



Richmond Office Market Overview

December 2019



“There is a critical shortage of large chunks of Class A office space in the Richmond market. We are hearing from site location consultants, who are involved in half of all economic development projects, that Richmond is losing out for the simple fact that we don’t have the physical space to put these projects.”

– Lara Fritts, CEcD, President and CEO, Greater Richmond Partnership

Key Takeaways

- **Labor Force is now the #1 criterion in the site selection process for companies with Transportation Infrastructure and Available Buildings/Sites as #2 and #3, respectively**
- **The emerging labor force (35%+ millennial according to the Pew Research Center) is attracted to communities rich with amenities with millennials happiest in urban areas**
- **Studies show that public amenities are strongly correlated with growth in population, jobs and per capita income**
- **Employers seeking expansion opportunities bypass RVA due to the lack of new office supply as our peer markets boast speculative office development**
- **The Richmond Office Market is supply constrained, particularly in the CBD, where vacancies are near historic lows and existing inventory is antiquated and/or inefficient**
- **No product = no prospects**

Greater Richmond Partnership Site Selector Survey Results

What are your initial perceptions of Richmond as a place to do business?

Positive Perceptions:

- **High quality of life**
- **Trendier than its reputation**
- **Attractiveness for labor**
- **Great growth hub out of places like NYC**
- **Good for headquarters and professional services**
- **Strong labor market/highly educated talent**
- **Good university presence, good infrastructure**
- **Geographically advantageous – access to larger Northeast markets**
- **They are trying to change their image and reputation**

Source: Site Selector Survey conducted by Ady Advantage – October 23, 2019

Greater Richmond Partnership Site Selector Survey Results

What are your initial perceptions of Richmond as a place to do business?

Negative Perceptions:

- **Feels like its stuck in time: buildings, architecture, streets**
- **Doesn't have much of an image, lacks identity**
- **No room to expand:**
 - **Running out of prime downtown space**
 - **In the past there were a lot of good sites; not a lot of options currently**
 - **Not sure about the real estate situation**
- **Access can be challenging; the airport is lacking**
- **The capital is there, but there is no perception and appreciation of growing industry there**
- **Still perceived to be small**

Source: Site Selector Survey conducted by Ady Advantage – October 23, 2019

“Richmond’s office fundamentals are strong, with vacancies nearing all-time lows.

“Few large blocks of space for lease are available, and many of these are antiquated and low-end. This may be hurting the long-term potential of Richmond’s office market and could act as a potential deterrent for employers looking to relocate back-office operations.”

Key Indicators



Richmond Overall

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	16,449,027	6.1%	\$23.95	7.3%	958,117	976,119	362,825
3 Star	34,454,386	6.7%	\$20.09	10.1%	(9,536)	26,135	112,000
1 & 2 Star	15,814,244	5.7%	\$16.11	8.0%	60,157	7,200	0
Market	66,717,657	6.3%	\$20.12	8.9%	1,008,738	1,009,454	474,825

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.2%	8.9%	6.8%	11.8%	2010 Q2	6.0%	2018 Q2
Net Absorption SF	1.2 M	501,120	371,448	1,931,878	2007 Q4	(1,644,200)	2009 Q4
Deliveries SF	1.4 M	538,264	627,466	1,530,573	2008 Q3	70,676	2013 Q2
Rent Growth	3.6%	1.5%	2.0%	5.0%	2006 Q4	-3.6%	2010 Q3
Sales Volume	\$405 M	\$270.9M	N/A	\$730.5M	2016 Q3	\$33.4M	2009 Q4

CBD Overall

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	6,621,994	9.1%	\$24.86	9.5%	962,358	960,000	0
3 Star	4,170,174	3.4%	\$18.62	4.2%	(3,384)	0	0
1 & 2 Star	339,682	11.6%	\$16.15	21.6%	30,747	0	0
Submarket	11,131,850	7.0%	\$22.26	7.9%	989,721	960,000	0

