

MARKETBEAT OFFICE SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q1 2015



ECONOMIC OVERVIEW

The Richmond economy extended year-over-year job gains to 56 consecutive months in February. The area gained 12,000 jobs in 2014 and as of February was 11,400 jobs above a year ago. The unemployment rate ticked up slightly since December increasing from 4.7% to 5.3% due to a growing labor force. After a long contracting period, public sector employment began growing adding 2,000 jobs over the 12 months ending February 2015.

Office activity moderated in the first quarter after a strong 2014. Overall absorption totaled 32,103 square feet (sf) in Q1 2015, significantly less than the 228,326 sf absorbed in Q4 2014 but well above the negative absorption figure from a year ago. Class A office absorption totaled 66,751 sf in Q1 2015.

The overall vacancy rate increased 0.2 percentage point to 9.6% staying in single digits territory for the second quarter in a row. The direct vacancy for class A space increased to 6.3%, up from the all-time low of 6.0% last quarter. Direct asking rents for all classes increased \$0.78 per square foot (psf) to \$18.28 psf for the market as a whole.

CBD OFFICE

The question looming for the CBD is how it will absorb the large blocks of space that will hit the market later this year as tenants shift to Gateway Plaza. A national trend that has yet to occur in force in Richmond is suburban tenants relocating to downtown locations. A high density of Richmond's labor force lives in the surrounding counties and with a robust Interstate network and all but non-existent mass transit, employees can commute to suburban office parks as easy if not more so than to the CBD.

Higher parking costs as well as taxes pose additional obstacles for landlords to attract tenants to the CBD. Landlord concessions are nearly non-existent and rents are increasing in the most active suburban submarkets. Without an external catalyst such as a corporate relocation likely needing assistance from city and state resources, CBD landlords may find themselves needing to sweeten the pot to attract tenants.

OUTLOOK

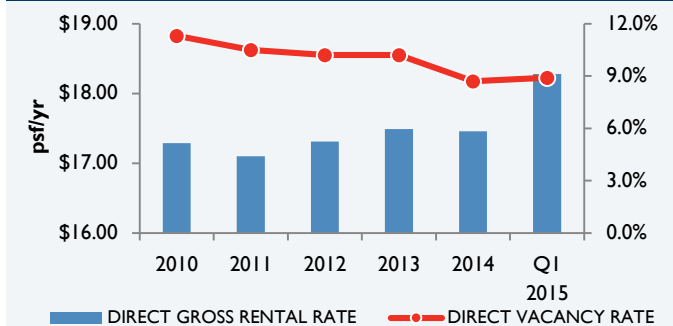
Organic growth has driven the Richmond office market recovery with existing firms expanding payrolls and the creation of new

startup firms. As an indicator of a dynamic economy, nearly 1,500 new startup firms were created in the metro area in the first three quarters of 2014. The organic growth has produced consistent and steady employment gains that will continue to help improve office market fundamentals driving absorption and decreasing vacancy. Secondary submarkets will benefit as space becomes tight and rents increase in the larger more active submarkets.

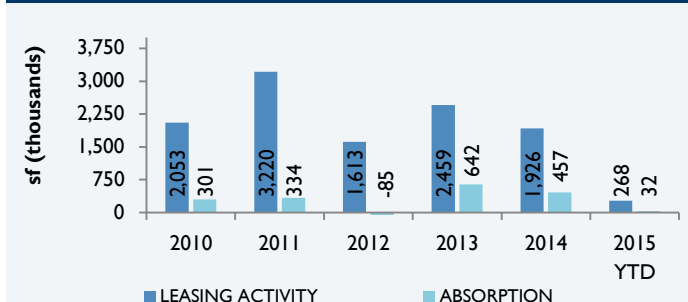
STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.0%	9.6%	-0.4 pp	▼
Direct Asking Rents (psf/yr)	\$17.50	\$18.28	4.5%	▲
YTD Leasing Activity (sf)	426,105	267,681	-37.2%	◄

