

Office Market Trends Richmond

Grubb & Ellis Research

Second Quarter 2004



Class A, B Gap Widening

In the Downtown (Central Business District) submarket, Class A vacancy is just 10.0%; however, Class B vacancy is 22.5% and expected to rise even higher.

The statistics are beginning to bring into sharper focus a widening gap between Class A and Class B office properties, particularly in the Downtown submarket. Downtown Class B high-rise buildings continue to struggle with declining occupancies and little prospect of relief in sight. Several Class B buildings on Main Street are likely to see 50 percent vacancy rates in 2005 as tenants move to newer properties closer to the river. The Commonwealth of Virginia's plans to renovate and refill owned office buildings over the next couple of years is surely to create some loss of tenants in Class B buildings as well. In this soft market with corporate and institutional tenants continuing to downsize, it's unclear where replacement tenants will be found.

The suburban office market is reflecting wide variations in selling prices for investment property based on occupancy of the building at the time of sale. For example, several buildings with occupancy of 90 percent or more (regardless of lease term remaining) are going under contract to institutional purchasers in the \$120 to \$140 per square foot range, while slightly lower quality buildings with occupancy levels below 50 percent are struggling to find buyers at \$65 to \$85 per square foot.

There continues to be strong demand for small owner/occupant office buildings both in the suburbs and downtown. The demand for office condos for sale in the suburban submarkets remains strong as more and more product is delivered to these areas.

Richmond Office Market Trends

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To obtain additional copies or other Grubb & Ellis|Harrison & Bates publications, please contact:

Lynn McDaniel

Vice President - Marketing Services

Grubb & Ellis|Harrison & Bates

830 E. Main Street, 5th Floor

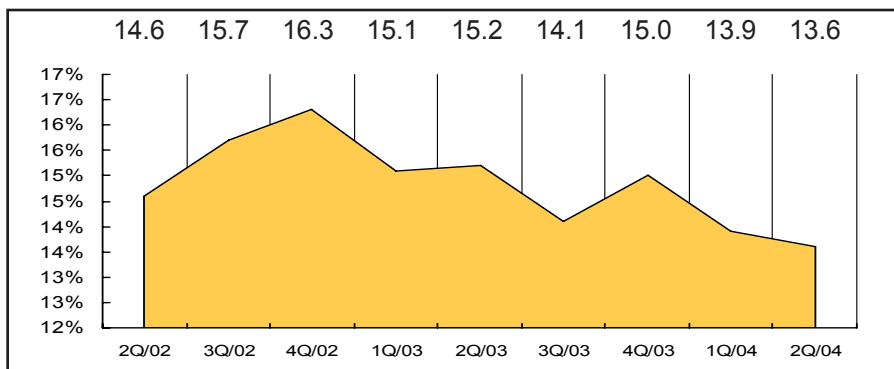
Richmond, VA 23219-2725

Phone: 804.788.1000

E-mail: lynn.mcdaniel@harrison-bates.com

Internet: www.grubb-ellis.com; www.harrison-bates.com

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Richmond Office Vacancy Rate*

* All Classes of Space

Office Market Snapshot Richmond Second Quarter 2004

By Submarket (All Classes)	Total SF(1)	Vacant SF(4)	Vacant %	Net Absorption		Under Construction(2)	Asking Rent(3)	
				Current Qtr.	Year-to-date		Class A	Class B
CBD (Downtown)	7,040,079	1,141,773	16.2%	42,948	52,054	230,000	\$22.03	\$14.49
Northeast	736,674	81,363	11.0%	9,753	9,753	-	\$17.50	\$12.99
Northwest	12,685,294	1,553,436	12.2%	63,754	88,229	-	\$17.54	\$15.14
Southwest	4,565,980	630,560	13.8%	(37,772)	45,222	10,000	\$17.15	\$13.39
CBD	7,040,079	1,141,773	16.2%	42,948	52,054	230,000	\$22.03	\$14.49
Suburban	17,987,948	2,265,359	12.6%	35,735	143,024	10,000	\$17.39	\$14.92
Total	25,028,027	3,407,132	13.6%	78,683	195,258	240,000	\$19.06	\$14.70
By Class (All Submarkets)							Available for Sublease	
							CBD	Suburban
Class A	12,707,255	1,273,216	10.0%	11,127	183,441	230,000	76,656	193,922
Class B	10,682,976	1,901,321	17.8%	89,368	28,749	10,000	65,297	41,445
Class C	1,637,796	232,595	14.2%	(21,812)	(16,932)	-	-	-
Total	25,028,027	3,407,132	13.6%	78,683	195,258	240,000	141,953	235,367

(1) Inventory includes multi-tenant and single tenant buildings with at least 10,000 sq. ft. Data exclude medical, government and other specialized buildings.

(2) Space under construction includes speculative and build-to-suit for lease projects.

(3) Asking rates are per square foot per year full service. Rates for each building are weighted by the size of the building.

(4) Vacant space includes vacant sublease space.

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 10,000 square feet. Owner-occupied, government and medical buildings are not included.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported as full service where all costs of operation are paid by the landlord up to a base year or expense stop.

Editor's Note:

There are two large office buildings in the NWQ that do not meet G&E research standards for inclusion in our statistics at this time, however they are being offered for lease to prospective tenants and are impacting market conditions. When those buildings are included in the calculations, the total office vacancy rises to 15.6%.