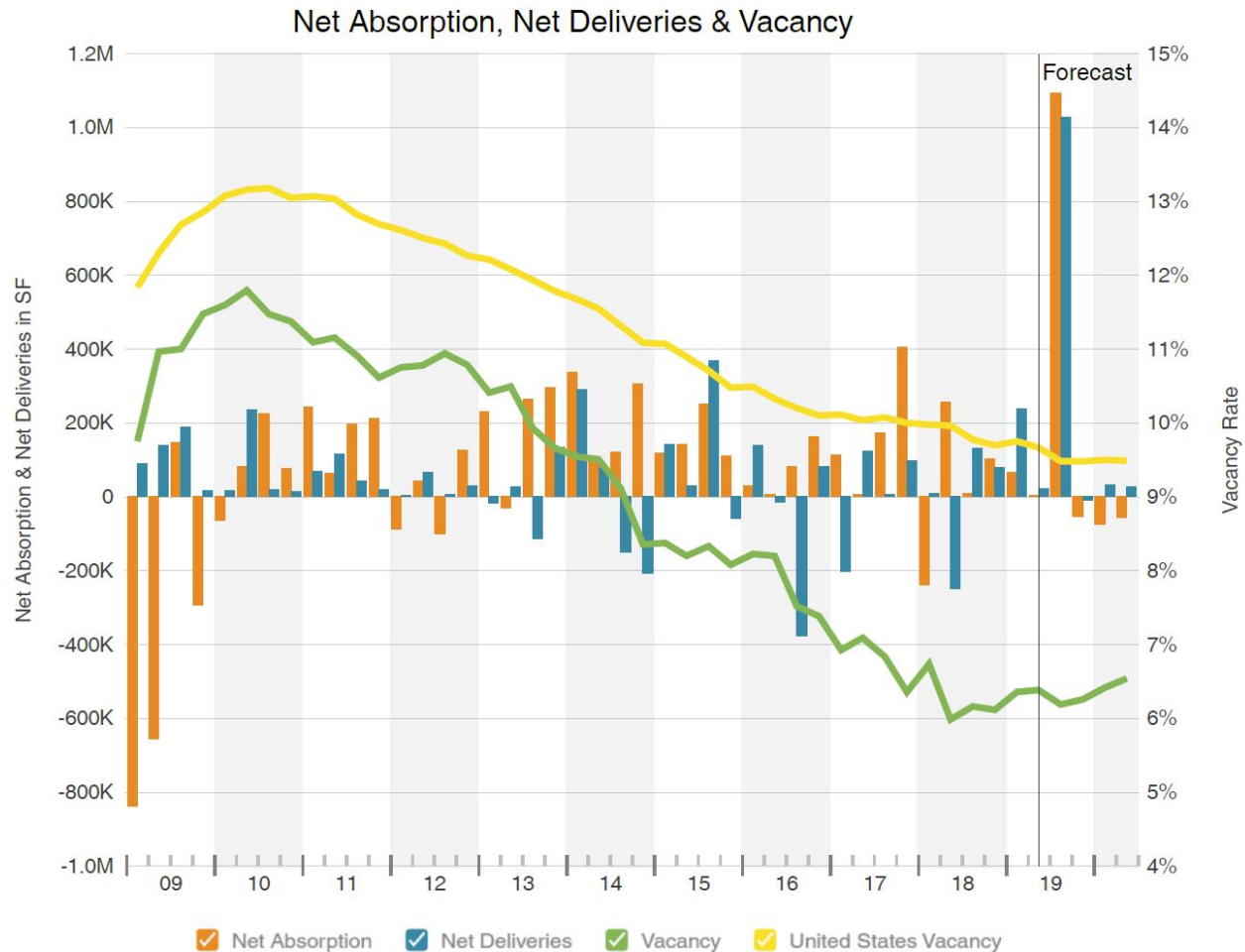
Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-1.3%	13.4%	7.5%	17.7%	2013 Q2	7.0%	2019 Q3
Net Absorption SF	1 M	38,464	251,701	324,187	2014 Q2	(362,625)	2017 Q2
Deliveries SF	960 K	86,914	298,329	330,309	2016 Q2	0	2019 Q2
Rent Growth	3.8%	1.2%	2.0%	6.8%	2006 Q3	-6.9%	2010 Q3
Sales Volume	\$120 M	\$81.0M	N/A	\$407.7M	2016 Q3	\$0	2010 Q3

Source: 2019 Costar Realty Information Inc.

