

# industrial

## 2015 hampton roads real estate market review

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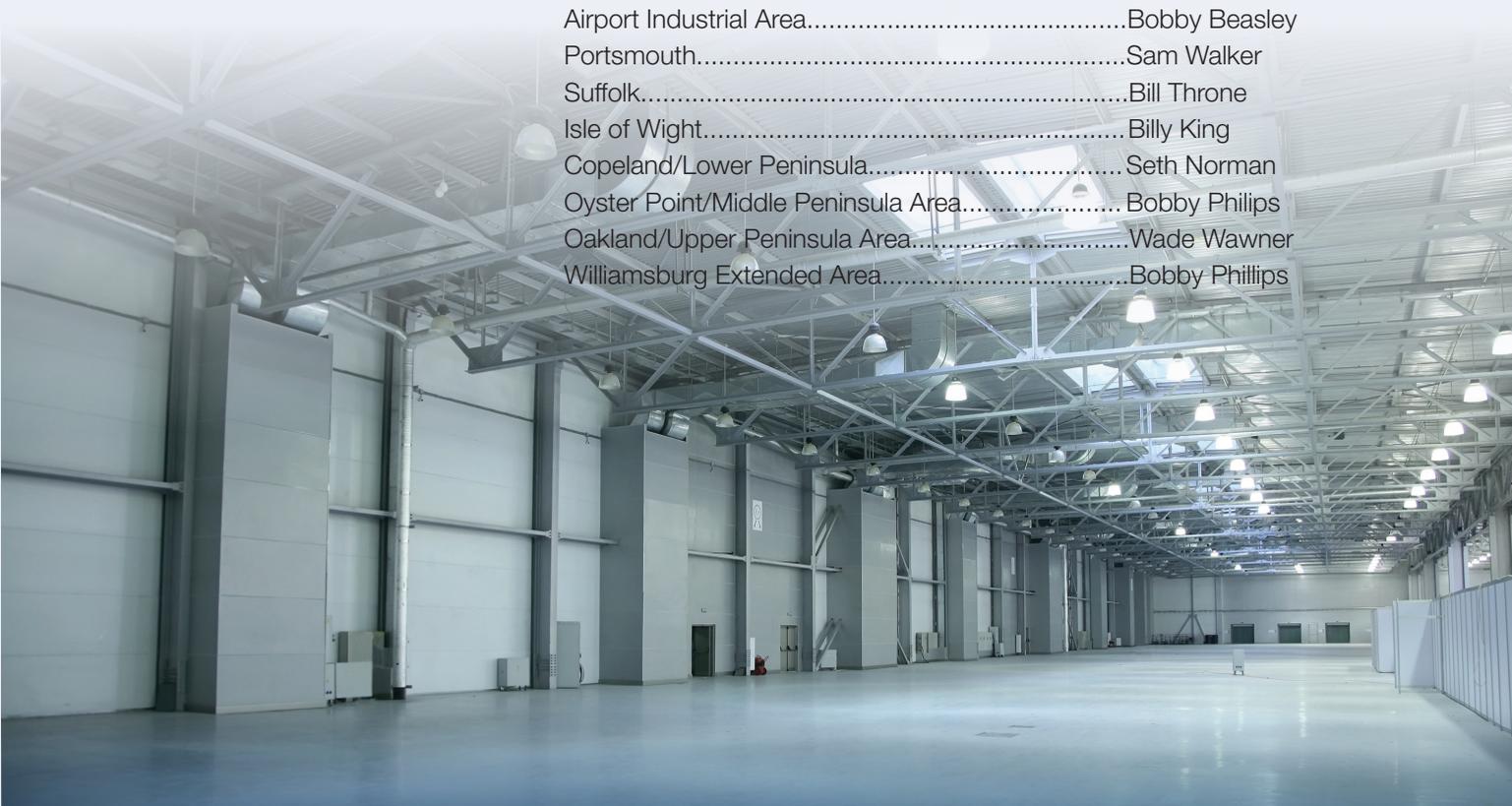
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Suffolk.....Bill Throne  
Isle of Wight.....Billy King  
Copeland/Lower Peninsula.....Seth Norman  
Oyster Point/Middle Peninsula Area.....Bobby Phillips  
Oakland/Upper Peninsula Area.....Wade Wawner  
Williamsburg Extended Area.....Bobby Phillips



## General Overview

**T**his report analyzes the 2014 industrial real estate conditions within the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area (the MSA) that is also known as Hampton Roads. It provides inventory, vacancy, rent, sale and other data for the MSA. The survey includes properties in the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, plus the counties of Gloucester, James City, York and Isle of Wight.



## METHODOLOGY

This survey includes the following types of properties:

- Office-warehouse, industrial and shop facilities of 5,000 square feet or greater, although some facilities of less than 5,000 may be included.
- Properties must have less than 80% office space to be included in the ODU survey.
- Both owner-occupied and leased properties are included. Owner-occupied is defined as property that is 100% occupied by a business that is the same as or is related to the owner of the building.
- All properties that are available and are listed for sale or lease regardless of whether they are occupied, unless they are strictly available for sale as an investment property, for example, a property that is available for sale and is currently occupied on a short term lease.
- All properties that have commenced construction (foundations installed as a minimum).

The Survey excludes the following types of properties:

- Land
- Warehouse or shop facilities on shipyard properties.
- Warehouse or industrial facilities on federal government property (e.g. military installations).
- Industrial facilities on government property (e.g. Norfolk International Terminal or Newport News Marine Terminal).

Functional submarket delineations are determined with some regard to city boundaries but boundaries are not determinative. The entire market is divided into 16 submarkets defined by industrial building concentrations, the transportation network, and pertinent physical features. The area map included in this report provides a location for key reference.

