

MARKETBEAT

Richmond, VA

Office Q1 2018



RICHMOND, VA OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Richmond Employment	670.7k	675.2k	▲
Richmond Unemployment	4.1%	3.7%	▼
U.S. Unemployment	4.7%	4.1%	▼

Numbers above are quarterly averages; Feb 2018 data used to represent Q1 2018

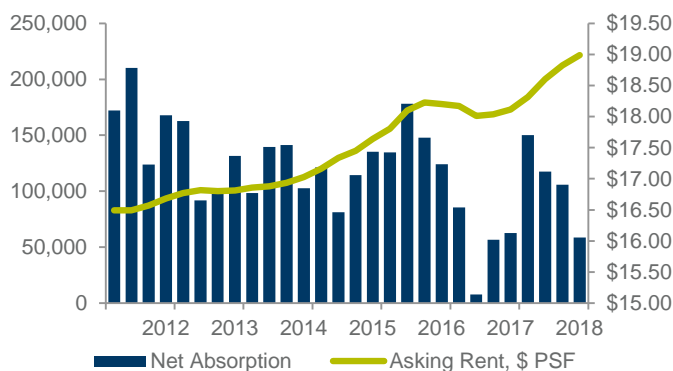
Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Vacancy	6.9%	6.7%	▼
Net Absorption (sf)	-40k	-194k	▼
Under Construction (sf)	60k	951k	▲
Average Asking Rent*	\$18.37	\$19.04	▲

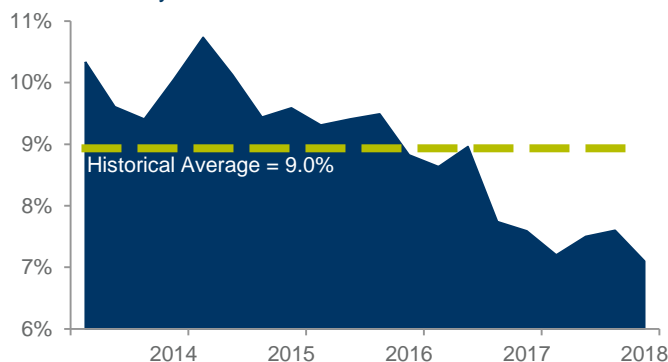
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Federal Reserve Bank approved the sixth rate hike since the financial crisis and remains on track for two additional rate increases in 2018. The benchmark rate increased to a range between 1.5% and 1.75%. The move signaled cautious optimism for the U.S. economy. Inflation remained below the Federal Reserve's 2.0% target, decreasing the expected number of rate hikes for the year. Rising interest rates coupled with the new tax policy going into effect should enhance investor appetite and increase market activity in early 2018.

The Richmond economy continued to hold steady and outperformed the national average to begin 2018. From February 2017 to February 2018, Richmond added 4,500 jobs and decreased the unemployment rate 40 basis points (bps) to 3.7%. The Construction and Information sectors recorded the largest year-over-year growth.

Market Overview

Fourth quarter trends continued into the New Year for the Richmond office market. Overall office vacancy decreased 20 bps and direct office asking rents increased 3.6% from Q1 2017 to Q1 2018. Richmond's Central Business District (CBD) maintained positive momentum with several tenants taking occupancy. Vacancy in the CBD declined 130 bps and overall asking rents increased 5.4% from the prior year. Several suburban submarkets – Glenside/Broad St, Innsbrook, and Midlothian – also witnessed similar trends. Landlord confidence remains high to begin the year with an influx of tenants seeking new space requirements.

Limited large-block availability – 20,000 square feet (sf) and greater – persists, constraining activity for larger tenants in Q1. Meanwhile, Scott's Addition continues its revitalization with tenants' sustained interest in this emerging submarket. Smaller space opportunities have appeared in Scott's Addition with leasing activity beginning at The Spur, 1500 Roseneath and the McKinnon & Harris Building. Overall office property transaction volume in the quarter was behind Q1 2017 with \$33 million recorded, according to Real Capital Analytics (RCA). The Media General Building, Interchange Corporate Center, and Virginia Cancer institute all sold in the first quarter of 2018.

