

MARKETBEAT

Richmond, VA

Office Q1 2017



RICHMOND, VA OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Richmond Employment	663k	667k	▲
Richmond Unemployment	4.2%	4.2%	▲
U.S. Unemployment	4.9%	4.8%	■

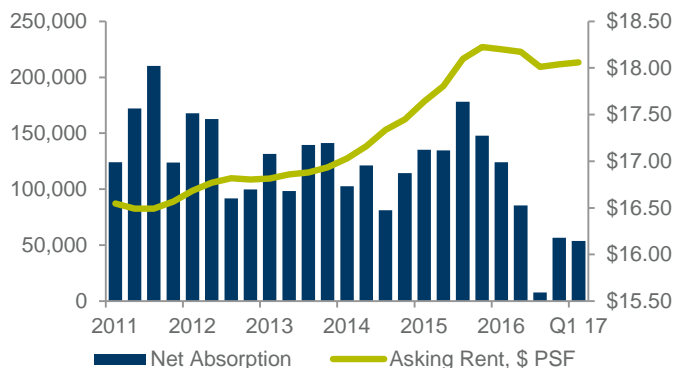
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	8.8%	7.6%	▼
Net Absorption (sf)	-28k	-40k	▲
Under Construction (sf)	458k	60k	■
Average Asking Rent*	\$18.06	\$18.15	■

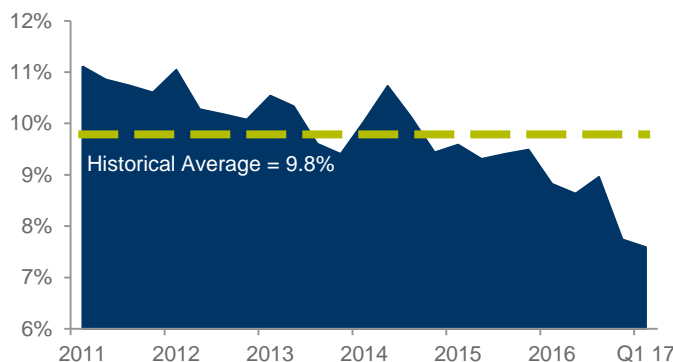
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. added 2.3 million jobs from February 2016 to February 2017 of which 219,000 were in the construction industry. Housing starts increased 6.2% over the same time period. Improving economic fundamentals allowed the Federal Reserve to increase the federal funds rates in March for the third time since December 2015. Richmond added 6,800 jobs from February 2016 to February 2017 marking the 80th consecutive month of year-over-year job gains. The biggest contributors to employment growth in February were the construction and the education and health services sectors.

Market Overview

Richmond's office vacancy declined 120 basis points from Q1 2016 to Q1 2017 reporting 7.6%. Vacancy was last lower in Q4 2009 and is below the 12-year historic average of 8.5%. Absorption was negative in Q1 2017 but is expected to rise in subsequent quarters. Vacancy in the CBD declined by nearly 220 basis points from Q1 2016 to Q1 2017 and should drop to below 10% in 2017. Direct asking rents in the CBD are \$0.50 per square foot (PSF) lower than a year ago at \$20.51 PSF. Asking rents will increase in the CBD as vacancy tightens further. Office vacancy in the suburban submarkets declined slightly from a year ago and at 6.9% was last lower in Q4 2008.

Owens & Minor announced a 90,000-square-foot (SF) lease at Riverfront Plaza East where they will operate their Client Engagement Center and bring 500 jobs to the CBD. Likewise in the CBD, Richmond-based startup, Envera Health, will lease 26,632 SF in Riverside on the James and, while technically occurring in Q2 2017, the Department of Environmental Quality announced a 82,000-SF lease in the Bank of America Tower. In Innsbrook, Virginia Premier Health Plan, a VCU Health organization, will lease the 135,000-SF Liberty Plaza II building and SunTrust Bank announced a 40,875-SF expansion in WestMark II. Investment sale transactions included the 1.0-million-SF James Center in the CBD, the Bank of America's Operations Center in Parham East and SunTrust Center in Innsbrook.

Outlook

Real Capital Analytics reported the third consecutive month of office sale volume declining by more than 20% in February 2017. Pricing remains tight which may be contributing to the decline in volume as buyers are concerned about future cap rates in a rising interest rate environment. Improving fundamentals and continued job growth will further tighten Richmond's office market. Leasing activity and absorption will increase through 2017 but will be muted as Capital One continues to consolidate at its West Creek Campus.

