Richrmond Office MarketView

Q4 2013

CBRE Global Research and Consulting

VACANCY	RENTAL RATE	NET ABSORPTION	UNDER CONSTRUCTION	EMPLOYMENT
13.7%	$18.89 FS	37,695 SF	433,500 SF	630,624

MEDIOCRE PERFORMANCE IN THE NORTHWEST QUADRANT OVERSHADOWS STRONG LEASING ACIVITY IN INNSBROOK

REITs expected to drive rental rate growth in 2014.
With over five years of no real rental rate growth in Richmond, REITs and other large owners in the northwest quadrant are looking to capitalize on an improving economy and tightening market to make rental rate growth a top priority in 2014.

Strong performance in the Innsbrook Submarket.
Innsbrook continues to recover from the recession seeing significant leasing activity at the end of the year, the vacancy rate fell to the lowest point in five years.

Market asking rates continued to climb.
Driven by the tightening markets across the quadrants, Richmond's average market asking rate rose $0.16 per sq. ft. to $18.89 per sq. ft., their highest levels since the beginning of 2009.

No New Development Q4.
No new development broke ground in the fourth quarter but both Gateway Plaza and Biotech, which broke ground mid-third quarter, are now well underway.

Area employment remains strong.
Richmond's employment level continues to outperform the National average as the local MSA unemployment rate fell to 5.4%, and the total employment number rose to 630,624 workers in the fourth quarter.

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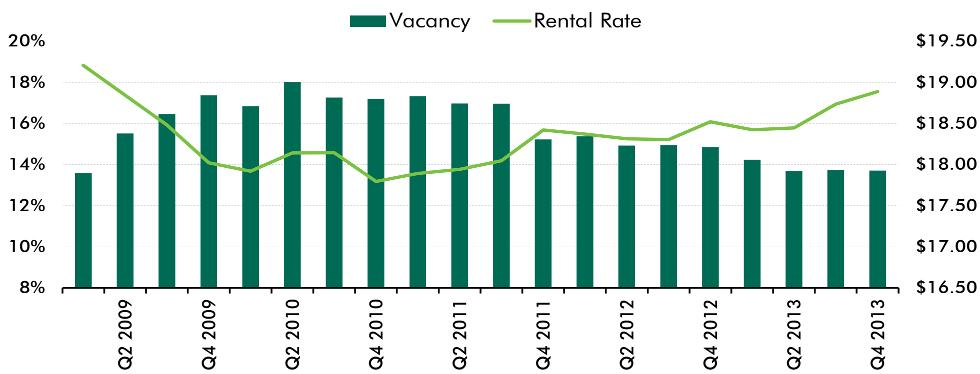
Chart 1: Richmond Vacancy & Rental Rate Trends



Source: CBRE Research, Q4 2013.

As 2013 came to a close, Richmond's office market saw a healthy uptick in activity. Despite this increased activity, the vacancy rate remained at 13.7%, still a significant improvement from the prior year which ended at 14.8%. After a strong first half of 2013 Richmond realized a total positive net absorption of 313,330 sq. ft. for the year, and saw asking rates rise to their highest levels since 2009. Underlying this rise in asking rates is a push by major REITs and large owners to drive rates up in 2014.

Richmond's northwest quadrant saw mixed results in Q4 2013, with only the Innsbrook submarket realizing positive absorption. Innsbrook's vacancy rate fell to 13.8%, over a 7 percentage point improvement from Q4 2012. On the other hand, the Parham Road submarket was hurt by a large vacancy that opened up in the Brookstone building when Allianz Global vacated, pushing the submarket vacancy rate up to 25.8%. Glenside and Broad's Class A market remains very tight, with a vacancy rate of 4.7%. Average asking rates in the northwest quadrant remained flat, hovering at $17.46 per sq. ft.

The southwest quadrant saw improvements across all submarkets as it realized an overall net absorption of 36,850 sq. ft. Largely due to strong leasing activity in the Moorefield/Kroger Submarket, the vacancy rate in the southwest quadrant improved to 13.0%. A significant factor in the southwest quadrant's rise in asking rates to $17.40 per sq. ft., a net $0.20 per sq. ft. increase, was the $1.90 per sq. ft. rise in asking rates in the Stony Point Submarket.

The Central Business District continues to benefit from the re-urbanization of downtown Richmond and Dominion Power's expansion into the Eighth and Main building. On the supply side, the repurposing of the 700 Center, Exchange Place and First National Bank buildings into apartments takes three former office buildings off the market. These conversions accounted for the majority of downtown's Q4 absorption of 38,050 sq. ft.. On the demand side much of the recent tenant activity is coming from Eighth and Main and the buildings being repurposed.

