

RICHMOND, VA OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Richmond Employment	672.0k	682.4k	▲
Richmond Unemployment	3.9%	3.1%	■
U.S. Unemployment	4.1%	3.7%	▼

Numbers above are quarterly averages; Nov 2018 data used to represent Q4 2018

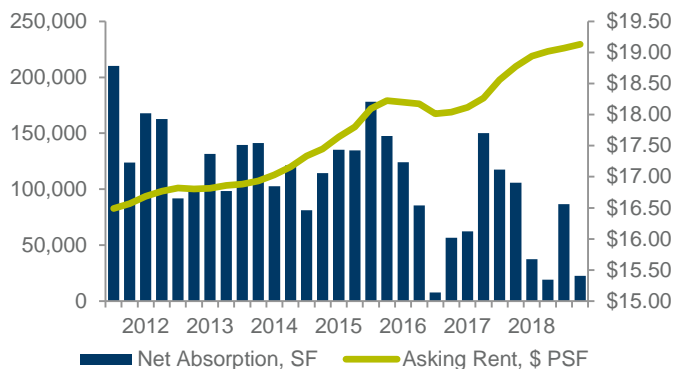
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	6.4%	6.8%	▼
Net Absorption (sf)	262k	6k	▲
Under Construction (sf)	1.3M	1.3M	■
Average Asking Rent*	\$18.89	\$19.14	▲

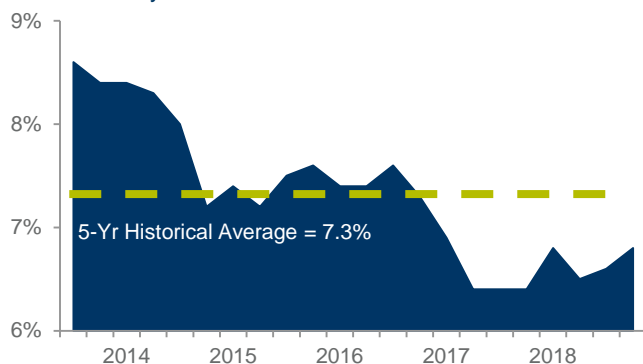
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. economy posted 3.4% GDP growth in the third quarter and growth for the year is expected to remain over 3.0% after fourth quarter results. With consistent growth over the past few quarters, the Federal Reserve Bank raised interest rates for the fourth time in the calendar year. Rate hikes are expected to decelerate and continue at a more modest pace in 2019. Richmond maintained its momentum to close out the year. The economy added 10,400 jobs from the prior year and unemployment remained near the lowest rate since 2001 at 3.1%. Henrico County announced more than 1,022 new jobs and \$763.7 million in investments in new and existing businesses throughout 2018. At the same time, investor capital continued to flow to a range of industries in Richmond's flourishing startup ecosystem.

Market Overview

Consistent job growth and a historically low unemployment rate has led to steady demand for office space in Richmond. Leasing activity accelerated at the end of the year after a slower summer period. The 2.3 million square feet (msf) of total leasing activity for 2018 was equivalent to Richmond's five-year average. Suburban office space was responsible for 86.3% of all leasing activity; the Innsbrook, Glenside/Broad St. and Midlothian Corridor submarkets led the way in leasing activity for the year. Net absorption remained positive, with more than 90,000 square feet (sf) in 2018.

Overall asking rents increased slightly throughout the year. Rent growth for Class A office space contributed to overall rental growth and is expected to continue rising with limited availabilities for quality space throughout the Richmond market. Only 6.8% of the 1.3 msf of office space currently under construction is still available, with the majority being built-to-suit. Scott's Addition continues to attract tenants, while development activity is spreading to the West End with Kinsale Insurance announcing it is under contract to build a new five-story, 150,000-sf headquarters.

Outlook

New and renovated inventory will continue to be sought after. Potential tenants are seeking quality amenities to help attract and retain talent. All of the new office space currently under construction is expected to be completed in 2019, but will have limited impact on the overall occupancy rate. Dominion Energy submitted plans to demolish and construct an additional 911,000-sf tower downtown. The site is adjacent to Dominion's 960,000-sf tower scheduled to deliver in March of 2019. While older vacant inventory may remain unoccupied, the Richmond office market will continue to display tight fundamentals in 2019 as tenants compete for limited, quality available space.

