
3Q24

Richmond Office Market Overview



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Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended August at 3.6%, significantly lower than the national average of 4.2%.
- Richmond maintains a diversified economy, with its top four industries each containing between 15-18% of all employees leading to an overall total of 66% of the regional workforce. Trade/Transportation/Utilities leads the way in the region, encompassing 18% of the regional workforce. It is followed closely by Business and Professional Services, Government, and Education/Health, containing 17%, 16%, and 15% of the regional workforce, respectively.
- Four out of five office-related industries saw 12-month employment growth, including the Education & Health, Government, Business & Professional, and Information sectors. The Financial Activities sector was the only industry to experience employment losses.

Sales Activity

- The largest transaction of the quarter was the sale of the Cox Road Portfolio, which consisted of three office buildings located at 5600-5640 Cox Road in the Innsbrook submarket. Franklin Street Properties sold the 312,422-square-foot portfolio to Onward Investors for \$31 M, or \$99.22 PSF. The properties were 85% leased at the time of sale.
- The second largest transaction of the quarter was the sale of Concourse Commons, a 17,320-square-foot office building located at 11520 Nuckols Road within the Innsbrook submarket. The Class B office building was sold by Woodfin Heating Inc to Kalyan Hospitality for \$2.6 M, or \$150.12 PSF. Kalyan Hospitality purchased the property as an owner-user.

Leasing Market Fundamentals

- The Richmond office market experienced 187,000 square feet of positive net absorption during Q3 2024 and ended the quarter at a 15.1% vacancy rate. Although this is a contraction of 20 bps quarter-over-quarter, it is an expansion of 90 bps year-over-year. This positive net absorption was spread throughout the market, with the Downtown, Northwest, and Southwest submarkets all experiencing positive net absorption. Although market fundamentals have been softening since the beginning of the pandemic, the Richmond market continues to perform impressively relative to other major markets.
- There were two deliveries totaling 130,000 SF during the quarter. A 53,000-square-foot office building was delivered at 2230 West Broad Street within the Near West End submarket and a 77,000-square-foot medical office building was delivered at 15200 East West Road within the Route 288 Corridor.

Outlook

- With minimal supply-side pressure, the Richmond market will likely continue to perform better than national occupancy averages despite vacancies likely expanding in the short term as companies determine long-term office strategies.
- Fueled by a diverse economy, Richmond will likely continue to see stable leasing volumes, evidenced by the market’s leasing activity remaining stable during the recent economic downturn. This will be especially prevalent in the suburban markets, specifically the well-performing Northwest region.
- Although rents will likely stay relatively flat throughout the market, with a continued increase in concessions, the lack of supply-side pressure may allow positive rent performance relative to other major office markets.

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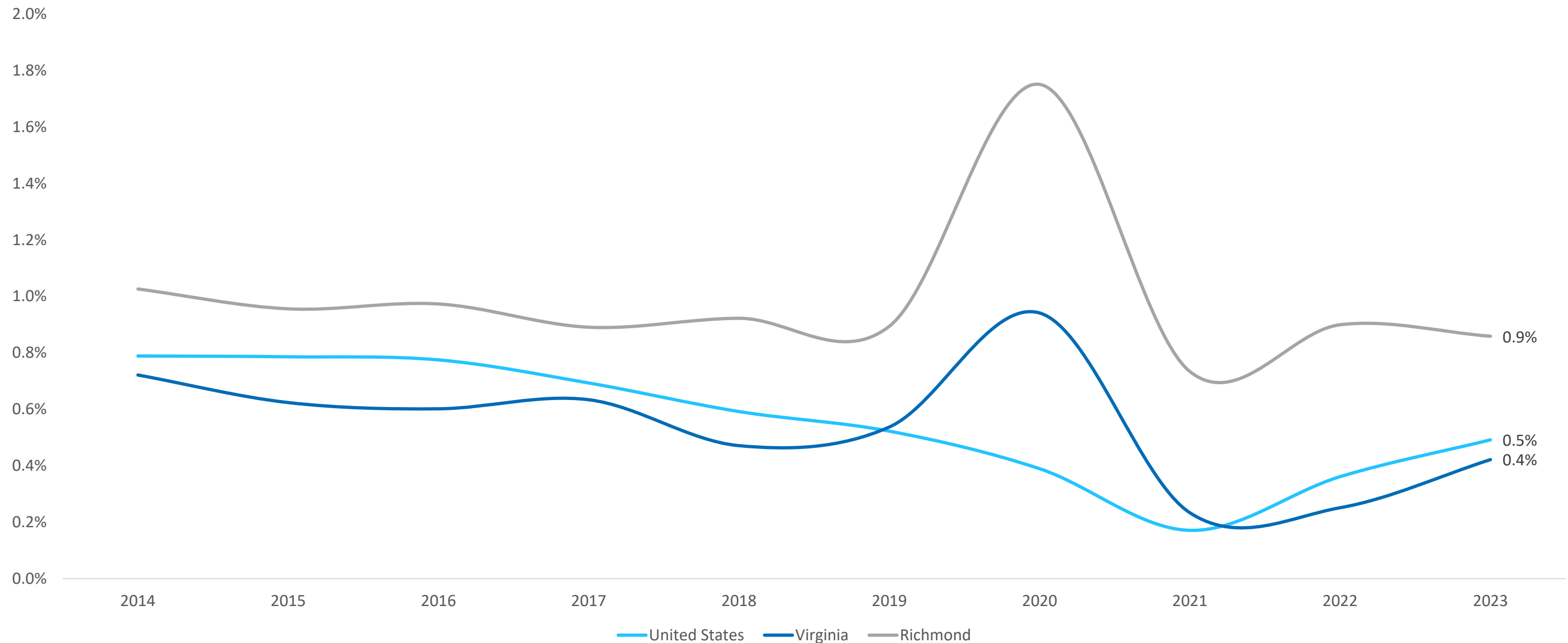
Economy



Richmond Continues Experiencing Elevated Population Growth

The Richmond Metro continues to experience elevated population growth, with the resident population growing 0.9% in 2023. Richmond's population has grown at double the rate of the United States and Virginia, which saw 0.5% and 0.4% of population growth in 2023, respectively. Furthermore, Richmond has been the fastest-growing large metro in Virginia over recent years.

