

MARKETBEAT OFFICE SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

Year-over-year job growth continued in May with an additional 2,800 jobs over the same month in 2014 and extending Richmond's employment growth to 59 consecutive months. The unemployment rate increased slightly since the end of Q1 15 to 5.3% due to a growing labor force. Leisure and Hospitality and the Public Sector contributed the most to the year-over-year job growth with 1,200 and 1,300 jobs, respectively. The financial service industry added 500 jobs. In addition to the job growth, a total of 1,550 new startup firms were created in the metro area in 2014.

Direct absorption totaled 107,609 square feet (sf) in Q2 2015 and 156,836 sf year-to-date in 2015. A positive 196,787 sf of absorption has occurred overall year-to-date. Class A office absorption totaled a positive 211,209 sf year-to-date.

The overall vacancy rate declined 1.4 percentage points from a year ago to 9.3%. The direct vacancy for class A space declined to 6.0% from 7.7% a year ago. Direct asking rents for all classes increased 3.6% from Q2 14 to \$18.26 per square foot (psf) for the market as a whole. Direct asking rents for class A space ended the quarter at \$20.82 psf.

GATEWAY PLAZA DELIVERS

While not reflected in Q2 15 figures, Gateway Plaza delivered in early July causing direct vacancy in class A space to spike from 7.1% in Q2 15 to 12.1% in July. Gateway Plaza is the first multi-tenant tower to deliver downtown in five years. A positive 125,707 sf of office space was absorbed in the CBD in 2014 and an additional 70,491 sf in 2013. At this absorption rate, the CBD will need a couple years before occupancy levels stabilize. The CBD will still draw new tenants due to the numerous amenities provided, but the large availabilities will put downward pressure on rents.

Space remains tight outside the CBD with a direct vacancy of 7.9% for all space and 5.8% in class A space. Vacancy in Non-CBD class A space was only lower once, in Q4 14, since 2008. Space will remain tight in suburban assets even with the delivery of Gateway as the high price of parking and taxes will deter most tenants from relocating to the CBD.

OUTLOOK

Steady, organic growth of the Richmond office market will continue as existing firms expand payrolls and new startup firms form. CBD

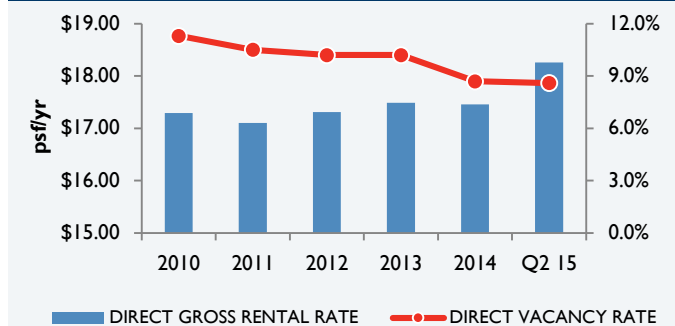
vacancy will remain at elevated levels for the near future and will slowly decline to historic norms with steady employment growth driving absorption and decreasing vacancy. Riverfront Plaza and Bank of America Center are on the market for sale providing investors the first opportunity to purchase a multi-tenant CBD office tower in Richmond since 2011.

Only a handful of large block space exists outside of the CBD leaving large users with limited options. Suburban vacancy will stay low particularly for class A space but the high CBD vacancy will mute the upward pressure on rents. Secondary suburban submarkets will benefit as space becomes tight in Innsbrook and Glenside, the two most active submarkets. Demand for non-traditional office space and creative, adaptive re-use projects will remain strong.

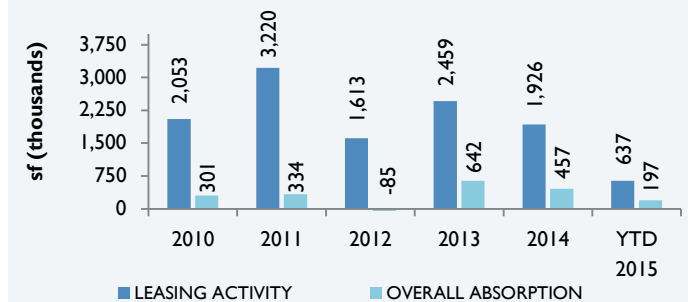
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.7%	9.3%	-1.4 pp	▼
Direct Asking Rents (psf/yr)	\$17.63	\$18.26	3.6%	▲
YTD Leasing Activity (sf)	776,965	637,171	-18.0%	◀▶

