

MARKETBEAT

RICHMOND, VIRGINIA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q08

ECONOMY

Economic developers in Richmond continue to draw on the state's reputation as a business-friendly climate to lure new manufacturers. The local economy, meanwhile, picked up in the second quarter. The unemployment rate dropped from 3.9% in February to 3.5% in April. That's stronger than the 3.9% unemployment rate statewide, and the 5.5% unemployment rate for the entire country. However, it's still higher than the 2.9% from the second quarter in 2007.

OVERVIEW

Leasing activity is greater than last year, but rental rates are falling. Through the second quarter, 1.4 million square feet (msf) have been leased. That's more than double the 568,000 square feet (sf) from the same quarter last year. The vacancy rate is virtually unchanged from last year, at just above 7%.

Overall, business owners are taking longer to make major real estate decisions. Many are also opting to utilize third-party operators to avoid long-term capital commitments. In essence, they'd rather pay higher rents but have long-term flexibility. Third-part operator Saddle Creek Corporation leased 141,845 sf on Ruffin Mill Road in Colonial Heights. They have a contract to distribute products for Anheuser Busch and plan to be operational by the end of the third quarter.

Also of note, Moss Motors, an automotive parts supplier for vintage British cars, purchased the 113,000-sf former Nippon Wiper Blades facility in Dinwiddie County for \$4.0 million. Moss plans to open a distribution facility at the site later this year and cited Virginia's central location as a reason for relocating from the West Coast.

FORECAST

Landlords who've held vacant space for extended periods of time will likely increase incentives. Free rent has started appearing and could become more prevalent in coming quarters.

Leasing activity might be down slightly for the rest of the year, as businesses become even more cautious and consider waiting several more quarters to deploy capital. Absorption will likely be flat. However, several projects are still developed. Ruffin Mill Center, a 136,000-sf flex project developed by the Landmark Company, will hit the market in the first quarter of 2009.

BEAT ON THE STREET

"Leasing activity has doubled since last year, however, vacancy rates remain unchanged primarily due to the offset of manufacturing and warehouse distribution facility closings in the area."

-Dawn Calabrese, VP



ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%

Regional	2006	2007	2008F
Unemployment	3.2%	3.2%	3.4%
Employment Growth	1.7%	1.4%	1.0%

Source: Moody's | Economy.com

MARKET FORECAST

LEASING ACTIVITY should slow after a strong start this year



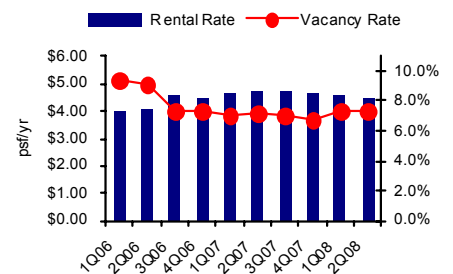
DIRECT ABSORPTION is expected to remain flat through the remainder of 2008.



CONSTRUCTION: Starts and completions will slow after activity earlier in the year.



OVERALL RENTAL VS. VACANCY RATES



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*			
								D	MF	Flex	GI
Downtown	1,126,006	46	5.6%	0	0	0	(6,524)	N/A	N/A	N/A	\$4.42
Northeast	12,988,934	446	3.0%	371,512	84,000	0	136,732	\$4.23	\$3.31	\$9.28	\$4.60
Northwest	24,122,255	825	7.5%	329,973	19,200	0	(104,848)	\$3.70	\$5.12	\$8.72	\$6.28
Southeast	17,324,284	250	7.3%	164,504	0	379,997	262,304	\$4.36	\$5.50	\$7.34	\$4.71
Southwest	45,083,333	1,035	6.1%	518,873	67,020	65,080	884,081	\$4.20	\$6.08	\$7.77	\$4.58
TOTAL	100,644,812	2,602	7.4%	1,384,862	170,220	445,077	1,171,745	\$4.12	\$3.85	\$8.43	\$5.55
								2008	2007	2006	2005
Distribution	20,761,316	202	11.0%	569,381	0	264,997	930,975	\$4.12	\$4.18	\$4.24	\$4.25
Manufacturing	26,752,235	364	2.6%	75,335	0	0	(213,370)	\$3.85	\$3.74	\$3.17	\$3.14
Flex	10,461,233	400	8.8%	245,735	63,520	65,080	24,203	\$8.43	\$8.58	\$9.13	\$7.27
General Industrial	42,670,028	1,636	2.2%	494,411	106,700	115,000	429,937	\$5.55	\$6.02	\$4.25	\$3.80
TOTAL	100,644,812	2,602	7.4%	1,384,862	170,220	445,077	1,171,745	\$4.58	\$4.67	\$4.65	\$4.37

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Enterchange at Walthall	I-95 S/I-295 S/Rt 10	Saddle Creek Corporation	141,845	Distribution
2320 Deepwater Terminal	Jeff Davis Corridor	HMU, LLC	90,827	Manufacturing
Fairgrounds-Building C	Laburnum/Rt360	Philip Morris USA	54,000	Distribution
Transport Street Warehouse	I-95 S/I-295 S/Rt 10	Capital Warehouse	52,000	Distribution
Falling Creek Warehouse	Jeff Davis Corridor	B&I Auto Supply	30,690	Distribution
SIGNIFICANT 2Q08 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Richfood Dairy Plant	Scott's Add/West End	Dean's Food	202,817	\$4,000,000
25651 Simpson Rd.	TriCities	Moss Motors Ltd.	113,000	\$4,000,000
SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Eastport VII	Airport	Interline Brands	149,040	4/08
Woodlands Center III	Airport	N/A	100,000	6/08
Midlantic Business Center	Rt 288 Corridor	N/A	55,000	6/08
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Air Park Commons	I-95 N/Mechanicsville	N/A	48,000	7/08
Ruffin Mill Center-Bldg. D	I-95 S/I-295 S/Rt 10	N/A	45,600	1/09



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