

MARKETBEAT

OFFICE SNAPSHOT

ROANOKE | LYNCHBURG, VA
A Cushman & Wakefield Research Publication

Q2 2014



ECONOMIC OVERVIEW

The Roanoke economy continues strong growth despite a still-sluggish national economy. In a recent *Area Development* study, "Leading Locations for 2014: U.S. Metros Ranked for Economic and Job Growth,"

Roanoke is considered a "recession-busting" city, landing in the top third of 379 MSAs for positive economic and workforce indicators. Reflecting the strength of economic growth in the region, Roanoke ranked 79th for real gross metro product growth. Additionally, figures released by the Council for Community and Economic Research for the first quarter of 2014 rank the Roanoke metro area as having the lowest cost of living index in the state.

LEASING AND ABSORPTION

The Roanoke office market continues to see no significant change in the vacancy rate since dropping below 9.0% in 2013, which remains well below the national rate of 16.8%. While the office market continues to expand, it is consistent with the national market trend. Growth remains slow in the years following the economic downturn as businesses remain skittish about costs. Changes in office space design may also have an impact on growth as more businesses take advantage of underutilized space, and reduce the square footage per employee, in order to improve their overall occupancy costs and increase efficiency. Despite low absorption figures, rates are still holding in place while asking rents appear to have stabilized, with no significant movement in the past year and a half.

In positive news, the Roanoke MSA unemployment rate dropped to 4.8% according to the April 2014 BLS current population survey, which is the lowest since December 2008. Also, two new redevelopment projects were announced this quarter for the former Ukrop's building—which has been vacant since 2009—and The Bridges. Carilion Clinic closed on the former Ukrop's building on Franklin Road with plans for an orthopedic and neuroscience outpatient center. Carilion spent \$7 million to purchase the property and plans to spend an additional \$9 million on renovations. Late in the quarter, the developers of The Bridges project announced the redevelopment of the historic trolley barn for office space. The new office lease transaction at 24,000 square feet is the largest office transaction in the downtown market since 2008. The entire building will be home to JDS Uniphase (JDSU). JDSU is the worldwide leading provider of network and service enablement solutions and optical products for communications, commercial and consumer markets.

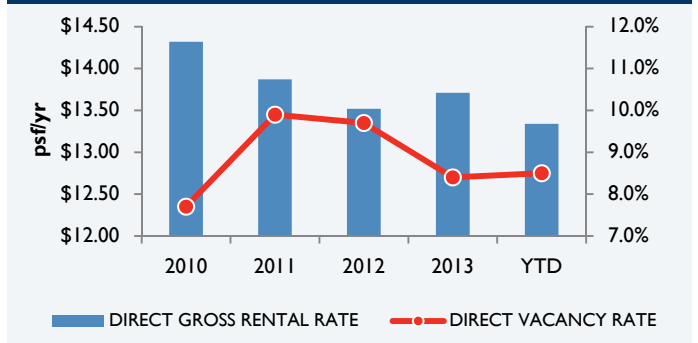
OUTLOOK

The economy continues to show modest growth in office activity. The market will continue to tighten due to lack of new office construction and available space. We foresee continued growth in the healthcare industry, technology and energy sectors. The Roanoke office market continues to make progress positioning our region as an excellent place to do business. The region continues to receive high marks regarding the cost of living, downtown amenities, and attractive small business environment.

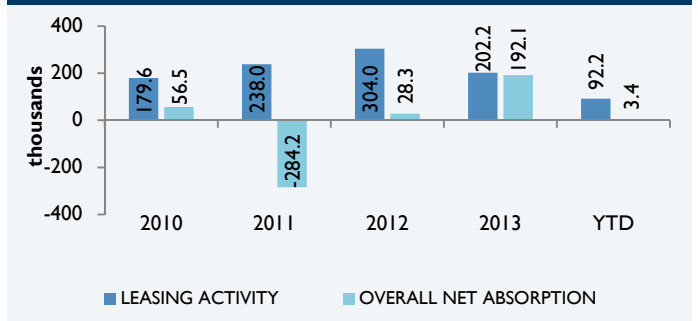
STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	8.8 %	9.0 %	0.2pp	↔
Direct Asking Rents (psf/yr)	\$13.36	\$13.34	-0.1%	↔
YTD Leasing Activity (sf)	91,850	92,228	0.4%	▲

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	9.8%	8.9%	33,021	24,643	6,042	19,300	19,300	\$17.01	\$21.30
Botetourt County	570,868	9.7%	9.7%	0	0	0	5,370	5,370	\$11.67	\$18.00
North Franklin County	245,730	5.4%	5.4%	0	0	0	(1,264)	(1,264)	\$17.00	\$0.00
Northeast Roanoke	1,500,619	9.9%	9.9%	1,350	0	0	2,874	2,874	\$11.86	\$0.00
Northwest Roanoke	619,243	4.2%	4.2%	0	0	0	0	0	\$11.29	\$0.00
South Franklin County	62,096	22.5%	22.5%	9,000	0	0	1,150	1,150	\$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	4,364,438	8.2%	8.2%	23,840	0	0	19,131	32,325	\$13.54	\$15.40
ROANOKE	11,871,294	8.8%	8.5%	67,211	24,643	6,042	36,299	49,493	\$14.09	\$20.82
LYNCHBURG	3,345,693	9.7%	8.6%	25,017	0	0	(46,097)	(46,097)	\$12.06	\$0.00
TOTALS	15,216,987	9.0%	8.5%	92,228	24,643	6,042	(9,798)	3,396	\$13.60	\$20.82

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
15 Old Woods Ave. at The Bridges	Downtown Roanoke	JDSU	A	24,643
3517 Brandon Avenue	Southwest Roanoke	Consumer Med Advocates	B	12,097
20715 Timberlake Road	Lynchburg	N/A	C	8,124
707 5 th Street*	Southeast Roanoke	AAA Mid-Atlantic	B	7,312
1717 Peters Creek Rd	Northwest Roanoke	Family Life Church	B	6,075
SIGNIFICANT Q2 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
2331 Franklin Road	Southwest Roanoke	Carilion Clinic	\$7,050,000 / \$118	59,641
2107 Rosalind Avenue SW	Southwest Roanoke	Carilion Clinic	\$1,100,000 / \$164	6,700
5221 Peters Creek Road	Northwest Roanoke	Duck Key Properties, LLC	\$233,000 / \$78	3,000
4582 Franklin Road	Southwest Roanoke	RDS LLC	\$500,000 / \$169	2,950
SIGNIFICANT Q2 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
1691 Innovation Drive	Blacksburg	Rackspace	April 2014	43,478
306 6 th Street	Downtown Roanoke	Ulliman-Schutte	June 2014	6,042
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
15 Old Woods Ave. at The Bridges	Downtown Roanoke	JDSU	December 2014	24,643

* RENEWAL