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E. V. WILLIAMS CENTER FOR REAL ESTATE
AT THE HARVEY LINDSAY SCHOOL OF REAL ESTATE

2022

Hampton Roads REAL ESTATE

MARKET REVIEW & FORECAST

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

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27th Annual Hampton Roads REAL ESTATE Market Review & Forecast

CONTENTS

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MESSAGE
FROM THE CENTER

I hope this message finds you well. It is my honor to serve as the E.V. Williams Center for Real Estate Chair. I am thankful to our immediate past Chair, Larry Colorito, for his steady guidance in leading the Center through these unprecedented times. I empathize with our members who have been directly affected by COVID-19.

I am proud of the dedication and ingenuity of the E.V. Williams Center for Real Estate for all the efforts in digitally delivering the Market Review last year. I am happy that we get to come together again this year and meet in person.

It is an exciting time for the Strome College of Business and the Harvey Lindsay School of Real Estate. We welcomed Dr. Simon Stevenson as the Robert M. Stanton Endowed Chair of Real Estate & Economic Development in September 2021. We look forward to our members connecting and collaborating with Dr. Stevenson.

I am enormously grateful to our sponsors and members who continue to support the E.V. Williams Center for Real Estate and its mission to engage the local real estate community with the resources and students of Old Dominion University. The Center provides a unique platform for sharing knowledge among members and the community and for tackling the challenges of the local commercial real estate industry.

Thank you to our speakers and authors for their time and dedication to this project. I look forward to our experts presenting the local commercial real estate industry's annual performance highlights.

I would also like to thank Ruth Cookson, Interim Director of the E.V. Williams Center for Real Estate, for the significant role that she played in managing the Center's efforts during these times.

Krista J. Costa
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ECONOMIC TRENDS

ROBERT MCNAB, PH.D.
Director, Dragas Center for Economic Analysis and Policy
Strome College of Business, Old Dominion University

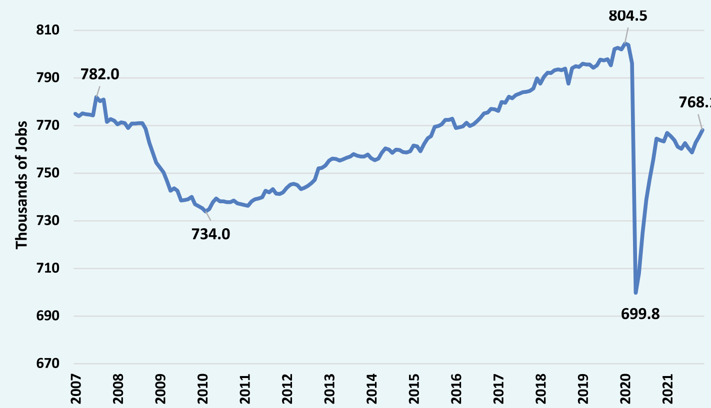
JOBS RECOVER (SLOWLY) IN HAMPTON ROADS

Prior to the COVID-19 pandemic, population, labor force, and jobs grew slower in Hampton Roads than in Virginia or the United States. Between July 2007 (prior to the Great Recession of 2007 – 2009) and January 2020 (prior to the COVID-19 recession of 2020), employers in Hampton Roads created only 22,500 jobs. By April 2020, employers in the region had shed 104,700 jobs or about one in every eight jobs in Hampton Roads. To say that we should not look fondly back on the spring of 2020 would be an understatement.

While many of those laid off during the onset of the pandemic in 2020 returned to work in the summer and fall, the number of jobs in Hampton Roads remains short of the pre-recessionary peak. One reason is that job growth has largely stalled in the region since the reopening in the summer of 2020, with employers only adding 1,100 jobs between January 2021 and November 2021. In November 2021, employers reported 768,100 jobs in the region, 36,400 fewer than in January 2020.

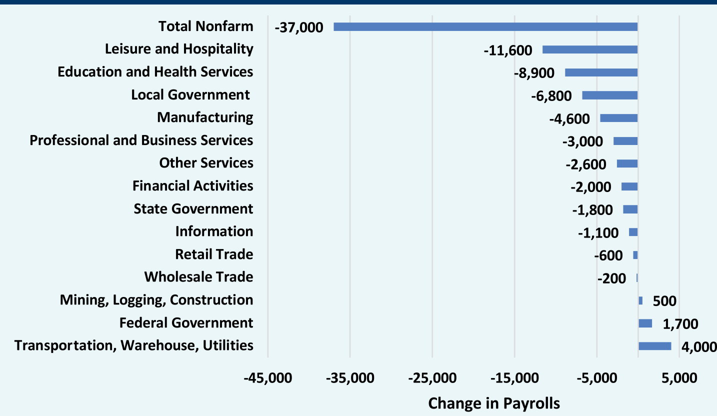
The recovery in the region is not equal across industries. Three industries, leisure and hospitality, education and health services, and local government, accounted for almost 74% of all the jobs lost in Hampton Roads from November 2019 to November 2021. Some of these losses were offset by the recovery and expansion of jobs by the federal government and

NONFARM PAYROLLS IN HAMPTON ROADS
JANUARY 2007 – NOVEMBER 2021



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

CHANGE IN NONFARM PAYROLLS IN HAMPTON ROADS
NOVEMBER 2019 - NOVEMBER 2021



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Non-seasonally adjusted data requires the use of the same month in time.

in the transportation, warehouse, and utility industry.

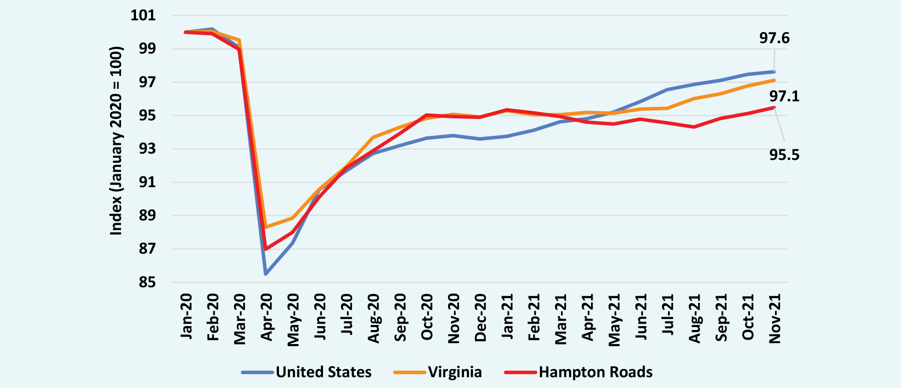
When compared to Virginia and the United States, Hampton Roads regained jobs at a faster pace in the summer of 2020. However, as job growth slowed in the region, its performance was eclipsed by the Commonwealth and the nation. In November 2021, jobs in the United States and Virginia were 2.4% and 2.9% lower, respectively, than before January 2020. In Hampton Roads, there were 4.5% fewer jobs in November 2020 than there were in January 2020.

SOME GOOD ECONOMIC NEWS

Hampton Roads occupies a distinctive role in the national security of the United States. When Department of Defense (DoD) budgets rise, DoD spending in the region, typically rises as well. In 2022, the DoD will spend about $25 billion in the region which will, in turn, lift overall economic activity by over $40 billion. The recently passed National Defense Authorization Act (NDAA) included increases in military compensation, veterans' retirement benefits, and housing allowances. The open question is whether Congress will pass a defense appropriations bill for the current fiscal year or whether political paralysis will see the entire fiscal year operate under a series of Continuing Resolutions. In the short-term, the DoD budget should increase, fueling economic activity in Hampton Roads.

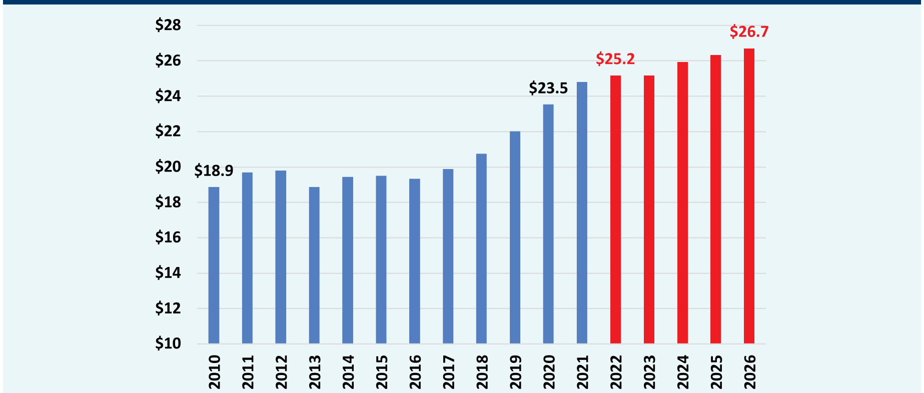
The Port of Virginia continues to move record amounts of cargo. In 2021, the monthly volume of Twenty-Foot Equivalent Units (TEUs) exceeded that of previous years. The International Monetary Fund projects that the global economy will increase by more than 5% in 2022 and will likely continue a strong expansion in 2023. A global expansion would fuel more traffic through the Port, benefiting the region's economy. The challenge of the Port, Hampton Roads, and Virginia is to gain market share and to increase intermediate imports. Manufacturers use intermediate imports in the production of final goods. In other words, instead of importing finished wind turbines,

INDEX OF NONFARM PAYROLLS
HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES
JANUARY 2020 – NOVEMBER 2021



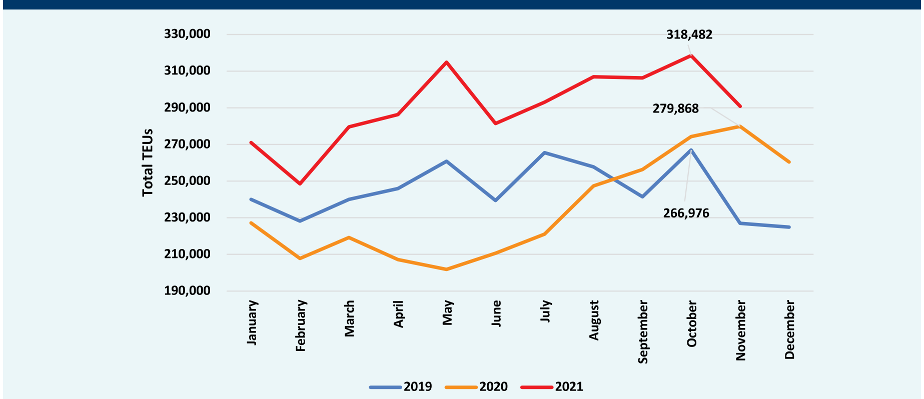
Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Index estimated from seasonally adjusted data. 100 is equal to employment in January 2020.