The Innsbrook and Glenside/I-64 areas are expected to continue tightening in Q1 2014 as many of the tenants who signed end of the year leases will occupy early this year. Consequently tighter northwest quadrant and downtown markets will compound the upward pressure real estate investors are putting on asking rates.

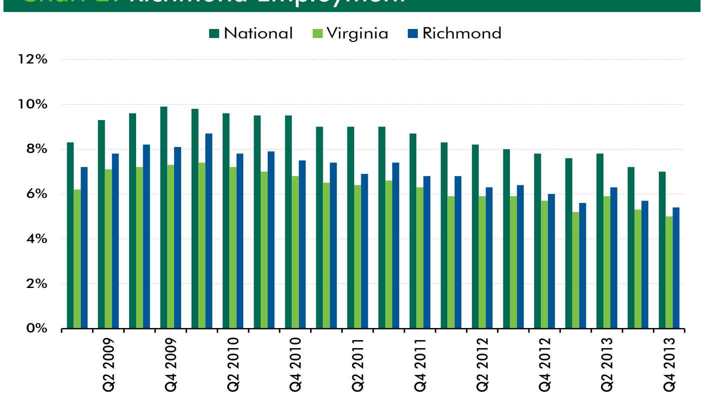
SUBMARKET STATISTICS
ALL CLASSES

Table 1: Market Statistics

Submarket	Inventory (SF)	Vacancy Rate	Quarterly Absorption	YTD Absorption	Availability Rate	Asking Rental Rate (FS)	Under Construction
Northwest Quadrant							
Ashland/ I-95	248,730	21.8%	(9,837)	(10,868)	21.8%	$13.11	-
Glenside/ I-64	3,497,527	9.8%	(15,902)	(88,396)	13.4%	$18.23	-
Innsbrook	5,518,956	13.8%	79,085	417,018	20.3%	$18.54	-
Parham Road Area	1,392,986	25.8%	(87,438)	(110,772)	23.7%	$14.38	-
Staples Mill	1,552,165	15.3%	(3,114)	6,372	17.3%	$15.73	-
Northwest Quadrant Total	12,210,364	14.4%	(37,206)	213,354	18.3%	$17.46	-
Class A	4,805,200	8.0%	(53,597)	(85,337)	11.0%	$19.02	-
Class B	7,405,164	18.5%	16,391	298,691	23.1%	$16.59	-
Southwest Quadrant							
Arboretum	548,112	16.2%	5,585	13,618	31.7%	$18.81	-
Boulders	979,402	16.0%	5,020	(5,926)	16.3%	$17.67	-
Moorefield/Koger	1,205,393	13.7%	29,940	28,618	18.3%	$16.15	-
Route 288 Corridor	739,567	12.8%	(1,010)	20,916	21.9%	$17.38	-
Stony Point	781,120	6.2%	(2,684)	(13,709)	15.3%	$17.74	-
Southwest Quadrant Total	4,253,594	13.0%	36,851	43,517	19.6%	$17.40	-
Class A	2,150,869	13.6%	24,973	6,063	22.5%	$18.93	-
Class B	2,102,725	12.5%	11,878	37,454	16.7%	$16.13	-
Downtown							
CBD Total	8,928,990	13.1%	38,050	56,459	18.1%	$21.03	433,500
Class A	3,686,848	11.8%	2,439	(150,404)	22.1%	$24.81	433,500
Class B	5,242,142	14.1%	35,611	206,863	15.2%	$17.42	-
Richmond Office Market	***25,392,948***	***13.7%***	***37,695***	***313,330***	***18.5%***	***$18.89***	***433,500***
Class A	10,642,917	10.4%	(26,185)	(229,678)	17.2%	$21.66	433,500
Class B	14,750,031	16.1%	63,880	543,008	19.4%	$16.81	-

Source: CBRE Research, Q4 2013.

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%.