The E.V. Williams Center for Real Estate and Economic Development (CREED) at Old Dominion University has been tracking the inventory of the Hampton Roads industrial market since 1995. The results of this year's survey (collected during the 4th quarter of 2014) indicate that the Hampton Roads industrial market currently encompasses 107,695,634 square feet of space located in 2,878 buildings throughout the Region. Totals may differ from other market surveys due to the self-imposed limitations established by the ODU CREED methodology described previously.

## EXECUTIVE SUMMARY

2014 continues to show improvement with continued decline in vacancy for the fifth year running. Overall Hampton Roads vacancy fell by only 0.6%, reflecting weak leasing activity and limited new development.

2010	12.48%	0.46% decline
2011	12.12%	0.36% decline
2012	11.47%	1.01% decline
2013	9.88%	2.24% decline
2014	9.28%	0.57% decline

A few conclusions from the details of the survey:

1. The improvement was relatively uniform between Southside and the Peninsula submarkets.
2. Larger blocks of distribution/warehouse space have accounted for the bulk of the absorption in the Southside market.
3. Huntington Ingalls has been a significant driver for Peninsula absorption.
4. Port related warehouse requirements took down significant space on the Southside.

Many of submarkets have evolved to become healthy and active. Greenbrier saw an improvement to 5.69% vacancy, down from 7.37% in 2013. Westside/Midtown Norfolk dropped by 1.68% to 7.06%. On the Peninsula, both Oyster Point and Copeland saw continued improvement, with Oyster Point reducing vacancy to 2.69% from last year's 3.02%.

Submarkets aligned with significant population centers have fared well even with the downturn. Greenbrier and Oyster Point are good examples. Both have maintained strong occupancy rates over the last four years.

The Lynnhaven Submarket, another area surrounded by strong demographics, shows the same vibrancy when applying a little market knowledge. There are three buildings that dominate vacancy: 860,000 square feet on International Parkway and two buildings of 200,000 square feet each on London Bridge Road. With a median building size of 13,500 square feet, we can remove these outliers and calculate a more reflective vacancy rate of 6.7%.

Each submarket has its own distinct composition that influences both vacancy and historic trends. 25% of the Airport Industrial Park Submarket building stock is related to distribution. It may be surprising to note that this is the largest percentage in Hampton Roads. Suffolk is second with 17% of the inventory devoted to warehousing and distribution. This explains why both submarkets suffered during the peak of the recession and are now showing significant improvement in vacancy due to increased demand for warehouse space in support of the Port of Virginia.

On the other hand, submarkets with a high percentage of manufacturing, such as Isle of Wight (24%) and Oakland/Upper Peninsula can project a high overall vacancy rate with the idling of just one manufacturing facility of size. Manufacturing buildings are typically specialty-built, hard to reconfigure and repurpose, and tend to stay vacant for longer periods of time.

In summary, the market continues to trend in a positive direction. Slow and steady improvement in most submarkets is lowering vacancy rates and absorbing quality product. It is expected that 2015 will continue this trend.



In the coming year, we do expect a number of significant deliveries. Friant Furniture will occupy a new building of 357,000 square feet in Suffolk and Federal Express will take delivery of a new 190,000 square foot facility on the Peninsula. Oceaneering International will move into its new build-to-suit location in Greenbrier, Chesapeake in early 2015. This marks the sixth new building constructed since 2010, totaling almost 1.7 million square feet. Certainly slow and steady progress.

The Port of Virginia continues to be the brightest economic driver for the region and the industrial market. The largest volume of lease transactions will continue to be in warehousing/distribution space. Employment and gross regional product growth is expected to be modest. Military spending and Sequestration impact will most likely be negative. Manufacturing may be the unexpected winner this year with energy costs and availability very attractive to high-energy process users. Overall, 2014 points toward another year of stability and measured growth in the industrial sector through 2015.

## VACANCIES AND ABSORPTION

There are two unique features of the ODU/CREED Survey - one is the use of SIOR real estate professionals to collect and collate the data from each submarket. These individuals are more than researchers; they are a select group of professionals that work in each submarket on a daily basis. They are in tune to the nuances of the market and trends and forces that shape them. Second, the data are collected in December of the reporting year, yielding an accurate year-to-year summary of market performance.

Absorption is calculated as a simple increase or decrease in occupied space. Historically, market inventory changes with deliveries and demolitions. Other factors influencing total submarket inventory include adaptive re-use of industrial properties, such as conversion of a warehouse to office space or assembly use. The building data presented has dealt with these changes consistently over the years, giving a true historical view of each Submarket presented below.

### SUBMARKET TOTALS

Submarket	City	Bldgs Surveyed	Reporter	Total Sq Ft	Vacancy Sq Ft	Vacancy %
Greenbrier Area	Chesapeake	288	Kaempfe	8,813,773	501,759	5.69%
Bainbridge/S. Elizabeth River Area	Chesapeake	143	Worley	5,793,609	461,064	7.96%
Cavalier Industrial Park Area	Chesapeake	210	Mumey	6,882,965	746,693	10.85%
Norfolk Commerce Park/ Central Norfolk Area	Norfolk	144	Remick	5,265,852	636,098	12.08%
Norfolk Industrial Park Area	Norfolk	359	Dickinson	10,218,723	863,560	8.45%
West Side/Midtown Norfolk Area	Norfolk	283	King	6,857,064	483,892	7.06%
Lynnhaven Area	Virginia Beach	308	Baker	9,028,768	1,874,781	20.76%
Greenwich/Cleveland Streets Area	Virginia Beach	141	Throne	3,051,799	204,380	6.70%
Airport Industrial Park Area	Virginia Beach	75	Beasley	3,744,496	326,108	8.71%
City of Portsmouth	Portsmouth	173	Walker	4,552,298	762,492	16.75%
City of Suffolk	Suffolk	130	Throne	12,282,886	667,879	5.44%
Isle of Wight	Isle of Wight	35	King	3,989,395	686,072	17.20%
<b>Southside Totals</b>		<b>2,289</b>		<b>80,481,628</b>	<b>8,214,778</b>	<b>10.21%</b>
Copeland/Lower Peninsula Area	Peninsula	330	Norman	10,551,398	785,331	7.44%
Oyster Point/Middle Peninsula Area	Peninsula	128	Phillips	4,360,127	117,477	2.69%
Oakland/Upper Peninsula Area	Peninsula	116	Wawner	4,959,707	449,724	9.07%
Williamsburg Extended Area	Peninsula	64	Phillips	9,120,291	590,635	6.48%
<b>Peninsula Totals</b>		<b>638</b>		<b>28,991,523</b>	<b>1,943,167</b>	<b>6.70%</b>
<b>Totals</b>		<b>2,927</b>	Sanker	<b>109,473,151</b>	<b>10,157,945</b>	<b>9.28%</b>

