

# Office Snapshot Q3 2015

RICHMOND, VA

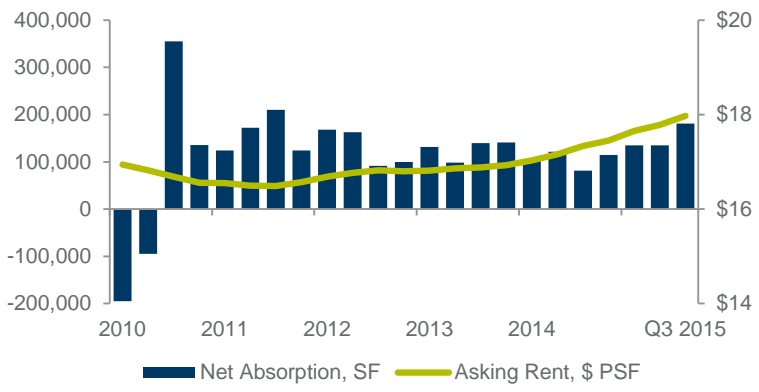


## RICHMOND OFFICE

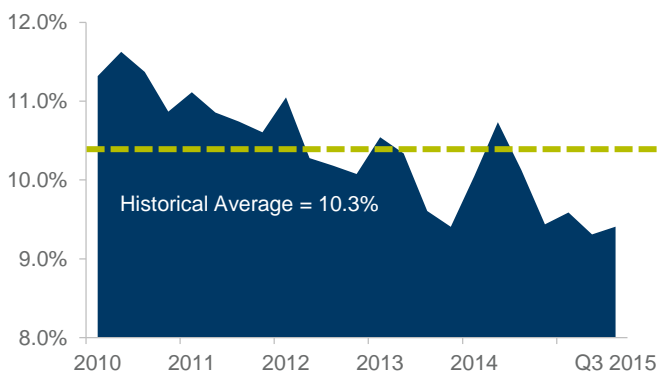
Economic Indicators	Q3 14	Q3 15	12-Month Forecast
Richmond Employment	633k	637k	▲
Richmond Unemployment	5.4%	4.9%	▼
U.S. Unemployment	6.1%	5.1%	▼

Market Indicators	Q3 14	Q3 15	12-Month Forecast
Overall Vacancy	10.1%	9.4%	▼
Net Absorption	129k	312k	■
Under Construction	824k	210k	■
Overall Average Asking Rent	\$17.50	\$18.67	▲

### Net Absorption/Asking Rent 4Q TRAILING AVERAGE



### Overall Vacancy



### Economy

The Richmond unemployment rate declined to 4.9% in August 2015 mostly due to the seasonal fluctuations in the labor force. The streak of year-over-year employment growth ended in August at 61 months. Preliminary employment figures in August 2015 were 0.2% lower than a year ago. Richmond continues to cultivate startup firms as 2,008 were created in 2014 and an additional 528 in Q1 2015. The region has averaged 1,583 new startup firms per year since 2005.

### Market Overview

Vacancy rates declined in 13 of the 23 submarkets in Q3 including all of the largest and most active suburban submarkets. Despite vacancy declining in the majority of submarkets, the overall office vacancy rate spiked 320 basis points (bp) from 9.3% to 12.5%. The primary driver for this increase was the delivery of Gateway Plaza in the CBD where vacancy increased from 12.5% to 15.1%. Gateway Plaza is a 321,500-square-foot (sf) office tower anchored by McGuire Woods and is 84% leased. The building delivered in September 2015 and has only 51,450 sf of space available. Most of Gateway Plaza's tenants shifted from existing buildings leaving large blocks of vacancy in their wake.

Innsbrook, the region's largest suburban office submarket, reported a positive 101,252 sf of absorption as the McKesson Corporation took occupancy of 156,533 sf at Deep Run III. Also in Innsbrook, RetailData signed a 42,539-sf lease at WestMark Two. Parham Place I, II, & III was the only office sale transaction of note to occur in the quarter. The 88,890-sf property, leased to Royall & Co., traded for \$12.75 million (\$143.44 per square foot). Average asking rents for the Richmond office market increased 2.9% from the previous quarter and 6.7% from a year ago.

### Outlook

Richmond's strongest suburban submarkets continue to tighten and are driving rent growth in the market. Direct vacancy in Innsbrook and Glenside/Broad Street is now 5.9%. Available space, particularly in these two submarkets, will continue to contract. Vacancy in the CBD will decline as new and expanding firms fill the hole caused by Gateway Plaza. Office cap rates, as measured by RCA, contracted in Q3 2015 to 6.7% nationally but remains 110 bp above the Q3 2007 figure. The office cap rate in non-major markets is 7.2%. The spread between ten-year treasuries is 452 and 495 bp respectively. The long-term average spread is 411 bp overall and 451 bp in non-major markets.