Net Absorption, Net Deliveries & Vacancy



Richmond Overall

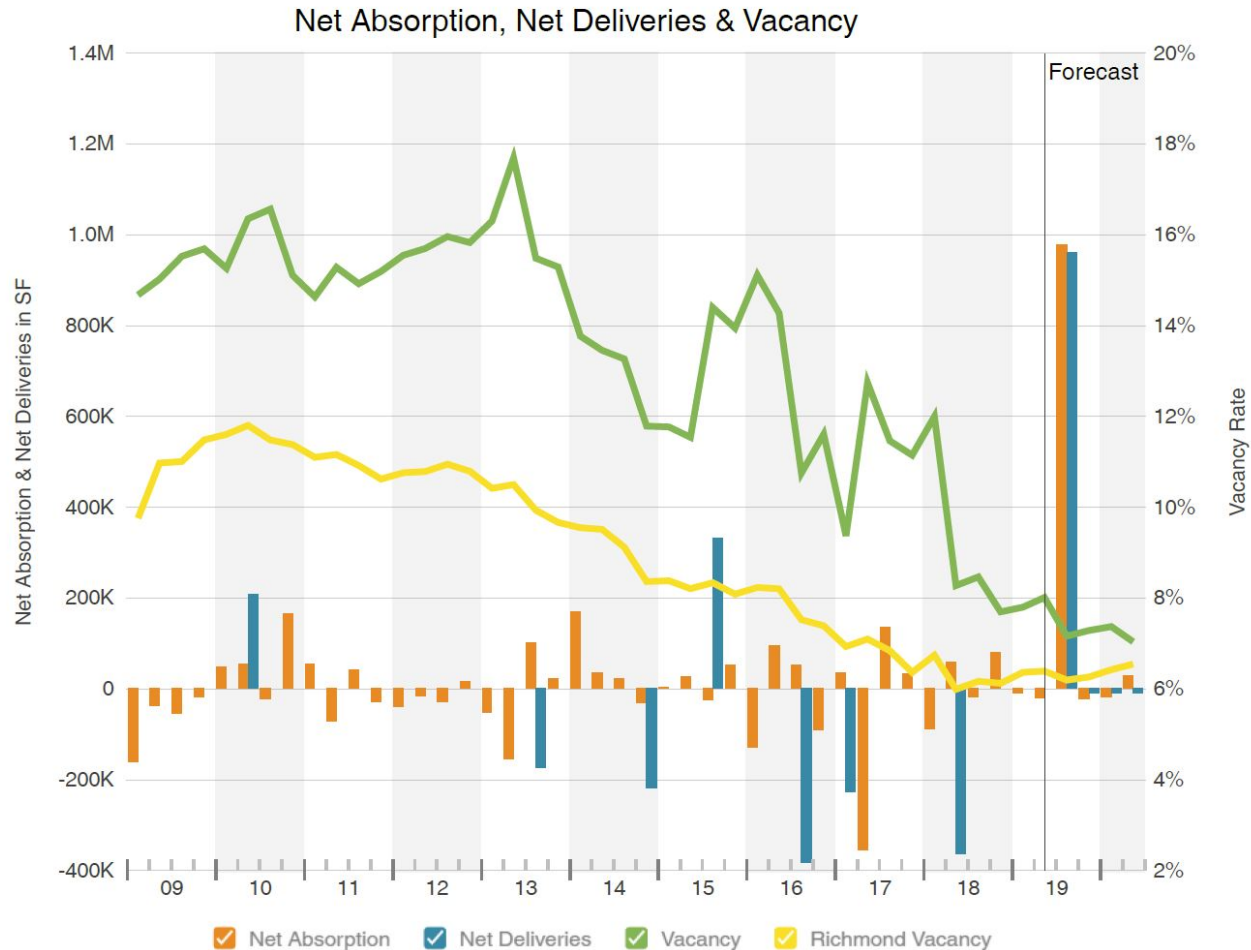


Source: 2019 Costar Realty Information Inc.

