

MARKETBEAT

RICHMOND, VIRGINIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

3Q09

ECONOMY

Business owners around Richmond are starting to say that they feel the recession ebbing, although there is still a high level of uncertainty and credit remains tight. The unemployment rate for the Richmond region dropped to 7.7% in July from more than 8% last quarter. But the fact that it hasn't risen is an improvement from previous quarters, when it rose quickly from 5.0% at the same time last year.

The unemployment rate for Virginia was 6.2% in August. Both of those are lower than the 9.7% unemployment rate for the country as a whole.

OVERVIEW

The vacancy rate is rising to account for big blocks of space let go by major corporate tenants including Circuit City and LandAmerica. Absorption was negative 2.5 million square feet (msf) through the third quarter, down dramatically from 222,126 square feet (sf) of positive absorption for the same period last year. It comes as no surprise that the vacancy rate was 13.3% in the third quarter, up from 9.8% last quarter. In particular, vacancy at Innsbrook rose to 23.7%, almost double the 12.6% vacancy rate at the same time last year. Most of this increase was due to several large blocks of space being delivered to the market. Smaller space vacancy holds at approximately 9%.

Asking rates are also holding steady at about \$19.50 per square foot (psf), almost identical to the rates last year. However, effective rents are falling as tenants are demanding months of free rent and increased tenant improvements before signing leases. There is also an overabundance of sublease space, including at Riverfront Plaza, where asking rates have fallen from \$20 psf to \$15 psf. Landlords who do not concede at least several months of free rent on a five-year deal are likely to lose tenants.

Deals are still getting done, but in the lower price range than past years. In particular, Surgical Associates of Richmond bought a 10,000-sf building on Tredegar Lake Parkway in Midlothian from Ellwood Properties LLC for \$1.35 million. Lease activity was 1.1 msf so far this year, about the same as the third quarter last year. And it's mostly smaller companies that are leasing space, such as the human resources firm Udig Technologies, which leased 3,500 sf at Reynold's Crossing.

FORECAST

Although most economists have declared the recession over, national and international companies – which traditionally have expanded aggressively in Richmond – are still downsizing. Local companies will lead the charge in absorption among smaller office tenants. With no known large users of office space currently in the market there will continue to be a glut of big-block office space for years to come.

Smaller tenants will continue to find bargains, and already upstart financial services firms are taking several thousand square feet at a time.

Sales will continue to be fewer and farther between than a year or two ago until credit becomes more available. In the past, investors and tenants could borrow up to 80% of the cost of a purchase, and those loans were non-recourse, meaning the owner was not on the hook if he couldn't make payments. Those sorts of loans are non-existent, and institutional lenders are lending only 60% of the cost of a building. Banks will continue to be the best source of owner/occupant financing.

BEAT ON THE STREET



"We are starting to see some increased confidence from tenants and an up-tick in leasing activity within the Richmond suburban office market."


-Austin Newman, SIOR
Vice President


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	4.4%	9.0%	8.3%
Employment Growth	-0.1%	-3.2%	0.5%

Source: Moody's | Economy.com

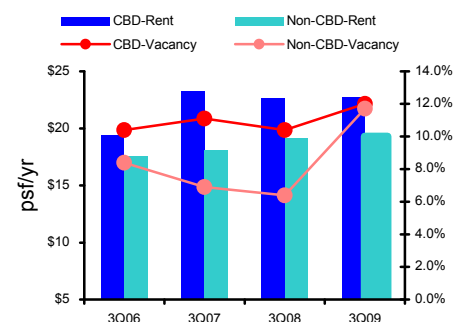
MARKET FORECAST

LEASING ACTIVITY is still at the same levels as last year and should remain steady in the near future. 

DIRECT ABSORPTION will continue to be negative. Tenants moving within the market are boosting the leasing activity, but the net effect on absorption is negative as no one outside the market is backfilling the vacant space. 

CONSTRUCTION will not recommence until absorption turns positive and vacancy begins to decline. 