Population Growth (Annual % Change): United States Vs. Virginia Vs. Richmond

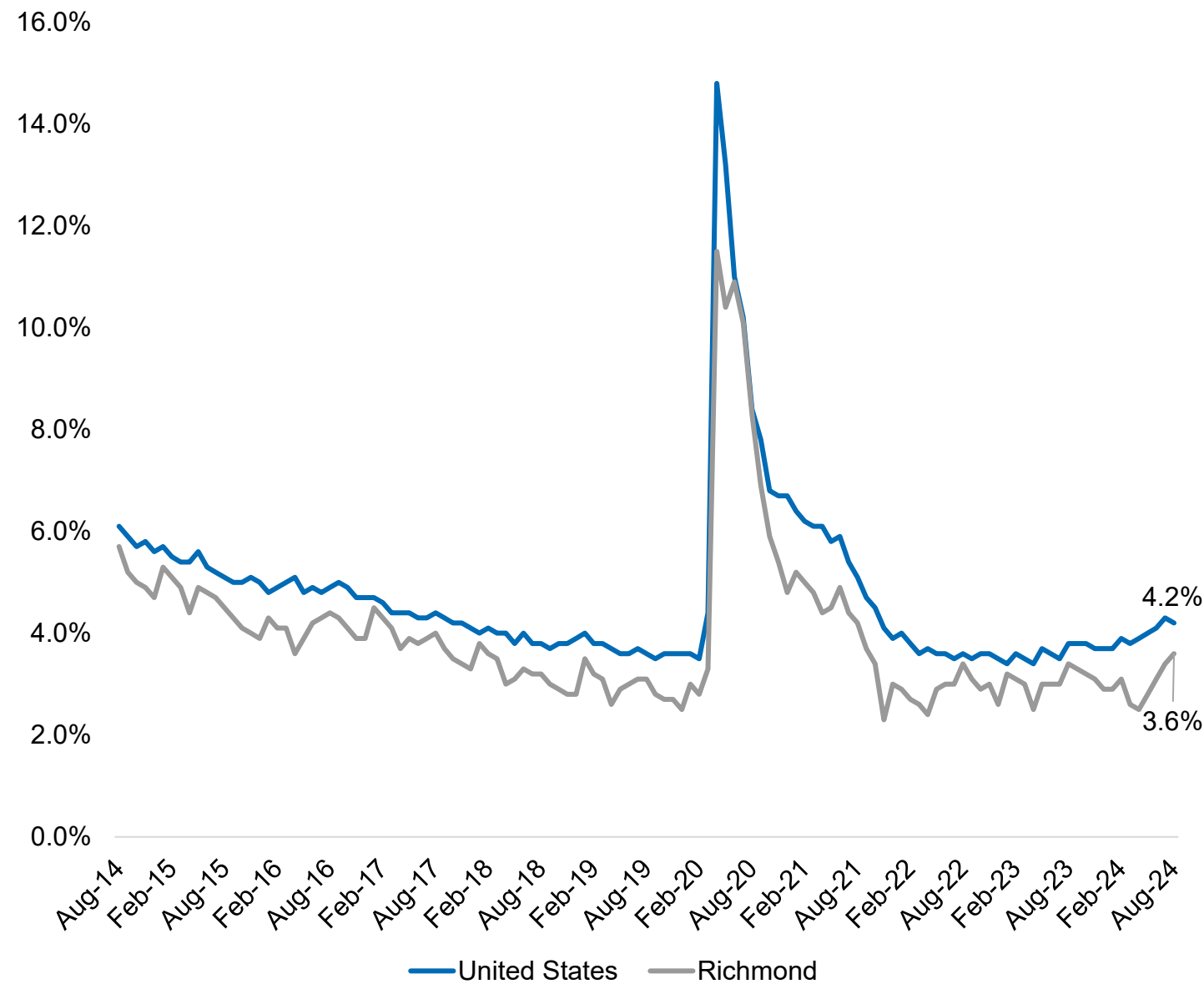


Source: U.S. Census Bureau

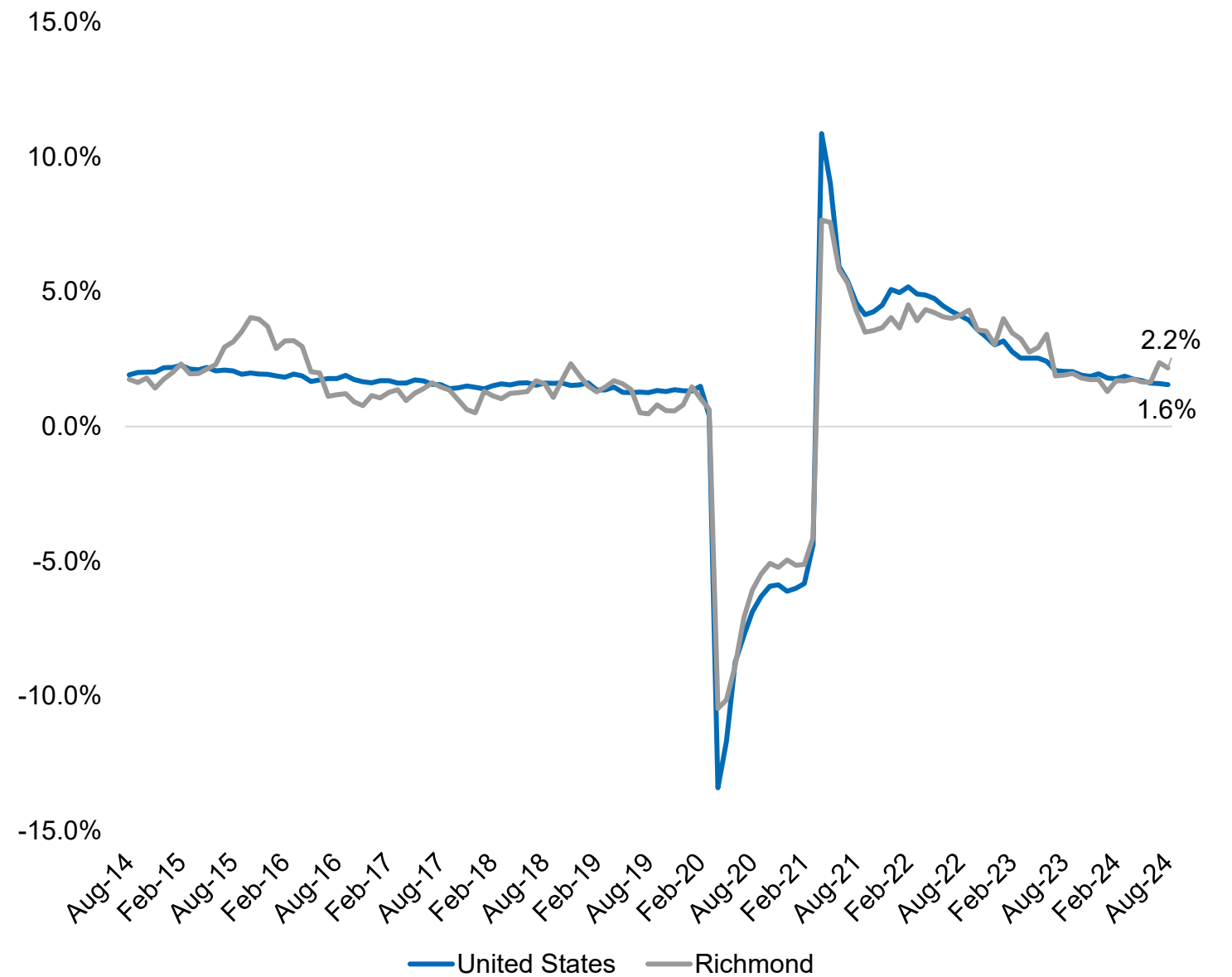
Richmond's Unemployment Rate Outperforms National Average

