

Richmond, VA Office Insight Q3 2009

Economy

Economic conditions are feeling the aftershocks of the recent corporate collapses and financial crisis over the past six to eighteen months. The unemployment rate for Metro Richmond is 8.0%. The rate for the state is 6.5%. Over the past year, the local rate has increased by 81.8%, while the state and nation has increased by 58.5% and 56.5% respectively. Employment fell by 3.7% versus only 3.0% for the state year-over-year. The last year has been tougher on the region than the majority of the state and nation alike. This of course, is no surprise with the downfall or severe cutbacks in companies such as Circuit City, LandAmerica, S&K, Qimonda, MeadWestvaco, and Genworth Financial.

National trends do not bode well for Metro Richmond or any other region for that matter. Over the past three months, payroll employment has averaged -318,333, a 105.8% unfavorable change from one year ago. Typically, this figure should be at least 150,000 just to keep up with population escalation. The DJIA is approximately 11% less than one year ago and 16% less than three years ago.

Market Conditions

The graph to the immediate right is a good snapshot of the issues gripping the area. Vacancy is on a two and three quarter year rise, while absorption is deeply into negative territory. A credit freeze and a misalignment in expectations among buyers, sellers, and lenders has led to a virtual vanishing of the sales market. The leasing market has maintained a relatively steady volume, however it has been witness to shorter terms, increased concessions, and downward pressure on rates.

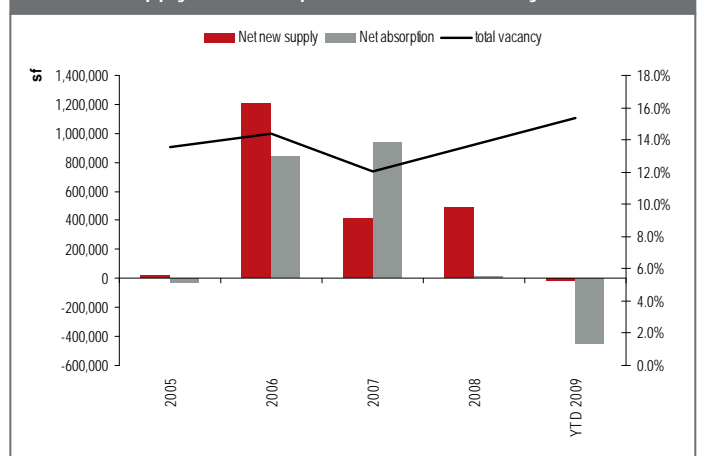
Outlook

There are currently 30 blocks of available space with a minimum of 20,000 square feet on the market. This figure should rise by year-end as more sublet space becomes vacated. In order to backfill these blocks, the region must enjoy either organic growth from other regions or significant internal growth. Neither of these are likely in the near term.

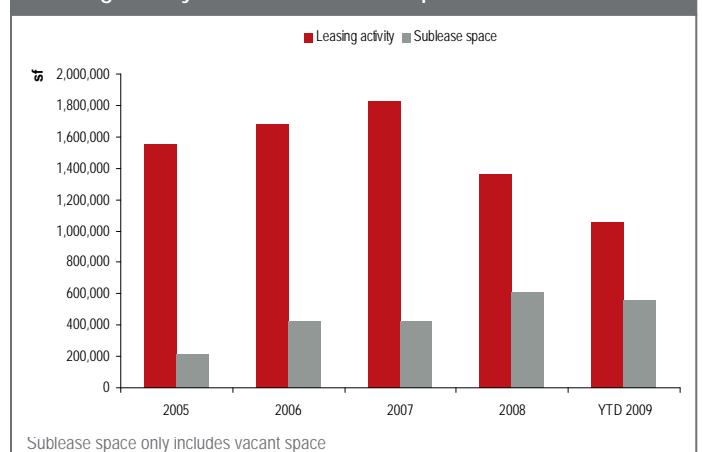
The silver lining of this market is that we have, or more appropriately will over the next six months, hit bottom. The upward turn will be slow and tenuous, but it will come. Mid 2010 to early 2011 should mark the arrival of true sustainable recovery and optimism. The local and national economies must return to a growth pattern, particularly employment if commercial real estate is to substantially rebound. After all, the lifeblood of our industry is the employed workforce.

