2025 30th ANNIVERSARY

HAMPTON ROADS REAL ESTATE MARKET REVIEW & FORECAST

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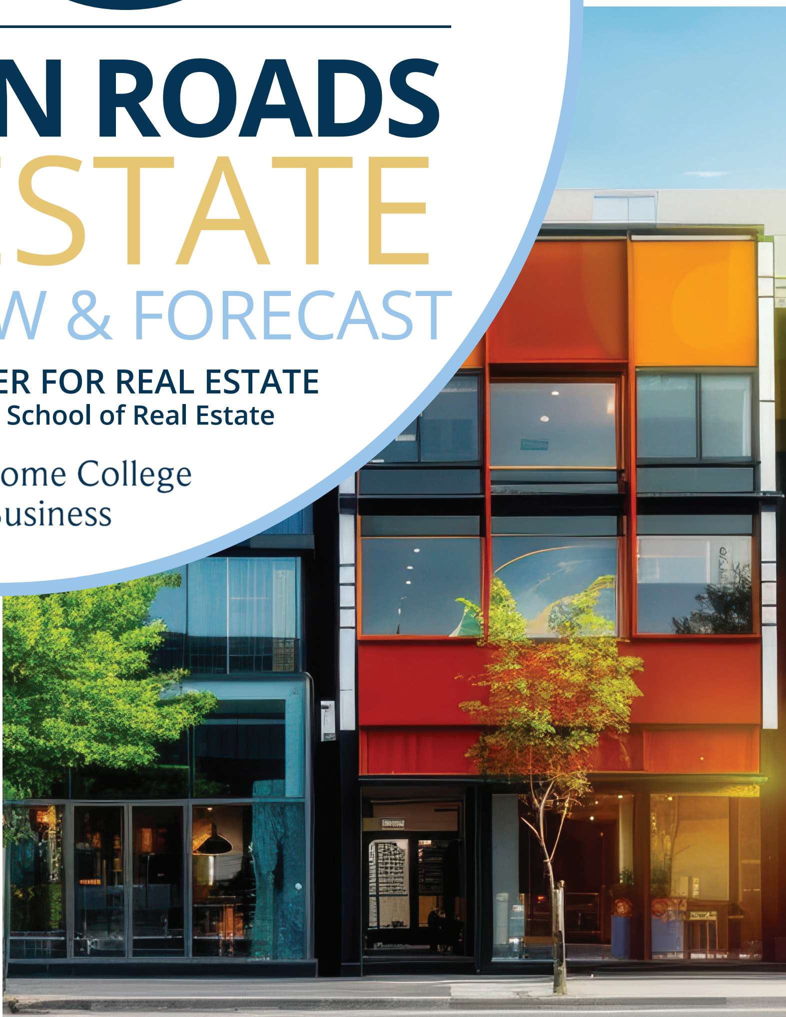

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30th Annual Hampton Roads Real Estate Market Review & Forecast

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MESSAGE FROM THE CENTER

It is with great pleasure that we welcome you to the 30th annual Hampton Roads Real Estate Market Review and Forecast. Real estate has gone through many changes over the last three decades, but the Market Review has been a constant in keeping the industry in Hampton Roads aware of the challenges and opportunities those changes have presented.

This year, we'd like to especially to thank our predecessors as Director and Chair of the Center. What has been achieved in establishing the Market Review would not have been possible without their dedicated work. Thanks also to all the presenters who have shared their expertise over the years. You have made the Market Review what it is today. We would particularly like to recognize Van Rose, Jr. of Berkshire Hathaway HomeServices RW Towne Realty, who has presented at 29 of the 30 Market Reviews. We are delighted that Van is the recipient of this year's Robert M. Stanton Legacy Award, recognizing his contribution to the residential sector across Hampton Roads.

While some of the uncertainties over the last few years are beginning to subside, new ones inevitably take their place. We hope that our speakers' insights, drawn from their expertise and knowledge of the Hampton Roads market, will be thought-provoking. We appreciate our contributors' commitment to presenting leading-edge updates on their specific real estate sectors.

We gratefully acknowledge the sponsors of today's event as well as those who support the work of the E.V. Williams Center for Real Estate at The Harvey Lindsay School of Real Estate. These include members of the Center and our Advisory Board. The Center is always looking for opportunities to provide additional educational opportunities and to support the local community. Please reach out to us with any thoughts or suggestions.

Thank you for attending this year's Market Review. We appreciate your support of the E.V. Williams Center, and we look forward to seeing you again next year.

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Robert M. Stanton Endowed Chair in Real Estate & Economic Development

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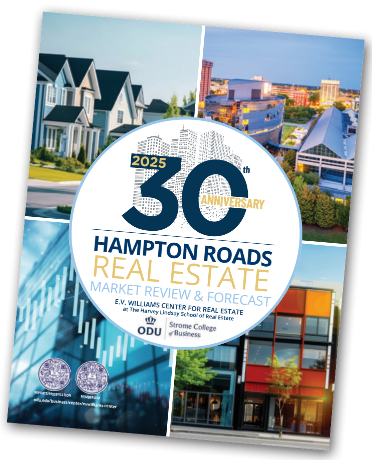

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J. VAN ROSE, JR.

RECIPIENT OF THE ROBERT M. STANTON LEGACY AWARD

J. Van Rose, Jr., a native of Hampton Roads, graduated from Indian River High School before attending the United States Naval Academy. He earned a Bachelor of Science in Oceanography in 1975, after which he served as a Naval Flight Officer for several years.

In 1985, at the request of his father, Jim Rose, Sr., Van returned home to join the family real estate business, Rose & Krueth Realty, marking the beginning of a distinguished career that has spanned more than four decades. Over the years, Van has become one of the most prominent figures in the Hampton Roads residential real estate market.

Van's influence has been particularly evident in the new homes sector. Upon his return to Hampton Roads after his military service, he established a New Homes division that continues to impact the regional market today. Under his leadership, this division has successfully marketed and sold homes in more than 450 individual communities, working mostly with local and regional builder clients.

In 1998, Rose & Krueth Realty merged with Womble Realty, forming Rose & Womble Realty, and in 2023, a second merger resulted in the creation of Berkshire Hathaway HomeServices RW Towne Realty LLC. Van currently serves as the Executive Chairman and Chief Executive Officer.

Throughout his career, Van has consistently adhered to three guiding principles: integrity, indispensability, and a servant's heart. His contributions have not only shaped the local real estate market but have also positively impacted the lives of hundreds of thousands of people throughout Hampton Roads. In 2001, Van founded Hope Speaks, which later became the Rose & Womble Foundation and now the RW Towne Foundation. Hope Speaks was initially funded by Van's speaking engagements nationwide; his fee was a donation to this foundation. Van did this for more than 10 years. Since its inception, the Foundation has given out educational scholarships each year, grown its annual Turkey Brigade to donating 3,500 full dinner baskets each year, and has donated to more than 100 local causes.

Van's influence extends beyond the corporate world. He has made significant contributions to the Hampton Roads Real Estate Market Review, speaking on trends in the residential market for 29 out of its 30 editions. His esteemed reputation extends nationally, as well. In 2009, the National Association of Home Builders honored him as a "Legend of Residential Marketing."

It is with great pleasure that we present the 2025 Robert M. Stanton Legacy Award to J. Van Rose, Jr., in recognition of his unwavering support of the E.V. Williams Center for Real Estate at ODU and his longstanding dedication to the residential real estate community in Hampton Roads and across Virginia.

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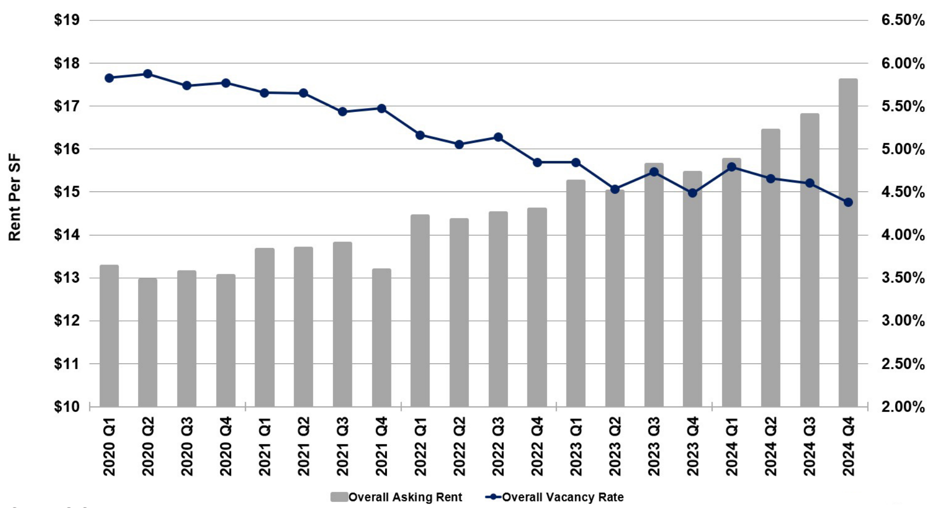
Hampton Roads Market Review

The political messaging in 2024 was that the economy was in trouble. While inflation was high, the stock market soared, unemployment hit historic lows, and shoppers actually shopped. Despite some challenges, many merchants across the country reported year-over-year increases. In Hampton Roads, retailers competed for the best locations. That pushed rents to new highs and vacancy levels to new lows. The retail landscape remained active despite some significant store closures by some of the nation's best-known brands.

