

# Richmond Industrial MarketView

Q4 2013

CBRE Global Research and Consulting

**VACANCY**  
8.2%

**RENTAL RATE**  
\$3.98 NNN

**NET ABSORPTION**  
636,007 sq. ft.

**UNDER CONSTRUCTION**  
1,407,000 sq. ft.

**EMPLOYMENT**  
630,624

## DESPITE LOW LEASING VELOCITY RICHMOND'S INDUSTRIAL MARKET ENDS 2013 ON A HIGH NOTE

### Two major transactions in the northeast quadrant lead the market to a strong finish.

The sale of the former Mazda Distribution center and the lease of the former IRS Building accounted for over 60% of positive absorption in the last quarter of 2013.

### Liberty Property Trust approved to build first spec building since 2008.

With Eastport nearly out of available space, Liberty Property Trust began the planning process for Eastport VIII, the last building in the park and first spec warehouse in the Richmond market since 2008.

### Lumber Liquidators and Medline find homes for their regional distribution centers.

Lumber Liquidators is moving ahead with their 1 million sq. ft. distribution center in Henrico County's White Oak Industrial Park while Medline decided on Chesterfield County's Meadowville Technology park for their 407,500 sq. ft. distribution center.

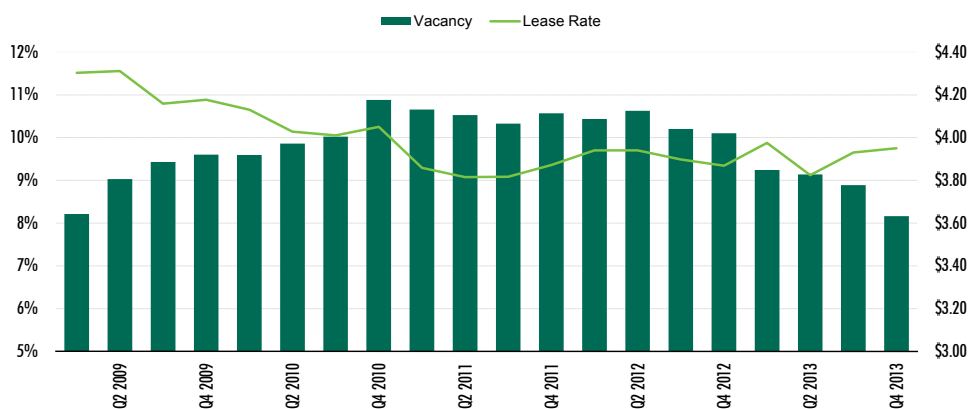
### Vacancy rate falls to 5 year low.

Richmond's industrial market continues to recover to its pre-recession vacancy levels, currently at 8.2%.

### Interport Business Center Changes Hands.

AFL-CIO Building Investment Trust sold the 620,000 sq. ft. Interport Business Center to Manekin LLC in the middle of December for just under of \$20 million.

Chart 1: Richmond Vacancy & Rental Rate Trends



Source: CBRE Research, Q4 2013.

While Richmond's industrial leasing velocity remained low as the second half of 2013 came to a close, a handful of large deals resulted in strong Q4 statistics. Piggy backing on the sale of the former Mazda Distribution center and the 180,000 sq. ft. lease at the Former IRS building, Richmond's Highbay Market realized over 650,000 sq. ft. of positive net absorption. Despite the Flex Market's mediocre fourth quarter, the overall industrial vacancy rate fell 70 basis points to 8.2%. Asking rates still have yet to reach the threshold to encourage widespread speculative development, current construction is limited to build-to-suit regional distribution centers or current industrial parks.

The northeast quadrant experienced significant tightening having received the bulk of Richmond's Highbay activity in Q4. Two big blocks of space were taken off the market, the former 317,400 sq. ft. Mazda Distribution facility was sold to Dominion Packaging for \$9.0 million, and the former IRS building leased 180,000 sq. ft. With just under 650,000 sq. ft. of positive net absorption, the northeast quadrant saw a 2.6 percentage point drop in its vacancy rate to 4.3% and a climb in asking rates to \$4.22 per sq. ft.

Richmond's Flex market weakened during Q4r, ending the year where it began, returning to a vacancy rate of 12.3%. Average Flex asking rates fell for the fifth straight quarter to \$7.42 per sq. ft. from \$8.52 per sq. ft. a year ago, their lowest levels in over five years. Only the Southeast quadrant realized a reduction in vacancy with positive absorption of 10,000 sq. ft.

Scarce speculative construction has been proving to be the cure for Richmond's high vacancy. Users flight to quality has led to a slow continuous absorption of the high quality existing space leaving current users in the market with limited choices. Driven by this absorption and lack of space in their Eastport portfolio, Liberty Property Trust is in the preconstruction phase of the first speculative multi-tenant highbay building Richmond has seen in years. In a sense this is a special case, as Liberty has an established presence in Richmond and is looking to complete the development of their Eastport Business Center.

