4Q23

Richmond Office Market Overview

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. Trade/Transportation/Utilities leads the way in the region, encompassing 19% of the regional workforce. It is followed closely by Business and Professional services, Government, and Education/Health, containing 18%, 16%, and 14% of the regional workforce, respectively.
- Leisure/hospitality experienced the fastest growth of all industries, with a 12-month increase of 10.8%. This highlights the market's recovery to normalcy after the pandemic.

Sales Activity

- Sales volume totaled $61 million across 33 transactions during Q4 2023. This is much lower than the same period a year ago when the market saw $258 million worth of sales volume across 54 transactions. Overall, 2023 was the least active year the Richmond market has experienced over the past decade, with 124 transactions totaling $186 million, much lower than the decade average of 171 transactions totaling $424 million.
- The largest transaction of the year was the sale of 2103 Staples Mill Road, located in the West End submarket of the Northwest region of Richmond. Kinsale Capital Group sold the 291,000-square-foot office building to Salus Government Properties for $66.2 million, or approximately $227.39 PSF. The five-story building is fully occupied by Elevance Health on a lease that runs through 2035. The sale includes a three-story parking garage located at 200 Maywill Street.

Leasing Market Fundamentals

- The Richmond office market experienced 520,000 square feet of negative net absorption during 2023 and ended the year at a 14.5% vacancy rate. Despite this, the market continues to perform impressively relative to other office markets, with a much healthier vacancy rate compared to the national average of 16.9%.
- The Richmond market showed resilience during the pandemic, as leasing activity hovered close to historical activities from 2020-2023. Leasing activity ended 2023 in line with the market's historical average, with the Richmond market experiencing 1.9 MSF of leasing activity during the year.
- New leases drove the leasing market in Q4 2023, evidenced by the top five transactions all being new leases. Furthermore, two of those top five transactions were located in the CBD, which remains the premier office submarket in the region.

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 throughout the pandemic. 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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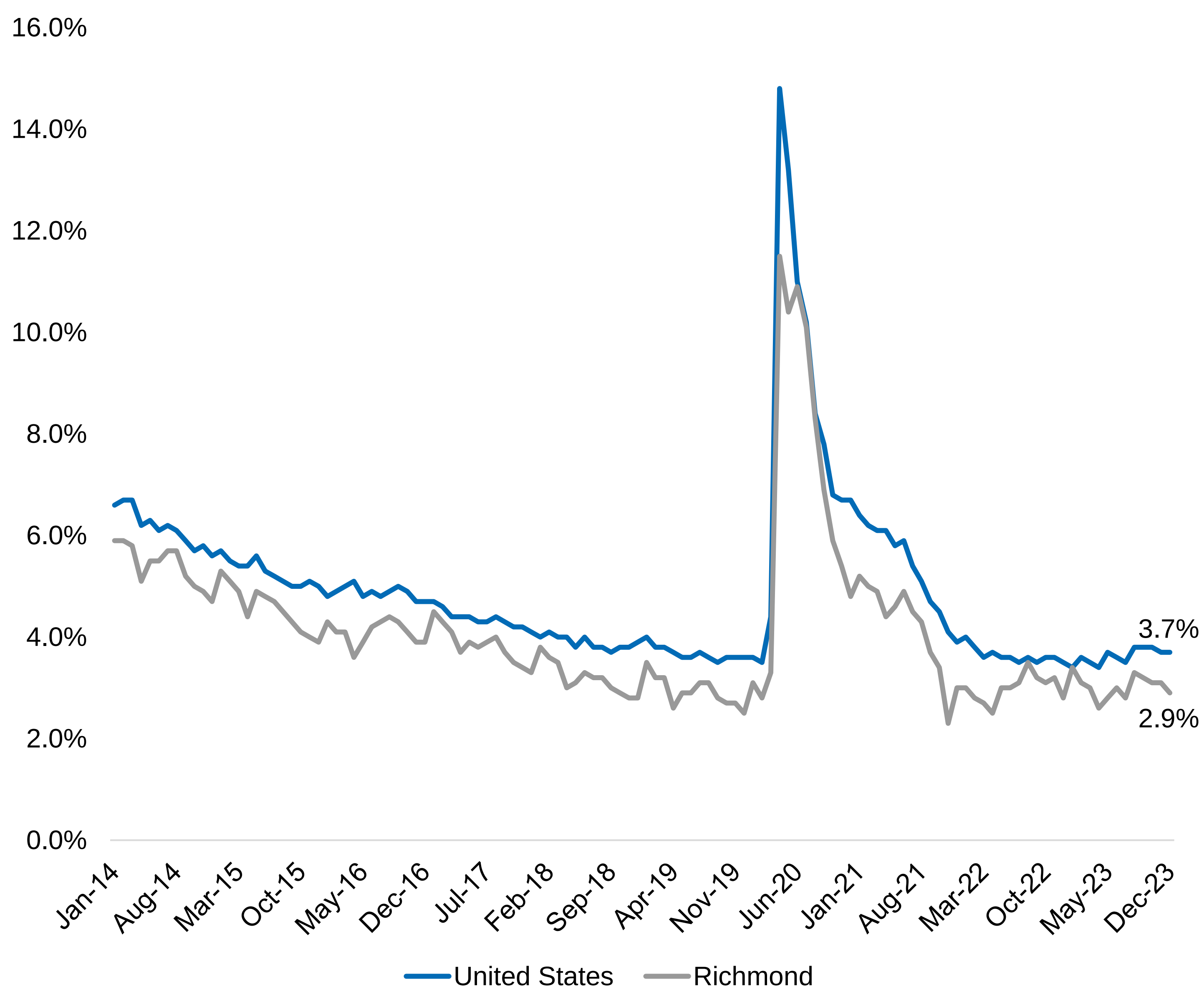
Economy