Still On The Sidelines

Consumers entered 2024 with high inflation and higher borrowing costs. But by the end of the year, the Federal Reserve cut interest rates three times by a collective total of 100 basis points, hoping to keep inflation in check. While the cost of borrowing money dropped, the cuts were not significant enough for most retail developers to restart their engines, at least not immediately. Many were waiting for the outcome of the presidential election to determine if 2025 was to be their year. Investors, particularly Real Estate Investment Trusts (REITs), also sat on the sidelines. These institutional investors of larger shopping centers traditionally look for higher returns. The pricing gap between what a seller wanted to net and what an investor wanted to pay did not narrow enough to spur greater transaction volume, even though no one expected interest rates to fall back to where they were after the pandemic. That said, transactions were negotiated, just not at the pace we've seen in recent years.

Asking Rent vs Overall Vacancy in Hampton Roads



Source: CoStar
*Includes only 3-star properties &NNN asking Rents

There is an upside to higher interest rates and construction costs, that is if you're a landlord of existing shopping centers and freestanding retail buildings. The limited supply of quality 3-star inventory brought higher rents across the region, and they continued to climb throughout the year. The average retail rent in Q4 of 2024 increased to $17.58SF according to CoStar. That was up 13% from Q4 of 2023. And asking rates for brand new retail centers are now in the $35SF-$40SF range near Summit Pointe in Chesapeake, off Godwin Boulevard in Suffolk and at Hickman Place in Virginia Beach, where the newest Publix opened in December. The overall retail vacancy rate in 2024 was at 4.38%, the lowest rate in a decade, according to CoStar.

A Prescription For Downsizing

Tenants who want to be in the market

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are paying the freight. However, some are taking advantage of a changing landscape. Competition and outdated business models led to a year of significant store closures. Among the most notable were in the traditional drugstore sector. Walgreens announced it will close 1200 stores nationwide over the next few years. Its CEO stated nearly a quarter of its stores were no longer profitable. CVS also announced it will close 300 underperforming stores, and Rite Aid, which filed for Chapter 11 bankruptcy in 2023, closed 131 stores last year, 24 of them in Virginia. But given the supply constraint, many retailers looked to pounce on the opportunities. Care-A-Lot is backfilling a Rite Aid at the highly visible intersection of Rosemont Road & Virginia Beach Boulevard. Dollar Tree took over a closed Rite Aid on Airline Boulevard in Portsmouth. And plans are in the works to transform a store in the Mount Pleasant section of Chesapeake into a multi-tenant strip center.

Newcomers To The Market

These adaptive reuses can be found across our market. Bob's Discount Furniture is taking over 40,000 SF vacated by Bed Bath & Beyond in Newport News. The US Foods Chef's Store is backfilling a former Farm Fresh in Virginia Beach. And The Picklr, a 46,000-SF indoor pickleball facility, is taking over a former Dick's Sporting Goods in Williamsburg.

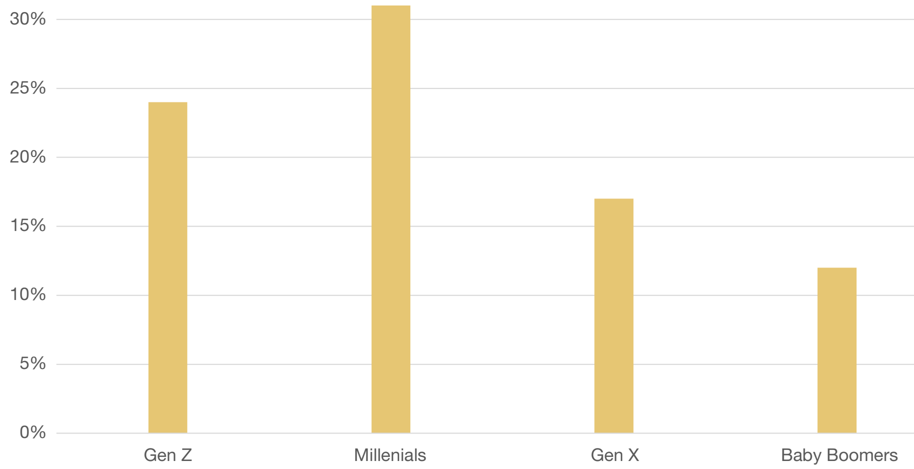
The Picklr isn't the only new name you will be seeing around the region. New fast-food concepts such as Del Taco, The Habit Burger and Tim Horton's have arrived. Habit and Horton's are replacing two former Boston Markets in Virginia Beach and Norfolk. The coffee wars are also heating up. Names like Dutch Bros., 7Brew, and Scooters are grabbing high-traffic count sites of less than one acre in size. They're installing small buildings of around 700 SF with double drive-thru lanes to get you and in and out in a matter of minutes, thanks, in part, to the new age of ordering and paying for the product on the digital platform.

Retail's AI Workforce

Artificial Intelligence (AI) continues to reshape the retail landscape. At Chipotle, "Chippy" the robot can crank out tortilla chips in less than 30 seconds, and its Autocado machine can cut, core and peel an avocado much faster than any human being. This means one less employee Chipotle will have to pay minimum wage which, by the way, is now $12.41/hour in Virginia and $17.50/hour for non-tipped employees in Washington, D.C. Also on the tech front, a Wendy's in Christiansburg, VA, is test marketing drone delivery. Customers order through Door Dash, and the drone brings the #1 combo to their house in under 30 minutes.

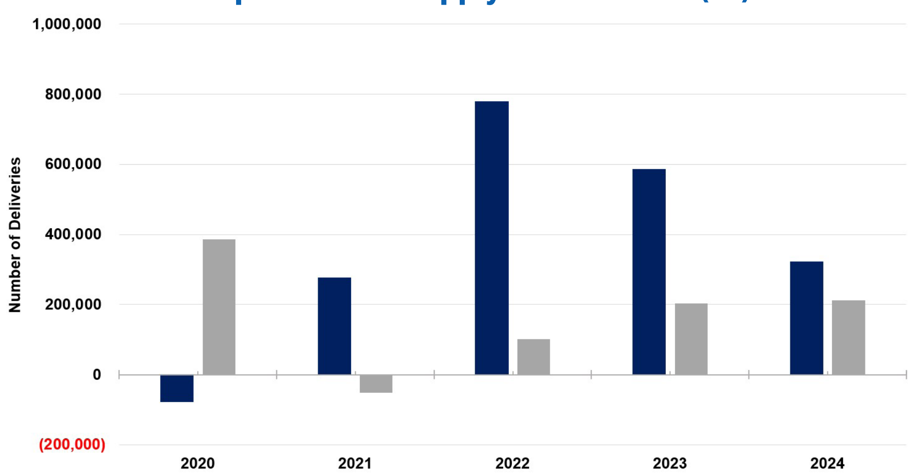
This isn't suggesting consumers will become couch potatoes. In fact, a recent survey suggests Gen Z and Millennials prefer shopping at malls and other larger shopping centers. According to Morning Consult, 24% of Gen Z and 31% of millennials "greatly increased" or "somewhat increased" their frequency compared to 17% of Gen Xers and 12% of baby boomers. These same younger shoppers also want to combine eating and drinking. Thirty-three percent of Gen Zers and 30% of millennials want to eat when they shop compared to 14% of Gen Zers and 13% of millennials who don't.

Significant Increases in US Brick and Mortar Shopping by Demographic, 2024 (US)



Source: Morning Consult

Hampton Roads Supply and Demand (SF)



Source: CoStar, January 2025

Malls and Falls

And speaking of malls, there is continuing talk of what is, what was or what will be, depending upon the city. Lynnhaven Mall in Virginia Beach and Patrick Henry Mall in Newport News continue to thrive where others struggle. General Managers at both malls report nearly 100% occupancy in 2024. Lynnhaven reported more than six million visitors annually, its highest level since before the pandemic. On the other side, there is MacArthur Center in Norfolk, which is less than 40% occupied

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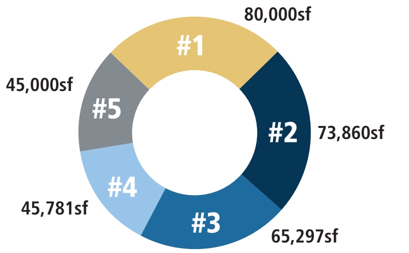
with all of its tenants on short-term leases. The city wants a master developer to transform the 1.1 million-SF former luxury mall (remember Nordstrom?) into something significant without a lot of public money. In the meantime, Greenbrier Mall in Chesapeake hit the auction block, despite signing new 5-year leases with its anchors Macy's and J.C. Penney. And the Chesapeake Square Mall in the Western Branch section of the city is about to get cut in half. The Kotarides development team has moved the remaining tenants to the east side of the mall and will lop off the west side for new freestanding shops, including a grocery store.

