

FIGURES | NORFOLK INDUSTRIAL | YEAR END 2022

Port Continues to Generate Demand in Supply Limited Norfolk

▼ 1.2%

Warehouse Vacancy Rate

▼ 1.8M

SF Net Absorption

▲ 4.2M

SF Under Construction

▲ \$7.47

Average NNN
Warehouse Asking Rate

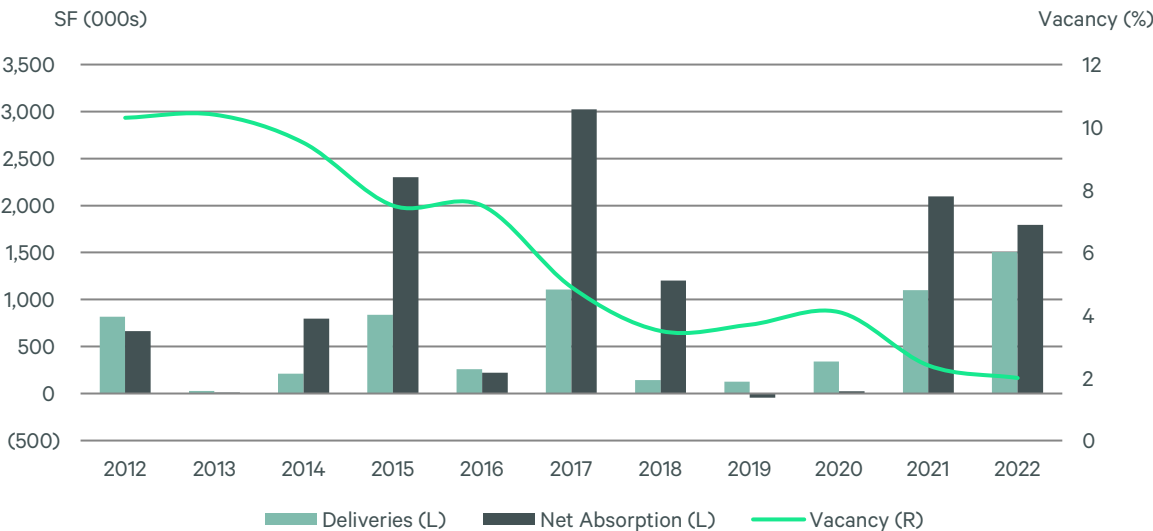
Note: Arrows indicate change from previous year.

The Norfolk industrial and logistics market faced supply issues in 2022 as warehouse vacancy rates remained at historic lows, ending the year at 1.2%—a 50 basis decline year over year. Warehouse asking rates rose to \$7.47 per sq. ft. per annum on a triple net basis, as supply limitations enabled landlords to push rents up. Despite the lack of availability and rising rental rates, tenant demand remained strong, driven predominately by third party logistics (3PLs) and the Port of Virginia’s smooth operations. The port processed 3.2 million twenty-foot equivalents (TEUs) in 2022 as of December and it remains apace to break the prior record of 3.5 million TEUS set in 2021.

The Norfolk market recorded 4.7 million sq. ft. of gross leasing transactions, a 29% decline from the previous year. 3PLs signed 14 leases for 1.9 million sq. ft. and accounted for 41% of leasing activity by volume. Aided by a record 1.5 million sq. ft. of warehouse deliveries, the market recorded 1.8 million sq. ft. of positive net absorption, a 64% uptick above the ten-year average of 1.1 million sq. ft., but still a 14% decline from the previous year.

A total 4.2 million sq. ft. of warehouse construction remains underway, though economic headwinds may slow new construction starts in 2023. To help compete against other states, Governor Glenn Youngkin has proposed increasing the budget for the state’s site readiness program to \$500 million. The program brings sites to within 12-18 months of delivery. The Coastal Virginia Commerce Park—a 1,400-acre site, recently rezoned farm in Chesapeake and potential mega site—could be a beneficiary of such funding.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Third-party Logistics (3PL)

The Port of Virginia’s uninterrupted operations and record container processing volumes have attracted an influx of 3PL tenant demand to the market. Looking to avoid the shipping traffic and port disruptions elsewhere, 3PLs signed six new deals for 1.1 million sq. ft., accounting for 61% of new Q4 leases.

