

MARKETBEAT

RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q08

ECONOMY

Richmond's economy continues to hum, as Forbes Magazine validated with their selection of Richmond as 7th on the list of "Best Places for Business and Careers". To be sure, local employers in the for-profit sector are watching to see how the fallout from Wall Street and declining home prices will influence demand for their products and services. But compared to other regions, Richmond has a diverse economy with stable employers that include city and state government, expanding law firms and military subcontractors. In February 2008, Altria, the parent company of Philip Morris USA, moved their headquarters from New York to Henrico County.

Richmond continues to have one of the ten lowest unemployment rates for all metro areas with populations greater than 1 million. The local unemployment rate was 3.9% in February, up from 3.2% in February of 2007, but less than the 4.8% national unemployment rate in February. As this report went to press, the national unemployment rate for the nation rose to 5.1% for March.

OVERVIEW

Overall vacancy in the Midlothian Corridor dropped from 20.0% in the first quarter of 2007 to 14.7% currently. Most of this was due to Northrup Grumman taking 88,000 square feet (sf) in the Gateway I building. Across the entire Richmond area, the overall vacancy rate declined slightly to 8.2% from 8.4% one year ago. Leasing activity was 249,000 sf compared to 300,000 sf in the first quarter of 2007, or about 17% lower.

The first quarter saw large blocks of space come on the market. In particular, SunTrust gave back 100,000 sf at 919 E. Main Street while Richmond Plaza saw 200,000 sf hit the CBD market. Absorption was a negative 271,000 sf compared to positive 465,139 sf for the same quarter last year.

Several large deals closed in the first quarter. Dominion Resources bought the 325,000-sf downtown tower at Eighth and Main Streets for \$34.4 million with plans to occupy 35% of it and lease the rest. In two smaller deals, Greystone Real Estate Group bought 47,000-sf Waterford One in Midlothian for \$6.9 million and Virginia Physicians leased 29,000 sf at 4900 Cox Road in the Innsbrook submarket.

FORECAST

Looking forward, absorption is expected to be negative. Sublease activity will increase, but rental rates will remain stable at current levels. Some employers are taking more of a wait-and-see approach, but the office market will see stable leasing activity.

Several projects will open later this year. Both buildings at Reynolds Crossings (100,000 sf and 200,000 sf, respectively) should deliver perhaps as early as the second quarter with Alcoa, James River Insurance and Bon Secours as major tenants. Westerre IV will likely be delivered in May with Northwestern Mutual as the lead tenant.

Several large transactions are in the works for the second quarter. Brandywine Realty Trust plans to sell 600 E. Main Street for more than \$50 million. Verizon plans on pulling out of that building by the third quarter. Meanwhile, the 700 Building located at 7th and Main Street will start a \$3 million renovation beginning in the second quarter.

BEAT ON THE STREET


"The Richmond office market remains relatively stable in spite of current economic and capital market pressures. Our diversity of employment, strong local economy and regional economic cooperation, coupled with just enough large block market vacancy, should actually help grow the employment base by being able to attract new companies to our marketplace."


—Mark E. Douglas, CCIM, SIOR, Senior VP


ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.5%
CPI Growth	3.2%	2.8%	3.0%
Regional			
Unemployment	3.2%	3.2%	3.4%
Employment Growth	1.7%	1.4%	1.0%

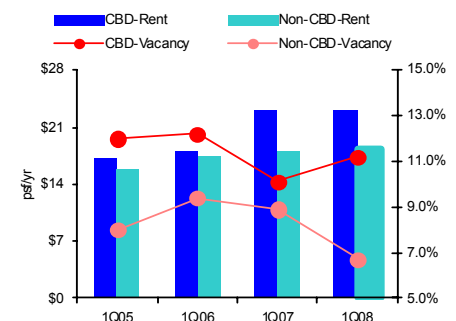
MARKET FORECAST

LEASING ACTIVITY will remain stable in the near term and increase at the end of 2008. 

