

RICHMOND, VA OFFICE

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Richmond Employment	664k	672k	▲
Richmond Unemployment	4.1%	4.0%	▲
U.S. Unemployment	4.9%	4.4%	■

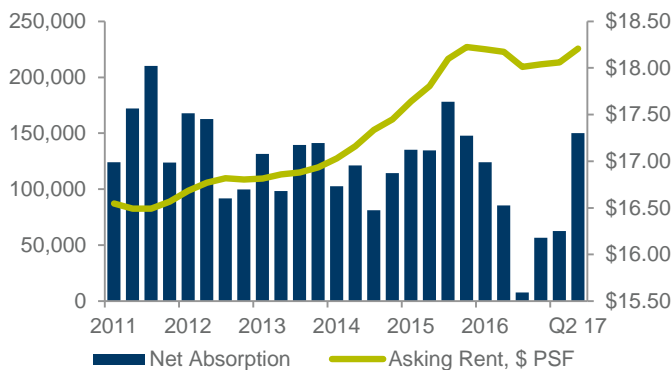
Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	8.6%	7.2%	▼
Net Absorption (sf)	-46k	304k	▲
Under Construction (sf)	329k	1.2M	■
Average Asking Rent*	\$18.04	\$18.63	■

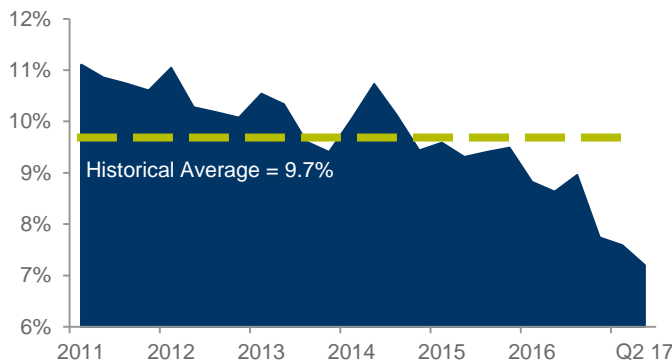
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. added 2.3 million jobs from May 2016 to May 2017 with job gains occurring in the health services and construction industry. The Federal Reserve increased the federal funds rates in June for the second time this year. Despite the increases, the 10-year treasury is down 15 basis points from the beginning of the year. Trepp reports a 28 basis point increase in CMBS delinquency rates in June and is now 5.75%. The increase in the delinquency rate was the largest in five years and is expected to remain elevated as pre-crisis loans mature. The Richmond metro area added 11,100 jobs from May 2016 to May 2017, and the unemployment rate remained a low 3.9%.

Market Overview

Richmond's office vacancy declined 140 basis points from Q2 2016 to Q2 2017 to 7.2%, the lowest rate since 2008. A positive 304,132 square feet (sf) of absorption occurred in Q2 2017 making up for the negative 4,263 sf in Q1 2017. Vacancy in the CBD dropped below 10% for the first time since Q2 2015 to 9.8%. The Non-CBD office vacancy remains low at 6.6%. Direct asking rents in the CBD increased by \$0.19 per square foot (psf) from Q1 2017. Asking rents in suburban submarkets increased \$0.20 psf from Q1 2017. Class A vacancy is slightly higher than the overall market at 8.2% due to Class A availability in the CBD of 12.9%. Of the 1.0 million square feet (msf) available in the CBD, 683,594 sf is concentrated in the James Center, Riverfront Plaza, and the SunTrust Center.

Significant leases announced in Q2 2017 stemmed from the public sector. The Department of Environmental Quality announced a 82,000-sf lease in the Bank of America Tower and the Virginia Workers' Compensation Commission announced a 104,000-sf lease in the Media General Building. Both tenants are located in the CBD.

Outlook

Real Capital Analytics (RCA) reported a continued decline in transaction volume across all property types. Total office sector transaction volume is down 5% through the first five months of 2017. The decline in office transaction volume is driven by a decline in CBD sales. Suburban office assets sale volume is up 1% for the year through May. Although volume declined, RCA reports that pricing is mostly flat to increasing. While some investors have pulled back in expectation of price declines, current owners are not as motivated to sell. Richmond's office market fundamentals continue to strengthen. Of the 1.15 msf of office under construction, 900,000 sf is for Dominion Energy's downtown tower. Vacancy will continue to decline and asking rents will increase. Brokers report a dearth of large block Class A availabilities in Richmond's stronger suburban submarkets.