Richmond's unemployment rate continues to outperform the national average, measuring 3.6% in August 2024. This is 20 bps higher year-over-year, however, it is 60 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

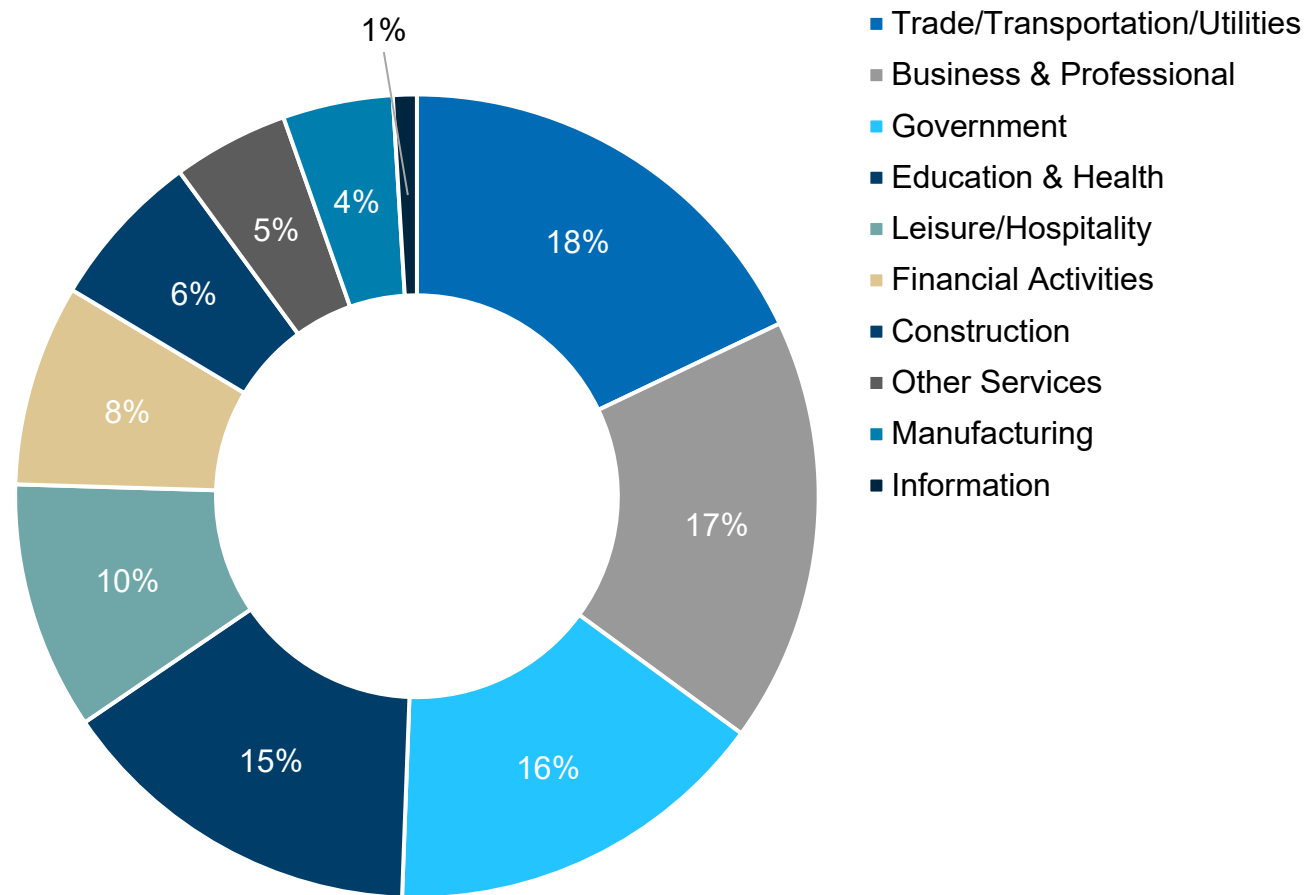


Source: U.S. Bureau of Labor Statistics, Richmond

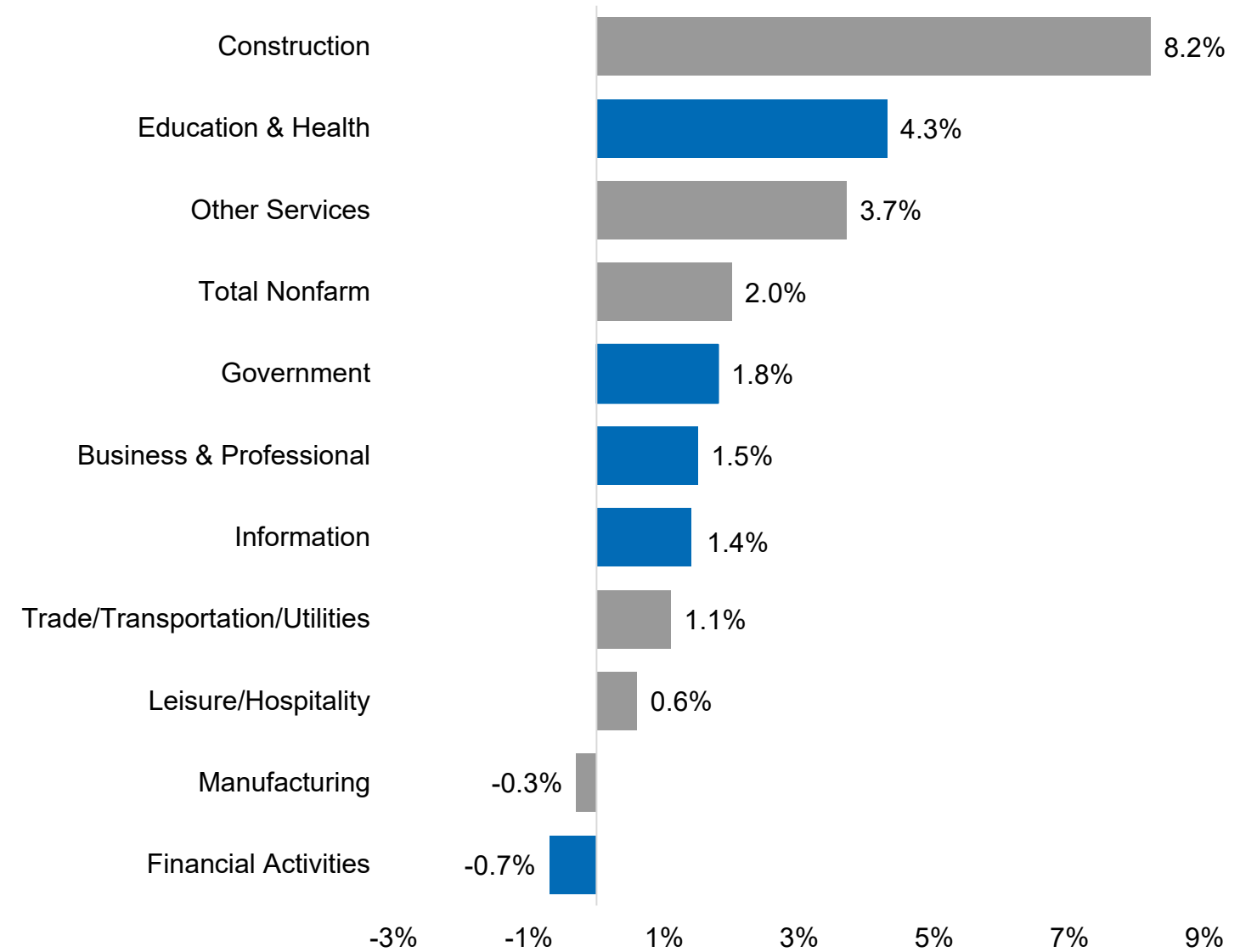
The Business & Professional Sector Sees Growth as a Leading Regional Industry

The Business & Professional sector is the second-largest industry in the region, making up 17% of the regional workforce. This sector saw impressive 12-month growth of 1.5%, followed closely by the Information sector at 1.4%. Conversely, the Financial Activities sector continues to see employment decline, with a 12-month decline of 0.7%.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

