

FIGURES | NORFOLK INDUSTRIAL | Q1 2024

Port Expands Channel; Freezpak Logistics Pre-leases Cold Storage Build-to-Suit

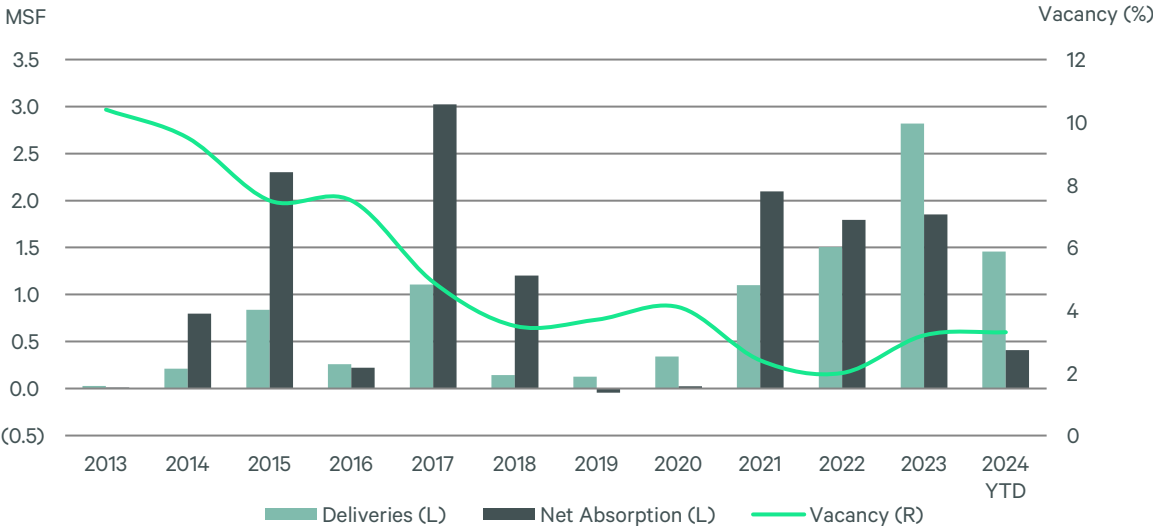


Note: Arrows indicate change from previous quarter.

The Port of Virginia helped to sustain strong leasing activity in the Norfolk industrial and logistics market during the first quarter of 2024. Total TEUs processed as of February were up 2.4% year-over-year as the Port completed work on the widening portion of its \$450 million harbor-dredging project. The channel now allows for two-way traffic of the ultra-large container vessels in use today. After the tragic collapse of the Francis Scott Key Bridge in Baltimore, the Port expects some shipping traffic to be rerouted to its harbor. Attracted by the Port, new-to-market tenant Freezpak Logistics signed the largest deal of the quarter, preleasing a 245,000 sq. ft. build-to-suit cold-storage facility at 130 Maya Way in Suffolk. The third-party logistics provider (3PL) plans to invest \$77.5 million in the area and create 89 new jobs.

A total 1.5 million sq. ft. of new industrial product delivered during the first quarter, 70% pre-leased overall, resulting in 513,000 sq. ft. of warehouse occupancy gain. However, the warehouse vacancy rate remained flat at 2.8%, which makes Norfolk one of the tightest markets in the country. Although there were no groundbreakings during the quarter, investor and developer confidence remains strong. A joint venture between Heitman LLC and Lovett Industrial purchased the 720,000 sq. ft. Diamond Hill Distribution Center portfolio. Comprised of four fully-leased buildings with Amazon as a tenant, the buildings sold for \$73.5 million.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Leasing Snapshot

The Norfolk industrial and logistics market recorded 827,000 sq. ft. of leasing activity from 14 tenants. Total leasing activity increased 32% quarter-over-quarter but was down 14% year-over-year.

Third-Party Logistics (3PL)

3PLs are usually the most active sector in the Norfolk industrial and logistics market. They are attracted by the proximity to the Port of Virginia, the most automated port on the East Coast and the second most efficient, with the widest and soon to be deepest harbor.

