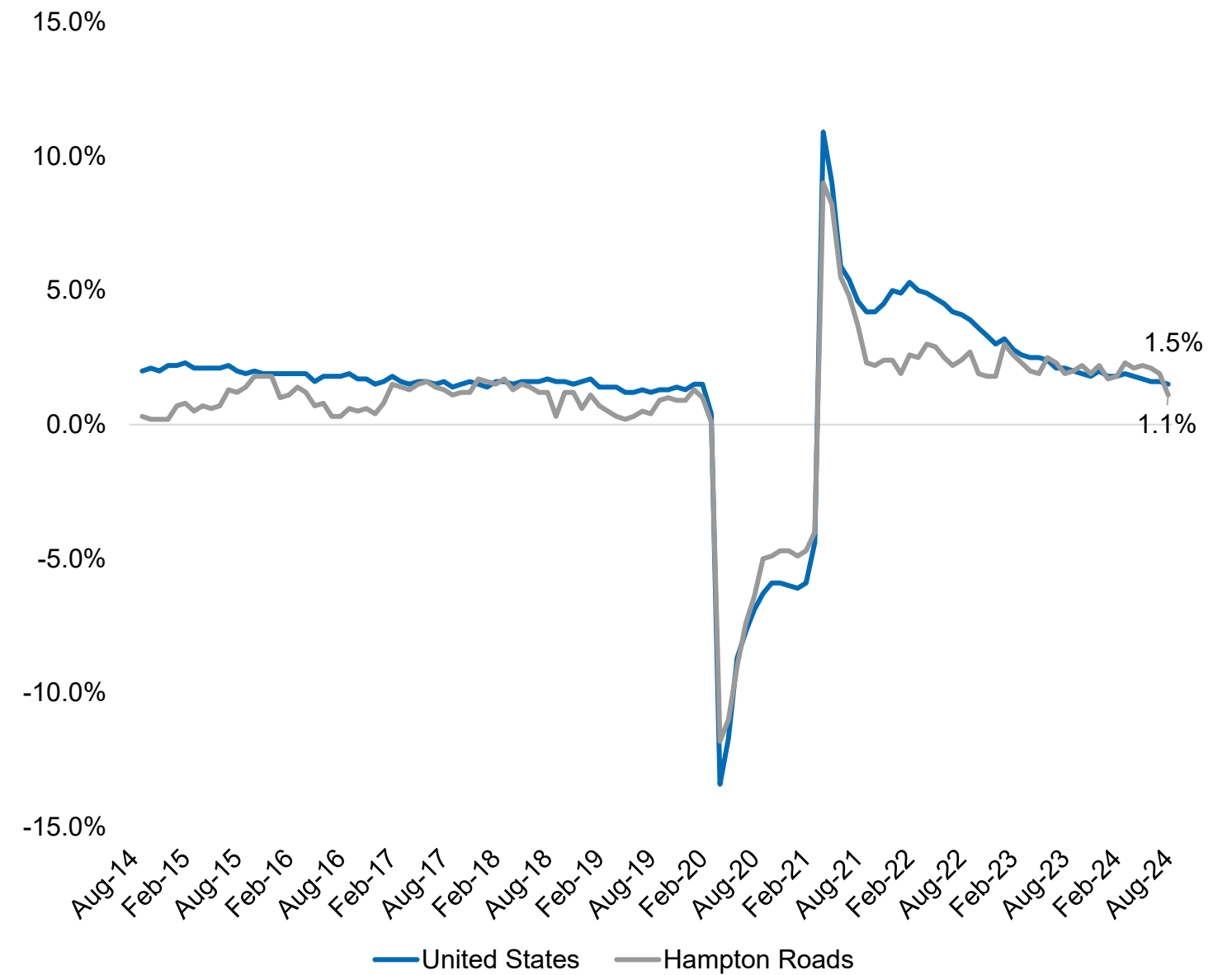
Hampton Roads' Unemployment Rate Outperforms National Average

Hampton Roads' unemployment rate continues to outperform the national average, measuring 3.7% in August 2024. This is 30 basis points higher year-over-year and 70 basis points below the national average.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

