

MARKETBEAT

Richmond, VA

Industrial Q4 2017



RICHMOND, VA INDUSTRIAL

Economic Indicators

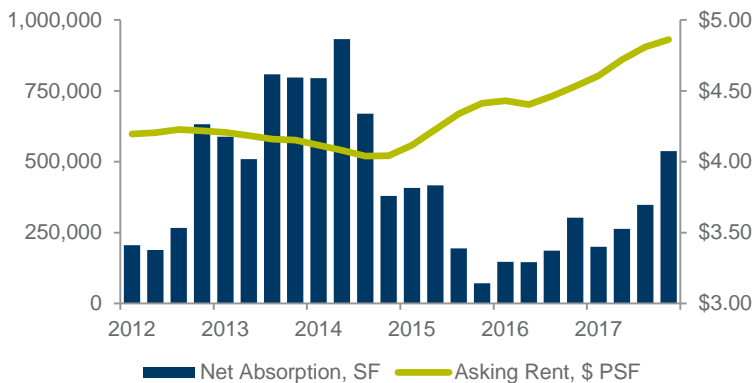
	Q4 16	Q4 17	12-Month Forecast
Richmond Employment	668k	678k	▲
Richmond Unemployment	4.2%	3.8%	▲
U.S. Unemployment	4.7%	4.1%	▼

Market Indicators (Overall, All Property Types)

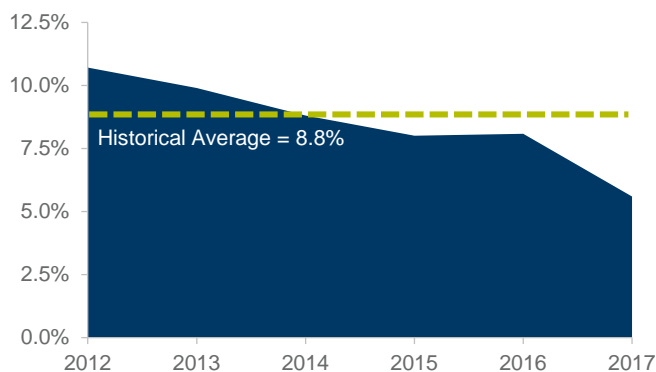
	Q4 16	Q4 17	12-Month Forecast
Vacancy	6.2%	3.7%	▼
Net Absorption	76k	1,022k	▲
Under Construction	596k	215k	▲
Average Asking Rent	\$4.72	\$4.92	▲

*Rental rates reflect net asking \$psf/year

Net Absorption/Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. Congress passed significant revisions to the tax code in late 2017 and economists expect the changes will spur corporations to place more money into real estate assets and development, although there are concerns an increase in the U.S. government's debt load may cause interest rates to rise. Real Estate Investment Trusts will benefit from lower tax on dividends, while a bonus depreciation that applies to used property could also benefit real estate investments. As of November, the U.S. economy had added 2.3 million jobs in 2017 and the unemployment rate of 4.1% was the lowest since 2000. According to the Institute for Supply Management, there is strong demand for all manufacturing industries and that is expected to continue into 2018.

The Richmond economy added 9,700 jobs from November 2016 to November 2017. Construction, Education and Health Services, and Government were the best-performing sectors. Richmond's unemployment rate remains low at 3.7%.

Market Overview

Richmond's industrial market tightened significantly in 2017 and according to CoStar, the vacancy rate is at a 12-year low. Overall industrial vacancy declined from 6.2% to 3.7% while rents increased by 4.2% from Q4 2016 to Q4 2017. For warehouse/distribution space the vacancy rate declined 340 basis points to 3.4% as rents increased 7.4% over the same time period. Total absorption for 2017 was 2.8 million square feet (msf), more than double the total of 2016. Over half of the absorption in 2017 occurred in the Southwest quadrant.

Developers are responding to the tight vacancy and high leasing demand. Panattoni Development plans to construct 1.0 million square feet (msf) of warehouse/distribution space in two phases with the first phase, a 461,000-square foot (sf) building, scheduled for delivery in the third quarter of 2018. Hourigan Development intends to redevelop the 110-acre Alleghany Warehouse property along Commerce Road for warehouse/distribution and manufacturing space. Both developers have pointed to the appeal of being close to the port and I-95 in choosing their development location.

Outlook

Industrial demand across the U.S. has resulted in high occupancy rates and strong rent growth. Demand stems from expansion in the small business sector as well as e-commerce. According to the National Real Estate Investor, E-commerce accounts for 12% of industrial leasing activity and an additional 22-30% of indirect leasing from third-party logistic companies. CoStar reports that U.S. industrial development reached an all-time high in 2017 with 208 msf delivered and 277 msf under construction. The same national trends will continue to drive leasing demand in Richmond, and new speculative industrial development will provided needed space in a tight market.

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CUSHMAN & WAKEFIELD

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SUBMARKET	TOTAL BLDGS	INVENTORY	YTD LEASING ACTIVITY	OVERALL AVAILABLE VACANT SPACE (SF)	OVERALL VACANCY RATE	YTD NET OVERALL ABSORPTION	UNDER CNSTR	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Downtown	6	277,266	0	0	0.0%	0	0	N/A	N/A	N/A
Northeast	166	10,870,193	538,634	130,664	1.2%	302,364	23,000	N/A	\$9.93	\$4.23
Northwest	314	19,746,515	906,104	702,929	3.6%	725,640	51,800	\$4.44	\$9.36	\$6.11
Southeast	146	19,018,772	592,951	642,169	3.4%	331,390	45,647	\$4.00	\$7.48	\$4.72
Southwest	410	44,713,167	940,767	2,054,421	4.6%	1,444,014	95,000	\$3.92	\$7.51	\$3.94
Richmond, VA Totals	1,042	94,625,913	2,978,456	3,530,183	3.7%	2,803,408	215,447	\$4.16	\$9.13	\$4.33

Real rates reflect asking \$ psf/year
Only includes buildings 20,000 SF and larger

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions 2017

PROPERTY	SF	Tenant	PROPERTY TYPE	SUBMARKET
4447 Carolina Ave.	133,000	Temperpack Technologies	Warehouse/Distribution	Northeast
Enterchange at Walthall	116,000	Premier Store Fixtures	Warehouse/Distribution	Southwest
Enterchange at Northlake	83,000	Communications Test Design	Warehouse/Distribution	Northwest
Interport Business Center – A	74,000	BWI	Warehouse/Distribution	Northeast

Key Sales Transactions 2017

PROPERTY	SF	SELLER / BUYER	PROPERTY TYPE	PRICE / \$ PSF	SUBMARKET
Interport Business Center	618,000	MDH Partners / Manekin	Warehouse/Distribution	\$29,000,000 / \$45	Southeast
4100 Tomlynn Street	196,000	Sears Holding / Rebkee	Warehouse/Distribution	\$6,200,000 / \$32	Northwest
Alfa Laval Building (Portfolio Sale)	180,000	Elm Tree Funds / China Life	Warehouse/Distribution	\$18,000,000 / \$100	Southeast
Dori Foods Facility	87,000	Baum Development / Spy Rock	Warehouse/Distribution	\$7,700,000 / \$89	Northwest

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