

MARKETBEAT

OFFICE SNAPSHOT

ROANOKE | LYNCHBURG, VA

A Cushman & Wakefield Research Publication

Q1 2015



ECONOMIC OVERVIEW

The unemployment rate in February for the Roanoke region was 5.0%, down 0.9 percentage point from one year prior. Hospitality, healthcare, and food services are the biggest drivers in employment gains.

Population growth is expected to continue at approximately 5% per year.

ABSORPTION CONCERNS

While leasing activity in the Roanoke office market is improving, the Roanoke region is preparing for significant large blocks of office product to come online beginning in the Q2. The trend of office users over 50,000 square feet (sf) downsizing or relocating lines of business within existing properties or to other markets will produce a surge in office vacancy in the Roanoke market. Norfolk Southern is preparing to move employees from the Roanoke headquarters into other operation headquarters in Norfolk and Atlanta, and they plan to divest their 204,000-sf tower in the downtown submarket. As previously reported, Allstate plans to reduce their footprint in the market with their new building currently under construction on a site near I-81. Additionally, Cox Communications is offering their building for sale as they move their customer service centers out into retail locations, closer to their customer base. The 88,000-sf Shenandoah Life Headquarters on Brambleton Avenue will be offered for sale in the next quarter.

LEASING AND SALES

Despite these recent trends and their obvious implications on rates and absorption, the Roanoke office market is reporting movement, as well as increased interest from institutional investors. In the downtown submarket, Gentry Locke Rakes & Moore will be moving within SunTrust Plaza, opening up 15,000 sf of office space in the high profile, downtown office building in the middle of 2015. At Valleypointe, Nexstar Broadcasting Group—which purchased the local Fox affiliate—will be locating Fox 21/27 in 14,000 sf of office space later this year.

The first quarter also produced its first large sale transaction of the year. The 443,181-sf Wells Fargo operations center on Plantation Road traded in a portfolio sale. The property was sold to a group of Brazilian investors for \$36.9 million, or \$83.26 per square foot.

OUTLOOK

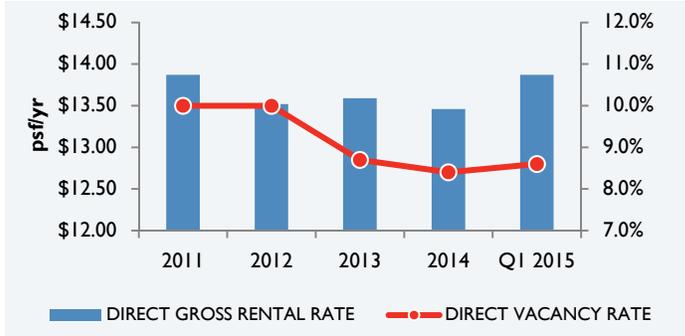
As we move further into 2015 we expect absorption figures to be impacted negatively. Economic development officials and local brokers

are reaching out to national purchasers and office tenants in order to address the projected vacancy. These large projects provide opportunities for new users with large space requirements that we have not been able to accommodate within the region for some time. As the market works through these vacancies, coordination with state and local economic officials, and creative economic development strategies, will become more important as the Roanoke region competes on a national level.

STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.5%	8.9%	-0.6pp	▲
Direct Asking Rents (psf/yr)	\$13.45	\$13.87	3.1%	◀▶
YTD Leasing Activity (sf)	50,500	38,082	-24.6%	▲

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. ABSORPTION

