

# MARKETBEAT OFFICE SNAPSHOT

ROANOKE | LYNCHBURG, VA  
A Cushman & Wakefield Research Publication

Q1 2014



## ECONOMIC OVERVIEW

The Roanoke metropolitan area continues to garner attention as one of the best work environments in the United States. According to a recent Gallup survey that polled hundreds of thousands of Americans over the past two years, Roanoke came in 7<sup>th</sup> out of 189 metro areas on the Work Environment Index. The index is based on four factors: 1) Job satisfaction 2) whether employees felt they used their strengths at work 3) how employees were treated by their supervisors 4) and whether supervisors created an open and trusting work environment.

The unemployment rate for Roanoke was 5.6% in January, the most recent month figures were available. This is down from 6.4% at the same time last year. Unfortunately, the employment sectors that drive office space use did not fare well in 2013. The largest loss of employment occurred in Professional and Business Services, a sector that is key to a healthy office market in commercial real estate. Total employment in this sector dropped 3.3%. Government and Leisure & Hospitality were the biggest gainers in 2013, at 4.4% and 3.8% respectively.

## LEASING AND ABSORPTION

The Roanoke office market started the year with no significant change in the vacancy rate from one year ago. The direct vacancy rate in the downtown district is 9.0%, which is generally considered a healthy vacancy level. Although asking rents have declined slowly since 2010, they are leveling off and are only 3.0% below 2011 levels. Despite the slow leasing environment as indicated by the year to date absorption figure, a direct vacancy rate at 9.2% has created an environment to hold lease rates in place. There has not been any significant new construction recently, and this will be the status quo until there is an increase in demand among office-using industries.

The last significant construction was in 2009 and 2010, when over 175,000 square feet (sf) was delivered in each of those years. The most significant of these was 3 Riverside, Carilion Clinic's 178,446-sf medical office building. There was no new construction in 2013, and none in the first quarter of 2014. With vacancy rates at or below 10.0% since 2011, any further decline could make the development environment more attractive. If there were any new construction, it would likely be build-to-suit versus the riskier option of speculative construction.

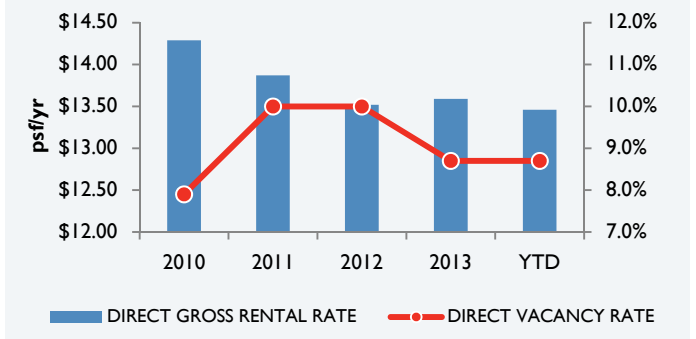
## OUTLOOK

The core fundamentals for the region - climate, workforce, affordable housing, schools and airport - remain attractive to potential corporate candidates relocating or expanding. Recovery in the office market will be slow. Expect rental rates to vary little, with no new construction until professional services employment increases and vacancy drops.

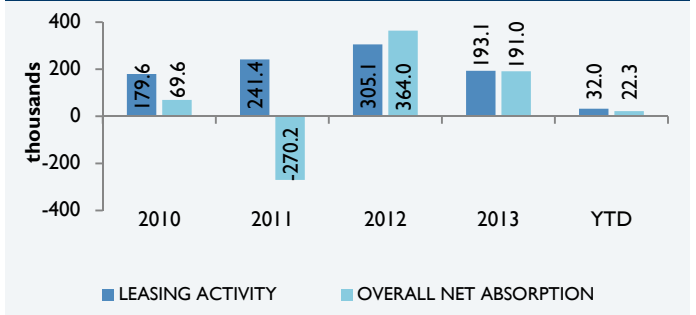
## STATS ON THE GO

	Q1 2013	Q1 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.3%	9.2%	-0.1pp	▼
Direct Asking Rents (psf/yr)	\$13.41	\$13.46	0.4%	◀▶
YTD Leasing Activity (sf)	37,898	31,997	-15.6%	▲

## DIRECT RENTAL VS. VACANCY RATES



## LEASING ACTIVITY VS. ABSORPTION



## ROANOKE, VA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Roanoke	4,259,227	9.9%	9.0%	3,645	0	0	15,050	15,050	\$16.79	\$21.30
Botetourt County	563,186	8.6%	8.6%	0	0	0	12,000	12,000	\$11.67	\$18.00
North Franklin County	245,730	4.9%	4.9%	0	0	0	0	0	\$18.50	\$0.00
Northeast Roanoke	1,767,277	10.9%	10.9%	2,455	0	0	0	0	\$13.08	\$0.00
Northwest Roanoke	607,143	4.3%	4.3%	0	0	0	0	0	\$11.20	\$0.00
South Franklin County	62,096	24.4%	24.4%	0	0	0	0	0	\$10.79	\$0.00
Southeast Roanoke	249,073	4.1%	4.1%	0	0	0	(10,262)	(10,262)	\$10.43	\$0.00
Southwest Roanoke	4,348,523	10.4%	10.1%	6,235	0	0	535	1,632	\$13.55	\$15.40
<b>ROANOKE</b>	<b>12,102,255</b>	<b>9.1%</b>	<b>8.7%</b>	<b>12,335</b>	<b>0</b>	<b>0</b>	<b>17,323</b>	<b>18,420</b>	<b>\$14.17</b>	<b>\$20.79</b>
<b>LYNCHBURG</b>	<b>3,338,093</b>	<b>9.5%</b>	<b>8.5%</b>	<b>19,642</b>	<b>0</b>	<b>0</b>	<b>3,906</b>	<b>3,906</b>	<b>\$12.06</b>	<b>\$0.00</b>
<b>TOTALS</b>	<b>15,440,348</b>	<b>9.2%</b>	<b>8.7%</b>	<b>31,997</b>	<b>0</b>	<b>0</b>	<b>21,229</b>	<b>22,326</b>	<b>\$13.70</b>	<b>\$20.79</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

SIGNIFICANT Q1 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
106 Vista Centre Drive*	Lynchburg	Anite Telecom, Inc.	B	8,268
2102 Langhorne Road	Lynchburg	Stellar One	B	6,374
3701 Old Forest Road	Lynchburg	Pump Creek	B	5,000
10 South Jefferson Street	CBD	Cushman & Wakefield   Thalhimers	A	3,100
2404 Electric Road	Southwest Roanoke	The Fralin Companies	B	3,000
SIGNIFICANT Q1 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
N/A				
SIGNIFICANT Q1 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				

\* RENEWAL