ESTIMATED DIRECT DEPARTMENT OF DEFENSE SPENDING
HAMPTON ROADS, 2010 - 2026



Sources: United States Department of Defense, Office of Management and Budget, and Dragas Center for Economic Analysis and Policy. Includes federal civilian and military personnel and procurement spending. Data for 2021 are estimates while data for 2022 through 2026 are projections based on DoD spending projections.

TOTAL TEUs
PORT OF VIRGINIA, 2019 - 2021



Source: The Port of Virginia (2021), TEU Volume, Monthly Website Statistics. Total TEUs are equal to Total Loads plus the number of empty TEUs exported and imported through the Port of Virginia.

import inputs which are then used to produce wind turbines, which are, in turn, used in the region and also exported to domestic and international locations. Increasing the level of intermediate imports would spur job creation in Hampton Roads and Virginia and diversify the region's economic base.

2022 AND BEYOND

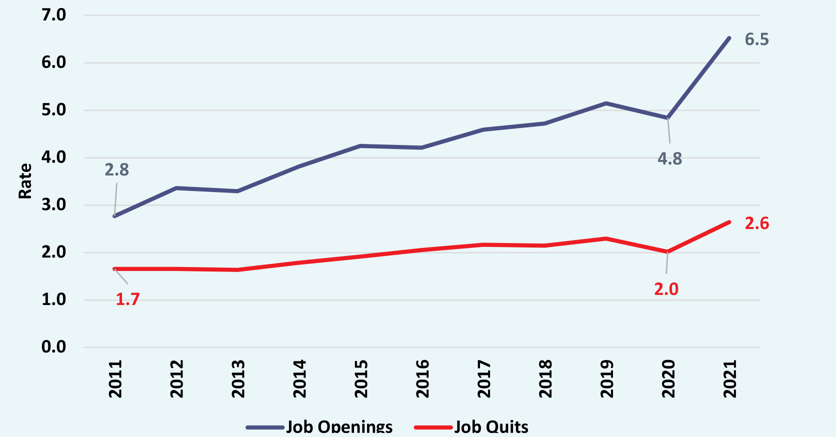
The two immediate challenges facing the Hampton Roads economy in 2022 are the mismatch between workers and employers and inflation. We are witnessing a simultaneous, synchronous demand and supply shocks globally. Consumer demand has been unexpectedly resilient during the pandemic, in part due to an aggressive fiscal and monetary response in the United States and other nations. At the same time, COVID-19 continues to create havoc with supply chains. Workers are also newly empowered, with record-setting job openings and quitting rates in Virginia and the United States. Employers face increasing costs for labor and materials and are pushing these increases forward to consumers.

Headline inflation equals the year-over-year change in the Consumer Price Index (CPI) and accelerated in the latter half of 2021. While consumers are paying more for goods and services, the Producer Price Index (PPI), which provides insight into wholesale price changes, is more worrisome. A rapid increase in the PPI is typically a signal of future increases in retail prices. These indices provide a strong signal that inflationary pressures are unlikely to ameliorate unless there is concerted action by monetary authorities to raise the cost of capital in 2022 and into 2023.

The Federal Reserve has signaled that it will adjust monetary policy in 2022 and 2023 to combat current and future inflation. It will first start to unwind its $8.9 trillion in liabilities by allowing mortgage securities and corporate bond holdings to expire and reducing the money supply. The Federal Reserve will also raise the discount rate at least three times in 2022. A reasonable expectation is that the Federal Reserve will raise the discount rate at least 100 basis points over the next 12 months in conjunction with the unwinding of its quantitative easing policy. If inflation persists, the Federal Reserve may be more aggressive on the timing and scope of interest rate increases.

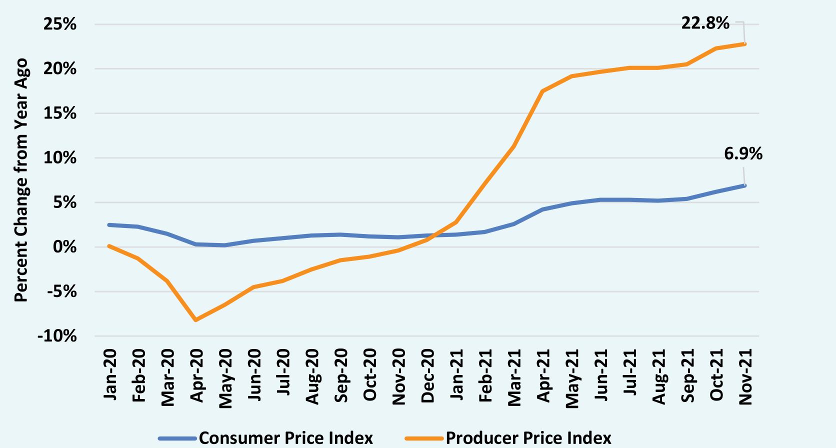
Even though inflation will persist through 2022, albeit at (hopefully) lower levels, we expect real (after-inflation) economic activity to increase at the national, state, and regional levels. Continued increases in equity markets, strong consumer demand, and improving expectations for future growth will lift regional growth above 2.5% in 2022. Real economic growth in the Commonwealth and nationally will approach, if not exceed, 4% in 2022 and will moderate in 2023. Barring an unexpected political or economic shock, the short-term outlook for Hampton Roads is positive with continued flows of DoD spending into the region, increasing levels of domestic and international tourism, as well as robust growth in traffic through the Port of Virginia.

ANNUAL AVERAGE JOB OPENINGS AND JOB QUITS VIRGINIA, 2011 - 2021

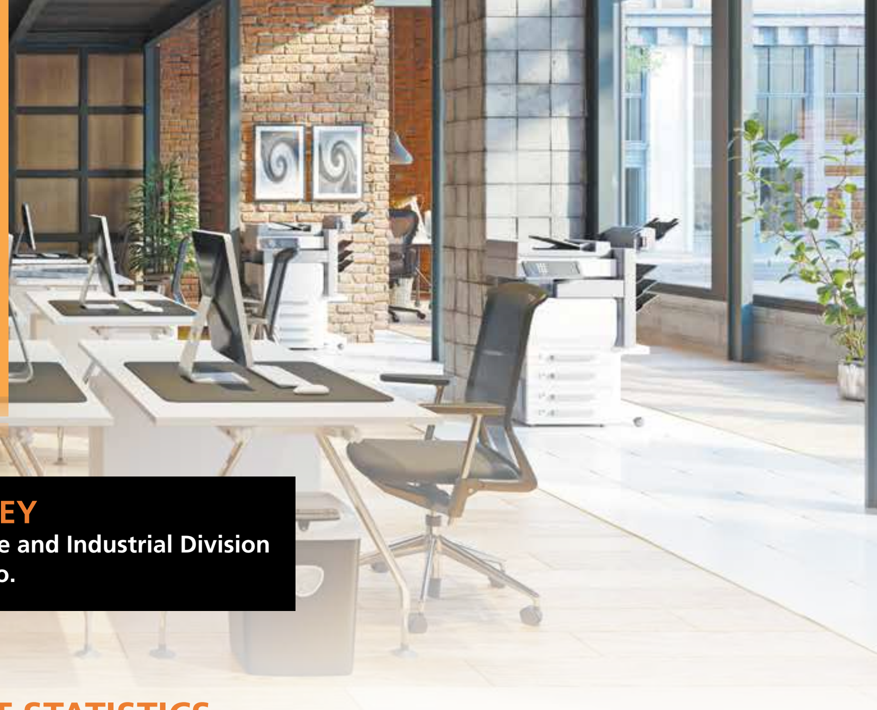


Source: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. The job openings rate is equal to the ratio of the number of job openings to the sum of employment and job openings. The job quits rate is equal to the ratio of job quits to employment. Both ratios are multiplied by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

PERCENT CHANGE IN CONSUMER AND PRODUCER PRICE INDEX UNITED STATES, JANUARY 2020 – NOVEMBER 2021



Source: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Seasonally adjusted data. .