Recent Transactions

Grubb & Ellis | Harrison & Bates is pleased to announce the following office transactions during the second quarter of 2004:

Whitlock Group Building

15,017 SF Sale

4120 Cox Road

John Gentry, Lee Hilbert,

Jason Hetherington

Massachusetts Mutual Life

Insurance

16,235 SF Lease

Overlook I Building

John Gentry

BB&T Surplus Branch Bank Sales Completed

2208 Boulevard

8044 W. Broad Street

5900 Brook Road

1883 S Crater Road

703 England Street

11101 Hull Street Road

13644 Hull Street Road

2501 W. Hundred Road

2300 Hungary Road

4798 S. Laburnum Avenue

6127 Mechanicsville Turnpike

Bill Mattox, Steve Gentil,

Chris Wallace, Garnett Hall

10045 Midlothian Turnpike

6,432 SF Sale

Chris Wallace, Ann Malone,

Andrew Ferguson

814 E. Main Street

10,413 SF Sale

Chuck Ellsworth, Kit Tyler

Featured Listings

Partial Listing of Office Properties Currently Available

Go to www.harrison-bates.com/properties to view all listings including land.

Downtown



800 W. Leigh Street
27,000 SF
Flex/Office Warehouse
Lease - \$5.75 NNN
Scott White, David Williams



10 E. Franklin Street
3,031 - 6,164 SF
Full Floor Available
Lease - \$13.00 Full Service
Sale - \$1,950,000
Kit Tyler, Chuck Ellsworth



700 Centre
700-718 E. Franklin Street
600 - 25,000 SF
Lease - \$12.00 Full Service
Kit Tyler, Chuck Ellsworth



NEW 207 W Broad Street
1,800 - 4,162 SF
Lease - \$7.50-\$10.50
Kit Tyler, Chuck Ellsworth

Mid-Town



NEW 2311 Westwood Avenue
4,972 SF
Sale - \$375,000
Scott White, Jason
Hetherington



Medical Office
5855 Breomo Road
5,200 SF
Lease - \$21.50 Full Service
Chuck Ellsworth, Garnett Hall



Daniel Building
3805 Cutshaw Avenue
460 - 2,703 SF
Lease - \$13.75 - \$14.50
Scott White, Scott Boyers



NEW Old World Prints
Sublease
Floyd Ave & Robinson St
Multiple Buildings
Kit Tyler, Andrew Ferguson

Suburban



Innsbrook
4136 Innslake Drive
5,000 SF
Lease - \$16.00 Full Service
Ann Malone



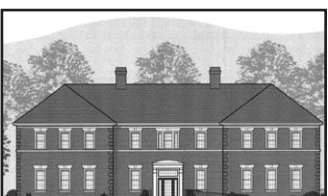
Richmond Healthcare Group
1000 Boulders Parkway
18,500 to 37,000 SF
Office/Medical
Lease - \$15.50 Full Service
Chris Wallace



Mayland I & II
9816 & 9830 Mayland Drive
3,777 SF - \$17.50 Full Svcs
7,188 SF - \$12.00 NNN
John Gentry, Garnett Hall



NEW Aspen Park Office Condos
6011 Staples Mill Road
2,000 - 6,000 SF Units
Sale - \$116.00/SF Shell
John Gentry, Jason
Hetherington



Salisbury West Office Park
1300 Wylderose Dr
Delivery September '04
5,000 SF Available
Lease - \$16.50 Full Service
Scott White



Innsbrook - Corporate HQ
4400 Cox Road
43,000 SF
Lease - \$17.50 Full Service
Scott Boyers, John Gentry



4660 S. Laburnum Avenue
8,818 SF
Sale - \$929,000
Includes 1.165 ac adjacent
Kit Tyler, Chris Wallace



NEW Phoenix Business Center
701 W. Hundred Road
3,000 - 17,000 SF
Office/Medical/R&D
Lease - \$14.50 Full Service
Chris Wallace, Andrew
Ferguson

Grubb & Ellis | Harrison & Bates Office Services Team

The Office Services Team specializes in all facets of office real estate locally, as well as nationally, through our affiliation with Grubb & Ellis, one of the nation's largest commercial real estate services firms. Clients benefit from the depth of experience and superior market knowledge of these highly trained professionals. Services provided include:

- Acquisition/Disposition Services
- Buyer/Tenant Representation
- Feasibility Studies
- Highest & Best Use/Alternative Use Studies
- Investment Analysis
- Lease Review for Owners & Tenants
- Lease vs. Own Analysis
- Marketing Plans & Services
- Opinions of Value
- Project Management
- Sales-Leasebacks
- Site & Facility Selection
- Strategic Real Estate Planning
- Tax Deferred Exchanges
- Tenant Retention

Scott Boyers
Senior Associate
804.788.1000 ext 272
scott.boyers@harrison-bates.com



Chuck Ellsworth
Senior Associate
804.788.1000 ext 257
chuck.ellsworth@harrison-bates.com



Garnett Hall
Associate
804.788.1000 ext 243
garnett.hall@harrison-bates.com



Steve Gentil, SIOR, CCIM
Senior Vice President
804.788.1000 ext 283
steve.gentil@harrison-bates.com



John Gentry
Senior Vice President
804.788.1000 ext 276
john.gentry@harrison-bates.com



Ann Malone
Associate
804.788.1000 ext 324
ann.malone@harrison-bates.com



Kit Tyler, SIOR
Senior Vice President
804.788.1000 ext 282
kit.tyler@harrison-bates.com



Chris Wallace
Associate
804.788.1000 ext 306
chris.wallace@harrison-bates.com



Scott White, SIOR, CCIM
Vice President
804.788.1000 ext 271
scott.white@harrison-bates.com



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One Capitol Square
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