

MARKETBEAT

Richmond, VA

Office Q2 2018



RICHMOND, VA OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Richmond Employment	672.4k	682.1k	▲
Richmond Unemployment	3.9%	3.4%	■
U.S. Unemployment	4.3%	3.8%	▼

Numbers above are quarterly averages; May 2018 data used to represent Q2 2018

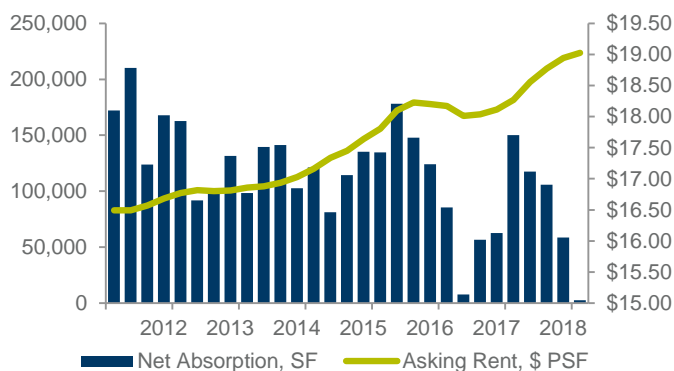
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	7.2%	6.7%	▼
Net Absorption (sf)	321k	80k	▲
Under Construction (sf)	1.2M	897k	■
Average Asking Rent*	\$18.65	\$18.94	▲

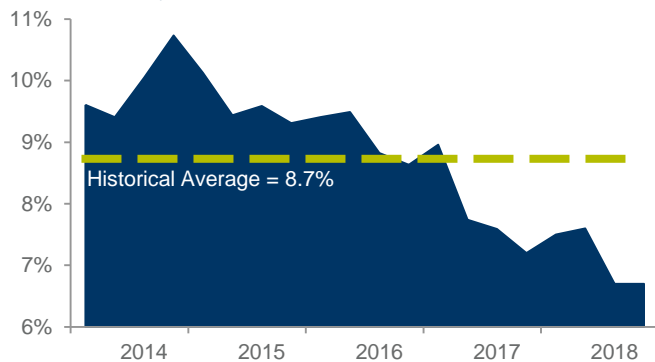
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

U.S. economic growth exceeded expectations during the second quarter, with activity rising at a solid rate and unemployment approaching historically low levels. The Federal Reserve Bank raised interest rates by a quarter of a percentage point and suggested two additional increases will occur during the year, an increase from the previous quarter's projection. Inflation has progressed above the 2% target, with oil prices sustaining its longest period of growth since 2014. The rosy economic outlook also highlights an extremely tight labor market, with many industries experiencing a shortage of workers. Proposed tariffs and a lack of significant wage growth provide areas for concern. Tariffs could slow economic activity and escalate inflation, while some workers have yet to witness the benefits of the nation's strong economy. Richmond maintained strong economic performance in the second quarter, mirroring trends at the national level. The unemployment rate decreased 50 basis points (bps) to 3.8% with the economy adding 9,700 jobs from the previous year.

Market Overview

Overall office vacancy decreased 50 bps year-over-year in the second quarter to 6.7%. Prime Class A space is difficult to find, with companies focusing more on amenities to attract talent in a competitive labor market. Landlords remain firm on pricing as they cope with rising construction costs, tenant improvements, and tax burdens. Overall average Class A asking rents increased 1.1% from the previous year. Leasing activity remained subdued, 80,136 square feet (sf) of space absorbed during the quarter. A tight labor market has also delayed some construction projects, delaying targeted occupancy dates.

92% of the 896,896 sf of office space under construction is Class A space, evidenced by a recent report conducted by the Greater Richmond Partnership that states the market is facing a "critical shortage of Class A office space." Class A renovations are attracting new tenants and proving worthwhile for landlords. Strong tenancy and building improvements led to the largest office sale of the year. The multi-tenant SunTrust Center portfolio in the Innsbrook submarket exchanged for \$62.4 million after undergoing renovations and signing the Fortune 500 bank to a long-term lease.

Outlook

Leasing activity is anticipated to gain velocity in the second half of the year. Many active tenant requirements are targeting the end of the year. Steel tariffs, scarce labor, and demand for concessions, provide upward pressure on rents. Landlords remain confident and will continue to demand higher rental rates in order to offset rising construction costs and provide quality space for tenants.

