

MARKETBEAT OFFICE SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q2 2014



ECONOMIC OVERVIEW

The Richmond metropolitan area's unemployment rate as of April was 5.0%. This is the lowest rate since before the recession. Henrico County, Chesterfield County, and the City of Richmond posted unemployment rates of 4.8%, 4.7%, and 5.7% respectively. The largest year-over-year job gains are being seen in the following industries: Information (8.9%), Financial Activities (3.6%), and Education and Health Services (3.6%). Professional Services, an industry that is a primary driver of office use, rose a respectable 2.0% over the past 12 months.

These employment trends all point to a slow, but positive, economic recovery. One area where this is evident is in the availability of large blocks of office space in the suburbs, especially over 50,000 square feet (sf). The market has 14 spaces over 40,000 sf; however, when you look at spaces over 100,000 sf, those options dwindle to six buildings and only two of those are considered ready for occupancy without requiring significant capital improvements. As there is significant activity among larger office users, this trend towards limited supply is forcing larger users to begin addressing their real estate needs much further in advance of their lease expiration date.

Despite the declining vacancy, there is no significant speculative new construction planned. Rental rates have recovered some since the recession, but there is still a large delta between asking rates and the rates required for a developer to successfully bring a project out of the ground. One exception has been medical office buildings, which have been built with around 60% pre-leasing in place.

SALES ACTIVITY

Sales volume has increased year over year since the end of the recession. With low interest rates and the availability of financing, cap rates have compressed which has driven values up. Many institutional investors and public REITs are putting secondary and tertiary markets on their radar screens for possible acquisitions – typically focusing on the best properties in those markets. In 2011-2012, private investors accounted for roughly 82% of all acquisitions locally. In 2013 and year-to-date, that number is closer to 30%.

Where private investors have remained active is in the Central Business District (CBD). The Richmond CBD has seen a significant reduction in class B and C office space as buildings that are functionally obsolete for use as office are being repurposed as residential, hotels, and mixed-use. Vintage buildings such as the Heritage Building, the former Virginia Power Headquarters, The First National Bank Building, the Mutual Building, the 700 building, Exchange Place and several others have been taken out of the office space inventory over the past few years and converted to residential and hotels, thus reducing B and C office inventory by nearly 1.5 million sf.

The reduction in the inventory of the market is significant positive news for downtown office space. By reducing the supply available, the remaining

inventory will increase the competition for tenants. In addition, the buildings that have been removed from the office market have seen substantial investment to renovate those assets into complementary uses for the office market.

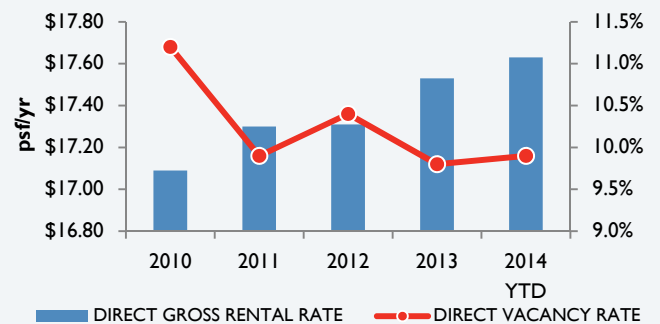
OUTLOOK

Expect the current slow recovery to continue. New construction will only consist of substantially leased build to suits in the near future, but with the increasing demand and dwindling supply, this type of construction is likely to commence by late 2015 into 2016. Asking rental rates should stay steady as landlords hold their rates while making adjustments to free rent and other concessions to attract and retain tenants.

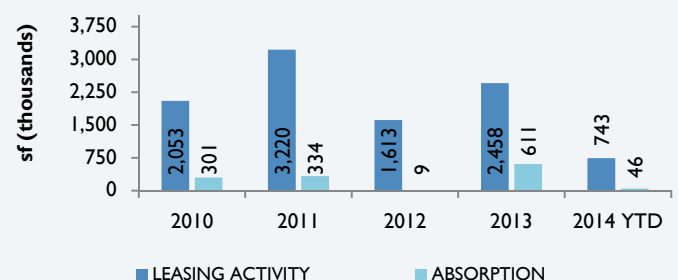
STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.3%	10.7%	0.4pp	▼
Direct Asking Rents (psf/yr)	\$17.01	\$17.63	3.6%	◄►
YTD Leasing Activity (sf)	947,461	742,724	-21.6%	▲