Key market indicators			12-month forecast
Supply	Supply	25,960,749 sf	↔
	Direct vacancy rate	13.2%	↑
	Total vacancy rate	15.4%	↑
	Under construction (% preleased)	568 ksf (76.9%)	↓
Demand	Leasing activity 12 mo. % change	3.78%	↔
	YTD net absorption	-451,878 sf	↓
Pricing	12-month overall rent % change	-2.75%	↓
	Class A overall asking rent	\$22.31 psf	↓
	Class B overall asking rent	\$17.31 psf	↓

Net new supply, net absorption and total vacancy



Leasing activity vs. sublease vacant space

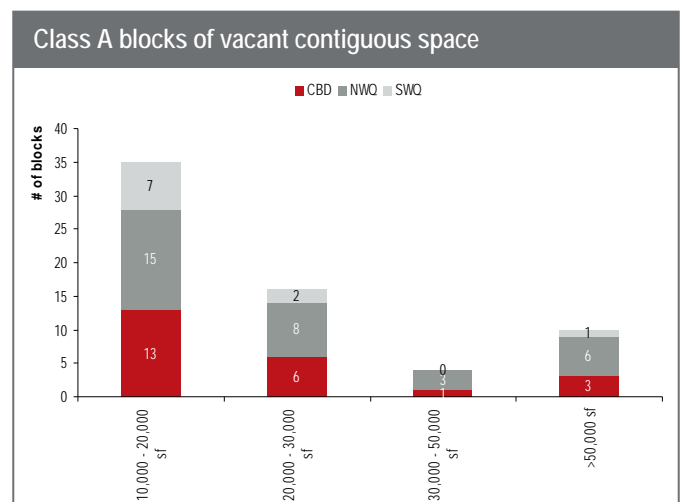
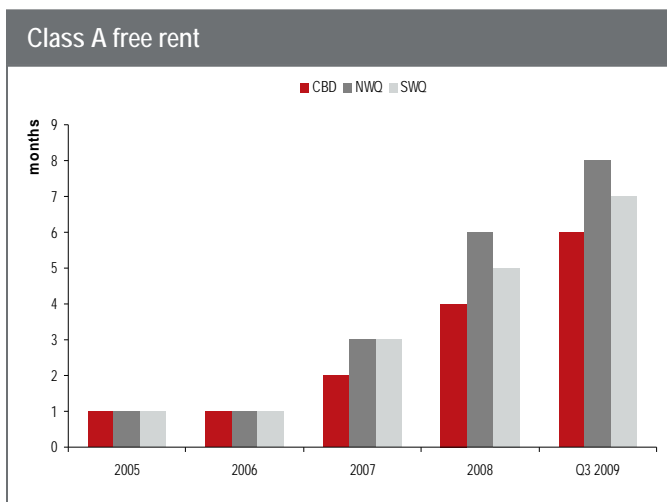
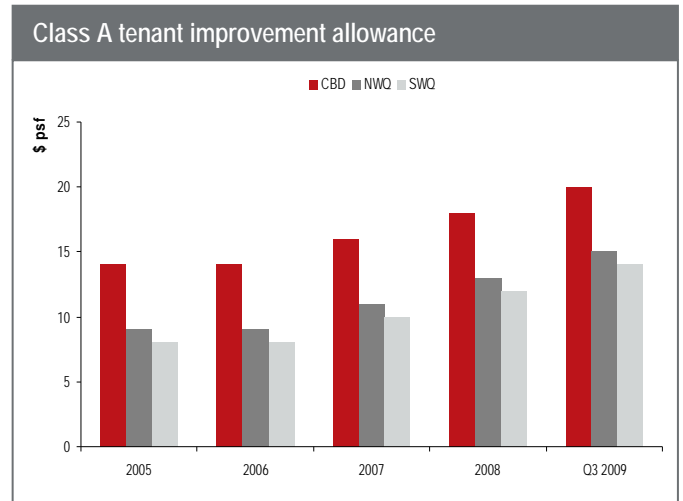
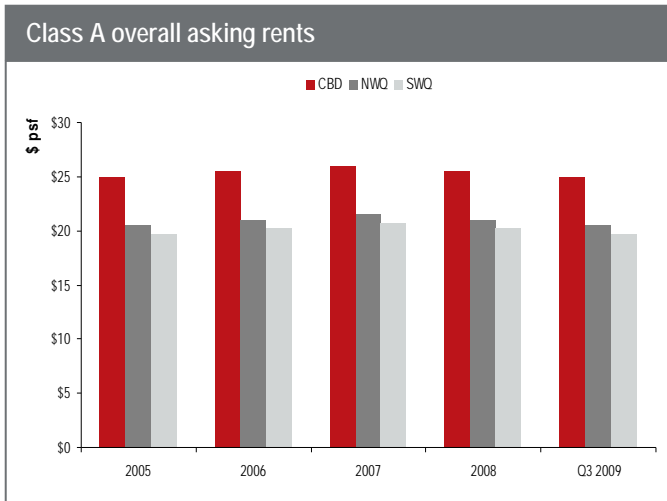


