

MARKETBEAT

INDUSTRIAL SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Alliance Research Publication

Q4 2013



ECONOMIC OVERVIEW

The U.S. economy continues to show a moderate recovery since the Great Recession officially ended in 2009. The quoted unemployment rate dropped to 7.0% in November, although many observers continue to comment on dropping labor market participation rates as a driver for the lower unemployment rate, as opposed to new job creation. Efficiencies related to advancing technology and a natural reluctance of employers to staff-up too quickly continues to affect the overall employment picture.

On a national scale, the industrial market seems to have made sturdy progress since the beginning of 2013. According to Cushman & Wakefield, overall industrial vacancy rates dropped to 8.0% at the end of the fourth quarter. Approximately 95.6 million square feet (msf) of new industrial space were delivered throughout the year and another 99.9 msf is still underway. Overall, net absorption in 2013 exceeded 181.6 msf of positive net absorption. At the end of the fourth quarter, average rental rates for industrial space stood at \$5.23 per square foot (psf).

Although the industrial vacancy rate in Richmond is slightly higher than the national rate, the Richmond MSA has exhibited substantial growth over the past year. As of November 2013, the Richmond MSA jobless rate fell to 5.4%, compared to 5.7% a year earlier. Total industrial vacancy dropped to 8.8% in the fourth quarter, almost an entire percentage point from 9.7% a year prior. Leasing activity also made a hefty leap, ending the year with over 3.5 msf, up 38.2% since fourth quarter 2012. However, the most impressive number for the year was net absorption, which surpassed over 3.1 msf of positive net absorption, unquestionably the highest the market has seen over the past ten years.

Direct weighted average rents considering all property types, sat at \$4.11 psf. Rental rates within the Distribution sector sat at \$3.39 psf, Manufacturing stood at \$3.48 psf, Flex reached \$7.38 psf, and General Industrial ended at \$4.50 psf.

TRENDS

After examining the statistics, we are able to observe that industrial product in the Southwest sector is highly sought out, and of the four product types, Distribution is the most common. The Distribution product made up for 61% of the overall net absorption and of the five submarket clusters, 54% of absorption came from the Southwest. For instance, the Full Service Warehouse & Logistics lease of 225,000 sf

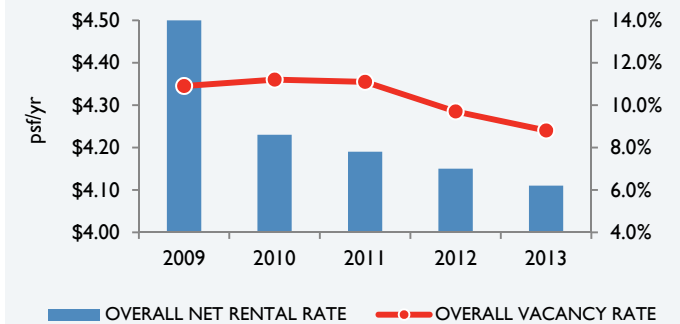
on Cofer Road is located within the Southwest sector. There were various deals that occurred at Enterchange at Walthall, which is also in the Southwest sector and classified as Distribution product. Central Shared Services leased 87,425 sf of class A space at Enterchange.

Additionally, brokers report that user-sales were a very common practice within the industrial sector this year. Dominion Packaging is a prime example, as it purchased a 317,400-sf warehouse at 5700 Audubon Drive for \$9.0 million earlier this year.

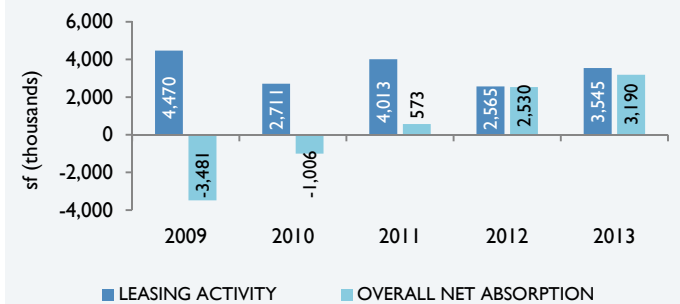
STATS ON THE GO

	Q4 2012	Q4 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.7%	8.8%	-0.9pp	▼
Direct Asking Rents (psf/yr)	\$4.16	\$4.11	-1.2%	◀▶
YTD Leasing Activity (sf)	2,565,102	3,545,410	38.2%	▲