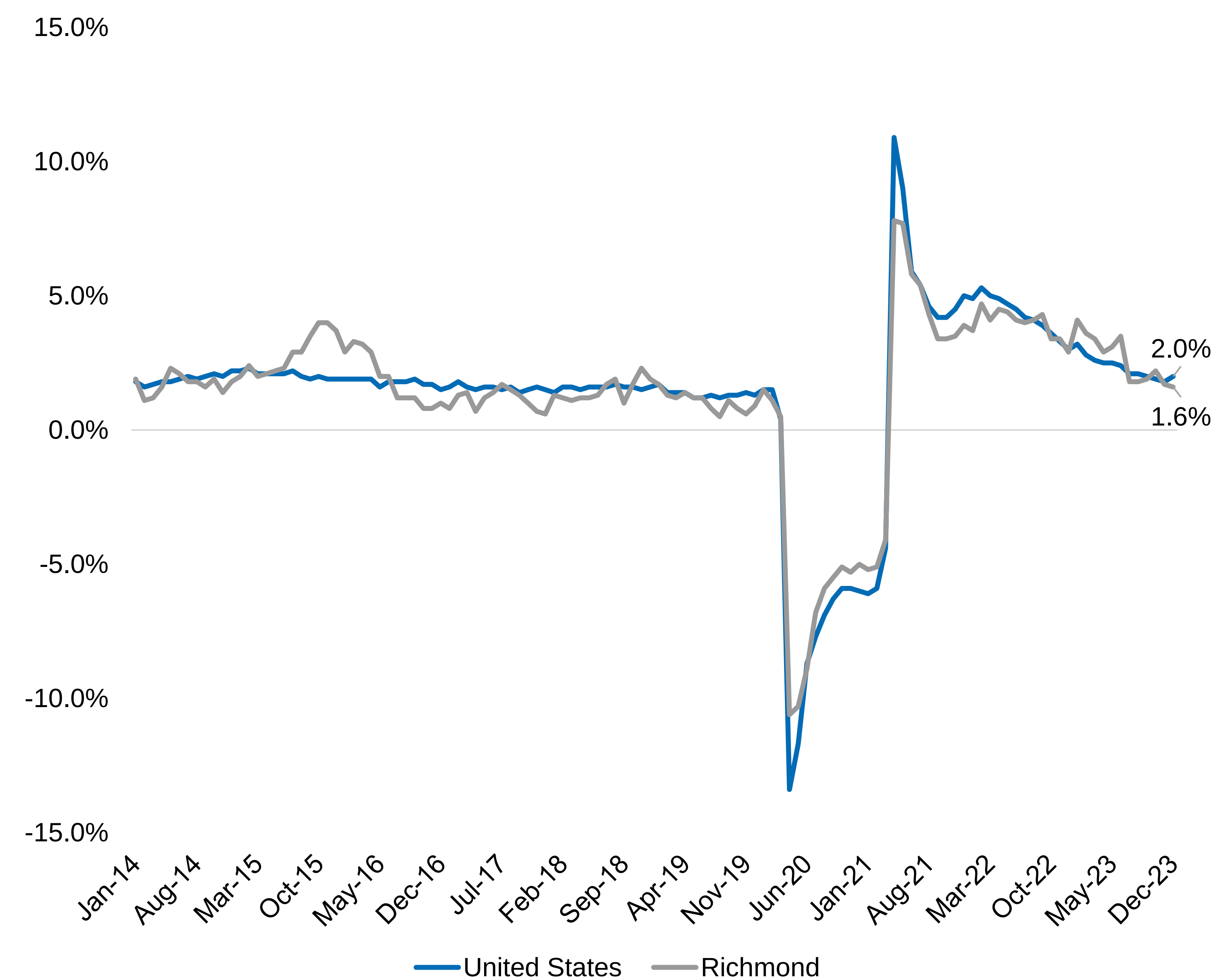
Richmond's Unemployment Rate Outperforms National Average

