

MARKETBEAT

RICHMOND OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

ECONOMY

The local and national economies are stable but not adding new jobs as quickly as is necessary to lower unemployment and speed up a recovery. Unemployment was 7.6% in November, up slightly from 7.5% in 2009 and down from 7.9% this past summer. The flow of hiring news is very different this year. At this time two years ago, major local employers were going out of business and adding thousands of highly skilled white collar workers to the ranks of the unemployed. Now, news of hiring is more common than news of layoffs. In particular, financial services company Capital One has announced that it is adding more than 1,000 workers in Richmond.

A worrisome trend on the horizon is municipal borrowers such as California and Illinois which are having issues with their budgets. Any disturbance in the municipal bond market could have a chilling effect on the economy.

OVERVIEW

The local office market experienced the most leasing activity in three years. Leasing activity was 1.84 million square feet (msf) through the fourth quarter of 2010, up from 1.70 msf in 2009 and 1.65 msf in 2008. Even more encouraging, absorption in 2010 was positive 543,100 square feet (sf). That's a dramatic improvement from 2009, when tenants were going out of business or downsizing and when absorption was a negative 1.3 msf. In 2008, absorption was a paltry 300,000 sf.

Much of the activity in the fourth quarter came from businesses upgrading to newer space downtown. Accounting firm Cherry Bekaert Holland and financial services firm Agincourt Capital leased 21,000 sf and 7,000 sf, respectively, in the Williams Mullen Center. Along with the lead tenant, law firm Williams Mullen, the building is almost fully occupied less than a year since being completed. Also downtown, Swedish Match and Cigna both leased space in the James Center. Other deals of note include Independent Container Line, which leased 28,153 sf in Innsbrook and Mid-Atlantic Convenience Stores leased 23,224 sf in Boulders Center.

Brokers are reporting that their clients are more able to get business financing, and that is leading to more leasing and sales activity. Landlords are taking notice and are slower to offer the generous incentives and rent concessions that were prevalent in 2009.

OUTLOOK

Both office users and investors became more active in the second half of 2010, and that trend should gather steam in 2011. In the fall, DRCC Properties, LLC closed on the former Circuit City headquarters (288,000 sf) in western Henrico and will renovate the building. In Shockoe Slip, an investment firm started by former directors of Wachovia Securities leased the former Richbrau brewpub and plan to convert it into a its new headquarters location. Both those deals show new levels of confidence from local tenants and investors.

With very little new space hitting the market and tremendous leasing activity, absorption is likely to be positive again in 2011, and vacancy should decrease. The steep rent concessions that were needed to get deals inked in 2009 and 2010 will start to fade as landlords get more bullish.

Several firms that had pent up growth needs and felt confident the recession was ending took advantage of the depressed marketplace and its below market rental rates. There will be a consolidation of offices for several larger users in the marketplace that had made short term leasing accommodations and now will try to get under one roof. Active tenants leading the way include engineering, medical, banking, education and insurance.

BEAT ON THE STREET



"Leasing activity is up, owners are holding to their quoted rental rates, but rent concessions still exist. This trend should continue throughout 2011 and until the market stabilizes."

-Austin Newman, SIOR, 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

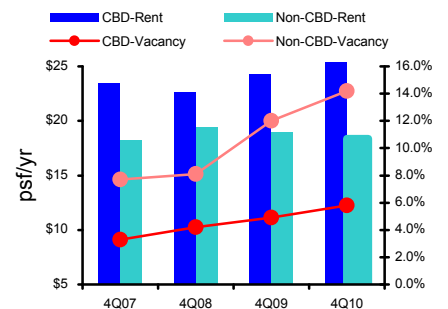
MARKET FORECAST

VACANCY RATE As leasing activity maintains its momentum, expect the vacancy rate to begin to fall given the lack of new construction on the horizon. ↓

DIRECT ABSORPTION After seeing record negative absorption in 2009, absorption has turned positive and will be positive again in 2011. ↑

ASKING RATES In the near term, asking rates will stay flat until landlords decrease concessions such as free rent. Once the market improves and vacancy declines, rents will begin to climb. ↔