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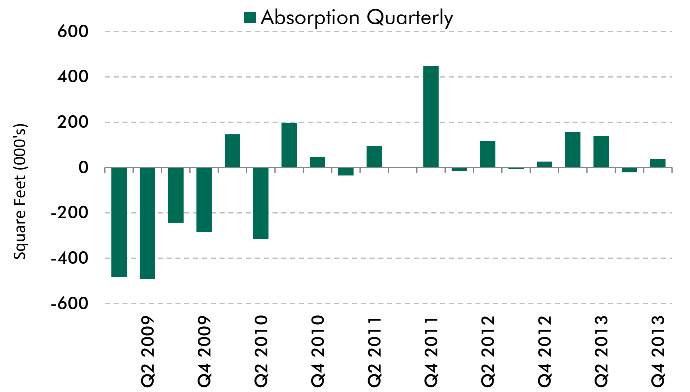
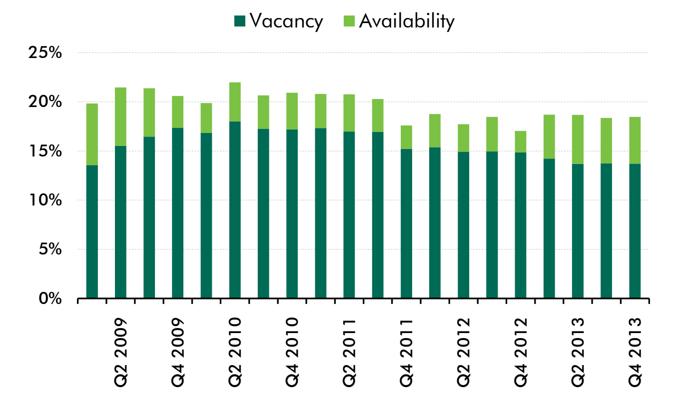
Chart 3: Richmond Net Absorption



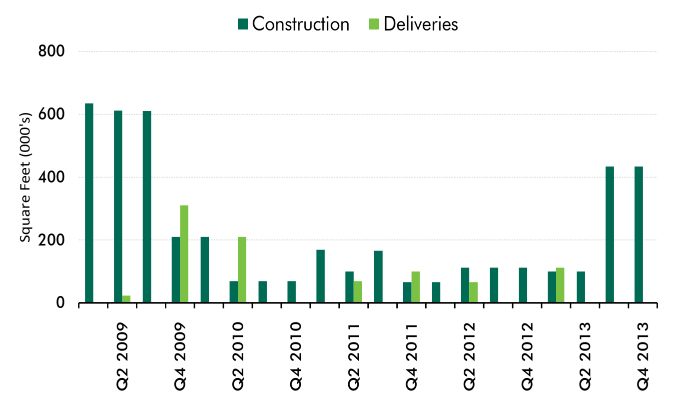
Source: CBRE Research, Q4 2013.

Chart 4: Office Vacancy & Availability Rate



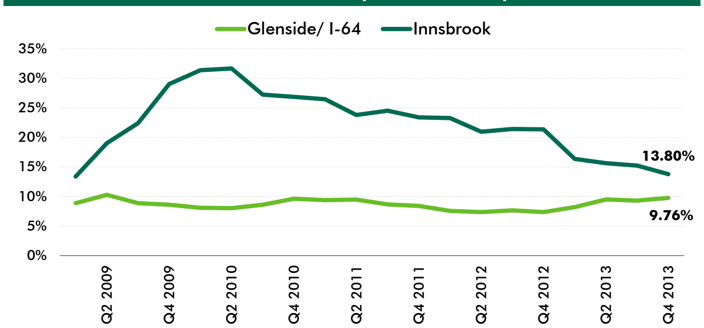
Source: CBRE Research, Q4 2013.

Chart 5: Development Pipeline (000's)



Source: CBRE Research, Q4 2013.

Chart 6: Submarket Vacancy Rate Comparison



Source: CBRE Research, Q4 2013.

OFFICE NET ABSORPTION

Overall, the Richmond office market strengthened in the fourth quarter with positive net absorption of 37,695 sq. ft.. Significant leasing activity in Innsbrook and the Southwest quadrant was offset by the weak performance of the remaining northwest quadrant submarkets. Underlying downtown's strong quarter was the repurposing of three old office buildings into apartments, taking surplus space off the market. Both downtown and the southwest quadrant realized positive net absorption of positive, 38,050 sq. ft. and 36,850 sq. ft. respectively, while the northwest quadrant experienced 37,200 sq. ft. of negative net absorption for the quarter.

As a result of the strong first half of 2013, which saw 296,000 sq. ft. of absorption, Richmond realized a total of 313,330 sq. ft. of absorption for the year.

OFFICE VACANCY RATE

The small positive net absorption in the fourth quarter was not sufficient to push the market's vacancy rate down; it remains at 13.7%. However Innsbrook experienced a 2.4 percentage point drop in its vacancy rate from the third quarter, to 13.8%.