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

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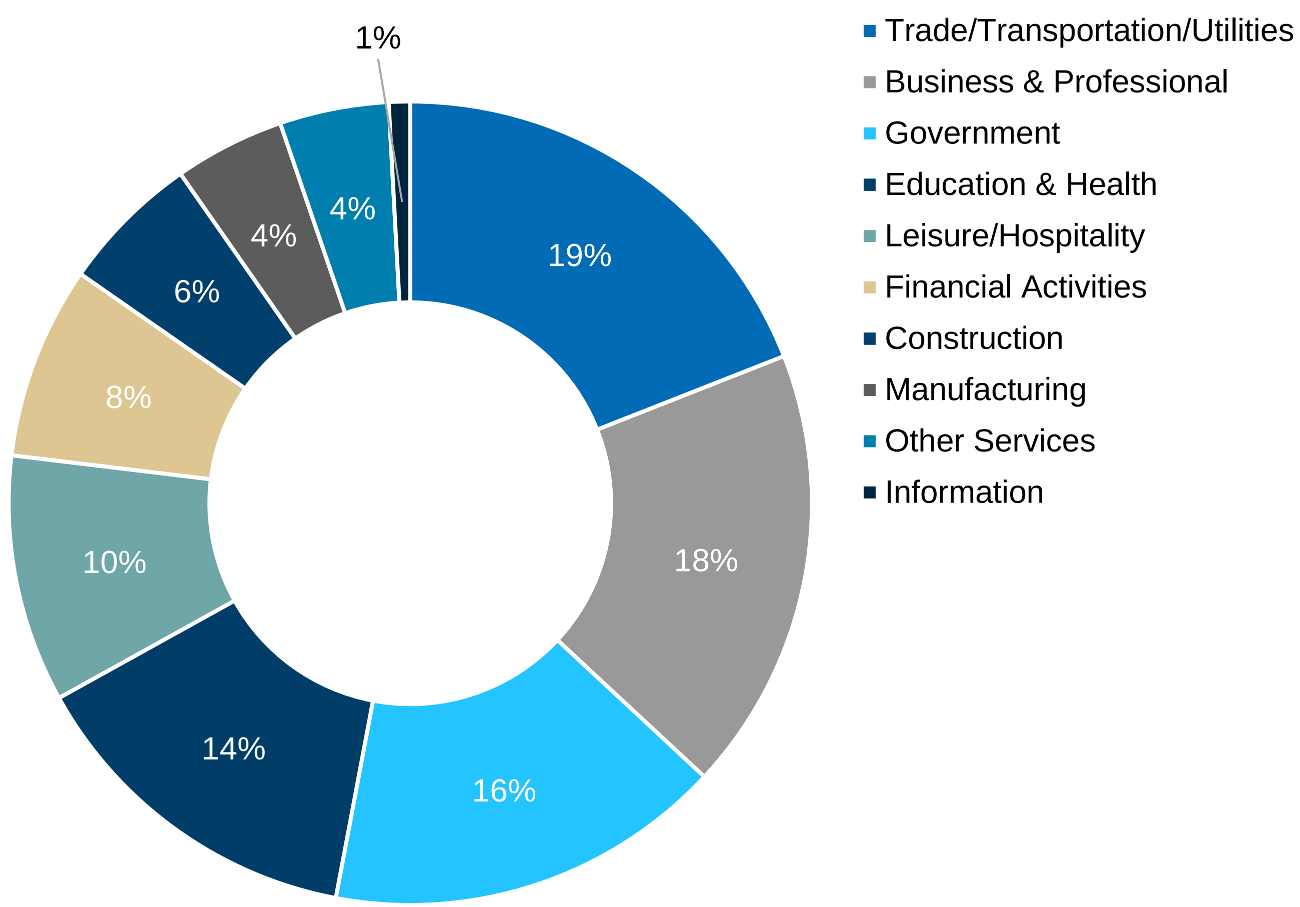
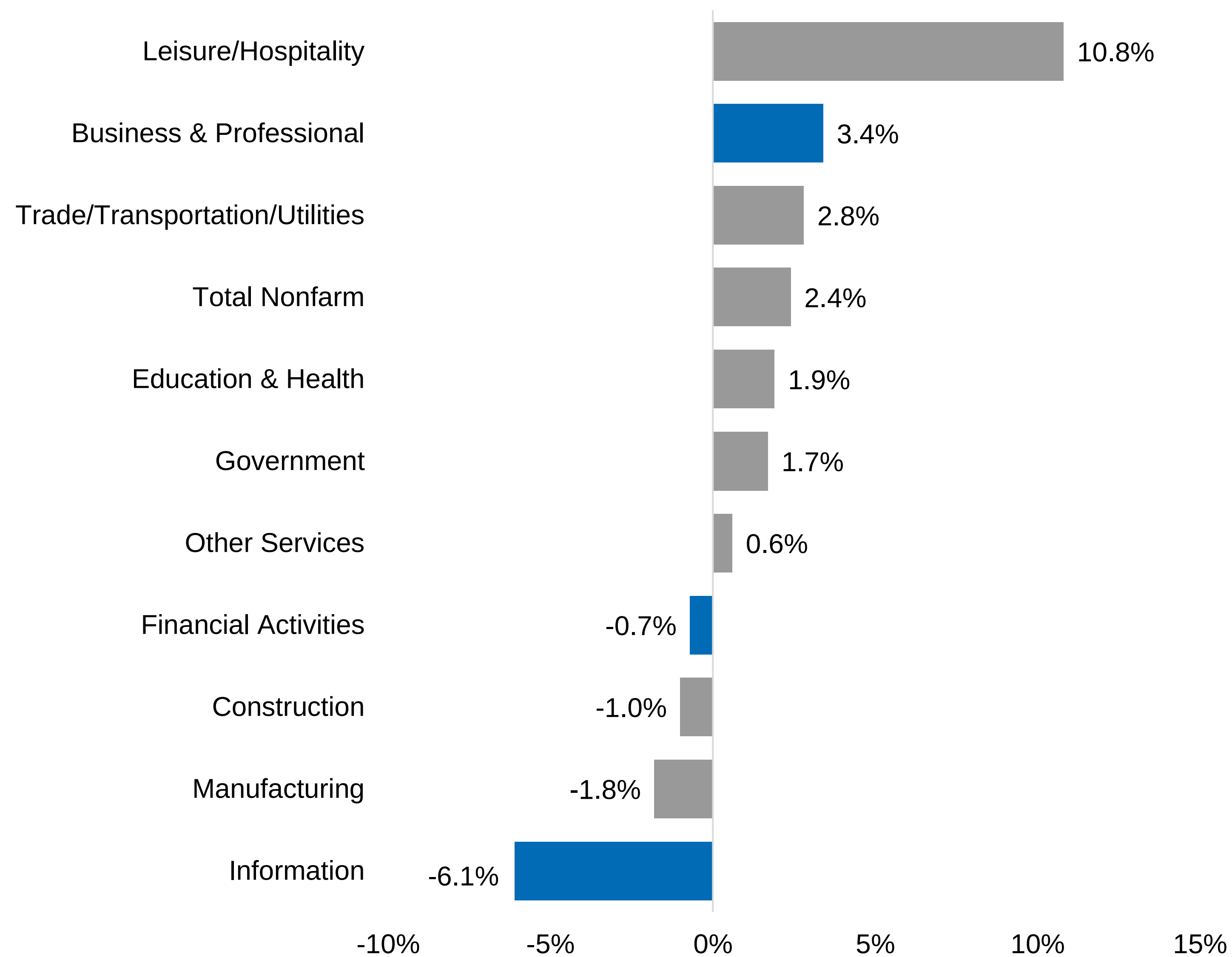
Job Growth Driven by the Leisure/Hospitality Industry

