

MARKETBEAT

Richmond, VA

Industrial Q3 2017



RICHMOND, VA INDUSTRIAL

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Richmond Employment	666k	682k	▲
Richmond Unemployment	4.1%	3.8%	▲
U.S. Unemployment	4.9%	4.4%	▼

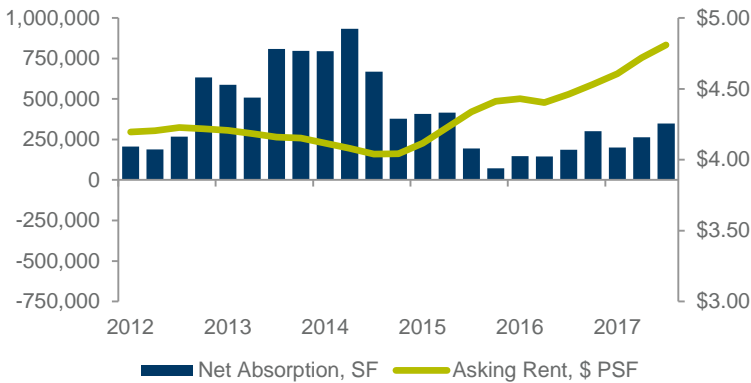
Market Indicators (Overall, All Property Types)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	6.9%	4.8%	▼
Net Absorption	76k	415k	▲
Under Construction	216k	726k	▲
Average Asking Rent	\$4.67	\$5.03	▲

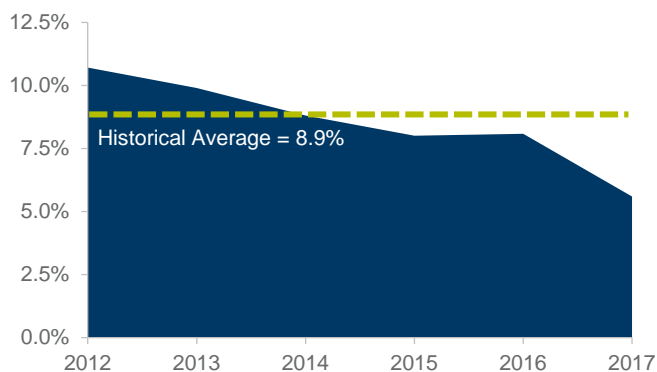
*Rental rates reflect net asking \$psf/year

Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Inflation remained below the Federal Reserve's 2% target despite a low unemployment rate. Economists expect one more hike to the federal funds rates in 2017. The 30-year fixed rate mortgage and 10-year treasury have remained stable throughout 2017 despite the rising rates. The Institute for Supply Management (ISM) reported an expanding manufacturing sector in September with 17 of the 18 industries surveyed reporting growth. The Richmond metro area added 16,200 jobs from August 2016 to August 2017. Richmond's employment in the construction sector grew by 5.8%.

Market Overview

Richmond's industrial fundamentals remained exceptionally strong with declining vacancy and increasing rents. Overall vacancy declined by 210 basis points from Q3 2016 to Q3 2017 and, at 4.8%, limited functional availabilities exists for tenants. Industrial vacancy tightened most dramatically in the Northeast and Southeast quadrants of the metro area declining by more than 400 basis points in both. Overall industrial asking rents increased by 6.6% year-over-year. Manufacturing rents increased by 13.6%, warehouse/distribution rents increased by 10.8%; and flex asking rents increased by 4.8%. A positive 1.4 million square feet has absorbed through Q3 2017.

Construction activity ticked up from a year ago but will not alleviate supply constraints. Of the 726,000 square feet (sf) of industrial space under construction, 91% was preleased. Panattoni Development, purchased 62 acres at 4701 Commerce Drive from Philip Morris with the intent to construct two 462,000-sf warehouse buildings in two phases. MDH partners purchased the 618,229-sf Interport Business Center for \$29 million. Local developers Rebkee and Fountainhead partnered to purchase the Sears distribution store on Tomlynn Street for \$6.2 million or \$32 per square foot (psf). Additional transaction activity included Rich Uncles purchase of the 100% leased flex building at 8575 Magellan Parkway for \$7.4 million (\$143 psf). Temperpack Technologies leased 133,487 sf in the Northeast quadrant as well as 71,250 sf in the Southwest quadrant. Need Supply leased 60,000 sf at 540 Eastpark Court. In early Q4 2017, Facebook announced plans to build a \$1.0-billion, 975,000-sf data center in White Oak Technology Park.

Outlook

Industrial brokers state that tenants are renewing in-place at higher rents primarily due to the lack of functional availabilities in which to relocate them. The brokers further report that speculative development activity is constrained by the cost of labor and limited financing for projects without lead tenants. Rents will continue to increase and vacancy will decline in the near term. Tenants that need to expand will become the lead for development activity.

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CUSHMAN & WAKEFIELD

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SUBMARKET	TOTAL BLDGS	INVENTORY	YTD LEASING ACTIVITY	OVERALL AVAILABLE VACANT SPACE (SF)	OVERALL VACANCY RATE	YTD NET OVERALL ABSORPTION	UNDER CNSTR	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Downtown	6	277,266	0	0	0.0%	0	0	N/A	N/A	\$6.00
Northeast	166	10,865,025	348,126	227,256	2.1%	205,772	258,393	\$4.95	\$10.94	\$4.22
Northwest	313	19,425,037	406,508	800,748	4.1%	316,830	372,653	N/A	\$9.16	\$6.01
Southeast	146	18,860,130	426,640	555,717	2.9%	410,810	0	N/A	\$7.53	\$4.71
Southwest	411	44,830,430	864,883	2,919,950	6.5%	497,452	95,000	\$4.09	\$6.53	\$4.03
Richmond, VA Totals	1,042	94,257,888	2,046,157	4,503,671	4.8%	1,430,864	726,046	\$4.26	\$8.98	\$4.40

Real rates reflect asking \$ psf/year
Only includes buildings 20,000 SF and larger

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q3 2017

PROPERTY	SF	Tenant	PROPERTY TYPE	SUBMARKET
4447 Carolina Ave.	133,487	Temperpack Technologies	Warehouse/Distribution	Northeast
1700 Jefferson Davis Hwy	71,250	Temperpack Technologies	Warehouse/Distribution	Southwest
540 Eastpark Court	60,000	Need Supply	Warehouse/Distribution	Southeast
1900 Ruffin Mill Rd	48,448	Animal Health	Warehouse/Distribution	Southwest

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER / BUYER	PROPERTY TYPE	PRICE / \$ PSF	SUBMARKET
Interport Business Center	618,229	MDH Partners / Manekin	Warehouse/Distribution	\$29,000,000 / \$45	Southeast
4100 Tomlynn Street	195,728	Sears Holding / Rebkee	Warehouse/Distribution	\$6,200,000 / \$32	Northwest
2510 Bellwood Road	91,000	AIC Ventures / Honsador Lumber	Warehouse/Distribution	\$5,675,000 / \$62	Southwest
8575 Magellan Pkwy	51,800	Rich Uncles / Fernau LeBlanc	Warehouse/Distribution	\$7,400,000 / \$143	Northeast

Cushman & Wakefield | Thalhimer
11100 W. Broad St.
Glen Allen, VA 23060
thalhimer.com

For more information, contact:
Basil Hallberg
Research Coordinator
Tel: +1 804 697 3560
basil.hallberg@thalhimer.com

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