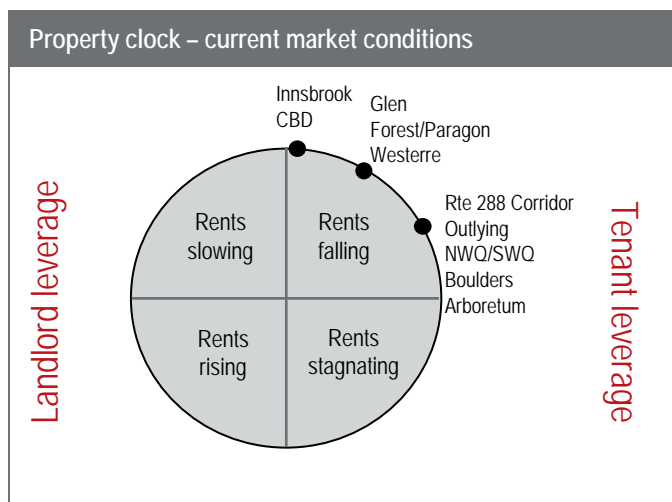
Tenant perspective

This may well be the best time in modern history to be a tenant. With vacancy climbing, existing tenants becoming more unstable, and capital virtually frozen, landlords are salivating at the opportunity to lure a quality tenant to their asset. There exists a substantial imbalance between space demand and supply. With supply greatly outpacing demand, high grade tenants who are looking for space have their choice of locations. With tenants in such scarcity, landlords will roll out the proverbial “red carpet” to quality tenants. They are eager to offer up concessions such as free rent, tenant improvement allowances, moving expenses, aggressive rental rates and lower escalations. Tenants are also eager, albeit for a different reason. They are aware that this imbalance will not last forever, and that they do not want to wait too long to lock in that dream lease structure. Quality tenants are incentivized to secure a long term lease of seven to ten years as the bargains are readily available so that when the market does turn, they are already set for years to come.

Landlord perspective

“Anxious” would be an appropriate term to encapsulate the landlord environment right now. Tenants filing for bankruptcy, new venture capital virtually gone, and tenant contraction plans are an all too common theme. Leasing proposals are routinely being revised two to four times to the dismay of the landlords. For example, the initial offer from a landlord may be for \$20 full service at a suburban class A location. Over the next few revisions, that rate may fall to \$18.75 with increased free rent, higher tenant improvement allowances, and more favorable tenant options such as cancellation clauses. Developers have no doubt taken their queue from the landlord environment putting a freeze on new development. Speculative development simply does not exist anymore, while new construction will only take course with pre-leased space. Like tenants, landlords are incentivized to lock in a tenant for the long term, even if that means lower economics. The problem lies in the fact that those tenants looking for and able to lock in those terms are extremely scarce.