Leisure/hospitality experienced the fastest growth of all industries, with a 12-month increase of 10.8%. This growth highlights the market's recovery to normalcy after the pandemic, as leisure/hospitality experienced a 21.6%% decrease in employment during 2020. Leisure/hospitality has since seen tremendous growth of 13.6% in 2021, 8.1% in 2022, and 10.8% in 2023.

Employment by Industry, December 2023



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



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

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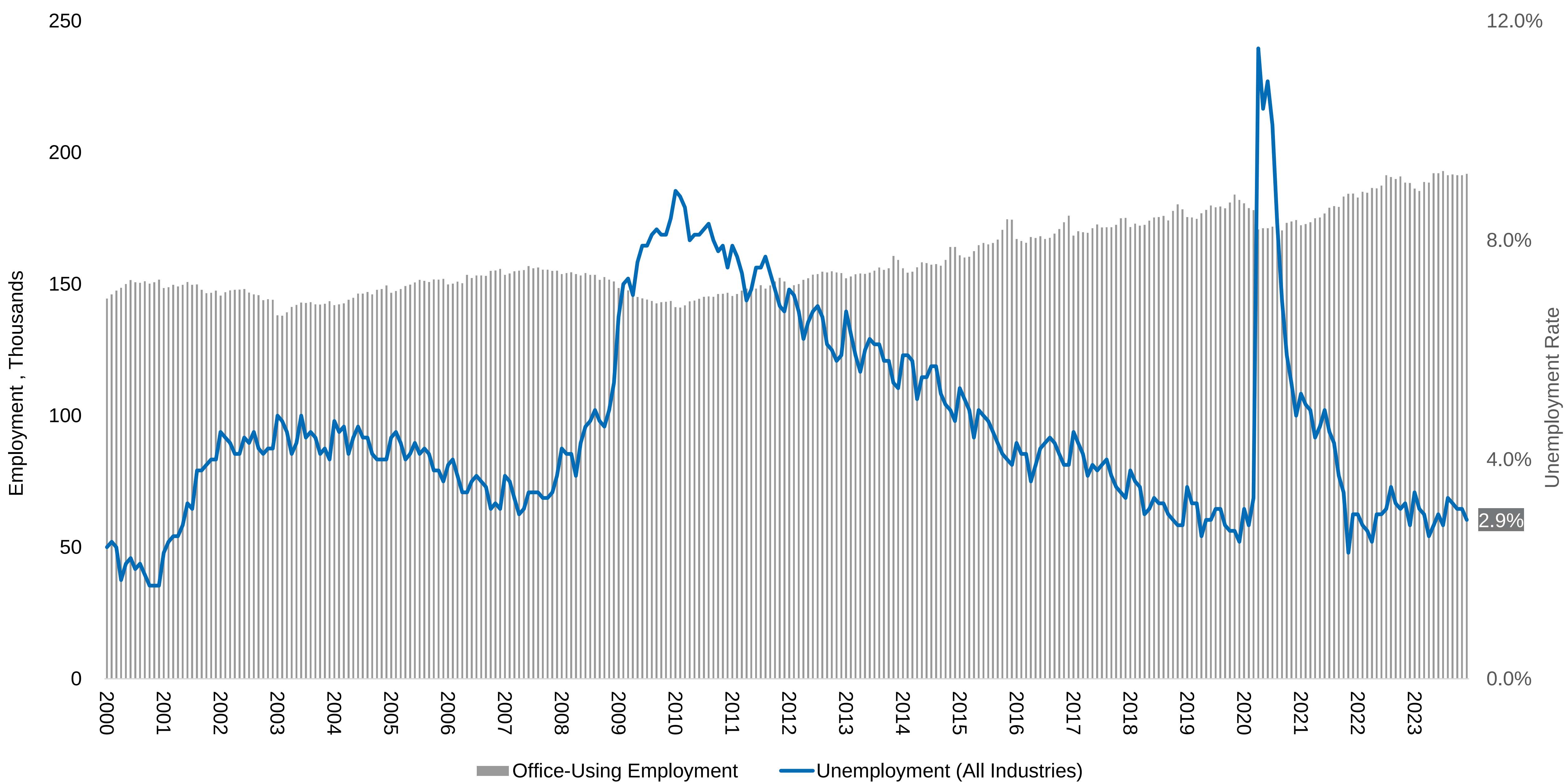
Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended 2023 at 191,900 employees, 4.3% higher than the pre-pandemic high in November 2019 and an increase of 12.6% since the market reached a pandemic-related low in September of 2020.