Experiential Retail

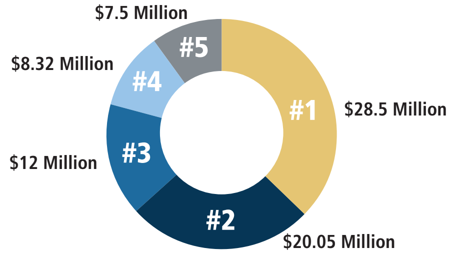
Among the most anticipated developments is Atlantic Park at the Virginia Beach oceanfront. This $350 million mixed-use entertainment district is slated to open this Spring with concerts at The Dome and surfing sessions at the 6000-gallon Wavegarden wave pool. The project will also include retail spaces, restaurants, offices, apartments and two parking garages.

Biggest Leases of 2024 (by SF)



- #1 Burlington, Hampton
- #2 Belk, Williamsburg
- #3 Academy Sports, Virginia Beach
- #4 The Pickler, Williamsburg
- #5 Fun City Trampoline Park, Newport News

Biggest Sales of 2024 (by price)

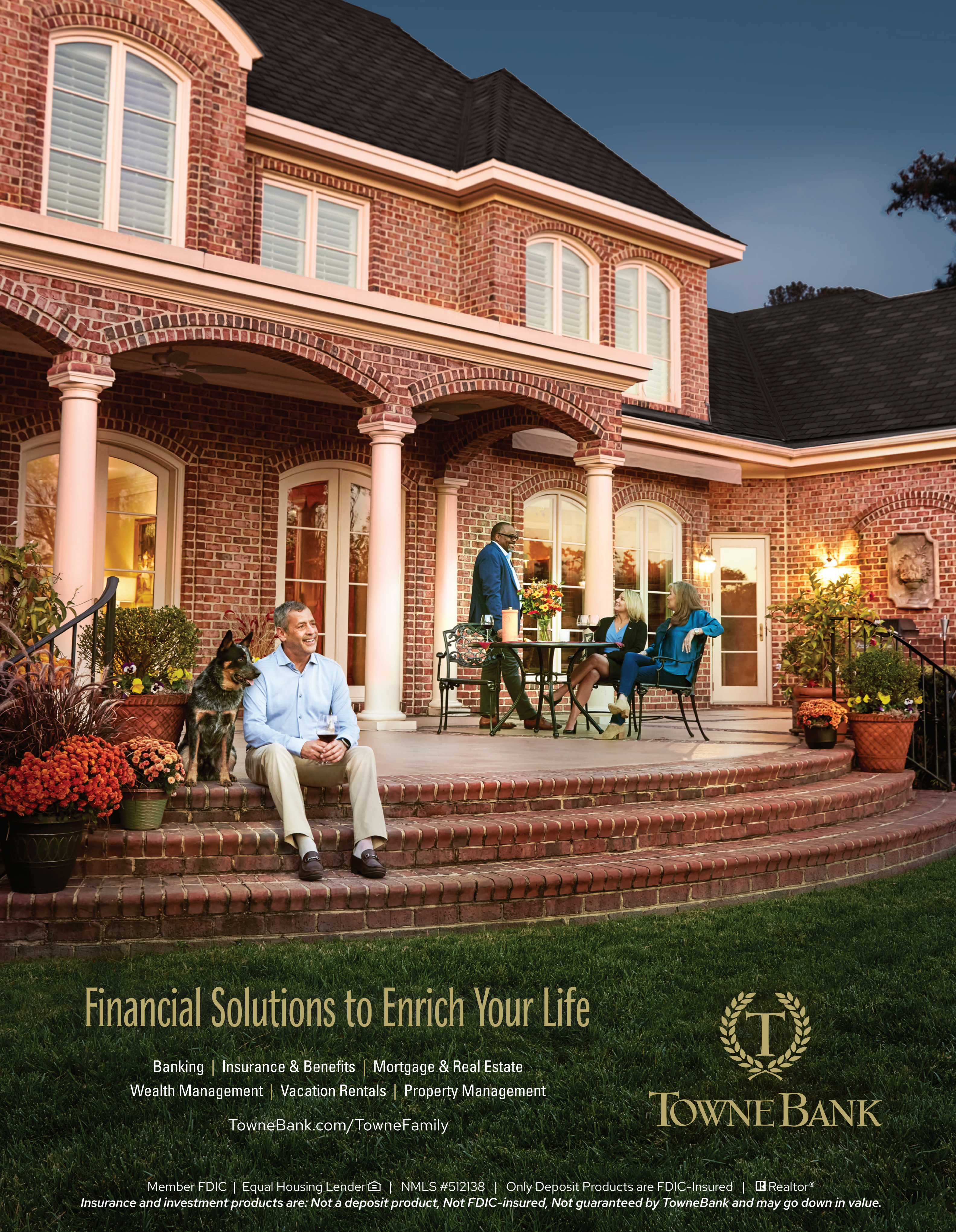


- #1 DW Center, Newport News
- #2 Value City/Red Robin, Chesapeake
- #3 Cypress Point Shopping Ctr, Virginia Beach
- #4 Old Time Pottery, Norfolk
- #5 East Beach Shoppes, Norfolk

Source: CoStar/SLN Capital Markets

Guarded Optimism

The outlook for 2025 remains upbeat. Retail developers are expected to get off the sidelines, lock in on desirable pricing terms, and bring more inventory. Pricing corrections should also lead to an uptick in investment sale transactions. While it's unclear as of this writing whether President Trump's tariff and immigration policies will help or hurt retailers in terms of labor and higher costs of goods, consumers are continuing to spend money dining out, shopping and looking for more in-store experiences. Newer developments, like the aforementioned Atlantic Park, combine entertainment with retail—a winning combination that has worked on a slightly different scale at the Virginia Beach Town Center and Summit Pointe in Chesapeake. Value retailers will continue to draw shoppers, and the Hampton Roads market will deliver more of this product from clothing to furniture. Fast-changing technology will continue to shape how we work, live and consume, and retailers who adapt quickly and adequately will survive and prosper.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Key Hampton Roads Market Statistics Dashboard

The Hampton Roads office market demonstrated remarkable resilience throughout 2024, maintaining a fundamental balance despite national challenges, such as declining office attendance and the ongoing evolution of workplace demands. With a vacancy rate of 7.1%, significantly below the national average of 13.9%, the region stands out as an example of stability in a challenging economic environment. This equilibrium stems from limited speculative construction, a robust tenant base, and creative redevelopment efforts that have kept vacancy rates manageable and demand steady.

MARKET METRICS OVERVIEW

Vacancy Rate
7.1% (Q4 2024)

Year-to-Date
Net Absorption
402,000 SF

Overall Asking Rent
$22.17/SF
(Full Service [FS],
All Property Classes)

Market Metrics Overview

Hampton Roads, defined by both the Southside (Virginia Beach, Norfolk, Chesapeake, Portsmouth, and Suffolk) and the Peninsula (Newport News, Hampton, Williamsburg and York County) has a unique economic structure shaped by its three primary economic drivers: defense, the Port of Virginia, and hospitality.

The office market in 2024 remained in transition, with occupiers favoring higher-quality properties and landlords increasingly repositioning older buildings for alternative uses. Medical office and government tenants have been key demand drivers, particularly in Virginia Beach and Newport News.

One of the defining characteristics of the Hampton Roads office market in 2024 has been the growing divergence between Class A and Class B/C office properties. The flight to quality has continued, with tenants prioritizing buildings that offer modern amenities, strong connectivity, and proximity to key commercial and residential districts. This trend has resulted in rising rental rates for prime office spaces like those in Town Center Virginia Beach commanding $35/SF Full Service (FS), while outdated buildings in secondary locations have struggled with prolonged vacancies even with rates as low as $15/SF FS.

Additionally, companies seeking to attract and retain talent are prioritizing workplaces that offer hybrid-friendly layouts, energy-efficient features, and access to transit and lifestyle amenities. The market is seeing increased demand for flexible leasing structures as tenants seek shorter lease terms or the ability to scale their footprint as workplace strategies continue to evolve.

Limited new office construction, coupled with continued conversion of obsolete office stock, has kept the market from experiencing major over-supply issues. Demand remains strongest for high-quality space, particularly in prime submarkets like Virginia Beach Town Center, Summit Point in Chesapeake, and Oyster Point in Newport News, where tenants are willing to pay a premium for well-located, high-end office space, with walkability and free parking.

Supply-Side Dynamics

One of the defining characteristics of Hampton Roads is its restrained supply growth. Only 110,000 SF of speculative office space is in the pipeline, representing a mere 0.2% expansion of inventory. This limited supply includes the 60,000-SF Riverside Williamsburg Family Medicine project and the Carver Creek Corporate Office in Gloucester. With over 90% of this space already committed, the market is unlikely to experience significant vacancy increases due to new construction.

Despite these limitations, the medical office segment continues to thrive. Medical vacancies are currently at 6.1%, substantially lower than the rate for general office categories. This disparity

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underscores the growing reliance on medical facilities and their resilience in fluctuating markets.

KEY TRANSACTIONS AND TRENDS SHAPING THE MARKET

Leasing Activity

Leasing momentum in 2024 has been driven by government, medical, and industrial support tenants.

