MARKETBEAT

RICHMOND, VIRGINIA INDUSTRIAL REPORT

Thalhimer commercial real estate

4Q09

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMY

Richmond's economy – like that of the nation – is in rebound mode. The unemployment rate for Richmond fell for the second quarter in a row. In November, the non-seasonally adjusted rate was 7.5%. That is down from 7.7% in the third quarter and 8.3% in the second quarter. It is also well below the 10.0% national unemployment rate. However, the current rate is still more than double the 3.4% unemployment rate for the Richmond region in the fourth quarter of 2007.

Several closures in 2009 will continue to affect the industrial economy in 2010, particularly the loss of Qimonda's computer chip manufacturing facility in Sandston and the closure of the Reynolds Packaging Group's aluminum foil plants. The Port of Richmond's main shipping line, ICL, also pulled out in 2009.

OVERVIEW

Activity picked up at the end of the year, and vacated facilities are finding new life. In particular, refrigeration producer Hill Phoenix leased 317,319 square feet (sf) in the former Rehrig shopping cart plant in Chesterfield. Rehrig went out of business at the end of 2008 when its creditors refused to lend more money. A handful of other big deals were inked in the fourth quarter. The Red Cross leased 220,800 sf at the Fairgrounds Distribution Center. Star International Furniture leased 60,000 sf at the Woodlands III in Sandston and Abilene Motors Express bought a 90,800-sf distribution building at 880 W. Roslyn Road in Colonial Heights for $3.27 million.

Nevertheless, despite a flurry of deals, the vacancy rate rose to 10.9% in the fourth quarter, up from 10.7% in the third quarter and up from 7.2% in the fourth quarter of 2008. Absorption was a negative 3.5 million square feet (msf) in 2009. That figure was 335,000 sf to the positive in 2008. Effective rents fell throughout 2009 as property owners, initially hesitant to lower rents too much, offered increasingly generous concessions to tenants. Typically, that meant several months of free rent on a three- or five-year lease. Those concessions seem to be stabilizing.

FORECAST

The massive amount of space that was vacated last year represents a substantial correction to the market and has created abundant opportunities for companies seeking industrial space. With considerable supply available, there will be very little new construction in 2010.

As predicted in previous reports, smaller users in stable industries are inquiring more often about their options and are more willing to try to lock in near-record-low prices. That trend will likely increase in coming quarters, especially if consumer confidence returns and orders for goods rebound.

One big trend to watch in coming years: A handful of big industrial properties has been for sale around Richmond and might be transformed for other uses, such as retail or residential. The Reynolds Metals plants on both sides of the James River in downtown Richmond were for sale, as were the Greater Richmond Transportation Authority's bus depot on Cary Street in the Fan District and a former Wyeth plant near Interstate 95 near the Diamond. When those properties start to be redeveloped and more tenants start buying properties or signing leases, absorption will be in positive figures again, although it's hard to say whether that will happen in 2010 or later in the decade.

BEAT ON THE STREET

"Opportunities for great real estate are available for businesses emerging from the recession."

-Jeff Cooke, SIOR
Senior Vice President

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	4.4%	7.5%	7.0%
Employment Growth	0.1%	-3.2%	1.2%

Source: Moody's | Economy.com

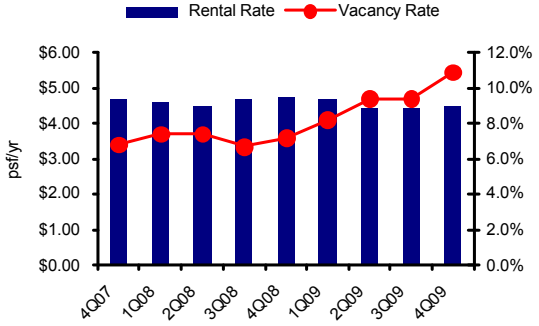
MARKET FORECAST

LEASING ACTIVITY continues to hold steady. It is off of peak levels seen a few years ago, but should stay in this range and not fall off any more.

DIRECT ABSORPTION was as negative in 2009 as it has been in recent memory. Predictions are for 2010 to see flat absorption levels.

CONSTRUCTION activity is not going to resume in the near future. Currently there are no significant new projects under construction.

OVERALL RENTAL VS. VACANCY RATES



An independently owned and operated member of the CUSHMAN & WAKEFIELD ALLIANCE

MARKETBEAT RICHMOND, VIRGINIA INDUSTRIAL REPORT 4Q09

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	1,085,552	55	1.1%	0	0	0	15,294	N/A	N/A	N/A	$4.42
Northeast	13,732,885	484	6.8%	886,618	0	0	(52,872)	$4.43	$3.70	$9.91	$4.42
Northwest	25,271,113	896	9.6%	1,151,872	0	40,890	(291,183)	$4.39	$3.74	$8.18	$5.65
Southeast	17,580,700	256	18.5%	1,171,414	0	18,900	(2,010,732)	$4.28	$5.50	$6.69	$4.71
Southwest	47,578,848	1,076	10.1%	1,260,136	28,500	115,202	(1,141,933)	$3.65	$3.56	$7.59	$4.29
TOTAL	**105,249,098**	**2,767**	**10.9%**	**4,470,040**	**28,500**	**174,992**	**(3,481,426)**	**$4.07**	**$3.68**	**$8.00**	**$4.35**
								2009	**2008**	**2007**	**2006**
Distribution	20,930,996	205	15.2%	2,020,889	0	0	(725,136)	$4.07	$4.23	$4.18	$4.24
Manufacturing	27,320,814	365	10.8%	827,263	0	0	(2,163,696)	$3.68	$4.48	$3.74	$3.17
Flex	10,467,249	423	11.8%	706,369	28,500	134,102	(24,457)	$8.00	$8.50	$8.58	$9.13
General Industrial	46,530,039	1,774	7.8%	915,519	0	40,890	(568,137)	$4.35	$5.20	$6.02	$4.25
TOTAL	**105,249,098**	**2,767**	**10.9%**	**4,470,040**	**28,500**	**174,992**	**(3,481,426)**	**$4.47**	**$4.72**	**$4.67**	**$4.65**

*Rental rates reflect $psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1301 Battery Brooke Parkway	Jeff Davis Corridor	Hill Phoenix	317,319	Manufacturing
4443 Carolina Avenue	Laburnum/ Rt 360	American National Red Cross	220,800	Distribution
17320 Washington Highway	I-95 N Ashland	Diamond Hill Plywood	150,000	Distribution
7415 Midlothian Turnpike	Midlothian East	UPS	85,018	Flex
301 Hill Carter Parkway	I-95 N Ashland	Hanover Foils, Inc.	80,000	Warehouse
540 Eastpart Court	Airport	Star International Furniture	60,000	Industrial Service
SIGNIFICANT 2009 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5901 Lewis Road	Airport	Standex Engraving	129,000	$4,500,000
3205-9 W Moore St. & 3210 W Leigh St.	Scotts Addition/ West End	French Acquisitions	117,750	$600,000
S&K Headquarters	West End	11100 West Broad LLC	104,400	$5,850,000
880 W. Roslyn Road	TriCities	Abilene Motor Express, Inc.	90,800	$3,270,000
SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Ruffin Mill Center-16025	I-95 S/ I-295 S/ Rt 10	N/ A	45,600	4/ 09
1000-1060 Port Walthall Drive	I-95 S/ I-295 S/ Rt 10	N/ A	30,000	5/ 09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/ A				

Thalhimer commercial real estate

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.

©2009 Thalhimer, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.