

MARKETBEAT

ROANOKE

Office Q3 2016



ROANOKE OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Roanoke Employment	161k	163k	▲
Roanoke Unemployment	4.2%	3.6%	▼
U.S. Unemployment	5.2%	4.9%	▼

Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	8.4%	9.7%	■
Net Absorption (sf)	19k	51k	▲
Under Construction (sf)	73k	17k	■
Average Asking Rent*	\$13.99	\$13.93	■

*Rental rates reflect gross asking \$psf/year

Overall Asking Rent/Overall Vacancy

4-QTR TRAILING AVERAGE



Economy

Roanoke continues to strengthen its economic base with new business investments in the region from Deschutes Brewery, Ballast Point Brewery, Virginia Community College System, and Eldor. Additionally, Carilion Clinic—the region’s largest employer—and Virginia Tech announced plans to expand the research institute on S. Jefferson Street and to establish an “Innovation Corridor” between the new business accelerator in Downtown and Carilion Memorial Hospital with the intention of growing start ups and commercializing medical innovations stemming from the institute. Roanoke’s growing reputation as a place to invest in technology and innovation is further strengthened by the recent acquisitions of two locally based technology companies: Interactive Achievement by PowerSchool in California and Meridian by GE Digital.

Market Overview

Overall vacancy in the office market remains high at 9.7%, while year-to-date office absorption remains negative compared to last year. The higher vacancy and negative absorption numbers are attributed to the former Norfolk & Southern building in Downtown Roanoke and the former Allstate building in Southwest Roanoke, both single-tenant buildings vacated in 2015-2016. Meanwhile, leasing activity improved from Q2 to Q3 this year, which is consistent with leasing activity between the second and third quarters of the previous year, but there is no indication that the increase in leasing activity will continue or generally impact the overall vacancy in the market.

Nevertheless, significant shifts in the office market are underway. The former Norfolk & Southern Building is now under contract with local investors who plan to reposition the property as a multi-tenant, Class A office building. Additionally, more than 30,000 square feet (SF) of office space was leased or renewed in Franklin Plaza in Q3. Finally, the Trolley Barn (24,000+ SF) at the Bridges development—which has been vacant since early 2015—was also leased. In the suburban office market, leasing activity remains flat.

Outlook

Leasing activity and absorption are expected to remain flat in the short-term. However, with the Norfolk & Southern building soon to be available for lease, a shake up in the occupancy numbers throughout the downtown market is expected as existing downtown tenants look to relocate or expand into newly available office space. Additionally, it is forecasted that there will be long-term implications on the office market as Carilion Clinic and Virginia Tech further increase their investment in medical research and commercial innovation within the region.

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