Office-Using Employment* and Unemployment Across All Industries



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

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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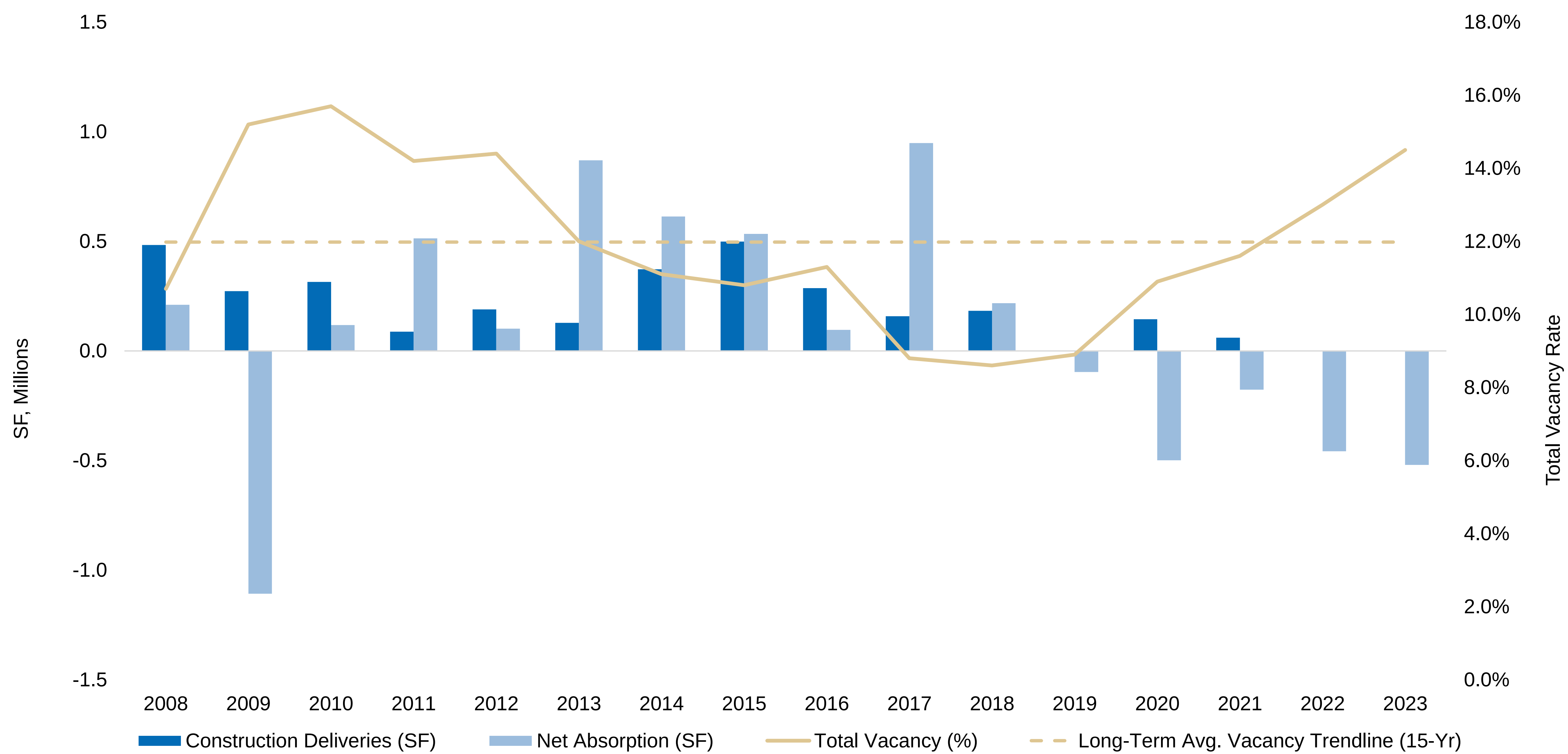
Leasing Market Fundamentals

