

4Q23

Richmond Industrial Market Overview

NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended 2023 at 2.9%, significantly lower than the national average of 3.7%.
- Richmond maintains a diversified economy, with its top four industries each containing in between 14-19% of all employees leading to an overall total of 67% of the regional workforce. With the industrial market being a primary economic driver in the region, Trade/Transportation/Utilities is the leading industry in the region, encompassing 19% of the regional workforce.
- Trade/transportation/utilities employment has stabilized, surpassing pre-pandemic highs, and continues to grow as evidenced by a 12-month growth rate of 2.8%.

Major Transactions

- Sales volume totaled \$129 million across 32 transactions during Q4 2023, which is lower than the same period a year ago when the market saw \$198 million worth of sales volume across 43 transactions. Overall, however, 2023 was the most active year the Richmond market has ever experienced, with 133 transactions totaling \$800 million, double the decade average of 152 transactions totaling \$400 million.
- The largest deal of the quarter was a portfolio deal of two buildings totaling 321,000 SF at Deepwater Industrial Park, 2301 Commerce Road and 3001 Commerce Road. A partnership between Iron Point Partners, DSC Partners, and Hourigan Development sold the two warehouse buildings to Matan Inc for approximately \$40.2 million, or \$125.00 PSF. Both buildings are new constructions having been delivered in March 2023. 2301 Commerce Road is 120,000 SF and was fully vacant at the time of sale, however, the buyers signed a lease with Star Pipe Products to fully occupy the building in early 2024. 3001 Commerce Road is 202,000 SF and was 50% occupied at the time of sale by Lowe’s Pro Supply.



Leasing Market Fundamentals

- After the market saw almost 9.0 MSF of positive net absorption during 2022, the market saw over 5.3 MSF of positive net absorption during 2023, which is much higher than the decade average of 3.1 MSF of annual positive net absorption. All of this positive absorption has created a tight market, with a vacancy rate of only 3.3% to end 2023.
- Average asking rents ended 2023 at \$8.59 PSF, an increase of 7.1% year-over-year. Overall, the market has seen an impressive 43.4% increase in rents from the beginning of 2020 through 2023.
- The market’s development remains strong, experiencing almost 10.0 MSF of deliveries in 2022 and ending 2023 with over 5.0 MSF of deliveries, much higher than the decade average of 2.7 MSF. Furthermore, the market ended 2023 with almost 8.0 MSF under construction, more than double the decade average of 3.6 MSF under construction.



Outlook

- The Richmond Industrial market is expected to continue to perform well with user demand generally in line with new supply. With almost 8.0 MSF under construction, including much of the space pre-leased or owner-occupied, the market will see consistent occupied space delivered, leading to large amounts of positive net absorption.
- While supply remains limited, rent growth will continue increasing at elevated levels, although at a more modest rate than the last 3 years. This will vary on a submarket, size range, and asset-type basis.
- Leasing activity may see a slowdown due to a lack of leasable space, with continued development crucial to satiate user demand. As has been the case historically, Class A space will continue to see the most interest from landlords, tenants, and investors alike.

1. Economy
2. Leasing Market Fundamentals
3. Sales Activity
4. Market Statistics

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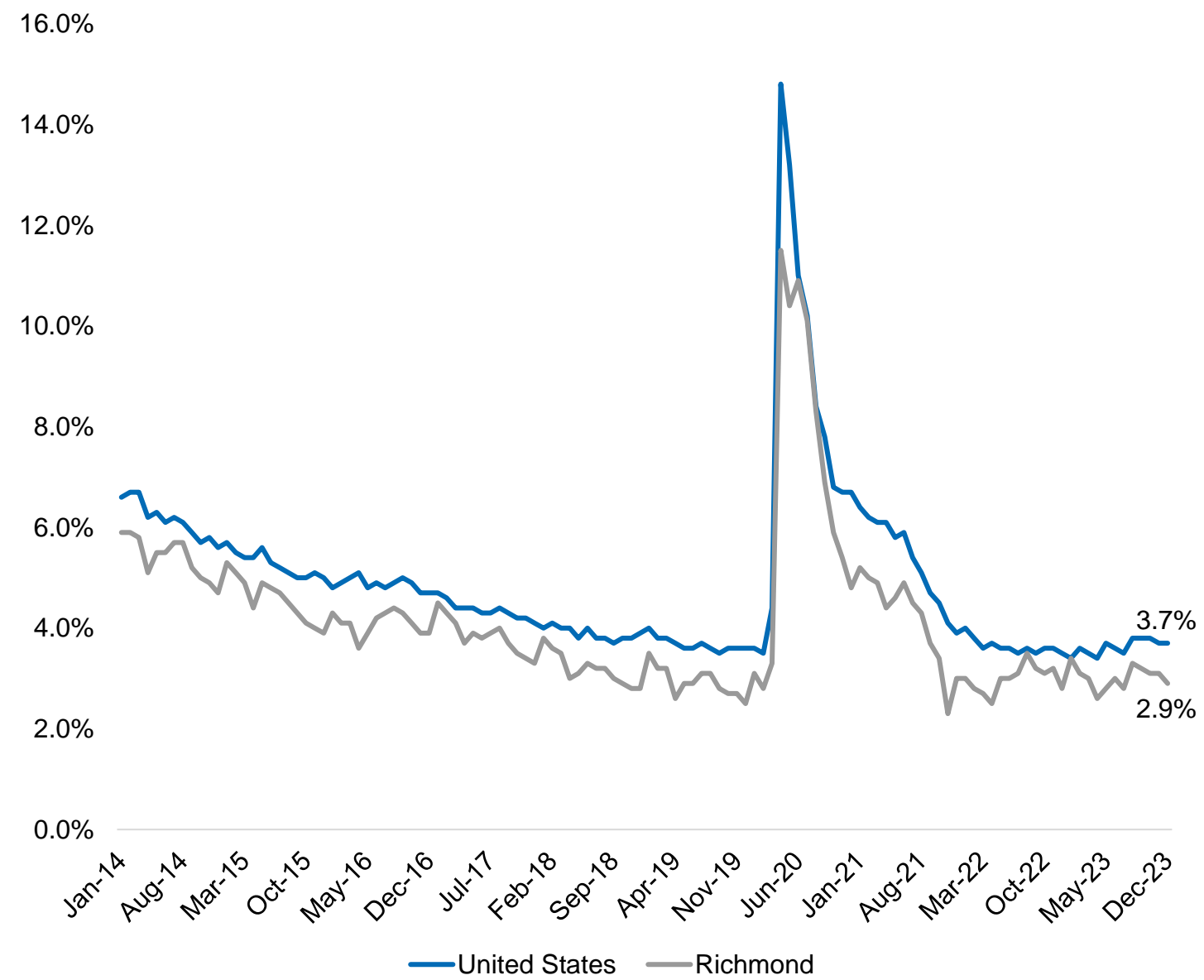
Economy