#### Greenbrier Area

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
288	8,813,773	501,759	5.69	2014	1.68%	142,727
286	8,747,398	644,486	7.37%	2013	-0.83%	72,783
286	8,747,532	717,269	8.20%	2012	-0.16%	1,398
283	8,593,530	718,667	8.36%	2011	-2.78%	237,966
283	8,587,634	956,633	11.14%	2010	2.29%	(206,751)
282	8,469,468	749,882	8.85%	2009	3.00%	(258,755)

The continued success of this submarket demonstrates a property balanced industrial market in relation to the surrounding community. Greenbrier is central to a large population base. It is part of a larger mixed-use area, which includes fully blended housing stock, office, and retail development as well as hospitality and dining. The City of Chesapeake announced the delivery of a new industrial park on 100 acres north of I-64 at Greenbrier. Formerly state-owned land, the project will kick-off with a 150,000 square foot build-to-suit for Oceaneering by Armada Hoffer Properties.

#### Bainbridge/S. Elizabeth River Area

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
143	5,793,609	461,064	7.96%	2014	0.93%	(53,600)
143	5,793,609	407,464	7.03%	2013	-4.46%	262,108
143	5,829,489	669,572	11.49%	2012	3.81%	(221,651)
143	5,829,489	447,921	7.68%	2011	-3.62%	211,700
143	5,835,039	659,621	11.30%	2010	2.97%	(170,113)
142	5,877,538	489,508	8.33%	2009	-5.41%	261,450

Look for this market to tighten considerably in 2015. Two buildings totaling 400,000 square feet currently shown as vacant will be off the market. Effective vacancy will drop to 1.1%. Much of the industrial inventory in the Bainbridge submarket is specialty industrial/waterfront. There is little turnover from year-to-year.

**Cavalier Industrial Park Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
210	6,882,965	746,693	10.85%	2014	-1.08%	55,644
203	6,725,727	802,337	11.93%	2013	-4.85%	243,821
194	6,235,240	1,046,158	16.78%	2012	2.37%	(161,621)
189	6,138,520	884,537	14.41%	2011	1.02%	(71,005)
189	6,075,045	813,532	13.39%	2010	4.20%	(257,846)
188	6,045,061	555,686	9.19%	2009	0.92%	(72,252)

Cavalier continues to improve, and is another market that should see a return to health in 2015. Even with a slow and tepid recovery in the industrial sector, industrial users will begin to consider this submarket as an acceptable alternative to core industrial areas, with good access to the entire Region via the intersection of I-64/I-664/I-264 and Route 58 at Bowers Hill. Cavalier offers a good blend of small-to-large properties at affordable rents.

**Norfolk Commerce Park/Central Norfolk Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
144	5,265,852	636,098	12.08%	2014	2.66%	(147,149)
143	5,191,198	488,949	9.42%	2013	-0.80%	32,709
142	5,104,077	521,658	10.22%	2012	-1.11%	100,621
143	5,492,451	622,279	11.33%	2011	-4.97%	264,739
144	5,442,588	887,018	16.30%	2010	-22.11%	1,832,432
144	7,080,388	2,719,450	38.41%	2009	1.63%	(115,242)

Vacancy increased in 2014 with USA Discounters moving out of 115,000 square feet on Barraud Avenue. The market remains healthy, however, with new leasing/sales activity, particularly in the flex market. The location offers industrial users easy access to I-64/I-264 and Norfolk Naval Base/Naval Air Station. Look for improvement in 2015.

**Norfolk Industrial Park Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
359	10,218,723	863,560	8.45	2014	1.12	(117,388)
358	10,179,865	746,172	7.33%	2013	-0.78%	87,001
357	10,268,991	833,173	8.11%	2012	0.53%	(44,740)
352	10,408,152	788,433	7.58%	2011	-4.20%	413,163
352	10,196,224	1,201,596	11.78%	2010	-1.71%	197,661
348	10,372,544	1,399,257	13.49%	2009	7.71%	(804,657)

Norfolk Industrial Park is one of the largest submarkets and has some of the oldest buildings in Hampton Roads. It has a strategic location advantage within the region. Close to Norfolk International Terminal, it services import/export companies and has seen a significant drop in high-cube warehouse space as tenants seek to lock down positions for current and future contracts. The U.S. Postal Service vacated 60,000 square feet on Trant Avenue that was quickly back-filled by Land N' Sea, a local Norfolk Industrial Park tenant. Vacancy increase in 2014 is minimal, with a predicted decrease in vacancy in the coming year.