Wholesale

Wholesalers signed 17 leases for 1.1 million sq. ft., accounting for 24% of yearly leasing activity. In Q4, MS international, a leading floor-tile wholesaler, preleased 548,000 sq. ft. at 2821 Holland Road, a build-to-suit warehouse project by McDonald Development Company. The company plans to invest \$61.6 million and create 80 jobs.

Manufacturing

Manufacturers signed 16 leases in 2022 for 897,000 sq. ft., which accounted for 19% of market leasing activity. Huntington Ingalls Industries, the military shipbuilder, signed two of the largest leases in Q4 2022:

- a renewal and expansion on the Peninsula at 2102 Aluminum Avenue for 81,000 sq. ft. of additional space, bringing the total to 441,000 sq. ft.
- A new lease at 1614 West Pembroke Avenue for 116,000 sq. ft, which it will occupy in Q1 2023.

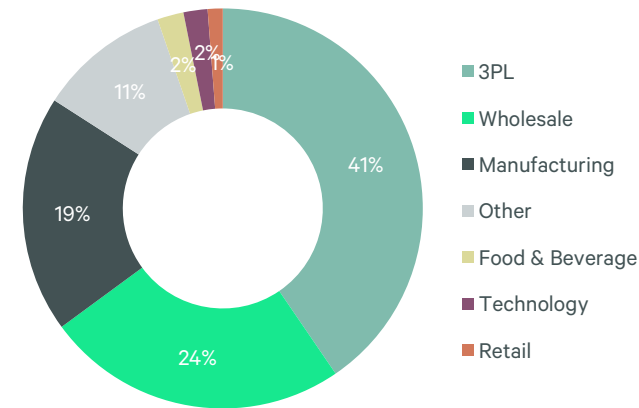
Huntington Ingalls also occupied a 116,000 sq. ft. build-to-suit at 1554 West Pembroke Avenue, resulting in 312,000 sq. ft. of occupancy gain this year. With its subsidiary Newport News Shipbuilding’s headquarters located on the Peninsula, Huntington Ingalls Industries is one of market’s largest industrial users and employers, and a key driver of economic activity.

FIGURE 2: Select Notable 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
UNIS LLC	3PL	271 Benton Rd	South Suffolk	Prelease	910,000
MS International	Wholesale	2821 Holland Rd	South Suffolk	Prelease	548,000
Huntington Ingalls	Manufacturing	2101-2175 Aluminum Ave	Copeland	Renewal/Expansion	441,255
NFI Industries	3PL	375 Kenyon Rd	South Suffolk	Renewal	385,320
Avid Medical Inc	Wholesale	9000 Westmont Dr	Williamsburg Extended	Renewal	174,952
Huntington Ingalls	Manufacturing	1614 W Pembroke Ave	Copeland	New Lease	115,500
Crossfire Logistics	3PL	5401 Virginia Regional Dr	South Suffolk	Expansion	104,983
C&F	Wholesale	3612 La Grange Pky	Williamsburg Extended	New Lease	103,000
Iron Mountain	Services	4555 Progress Rd	Norfolk Industrial Park	Renewal	102,512
International Paper Co	Manufacturing	3100 Elmhurst Ln	Portsmouth	Renewal	81,375