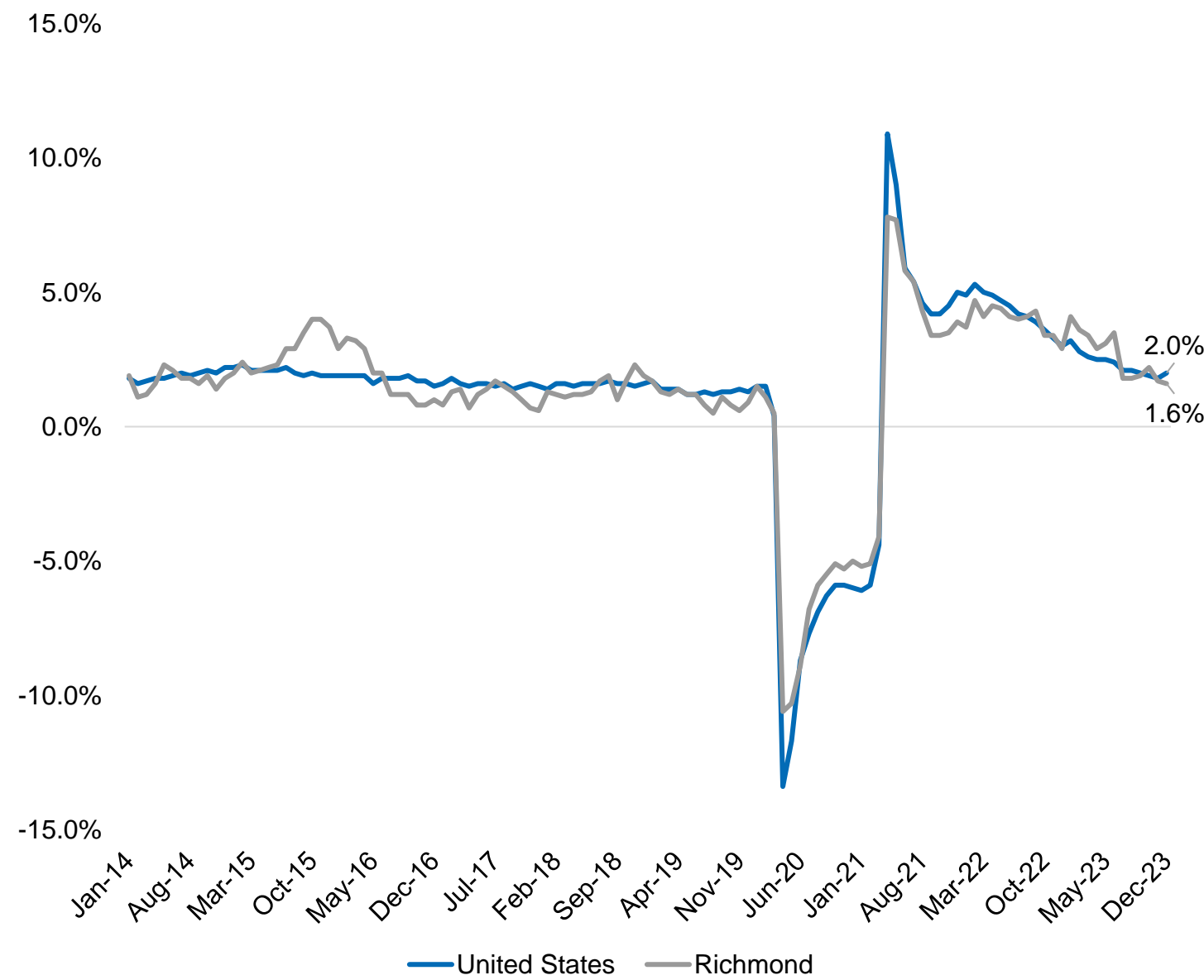
Richmond's Unemployment Rate Outperforms National Average

Richmond's unemployment rate continues to outperform the national average, measuring 2.9% to end 2023. This is flat year-over-year but 80 basis points lower than the national average.