OFFICE

ASHLEY M. BUSSEY
Senior Associate, Office and Industrial Division
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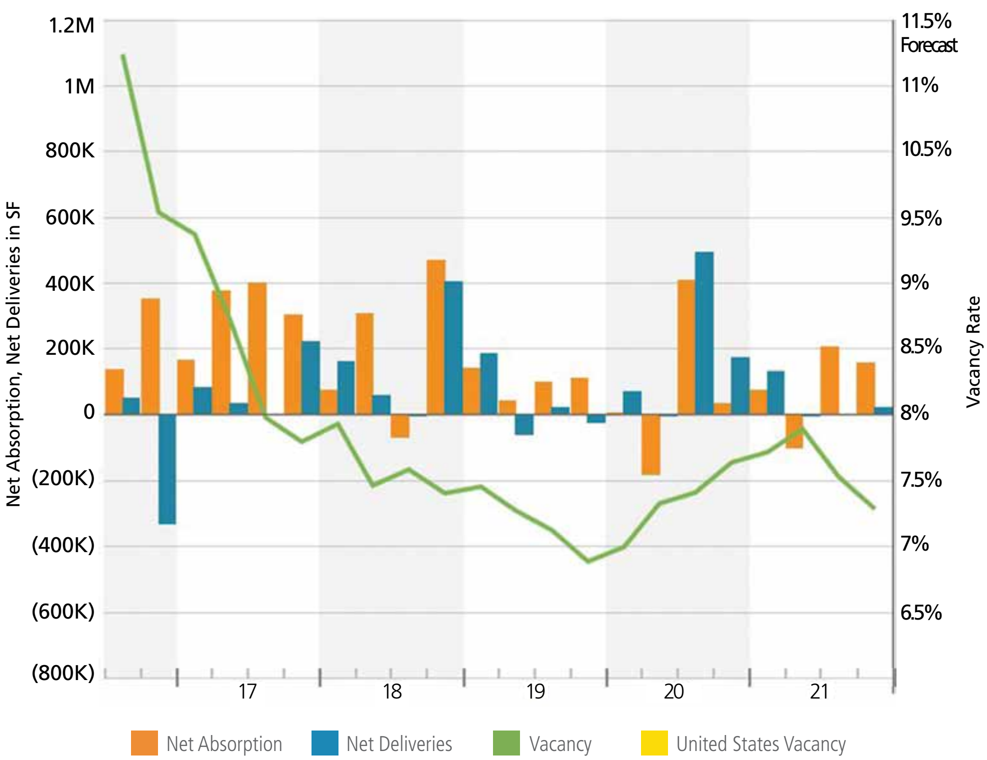
HAMPTON ROADS OFFICE MARKET STATISTICS

The Hampton Roads office market is beginning to stabilize and inches closer to the "new normal." However, COVID variants continue to impact return-to-work models as tenants determine how to best support hybrid work and make long-term leasing decisions. CoStar reports total office inventory in Hampton Roads at 55,419,309 square feet (SF). The overall vacancy rate and availability rate are essentially holding flat at 7.8% and 10.8%, respectively. The availability rate of 4–5-star office products decreased overall in 2021, while 3-star office products increased in availability. The Hampton Roads office market experienced an overall positive net absorption of 278,851 SF. The average direct full-service asking rent increased from $19.95 per SF to $20.35 per SF.

NET ABSORPTION, NET DELIVERIES & VACANCY



Source: CoStar

KEY HAMPTON ROADS TRANSACTIONS

2021 TOP OFFICE LEASES				
Tenant	Property	Date	Square Footage	Lease Type
Decisions	4588 Virginia Beach Boulevard	Q3 2021	52,638	New
Conduent	1434 Crossways Boulevard	Q3 2021	51,700	Renewal
QED Systems	5151 Bonney Road	Q3 2021	43,686	Renewal
Kaufman & Canoles, P.C.	150 W. Main Street	Q1 2021	43,041	Renewal
CMA CGM Group	999 Waterside Drive	Q3 2021	39,077	Sublease

2021 TOP OFFICE SALES TRANSACTIONS					
Property	Square Footage	Date	Sale Price	Price Per SF	Buyer Type
101 W. Main Street	367,000	Q4	$68,900,000	$187.74	Investor
850 Enterprise Parkway (part of 14-property portfolio)	92,600	Q4	$44,894,049	$484.82	Investor
1717 Will O Wisp Drive	51,392	Q4	$20,785,787	$404.46	Investor
300 Exploration Way (part of 2-property portfolio)	97,490	Q1	$16,987,000	$174.24	Investor
Pembroke Office Park, Buildings 4, 5, and 6 (291, 293, and 297 Independence Boulevard)	167,660	Q3	$15,771,250	$94.07	Investor

HAMPTON ROADS OFFICE MARKET OVERVIEW

The Hampton Roads office market experienced a slow yet positive cycle throughout 2021, despite multiple COVID variants impacting the workplace. Levels of uncertainty caused a different kind of market activity and a rise in shorter-term leases at slightly higher rental rates. Flexibility was the name of the game for office leasing in 2021 among both landlords and employers. The work-from-home "trend" is here to stay as employers saw increased efficiency while boosting employee morale.

Tenant move-outs became less prevalent as compared to 2020, and "fear-based" sublease space dwindled, following national office trends. Vacancy rates remained healthy; however, no new office inventory was delivered. The construction pipeline has slimmed to its lowest total in almost a decade, which is a positive minimal supply-side pressure as the office market navigates post-pandemic. Construction costs increased significantly due to raw material shortage, skilled-labor shortage, and supply-chain disruptions. Rising construction costs have impacted tenant improvement allowances offered to lease office space, causing landlords to pause and reassess their return on investment. Tenant improvement discussions have become a tightrope walk between landlords and tenants, pressing each side to compromise.

Investors have not been deterred as the local office market experienced a higher volume in investment transactions across Hampton Roads. The top five sales transactions of 2021 went to investors, with three of the largest transactions in the fourth quarter alone.

2022-2023 OFFICE *Outlook*

The Hampton Roads office market will continue to stabilize, and the fundamentals will remain positive in 2022 with no drastic changes to the current market. Flexibility and convenience will drive the next decade with a renewed emphasis on work/life balance. Trends will continue to accelerate as people seek flexible work, flexible shopping, flexible health care, and a flexible home environment. As organizations determine the amount of space they will need long term and begin to "rightsize," the regional office market will see minimal supply-side pressures from the lack of new inventory over the next couple of years. Rising costs of construction and the lack of commitment for long-term (10-15+year) leases will limit the ability for new construction. It is yet to be determined how much office space tenants will give back across the board, specifically national companies; however, local offices will most likely take direction from national, non-local decision makers on how much space is needed to operate in the Hampton Roads market. Owners and landlords will combat rising inflation over the next couple of years by passing inflationary pressure to the tenants in the form of operating expenses and remaining firm on annual rent escalations. Rental rates will hold steady or increase slightly to provide flexible lease terms for tenants. Hampton Roads continues to offer an excellent quality of life, competitive cost of living, and attractive rents for corporations in and around the region.

OFFICE MARKET TRENDS TO WATCH

- **Hybrid Work From Home (WFH)**
  While in-office work offers collaboration, culture, and training, employers will turn to a hybrid work model post-pandemic and strike a balance between virtual and in-office work. The hybrid work-from-home model will impact workplace design, provide greater space utilization, and potentially retain valuable talent.

- **Innovative Spaces**
  A hybrid workplace will need to be a destination that attracts employees and will require good office planning. Organizations will think differently about shared spaces and services they provide, as well as the technology and amenities to make the workplace highly attractive.

INDUSTRIAL

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

YEAR IN REVIEW – INDUSTRIAL 2021

It was another banner year for the Hampton Roads industrial real estate market. The region experienced record demand across all size ranges. Rents grew sharply – nearly 10% year-over-year – and we ended 2021 with an incredible 1.5% vacancy rate.

HAMPTON ROADS INDUSTRIAL 2021 KEY METRICS

1.5%
VACANCY RATE

6.7 MSF
POSITIVE NET ABSORPTION*

9.8%
RENT GROWTH

5.4 MSF
DELIVERIES

4.3 MSF
UNDER CONSTRUCTION

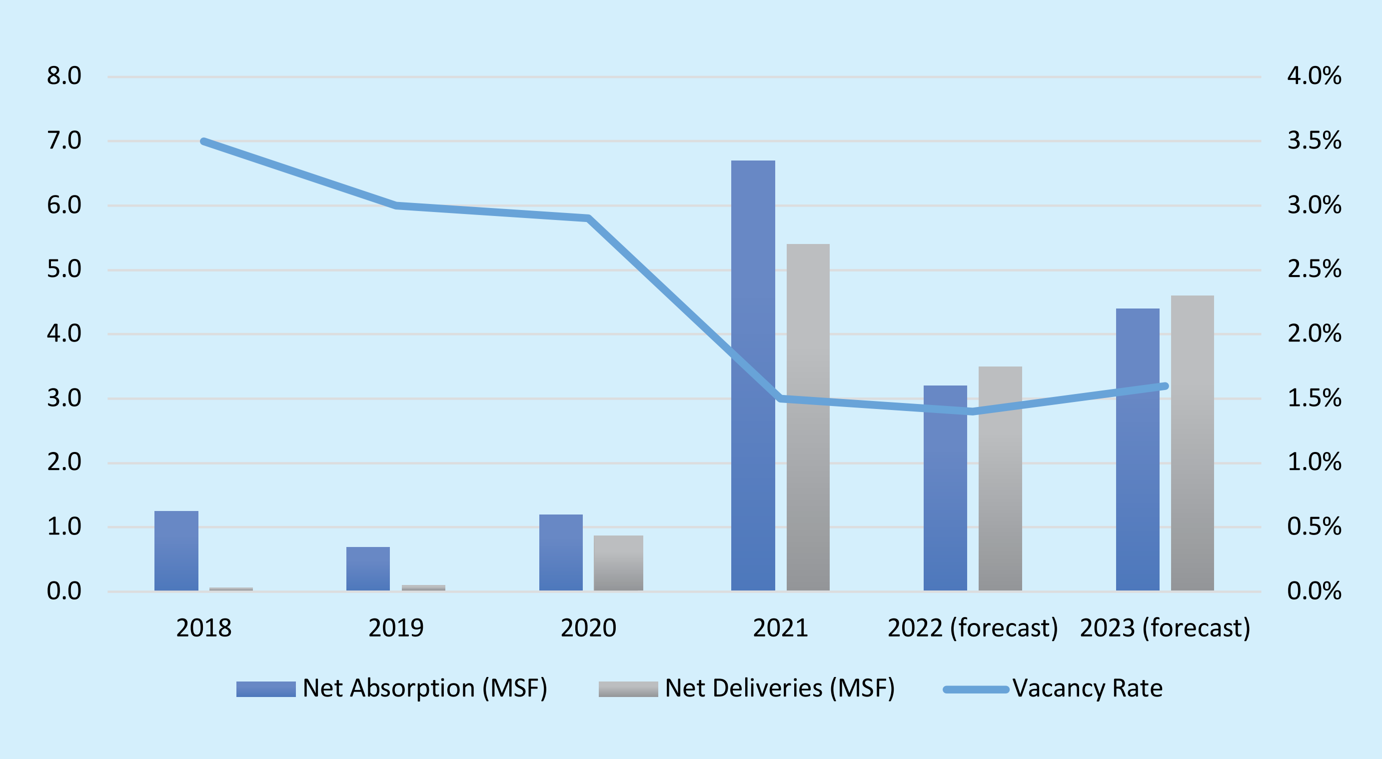
Figure includes build-to-suit transactions.