Despite Softening Fundamentals, Richmond Remains a Relatively Healthy Office Market

The Richmond office market experienced 520,000 square feet of negative net absorption during 2023, ending the year at a 14.5% vacancy rate, an expansion of 150 bps year-over-year. Although market fundamentals have been softening since the beginning of the pandemic, the Richmond market continues to perform impressively relative to other office markets, with a much healthier vacancy rate compared to the national average of 16.9%.

Historical Construction Deliveries, Net Absorption, and Vacancy

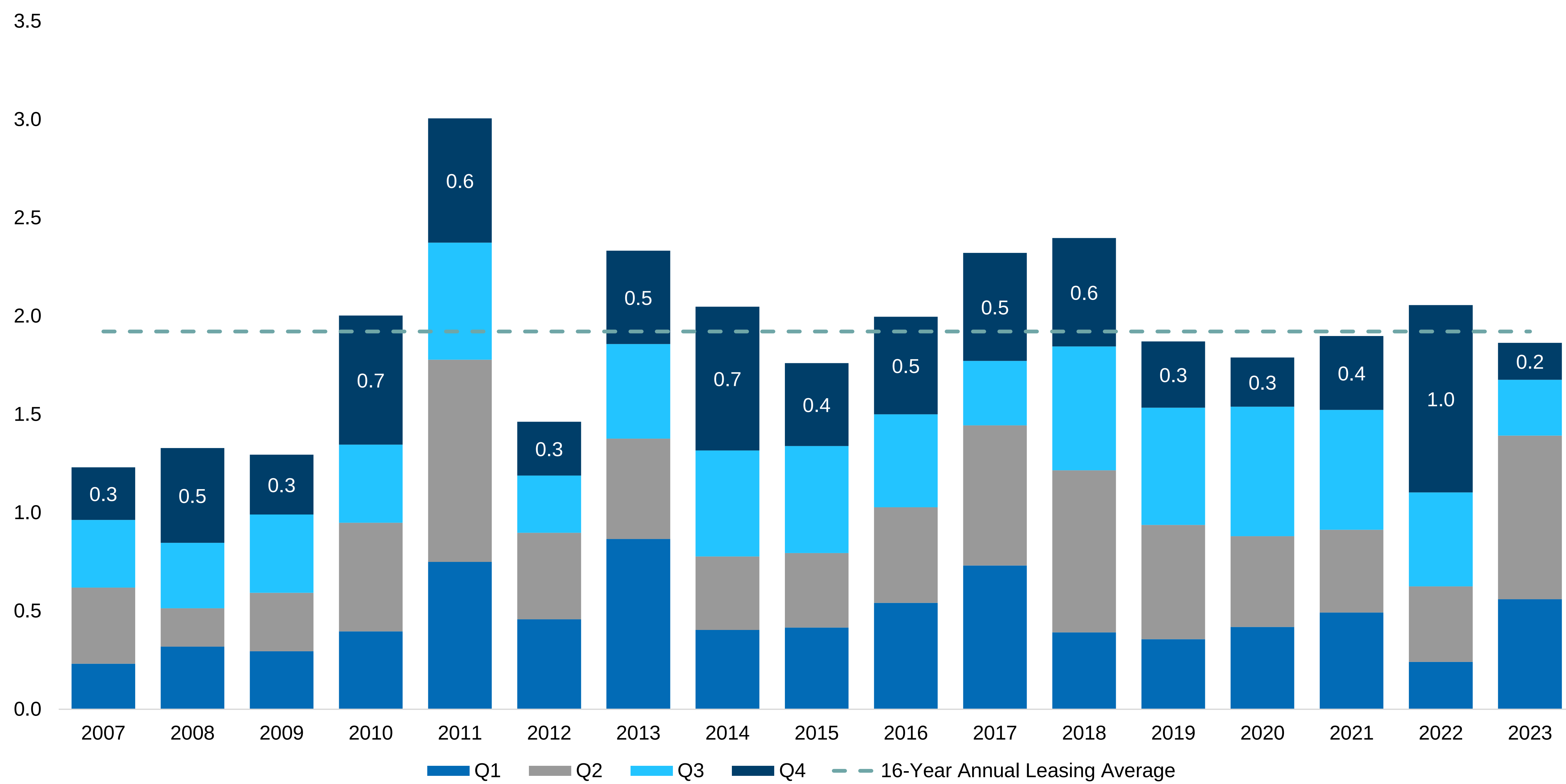


Source: Newmark Research, CoStar

Leasing Activity Remains Near the Historical Average

The Richmond market experienced 1.9 MSF of leasing activity during the year, in line with the market's annual average. The market's leasing activity has been impressively stable during recent years, seeing between 1.8 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

