

Q1 2022 COMMERCIAL MARKET REPORT

Key Takeaways

Virginia's economy continues to improve in early 2022, despite on-going uncertainties. Commercial real estate market conditions in the state generally improved in the first quarter of 2022, as the COVID-19 pandemic continues to recede. While the risks of a new COVID variant are still out there, workers are returning to the office and consumers are spending more in brick-and-mortar stores. As a result, commercial vacancies have generally tightened, absorption has increased, and deliveries and new construction have been solid.

In February 2022, total employment in Virginia surpassed four million jobs, the first time since March 2020. Employment is up 111,900 compared to a year ago. Between January and February 2022, Virginia added 21,300 jobs. The statewide unemployment rate was 3.2% in February, the lowest level since before the pandemic hit and unemployment in Virginia continues to be lower than in many other parts of the country.

The employment base is expanding in every metropolitan area across the Commonwealth. Virginia's small and mid-sized regions are experiencing relatively fast economic growth in the first part of 2022. The number of jobs in the Blacksburg region increase by 7.3% between

Economic Conditions (as of February 2022)

	Y-o-Y Change	Monthly Change
4.01 million <i>Virginia employment</i>	▲	▲
3.2% <i>Virginia unemployment rate</i>	▼	▼
3.8% <i>U.S. unemployment rate</i>	▼	▼

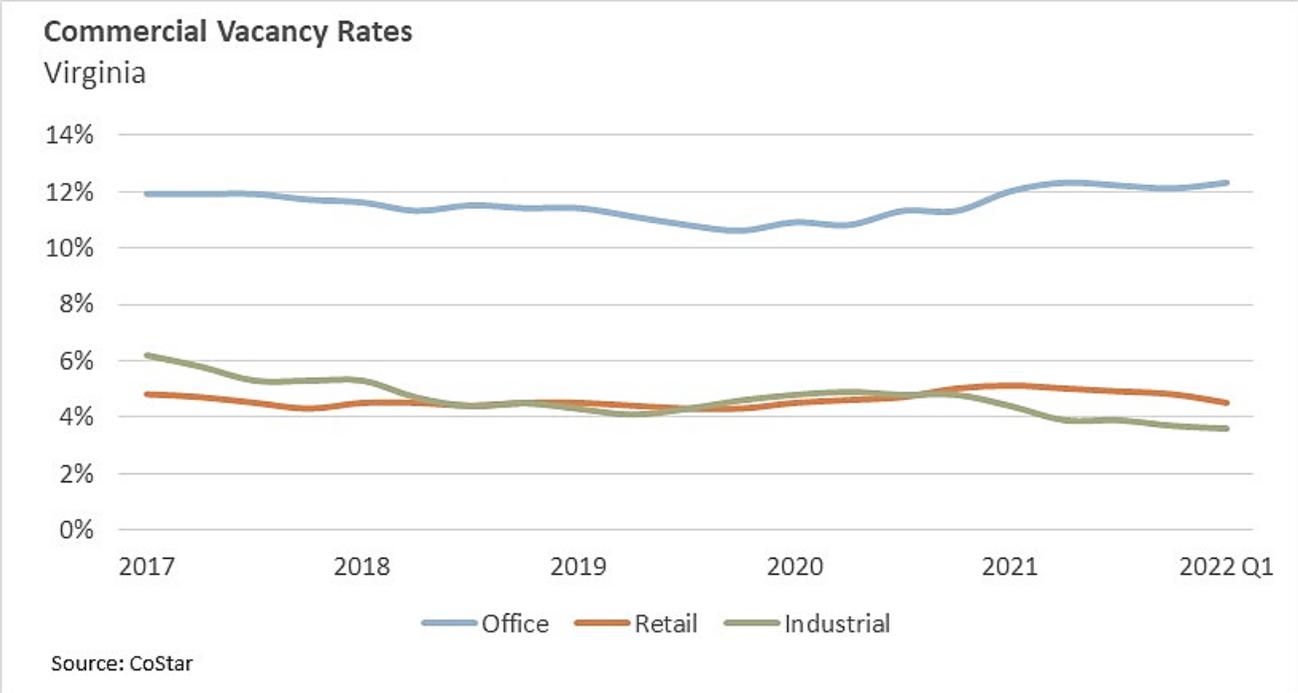
Source: U.S. Bureau of Labor Statistics

State and Metro Area Employment (as of February 2022)

