

MARKETBEAT

Richmond, VA

Industrial Q3 2018



RICHMOND, VA INDUSTRIAL

Economic Indicators

| | Q3 17 | Q3 18 | 12-Month Forecast |
|-----------------------|--------|--------|-------------------|
| Richmond Employment | 674.7k | 681.6k | ▲ |
| Richmond Unemployment | 3.8% | 3.2% | ■ |
| U.S. Unemployment | 4.4% | 3.9% | ▼ |

Numbers above are quarterly averages; Aug. 2018 data used to represent Q3 2018

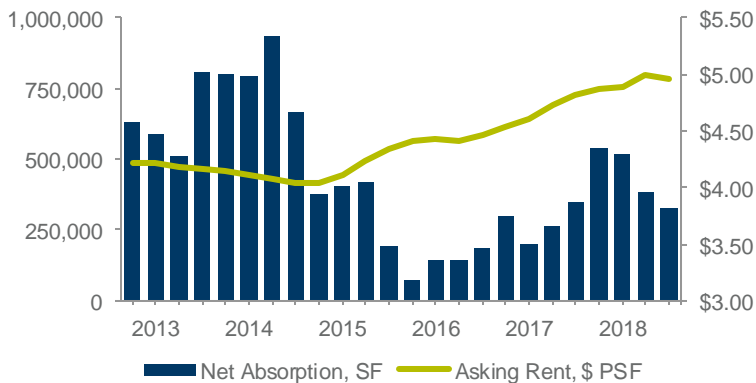
Market Indicators (Overall, All Property Types)

| | Q3 17 | Q3 18 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Vacancy | 3.7% | 4.2% | ▼ |
| Net Absorption | 415k | 189k | ▲ |
| Under Construction | 726k | 1.7M | ■ |
| Net Average Asking Rent | \$5.03 | \$4.89 | ▲ |

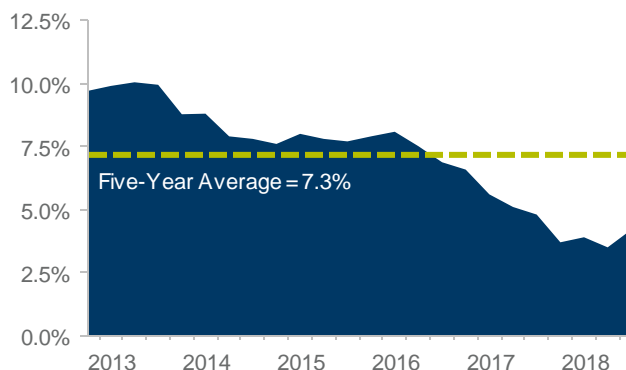
*Rental rates reflect net asking \$psf/year

Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Despite escalating trade tariffs with China, U.S. exports increased overall. The Richmond Marine Terminal's volume increased an impressive 58% in August from the prior year, driven by exports and additional capacity at the Port of Virginia. Meanwhile, the Institute for Supply Management (ISM) reported an expanding manufacturing sector with 15 of the 18 industries surveyed reporting growth in September. The U.S. economy posted its strongest growth since 2014 with revised GDP growth of 4.2% in the second quarter. Economists expect GDP growth to continue at a more modest pace in third quarter. Growth should remain above the average levels of the current economic expansion. The Federal Reserve Bank raised interest rates for the third time in 2018 and signaled its accommodative era is over. Employment gains continued in Richmond. Richmond's unemployment rate decreased 60 basis points (bps) to 3.2% with the local economy adding 6,900 jobs over the previous year.

Market Overview

The industrial vacancy rate increased 50 bps from the previous year, with a modest increase from last quarter. Nearly 190,000 square feet (sf) of industrial space was absorbed, while 559,147 sf delivered in the quarter. Vacant speculative space delivered in the quarter contributed to the slight increase in vacancy. Rent growth has climbed nearly 23.0% since the third quarter of 2014, despite flat growth in the quarter. Development activity continues in Richmond with nearly 1.7 million square feet (msf) under construction. Brookfield Capital broke ground on a 152,000-sf speculative warehouse. Panattoni Development completed Phase 1 of its I-95 Logistics Center, delivering half of the proposed 1.0-msf project in the third quarter. The warehouse has not been filled and construction has not yet started on Phase 2. Meanwhile, Facebook announced an additional \$750 million investment to expand its data center at White Oak Technology Park in Henrico County.