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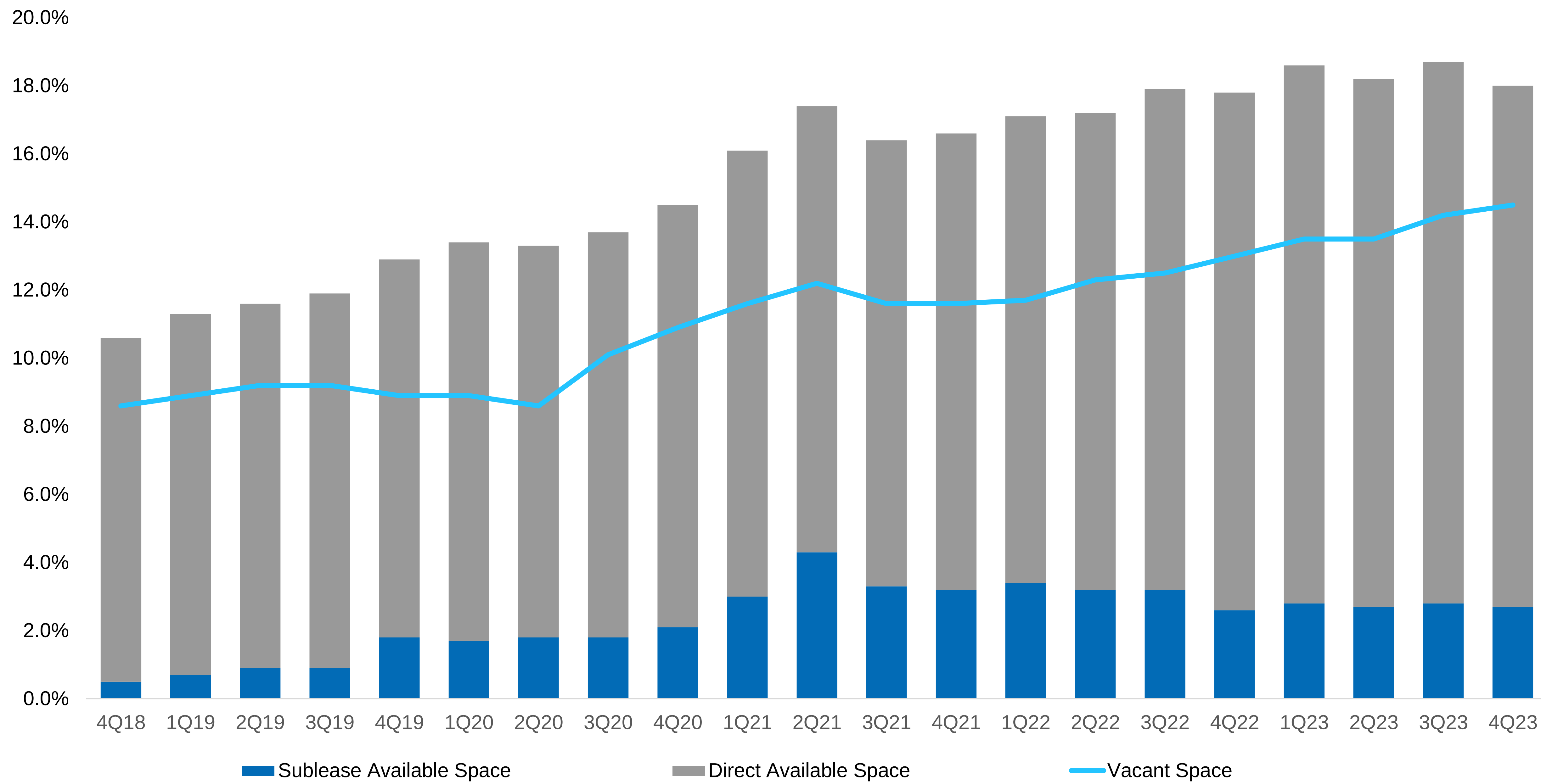
Availability Shows Positive Movement to End 2023

During Q4 2023, availability tightened 70 bps and ended the year at 18.0%, in line with availability to end 2022. Sublease available space ended the year at 2.7%, staying relatively flat year-over-year. After sublease available space saw a peak of 4.3% in Q2 2021, the sublease available market has tightened and stayed relatively flat since the end of 2022, hovering around 2.7%. Although vacancy continues to expand slowly in the Richmond market, it remains tighter than other major office markets.