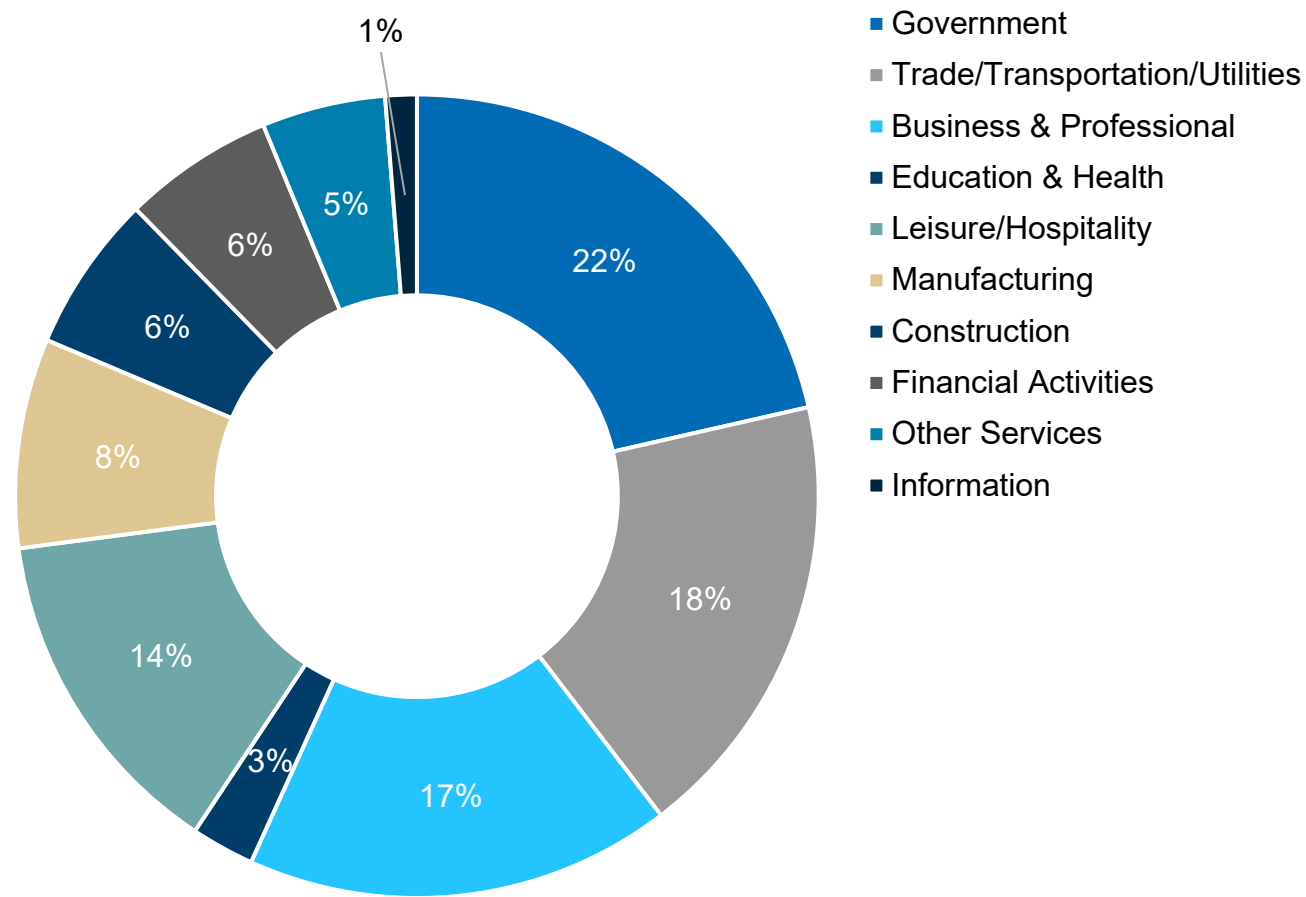


Source: U.S. Bureau of Labor Statistics, Hampton Roads

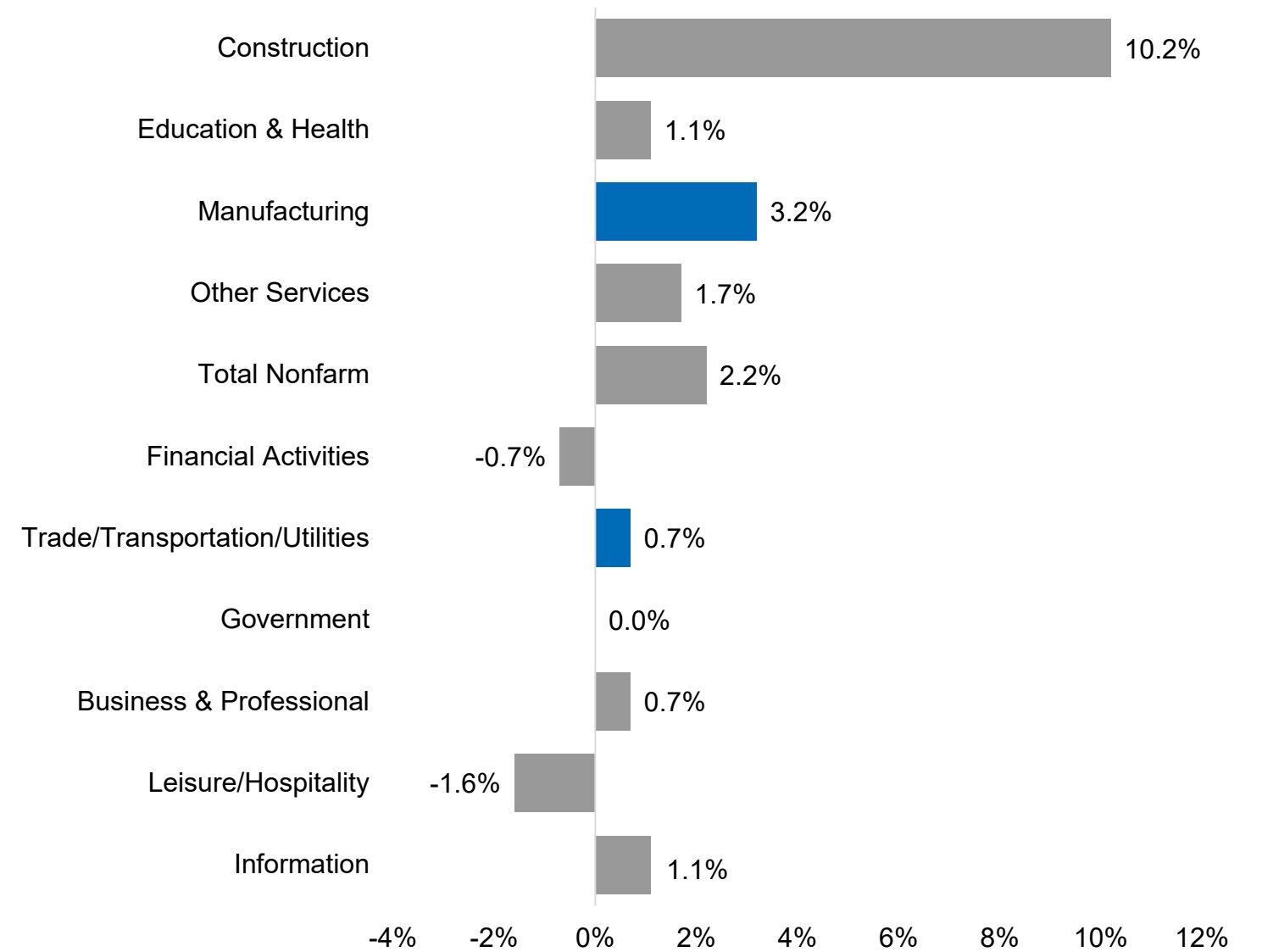
Trade/Transportation/Utilities Continues Growth as a Leading Regional Industry

Trade/Transportation/Utilities remains the second largest industry in the region, constituting 16% of the regional workforce. Furthermore, both Trade/Transportation/Utilities and Manufacturing saw positive 12-month growth, seeing growth of 0.7% and 3.2%, respectively.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