Unemployment Rate, Seasonally Adjusted



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

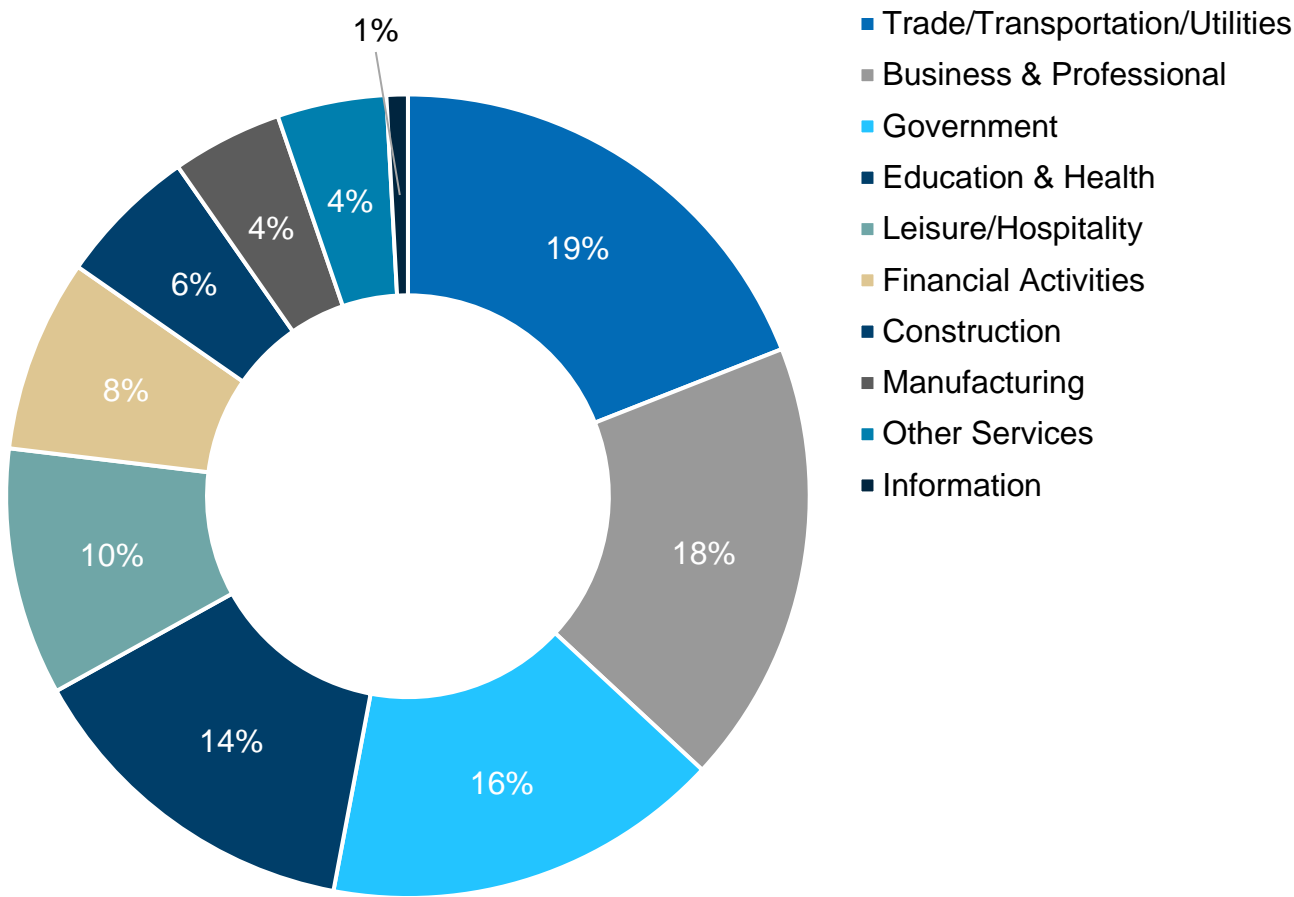


Source: U.S. Bureau of Labor Statistics, Richmond

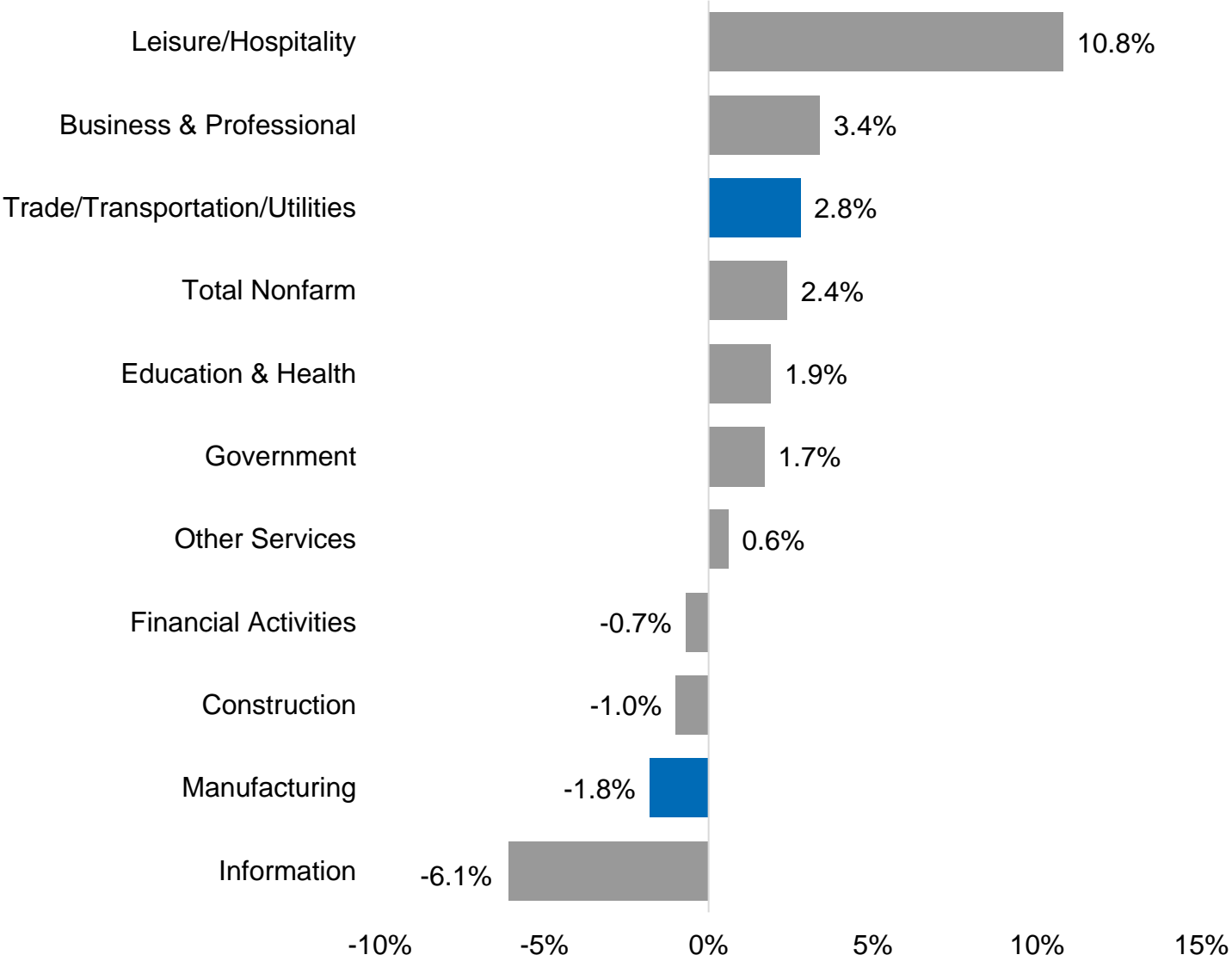
Trade/Transportation/Utilities Continues Growth as the Leading Regional Industry

Trade/Transportation/Utilities remains the largest industry in the region, constituting 19% of the regional workforce. Furthermore, during 2023, Trade/Transportation/Utilities saw annual growth of 2.8%, ending the year as one of the fastest-growing industries in the region.