DIRECT ABSORPTION is expected to remain stable through most of 2008, potentially increasing during the fourth quarter. 

CONSTRUCTION: With almost 1.0 msf currently under construction, expect to see a slowdown for the remainder of the year. 

OVERALL CLASS A RENTAL VS. VACANCY RATES



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MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	8,873,484	82	11.5%	11.2%	16,046	376,600	0	(157,537)	\$22.97
East End	829,765	92	0.7%	0.7%	10,000	0	0	0	N/A
Far West End	600,459	55	4.6%	4.5%	7,927	0	0	13,365	\$15.00
Glenside/Broad Street	3,953,320	116	3.8%	3.6%	37,559	235,000	0	10,475	\$20.23
Hull Street Corridor	1,838,951	126	6.4%	5.8%	3,817	0	0	(13,441)	N/A
I-95 N/Ashland	554,761	69	8.3%	8.3%	0	0	0	(1,600)	N/A
I-95 N/Chamberlayne	474,118	45	1.7%	1.7%	1,807	17,082	0	320	N/A
Innsbrook	7,778,581	150	10.4%	6.3%	51,259	77,708	0	(147,610)	\$18.70
Iron Bridge Corridor	1,314,490	120	6.9%	6.9%	21,846	77,045	2,694	1,005	\$15.92
Lakeside	431,149	66	4.7%	4.7%	0	0	0	(4,235)	N/A
Mechanicsville	811,342	94	4.6%	4.6%	1,285	22,461	0	(3,660)	\$17.00
Midlothian Corridor	3,933,369	209	14.7%	11.4%	40,185	0	0	59,720	\$17.21
Monroe Ward	2,150,108	158	5.5%	5.5%	2,482	0	0	(20,565)	N/A
Near West End	2,078,248	275	10.5%	10.5%	9,746	0	0	33,670	N/A
North Broad	1,840,604	70	7.5%	7.5%	0	0	0	12,500	N/A
Northside	268,038	63	9.5%	9.5%	0	0	0	(12,396)	N/A
Parham East	2,362,578	82	2.3%	2.3%	7,750	0	0	(47,111)	N/A
Parham South	902,054	63	8.0%	7.3%	6,168	0	0	(17,447)	N/A
Rt 288 Corridor	1,301,638	111	7.9%	7.9%	7,639	134,310	0	(10,538)	\$18.56
Shockoe Bottom	555,407	33	13.3%	13.3%	5,900	0	0	33,928	\$22.30
Stony Point/Huguenot	1,440,200	126	5.9%	5.7%	12,946	0	0	7,076	\$19.09
West Creek	1,356,713	9	0.0%	0.0%	0	0	0	0	N/A
West End	3,704,982	230	6.4%	6.3%	5,126	37,400	0	(6,964)	\$16.50
RICHMOND TOTAL	49,354,359	2,444	8.2%	7.2%	249,488	977,606	2,694	(271,045)	\$18.74

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Gateway I	Midlothian Corridor	Northrop Grumman	88,000	A
4900 Cox Road	Innsbrook	Virginia Physicians, Inc.	29,000	B
Ironbridge Commons	Iron Bridge Corridor	BE&K Engineering Co.	21,934	A
3600 Centre	Near West End	City of Richmond	16,775	B

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Eighth & Main Tower	CBD	Dominion Resources	325,000	\$34,400,000
Waterford I	Rt 288 Corridor	Greystone Real Estate Group	47,000	\$6,925,000
St. Mary's MOB North	Near West End	Cogdell Spencer Advisors Mgmt.	30,618	\$4,552,355

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	300,000	2009
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	4/08
Westerre IV	Innsbrook	Northwestern Mutual	77,708	5/08
Biotechnology VIII	CBD	VCU Health Systems	76,600	5/08
Watkins Centre	Rt 288 Corridor	Village Bank	70,000	7/08



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