

RICHMOND, VA OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Richmond Employment	674.7k	681.6k	▲
Richmond Unemployment	3.8%	3.2%	■
U.S. Unemployment	4.4%	3.9%	▼

Numbers above are quarterly averages; Aug 2018 data used to represent Q3 2018

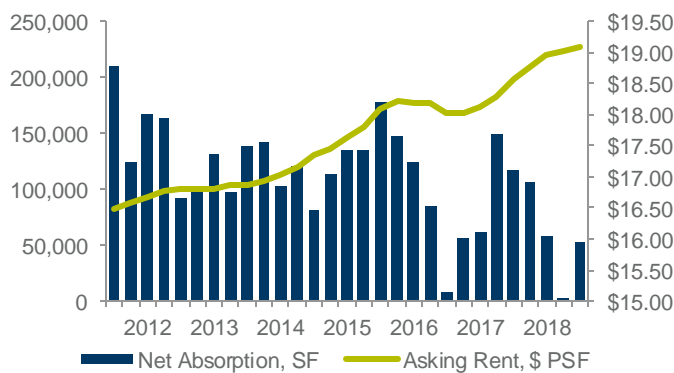
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	7.5%	6.6%	▼
Net Absorption (sf)	101k	63k	▲
Under Construction (sf)	1.3M	1.4M	■
Average Asking Rent*	\$18.85	\$19.40	▲

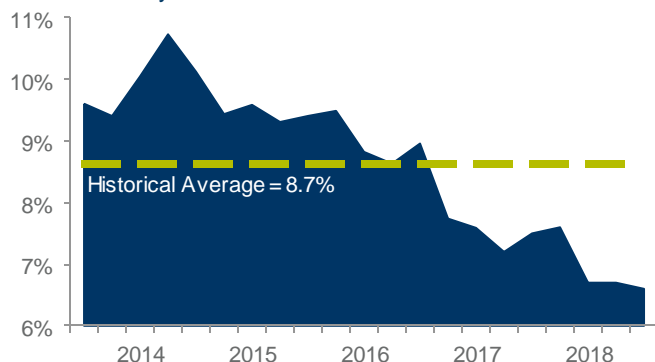
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Powered by gains in consumer spending, net exports, and business investment, the U.S. economy posted its strongest growth since 2014 with revised GDP growth of 4.2% in the second quarter. Economists expect GDP growth to continue at a more modest pace in third quarter, while remaining above the average levels of the current economic expansion. The Federal Reserve Bank raised interest rates for the third time in 2018 and signaled its accommodative era is over.

Employment gains continued in Richmond. Richmond's unemployment rate decreased 60 basis points (bps) to 3.2% with the economy adding 6,900 jobs from the previous year.

Market Overview

Richmond's office market is gaining momentum as we approach the end of the year. The more than 1.4 million square feet (msf) of leasing activity to date is behind the pace of last year at this point, but activity is anticipated to be stronger for the remainder of the year. There are a considerable number of tenants actively looking in the market and space availabilities are becoming more scarce. The overall office vacancy rate decreased 90 bps year-over-year in the third quarter to 6.6%. Strong market fundamentals continue to attract investment in the Richmond area. The Turning Basin Building and Brookfield Place, formerly Southern States Cooperative Building, traded during the quarter.

Coworking concepts are expanding to cater to Richmond's startup ecosystem. Two new coworking tenants – Novel and Venture X – entered the market, while Gather continues construction on a new downtown location and Regus Spaces searches for more space. Coworking and temporary workplace solutions provide flexible lease options and substantial amenities for tenants. High occupancy rates and more than 310,000 square feet (sf) of office inventory are proving the concept in Richmond. They are attracting more than just freelancers; traditional office users are gravitating towards curated space to simplify the move-in process. To be able to compete, traditional office buildings are undergoing renovations to add desirable amenities. The James Center is nearing completion of its remodeled entryway and shared tenant space, while Dominion submitted plans for its second downtown tower.

Outlook

Richmond's office market will remain active to end the year. Landlords continue to experience upward pressure on rents with rising construction costs and declining vacancies. To accommodate the cost of building, landlords are seeking long-term deals in order to stabilize returns.

