

MARKETBEAT

RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

4Q07

ECONOMY

Richmond remains an attractive option for national companies seeking low business costs and high quality of living. The area's long-term growth prospects are strong despite cuts at several large white-collar employers. Richmond's unemployment rate came in at 3.2% for November. That ties for the third lowest unemployment rate in the nation for metro areas over 1,000,000 in population.

There is significant growth on the horizon. The U.S. Army plans to double the facility size of Fort Lee. Philip Morris is moving several hundred industrial jobs from North Carolina to Richmond, and Altria, the parent company of the cigarette maker, is in the process of relocating its headquarters from New York City to Reynolds Crossing in Henrico County.

OVERVIEW

Leasing activity was down in 2007 compared to 2006 due to a decrease in tenant demand and the giving back of space by several large users.

However, the vacancy rate across the region dropped from 9.1% for the fourth quarter in 2006 to 7.9% for the fourth quarter in 2007. In particular, vacancy rates declined in the Innsbrook submarket due to strong absorption (6.6% in 2007, down from 10.8% in 2006).

The suburban office market absorbed just over 1.2 million square feet (msf) in 2007, up from 694,714 square feet (sf) in 2006. Several recent larger leases signed include Alstom Power which signed for 40,000 sf in Gateway Centre II, located in the Midlothian corridor submarket, and The Regus Group which signed for 15,000 sf at Two Paragon Place, located at Glenside/Broad.

A number of high-dollar deals closed in the fourth quarter. SunTrust sold the Mid-Atlantic Headquarters portfolio, which consists of 618,000 sf in three buildings, to Parmenter Realty Partners for \$75.6 million. The deal was part of a larger sale/leaseback strategy implemented by SunTrust.

USAA bought the Perimeter Center off Gaskins Road for \$25.3 million. The property, now occupied by the Commonwealth of Virginia, had been vacant for two years. Wells Fargo Bank sold its 18-story office building at 700 E. Main Street to the investment group BH Rosenberg for \$8.15 million. The buyer plans on substantial renovations to upgrade the marketability of the building. NVP/Direct Invest acquired the 2810 N. Parham Road office building from KBS Realty Advisors for \$16.1 million. Current tenants include Health Informatics Inc., ACS-Heritage, Virginia Municipal League and Pediatrix Medical Group.

OUTLOOK

Two big projects will come online in the next two years, and a number of large deals are in the works. MeadWestvaco will open its new 300,000-sf headquarters downtown in Foundry Park in early 2009. Farther west, Reynolds Development plans to complete the 200,000 square-foot Reynolds Office Building in May of this year. The Midlothian Corridor will also see considerable absorption in 2008, perhaps as early as the first quarter.

Currently, the Richmond market has an adequate supply of office space. New construction, especially speculative, will slow in 2008. Absorption will be flat, while leasing activity should be up due to an excessive amount of sublease space that has hit the market.

Vacancy rates likely will rise. Layoffs announced in 2007 take effect in 2008, notably 2,000 support jobs at Wachovia Securities and 135 jobs in Bank of America's wholesale operation. Homebuilders and mortgage lenders are shuttering offices. More space will hit the sublease market, exerting downward pressure on asking rates. On the flip side, laid-off workers from the financial services sector are venturing out on their own to start boutique firms. Those firms need space and often choose executive suites. Demand for executive suites was up in the fourth quarter, foreshadowing a trend that will continue throughout 2008.

BEAT ON THE STREET

"The recent increase in sublease space has effectively stopped new construction. In essence, for a company attempting to sublet space it is about cost recovery, but they can undercut prime developers and beat them to the punch on leasing space. Fortunately for our marketplace, we have experienced tremendous absorption in 2007 and have not dipped to the record-high sublease space availability we experienced in 2005."

—Mark E. Douglas, 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%

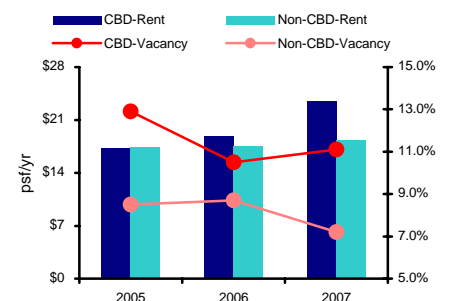
MARKET FORECAST

LEASING ACTIVITY should pick up in the coming year as companies take advantage of sublease opportunities. ↑

DIRECT ABSORPTION is positive for the year at 1.2 msf compared to 384,000 sf for year-end 2006. It should remain steady as sublease space is taken off the market. ↔