Net Absorption, Net Deliveries & Vacancy



CBD Overall



Source: 2019 Costar Realty Information Inc.

Office Conversions

“Demolitions and multifamily conversions in the CBD have decreased existing stock by roughly 1 million SF, compressing vacancies.” Source: 2019 Costar Realty Information Inc.

Building	Address	Sq. Ft.	Units	Year Renovated
8th & Main	800 E. Main Street	200,000	198 MF units	2016
CNB Building	219 E. Broad	264,661	200 MF units	2016
523 E. Main Street	523 E. Main Street	22,000	24 MF units	2016
2323 E. Main Street	2323 E. Main Street	62,073	71 MF units	2016
700 Building	700 E. Main Street	181,000	244 hotel rooms	2014
The Edison	700 E. Franklin Street	225,000	174 MF units	2014
Exchange Place	1313 E. Main	78,800	65 MF units	2014
The Massey Building	4 N 4th Street	55,958	47 MF units	2014
First National Bank Building	823 E. Main Street	163,000	154 MF units	2013/14

Former MT office properties no longer in the competitive set

Building	Address	Sq. Ft.	Notes
Richmond Plaza	111 S. 6 th Street	383,396	Dominion demolished in 2017 and is u/c with their new HQ building
Main Street Center	600 E. Main Street	424,761	Commonwealth of VA purchased 2008
Eighth & Main Building	707 E. Main Street	325,000	Dominion Energy purchased in 2008

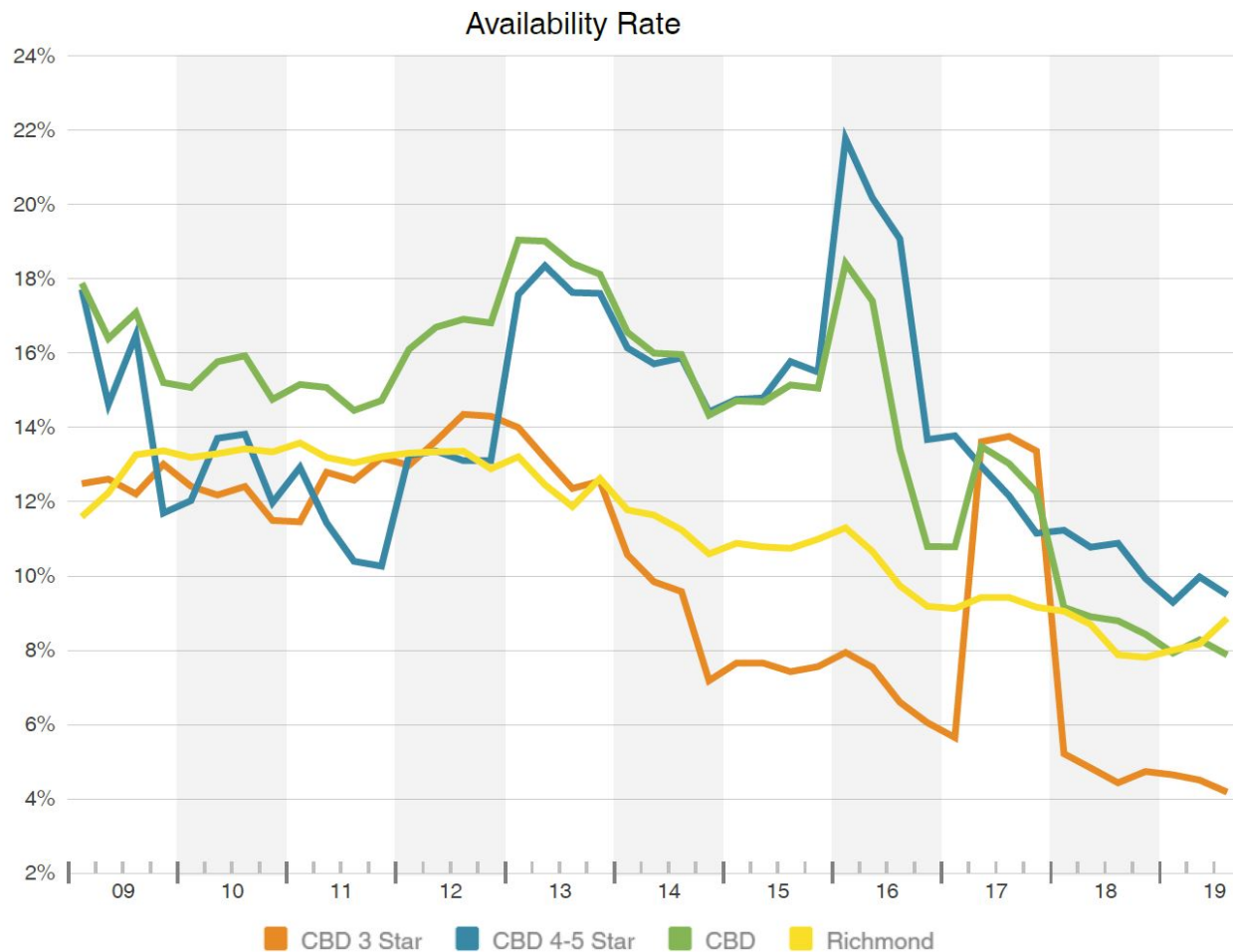
Total Office Inventory Removed from the Market: 2,385,649 SF

