

# MARKETBEAT

## RICHMOND, VIRGINIA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

**Thalhimer**  
commercial real estate

3Q09

### ECONOMY

Richmond's industrial market is showing more signs of the recession than in previous downturns. Major manufacturers such as Reynolds Metals and Dupont have announced large job cuts over the past year or planned to close plants entirely. In addition, the Port of Richmond has slowed to a standstill. Nevertheless, rising unemployment has peaked, at least for now. No major employer has announced a big job reduction in the third quarter, according to the Virginia Employment Commission. Unemployment for the Richmond area was 7.7% in August, down from 8.1% last quarter. That is still up from 5.0% in the third quarter of 2008 and slightly higher than the state average of 6.5%, but well below the national average of 9.6%.

### OVERVIEW

The industrial real estate market tends to be a lagging indicator, meaning that it does not see an immediate up-tick in business even as conditions improve elsewhere. Just over 1 million square feet (msf) were leased in the third quarter or slightly less as the same quarter in 2008. Absorption for this year to date is a negative 3.5 msf. In the third quarter of 2008, absorption was positive 607,000 sf. This indicates decent movement within the market, but a net loss of occupied space.

It then follows that vacancy rose to 10.6% in the third quarter. That's up from 9.4% in the second quarter and up from 6.7% in the third quarter of 2008. With more supply comes downward pressure on rents. Tenants seeking new space or relocation are securing rates that would not have been considered two years ago and the terms often include some period of free rent. For investment deals, owner occupants are more popular than in previous years, mostly because access to capital has become so difficult.

Several deals to watch: Rolls-Royce is about to start building its \$100 million jet engine plant in Prince George County. The American Red Cross leased 220,800 sf of warehouse space at Fairgrounds Distribution Buildings on Carolina Avenue in Henrico. Star International Furniture, an international furniture distributor, leased 60,000 sf of warehouse space at Woodlands III in Henrico and Hanover Foil leased the 80,000 sf building located at 301 Hill Carter Parkway in Ashland.

There was one notable sale too. Standex Engraving purchased a 128,809-sf building on Lewis Road from Vantec Inc. for \$4.5 million.

### FORECAST

Economic developers are touting the region and its healthy supply of industrial space to big companies around the world. So far, there have been few nibbles. However, that could change once manufacturers ramp up production, and huge swaths of downtown, riverfront industrial space could find a redeveloper soon, which would drive absorption up dramatically.

Small mom-and-pop users are also starting to become more active, and they are usually the first to come out after a recession has bottomed. That trend might increase in coming quarters, helped by tenants who can negotiate steep discounts with anxious property owners.

### BEAT ON THE STREET



"The economy is soft and the slow market has created opportunities for companies that need space or want to relocate."

-Matt Braun  
Industrial Sales & Leasing

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	4.4%	7.9%	7.7%
Employment Growth	-0.1%	-3.2%	0.5%

Source: Moody's | Economy.com

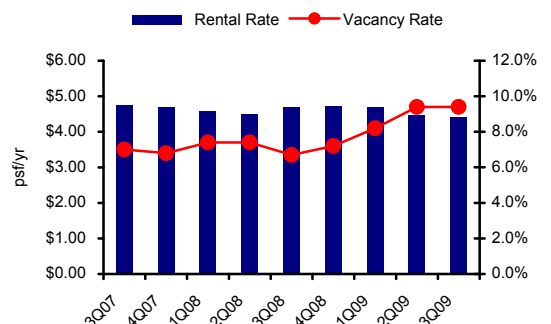
### MARKET FORECAST

**LEASING ACTIVITY** is even with the activity through the same period last year. Most of this is movement within the market, not an influx of new users. ➡

**DIRECT ABSORPTION** is as negative as it has been in recent memory. With no significant new construction on the horizon, this will level out as the economy improves. ➡

**CONSTRUCTION** activity is still non-existent and will remain so until absorption turns positive. ↓

### OVERALL RENTAL VS. VACANCY RATES



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### 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	875,589	53	1.4%	0	0	0	15,294	N/A	N/A	N/A	\$4.42
Northeast	13,658,049	480	6.8%	771,868	0	0	(89,983)	\$4.11	\$3.73	\$10.43	\$4.64
Northwest	25,242,189	895	9.2%	879,356	0	40,890	(187,728)	\$4.20	\$4.10	\$7.88	\$5.80
Southeast	17,549,170	254	18.4%	1,048,892	0	18,900	(1,972,153)	\$4.25	\$5.50	\$6.60	\$4.20
Southwest	47,790,240	1,075	10.0%	441,873	0	115,202	(1,308,101)	\$3.91	\$3.73	\$7.53	\$4.65
<b>TOTAL</b>	<b>105,115,237</b>	<b>2,757</b>	<b>10.7%</b>	<b>3,141,989</b>	<b>0</b>	<b>174,992</b>	<b>(3,542,671)</b>	<b>\$4.10</b>	<b>\$3.84</b>	<b>\$7.88</b>	<b>\$4.23</b>
								<b>3Q09</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Distribution	21,531,904	206	14.1%	1,786,106	0	0	(616,060)	\$4.10	\$4.23	\$4.18	\$4.24
Manufacturing	27,442,470	366	11.2%	233,707	0	0	(2,170,022)	\$3.84	\$4.48	\$3.74	\$3.17
Flex	10,721,537	426	11.1%	496,100	0	134,102	(7,852)	\$7.88	\$8.50	\$8.58	\$9.13
General Industrial	45,419,326	1,759	9.8%	626,076	0	40,890	(748,737)	\$4.23	\$5.20	\$6.02	\$4.25
<b>TOTAL</b>	<b>105,115,237</b>	<b>2,757</b>	<b>10.7%</b>	<b>3,141,989</b>	<b>0</b>	<b>174,992</b>	<b>(3,542,671)</b>	<b>\$4.41</b>	<b>\$4.72</b>	<b>\$4.67</b>	<b>\$4.65</b>

\*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
4443 Carolina Avenue	Labumum/ Rt 360	American National Red Cross	220,800	Distribution
301 Hill Carter Parkway	I-95 N Ashland	Hanover Foils, Inc.	80,000	Warehouse
Interport Business Center	Airport	Prologix Distribution Services, LLC	65,789	Distribution
Woodlands III	Airport	Star International Furniture	60,000	Warehouse
Enterchange @ Northlake, C	I-95 N Ashland	The Kane Company	48,539	Flex

#### SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5901 Lewis Road	Airport	Standex Engraving	129,000	\$4,500,000
2921 Byrdhill Road	Staples Mill/ Parham	Richmond Volleyball Club	73,500	\$2,400,000
Lakeridge Park	I-95 N Ashland	Q-T Realty LLC	18,000	\$1,200,000
2102 Ruffin Road	Jeff Davis Corridor	Mark Pennington	11,300	\$380,000

#### SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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

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