

MARKETBEAT

Richmond, VA

Office Q3 2016



RICHMOND, VA OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Richmond Employment	654k	675k	▲
Richmond Unemployment	4.4%	3.8%	▲
U.S. Unemployment	5.2%	4.9%	▼

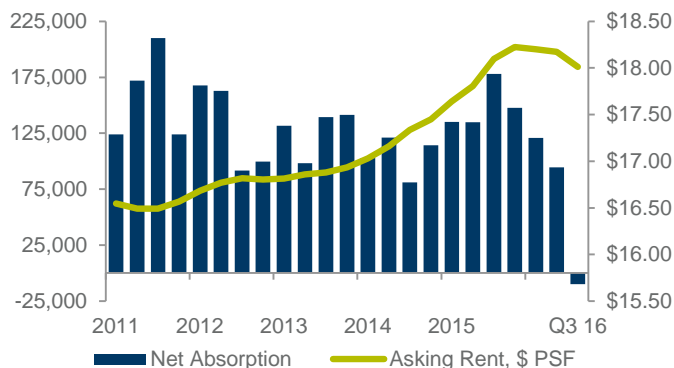
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	9.4%	9.0%	▼
Net Absorption (sf)	302k	-115k	▲
Under Construction (sf)	210k	317k	■
Average Asking Rent*	\$18.67	\$18.03	■

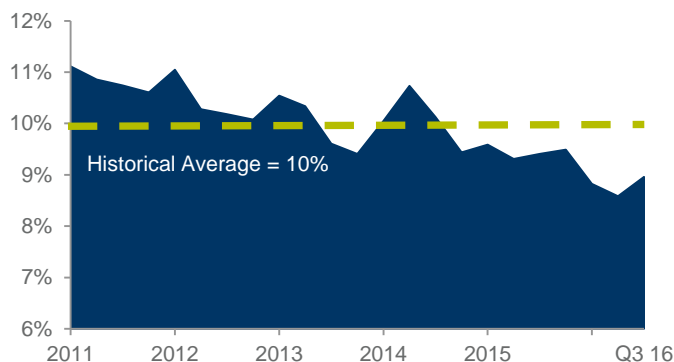
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. economy added 2.4 million jobs in September 2016 from a year ago. Approximately 3.0 million people entered the labor force and the participation rate increased as the tighter market entices people back into the economic fold. Hourly wages increased 2.6% over the same time period. Richmond added 21,400 jobs over a year ago of which 9,300 were in Financial and Professional and Business Service sectors. Richmond's recent growth in Financial and Professional jobs makes it one of the 20 fastest metros for office sector job growth in the nation.

Market Overview

The International City/County Management Association (ICMA) will open an office in Richmond's Central Business District (CBD). This is the ICMA's first expansion out of Washington D.C. After evaluating 20 different site locations throughout the country Richmond was selected as "the ideal location due to long-term and strategic scalability, workforce availability, and favorable quality of life for associates." The ICMA was attracted in part due to the affordability in rents in the CBD compared to D.C.

Overall office vacancy was 9.0% in Q3 2016, a decrease from 9.4% a year ago. Vacancy remains elevated in the CBD at 14.5%, a 110 basis point decline from a quarter ago. Overall Class A asking rents in the CBD have declined by 4.0% since Q1 2016 to \$23.36 per square foot (PSF). Class A rents in the suburbs increased by 1.5% reaching \$19.21 PSF. Overall vacancy in suburban markets reported 7.5%, a 40 basis point increase from Q1 2016. Overall absorption of negative 153,490 SF is due in part to Capital One's lease at Liberty Plaza II (135,375 SF) expiring. Year-to-date direct absorption in the CBD measured positive 65,036 SF through Q3 2016 and negative 26,035 SF in suburban markets.

Outlook

Landlords continue to aggressively chase deals in the CBD offering lower rents and attractive concessions to draw tenants. Overall absorption for the year should end in positive territory but it will not come close to matching the nearly half million SF of absorption in 2015 and 2014. Vacancy will continue to tighten in the CBD as organic growth from expanding companies and new startups absorbs availabilities. Rents in the CBD will stabilize during fourth quarter and will continue to increase in the suburbs.