	Y-o-Y Change	Monthly Change
Virginia	2.9%	0.5%
Northern Virginia	3.3%	0.8%
Richmond	2.1%	0.6%
Hampton Roads	1.6%	0.4%
Roanoke	1.4%	0.3%
Lynchburg	2.1%	0.1%
Charlottesville	4.1%	0.2%
Blacksburg	7.4%	1.1%
Winchester	4.4%	1.2%
Harrisonburg	5.7%	2.8%

Source: U.S. Bureau of Labor Statistics

February 2021 and February 2022. Job growth was also very strong in Harrisonburg, Winchester, and Charlottesville. Rates of employment growth in Richmond and Hampton Roads were slower than the statewide average; however, job growth in Northern Virginia surpassed the statewide increase in February.



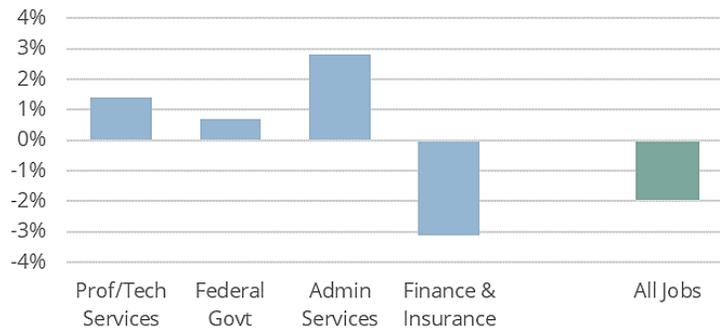
Office Market

Workers have been returning to the office, though many businesses are anticipating a hybrid model, where most employees work some days at home and some days in the office. It is clear, however, that a new COVID variant could disrupt the steady pace of workers heading back to the office. As a result, occupiers of office space are likely still evaluating their long-term options.

Steady growth in office-service sectors has helped to support the office market throughout the past two years. The Professional & Technical Services sector is a key driver of the demand for office space. Employment in this sector continues to expand. Compared to January 2020, before the pandemic hit, the Professional & Technical Services sector had 6,100 more jobs in February 2022. Recently, there also have been strong gains in the Administrative and Building Services sector, which reflects more regular use of office space.

Since the peak in the spring of 2020, the share of workers working remotely has dropped steadily. However, new COVID variants have been associated with an uptick in remote work. For example, in December 2021, about 11% of all workers and 20% of workers in management and professional occupations were working remotely nationwide. In January 2022, with concerns about the omicron variant, those shares increased to 15% and 27%, respectively. (These figures include anyone who worked remotely at some point during the month as a result of the pandemic.) Throughout Q1 2022, workers have begun shifting again to in-person work. In March 2022, just 10% of all workers and 18% of workers in management and professional occupations were working remotely.

February 2022 Employment Compared to January 2020 Employment
Office-Supporting Sectors



