

# RICHMOND | OFFICE

Q4 2019

# Sauer Center continued to lease up midtown redevelopment

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## Key Takeaways

- Leasing activity had its slowest quarter of the year with 200,000 square feet. 43% of leases were signed in the CBD submarket. The largest lease of the quarter was The Collaboratory of Virginia at 38,000 square feet, a coworking group for nonprofits signed at a sports complex at 2101 Maywill Street in the Midtown submarket.
- Tenant demand requirement volume posted the highest activity since 2012, with 1.6 million square feet. An increase of 50% quarter-over-quarter and 54% year-over-year. Approximately, 18% of the total volume is concentrated in the Northwest Quadrant.
- The redevelopment of Sauer Center has garnered significant attention in Q4 due to the signing of IT contractor, Singlestone for 14,000 square feet at 2000 W Marshall Street and new-to-market tenant Great Minds, a nonprofit originally from Washington DC that took the entire building (17,000 sf) at 840 Hermitage Road.

## Class A Metrics

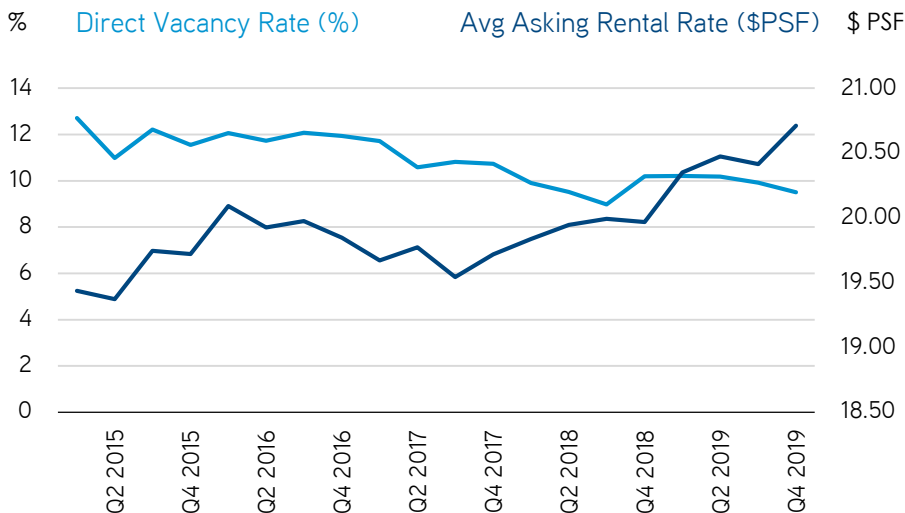
	Q4 2019	Q4 2018
Vacancy Rate	8.9%	9.5%
Net Absorption	766	(243,570)
Construction	253,000	94,000
Asking Rent	\$23.18	\$22.94

	Change Year-over-Year
Vacancy Rate	▼ 63 bps
Net Absorption	▲ 243,000 SF
Construction	▲ 159,000 SF
Asking Rent	▲ 1.0%

## Q1 2020 Forecast

Vacancy Rate	▼
Net Absorption	▲
Construction	▶
Asking Rent	▲

## Richmond Quarterly Vacancy Rate and Average Rental Rate



Source: Colliers Research, Q4 2019

## Q4 2019 Market Overview

- The Richmond office market had its fourth consecutive quarter of positive net absorption with 142,000 square feet, the highest of the year. This was primarily Lumber Liquidators occupying their newly refurbished 53,000 square-foot headquarters at Libbie Mill in the Midtown submarket and Virginia Department of Emergency Management occupying 33,000 square feet in the Moorefield/Koger submarket.

## Q4 2019 Market Overview (cont.)

- Total market vacancy dropped 40 basis points (bps) to 9.5%, the lowest since Q2 2018. While Class A vacancy has remained stagnant over the previous quarter, Class B vacancy has dropped 79 bps quarter-over-quarter and 75 bps year-over-year to 10.1%.
- The Richmond office market remains supply constrained, and large blocks of space are in few quantity; especially in the urban market, where the vacancy rate has dropped to its lowest point yet in several years to 9.0%. The Midtown submarket is registering a 4.2% vacancy rate - also the tightest on record.