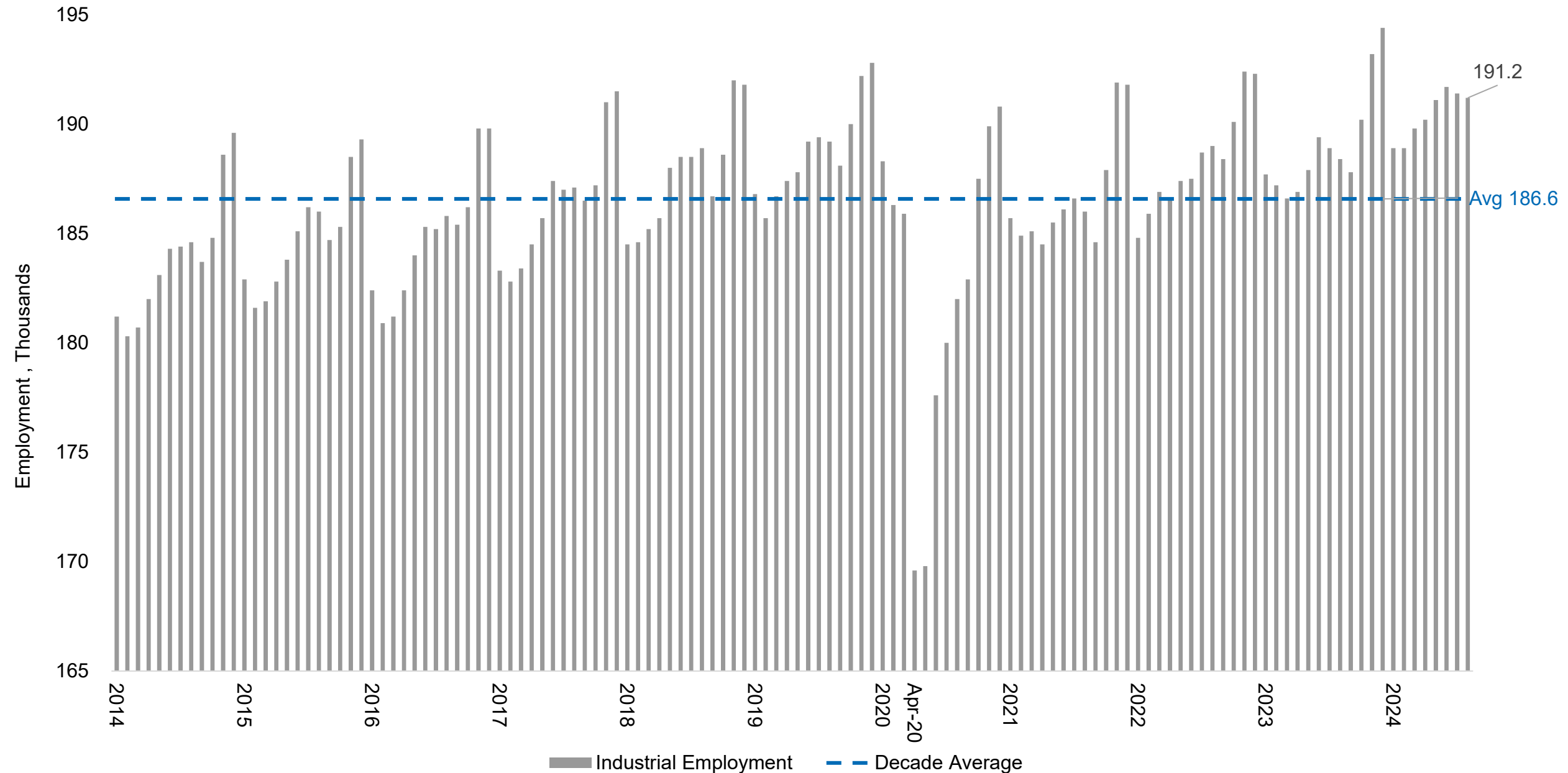


Source: U.S. Bureau of Labor Statistics, Hampton Roads

Industrial Employment Remains at Elevated Levels

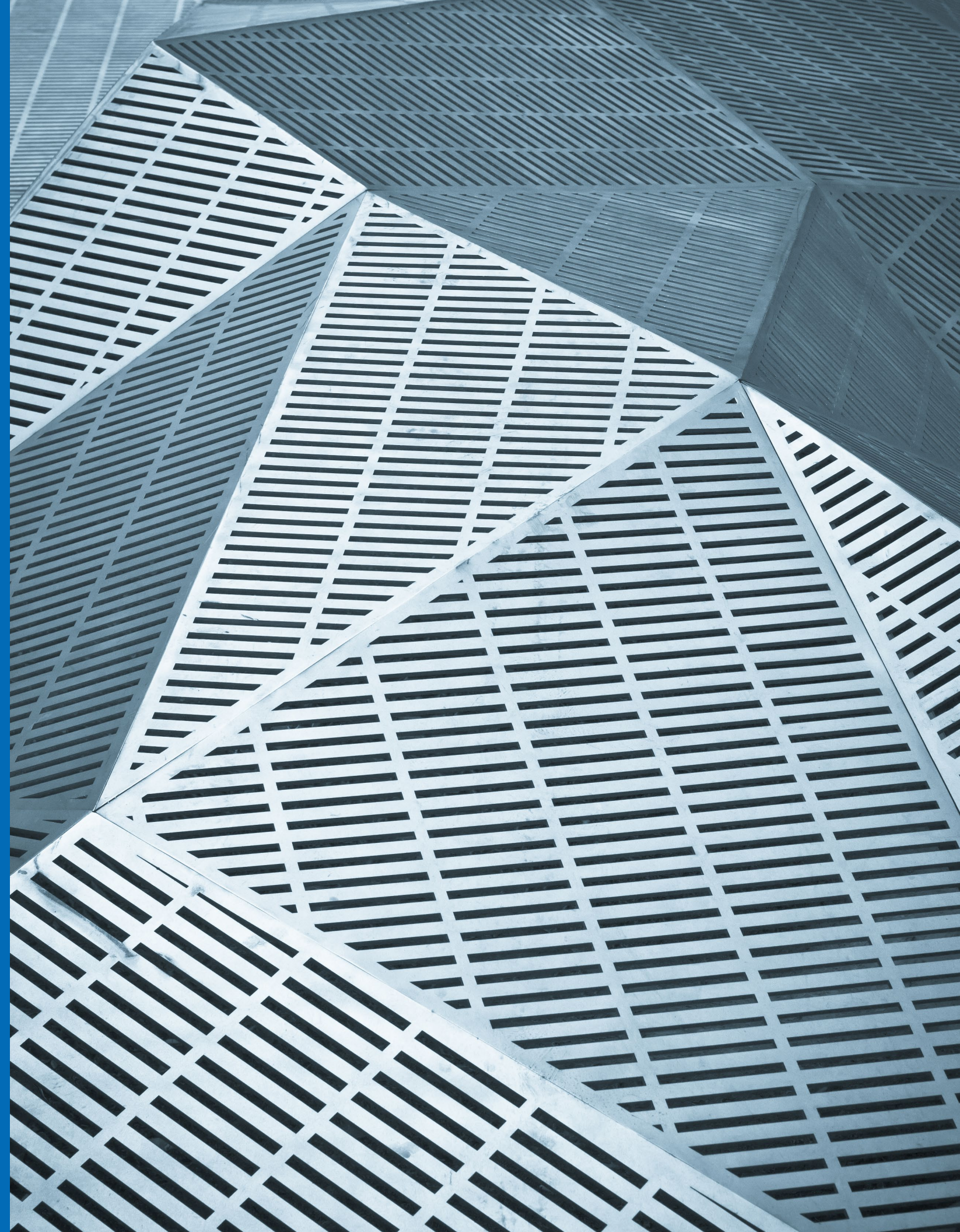
The number of industrial jobs has rebounded and now sits above pre-pandemic levels. Employment ended August 2024 at 191,200 employees, 2.5% higher than the decade average and an increase of 12.7% since the market reached a historical low in April of 2020.

