

MARKETBEAT OFFICE SNAPSHOT

RICHMOND, VA

A Cushman & Wakefield Research Publication

Q4 2014



ECONOMIC OVERVIEW

Richmond added 15,100 jobs from January to November (last month available) in 2014. The employment growth is the most over the same time period since record keeping began in 1990. Employment in heavy office using sectors, information, financial activities, and professional and business services, added 5,900 jobs over the same time period. The unemployment rate in Richmond declined to 4.8% which is the lowest it has been since November 2008.

Steady employment gains continue to drive improvements in office space fundamentals. A positive 457,445 square feet (sf) of office space was absorbed overall in 2014 of which 36% occurred in class A space. The overall vacancy rate declined to 9.4% in Q4 2014 reaching single digits for the first time since 2008. The direct vacancy for class A space declined 1.3 percentage point to 6.0% an all-time low since CoStar began tracking the data. Direct asking rents declined for the market as a whole due to depressed rents in the CBD. Overall asking rents increased in 12 submarkets, declined in nine, and held steady in one compared to a year ago.

Innsbrook remained the most active submarket with 29% of the market's direct absorption and 26% of all leasing activity. The overall vacancy in the Innsbrook submarket declined to 8.9% by the end of the year from 12.2% in the first quarter. Large-block contiguous space in suburban submarkets tightened significantly in 2014 leaving large tenants with few available options. Overall vacancy in the CBD also improved decreasing to 12.3% by year-end from 13.0% in the first quarter. Some of the vacancy decline in the CBD is attributed to the approximately 900,000 sf of office space taken off the market and retrofitted for other uses in the last few quarters.

SALES ACTIVITY

Sales activity of office properties in the Innsbrook submarket defined the transaction environment in 2014 with just under \$112 million across five transactions and over 900,000 sf of office space trading in the submarket.

According to Real Capital Analytics (RCA), Richmond office property sales volume reached \$149.3 million across 18 transactions in 2014 down from \$241.4 million in ten transactions in 2013. The majority of the 2013 transaction volume came from the sale of the MWV headquarters for \$143.6 million or \$462 psf. The average RCA cap rate in 2014 for office properties in non-major metros was 7.4%, a 0.2 percentage point decline from 2013.

OUTLOOK

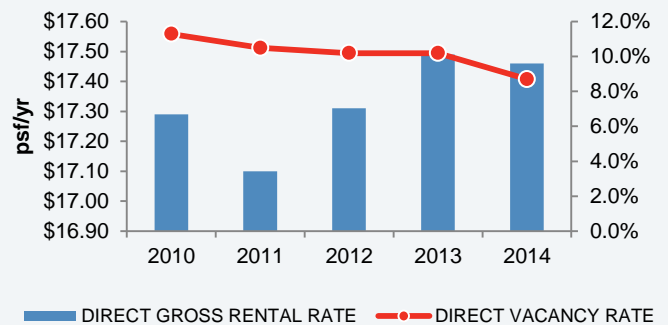
Richmond has enjoyed 54 months of year-over-year employment growth helping to improve office market fundamentals.

Large blocks of space will hit the CBD as tenants shift to Gateway Plaza further depressing rents as they compete for tenants with county addresses. The most active suburban office markets are shifting from a tenant to a landlord market. Landlord concessions such as free rent will continue to decrease and rents, especially in the most desirable locations, will rise. Tenants will reduce cost by leasing in less desirable products and submarkets.

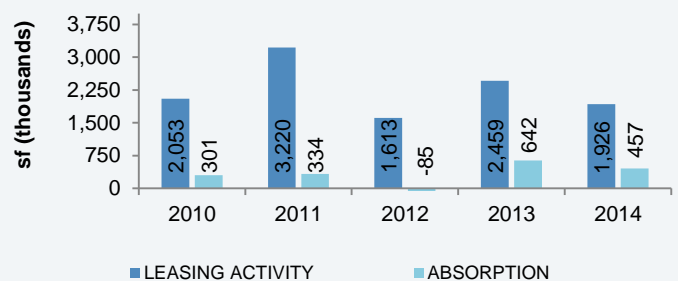
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.5%	9.4%	-1.1pp	▼
Direct Asking Rents (psf/yr)	\$17.56	\$17.46	-0.6%	▲
YTD Leasing Activity (sf)	2,472,282	1,926,437	-22.1%	◄

