

MARKETBEAT

RICHMOND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q10

ECONOMY

Economists and prognosticators are fiercely debating whether the nation is in a recovery or entering a so-called “double-dip” recession, especially as the stimulus wanes and jitters from deficit spending in Europe and here in the U.S. sow more fear than a quarter or two ago.

The unemployment rate for Richmond rose slightly to 7.6% in May, which was down from a peak of 8.6% in the first quarter and lower than the national unemployment rate of 9.3%. Some of that improvement might have come from the hiring of temporary census workers.

Businesses continue to report difficulty in borrowing money for expansion or for hiring workers. An interesting trend is emerging with thrifty startups and small offices: Many used to use flex space as their offices, but with the rent prices in traditional office properties dropping, they are no longer using flex, eliminating one sort of tenant from the market.

OVERVIEW

Vacancy in the second quarter rose to 11.2%, up from 9.4% in the second quarter of 2009. Leasing activity was about half of last year’s amount: 1.1 million square feet (msf) versus 2.2 msf, respectively.

On a more encouraging note, absorption might be improving. That figure was a negative 1.0 msf in the second quarter, half the negative 2.3 msf of absorption in the second quarter of 2009, which would suggest that tenants are vacating space at a decreasing rate.

Several larger deals were inked this quarter. GSA, which leases space for government agencies, leased 130,000 square feet (sf) on Bermuda Hundred Road in Chester, and East End Landfill leased 55,000 sf on Beulah Road in Richmond.

Average asking rents dropped to \$4.40, down slightly from \$4.45 per square foot (psf) in the second quarter of 2009. Although with concessions such as free rent and better tenant improvement packages, tenants are getting even lower effective rates than a year or two ago.

FORECAST

Rents and vacancy are probably close to their low points. There are several developments worth watching: Pfizer is looking to market their former Wyeth facilities, including one off Interstate 95 in downtown Richmond that Virginia Commonwealth University is rumored to be interested in.

Also worth watching for transportation businesses is the Port of Richmond, which reported this quarter that it needed to borrow \$1 million from the City of Richmond to pay its bills. Container traffic at that port has fallen dramatically after three of four ships pulled out and moved to other ports.

BEAT ON THE STREET



“There are many opportunities available for tenants looking to expand or move. In the recent past there were limited options, today tenants have several spaces to choose from.”

-Evan Magrill, SIOR
Senior Vice President

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	7.5%	8.2%	7.6%
Employment Growth	-4.1%	-1.1%	1.2%

Source: Moody’s | Economy.com

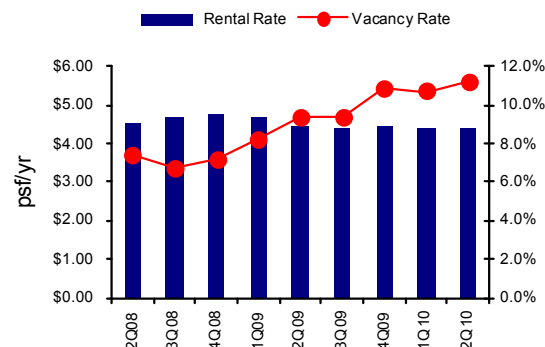
MARKET FORECAST

LEASING ACTIVITY is down from one year ago. There is some increased activity from smaller tenants, but the larger users are less visible. ↓

DIRECT ABSORPTION is still negative, but better than this time last year. Absorption will likely remain flat before turning positive sometime next year. ↔

VACANCY RATE: The vacancy rate continues to slowly creep upward, in line with the lower levels of leasing activity and negative absorption. ↑

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	1,125,342	55	1.7%	0	0	0	(6,600)	N/A	N/A	N/A	\$4.42
Northeast	13,752,178	486	10.0%	85,018	8,738	0	(289,539)	\$4.19	\$3.52	\$9.64	\$4.25
Northwest	25,529,271	903	10.9%	316,222	0	0	(398,698)	\$4.58	\$2.57	\$7.70	\$5.47
Southeast	17,573,892	257	14.8%	137,826	0	0	212,940	\$4.41	\$3.25	\$6.50	\$4.79
Southwest	48,452,504	1,080	10.6%	574,420	0	28,500	(522,987)	\$3.57	\$3.65	\$7.42	\$4.68
TOTAL	106,433,187	2,781	11.2%	1,113,486	8,738	28,500	(1,004,884)	\$3.98	\$3.36	\$7.67	\$4.56
								2Q10	2009	2008	2007
Distribution	20,860,612	201	16.0%	283,378	0	0	(426,430)	\$3.98	\$4.14	\$4.12	\$4.28
Manufacturing	27,708,045	366	9.8%	201,234	0	0	183,761	\$3.36	\$4.05	\$3.85	\$3.70
Flex	10,303,855	417	14.8%	249,923	8,738	28,500	(182,030)	\$7.67	\$7.86	\$8.43	\$9.03
General Industrial	47,560,675	1,797	9.0%	378,951	0	0	(580,185)	\$4.56	\$4.15	\$5.55	\$7.26
TOTAL	106,433,187	2,781	11.2%	1,113,486	8,738	28,500	(1,004,884)	\$4.40	\$4.45	\$4.58	\$4.74

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2101 Bermuda Hundred Road	I-95 S/ I-295 S/ Rt 10	GSA	130,000	Distribution
6380 Beulah Road	Airport	The East End Landfill LLC	55,000	Warehouse
11200 Old Stage Road	I-95 S/ I-295 S/ Rt 10	Dupont Teijin	50,000	Distribution
3035 Transport Street	Jeff Davis Corridor	Planned Furniture Promotions	25,000	Warehouse
3031 Transport Street	Jeff Davis Corridor	Sunrise Construction, LLC	20,000	Distribution
SIGNIFICANT 2Q10 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5710 S. Laburnum Avenue	Airport	Smurfit-Stone Container Enterprises, Inc.	315,696	\$6,080,000
315 Maury St. & 700 Commerce Rd.	Jeff Davis Corridor	Manchester Leaf, LLC	95,000	\$1,675,000
1300 Mactavish Avenue	Scott's Addition/ West End	ADC II LLC	62,722	\$1,450,000
Air Park Commons	I-95 N/ Mechanicsville	Hanover County	52,800	\$1,720,000
SIGNIFICANT 2Q10 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				



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