

# MARKETBEAT

## RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer  
commercial real estate

2Q09

### ECONOMY

The effects of several large bankruptcies and relocations continue to trickle through the Richmond business sector, although the rate of large layoffs has slowed considerably in the past quarter. The unemployment rate for the Richmond region rose to 8.1%, up from 7.9% last quarter, in part because recent college graduates across the state have entered the job market and found few positions, according to the Virginia Employment Commission. The new unemployment rate is more than double the 3.9% unemployment rate for the second quarter of 2008 and slightly higher than the rate for the state, which is holding steady at 7.0%.

National economic indicators, for their part, paint a muddy picture. Manufacturers are producing more goods than in past months, according to the Institute for Supply Management, but consumers are still hesitant to start spending.

### OVERVIEW

The overall vacancy rate in the second quarter was 9.8%. That's up from 7.8% in the second quarter of 2008. More space is available in the Central Business District and Innsbrook (where vacancy rates are 13.1% and 12.6%, respectively), but perhaps the biggest increase is in the West End submarket, where vacancy rose to 9.8% from 6.3% in the second quarter last year. Smaller local tenants are starting to take advantage of some of the deals available in the marketplace.

Average rents are holding steady at \$19.62 per square foot (psf), up a bit from last year, but as noted in previous reports, tenants are asking for — and getting — steep discounts in the form of free rent or tenant improvement. Tenants are also asking for short-term leases, sometimes just a year. Some buildings and submarkets have become very aggressive with as much as six months or more being offered to attract quality tenants.

As often happens during recessions, large-block users are not very active. However, many small users say their businesses are stable or growing, and many are looking to upgrade space — in particular within the wealth management and engineering sectors. Auto insurer Admiral Americas leased 20,000 square feet (sf) in Wyndham in the Innsbrook submarket and plans to employ 200 people by year's end. The financial services firm The MOS Group leased 25,800 sf in Innsbrook.

### FORECAST

Research indicates the last time this marketplace reached a vacancy of over 11% was in 1989 and it peaked at almost 20% in 1990. The difference here was there was approximately 250,000 sf of new construction during that time period. There is little new speculative construction in our market today. In 1992 vacancy dropped dramatically to 13.5% and in 1993 quickly fell to under 7%.

Local mom-and-pops are always the first to start taking space after a recession, and that's starting to happen. Across the region, small firms and startups are also sharing space. "Turnkey" offices, which provide a small workspace with furniture and all utilities hooked up, are seeing more activity.

But before big companies can expand and investors can purchase vacant assets and investment properties again, they will need to access credit, and that remains tight. Two new projects downtown are moving ahead on schedule. The new MeadWestvaco headquarters downtown could open in the third quarter. The Williams Mullen tower is also moving ahead on schedule.

### BEAT ON THE STREET



"Blend and extend has become a new strategy to accommodate both landlord and tenant's long-term lease needs."


-Mac Wilson  
Office Sales & Leasing


### ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	4.4%	9.0%	8.3%
Employment Growth	-0.1%	-3.2%	0.5%

Source: Moody's | Economy.com

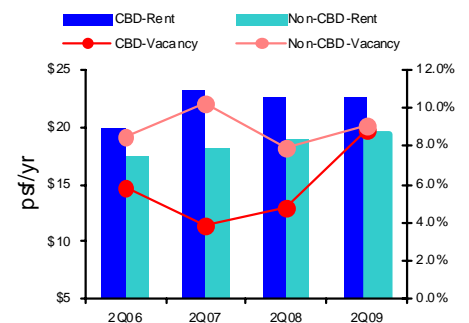
### MARKET FORECAST

**LEASING ACTIVITY** is below the historical average, but remains even with last year's activity at this time year-to-date. 

**DIRECT ABSORPTION** continues to be negative. Despite some leasing activity, it is not enough to absorb all of the space being put back on the market. 

**CONSTRUCTION** is limited to a couple of build-to-suit projects. Expect speculative construction to remain non-existent for the near future. 

### DIRECT 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	11,006,199	93	13.1%	10.3%	171,556	541,128	0	(503,625)	\$22.75
East End	581,049	96	4.7%	4.7%	0	0	0	(4,649)	N/A
Far West End	556,821	54	8.0%	8.0%	2,995	0	0	(17,888)	\$15.00
Glenside/Broad Street	4,573,764	124	10.5%	9.6%	82,037	0	95,000	(34,672)	\$21.26
Hull Street Corridor	2,136,683	131	4.0%	3.9%	7,804	0	0	(16,905)	N/A
I-95 N/Ashland	616,424	71	10.6%	9.6%	3,000	0	0	(12,446)	N/A
I-95 N/Chamberlayne	444,170	41	3.4%	3.4%	4,888	10,904	6,178	4,216	N/A
Innsbrook	8,165,661	161	12.6%	9.1%	153,127	0	3,801	(232,851)	\$19.37
Iron Bridge Corridor	1,558,054	137	8.7%	7.3%	4,500	0	0	32,410	\$17.90
Lakeside	436,830	68	8.0%	8.0%	1,977	0	0	(3,586)	N/A
Mechanicsville	874,192	103	9.2%	8.4%	0	22,461	0	(31,786)	N/A
Midlothian Corridor	4,013,697	215	15.3%	14.9%	43,359	0	0	(41,435)	\$17.92
Monroe Ward	2,626,289	163	5.2%	5.2%	18,154	0	0	(19,133)	N/A
Near West End	2,020,501	272	8.0%	7.9%	8,991	0	0	3,599	N/A
North Broad	2,555,175	81	8.4%	8.4%	14,967	0	0	(30,260)	N/A
Northside	232,311	57	2.5%	2.5%	4,200	0	0	(700)	N/A
Parham East	2,374,637	83	2.7%	2.7%	10,600	0	0	6,259	N/A
Parham South	941,843	66	11.3%	10.1%	9,194	0	0	(16,677)	N/A
Rt 288 Corridor	1,544,072	120	12.7%	12.2%	23,680	0	7,500	(17,193)	\$21.58
Shockoe Bottom	1,553,006	35	5.2%	5.2%	3,506	0	0	235	\$22.30
Stony Point/Huguenot	1,444,412	130	5.5%	5.5%	15,901	0	0	24,658	\$18.52
West Creek	1,501,263	11	0.0%	0.0%	0	0	0	(650)	N/A
West End	3,591,247	257	9.9%	9.9%	70,371	0	0	(143,369)	\$16.50
<b>RICHMOND TOTAL</b>	<b>55,348,300</b>	<b>2,569</b>	<b>9.8%</b>	<b>8.5%</b>	<b>654,807</b>	<b>574,493</b>	<b>112,479</b>	<b>(1,056,448)</b>	<b>\$19.62</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
2151 Old Brick Road	Far West End	South University	30,000	A
East Shore III	Innsbrook	Admiral Americas	26,610	A
Highwoods Commons	Innsbrook	MOS Group, Inc.	25,759	A
East Shore III	Innsbrook	Sheltering Arms Hospital	19,075	A
4900 Cox Rd.	Innsbrook	Central Virginia Health Network, Inc.	14,759	A

#### SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Midlothian Center	Midlothian Corridor	The Cotswold Group, Inc.	146,305	\$7,000,000

#### SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Forest Medical Plaza	Glenside/Broad Street	HCA	95,000	4/09

#### 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



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