With Richmond both strategically situated at the junction of I-95 and I-64, and home to major UPS, FedEx and USPS hubs, it is likely that Richmond will continue to grow as a leading location for Mid-Atlantic distribution centers.

# SUBMARKET STATISTICS

## INDUSTRIAL & FLEX

**Table 1: Market Statistics**

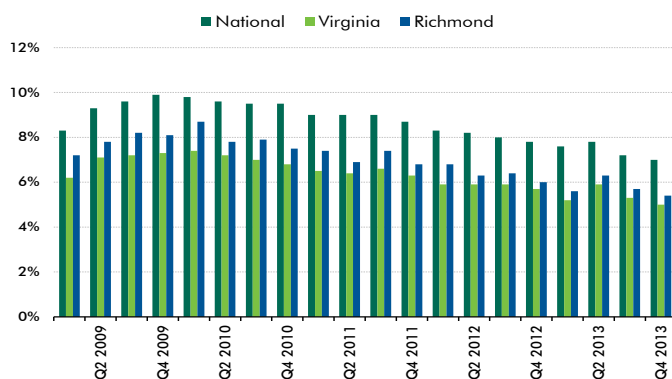
Submarket	Inventory (SF)	Vacancy Rate	Quarterly Absorption	YTD Absorption	Availability Rate	Asking Rental Rate (NNN)	Under Construction
<b>Richmond Flex Market</b>							
Northwest Quadrant	4,454,816	12.5%	(861)	56,831	13.5%	\$7.31	-
Southwest Quadrant	2,291,857	14.9%	(19,625)	(49,644)	14.9%	\$7.47	-
Northeast Quadrant	1,529,241	7.7%	(6,580)	12,256	7.9%	\$8.92	-
Southeast Quadrant	668,498	13.2%	9,970	(14,092)	13.2%	\$6.16	-
<b>Flex Market Totals</b>	<b>8,944,412</b>	<b>12.3%</b>	<b>(17,096)</b>	<b>5,351</b>	<b>12.9%</b>	<b>\$7.43</b>	<b>-</b>
<b>Richmond Industrial Market</b>							
Northwest Quadrant	15,334,663	8.4%	17,714	307,960	8.5%	\$4.04	-
Southwest Quadrant	33,675,952	10.5%	(18,214)	421,547	10.7%	\$2.69	-
Northeast Quadrant	24,564,543	4.3%	649,641	802,876	4.3%	\$4.22	1,000,000
Southeast Quadrant	4,655,680	2.7%	3,962	169,884	5.1%	\$4.54	407,000
<b>Industrial Market Totals</b>	<b>78,230,838</b>	<b>7.7%</b>	<b>653,103</b>	<b>1,702,267</b>	<b>7.9%</b>	<b>\$3.28</b>	<b>1,407,000</b>
<b>Market Totals</b>	<b>87,175,250</b>	<b>8.2%</b>	<b>636,007</b>	<b>1,707,618</b>	<b>8.4%</b>	<b>\$3.95</b>	<b>1,407,000</b>
<b>Richmond Highbay Index</b>							
Northwest Quadrant	1,334,543	29.1%	-	(72,937)	29.1%	\$4.62	-
Southwest Quadrant	5,679,580	12.6%	-	35,000	12.6%	\$3.72	-
Northeast Quadrant	1,784,288	20.1%	288,287	450,266	20.1%	\$2.82	-
Southeast Quadrant	4,090,101	3.0%	3,962	160,884	5.9%	\$4.54	-
<b>Highbay Index Totals</b>	<b>12,888,512</b>	<b>12.3%</b>	<b>292,249</b>	<b>573,213</b>	<b>13.2%</b>	<b>\$3.63</b>	<b>-</b>

Source: CBRE Research, Q4 2013.

Note: CBRE | Richmond created and tracks the "Richmond Highbay Index" (RHBI). This select group of industrial buildings is a collection of the warehouse and distribution buildings that provide the highest functionality for the modern industrial user. Most are Class A or B properties in those desirable geographic areas that warrant attention from prospects looking for industrial space. This smaller cross section of data provides another tool to examine the market and better represents the true "state of the market" versus the 88 million square feet as commonly accepted as the overall industrial/flex market.

Note: Buildings are added to the RHBI as they are delivered or vacated. This will often times skew the vacancy numbers from one quarter to another as speculative (often vacant or partially vacant) buildings are added. One should always be attentive to the total square feet tracked when comparing RHBI statistics from one report to the next.

**Chart 2: Richmond Employment**



Source: Bureau of Labor Statistics, Q4 2013.

### EMPLOYMENT

The national unemployment rate remains well above the state and local rates, and continued to improve in the fourth quarter. The Richmond MSA increased employment by 300 jobs to 630,264.