Several significant lease and sale transactions have shaped the Hampton Roads office market in 2024. The City of Norfolk signed a new lease for 48,000 SF at 835 Glenrock Road, reflecting continued demand from government entities. Truist renewed its 37,532-SF lease at 948 Laskin Road in Virginia Beach, while Canon, Inc. downsized and renewed its 49,751-SF lease at 850 Greenbrier Circle in Chesapeake. Other notable leases included Avalon Bay Communities' 25,943-SF renewal in Virginia Beach, Sentara Healthcare's new 30,000-SF lease in Suffolk, and Old Dominion University's 20,000-SF expansion in Downtown Norfolk.

The prevalence of government and healthcare-related tenants has provided stability and growth in submarkets that might otherwise struggle. These sectors have been instrumental in maintaining overall market resilience despite challenges posed by shifting workplace models.

Sublease Market

Sublease availability has shrunk significantly, accounting for just 5% of the market's available space as of mid-2024. This is a sharp decline from the 430,000-SF peak recorded in late 2022. The reduced sublease inventory underscores sustained demand for flexible leasing options and highlights the adaptability of tenants in right-sizing their operations.

Economic Drivers and Submarket Performance

Hampton Roads' economy, anchored by defense, the Port of Virginia, and tourism, continues to provide stability to its office market. Cities like Chesapeake and Virginia Beach are outperforming, benefiting from their proximity to residential growth areas and their appeal to tenants seeking convenience and lower operating costs. Conversely, Downtown Norfolk struggles with higher vacancy rates and a surplus of aging office stock, much of which exceeds 20 years in age and falls into the Class B quality category.

The affordability of office rents in Hampton Roads remains a key competitive advantage. At $22 PSF on average, rents are significantly more cost-effective than markets like Washington, D.C., and Raleigh. Even top-tier properties, such as the Wells Fargo Center in Downtown Norfolk, cap out at $30 PSF, offering exceptional value for high-quality space.

Sales Activity

Sales activity, while subdued compared to pre-pandemic levels, still featured notable transactions:

Property	Square Foot	Sales Price	Price Per SF	Buyer	Seller
601 Thimble Shoals Blvd., Newport News	29,751	$7,253,875	$215	Bishard Development Corporation	601 Partners, LLC
596 Lynnhaven Parkway, Virginia Beach	32,190	$5,000,000	$155	Urology of Virginia	JRC II, LLC
157 Main Street, Suffolk	38,380	$2,450,000	$64	Economic Development Authority of Suffolk	PCS, Ltd.
5801 Lake Wright Drive, Norfolk	47,690	$5,400,000	$113	Wrj Lw, LLC	5801 Lake Wright Drive, LLC
223 E. City Hall Avenue, Norfolk	55,237	$4,800,000	$87	223 City Hall Avenue, LLC	AC 36 Norfolk
100 Exploration Way, Hampton	59,931	$3,850,000	$64	City of Hampton	SGP 100 Quad, LLC
500 Studio Drive, Virginia Beach	65,700	$14,300,000	$217	City of Virginia Beach	Michels Family, LLC

These transactions highlight a mix of municipal, institutional and private investor interest in well-located office properties, despite broader concerns about rising capital costs and market uncertainty. Overall transaction volume, however, remains below the five-year average of $265 million, reflecting economic uncertainties and rising interest rates.

FUTURE OF OFFICE LEASING

Return to Work Mandates and Hybrid Models

Return to Work (RTW) mandates are reshaping office leasing as employers seek to boost collaboration and productivity. Companies are increasingly requiring employees to spend more time in physical office spaces, driving demand for amenity-rich environments that foster creativity and teamwork. Hybrid work models remain prevalent, but there is growing emphasis on office layouts that can accommodate flexible schedules and dynamic team interactions. Landlords offering state-of-the-art technology and adaptable spaces are better positioned to meet these evolving needs.

Flexible Zoning Initiatives

Municipalities across Hampton Roads need to adopt flexible zoning policies to facilitate office-to-residential and mixed-use conversions. These initiatives would address rising residential demand while repurposing aging office buildings that no longer meet modern standards. Downtown Norfolk and Downtown Portsmouth have been a focal point for such transformations, with several office properties converted into apartments, retail spaces, and co-working hubs. These adaptive reuse projects not only revitalize underutilized properties but also contribute to the economic diversification of the region.

Reduced Tenant Build-Out Expenses

The continued lack of large-scale private sector employment growth has kept demand for office space somewhat restrained. As a result, some landlords are investing in property upgrades, such as renovating lobbies and common areas, adding enhanced building security, creating tenant

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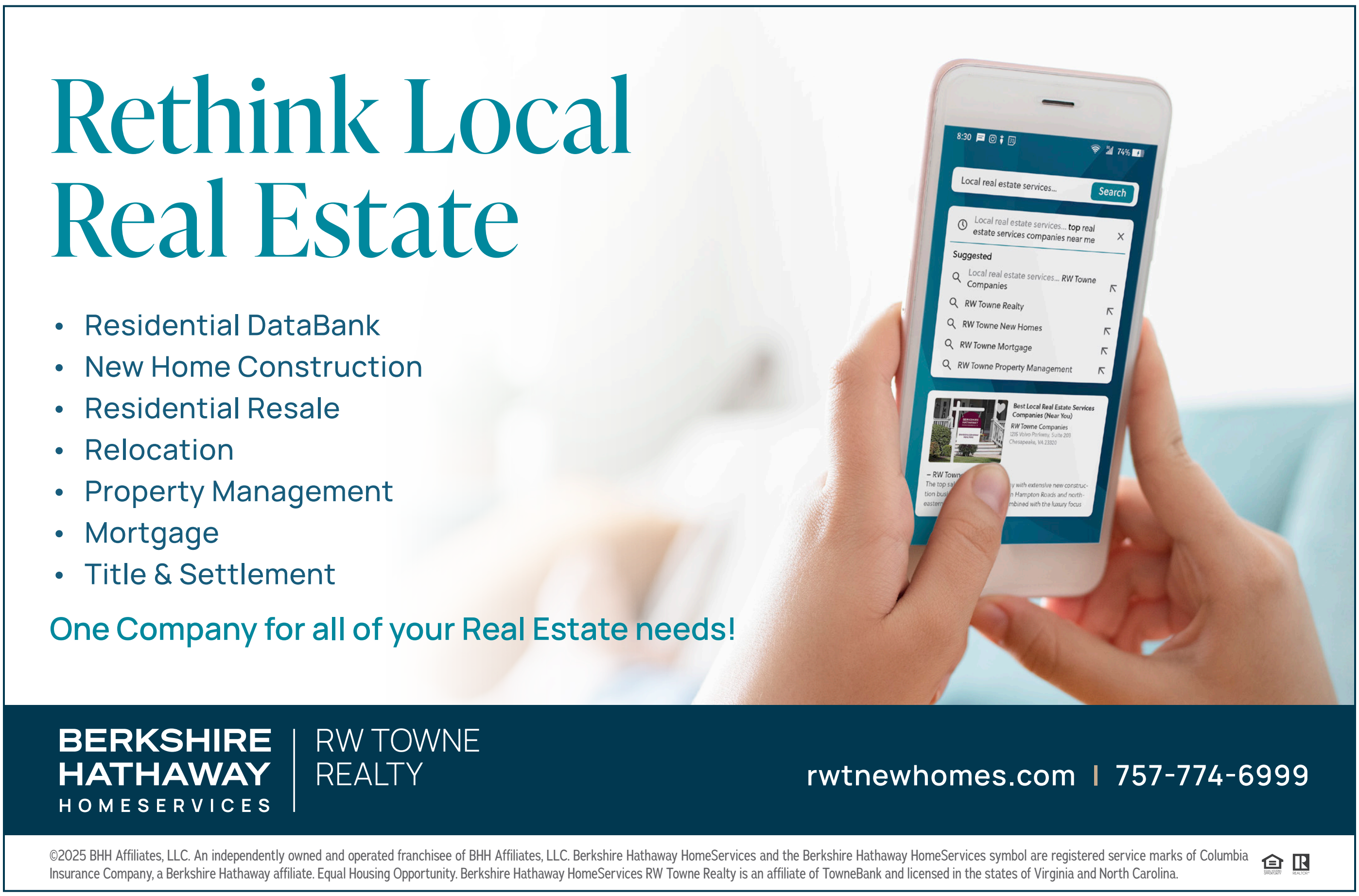
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lounges, and upgrading HVAC systems to appeal to environmentally conscious tenants. However, high construction and operational costs have prompted landlords to shift a greater share of tenant improvement (TI) expenses onto tenants. This trend marks a significant change from pre-pandemic norms, where landlords often absorbed higher build-out costs to secure leases. Today, tenants seeking move-in-ready spaces or those willing to invest in customized build-outs are more likely to secure favorable terms. This shift reflects a broader rebalancing of financial responsibilities in the leasing process.

PROJECTIONS AND EMERGING OPPORTUNITIES

Market Stability and Growth

Hampton Roads is expected to maintain its position as one of the most stable office markets in the United States through 2025. Limited speculative construction, steady demand from government and healthcare tenants, and adaptive reuse projects will underpin this stability. Vacancy rates are projected to remain below 8%, while modest rent growth of approximately 2.1% is anticipated.

