

RICHMOND | OFFICE

Q1 2020

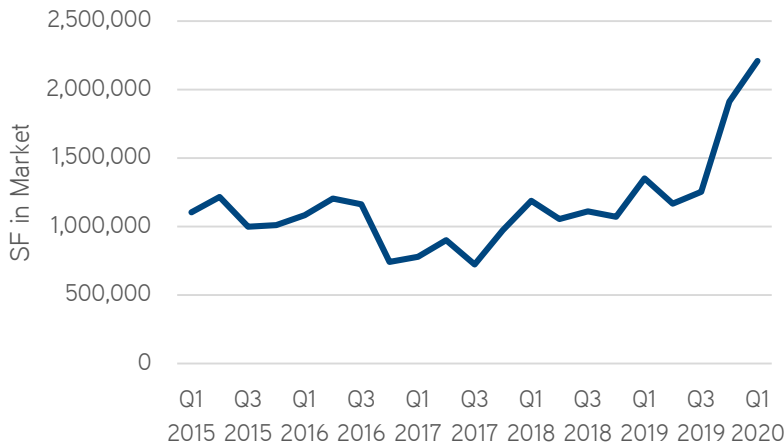
Office tenant requirement volume reached record level with COVID-19 disruption looming

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Key Takeaways

- Leasing activity was strong in Q1 with 340,000 square feet of office space leased throughout the quarter. A former Sam's Club retail building is being converted to office product with T-Mobile signing a 134,721 square foot lease and expected to move in Q3 2020.
- Tenant requirement volume for the quarter reached a record-high 2.2 million square feet. This figure represents a 63.4% increase year-over-year. The bulk of demand comes from tenants in the Technology and Health Care industries, with their combined demand comprising nearly a third of the total volume. Fourteen of these requirements were 50,000 square feet and higher.

Quarterly Tenant Requirement Volume



Source: Colliers Research, Q1 2020

Q1 2020 Market Overview

- The Richmond office market had its fifth consecutive quarter of positive net absorption with 84,000 square feet. A large portion of this was the Virginia Employment Commission occupying their new space at Brookfield Place in the Glenside/I-64 submarket for 79,000 square feet.
- Total market vacancy dropped 40 basis points (bps) to 9.5%, the lowest since Q3 2018. While Class A vacancy has remained relatively stagnant over the previous few quarters, Class B vacancy has dropped 49 bps quarter-over-quarter and 95 bps year-over-year to 10.7%.
- The Richmond office market remains supply-constrained, and large blocks of space are few in quantity; especially in the urban market, where the vacancy rate has dropped to its lowest point in several years to 9.3%. With the entry of COVID-19, market fundamentals are expected to change, though these fluctuations will come with a high degree of uncertainty.

Class A Metrics

	Q1 2020	Q1 2019
Vacancy Rate	8.4%	9.0%
Net Absorption	21,502	59,193
Construction	269,895	117,600
Asking Rent	\$22.63	\$23.23

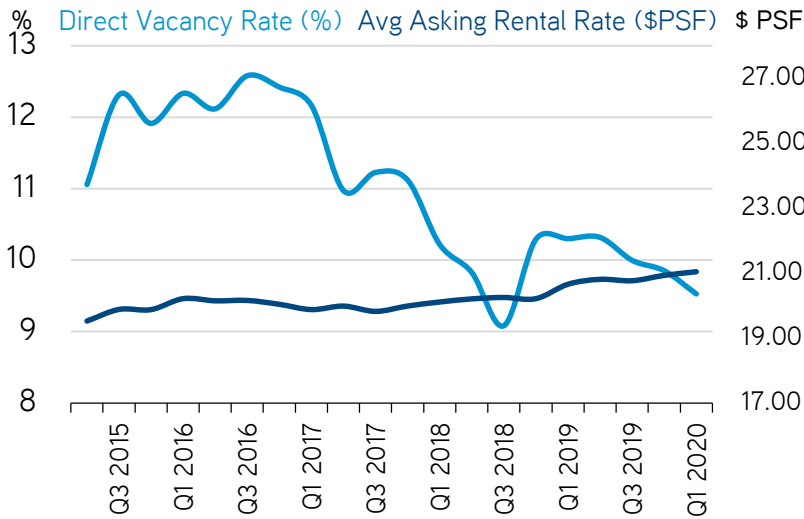
Change Year-over-Year

Vacancy Rate	▼	61 bps
Net Absorption	▼	37,691 SF
Construction	▲	152,295 SF
Asking Rent	▼	2.6%