Industrial Employment



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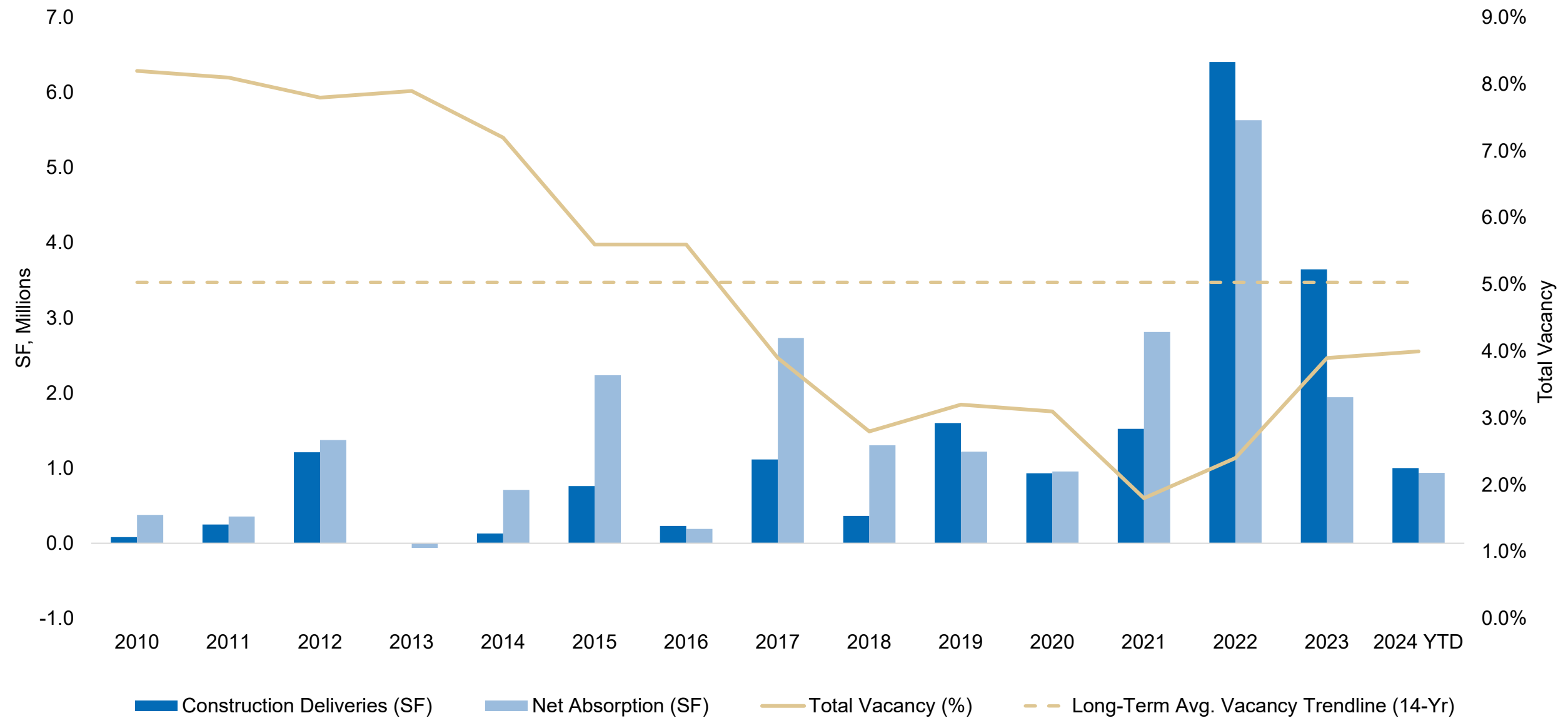
Leasing Market Fundamentals



Fundamentals Remain Healthy to Begin 2024

The Hampton Roads Industrial market continues to perform exceptionally well, as evidenced by its fundamentals. During Q3 2024, Hampton Roads had zero deliveries while seeing 222,000 SF of positive net absorption. This slow-down in deliveries is not a sign of overall market conditions, but rather simply due to timing as there are several deliveries slated for 4Q24 and beyond. The market ended Q3 2024 with a vacancy rate of 4.0%, tighter than the 14-year average of 5.0% albeit up from its historic sub-2% vacancy in 2021.