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted

Percent of U.S. Workers Working Remotely Due to the Pandemic

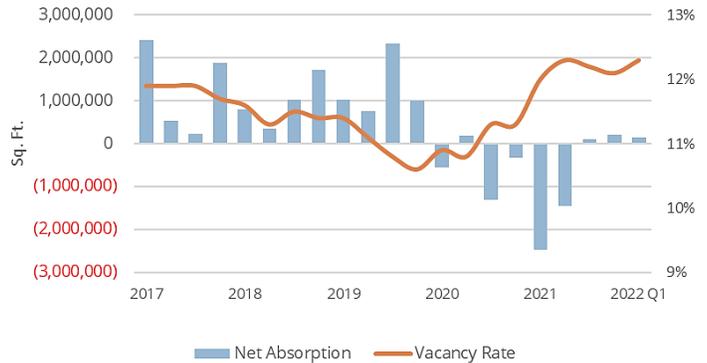


Source: U.S. Bureau of Labor Statistics

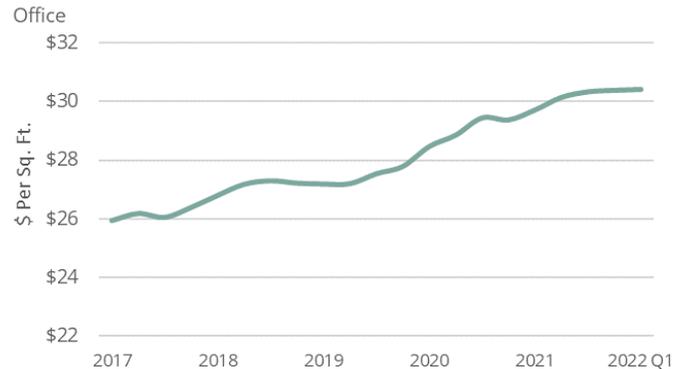
Office Market Trends

- Statewide, office net absorption has been improving, turning positive for three consecutive quarters as businesses ready space for workers returning to the office. In Q1 2022, small and mid-sized markets in Virginia posted strong gains in net absorption. There was positive net absorption in Q1 2022 in Northern Virginia, as well, although net absorption was negative in Richmond and Hampton Roads.
- The average statewide office vacancy rate remains higher than pre-pandemic levels. Vacancy rates ticked up in Q1 2022 in the state's largest markets, which reflects on-going transitions in back-to-the-office trends.
- Average office rents have been rising, albeit slowly, for the past few quarters. Statewide, the average office rent was up 2.4% compared to a year ago. Office rents are up in most markets. The exceptions in Q1 2022 were Richmond, Roanoke, and Harrisonburg where there were modest year-over-year declines in average office rents.
- In Q1 2022, about 750,000 square feet of office space was delivered in Virginia, including more than 400,000 square feet in Northern Virginia and nearly 200,000 square feet in the Charlottesville area. Statewide, there was more than five million square feet of office space under construction in Q1 2022. More than 90% of the new office space being built in the commonwealth is in Northern Virginia.

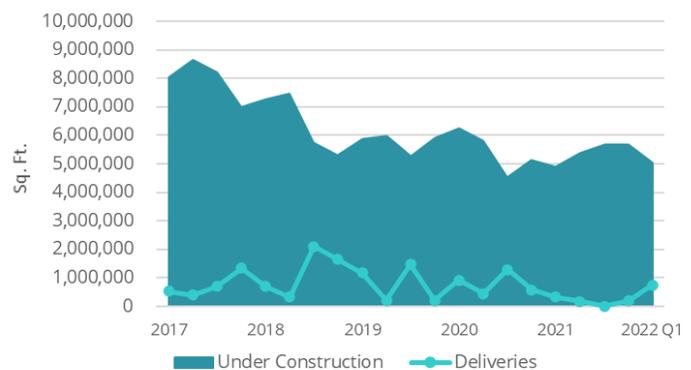
Virginia
Quarterly Net Absorption & Vacancy Rates
 Office



Virginia
Gross Rent
 Office



Virginia
Net Deliveries & Under Construction
 Office



Q1 2022

Office Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	228.9M	▼	66.8M	▲	55.4M	▲
Vacancy Rate	16.1%	▲	7.4%	▼	8.0%	▼
Net Absorption (SF)	106,615	▲	-123,493	▲	-132,533	▼
Avg Gross Rent Overall (Per SF)	\$32.89	▲	\$19.98	▼	\$20.68	▲
Deliveries (SF)	418,000	▲	65,819	▲	33,320	▼
Under Construction (SF)	4.7M	▲	146,152	▼	39,552	▼

	Roanoke		Charlottesville		Winchester	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	15.0M	▲	9.3M	▲	3.3M	-
Vacancy Rate	7.6%	▲	8.9%	▲	2.2%	▼
Net Absorption (SF)	-51,080	▼	148,593	▲	29,692	▲
Avg Gross Rent Overall (Per SF)	\$19.70	▼	\$27.78	▲	\$20.76	▲
Deliveries (SF)	21,150	▲	187,000	▲	0	-
Under Construction (SF)	0	▼	190,689	▼	0	-