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	10,447,624	11.4%	11.1%	97,550	321,500	0	37,115	31,381	\$21.57	\$24.56
East End	351,429	4.4%	4.4%	0	0	0	0	0	\$12.85	N/A
Far West End	581,739	3.1%	3.1%	5,225	110,000	0	(933)	(933)	\$16.70	\$22.00
Glenside/Broad St	5,021,239	7.3%	6.6%	56,338	0	37,658	23,785	28,386	\$18.02	\$20.87
Hull Street Corridor	2,405,694	2.5%	2.5%	7,955	0	0	1,563	1,563	\$14.90	N/A
I-95 N/Ashland	431,846	8.6%	8.6%	2,670	0	0	0	0	\$11.91	N/A
I-95 N/Chamberlayne	151,011	3.5%	3.5%	6,900	0	0	3,490	3,490	\$12.17	N/A
Innsbrook	7,729,937	9.4%	5.7%	139,713	0	0	(26,135)	20,265	\$18.30	\$19.36
Iron Bridge Corridor	1,525,013	10.7%	10.7%	2,327	43,000	0	(10,381)	(10,381)	\$15.49	\$17.27
Lakeside	110,481	13.8%	13.8%	2,716	0	0	2,716	2,716	\$12.00	N/A
Mechanicsville	942,660	17.9%	17.8%	3,304	0	63,000	66,987	66,987	\$17.64	\$24.50
Midlothian Corridor	3,737,196	13.7%	13.4%	77,654	0	0	38,272	26,044	\$15.85	\$17.64
Monroe Ward	1,538,173	6.8%	6.5%	32,109	12,500	25,000	5,890	5,890	\$16.16	N/A
Near West End	1,071,447	17.6%	17.6%	2,980	0	0	36,535	36,535	\$13.93	N/A
North Broad	2,830,486	5.0%	5.0%	549	0	0	(30,758)	(30,758)	\$17.00	N/A
Northside	101,581	0.0%	0.0%	0	0	0	0	0	N/A	N/A
Parham East	2,421,093	14.0%	14.0%	19,371	0	0	3,540	3,540	\$15.46	N/A
Parham South	854,506	17.3%	16.7%	30,706	0	0	17,875	14,900	\$13.73	N/A
Rt 288 Corridor	1,166,515	12.7%	12.3%	30,541	0	0	(16,219)	(10,693)	\$17.83	\$19.24
Shockoe Bottom	1,492,545	0.3%	0.3%	8,312	0	0	8,095	8,095	\$19.37	\$23.00
Stony Point/Huguenot	956,474	7.1%	6.5%	44,450	0	0	(7,078)	(4,332)	\$18.83	\$20.30
West Creek	1,788,413	2.3%	2.3%	9,964	0	60,000	24,941	24,941	\$24.50	\$24.50
West End	3,145,689	8.6%	8.6%	48,797	44,378	0	(22,464)	(20,849)	\$16.06	\$19.47
TOTALS	50,800,791	9.3%	8.6%	637,171	531,378	185,658	156,836	196,787	\$18.15	\$20.82

* TOTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Suntrust Center	CBD	LeClair Ryan	A	46,000
Jackson Center	North Broad	VCU Health System	B	34,000
Libbie Mill	West End	Rutherford	A	30,307
Westmoreland Complex	Near West End	United Way	B	22,979
SIGNIFICANT Q2 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Advanced Orthopaedic	Parham East	ARC Healthcare Trust II	\$20,700,000 / \$345	60,000
Campbell Building	Glenside/Broad St	Grander Capital Partners	\$5,200,000 / \$94	55,025
203 E Cary St	Monroe Ward	Verne Burlage	\$5,200,000 / \$130	39,900
SIGNIFICANT Q2 2015 DELIVERIES	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Reynolds Commons	Glenside/Broad	Sheltering Arms	Q2 2015	37,658 (69%)
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% PRELEASED)
Gateway Plaza	CBD	McGuireWoods LLP	Q3 2015	321,500 (75%)
Towne Center West	Far West End	VCU	Q1 2016	110,000 (100%)
Libbie Mill	West End	Rutherford	Q3 2015	66,000 (88%)