

FIGURES | NORFOLK INDUSTRIAL | Q4 2023

Lowe's Mega-Development Delivers in Suffolk; Pipeline Stays Active

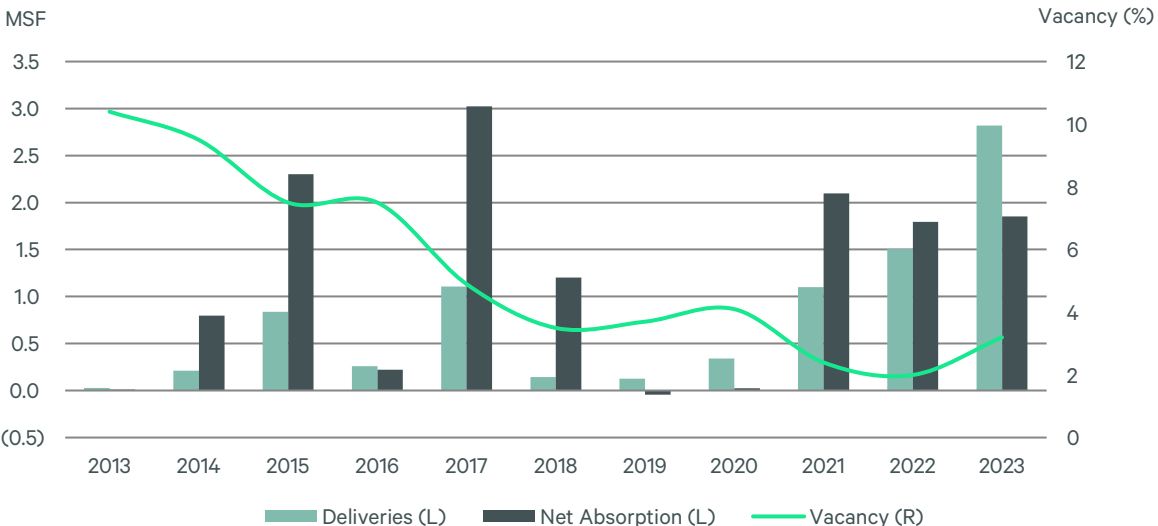


The Norfolk Industrial and logistics market posted a strong fourth quarter, with 1.6 million sq. ft. of positive absorption, bringing year-end totals to 1.9 million sq. ft. of occupancy gain. Of note, Lowe's—recently awarded “Shipper of the Year”—occupied its newly delivered warehouse at 2020 Enterprise Drive. The 1.5 million sq. ft. build-to-suit project is in addition to the 2.2 million sq. ft. that Lowe's occupied in the adjacent Richmond market in 2022.

Despite fourth quarter occupancy gains, warehouse vacancy increased 20 basis points (bps) to 2.9% as deliveries masked new vacancies in existing supply. The ongoing lack of supply remains a challenge, particularly for users with large requirements. The only 200,000+ sq. ft. Class A availability on the Southside is at the Coastal Logistics Center, which has 600,000 sq. ft. remaining. Of note, ESKA, a Dutch cardboard manufacturer leased 200,000 sq. ft. at the development during the fourth quarter and will relocate from Chesapeake.

Average warehouse asking rates continue to climb, ending the year at \$8.81 per sq. ft. on a triple net basis, an 18% increase year-over-year. To meet ongoing demand, the industrial pipeline remains active, with 4.6 million sq. ft. of product underway. Of this, a total 2.9 million sq. ft. (64%) is unleased speculative product, a rarity in what is typically a build-to-suit market. However, with only one speculative building set to deliver in the next six months, asking rates will likely keep rising.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Leasing Snapshot

As port activity normalizes, industrial leasing has continued to slow. During the fourth quarter, tenants signed 12 leases totaling 616,000 sq. ft., a 29% decline quarter-over-quarter and a 51% decline year-over-year. Overall, leasing activity in 2023 totaled 3.0 million sq. ft., down 34% from 2022 levels.

