

# MARKETBEAT OFFICE SNAPSHOT

## RICHMOND, VA

A Cushman & Wakefield Research Publication

Q4 2013



### ECONOMIC OVERVIEW

The U.S. economy continues to show a moderate recovery since the Great Recession officially ended in 2009. The quoted unemployment rate dropped to 7.0% in November although many observers continue to comment on dropping labor market participation rates as a driver for the lower unemployment rate as opposed to new job creation. Efficiencies related to advancing technology and a natural reluctance of employers to staff up too quickly continues to affect the overall employment picture. On the positive side Moody's Analytics Chief Economist Mark Zandi projects that 2014 will be the best year since 2006 for office-using jobs.

On a national level the office market is gaining strength. Cushman & Wakefield reports national office leasing activity exceeded over 205 million square feet (msf) in 2013. This positive gain was offset by the completion of 20.4 msf of office space throughout the year. Within the 43 major markets tracked by Cushman & Wakefield, the overall vacancy rate stands at 15.8% by the end of 2013. Average rents in those markets stand at \$29.81 per square foot (psf).

How does the Richmond MSA stack up in comparison to these national statistics? Quite well as seen in our year end office market and employment numbers. As of November the Richmond MSA jobless rate fell to 5.4% compared to 5.7% a year earlier. Office vacancy is solidly in single digits with a 9.4% overall vacancy rate. Leasing activity is up substantially compared to 2012 with over 2.0 million square feet (msf), compared to just over 1.5 msf in 2012. Year-to-date overall net absorption of office space is up substantially at 565,114 sf compared to only 398,716 sf for year-end 2012.

Average full service asking rents considering all classes of buildings is \$16.95 psf with the newest class A space averaging \$21.15 psf.

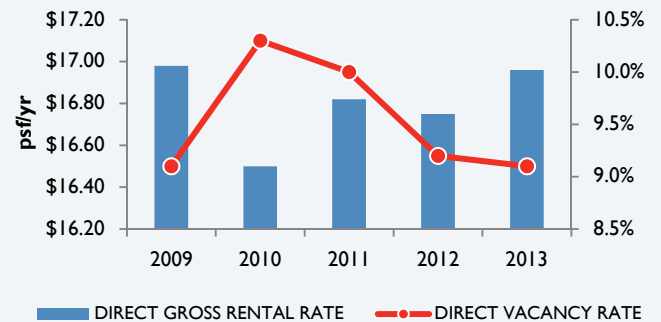
### SIGNIFICANT LEASE TRANSACTIONS

During 2013, major leases were signed at Deep Run 3 and WestMark Two in the Innsbrook submarket. Travelers Insurance took 71,800 sf at Deep Run 3 and Homecare Delivered leased 42,357 at WestMark Two. WestMark Two also enjoyed an expansion taking Magellan Medical Administration up to a total of 63,205 sf. West Creek Medical Park signed up Richmond Eye & Ear Healthcare Alliance for 40,658 sf.

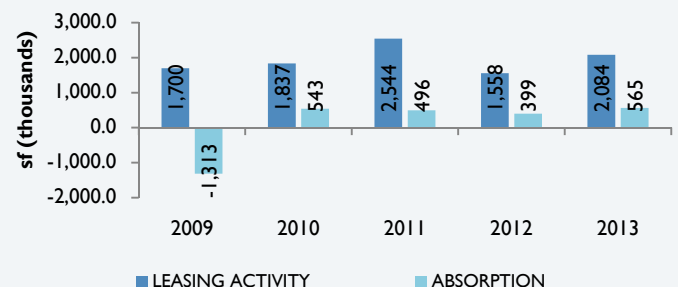
### STATS ON THE GO

	Q4 2012	Q4 2013	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.1%	9.4%	-0.7pp	▼
Direct Asking Rents (psf/yr)	\$16.75	\$16.95	1.2%	◄►
YTD Leasing Activity (sf)	1,557,626	2,084,375	33.8%	▲

### DIRECT RENTAL VS. VACANCY RATES



### OVERALL ACTIVITY VS. ABSORPTION



## INVESTMENT SALES

Approximately \$223 million worth of occupied office properties in eight separate transactions traded in 2013. Select Income REIT's acquisition of the 310,000-square foot MeadWestvaco headquarters building located on the James River in downtown Richmond broke a Richmond record for value per square foot when it traded for \$143,600,000 (\$463 psf). The Virginia Urology Center, a 53,000-square foot suburban medical office building traded at \$19,200,000 or \$362 psf. These high values were driven by high rental rates and long term leases.

Two significant office assets in the Innsbrook submarket totaling nearly 400,000 sf are currently under contract and expected to close in Q1 2014. Additional investment opportunities are expected to be offered in the market as well during Q1 2014.

## OUTLOOK

As seen in the above statistics the Richmond MSA economy is in much better shape than other markets around the country beating the national averages for unemployment. The office market is in

a sustainable recovery with a single digit vacancy rate and positive absorption of space and increasing leasing activity.