DIRECT CLASS A RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

*Rental rates reflect \$psf/year

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	11,022,122	94	13.3%	13.5%	227,743	541,128	0	(517,879)	\$22.75
East End	581,242	96	4.8%	4.5%	1,500	0	0	(5,068)	N/A
Far West End	606,192	56	14.4%	14.4%	3,895	0	0	(20,355)	\$15.00
Glenside/Broad Street	4,573,764	124	9.3%	8.8%	143,844	0	95,000	12,400	\$21.26
Hull Street Corridor	2,443,939	129	26.8%	26.8%	11,054	0	0	(585,220)	N/A
I-95 N/Ashland	629,146	73	14.5%	13.5%	4,900	0	0	(25,924)	N/A
I-95 N/Chamberlayne	453,974	43	3.6%	3.6%	9,003	10,724	6,178	12,758	N/A
Innsbrook	8,231,395	169	23.7%	20.7%	266,235	0	3,801	(1,139,041)	\$19.26
Iron Bridge Corridor	1,529,834	136	8.9%	7.5%	8,562	0	0	4,534	\$17.00
Lakeside	440,888	70	20.3%	20.3%	5,413	0	0	(58,126)	N/A
Mechanicsville	892,651	106	15.7%	15.0%	7,381	0	22,461	(67,613)	\$18.50
Midlothian Corridor	4,013,889	216	14.7%	14.2%	124,980	0	0	(25,725)	\$17.87
Monroe Ward	2,649,173	164	5.2%	5.2%	25,971	0	0	(20,680)	N/A
Near West End	2,009,698	272	8.6%	8.4%	33,536	0	0	(8,671)	N/A
North Broad	2,553,831	81	8.5%	8.5%	14,967	0	0	(31,460)	N/A
Northside	232,311	57	1.2%	1.2%	7,200	0	0	2,300	N/A
Parham East	2,393,531	84	1.6%	1.6%	16,027	0	0	39,737	N/A
Parham South	944,657	66	12.6%	11.4%	22,502	0	0	(27,591)	N/A
Rt 288 Corridor	1,551,893	123	13.3%	12.6%	33,429	0	7,500	(5,267)	\$21.58
Shockoe Bottom	1,561,480	36	3.8%	3.8%	34,282	0	0	4,918	\$22.30
Stony Point/Huguenot	1,450,032	131	6.2%	5.5%	20,959	0	0	17,881	\$18.65
West Creek	1,501,263	11	0.2%	0.2%	0	0	0	(2,268)	N/A
West End	3,541,740	257	10.6%	10.6%	83,317	0	0	(151,571)	\$16.50
RICHMOND TOTAL	55,808,645	2,594	13.3%	12.1%	1,106,700	551,852	134,940	(2,597,931)	\$19.58

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
700 Building Parking	CBD	City Parking, Inc.	95,000	NA
Riverfront Plaza	CBD	Oppenheimer and Company, Inc.	11,500	A
Arboretum V	Midlothian Corridor	Bon Secours Richmond Health System	12,218	A
Riverfront Plaza	CBD	Ewing Bemiss & Co.	10,480	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
2702 N. Parham Road	Parham South	Peoples Bank of Virginia	18,000	\$1,000,000
13470 Tredegar Lake Parkway	Rt 288 Corridor	Surgical Associates of Richmond	10,000	\$1,349,595
13440 Tredegar Lake Parkway	Rt 288 Corridor	Pediatric Associates, P.C.	6,800	\$918,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NA				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MeadWestvaco HQ	CBD	MeadWestvaco	331,128	1/10
Williams Mullen	CBD	Williams Mullen	210,000	5/10



For further information, please contact one of our Brokerage Services Professionals:

Thalhimers
1313 East Main Street, Suite 400
Richmond, VA 23219
(804) 648-5881
www.thalhimers.com

This report contains information available to the public and has been relied upon by Thalhimers on the basis that it is accurate and complete. Thalhimers accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2009 Thalhimers, Inc. All rights reserved.