Employment by Industry, December 2023



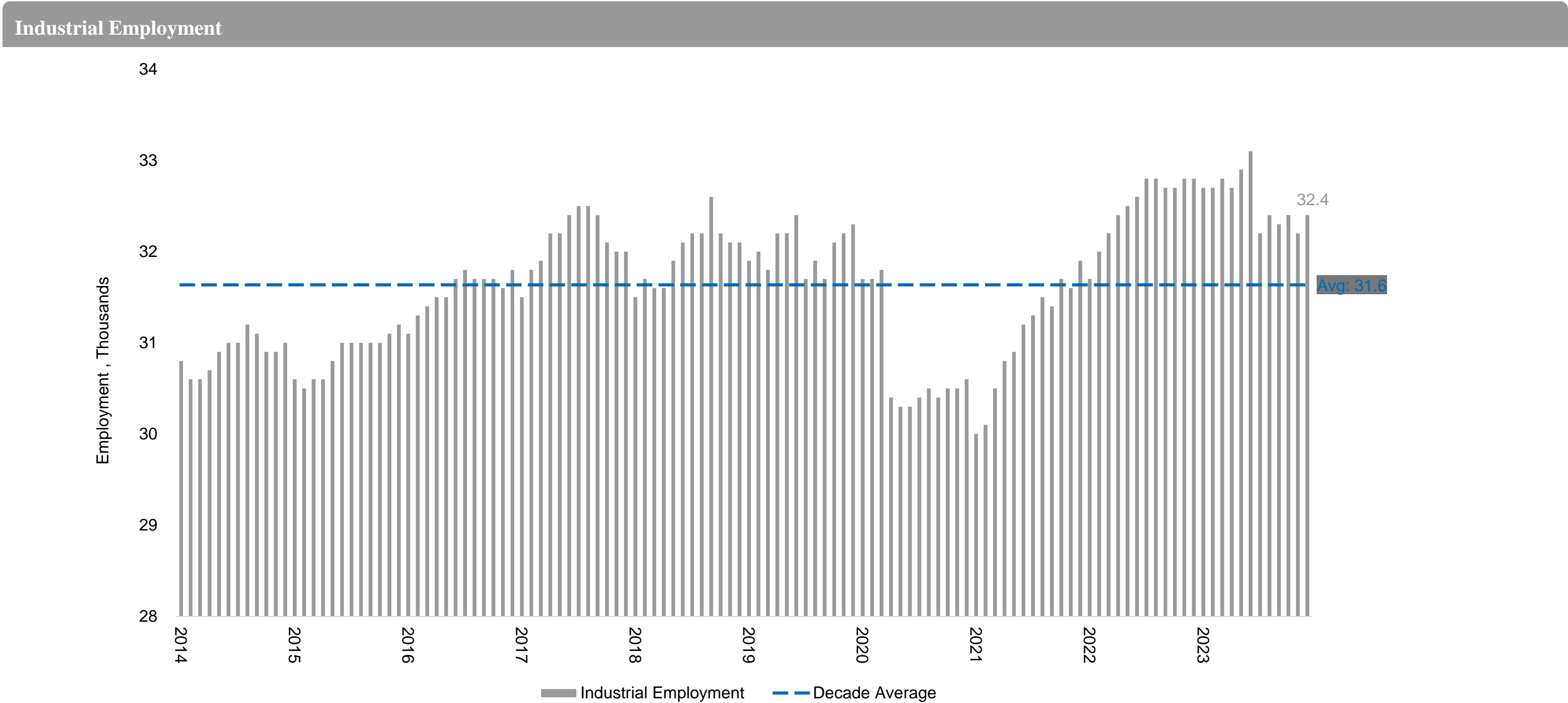
Employment Growth by Industry, 12-Month % Change, December 2023



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

Industrial Employment Remains at Elevated Levels

The number of industrial jobs has rebounded and now sits above pre-pandemic levels. Employment ended 2023 at 32,400 employees, 2.5% higher than the decade average and an increase of 8.0% since the market reached a pandemic-related low in January of 2021.



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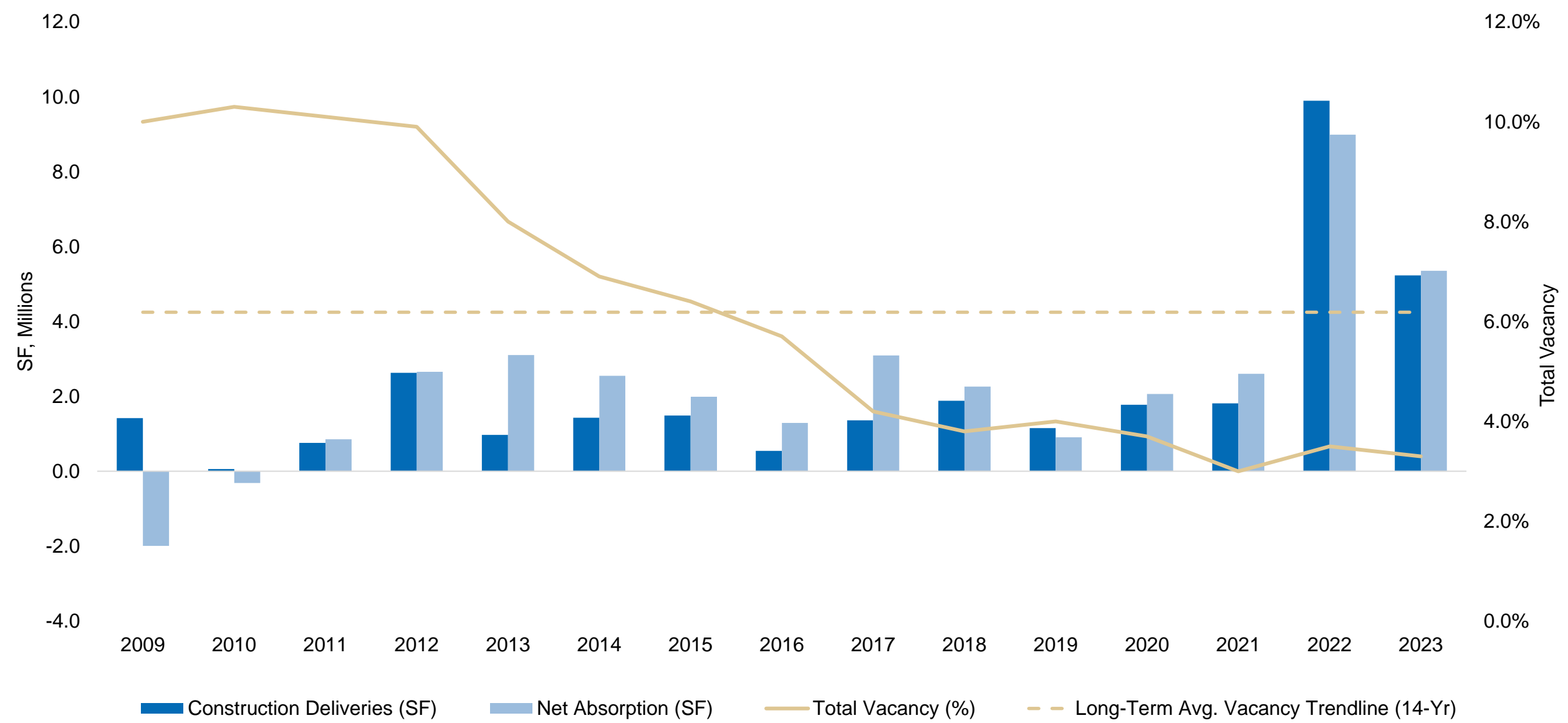
Leasing Market Fundamentals



Fundamentals Remain Healthy to End 2023

The Richmond Industrial market continues to perform exceptionally well, as evidenced by its fundamentals. During 2023, Richmond experienced over 5.0 MSF of deliveries while seeing over 5.0 MSF of positive net absorption. This continues the trend of occupied deliveries leading to large amounts of positive net absorption and tight vacancies, as the market ended 2023 with a vacancy rate of 3.3%, tightening 20 bps year-over-year.