(Source: Cushman & Wakefield | Thalhimer)

Competition was fierce between users the entire year due to limited supply and historically low-interest rates. It was not uncommon for landlords and sellers to receive multiple offers shortly after bringing a property to market, sometimes resulting in completed transactions above the asking price. More than in years past, deals were struck off market by users and investors aggressively seeking acquisition opportunities.

While nearly every other port in the country struggled to operate under difficult COVID-19 restrictions and supply chain issues, our port thrived. The Port of Virginia posted its most productive year on record, handling more than 3.2 million TEUs (twenty-foot equivalent units) – an outstanding year-over-year increase of 25%. Investments made in prior years have paid huge dividends, within the maritime industry and amongst the supply chain and logistics communities. The elevated perception afforded by regional port and roadway infrastructure improvements, among other factors, has resulted in real requirements from out-of-market users, developers, and investors. New Jersey-based Global Concentrate acquired 170 acres at Pretlow Industrial Park in Franklin for the construction of a 2.0 million square foot (MSF) juice processing facility, and an undisclosed Fortune top 50 retailer signed a lease at Virginia Port Logistics Park in Suffolk for a 1.5 MSF import facility.

NET ABSORPTION, NET DELIVERIES & VACANCY



The development pipeline mushroomed in 2021. Several build-to-suit and speculative projects were delivered to market throughout the year. The list includes Amazon's 3.8 MSF robotics fulfillment center in Suffolk and 637,000 SF import facility in Chesapeake; Equus' 350,000 SF build-to-suit for Massimo Zanetti and 348,500 SF speculative construction building preleased by XPO Logistics, both located in Suffolk; and Lineage Logistics' new 167,000 SF, fully automated cold storage facility in Portsmouth.

Institutional developers from across the country sought to enter or expand in the market. Flint Development, InLight Real Estate Partners, NorthBridge, and Karis Cold Storage are all new to the market, committing to significant capital investment in Hampton Roads. Industrial Realty Group, W.M. Jordan Company, Miller Group, and several others expanded, or are in the process of expanding, their Hampton Roads holdings. Several speculative development projects that commenced planning and site work in 2021 were quickly absorbed – a healthy sign for the market. However, the region's land constraint and competing interests from single-family and multifamily developers create a challenging obstacle for expanding industrial inventory.

2021 TOP INDUSTRIAL LEASE TRANSACTIONS			
TENANT	PROPERTY	TOTAL SF	COMMENTS
Undisclosed	Lot 6, Enterprise Dr, Suffolk Virginia Port Logistics Park	1,500,000 SF	Import center. Build-to-suit.
XPO Logistics	1401 Enterprise Dr, Suffolk (Virginia Port Logistics Park)	348,500 SF	Distribution center. Equus' first speculative building at VPLP preleased by XPO.
Road One	6601 Park Dr, Suffolk (Portside Logistics and Commerce Park)	338,000 SF	Distribution and truck terminal with significant trailer parking yard.
Dart Logistics	1080 Centerpoint Dr, Suffolk (Virginia Port Logistics Park)	307,000 SF	Build-to-suit at pad-ready site.
Amazon	Lot 7, Enterprise Dr, Suffolk Virginia Port Logistics Park	278,670 SF	Build-to-suit lease for distribution.

2021 TOP INDUSTRIAL SALE TRANSACTIONS					
PROPERTY	BUYER	TOTAL SF	SALES PRICE	PSF	TYPE
5045 Portsmouth Blvd, Chesapeake	Inland Real Estate Group	637,266 SF	$156,987,294	$246.35	Single-tenant Leased Investment; Amazon import facility
Crossways Commerce Center, Chesapeake	Heritage Capital	525,082 SF	$61,050,000	$116.27	Multi-tenant Flex Investment Portfolio
1440 London Bridge Rd, Virginia Beach	IWH Capital	400,000 SF	$18,000,000	$45.00	Two-building Leased Investment
1187 Azalea Garden Rd, Norfolk	Coleman Logistics Assets	200,786 SF	$17,167,000	$85.50	Single-tenant Leased Investment; part of a national portfolio sale
117 Plover Dr, 260 Benton Rd & 190 County St, Suffolk	Private investment group	255,000 SF	$17,000,000	$49.97	Investment group purchased real estate; business purchased as a separate transaction

LOOKING FORWARD

2022 will be a tale of two markets. The Class A, big-box logistics market will continue its meteoric velocity as new development projects come online and demand from users is spurred on by ever-growing eCommerce sales, the relaxing of COVID-19 restrictions, easing supply chain constraints, and an improving economy. The story is different for local and regional users occupying space less than 100,000 SF. The development pipeline for this user group is practically non-existent due again to land constraint issues. Smaller-scale users supply chain model dictates infill locations with quick and easy access to higher population densities in and around the Interstate 64 Beltway. The competition will only increase as we continue to see our vacancy rate drop for this user group while rental rates continue to skyrocket.

Rising interest rates will have little to no effect on the industrial real estate market in Hampton Roads. An improving economy, consumer demand, and shifting trade patterns that see ocean liners making more East Coast port calls will outweigh any negative impacts from interest rate increases.

Expect a small, but welcome, uptick in manufacturing demand in 2022 as companies continue to implement supply chain risk mitigation strategies by onshoring. Demand from third-party logistics providers and companies related to Virginia's offshore wind energy industry will ramp up as well. And of course, as suggested last year, expect more Amazon deals!

RETAIL

ERICA RORRER
Executive Vice President and Associate Broker, 7 Hills Advisors

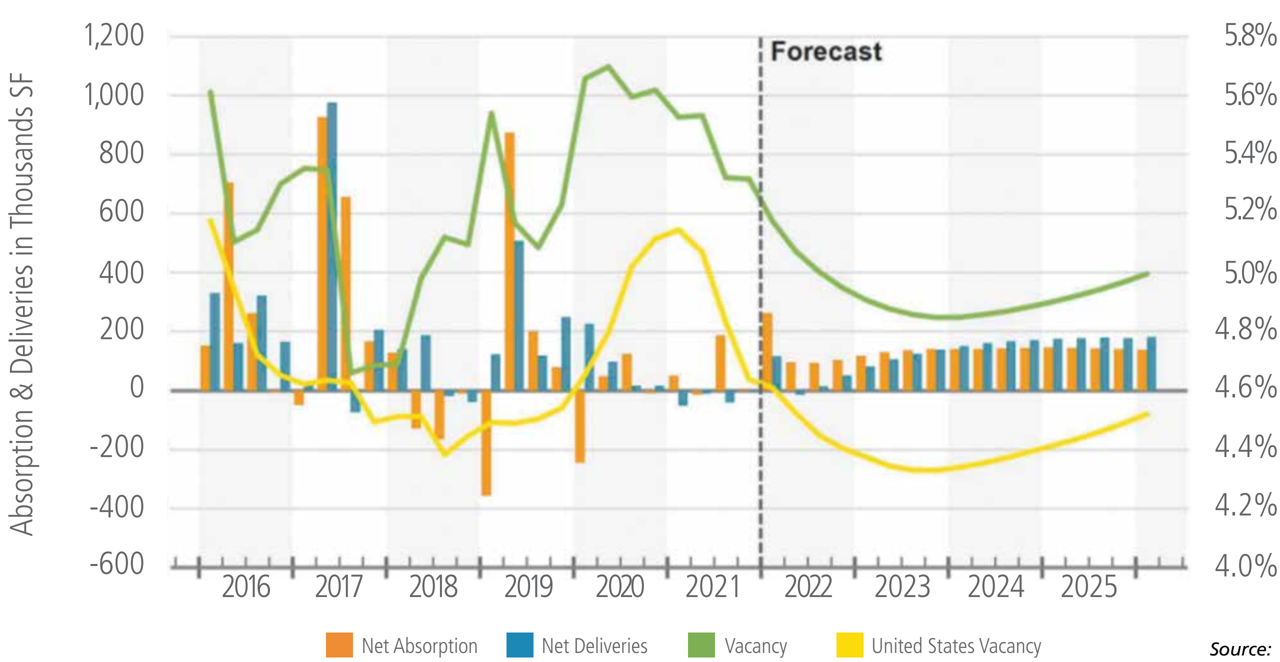
KEY HAMPTON ROADS MARKET STATISTICS

Hampton Roads' retail sector has proven to be fast-adapting, fungible, and sustainable. Net absorption has remained positive in all but one quarter since the pandemic began. Hampton Roads' vacancy rate of 5.3% in 2021 is in line with long-term historical averages of less than 6% and almost equal to pre-pandemic rates of 5.1% in 2019. Asking rents grew 3.2% in the last 12 months.