There were no new construction deliveries during 2013 and there were only two relatively small medical office buildings delivered last year. Owners of major office portfolios are enjoying very low vacancy rates substantially below the overall vacancy rate. Large blocks of existing vacant office space have disappeared over the past two years as leasing activity has steadily increased. A tenant seeking contiguous space above 100,000 square feet will find very few options.

Does this limited space situation lead the way to new speculative construction? Who will be bold enough to build a new building that is not substantially preleased? Will out of town companies be attracted to the Richmond markets relative low rental rates and low cost of living? Any positive increase in office using job creation in the Richmond market will only add to the tension between the need for space and the low vacancy rates. Stay tuned. Things could get interesting in 2014.

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	10,646,993	11.9%	11.2%	406,262	307,000	0	94,701	103,038	\$20.27	\$25.47
East End	656,616	1.6%	1.6%	47,000	0	0	40,016	40,016	\$15.92	N/A
Far West End	806,858	3.8%	3.8%	21,752	0	0	9,250	9,250	\$15.42	\$22.00
Glenside/Broad St	4,743,256	8.9%	8.2%	233,377	0	0	(73,691)	(64,600)	\$17.69	\$19.65
Hull Street Corridor	2,789,526	6.0%	6.0%	26,794	0	0	(22,643)	(22,643)	\$13.57	N/A
I-95 N/Ashland	682,127	10.4%	10.4%	105,556	0	0	6,082	6,082	\$13.77	N/A
I-95 N/Chamberlayne	348,708	21.9%	21.9%	6,361	0	0	5,448	5,448	\$13.48	N/A
Innsbrook	8,079,838	8.9%	8.8%	605,782	0	0	563,586	559,848	\$17.66	\$18.78
Iron Bridge Corridor	2,003,571	10.1%	10.1%	21,030	0	0	25,240	25,240	\$14.04	\$17.21
Lakeside	335,259	12.2%	12.2%	7,264	0	0	2,039	2,039	\$11.93	N/A
Mechanicsville	1,289,079	13.4%	13.3%	16,891	0	0	(18,154)	(18,004)	\$15.43	N/A
Midlothian Corridor	4,388,004	14.7%	14.7%	259,030	0	0	(2,801)	27,089	\$16.04	\$17.78
Monroe Ward	2,496,476	7.1%	7.1%	19,846	0	0	(23,422)	(23,422)	\$15.06	N/A
Near West End	2,142,104	9.2%	9.2%	60,006	0	0	3,528	3,528	\$12.95	N/A
North Broad	3,022,631	3.8%	3.8%	3,994	200,600	0	3,800	3,800	\$16.40	N/A
Northside	297,713	3.7%	3.7%	0	0	0	500	500	\$8.01	N/A
Parham East	2,810,208	14.4%	14.4%	14,160	0	0	(3,547)	(3,547)	\$14.37	N/A
Parham South	1,017,638	23.1%	23.1%	39,922	0	0	(43,815)	(43,815)	\$13.41	N/A
Rt 288 Corridor	1,547,908	7.0%	6.5%	34,851	0	0	8,126	4,381	\$16.57	\$18.86
Shockoe Bottom	1,549,907	3.8%	3.7%	24,347	0	0	(44,599)	(45,752)	\$17.94	\$20.50
Stony Point/Huguenot	1,553,621	7.1%	3.6%	42,563	0	0	18,660	7,654	\$15.83	\$18.99
West Creek	1,740,213	0.0%	0.0%	1,800	0	0	0	0	\$18.23	N/A
West End	3,840,168	7.6%	7.6%	85,787	0	0	(9,645)	(11,016)	\$14.33	\$20.34
<b>TOTALS</b>	<b>58,788,422</b>	<b>9.4%</b>	<b>9.1%</b>	<b>2,084,375</b>	<b>507,600</b>	<b>0</b>	<b>538,659</b>	<b>565,114</b>	<b>\$16.95</b>	<b>\$21.15</b>

\* TOTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

SIGNIFICANT 2013 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
One Gateway Plaza	CBD	McGuire Woods LLP	A	217,000
Deep Run 3	Innsbrook	Travelers Insurance	A	71,800
WestMark Two	Innsbrook	Home Care Delivered Inc.	A	42,357
West Creek Medical Park	Far West End	Richmond Eye & Ear Healthcare Alliance	A	40,658
WestMark Two	Innsbrook	Magellan Health Services (expanding their total sf to 63,205)	A	17,055

SIGNIFICANT 2013 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
501 S. 5 <sup>th</sup> Street	CBD	Select Income REIT	\$143,600,000 / \$463	310,000
9105 Stony Point Drive	Stony Point/Huguenot	American Realty Capital Healthcare Trust	\$19,200,000 / \$362	53,000
700 E. Main Street	CBD	Shamin Hotels, Inc.	\$9,000,000 / \$49	182,000
1313 E. Main Street	CBD	Duesenberg Properties, LLC	\$3,900,000 / \$50	78,800
Archway 60 Office Park	Midlothian Corridor	Ingenuity Development LLC	\$1,800,000 / \$28	65,000

SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
NA				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Gateway Plaza	CBD	McGuireWoods LLP	Q1 2015	307,000
Biotech 8 – Phase 2	North Broad	NA	Q1 2014	112,000