

FIGURES | NORFOLK OFFICE | YEAR END 2022

Downtown Norfolk Leads Yearly Leasing Activity

▲ 11.0%
Vacancy Rate

▼ (256,470)
SF Net Absorption

▼ 904,182
SF Gross Leasing Volume

▲ \$21.42
Average Gross Asking Rate

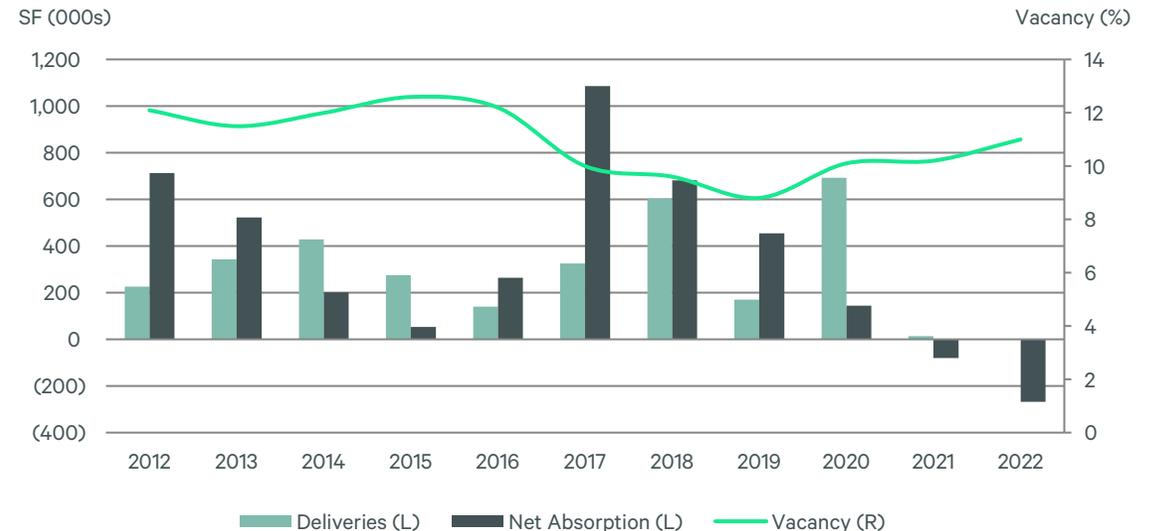
Note: Arrows indicate change from previous quarter.

The Norfolk office market recorded 256,000 sq. ft. of negative absorption in 2022 as forty-six tenants signed leases totaling 904,000 sq. ft, a 24% decline from the previous year. Large occupancy loss in 2022 included Norfolk-based Dominion Enterprises returning 103,000 sq. ft. of leased space to the market and consolidating its footprint within a building it owns at 150 Granby Street. These few blocks of space pushed vacancy rates to 11.0%, an 80 basis point (bps) uptick year over year.

In downtown Norfolk, twelve tenants signed for 195,000 sq. ft. of leasing transactions, accounting for 23% of gross leasing activity, a more than three-fold increase over 2021 submarket activity and the most activity of any submarket. The renewed activity in downtown Norfolk puts the submarket ahead of the growing suburban markets such as Greenbrier, which saw six leases signed in 2022 for 159,000 sq. ft.

In another positive sign, W.M. Jordan’s 80,000 sq. ft. project on the Peninsula broke ground at 800 Tech Center Parkway with an expected delivery in Q4 2023. This is the first office development to begin construction since the onset of the pandemic.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Financial Services

Financial services firms signed seven leases for 173,000 sq ft. of leasing transactions and accounted for 19% of gross leasing activity. Chubb renewed for 55,000 sq. ft. at 600 Independence Parkway in the second largest lease of the year. The financial insurance provider maintained its existing footprint.

PRA Group expanded from downtown Norfolk to the Peninsula, inking a new deal for 36,000 sq. ft. at 600 Independence Parkway in one of the few signs of business growth this year. The company’s new call center on the Peninsula represents 36,000 sq. ft. of net growth.

In downtown Norfolk, established local financial firms signed leases for new space as they relocated within the urban center. This quarter BDO—an international accounting firm that acquired Norfolk based McPhillips, Roberts & Deans in 2016—signed a new lease for 15,000 sq. ft. at 500 East Main Street, relocating from 150 Boush Street for a net loss of 5,000 sq. ft. Palladium Partners also relocated within the downtown Norfolk submarket from 999 Waterside Drive to 12,000 sq. ft. at 150 West Main Street.