By the end of 2021, Hampton Roads learned the vaccine was not the dagger in the heart of COVID-19 that we all hoped for at the beginning of the year. But before the market realized this, the first and second quarters of 2021 were sunshine and rainbows with the confidence of newly vaccinated consumers and pent-up demand exploding back into retail stores armed with robust savings accounts, stimulus checks, and increased unemployment benefits.

Consumer and retailer confidence was evidenced by more than 900,000 square feet (SF) of retail space leased in the first quarter of 2021 in Hampton Roads. Only twice before had Hampton Roads' quarterly results matched or exceeded that total in the past 15 years. The market was trending up, and experts predicted more than three million SF of retail space would be leased by year's end, which would have been in line with pre-pandemic norms. Yet, when reality set in, the fourth quarter of 2021 fell short of returning to pre-pandemic levels for the second year in a row. Still, as mentioned, the yearly average was strong, and there is reason to believe that Hampton Roads' adaptability to change will lead us into another successful year in 2022.

NET ABSORPTION, NET DELIVERIES & VACANCY



Source: CoStar

KEY HAMPTON ROADS TRANSACTIONS

2021 TOP NEW RETAIL LEASES

Tenant	Property	City	Quarter	Square Footage
Hobby Lobby	Greenbrier Market Center	Chesapeake	Q1	42,296
Surplus Freight	Newport Crossing	Newport News	Q1	33,472
Destiny's Beauty Supply	Newmarket Shopping Center	Newport News	Q2	33,200
Ollie's Bargain Outlet	Kingsgate Green Shopping Center	Williamsburg	Q2	30,000
Ross Dress For Less	Southern Shopping Center	Norfolk	Q4	30,000

2021 TOP SHOPPING CENTER SALES

Property	Sales Price	Sales Price PSF	Quarter	Square Footage
Greenbrier Square (Chesapeake)	$36.5M	$140 PSF	Q3	260,602
Southern Shopping Center (Norfolk)	$25M	$101 PSF	Q4	246,622
Hampton Towne Centre (Hampton)	$7.7M	$44 PSF	Q2	174,540

Source: MSCI REAL Capital Analytics

HAMPTON ROADS MARKET OVERVIEW

Several factors contributed to increased retail spending and the re-stabilization of the retail industry in 2021, including the distribution of the COVID-19 vaccine, increased consumer confidence, and relaxed regulations on retail establishments and restaurants. According to the Commerce Department, the result was a surge in retail sales of a seasonally adjusted 9.8% in March of 2021. This increase was the largest since May 2020, when stores reopened after their pandemic-forced closures.

Retailers had learned to navigate a forced world of digital business that ultimately complemented their brick-and-mortar stores. What would have naturally taken five or 10 years to organically develop was expedited in 20 months. Not only did retailers adapt their websites to support the online shopping experience, they also embraced social media marketing trends through Twitter, Facebook, and Instagram. They welcomed third-party apps such as Postmates, Uber Eats, Grubhub, and Doordash when needed to help them reach their customer base. What was apparent by the end of 2021 is that physical stores need the digital world as much as the digital world needs storefronts.

For the first time in four years, U.S. retailers opened more brick-and-mortar stores than they closed. Physical stores were found to be marketing billboards for the brand and provided a place to pick up and return online purchases and a point of distribution for shipping and e-commerce. The National Retail Federation reported that in the U.S., retailers announced roughly 5,725 store openings in 2021, nearly doubling the approximate 3,000 store closings announced over the same period. Pandemic-driven lease renegotiations and corporate debt restructurings also minimized store closings.

But not all industry segments were as receptive to altering their operations toward their websites, mobile sales, curbside pickups and to-go orders, and not all categories had the same impact on consumers in 2021 as in pre-pandemic times. There are some clear industry leaders across the nation and Hampton Roads. In Hampton Roads, discount brands and off-priced concepts with little to no online presence led to expansion in the larger square foot formats. These concepts include Ross Dress For Less, Marshalls, and Ollie's Bargain Outlet. Home goods and home improvement concepts such as Hobby Lobby and HomeGoods also experienced a business jolt from the pandemic.

The junior anchor positions are dominated by dollar stores such as Dollar Tree, Dollar General, and Five Below, with Dollar General's PopShelf concept contemplating a market entrance.

Not surprisingly, grocery-anchored centers performed well in 2021 and seemed to be the desired product for investors and expanding retailers. Grocery stores and other essential retailers were the drivers feeding small shop space leasing.

Along with small shops, demand increased for drive-thru locations. Auto parts stores, fast-casual restaurants,

U.S. NATIONAL SALES PRODUCTIVITY AND OCCUPANCY COSTS BY CATEGORY (ROLLING 12-MONTH NOVEMBER 2020 - OCTOBER 2021)

	ANNUALIZED SALES PSF				OCCUPANCY COST %
Category	**YOY% Over Same Period**	**Rolling 12 Nov 2020 - Oct**	**Calendar Year 2020**	**Calendar Year 2019**	**Rolling 12-month average (Nov 2020- Oct 2021)**
Home Goods	97.9%	$463	$238	$248	7.5%
Shoes	39.5%	$252	$177	$226	10.1%
Specialty Retail	35.1%	$429	$303	$404	6.5%
Specialty Restaurant	33.2%	$140	$86	$183	19.5%
Sporting Goods	33.1%	$234	$177	$195	4.9%
Specialty Food	32.5%	$488	$374	$391	10.4%
Apparel	27.8%	$278	$209	$263	9.7%
Beauty Salon	26.7%	$391	$294	$413	10.5%
Sit-down Restaurant	24.2%	$536	$402	$542	6.9%
Beauty Supplies	22.9%	$523	$405	$533	6.1%
Pet Supplies	22.7%	$256	$210	$195	11.5%
Hair - Cut/Dry	22.5%	$233	$175	$271	17.0%
Fitness	18.6%	$90	$72	$119	29.3%
Fast Food	16.1%	$625	$537	$560	7.3%
Services	8.5%	$440	$390	$488	11.9%
Dollar Store	1.7%	$137	$138	$151	7.7%
Craft	-4.0%	$124	$134	$126	14.1%
Department Store	-20.0%	$230	$282	$321	6.6%
Movie Theater	-31.1%	$45	$35	$142	54.9%

Source: Datex Property Solutions

Category descriptions: Hair Cut/Dry-Retailers that principally cut and/or blow-dry hair. Beauty Salon-Retailers that do massage, eyelashes, waxing and nails. Specialty Food-Inclusive of juices, ice cream, yogurt and donuts. Fast Food-Quick serve and takeaway-focused meals. Sit-down Restaurants-Principally sit-down dining focused. Specialty Restaurants-Dining with an integral experience component. Fitness-Gym, yoga and workout facilities. Services-A standalone category capturing all other service retailers including cash checking, insurance, dental, copy/print, weight loss, shipping and wireless. Craft-Retailers focused on arts, crafts and making. Specialty Retail-Specifically focused on a narrow vertical such as books, parties, backpacking or devices.

and health concepts, including Aspen Dental and The Joint Chiropractic, which signed five leases in Hampton Roads in 2021, put a higher demand on smaller shop spaces and drove up rents.

The July 2021 legalization of cannabis in Virginia set even more demand for small shop and warehouse space. Smoke and vape shops and hemp houses claimed their share of small shop spaces to be well positioned for legal cannabis retail sales in the next two years.

Noting that the winners in the pandemic are the grocery-anchored centers, discount stores, home goods, home improvement and discount concepts taking up anchor and junior anchor positions, and medical users, cannabis concepts, and fast-casual restaurants are seeking small shop spaces, we must also acknowledge what is no longer working nationally and in the Hampton Roads retail marketplace. The pandemic accelerated "the fall of the mall," and not surprisingly, as of the fourth quarter of 2021, only the mall sector had a negative fourth-quarter trailing demand figure, according to CoStar analytics. Because malls house larger big-box stores that have experienced closures unlike any other segment, mall owners have been forced to rethink their position in the marketplace and ultimately redevelop to broaden the offerings at their centers.

Pembroke Mall, which will be renamed in the near future, announced this year that they would terminate all interior store leases in the fourth quarter of 2021 in order to

14-story, dual branded hotel, a first of its kind in Hampton Roads, is proposed to replace the Suntrust Bank building outparcel at Pembroke Mall as part of its strategic revitalization.

make way for a $200 million renovation consisting of non-retail uses such as senior living, multifamily housing, and a hotel.

Kotarides Development purchased Chesapeake Square Mall out of bankruptcy and announced redevelopment and partial de-malling plans in 2019. Owners of Greenbrier Mall in Chesapeake and Patrick Henry Mall in Newport News both filed for bankruptcy in 2020.

The City of Norfolk released Request For Proposals as it contemplates the next era for Military Circle Mall and MacArthur Center.

The foresight and innovation of the ownership of Lynnhaven Mall have kept their mall out of crisis and has allowed it to maintain its position as the best-performing mall in Hampton Roads.