Historical Construction Deliveries, Net Absorption, and Vacancy

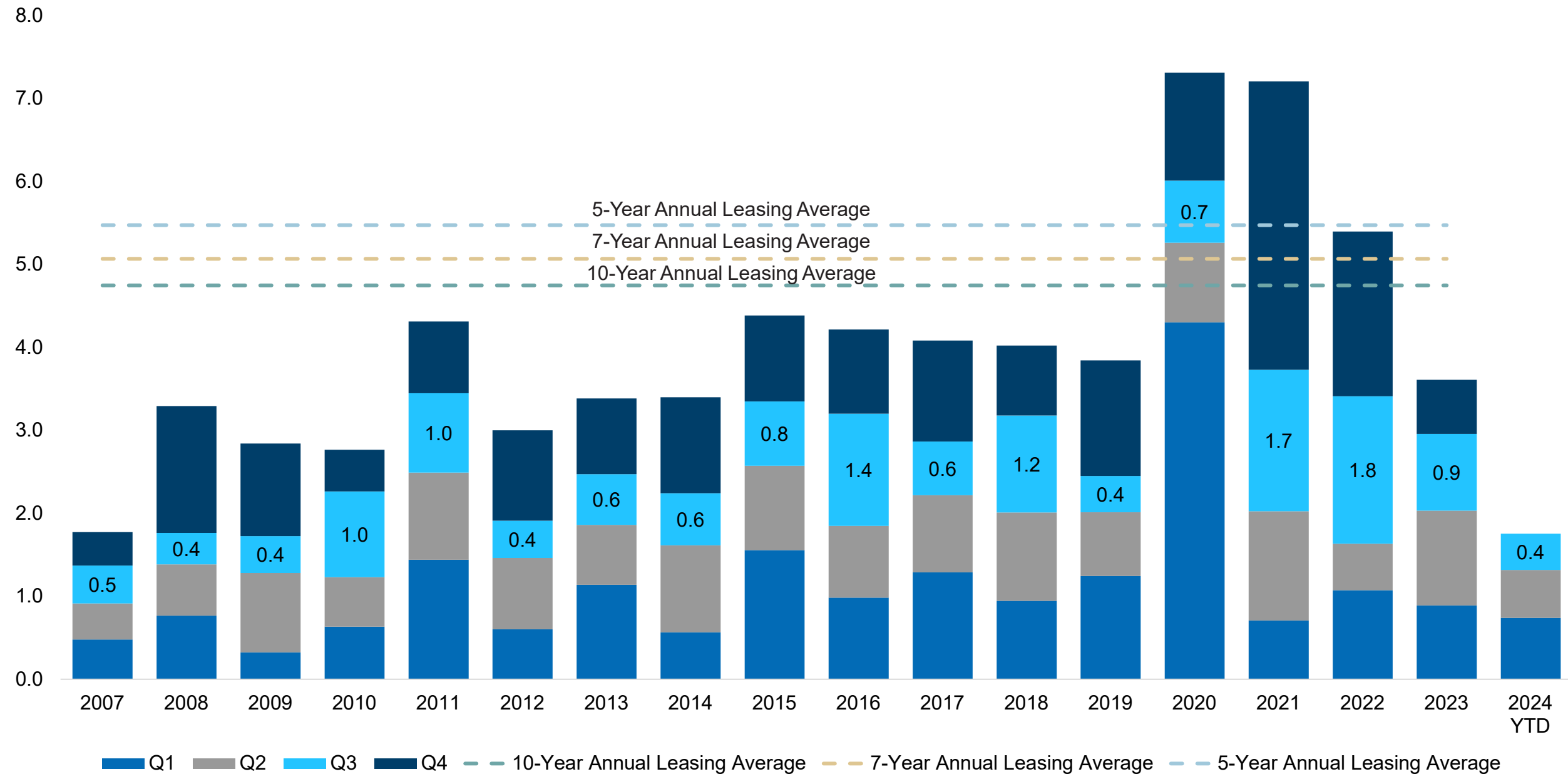


Source: Newmark Research, CoStar

Industrial Leasing Activity Slow throughout 2024

Leasing activity was relatively slow during Q3 2024, ending the quarter with 0.4 MSF of activity. This is lower than the third quarter historical high, when the market experienced 1.8 MSF of activity during Q3 2022, and lower than the second quarter historical average of 0.9 MSF. The market must continue delivering new product in order to meet tenant demand and accelerate leasing activity.

Total Leasing Activity (tsf)

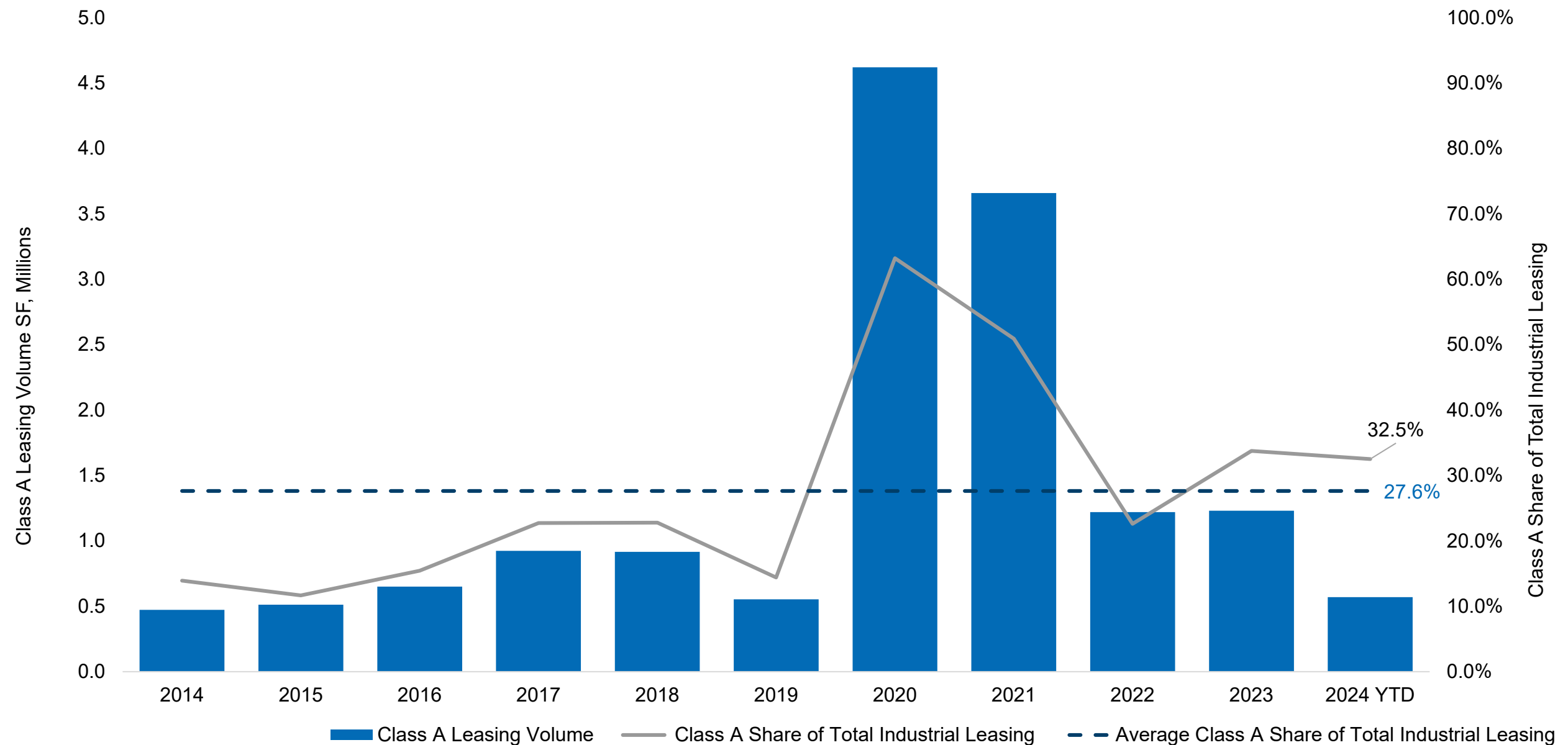


Source: Newmark Research, CoStar

Class A Industrial Leasing Above Long-Term Average

Although Class A industrial leasing activity remains below the levels of activity from 2020-2021, Class A product saw a 32.5% share of total industrial leasing in the market in 2024, which is higher than the decade average of 27.6% and highlights the elevated interest in quality Class A space by occupiers. The Hampton Roads market had trailed its peers in new construction for years, which resulted in low historical Class A leasing volume prior to 2020. The market started seeing an increase in Class A deliveries during 2020, which is when Class A leasing volume accelerated.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

