

MARKETBEAT

Richmond, VA

Office Q4 2017



RICHMOND, VA OFFICE

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%	▼

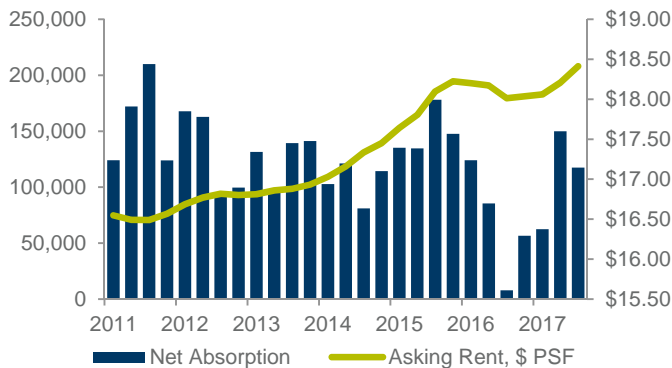
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	7.7%	7.1%	▼
Net Absorption (sf)	309k	262k	▲
Under Construction (sf)	115k	1.3M	■
Average Asking Rent*	\$18.02	\$18.89	▲

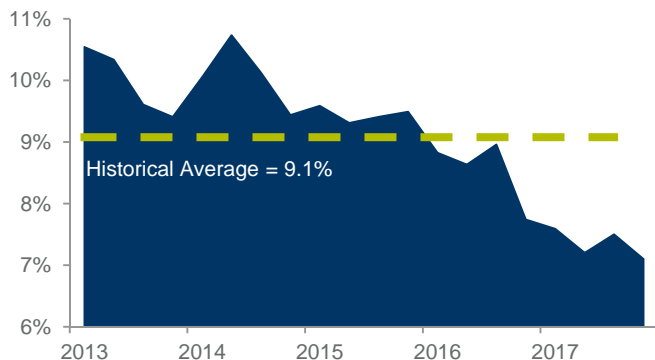
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall 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.

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 office market fundamentals continue to tighten. Overall office vacancy declined 60 basis points and direct office asking rents increased by 5.2% from Q4 2016 to Q4 2017. Vacancy in the CBD declined by 210 basis points and direct asking rents increased by 5.7% over the same time period. Class A office vacancy declined by 160 basis points overall and 310 basis points in the CBD. A total of 2.2 million square feet (msf) of leasing activity occurred in 2017 despite a sluggish third and fourth quarter. For the year there was positive 771,000 square feet (sf) of absorption.

According to Cushman & Wakefield | Thalhimers research, demand for quality large block availability (20,000 sf and greater) outstrips supply. The limited amount of available space for larger users constrains activity and is forcing tenants to address their real estate needs further in advance of their lease expiration date. The majority of large leases and sales completed in 2017 occurred in the first half of the year. VCU Health leased 135,000 sf in Liberty Plaza II, Virginia Workers Compensation leased 104,000 sf in the Media General Building, Owens and Minor leased 90,000 sf in Riverfront Plaza East, and The Virginia Department of Environmental Quality leased 82,000 sf in the Bank of America tower. James Center, Bank of America Operations Center, and SunTrust Center all sold in the first quarter of 2017.

