

Office Snapshot 2Q 2016

RICHMOND, VA

RICHMOND OFFICE

Economic Indicators

	2Q 15	2Q 16	12-Month Forecast
Richmond Employment	646k	668k	▲
Richmond Unemployment	4.7%	3.9%	■
U.S. Unemployment	5.4%	4.9%	▼

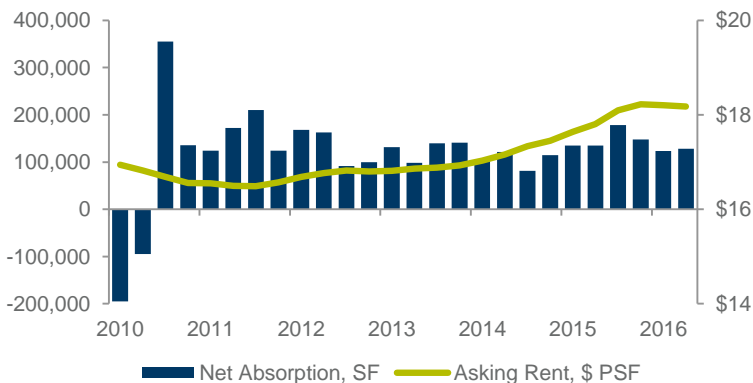
Market Indicators (Overall, All Classes)

	2Q 15	2Q 16	12-Month Forecast
Overall Vacancy	9.3%	8.6%	▼
Net Absorption	108k	126k	▲
Under Construction	531k	329k	■
Average Asking Rent*	\$18.15	\$18.04	▲

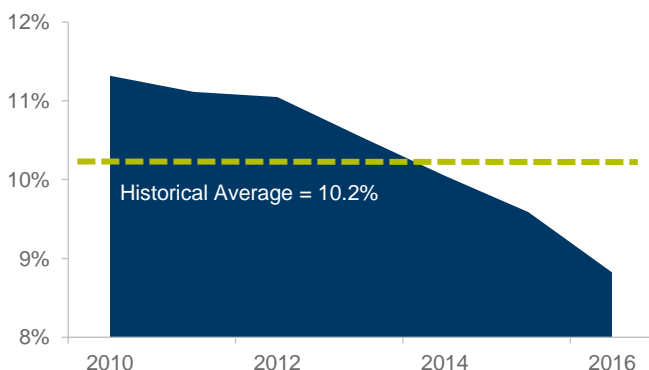
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

Economic growth continues despite international uncertainty stemming from the Brits voting to exit the European Union (EU). The Fed will likely hold off on raising interest rates this year as the EU and the United Kingdom carve a path forward. The U.S. economy added 287,000 jobs from May to June after only adding 11,000 the month prior. The economy generated 2.5 million jobs from June 2015 to June 2016 and now has 5.7 million jobs over the peak in December 2007. The Richmond economy added 24,100 jobs from May 2015 to May 2016. Of the jobs added, 8,600 were in heavy office using sectors.

Market Overview

Year-to-date office absorption remains subdued down 78,086 square feet (SF) compared to the same time last year. Leasing activity is up 73,876 SF suggesting an increase in absorption to come. VCU Health staked a claim in Short Pump with the development of a 111,000- SF medical office building in Towne Center West. Scott's Addition continues to attract office tenants seeking a "city vibe." Dominion Resources will demolish a six-story office building and replace it with a 20-story, 908,000-SF tower at 111 S. Sixth street and will construct a seven-floor, 68,000 SF tower at 701 E Cary.

Overall office vacancy declined by 70 basis points from a year ago. Suburban submarkets continue to tighten led by the three largest submarkets: Innsbrook, Glenside/Broad Street and Midlothian Corridor. Office vacancy declined 160, 60, and 480 basis points, respectively, from 2Q 2015. The Midlothian Corridor took the longest to improve and benefited from the tightness in Innsbrook and Glenside/Broad Street in recent quarters. CBD office vacancy increased 410 basis points from 2Q 2015 to 15.2%. Vacancy is likely to increase further with the addition of the SunTrust anchored tower. A host of new CBD owners are aggressively pursuing deals with Class A asking rents declining by nearly a dollar since 2Q 2015.

Outlook

Organic job growth stemming from the eight Fortune 500 companies headquartered in the region (up from six a year ago) along with federal and state government centers anchors a dynamic economy that added 2,152 startup firms in 2015. Year-over-year job growth continued into its 71st consecutive month in May and continues to drive office fundamentals. Secondary suburban submarkets will benefit from spill-over activity as Innsbrook, Glenside/Broad Street and Midlothian continue to tighten. Softness in the CBD will mute increasing asking rents in the suburbs.