Q1 2020 Forecast

Vacancy Rate	▼
Net Absorption	▲
Construction	▶
Asking Rent	▲

Richmond Quarterly Vacancy Rate and Average Rental Rate



Source: Colliers Research, Q1 2020

Q1 2020 Top Transactions

Tenant	Size (SF)	Property Address	Move Type
T-Mobile	134,721	4571 S Laburnum Ave	New Lease
Simplisafe	57,110	1601 Willow Lawn Dr	New Lease
Home Care Delivered Inc	26,141	11013 W Broad St	Renewal
Eagle	20,160	10618-20 Patterson Ave	New Lease
SummitMedia	20,000	812 Moorefield Park Dr	Renewal

Source: Colliers Research, Q1 2020

Capital Markets

➤ Q1 posted a lighter sales volume than recent quarters closing with \$14.7 million, totaling 160,600 square feet. The top office building sale for Q1 2020 was the \$12 million sale of 8000 Villa Park Drive.

Economy

➤ Total nonfarm employment has decreased slightly by 1% quarter-over-quarter with 689,000 employees reported for Q1 2020. The Financial Activities sector saw the largest growth quarter-over-quarter of 4.7%, with other sectors experiencing moderate reductions. Overall, although office-using employment softened slightly quarter-over-quarter, Q1 has experienced year-over-year growth of 3.3% with 298,100 jobs.

➤ The Richmond metro region unemployment rate rose marginally quarter-over-quarter to 2.8% which matches the unemployment rate of Virginia posted for the quarter. Unemployment is expected to further increase due to COVID-19 related shutdowns.

Rental Rates

➤ Rental rates for Richmond's market saw a marginal gain of 0.5% from Q4 2019 and 1.8% year-over-year with Q1 2020 landing at \$21.04.

➤ Class B rates lead the progression, with the quarter ending at \$19.14, a 1.15% increase quarter-over-quarter and 3.79% increase year-over-year.

Development Pipeline

Property	Address	Submarket	RBA	Type	Status
Kinsale Capital Group HQ	2013 Maywill St	Midtown/Scott's Addition	150,000	Ground-Up	Under Construction
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
Putney Building (Sauer Center)	2220 W Broad St	Midtown/Scott's Addition	133,036	Creative Office	Under Renovation
1504 Belleville St	1504 Belleville St	Midtown/Scott's Addition	19,008	Creative Office	Under Renovation
840 Hermitage Rd (Sauer Center)	840 Hermitage Rd	Midtown/Scott's Addition	17,000	Creative Office	Under Renovation
The Clay Building	3117 W Clay St	Midtown/Scott's Addition	14,500	Creative Office	Under Renovation
Summit Building	1407 Summit Ave	Midtown/Scott's Addition	14,389	Creative Office	Under Renovation
Harp's Landing	2101 Libbie Lake W	Midtown/Scott's Addition	142,535	Ground-Up	Proposed
South Falls	111 Hull St	Midtown/Scott's Addition	135,000	Ground-Up	Proposed
Unnamed Office Building (Sauer Center)	2220 W Broad St	Midtown/Scott's Addition	52,400	Ground-Up	Proposed
GreenGate II	3401 Haydenpark Ln	Innsbrook	45,391	Ground-Up	Proposed

Source: Colliers Research, Q1 2020

➤ The Current, a 73,895 square foot 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. Kinsale has leased 77,000 square feet which will bring approximately 73,000 square feet of available 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 the uncertainty in the commercial real estate market with the permeation of COVID-19, there is a strong amount of uncertainty of what will hold for the office market though these trends will continue to be monitored.