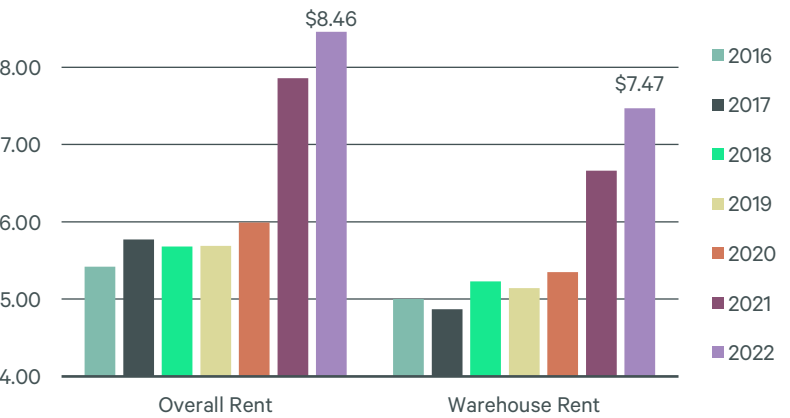
Source: CBRE

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



Source: CBRE

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



Source: CBRE

Development Activity

A total of 1.5 million sq. ft. of warehouse product delivered in 2022, 92% of which was preleased. Earlier this year on the Southside, new-to-market 3PLs looking to diversify their supply chains through the Port of Virginia occupied 1.4 million sq. ft in Suffolk, accounting for 80% of preleased space. This quarter, Equus Capital Partners delivered 278,670 sq. ft. at 3226 Industrial Drive, a build-to-suit preleased by Amazon, which continues to dramatically expand its footprint in the region. Meanwhile on the Peninsula, W.M. Jordan Company delivered a total 231,000 sq. ft., of distribution product, split between two buildings:

- 1554 West Pembroke Avenue—a build-to-suit for Huntington Ingalls subsidiary Newport News Shipbuilding
- 1614 West Pembroke Avenue—a speculative build immediately leased up by Huntington Ingalls upon delivery.

An additional 4.2 million sq. ft of industrial product is under construction across the Norfolk market, 64% of which is build-to-suit. In Q4, four projects totaling 974,000 sq. ft. broke ground:

- McDonald Development Company’s 548,000 sq. ft. build-to-suit at 2821 Holland Road in Suffolk.
- Marathon Development Group’s 500,000 sq. ft. build-to-suit at 2009 Commerce Parkway in Suffolk
- Inlight Realty Partners’ 374,000 sq. ft speculative project at 1637 Green Mount Parkway in Williamsburg.
- The Miller Group’s 100,000 sq. ft. speculative project at 464 Progress Lane in Virginia Beach.

Two speculative properties are expected to deliver in Q1 2023, the largest of which is Flint Development’s 815,000 sq. ft. Coastal Logistics Center at 150 Judkins Court. Several notable projects are also expected to break ground next year, including Industrial Realty Groups 910,000 sq. ft. build-to-suit for 3PL UNIS at 271 Benton Road (Q1) and Flint Development’s Phase II and Phase III of Coastal Logistics Center (Q2-3) on Carolina Road totaling 2.4 million sq. ft.

FIGURE 5: 2022 Deliveries

Delivery Quarter	Address	Submarket	SF	Tenant	Developer
Q1	1401 Enterprise Dr	South Suffolk	348,500	GXO Logistics	Equus Capital Partners
Q3	6601 Park Dr	North Suffolk	338,000	RoadOne IntermodaLogistics	Brookwood Capital Partners
Q3	1080 Centerpoint Dr	South Suffolk	307,200	Dart Logistics	Equus Capital Partners
Q4	3226 Industrial Dr	South Suffolk	278,670	Amazon	Equus Capital Partners
Q4	1554-1614 W Pembroke Ave	Copeland	231,000	Huntington Ingalls	W.M. Jordan Company

