

MARKETBEAT

RICHMOND OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

2Q10

ECONOMY

The economy is technically in a recovery, but new jobs remain scarce. The unemployment rate for Richmond rose slightly to 7.6% in May, which is 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, and surveys of small businesses report that the economy does not appear to be improving.

Businesses continue to report difficulty in borrowing money for expansion or for hiring new workers. Bankers say there are fewer “creditworthy” borrowers. Political uncertainty in Europe, and increasingly the United States, is leading to skittishness among businesses.

OVERVIEW

Brokers are reporting that more tenants are in the market in the last 18 months. Leasing activity was up 24% through the second quarter, from 655,000 square feet (sf) in 2009 to 815,489 sf in 2010. Yearend leasing activity in 2006 was 1.7 million square feet (msf) and 1.4 msf in 2007.

As in previous quarters, medical users continue to be some of the most active prospects, looking for prime new locations for outpatient offices. For example, Virginia ENT leased 9,000 sf, Surgical Associates of Richmond leased space in the Waterford Medical Park with a July 1st move-in date, and Bon Secours, a major health system in Richmond, closed on 15 acres of land zoned for 200,000 sf of new construction medical space at the Watkins Center in Midlothian.

Perhaps the biggest news, however, was the opening of the \$62-million, 16-story, 210,000-sf Williams Mullen building downtown. Williams Mullen, a Richmond-based law firm, will occupy 140,000 sf. Approximately 58,000 sf of office space remains available in the project.

Absorption was a negative 347,000 sf through the second quarter, but that is an enormous improvement over the 1.0 msf of negative absorption in the second quarter of 2009. Still, vacancy nudged up to 11.6% in the second quarter. It was 9.8% in the second quarter of 2009.

FORECAST

For the remainder of 2010, look for tenants to want to sign longer deals – seven to ten years in some cases – so they can lock in decades-low rents. Landlords want to keep the leases short, around three years, so they can see some price appreciation when the economy rebounds. With more tenants out looking at space and little to no new space hitting the marketplace, absorption should become positive in coming quarters. Vacancy is probably nearing its high, although political instability in the past few months has injected a new level of uncertainty into the business climate. Health care seems to be immune so far to the fallout from the federal health-care legislation, and that trend should continue.

BEAT ON THE STREET



“Rents have hit or are near the bottom, and there are more and more prospects looking in the marketplace.”

-Mark Douglas, CCIM, MCR.h, SIOR
Senior Vice President

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.9%	2.1%
Regional			
Unemployment	7.5%	8.2%	7.6%
Employment Growth	-3.2%	0.5%	2.5%

Source: Moody's | Economy.com

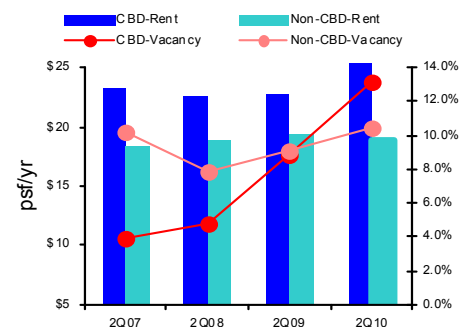
MARKET FORECAST

LEASING ACTIVITY is actually on pace with the activity seen in 2007. Although a good sign, better employment numbers are needed to sustain a recovery. ↑

DIRECT ABSORPTION is still negative, but improving over last year. The lack of new construction will speed absorption as leasing activity increases. ↔

CONSTRUCTION is on hold. The excess vacancy and negative absorption are enough to give developers pause, and the tight lending environment ensures dormancy. ↓

DIRECT CLASS A RENTAL VS. VACANCY RATES



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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	11,466,934	95	14.6%	13.2%	42,256	0	231,000	27,915	97,283	\$25.91
East End	595,931	98	5.3%	5.3%	0	0	0	(3,375)	(3,375)	NA
Far West End	786,961	65	6.0%	6.0%	84,012	0	0	52,945	52,945	\$18.75
Glenside/Broad Street	4,579,347	124	7.5%	7.0%	154,298	0	0	(970)	1,936	\$19.76
Hull Street Corridor	2,423,431	129	2.8%	2.8%	7,809	0	0	(511)	(511)	NA
I-95 N/Ashland	636,254	74	11.7%	10.7%	20,213	0	0	(165)	(165)	NA
I-95 N/Chamberlayne	310,647	45	10.1%	10.1%	5,568	0	7,278	(9,661)	(9,661)	NA
Innsbrook	8,100,554	170	25.1%	23.9%	197,475	0	9,296	(231,231)	(83,701)	\$18.96
Iron Bridge Corridor	1,699,807	143	9.2%	8.0%	5,162	0	0	(5,728)	(2,728)	\$17.00
Lakeside	394,193	70	4.4%	4.4%	0	0	0	10,108	10,108	NA
Mechanicsville	1,109,504	110	12.5%	12.1%	11,950	0	0	(9,370)	(7,317)	\$18.00
Midlothian Corridor	4,173,993	219	14.4%	13.6%	115,848	0	0	(28,619)	(34,548)	\$17.97
Monroe Ward	2,625,021	163	5.8%	5.8%	21,510	0	0	(469)	(469)	NA
Near West End	2,021,854	273	9.7%	9.4%	10,055	0	0	(13,454)	(14,721)	NA
North Broad	2,657,403	84	8.0%	8.0%	17,284	0	0	(8,360)	(8,360)	NA
Northside	281,427	59	5.7%	5.7%	2,214	0	0	(11,250)	(11,250)	NA
Parham East	2,387,789	87	2.0%	2.0%	7,253	0	0	(10,813)	(10,813)	NA
Parham South	1,012,193	81	21.0%	19.8%	18,970	0	0	(89,081)	(93,457)	NA
Rt 288 Corridor	1,641,763	127	10.6%	10.2%	15,197	25,297	4,800	28,098	32,259	\$21.04
Shockoe Bottom	1,565,273	36	4.1%	4.1%	14,401	0	0	6,602	6,602	\$22.00
Stony Point/Huguenot	1,471,519	131	7.2%	7.1%	24,242	0	0	(32,275)	(24,529)	\$18.94
West Creek	1,721,463	13	0.1%	0.1%	0	0	0	718	718	NA
West End	3,680,015	260	7.4%	7.4%	39,772	0	0	(18,058)	(18,058)	\$16.50
RICHMOND TOTAL	57,343,276	2,656	11.6%	11.0%	815,489	25,297	252,374	(347,004)	(121,812)	\$20.07

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
10900 Nuckols Road	Innsbrook	Ironworks	34,962	A
4121 Cox Road	Innsbrook	Dominion Due Diligence Group	29,314	B
Westerre IV	Innsbrook	Community Group	13,521	A
Canal Crossing	Shockoe Bottom	Heritage Union	9,800	B

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Watkins Centre	Rt 288 Corridor	Bon Secours, Richmond Health System	15 acres	\$5,250,000
4222 Cox Road	Innsbrook	First Capital Bank	23,805	\$3,500,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

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

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				



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

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