Freezpak Logistics' selection of the Norfolk market after a multi-state search highlights the resilience of the Port and the location's access to 75% of the country within two day's truck drive.

Manufacturing

Solaray LLC, an American sunglass manufacturer, signed the second largest lease of the quarter, renewing its 219,000 sq. ft. lease in the Lynnhaven submarket. As a result, manufacturing accounted for 27% of leasing activity, a higher-than-normal share of leasing activity for the sector.

Pricing

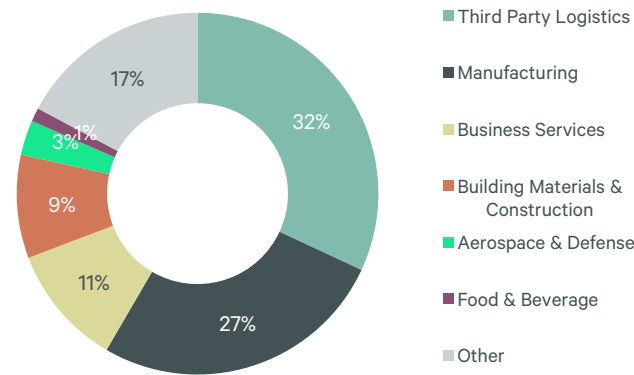
Average asking rates on distribution facilities rose modestly to \$8.84 per sq. ft. on a triple net basis. The sustained low vacancy, coupled with the delivery of 374,000 sq. ft. of vacant class A space, exerted upward pressure on asking rents. Meanwhile, newly available class C space totaling a similar sq. footage helped to dampen quarterly rent growth.

FIGURE 2: Select Q1 2024 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
Freezpak Logistics	Third Party Logistics	130 Maya Way	South Suffolk	Prelease	245,000
Solaray LLC	Manufacturing	2600 International Pkwy	Lynnhaven	Renewal	218,680
Veolia	Business Services	1125 Azalea Garden Rd	Norfolk Industrial Park	New Lease	54,637
Foundation Building Materials	Building Materials & Construction	1424 Baker Rd	Airport Industrial Park	New Lease	38,548
FBM	Building Materials & Construction	1424 Baker Rd	Airport Industrial Park	New Lease	37,890
Leidos	Aerospace & Defense	700 Thimble Shoals Blvd	Oyster Point	New Lease	25,700
ARS/Rescue Rooter	Business Services	4550 Bainbridge Blvd	Bainbridge	Renewal	21,772
Mid Inc	Third Party Logistics	713 Fenway Ave	Cavalier	Renewal	19,000
Len the Plumber	Business Services	2509 Walmer Ave	Central Norfolk	New Lease	13,100

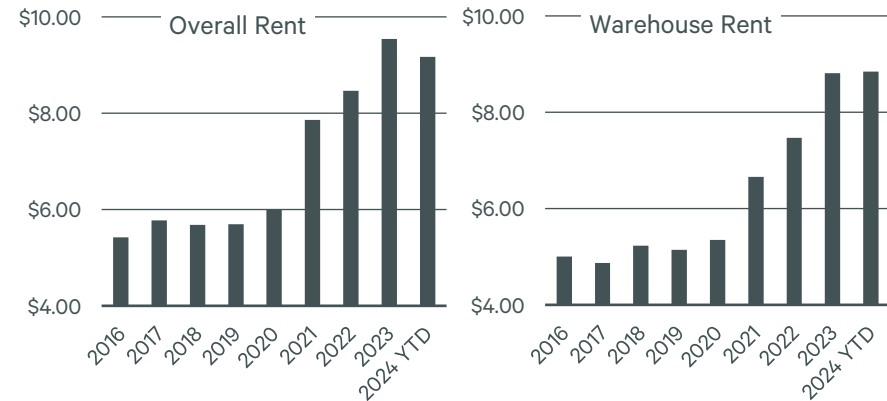
Source: CBRE

FIGURE3: Q1 2024 YTD Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: Historical Rent Growth (\$/SF)



Source: CBRE

Development Activity

Four development projects delivered during the first quarter. Of note, Industrial Realty Group completed work on its two build-to-suit projects for California-based 3PL UNIS:

- A 910,000 sq. ft. distribution facility at 271 Benton Road in Suffolk, a 3PL stronghold
- A 72,000 sq. ft. transload facility at 1 Wild Duck Lane, located directly next to the Port of Virginia at the Virginia International Gateway terminal

UNIS occupied both buildings this quarter with only 64,000 sq. ft. still available. Cubework, a flexible space provider has also occupied 100,000 sq. ft. of the Benton Road building.