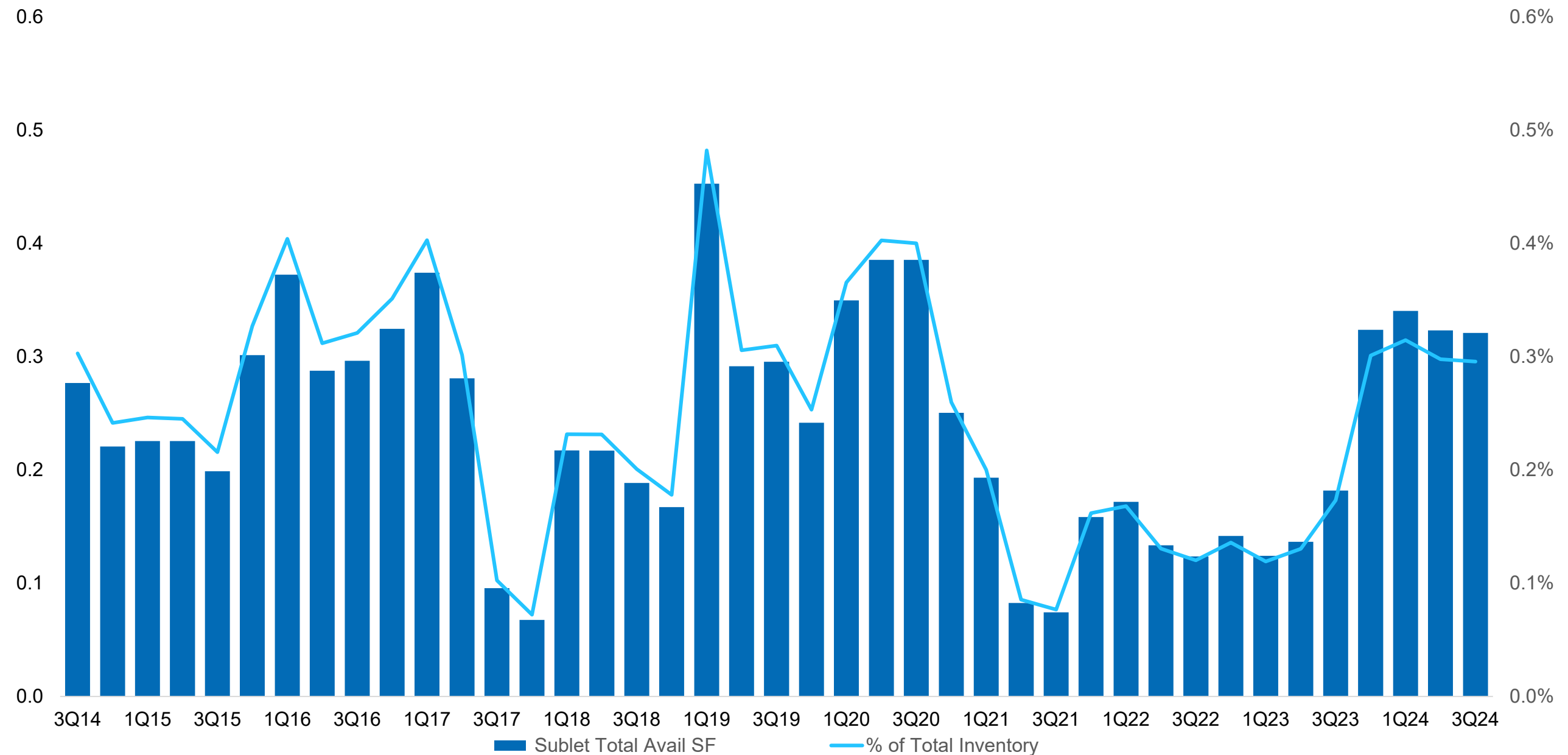


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains Low, Highlighting a Tight Market

Although the market has seen a slight increase in available sublease space over the past few quarters, the market remains extremely tight, with roughly 320,000 SF of available sublease space to end Q3 2024. This accounts for only 0.3% of the market's total inventory, highlighting the current tightness of the market.

Available Industrial Sublease Volume (MSF) and % of Total Inventory

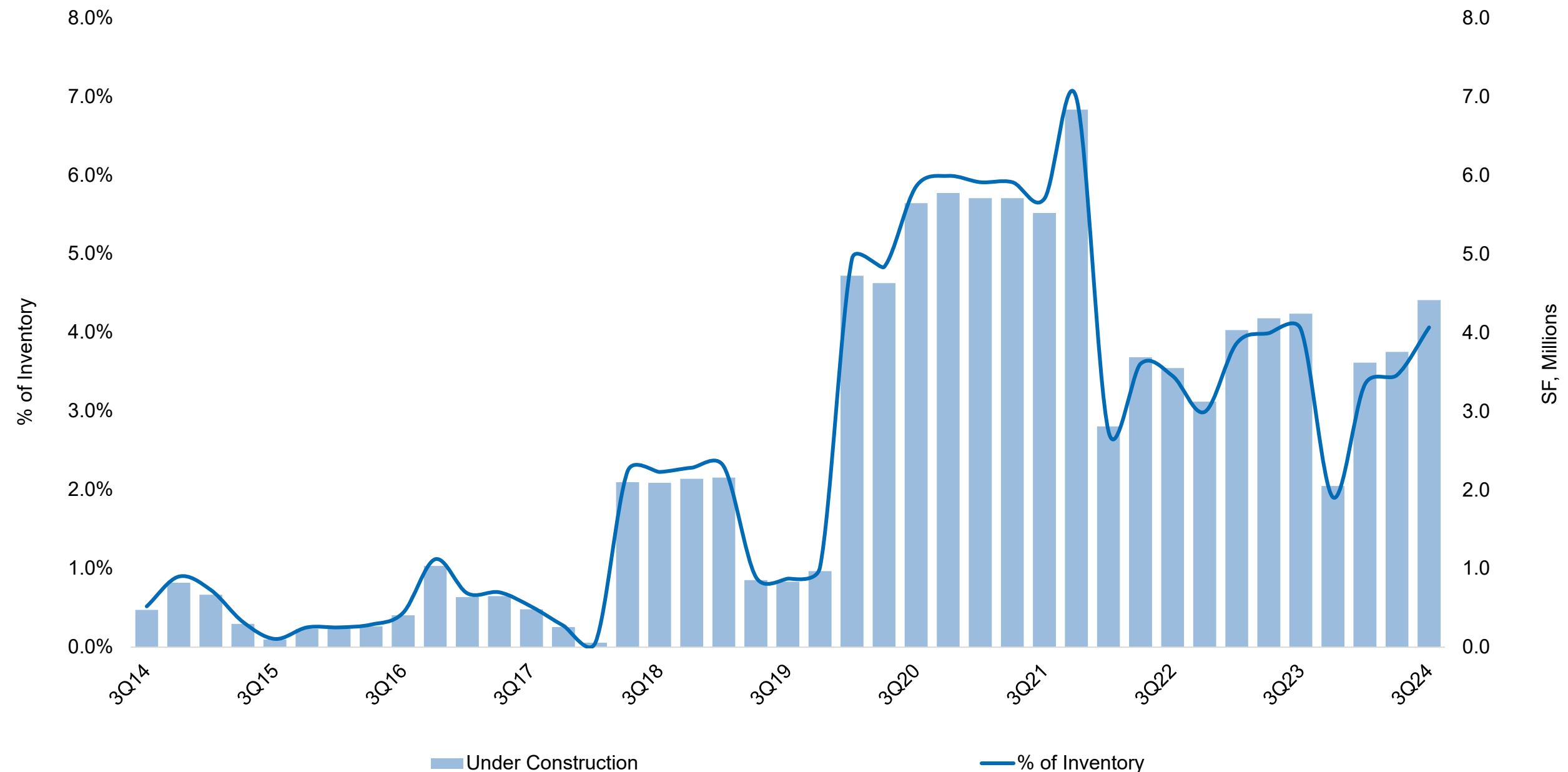


Source: Newmark Research, CoStar

Construction Supply Remains Elevated

Industrial development exploded in the Hampton Roads region during recent years, ending Q3 2024 with 14 properties under construction totaling over 4.4 MSF. The city of Suffolk is leading the way with five properties under construction totaling over 2.0 MSF. After the market averaged only 0.9 MSF under construction from 2014 to 2019, development began accelerating in 2020 and reached a peak of 6.8 MSF under construction in Q4 2021. Since then, the market has maintained an elevated level of construction much higher than historical averages, although future development is expected to slow in the coming years with a pipeline much more limited in scale due to macro market headwinds.

