

MARKETBEAT

Richmond, VA

Office Q4 2016



RICHMOND, VA OFFICE

Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Richmond Employment	666k	673k	▲
Richmond Unemployment	4.2%	4.2%	▼
U.S. Unemployment	5.0%	4.8%	▼

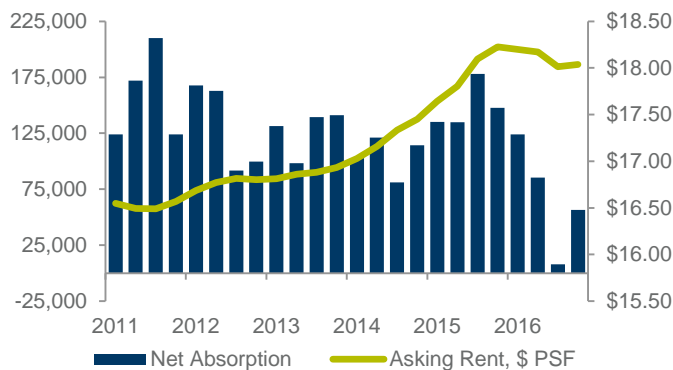
Market Indicators (Overall, All Classes)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	9.5%	7.7%	▼
YTD Net Absorption (sf)	591k	226k	▲
Under Construction (sf)	396k	115k	■
Average Asking Rent*	\$17.92	\$18.02	■

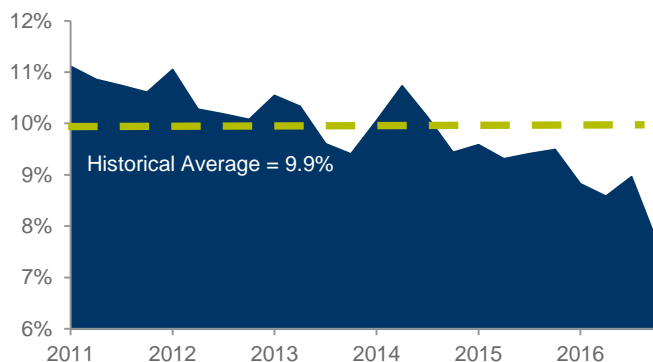
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Richmond added 6,600 jobs from January to November 2016. Of the jobs added, 23% were in heavy office using sectors (Information, Financial Activities, and Professional & Business Services). From January to November 2016, year-over-year employment in office using sectors in Richmond has averaged 5.2% compared to 2.5% for the U.S. and 4.5% and 3.5% for Raleigh and Charlotte respectively. Richmond's strong office sector job growth helped drive vacancy from 9.5% in Q4 2015 to 7.7% by the end of 2016.

Market Overview

The CBD ended 2016 with fewer questions than it began. After considering a build-to-suit tower, SunTrust renewed in their existing downtown location. Vacancy in the CBD declined 356 basis points from Q1 2016 to just above 10% at year-end. Two D.C. headquartered companies signed leases in Richmond's CBD in 2016. CoStar will occupy 125,000 square feet (SF) and hire nearly 750 employees in the WestRock building. This location will serve as the headquarters for CoStar's Research Division. In addition to CoStar, The International City/County Management Association (ICMA) will open a 55,941 SF office in Riverfront Plaza. CoStar and ICMA selected Richmond after evaluating over 20 different markets. Similar themes such as workforce availability, quality of life, and cost of doing business, including affordable rents, echoed throughout the remarks of both firms. Both CoStar and ICMA represent new entrants to the market providing net positive absorption in the CBD. Cushman & Wakefield | Thalhimers represented the tenant in both transactions.

Market Fundamentals in Non-CBD submarkets remained strong with an overall vacancy of 7.0%. A positive 226,132 SF of office space was absorbed in 2016 of which 115,207 SF occurred in the CBD and 110,925 SF in Non-CBD submarkets. Class A asking rents declined 2.3% in the CBD but increased 1.3% in Non-CBD submarkets. Notable 2016 suburban office sale transactions include Boulders I, II, & III (288,416 SF) which traded for \$26.3 million and Forest Office Park (223,225 SF) which sold for \$24.1 million. In the CBD, the Bank of America Tower (513,480 SF) traded for \$42 million; the SunTrust Tower was recapitalized. The James Center with just under 1.0 million SF traded in early 2017 for \$108 million.

Outlook

Richmond's office market ends the year significantly healthier than when it began. Organic office sector job growth as well as the addition of new entrants helped firm up market fundamentals particularly in the CBD. Vacancy in the CBD declined 326 basis points from the Q4 2015 and asking rents increased by 5.4%.

