

MARKETBEAT

RICHMOND, VIRGINIA OFFICE REPORT

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ECONOMY

Businesses seem far more comfortable than at this time last year, when the financial markets almost collapsed the economy. The unemployment rate for Richmond had fallen for two consecutive quarters, but ticked up slightly in November to 7.5. That is down from 7.7% in the third quarter and 8.3% in the second quarter. However, the current rate is still more than double the 3.2% rate in the fourth quarter of 2007. And the chances of rapid growth seem slim with several major employers out of business and others having left town with corporate relocations. Companies will be slow to hire until they feel more confident about their business projections. The state of Virginia, one of the largest office users in Richmond, will be cutting more positions to balance its budget.

OVERVIEW

About the same amount of space was leased in 2009 as the previous year, but because so many tenants closed or downsized, absorption was a negative 1.3 million square feet (msf) in 2009. In 2008, absorption was 300,000 square feet (sf). That extra space has pushed vacancy up to 11.2% from 9.1% in the fourth quarter of 2008, but down from 13.3% in the third quarter of 2009.

Vacancy at Innsbrook, one of the biggest office submarkets in Richmond, is at just over 27%. It might take a few years for that figure to decrease significantly because many of the buildings are suited for large-use tenants and include the former headquarters of both Circuit City and LandAmerica. Landlords are generally unwilling to subdivide those spaces. But the vacancy creates an opportunity for economic developers to make a stronger pitch to companies considering relocating, according to officials at the Greater Richmond Partnership.

Several big leases were signed in the fourth quarter. The law firm Sands Anderson Marks and Miller leased 38,000 sf at the Bank of America Center on East Main Street downtown. And BB&T, a regional bank, leased 140,000 sf in Riverfront Plaza. Also of note, MeadWestvaco started moving into its new headquarters downtown.

FORECAST

More potential tenants are inquiring about their options. That's the first sign that business owners are feeling more confident and might start the process that leads to a sale or a lease. But in the short term, vacancy can be expected to rise for another quarter or two. In addition, there is uncertainty in the capital markets, particularly how some of these properties will be able to refinance loans that are coming due. Due to stricter lending requirements, owners may be forced to come up with more equity out-of-pocket or be forced to return the property to the lender.

Tenants are getting used to concessions on their leases, but those perks will slowly start to dissipate as demand rebounds for smaller-block space, which was not as impacted in the recession as tenants generally believe. That means asking rates will likely hold steady in 2010, and absorption should be improved from 2009, especially with much less new space coming online.

BEAT ON THE STREET



"One of the biggest impacts on the office market this year was the bankruptcy of major corporations. We don't foresee any more major closures on the horizon, so the market should be able to begin absorbing some of the current vacancy."

-Mac Wilson
Office Sales & Leasing


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%


Regional	2008	2009F	2010F
Unemployment	4.4%	7.5%	7.0%
Employment Growth	0.1%	-3.2%	1.2%

Source: Moody's | Economy.com

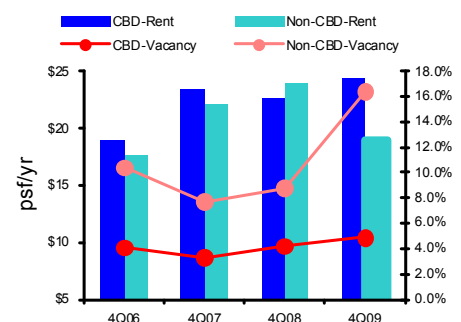
MARKET FORECAST

LEASING ACTIVITY is up from previous quarters. While it will take a while to return to previous levels, it is headed in the right direction. 

DIRECT ABSORPTION will likely be flat after one of the worst years in recent memory. There is increased leasing activity and little construction, which will help absorption. 

CONSTRUCTION will continue to be slow until the economy is well into a recovery. 

DIRECT CLASS A RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

*Rental rates reflect \$psf/year

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	11,353,250	95	10.1%	8.8%	430,664	210,000	331,128	204,136	\$24.33
East End	585,144	97	4.8%	4.8%	1,500	0	0	(4,975)	N/A
Far West End	621,452	57	13.4%	13.4%	14,608	0	0	(22,888)	N/A
Glenside/Broad Street	4,573,764	124	8.2%	7.7%	222,134	0	95,000	71,304	\$20.55
Hull Street Corridor	2,424,037	129	3.1%	3.1%	16,860	0	0	(9,170)	N/A
I-95 N/Ashland	629,146	74	13.7%	12.7%	7,940	0	0	(33,296)	N/A
I-95 N/Chamberlayne	456,974	44	3.0%	3.0%	9,003	0	6,178	15,806	N/A
Innsbrook	8,134,048	170	27.1%	23.3%	387,709	0	3,801	(1,332,660)	\$19.09
Iron Bridge Corridor	1,555,215	139	8.9%	7.6%	16,338	0	0	7,633	\$17.00
Lakeside	447,086	70	20.2%	20.2%	11,853	0	0	(57,578)	N/A
Mechanicsville	893,279	105	11.3%	10.5%	10,800	0	22,461	2,576	\$18.12
Midlothian Corridor	4,144,176	218	14.2%	13.6%	184,271	0	0	(10,321)	\$17.91
Monroe Ward	2,658,189	165	5.7%	5.7%	30,871	0	0	(33,487)	N/A
Near West End	2,017,781	273	8.4%	8.2%	42,339	0	0	(5,438)	N/A
North Broad	2,615,215	82	8.6%	8.6%	12,180	0	0	(28,795)	N/A
Northside	236,239	58	2.1%	2.1%	7,200	0	0	86	N/A
Parham East	2,414,654	85	1.3%	1.3%	19,027	0	0	44,737	N/A
Parham South	946,892	68	12.8%	11.8%	32,284	0	0	(29,057)	N/A
Rt 288 Corridor	1,561,893	124	12.6%	12.0%	34,593	0	7,500	5,128	\$21.18
Shockoe Bottom	1,541,430	36	3.1%	3.1%	42,031	0	0	10,068	\$22.50
Stony Point/Huguenot	1,450,032	131	5.6%	5.0%	32,216	0	0	34,593	\$17.21
West Creek	1,501,263	11	0.2%	0.2%	0	0	0	(2,268)	N/A
West End	3,541,932	257	10.3%	10.3%	133,465	0	0	(138,948)	\$16.50
RICHMOND TOTAL	56,303,091	2,612	11.2%	10.2%	1,699,886	210,000	466,068	(1,312,814)	\$19.90

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Riverfront Plaza	CBD	BB&T	140,000	A
Bank of America Center	CBD	Sands Anderson Marks & Miller	38,000	B
2151 Old Brick Road	Far West End	South University	30,000	A
East Shore III	Innsbrook	Admiral Americas	26,610	A

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Midlothian Center	Midlothian Corridor	The Cotswold Group, Inc.	146,305	\$7,000,000
13470 Tredegar Lake Parkway	Rt 288 Corridor	Surgical Associates of Richmond	10,000	\$1,349,595
2702 N. Parham Road	Parham South	Peoples Bank of Virginia	18,000	\$1,000,000

SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	331,128	12/09
Forest Medical Plaza	Glenside/Broad Street	HCA	95,000	4/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Williams Mullen	CBD	Williams Mullen	210,000	5/10



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

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