Industrial Under Construction and % of Inventory

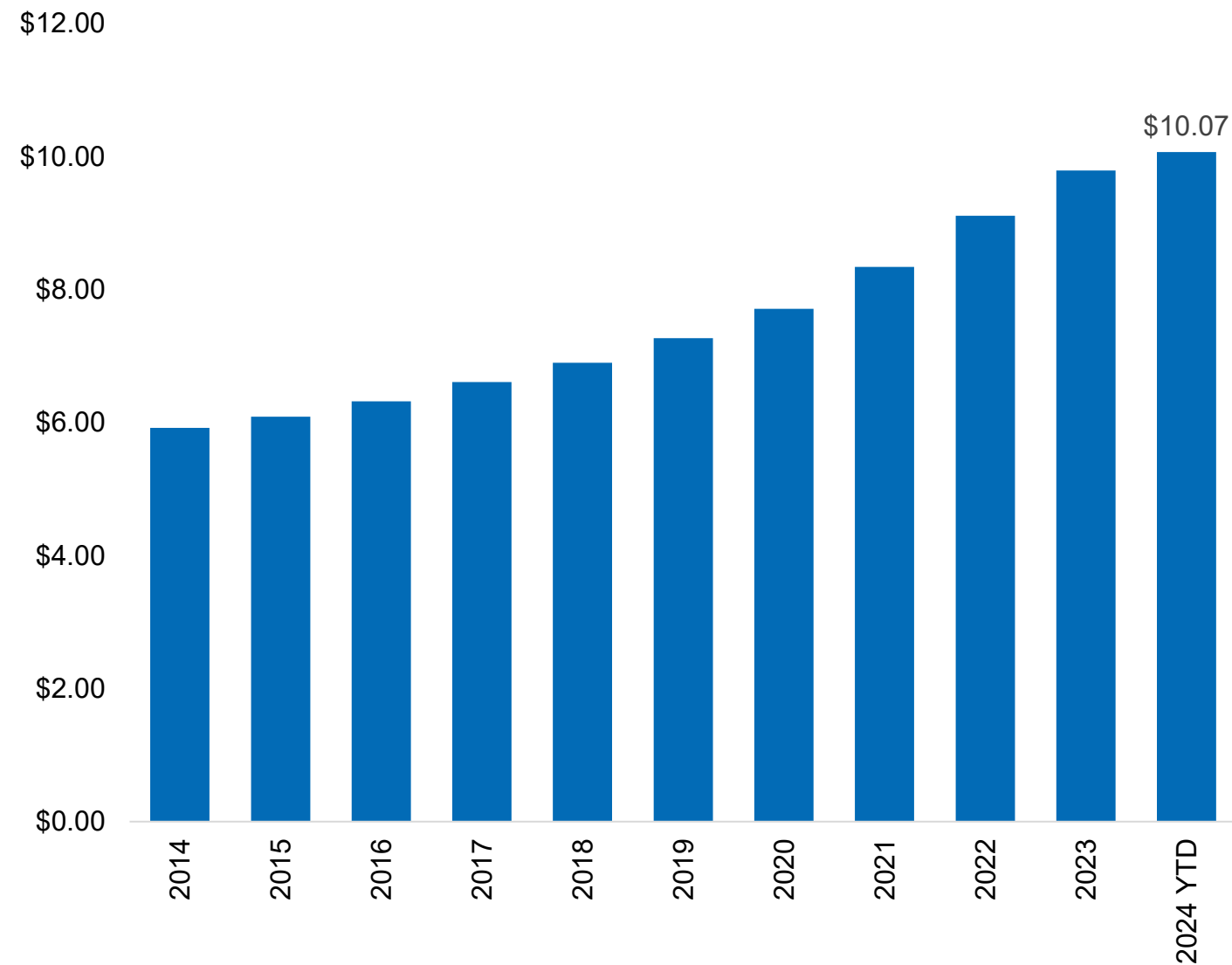


Source: Newmark Research, CoStar

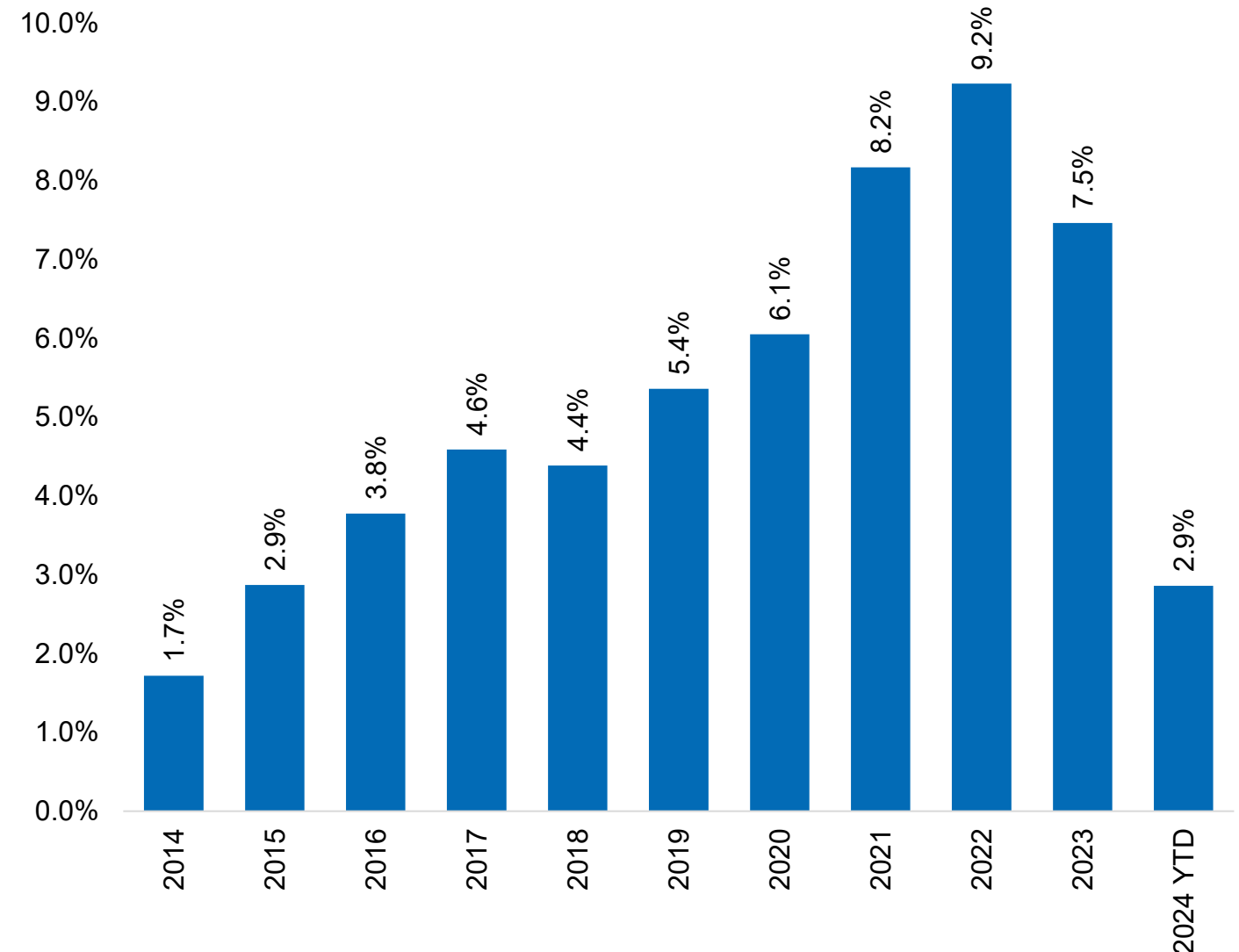
Asking Rents Continue Rapid Growth

Average asking rents ended Q3 2024 at \$10.07 PSF, an increase of 2.9% year-over-year. This is a stark deceleration in rent growth year over year as the three years prior averaged 8.3%. Overall, the market has seen an impressive 30.6% increase in rents from the beginning of 2020 through Q3 2024.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

New leases were a theme of leasing activity during Q3 2024, as four of the five largest leases signed were new deals. The top three deals were located on the Southside, highlighting the recent activity in that area of the region. LS Greenlink, a manufacturer of subsea cables, signed the largest deal of the quarter, a