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CUSHMAN & WAKEFIELD

THALHIMER

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	2016 OVERALL NET ABSORPTION (SF)	2016 LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	10,386,340	29,107	1,076,518	10.64%	123,999	115,207	422,475	0	\$21.08	\$23.36
East End	351,429	0	2,400	0.68%	0	4,450	6,000	0	\$14.61	N/A
Far West End	694,732	0	4,278	0.62%	(2,261)	113,990	6,971	0	\$16.28	\$22.00
Glenside/Broad St	5,031,624	1,207	352,339	7.03%	12,510	(64,811)	267,561	0	\$18.02	\$20.47
Hull Street Corridor	2,336,424	0	52,879	2.26%	(3,176)	4,949	28,806	0	\$14.27	N/A
I-95 N/Ashland	458,563	7,000	42,609	10.82%	(13,271)	21,380	9,094	0	\$13.38	N/A
I-95 N/Chamberlayne	183,708	0	6,640	3.61%	(122)	3,353	3,910	0	\$17.06	\$25.00
Innsbrook	7,770,755	42,805	679,901	9.30%	65,055	(138,072)	586,106	0	\$20.06	\$20.64
Iron Bridge Corridor	1,533,108	0	147,365	9.61%	3,623	59,161	56,278	0	\$14.81	\$17.31
Lakeside	110,481	0	4,883	4.42%	8,726	1,400	8,726	0	\$14.47	N/A
Mechanicsville	941,727	1,370	118,322	12.71%	(6,592)	2,447	37,887	0	\$16.51	\$24.50
Midlothian Corridor	5,026,713	8,781	405,579	8.24%	18,775	5,907	223,519	0	\$16.24	\$17.28
Monroe Ward	1,698,013	0	173,063	10.19%	(62,611)	(42,354)	6,164	0	\$17.11	N/A
Near West End	1,131,571	0	155,372	13.73%	20,412	54,113	39,950	60,000	\$15.06	N/A
North Broad	2,894,334	0	114,758	3.96%	0	(15,830)	4,819	0	\$18.49	\$22.00
Northside	115,963	0	0	0.00%	0	0	0	0	N/A	N/A
Parham East	2,425,953	0	140,622	5.80%	3,318	(87,638)	44,340	0	\$15.65	N/A
Parham South	871,623	0	129,922	14.91%	(1,009)	21,906	126,630	0	\$14.19	N/A
Rt 288 Corridor	1,197,278	5,515	110,840	9.72%	33,703	19,838	53,047	0	\$19.28	\$19.06
Shockoe Bottom	1,357,362	0	15,853	1.17%	(330)	24,335	16,625	0	\$17.25	N/A
Stony Point/Huguenot	956,564	0	50,325	5.26%	11,285	(820)	23,599	55,000	\$16.41	\$21.36
West Creek	1,788,413	0	27,138	1.52%	0	7,121	13,052	0	\$24.50	\$24.50
West End	3,201,228	1,831	151,673	4.80%	96,973	116,100	76,998	0	\$15.36	\$17.06
Richmond, VA Totals	52,463,906	97,616	3,963,279	7.7%	309,007	226,132	2,062,557	115,000	\$18.02	\$20.48

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	2016 OVERALL NET ABSORPTION (SF)	2016 LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	21,114,319	47,027	1,738,086	8.5%	189,098	-6,752	1,238,299	115,000	\$20.48	\$20.95
Class B	24,932,817	49,219	1,868,888	7.7%	89,837	117,687	753,331	0	\$16.91	\$16.96
Class C	6,416,770	1,370	356,305	5.6%	30,072	115,197	70,927	0	\$13.01	\$13.01

Key Lease Transactions 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
WestMark	211,689	SunTrust	Lease	Innsbrook
WestRock	99,075	CoStar	Lease	CBD
Riverfront Plaza	55,941	ICMA	Lease	CBD
Lady Bird Hat Factory	26,838	CarMax	Lease	CBD

Key Sales Transactions 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Bank of America Tower	513,480	Cornerstone / Verris Capital	\$42,000,000 / \$82	CBD
Boulders I, II, III	299,463	Lingerfelt / Dominion Realty Partners	\$26,300,000 / \$88	Midlothian Corridor
Forest Office Park	223,225	Triple Net / Equitable Real Estate	\$24,100,000 / \$108	Glenside/Broad St
Towne Center West	110,000	Currin/VCU	\$40,000,000 / \$364	Short Pump

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