**West Side/Midtown Norfolk Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
283	6,857,064	483,892	7.06%	2014	-1.88%	128,652
286	6,850,529	612,544	8.94%	2013	0.31%	(22,598)
281	6,839,429	589,946	8.63%	2012	0.57%	(43,675)
277	6,780,759	546,271	8.06%	2011	-0.92%	30,211
271	6,418,873	576,482	8.98%	2010	2.11%	(132,711)
271	6,463,281	443,771	6.87%	2009	2.39%	(157,098)

This Submarket continues to perform well. West Side/Midtown Norfolk primarily serves local market industrial needs and defense contracts. With little-to-no land to build on, the prediction for 2015 is for continued tightening as vacant space gets absorbed with no new deliveries. There may be opportunity in this submarket for rehabilitation of existing obsolete industrial properties.

**Lynnhaven Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
308	9,028,768	1,874,781	20.76%	2014	-2.12%	185,137
308	9,002,535	2,059,918	22.88%	2013	11.83%	1,082,812
306	8,842,216	977,106	11.05%	2012	-8.07%	671,136
283	8,618,677	1,648,242	19.12%	2011	5.09%	(507,017)
283	8,132,331	1,141,225	14.03%	2010	1.33%	(125,592)
278	7,994,242	1,015,633	12.70%	2009	-0.30%	(268)

Virginia Beach has had a good industrial year in 2014 and should have continued success in 2015. Recent activity in the Lynnhaven submarket has reduced overall vacancy by 2.12%. Occupancy restrictions associated with NAS Oceana (AICUZ/APZ/ air rights) have not blunted leasing or sale activity. Major announcements this year include the consolidation of a number of VT Milcom facilities to 2505 International Parkway, a building of 90,000 square feet.

**Greenwich/Cleveland Streets Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
141	3,051,799	204,380	6.7%	2014	-4.49%	172,840
165	3,372,441	377,220	11.19%	2013	1.31%	(77,626)
125	3,031,458	299,594	9.88%	2012	0.04%	1,123
125	3,057,300	300,717	9.84%	2011	3.20%	(97,413)
125	3,063,856	203,304	6.64%	2010	0.68%	(19,090)
125	3,089,916	184,214	5.96%	2009	1.35%	(39,371)

Smaller, multi-tenanted buildings dominate the Cleveland Street submarket, and vacancy has dropped to a more typical low. Located in a high density population area with only three million square feet means demand will stay high. The area lacks developable land for future development. Located within one of Virginia Beach's Strategic Growth Areas, expect this submarket to see substantial evolution over the coming years. Some of the existing inventory will see redevelopment to higher and better use.

**Airport Industrial Park Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
75	3,744,496	326,108	8.71%	2014	0.49%	(19,950)
73	3,722,427	306,158	8.22%	2013	-4.39%	153,057
72	3,641,362	459,215	12.61%	2012	0.38%	(14,000)
72	3,641,362	445,215	12.23%	2011	-6.12%	222,160
72	3,637,737	667,375	18.35%	2010	8.68%	(318,289)
71	3,611,776	349,086	9.67%	2009	0.72%	(30,855)

Demand for space close to the center of the Hampton Roads industrial market has boosted absorption in Airport Industrial Park. Distribution space close to the Port is beginning to be at a premium, filling much of what is available in this submarket. A relatively small submarket at less than four million square feet, the average building size is 49,927 square feet and the median size is 37,000 square feet. This is the largest median size in the Hampton Roads market, with 1/2 of the buildings being larger than 37,000 square feet. The median size for Hampton Roads is 16,607 square feet.

**City of Portsmouth**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
173	4,578,612	762,492	16.65%	2014	0.54%	(53,002)
173	4,404,849	709,490	16.11%	2013	2.17%	(112,920)
162	4,280,345	596,570	13.94%	2012	2.62%	(117,721)
158	4,228,501	478,849	11.32%	2011	4.14%	(175,704)
161	4,221,156	303,145	7.18%	2010	1.68%	(40,550)
154	4,775,530	262,595	5.50%	2009	-0.44%	(18,368)

Vacancy in Portsmouth demonstrates the difficulties that have faced the Hampton Roads market over the last seven years: low demand for space and long time from tour to execution of lease documents. As with most submarkets, a number of large square footage properties skew the vacancy rates. Portsmouth should see improvement this year.

**City of Suffolk**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
130	12,282,886	667,879	5.44%	2014	-3.01%	313,620
127	11,611,580	981,499	8.45%	2013	-4.60%	335,333,485
127	11,612,335	1,514,984	13.05%	2012	-1.03%	123,918
126	11,637,163	1,638,902	14.08%	2011	-4.19%	476,416
124	11,578,012	2,115,318	18.27%	2010	-0.86%	134,326
123	11,762,676	2,249,644	19.13%	2009	6.29%	(757,343)

It was a frenetic year for Suffolk industrial product in 2014. Almost all available warehousing and distribution product was leased and new construction for Friant Furniture at CenterPoint Intermodal Center (357,000 square feet) suggests that increased Port volumes may be bringing the industrial demand we expected. Vacancy fell to a historic low of less than 6%. While many of these lease transactions were short term deals of one year or less, expect vacancies to remain tight in 2015 with new leases signed for longer terms. Suffolk may capture one or two more build-to-suits in 2015 of significant size.

**Isle of Wight**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
35	3,989,395	686,072	17.20%	2014	3.33%	(172,308)
34	3,703,887	513,764	13.87%	2013	1.24%	(33,114)
34	3,807,023	480,650	12.63%	2012	-13.13%	500,000
34	2,807,023	980,650	25.76%	2011	7.03%	(424,374)
30	2,970,400	556,276	18.73%	2010	-9.72%	199,940
28	2,658,340	756,216	28.45%	2009	15.71%	(400,450)

Recent industrial vacancies in southern Isle of Wight County affected vacancy in 2014. A number of large facilities currently on the market drove vacancies to over 17%. Isle of Wight's proximity to the Ports as well as the proposed New Route 460 will have a positive impact on land at the east end of the county, as companies look to access I-95/I-85 heading northbound toward Richmond. Current major tenants include Smithfield Foods, Keurig Green Mountain, Cost Plus World Market, Safo Products Company and International Paper. These companies occupy almost three million square feet and validate Isle of Wight's position as a significant industrial submarket in Hampton Roads.