## MARKETBEAT

## Office Snapshot Q3 2015

RICHMOND, VA



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
CBD	62	10,798,124	27,671	1,472,735	13.9%	28,162	57,799	0	\$21.50	\$24.16
East End	18	351,429	0	6,850	1.9%	8,500	8,500	0	\$12.85	N/A
Far West End	20	581,739	0	15,161	2.6%	4,501	3,568	110,000	\$15.54	\$22.00
Glenside/Broad St	75	4,996,239	32,550	295,480	6.6%	11,332	17,674	0	\$18.55	\$21.17
Hull Street Corridor	41	2,405,694	0	59,639	2.5%	1,640	3,203	0	\$14.93	N/A
I-95 N/Ashland	14	431,846	7,000	37,272	10.3%	(7,000)	-7,000	0	\$12.51	N/A
I-95 N/Chamberlayne	12	151,508	0	6,515	4.3%	2,300	5,790	0	\$12.23	N/A
Innsbrook	127	7,725,820	252,877	454,718	9.2%	101,252	133,161	0	\$18.76	\$18.90
Iron Bridge Corridor	43	1,523,013	0	164,483	10.8%	(2,187)	(12,568)	43,000	\$15.49	\$17.27
Lakeside	6	110,481	0	15,283	13.8%	0	2,716	0	\$12.00	N/A
Mechanicsville	35	942,485	900	150,701	16.1%	4,457	83,804	0	\$17.57	\$24.50
Midlothian Corridor	85	3,738,059	14,017	437,269	12.1%	35,552	70,930	0	\$15.96	\$17.44
Monroe Ward	42	1,500,673	0	99,105	6.6%	28,353	9,243	0	\$15.81	N/A
Near West End	45	1,071,447	0	185,066	17.3%	911	37,446	12,500	\$13.97	N/A
North Broad	23	2,830,486	0	109,947	3.9%	32,679	1,921	0	\$17.00	N/A
Northside	5	115,963	0	0	0.0%	600	600	0	N/A	N/A
Parham East	34	2,418,093	0	336,373	13.9%	1,802	5,342	0	\$16.69	N/A
Parham South	37	854,506	0	137,756	16.1%	5,777	20,677	0	\$13.72	N/A
Rt 288 Corridor	36	1,166,515	0	132,780	11.4%	27,005	16,312	0	\$17.89	\$19.46
Shockoe Bottom	16	1,492,748	0	13,278	0.9%	5,666	13,761	0	\$19.71	\$23.00
Stony Point/Huguenot	25	956,474	6,423	45,062	5.4%	(4,641)	(8,973)	0	\$18.94	\$20.50
West Creek	13	1,788,413	0	41,059	2.3%	0	18,941	0	\$24.50	\$24.50
West End	89	3,145,689	0	249,131	7.9%	25,398	4,529	44,378	\$15.58	\$16.73
<b>RICHMOND, VA TOTALS</b>	<b>903</b>	<b>51,097,444</b>	<b>341,438</b>	<b>4,465,663</b>	<b>9.4%</b>	<b>312,059</b>	<b>487,376</b>	<b>209,878</b>	<b>\$18.67</b>	<b>\$20.99</b>

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

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	153	20,635,026	329,657	1,445,877	8.6%	167,242	392,080	197,378	\$20.99	\$21.49
Class B	507	23,515,935	11,781	2,462,919	10.5%	129,406	44,602	12,500	\$16.61	\$16.61
Class C	243	6,946,483	0	556,867	8.0%	15,411	50,694	0	\$13.25	\$13.12

## Key Lease Transactions Q3 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
WestMark Two	42,539	RetailData	Lease	Innsbrook
1460 E Parham	31,744	Advisory Board	Lease	Parham East
Riverfront Plaza	27,418	PNC	Lease	CBD
Gateway Plaza	26,047	TowneBank	Lease	CBD

## Key Sales Transactions Q3 2015

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
Parham Place I, II, & III	88,890	JEDD of SC/Select Income REIT	\$12,750,000	Parham East

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## Brad McGetrick

Director, Brokerage Services  
11100 W. Broad St.  
Glen Allen, VA 23060  
Tel: +1 804 697 3558  
Fax: +1 804 697 3479  
[brad.mcgetrick@thalhimer.com](mailto:brad.mcgetrick@thalhimer.com)