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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)	AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)**
CBD	10,488,346	3,887	956,828	9.2%	-4,083	-91,476	86,603	450,000	\$21.98	\$24.35
East End	327,258	0	0	0.0%	0	0	0	0	N/A	N/A
Far West End	890,084	0	20,162	2.3%	31,869	34,994	4,477	90,782	\$23.10	\$23.92
Glenside/Broad St	4,950,060	9,914	224,159	4.7%	15,981	1,722	90,230	46,461	\$18.33	\$19.54
Hull Street Corridor	1,212,405	0	109,470	9.0%	-4,580	-3,273	426	0	\$13.21	N/A
I-95 N/Ashland	458,563	0	37,740	8.2%	-2,849	-1,726	2,808	0	\$16.47	N/A
I-95 N/Chamberlayne	197,141	0	988	0.5%	0	3,752	950	0	\$17.38	N/A
Innsbrook	7,797,734	72,187	489,312	7.2%	-48,793	-10,648	145,841	25,000	\$20.50	\$21.24
Iron Bridge Corridor	1,498,108	0	108,301	7.2%	-11,081	-10,181	7,197	0	\$17.14	\$16.99
Lakeside	124,239	0	8,640	7.0%	0	62	0	0	\$11.27	N/A
Manchester	1,140,410	11,208	12,237	2.1%	-8,233	-9,587	4,250	0	\$16.61	N/A
Mechanicsville	942,193	2,650	127,926	13.9%	5,497	5,499	6,805	0	\$15.77	\$24.50
Midlothian Corridor	5,178,374	22,136	389,013	7.9%	40,878	44,733	162,104	0	\$16.32	\$17.81
Monroe Ward	1,700,095	3,688	64,730	4.0%	15,164	15,891	35,988	0	\$14.96	N/A
Near West End	1,171,546	2,742	129,165	11.3%	2,557	-615	7,728	43,653	\$15.97	\$16.50
North Broad	2,879,392	0	69,668	2.4%	0	0	0	154,000	\$21.32	\$22.00
Northside	161,807	0	73,641	45.5%	1,351	-73,641	44,000	0	\$10.58	N/A
Parham East	2,429,752	0	79,885	3.3%	37,741	62,069	31,813	0	\$14.54	N/A
Parham South	888,192	0	142,697	16.1%	-28	-58,382	18,446	0	\$15.03	N/A
Rt 288 Corridor	1,252,967	107,850	103,434	16.9%	-6,265	-108,915	24,960	0	\$16.94	\$19.13
Shockoe Bottom	1,475,865	0	16,153	1.1%	14,679	13,078	9,850	0	\$22.88	\$23.17
Stony Point/Huguenot	1,031,358	0	36,535	3.5%	-299	-2,329	10,430	87,000	\$19.03	\$23.49
West Creek	1,801,383	0	16,385	0.9%	0	5,428	0	0	-	\$24.50
West End	3,113,932	0	129,258	4.2%	630	-5,219	65,529	0	\$16.81	\$17.76
Richmond, VA Totals	53,111,204	236,262	3,346,327	6.7%	80,136	-188,764	760,435	896,896	\$18.94	\$21.29

*Only includes properties 10,000 SF and larger

**Rental rates reflect asking \$/sf/year

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	21,233,225	196,639	1,429,242	7.7%	24,472	-167,911	400,890	828,243	\$21.29	\$21.36
Class B	25,522,546	39,623	1,635,047	6.6%	63,821	-15,632	305,719	68,653	\$17.03	\$17.06
Class C	6,355,433	0	282,038	4.4%	-8,157	-5,221	53,866	0	\$13.71	\$13.71

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4240 Cox Rd	38,676	Virginia Housing Development Authority	New	Innsbrook
Arboretum VII	30,791	Undisclosed	New	Midlothian
5211 W Broad St	24,645	Lumber Liquidators	Renewal	West End
7814 Carousel Ln	16,711	Magellan Health	New	Parham East

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
SunTrust Center	419,653	FD Stonewater / Bridge Investment Group	\$62.4M / \$149	Innsbrook
Liberty Plaza II	135,375	Lingerfelt Commonwealth / The RMR Group	\$22.75M / \$168	Innsbrook
The Commonwealth Building	42,906	Robinson Development / Georgetown Partners & Red Starr Investments	\$4.65M / \$108	Glenside / Broad St

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