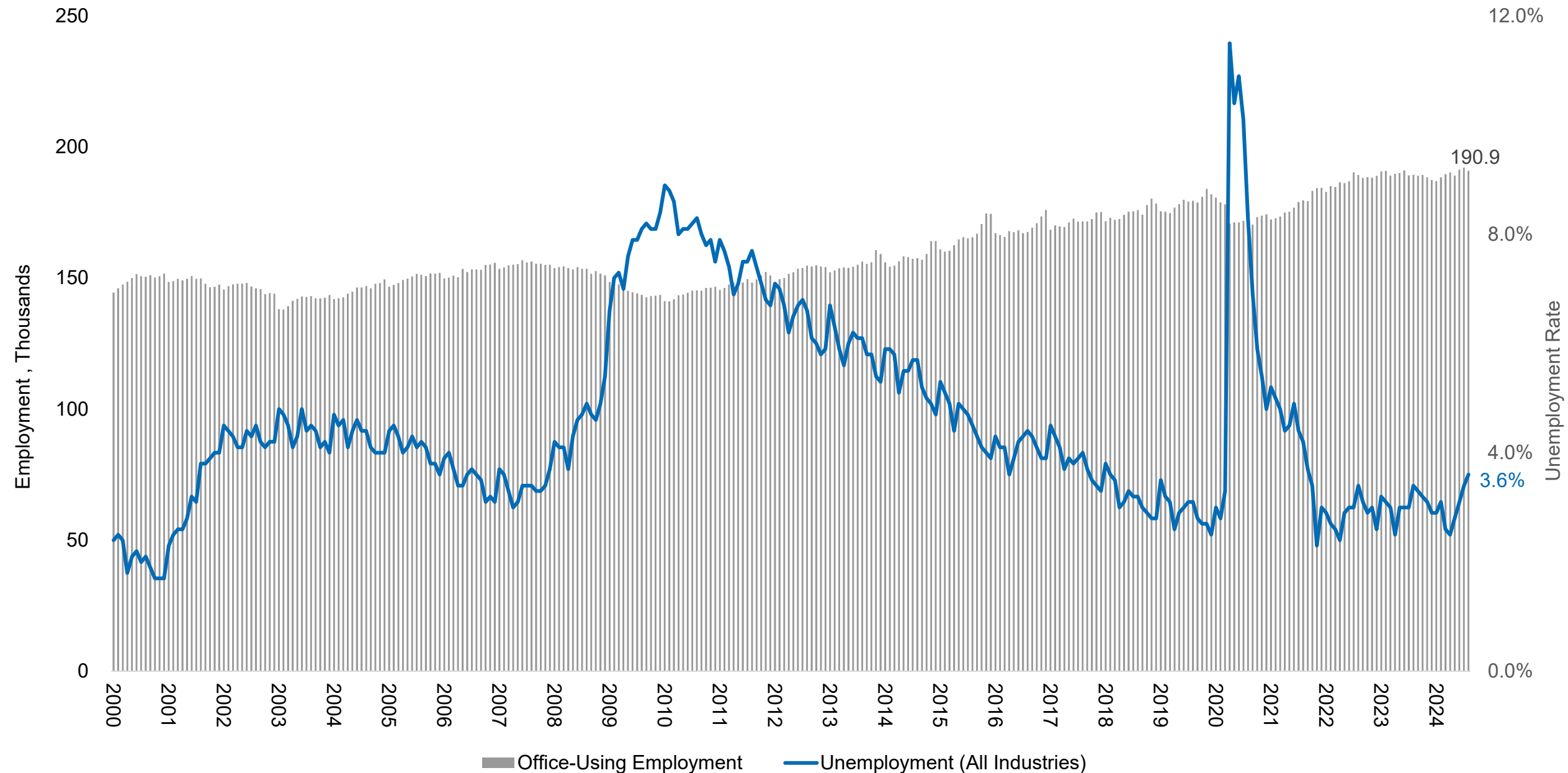


Source: U.S. Bureau of Labor Statistics, Richmond

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended August 2024 at 190,900 employees, 3.8% higher than the pre-pandemic high in November 2019 and an increase of 12.0% since the market reached a pandemic-related low in September of 2020.

Office-Using Employment* and Unemployment Across All Industries



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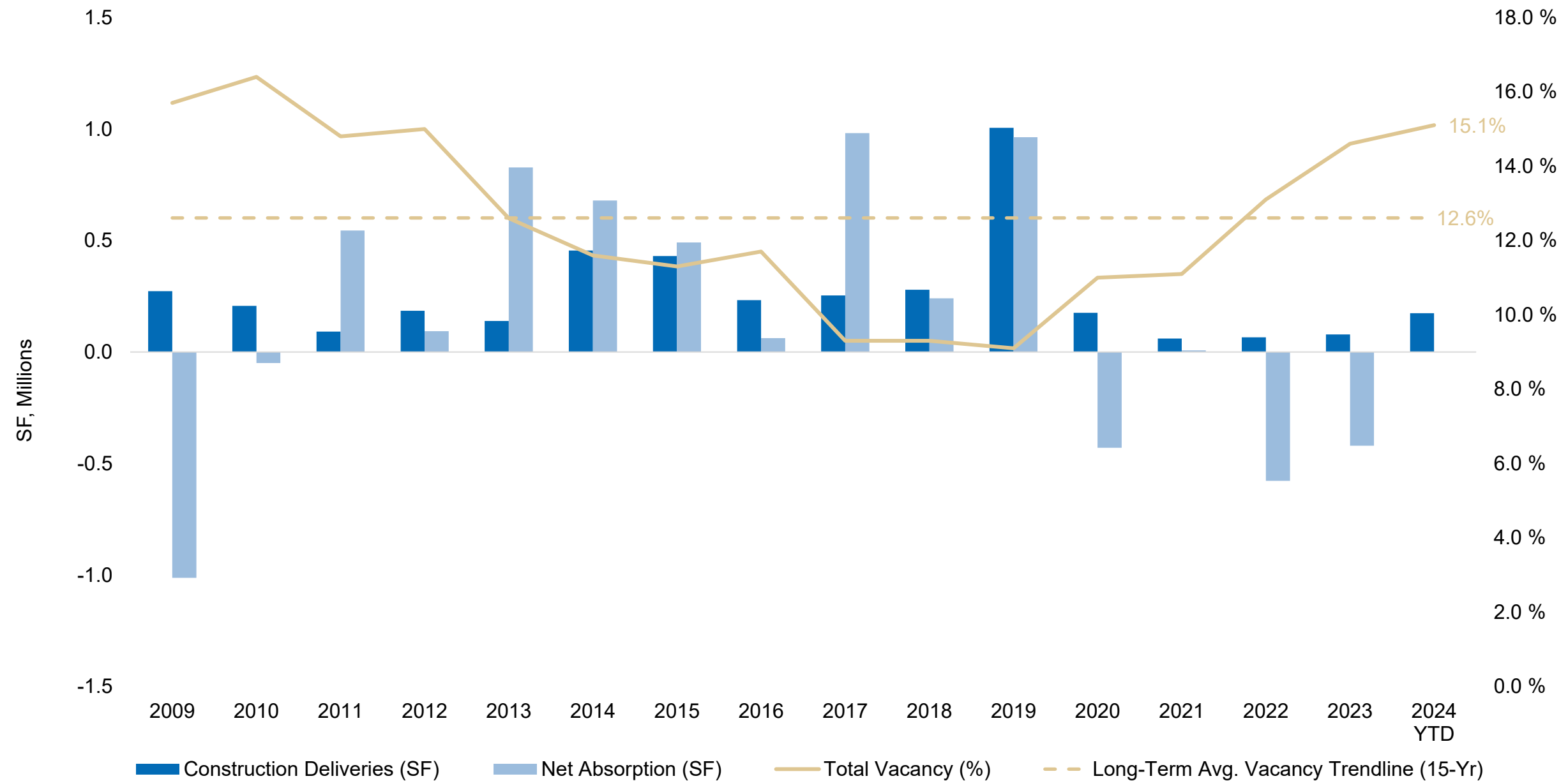
Leasing Market Fundamentals



Despite Softening Fundamentals, Richmond Remains a Relatively Healthy Office Market

The Richmond office market experienced 187,000 SF of positive net absorption during Q3 2024, ending the quarter at a 15.1% vacancy rate. Although this is a contraction of 20 bps quarter-over-quarter, it is an expansion of 90 bps year-over-year. There were two deliveries totaling 130,000 SF during the quarter. A 53,000-square-foot office building was delivered at 2230 West Broad Street within the Near West End submarket and a 77,000-square-foot medical office building was delivered at 15200 East West Road within the Route 288 Corridor. Although market fundamentals have been softening since the beginning of the pandemic, the Richmond market continues to perform impressively relative to other major markets.