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	5.5M	-	2.3M	-	3.3M	▲
Vacancy Rate	4.5%	▲	4.4%	▼	3.1%	▲
Net Absorption (SF)	-19,052	▲	27,033	▲	27,597	▲
Avg Gross Rent Overall (Per SF)	\$19.25	▲	\$15.63	▼	\$15.64	▲
Deliveries (SF)	0	-	0	-	19,000	▲
Under Construction (SF)	0	-	6,000	▲	0	▼

Source: CoStar, data accessed March 22, 2022

M millions

- no change

Retail Market

The retail sector has been surprisingly resilient during the COVID-19 pandemic and the outlook continued to improve during the first part of 2022. The receding pandemic has led more consumers to shop in person, to make service-related purchases (e.g., dining out, haircuts, manicures), and to attend entertainment and other events.

In early 2022, there have been notable improvements in Retail Trade employment in Virginia. In February 2022, the number of Retail Trade jobs in the commonwealth was back at pre-pandemic levels. Over the past year, the Retail Trade sector has gained 7,100 jobs.

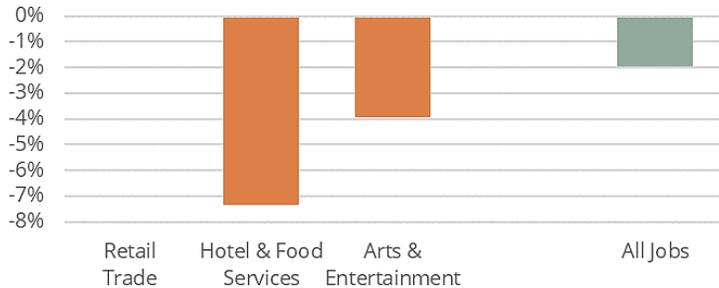
Other retail- and restaurant-related industries are still struggling to get back to pre-pandemic levels. While the Hotel and Food Services industry has added about 41,700 jobs over that same period. However, employment in this sector is still 7.3% below pre-pandemic levels.

Similarly, there was an increase of 13,600 jobs over the past year in the Arts & Entertainment sector (e.g., theaters, arenas, etc.) but employment totals in that sector remains about 4% below pre-pandemic levels.

Retail spending continues to improve. There was a small dip in December and January which reflects the fact that many consumers shifted their holiday spending to earlier in the fall, concerned about rising prices and supply chain issues. The total dollar value of retail spending was still on the rise, but a lot of the increase now is due to rising inflation. Higher prices could lead to a slowdown in the retail recovery this spring.

February 2022 Employment Compared to January 2020 Employment

Retail-Supporting Sectors



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted

U.S. Advance Retail Sales (inc. food services)

(millions of dollars)

