

MARKETBEAT OFFICE SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Alliance Research Publication



ECONOMIC OVERVIEW

Quarter by quarter, economic indicators are revealing what business owners have been feeling: The economy is on the mend. More and more workers are getting hired and layoffs are fewer and farther between.

The unemployment rate in Virginia fell to 5.8% in January 2012, down from 6.2% in December and 6.4% in January 2011. The Richmond unemployment rate fell to 6.6% in January 2012, down from 6.8% in December and 7.7% in January 2011. With several major local employers ramping up hiring in the coming year — for example, Amazon is building a fulfillment warehouse in Richmond, and financial institutions expanding their local workforces — that should fall further. One trend to watch will be higher gasoline prices and how they might slow consumer spending. But so far, paying around \$4 for a gallon of gas is not curbing consumer spending.

DEAL VOLUME UP

As one broker put it, “For the past few years, smaller tenants had been making decisions out of fear. Now they are more optimistic.”

Deal volume is up dramatically from this time last year, especially on investment sales. For example, California-based investment group Hertz paid \$25 million for a five-building portfolio of properties in Midlothian, and Capital One is building two office buildings at its campus in Goochland.

A more diverse group of businesses are shopping around to upgrade their space. Absorption was 9,516 square feet (sf) for the first quarter, up from a negative 166,000 sf in the first quarter of 2011. Leasing activity was 258,964 sf, down from 480,000 sf in the first quarter of 2011. But with fewer tenants leaving properties, vacancy dipped to 11.0% from 11.1% in the first quarter of last year. Vacancy for Innsbrook has fallen from 20.8% in the first quarter of 2011 to 16.3% in the first quarter of 2012. That might rise a bit when Altria vacates 200,000 sf at WestMark One and consolidates workers in its other office building near Glenside.

OUTLOOK

One trend that’s just starting to emerge again after three or four years: Developers are floating the idea of a new office tower downtown. While a finished deal is far from certain, the proposals show bullishness and could lead to new projects. More specifically, the Reynolds North parcel was sold to private developers who are pushing for a high-rise office building on a pad they’ve identified for

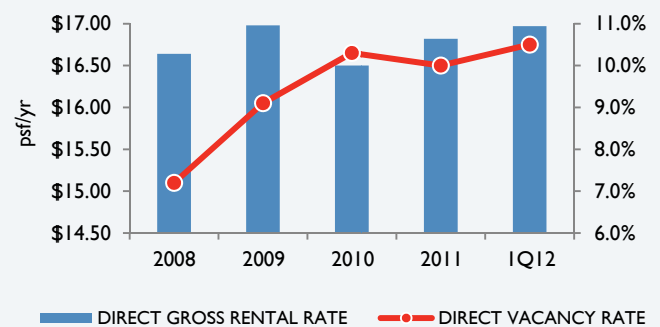
that use. The Reynolds South parcel is under contract by a developer who is also trying to drum up interest for an office component of a mixed-use development. That former aluminum foil plant is being bulldozed.

Brokers are also reporting that rents have stabilized and that tenants continue to upgrade from class B to class A for similar rental rates that they may have paid for class B several years ago. There is also more interest in office condos.

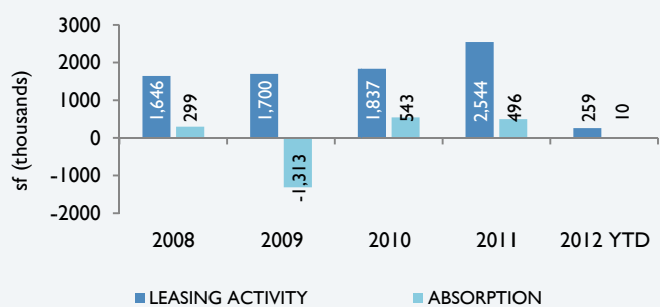
STATS ON THE GO

	IQ11	IQ12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	11.1%	11.0%	-0.1pp	▼
Direct Asking Rents (psf/yr)	\$16.51	\$16.97	2.8%	▲
YTD Leasing Activity (sf)	261,487	258,964	-1.0%	▲