Additionally, Inlight Real Estate Partners completed construction on Green Mount Logistics Center, a 374,000 sq. ft. speculative project outside Williamsburg. Not yet leased, the Peninsula-based project will allow its future tenant to take advantage of several state infrastructure projects currently underway, including the Hampton Roads Bridge Tunnel expansion project and the I-64 widening project. The tunnel expansion’s completion has been pushed back from next year until 2027, while the interstate expansion aims for 2028.

Over 15 million sq. ft. of proposed developments are in the development pipeline. Notable projects include Lovett Industrial’s six-building Lovett 64 project in the Williamsburg submarket totaling 2.2 million sq. ft and Matan’s multi-phase Port 460 Logistics Center project totaling 4.7 million sq. ft. Both projects are anticipated to break ground later this year, in what would be a major shift in a market where developers have typically built projects to suit a preleased tenant’s needs.

FIGURE 5: Notable Warehouse Deliveries

Project Name	Address	Submarket	SF	Percent Leased	Tenant	Developer / Owner
UNIS	271 Benton Rd	South Suffolk	910,000	93%	UNIS/Cubework	Industrial Realty Group
Green Mount Logistics Center	1637 Green Mount Pky	Williamsburg Extended	373,536	0%	-	Inlight Real Estate Partners
Bosky Quay	646 Progress Ln	Lynnhaven	101,000	100%	Power Train Industries	The Miller Group
UNIS Transload	1 Wild Duck Ln	South Suffolk	72,000	100%	UNIS	Industrial Realty Group

FIGURE 6: Notable Warehouse Projects Under Construction

Type	Project Name	Address	Submarket	SF	Tenant	Delivery	Developer / Owner
Speculative	Phenix Commerce Center	700 Shell Rd	Copeland	840,253	-	Q4 2024	NorthPoint Development
	Coastal Logistics Phase II	Carolina Rd	South Suffolk	786,400	-	Q4 2024	Flint Development
	Virginia Commerce Center	301-400 Kenyon Rd	South Suffolk	632,649	-	Q2 2024	McDonald Development Co.
	Bayside Industrial	5730 Bayside Rd	Airport Industrial Park	71,777	-	Q2 2024	
Build to Suit	Amazon Fulfillment	2500 Harpers Rd	Lynnhaven	3,250,000	Amazon	Q4 2025	Panattoni Development
	Westport I	2821 Holland Rd	South Suffolk	548,000	MS International	Q2 2024	McDonald Development Co.
		5102 Nansemond Pky	South Suffolk	227,000	Road One Intermodal	Q3 2024	Industrial Realty Group
Source: CBRE	Amazon Last Mile	2500 Harpers Rd	South Suffolk	215,000	Amazon	Q4 2024	Panattoni