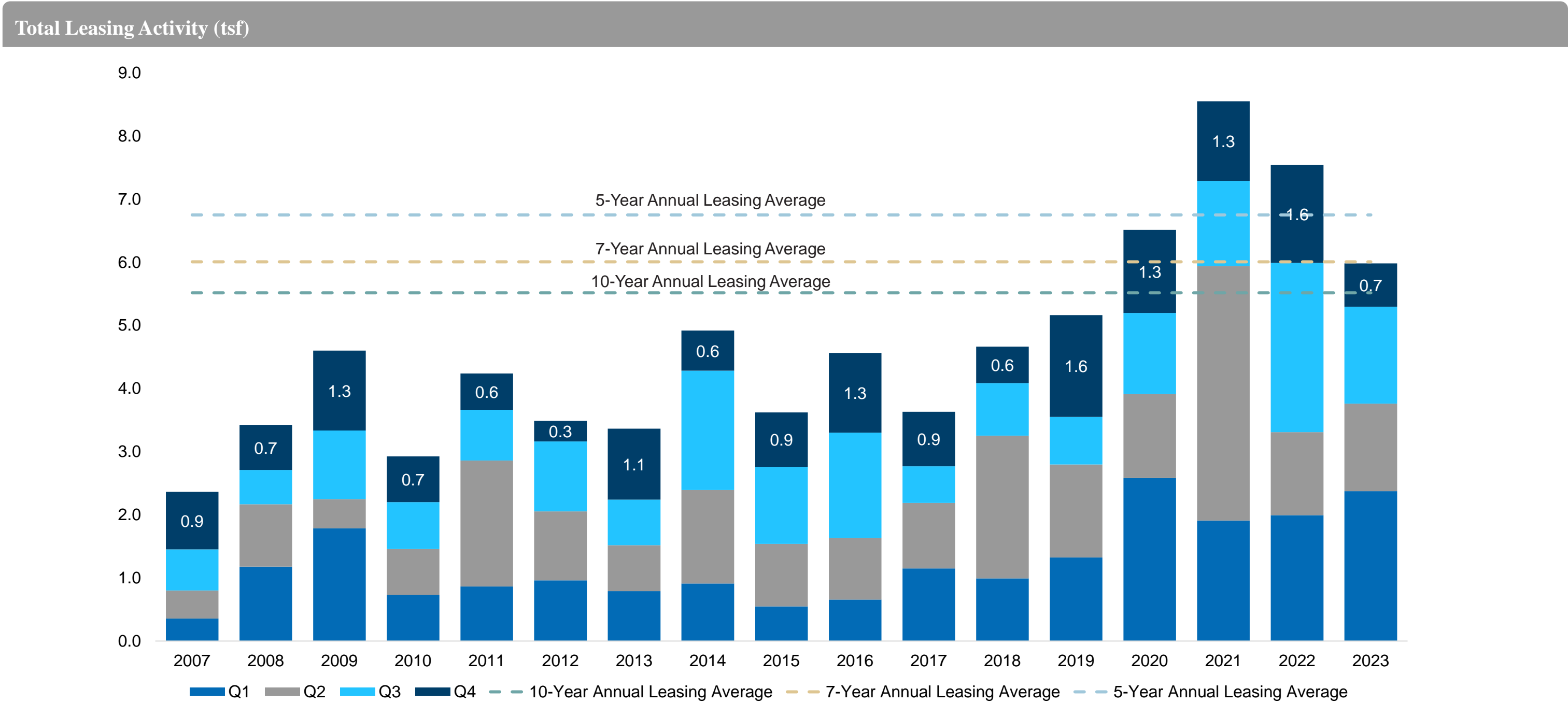
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Industrial Leasing Activity Decelerates Due to Lack of Supply

Leasing activity decelerated in Q4 2023, ending the quarter with 0.7 MSF of activity. Overall, during 2023, the market experienced almost 6.0 MSF of activity. This is lower than the decade-high, when the market experienced 8.3 MSF of activity during 2021, but higher than the decade average of 5.5 MSF of annual activity.