Role of Artificial Intelligence in Office Management

Artificial intelligence (AI) is playing an increasing role in office building management. AI-driven systems are optimizing energy usage, automating heating and cooling adjustments, and enhancing sustainability efforts. Predictive maintenance tools are helping landlords proactively address building maintenance needs, minimizing downtime, and improving tenant satisfaction. AI-powered tenant experience platforms are also streamlining communication, with virtual assistants handling service requests and maintenance scheduling. Security and access control systems are benefiting from AI's capabilities in facial recognition and behavioral analytics, offering tenants a safer and more efficient experience. AI is also driving space optimization, allowing landlords to analyze occupancy trends and offer flexible leasing options based on real-time tenant usage patterns.

Adaptive Reuse as a Strategic Priority

The trend toward adaptive reuse is expected to accelerate, particularly in urban centers like Downtown Norfolk and Hampton. Converting outdated office buildings into residential or mixed-use developments addresses two critical challenges: the oversupply of aging office inventory and the growing demand for housing and lifestyle amenities. These projects not only enhance property values but also contribute to the vibrancy of local communities.

Impact of Eased Lending Restrictions on the Office Market

In 2024, few banks were lending for office-related real estate or construction, including tenant upfit projects, in Hampton Roads. If these lending restrictions loosen, several key market dynamics could shift. Increased access to financing would likely lead to higher office sales activity, allowing more investors and owner-occupiers to acquire properties. Easier financing for tenant improvements would enable landlords to offer more competitive upfit packages, potentially reducing long-term vacancies. Improved lending conditions could also spur new office development and adaptive reuse projects while stabilizing office rents by enabling landlords to reinvest in their properties.

Market Trends to Watch

Flight to quality remains a dominant theme, as tenants prioritize amenity-rich, well-located buildings. This has led to significant rent increases in Class A spaces while older buildings remain under pressure. Companies are increasingly using office space as a recruitment tool, emphasizing collaborative, high-tech work environments.

The redevelopment of a former 1929-era Portsmouth medical building to residential/commercial exemplifies this trend, as landlords seek new ways to extract value from aging assets.

Sustainability and environmental, social, and governance (ESG) initiatives are becoming more important, with tenants favoring office buildings that incorporate green design and energy efficiency. Buildings with LEED certification, energy-efficient HVAC systems, and smart lighting solutions are in higher demand as businesses align with sustainability goals.

Public sector leasing activity remains a stabilizing force in the market, particularly in Norfolk and Virginia Beach, where government leases continue to support occupancy rates. Limited new construction has also played a key role in market stabilization. High construction costs and economic uncertainty have constrained speculative office development, meaning that existing quality space will continue to command a premium.

Conclusion

Hampton Roads' office market is a model of resilience and adaptability, standing out in a national landscape marked by uncertainty. Its affordability, strategic redevelopment opportunities, and emphasis on technology position it as a competitive player in the evolving office sector. By embracing RTW mandates, flexible zoning policies, and tenant-focused leasing strategies, landlords can navigate current challenges and capitalize on emerging opportunities, ensuring long-term success in this dynamic market.

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The Anne D. Wood Endowed Scholarship
William Cody
Justin Harris

The Barry Kornblau Real Estate Endowed Scholarship
Ronald Wilson

The Chesapeake Bay Wine Classic Foundation Scholarship Endowment
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The Mark A. Davis/ Atlantic Bay Mortgage Group Memorial Endowed Scholarship in Business
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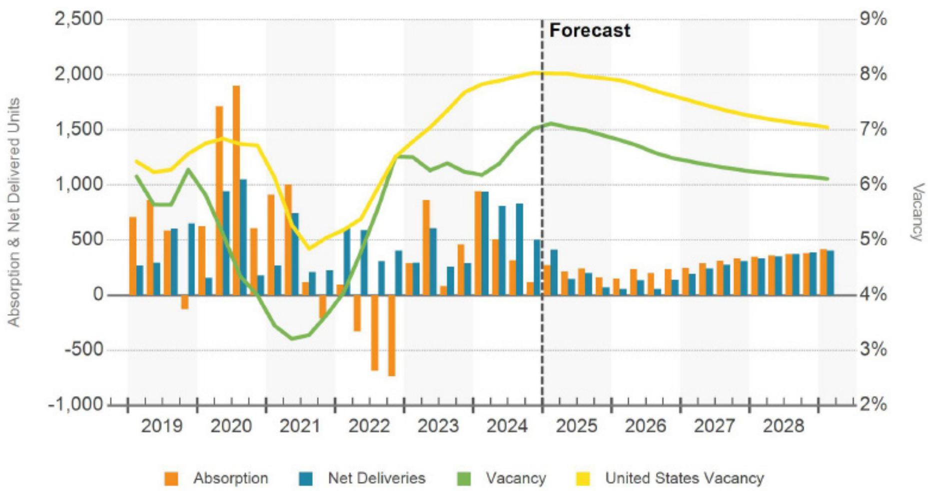
MULTIFAMILY

JAKE H. MARSHALL, CPA
Chief Operating Officer
The Breeden Company

The words "stability" and "moderation" best summarize the Hampton Roads Multifamily market in 2024. Buoyed by a strong employment base and limited new supply, the Hampton Roads market continued to outpace the national average in most rental metrics. The region experienced a modest uptick in vacancy in 2024, stabilizing at 7.0%, below the region's pre-pandemic norms and below the national average of 8.0%. While never experiencing the exaggerated rent growth highs of some of the other Sunbelt markets, Hampton Roads has posted a five-year average rent growth of 5.4%. Rent growth in the region has remained steady, particularly in comparison to the broader Sunbelt and the nation as a whole. In 2024, rent growth in the region totaled 2.7% in comparison to 0.8% nationally. This rent growth trend continues Hampton Roads' impressive run without posting a year-over-year rent decline in the 21st century.

Despite the region's persistent rent growth, high interest rates and insurance costs continued to drive the spread between homeownership and rental costs, further insulating the region's multifamily market. The rent vs. ownership cost differential increased 7.6%, reaching $1,203 monthly as of Q3 2024 when average mortgage rates peaked at 6.7%. As mortgage rates have continued to trend upwards, this cost spread has further widened, and it is likely that this trend will continue, at least in the near future. In addition to contributing to high costs of homeownership, high interest rates may also be contributing to fewer listings as borrowing costs for new mortgages are 53% greater than in-place rates resulting in the 'golden handcuff' phenomenon.

Hampton Roads Multifamily Market Absorption Net Deliveries & Vacancy



Source: CoStar Group

A lack of affordable housing alternatives and a limited supply pipeline contribute to the tight rental market in Hampton Roads and are the primary rent growth drivers. The region's 2.7% rent growth in 2024 ranks in the top 10 of the nation's 50 largest markets, despite population growth in the region trailing the U.S. average. Looking forward, as the already restricted delivery pipeline dries up and new deliveries slow, rent growth is anticipated to continue to grow modestly at 2.5% to 4% annually.

Delinquency and the winding down of COVID-era rent relief programs were profound concerns in 2023. Yet, with an extra year to work through court eviction backlogs, collection losses subsided considerably in 2024 and are trending in a direction similar to pre-COVID norms. A recent analysis found that while Hampton Roads cities processed roughly 35,000 evictions from January through September of 2024, this

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number was 27% lower than for this time period in 2023. Moving forward, it will be imperative that managers continue to monitor delinquency, particularly as credit card defaults have soared to the highest levels since 2010.

While topline numbers remained strong in 2024, the Hampton Roads Multifamily market was not immune to inflationary pressures that have impacted the broader economy. Insurance costs have remained particularly problematic, as only a handful of select carriers are willing to write standard lines policies in the region. This pricing power, alongside the ever-increasing frequency of natural disasters in outside markets, has led to continued premium hikes in the region. Assets located near the ocean or bay, as well as older vintage, non-sprinklered, assets, are particularly difficult to find suitable coverage for and may result in premiums two to three times the market average. Additionally, staffing and payroll remained key issues for apartment operators.

A lack of qualified candidates in the workforce, particularly amongst maintenance personnel, has required operators to increase wages significantly to attract and retain talent. Staffing vacancies may result in inflated repair and maintenance costs as operators become more reliant upon third-party vendors to accommodate the lack of staffing resources, particularly for landscaping or more skill-intensive repair work. The shallow labor pool also further inflates third-party vendor costs as their increased payroll is ultimately passed on to the end customer.

While it is possible that AI or other technological advances may be able to offset administrative and leasing payroll in the not-so-distant future, it is unlikely that this will alleviate the need for qualified maintenance personnel, particularly as the region's housing stock continues to age. Finally, in spite of a moderation in investment sale activity, there was little real estate tax relief to be found in 2024 as assessments remained sticky. This is particularly painful given that real estate taxes have increased at some properties as much as 40% since 2021.

