

# Office Snapshot Q4 2015

RICHMOND, VA

## RICHMOND OFFICE

### Economic Indicators

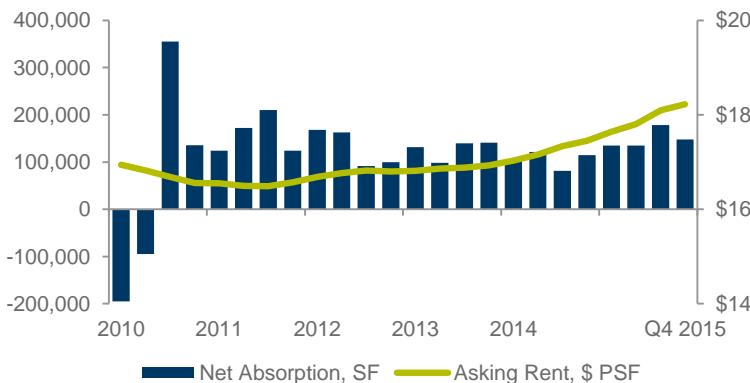
	Q4 14	Q4 15	12-Month Forecast
Richmond Employment	633k	638k	▲
Richmond Unemployment	5.2%	4.9%	▼
U.S. Unemployment	5.7%	5.0%	▼

### Market Indicators (Overall, All Classes)

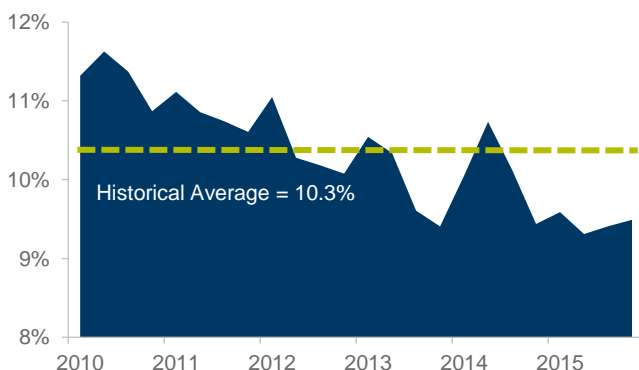
	2014	2015	12-Month Forecast
Overall Vacancy	9.4%	9.5%	▼
Net Absorption	457k	591k	■
Under Construction	578k	396k	■
Average Asking Rent*	\$17.41	\$17.92	▲

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

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



### Overall Vacancy



## Economy

The national economy expanded for the fifth straight year in 2015. GDP grew an average of 2.2% through the first three quarters and added an average of 240 thousand jobs per month. 2015 was the second best year for job gains since 2000 with 2.7 million jobs added. Wage growth remains anemic indicating continued slack in the labor force. Richmond's economic expansion was subdued in 2015 compared to 2014 but positive growth continued. Employment in financial activities grew by 1,200 jobs from a year ago as of November offsetting the 700 and 200 jobs lost in the Professional and Business Services and Information sectors, respectively. The Bureau of Labor Statistics estimates Richmond added just 300 total jobs in the same time frame.

## Market Overview

The Richmond office market overall vacancy increased slightly from a year ago to 9.5%. Vacancy in Richmond's two largest submarkets, the CBD and Innsbrook, increased by 160 and 100 basis points from a year ago, respectively. The Gateway Plaza building delivered in the CBD causing vacancy to rise as existing downtown tenants moved into the new building.

Although vacancy increased, market activity remains healthy. A positive 590,747 square feet (sf) of absorption occurred in 2015 which is 133,302 sf more than 2014 and leasing activity reached nearly 1.6 million sf. Overall asking rents increased by 2.9% from a year ago to \$17.92 per square foot.

According to Real Capital Analytics, office sales volume equaled \$360 million in 2015. Riverfront Plaza sold for \$147.5 million and Gateway Plaza for \$104.5 million. Additional sale transactions include the FBI Richmond Building (\$29.0 million), Parham Place (\$12.75 million), and Arboretum IX (\$6.75 million).

## Outlook

The increased vacancy in the CBD provides some of the best large block availabilities in the market as only a handful of suburban buildings have space to accommodate 40,000+ sf users. The number of availabilities will cause rental rates to compress in the CBD. With slow job growth, CBD landlords will need to pursue suburban tenants and entice them downtown.

Domestic office investors are looking for value-add opportunities as a buffer to rising interest rates. International market instability makes the U.S. the most attractive mule in the pasture. Foreign investors seek stabilized class A buildings to help weather the volatility in their local economies.