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	10,668,923	14.3%	13.8%	130,322	321,500	0	(84,557)	(22,281)	\$20.48	\$25.61
East End	351,429	4.4%	4.4%	0	0	0	(8,500)	(8,500)	\$15.02	N/A
Far West End	581,739	3.8%	3.8%	5,438	0	0	(538)	(538)	\$16.56	\$22.00
Glenside/Broad St	4,607,010	8.1%	7.4%	143,346	37,658	0	6,298	(21,868)	\$17.40	\$19.60
Hull Street Corridor	2,359,113	4.7%	4.7%	9,372	0	0	15,307	15,307	\$12.81	N/A
I-95 N/Ashland	431,846	9.3%	9.3%	5,891	0	0	5,639	5,639	\$13.22	N/A
I-95 N/Chamberlayne	162,509	18.7%	18.7%	0	0	0	(2,528)	(2,528)	\$12.26	N/A
Innsbrook	7,721,542	12.5%	8.9%	122,902	0	0	53,603	11,264	\$17.61	\$18.92
Iron Bridge Corridor	1,513,013	10.0%	10.0%	4,496	43,000	15,000	(1,211)	(1,211)	\$14.74	\$17.26
Lakeside	125,193	20.3%	20.3%	0	0	0	(1,196)	(1,196)	\$11.17	N/A
Mechanicsville	888,560	15.9%	15.9%	5,026	0	0	(7,210)	(5,910)	\$17.43	N/A
Midlothian Corridor	3,726,152	16.1%	16.1%	91,304	0	0	(46,144)	(47,933)	\$16.44	\$17.72
Monroe Ward	1,556,203	8.1%	7.8%	29,261	0	0	(24,097)	(28,097)	\$15.90	N/A
Near West End	1,287,233	11.6%	11.6%	3,125	0	0	6,017	6,017	\$13.85	N/A
North Broad	2,815,486	4.0%	4.0%	1,862	0	106,662	108,524	108,524	\$16.40	N/A
Northside	101,581	0.0%	0.0%	0	0	0	0	0	N/A	N/A
Parham East	2,393,238	14.9%	14.9%	14,812	0	0	7,360	7,360	\$15.50	N/A
Parham South	854,427	18.9%	18.9%	95,815	0	0	2,835	2,835	\$13.31	N/A
Rt 288 Corridor	1,154,994	12.3%	11.5%	20,355	0	0	4,176	(3,243)	\$17.83	\$19.51
Shockoe Bottom	1,492,545	2.9%	2.9%	4,419	0	0	17,528	17,528	\$18.73	\$20.50
Stony Point/Huguenot	957,607	9.9%	4.1%	18,857	0	0	(16,946)	(16,946)	\$18.05	\$19.47
West Creek	1,735,413	0.0%	0.0%	0	180,000	0	0	0	\$18.50	N/A
West End	3,135,636	7.9%	7.9%	36,121	44,378	0	30,019	31,390	\$14.07	\$18.95
TOTALS	50,621,392	10.7%	9.9%	742,724	626,536	121,662	64,379	45,613	\$17.50	\$21.29

* TOTAL RATES REFLECT ASKING \$PSF/YEAR

Research methodology was updated as of 1Q2014

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
111 Virginia Street	CBD	One Place LLC	A	23,791
300 Turner Road	Hull Street Corridor	Kingdom Dominion, LLC	B	11,349
10 E Franklin Street	Monroe Ward	Butler's Unique Catering	B	10,866
SIGNIFICANT Q2 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
100-140 Eastshore Drive (3 bldgs.)	Innsbrook	Westdale RECap Partners	\$26,700,000 / \$120	222,701
9960 Mayland Drive	Innsbrook	Government Properties Income Trust	\$22,500,000 / \$127	177,185
909 E Main Street	CBD	Shamin Hotels	\$3,300,000 / \$25	132,434
SIGNIFICANT Q2 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Biotech 8 – Phase II/III	North Broad	NA	Q2 2014	106,662 (100.0%)
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Gateway Plaza	CBD	McGuireWoods LLP	Q1 2015	321,500 (75.2%)
West Creek Medical Park - MEDARVA	West Creek	NA	Q1 2015	180,000 (0.0%)
Libbie Mill	West End	NA	Q4 2014	44,378 (52.1%)
10901-11001 Iron Bridge Road	Iron Bridge Corridor	NA	Q4 2014	43,000 (0.0%)
6627 W Broad Street (Reynolds Commons)	Glenside/Broad St	NA	Q2 2015	37,658 (62.7%)