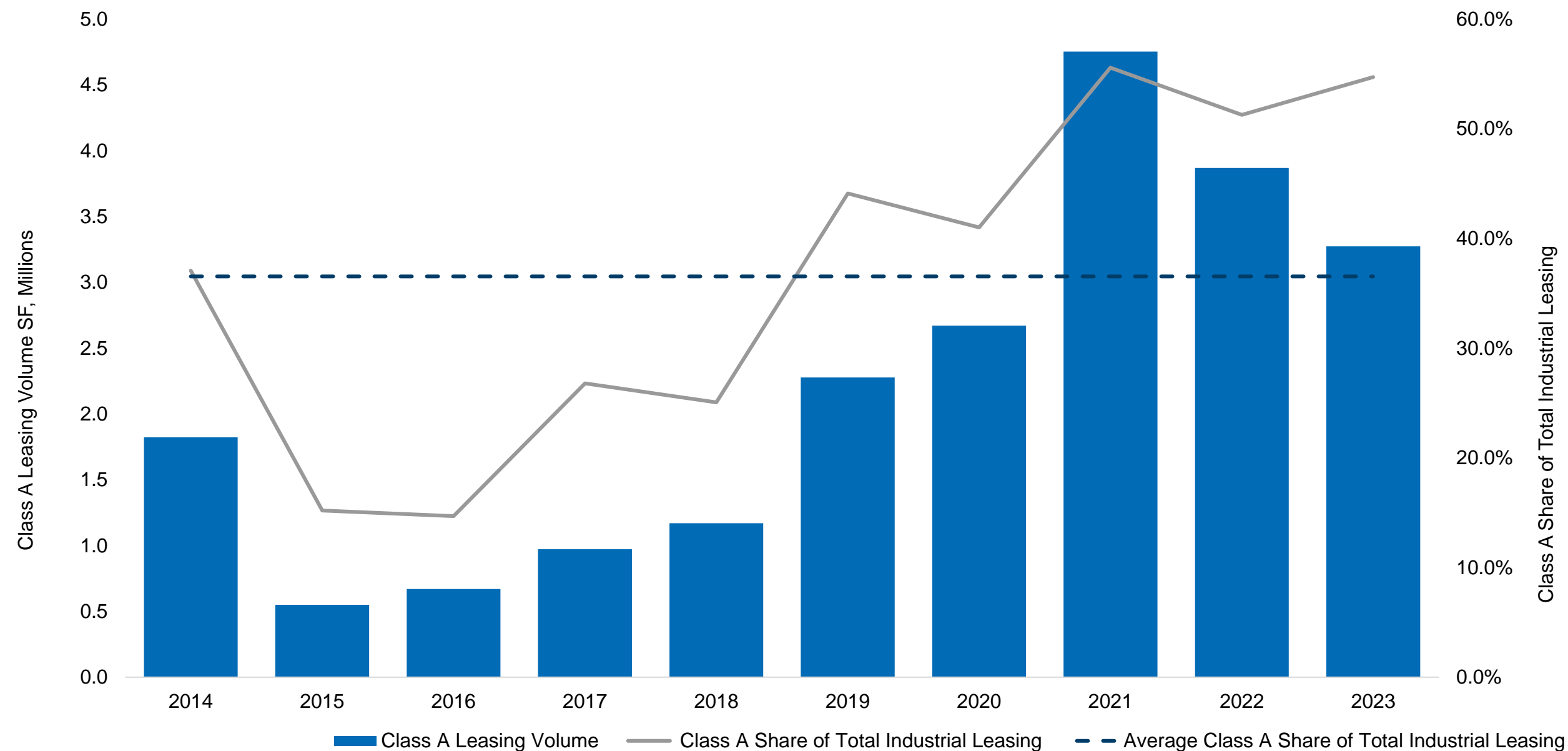


Source: Newmark Research, CoStar

Class A Industrial Leasing Above Long-Term Average

Although Class A industrial leasing activity remains below the levels of activity from 2021-2022, Class A product saw a 54.7% share of total industrial leasing in the market during 2023. This is much higher than the decade average of 36.5% and highlights the elevated interest in quality Class A space by occupiers.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

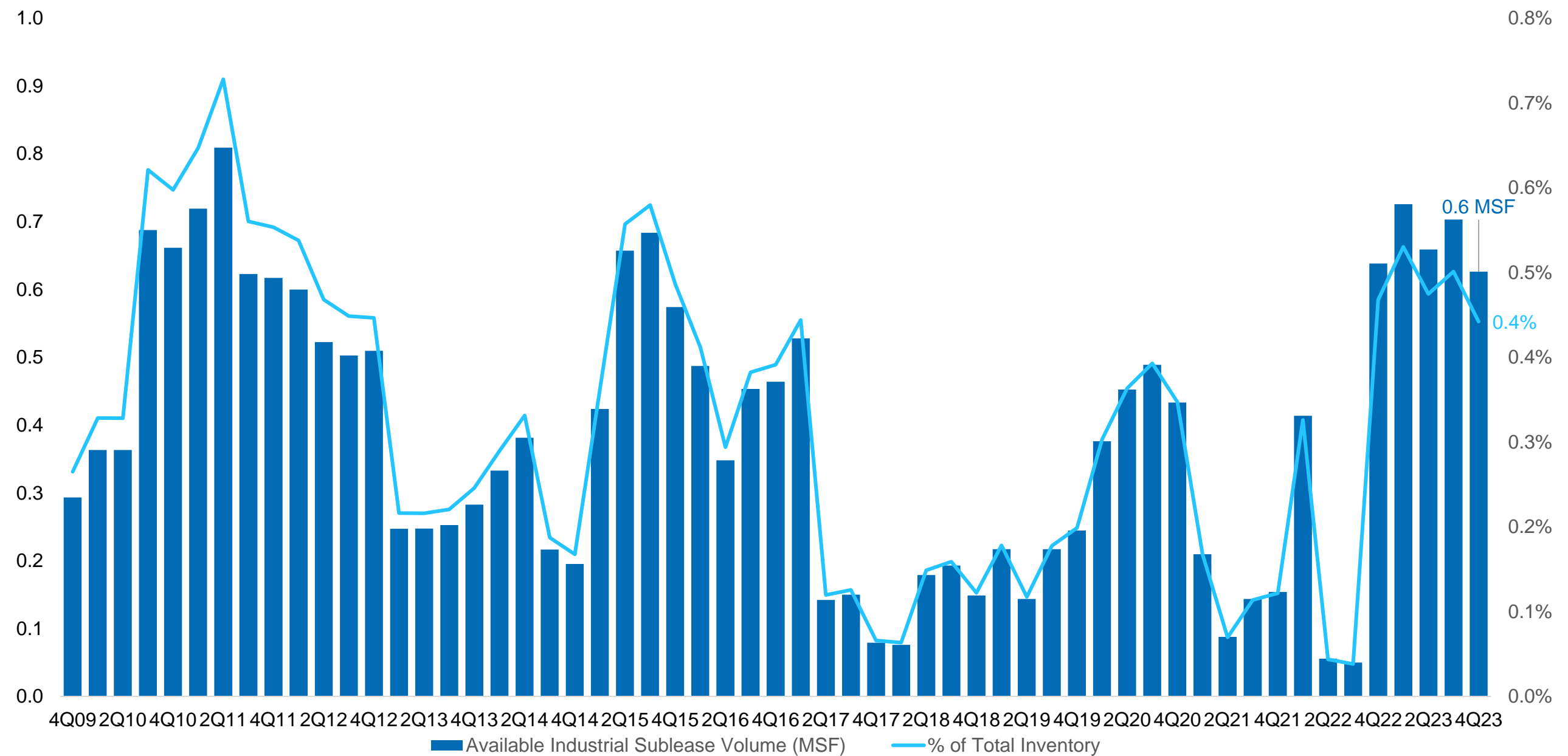


Source: Newmark Research, CoStar

Industrial Sublease Availability Rises Above Pre-Pandemic Levels

The market saw a large dip in sublease available space during the beginning of the pandemic, as demand for industrial space soared. Since the market saw historical lows in Q3 2022, sublease space has become slightly more prevalent, ending 2023 at 600,000 SF. Although available sublease space has increased slightly, it accounts for only 0.4% of industrial space in the market, highlighting the current tightness of the market.