“The reliance on build-to-suits may be hurting Richmond office's long-term health. The metro has picked up speed as a popular location for companies to relocate their back- and middle-office operations, such as CoStar's move in 2016 or Avepoint's in 2017. However, some warn that Richmond may become less competitive for these relocations given the lack of new speculative and proposed high-quality construction. As of 19Q2, only four existing spaces over 100,000 SF were available for lease, only one of which was in a 4 Star building.”

“The additional neighborhood amenities created by the Navy Hill project could draw further economic development in North Broad.”

Availability Rate

CBD Overall

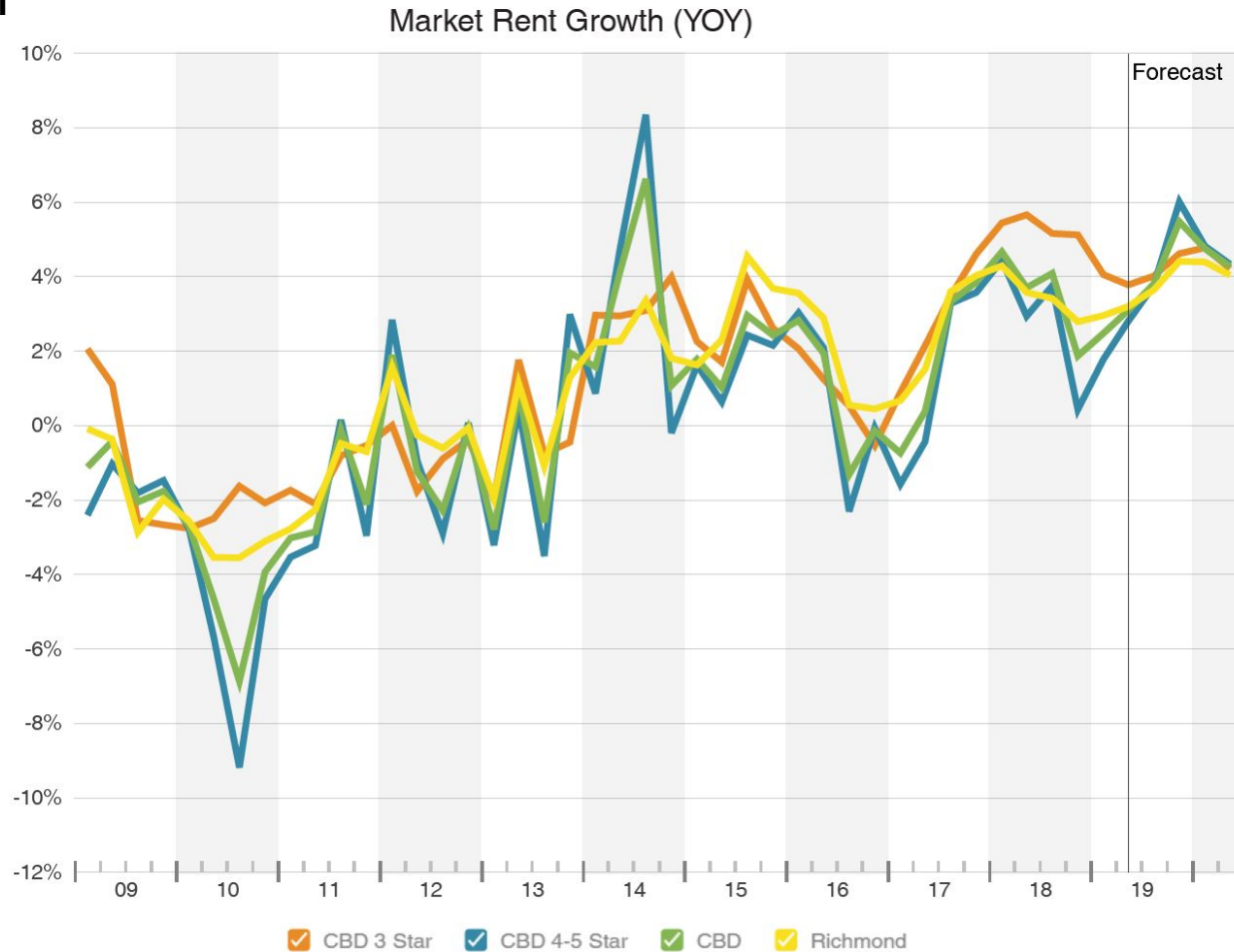


Source: 2019 Costar Realty Information Inc.

Market Rent Growth

“For high-end space, Richmond’s effective rents are about half what Washington, D.C. charges. CoStar Group cited this advantage in their decision to open a 700-person research center in 2016.”

CBD Overall



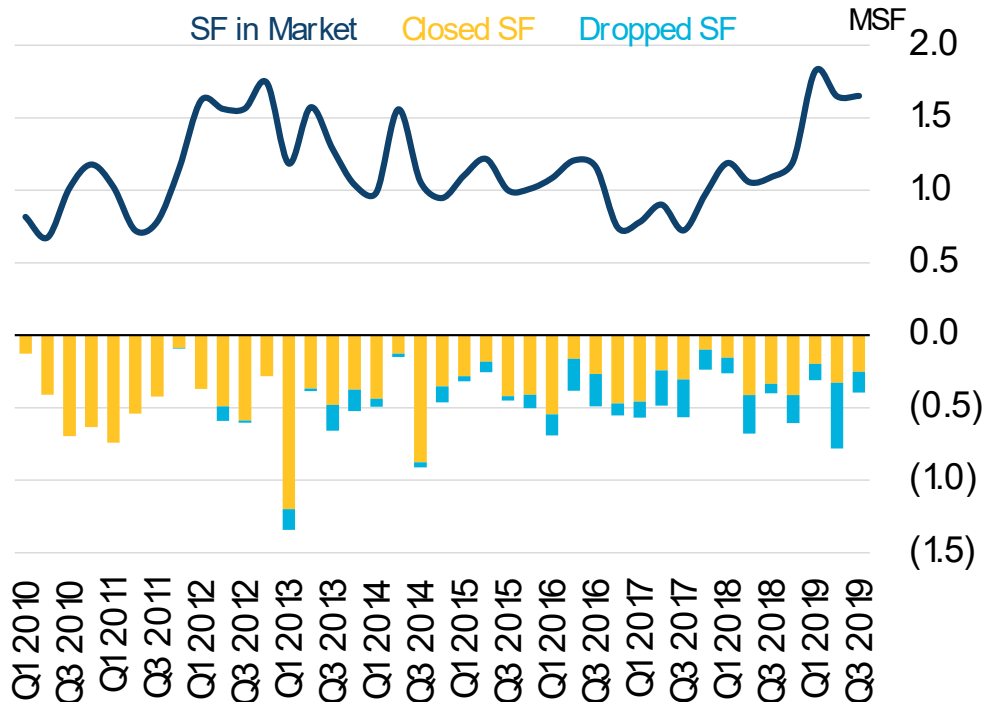
Source: 2019 Costar Realty Information Inc.