Despite strong market fundamentals, investment sales in the region remained muted in 2024 largely because of price dislocation and an unpredictable interest rate environment. While the $898 million in sales volume reflects a 41% increase over 2023 transaction volume, it is well short of the $1.3 billion in sales reported in 2022. Of the 10 largest sales to close in 2024, nine were constructed prior to 1990, and eight were constructed prior to 1980. The preponderance of older vintage assets as a percentage of total sales may be indicative of investors' appetite for increased yield via value-add execution strategies, or it may simply be an indication of the relative age of the Hampton Roads housing stock. FPA's purchase of ReNew Little Creek in April for $84M or $210k/unit reflects the most expensive transaction of the year on a per-unit basis. This was followed closely by Harbor Group International's purchase of Maple Bay Townhomes for $85.1M or $205.5k/unit. Both transactions were closed with loan assumptions, and the price per unit disparity in comparison to the balance of the year's largest transactions illustrates the profound impact that interest rates have had on asset valuations.

While market fundamentals remain strong and institutional investors have maintained an interest in the region, this has not resulted in a significant uptick in unit deliveries or new construction starts. In 2024, 2,931 units were delivered to market, 2.3% of the current inventory. An additional 1,005 units are currently under construction, representing 0.8% of current inventory. This is well below the delivery schedule of other large apartment markets in the United States, as markets such as Charlotte and Raleigh/

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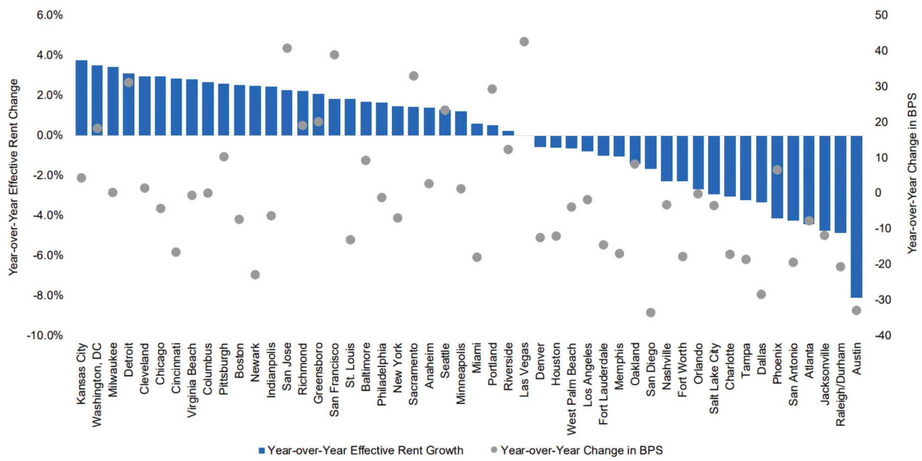
Year-overYear Effective Rent Growth and change in BPS; Top 50 Markets



Source: Newmark Research, RealPage

2024's Top 10 Property Sales in Hampton Roads

Property	City	Year Built	Units	Price	Price Per Unit	Date	Assumption/F&C	Buyer	Seller
Northampton Reserve	Hampton	1972	567	$ 87,000,000	$ 153,439	9/10/2024	Free & Clear	Acento Real Estate Partners	Weinstein Properties
Maple Bay Town homes	Virginia Beach	1971	414	$ 85,100,000	$ 205,556	9/25/2024	Assumption	Harbor Group International	Hamilton Zanze & Company
ReNew Little Creek	Norfolk	1991	400	$ 84,000,000	$ 210,000	4/25/2024	Assumption	FPA Multifamily	Croatan Investments
The Landing at Oyster Point	Newport News	1970	517	$ 76,000,000	$ 147,002	9/10/2024	Free & Clear	Acento Real Estate Partners	Weinstein Properties
Lakeshore at Hampton Center	Hampton	1963	377	$ 62,000,000	$ 164,456	9/10/2024	Free & Clear	Acento Real Estate Partners	Weinstein Properties
Christopher Crossing Apartments	Newport News	1963	531	$ 57,000,000	$ 107,345	10/31/2024	Free & Clear	Temple Group	Seminole Trail Properties
Pembroke Lake Apartments	Virginia Beach	1974	300	$ 42,500,000	$ 141,667	12/20/2024	Free & Clear	Temple Group	The Breeden Company
Forest Lake at Oyster Point	Newport News	1986	296	$ 38,250,000	$ 129,223	12/6/2024	Free & Clear	Levco	Haley Residential
Dove Landing	Virginia Beach	1977	318	$ 36,000,000	$ 113,208	1/18/2024	Free & Clear	Community Investment Group	Enterprise Community Development
Woodscape Apartments	Newport News	1975	296	$ 33,650,000	$ 113,682	6/28/2024	Free & Clear	Foxfield Residential	Halev Residential

Source: CoStar, Yardi

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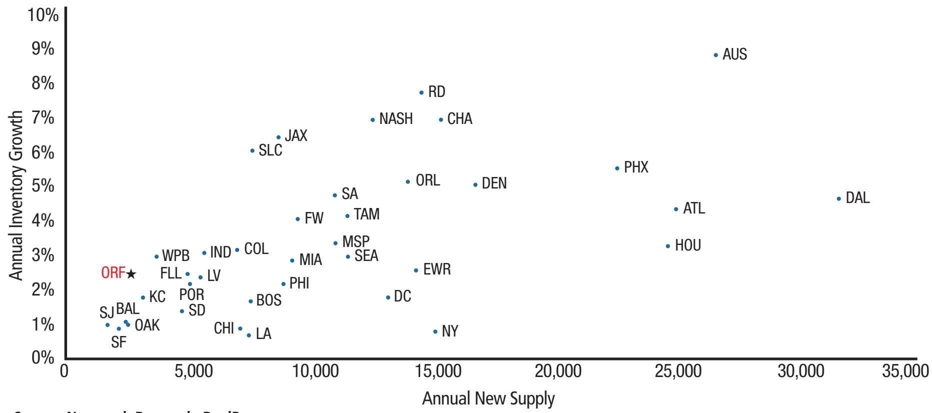
Durham experienced annual inventory growth in excess of 7% in 2024. In the near term, it is improbable that many of the developments in the planning phase will break ground. A combination of high interest rates, high construction costs and increased yield expectations from investors has severely hampered multifamily development.

While the Fed has lowered the federal funds rate by a full percentage point since September, that has not translated to lower borrowing costs for fixed-rate debt. Persisting inflation concerns and the federal deficit have quashed hopes of future Fed rate cuts and have triggered a sell-off in the treasury markets, driving 10-year treasury yields north of 4.6% and resulting in debt pricing in the neighborhood of 6%. Despite inflation returning to sub 3% levels, construction costs, driven primarily by labor intensive trades, such as mechanical, electrical, and plumbing remain at record highs. Anecdotally, we have found that vertical construction costs alone have risen approximately 33% since 2020. High interest rates and record high construction costs have placed an increased emphasis on the importance of outside equity. Unfortunately, high construction costs and increased debt service produce thin yields that often fail to outperform yields for apartment acquisitions. On top of all of this, it is well known that there is a dearth of readily developable land available in Hampton Roads, further complicating development aspirations.

Jurisdiction	Rental Median Year Constructed
Chesapeake	1988
Franklin	1969
Gloucester	1982
Hampton	1979
Isle of Wight	1985
James City	1992
Newport News	1983
Norfolk	1970
Poquoson	1983
Portsmouth	1972
Southampton	1973
Suffolk	1987
Surry	1963
Virginia Beach	1985
Williamsburg	1980
York	1997

Annual New Supply and Annual Inventory Growth by Market; Select Markets



Source: Newmark Research, RealPage

Additionally, what land that is available largely requires infill development, which tends to require significant density and is much more costly to develop.

2025 Outlook

The year 2024 brought with it some mild optimism for tamed inflation and interest rate relief, which appeared to be on the horizon headed into Q4; however, the recent treasury sell-off has tainted much of that optimism. Looking forward, while there remains tepid optimism for two rate cuts in 2025, it is appearing increasingly unlikely that this will result in cheaper long-term debt in the year ahead. This will likely lead to a 2025 multifamily market that looks a lot like the 2024 market. With home buying opportunities remaining financially out of reach for many existing renters, demand for multifamily product should remain strong in the year ahead. As new apartment deliveries to the market are given time to season and lease-up, and as the pace of new construction continues to wind down, we anticipate the region's vacancy rate to continue to tighten. This should provide leeway for another year of mild rent growth, provided that the financial health of the region's renter allows. Operators will need to be cognizant of the potential for an uptick in delinquencies as credit card and auto loan debt continues to rise and defaults approach all-time highs. We anticipate that controllable operating expenses, as a whole, will level out in 2025; however, given the age of the region's average housing stock, repair and maintenance expenses will continue to trend upward. Insurance premium hikes will likely remain a pain point for many owners in both the near and distant futures.

Institutional investors, drawn in by the stable employment base, lower vacancies, and consistent rent growth, will likely continue to seek buying opportunities in Hampton Roads in the year ahead. As the realities of the persistence of high interest rates continue to set in, bid/ask spreads may continue to narrow, further catalyzing investment sale activity in 2025.

Unfortunately, our outlook for market rate multifamily development in the region is not as rosy. Hampered by ever-increasing costs of capital and high construction costs, we anticipate new development to continue to slow dramatically. As budgeted development yields remain low, institutional investors will likely favor inherently less risky acquisition opportunities offering similar yields over new development investment opportunities. Without significant incentives from municipalities, it is unlikely that many planned developments will break ground in the near to mid future, leaving the region at risk of being undersupplied in housing.