Outlook

Richmond's office market fundamentals will remain tight in 2018. Investors should be keen to capitalize on the benefits from changes in the tax policy before another interest rate hike. Leasing activity will increase with a number of tenants entering the market and others seeking additional space. Larger tenants will continue to need more lead time to find available space.

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Office Q1 2018



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	10,421,862	13,023	932,720	9.1%	-87,193	-87,193	60,240	450,000	\$22.12	\$24.36
East End	327,258	0	0	0.0%	0	0	0	0	\$18.00	N/A
Far West End	842,084	0	2,931	0.3%	3,125	3,125	3,500	138,782	\$17.32	\$22.00
Glenside/Broad St	4,936,091	13,274	250,192	5.3%	-14,259	-14,259	21,072	46,461	\$18.24	\$19.58
Hull Street Corridor	1,212,405	0	104,890	8.7%	1,307	1,307	426	0	\$13.44	N/A
I-95 N/Ashland	458,563	0	37,699	8.2%	1,123	1,123	0	0	\$16.47	N/A
I-95 N/Chamberlayne	197,141	0	988	0.5%	3,752	3,752	950	0	\$16.11	N/A
Innsbrook	7,794,547	34,321	485,142	6.7%	38,145	38,145	96,476	25,000	\$20.55	\$21.10
Iron Bridge Corridor	1,498,108	0	97,220	6.5%	900	900	7,197	0	\$16.30	\$16.99
Lakeside	125,481	0	8,640	6.9%	62	62	0	0	\$11.95	N/A
Manchester	1,128,160	0	15,212	1.3%	-1,354	-1,354	800	0	\$17.12	N/A
Mechanicsville	942,193	2,650	133,030	14.4%	2	2	2,598	0	\$14.03	\$24.50
Midlothian Corridor	5,072,706	22,136	383,593	8.0%	3,855	3,855	26,662	50,000	\$16.39	\$17.91
Monroe Ward	1,700,095	0	86,283	5.1%	727	727	14,757	0	\$14.90	N/A
Near West End	1,171,546	0	137,017	11.7%	-3,172	-3,172	2,373	0	\$15.40	\$16.50
North Broad	2,890,383	0	69,668	2.4%	0	0	0	154,000	\$17.64	\$22.00
Northside	81,804	0	0	0.0%	0	0	0	0	\$17.53	N/A
Parham East	2,429,752	0	117,626	4.8%	24,328	24,328	26,428	0	\$14.96	N/A
Parham South	888,192	0	144,070	16.2%	-58,354	-58,354	9,869	0	\$14.48	N/A
Rt 288 Corridor	1,252,967	108,116	101,893	16.8%	-102,650	-102,650	13,128	0	\$18.38	\$19.75
Shockoe Bottom	1,465,905	2,979	19,353	1.5%	-1,601	-1,601	9,520	0	\$22.95	\$23.50
Stony Point/Huguenot	1,018,710	0	33,911	3.3%	-2,030	-2,030	7,403	87,000	\$19.09	\$23.47
West Creek	1,801,383	0	16,385	0.9%	5,428	5,428	0	0	\$24.50	\$24.50
West End	3,113,932	0	139,380	4.5%	-5,849	-5,849	11,131	0	\$17.17	\$17.76
Richmond, VA Totals	52,771,268	196,499	3,317,843	6.7%	-193,708	-193,708	314,530	951,243	\$19.04	\$21.32

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	21,195,798	171,535	1,471,655	7.8%	-192,383	-192,383	194,017	722,243	\$21.53	\$21.40
Class B	25,187,955	24,964	1,561,922	6.3%	572	572	114,318	20,000	\$16.80	\$17.20
Class C	6,387,515	0	284,266	4.5%	-1,897	-1,897	6,195	0	\$13.31	\$13.76

Key Lease Transactions 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Innsbrook Corporate Center	67,145	Union Bank	Expansion	Innsbrook
Gateway Centre II	34,182	Estes Express Lines	New	Midlothian

Key Sales Transactions 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Media General Building	113,520	Hourigan Development	\$13,000,000 / \$114	CBD
Interchange Corporate Center	16,747	Interchange Corporate Center LLC/ Fernau LeBlanc	\$3,000,000 / \$179	Innsbrook
Virginia Cancer Institute	10,320	Amal Holdings LLC/North Temple LLC	\$3,287,500 / \$319	Prince George

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