➤ Due to COVID-19, leasing velocity is expected to decrease in the coming months despite commencement of signed leases in previous quarters.

➤ 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.

A note regarding COVID-19

"In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report."

Richmond Office Market Q1 2020 Snapshot

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	8,320,743	904,118	10.9	13.7	\$23.93	27,690	99,069	72,895
Midtown	2,118,784	123,374	5.8	16.4	\$20.10	(47,082)	131,537	333,797
Urban Market Total	10,439,527	1,027,492	9.8	14.2	\$23.28	(19,392)	230,606	406,692
Class A	4,056,536	390,407	9.6	13.6	\$26.11	50,649	182,319	239,895
Class B	6,382,991	637,085	10.0	14.6	\$20.84	(70,041)	48,287	166,797
Urban Market Overview*	22,357,023	1,549,601	6.9	6.1	\$20.94	(26,140)	595,209	220,220
SUBURBAN NORTHWEST								
Ashland/I-95	280,157	41,874	14.9	14.9	\$17.27	0	474	0
Glenside/I-64	2,835,239	154,461	5.4	17.1	\$20.29	80,590	72,423	0
Innsbrook	6,105,237	627,234	10.3	17.1	\$21.72	(16,787)	3,989	0
Parham Road Area	1,838,575	208,684	11.4	17.6	\$16.32	25,424	25,083	22,704
Suburban Northwest Total	11,059,208	1,032,253	9.3	17.1	\$20.32	89,227	101,969	22,704
Class A	6,264,211	484,694	7.7	19.4	\$21.91	(18,350)	(2,337)	0
Class B	4,794,997	547,559	11.4	14.2	\$18.21	107,577	104,306	22,704
Suburban Northwest Overview*	20,631,426	1,309,251	6.3	9.7	\$19.75	(38,980)	237,542	116,880
SUBURBAN SOUTHWEST								
Arboretum	923,183	86,452	9.4	25.5	\$17.80	(5,481)	(4,821)	0
Boulders	984,765	142,364	14.5	29.7	\$18.60	(7,745)	(34,752)	0
Moorefield/Koger	950,318	41,159	4.3	11.9	\$17.59	37,137	49,754	0
Route 288 Corridor	912,350	106,157	11.6	15.3	\$17.98	(7,276)	(18,347)	30,000
Stony Point	756,823	44,009	5.8	11.3	\$22.67	(2,066)	(4,221)	0
Suburban Southwest Total	4,527,439	420,141	9.3	19.1	\$18.60	14,569	(12,387)	43,000
Class A	2,761,496	226,406	8.2	19.3	\$19.55	(10,797)	(23,911)	30,000
Class B	1,765,943	193,735	11.0	18.8	\$16.91	25,366	11,524	13,000
Suburban Southwest Overview*	7,128,690	613,492	8.6	11.9	\$18.51	(13,546)	29,184	63,000
Suburban Market Total	15,586,647	1,452,394	9.3	17.7	\$19.74	103,796	89,582	65,704
Class A	9,025,707	711,100	7.9	19.4	\$21.05	(29,147)	(26,248)	30,000
Class B	6,560,940	741,294	11.3	15.4	\$17.83	132,943	115,830	35,704
Suburban Market Overview*	27,760,116	1,922,743	6.9	10.2	\$19.34	(52,526)	266,726	179,880
Richmond Office Total	26,026,174	2,479,886	9.5	16.3	\$21.04	84,404	320,188	472,396
Class A	13,082,243	1,101,507	8.4	17.6	\$22.63	21,502	156,071	269,895
Class B	12,943,931	1,378,379	10.6	15.0	\$19.14	62,902	164,117	202,501
Richmond Office Overview*	50,117,139	3,472,344	6.9	8.4	\$20.48	(78,666)	861,935	400,100

Source: Colliers Research, CoStar, Q1 2020

*Indicates a comprehensive overview of Richmond's office market including those buildings which are not included in Colliers' competitive set; owner occupied buildings, etc.

