

RICHMOND | OFFICE

Q2 2019

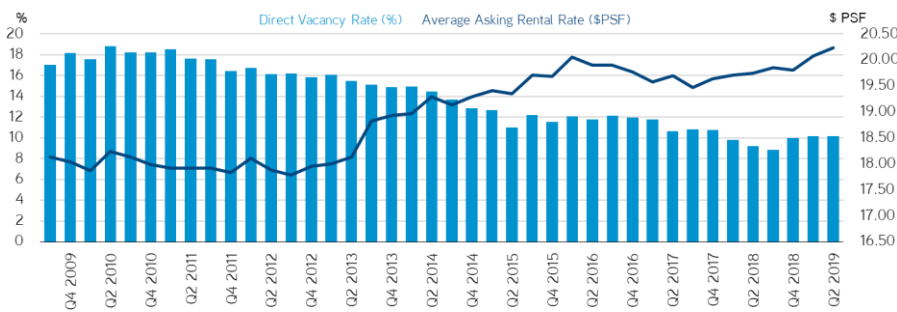
Tight fundamentals hold firm in hopes of new supply

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Key Takeaways

- The Commonwealth of Virginia led top deals for the quarter with a combined 112,000 square feet of new leases, accounting for 39% of total leasing activity.
- Tenant requirement volume dipped by 6% from the previous quarter to 1.7 million square feet but market demand still recorded an increase by 62% year-over-year. In the Central Business District (CBD) and Northwest Quadrant, tenant requirement volume posted the largest quarter-over-quarter increase in demand by 30% and 27%, respectively.
- The regional growth and dynamics in the market are attracting additional investment from existing investors and a significant increase in new-to-market capital from across the country.

Richmond Quarterly Vacancy Rate and Average Rental Rate



Q2 2019 Market Overview

- The Richmond office market ended with almost no change in vacancy and demand, as discussions of new construction and development continue to increase. The overall market vacancy increased by 10 basis points (bps) from last quarter, but downtown vacancy continued to tighten falling to 10.1% - down 19 basis points.
- Net absorption amounted to positive 37,519 square feet with the commencements of the Baskerville and Whiteford Taylor Preston leases which contributed to the increase in absorption. Demand is growing significantly in the Richmond office market and landlords are pushing rates and pulling back on concessions in response.
- In the Midtown/Scott's Addition submarket, the renovation of the 133,000 square foot Putney office building at 2220 W Broad St, by the Sauer Properties is underway as a part of a greater multi-use development plan. The building was previously occupied by the Virginia Department of Taxation.

Overall	Q2 2019	Change Year-over-Year
Vacancy Rate	10.1%	▲
Net Absorption	37,519	▼
Construction	255,627	▲
Asking Rent	\$20.24	▲

Class A	Q2 2019	Change Year-over-Year
Vacancy Rate	8.8%	▲
Net Absorption	26,432	▼
Construction	-	▶
Asking Rent	\$23.55	▲

12 Month Forecast

Vacancy Rate	▼
Net Absorption	▲
Construction	▲
Asking Rent	▲

Capital Markets

Investors continued to demonstrate enhanced interest in the Richmond market during the first half of 2019, completing multiple sizeable office and medical office investment sales transactions totaling over \$100 million in total volume year-to-date. The continuing low interest rate environment, strong office occupancy and rental rate growth across the region combine to make for an attractive investment landscape. The regional growth and dynamics in the market are attracting additional investment from existing investors and a significant increase in new-to-market capital from across the country. The Richmond investment sales market is expected to remain robust for the foreseeable future.

Rental Rates

- Richmond office rental rates continued to rise at a modest and stable growth rate, at 0.8% since last quarter and 2.5% year-over-year.
- Landlords are renovating and repurposing properties throughout the Richmond submarkets, especially in Midtown/Scott's Addition, are seeing significant interest and have increased rates 12% over the past year.