Submarket leverage – market history and forecast

Submarket	2007	2008	2009	2010	2011
CBD	Landlord-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable	Balanced
Glen Forest/Paragon	Landlord-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Innsbrook	Balanced	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Westerre	Balanced	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Boulders	Landlord-favorable	Balanced	Tenant-favorable	Tenant-favorable	Balanced
Arboretum	Landlord-favorable	Balanced	Tenant-favorable	Tenant-favorable	Balanced
Rte 288 Corridor	Balanced	Balanced	Tenant-favorable	Tenant-favorable	Landlord-favorable
Outlying NWQ/SWQ	Balanced	Balanced	Tenant-favorable	Tenant-favorable	Landlord-favorable

■ Landlord-favorable conditions
 ■ Balanced conditions
 ■ Tenant-favorable conditions

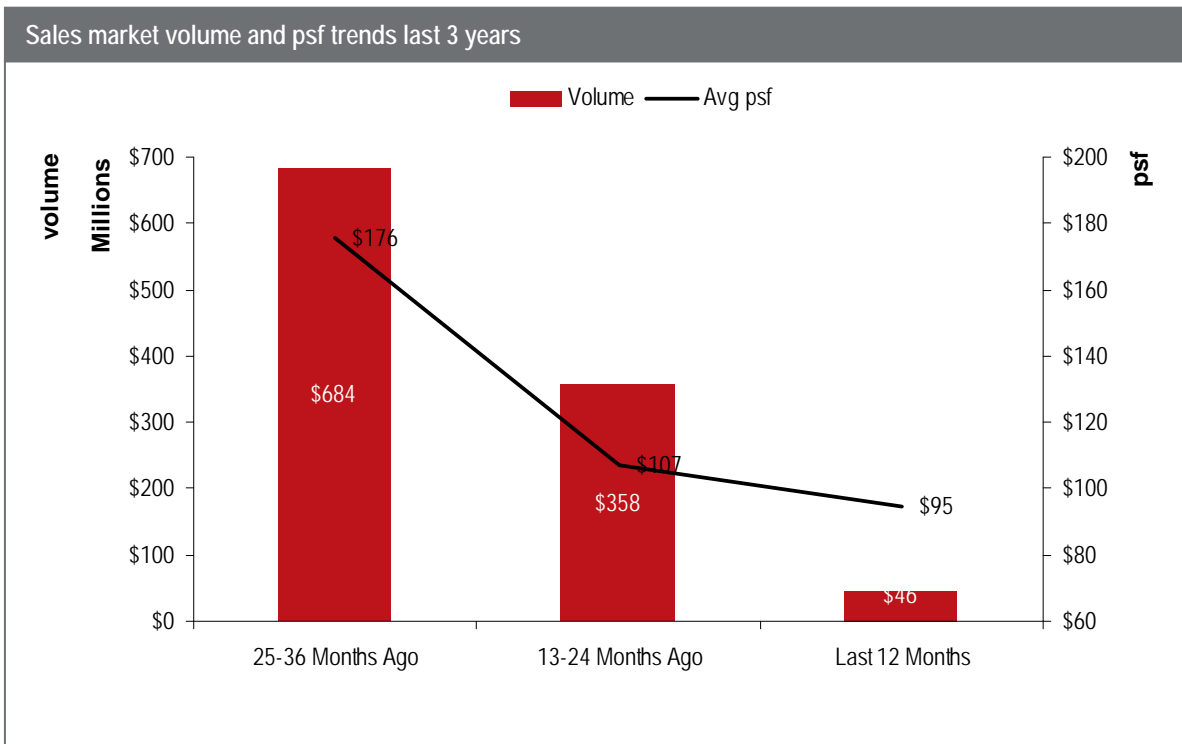
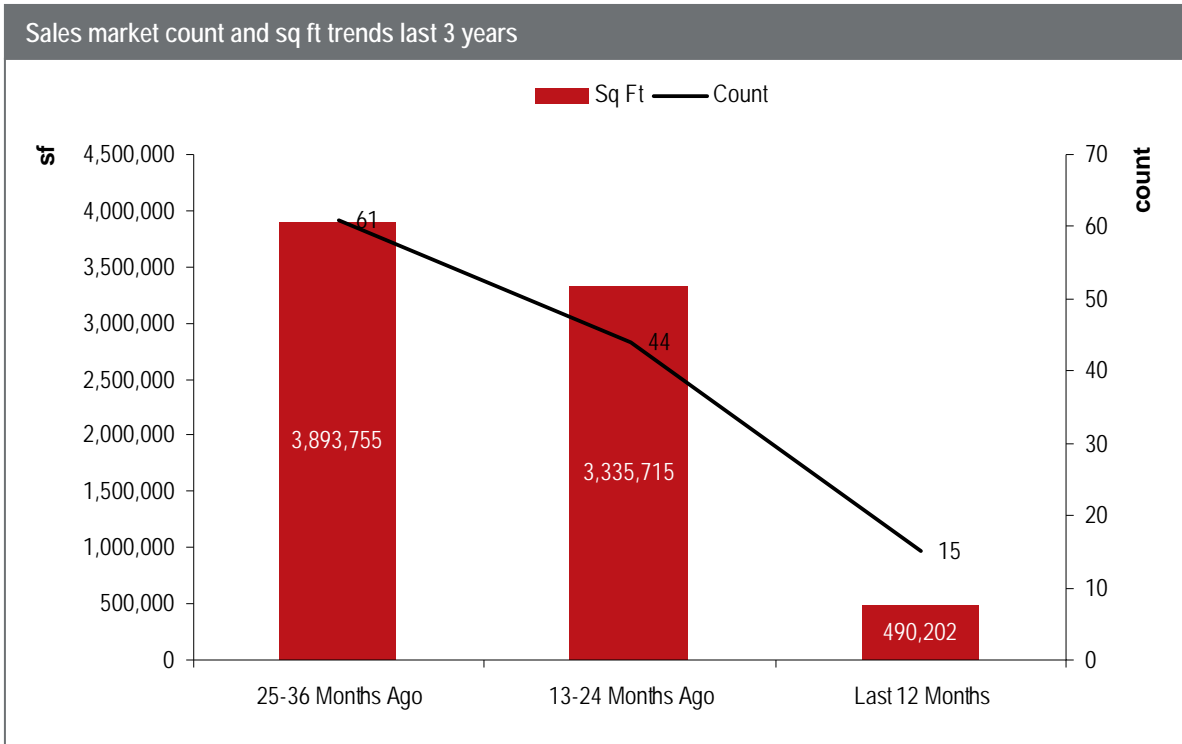
Completed lease transactions