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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	10,369,406	10,419	1,070,637	10.4%	14,028	14,028	52,063	0	\$20.99	\$24.03
East End	301,973	0	1,550	0.5%	0	0	0	0	\$14.61	N/A
Far West End	769,732	0	4,278	0.6%	0	0	75,000	0	\$24.64	\$22.00
Glenside/Broad St	4,999,773	9,392	328,005	6.8%	13,496	13,496	42,238	0	\$18.25	\$20.10
Hull Street Corridor	2,336,424	0	50,589	2.2%	4,162	4,162	8,504	0	\$14.27	N/A
I-95 N/Ashland	458,563	7,000	41,609	10.6%	1,000	1,000	1,000	0	\$14.68	N/A
I-95 N/Chamberlayne	183,708	0	8,040	4.4%	-2,750	-2,750	1,350	0	\$17.44	\$25.00
Innsbrook	7,755,379	56,276	599,925	8.5%	-66,726	-66,726	224,224	0	\$20.22	\$20.86
Iron Bridge Corridor	1,533,108	0	151,382	9.9%	-4,017	-4,017	3,848	0	\$14.49	\$16.93
Lakeside	110,481	0	1,405	1.3%	0	0	0	0	\$15.50	N/A
Mechanicsville	941,727	0	142,354	15.1%	-19,718	-19,718	0	0	\$16.50	\$24.50
Midlothian Corridor	5,025,579	4,479	428,329	8.6%	-24,935	-24,935	42,445	0	\$16.19	\$17.42
Monroe Ward	1,698,013	0	176,659	10.4%	18,346	18,346	0	0	\$17.23	N/A
Near West End	1,103,461	0	139,481	12.6%	12,158	12,158	0	60,000	\$15.15	N/A
North Broad	2,894,334	0	123,336	4.3%	-8,578	-8,578	0	0	\$16.81	\$22.00
Northside	115,963	0	0	0.0%	0	0	0	0	N/A	N/A
Parham East	2,403,827	0	116,985	4.9%	23,637	23,637	6,481	0	\$15.56	N/A
Parham South	871,428	0	139,950	16.1%	-10,028	-10,028	570	0	\$14.11	N/A
Rt 288 Corridor	1,197,278	5,515	100,385	8.9%	12,992	12,992	6,659	0	\$16.95	\$19.18
Shockoe Bottom	1,357,362	0	29,459	2.2%	-13,276	-13,276	490	0	\$20.00	\$23.50
Stony Point/Huguenot	1,023,364	0	49,160	4.8%	215	215	11,657	0	\$16.31	\$21.17
West Creek	1,788,413	0	27,138	1.5%	6,800	6,800	0	0	\$24.50	\$24.50
West End	3,133,728	0	152,594	4.9%	3,280	3,280	30,507	0	\$16.70	\$18.67
Richmond, VA Totals	52,373,024	93,081	3,883,250	7.6%	-39,914	-39,914	507,036	60,000	\$18.15	\$20.50

Only includes properties 10,000 SF and larger

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	21,064,670	43,222	1,631,158	7.9%	2,943	2,943	321,637	60,000	\$20.50	\$20.91
Class B	24,910,243	48,359	1,916,365	7.9%	-43,229	-43,229	154,816	0	\$16.88	\$16.94
Class C	6,398,111	1,500	335,727	5.3%	372	372	30,583	0	\$13.20	\$13.02

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Liberty Plaza II	135,000	VCU Health	Lease	Innsbrook
Riverfront Plaza East	90,000	Owens & Minor	Lease	CBD
SunTrust Center	40,875	SunTrust Bank	Lease	Innsbrook
Riverside on the James	26,632	Envera Health	Lease	CBD
7814 Carousel Lane	13,353	Virginia Community Capital	Lease	Parham East

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
James Center	986,483	LNR / Riverstone	\$108,000,000 / \$109	CBD
BofA Operations Center	730,571	Barings/ Longship Capital, Homeward Angel, Prudent Richmond	\$38,000,000 / \$52	Parham East
SunTrust Center	416,311	New Boston / BRIDGE Investment	\$45,000,000 / \$108	Innsbrook

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