Available Industrial Sublease Volume (MSF) and % of Total Inventory

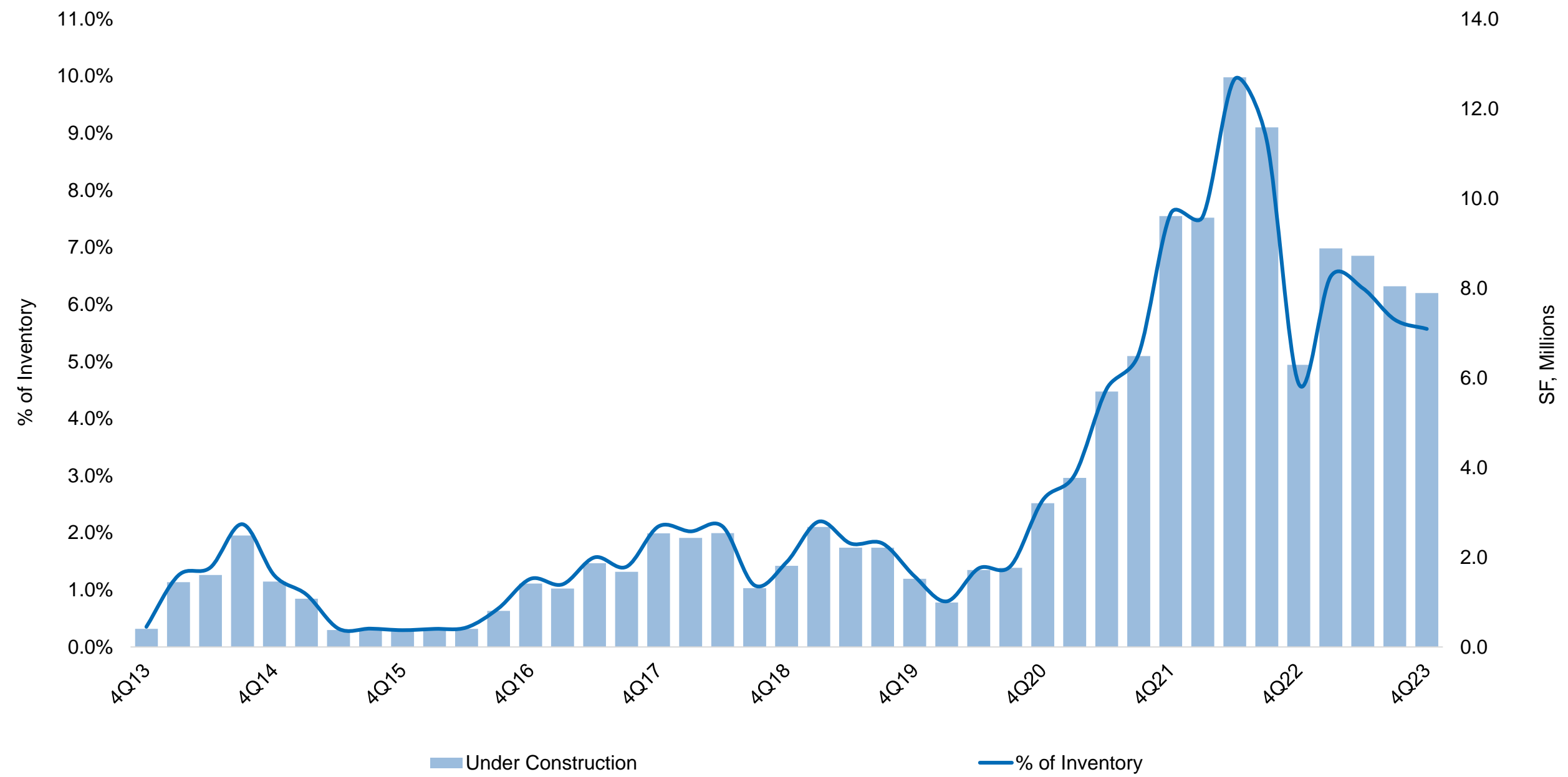


Source: Newmark Research, CoStar

Construction Supply Remains Elevated

Industrial development has exploded in the Richmond region during recent years, ending Q4 2023 with 28 properties under construction totaling almost 8.0 MSF. After the market averaged less than 1.5 MSF under construction from 2013 to 2020, development began accelerating in 2021 and reached a peak 12.7 MSF under construction in Q2 2022. Since then, the market has maintained an elevated level of construction much higher than historical averages.