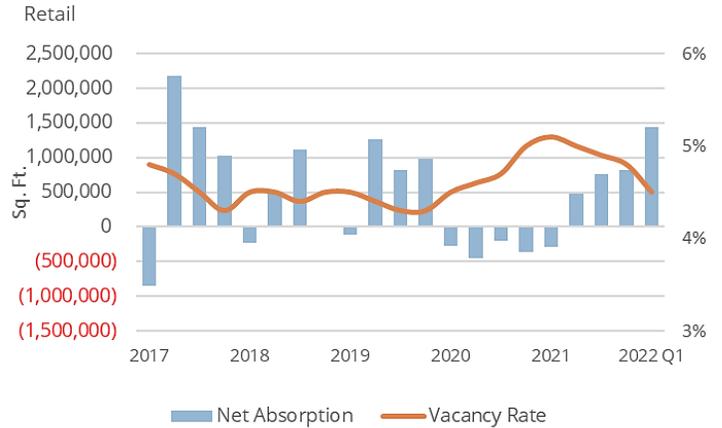


Source: U.S. Census Bureau

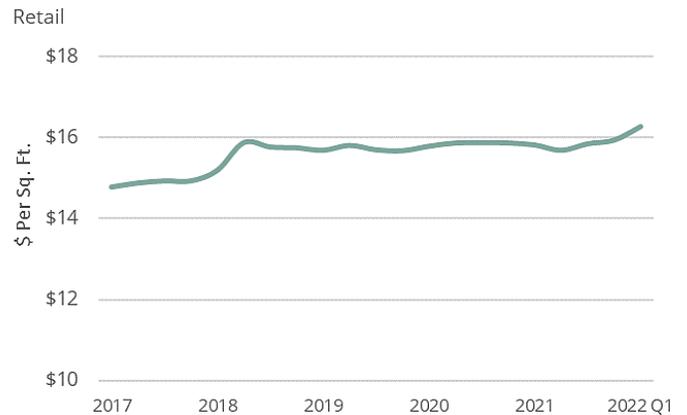
Retail Market Trends

- Net absorption of retail space has been up for four quarters in a row in Virginia, with strong absorption in Q1 2022. In Northern Virginia, retail net absorption totaled more than 680,000 square feet, the strongest gain in more than five years in the region.
- Retail vacancy rates continue to improve. In Q1 2022, the statewide retail vacancy rate hit 4.5%, similar to 2019 rates. Small and mid-sized markets in the commonwealth had the lowest retail vacancy rates. In Charlottesville, Harrisonburg, and Roanoke, the retail vacancy rate was below 4% in Q1 2022.
- The average statewide retail rent was up nearly three percent in Q1 2022 compared to a year earlier. Rents have been rising slowly but steadily since the beginning of 2021. The biggest rent gains were in Harrisonburg and Lynchburg, where the average retail rent increased by nearly 20% between Q1 2021 and Q1 2022.
- Construction of new retail space continues to lag. Statewide in Virginia, there was a total of 1.61 million square feet of retail space under construction in Q1 2022, which was down about 26% compared to a year ago. New retail construction increased in Q1 2022 in Hampton Roads, the only region with a year-over-year uptick.
- In Q1 2022, there was a total of about 395,000 square feet of retail space delivered statewide. More than 60% of new retail deliveries was in Northern Virginia. About 22% of new deliveries were in the Richmond market.

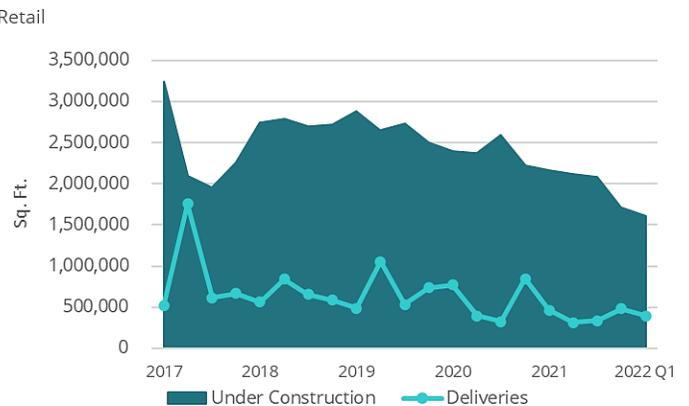
Virginia Net Absorption & Vacancy Rates



Virginia Full Service Rent



Virginia Net Deliveries & Under Construction



Q1 2022 Retail Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	136.6M	▲	82.7M	▲	105.5M	▼
Vacancy Rate	4.5%	▼	4.9%	▼	5.2%	▼
Net Absorption (SF)	459,760	▼	171,912	▲	278,335	▲
All Service Rent (Per SF)	\$25.86	▲	\$16.66	▲	\$14.89	▲
Deliveries (SF)	244,141	▼	86,895	▼	47,410	▲
Under Construction (SF)	725,318	▼	192,693	▼	162,228	▲

	Roanoke		Charlottesville		Winchester	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	24.6M	▲	10.4M	▲	9.3M	▲
Vacancy Rate	2.2%	▼	3.7%	▲	4.1%	▼
Net Absorption (SF)	16,878	▲	32,129	▼	69,536	▲
All Service Rent (Per SF)	\$13.11	▼	\$19.87	▲	\$10.61	▲
Deliveries (SF)	0	-	7,180	▲	0	▼
Under Construction (SF)	55,450	▲	200,000	▼	0	▼