All in all, 2025 is projected to be another strong, yet unremarkable, year for the multifamily market in Hampton Roads. The hallmarks of what has fueled the industry's success in this market, limited supply and a stable, recession-insulated employment base, will continue to propel the market forward in the near future.

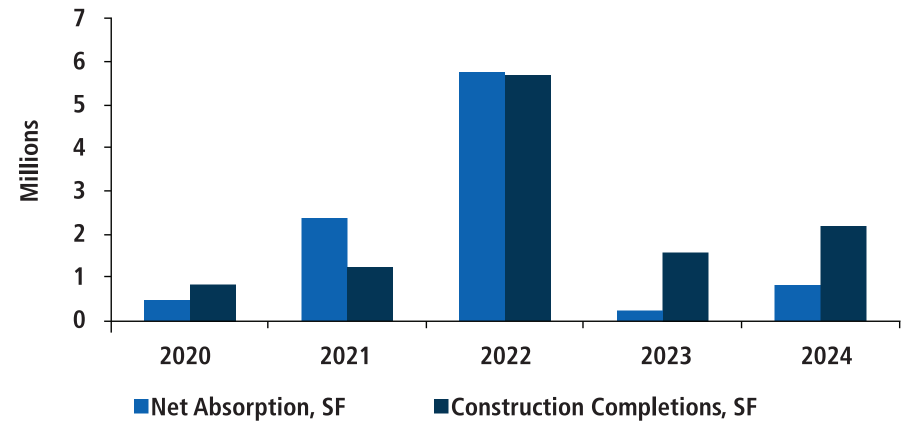
GEOFF POSTON, SIOR
Senior Vice President, Managing Broker
Cushman & Wakefield | Thalhimer

120 Westport Pkwy in Suffolk developed and sold to MSI for their East Coast distribution facility. Source: Procon, Inc.

For industrial real estate practitioners, "Stay Alive 'Til '25" was the mantra in 2024. Higher interest rates, an East Coast port strike, the U.S. presidential election, and muted consumer demand incited a dropoff in industrial leasing activity throughout the country. In many U.S. markets, development projects, multiple years, in the making concluded with no occupants – a far cry from the frenzied preleasing environment of the past few years. The national vacancy rate rose to 6.7% as a result, and construction deliveries decelerated. The same situation unfolded in Hampton Roads as market fundamentals softened.

The Hampton Roads industrial market ended the year with a 4.5% vacancy rate across its 120 million square feet (msf) of inventory. This is a significant uptick from the record low 1.3% vacancy rate at the end of 2022 but still 250 basis points below the historical norm. Industrial leasing demand slowed in 2024, posting just 827k SF positive net absorption while over 2.1msf of building space came online with approximately 375k SF delivering vacant. Rental rate growth stabilized, topping out in the mid-$12 per square foot (psf) NNN range for quality Class A infill warehouse space under 50,000 square feet (SF), bar a few outlier lease transactions. Only eight leases above 100,000 SF were completed over the course of the year. Half of these were renewals, further highlighting lackluster leasing activity in the big box space.

Space Demand/Deliveries in Hampton Roads



Source: CoStar

Sales activity in Hampton Roads remained strong, albeit top heavy with several large investment transactions going to out-of-market investors. Of the 15 largest industrial sales in 2024, all but two deals were purchased by investment groups from outside Virginia. Link Logistics' sale of its 1.38msf 8-building shallow bay portfolio topped the list with a total sales price of $155mm split between two buyers. Out-of-town investor interest in the market is a positive reflection of the region's industrial real estate momentum; however, the increased competitiveness has created a challenging environment for owner occupants and local investors to grow.

Despite a short-lived labor union strike in October and the Red Sea crisis impacting the Suez Canal trade route, the Port of Virginia posted its fourth-best year on record with total TEU (twenty-foot equivalent unit) volumes of 3,523,512 – up 7.2% year-over-year. Still, the threat of a longer East Coast port strike encouraged shippers to divert cargo to West Coast ports beginning in the summer months. In 2024, the Port completed the $83mm Central Railyard expansion project at NIT, widened the shipping channel to allow for two-way Ultra-Large Container Vessel (ULCV) movement and secured a $380mm clean energy grant from

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2024 Lease & Sale Transaction Highlights

INDUSTRIAL LEASE TRANSACTIONS			
TENANT	PROPERTY	TOTAL SF	COMMENTS
Emser Tile	1020 Centerpoint Drive, Suffolk	401,221 SF	Distribution center; Lease renewal; Existing facility
Freezpak Logistics	130 Maya Way, Suffolk	239,765 SF	Cold storage facility leased by 3PL; Build-to-suit
Huntington Ingalls Industries	301 W Park Lane, Hampton	162,281 SF	General warehouse/storage building; Tenant expansion in the market; Existing facility
Friant Furniture	5401 Virginia Regional Drive, Suffolk	140,000 SF	Assembly and distribution center; Tenant downsize in the market; Existing facility
Measurement Specialties	1000 Lucas Way, Hampton	120,000 SF	Manufacturing/assembly use, renewal; Larger than typical office component

INDUSTRIAL SALE TRANSACTIONS					
PROPERTY	BUYER	TOTAL SF	SALES PRICE	PSF	TYPE
Link Logistics Portfolio, Chesapeake, Hampton, NN	B&D Holdings / Lovett Industrial	664,442 SF / 719,930 SF	$81,750,000 / $73,432,860	$123.04 / $102.00	Investment
3030 Enterprise Drive, Suffolk	LBA Logistics	150,000 SF	$70,000,000	$466.67	Investment
120 Westport Pkwy, Suffolk	MSI	548,000 SF	$59,353,409	$108.31	Owner Occupier
Bridgeway Business Center, Suffolk	InLight RE Partners	706,958 SF	$50,500,000	$71.43	Investment
1401 Enterprise Drive, Suffolk	Heitman	348,500 SF	$42,500,000	$121.95	Investment

the EPA, further solidifying its moniker as 'America's Most Modern Gateway.'

Amazon was a major industrial real estate player in the Hampton Roads market again in 2024. The e-commerce giant completed construction and opened its 215,000-SF depot building near Dam Neck Road in Virginia Beach and neared completion of its second multi-story, multi-million-square-foot fulfillment center in the region. Totaling 3.2msf, the new fulfilment center is scheduled for occupancy in early 2025. It wasn't all expansion for Amazon in 2024. The company reduced its footprint in several buildings in Chesapeake totaling approximately 500k SF. Amazon's real estate moves are more a case of supply chain reconfiguring than demand decline as e-commerce sales grew by approximately 8.4% in 2024.

Looking Forward

With a second Port labor union strike in January averted, the Port is aggressively targeting targeting record total TEUs handled by end of year. Tariffs implemented under the Trump administration could weigh down TEU volumes, as it did in 2019 when imports were down 2%. Any negative impact, however, will be offset by increased tenant demand generated by tenants' supply chain restructuring and continued port diversification strategies.

Big box industrial leasing activity in Hampton Roads will see a rebound in 2025. Requirements that went on hold in 2024 will come back to life in 2025. Getting past the presidential election will allow companies to move forward on strategic decisions with more certainty. With geopolitical tensions elevated, the defense industry is poised for another strong year resulting in significant industrial real estate demand throughout the region.

While most projections for the Hampton Roads industrial market are positive, nagging inflation and fewer interest rate cuts could dampen its rebound potential. Expect rental rates to stay flat in 2025 as landlords with vacancy get aggressive in luring tenants to their buildings. Out-of-town investors' demand will remain high for quality industrial investment properties as Norfolk, Virginia, continues to rank highly on investors' target markets.

J. VAN ROSE, JR.
Principal Owner, Executive Chairman of the Board
Berkshire Hathaway HomeServices
RW Towne Realty, LLC

Steadiness was a hallmark of 2024 - - not in politics or in health, but in real estate. While many could argue the stability did not create opportunities, others could argue it was predictable and reassuring in its constant.

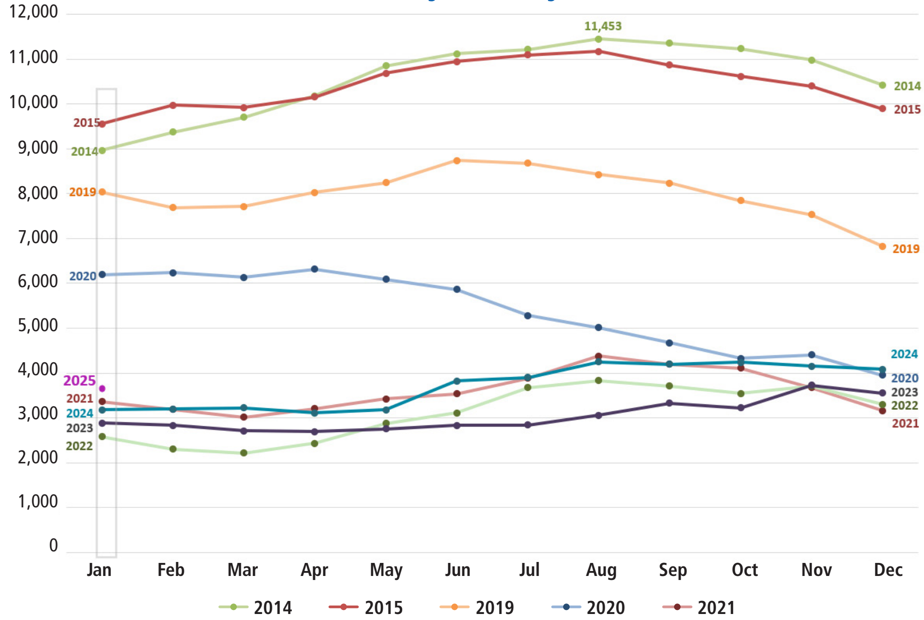
There was no pandemic to boost the market for shelter and comfort. There was an election, but housing was so far down the list of concerns that it did not seem to cause the blip in movement traditionally seen in past election cycles. There was inventory, no fear of loss.