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	10,463,675	12.3%	12.0%	272,000	321,500	0	87,229	125,707	\$20.35	\$24.64
East End	351,429	4.4%	4.4%	0	0	0	(8,500)	(8,500)	\$12.85	N/A
Far West End	581,739	3.2%	3.2%	14,367	110,000	0	3,705	3,705	\$16.89	\$22.00
Glenside/Broad St	4,606,947	7.3%	6.5%	214,736	37,658	0	73,064	68,826	\$17.85	\$19.05
Hull Street Corridor	2,359,113	2.4%	2.4%	67,774	0	0	19,982	19,982	\$12.87	N/A
I-95 N/Ashland	431,846	8.6%	8.6%	11,377	0	0	8,644	8,644	\$12.25	N/A
I-95 N/Chamberlayne	151,011	8.1%	8.1%	2,910	0	0	1,364	1,364	\$12.17	N/A
Innsbrook	7,728,303	8.9%	5.3%	506,492	0	0	147,459	50,163	\$17.91	\$18.99
Iron Bridge Corridor	1,513,013	9.9%	9.9%	8,196	43,000	15,000	1,180	1,180	\$14.94	\$17.27
Lakeside	125,193	20.3%	20.3%	0	0	0	(1,196)	(1,196)	\$10.96	N/A
Mechanicsville	880,460	16.9%	16.8%	22,615	0	0	(13,877)	(13,477)	\$17.75	N/A
Midlothian Corridor	3,730,316	13.8%	13.8%	419,829	0	0	32,292	32,292	\$15.89	\$17.62
Monroe Ward	1,556,203	7.4%	7.1%	41,569	0	0	(16,434)	(20,434)	\$15.88	N/A
Near West End	1,299,275	19.4%	19.4%	7,370	0	0	(8,837)	(8,837)	\$13.94	N/A
North Broad	2,830,486	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	13.5%	13.5%	48,222	0	0	40,202	40,202	\$15.98	N/A
Parham South	854,506	19.0%	18.8%	114,134	0	0	77,964	76,231	\$13.35	N/A
Rt 288 Corridor	1,166,515	12.8%	12.0%	26,342	0	12,377	(78,193)	(83,719)	\$17.94	\$19.63
Shockoe Bottom	1,492,545	1.7%	1.7%	20,437	0	0	29,602	29,602	\$19.76	\$20.50
Stony Point/Huguenot	956,474	8.6%	5.7%	35,641	0	0	(32,091)	(4,254)	\$18.67	\$20.24
West Creek	1,735,413	0.0%	0.0%	0	66,000	0	0	0	\$18.50	N/A
West End	3,121,670	7.9%	7.8%	86,273	0	44,378	30,773	30,529	\$14.31	\$19.46
TOTALS	50,430,951	9.4%	8.7%	1,926,437	578,158	178,417	505,556	457,445	\$17.41	\$20.86

* TOTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

SIGNIFICANT 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
4501 & 4502 Highwoods Parkway and 4600 Cox	Innsbrook	Markel Corporation	A	303,198
Deep Run III	Innsbrook	McKesson Corporation	A	168,514
I Shockoe Slip	CBD	Martin Agency	A	164,000*
NorthShore Commons II	Innsbrook	Connexions	A	65,000
9950 Mayland Drive	Innsbrook	Elephant Insurance	A	54,000
Villa Park III	Staples Mill/Parham	VA Dept. Game & Inland Fisheries	B	52,296
SunTrust Center	CBD	LeClair Ryan	A	46,000
SIGNIFICANT 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
EastShore Portfolio	Innsbrook	Westdale	\$26,700,000 / \$120	222,701
Innsbrook Portfolio	Innsbrook	Lingerfelt	\$19,850,000 / \$101	195,881
Westerre I & II	Innsbrook	The Simpson Organization	\$22,100,000 / \$135	163,290
Concourse at Wyndham	Innsbrook	Westdale	\$20,800,000 / \$127	163,281
Perimeter Center	Innsbrook	Gov. Property Income Trust	\$22,500,000 / \$120	177,185
Westgate I	Far West End	Lingerfelt	\$17,500,000 / \$191	91,752
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% PRELEASED)
Gateway Plaza	CBD	McGuireWoods LLP	Q2 2015	321,500 (75.2%)
Towne Center West	Far West End	VCU	Q4 2015	110,000 (100.0%)
West Creek Medical Park	West Creek	MEDARVA	Q1 2015	66,000 (67.0%)
6627 W Broad Street (Reynolds Commons)	Glenside/Broad St	NA	Q2 2015	37,658 (62.7%)

*Renewal and 45,000 sf build-to-suit expansion.