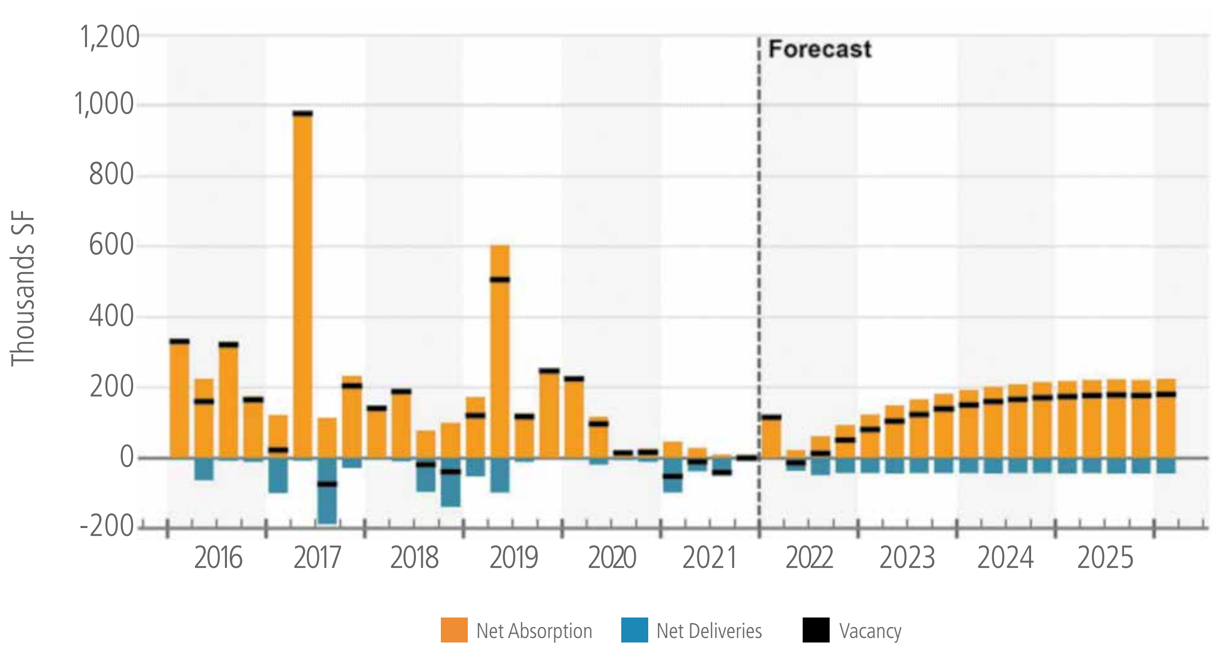
2021 CONSTRUCTION PROJECTS

Property	Address	Development Classificiation	Retail SF Constructed
Midtown Row	221 Monticello Avenue (Williamsburg)	Mixed-Use/ Retail and Apartments	63,000
Volvo Place at The Summit	601 Volvo Parkway (Chesapeake)	Neighborhood Retail Center	43,500
Bridgeport	3800 Block of Bridge Road (North Suffolk)	Mixed-Use/ Retail and Apartments	36,370
Summit Pointe	500 Volvo Pkwy (Chesapeake)	Mixed-Use/ Retail, Office, Apartments	25,000

The amount of retail space under construction in 2021 was at the lowest level the Hampton Roads market has seen in 10 years. The overwhelming majority of retail being built in 2021 was in mixed-use, open-air centers, which were about 50% pre-leased before a shovel hit the ground.

The second most prominent category, which represented about two-thirds of construction projects in 2021 were build-to-suits such as Wawa, Dunkin Donuts, and Starbucks.

DELIVERIES & DEMOLITIONS



Newly constructed block 3 at Summit Pointe featuring 25,000 square feet of retail below 366 apartments and a 550 space parking garage

Bridgeport, a mixed-use development in North Suffolk, constructed 36,370 square feet of retail in 2021

2022-2023 RETAIL *Outlook*

Retail centers anchored by grocery stores and restaurants will continue to be a commodity for investors and retailers and will demand the lowest cap rates and highest rents.

The average size of spaces will continue to shrink as healthy retailers get accustomed to using technology and home deliveries to service their customers.

High construction costs and supply chain issues preventing new products from coming onto the market will keep vacancy rates low, rents increasing and the power mainly in the hands of the landlord.

Non-traditional uses such as adult daycares, experiential concepts, hotels, and multifamily units will continue to backfill big-box retail spaces and change the landscape of malls.

Inflation will rise, and so will rental rates.

MULTIFAMILY

CHRISTEN FAATZ
Senior Vice President, Corporate Finance and Accounting
The Franklin Johnston Group

KEY HAMPTON ROADS MARKET STATISTICS

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rates	12 Mo. Asking Rent Growth
1,348	**2,003**	**3.3%**	**11.2%**

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Construction Units
4 & 5 Star	27,816	3.5%	$1,652	$1,644	(5)	0	1,661
3 Star	52,163	3.3%	$1,294	$1,290	5	0	464
1 & 2 Star	37,105	3.3%	$1,029	$1,025	0	0	0
Market	117,084	3.3%	$1,306	$1,301	0	0	2,125
National	17,445,088	6.80%	$1,371	$1,355	334,132	416,327	559,998
Annual Trends	**12 Month**	**Historical Average**	**Forecast Average**	**Peak**	**When**	**Trough**	**When**
Vacancy Change (YOY)	-0.6%	6.6%	3.8%	9.7%	2004 Q2	3.1%	2021 Q3
Absorption	2,003	1,444	1,257	4,835	2021 Q1	(2,951)	2003 Q4
Delivered Units	1,348	1,467	1,674	3,327	2014 Q4	98	2000 Q4
Demolished Units	0	48	64	467	2015 Q4	0	2021 Q4
Asking Rent Growth (YOY)	11.2%	3.1%	4.9%	12.1%	2021 Q3	-0.1%	2011 Q3
Effective Rent Growth (YOY)	11.2%	3.1%	4.9%	12.2%	2021 Q3	0%	2011 Q3
Sales Volume	$993M	$383.8M	N/A	$994.4M	2021 Q4	$14.8M	2006 Q3

Source: CoStar Group

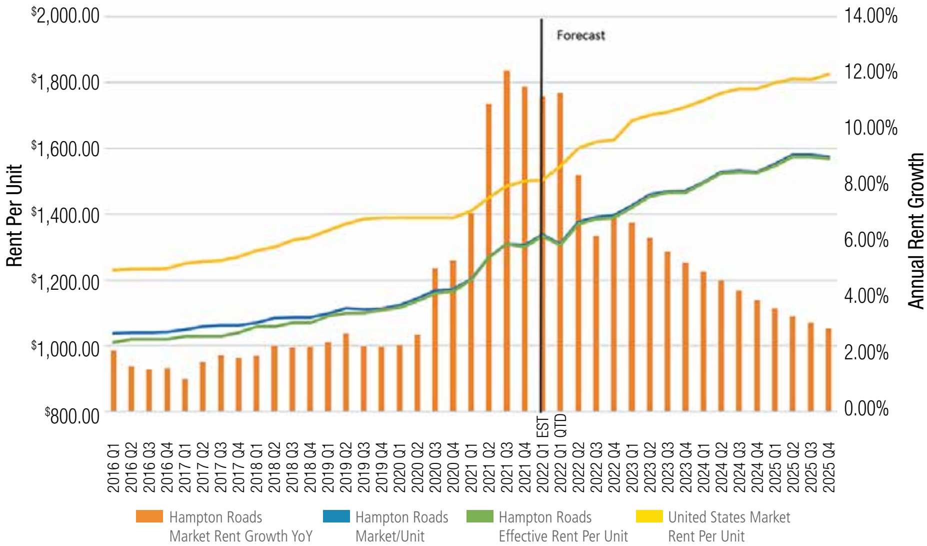
HAMPTON ROADS MARKET OVERVIEW

Despite pandemic pressures, the multifamily market in Hampton Roads continued to prove resilient in 2021. In 2020, I predicted above-average rent growth and below-average vacancy to continue beating historical norms in 2021. Pandemic notwithstanding, both proved to be true. Vacancy in Hampton Roads was lower than last year by 60 basis points (bps), landing at 3.3% on average, according to CoStar. CBRE Research reported an even lower vacancy of 2%. For reference, our historical average over the last ten years is 6.6%. Occupancy in our market is strong and is outpacing the national average (93.8%), as our construction pipeline remains modest.

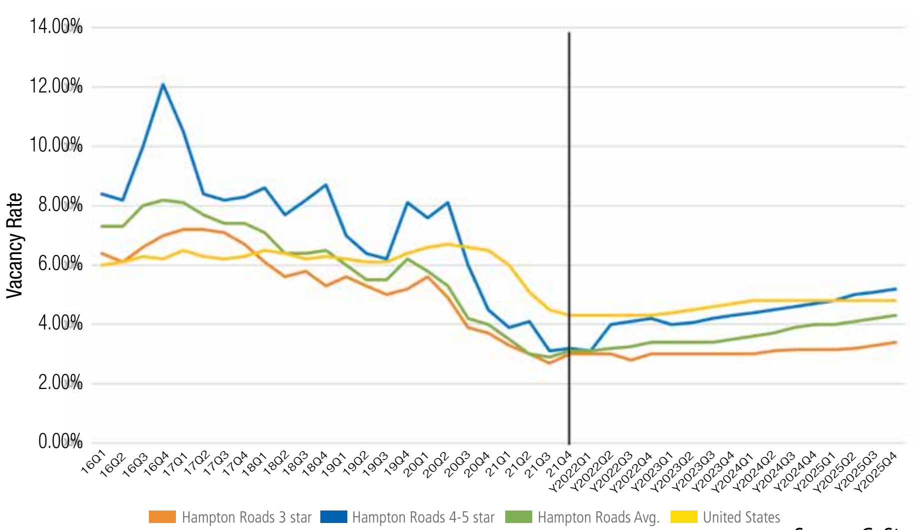
Some expected a jolt to occupancy once the eviction moratorium expired in September, but the expiration deadline passed without major shifts. Extended unemployment benefits and ongoing government assistance for rental payments are still easing the burden for renters unable to pay due to pandemic impact. As of November 2021, Virginia's Department of Housing and Community Development (DHCD) still held approximately $500M out of the $1.02B[1] received in Emergency Rental Assistance funding to help the lowest income and most marginalized renters stay stably housed.[2] According to internal reports distributed by DHCD, the RRP program has buoyed over 76k unique households as of November 2021.[3]

Rent growth averaged an impressive 11.2% in 2021, beating 2020 by 590 bps and well surpassing the historical average of 3.1%. Limited supply, higher than usual absorption of new units, and the increased cost of single-family housing all contributed to the impressive rent growth in our region despite our seemingly anemic recovery from the pandemic. We've experienced two consecutive years of major rent growth at 5.3% and 11.2%, respectively, despite increased unemployment, low job growth and low population growth, which are typically chief indicators of rent growth in a market. With low vacancy and constrained supply due to low deliveries, rent gains will likely remain above historical averages for some time, but a ceiling is expected after four quarters of 10%+ growth. CoStar predicts continued average rent growth of 6%+ in Hampton Roads for 2022, while Axiometrics 1Q22[4] report predicts rent growth as high as 12.1% in 2022.