CONSTRUCTION was finished on Philip Morris and begun on MeadWestvaco's headquarters. Speculative construction will be down in the coming year. ↓

OVERALL RENT VS. VACANCY



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MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall	Direct	YTD	Under	YTD	YTD	Direct Wtd. Avg. Class A Gross Rental Rate*
			Vacancy Rate	Vacancy Rate	Leasing Activity	Construction	Construction Completions	Direct Absorption	
CBD	8,756,071	83	11.1%	10.8%	146,628	376,600	450,000	(22,211)	\$23.43
East End	829,765	92	1.9%	1.9%	12,837	0	0	7,086	N/A
Far West End	583,504	53	6.4%	6.3%	22,083	0	153,031	23,323	\$15.00
Glenside/Broad Street	3,956,451	116	4.7%	3.9%	130,319	371,000	60,095	127,414	\$20.34
Hull Street Corridor	1,814,619	122	5.3%	4.7%	16,798	0	0	(14,753)	N/A
I-95 N/Ashland	547,161	67	7.0%	7.0%	7,200	0	0	(26,595)	N/A
I-95 N/Chamberlayne	472,318	44	1.7%	1.7%	11,802	0	0	(2,182)	N/A
Innsbrook	7,790,692	154	6.6%	6.0%	339,280	77,708	124,206	578,185	\$18.14
Iron Bridge Corridor	1,292,206	114	7.3%	7.3%	26,616	76,950	222,850	166,713	\$16.50
Lakeside	429,863	66	3.7%	3.7%	7,021	0	0	27,674	N/A
Mechanicsville	735,693	88	4.0%	4.0%	1,285	5,000	0	52,056	N/A
Midlothian Corridor	3,959,098	211	17.6%	14.6%	384,770	29,326	0	(716)	\$17.73
Monroe Ward	2,150,397	158	4.6%	4.4%	21,159	0	0	41,981	N/A
Near West End	2,288,826	276	10.7%	10.7%	52,675	2,236	4,438	(62,400)	N/A
North Broad	1,088,093	69	13.8%	13.8%	800	0	0	(36,468)	N/A
Northside	246,530	60	5.3%	5.3%	0	0	0	(7,500)	N/A
Parham East	2,387,921	82	0.5%	0.5%	15,536	0	16,500	128,799	N/A
Parham South	936,075	63	6.3%	6.3%	19,911	0	0	22,008	N/A
Rt 288 Corridor	1,270,993	107	7.3%	7.3%	43,220	183,620	0	34,140	\$18.15
Shockoe Bottom	535,785	31	19.9%	20.3%	18,174	0	0	(8,911)	\$22.30
Stony Point/Huguenot	1,441,712	127	6.4%	6.3%	65,100	0	0	39,281	\$18.64
West Creek	1,201,713	8	0.0%	0.0%	0	0	0	0	N/A
West End	3,680,983	231	6.1%	6.0%	78,878	0	0	117,752	\$16.50
RICHMOND TOTAL	48,396,469	2,422	7.9%	7.3%	1,422,092	1,122,440	1,031,120	1,184,676	\$20.85

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q07 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
3600 Centre	Near West End	City of Richmond	50,000	B
Gateway Centre II	Midlothian Corridor	Alstom Power	40,000	A
New Manchester Flats	CBD	Riverside Health System	18,779	B
Two Paragon Place	Glenside/Broad Street	Regus Group	15,390	A
Exchange Place	CBD	Style, Inc.	11,665	B

SIGNIFICANT 4Q07 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
SunTrust Mid-Atlantic HQ	CBD	Parmenter Realty Partners	618,000	\$75,600,000
Perimeter Center	Innsbrook	USAA	188,120	\$25,300,000
700 Building	CBD	BH Rosenberg LLC	182,000	\$8,150,000
2810 Centre	Parham South	NVP/Direct Invest	142,015	\$16,100,000
Parham Park	Parham South	Parham Park Properties LLC	50,400	\$3,400,000
1000 Boulders Pky	Midlothian Corridor	Acclaim Boulders LLC	33,560	\$6,200,000

SIGNIFICANT 4Q07 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Virginia Blood Service HQ	Glenside/Broad Street	Virginia Blood Service	60,095	10/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	300,000	5/09
Reynolds Crossing Office Bldg	Glenside/Broad Street	Alcoa, James River Insurance	200,000	5/08
Reynolds Crossing West	Glenside/Broad Street	Bon Secours	100,000	3/08
Biotechnology VIII	CBD	VCU Health Systems	76,600	5/08



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