MARKETBEAT

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RICHMOND, VA



CUSHMAN & WAKEFIELD

THALHIMER

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	10,977,958	62,436	1,600,728	15.2%	90,676	(46,635)	97,651	125,000	\$21.28	\$23.62
East End	351,429	0	8,350	2.4%	0	(1,500)	0	0	\$14.70	N/A
Far West End	691,744	0	2,017	0.3%	1,000	115,027	1,636	22,000	\$14.76	\$22.00
Glenside/Broad St	5,033,979	4,812	330,888	6.7%	(37,506)	(42,009)	105,255	0	\$17.74	\$20.77
Hull Street Corridor	2,356,294	0	59,573	2.5%	8,486	1,128	17,007	0	\$13.93	N/A
I-95 N/Ashland	458,563	7,000	47,150	11.8%	(12,816)	13,901	6,518	0	\$13.07	N/A
I-95 N/Chamberlayne	170,868	0	8,793	5.1%	9,410	1,200	3,910	0	\$15.03	\$25.00
Innsbrook	7,767,270	56,952	551,063	7.8%	(58,126)	(83,592)	394,940	0	\$19.69	\$20.30
Iron Bridge Corridor	1,522,608	0	156,918	10.3%	27,245	28,916	28,988	0	\$15.38	\$17.31
Lakeside	110,481	0	13,609	12.3%	0	(7,326)	0	0	\$14.47	N/A
Mechanicsville	953,889	0	121,491	12.7%	(5,130)	10,458	4,500	0	\$16.35	\$24.50
Midlothian Corridor	4,846,428	33,469	385,713	8.6%	(6,290)	(25,199)	80,123	0	\$16.36	\$17.28
Monroe Ward	1,696,667	0	53,561	3.2%	10,922	40,769	11,644	0	\$16.37	N/A
Near West End	1,405,774	0	147,926	10.5%	92,324	109,226	14,301	77,000	\$14.70	N/A
North Broad	2,874,334	0	114,758	4.0%	(15,830)	(15,830)	3,996	0	\$18.49	N/A
Northside	115,963	0	0	0.0%	0	0	0	0	N/A	N/A
Parham East	2,425,247	0	123,982	5.1%	(14,990)	(70,998)	19,834	0	\$16.60	N/A
Parham South	861,623	2,908	128,557	15.3%	1,288	14,750	67,654	0	\$14.33	N/A
Rt 288 Corridor	1,176,543	7,500	134,509	12.1%	2,992	1,837	22,587	0	\$17.90	\$18.94
Shockoe Bottom	1,364,094	0	43,536	3.2%	(3,483)	3,714	12,805	0	\$16.23	\$23.00
Stony Point/Huguenot	956,559	0	43,354	4.5%	(11,820)	(1,151)	16,266	55,000	\$19.68	\$21.20
West Creek	1,788,413	0	41,059	2.3%	0	0	0	0	\$24.50	\$24.50
West End	3,209,657	1,484	264,919	8.3%	47,989	49,810	25,560	50,000	\$16.03	\$17.44
RICHMOND, VA TOTALS	53,116,385	176,561	4,382,454	8.6%	126,341	96,496	935,175	329,000	\$18.04	\$20.36

Only includes properties 10,000 SF and larger

*Rental rates reflect gross asking \$psf/year.

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	21,325,630	138,974	1,616,826	8.2%	(18,750)	(25,281)	584,682	312,000	\$20.36	\$20.93
Class B	25,234,487	36,103	2,349,199	9.7%	81,857	45,385	279,711	17,000	\$16.67	\$16.66
Class C	6,556,268	1,484	416,429	6.4%	63,234	76,392	70,782	0	\$13.31	\$13.13

Key Lease Transactions 2Q 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4880 Sadler Road	19,732	Massachusetts Mutual Life Insurance	Lease	Innsbrook
10900 Nuckols Road	18,885	EVB	Lease	Innsbrook
1500 E Parham Road	15,920	Omicare Inc	Lease	Innsbrook

Key Sales Transactions 2Q 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Glen Forest Portfolio	158,383	Chevy Chase Land Company/ Grander Capital Partners	\$14,300,000 / \$90	Glenside/Broad St.
Towne Center West	110,000	Chris Currin and Neil Zemmel/VCU	\$40,000,000 / \$364	West End

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