Third-Party Logistics (3PL)

While no major leases were signed by 3PLs during the fourth quarter, 11 3PLs signed leases totaling 812,000 sq. ft. in 2023, accounting for 27% of annual leasing activity. This marks a 63% decline from 2022 levels, in which 17 3PLs signed leases totaling 2.2 million sq. ft., which was a record year for 3PL activity in Norfolk.

General Retail & Wholesale

Narrowly surpassing 3PL activity this year, general retail & wholesale tenants signed 18 leases totaling 835,000 sq. ft. in 2023, accounting for 28% of gross leasing activity. Just two tenants signed leases during the fourth quarter.

Business Services

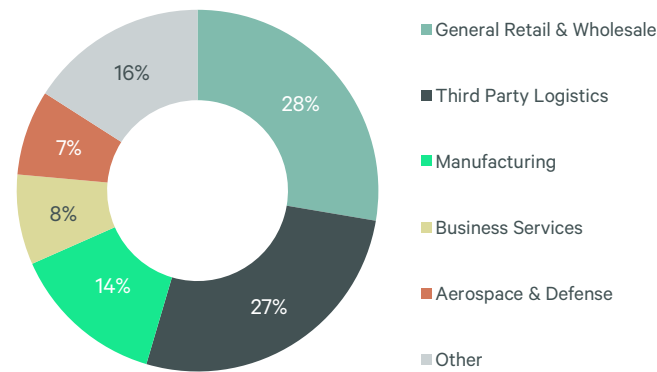
Fiserv signed the second-largest lease of the fourth quarter, renewing its 117,000 sq. ft. lease at Crossways Commerce Center II. The industrial building is largely used as office/flex space.

FIGURE 2: Select Q4 2023 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
ESKA	Manufacturing	150 Judkins Ct	South Suffolk	New Lease	203,580
Fiserv	Business Services	1449 Kristina Way	Bainbridge	Renewal	117,336
Krew Kegs	Manufacturing	324-326 Moore Ave	South Suffolk	New Lease	91,552
Russell Heating & Cooling	Business Services	1122 Executive Blvd	Bainbridge	New Lease	39,474
American Road Markings	Building Materials & Construction	731 Rugby St	West Norfolk	New Lease	35,064
G4 Kegs	Manufacturing	889 Seahawk Cir	Lynnhaven	New Lease	25,870
Horizon Ground Maintenance	Business Services	2043 Church St	West Norfolk	New Lease	21,488
757 Makerspace	General Retail & Wholesale	737 E 23 St	West Norfolk	New Lease	17,350
Aramark	Food & Beverage	4140 S Military Hwy	Cavalier	Renewal	12,000
Dandale Fence Company	Building Materials & Construction	825 Professional Pky	Bainbridge	New Lease	11,350

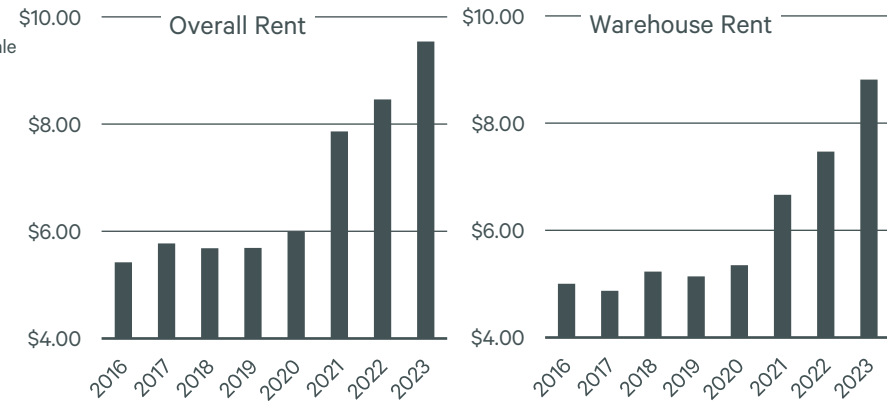
Source: CBRE

FIGURE3: 2023 Gross Leasing by Sector (Share by SF)



Source: CBRE

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



Source: CBRE

Development Activity

In addition to the Lowe’s delivery, Equus Capital Partners completed construction on a 152,000 sq. ft. build-to suit project for NFI Industries at 3030 Enterprise Drive, with the 3PL taking occupancy this quarter.

