

# MARKETBEAT INDUSTRIAL SNAPSHOT

## RICHMOND, VA

A Cushman & Wakefield Alliance Research Publication

Q3 2014



### ECONOMIC OVERVIEW

The Richmond area experienced 51 consecutive months of year-over-year job gains in August 2014. Consistent employment growth helped the area surpass the pre-recession employment peak set in June 2007 by 7,500 jobs in June 2014. Employment growth has correlated with improving industrial sector fundamentals in the Richmond region.

### VACANCY TRENDS

The overall vacancy rate in the Richmond region for industrial properties reached 7.8% in the third quarter down from 9.8% a quarter ago and from the recessionary high of 12.4% in the first quarter of 2011.

Distribution space has particularly tightened with the vacancy rate reaching 5.3% in Q3, a decrease of over 4 percentage points from a year ago. Vacancy for flex space remains the most elevated but recent quarters have seen steady improvements declining from 17.8% to 14.0% over the past two years.

Overall rental rates declined slightly from 2013 to \$4.02 per square foot (psf) due to a decrease in asking rents for class B spaces. Rents for class A space increased 4.5% to \$4.17 psf from a year ago. The overall rental rate will rise as available space continues to tighten.

### ECONOMIC DEVELOPMENT ANNOUNCEMENTS

The Richmond region continues to be a hub for logistics, distribution, and manufacturing. Large multi-market users are exploring the region and are attracted by the low cost of employment, the proximity to large population centers, and the convenient access to an integrated transportation network.

Stone Brewing announced in early October to locate their east coast operations in Richmond. Stone anticipates building a 200,000-square-foot (sf) production brewery equipped with a 250-barrel brewhouse.

Sabra Dipping Co., which makes hummus, is expanding their operations in Chesterfield County. The expansion will add 70 jobs and nearly double production capacity.

Syncreon USA, a global logistics company, moved from Fredericksburg into a 120,000-sf facility in the White Oak Distribution Center in Eastern Henrico County.

### OUTLOOK

Vacancy for class A industrial space was 3.2% in the third quarter of 2014 and rental rates for class A space rose 4.5% compared to a year

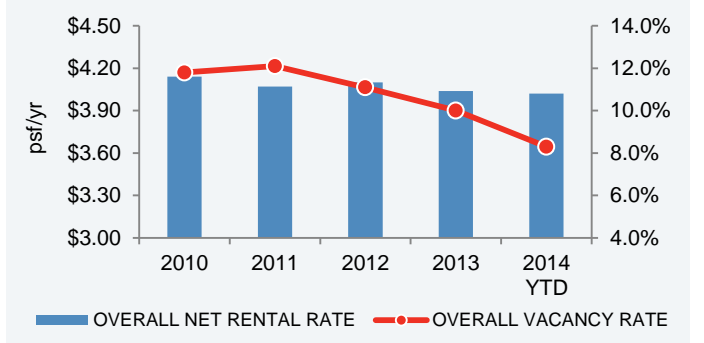
ago. This was the largest yearly increase since CoStar began tracking the data in 2005. Major tenants looking for large blocks of 100,000 sf of available class A space have limited options. About 1.8 million sf of industrial space is under construction, 93% of which is released.

Limited availability will restrain absorption as tenants find it difficult to meet requirements with existing availabilities. More build-to-suit construction will occur as meeting requirements becomes a challenge.

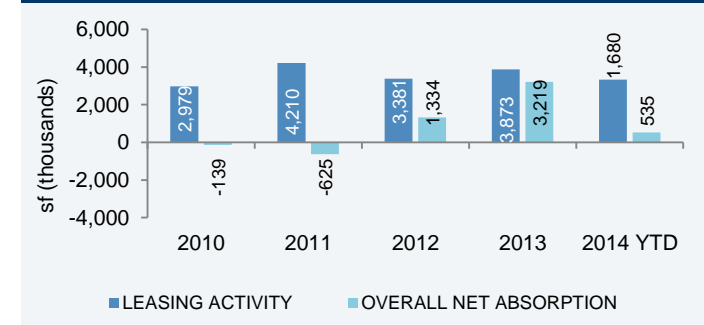
### STATS ON THE GO

|                              | Q3 2013   | Q3 2014   | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|-----------|-----------|--------------|-------------------|
| Overall Vacancy              | 9.8%      | 7.8%      | -2.0pp       | ▼                 |
| Direct Asking Rents (psf/yr) | \$4.01    | \$3.97    | -1.0%        | ▲                 |
| YTD Leasing Activity (sf)    | 2,713,072 | 3,331,998 | 22.8%        | ▲                 |