Economic Outlook

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

FIGURE 7: Employment Growth by Industry, 12-Month Percent Change

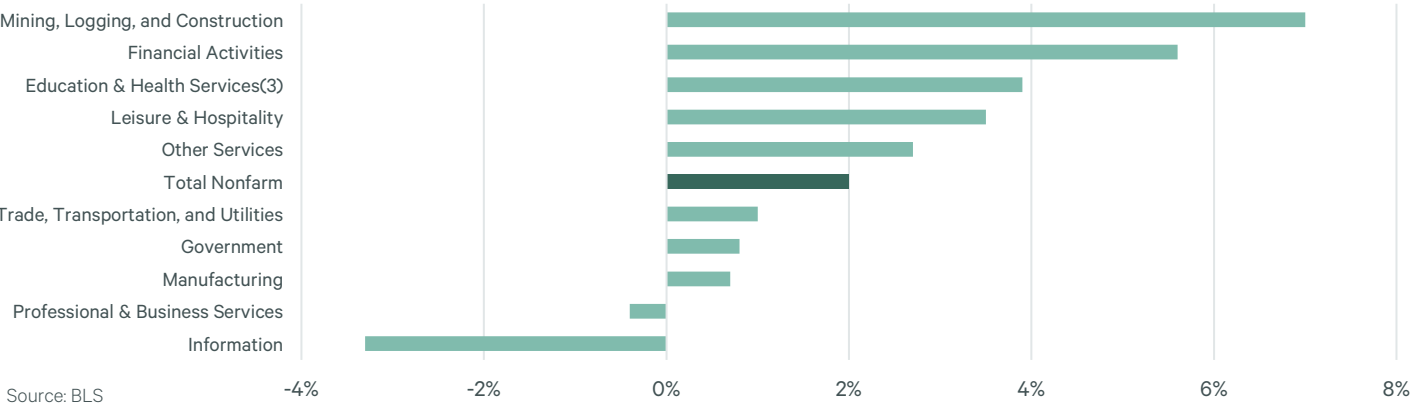


FIGURE 8: Unemployment Rate

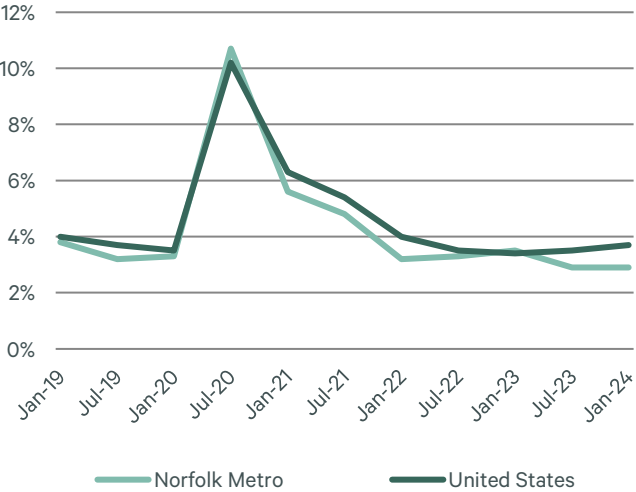


FIGURE 9: Consumer Price Index, 12-Month Percent Change

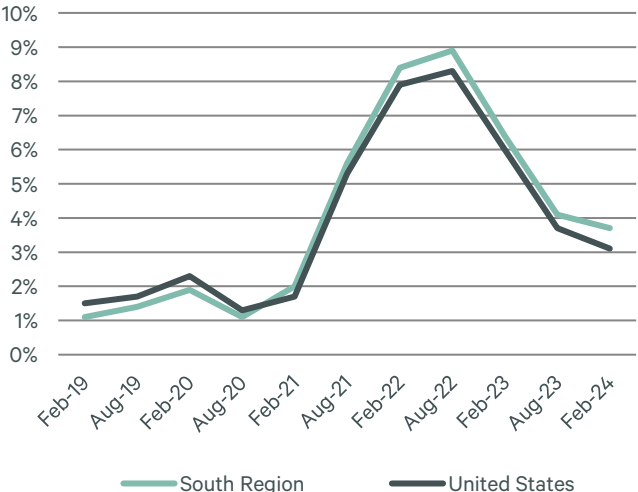


FIGURE 10: Key Market Statistics

	Location	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net absorption	YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Warehouse	Southside	75,737,429	2.8	649,932	649,932	8.93	5,730,826
	Peninsula	27,121,291	2.9	(136,534)	(136,534)	8.58	840,253
	Overall	102,858,720	2.8	513,398	513,398	8.84	6,571,079
Flex	Southside	10,677,458	6.5	(82,400)	(82,400)	11.08	
	Peninsula	2,633,937	4.6	(23,154)	(23,154)	8.96	
	Overall	13,311,395	6.1	(105,554)	(105,554)	10.53	
Overall	Southside	86,414,887	3.3	567,532	567,532	9.36	5,730,826
	Peninsula	29,755,228	3.0	(159,688)	(159,688)	8.66	840,253
	Overall	116,170,115	3.2	407,844	407,844	9.17	6,571,079