Aided by limited new construction, office market supply has remained fairly constant. With limited new supply, the markets consistent gradual positive absorption is pushing the vacancy rates back down.

OFFICE AVAILABILITY RATE

Caused by an increase in sublease and future available space Richmond's overall availability rate rose 50 basis points in the fourth quarter to 18.9% despite the southwest quadrant's 140 basis point decline in its availability rate to 19.6%.

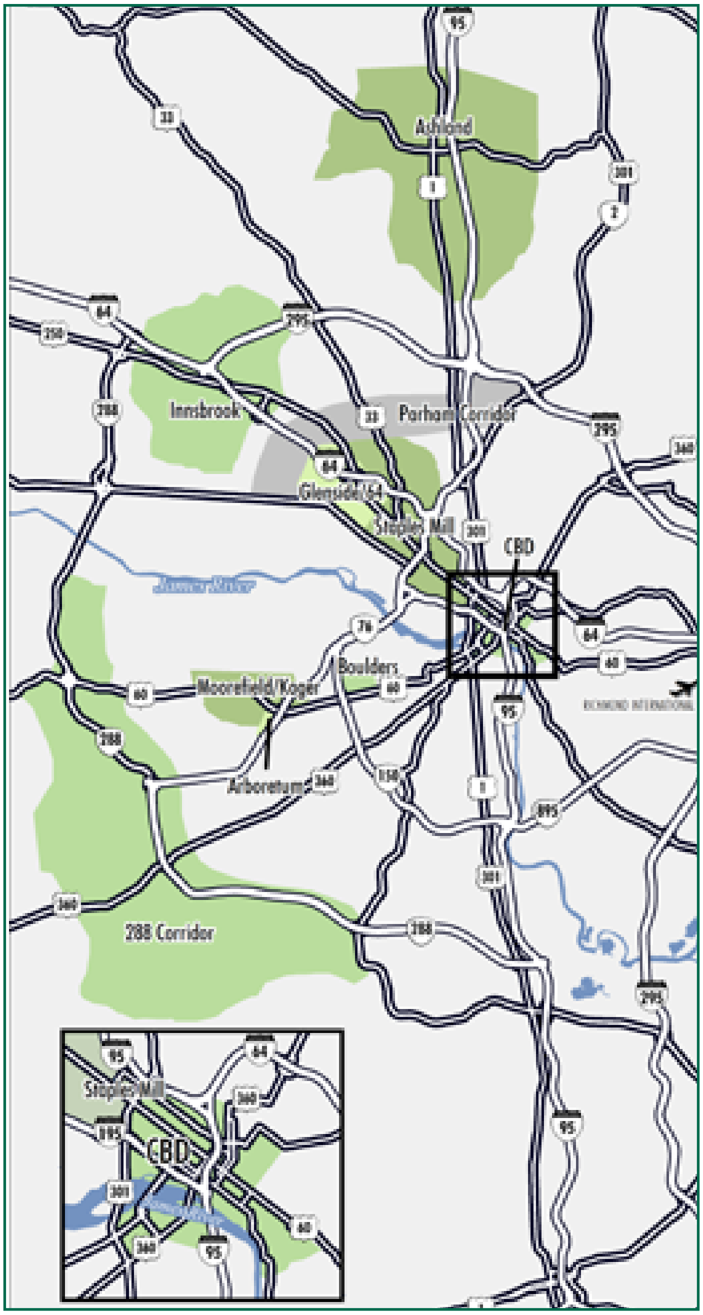
OFFICE DEVELOPMENT PIPELINE

Richmond's office development pipeline which began to pick up in Q3 2013 with the 321,500 sq. ft. Gateway Plaza had no new construction in the fourth quarter. McGuire Woods has already announced that it will vacate its space in the James Center in 2015 to take 200,000 sq. ft. of space in Gateway Plaza. Health Diagnostic Lab (HDL) is still in the process of building a 112,000 sq. ft. office building in Biotech Park. Two new Medical office buildings have been announced and will break ground sometime within 2014.

The total pipeline for new development remains at 433,500 square feet.

INNSBROOK SUBMARKET VACANCY COMPARISON

After another strong quarter of leasing, Innsbrook continued to gain ground on the Glenside/I-64 submarket, narrowing the vacancy gap to 4 percentage points. Innsbrook saw a significant improvement in its Class B market as the rising Class A rates are pushing tenants to Class B product which had been harder to lease in the 'Flight to Quality' trend since the recession. Innsbrook is expected to continue to tighten in early 2014 and is on its way to a full recovery from the 2008 recession that pushed vacancy rates over 30% in 2009.



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