

MARKETBEAT

RICHMOND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

3Q10

ECONOMY

It's official: The recession ended in June 2009, at least according to National Bureau of Economic Research. Businesses do not seem to be celebrating just yet, though. The unemployment rate for Richmond was 7.9% in August, identical to August 2009 and June 2010, the end of last quarter. That is above the state unemployment rate of 7% but well below the national rate of 9.5%. Although the rate of major layoffs has slowed in Richmond, packaging company Smurfit-Stone announced in September that it was closing two plants, which will affect more than 200 employees. As reported in previous quarters, businesses are having difficulty borrowing capital for expansions.

OVERVIEW

Absorption has been negative for nine consecutive quarters, this one included. However, the market is not giving back space at the rate seen earlier this year. Absorption was a negative 105,170 square feet (sf) in the third quarter, less than 10% of the total negative absorption so far this year, when absorption has been a negative 1.3 million square feet (msf). That is also about 30% less than in 2009, when absorption was a negative 3.5 msf. Vacancy rose to 11.4%, up from 11.2% last quarter and 10.7% in the third quarter of 2009. Vacancy is dropping in certain submarkets: for example, it fell to 14.5% in the Southeast submarket from 18.4% in the third quarter of 2009.

As in previous quarters, users, as opposed to investors, are active in purchasing properties. That is because they can get tremendous value and are able to obtain financing more easily. For instance, Party Perfect paid \$2.1 million for a 49,786-sf facility on Marshall Street, and AlphaStone paid \$1 million for a 20,400-sf facility on Dabney Road in Richmond. In new leasing demand, we saw Sunrise Construction lease 53,734 sf on Bells Road in Richmond, and MeadWestvaco Corporation leased 47,859 sf at Airport Distribution in Richmond's East End. Sunrise works as a third party materials handler.

FORECAST

Although the economy is no longer slowing, according to economists, industrial tenants such as distributors and manufacturers are waiting to see a rebound in consumer spending. It is not clear when that might occur. Tenants can still get great terms but, over time, landlords will start holding out for higher rents once they think the economy is on the mend.

BEAT ON THE STREET



"There's been a dramatic resetting of seller and landlord expectations."

-Franklin Bell
Industrial Sales/Leasing

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	7.5%	7.9%	7.3%
Employment Growth	-4.1%	-1.2%	0.6%

Source: Moody's | Economy.com

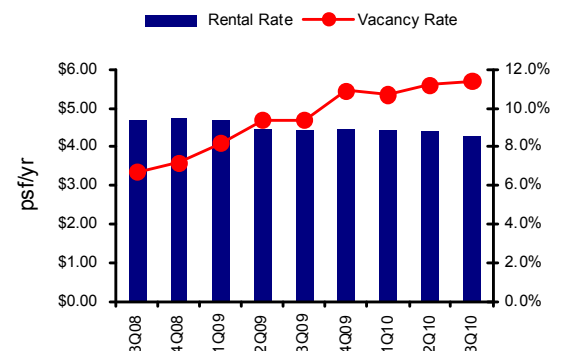
MARKET FORECAST

LEASING ACTIVITY is still little more than half of what it was at the same point last year. ↓

DIRECT ABSORPTION remains negative, although the slope is not as steep. The negative absorption this quarter represented only 1% of the total market. ↔

VACANCY RATE: Vacancy continues to rise, albeit at a slower rate than it did in 2008 and the beginning of 2009. ↑

OVERALL RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD C.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	13,796,325	490	10.1%	186,618	8,738	0	(320,637)	\$3.89	\$3.64	\$9.72	\$4.21
Northwest	25,441,699	906	10.9%	550,647	0	0	(425,338)	\$4.60	\$2.94	\$7.68	\$5.76
Southeast	17,562,431	258	14.5%	326,119	0	0	107,377	\$4.14	\$3.25	\$6.80	\$4.98
Southwest	48,634,359	1,083	11.1%	688,216	0	28,500	(689,634)	\$3.56	\$4.01	\$7.18	\$4.43
TOTAL	106,560,156	2,792	11.4%	1,751,600	8,738	28,500	(1,334,832)	\$3.91	\$3.52	\$7.65	\$4.54
								3Q10	2009	2008	2007
Distribution	20,789,385	200	15.6%	565,812	0	0	(482,300)	\$3.91	\$4.10	\$4.23	\$4.18
Manufacturing	27,842,729	367	9.7%	207,989	0	0	184,838	\$3.52	\$3.84	\$4.48	\$3.74
Flex	10,401,124	424	15.8%	446,352	8,738	28,500	(314,895)	\$7.65	\$7.88	\$8.50	\$8.58
General Industrial	47,526,918	1,801	9.3%	531,447	0	0	(722,475)	\$4.54	\$4.23	\$5.20	\$6.02
TOTAL	106,560,156	2,792	11.4%	1,751,600	8,738	28,500	(1,334,832)	\$4.28	\$4.41	\$4.72	\$4.67

*Rental rates reflect \$psf/year

D = Distribution MF = Manufacturing GI = General Industrial

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2819 Bells Road	Jeff Davis Corridor	Sunrise Construction, LLC	53,734	Warehouse
2500 Distribution Drive	Airport	MeadWestvaco	47,859	Distribution
5600 Eastport Blvd.	Airport	Drytac	33,455	Flex
2200 Station Road	Jeff Davis Corridor	Dominion Southpark	30,690	Distribution
5401 Lewis Road	Airport	Cobblestone Cellars	28,786	Distribution
5600 Eastport Blvd.	Jeff Davis Corridor	Kathrein	26,000	Flex

SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
310 Stockton Street	Jeff Davis Corridor	Bigge Crane	50,000	\$1,500,000
3210 W. Marshall Street	Scott's Addition/ West End	Party Perfect	49,786	\$2,100,000
1901 Dabney Road	Staples Mill/ Parham	AlphaStone LLC	20,400	\$1,040,000

SIGNIFICANT 3Q10 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				



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

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