RENT GROWTH IN HR VS. NATION



OCCUPANCY IN HR VS. NATION



Source: CoStar[5]

[1] *U.S. Department of Treasury. " ERA2_Allocations_Eligible_Entities_572021.pdf." Fact Sheet. N.d. Web. https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/allocations-and-payments*
[2] *U.S. Department of Treasury. "Emergency-Rental-Assistance-Payments-to-States-and-Eligible-Units-of-Local-Government.pdf." Fact Sheet. N.d. Web. https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/allocations-and-payments*
[3] *Kestner, Pam. "Overview Virginia Rent Relief Program Data 11-30-2021 (2).pdf." Fact Sheet. Virginia Department of Housing and Community Development. November 30, 2021. Email.*
[4] *Axiometrics. "1Q22 Report." Market Report: Norfolk, VA. January 20, 2022. Web.*
[5] *CoStar. Multi-Family Market Report: Norfolk, VA. Retrieved January 10, 2022. Web.*

USUAL KEY PERFORMANCE INDICATORS DIDN'T DRIVE MARKET RESULTS IN 2021

	Market Results				Market KPIs		
	Market Effective Rent		Market Occupancy Rate		Total Population	Total Households	Total Employment
Submarket Name	Growth	Rent Per Unit	Growth	Current	Growth	Growth	Growth
Market Average	13.9%	$1,318	1.7%	97.3%	0.2%	0.8%	0.6%
Chesapeake	11.4%	$1,391	1.1%	98.3%	0.5%	0.7%	0.5%
Gloucester County	8.5%	$763	2.5%	99.7%	0.2%	0.2%	0.9%
Hampton/York	17.4%	$1,322	2.2%	97.4%	-0.2%	0.6%	0.0%
Isle of Wight County	10.9%	$1,346	1.7%	99.0%	0.7%	2.0%	2.1%
Kempsville/Bayside	13.5%	$1,444	2.3%	97.8%	0.2%	0.9%	1.3%
Lynnhaven/Oceana	18.4%	$1,542	1.4%	96.7%	-0.5%	0.9%	0.1%
Newport News	15.8%	$1,167	1.8%	96.4%	-0.3%	0.7%	-0.4%
Norfolk	9.8%	$1,209	1.4%	97.5%	-0.1%	0.2%	0.0%
Portsmouth/Suffolk	10.4%	$1,210	1.0%	97.7%	0.6%	0.8%	0.9%
Williamsburg	14.3%	$1,449	2.0%	97.2%	1.2%	1.3%	2.2%

Source: Berkadia

KEY HAMPTON ROADS TRANSACTIONS

Rent growth drove impressive net operating income (NOI) growth which pushed our area's cap rates below historical norms. Assets were fetching prices that couldn't be ignored, and many owners chose to take chips off the table and cash in at an opportune time.

Depending on the universe included in the sales data, you'll see very different total market transaction volume and pricing. Forty-six deals traded in Hampton Roads in 2021 (size considered: 75+ units, $5M+ sales price) totaling $1.360B in sales[6].

[6] Real Capital Analytics. "Trends & Trades: Volume & Pricing in Newport News/Hampton/Norfolk, USA." January 20, 2022. Web.

Some of the largest transactions by total purchase price and price per unit include:

NOTABLE TRANSACTIONS IN 2021

Property/Address	Year Build	Units	Vacancy	Sale Date	Price	Price/Unit
Coastline Apartments 631 Lake Edward Drive	1970	600	2.00%	11/9/2021	$98,500,000	$164,166
Lumen Apartments 2100 N Campus Pkwy	2020	300	1.30%	9/27/2021	$82,000,000	$273,333
Streets of Greenbrier 929 Wintercress Way	2013	280	0.7%	3/17/2021	$66,459,600	$237,355
River House Apartments 4253 Llewellyn Ave	2008	194	1.0%	9/14/2021	$49,500,000	$255,154
The Rockefeller Norfolk 130 Brooke Ave	2015	146	2.70%	3/31/2021	$29,758,500	$203,825

Source: CoStar

Market conditions have sparked far more interest in Hampton Roads than we've seen in the last ten years, according to a senior broker for Berkadia. Moody's Analytics reports cap rates in our market over the last decade averaged 6.29%,[7] but in 2021, cap rates averaged 5.5% (Moody's) to 5.1% (CBRE).[8]

Depending on the product and submarket, cap rates continued to compress – as low as 4% for core product to 4.5% for Class B product with strong value-add upside – due to the tremendous growth in rent and resulting NOI growth in 2021.

[7] Moody's Analytics, Inc.| REIS. Submarket Report for Norfolk/Hampton Roads. Report generated January 4, 2022. Data as of Q3 2021.Web.
[8] CBRE Research. "Hampton Roads Market Report H1 2021." September 2021. Web.

2022-2023 MULTIFAMILY *Outlook*

Rent growth will continue above historical averages in 2022 and into 2023 due to constraints in supply and sub 3% vacancy. Upward pressure on rents will be exacerbated by **rising labor costs**, as well as growth in operating expenses - including insurance costs, property taxes, and the increased cost of new construction. The decline in our labor force in Hampton Roads will continue to drive up labor costs for the foreseeable future.

Bad debt may jump once rent relief runs out; however, with $500M in state rent relief still available for distribution, this may be a greater concern in 2023 and beyond. Collection trends for non-workforce housing have regressed to pre-COVID levels for Class A and B products according to Berkadia internal data, ranging anywhere from 0.1 to 0.5% of gross rent.

Supply chain issues will continue to cause delays in construction starts and finishes in 2022.

Interest rates will rise next year which will keep more renters in their apartments rather than moving into the single-family market.

According to Moody's Analytics, there are approximately 1,200 units under construction in our market that will be completed in 2022/2023, with another 2,728 proposed. Measured as a percentage of existing inventory, approximately **1.3% of the market's inventory is under construction,** compared to a national benchmark of 4.1%. While our supply pipeline has been modest, it's starting to pick up.

There are several **material changes to the tax code** under consideration that could significantly impact multifamily and commercial real estate in general, including: capping 1031 exchanges at $500k, increasing capital gains rates from 20% to match ordinary income rates, eliminating the step-up in basis upon death, and an increase to corporate tax rates. However, given that midterm elections are on the horizon, I don't expect much movement on many, if any, of these initiatives in 2022.

The state of the multifamily market in Hampton Roads is strong. There is significant investment interest in our market due to the yield our assets offer. Strong rent growth, low vacancy, and modest growth in supply all point to strong operating conditions for multifamily in 2022 and beyond.

RESIDENTIAL

J. VAN ROSE JR., MIRM
Principal Owner, Rose & Womble Realty Co., LLC

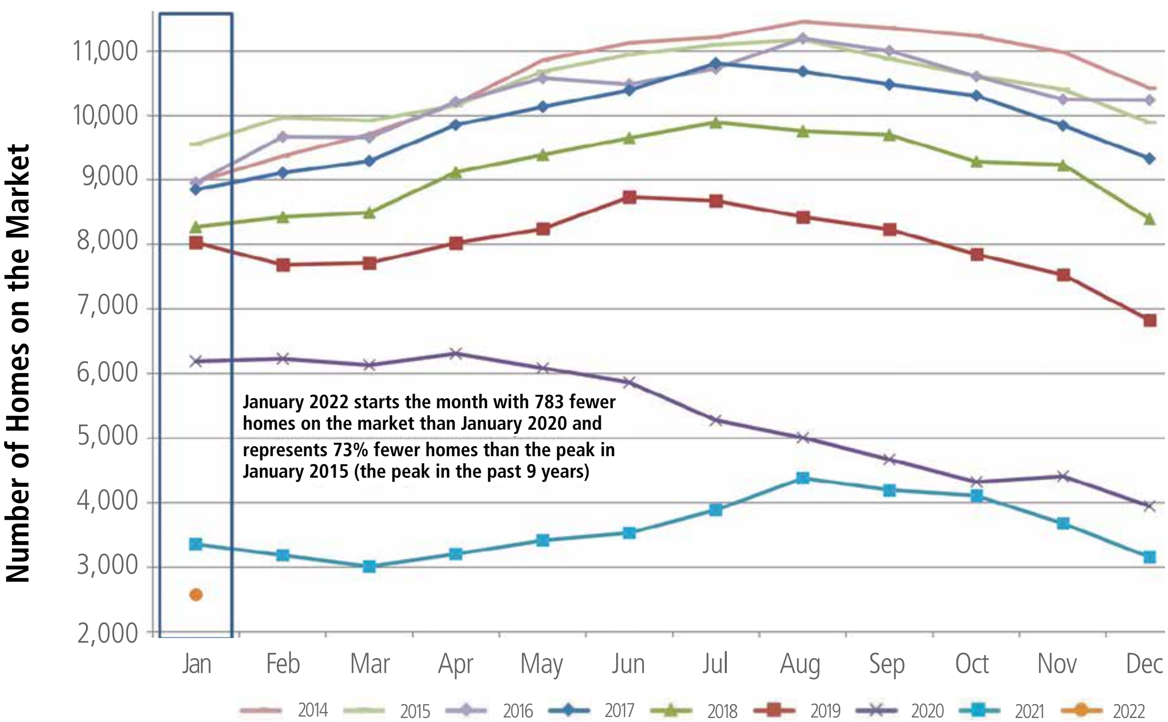
2021 YEAR IN REVIEW

In 2020, after a two month COVID-inspired stall in late Spring, the housing market fired on all cylinders. Much of that momentum carried into 2021, but some key metrics shifted that were on full display throughout the year. While the story seemed to be low inventory in 2020, we had little idea how far Active Listings could dip. By the year's end, almost every sector of the market could absorb its Active Listings in less than one month!

