

MARKETBEAT

RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q09

ECONOMY

Businesses in Richmond are adjusting to life without a handful of large companies. For some firms, that has meant cutting worker hours or positions as lucrative contracts have dried up. Both big and small companies alike report that they are waiting longer to get paid. As a result of the local and national slowdown, the unemployment rate for Richmond rose from 5.0% in the fourth quarter of 2008 to 7.9% in the first quarter of 2009. That keeps Richmond ahead of the national unemployment rate of 8.5%, but not by as much as in previous years. However, the state employment situation is stabilizing, which should help cushion the blow. Gov. Tim Kaine announced in the first quarter that he does not anticipate cutting more state workers, which means the area's large public-sector workforce will remain virtually unscathed.

OVERVIEW

It comes as an encouraging sign that even as major employers closed offices, the overall vacancy rate in the first quarter held steady at about 9.0% in the first quarter. That rate is up from 8.2% in the first quarter of 2008. Much of the new vacancy has occurred at Innsbrook, where the vacancy rate rose from 10.4% in the first quarter of 2008 to 13.1%. This submarket's vacancy rate was only 1.2% in 1999 and 2.1% in 2001.

Large users have been less active than in the past, but many small-office users continue to sign leases. Renewals are being signed at the normal pace. Leasing activity was 272,592 square feet (sf) in the first quarter. That is up 9.0% from leasing activity in the first quarter of 2008, when 249,488 sf was leased. Space downtown seems to be getting more popular. About 120,000 sf was leased in the first quarter in the CBD. That is up dramatically from the 16,000 sf leased in the first quarter of 2008. Part of that was Connecticut General Life Insurance, which leased 16,131 sf in James Center I. Also downtown, Odell Architects moved into a 17,534-sf office in the former Lucky Strike Power Plant in Shockoe Bottom. Meanwhile in the Near West End, Diamedix Medical leased 6,000 sf in the new Reynolds Office Building.

Even though asking rates rose \$1 per square foot from the first quarter of 2008, landlords will consider concessions to the right tenant as part of an overall package, especially large-block users. In general, smaller office users have less leverage. As noted in previous reports, shorter-term leases are increasingly popular.

FORECAST

Office space under construction fell 30.0% in the first quarter compared with the same time last year. Construction will remain slow until banks lower the down payments they are currently requiring. It is also likely that there will be an increased number of sale-leasebacks, where a company that owns its office will sell it on the market and lease it back, freeing up cash for other expenses. Tenants will continue to ask for - and receive - more generous lease terms than in the recent past. Cap rates, which have risen to more traditional levels, 9.0% to 10.0%, will remain constant until the financial sector eases its lending restrictions.

BEAT ON THE STREET



"Even though rates are falling for big-block space, smaller users aren't yet seeing the same deals."


-Dean Meyer, CCIM, SIOR
Senior Vice President


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	4.4%	9.0%	8.5%
Employment Growth	-0.1%	-3.2%	-0.8%

Source: Moody's | Economy.com

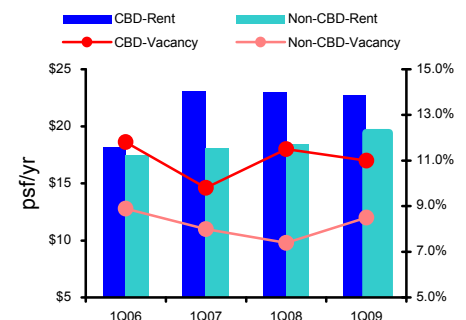
MARKET FORECAST

LEASING ACTIVITY is slower compared to past quarters, but appears to be remaining steady. 

DIRECT ABSORPTION continues to be negative and will be for the foreseeable future. 

CONSTRUCTION is off sharply and will not pick up until some of the current inventory is absorbed. 

DIRECT 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	11,006,199	93	11.0%	8.4%	121,090	541,128	0	(248,414)	\$22.75
East End	570,734	94	3.2%	3.2%	0	0	0	3,000	N/A
Far West End	574,264	55	6.1%	6.1%	744	0	0	(8,091)	\$15.00
Glenside/Broad Street	4,478,192	123	8.6%	7.7%	14,574	95,000	0	(43,329)	\$22.00
Hull Street Corridor	2,136,683	131	3.7%	3.6%	1,248	0	0	(9,414)	N/A
I-95 N/Ashland	623,022	72	10.5%	9.4%	3,000	0	0	(12,170)	N/A
I-95 N/Chamberlayne	441,367	41	3.4%	3.4%	1,888	17,082	0	1,413	N/A
Innsbrook	8,151,011	160	13.1%	9.8%	47,891	0	3,801	(254,814)	\$19.54
Iron Bridge Corridor	1,502,860	134	6.2%	6.2%	3,600	0	0	8,315	\$17.00
Lakeside	415,757	66	4.3%	4.3%	0	0	0	(42)	N/A
Mechanicsville	839,820	101	6.6%	6.3%	0	22,461	0	(6,780)	N/A
Midlothian Corridor	4,003,853	214	14.8%	14.2%	3,884	0	0	(16,550)	\$17.90
Monroe Ward	2,618,935	163	4.4%	4.2%	0	0	0	(8,210)	N/A
Near West End	1,982,942	268	8.0%	7.9%	5,317	0	0	4,384	\$18.00
North Broad	2,552,375	80	6.7%	6.7%	14,967	0	0	26,990	N/A
Northside	264,842	61	3.0%	3.0%	2,000	0	0	0	N/A
Parham East	2,374,637	83	2.9%	2.9%	1,700	0	0	8,587	N/A
Parham South	925,593	65	10.0%	10.0%	1,906	0	0	(852)	N/A
Rt 288 Corridor	1,513,714	118	11.9%	11.5%	18,945	7,500	0	(20,076)	\$21.58
Shockoe Bottom	1,553,006	35	6.0%	6.0%	1,206	0	0	(3,145)	\$22.30
Stony Point/Huguenot	1,439,412	129	4.7%	4.6%	930	0	0	47,842	\$18.52
West Creek	1,498,713	10	0.0%	0.0%	0	0	0	0	N/A
West End	3,574,431	255	9.6%	9.6%	27,702	0	0	(119,996)	\$16.50
RICHMOND TOTAL	55,042,362	2,551	9.0%	7.8%	272,592	683,171	3,801	(651,352)	\$19.77

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
One James Center	CBD	Connecticut General Life Insurance	16,131	A
4900 Cox Road	Innsbrook	Central Virginia Health Network, Inc.	14,759	B
700 Building	CBD	Morris & Morris, P.C.	9,722	C

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
NA				

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
The Power Plant @ Lucky Strike	CBD	Odell Associates, Inc.	17,534	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	331,128	1/10
Williams Mullen	CBD	Williams Mullen	210,000	5/10
Forest Medical Plaza	Glenside/Broad Street	HCA	95,000	4/09



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