Industrial Under Construction and % of Inventory

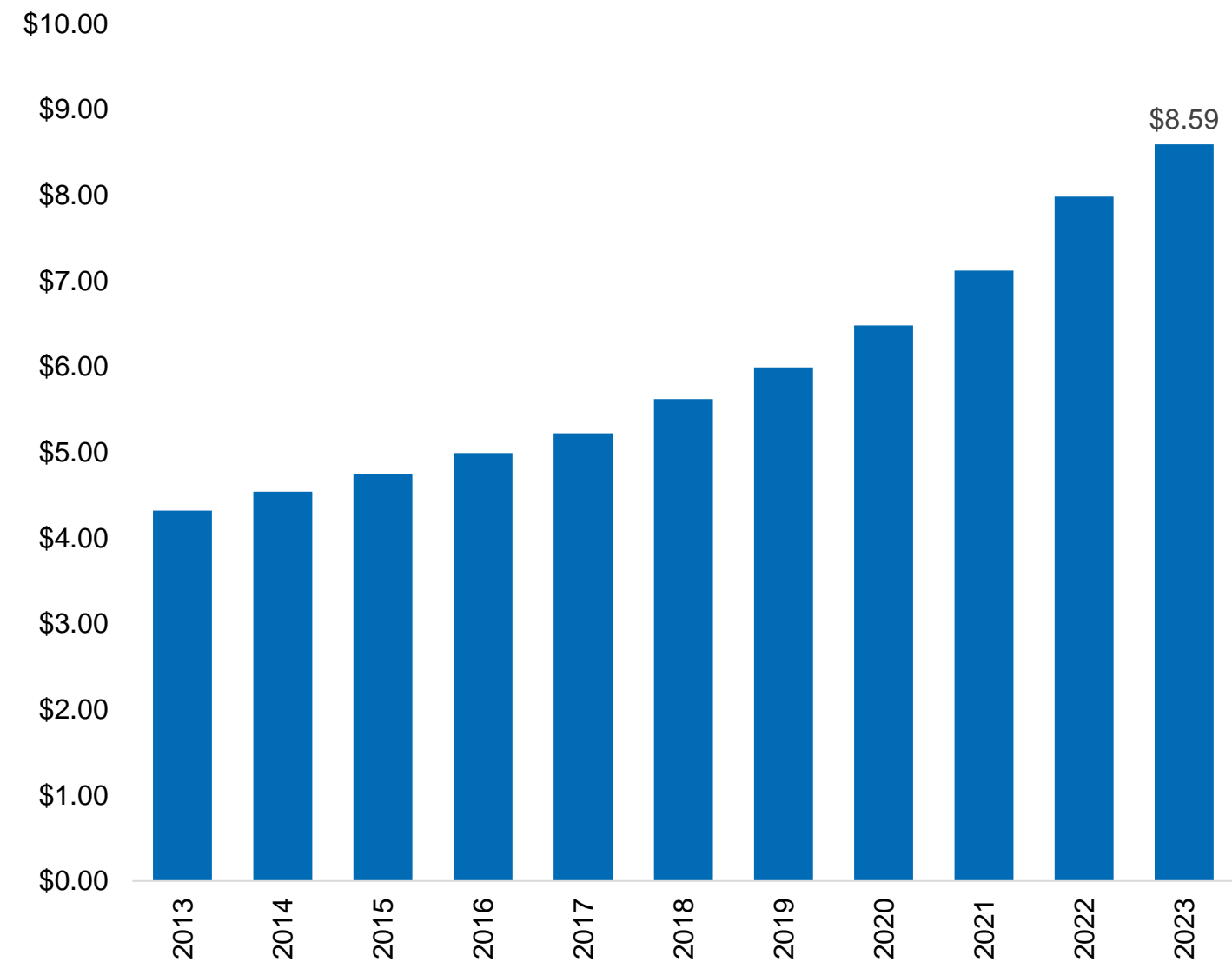


Source: Newmark Research, CoStar

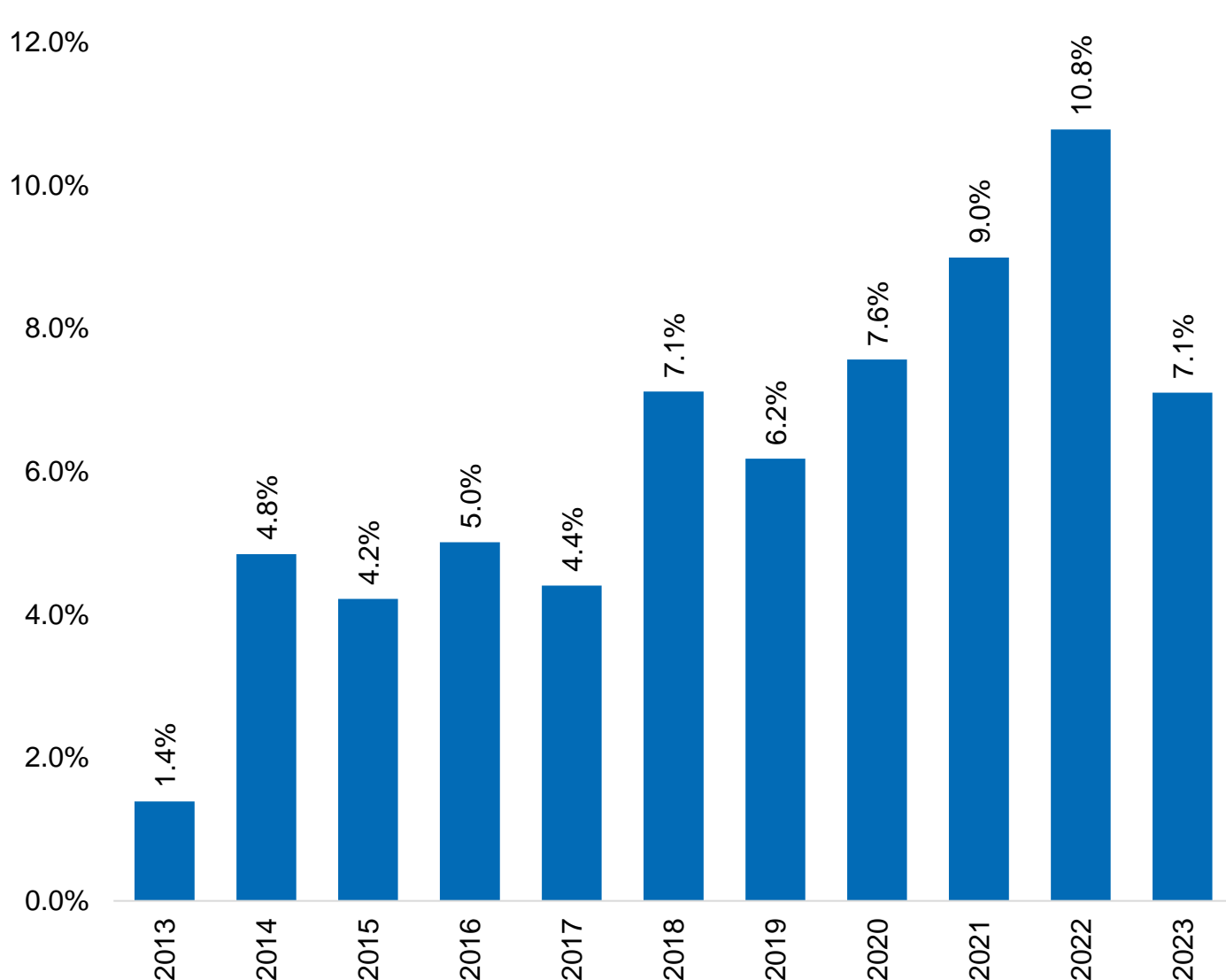
Asking Rents Continue Rapid Growth

Average asking rents ended 2023 at \$8.59 PSF, an increase of 7.1% year-over-year. Although rent growth decelerated in 2023 after the market experienced 10.8% rent growth in 2022, the market is still seeing elevated rent growth. Overall, the market has seen an impressive 43.4% increase in rents from the beginning of 2020 through 2023.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

New leases were a theme of leasing activity during Q4 2023, as four of the five largest leases signed were new deals. Furthermore, two of these deals were within newly delivered product, another major theme in recent years. The Jeff Davis Corridor was the most active submarket during the quarter, containing three of the top five leases. Star Pipe Products, a manufacturer of iron products, signed the largest deal of the quarter, a 120,000-square-foot deal within the newly delivered warehouse at 2301 Commerce Road of Deepwater Industrial Park. Star Pipe Products also signed a short-term renewal at 2913 Transport Street, which lasts until their March move-in at 2301 Commerce Road.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Star Pipe Products	2301 Commerce Rd	Jeff Davis Corridor	Direct Lease	119,470
Tucker Door and Trim	2700 Distribution Dr	Airport	Direct Lease	96,117
Star Pipe Products	2913 Transport St	Jeff Davis Corridor	Lease Renewal	94,384
Shipvine South	2626 N Hopkins Rd	Jeff Davis Corridor	Direct Lease	78,000
Envoy Solutions	12075 Harley Club Dr	I-95 North / Ashland	Direct Lease	50,241

Source: Newmark Research, CoStar

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Sales Activity





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Market Statistics





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