Source: CBRE

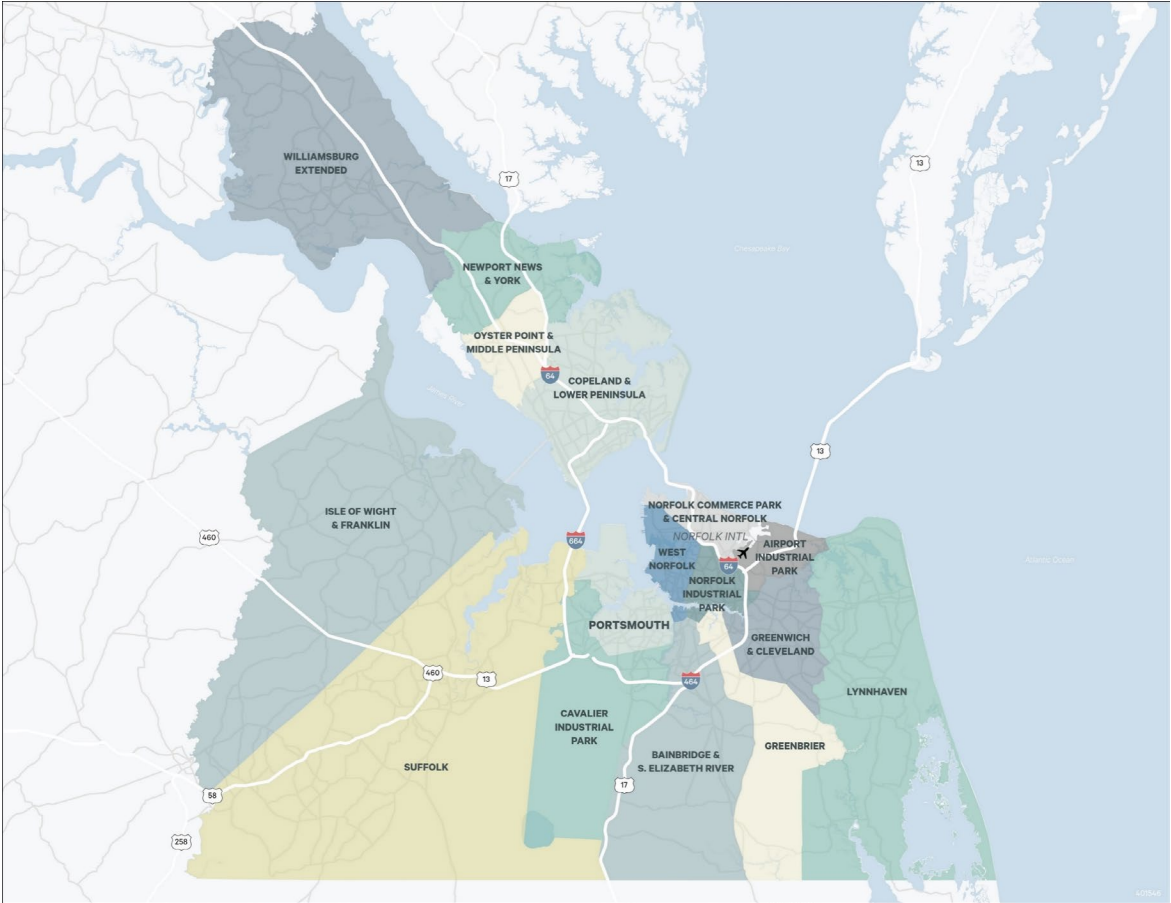
FIGURE 6: Notable Warehouse Projects Under Construction

Type	Project Name	Address	Submarket	SF	Tenant	Delivery	Developer
Speculative	Coastal Logistics Center	150 Judkins Ct	South Suffolk	814,105	-	Q1 2023	Flint Development
	Green Mount Logistics Center	1637 Green Mount Pky	Williamsburg Extended	373,536	-	Q3 2023	Inlight Real Estate Partners
	Chesapeake Logistics Center @ I-64	600 Curtis Saunders	Cavalier	334,800	-	Q1 2023	Northbridge
	Bosky Quay	464 Progress Ln	Lynnhaven	100,000	Confidential	Q2 2022	The Miller Group
Build-to-Suit	Virginia Port Logistics Park	0 Enterprise Dr	South Suffolk	1,519,000	Lowes	Q2 2023	Equus Capital Partners
	Westport I	2821 Holland Rd	South Suffolk	548,000	MS International	Q3 2023	McDonald Development Co.
	Northgate Commerce Park	2009 Northgate Commerce Pky	South Suffolk	500,000	Confidential	Q4 2022	Marathon Development Group
	Northgate Transload	155 Industrial Dr	South Suffolk	94,296	NFI Industries	Q2 2023	Equus Capital Partners

Source: CBRE

	Location	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2022 Net absorption (SF)	2022 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
Warehouse	Southside	50,787,750	0.7	225,538	1,519,372	7.61	3,810,201
	Peninsula	15,739,469	2.8	223,792	400,144	7.09	373,536
	Overall	66,805,889	1.2	449,330	1,919,516	7.47	4,183,737
Flex	Southside	9,910,563	6.8	(52,993)	(60,344)	10.66	-
	Peninsula	2,374,219	6.2	(42,936)	(46,727)	8.71	-
	Overall	12,284,782	6.7	(95,929)	(107,071)	10.34	-
Overall	Southside	60,976,983	1.7	172,545	1,456,278	8.77	3,810,201
	Peninsula	18,113,688	3.2	180,856	356,167		373,536
	Overall	79,090,671	2.0	353,401	1,812,445	8.46	4,183,737

Source: CBRE



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