## Q4 2019 Top Transactions

Tenant	Size (SF)	Property	Submarket	Move Type
The Collaboratory of Virginia	38,000	2101 Maywill St	Midtown	New Lease
CoStar Group	33,912	501 S 5th St	CBD	Sublease/Expansion
West Creek Financial	21,000	4991 Lake Brook Dr/4805 Lake Brook Dr	Innsbrook	Renewal
Current Lighting Solutions LLC	17,991	4880 Cox Rd	Innsbrook	New Lease
Raymond James	17,079	951 E Byrd St	CBD	Renewal

Source: Colliers Research, Q4 2019

## 2019 Top Transactions

Tenant	Size (SF)	Property	Submarket	Move Type
VEDP	84,319	901 E Cary St	CBD	Renewal/Expansion
VEC	79,254	6606 W Broad St	Glenside/I-64	New Lease
CarMax	79,000	2220 W Broad St	Midtown	New Lease
Atlantic Union Bank	69,618	4300 Cox Rd	Innsbrook	New Lease
Verizon Virginia	45,782	8751 Park Central Dr	Parham Road Corridor	Renewal

Source: Colliers Research, Q4 2019

## Capital Markets

- The quarter ended with \$28.8 million of sales volume, a 36% increase quarter-over-quarter. The top office building sale of Q4 2019 was the Richmond Times Dispatch building at 300 E Franklin Street for \$14.5 million or \$84 per square foot.
- In 2019, Richmond office buildings traded over \$100 million in sales which is expected to increase in 2020 as investors continue to aggressively seek office product in Richmond.

## Economy

- Total nonfarm employment increased slightly by 1.8% over the quarter to 695,000 jobs. Professional and Business Services and Information sectors posted the largest growth over the quarter at 3.9% with Government recording a 2.5% growth rate. Overall, office-using employment grew at 2.5% ending the year at 294,000 jobs.
- Richmond's job economy displayed healthy signs of growth throughout 2019. Total nonfarm employment grew at an average rate of 3.6% in 2019, with the Financial Services and Professional and Business Services sectors having an average growth rate of nearly 5.0% and 3.1%, respectively. The Government sector followed with an annual 2.0% growth rate.

- The unemployment rate in the Richmond metro region remains at 2.6% quarter-over-quarter whereas Virginia's unemployment rests at 2.5% quarter-over-quarter.

## Rental Rates

- Rental rates continued to rise, reaching its highest point in ten years at \$20.71, an increase of 1.5% quarter-over-quarter and 3.7% year-over-year.
- The increase in Class B rents primarily drove growth quarter-over-quarter, increasing by \$0.42 or 2.4%, and year-over-year by \$0.37 or 2.1%, ending the year at \$17.68.

## Development Pipeline

Property	Address	Submarket	RBA	Type	Status
2000 W Marshall St (Sauer Center)	2000 W Marshall St	Midtown	30,000	Creative Office	Delivered
Kinsale Capital Group HQ	2013 Maywill St	Midtown	150,000	Ground-Up	Under Construction
Putney Building (Sauer Center)	2220 W Broad St	Midtown	133,036	Creative Office	Under Renovation
The Current	400 Hull St	CBD	72,895	Ground-Up	Under Construction
Winterfield Crossing (Building 2A)	14210 Midlothian TnPk	Rt 288 Corridor	30,000	Ground-Up	Under Construction
840 Hermitage Rd (Sauer Center)	840 Hermitage Rd	Midtown	17,000	Creative Office	Under Renovation
The Clay Building	3117 W Clay St	Midtown	14,500	Creative Office	Under Renovation
Summit Building	1407 Summit Ave	Midtown	14,389	Creative Office	Under Renovation
Harp's Landing	2101 Libbie Lake W Ave	Midtown	142,535	Ground-Up	Proposed
South Falls	111 Hull St	CBD	135,000	Ground-Up	Proposed
Unnamed Office Building (Sauer Center)	2220 W Broad St	Midtown	52,400	Ground-Up	Proposed
GreenGate II	3401 Haydenpark Ln	Innsbrook	45,391	Ground-Up	Proposed
1504 Belleville St	1504 Belleville St	Midtown	19,008	Creative Office	Proposed

Source: Colliers Research, Q4 2019

- The Current, a 73,895 square feet office building located in Manchester is under construction as CBD's first ground-up spec product in four years and the first spec office product to date in the Manchester area. The full building is available for lease.
  - The 150,000 square-foot Kinsale Capital Group headquarters is under construction where Kinsale has leased 77,000 square feet which will bring approximately 73,000 square feet of spec space to market.
- ## Q1 2020 Forecast
- The largest leases of 2019 all commence in the first half of 2020. Net absorption is expected to increase resulting in a further decrease in vacancy. With healthy demand and constrained supply, continued rent growth is expected in the near term.
  - Despite solid fundamentals, healthy market activity, and a growing talent pipeline, the decision on approval by the City Council of the Navy Hill Redevelopment expected in early 2020, is perhaps the biggest factor in the future of Richmond's office market.