new deal for 750,000 SF of space at a manufacturing facility that will be developed at Deep Water Terminal in Chesapeake. Overall, leasing activity has slowed in the region relative to recent years, with only three leases larger than 100,000 SF signed so far in 2024.

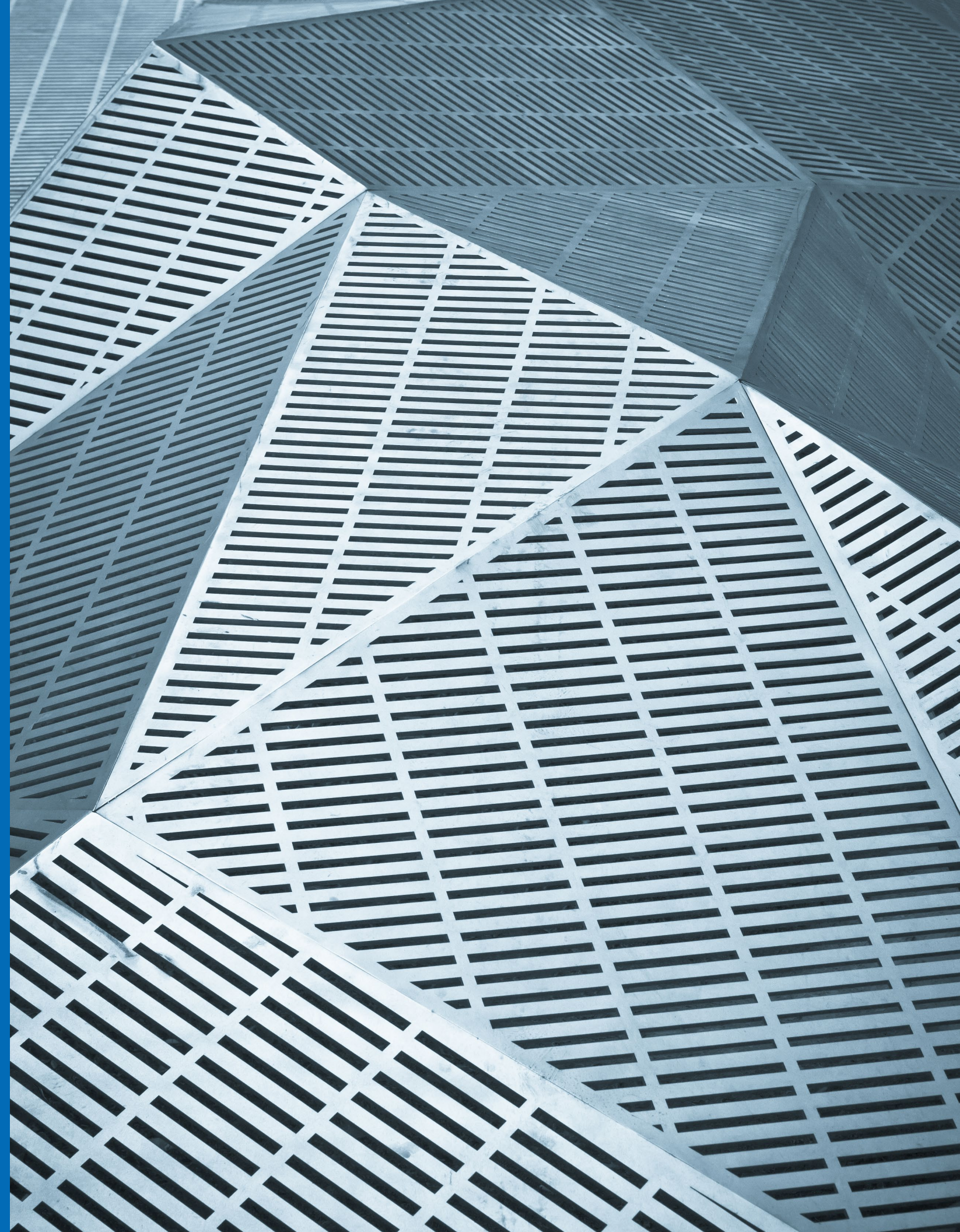
Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
LS Greenlink	TBD Energy Drive	Cavalier	New Lease	750,000
Ocean Container Solutions	5401 Virginia Regional Drive	South Suffolk	New Lease	80,000
Busch Manufacturing	1910 Campostella Road	Bainbridge	New Lease	63,960
Swisslog	161 Enterprise Drive	Oakland	Lease Renewal	44,066
Kitchen Design, Inc.	241 Enterprise Drive	Oakland	New Lease	40,000

Source: Newmark Research, CoStar

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Market Statistics





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