

MARKETBEAT

RICHMOND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

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Overview

The industrial market is slowly warming back up. Absorption was 539,445 square feet (sf) for the third quarter, more than twice the quarterly average from the first two quarters of this year. Part of that absorption was the temporary leasing of space for a feature film being produced in Mechanicsville. But with the flurry of activity, the vacancy rate dropped to 10.8% from 11.1% in the second quarter and 11.4% in the third quarter of 2010.

It is still a tenant's market though, and buyers and tenants are getting properties at historically low rates. Brokers are reporting that startups looking for low-rent flex space are extra active. That could be a sign of fallout from job cuts at major local employers. Tenants are still looking for short-term leases, including ones that have flexible exit clauses.

One notable lease this quarter was Richmond-based Enviva, which took 44,192 sf on Washington Highway in Ashland. The company uses biomass such as wood pellets to produce energy.

Investors have been particularly active: Diversified Realty Ventures paid \$4.3 million for a 76,164-sf flex building at Villa Park I, developer McFarlane Partners paid \$2 million for a former factory on East Main Street to convert to commercial office space and Mayberry Real Estate Holdings sold an industrial building at 1601 Roseneath Road to DCI, LLC for \$1.9 million.

Economy

The global economy appears more turbulent than even a quarter ago. Credit problems in Europe are sending waves of worry through the

U.S. economy, and that is leading to increased skittishness by CEOs and business owners. It remains to be seen how the federal government and the U.S. consumer will respond.

It's possible that the noise from abroad is just a distraction for Richmond's economy. Widely watched indicators are not showing a double-dip recession for now. Unemployment for Richmond was 7.0% in the third quarter, the same as the second quarter and down from 7.7% for the third quarter of 2010. Also encouraging – productivity at U.S. factories is up for four months in a row over 2010. News of local companies expanding has outpaced news of major layoffs for several quarters.

Outlook

Big industrial users are still exercising caution before expanding or upgrading space, and that trend will likely continue for several more quarters until the economy is growing again.

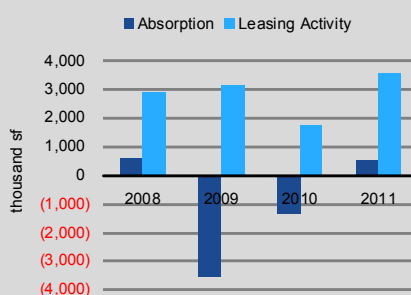
Smaller user-operators are touring facilities and looking to buy if they currently rent. Businesses looking to lease additional space or buy buildings are getting very good deals. One emerging trend to watch in the latter part of 2011 and into 2012 will be distressed properties that go to auction. Brokers report that several are heading that way, so buyers might be in for even better deals, and there could be even lower rents for certain properties that have been vacant for a long time.

One project to watch is the eventual redevelopment of the Interbake cookie factory on N. Boulevard. The building was scheduled to go to auction as this report went to press.

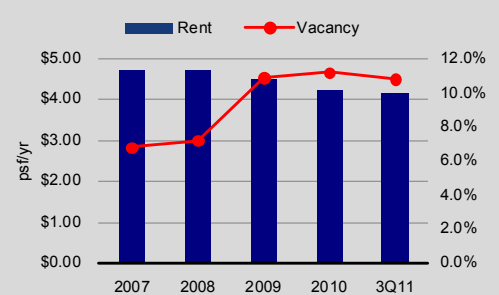
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	11.4%	10.8%	-0.6 pp	▼
Direct Asking Rents	\$4.28	\$4.16	-2.8%	▲
YTD Leasing Activity (sf)	1,751,600	3,569,233	+103.8%	▲

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	\$4.95	\$3.95
Northeast	14,325,682	7.3%	639,783	0	0	242,124	217,046	\$3.98	\$3.17	\$10.13	\$4.34
Northwest	25,362,845	11.3%	861,275	0	0	117,965	152,632	\$3.04	\$3.01	\$7.77	\$5.13
Southeast	17,458,265	15.0%	1,406,427	0	0	(166,988)	(113,548)	\$3.99	\$3.81	\$6.56	\$4.97
Southwest	49,860,467	10.2%	661,748	48,500	0	282,710	283,800	\$3.61	\$3.64	\$7.69	\$5.41
TOTAL	108,129,289	10.8%	3,569,233	48,500	0	475,326	539,445	\$3.67	\$3.54	\$7.95	\$4.38

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*			
								3Q11	2010	2009	2008
Distribution	20,865,313	13.3%	1,713,154	0	0	376,640	445,980	\$3.67	\$3.98	\$4.14	\$4.12
Manufacturing	28,847,804	10.5%	247,310	0	0	70,885	70,885	\$3.54	\$3.36	\$4.05	\$3.85
Flex	10,586,282	15.6%	501,461	48,500	0	(52,510)	(36,616)	\$7.95	\$7.67	\$7.86	\$8.43
General Industrial	47,829,890	15.3%	1,107,308	0	0	80,311	59,196	\$4.38	\$4.56	\$4.15	\$5.55
TOTAL	108,129,289	10.8%	3,569,233	48,500	0	475,326	539,445	\$4.16	\$4.40	\$4.45	\$4.58

* Rental rates reflect asking \$psf/year.

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

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
8080 AMF Drive	I-95 N/Mechanicsville	Office Seekers Productions LLC	200,000	Manufacturing
2320 Deepwater Terminal Road	Jeff Davis Corridor	CEPHAS Industries	90,827	Warehouse
14174 N. Washington Hwy.	I-95 N/Ashland	Enviva	44,192	Distribution
1964 Ruffin Mill Road	I-95S/I-295 S/ Rt 10	Central Shared Services	36,330	Distribution
4401-4445 Carolina Avenue	Laburnum/Rt 360	American Paper Converting of Virginia, LLC	34,500	Distribution
4601-4643 Carolina Avenue	Laburnum/Rt 360	Wheel Pros, LLC	25,875	Distribution
2318 Deepwater Terminal Road	Jeff Davis Corridor	Walden Structures	20,800	Warehouse

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Villa Park I	Staples Mill/Parham	Diversified Realty Ventures LLC & Markel/Eagle Partners LLC	76,164	\$4,300,000
5700 Lewis Road	Airport	New Yung Wah Trading LLC	145,706	\$2,700,000
1601 Roseneath Road	Scotts Addition/West End	DCI LLC	63,729	\$1,900,000
1407 Cummings Drive	Scotts Addition/West End	The Rebkee Company	273,000	\$1,650,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Hullow Village Flex Building 3	Rt 288 Corridor	NA	28,500	4Q11
2500 Waterford Lake Drive	Rt 288 Corridor	NA	20,000	3Q12