

MARKETBEAT

Richmond, VA

Office Q3 2017



RICHMOND, VA OFFICE

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Richmond Employment	666k	682k	▲
Richmond Unemployment	4.1%	3.8%	▲
U.S. Unemployment	4.9%	4.4%	▼

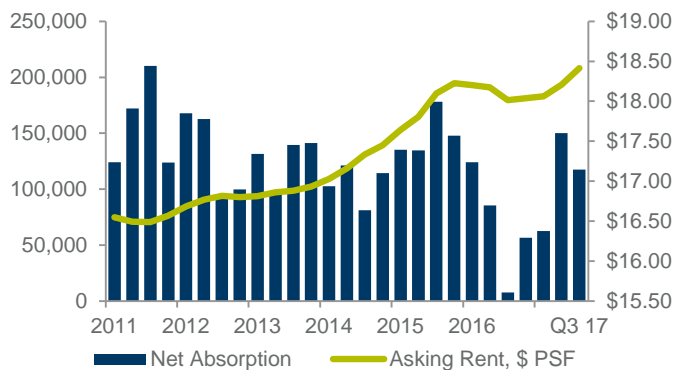
Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	9.0%	7.5%	▼
Net Absorption (sf)	-83k	82k	▲
Under Construction (sf)	317k	1.3M	■
Average Asking Rent*	\$18.03	\$18.85	▲

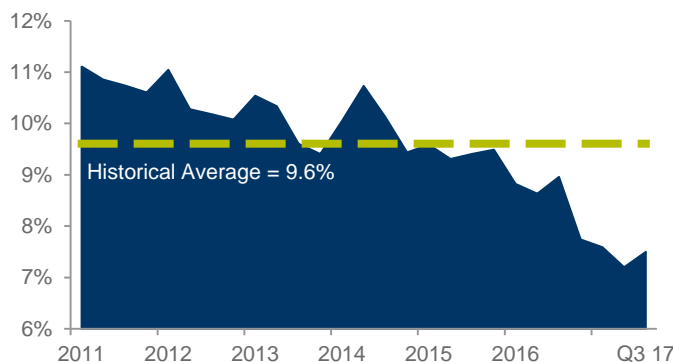
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Inflation remains below the Federal Reserve's 2% target despite a low unemployment rate. Economists expect one more hike to the federal funds rates in 2017. The Federal Reserve is also expected to begin paring back its \$4.0 trillion in bond holdings purchased as stimulus during the great recession. The 30-year fixed rate mortgage and 10-year treasury have remained stable throughout 2017 despite the rising rates. The Richmond metro area added 16,200 jobs from August 2016 to August 2017. Education and Health Services, Government, Professional and Business Services, and Construction contributed the most to employment growth.

Market Overview

Richmond's office vacancy declined 150 basis points from Q3 2016 to Q3 2017. Average asking rents increased over 4.5% across all submarkets over a year ago. Vacancy in the CBD stood at 9.0% which is a 6.5 percentage point decline since the first quarter of 2016. A tightening of availabilities as well as new ownership at the James Center resulted in CBD asking rents to increase by 5.1% over a year ago.

Leasing activity slowed during the summer months of Q3 2017 but remained strong on the year and should pick up in Q4 2017. Absorption reported negative in Q3 2017 in part due to 1400 Best Plaza, a 312,000-square-foot (sf) vacant office building owned by Henrico County which became available for lease or sale since purchasing the property in 2011. The CBD absorbed a positive 119,996 sf during the quarter while suburban submarkets, particularly Class B buildings, lagged behind. Limited large block availabilities in Class A buildings is forcing sizable office users to either renew or plan on a long lead time in searching for new space. The majority of the 1.3 million sf under construction in the market is Dominion Energy's 900,000-sf downtown office tower slated for completion in early 2019. The vacant 108,296-sf Banks Brothers buildings in the Innsbrook submarket sold for \$6.2 million (\$58 per sf) during the third quarter. Cloverleaf Office park also traded during the quarter for \$3.4 million (\$50 per sf).

Outlook

Real Capital Analytics (RCA) reported a 35% decline in U.S. office transaction volume year-over-year in Q3 2017. Pricing remained tight as the U.S. office cap rate declined to 6.1% from 6.3% over the same time period. The transaction decline is primarily due to a slowdown in CBD sales which experienced strong price accretion in recent years. Facebook announced in early Q4 2017 a \$1.0-billion investment to build a 970,000-sf data center in Henrico. While technically industrial space, spinoff activity is expected to benefit Richmond office fundamentals. Asking rents will continue to increase and vacancy will decline as new entrants and organic growth from existing local users continue to absorb availabilities.