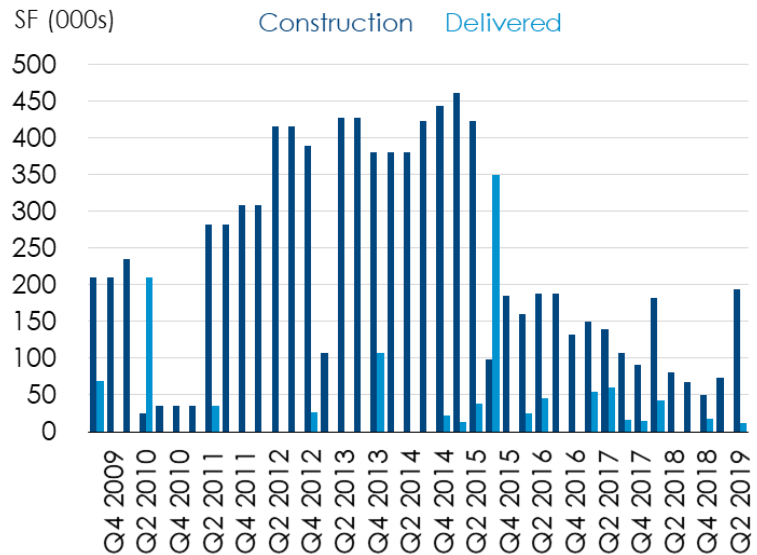
Q2 2019 Top Transactions

Tenant	SF	Address	Submarket	Move Type
VEC	79,254	6606 W Broad St	Glenside/I-64	New Lease
VDEM	33,000	9711 Farrar Ct	Moorefield/Koger	New Lease/Expansion
GSA	25,976	10 S 6th St	CBD	Renewal
Scott Insurance	25,905	3900 Westerre Pkwy	Innsbrook	New Lease/Expansion
TQL	17,657	300 Arboretum Pl	Arboretum	New Lease/Expansion

Economy

Total nonfarm employment ticked upwards of 1.2% to 683,800 jobs as of May 2019 with office-using employment accounting for a 0.3% increase. The financial services and professional and business services sectors posted the largest boost in job growth over the quarter at 1.9% and 1.5%, respectively. The financial services sector additionally provided a 4.0% gain in jobs year-over-year. Richmond's unemployment rate decreased to 2.6% – the lowest since April of 2001 and rests just below Virginia's unemployment rate of 2.9%.

Development Trends



Development Pipeline

- In Midtown/Scott's Addition at the Sauer Center redevelopment, two creative office projects totaling 47,000 square feet continued to see strong interest.
- In the Westwood area, sitework began on the 150,000 square-foot build-to-suit for Kinsale Capital Group who will occupy half and lease the balance on a speculative basis.
- In Manchester, on the south bank of the river across from the CBD, the 135,000 square-foot office tower in the South Falls development is pre-leasing. At 400 Hull St, pre-leasing continued for the 73,000 square-foot office component of The Current development. At W 6th St, City View Landing is also pre-leasing for the 350,000 square-foot office tower.
- At the end of Q2 2019, the current development pipeline sits at 256,000 square feet, the highest volume since Q3 2015.

Forecast

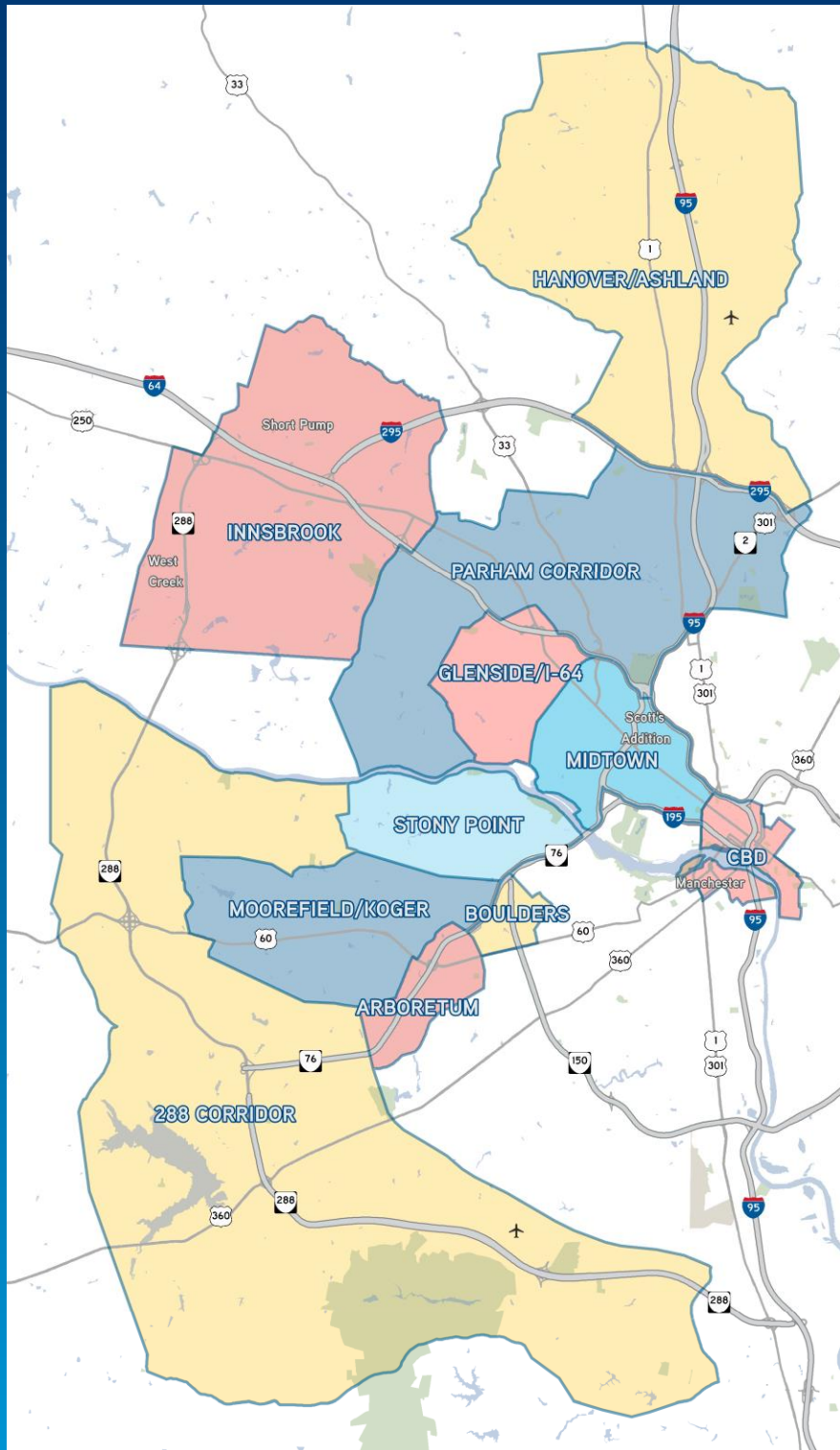
- The Current, the proposed 73,000 square-foot office building in Manchester is expected to break ground in Q3 which would be the beginning of the first new multi-tenant office building in CBD since the delivery of Gateway Plaza in 2015.
- Rental rates are expected to continue to rise at a moderate rate.
- Net absorption will increase due to the market's record high concentration of tenant volume and relatively low new construction.

