

# MARKETBEAT OFFICE SNAPSHOT

## RICHMOND, VA

A Cushman & Wakefield Research Publication

Q3 2014



### ECONOMIC OVERVIEW

This September marked the Richmond areas 52nd consecutive month of year-over-year employment gains. In June, Richmond surpassed its pre-recession employment peak set in June 2007 by 7,500 jobs. The financial activities industry has recouped all 4,300 jobs lost in the recession adding 7,400 since the low in January 2010. In June of 2014, the professional and business services industry exceeded its pre-recession peak set in June 2008 by 1,400 jobs, but as of August employment in the information sector remained 4,700 jobs below the pre-recession peak.

Steady employment gains continue to drive improvements in office space fundamentals. The direct vacancy rate for office space decreased to 9.3% in the third quarter from an annual average of 10.2% in 2013. Direct asking rates for class A space increased by \$2.05 per square foot (psf) since the recessions low in 2011. The improving fundamentals allow landlords to offer fewer concessions..

Large block space availability continues to tighten in suburban office environments. Only nine non-CBD buildings currently have large block availability, defined as contiguous space 40,000 square feet (sf) and above. Of these nine, only four are considered class A buildings. SunTrust gave notice to terminate at WestMark II in the Innsbrook submarket vacating approximately 80,000 sf but with significant leases pending large block availability will remain constrained in the area.

### SALES ACTIVITY

Sales activity of office properties has bounced back nicely from the depth of the recession when virtually no transactions occurred. According to Real Capital Analytics, the volume of sales for office properties reached \$52.1 million in Q3 2014 down from \$61.7 million in Q2 2014. Year-over-year quarterly office sales volume decreased by 70% due primarily to the sale of the MWV headquarters which traded for \$143.6 million or \$461.8 psf in July of 2013.

Third quarter transactions reported significant sales particularly in the Innsbrook Corporate Center. The Concourse at Wyndham, a 163,281-sf portfolio, traded for \$20.8 million or \$127 psf. The Innsbrook Portfolio, a 195,881-sf portfolio, traded for \$19.85 million or \$101 psf.

The trend of turning class B and C office buildings and repurposing them as residential, hotels, and mixed-use continued in the

Richmond CBD. The former Signet Bank headquarters at 8th and Main Street sold for \$8.5 million taking an additional 200,000 sf of space off the market. The conversion adds to the nearly 1.5 million sf of office space that has been taken off the market in the CBD in recent years.

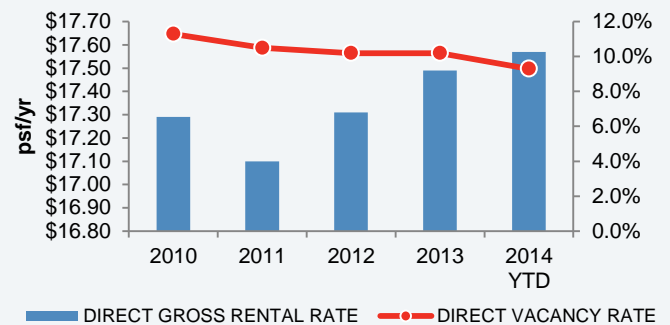
### OUTLOOK

The market continues toward a slow recovery as employment growth persists. Vacancy will continue to decrease and concessions will curb. Expect rental rates to rise high enough for speculative construction to commence by late 2015 into 2016.

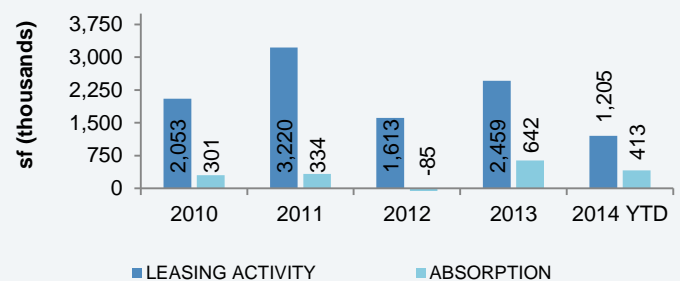
### STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.9%	10.1%	0.8pp	▼
Direct Asking Rents (psf/yr)	\$17.33	\$17.60	1.6%	◄►
YTD Leasing Activity (sf)	1,980,236	1,178,683	-42.0%	▲

