

MARKETBEAT

RICHMOND, VIRGINIA INDUSTRIAL REPORT

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Thalhimer
commercial real estate

4Q07

ECONOMY

Richmond's economy remains strong. To be sure, subprime worries have tightened credit markets and injected some degree of uncertainty about future consumption levels. However, the Richmond area is growing both organically and by attracting national companies. Both Mazda and GlaxoSmithKline moved into the area with leases at the Enterchange at Walthall of 133,232 square feet (sf) and 261,922 sf, respectively. Fort Lee plans on doubling, which will boost demand for goods and services throughout the region. The Richmond unemployment rate was 3.2% in November, the most recent month for which figures were available, compared to the 4.5% national average.

OVERVIEW

Demand for warehouse space declined throughout 2007 to normal levels. Retailers held inventory at historically low levels, which reduced the amount of goods to ship and store. Leasing activity slowed for 2007 compared to 2006, in which 2.6 million square feet (msf) had been leased. At the end of 2007, 1.7 msf feet were leased, with half of that coming in the fourth quarter. However, the overall vacancy rate declined throughout 2007 to close at 6.8%, down from 7.3% in 2006. In particular, vacancy in the Northeast sector declined from 9.8% in 2006 to 4.6% in 2007.

The market absorbed 387,000 sf through the fourth quarter, up from last year when absorption was a negative 1.4 msf. Substantial tenants have vacated large leased space. Antioch let go of 170,000 sf in the Enterchange at Walthall; HBO vacated 200,000 sf on the set of "John Adams"; Bloom Brothers closed its 72,000-sf operation at Enterchange at Walthall; and BASF closed its 226,000-sf logistics operation at Enterchange at Meadowville, to name a few.

There were several large sale transactions in the fourth quarter. French Acquisitions bought 110,000 sf at 1500 Roseneath Road for \$4.5 million. Produce Source Partners bought 124,350 sf off Interstate 95 in Ashland for \$3.4 million with plans to occupy the property. Cauthourne Paper paid \$2.9 million for nine acres including a 99,660-sf building on Washington Highway in Ashland. The site was the former home of Best Distributing. Cauthourne Paper will occupy 44,660 sf, while Total Packaging will continue leasing rear space.

OUTLOOK

Virginia remains an attractive market for new companies. In a move perhaps symbolic of the state's appeal, Rolls-Royce announced plans to build a \$100 million jet engine plant in Prince George County. Meanwhile, three new projects are under construction in the Airport submarket, including Eastport VII (149,000 sf), Airport Distribution Center (115,957 sf) and Woodlands Center III (100,000 sf).

Modern quality properties should continue to be in demand through 2008, and it's likely the 288 Corridor will see some new development in 2008. Overall, leasing should be stable or even up from 2007. Vacancy rates could rise if there is more consolidation in the retail distribution area, which will put downward pressure on rental rates in this product type.

One project to watch: TGM Realty Investors plans to develop an industrial and flex office park on 57 acres the company acquired at 2500 Waterford Lake Drive in Chesterfield. TGM bought the property for \$4 million from Idlewood Properties.

BEAT ON THE STREET



"Rolls Royce, Mazda and GlaxoSmithKline all chose the region as a place to conduct business. This speak volumes about the perception of central Virginia in the corporate community."

-Evan Magrill, CCIM, SIOR, Senior VP

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	3.2%	3.2%	3.2%
Employment Growth (Regional)	1.7%	1.4%	1.0%

MARKET FORECAST

LEASING ACTIVITY should remain stable or even pick up slightly in 2008.



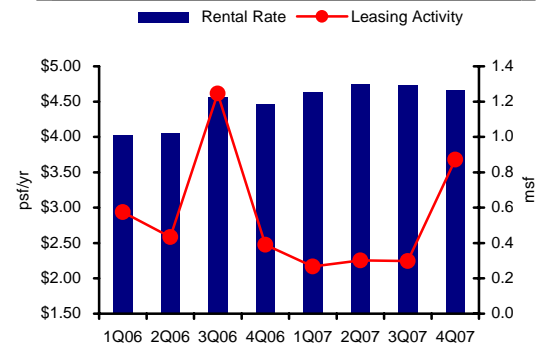
VACANCY RATES are predicted to rise in 2008 after falling in 2007. This will depend largely on what retailers do in 2008.



CONSTRUCTION completions will be up in 2008. Expect to see new speculative construction in the southwest quadrant along Route 288.



OVERALL RENTAL RATES VS. LEASING ACTIVITY



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Weighted Average Net Rental Rate*			
								W/D	MF	Flex	GI
Downtown	1,330,598	64	6.5%	0	0	0	(44,643)	N/A	N/A	N/A	N/A
Northeast	12,833,902	442	4.6%	466,096	0	88,747	657,544	\$4.34	\$3.40	\$10.89	N/A
Northwest	23,940,116	839	7.5%	520,150	75,766	258,610	(23,792)	\$4.53	\$5.33	\$8.86	\$6.56
Southeast	17,121,939	249	8.1%	55,202	364,997	0	(118,030)	\$4.10	\$5.50	\$7.04	\$7.09
Southwest	44,051,364	1,023	7.0%	697,832	0	77,401	(83,884)	\$4.19	\$3.80	\$9.11	\$4.40
TOTAL	99,277,919	2,617	6.8%	1,739,280	440,763	424,758	387,135	\$4.18	\$3.74	\$8.58	\$6.02
								2007	2006	2005	
Distribution	20,285,880	202	12.9%	548,164	364,997	193,944	(409,517)	\$4.18	\$4.24	\$4.25	
Manufacturing	26,042,352	367	1.7%	160,700	0	10,000	887,366	\$3.74	\$3.17	\$3.14	
Flex	10,074,075	381	8.1%	500,537	51,766	182,864	193,826	\$8.58	\$9.13	\$7.27	
General Industrial	42,875,612	1,667	6.1%	529,879	24,000	37,950	(284,480)	\$6.02	\$4.25	\$3.80	
TOTAL	99,277,919	2,617	6.8%	1,739,280	440,763	424,758	387,135	\$4.67	\$4.65	\$4.37	

*Rental rates reflect \$psf/year
WD = Warehouse/Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 4Q07 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Enterchange @ Walthall, Bldg E	I-95 S/I-295 S/Rt 10	GlaxoSmithKline	261,922	Distribution
Enterchange @ Walthall, Bldg A	I-95 S/I-295 S/Rt 10	Mazda North America	130,000	Distribution

SIGNIFICANT 4Q07 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
13167 Telcourt Rd.	I-95 North/Ashland	Produce Source Partners	124,350	\$3,400,000
1500 Roseneath Rd.	I-95 S/I-295 S/Rt 10	French Acquisitions	110,000	\$4,500,000
12124 Washington Hwy.	I-95 North/Ashland	Cauthorne Paper Co.	99,660	\$2,950,000

SIGNIFICANT 4Q07 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
12101 Wilfong Court - B	Midlothian Corridor	N/A	21,000	10/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Eastport VII	Airport	Interline Brands	149,040	5/08
Airport Distribution Center	Airport	N/A	115,957	1/08
Woodlands Center III	Airport	N/A	100,000	5/08



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