

# MARKETBEAT

## RICHMOND INDUSTRIAL REPORT

2Q11

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### Overview

Absorption this year is a positive 193,850 square feet (sf). That's a big jump from the same quarter in 2010 when absorption was a negative 1.0 million square feet (msf). Some of that positive absorption is caused by the conversion of downtown industrial space into apartment buildings. For example, Franklin Development Group paid \$2.7 million for a 266,000-sf industrial building on Perry Street in Petersburg to convert to apartments. Also, a building on East Clay Street in Shockoe Bottom sold for \$1.6 million and will be turned into apartment units. More warehouses near VCU are under contract to be turned into apartments in future quarters.

Leasing activity also appears to be improving, with 2.4 msf leased through the second quarter of 2011 compared with 1.1 msf for the same quarter in 2010. Brokers report that mom-and-pop tenants are the most active and that they are generally looking for leases of one or two years.

Several notable deals closed in the second quarter. Adler Group purchased the 480,000-sf Byrd Center in the Airport submarket for \$26.0 million. This represents one of the largest sales we have seen in several years. Adler plans to hold the property as an investment. Cabinets to Go/Lumber Liquidators purchased a 130,560-sf building in the South Point Business Park in Prince George, VA. They plan to use the building for the expansion of their kitchen and bathroom remodeling products.

### Economy

The local economy appears to be on the mend just as the national and global economies are showing signs of strain. On one hand, the unemployment for Richmond fell to 6.7% in May, down from 7.5% in May 2010. That puts Richmond in far better shape than the nation as a whole with an unemployment rate at 8.7%.

On the other hand, major industries – such as autos and housing – are reporting that sales are slowing from this time last year. Instability in the Middle East and political maneuvering in Washington might cause businesses to postpone hiring or investing. Also unnerving for the economy are rumors of a U.S. default on the national debt.

### Outlook

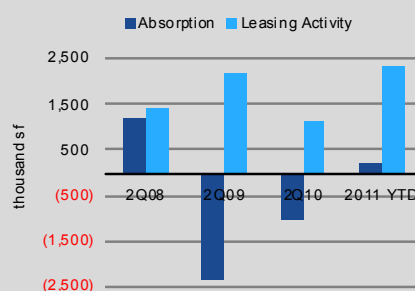
With more uncertainty on the horizon, absorption will likely remain negative for the rest of 2011 – in part because a third-party logistics company will be vacating its 317,000-sf facility on Audubon Drive.

Last quarter, brokers reported more tenants touring spaces but that has tapered off. Leasing activity will probably be slower in the latter part of the year. However, sales volume has been higher in 2011 than in the previous few years, and that trend will likely continue.

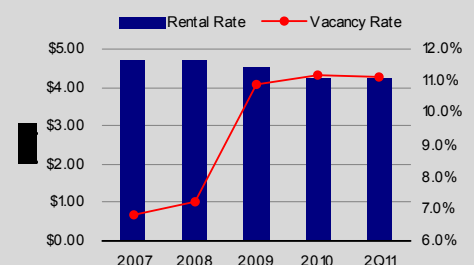
### Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	11.2%	11.1%	-0.1 pp	▼
Direct Asking Rents	\$4.40	\$4.26	- 3.2%	▲
YTD Leasing Activity (sf)	1,113,486	2,364,642	+112.4%	▲

### YTD Overall Absorption vs. Leasing Activity



### Overall Rental vs. Vacancy Rates



## Market/Submarket Statistics

Submarket	Inventory	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Net Absorption	YTD Overall Net Absorption	Direct Weighted Average Net Rental Rate*			
								D	MF	Flex	GI
Downtown	1,122,030	2.2%	0	0	0	(485)	(485)	N/A	N/A	N/A	\$3.95
Northeast	14,001,962	9.0%	193,077	0	0	21,795	15,495	\$3.92	\$3.30	\$10.44	\$4.53
Northwest	25,253,600	10.4%	521,900	0	0	221,367	252,224	\$3.32	\$2.94	\$7.71	\$5.11
Southeast	17,777,886	14.6%	1,274,826	0	0	(220,852)	(167,412)	\$4.15	\$3.81	\$6.65	\$5.12
Southwest	49,707,154	11.1%	374,839	0	0	90,330	94,028	\$3.68	\$3.64	\$7.57	\$3.83
<b>TOTAL</b>	<b>107,862,632</b>	<b>11.1%</b>	<b>2,364,642</b>	<b>0</b>	<b>0</b>	<b>112,155</b>	<b>193,850</b>	<b>\$3.74</b>	<b>\$3.60</b>	<b>\$8.02</b>	<b>\$4.38</b>

Type	Inventory	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Net Absorption	YTD Overall Net Absorption	Direct Weighted Average Net Rental Rate*			
								2Q11	2010	2009	2008
Distribution	20,787,428	13.8%	1,355,792	0	0	236,080	305,420	\$3.74	\$3.98	\$4.14	\$4.12
Manufacturing	28,506,292	11.0%	30,710	0	0	(160,390)	(160,390)	\$3.60	\$3.36	\$4.05	\$3.85
Flex	10,512,031	14.6%	300,596	0	0	18,451	28,703	\$8.02	\$7.67	\$7.86	\$8.43
General Industrial	48,056,881	9.3%	677,544	0	0	18,014	20,117	\$4.38	\$4.56	\$4.15	\$5.55
<b>TOTAL</b>	<b>107,862,632</b>	<b>11.1%</b>	<b>2,364,642</b>	<b>0</b>	<b>0</b>	<b>112,155</b>	<b>193,850</b>	<b>\$4.26</b>	<b>\$4.40</b>	<b>\$4.45</b>	<b>\$4.58</b>

\* Rental rates reflect asking \$psf/year.

D= Distribution MF=Manufacturing Flex = Flex GI = General Industrial

## Market Highlights

### SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2823 Bells Road	Jeff Davis Corridor	Open Plan Systems, Inc.	128,000	Distribution
Airport Distribution Bldg. C	Airport	Forward Air Solutions	47,858	Distribution
Enterchange at Walthall	I-95S/I-295 S/ Rt 10	Emerson Ecologics	43,536	Distribution

### SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Byrd Center	Airport	Adler Group	480,000	\$26,000,000
6060 Quality Way	Prince George	Cabinets to Go/Lumber Liquidators	130,560	\$4,900,000

### SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				