From a sales perspective, the resale sector weathered the storm of low supply better than new construction, with sales in every sector up double digits year-over-year. Builders, however, recognizing their inability to control costs and guarantee deliveries due to supply chain challenges, drastically cut back on sales releases, tumbling sales by double digits year-over-year.

There were plenty of bright spots. Long-term mortgage rates remained historically low, fueling demand. The expected housing crash from forbearance coming to an end never occurred, and, in fact, distressed sales dropped throughout the year. Record gains in equity may have enabled concerned owners to sell without resorting to short sales or foreclosure.

As housing heads into 2022, all eyes will be on mortgage rates, inflation, and the continuing supply chain woes for builders. And, lest we forget, COVID is still impacting not just housing but the broader marketplace.



THE RESALE MARKET

The resale market was responsible for 90.3% of all 2021 sales transactions in Hampton Roads. Sales in the resale sector were up 13.9% year-over-year. Average Days on Market for resale listings dropped to an amazing 31 days by year-end.

HAMPTON ROADS RESALE MARKET 2017 – 2021 ATT/DET

Year	2017	2018	2019	2020	2021
Closed Sales	26,713	27,727	29,845	33,696	38,276
YoY Change		+3.8%	+7.6%	+12.9%	+13.5%
Med. Closed Sales Price DET	$245,000	$253,700	$263,000	$285,000	$314,685
YoY Change		+3.5%	+3.7%	+8.4%	+10.4%

Source: REIN MLS

THE NEW CONSTRUCTION MARKET

New construction suffered throughout the year not from a shortage of buyers, but from supply chain disruptions, labor shortages and rising costs, leading to prolonged cycle times and compressed margins. Uncertainty about these issues led many builders to shift from build packages to specs, limiting sales releases until these spec homes neared completion.

HAMPTON ROADS NEW CONSTRUCTION MARKET 2017 – 2021 ATT/DET

Year	2017	2018	2019	2020	2021
Closed Sales	3247	3071	3124	3582	3630
YoY Change		-5.4%	+1.7%	+14.7%	+1.3%
Med. Closed Sales Price DET	$354,500	$372,757	$367,408	$379,900	$412,885
YoY Change		+5.2%	-1.4%	+3.4%	+8.6%

Source: REIN MLS

The ongoing shift from detached homes to attached homes continues. In 2021, attached sales grabbed a 40.2% share, up from its traditional share of about 25%. One would expect this shift to be the answer to affordable housing; however, with the median price of an attached home at $336,000 on the Southside and $290,040 on the Peninsula, the challenge for first-time buyers seemed to grow larger.

While the new homes sector saw declines in the YoY sales pace, there were enough pending sales carried into 2021 that overall closings did finish up from 2020, albeit only slightly. Overall, median pricing for a detached single-family home in Hampton Roads was up 8.7% YoY at the end of 2021. Low supply and strong demand will keep upward pressure on pricing. However, we believe the rate of price acceleration will decline in 2022 from some of the rapid appreciation seen over the last two years.

TOP 5 BUILDERS AND COMMUNITIES FOR 2021 BY CLOSINGS

RANKING

1

BUILDER: RYAN HOMES (844)

COMMUNITY: STONEHOUSE (119)

2

BUILDER: DRAGAS COS. (199)

COMMUNITY: HICKORY MANOR (104)

3

BUILDER: NAPOLITANO HOMES (154)

COMMUNITY: BENN'S GRANT (103)

4

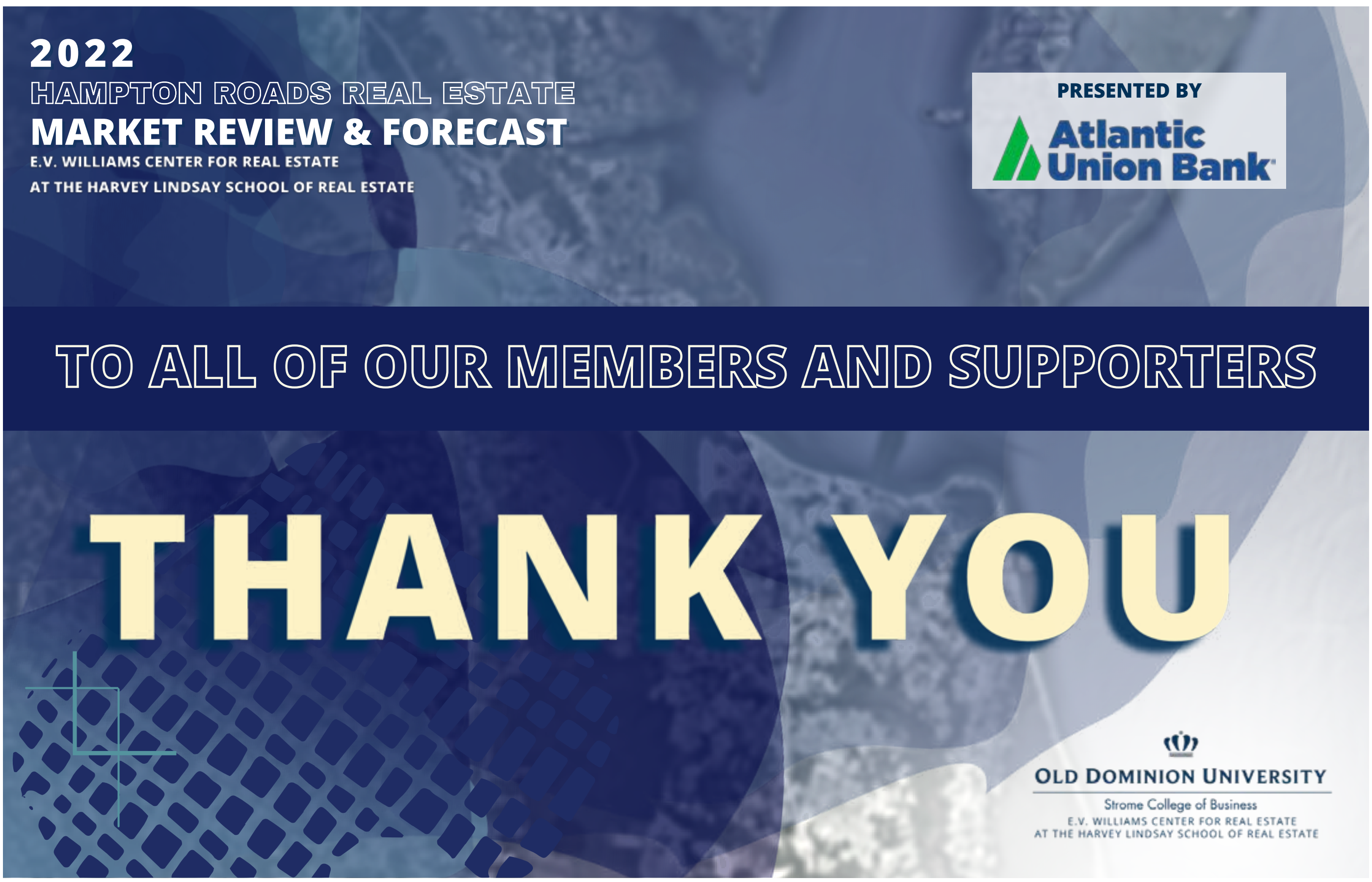
BUILDER: CHESAPEAKE HOMES (128)

COMMUNITY: COLEMAN FARMS (95)

5

BUILDER: FRANCISCUS HOMES (122)

COMMUNITY: BRYAN'S COVE (85)



2022
HAMPTON ROADS REAL ESTATE
MARKET REVIEW & FORECAST
E.V. WILLIAMS CENTER FOR REAL ESTATE
AT THE HARVEY LINDSAY SCHOOL OF REAL ESTATE
PRESENTED BY
Atlantic Union Bank
TO ALL OF OUR MEMBERS AND SUPPORTERS
THANK YOU
OLD DOMINION UNIVERSITY
Strome College of Business
E.V. WILLIAMS CENTER FOR REAL ESTATE
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Mission STATEMENT of the E.V. WILLIAMS CENTER FOR REAL ESTATE at the Harvey Lindsay School of Real Estate

The E.V. Williams
Center for Real Estate strives to
connect those engaged or interested in
real estate and economic development to the
research, curriculum, and students at Old Dominion
University (ODU). Through programming, research
initiatives, and publications, the Center partners with its
members, ODU alumni, and business leaders to educate
the community and provide ODU students with
enrichment experiences that facilitate their
professional development.
For membership or programming inquiries,
please contact
Ruth Cookson (RCookson@odu.edu).

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