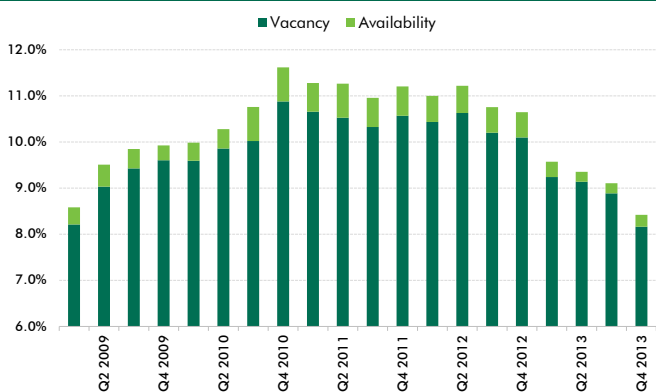
At the end of the third quarter, the Richmond MSA unemployment rate was at 5.4%, Virginia's unemployment rate was 5.0% and the national unemployment rate was 1.6 percentage points higher than the local rate at 7.0%.

**Chart 3: Richmond Net Absorption**



Source: CBRE Research, Q4 2013.

**Chart 4: Overall Vacancy & Availability Rate**



Source: CBRE Research, Q4 2013.

**Chart 5: Average Asking Rental Rate**



Source: CBRE Research, Q4 2013.

**Chart 6: Highbay Index Vacancy and Asking Rate**



Source: CBRE Research, Q4 2013.

**NET ABSORPTION**

Despite low leasing velocity, Richmond’s industrial market experienced significant positive net absorption at the end of 2013. Two large transactions in the northeast quadrant, the sale of the former 317,000 sq. ft. Mazda Distribution Center to Dominion Packaging and a short term lease of the former IRS Building to a film group, accounted for two thirds of Richmond’s positive absorption. While Richmond continues to gradually absorb much of the vacant space left in the wake of the recession speculative construction.

Despite the strong start, the Flex market had a weak second half of 2013 as it realized negative 17,700 sq. ft. of net absorption in the fourth quarter. The Flex market ended the year with just over 5,000 sq. ft. of positive net absorption.

**INDUSTRIAL VACANCY RATE**

While scarce new construction has proved to be the cure for Richmond’s high vacancy rate, Liberty Property Trust is finishing the planning process for their last building in Eastport. As the ‘Flight to Quality’ trend continues and tenants take advantage of aggressive rental rates in Class A buildings, lower quality space which has historically struggled to lease will eventually be absorbed as the amount of Class A space dwindles.

Overall vacancy rates saw a 2 percentage point drop 8.2% at the end of 2013 compared to 10.2% at the end of 2012. Richmond’s Highbay market continues to outperform the flex market as it saw an 80 basis point drop in vacancy from the third quarter ending the year at 7.7%. The flex market ended 2013 with a vacancy rate of 12.3%

**INDUSTRIAL AVAILABILITY RATE**

The delta between the availability rate and vacancy rate remained unchanged for the second quarter as it stands at 20 basis points. The availability rate declined to 8.4% is closely correlated to the fall in vacancy as there was little change in overall subleased space during the fourth quarter.

**AVERAGE ASKING RENTAL RATE**

Despite the rise in asking rates, rates have yet to reach the threshold to induce speculative building from outside developers. Liberty Property Trust is a special case on account of the fact that they already had a pad site ready and had low vacancy at Eastport portfolio. Ending the year at \$3.98 per sq. ft., overall industrial asking rates climbed \$0.03 per sq. ft. from the third quarter, to just shy of where they began 2013. The Flex market saw a \$0.20 per sq. ft. fall in asking rates as a result of significant declines in both the northwest and southwest quadrants. While Richmond’s Highbay asking rates remained flat at \$3.32 per sq. ft. for a second quarter. They are \$0.16 per sq. ft. higher than they were at the end of 2012.

**RICHMOND HIGHBAY INDEX**

The Richmond Highbay Index continued to improve in the fourth quarter as a significant decline in vacancies led to a \$0.20 per sq. ft. increase in the asking rate to \$3.63 per sq. ft. and a vacancy rate of 12.3% compared to 15% at the end of the third quarter.





## CONTACTS

For more information about this (Global/Regional/Local) MarketView, please contact:

### US RESEARCH

#### Joe Marchetti, Jr.

Managing Director  
 CBRE | Richmond  
 6641 W Broad Street  
 Suite 101  
 Richmond, VA 23230  
 t: +1 804 320 5500  
 e: joe.marchetti@cbre.com

#### Andrew Cook

Analyst  
 CBRE | Richmond  
 6641 W Broad Street  
 Suite 101  
 Richmond, VA 23230  
 t: +1 804 320 5500  
 e: andrew.cook3@cbre.com

### +FOLLOW US

GOOGLE+

FACEBOOK

TWITTER

### GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE U.S. Research Team which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

### DISCLAIMER

Information contained herein, including projections, has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to confirm independently its accuracy and completeness. This information is presented exclusively for use by CBRE clients and professionals and all rights to the material are reserved and cannot be reproduced without prior written permission of the CBRE Global Chief Economist.