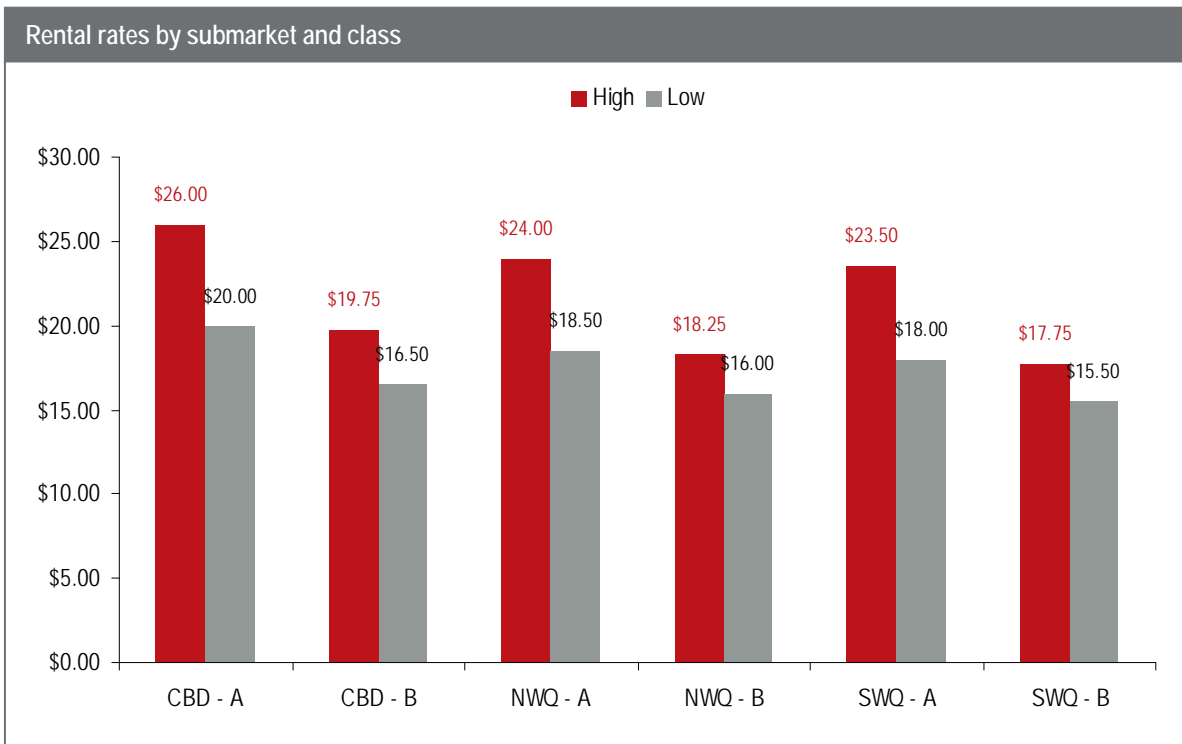
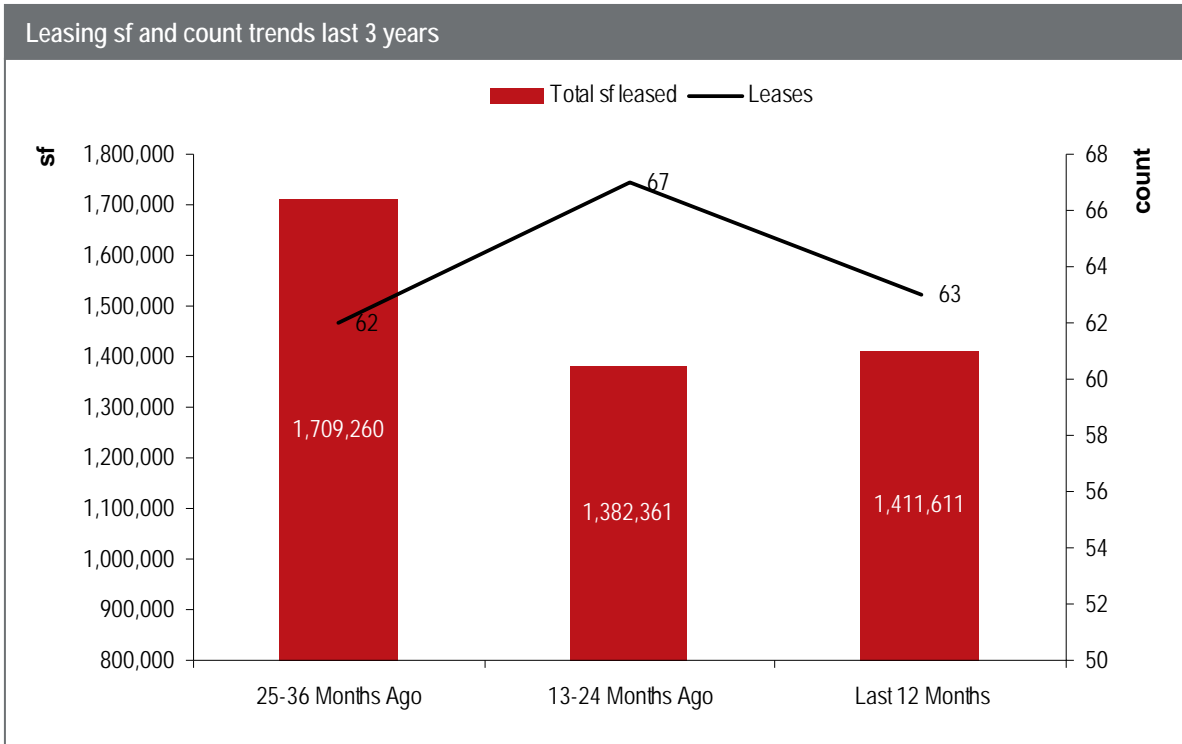
Tenant	Address	Submarket	sf	Type
South University	12000 West Broad Street	NWQ	30,000	Move In
Goodman Allen & Filetti	4501 Highwoods Parkway	NWQ	17,260	Renewal
Ernst and Young	2100 East Cary Street	CBD	16,700	Move In
Anderson Strudwick	707 East Main Street	CBD	16,333	Renewal
Reed Smith	901 East Byrd Street	CBD	15,499	Extension
Austin Brockenbrough and Assoc LP	1011 Boulders Springs Drive	SWQ	13,600	Move In
Trans World Rax Advisors LLC	3805 Cutshaw Avenue	NWQ	13,500	Move In
Bon Secours	9210 Arboretum Parkway	SWQ	12,218	Move In
SunTrust Bank	901 East Byrd Street	CBD	11,485	Move In

