

MARKETBEAT

OFFICE SNAPSHOT

ROANOKE | LYNCHBURG, VA

A Cushman & Wakefield Research Publication

Q4 2014



ECONOMIC OVERVIEW

The Roanoke Region continued to see positive growth throughout the quarter, ending 2014 as one of the top growing metropolitan areas in Virginia. Roanoke continues to boast the lowest cost of living among metropolitan areas in Virginia and received a wide range of publicity throughout the year as a tourist destination and strong business location from several publications across the United States. The unemployment rate from the beginning of the year dropped from 5.6% to 4.7%, below the state average of 5.0%. And, according to the Roanoke Regional Partnership—which tracks employment trends in the market—office sectors realized a 2% increase in employment from 2013 to 2014.

LEASING AND ABSORPTION

The Roanoke office market experienced a slight decrease in overall vacancy from 2013 to 2014, while rental rates across all classes remained flat. The decrease in overall vacancy can be partly attributed to old office buildings in Downtown Roanoke being repurposed for residential condominium and apartment use, but it is also the result of an uptick in office leasing activity throughout the market.

In Q4 there was significant movement in the market: Gentry Locke Rakes & Moore recently expanded their footprint in the SunTrust Building to a total of 48,889 square feet (sf); VACO purchased the former AECOM building—approximately 36,000 sf of single tenant office space along Franklin Road, and Luna Innovations expanded into 41,000 sf of newly renovated office space in Blacksburg.

These transactions accompany significant office transactions from earlier in the year, such as JDSU's lease of 24,000 sf in the CBD—the largest office lease transaction in the downtown market since 2008—and Carilion Clinic's purchase of the former Ukrop's building in Ivy Market for \$7.0 million.

Significant blocks of space have come or will be coming on the market. Allstate plans to vacate 150,000 sf of single tenant office space to build a new 70,000-sf office building in Southwest Roanoke. Additionally, Shenandoah Life is offering for lease 35,000 sf of its 88,000-sf office building. There is also approximately 14,480 sf of unoccupied space in the Wells Fargo Tower currently not being actively offered for lease.

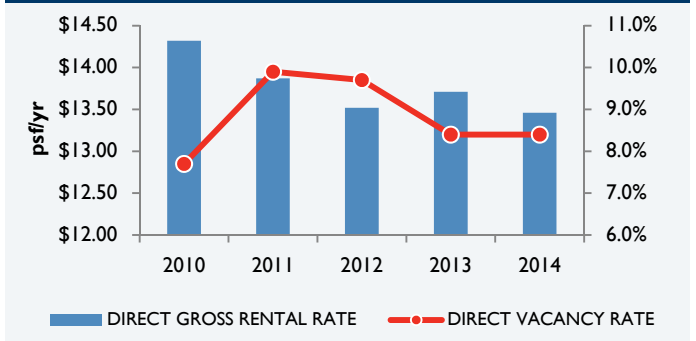
OUTLOOK

Leasing activity is steadily picking up and the real estate community is optimistic with the uptick in office space inquiries and the number of large square footage users actively searching the market. Besides Allstate's new building and the new office construction planned for the Bridges, there is no major new construction planned.

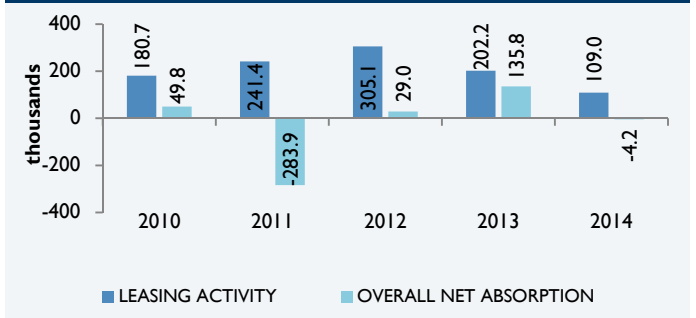
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.2 %	8.9 %	-0.3pp	◀▶
Direct Asking Rents (psf/yr)	\$13.70	\$13.46	-1.8%	◀▶
YTD Leasing Activity (sf)	206,186	108,983	-47.1%	▲

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	4,363,577	10.1%	9.2%	14,966	0	30,505	17,322	17,322	\$16.25	\$21.39
Botetourt County	554,868	7.6%	7.6%	380	0	0	12,346	12,346	\$11.93	\$18.00
North Franklin County	245,730	2.0%	2.0%	0	0	0	7,173	7,173	\$17.00	\$0.00
Northeast Roanoke	1,523,369	9.4%	9.4%	5,307	0	0	8,171	8,171	\$11.93	\$0.00
Northwest Roanoke	651,043	3.1%	3.1%	6,075	0	0	7,975	7,975	\$11.07	\$0.00
South Franklin County	62,096	19.0%	19.0%	7,700	0	0	3,350	3,350	\$10.62	\$0.00
Southeast Roanoke	242,873	2.1%	2.1%	0	7,200	0	0	0	\$10.43	\$0.00
Southwest Roanoke	4,483,766	9.3%	9.3%	39,078	0	0	(2,838)	10,356	\$14.05	\$15.40
ROANOKE	12,127,322	8.6%	8.2%	73,506	7,200	30,505	53,499	66,693	\$14.19	\$20.86
LYNCHBURG	3,462,091	10.1%	9.1%	35,477	0	0	(70,940)	(70,940)	\$12.32	\$0.00
TOTALS	15,589,413	8.9%	8.4%	108,983	7,200	30,505	(17,441)	(4,247)	\$13.70	\$20.86

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
3157 State Street	Blacksburg	Luna Innovations	B	41,000
15 Old Woods Ave. at The Bridges	Downtown Roanoke	JDSU	A	24,643
111 Franklin Plaza	Downtown Roanoke	Union First Market Bank	B	16,145
3517 Brandon Avenue	Southwest Roanoke	Consumer Med Advocates	B	12,097
106 Vista Centre Drive*	Lynchburg	Anite Telecom, Inc.	B	8,268
20715 Timberlake Road	Lynchburg	N/A	C	8,124
SIGNIFICANT 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
1745 Loch Haven Drive	Northwest Roanoke	ElmTree Funds	\$15,800,000 / \$226	70,000
2331 Franklin Road	Southwest Roanoke	Carilion Clinic	\$7,050,000 / \$118	59,641
1204 Franklin Road	Downtown Roanoke	Dorsey & Timmermann, LLC	\$850,000 / \$68	12,500
2107 Rosalind Avenue SW	Southwest Roanoke	Carilion Clinic	\$1,100,000 / \$164	6,700
SIGNIFICANT 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