**Copeland/Lower Peninsula**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
330	10,551,398	785,331	7.44%	2014	<b>-0.98%</b>	102,686
330	10,551,398	888,017	8.42%	2013	<b>-11.47%</b>	1,308,472
339	11,041,469	2,196,489	19.89%	2012	<b>2.16%</b>	(207,340)
346	11,218,810	1,989,149	17.73%	2011	<b>0.94%</b>	49,415
370	12,139,266	2,038,564	16.79%	2010	<b>0.07%</b>	3,044
400	12,213,348	2,041,608	16.72%	2009	<b>-3.70%</b>	4,010

Huntington Ingalls Shipyard continued its dominant presence in the submarket. Large blocks of space are functionally obsolete and located in less than desirable areas. In practice, current actual market vacancy rates are less than 7.44%. Tenants or buyers looking for quality space in the Copeland submarket should expect to move aggressively on functional properties. With 330 buildings making up 10.5 million square feet, this submarket has the most buildings in Hampton Roads and is second only to Suffolk in total square feet. The median building size in Copeland is 12,412 square feet, indicating a well-balanced market of large and small industrial facilities.

**Oyster Point/Middle Peninsula Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
128	4,360,127	117,477	2.69%	2014	<b>-0.33%</b>	14,292
128	4,360,127	131,769	3.02%	2013	<b>0.69%</b>	(28,940)
130	4,417,127	102,829	2.33%	2012	<b>-4.15%</b>	182,000
129	4,395,259	284,829	6.48%	2011	<b>2.85%</b>	(127,626)
123	4,330,663	157,203	3.63%	2010	<b>-0.72%</b>	35,754
128	4,430,793	192,957	4.35%	2009	<b>2.70%</b>	(125,300)

Oyster Point is a high quality business environment with office, hospitality, lodging and industrial space. It is similar in balance to Greenbrier on the Southside. There are not many large industrial facilities (12,000 square foot median building size) and the smaller industrial buildings are released quickly. This is a healthy submarket with a good track record, and 2015 should show continued tightening.

**Oakland/Upper Peninsula Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
116	4,959,707	449,724	9.07%	2014	<b>-1.38%</b>	68,401
116	4,959,707	518,125	10.45%	2013	<b>-4.15%</b>	192,141
118	4,866,068	710,266	14.60%	2012	<b>0.74%</b>	(40,717)
116	4,829,759	669,549	13.86%	2011	<b>2.28%</b>	(97,658)
134	4,940,030	571,891	11.58%	2010	<b>5.36%</b>	(268,670)
133	4,872,279	303,221	6.22%	2009	<b>-0.42%</b>	14,640

One property of 266,000 square feet has been on the market for over four years. Currently it is under contract for purchase. As with other submarkets, these significant vacancies skew the overall numbers. The average building size is 42,756 square feet with a median size of 10,000 square feet, the lowest in the Hampton Roads industrial market. Market reality in 2015 suggests an extreme shortage of functional/marketable industrial properties for lease or purchase across the square foot spectrum.

**Williamsburg Extended Area**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
64	9,120,291	590,635	6.48%	2014	<b>-0.11%</b>	9,912
63	9,108,064	600,547	6.59%	2013	<b>-0.44%</b>	41,654
62	9,131,473	642,201	7.03%	2012	<b>0.18%</b>	(16,714)
62	9,128,673	625,487	6.85%	2011	<b>1.76%</b>	(160,834)
62	9,123,000	464,653	5.09%	2010	<b>1.10%</b>	(105,510)
60	9,004,935	359,143	3.99%	2009	<b>-0.25%</b>	22,459

While the overall square footage of this market is substantial, adjusting for the dominant occupiers such as Walmart (3,000,000 million square feet), Anheuser Busch (2,000,000 square feet), Ball Metal (455,000 square feet), Haynes Furniture (300,000 square feet), Owens Brockway (316,000 square feet) and Lumber Liquidators (300,000 square feet), the remaining market is smaller and generally stable.

**SOUTHSIDE TOTALS:**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
2,289	80,507,942	8,214,778	10.20%	2014	<b>-0.70%</b>	435,223
2,259	78,965,062	8,521,961	10.79%	2013	<b>-0.34%</b>	183,934
2,229	78,239,497	8,705,895	11.13%	2012	<b>-1.01%</b>	794,788
2,185	78,232,927	9,500,683	12.14%	2011	<b>-1.10%</b>	680,842
2,177	76,158,895	10,181,525	13.24%	2010	<b>-1.05%</b>	993,417
2,074	78,200,760	11,174,942	14.29%	2009	<b>2.81%</b>	(2,393,209)

**PENINSULA TOTALS:**

# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
638	28,991,523	1,943,167	6.70%	2014	<b>-0.68%</b>	195,291
637	28,979,296	2,138,458	7.38%	2013	<b>-5.02%</b>	1,513,327
649	29,456,137	3,651,785	12.40%	2012	<b>0.33%</b>	(82,771)
653	29,572,501	3,569,014	12.07%	2011	<b>1.48%</b>	(336,703)
689	30,532,962	3,232,311	10.59%	2010	<b>1.10%</b>	(335,382)
721	30,521,355	2,896,929	9.49%	2009	<b>-0.59%</b>	(84,191)