Source: CBRE

Survey Criteria:

Includes all classes of competitive single and multi-tenant industrial buildings 10,000 sq. ft. and greater in Norfolk. As of Q1 2024, now includes owner-occupied buildings that meet the aforementioned criteria

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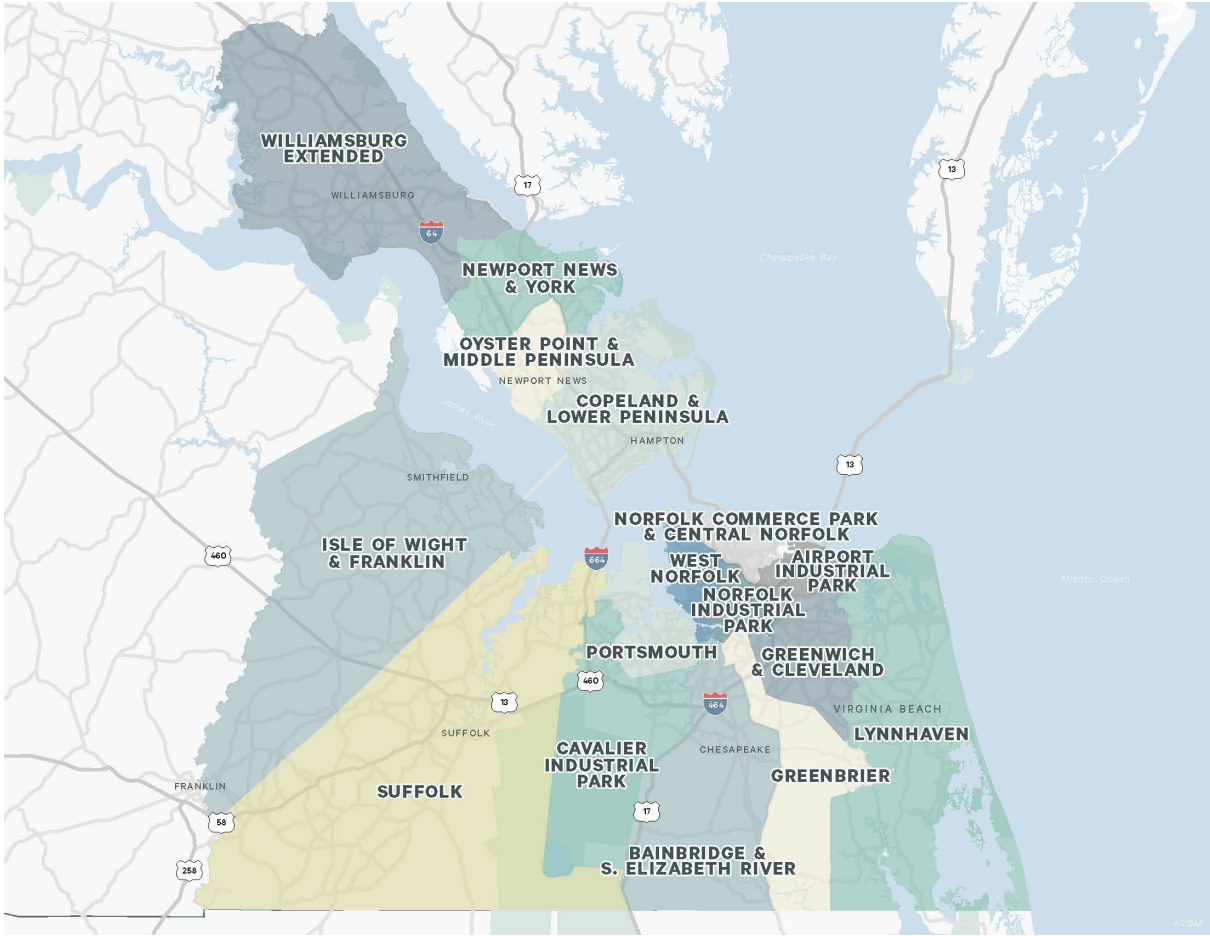
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