The Richmond Office Market

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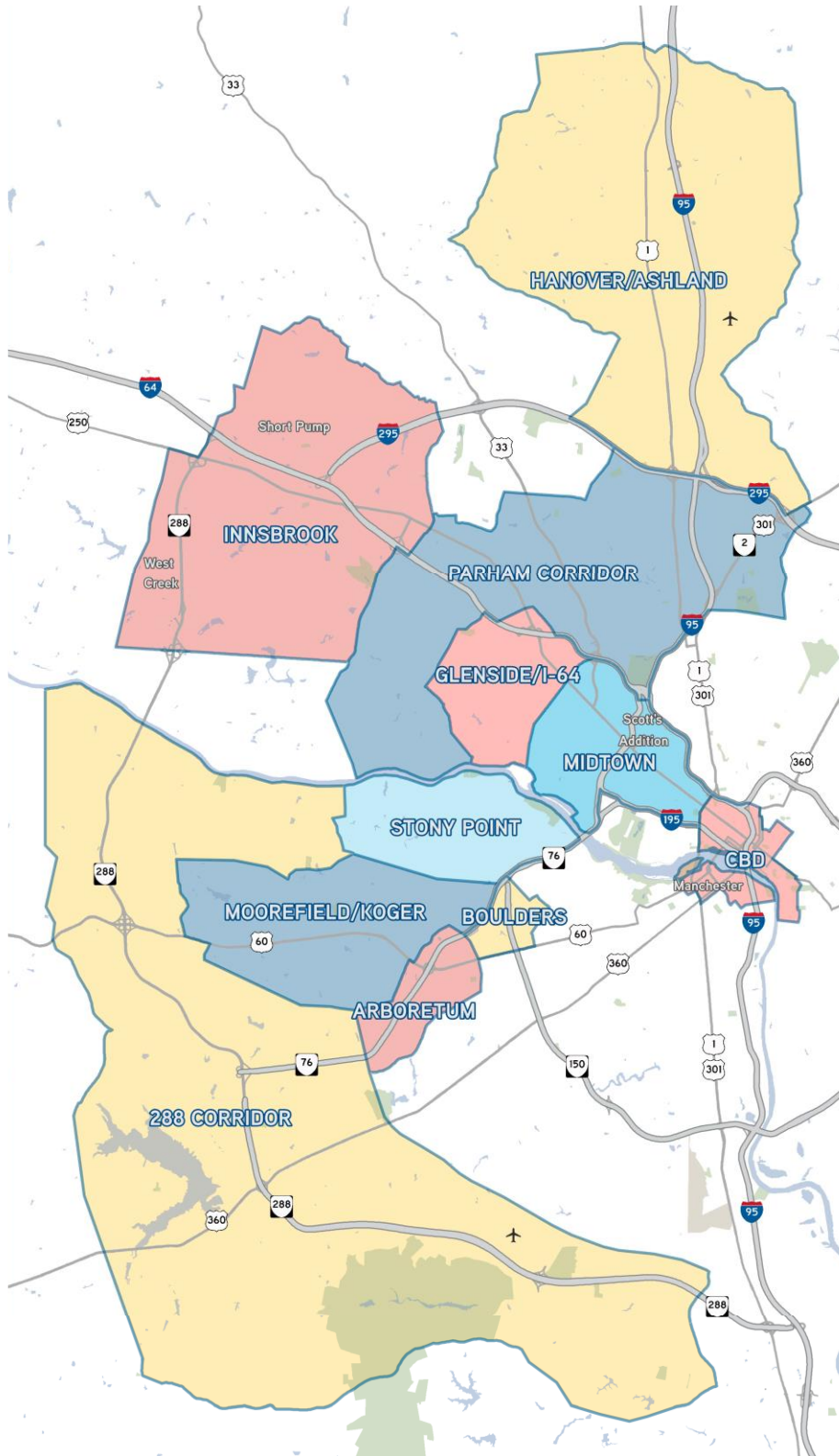
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