**HAMPTON ROADS GRAND TOTALS:**

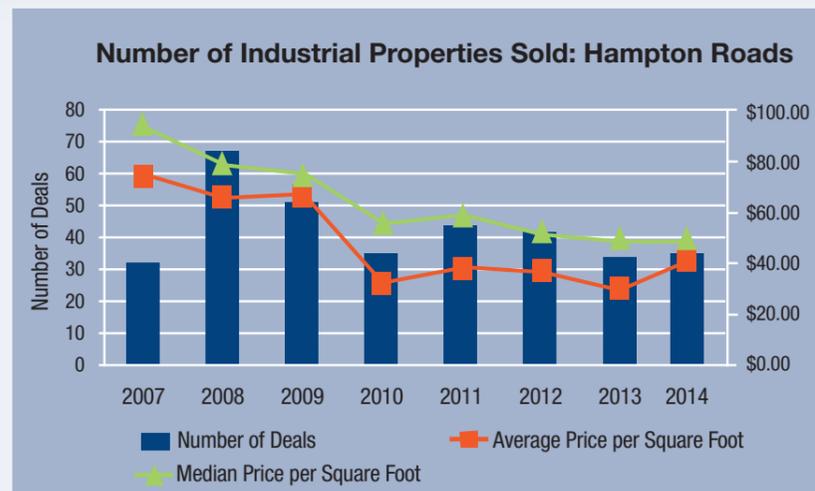
# of Buildings	Total SF	Vacant SF	Vacancy Rate	Year	% change	Absorption
2,927	109,499,465	10,157,945	9.28%	2014	<b>-0.69%</b>	630,514
2,936	108,285,341	10,788,459	9.96%	2013	<b>-1.51%</b>	1,569,221
2,878	107,695,634	12,357,680	11.47%	2012	<b>-0.65%</b>	712,017
2,838	107,805,428	13,069,697	12.12%	2011	<b>-0.36%</b>	244,139
2,866	106,691,857	13,313,836	12.48%	2010	<b>-0.46%</b>	758,035
2,795	108,722,115	14,071,871	12.94%	2009	<b>1.84%</b>	(2,477,400)

## BUILDING SALES

Building sales were modest for 2014, and appear to be leveling off after a slight rise in 2011 and 2012. Most building purchases were by owner/occupants. This may explain the lack of vibrancy in the 'for sale' market as companies elect to stay conservative with cash and are reluctant to tap into limited corporate debt.

New construction/commodity pricing continues to rise. Replacement cost for the average building sold in 2014 (37,124 square feet average size/29,640 square feet median size) would be approximately \$100.00 per square foot (depending on build-out) including land and soft costs. It is worth noting that very few of the Hampton Roads submarkets offer sites for development.

With the average per square foot purchase price at \$41.31 per square foot (median cost: \$48.00 per square foot) companies that choose to purchase today may be rewarded tomorrow.



### A few more analytical notes:

- Average Price per square foot rebounded from last year's historic low, but is still shy of the eight-year average of \$47.71 per square foot:
  - 2014: \$41.31 per square foot
  - 2013 the historic low: \$28.62 per square foot
  - 2007 the historic high: \$73.26 per square foot
  - 2007-2014 average PSF: \$47.71 per square foot
- Median Price per square foot essentially unchanged:
  - 2014: \$48.00 per square foot
  - 2007 the historic high: \$94.54 per square foot
  - 2010 the historic low: \$56.21 per square foot
  - 2007-2014 median PSF: \$64.01 per square foot
- Total Deal volume remains low, but increasing:
  - 2014: \$60,610,365
  - 2010 the historic low: \$39,050,991
  - 2008 the historic high: \$136,634,858
  - 2007-2014 average volume: \$72,345,024
- Are we coming out of this recession?
 

Total deal volume may be a very good indicator of where the local economy is at. Building purchases are driven by a combination of buyer demand and desire/capacity to borrow. Without both, purchase volume will demonstrate lackluster results.

## REPRESENTATIVE BUILDING SALES

### Bainbridge

800 Seaboard Avenue, Chesapeake  
November 2014 58,000 square feet \$3,050,000 \$52.59 per square foot

### Norfolk Industrial Park

1360 Ingleside Road, Norfolk  
October 2014 13,500 square feet \$900,000 \$66.67 per square foot  
3440 Trant Avenue, Norfolk  
October 2014 122,577 square feet \$4,550,000 \$37.12 per square foot

### West Side/Midtown

721 East 25th Street, Norfolk  
October 2014 22,689 square feet \$540,000 \$23.80 per square foot  
519 Front Street, Norfolk  
March 2014 60,000 square feet \$1,175,000 \$19.58 per square foot

### Airport Industrial Park

5819 Ward Court, Virginia Beach  
August 2014 50,439 square feet \$1,800,000 \$35.69 per square foot

### Lynnhaven

2509 Encounter Court, Virginia Beach  
November 2014 12,750 square feet \$678,000 \$53.18 per square foot  
949 Seahawk Circle, Virginia Beach  
April 2014 34,108 square feet \$1,550,000 \$45.44 per square foot

### Greenwich/Cleveland Street

228 Pennsylvania Avenue, Virginia Beach  
March 2014 20,544 square feet \$800,000 \$38.94 per square foot

### Portsmouth

528 Lincoln Avenue, Portsmouth  
December 2014 10,673 square feet \$705,000 \$66.05 per square foot

### Oakland Upper Peninsula

725 Industrial Drive, Newport News  
December 2014 5,000 square feet \$340,425 \$68.09 per square foot  
275/281 Pickett Line Road, Newport News  
February 2014 115,700 square feet \$5,113,940 \$44.20 per square foot

### Williamsburg Extended

149 Warwick Court, Williamsburg  
April 2014 51,300 square feet \$3,200,000 \$62.38 per square foot

## LEASING

Leasing activity in 2014 improved over 2013, and appeared to accelerate in response to Port-related requirements. By year end, very little high cube warehouse is available. Companies such as California Cartage and General Services Corporation looked to lock down space in support of existing third party contracts and anticipated demand for 2015.