## MARKETBEAT

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RICHMOND, VA



CUSHMAN &amp; WAKEFIELD

THALHIMER

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	10,798,124	9,834	1,493,597	13.9%	36,013	93,812	243,696	0	\$20.25	\$24.35
East End	351,429	0	6,850	1.9%	0	8,500	0	0	\$12.85	N/A
Far West End	581,739	0	5,044	0.9%	8,117	11,685	32,979	110,000	\$14.62	\$22.00
Glenside/Broad St	4,996,239	4,477	303,486	6.2%	548	18,222	199,225	0	\$18.50	\$21.05
Hull Street Corridor	2,356,294	0	62,752	2.7%	39,250	42,453	27,230	0	\$14.47	N/A
I-95 N/Ashland	431,846	7,000	37,272	10.3%	0	(7,000)	2,670	26,717	\$12.51	N/A
I-95 N/Chamberlayne	151,508	0	6,515	4.3%	0	5,790	6,900	0	\$12.45	N/A
Innsbrook	7,765,135	254,933	517,399	9.9%	(56,514)	76,627	315,332	0	\$18.87	\$18.97
Iron Bridge Corridor	1,522,608	0	183,947	12.1%	(8,544)	(21,112)	9,798	43,000	\$15.39	\$17.09
Lakeside	110,481	0	6,283	5.7%	9,000	11,716	7,159	0	\$12.00	N/A
Mechanicsville	942,485	0	144,326	15.5%	5,073	88,877	36,553	0	\$17.17	\$24.50
Midlothian Corridor	3,733,925	0	417,080	11.2%	40,543	101,338	203,317	0	\$16.23	\$17.36
Monroe Ward	1,486,969	0	96,330	6.5%	3,813	13,056	35,342	0	\$15.82	N/A
Near West End	1,111,224	0	191,352	17.2%	18,966	55,713	56,629	17,000	\$14.81	N/A
North Broad	2,785,615	0	98,928	3.6%	(3,996)	(2,075)	43,228	0	\$17.00	N/A
Northside	115,963	0	0	0.0%	0	600	0	0	N/A	N/A
Parham East	2,372,170	0	338,830	14.3%	(2,457)	2,885	55,652	0	\$16.53	N/A
Parham South	861,623	0	150,361	17.5%	(9,902)	10,775	45,032	0	\$13.71	N/A
Rt 288 Corridor	1,166,515	0	134,173	11.5%	21,623	37,935	63,855	15,000	\$18.36	\$19.42
Shockoe Bottom	1,492,748	0	14,050	0.9%	3,028	16,789	24,284	63,200	\$19.60	\$23.00
Stony Point/Huguenot	956,474	5,219	44,256	5.2%	23,529	14,556	68,215	55,000	\$18.84	\$20.46
West Creek	1,788,413	0	41,059	2.3%	0	18,941	9,964	0	\$24.50	\$24.50
West End	3,145,689	0	267,135	8.5%	(13,885)	(9,336)	79,916	66,378	\$15.58	\$16.73
<b>RICHMOND, VA TOTALS</b>	<b>51,025,216</b>	<b>281,463</b>	<b>4,561,025</b>	<b>9.5%</b>	<b>114,205</b>	<b>590,747</b>	<b>1,566,976</b>	<b>396,295</b>	<b>\$17.92</b>	<b>\$20.93</b>

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

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	20,641,549	269,986	1,488,540	8.5%	76,341	468,421	856,902	301,095	\$20.93	\$21.81
Class B	23,529,248	11,477	2,504,670	10.7%	42,072	86,674	602,806	95,200	\$16.67	\$16.66
Class C	6,854,419	0	567,815	8.3%	(4,208)	35,652	107,268	0	\$13.23	\$13.05

## Key Lease Transactions 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Perimeter Center	164,000	Commonwealth of VA	Lease	Innsbrook
One Shockoe Plaza	118,518	The Martin Agency	Lease	CBD
James Center	55,000	Virginia Economic Development Partnership	Lease	CBD
WestMark Two	42,539	RetailData	Lease	Innsbrook
Jackson Center	34,000	VCU Health System	Lease	North Broad

## Key Sales Transactions 2015

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Riverfront Plaza	970,000	Hines/Hertz Investment Group	\$147,500,000 / \$152	CBD
Gateway Plaza	307,000	Clayco/Lexington Realty Trust	\$124,000,000 / \$404	CBD

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