- Richmond possesses what is needed for an attractive and resilient market. Its diverse economy provides hedging from turns in the broader economy, while its affordable costs make it a viable alternative for firms seeking to cut costs especially in middle-office operations. Richmond enjoys nationally-recognized growth in its millennial workforce.

# Richmond Office Market Q4 2019 Snapshot

Submarket	Inventory (SF)	Vacant SF	Vacancy Rate (%)	Availability Rate (%)	FS Asking Rental Rate (\$)	Quarterly Net Absorption	12 Mo Net Absorption	Development Pipeline
<b>URBAN MARKET</b>								
CBD	9,154,611	934,498	10.2	12.9	\$23.43	24,594	71,477	72,895
Midtown	2,318,896	96,915	4.2	10.0	\$20.16	59,179	160,934	314,789
<b>Urban Market Total</b>	<b>11,473,507</b>	<b>1,031,413</b>	<b>9.0</b>	<b>12.3</b>	<b>\$22.94</b>	<b>83,773</b>	<b>232,411</b>	<b>387,684</b>
Class A	5,559,741	584,616	10.5	14.3	\$25.79	1,534	82,526	222,895
Class B	5,913,766	446,797	7.6	10.4	\$18.33	82,239	149,885	164,789
<b>SUBURBAN NORTHWEST</b>								
Ashland/I-95	283,136	41,874	14.8	14.8	\$17.46	(130)	(12,251)	0
Glenside/I-64	3,061,999	261,486	8.5	18.5	\$18.89	37,100	24,114	0
Innsbrook	6,105,237	610,447	10.0	15.1	\$21.65	24,071	20,080	0
Parham Road Area	2,375,366	264,335	11.1	17.1	\$16.31	23,990	40,588	22,704
<b>Suburban Northwest Total</b>	<b>11,825,738</b>	<b>1,178,142</b>	<b>10.0</b>	<b>16.3</b>	<b>\$19.85</b>	<b>85,031</b>	<b>72,531</b>	<b>22,704</b>
Class A	5,557,874	464,732	8.4	15.4	\$21.86	4,721	7,092	0
Class B	6,267,864	713,410	11.4	17.2	\$17.52	80,310	65,439	22,704
<b>SUBURBAN SOUTHWEST</b>								
Arboretum	923,183	80,971	8.8	25.1	\$17.76	5,098	(4,603)	0
Boulders	984,765	134,619	13.7	19.8	\$18.36	(12,486)	(14,689)	0
Moorefield/Koger	989,109	84,002	8.5	15.1	\$17.32	4,635	5,833	0
Route 288 Corridor	912,350	98,881	10.8	24.7	\$17.95	(20,317)	19,914	30,000
Stony Point	892,647	54,591	6.1	11.9	\$21.56	(3,273)	3,480	0
<b>Suburban Southwest Total</b>	<b>4,702,054</b>	<b>453,064</b>	<b>9.6</b>	<b>19.3</b>	<b>\$18.38</b>	<b>(26,343)</b>	<b>9,935</b>	<b>43,000</b>
Class A	2,350,689	151,455	6.4	20.4	\$19.88	(5,479)	26,161	30,000
Class B	2,351,365	301,609	12.8	18.3	\$17.11	(20,864)	(16,226)	13,000
<b>Suburban Market Total</b>	<b>16,527,792</b>	<b>1,631,206</b>	<b>9.9</b>	<b>17.2</b>	<b>\$19.36</b>	<b>58,688</b>	<b>82,466</b>	<b>65,704</b>
Class A	7,908,563	616,187	7.8	16.9	\$21.27	(758)	33,253	30,000
Class B	8,619,229	1,015,019	11.8	17.5	\$17.37	59,446	49,213	35,704
<b>Richmond Office Total</b>	<b>28,001,299</b>	<b>2,662,619</b>	<b>9.5</b>	<b>15.2</b>	<b>\$20.71</b>	<b>142,461</b>	<b>314,877</b>	<b>453,388</b>
Class A	13,468,304	1,200,803	8.9	15.8	\$23.18	776	115,779	252,895
Class B	14,532,995	1,461,816	10.1	14.6	\$17.68	141,685	199,098	200,493