OVERALL RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. OVERALL NET ABSORPTION



Additionally, companies are buying land and building their own facilities. Those companies with facilities either completed or started in 2013 include: Lumber Liquidators, Medline, The Vitamin Shoppe, and Republic National Distributing Co. Lumber Liquidators has begun construction of a 1.0- msf distribution center in Henrico County on 110 acres of land. Medline purchased 65 acres of land at Meadowville Park where it plans to build a 400,000-sf facility across from the Amazon Fulfillment Center. The Vitamin Shoppe recently completed construction of its 311,730-sf distribution center in Hanover County. Republic National Distributing Co. purchased a 22.7-acre site in Hanover County where it's planning for a 260,000-sf distribution facility.

OUTLOOK

Although net absorption in the market reached a new height, this does not mean demand has necessarily improved. In fact, brokers believe demand has remained constant over the years. Yes, supply is tightening up, but companies are looking into other alternatives as we observed in 2013. A shift into user-sales and land purchases for build-to-suits were some of the major trends. Construction will continue into 2014; however it is not clear whether developers are ready for speculative construction, build-to-suits will most likely conquer.

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	605,381	1.8%	6,457	0	0	500	500	\$0.00	\$0.00	\$4.95	\$0.00
Northeast	13,617,962	6.2%	479,485	0	500,000	162,843	287,371	\$3.67	\$2.25	\$9.09	\$6.10
Northwest	24,676,660	8.6%	915,809	0	311,730	729,673	733,273	\$2.93	\$2.57	\$7.38	\$5.17
Southeast	17,491,454	8.8%	499,563	0	0	466,201	460,360	\$3.71	\$3.95	\$6.87	\$4.12
Southwest	48,566,526	9.7%	1,644,096	0	0	1,703,347	1,708,605	\$2.95	\$4.25	\$6.60	\$3.95
TOTALS	104,957,983	8.8%	3,545,410	0	811,730	3,062,564	3,190,109	\$3.39	\$3.48	\$7.38	\$4.50
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*			
								Q4 2013	2012	2011	2010
Distribution	21,540,055	8.1%	1,255,082	0	811,730	1,852,855	1,944,855	\$3.39	\$3.55	\$3.82	\$3.81
Manufacturing	28,533,066	6.3%	97,493	0	0	251,312	251,312	\$3.48	\$3.64	\$3.51	\$3.51
Flex	10,481,158	13.1%	902,990	0	0	244,033	241,792	\$7.38	\$7.81	\$7.89	\$7.77
General Industrial	44,403,704	5.4%	1,289,845	0	0	714,364	752,150	\$4.50	\$4.18	\$4.21	\$5.80
TOTALS	104,957,983	8.8%	3,545,410	0	811,730	3,062,564	3,190,109	\$4.11	\$4.16	\$4.15	\$4.26

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

MARKET HIGHLIGHTS

SIGNIFICANT 2013 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
2801 Cofer Road	Jeff Davis Corridor	Full Service Warehouse & Logistics, Inc.	B	225,000
Richmond Distribution Center	Laburnum/Rte 360	Stalwart Films	C	181,951
1821 Battery Dantzler Road	I-95 S/I-295 S/Rt 10	Hillphoenix	B	90,000
Enterchange at Walthall	I-95 S/I-295 S/Rt 10	Central Shared Services	A	87,425
2819 Bells Road	Jeff Davis Corridor	WDS Company	C	75,235
Interport Business Center	Airport	Advance Trailer Systems, Inc.	C	58,136
SIGNIFICANT 2013 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
1801 N. Meadowville Technology Pky.	I-95 S/I-295 S/Rt 10	Cole Corporate Income Trust, Inc.	\$81,300,000 / \$80.00	1,016,281
4700-4800 Eubank Road	Airport	MIA Acquisition, LLC	\$19,685,000 / \$31.87	617,632
5700 Audubon Drive	Airport	Dominion Packaging	\$9,000,000 / \$28.39	317,400
2101 Bermuda Hundred Road	I-95 S/I-29 5S/Rt 10	Government Properties Income Trust	\$12,503,000 / \$54.81	228,108
SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
10999 Air Park Road	I-95 N/Mechanicsville	NA	Q1 2013	500,000
Vitamin Shoppe Distribution Center	I-95 North/Ashland	Vitamin Shoppe	Q2 2013	311,730
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
NA				