

# MARKETBEAT

## ROANOKE OFFICE REPORT

### Overview

Overall, leasing and sales activity remains slow. While anecdotally there are a number of companies either looking to move to the area or even expand, the transactions themselves are slow to develop. Owner concessions remain high compared to years past. The good news is that there is activity, and leasing activity is on par with where it was at the same time last year. The renovation projects in the Central Business District continue and some of those projects will have office components. The Patrick Henry Hotel is complete and the Historic Market Building is now open for business.

The vacancy rates for Roanoke remain low when compared to the rest of the country. Having said that, all of our research shows that very few renewal options are being executed and tenants, especially credit tenants with a national presence, are choosing to renegotiate their previously established renewal options.

### Economy

The local unemployment picture continues to be in line with the overall unemployment in Virginia. Unemployment for the Roanoke metro in August was 6.7%. This is down from one year ago when it was 7.4%, but still up 0.5% from April. The current rate still falls well below the national average of 9.1%. Part of the recent increase in the Roanoke MSA unemployment is due to Anthem vacating over 45,000 square feet (sf) of office space and laying off a number of workers last quarter.

Roanoke continues to see expansion in the medical field. The nursing school continues to bring in students, as well as young professionals

that are either directly related to the medical field or in a support role.

### Outlook

The overall market is still sluggish, but there are positive signs. This year will likely end with slightly positive absorption after the Roanoke office market posted the first year of negative absorption in recent memory in 2010. The slower pace of activity will continue for the next year, at a minimum. Business owners will be hesitant to make long-term capital decisions for their businesses until the lending markets loosen up, more confidence returns to the marketplace, and fears of a double dip recession are put to bed. This means that leases will continue to have short-term renewals and few owner-occupied sales transactions will take place.

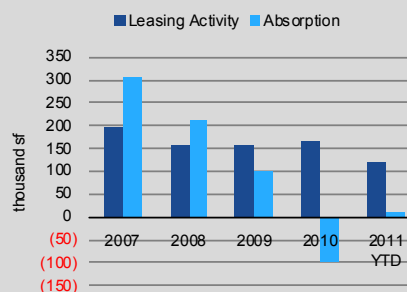
The slowest area for growth will continue to be the suburban markets. The vacancy rates are relatively low throughout Southwest Roanoke County, Salem, North Roanoke and the other outlying areas. There is little to no new product being put on the market. Any increase in demand should trigger new development.

The downtown market will continue to see the trend of some class C office product being converted to mixed-use. There are still several former office and retail buildings under renovation that will be mostly multi-family properties, but some will have an office component.

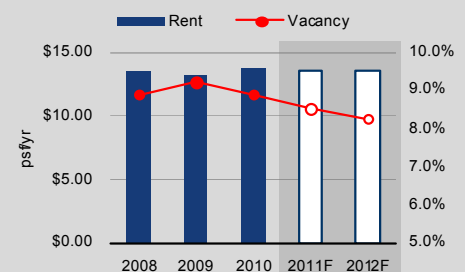
#### Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	8.3%	8.8%	0.5 pp	◀▶
Direct Asking Rents	\$13.01	\$13.58	4.4%	◀▶
YTD Leasing Activity (sf)	124,215	120,059	-3.3%	▲

#### Leasing Activity vs. Absorption



#### Overall Rental vs. Vacancy Rates



## Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Botetourt	668,846	9.5%	9.5%	0	0	60,873	11,542	11,542	\$13.58	\$0.00
Roanoke CBD	4,092,383	8.0%	8.0%	13,540	0	0	42,785	42,785	\$15.80	\$22.50
Northeast Roanoke	2,272,453	12.5%	12.5%	38,799	0	0	(52,868)	(52,868)	\$12.53	\$0.00
Southeast Roanoke	294,533	5.0%	5.0%	5,569	0	0	9,091	9,091	\$8.96	\$0.00
Northwest Roanoke	662,713	5.4%	5.4%	10,809	0	0	(4,515)	(4,515)	\$12.88	\$0.00
Southwest Roanoke	4,434,570	7.9%	7.6%	49,732	0	0	6,178	7,178	\$13.25	\$15.25
North Franklin County	139,309	4.6%	4.6%	580	0	0	2,326	2,326	\$7.98	\$0.00
South Franklin County	55,114	39.8%	39.8%	1,030	0	0	(5,448)	(5,448)	\$10.00	\$0.00
<b>ROANOKE TOTAL</b>	<b>12,619,921</b>	<b>8.8%</b>	<b>8.7%</b>	<b>120,059</b>	<b>0</b>	<b>60,873</b>	<b>9,091</b>	<b>10,091</b>	<b>\$13.57</b>	<b>\$21.79</b>

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

## Market Highlights

### SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
3433 Brambleton Avenue	Southwest Roanoke	N/A	4,200	B
5304 Indian Grave Road SW	Southwest Roanoke	N/A	3,075	B
3959 Electric Road	Southwest Roanoke	United Support Services	2,649	B

### SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

### SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
65 Shenandoah Avenue	Botetourt	N/A	20,000	3Q11

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				