DIRECT RENTAL VS. VACANCY RATES



OVERALL 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	10,628,101	11.9%	11.6%	53,744	321,500	0	13,542	7,808	\$21.53	\$24.43
East End	351,429	4.4%	4.4%	0	0	0	0	0	\$12.85	N/A
Far West End	581,739	4.0%	4.0%	0	110,000	0	(4,648)	(4,648)	\$16.70	\$22.00
Glenside/Broad St	4,986,911	7.2%	6.6%	28,994	37,658	0	(17,252)	(15,342)	\$17.88	\$20.98
Hull Street Corridor	2,406,063	2.7%	2.7%	3,700	0	0	(2,692)	(2,692)	\$14.90	N/A
I-95 N/Ashland	431,846	9.2%	9.2%	0	0	0	(2,332)	2,332	\$11.91	N/A
I-95 N/Chamberlayne	151,011	8.1%	8.1%	0	0	0	90	90	\$12.17	N/A
Innsbrook	7,729,937	9.4%	5.7%	43,543	0	0	(15,828)	29,245	\$18.05	\$18.05
Iron Bridge Corridor	1,525,013	10.6%	10.6%	0	43,000	0	(12,081)	(12,081)	\$15.05	\$17.27
Lakeside	139,905	21.0%	21.0%	1,520	0	0	(4,040)	(4,040)	\$10.96	N/A
Mechanicsville	879,660	18.7%	18.6%	1,844	63,000	0	7,540	7,540	\$17.32	N/A
Midlothian Corridor	3,737,196	13.7%	13.7%	35,287	0	0	24,115	22,326	\$15.81	\$17.52
Monroe Ward	1,581,203	7.3%	7.0%	1,724	0	25,000	30,740	30,740	\$15.88	N/A
Near West End	1,061,047	20.8%	20.8%	0	0	0	4,015	4,015	\$13.68	N/A
North Broad	2,830,486	5.0%	5.0%	0	0	0	(30,758)	(30,758)	\$16.71	N/A
Northside	101,581	0.0%	0.0%	0	0	0	0	0	N/A	N/A
Parham East	2,393,238	14.2%	14.2%	0	0	0	1,969	1,969	\$15.55	N/A
Parham South	854,506	16.9%	16.5%	28,478	0	0	(3,296)	(4,976)	\$13.68	N/A
Rt 288 Corridor	1,166,515	12.0%	11.2%	10,824	0	0	(1,830)	(1,830)	\$18.33	\$19.54
Shockoe Bottom	1,492,545	1.6%	1.6%	3,638	0	0	6,403	6,403	\$19.45	\$23.00
Stony Point/Huguenot	956,474	6.7%	6.2%	25,697	0	0	(6,489)	(2,539)	\$17.40	\$18.21
West Creek	1,801,413	1.2%	1.2%	0	0	66,000	0	0	\$24.50	\$24.50
West End	3,122,429	9.2%	9.2%	28,688	0	0	(39,755)	(39,755)	\$14.20	\$20.23
TOTALS	50,910,248	9.6%	8.9%	267,681	575,158	91,000	(13,205)	32,103	\$18.16	\$21.10

* TOTAL RATES REFLECT ASKING \$PSF/YEAR

As of 1Q 2014, only properties 10,000 sf and larger included.

Notes: Parham East submarket data includes 285,846 sf Best Plaza building (0% occupied) owned by Henrico County and not being actively marketed. Not including the Best Plaza building, vacancy in the submarket is 2.25%.

MARKET HIGHLIGHTS

SIGNIFICANT Q1 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
One Shockoe Plaza*	CBD	The Martin Agency	A	118,518
8040 Villa Park	Innsbrook	Technology Integration Group	B	21,573
One James Center	CBD	Dixon Hughes	A	20,866
8831 Park Central**	Staples Mill/Parham	UHS of Delaware	B	13,817
SIGNIFICANT Q1 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Baker Portfolio	I-95 N/Ashland & Rt. 288 Corridor	Baker Properties	\$60,300,000 / \$73	827,925
SIGNIFICANT Q1 2015 DELIVERIES	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
1630 Wilkes Ridge	West Creek	Medarva	Q1 2015	66,000 (67%)
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% PRELEASED)
Gateway Plaza	CBD	McGuireWoods LLP	Q2 2015	321,500 (75%)
Towne Center West	Far West End	VCU	Q4 2015	110,000 (100%)
Memorial Regional Medical Center	Mechanicsville	Bon Secours	Q3 2015	66,000 (88%)
6627 W Broad Street (Reynolds Commons)	Glenside/Broad St	NA	Q2 2015	37,658 (63%)

*Renewal; **Renewal and Expansion