Historical Construction Deliveries, Net Absorption, and Vacancy

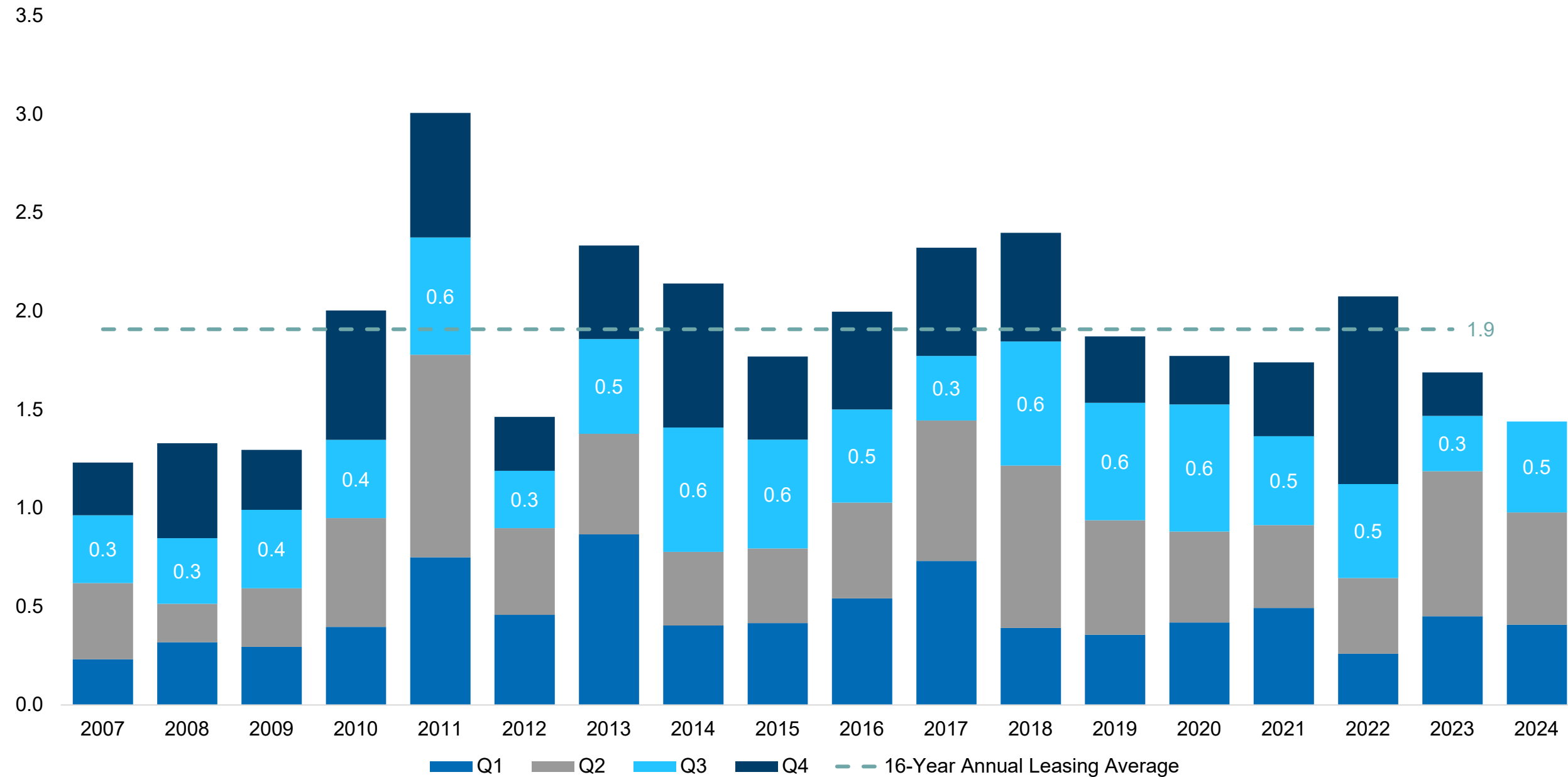


Source: Newmark Research, CoStar

Leasing Activity Remains Near the Historical Average

The Richmond market experienced 0.5 MSF of leasing activity during the quarter, in line with the market's third-quarter average of 0.5 MSF. The market's leasing activity has been impressively stable during recent years, seeing between 1.7 MSF and 2.1 MSF of leasing activity each year since 2019, highlighting the market's resilience during economic downturns.

Total Leasing Activity (tsf)