Completed sale transactions

Address	Submarket	Buyer/Seller	sf	\$ psf
6606 West Broad Street	NWQ	Southern States Cooperative/Carlson Leasing	200,000	\$30
2702 North Parham Road	NWQ	Peoples Bank of Virginia/2702 Parham Road LLC	17,937	\$56
7 North 25th Street	SEQ	Jackan L.C./Sadie Scamper	9,120	\$52

Richmond, VA methodology: Inventory includes all Class A & B office properties > 10,000 square feet, excluding all medical, government owned buildings, and owner occupied buildings





Richmond Office Statistics - Q3 2009

	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
CBD													
Class A	0	3,789,094	220,053	-138,369	239,630	-131,401	-3.5%	352,883	9.3%	611,402	16.1%	\$25.00	541,128
Class B	0	3,615,511	-31,023	57,945	-12,487	66,115	1.8%	761,872	21.1%	777,393	21.5%	\$17.00	0
Totals	0	7,404,605	189,030	-80,424	227,143	-65,286	-0.9%	1,114,755	15.1%	1,388,795	18.8%	\$21.00	541,128
Suburban													
Class A	135,000	10,538,766	-58,423	67,953	-38,091	106,664	1.0%	1,357,597	12.9%	1,578,478	15.0%	\$19.63	0
Class B	30,880	8,017,378	74,547	-488,281	75,737	-493,256	-6.2%	966,844	12.1%	1,030,741	12.9%	\$17.63	27,360
Totals	165,880	18,556,144	16,124	-420,328	37,646	-386,592	-2.1%	2,324,441	12.5%	2,609,219	14.1%	\$18.63	27,360
Market Totals													
Class A	135,000	14,327,860	161,630	-70,416	201,539	-24,737	-0.2%	1,710,480	11.9%	2,189,880	15.3%	\$22.31	541,128
Class B	30,880	11,632,889	43,524	-430,336	63,250	-427,141	-3.7%	1,728,716	14.9%	1,808,134	15.5%	\$17.31	27,360
Totals	165,880	25,960,749	205,154	-500,752	264,789	-451,878	-1.7%	3,439,196	13.2%	3,998,014	15.4%	\$19.81	568,488

CBD

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Suburban

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Northwest													
Class A	135,000	7,382,069	-79,792	145,500	-60,265	182,015	2.5%	878,270	11.9%	1,075,219	14.6%	\$19.75	0
Class B	0	5,780,835	75,353	-510,618	80,191	-490,011	-8.5%	785,584	13.6%	822,988	14.2%	\$17.75	15,360
Totals	135,000	13,162,904	-4,439	-365,118	19,926	-307,996	-2.3%	1,663,854	12.6%	1,898,207	14.4%	\$18.75	15,360
Southwest													
Class A	0	3,156,697	21,369	-77,547	22,174	-75,351	-2.4%	479,327	15.2%	503,259	15.9%	\$19.50	0
Class B	30,880	2,236,543	-806	22,337	-4,454	-3,245	-0.1%	181,260	8.1%	207,753	9.3%	\$17.50	12,000
Totals	30,880	5,393,240	20,563	-55,210	17,720	-78,596	-1.5%	660,587	12.2%	711,012	13.2%	\$18.50	12,000
Suburban Totals													
Class A	135,000	10,538,766	-58,423	67,953	-38,091	106,664	1.0%	1,357,597	12.9%	1,578,478	15.0%	\$19.63	0
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