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	14.6M	▲	6.9M	▲	9.9M	▲
Vacancy Rate	4.1%	▼	3.6%	▲	3.2%	▼
Net Absorption (SF)	-30,135	▲	20,427	▲	666	▲
All Service Rent (Per SF)	\$15.90	▲	\$16.10	▲	\$15.85	▲
Deliveries (SF)	0	▼	0	-	8,907	▲
Under Construction (SF)	14,362	▼	0	▼	227,680	▲

Source: CoStar, data accessed March 22, 2022

M millions

- no change

Industrial Market

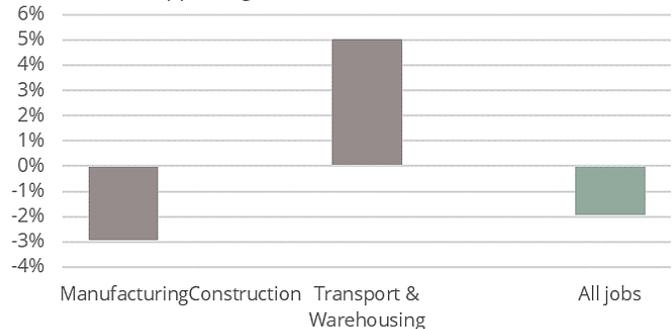
The industrial market remains the strongest segment of the commercial real estate market in Virginia. Earlier in the pandemic, strong demand for warehousing space was driven primarily by the surge in e-commerce. More recently, warehouse and industrial space needs have surged as retailers expand inventories and businesses look to move more of their production capacity closer to their consumers.

Economic sectors supporting strong demand for industrial space continued to expand in Q1 2022. The Transportation & Warehousing sector has been growing very fast. Over the past 12 months, this sector added about 6,100 jobs, and the number of jobs in this sector is 5% higher than it was before the pandemic hit.

Construction jobs have also increased, reaching pre-pandemic levels this February. Between February 2021 and February 2022, the Manufacturing sector in Virginia was down 2,200 jobs following steady expansion in 2021. Employment in the Manufacturing sector is just 2.9% below pre-pandemic levels.

E-commerce sales continue to be strong, but recently there has been a faster pace of retail sales growth in brick-and-mortar establishments. With a shift to more in-person shopping, there is greater demand for storage space as retailers hold more inventory than usual, worried about supply chain disruptions and rising prices.

February 2022 Employment Compared to January 2020 Employment
Industrial-Supporting Sectors



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted

U.S. Retail Sales

Percent change from prior quarter



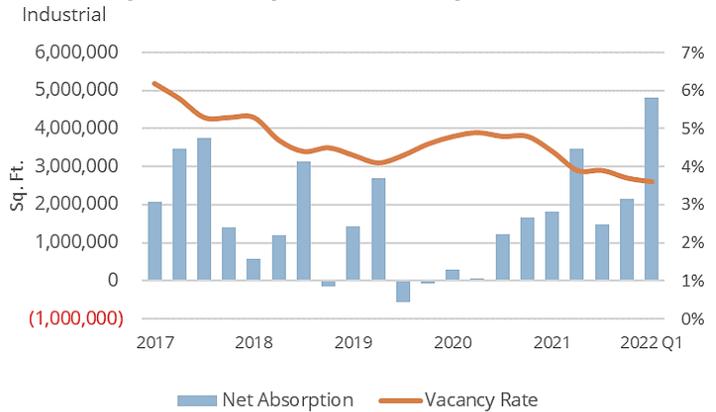
Source: U.S. Census Bureau

Industrial Market Trends

- In Q1 2022, statewide industrial net absorption was higher than it has been in more than five years. There was a total of 4.8 million square feet of space absorbed during the quarter. Hampton Roads accounted for nearly 85% of the newly-occupied space, fueled by the continued expansion of warehousing and trade operations.
- Industrial vacancy continued to tighten across Virginia. Vacancy rates have declined significantly in most regions across the commonwealth. In Hampton Roads, the industrial vacancy rate was just 1.3% in Q1 2022.
- After a slight dip at the end of 2021, industrial rents continue to rise across the commonwealth. Statewide, the average industrial rent was up 1.5% compared to a year ago. The fastest industrial rent growth was in the Charlottesville market where the average industrial rent is more than double what was prior to the pandemic.
- New construction has increased in response to the unprecedented demand for industrial space in Virginia. In Q1 2022, there was about 2.2 million square feet of industrial space under construction in Virginia. About half of the new industrial space is under construction in the Richmond region.
- In Q1 2022, there was more than 4.6 million square feet of industrial space delivered in Virginia. Nearly 90% of that new space was delivered in the Hampton Roads market.

