

MARKETBEAT

RICHMOND OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

1Q10

ECONOMY

Economists have pronounced the recession over, but that doesn't mean employers are rushing to restore the thousands of jobs they have cut over the past 18 months. The unemployment rate isn't showing much improvement, rising to a non-seasonally adjusted 8.6% in February 2010. That's above the state average of 7.7%. More encouragingly, first-time unemployment claims in Virginia were down 22% in February from the same month last year. The pace of business bankruptcies has also slowed, and many large companies have huge cash stockpiles, which suggests that they will start reinvesting in their businesses in coming quarters.

OVERVIEW

Some Richmond submarkets are recovering faster than others. Absorption for the Central Business District was 42,000 square feet (sf) in the first quarter. That's a marked improvement from the first quarter of 2009, when absorption was a negative 248,000 sf.

Brokers are also seeing more interest in some of the big blocks of space at Innsbrook, where vacancy is more than 25%. Larger users are considering these large blocks ahead of current lease expirations since landlords are offering attractive deal terms, especially for the larger user. Markel leased 42,500 sf for 18 months in the former LandAmerica headquarters building at Innsbrook. The owner, Franklin Street Properties, has rebranded the complex as FSP Innsbrook. Also of note, the Martin Agency subleased 18,000 sf in the James Center for back-office support functions.

Vacancy for the region is 11.3%, up a hair from 11.2% last quarter and 9.0% in the first quarter of 2009. Average rents, meanwhile, have fallen to \$16.52 per square foot (psf) from \$17.01 last quarter.

Investment sales are slower than in years past, but the Commonwealth of Virginia continues to buy office buildings. It paid \$9.7 million this quarter for an old 122,815-sf Circuit City call center in the Dabney Center Industrial Park owned by Brandywine Realty Trust.

FORECAST

Tenants are getting bolder about leasing new space. For some smaller offices, that has meant trying to upgrade to class A space at the same rates previously paid for class B. That trend will likely continue, as there are plenty of subleases available for tenants looking for less than 10,000 sf. Although the amount of sublease space is still at historic highs, it has stopped growing and is lower than in previous quarters.

Big companies will remain cautious until they see a clear economic recovery, but leasing figures are already showing more activity, with 349,515 sf leased in the first quarter of 2010, up almost 30% from the 273,000 sf leased in the first quarter of 2009.

BEAT ON THE STREET



"Landlords are favoring shorter-term deals now because they think the market will soon turn and they don't want to lock in below-market rates."


-Dean Meyer, CCIM, SIOR
Senior Vice President


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%
Regional			
Unemployment	6.7%	8.4%	6.9%
Employment Growth	-3.2%	0.5%	2.5%

Source: Moody's | Economy.com

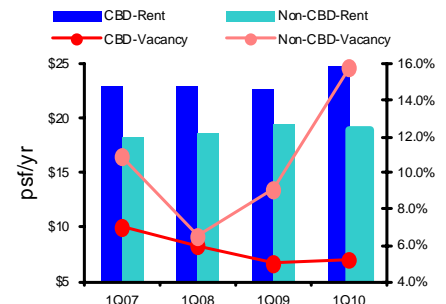
MARKET FORECAST

LEASING ACTIVITY continues to rebound. It is the highest first quarter leasing activity since 2007. 

DIRECT ABSORPTION remains negative. Near-term absorption levels should remain flat, with higher levels anticipated later in 2010 or early 2011. 

CONSTRUCTION is slow, which will aid the recovery. There is little risk of overbuilding hampering any sort of recovery. 

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 DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	11,264,352	94	13.1%	11.5%	16,867	231,000	0	(3,772)	41,954	\$24.83
East End	580,144	96	5.4%	5.4%	0	0	0	(3,375)	(3,375)	N/A
Far West End	725,377	64	6.3%	6.3%	72,069	0	0	56,574	56,574	\$18.75
Glenside/Broad Street	4,574,734	123	7.2%	6.7%	84,240	0	0	(6,650)	(6,224)	\$20.13
Hull Street Corridor	2,424,745	129	3.1%	3.1%	100	0	0	(2,816)	(2,816)	N/A
I-95 N/Ashland	632,146	74	13.1%	12.1%	3,985	0	0	3,801	3,801	N/A
I-95 N/Chamberlayne	456,974	44	5.2%	5.2%	3,000	7,278	0	(10,004)	(10,004)	N/A
Innsbrook	8,076,866	168	25.4%	23.9%	47,157	9,296	0	(180,631)	(52,839)	\$18.78
Iron Bridge Corridor	1,570,887	142	9.1%	7.8%	2,683	0	0	(1,077)	(77)	\$17.00
Lakeside	359,138	69	4.7%	4.7%	1,260	0	0	9,308	9,308	N/A
Mechanicsville	942,555	107	14.7%	14.0%	9,100	0	0	(39,236)	(39,236)	\$18.05
Middlethian Corridor	4,151,522	220	13.7%	13.0%	47,166	0	0	7,860	2,559	\$17.93
Monroe Ward	2,637,986	164	6.5%	6.5%	8,050	0	0	(19,830)	(19,830)	N/A
Near West End	2,017,398	272	8.8%	8.5%	1,900	0	0	(5,732)	(6,999)	N/A
North Broad	2,615,215	82	8.5%	8.5%	0	0	0	1,394	1,394	N/A
Northside	236,222	58	5.3%	5.3%	2,214	0	0	(9,913)	(9,913)	N/A
Parham East	2,418,359	85	1.6%	1.6%	1,013	0	0	(7,314)	(7,314)	N/A
Parham South	978,271	72	17.1%	15.9%	9,527	0	0	(44,358)	(46,546)	N/A
Rt 288 Corridor	1,582,533	126	11.6%	10.7%	5,973	6,800	4,800	21,913	17,258	\$21.21
Shockoe Bottom	1,541,430	36	5.6%	5.6%	0	0	0	(15,593)	(15,593)	\$22.50
Stony Point/Huguenot	1,449,661	131	7.6%	6.6%	8,639	0	0	(26,042)	(31,485)	\$18.67
West Creek	1,721,463	13	0.2%	0.2%	0	0	0	(682)	(682)	N/A
West End	3,554,902	258	6.9%	6.9%	24,572	0	0	990	990	\$16.50
RICHMOND TOTAL	56,512,880	2,627	11.3%	10.6%	349,515	254,374	4,800	(275,185)	(119,095)	\$19.60

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
11100 W. Broad Street	Far West End	Stratford University	52,020	B
5600 Cox Road	Innsbrook	Markel	42,500	A
10448 Lakeridge Parkway	I-95 N/Ashland	Wachovia	23,717	B
4900 Cox Road	Innsbrook	Central VA Health Network	18,470	B

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Westmoreland Plaza	West End	Commonwealth of VA	121,815	\$9,700,000

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Williams Mullen	CBD	Williams Mullen	231,000	6/10



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

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