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	11,328,548	95	12.6%	11.4%	261,360	0	231,000	149,572	242,290	\$25.40
East End	546,606	98	4.7%	4.7%	551	0	0	(1,444)	(1,444)	N/A
Far West End	817,752	66	5.7%	5.7%	96,048	0	0	54,238	54,238	\$18.75
Glenside/Broad Street	4,574,904	124	8.1%	8.1%	255,259	0	0	(26,349)	(8,652)	\$19.91
Hull Street Corridor	2,474,125	130	4.7%	4.7%	13,936	0	0	(47,544)	(47,544)	N/A
I-95 N/Ashland	655,879	77	8.1%	7.1%	27,187	0	0	30,397	30,397	N/A
I-95 N/Chamberlayne	336,721	48	9.9%	9.9%	9,922	0	7,278	(9,552)	(9,552)	N/A
Innsbrook	8,027,412	177	21.8%	20.6%	441,888	0	9,296	113,586	261,807	\$18.18
Iron Bridge Corridor	1,760,091	152	9.9%	8.7%	25,062	0	0	(20,973)	(17,973)	\$17.09
Lakeside	394,561	70	3.3%	3.3%	1,280	0	0	30,588	30,588	N/A
Mechanicsville	1,113,083	112	15.0%	14.6%	31,226	0	0	(1,680)	373	\$18.00
Midlothian Corridor	4,180,550	219	15.0%	14.1%	284,281	94,846	0	(59,459)	(74,828)	\$18.07
Monroe Ward	2,555,015	163	6.1%	6.1%	37,764	0	0	(4,565)	(4,565)	N/A
Near West End	1,958,668	269	8.9%	8.8%	39,345	0	0	7,302	11,035	N/A
North Broad	2,679,542	86	7.0%	7.0%	47,047	0	0	51,100	51,100	N/A
Northside	302,782	61	3.8%	3.8%	2,214	0	0	(6,536)	(6,536)	N/A
Parham East	2,346,353	87	1.6%	1.6%	32,904	0	0	(1,161)	(1,161)	N/A
Parham South	1,012,193	81	22.6%	21.3%	29,939	0	0	(88,284)	(92,051)	N/A
Rt 288 Corridor	1,668,540	130	10.6%	10.6%	36,314	0	30,097	56,130	56,551	\$19.75
Shockoe Bottom	1,559,540	36	4.0%	4.0%	18,001	0	0	7,496	7,496	\$20.18
Stony Point/Huguenot	1,471,519	131	6.8%	6.1%	73,669	0	0	(28,729)	(28,900)	\$19.06
West Creek	1,722,963	15	0.0%	0.0%	2,550	0	0	2,268	2,268	N/A
West End	3,777,379	262	7.5%	7.5%	69,580	0	0	88,350	88,350	\$16.50
RICHMOND TOTAL	57,264,726	2,689	10.9%	10.3%	1,837,327	94,846	277,671	294,751	543,287	\$19.39

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2010 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG. CLASS
Spring Rock Green	Midlothian Corridor	Virginia College	60,000	NA
11100 W. Broad Street	Far West End	Stratford University	52,020	B
5600 Cox Road	Innsbrook	Marke	42,500	A
10900 Nuckols Road	Innsbrook	Ironworks	34,962	A
4801 Cox Road	Innsbrook	New Cingular Wireless PCS, LLC	31,450	A
5620 Cox Road	Innsbrook	Independent Container Line	28,153	A
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Westmoreland Plaza	West End	Commonwealth of VA	12,1815	\$9,700,000
10750 Wheat First Drive	Innsbrook	Capital One	103,804	\$9,550,244
10700 N. Park Drive	Innsbrook	Capital One	88,584	\$8,149,728
Watkins Centre	Rt 288 Corridor	Bon Secours, Richmond Health System	15 acres	\$5,250,000
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Williams Mullen Headquarters	CBD	Williams Mullen	231,000	6/10
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Ortho Virginia Building	Midlothian Corridor	CJW Medical Center/West End Orthopaedic Clinic	70,000	6/11
Community Health Properties	Innsbrook	Community Health	25,268	3/11



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Thalhimmer
11100 W. Broad St.
Glen Allen, VA 23060
(804) 648-5881
www.thalhimmer.com

*The market terms and definitions in this report are based on NAIOP standards.

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