Development Activity

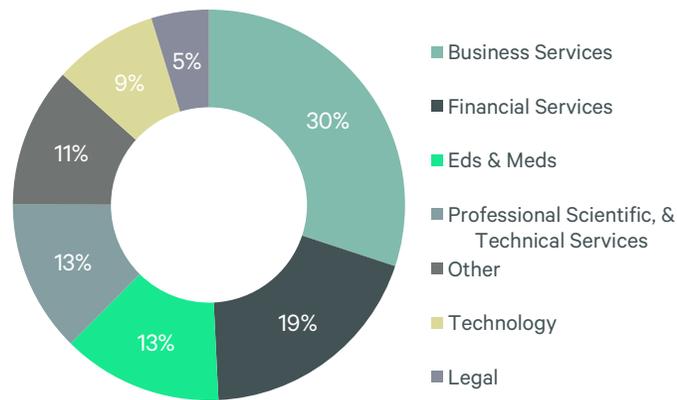
W.M. Jordan’s project at 800 Tech Center Parkway broke ground in Newport News’ Tech Center. The 80,000 sq. ft. speculative office property is being marketed as Tech Center Building II. Not yet preleased, Tech Center II is the first office property to break ground since the start of the pandemic and is expected to deliver in Q4 2023. Its 80,000 sq. ft. counterpart at 700 Tech Center Parkway delivered in 2018 and is 97% leased. Major tenants include Gather, provider of coworking space, and ivWatch LLC, a medical tech company specializing in IV infiltration detection monitoring.

FIGURE 2: Select Notable 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Location	Lease Type	SF	Market Effect
Sentara Healthcare	Medical	1441 Crossways Blvd	Greenbrier	Southside	Renewal	71,249	Flat
Chubb	Financial Services	600 Independence Pky	Battlefield	Southside	Renewal	55,161	Flat
Kaufman & Canoles	Legal	150 W Main St	Downtown Norfolk	Southside	Renewal	42,942	Contraction
Avalon Bay Communities	Business Services	2901 Sabre St	Lynnhaven	Southside	Renewal	38,711	Flat
PRA Group	Financial Services	400 Butler Farm Rd	Hampton Roads Center	Southside	New Lease	35,509	Growth

Source: CBRE

FIGURE 3: 2022 Gross Leasing by Sector (Share by SF)



Source: CBRE

Investment Sales

The Norfolk office market recorded \$144.8 million of investment sales across 15 properties in 2022, down 64% from 2021 and 67% from pre-pandemic 2019. Interest rate hikes by the Federal Reserve and lingering economic uncertainty have softened capital markets, directly impacting investment sales activity.

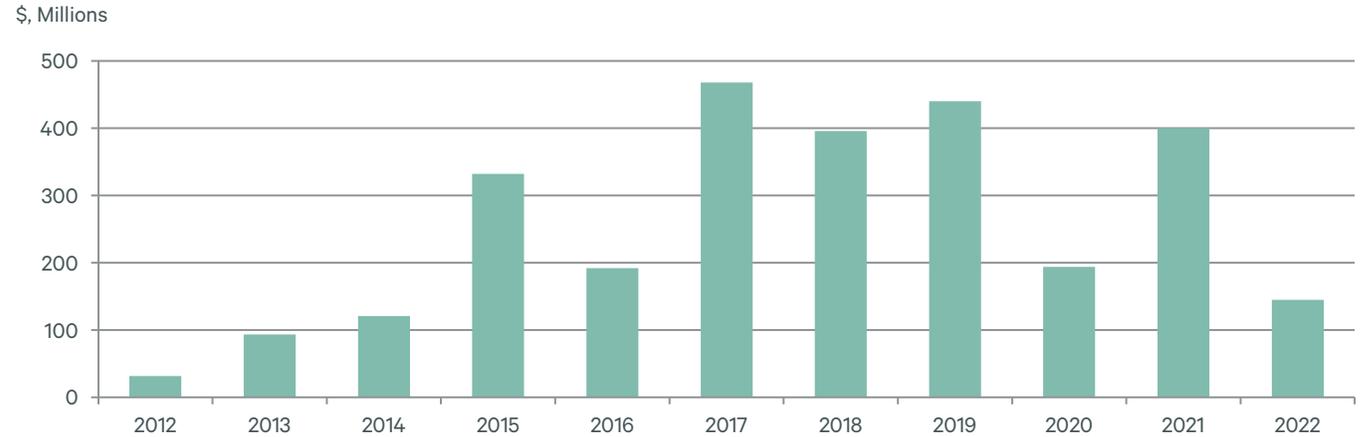
However, several notable sales occurred throughout the year, including:

- Office Properties Income Trust’s purchase of the 214,000 sq. ft. office property at 1434 Crossways Boulevard in the Greenbrier submarket for \$24 million
- SF Partners’ acquisition of the 172,000 sq. ft. office portfolio of 860-870 Greenbrier Circle from Office Properties Income Trust for \$9.6million
- Seminole Trail Properties securing of the 79,000 sq. ft. office property at 780 Lynnhaven Parkway in Virginia Beach from Continental Capital Partners for \$12.2 million

Pricing

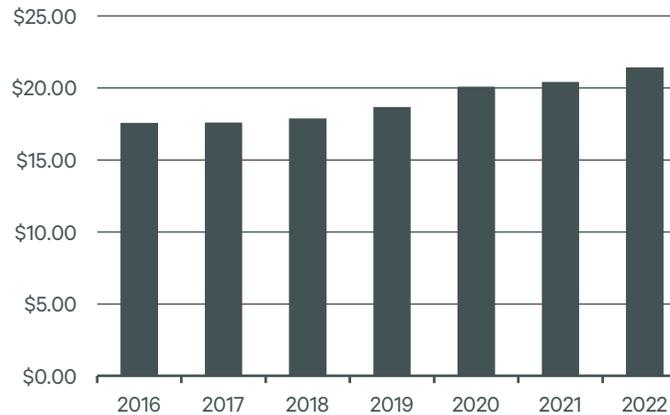
Despite sustained occupancy loss throughout the year, average gross asking rates grew 5.0% in 2022, ending the year at \$21.42 per sq. ft. per annum. On the Southside, asking rates rose to 22.81, a 3.4% increase from the previous year. Downtown Norfolk recorded the largest submarket rental rate growth on the Southside with asking rates rising to \$26.02, an 11.3% growth year over year. On the peninsula, asking rates rose 6.3% from 2021, ending the year at \$18.10.