Available Space and Vacancy Rate

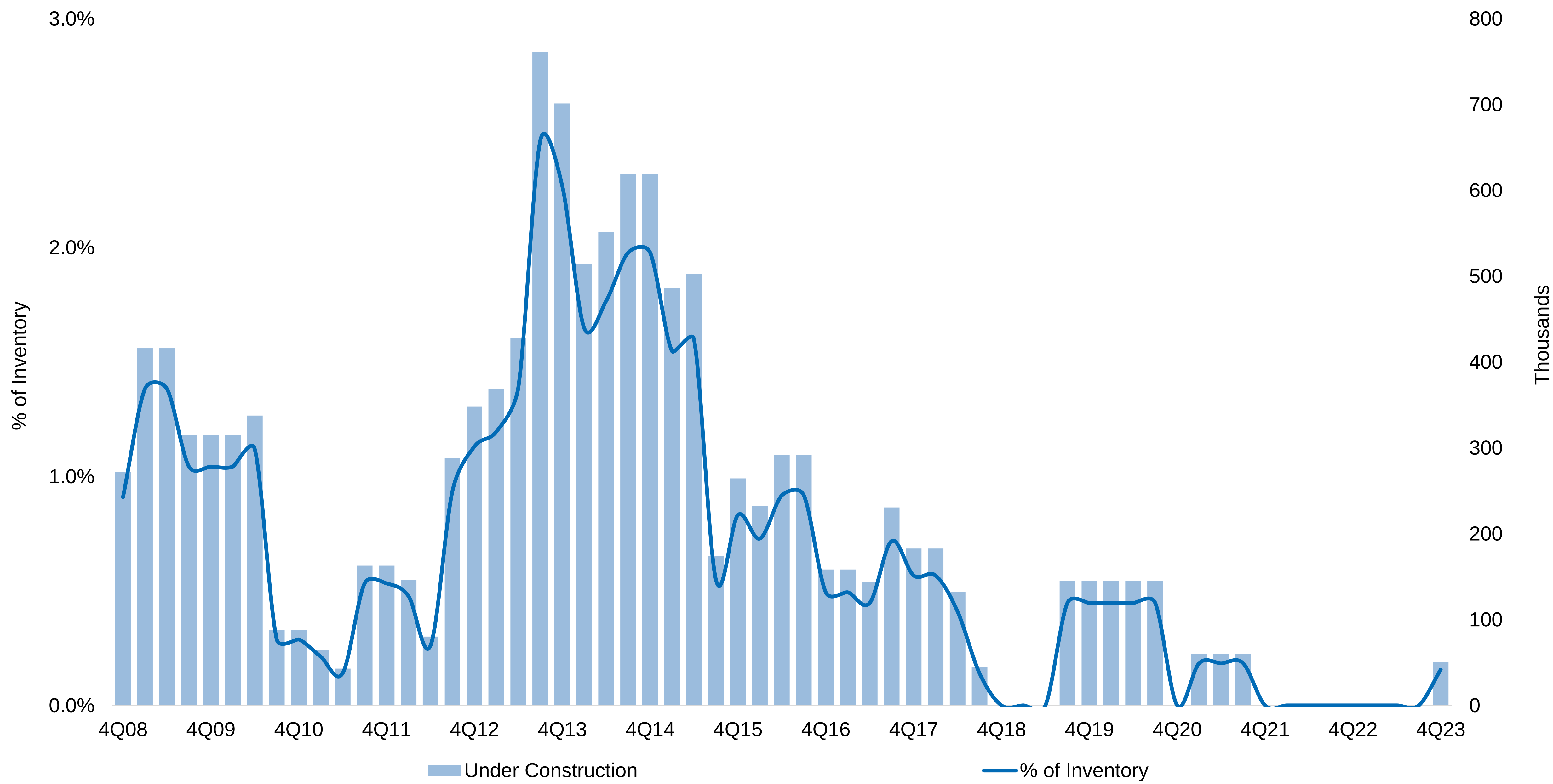


Source: Newmark Research, CoStar

Construction Remains Below Historic Average

There is one property totaling 51,000 square feet currently under construction, lower than the market's decade average of 181,000 square feet under construction. The 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.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Leasing Activity Driven by New Leases and the CBD

New leases drove the leasing market in Q4 2023, evidenced by the top five transactions all being new leases. Furthermore, two of the top five transactions were located in the CBD, which remains the premier office submarket in the region. The largest transaction of the quarter was State Corporation Commission signing a lease for over 20,000 square feet of space at Bank of America Center within the CBD. State Corporation Commission will occupy the entire 18th floor, with occupancy in Q2 2024.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
State Corporation Commission	Bank of America Center	CBD	Direct Lease	20,312
Brockenbrough	5800 Patterson Avenue	West End	Direct Lease	13,000
Vanasse Hangen Brustlin Inc.	Two James Center	CBD	Direct Lease	12,480
Compass Counseling	2727 Enterprise Parkway	Parham South	Direct Lease	10,321
Sandstone Care	4880 Sadler Road	Innsbrook	Direct Lease	7,459

Source: Newmark Research, CoStar

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Sales Activity

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Market Statistics

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