Richmond Office Market Snapshot Q2 2019

Submarket	Inventory (SF)	Vacant SF	Vacancy Rate (%)	Availability Rate (%)	FS Asking Rental Rate (\$)	Quarterly Net Absorption	12 Mo Net Absorption	Development Pipeline
URBAN MARKET								
CBD	9,064,297	946,289	10.4	12.3	\$22.93	29,582	33,990	49,456
Midtown/Scott's Addition	2,286,027	203,560	8.9	10.1	\$19.06	21,351	85,594	180,036
Urban Market Total	11,350,324	1,149,849	10.1	11.9	\$22.52	50,933	119,584	229,492
Class A	5,539,741	603,096	10.9	12.3	\$26.18	18,329	68,587	0
Class B	5,810,583	546,753	9.4	11.4	\$18.15	32,604	50,997	229,492
SUBURBAN NORTHWEST								
Ashland/I-95	283,136	45,648	16.1	16.1	\$16.76	(3,300)	8,159	0
Glenside/I-64	3,092,556	267,230	8.6	10.9	\$18.74	(8,885)	(102,989)	26,135
Innsbrook	6,087,329	624,635	10.3	16.1	\$20.77	20,922	(168,074)	0
Parham Road Area	2,332,131	319,032	13.7	18.8	\$16.07	(29,564)	(62,305)	0
Suburban Northwest Total	11,795,152	1,256,545	10.7	15.3	\$19.14	(20,827)	(325,209)	26,135
Class A	5,640,984	453,635	8.0	14.0	\$21.45	15,493	(208,570)	0
Class B	6,154,168	802,910	13.0	16.4	\$17.35	(36,320)	(116,639)	26,135
SUBURBAN SOUTHWEST								
Arboretum	922,083	65,017	7.1	11.8	\$16.38	1,221	5,322	0
Boulders	984,765	130,171	13.2	18.5	\$18.25	(10,344)	37,268	0
Moorefield/Koger	989,109	84,187	8.5	13.6	\$16.32	11,390	9,220	0
Route 288 Corridor	1,104,945	86,010	7.8	20.1	\$18.34	1,800	30,980	0
Stony Point	888,095	49,090	5.5	10.5	\$20.59	3,346	(3,120)	0
Suburban Southwest Total	4,888,997	414,475	8.5	15.1	\$18.11	7,413	79,670	0
Class A	2,349,589	135,286	5.8	14.3	\$20.54	(7,390)	36,658	0
Class B	2,539,408	279,189	11.0	15.9	\$17.12	14,803	43,012	0
Suburban Market Total	16,684,149	1,671,020	10.0	15.2	\$18.88	(13,414)	(245,539)	26,135
Class A	7,990,573	588,921	7.4	14.1	\$21.28	8,103	(171,912)	0
Class B	8,693,576	1,082,099	12.4	16.3	\$17.28	(21,517)	(73,627)	26,135
Richmond Office Total	28,034,473	2,820,869	10.1	13.9	\$20.29	37,519	(125,955)	255,627
Class A	13,530,314	1,192,017	8.8	13.4	\$23.55	26,432	(103,325)	0
Class B	14,504,159	1,628,852	11.2	14.3	\$17.56	11,087	(22,630)	255,627

Source: Colliers Research, Q2 2019

Richmond Office Market



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