MARKETBEAT

Richmond, VA

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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	10,401,654	22,964	913,300	9.0%	119,996	165,487	413,093	900,000	\$22.15	\$23.87
East End	327,258	0	1,000	0.3%	0	1,550	2,000	0	\$15.03	N/A
Far West End	875,084	0	3,397	0.4%	-1,332	111,833	42,213	45,391	\$24.66	\$22.00
Glenside/Broad St	5,000,180	39,073	258,460	6.0%	34,372	36,976	180,421	46,461	\$18.12	\$19.46
Hull Street Corridor	1,212,405	0	112,113	9.2%	-71,548	-71,668	14,215	0	\$13.42	N/A
I-95 N/Ashland	458,563	0	40,222	8.8%	446	9,387	1,000	0	\$16.01	N/A
I-95 N/Chamberlayne	183,708	0	9,740	5.3%	-3,790	-3,100	8,440	0	\$16.93	\$25.00
Innsbrook	7,899,764	29,401	697,808	9.2%	-20,076	-22,670	355,014	0	\$20.82	\$21.46
Iron Bridge Corridor	1,533,108	0	127,988	8.3%	-20,988	-19,223	16,294	43,000	\$15.53	\$16.95
Lakeside	110,481	0	4,202	3.8%	-2,797	-2,797	0	0	\$13.28	N/A
Manchester	1,124,160	0	12,021	1.1%	787	7,610	4,089	0	\$17.08	N/A
Mechanicsville	942,193	2,650	133,682	14.5%	8,619	-25,781	25,771	0	\$17.06	\$24.50
Midlothian Corridor	5,073,515	22,682	378,873	7.9%	11,160	18,971	175,007	0	\$16.97	\$17.76
Monroe Ward	1,696,745	0	119,572	7.0%	-21,483	13,258	2,697	0	\$15.78	N/A
Near West End	1,224,458	0	133,086	10.9%	37,527	82,541	58,789	0	\$15.10	N/A
North Broad	2,900,423	0	69,668	2.4%	0	-8,578	0	154,000	\$20.05	\$22.00
Northside	81,804	0	625	0.8%	200	4,898	1,030	0	N/A	N/A
Parham East	2,403,827	0	397,808	16.5%	-274,071	-257,186	32,631	0	\$16.66	N/A
Parham South	871,428	0	90,435	10.4%	57,042	39,487	3,928	0	\$14.60	N/A
Rt 288 Corridor	1,223,967	4,842	114,593	9.8%	-382	-13,981	33,240	0	\$17.29	\$19.71
Shockoe Bottom	1,304,051	0	27,987	2.1%	-815	-11,804	3,881	0	\$22.10	\$23.50
Stony Point/Huguenot	1,018,710	3,934	36,105	3.9%	12,625	10,789	34,984	87,000	\$19.95	\$22.99
West Creek	1,801,383	0	21,813	1.2%	0	12,125	0	0	\$24.50	\$24.50
West End	3,119,581	0	127,807	4.1%	-4,206	3,576	86,126	0	\$18.19	\$18.27
Richmond, VA Totals	52,788,450	125,546	3,832,305	7.5%	-138,714	81,700	1,494,863	1,275,852	\$18.85	\$21.06

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	21,312,709	91,061	1,588,384	7.9%	72,035	187,107	895,104	1,106,188	\$21.06	\$21.43
Class B	25,248,887	24,485	1,919,764	7.7%	-208,911	-113,838	530,771	169,664	\$17.13	\$17.13
Class C	6,226,854	10,000	324,157	5.4%	-1,838	8,431	68,988	0	\$13.15	\$13.15

Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4840 Cox	63,454	AECOM	Renewal	Innsbrook
10900 Nuckols Road	34,962	VA Electric & Power Co	Sublease	Innsbrook
6600 W Broad Street	32,631	Pulmonary Associates	New	Glenside/Broad St

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
4300 Cox Road	108,296	Banks Brothers/HMP Properties	\$6,247,500 / \$58	Innsbrook
Cloverleaf Office Park	67,843	Hamilton Cloverleaf/Premier RE Fund IV	\$3,400,000 / \$50	Hull Street

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