

MARKETBEAT

RICHMOND, VIRGINIA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

4Q08

ECONOMY

Richmond's economy has not been immune from the global slowdown. Manufacturers with operations in Central Virginia slashed jobs, and demand for transportation and warehouse space will likely fall as consumers cut back on discretionary spending. However, as a state capital and a region that draws transplants and businesses with a low cost of living and proximity to major population centers, Richmond continues to outperform the nation as a whole. The unemployment rate for the region hit 5.0% in November. That is up from 3.2% for the same period in 2007 but still well below the 6.5% national rate for November 2008.

OVERVIEW

Users with specific needs continue to sign leases, and tenants at the end of lease terms are renewing at the same pace as in previous years. Tenants are opting for shorter lease terms and more flexible rents, and they're asking for more concessions from landlords. Average rents fell from \$4.67 per square foot (psf) in the fourth quarter of 2007 to \$4.37 psf.

Even though the mood is gloomier than in the past, the industrial market absorbed 335,922 square feet (sf) of space in 2008, only slightly lower than in 2007. And more than twice as much space was leased in 2008 than in 2007, 3.8 million square feet (msf), versus 1.7 msf, respectively.

Several deals of note closed in the fourth quarter. Innovision Investment Group acquired a 75,000-sf facility on Chamberlayne Avenue in Richmond from Jackson & Edney Investments LLC for \$1.7 million. Richmond-based launderer Handcraft Cleaners opened a 60,000-sf facility on Richmond's Southside to wash hospital linens.

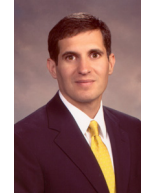
Several large manufacturers shuttered operations in the fourth quarter and consolidated production at existing facilities outside the Richmond area. Computer chip manufacturer Qimonda (Sandston) and recycled paperboard maker Caraustar (Southside) closed plants, and Richmond-based shopping cart manufacturer Rehrig International closed its 317,000-sf facility in Chesterfield after the company declared bankruptcy. Other planned closings include Graphics Packaging's 130,000-sf facility and Wyeth's 272,000-sf manufacturing plant, both in the Airport submarket.

FORECAST

Looking ahead to 2009, renewals will likely continue at the same pace as previous quarters as industrial users will need similar space. Tenants will continue to place a premium on short-term commitments and ask for concessions until the economy stabilizes. Landlords will increasingly oblige as they face the risk of having no suitable tenants. New leases and investment sales will be slow, and fewer projects will come out of the ground than in previous years. The credit crunch is showing up in construction activity. In the fourth quarter of 2008, there were 64,620 sf under construction. That's down from 441,000 sf in the fourth quarter of 2007.

One project to watch in 2009: New York-based Sabra Dipping Company announced in the fourth quarter that it is building a 110,000-sf food processing plant in Chesterfield that will produce humus among other food products. That plant will open in 2010 and employ 260 workers.

BEAT ON THE STREET



"Given the changing market conditions, educated Landlords are offering greater flexibility to companies actively looking to lease space."

-Evan M. Magrill,
Senior Vice President

ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Regional			
Unemployment	3.2%	5.0%	6.2%
Employment Growth	1.8%	1.0%	0.5%

Source: Moody's | Economy.com

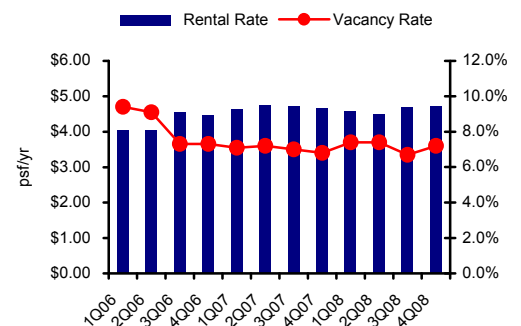
MARKET FORECAST

LEASING ACTIVITY was up for 2008 and is expected to remain flat for 2009. ⇔

DIRECT ABSORPTION will remain stable as existing space is absorbed with little new construction. ⇔

CONSTRUCTION: There will be little speculative construction in the coming year due to demand and the capital markets. ↓

OVERALL RENTAL VS. VACANCY RATES



An independently owned and operated member of the

CUSHMAN & WAKEFIELD
ALLIANCE

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	881,475	54	3.5%	0	0	0	1,318	N/A	N/A	N/A	\$4.42
Northeast	13,738,606	451	7.1%	600,206	36,000	48,000	9,790	\$4.30	\$4.00	\$9.56	\$4.56
Northwest	24,918,651	873	8.2%	832,363	19,200	0	(290,223)	\$3.99	\$5.86	\$8.51	\$5.39
Southeast	16,919,864	248	7.3%	984,974	0	391,997	389,160	\$4.40	\$5.50	\$6.67	\$7.61
Southwest	47,486,869	1,040	6.7%	1,450,384	9,420	110,680	225,877	\$4.20	\$6.08	\$8.52	\$5.31
TOTAL	103,945,465	2,666	7.2%	3,867,927	64,620	550,677	335,922	\$4.23	\$4.48	\$8.50	\$5.20
								2008	2007	2006	2005
Distribution	20,923,303	201	11.0%	1,828,714	0	264,997	848,941	\$4.23	\$4.18	\$4.24	\$4.25
Manufacturing	27,160,627	368	3.7%	551,289	0	0	(201,945)	\$4.48	\$3.74	\$3.17	\$3.14
Flex	10,701,414	417	10.4%	599,517	5,920	122,680	(167,725)	\$8.50	\$8.58	\$9.13	\$7.27
General Industrial	45,160,121	1,680	8.1%	888,407	58,700	163,000	(143,349)	\$5.20	\$6.02	\$4.25	\$3.80
TOTAL	103,945,465	2,666	7.2%	3,867,927	64,620	550,677	335,922	\$4.72	\$4.67	\$4.65	\$4.37

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
5700 Audubon Dr.	Airport	Sunrise Construction, LLC	317,400	Distribution
11200 Old Stage Rd.	I-95 S/I-295 S/Rt 10	Virginia T's	208,000	Warehouse
1500 Jefferson Davis Hwy.	Jeff Davis Corridor	Aspen Products, Inc.	146,000	Distribution
Enterchange at Walthall	I-95 S/I-295 S/Rt 10	Saddle Creek Corporation	141,845	Distribution

SIGNIFICANT 2008 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
11200-11300 Old Stage Rd.	I-95 S/I-295 S/Rt 10	Manakin Holdings, LLC	375,811	\$5,300,000
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
4107 Castlewood Rd.	Jeff Davis Corridor	Charles Keck	79,800	\$1,200,000
1400-1422 Chamberlayne Ave.	Laburnum/Rt 360	Innovision Investment Group	75,000	\$1,740,000

SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Eastport VII	Airport	Interline Brands	149,040	4/08
Airport Distribution Center	Airport	N/A	115,957	3/08
Woodlands Center III	Airport	N/A	100,000	6/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				



For further information, please contact one of our Brokerage Services Professionals:

Thalhimer
1313 East Main Street, Suite 400
Richmond, VA 23219
(804) 648-5881
www.thalhimer.com

This report contains information available to the public and has been relied upon by Thalhimer on the basis that it is accurate and complete. Thalhimer accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.