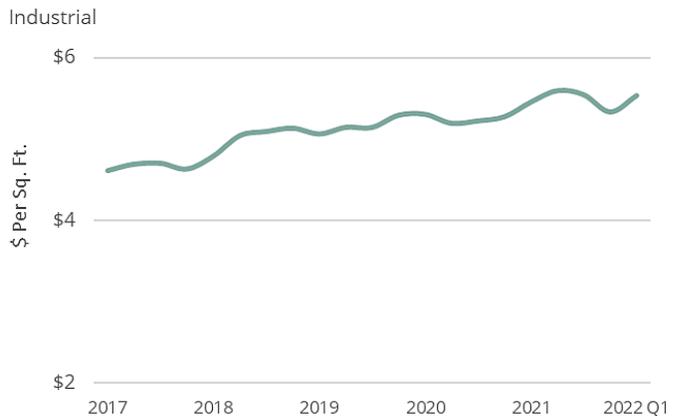
Virginia

Quarterly Net Absorption & Vacancy Rates



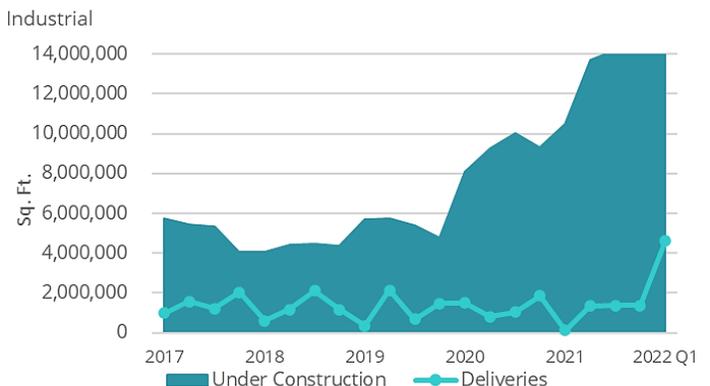
Virginia

Full Service Rent



Virginia

Net Deliveries & Under Construction



Q1 2022 Industrial Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	89.1M	▲	120.5M	▲	109.7M	▲
Vacancy Rate	3.2%	▼	2.7%	▼	1.3%	▼
Net Absorption (SF)	137,494	▲	572,816	▲	4.0M	▲
Avg Asking Rent (Per SF)	\$11.12	▲	\$5.37	▲	\$6.79	▲
Deliveries (SF)	201,524	▲	408,200	▲	4.0M	▲
Under Construction (SF)	3.7M	▲	2.1M	▼	6.2M	▲

	Roanoke		Charlottesville		Winchester	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	37.0M	-	3.9M	▲	20.3M	▲
Vacancy Rate	5.0%	▲	1.1%	▼	2.4%	▼
Net Absorption (SF)	-624,716	▼	71,042	▼	53,137	▼
Avg Asking Rent (Per SF)	\$4.62	▲	\$8.14	▲	\$5.71	▲
Deliveries (SF)	0	-	17,880	▲	0	-
Under Construction (SF)	365,000	▲	111,000	▲	600,950	▲

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg	Q1 2022	Y-o-Y Chg
Total Inventory (SF)	16.0M	-	9.2M	▲	11.2M	-
Vacancy Rate	12.7%	▲	0.7%	▼	2.3%	▼
Net Absorption (SF)	-15,449	▲	38,083	▲	240,000	▲
Avg Asking Rent (Per SF)	\$2.85	▲	\$6.84	▼	\$2.65	▼
Deliveries (SF)	0	-	0	-	0	-
Under Construction (SF)	0	-	30,000	▲	16,000	▲

Source: CoStar, data accessed March 22, 2022

M millions

- no change

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Data and analysis provided by Virginia REALTORS® Chief Economist. The numbers reported here are based on data from CoStar.