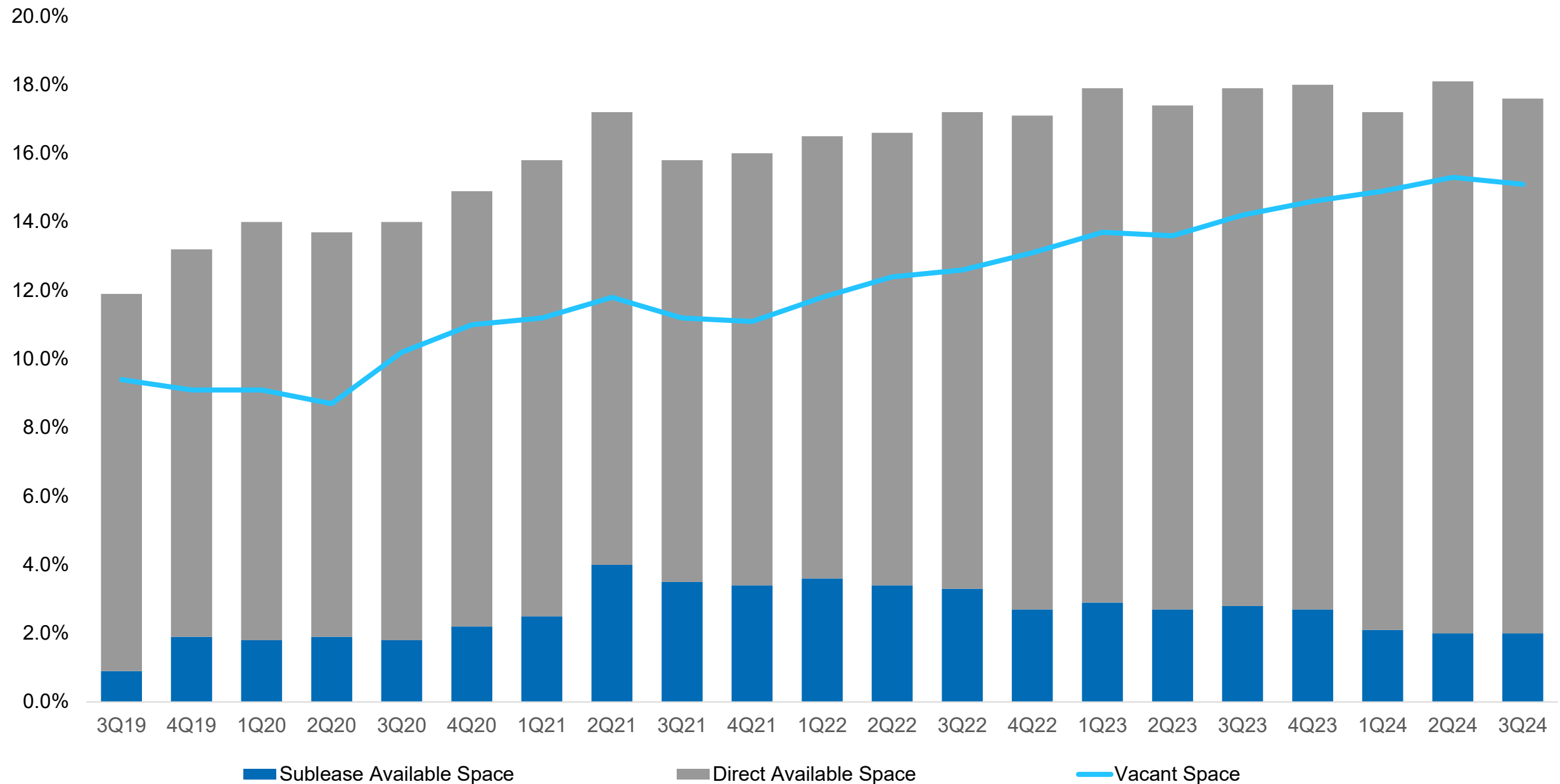


Source: Newmark Research, CoStar

Availability and Vacancy Tighten During the Third Quarter

During Q3 2024, availability tightened 50 bps and ended the quarter at 17.6%. This tightening was due to direct available space, which tightened 50 bps, ending the quarter at 15.6%. Sublease available space remained flat quarter-over-quarter, ending Q3 2024 at 4.0%. After sublease available space saw a peak of 4.4% in Q2 2021, the sublease available market has been consistently tightening. Vacancy also tightened in the Richmond market during Q3 2024, ending the quarter at 15.1%, a decrease of 20 bps quarter-over-quarter.

Available Space and Vacancy Rate



Source: Newmark Research, CoStar

Richmond Market Seeing Relatively Tight Vacancies in Class A and Class B Product

The Richmond market ended Q3 2024 with Class A product seeing 16.8% vacancies and Class B product seeing 15.9% vacancies. Class A product saw quarter-over-quarter tightening of 50 bps while Class B product saw tightening of 10 bps. Richmond is performing extremely well relative to other major office markets, many of which are seeing vacancies above 20%.