Source: Colliers Research, Q4 2019

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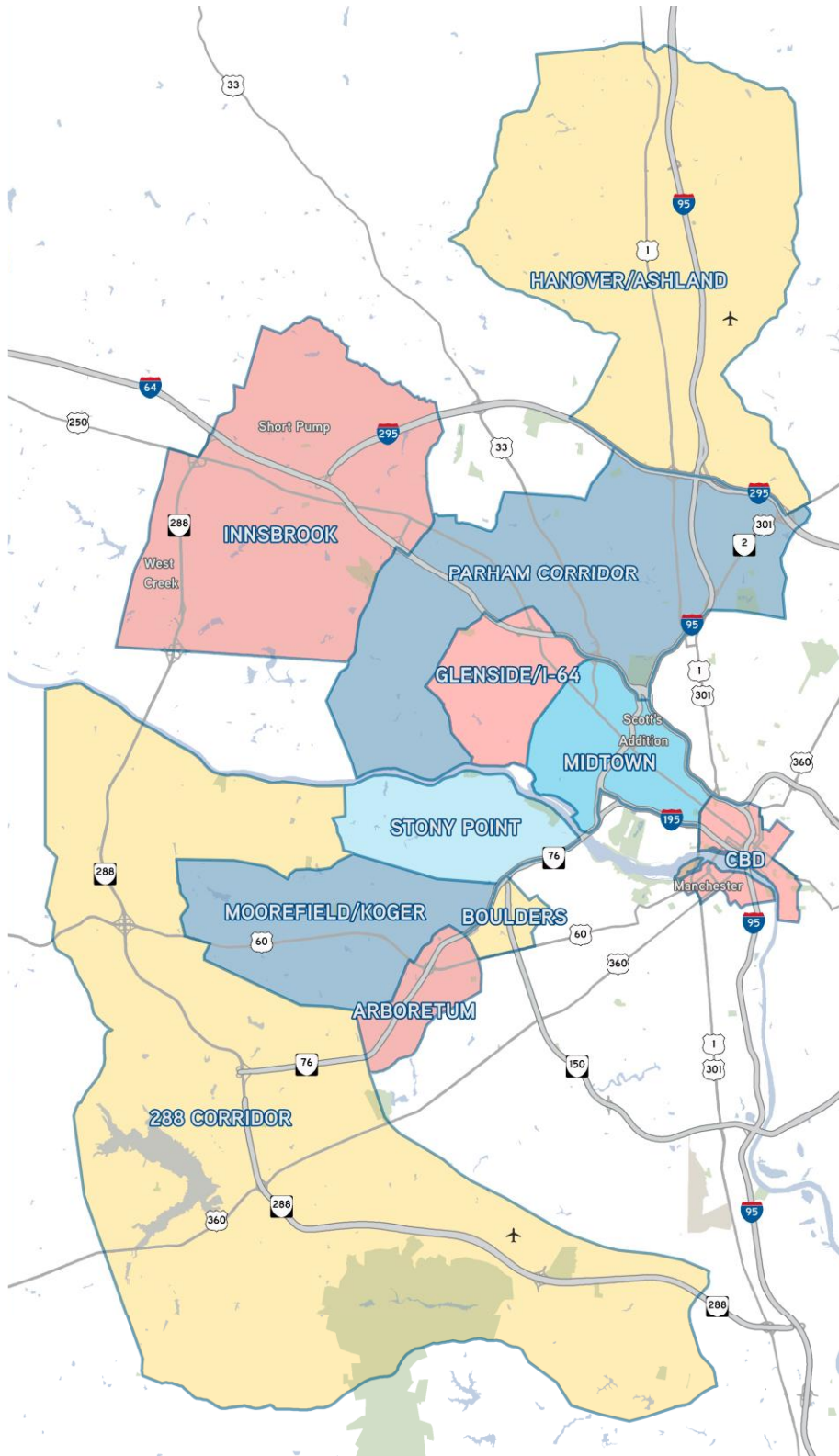
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