### 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	10,651,123	12.0%	11.6%	204,160	321,500	0	81,245	143,470	\$20.55	\$25.15
East End	351,429	4.4%	4.4%	0	0	0	(8,500)	(8,500)	\$15.02	N/A
Far West End	581,739	4.1%	4.1%	8,115	197,000	0	(1,545)	(1,545)	\$16.89	\$22.00
Glenside/Broad St	4,607,010	8.0%	7.1%	167,855	37,658	0	41,425	6,610	\$17.16	\$19.67
Hull Street Corridor	2,359,113	4.3%	4.3%	14,698	0	0	20,818	20,818	\$12.75	N/A
I-95 N/Ashland	431,846	8.6%	8.6%	8,740	0	0	8,644	8,644	\$13.21	N/A
I-95 N/Chamberlayne	151,011	12.5%	12.5%	0	0	0	1,154	1,154	\$11.99	N/A
Innsbrook	7,727,361	11.9%	8.4	247,587	0	0	90,081	(3,419)	\$17.84	\$19.07
Iron Bridge Corridor	1,513,013	10.1%	10.1%	4,496	43,000	15,000	(1,509)	(1,509)	\$14.83	\$17.29
Lakeside	125,193	20.3%	20.3%	0	0	0	(1,196)	(1,196)	\$10.96	N/A
Mechanicsville	888,560	16.7%	16.7%	7,426	0	0	(14,297)	(12,997)	\$17.65	N/A
Midlothian Corridor	3,731,774	14.8%	14.7%	252,255	0	0	(43,948)	(45,737)	\$15.88	\$17.72
Monroe Ward	1,556,203	7.4%	7.7%	38,503	0	0	(19,466)	(23,466)	\$15.95	N/A
Near West End	1,299,275	19.1%	19.1%	5,553	0	0	(3,566)	(3,566)	\$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	13.9%	13.9%	39,364	0	0	7,360	7,360	\$14.89	N/A
Parham South	854,506	18.4%	18.4%	107,904	0	0	84,359	84,359	\$13.36	N/A
Rt 288 Corridor	1,154,994	14.2%	13.4%	25,293	0	0	(86,632)	(92,161)	\$18.01	\$19.63
Shockoe Bottom	1,492,545	2.7%	2.7%	20,437	0	0	28,546	28,546	\$18.73	\$20.50
Stony Point/Huguenot	957,607	7.9%	5.0%	31,204	0	0	(24,752)	3,085	\$17.40	\$19.51
West Creek	1,735,413	0.0%	0.0%	0	180,000	0	0	0	\$18.50	N/A
West End	3,135,636	7.4%	7.4%	63,776	44,378	0	19,251	20,622	\$14.14	\$19.46
<b>TOTALS</b>	<b>50,615,656</b>	<b>10.1%</b>	<b>9.3%</b>	<b>1,249,228</b>	<b>823,536^</b>	<b>121,662</b>	<b>285,996</b>	<b>239,099</b>	<b>\$17.50</b>	<b>\$21.23</b>

\* TOTAL RATES REFLECT ASKING \$PSF/YEAR; ^Data has been revised after the release of national market statistics.

As of 1Q2014, only properties 10,000 sf and larger included.

## MARKET HIGHLIGHTS

SIGNIFICANT Q3 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
4501 & 4502 Highwoods Parkway and 4600 Cox	Innsbrook	Markel Corporation	A	303,198
NorthShore Commons II	Innsbrook	Connexions	A	65,000
9950 Mayland Drive	Innsbrook	Elephant Insurance	A	54,000
SunTrust Center	CBD	GSA- US Attorney	A	29,333
Gateway Plaza	CBD	CCA Industries	A	25,000
SIGNIFICANT Q3 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Innsbrook Portfolio	Innsbrook	Lingerfelt	\$19,850,000 / \$101	195,881
Concourse at Wyndham	Innsbrook	Westdale	\$20,800,000/\$127	163,281
3805 Cutshaw	CBD	C.A. Harrison	\$2,767,000 / \$21	132,434
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% PRELEASED)
Gateway Plaza	CBD	McGuireWoods LLP	Q1 2015	321,500 (75.2%)
West Creek Medical Park	West Creek	MEDARVA	Q1 2015	180,000 (67.0%)
Bodies In Motion	Far West End	VCU	Q4 2015	197,000 (55.8%)
Libbie Mill	West End	RMHF	Q4 2014	44,378 (77.6%)
6627 W Broad Street (Reynolds Commons)	Glenside/Broad St	NA	Q2 2015	37,658 (62.7%)