MARKETBEAT

Richmond, VA

Office Q2 2017



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	10,401,403	25,547	996,951	9.8%	12,427	46,577	176,007	900,000	\$21.86	\$23.76
East End	333,916	0	1,000	0.3%	1,550	1,550	0	0	\$15.03	N/A
Far West End	827,084	0	2,065	0.2%	112,565	112,565	77,213	0	\$24.64	\$22.00
Glenside/Broad St	5,000,067	12,752	280,993	5.9%	-609	26,661	101,552	46,461	\$18.42	\$20.17
Hull Street Corridor	2,337,770	0	55,162	2.4%	7,072	-411	13,070	0	\$14.13	N/A
I-95 N/Ashland	458,563	7,000	40,668	10.4%	941	1,941	1,000	0	\$16.37	N/A
I-95 N/Chamberlayne	183,708	0	5,950	3.2%	2,090	690	3,440	0	\$15.71	\$25.00
Innsbrook	7,889,348	66,857	648,854	9.1%	-33,629	-2,598	223,188	0	\$20.35	\$21.01
Iron Bridge Corridor	1,533,108	0	109,789	7.2%	37,965	37,576	7,385	43,000	\$15.78	\$16.95
Lakeside	110,481	0	1,405	1.3%	0	0	0	0	\$13.28	N/A
Mechanicsville	942,037	0	154,551	16.4%	410	-40,350	6,115	0	\$17.20	\$24.50
Midlothian Corridor	5,030,658	4,479	389,628	7.8%	52,694	16,783	95,791	0	\$16.63	\$17.74
Monroe Ward	1,710,818	0	116,246	6.8%	75,024	69,670	0	0	\$16.36	N/A
Near West End	1,163,961	0	140,984	12.1%	40,576	42,579	28,381	15,664	\$15.01	N/A
North Broad	2,894,334	0	123,336	4.3%	0	-8,578	0	154,000	\$21.51	\$22.00
Northside	127,009	0	825	0.6%	650	4,698	830	0	N/A	N/A
Parham East	2,403,827	0	123,737	5.1%	8,748	16,885	27,836	0	\$15.24	N/A
Parham South	871,428	0	145,518	16.7%	-9,066	-15,596	1,406	0	\$14.05	N/A
Rt 288 Corridor	1,197,278	5,515	107,376	9.4%	-10,902	-12,931	22,294	0	\$16.85	\$19.67
Shockoe Bottom	1,357,362	0	27,172	2.0%	2,287	-10,989	2,741	0	\$21.94	\$23.50
Stony Point/Huguenot	1,011,564	0	46,477	4.6%	-3,252	-1,836	27,309	0	\$16.24	\$21.48
West Creek	1,788,413	0	27,138	1.5%	0	6,800	0	0	-	\$24.50
West End	3,111,728	0	139,031	4.5%	6,591	7,782	56,955	0	\$16.65	\$18.65
Richmond, VA Totals	52,685,865	122,150	3,684,856	7.2%	304,132	299,468	872,513	1,159,125	\$18.63	\$20.92

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	21,273,444	73,502	1,669,975	8.20%	-3,244	151,050	419,681	989,461	\$20.92	\$21.27
Class B	24,992,737	49,194	1,678,608	6.91%	303,230	130,306	393,995	169,664	\$17.16	\$17.03
Class C	6,419,684	0	335,272	5.23%	4,146	18,112	58,837	0	\$13.63	\$13.63

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Media General Building	104,000	VA Workers' Compensation Commission	Lease	CBD
Bank of America Tower	82,000	VA Dept. of Environmental Quality	Lease	CBD
200 S 10th St.	13,063	Capital One Services	Lease	CBD
2201 W Broad	11,926	Unboxed Technologies	Lease	Near West End

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Media General Building	125,000	Media General / Mark Hourigan	\$13,000,000 / \$104	CBD
4300 & 4240 Cox Road	109,847	Banks Brothers / Private	\$6,000,000 / \$55	Innsbrook

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