Richmond Office Total Vacancy: Class A Vs. Class B

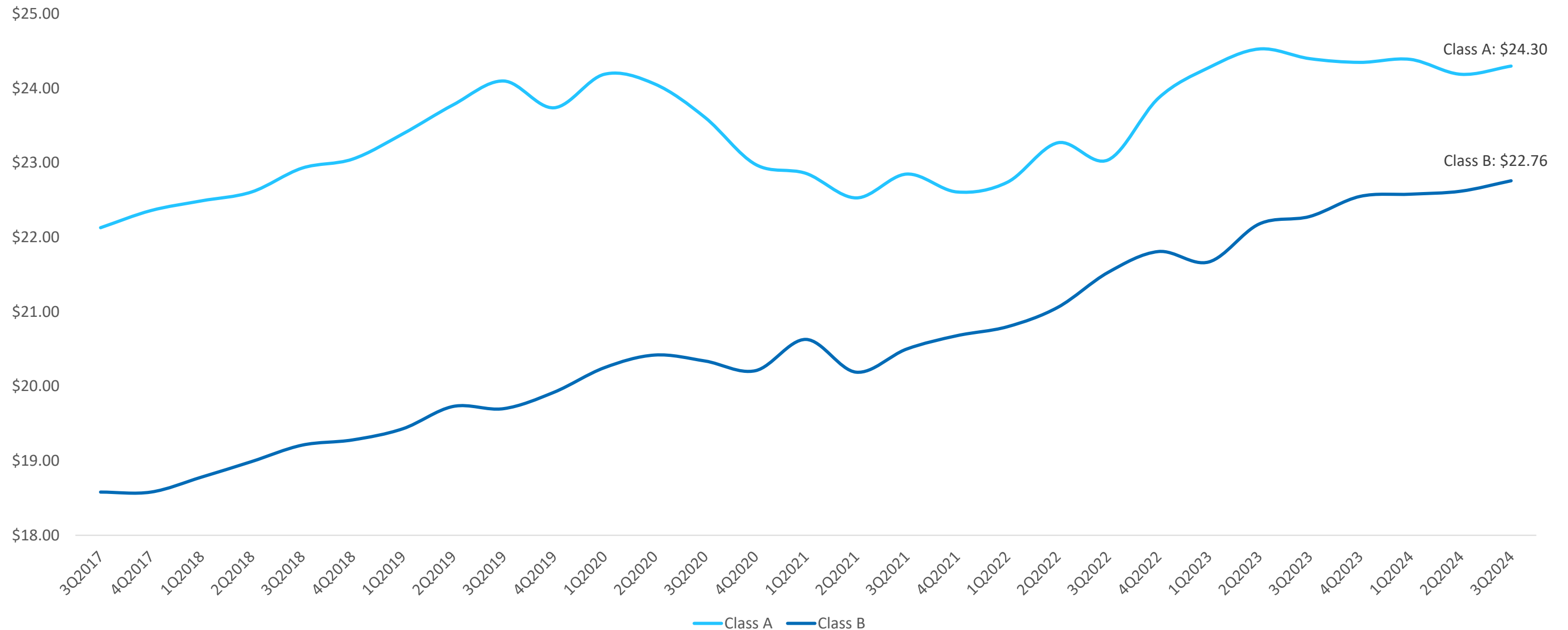


Source: Newmark Research, CoStar

Rents Have Stabilized in the Richmond Market

The Richmond market has seen rents stabilize over the past year. This stabilization is especially notable in Class A product, which was most affected by the pandemic, with rents dropping 5.5% from the beginning of 2020 to the beginning of 2021. Class A rents then flattened from 2021 through 2022, saw positive movement during 2023, and have flattened again so far in 2024. Class B product has performed more consistently over the past few years, with rents initially flattening during the beginning of the pandemic before seeing slight gains over the past few years.

Richmond Office Rents: Class A Vs. Class B

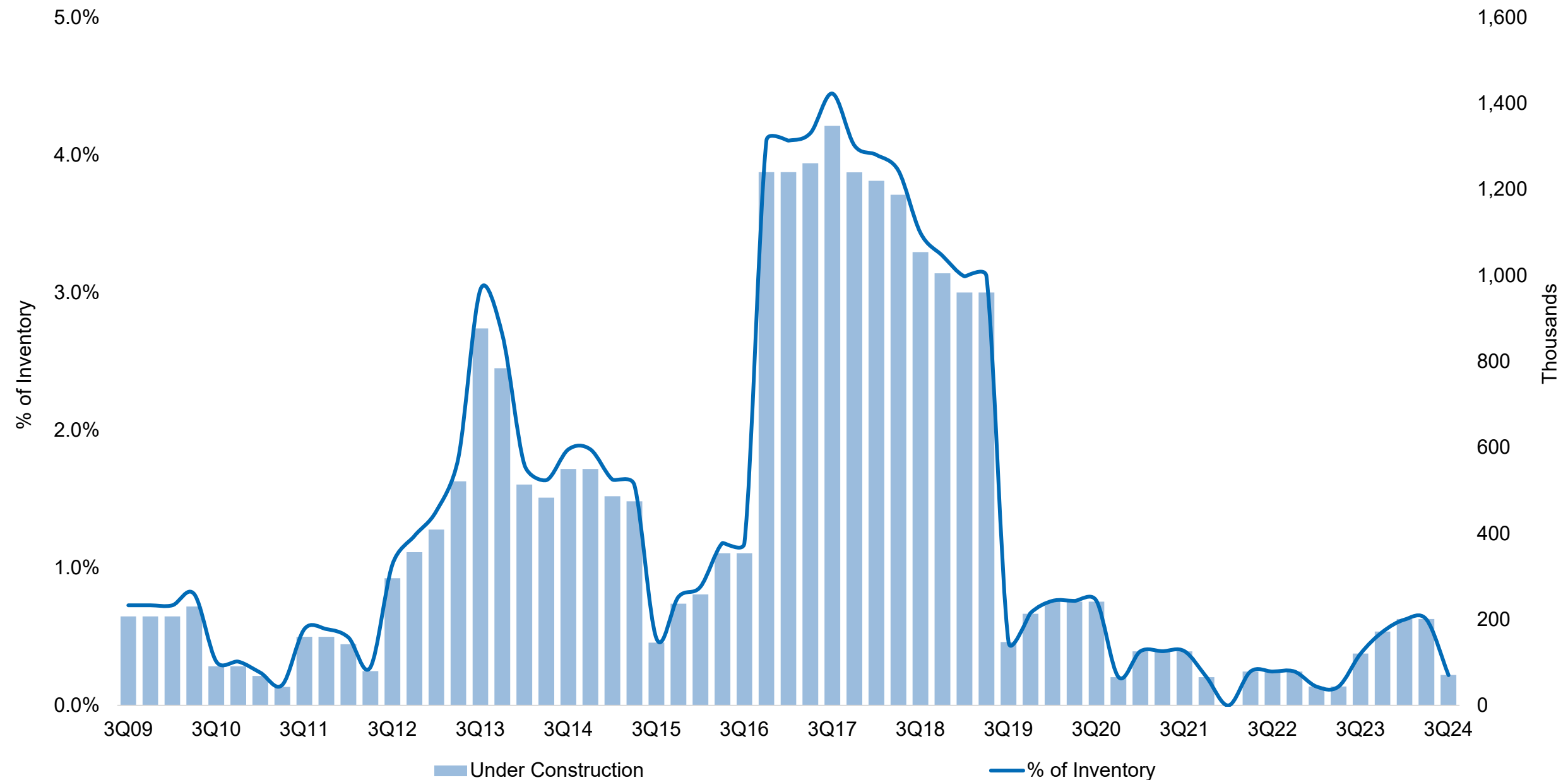


Source: Newmark Research, CoStar

Construction Remains Below Historic Average

There are two properties totaling 71,000 square feet currently under construction, much lower than the market's decade average of 460,000 square feet under construction. One development will be a medical office building owned by Bon Secours and will bring 51,000 square feet of multi-tenant space to the West End submarket with an expected delivery of Q2 2025. The second development will be a 20,000-square-foot medical office building located in the Far West End submarket, with an expected delivery of Q1 2025.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Leasing Activity Driven by New Leases and Innsbrook

New leases drove the leasing market in Q3 2024, evidenced by four of the top five transactions being new leases. Furthermore, the Innsbrook submarket, located in the Northwest region of Richmond, was the most active submarket, containing three of the top five notable lease transactions.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Virginia Housing	4840 Cox Road	Innsbrook	New Lease	29,169
Virginia Department of Workforce Development	2221 Edward Holland Drive	West End	New Lease	26,054
Hamilton Insurance Group	5101 Cox Road	Innsbrook	New Lease	19,684
Gather Workspaces LLC	4101 Cox Road	Innsbrook	New Lease	19,452
US Immigration and Customs Enforcement	9200 Arboretum Parkway	Midlothian Corridor	Lease Renewal	18,951

Source: Newmark Research, CoStar

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Market Statistics





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