MARKETBEAT

Richmond, VA

Office Q3 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)	AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)***
CBD	10,418,770	0	889,984	8.5%	10,084	-15,759	134,283	908,500	\$22.14	\$25.02
East End	308,758	0	0	0.0%	0	0	0	0	N/A	N/A
Far West End	862,937	4,000	20,247	2.8%	-6,263	30,909	4,477	90,782	\$23.10	\$25.00
Glenside/Broad St	5,094,552	9,914	268,924	5.5%	37,892	32,854	150,399	0	\$18.48	\$18.92
Hull Street Corridor	1,242,405	0	139,383	11.2%	-16,869	-23,186	8,519	0	\$12.06	N/A
I-95 N/Ashland	458,563	0	30,774	6.7%	6,532	7,659	4,740	0	\$13.75	N/A
I-95 N/Chamberlayne	197,141	0	4,863	2.5%	0	-123	950	0	\$12.99	N/A
Innsbrook	7,886,308	40,850	452,859	6.3%	72,563	81,452	430,101	25,000	\$20.59	\$21.29
Iron Bridge Corridor	1,486,108	0	106,355	7.2%	1,946	-8,235	10,680	0	\$17.12	\$16.99
Lakeside	124,239	0	8,040	6.5%	600	662	0	0	\$10.93	N/A
Manchester	1,140,410	11,208	9,994	1.9%	2,243	-7,344	6,493	0	\$16.61	N/A
Mechanicsville	942,829	0	119,670	12.7%	-5,851	12,648	20,091	0	\$15.79	\$24.50
Midlothian Corridor	5,120,268	22,136	317,333	6.6%	41,135	111,372	217,485	0	\$17.31	\$17.88
Monroe Ward	1,727,253	3,688	148,956	8.8%	-47,372	-73,490	43,598	0	\$15.28	N/A
Near West End	1,259,860	2,742	118,665	9.6%	13,173	14,529	40,747	82,838	\$16.05	N/A
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%	0	-73,641	44,000	0	\$10.58	N/A
Parham East	2,442,952	0	44,864	1.8%	14,420	81,175	54,051	0	\$17.01	N/A
Parham South	889,028	0	154,800	17.4%	-2,039	-57,558	24,426	0	\$14.93	N/A
Rt 288 Corridor	1,252,967	103,274	77,208	14.4%	35,792	-73,123	50,418	30,000	\$18.26	\$20.42
Shockoe Bottom	1,494,365	0	16,153	1.1%	0	13,078	12,160	0	\$22.21	\$23.17
Stony Point/Huguenot	1,031,358	0	115,377	11.2%	-76,692	-81,171	11,535	87,000	\$21.15	\$23.52
West Creek	1,801,383	0	5,202	0.3%	11,183	16,611	9,664	0	\$24.50	\$24.50
West End	3,196,801	0	154,453	4.8%	-29,439	-14,594	92,785	0	\$18.33	\$21.03
Richmond, VA Totals	53,420,454	197,812	3,347,413	6.6%	63,038	(25,275)	1,371,602	1,378,120	\$19.40	\$21.54

*Leasing activity includes renewals

**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	21,506,740	160,839	1,422,016	7.4%	76,370	9,775	746,193	1,270,282	\$21.54	\$21.67
Class B	25,751,373	36,973	1,656,556	6.6%	-18,668	-47,528	565,330	107,838	\$17.40	\$17.45
Class C	6,162,341	0	268,841	4.4%	5,336	12,478	60,079	0	\$14.44	\$14.44

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Windsor Business Park IV	72,890	Bon Secours	Renewal	Parham East
Handcraft Building	20,700	Need Supply Co.	New (Sublease)	Scott's Addition
Boulders Center	19,697	Conduent State Healthcare	Renewal	Midlothian Corridor
McKinnon and Harris Building	17,862	Venture X	New	Scott's Addition

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Brookfield Place	206,068	Southern States Cooperative/ Thalhimer Realty Partners	\$14.7M/\$71	Glenside/Broad
Turning Basin	82,814	LNR Partners/Jewell Capital LLC	Undisclosed	CBD
23 W Broad St	50,000	RJR Properties/SNP Properties	\$3.4M/\$68	Monroe Ward

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