MARKETBEAT

Richmond, VA

Office Q4 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	10,055,351	0	873,018	8.7%	65,802	20,571	310,240	960,000	\$22.44	\$24.97
East End	324,928	0	0	0.0%	0	0	0	0	N/A	N/A
Far West End	846,176	6,252	29,789	4.3%	23,504	54,913	28,494	11,154	\$16.67	\$24.44
Glenside/Broad St	5,210,269	32,229	343,549	7.2%	-58,619	-50,644	303,704	0	\$17.99	\$18.49
Hull Street Corridor	1,242,550	0	137,626	11.1%	1,752	-21,429	10,922	0	\$12.05	N/A
I-95 N/Ashland	456,924	0	30,774	6.7%	0	8,048	121,882	0	\$13.74	N/A
I-95 N/Chamberlayne	197,141	0	4,863	2.5%	0	-123	950	0	\$13.24	N/A
Innsbrook	7,736,147	72,482	452,784	6.8%	-27,221	79,678	549,133	25,000	\$20.60	\$21.45
Iron Bridge Corridor	1,486,108	0	107,604	7.2%	-2,052	-10,885	19,298	0	\$16.91	\$17.00
Lakeside	124,239	0	6,039	4.9%	-2,499	2,663	0	0	\$11.24	N/A
Manchester	1,140,410	0	9,240	0.8%	11,962	4,618	7,247	0	\$17.77	N/A
Mechanicsville	943,055	0	91,534	9.7%	24,500	52,648	20,091	0	\$16.11	\$24.50
Midlothian Corridor	5,131,883	22,136	311,051	6.5%	-625	103,197	293,816	0	\$16.16	\$17.81
Monroe Ward	1,739,377	3,688	130,113	7.7%	5,364	-50,755	50,962	0	\$14.76	N/A
Near West End	1,296,188	0	136,854	10.6%	-1,903	17,935	53,104	60,095	\$18.45	N/A
North Broad	2,974,403	0	69,668	2.3%	0	0	0	154,000	\$21.32	\$22.00
Northside	161,807	0	87,290	53.9%	-13,649	-87,290	44,000	0	\$10.50	N/A
Parham East	2,592,534	0	69,630	2.7%	7,036	72,324	151,333	0	\$14.58	N/A
Parham South	889,028	0	157,613	17.7%	-768	-59,111	39,075	0	\$15.30	N/A
Rt 288 Corridor	1,401,881	104,040	88,675	13.7%	-12,233	-77,356	67,537	58,000	\$19.74	\$20.80
Shockoe Bottom	1,545,737	0	16,556	1.1%	-1,167	14,811	28,646	0	\$22.38	\$23.17
Stony Point/Huguenot	1,118,358	0	110,476	9.9%	-18,125	351	36,922	0	\$19.92	\$23.52
West Creek	1,801,383	0	5,202	0.3%	0	16,611	9,664	0	\$24.50	\$24.50
West End	3,191,186	0	149,851	4.7%	5,134	-480	115,210	0	\$16.90	\$20.45
Richmond, VA Totals	53,607,063	240,827	3,419,799	6.8%	6,193	90,295	2,262,230	1,268,249	\$19.14	\$21.68

*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 (ALL CLASSES)**	DIRECT AVERAGE ASKING RENT (CLASS A)***
Class A	21,633,729	207,066	1,450,150	7.7%	58,671	102,560	1,344,590	1,144,000	\$21.68	\$21.86
Class B	25,583,928	33,761	1,699,927	6.8%	-45,030	-23,195	838,448	124,249	\$16.76	\$16.80
Class C	6,389,406	0	269,722	4.2%	-7,448	10,930	79,192	0	\$14.09	\$14.09

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5640 Cox Road	47,559	General Electric Company	Renewal	Innsbrook
Cox Court	39,196	GSA – FEMA	New	Innsbrook
Boulders Center	35,978	Selective Insurance Company of America	New	Midlothian Corridor
Turning Basin Building	29,156	Kaleo	Expansion	CBD

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Citizens Bank Office Park	163,920	CW Capital Asset Mgmt/Radix Equity	\$15.7M / \$96	I-95 N/Ashland
Windsor IV	72,890	Fernau LeBlanc/RW Holdings NNN REIT	\$10.5M / \$144	Parham East
American Red Cross Headquarters	60,095	American Red Cross	\$8.0M / \$133	Glenside/Broad St
Dale Building	38,649	Dale Building LLC/Doswell Family LLC	\$3.1M / \$80	Glenside/Broad St

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