

# MARKETBEAT

## RICHMOND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

### ECONOMY

Economic indicators are painting an increasingly optimistic picture about an economic recovery. For starters, the U.S. shopper is getting his or her groove back. Holiday sales this year rose 5.5% compared with a year ago, according to MasterCard. That encouraging early trend could eventually boost demand for manufacturing, shipping and storage facilities. New unemployment claims are also falling, and the unemployment rate for Richmond was 7.6% in November, down from 7.9% in the third quarter. Companies are having an easier time borrowing capital than at this time last year.

### OVERVIEW

For only the second time in the past nine quarters, absorption was in positive territory, at 327,220 square feet (sf). That's about six times the absorption in the fourth quarter of 2009, which was the most recent quarter to see positive absorption. The likely reasons: a steady stream of leasing activity and a much slower pace of business closures or relocations. And that's an even bigger feat considering that leasing activity was 2.7 million square feet (msf) in 2010, down 40% percent from the 4.5 msf leased in 2009. The reason for that slowdown this year: Lots of tenants took advantage of historically low market rates and landlord concessions last year, robbing from what would have been 2010 leases.

Still, with more space on the market, landlords are lowering rents to secure tenants. Vacancy rose to 11.4% in the fourth quarter from 10.9% in the fourth quarter of 2009 and 7.2% in the fourth quarter of 2008.

Two huge deals closed in the fourth quarter: The General Services Administration, a governmental agency that handles real estate for the U.S. government and military, signed a lease for 138,834 sf on an industrial property in Chester. And, Zeller & Gmelin Corporation purchased the 83,247-sf industrial building at 4801 Audubon Drive in Henrico County from Independent Container Line Ltd. for \$4.4 million. They will occupy the building in the 1st quarter of 2011. Also of note, Alpha Stone paid \$1.0 million for a 20,400-sf facility on Dabney Road in Richmond.

### OUTLOOK

Over the past year, brokers have seen landlords get even more aggressive about securing tenants, often lowering rental rates 30% from their peak two and three years ago.

With continued slackened demand, rental rates might have a bit farther to fall until activity grows beyond firms renewing existing space. Despite positive absorption in the fourth quarter of 2010, absorption will likely still be slightly negative to flat in 2011, but the markets will be much improved over what we saw in 2009 or 2008. New construction will remain almost nonexistent in 2011. And the leasing of smaller spaces, which never really slowed down, will continue at a healthy pace. Also worth watching in 2011: A Rolls-Royce jet engine plant is coming online in Prince George County, and that could spur some vendor requests for industrial space.

### BEAT ON THE STREET



"This quarter saw positive absorption for the first time in a quite a while."


-Evan Magrill, CCIM, SIOR  
Senior Vice President


### ECONOMIC INDICATORS


National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	7.5%	7.9%	7.6%
Employment Growth	-4.1%	-1.2%	0.4%

Source: Moody's | Economy.com

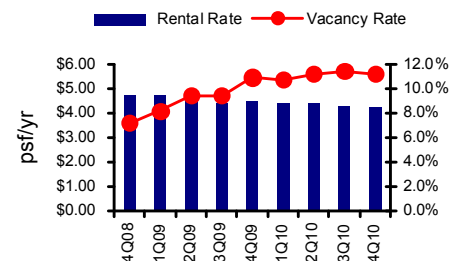
### MARKET FORECAST

**LEASING ACTIVITY** Smaller flex space and larger distribution properties should lead the leasing activity. Don't expect as much in the manufacturing sector. 

**SALES ACTIVITY** Over 10.5 msf are currently available for sale in the market. The coming year should finally see investors taking some of these properties out of the sales inventory. 

**RENTAL RATES** Little movement is expected in asking rates. Effective rates may dip slightly due to landlord concessions such as free rent and tenant improvement allowances. 

### OVERALL RENTAL RATES VS. VACANCY RATES



### MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	D	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
									MF	Flex	GI	
Downtown	1,125,342	55	1.7%	0	0	0	(6,600)	N/A	\$4.95	NA	\$4.42	
Northeast	13,822,937	490	9.9%	228,213	0	8,738	(299,486)	\$3.90	\$3.51	\$9.64	\$4.49	
Northwest	25,344,774	913	10.7%	776,793	0	0	(412,938)	\$3.89	\$2.94	\$7.84	\$5.33	
Southeast	17,668,326	263	13.8%	477,390	0	0	567,685	\$4.16	\$3.37	\$6.86	\$4.75	
Southwest	49,293,049	1,088	11.1%	1,228,824	0	28,500	(854,527)	\$3.62	\$4.01	\$7.34	\$4.38	
<b>TOTAL</b>	<b>107,254,428</b>	<b>2,809</b>	<b>11.2%</b>	<b>2,711,220</b>	<b>0</b>	<b>37,238</b>	<b>(1,005,866)</b>	<b>\$3.81</b>	<b>\$3.51</b>	<b>\$7.77</b>	<b>\$5.80</b>	
<b>TYPE</b>									<b>4Q10</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Distribution	20,786,662	200	15.1%	978,099	0	0	(442,676)	\$3.81	\$4.07	\$4.23	\$4.18	
Manufacturing	28,029,561	366	9.8%	265,189	0	0	450,391	\$3.51	\$3.68	\$4.48	\$3.74	
Flex	10,430,348	426	15.8%	790,733	0	37,238	(316,070)	\$7.77	\$8.00	\$8.50	\$8.58	
General Industrial	48,007,857	1,817	11.1%	677,199	0	0	(697,511)	\$5.80	\$4.35	\$5.20	\$6.02	
<b>TOTAL</b>	<b>107,254,428</b>	<b>2,809</b>	<b>11.2%</b>	<b>2,711,220</b>	<b>0</b>	<b>37,238</b>	<b>(1,005,866)</b>	<b>\$4.26</b>	<b>\$4.47</b>	<b>\$4.72</b>	<b>\$4.67</b>	

\*Rental rates reflect \$psf/year

D=Distribution MF=Manufacturing GI=General Industrial

### MARKET HIGHLIGHTS

SIGNIFICANT 2010 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2101B Bermuda Hundred Rd.	I-95 S/I-295 S/Rt 10	General Services Administration	138,834	Distribution
500 HP Way	I-95 S/I-295 S/Rt 10	Redemtech	115,000	Distribution
4810 Eubank Rd.	Airport	Triple Play Services	85,420	Distribution
4840 Eubank Rd.	Airport	National Delivery Systems, Inc.	78,232	Distribution
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
6000 Technology Blvd.	Airport	Quality Group of Companies	1,364,343	\$12,000,000
5710 S. Laburnum Ave.	Airport	Smurfit-Stone Container Enterprise	315,696	\$6,080,000
4300 Carolina Ave.	Laburnum/Rt 360	Richmond International Raceway, Inc.	221,489	\$7,840,000
4801A Audubon Dr.	Airport	Zeller & Gmelin	83,247	\$4,400,000
SIGNIFICANT 2010 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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\*The market terms and definitions in this report are based on NAIOP standards.

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