Coffee looks to become a major import commodity, with existing companies such as Keurig Green Mountain, Smuckers, Massimo Zanetti, RPM Warehouses, and Continental Terminals looking to expand their existing base of roasting, packaging and warehousing of coffee. New companies looked at the market. For example, Pacorini Logistics is committing to 150,000 square feet of new warehouse space in Northgate Industrial Park in Suffolk.

This trend will continue in high cube warehouse space, where many tenants are demanding higher clear height, greater sprinkler capacities, and superior loading/trailer storage. New fire/life safety demands are also moving tenants away from older buildings with wet or dry systems that severely hamper the ability to manufacture or store product.

Many submarkets are experiencing shortages in quality small space as well. The majority of industrial companies in the Hampton Roads market are looking for 10,000 to 30,000 square feet of space. It will become increasingly difficult to find properties that have appropriate fire suppression, offer functional dock/grade level loading, and the clear height needed to operate. Look for rental rates in these more common sizes to increase in 2015.

## REPRESENTATIVE INDUSTRIAL LEASING

### Warehouse and Distribution

4500 Progress Road, Norfolk	44,000 square feet	\$4.00 NNN
115 Dill Road, Suffolk	71,950 square feet	\$2.25 NNN
2513 58th Street, Newport News	53,622 square feet	\$3.85 NNN

### General Industrial

550 Woodlake Drive, Chesapeake	32,000 square feet	\$5.35 NNN
1569 Diamond Springs Rd, Virginia Beach	20,000 square feet	\$5.50 NNN
1230 Scholastic Way, Chesapeake	16,400 square feet	\$5.50 NNN
903 Live Oak Drive, Chesapeake	10,000 square feet	\$6.50 NNN

### Flex, Sales and Service

4021 Seaboard Court, Portsmouth	6,500 square feet	\$10.07 NNN
1133 Executive Boulevard, Chesapeake	8,000 square feet	\$9.55 NNN
916 Cavalier Boulevard, Chesapeake	4,500 square feet	\$11.50 NNN

## RENTS FOR AVAILABLE SPACES BY SIZE RANGE 2014

Size Range	Property Type	Rent Range / Average
<5,000 square feet	Warehouse	\$5.50-\$7.50
	General Industrial	\$6.00-\$7.25
	Flex, Sales and Service	\$7.50-\$12.00
	General Average:	\$8.11 NNN
5,000 to 20,000 square feet	Warehouse	\$4.00-\$6.50
	General Industrial	\$5.50-\$7.00
	Flex, Sales and Service	\$6.50-\$10.00
	General Average:	\$6.23 NNN
20,000-40,000 square feet	Warehouse	\$3.85-\$5.95
	General Industrial	\$6.00-\$7.25
	Flex, Sales and Service	\$7.50-\$8.00
	General Average:	\$5.46 NNN
40,000-60,000 square feet	Warehouse	\$3.25-\$5.00
	General Industrial	\$5.00-\$6.00
	Flex, Sales and Service	\$ n/a
	General Average:	\$3.77 NNN
>60,000 square feet	Warehouse	\$2.75-\$4.35
	General Industrial	\$ n/a
	Flex, Sales and Service	\$ n/a
	General Average:	\$3.41 NNN

Lease rates throughout Hampton Roads saw very little change in 2014. With overall leasing activity up in 2014, and vacancies declining, look for the market to begin an upward trend in NNN rates. Many of the short term leases cast in 2014 will renew in 2015 for longer terms. On the other side of the coin, total lease activity is still modest.

The gap between existing rents and those required to build new product is still too large to encourage development. Expect further tightening in the market over the next twelve months.

## MAJOR MARKET ACTIVITY

Aside from normal market transactions, there have been a number of significant industrial market developments worthy of note. Major transactions in the market include the signing of Friant Furniture to a build-to-suit in Suffolk for 357,000 square feet. California Cartage absorbed over 360,000 square feet of warehouse space in four separate deals including 130,860 square feet of cross dock space on Military Highway in the Cavalier submarket. EIS, Inc. leased 130,860 square feet at 3800 Cook Boulevard in Chesapeake, VT Milcom consolidated into 90,000 square feet in Virginia Beach.

### • Friant Furniture. 357,000 square feet build-to-suit warehouse facility.

This is the third building erected by CenterPoint Development in Suffolk, succeeding Ace Hardware and the Navy Exchange Warehouse. Total developed to date is approximately one million square feet, and occupancy from lease execution can be numbered in months, not years. The City of Suffolk has proven that a build-to-suit time-frame model can work in competition with existing buildings.

### • California Cartage.

With the execution of a lease for the 130,860 square foot cross dock facility in Chesapeake, Cal Cartage has taken over a first class facility that has been vacant since 2011.

### • VT Milcom.

This deal proves that Virginia Beach can attract industrial companies while working with the U.S. Navy alongside restrictions associated with NAS Oceana. AICUZ, APZ and air rights can be successfully navigated with the help of the City, and in some cases there are special economic incentives to locate within those restricted areas. 90,000 square feet of industrial product will be put to use by VT Milcom in 2015.

## NON-REAL ESTATE INFLUENCES ON THE REGIONAL INDUSTRIAL MARKET

Beyond real estate transactions, the following events occurred in 2014 that will influence the Hampton Roads industrial market for years to come.

### The Port of Virginia

The Port of Virginia had a record-setting 2014 with more than 2.39 million TEU's handled in 2014. Ship calls for the year increased by 4.9% to 1957. General cargo was up 1.2%.