“The embattled Navy Hill Project seems to have been put on the backburner, according to articles regarding the Mayor's grand plans. This is bad news for those who cite a lack of high-end space as a reason Richmond isn't competitive in the site-selection process for businesses. The only location in the CBD that has space over 100,000 SF is One James Center.”

“The addition of new growth-driving amenities to the area could also shift demographics, drawing in more employees and subsequently employers.”

CBD Users in the Market Analysis

QUARTERLY DEMAND VOLUME



CURRENT SF OF DEMAND IN THE MARKET

p 51.4%
1,651,811 SF

Quarter-over-Quarter

t u 0.2%

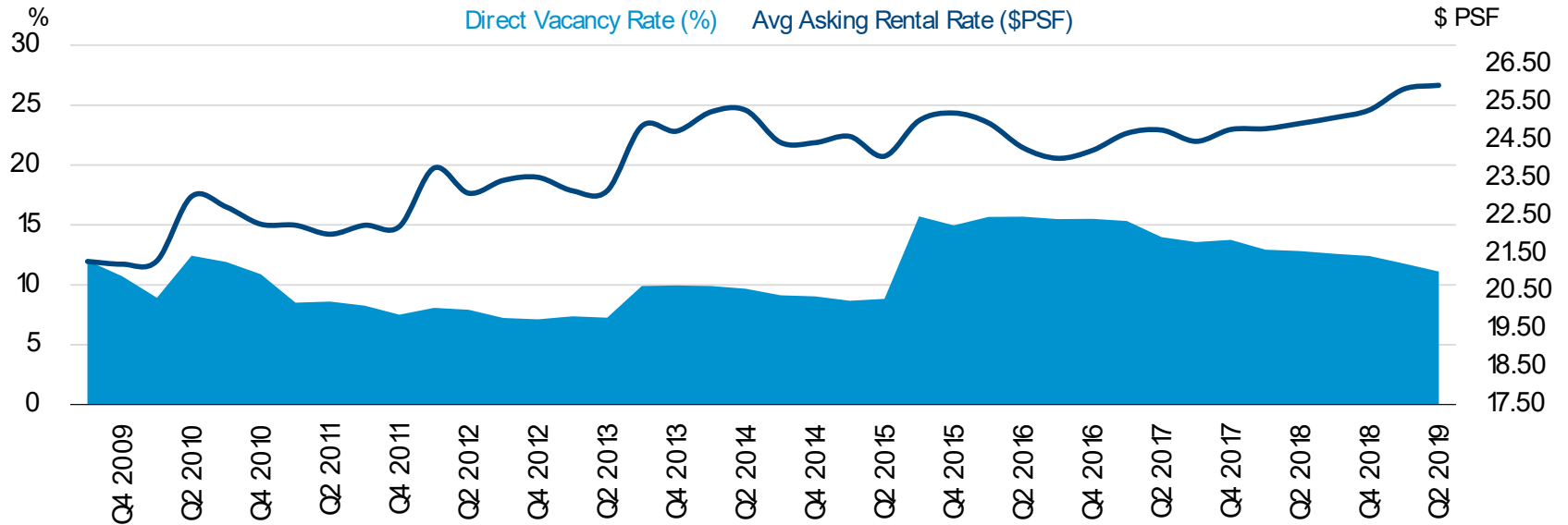
Compared to 5 Year Avg

p 43.0%

Source: Colliers International Research

CBD Vacancy & Avg. Asking Rent

Vacancy & Avg Asking Rent



Source: Colliers International Research

Site Selection Survey Results

Leading Factors, in priority order, driving expansion or greenfield site selection processes for corporate clients today.

- ★ 1. Workforce
- ★ 2. Transportation infrastructure
- ★ 3. Available buildings & sites
- 4. State & local tax structure
- 5. Incentives
- 6. Utilities
- 7. Regulatory environment
- 8. University & college resources
- 9. Cost of real estate

Source: Site Selection magazine, January 2018



Accelerating success.