Why discuss 2024 at all? Steady is good, right? Reviewing even the stable time shows us where we may be headed and surely allows us to review our mindset. What are we comparing 2024 to, and is it a cycle we have come to understand? Or are we all still wishing for 2021 in real estate (without the health concerns, of course)?

Per Virginia Realtors, "…the 2024 housing market showed improvement over 2023... sales activity continues to outpace last year, and more active listings are on the market." Yet, per the Associated Press in late January, "Sales of previously occupied U.S. homes fell last year to a nearly 30-year low for the second time in as many years." The reasons: high mortgage rates and a shortage of homes, especially for the first time home buyer. Our market has always been outside the norm.

As we well know, our region consistently goes against the national norms. Some reasons are:

On the Market Now in Hampton Roads
Inventory January 1, 2025



•We have an abundant buying population where near 63% of our market is in the 'buying zone;'

•We have underserved our housing market for over five years, keeping our demand and our prices rising;

•We have a heavy transient market due mainly to military personnel giving us 'have to' buyers and sellers that keep our market always moving.

Resale Report

Our market produced 21,572 resale closings, a 1.0% increase over 2023 and a 25.1% reduction since the boom of 2021. This is a unit count reduction of 12,578 between the two, with an interest rate rise of 5.0% in that same timeframe. The average resale home sold for $391,447, and the average market time was 59 days to absorb. While not the ridiculous rate of seven days we saw at the start of 2022, **this time remains robust in bringing to market homes**

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that will sell in an average of two months. Taking a rearview mirror look back at May 2019, homes were on the market for 22 to 47 days, and we were content with this pace.

Resale homes accounted for 89% of all the homes sold in our MSA, an increase of 1.0% since 2023. Again, stable and steady.

For the industry, mid-year federal changes to how real estate agents request compensation, the buyer's rights to negotiate right up until closing, and VA buyers nearly being forgotten in how they fit in, has caused pause, stress, and maybe some fear. But to say it has caused full stoppage of people buying homes is not true. The need and the want are still there. It is pricing and interest rate that continue to decide who can buy and when.

In review, there is a $100,000 difference between the 2020 and 2024 average sales price, a more than 25% jump in just four years. Now consider that during that same time, the interest rate has risen almost 5.0%. That same house in 2020 with a 2.5% interest rate was $1,145 per month in principal and interest (PI) payment. Today, at the new sales price and 6.5 % interest rate, the PI is a whopping $2,465.00 per month, which is difficult for the first time buyer to handle.

A new phenomenon has surfaced in the Hampton Roads market. Since 2020, the number of homes sold above $1 million has risen an astonishing 231%. In 2024, we closed 529 homes above $1 million. We even had one home at the oceanfront in Virginia Beach sell for over $12 million. To add to this surprising new trend, over 50% of those million-dollar homes are cash sales.

According to Mortgage Bankers Association, more than 30% of all homes sold in 2024 were purchased without mortgages. This is certainly a new trend not seen before, due in large measure to two things: the number of baby boomers (351,000) in our market who prefer to pay in cash to avoid the high interest rates, and those who give their children cash to help them gain homeownership, despite rates and prices.

Second, there is a tremendous amount of **home equity now found in the market.** According to MarketWatch, there is $11.2 trillion trapped in U.S. housing, giving the average home in America almost $300,000 in equity.

HAMPTON ROADS NEW CONSTRUCTION MARKET, 2020 - 2024 ATT/DET

YEAR	2020	2021	2022	2023	2024
Closed Sales	3,825	3,503	2,995	2,691	2,584
Year-Over-Year Change	+14.6%	·8.4%	·14.5%	·10.2%	-4.0%
Average Closed Sales Price	$371,161	$405,810	$462,123	$475,616	$481,813
Year-Over-Year Change	+2.9%	+9.3%	+13.9%	+2.9%	+l.3%

Source: REIN

HAMPTON ROADS RESALE MARKET 2020 - 2024 ATTACHED & DETACHED

YEAR	2020	2021	2022	2023	2024
Closed Sales	29,480	34,150	27,820	21,547	21,572
Year-Over-Year Change	+13.0%	+15.8%	-18.5%	-22.5%	+0.1%
Average Sales Price	$290,572	$320,043	$344,269	$367,534	$391,447
Year-Over-Year Change	+10.2%	+10.1%	+7.6%	+6.8%	+6.5%

Source: REIN

This is an incredible advantage to offset higher interest rates.

New Construction

Last year was, yes, a steady year for the new home sector. New inventory, new communities -- new, new, new will always do well against resale.

Historically, we see new construction homes selling at $100,000 more than their counterparts in Resale. This past year, that gap tightened to roughly $90,000, or a monthly payment increase of $680. For that value, the buyer can see the ease of new construction over a previously owned home as worth the bite, especially with incentives by builders back in the mix.

This year, we did see a 4.0% decrease in sales, mainly due to a lack of product and new communities on the Peninsula, a typical constant in our market. However, the prices continued to climb with a 1.3% increase to $481,813.

New construction does face challenges, the most overriding one being cost. The high cost of both land and building materials continues to plague the industry with no end in sight. One of the largest hindrances to new construction is the outrageous cost of regulatory overreach, caused by local and federal regulations that add cost with no real value to the home buyer. Nationally, the average new home bears regulatory costs of almost 28%. Consider our average new home price of that 28% equates to an unbelievable $134,900 of unrecoverable costs to the homes.

Interestingly, the new White House administration immediately issued an executive order to reduce regulatory restrictions that continue to strangle new construction and keep prices out of reach for many.

Let's talk square footage. The average size of **new construction homes continues to shrink** due in part to costs but also to today's buyers' affinity for smaller lots and far less upkeep. The attached home product across the market, led in large scale by Ryan Homes, was about 1,765 SF at a cost of $187 SF. The detached product averaged closer to 2,253 SF at a price of $211 SF.

Hampton Roads' Top Builders

The landscape of Hampton Roads homebuilders is beginning to radically change. The players in 2024 were roughly the same with Ryan Homes/NVR, the ***nation's #4 homebuilder*** remaining the single largest builder in the entire region. This year they sold 718 homes and located in 27 different communities. That equates to a 27% market share, but a remarkable drop from last year where they had a 49% market share. However, that number is ***five times bigger*** than the next closest local homebuilders, Dragas Companies, at 164 closings and Chesapeake Homes with162 closings, DR Horton, the nation's #1 home builder (90,000 homes) has now entered the

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picture and has done so in an immense way by purchasing one of the larger local builder's entire lot portfolio. This gives them a real foothold in the area for the next several years. Lennar, the #2 home builder, (73,000 homes) has become a significant player in the market, especially in age-restricted communities. They have done an excellent job in the Williamsburg market. Also entering the picture has been Eastwood Homes, LGI Homes (#15), and Stanley Martin (#22), and back in play, HH Hunt Homes (#100). For a market that had no national builder 25 years ago, the scenery has certainly changed, continuing to squeeze our local home-grown builders.

Hampton Roads + Northeastern North Carolina Top Builders

BUILDER	CLOSINGS RECORDED	AVERAGE SALES PRICE	NO. OF SITES
Ryan Homes #4	718	$407,091	27
Dragas Companies	164	$392,621	6
Chesapeake Homes	162	$713,935	7
Napolitano Homes	101	$471,421	5
DR Horton #1	95	$504,009	13
HHHunt Hampton Roads	60	$465,731	4
Franciscus Homes	60	$320,577	2
Wetherington Homes	58	$447,827	17
Corinth Residential	55	$553,360	2
Lennar #2	50	$449,367	2

So, what can we conclude?

This year has started with 3,660 homes on the market, nearly 1,000 units up from 2024, with an interest rate that has settled around 6.5%. Now, with pressure from the new administration to reduce interest rates and eliminate many regulatory restrictions, combined with an abundance of pent-up buyers, the year ahead should be even better than 2024. As the saying goes, "Slow and steady wins the race."

This should be a good year with slow, steady, constant improvement.

(From left to right) Simon Stevenson, Doreen Fentress, Neisha Ubiles, A'Daye Foster, Lei Zhang

Students toured Image Business Interiors as part of the "Site Trek."

Fall Meeting Panelists: (from left to right) Scott Adams, Ashley Bussey, Nicole Campbell, Ali Allred, Tim Bellman.

A heartfelt thank you to our dedicated community of real estate professionals who support The Harvey Lindsay School of Real Estate. Thank you to all of the individuals, companies and organizations who came to meet with the students, including;

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