Challenges do remain, specifically truck and rail delays at the terminals. Norfolk International Terminal will be serviced by the new I-564 Terminal Connector. The objective is to provide a safe, high-speed, highway connection from the existing I-564 to the Norfolk International Terminals and the Norfolk Naval Station. This road realignment will alleviate congestion and improve the level of service on city and naval station streets. The road repositioning will also reduce truck traffic on the adjacent roadways. In addition, it is hoped to be the first section in place for the proposed Patriot's Crossing.

In August of 2014 investment firms Alinda Capital Partners and the U.K.-based Universities Superannuation Scheme Ltd. purchased the 576-acre former APM container terminal. Long known simply as APM's Portsmouth facility, the terminal has been renamed Virginia International Gateway. The Virginia Port Authority, now four years into a 20-year lease at the facility, will continue to operate at the terminal.

### Transportation and Infrastructure.

**Tolls.** With tunnel tolls in place on routing from east to west under the Elizabeth River, the cost of moving product from Norfolk International Terminal and warehousing on the east side of the river will increase. It has been difficult to quantify the effect this cost has had on port volume.

**Route 460.** The Rt. 460 expansion is yet again under way with a new governor. Routing challenges, wetlands mitigation and cost will all remain large hurdles to moving product and cars out of Hampton Roads. While it is not expected to have a huge influence on ships calling on the Port, routing choices could seriously hamper development along the new routing, specifically in Windsor and Isle of Wight. With more than 1,900 acres of industrial zoned land in play, alignment will be a critical issue for the area.

**Martin Luther King Extension.** Work has begun to extend the MLK Freeway from London Blvd. to I-264 with a partial interchange at High Street. This extension will provide more direct access between the Midtown and Downtown tunnels while adding a shorter, more direct route to I-264 from the newly branded Virginia International Terminal.

**High Rise Bridge Replacement.** In January of 2014 the City Council of Chesapeake went on record favoring a fixed-span replacement for the I-64 High-Rise Bridge that would be 30 feet taller than the present drawbridge. VDOT has begun an environmental study for the improvement of the I-64 corridor from I-464 to I-664/264, including the High Rise Bridge. The purpose of the environmental study is to develop alternative solutions to address insufficient transportation capacity and correct roadway and bridge deficiencies throughout the corridor. In addition to the positive impact on roadway transportation, raising the bridge would benefit heavy industrial waterfront users along the Southern Branch of the Elizabeth River.

### International Coffee Exchange (ICE) certification.

In July of 2014 the Port was selected by ICE to be a delivery point, or exchange Port, for the coffee futures contract. The designation allows owners of exchange-graded coffee imports coming to Virginia and stored in local, exchange-licensed warehouses to be delivered against the coffee "C" futures contract. "This exchange Port status is very positive news for The Port of Virginia and the growth of the region's industry surrounding this commodity," said John F. Reinhart, CEO and executive director of the Virginia Port Authority. "The Port's coffee volumes the first five months of 2014 have increased by 20 percent when compared with 2013 and by 56 when compared with 2012 (on an annual basis). This is the second-largest coffee port on US East Coast and we believe this designation presents some very good opportunities for growth over the long-term." The change to the futures contract is effective Sept. 2016: the first Exchange deliveries in the Port cannot occur until that date.

### Energy

Energy costs in the U.S. and Virginia are attractive economic incentives for high-energy users worldwide. Capacity and pricing domestically are expected to be stable for the foreseeable future. European companies face higher energy costs at home. Europe has pursued energy production in renewable resources such as wind and solar. According to the International Energy Agency 2014 World Energy Investment Outlook (June 2014), four fifths of investment in European power generation went to renewables, which provide energy at significantly higher rates than natural gas or traditional fossil fuels. Regionally, the proposed Atlantic Coast Pipeline will add capacity to the benefit of Hampton Roads industrial manufacturing base. Virginia Governor McAuliffe stated: "It will be a game changer for the commonwealth on job creation."

## CONCLUSION

2014 was a modestly positive year, following an improving trend beginning in 2010. While the numeric gains were not extraordinary, it seems that the market has reached a tipping point.

- For real estate owners and practitioners, this return to health should mean shorter marketing time frames and increasing rents for 2015.
- Port related distribution and warehouse occupiers will be challenged to find the space they need to meet increased volume of product coming across the docks. This demand may spur development in western submarkets such as Suffolk and Isle of Wight.
- Manufacturers can benefit from lower energy costs and quality workforce. The Port of Virginia offers a double benefit to those companies engaged in import or export.
- ICE Certification could attract more coffee related businesses to the Region.

Lastly, a note on industrial land: Hampton Roads has not seen a major land transaction since 2007 (with the exception of the City of Chesapeake's purchase of the Greenbrier property from the State of Virginia). While there is over 2,100 acres of entitled land available to the west, there is little to no land in core submarkets. It may be a good time for developers to begin looking to purchase property, as values have retreated to 2007 levels. There are no large vacant blocks of space to the west to accommodate companies looking for over 200,000 square feet. Communities have proven that they will work together with developers to approve and deliver finished buildings in less than a year.

2015 could shape up to be a very interesting year. With the convergence of a number of external influences coupled with increasing demand, the industrial market should be a winner.



## Industrial Submarkets

### Southside

Airport Industrial Park  
 Bainbridge  
 Cavalier  
 Central Norfolk  
 Cleveland  
 Greenbrier  
 Isle of Wight  
 Lynnhaven  
 Norfolk Industrial Park  
 Portsmouth  
 Suffolk  
 West Norfolk

### Peninsula

Copeland  
 Oakland  
 Oyster Point  
 Williamsburg Extended  
 Hampton  
 Newport News