Other 3PLs looking to expand in the market include Road One Intermodal, which entered the market in 2022 with a 338,000 sq. ft. lease at Virginia Port Logistics Park. The 3PL is already looking to expand with a 227,000 sq. ft. transload build-to-suit underway by Industrial Realty Group at 5102 Nansemond Parkway with an expected delivery in Q3 2024. Meanwhile UNIS’s projects appear nearing completion and are now anticipated to finish next quarter.

Speculative projects in the pipeline will bring much needed supply to the Norfolk industrial market. Inlight Real Estate Partners’ Green Mount Logistics Center is expected to deliver next quarter in Williamsburg and is not yet leased.

On the Peninsula, Northpoint Development held an official groundbreaking for Phenix Commerce Center, a two-building project totaling 840,000 sq. ft.

Development projects on the Peninsula stand to benefit from Virginia’s capital improvement projects to expand Hampton Roads Bridge Tunnel connecting the Peninsula to the Southside and to widen I-64 to three lanes to its north, the latter of which just broke ground this quarter.

FIGURE 5: Notable Warehouse Deliveries

Project Name	Address	Submarket	SF	Percent Leased	Tenant	Developer / Owner
Virginia Port Logistics Park	2200 Enterprise Dr	South Suffolk	1,519,000	100%	Lowes	Equus Capital Partners
Virginia Port Logistics Park	3030 Enterprise Dr	South Suffolk	151,500	100%	NFI	Equus Capital Partners
Total			1,670,500	100%		

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.
	Green Mount Logistics Center	1637 Green Mount Pky	Williamsburg Extended	373,536	-	Q1 2024	Inlight Real Estate Partners
	Bosky Quay	646 Progress Ln	Lynnhaven	101,000	Power Train Industries	Q1 2024	The Miller Group
Build to Suit	Bayside Industrial	5730 Bayside Rd	Airport Industrial Park	71,777	-	Q2 2024	
		271 Benton Rd	South Suffolk	910,000	UNIS	Q1 2024	Industrial Realty Group
	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
		1 Wild Duck Ln	South Suffolk	72,000	UNIS	Q1 2024	Industrial Realty Group
Total				4,562,615			

Economic Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters.

Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, while remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024 (CBRE expects 75 to 100 basis points worth of rate cuts in 2024). This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets.

Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

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

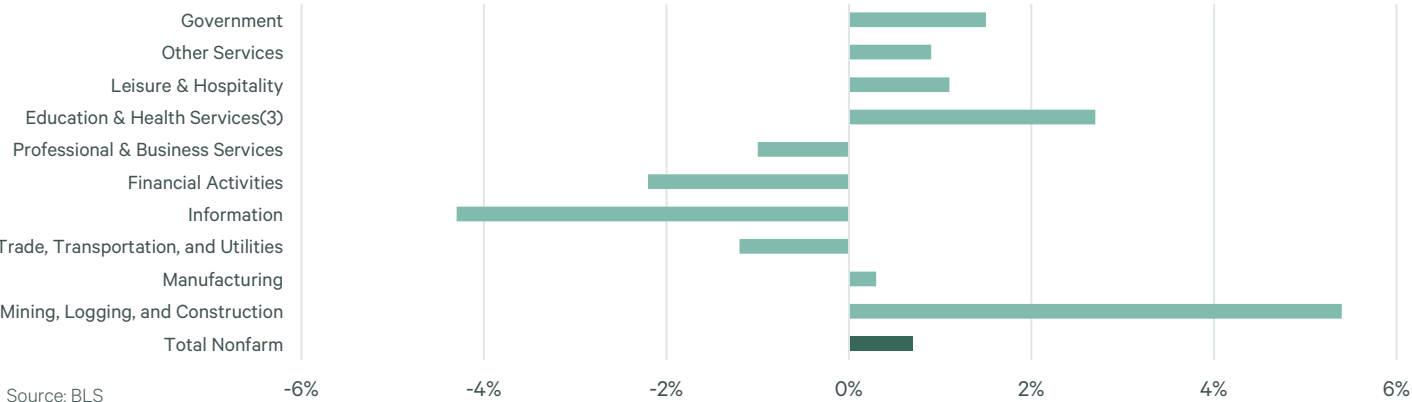


FIGURE 8: Unemployment Rate

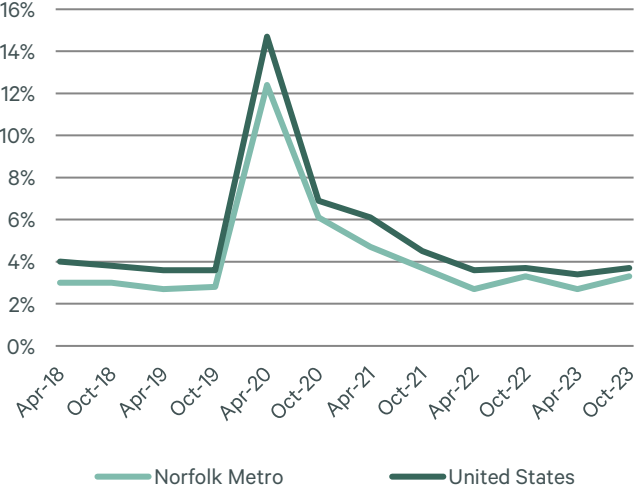


FIGURE 9: Consumer Price Index, 12-Month Percent Change

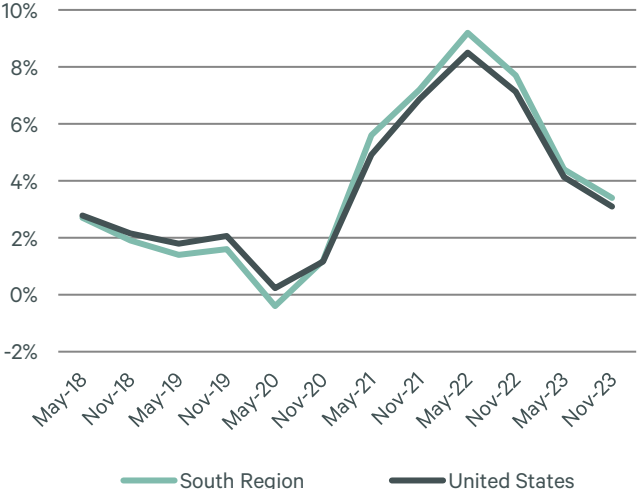


FIGURE 10: Key Market Statistics

	Location	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net absorption	2023 Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Warehouse	Southside	54,121,221	3.2	1,564,685	1,678,207	9.02	3,348,826
	Peninsula	15,212,902	1.8	5,608	133,797	7.68	1,213,789
	Overall	69,334,123	2.9	1,570,293	1,812,004	8.81	4,562,615
Flex	Southside	9,980,043	6.9	21,152	52,753	12.36	-
	Peninsula	2,370,830	1.0	269	(11,979)	9.28	-
	Overall	12,350,873	5.8	21,421	40,774	11.60	-
Overall	Southside	64,101,264	3.7	1,585,837	1,730,960	9.77	3,348,826
	Peninsula	17,583,732	1.7	5,877	121,818	8.24	1,213,789
	Overall	81,684,996	3.3	1,591,714	1,852,778	9.54	4,562,615

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied industrial buildings 10,000 sq. ft. and greater in Norfolk.
Source: CBRE