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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	10,668,819	62,436	1,487,822	14.5%	59,152	15,017	210,402	125,000	\$21.07	\$23.36
East End	351,429	0	2,400	0.7%	6,000	4,450	6,000	0	\$14.61	N/A
Far West End	692,968	0	2,017	0.3%	0	116,251	5,994	22,000	\$16.00	\$22.00
Glenside/Broad St	5,031,624	0	363,358	7.2%	-47,653	-74,038	218,012	0	\$18.15	\$20.47
Hull Street Corridor	2,336,424	0	56,960	2.4%	-3,298	868	18,770	0	\$14.31	N/A
I-95 N/Ashland	458,563	7,000	37,974	9.8%	3,138	23,439	9,094	0	\$13.15	N/A
I-95 N/Chamberlayne	183,708	0	6,518	3.6%	2,275	3,475	3,910	0	\$15.26	\$25.00
Innsbrook	7,770,743	43,360	711,055	9.7%	-82,406	-207,098	543,163	0	\$20.19	\$20.64
Iron Bridge Corridor	1,555,108	0	161,436	10.4%	5,690	35,538	51,558	55,000	\$14.89	\$17.31
Lakeside	110,481	0	13,609	12.3%	0	-7,326	0	0	\$14.47	N/A
Mechanicsville	953,889	1,370	130,742	13.9%	-9,719	3,337	21,410	0	\$16.62	\$24.50
Midlothian Corridor	5,025,505	52,894	412,264	9.3%	-20,720	-34,788	150,036	0	\$16.76	\$17.28
Monroe Ward	1,708,453	0	108,952	6.4%	-18,462	22,307	11,644	0	\$16.56	N/A
Near West End	1,176,583	11,926	162,995	14.9%	-17,449	12,451	33,190	60,000	\$15.85	N/A
North Broad	2,894,334	0	114,758	4.0%	26,180	-15,830	3,996	0	\$18.49	\$22.00
Northside	115,963	0	0	0.0%	0	0	0	0	N/A	N/A
Parham East	2,425,618	0	152,020	6.3%	-28,038	-99,036	23,955	0	\$15.61	N/A
Parham South	861,623	2,908	127,096	15.1%	8,535	23,285	99,233	0	\$14.34	N/A
Rt 288 Corridor	1,196,543	7,500	136,446	12.0%	-11,901	-15,064	45,459	0	\$18.25	\$19.06
Shockoe Bottom	1,330,894	0	15,853	1.2%	-817	-1,803	14,305	0	\$16.66	N/A
Stony Point/Huguenot	956,559	0	60,805	6.4%	4,836	-11,300	24,607	55,000	\$19.92	\$21.36
West Creek	1,788,413	0	33,938	1.9%	869	869	6,252	0	\$24.50	\$24.50
West End	3,226,709	1,484	242,763	7.6%	8,882	51,506	45,639	0	\$15.87	\$17.06
Richmond, VA Totals	52,820,953	190,878	4,541,781	9.0%	-114,906	-153,490	1,546,629	317,000	\$18.03	\$20.45

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	21,167,790	106,377	1,758,260	8.8%	-145,030	-186,101	971,203	262,000	\$20.45	\$20.97
Class B	25,068,357	83,017	2,364,647	9.8%	29,535	-26,090	461,709	55,000	\$16.62	\$16.64
Class C	6,584,806	1,484	418,874	6.4%	589	58,701	113,717	0	\$12.77	\$12.77

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Riverfront Plaza	55,941	ICMA	Lease	CBD
Pinehill Plaza	15,390	Allianz	Lease	Tricities
Riverfront Plaza	11,965	Avepoint	Renewal / Expansion	CBD
3400 W Leigh	10,161	CloudBees	Lease	Near West End

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
West End Portfolio	158,383	Chevy Chase Land/Grander Capital	\$14,300,000 / \$90	Glenside/Broad St
2018 Centre	142,015	NPV Direct/The Premier Companies	\$10,400,000 / \$73	Parham South
Towne Center West	110,000	Currin/VCU	\$40,000,000 / \$364	Short Pump
Village Bank HQ	73,783	Village Bank/Uphoff Ventures	\$12,300,000 / \$166	Midlothian Corridor

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