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. ABSORPTION



RICHMOND, VA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG.	
									ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	10,824,998	13.9%	12.8%	25,450	0	0	(22,422)	(18,146)	\$18.62	\$25.36
East End	607,890	3.6%	3.6%	2,640	0	0	24,778	24,778	\$14.46	N/A
Far West End	820,999	5.1%	5.1%	1,517	0	0	(3,000)	(3,000)	\$15.83	\$26.21
Glenside/Broad St	4,645,095	9.3%	8.0%	56,320	55,440	0	(36,186)	28,339	\$18.77	\$20.39
Hull Street Corridor	2,781,956	5.4%	5.4%	1,366	0	0	(9,732)	(9,732)	\$12.14	N/A
I-95 N/Ashland	667,482	10.0%	9.1%	0	0	0	3,018	3,018	\$13.60	N/A
I-95 N/Chamberlayne	347,218	17.2%	17.2%	0	0	0	(3,023)	(3,023)	\$13.38	N/A
Innsbrook	8,322,647	16.3%	16.3%	60,758	0	0	196,318	244,590	\$18.31	\$18.94
Iron Bridge Corridor	1,785,038	12.2%	11.0%	6,091	0	0	5,329	5,329	\$14.07	\$16.41
Lakeside	387,439	9.1%	9.1%	920	0	0	(5,082)	(5,082)	\$11.29	\$12.21
Mechanicsville	1,223,062	12.4%	12.4%	2,811	0	0	(6,780)	(6,780)	\$16.50	N/A
Midlothian Corridor	4,398,486	15.3%	14.5%	27,987	0	0	(51,686)	(51,686)	\$16.31	\$18.05
Monroe Ward	2,561,459	6.9%	6.9%	18,029	0	0	(49,688)	(49,688)	\$15.04	N/A
Near West End	1,974,361	5.2%	5.2%	6,636	0	0	5,392	5,392	\$12.54	N/A
North Broad	3,050,968	4.4%	4.4%	3,450	0	0	3,450	3,450	\$16.90	N/A
Northside	310,216	6.6%	6.6%	0	0	0	0	0	\$12.88	N/A
Parham East	2,660,554	14.7%	14.7%	0	0	0	(28,075)	(28,075)	\$16.63	N/A
Parham South	1,017,607	25.6%	25.2%	1,215	0	0	(79,177)	(79,177)	\$14.07	N/A
Rt 288 Corridor	1,631,942	9.3%	9.1%	9,252	55,000	0	(5,801)	(5,801)	\$16.39	\$20.38
Shockoe Bottom	1,558,670	1.1%	1.1%	2,500	0	0	7,012	7,012	\$15.99	\$20.50
Stony Point/Huguenot	1,482,640	9.6%	6.6%	17,265	0	0	3,673	(14,119)	\$15.37	\$19.39
West Creek	1,740,213	0.0%	0.0%	732	30,000	0	732	732	\$17.71	N/A
West End	3,890,559	9.4%	9.4%	14,025	0	0	(39,439)	(38,815)	\$14.32	\$22.21
TOTALS	58,691,499	11.0%	10.5%	258,964	140,440	0	(90,389)	9,516	\$16.96	\$20.14

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant IQ12 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
The Shops at Willow Lawn	West End	VCU Health System	B	42,373
Innsbrook Corporate Center	Innsbrook	General Electric	A	32,000
Arboretum VII	Midlothian Corridor	Alstom Power, Inc.	B	19,425
Significant IQ12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Parkway Richmond Office Portfolio	Midlothian Corridor	Hertz Investment Group, Inc.	\$25,000,000 / \$61 psf	412,957
9101 Bon Air Crossing Drive	Midlothian Corridor	Laurel Health Care Co.	\$7,550,000 / \$137 psf	55,000
Significant IQ12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
6900 Forest Avenue	Glenside/Broad	NA	2Q12	55,440