Outlook

Office fundamentals will remain tight as only 6.0% of the 1.4 msf under construction is available for lease. Upward pressure on rents should continue and large users looking for space will need to increase their lead time. Absorption and leasing activity will remain concentrated in Class A space, and vacancy will continue to decline as organic job growth and new entrants to the market absorb space.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	2017 OVERALL NET ABSORPTION (SF)	2017 LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	10,402,154	3,887	878,476	8.5%	18,885	183,598	576,543	900,000	\$21.80	\$24.15
East End	327,258	0	0	0.0%	1,000	2,550	10,286	0	\$15.03	N/A
Far West End	827,084	0	3,640	0.4%	-1,568	109,665	43,538	138,782	\$23.86	\$22.00
Glenside/Broad St	4,924,994	9,922	252,528	5.3%	1,770	56,074	235,501	46,461	\$18.07	\$19.29
Hull Street Corridor	1,212,405	0	106,197	8.8%	5,916	-65,752	21,940	0	\$13.44	N/A
I-95 N/Ashland	458,563	0	51,638	11.3%	-11,937	-2,550	1,521	0	\$16.36	N/A
I-95 N/Chamberlayne	183,708	0	4,740	2.6%	0	1,900	8,440	0	\$16.11	N/A
Innsbrook	7,793,289	30,201	517,217	7.0%	322,025	396,797	561,620	25,000	\$20.70	\$21.37
Iron Bridge Corridor	1,508,108	0	106,828	7.1%	8,984	-7,739	22,133	0	\$15.74	\$16.99
Lakeside	125,481	0	8,702	6.9%	0	-7,297	0	0	\$13.28	N/A
Manchester	1,128,160	0	13,858	1.2%	-1,837	5,773	3,128	0	\$16.88	N/A
Mechanicsville	942,193	2,650	148,056	16.0%	-21,712	-40,155	28,267	0	\$15.99	\$24.50
Midlothian Corridor	5,073,515	22,682	395,676	8.2%	-23,659	-3,176	330,559	0	\$16.64	\$17.85
Monroe Ward	1,700,095	0	105,313	6.2%	14,259	30,214	7,412	0	\$15.43	N/A
Near West End	1,239,770	0	126,642	10.2%	-47	97,211	94,626	0	\$15.15	N/A
North Broad	2,900,423	0	69,668	2.4%	0	-8,578	0	154,000	\$20.08	\$22.00
Northside	81,804	0	0	0.0%	445	5,523	1,835	0	\$17.53	N/A
Parham East	2,429,752	0	434,396	17.9%	-36,588	-7,928	37,201	0	\$14.98	N/A
Parham South	886,637	0	98,838	11.1%	-7,428	31,084	7,108	0	\$14.48	N/A
Rt 288 Corridor	1,252,967	4,842	102,517	8.6%	20,124	3,930	41,793	0	\$19.63	\$19.75
Shockoe Bottom	1,465,905	0	28,841	2.0%	-1,244	-13,048	5,086	0	\$21.92	\$23.08
Stony Point/Huguenot	1,018,710	3,934	35,684	3.9%	-2,875	9,757	52,481	87,000	\$16.97	\$22.53
West Creek	1,801,383	0	21,813	1.2%	0	12,125	0	0	\$24.50	\$24.50
West End	3,113,932	0	149,528	4.8%	-22,321	-18,745	104,039	0	\$16.59	\$17.58
Richmond, VA Totals	52,798,290	78,118	3,660,796	7.1%	262,192	771,233	2,195,057	1,351,243	\$18.89	\$21.49

Only includes properties 10,000 SF and larger

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	2017 OVERALL NET ABSORPTION (SF)	2017 LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	21,150,537	55,333	1,460,892	7.2%	300,770	602,720	1,366,609	1,172,243	\$21.49	\$21.55
Class B	25,206,363	22,785	1,892,514	7.6%	-66,718	130,357	722,069	179,000	\$17.20	\$17.20
Class C	6,441,390	0	307,390	4.8%	28,140	38,156	106,379	0	\$13.50	\$13.50

Key Lease Transactions 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Liberty Plaza II	135,000	VCU Health	New	Innsbrook
Media General Building	104,000	VA Worker's Compensation Commission	New	CBD
Riverfront Plaza East	90,000	Owens & Minor	New	Innsbrook
Bank of America Tower	82,000	VA Dept. of Environmental Quality	New	CBD

Key Sales Transactions 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
James Center	966,000	LNR/Riverstone	\$108,000,000 / \$112	CBD
BofA Operations Center	731,000	Barings/ Longship Capital, Homeward Angel, Prudent Richmond	\$38,000,000 / \$52	Parham East
SunTrust Center	416,000	New Boston / BRIDGE Investment	\$45,000,000 / \$108	Innsbrook
Media General Building	125,000	Media General / Mark Hourigan	\$13,000,000 / \$104	CBD

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