

# MARKETBEAT

## RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

2Q08

### ECONOMY

The Richmond economy is experiencing some of the effects of the housing slow-down and a collective tightening of the belt. Businesses are finding banks less willing to lend for capital projects, which is slowing the rate at which they take new space. The unemployment rate in Richmond was 4.0% in May, up from 3.5% in April and higher than the 3.8% unemployment rate statewide and lower than the national unemployment rate of 5.2%. As expected, it is also higher than the 2.8% from the second quarter in 2007.

Businesses around Richmond, meanwhile, are getting creative and finding that they can keep their current payrolls intact if they let workers work from home one day a week to save on gas. Ridership on GRTC's Chesterfield express routes increased 80% from April 2007 to April 2008 as workers take advantage of mass transit to save on gas and parking.

### OVERVIEW

The overall vacancy rate for the market declined to 7.8% in the second quarter from 8.8% in the same quarter of 2007. However, Wachovia Securities, which is moving its headquarters from Richmond to St. Louis after a merger with AG Edwards, has put its office space at Innsbrook (193,000 square feet (sf)) and at Riverfront Plaza (250,000 sf) up for sublease. That space will likely fetch below market rates, and also add substantial space in both the CBD and suburban markets. Once this space is totally vacated it will be reflected in the vacancy statistics and drive the overall CBD vacancy up from 10.1% to over 12%. Innsbrook will see vacancy jump to almost 14% once Wachovia vacates.

The average rental rate for the Richmond region nudged down from \$20.77 per square foot (psf) in the second quarter of 2007 to \$19.39 psf in the second quarter of 2008. Landlords are becoming more aggressive to secure tenants. Incentives such as shorter lease terms, higher tenant improvements and upfront free rent tacked on to the lease are becoming the norm.

The medical industry continues to gobble up new office space. Trammell Crow has broken ground on the Forest Medical Plaza, a 95,000-sf medical building on the campus of HCA's Henrico Doctor's Hospital on Forest Avenue. The building is 40% pre-leased to the hospital. Bon Secours took 30,000 sf on May 1st in Reynolds Crossing. The hospital company plans to take another 22,000 sf in the fall.

Several large projects came online in the second quarter, including 200,000 sf at Reynolds Crossing and 77,700 sf at Westerre Office Park in the Innsbrook submarket. Northwest Mutual is the lead tenant in Westerre IV. The Virginia College Fund bought 48,500 sf in the Midlothian Corridor section of Chesterfield at Arboretum VIII for \$8.2 million.

### FORECAST

The market will remain slow compared to previous quarters, with deals taking longer to close. Many tenants are renewing rather than looking for larger space, a marked departure from the past several years. Businesses are proceeding with extra caution, and shorter-term leases will continue to be popular, even if they carry a higher rental rate.

### BEAT ON THE STREET

"Shorter term leases that allow flexibility are in demand, even if a tenant has to pay a higher rental rate for that flexibility"



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

### ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
Regional			
Unemployment	3.2%	3.2%	3.8%
Employment Growth	1.7%	1.4%	1.0%

Source: Moody's | Economy.com

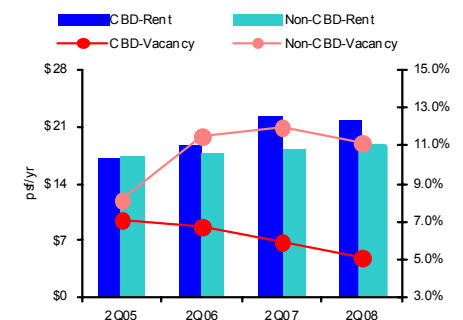
### MARKET FORECAST

**LEASING ACTIVITY** will slow as more tenants opt to renew versus leasing new space. ↓

**DIRECT ABSORPTION** is expected to decline as large tenants vacate space, such as Wachovia. ↓

**CONSTRUCTION:** New construction has been slowing steadily and expect that to continue. ↓

### OVERALL CLASS A RENTAL VS. VACANCY RATES



### 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	10,881,928	93	10.1%	9.8%	34,565	300,000	76,600	(188,271)	\$22.63
East End	810,311	92	0.8%	0.8%	10,000	0	0	9,196	N/A
Far West End	582,774	55	4.3%	4.2%	14,694	0	0	21,343	\$15.00
Glenside/Broad Street	4,186,014	117	6.4%	6.0%	110,776	95,000	235,000	152,419	\$21.31
Hull Street Corridor	2,143,584	126	3.6%	3.5%	3,817	0	0	17,749	\$22.00
I-95 N/Ashland	602,357	70	7.6%	7.6%	4,875	0	0	(5,850)	N/A
I-95 N/Chamberlayne	470,598	44	2.4%	2.4%	6,461	17,082	0	(1,191)	N/A
Innsbrook	7,935,522	151	11.5%	7.2%	96,694	0	77,708	(83,272)	\$19.29
Iron Bridge Corridor	1,327,128	120	6.7%	6.7%	22,896	42,095	37,544	57,396	\$17.00
Lakeside	414,233	65	5.2%	5.2%	0	0	0	(5,448)	N/A
Mechanicsville	830,592	98	4.8%	4.8%	2,570	22,461	0	(3,760)	\$17.00
Midlothian Corridor	3,980,628	210	15.7%	13.5%	185,887	0	0	11,651	\$17.22
Monroe Ward	2,136,149	146	6.9%	6.6%	34,315	0	0	(47,848)	N/A
Near West End	1,976,563	258	10.1%	10.0%	39,373	0	0	44,133	N/A
North Broad	2,422,810	67	3.9%	3.9%	3,337	0	0	103,100	N/A
Northside	264,842	61	8.4%	8.4%	0	0	0	(9,364)	N/A
Parham East	2,362,580	82	2.6%	2.6%	7,520	0	0	(53,119)	N/A
Parham South	905,789	63	8.8%	7.3%	11,853	0	0	(6,554)	N/A
Rt 288 Corridor	1,370,898	113	8.1%	8.1%	10,839	77,500	56,810	44,613	\$20.64
Shockoe Bottom	1,554,484	34	6.4%	6.4%	8,900	0	0	50,918	\$20.42
Stony Point/Huguenot	1,443,922	127	6.7%	6.3%	20,286	0	0	4,577	\$17.53
West Creek	1,356,713	9	0.0%	0.0%	0	0	0	0	N/A
West End	3,707,745	230	6.3%	6.3%	40,410	0	37,400	(27,172)	\$16.50
<b>RICHMOND TOTAL</b>	<b>53,668,164</b>	<b>2,431</b>	<b>7.8%</b>	<b>7.1%</b>	<b>670,068</b>	<b>554,138</b>	<b>521,062</b>	<b>85,246</b>	<b>\$19.39</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Reynolds Crossing I	Glenside/Broad Street	Bon Secours	30,000	A
300 Gateway Centre Pkwy.	Midlothian Corridor	ITT Educational Services, Inc.	30,000	B
Landamerica Corp. Headquarters	Innsbrook	United Dominion Realty Trust	24,000	A

#### SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Arboretum VIII	Midlothian Corridor	State College Fund	48,500	\$8,205,000
2106 N. Hamilton St.	Near West End	SPARC	28,000	\$1,600,000

#### SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	300,000	2009
Forest Medical Plaza	Glenside/Broad Street	NA	95,000	4/08
Watkins Centre	Rt 288 Corridor	Village Bank	70,000	7/08



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