Outlook

The Richmond industrial market is ushering in a new era as ongoing construction projects will deliver high quality space. The nearly 500,000-sf of speculative warehouse space under construction will be ESFR equipped with 32-foot to 36-foot clear heights. In addition, ACE Hardware is scheduled to vacate 798,786 sf in Petersburg at the end of October. This would be Richmond's largest contiguous vacancy, providing further upward pressure on the overall vacancy rate. With premium space soon coming available, distributors will remain keen to capitalize on Richmond's role as a key east coast distribution hub.

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CUSHMAN & WAKEFIELD

THALHIMER

| SUBMARKET | TOTAL BLDGS | INVENTORY (SF)* | YTD LEASING ACTIVITY (SF)** | OVERALL AVAILABLE VACANT SPACE (SF) | OVERALL VACANCY RATE | YTD NET OVERALL ABSORPTION (SF) | UNDER CNSTR (SF) | 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 | N/A |
| Northeast | 166 | 10,855,956 | 465,111 | 98,289 | 0.9% | (42,885) | 0 | N/A | \$9.00 | \$4.59 |
| Northwest | 313 | 19,651,871 | 297,682 | 706,975 | 3.6% | 15,342 | 152,000 | \$6.35 | \$10.24 | \$6.07 |
| Southeast | 150 | 20,358,712 | 406,501 | 651,847 | 3.2% | 291,829 | 970,000 | \$5.13 | \$7.55 | \$4.89 |
| Southwest | 413 | 42,004,535 | 1,128,238 | 2,417,559 | 5.8% | 14,745 | 544,649 | \$6.13 | \$6.86 | \$3.76 |
| Richmond, VA Totals | 1,048 | 93,148,340 | 3,217,195 | 3,874,670 | 4.2% | 279,031 | 1,666,649 | \$5.36 | \$9.01 | \$4.75 |

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

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

| PROPERTY TYPE | TOTAL BLDGS | INVENTORY (SF)* | YTD LEASING ACTIVITY (SF)** | OVERALL AVAILABLE VACANT SPACE (SF) | OVERALL VACANCY RATE | YTD NET OVERALL ABSORPTION (SF) | UNDER CNSTR (SF) | OVERALL WEIGHTED AVG. NET RENT (MF)*** | OVERALL WEIGHTED AVG. NET RENT (OS)*** | OVERALL WEIGHTED AVG. NET RENT (W/D)*** |
|------------------------|-------------|-----------------|-----------------------------|-------------------------------------|----------------------|---------------------------------|------------------|--|--|---|
| Warehouse/Distribution | 742 | 60,934,551 | 2,508,640 | 2,968,347 | 4.9% | 65,275 | 696,649 | N/A | N/A | \$4.65 |
| Manufacturing | 237 | 27,116,816 | 613,712 | 721,260 | 2.7% | 188,029 | 0 | \$4.81 | N/A | N/A |
| Office Service/Flex | 62 | 3,058,591 | 45,936 | 92,119 | 3.0% | 25,727 | 0 | N/A | \$9.31 | N/A |

Key Lease Transactions Q3 2018

| PROPERTY | SF | TENANT | PROPERTY TYPE | SUBMARKET |
|-------------------------------|---------|---------------------------------------|---------------|---------------------|
| 2904 Transport St | 132,000 | Old Dominion Warehouse & Distribution | Warehouse | Jeff Davis Corridor |
| 3031 Transport St | 132,000 | Sunrise Construction, Inc. | Warehouse | Jeff Davis Corridor |
| 11768 North Lakeridge Parkway | 35,252 | Iconex LLC | Warehouse | I-95 N/Ashland |
| 1615 Elmdale Rd | 22,500 | Eckman Recycling | Warehouse | Jeff Davis Corridor |

Key Sale Transactions Q3 2018

| PROPERTY | SF | SELLER / BUYER | PRICE / \$ PSF | SUBMARKET |
|--------------------|---------|---|----------------|---------------------|
| 8025 Quality Drive | 143,638 | Martin-Brower/ Hollingsworth Development | \$4.3M/\$30 | Prince George |
| Deep Run Centre II | 49,088 | American General Life Insurance Co./ The Premier Companies | \$6.5M/\$132 | Staples Mill/Parham |
| Northgate Center | 35,483 | Northgate Associates/ Wilton Northgate Company | \$2.6M/\$73 | Staples Mill/Parham |

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