### OVERALL RENTAL VS. VACANCY RATES



### LEASING ACTIVITY VS. OVERALL NET ABSORPTION



## RICHMOND, VA

| SUBMARKET CLUSTER | INVENTORY         | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | DIRECT WEIGHTED AVERAGE NET RENTAL RATE* |               |               |               |
|-------------------|-------------------|----------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|--|---------------|---------------|---------------|
|                   |                   |                      |                      |                    |                              |                           |                            | D  | MF            | F             | GI            |
| Downtown          | 301,015           | 3.6%                 | 0                    | 0                  | 0                            | 0                         | 0                          | \$0.00                                   | \$0.00        | \$0.00        | \$0.00        |
| Northeast         | 10,783,544        | 2.6%                 | 480,183              | 0                  | 0                            | 352,992                   | 354,792                    | \$4.00                                   | \$2.71        | \$9.77        | \$3.59        |
| Northwest         | 19,186,461        | 7.4%                 | 529,297              | 250,000            | 0                            | 150,266                   | 152,202                    | \$3.01                                   | \$2.33        | \$8.38        | \$4.28        |
| Southeast         | 16,444,289        | 7.8%                 | 1,715,454            | 1,125,452          | 0                            | (59,821)                  | (53,980)                   | \$4.13                                   | \$3.95        | \$6.37        | \$3.58        |
| Southwest         | 41,843,659        | 9.4%                 | 607,064              | 404,200            | 0                            | 84,048                    | 81,991                     | \$3.36                                   | \$4.04        | \$6.66        | \$2.14        |
| <b>TOTALS</b>     | <b>88,558,968</b> | <b>7.8%</b>          | <b>3,331,998</b>     | <b>1,779,652</b>   | <b>0</b>                     | <b>527,485</b>            | <b>535,005</b>             | <b>\$3.72</b>                            | <b>\$3.49</b> | <b>\$8.01</b> | <b>\$3.11</b> |

| PROPERTY TYPE      | INVENTORY         | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | DIRECT WEIGHTED AVERAGE NET RENTAL RATE* |               |               |               |
|--------------------|-------------------|----------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|--|---------------|---------------|---------------|
|                    |                   |                      |                      |                    |                              |                           |                            | Q3 2014                                  | 2013          | 2012          | 2011          |
| Distribution       | 20,933,573        | 5.3%                 | 1,768,996            | 1,375,452          | 0                            | 161,688                   | 161,688                    | \$3.72                                   | \$3.44        | \$3.54        | \$3.70        |
| Manufacturing      | 26,177,884        | 6.1%                 | 331,336              | 0                  | 0                            | 167,015                   | 167,015                    | \$3.49                                   | \$3.41        | \$3.60        | \$3.49        |
| Flex               | 7,654,295         | 14.0%                | 513,291              | 0                  | 0                            | 23,724                    | 31,244                     | \$8.01                                   | \$7.79        | \$8.18        | \$8.08        |
| General Industrial | 33,793,216        | 9.3%                 | 718,375              | 404,200            | 0                            | 175,058                   | 175,058                    | \$3.11                                   | \$3.13        | \$3.24        | \$3.21        |
| <b>TOTALS</b>      | <b>88,558,968</b> | <b>7.8%</b>          | <b>3,331,998</b>     | <b>1,779,652</b>   | <b>0</b>                     | <b>527,485</b>            | <b>535,005</b>             | <b>\$3.97</b>                            | <b>\$4.03</b> | <b>\$4.13</b> | <b>\$4.11</b> |

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR D= DISTRIBUTION MF = MANUFACTURING F = FLEX GI = GENERAL INDUSTRIAL

Research methodology was updated as of 1Q2014

## MARKET HIGHLIGHTS

| SIGNIFICANT Q3 2014 LEASE TRANSACTIONS | SUBMARKET           | TENANT                       | PROPERTY TYPE | SQUARE FEET |
|--|---------------------|------------------------------|---------------|-------------|
| 5400 International Trade Drive         | Airport             | Alfa Laval                   | Distribution  | 180,252     |
| 3021 Commerce                          | Jeff Davis Corridor | Advance Trailer Systems      | Distribution  | 129,000     |
| 7001 Technology Place                  | Airport             | Syncreon                     | Distribution  | 125,000     |
| Interport A                            | Airport             | Horizon Forest Products      | Distribution  | 65,000      |
| 11800 N. Lakeridge                     | I-95 North/Ashland  | Packing Systems and Supplies | Distribution  | 50,909      |

| SIGNIFICANT Q3 2014 SALE TRANSACTIONS | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
|---------------------------------------|-----------|-------|------------------------|-------------|
| NA                                    |           |       |                        |             |

| SIGNIFICANT Q3 2014 CONSTRUCTION COMPLETIONS | SUBMARKET             | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
|--|-----------------------|--------------|-----------------|---------------------------------|
| Medline Industries                           | I-95 S/ I-295S/ Rt 10 | Medline      | Q3 2014         | 129,660 (0.0%)                  |

| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | SUBMARKET          | MAJOR TENANT                   | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
|---|--------------------|--------------------------------|-----------------|---------------------------------|
| 5900 Elko Rd                            | Airport            | Lumber Liquidators             | Q1 2016         | 995,792 (100.0%)                |
| 14060 Washington Hwy                    | I-95 North/Ashland | Republic National Distributing | Q1 2015         | 250,000 (100.0%)                |
| Eastport VIII                           | Airport            | NA                             | Q1 2015         | 129,660 (0.0%)                  |