Contacts

Michael Roberts

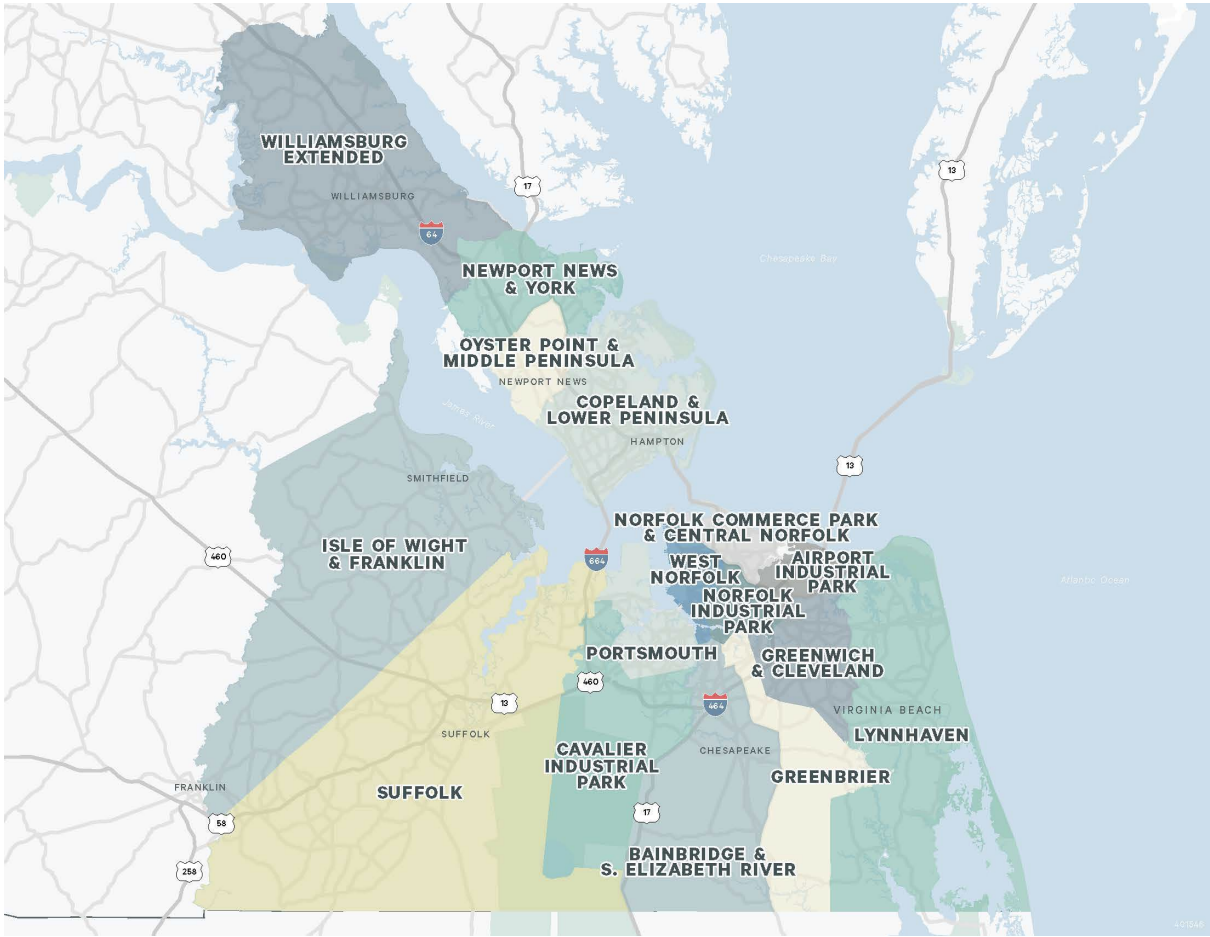
Research Analyst
michael.roberts1@cbre.com

Erin Janacek

Research Manager
erin.janacek@cbre.com

Stephanie Jennings

Research Director
stephanie.jennings@cbre.com



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