FIGURE 4: Investment Sales Activity



Source: Real Capital Analytics

FIGURE 5: Historical Rent Growth

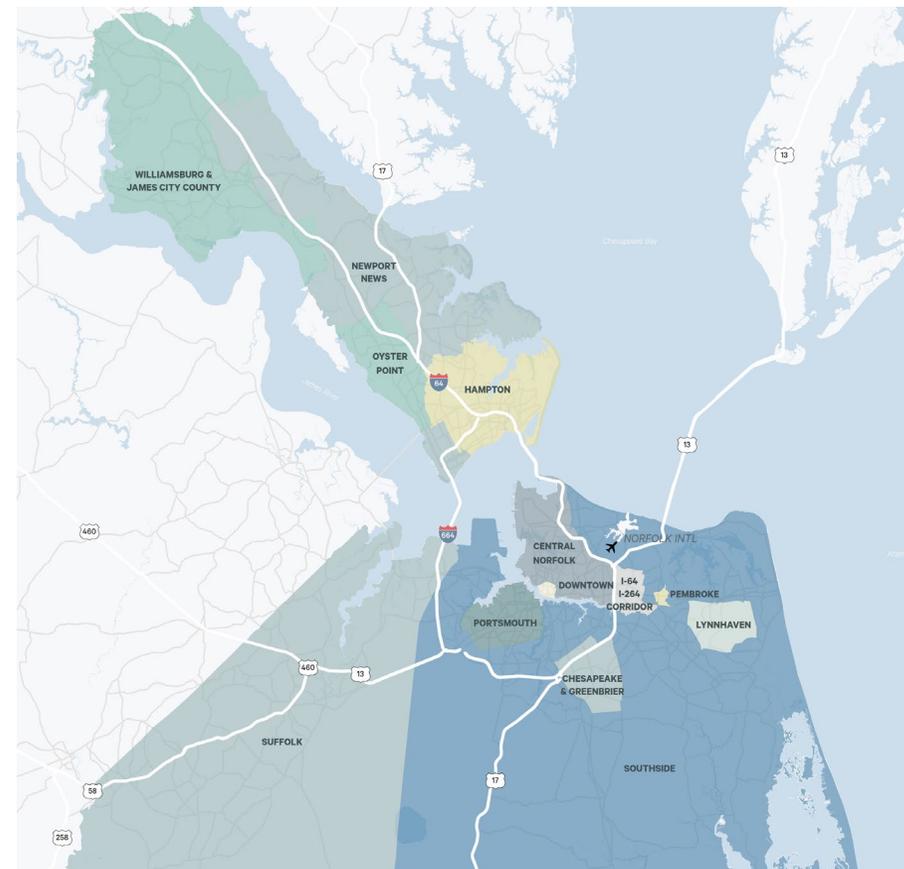


Source: CBRE

FIGURE 6: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q2 2022 Net Absorption	2022 Net Absorption	Gross Asking Rent (\$)	Under Construction (SF)
Southside	677	26,103,370	10.0	8,081	(142,279)	22.81	-
Central Norfolk	89	3,599,109	7.7	12,177	20,592	21.42	-
Chesapeake & Greenbrier	62	2,960,340	11.2	(38,867)	(64,466)	23.64	-
Downtown Norfolk	48	4,271,475	14.7	24,359	(18,726)	26.02	-
I-64 / I-264 Corridor	82	2,641,318	8.8	(1,868)	37,000	22.38	-
Lynnhaven	39	1,614,328	7.3	(15,863)	(2,826)	20.00	-
Pembroke	34	2,437,022	11.9	7,757	(105,974)	23.69	-
Portsmouth	33	834,355	7.5	(5,135)	2,965	17.83	-
Remaining Southside	235	6,097,794	10.0	20,923	(14,866)	20.63	-
Suffolk	55	1,647,629	3.9	4,598	4,022	22.26	-
Peninsula	305	11,378,778	13.1	3,893	(114,191)	18.10	-
Hampton	76	3,436,857	20.5	32,365	131,873	17.02	-
Newport News	61	2,591,829	6.4	(6,834)	(19,260)	16.31	-
Oyster Point	115	4,301,404	13.1	(26,716)	(238,192)	19.23	80,000
Williamsburg	53	1,048,688	6.3	5,078	11,388	18.51	-
Overall	982	37,482,148	11.0	11,974	(256,470)	21.42	80,000

Source: CBRE



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