

Office Market Trends Richmond

Grubb & Ellis Research
First Quarter 2005



Class A Performing Well

While there was increased activity in both Class A and B space throughout the market, there continued to be stronger performance in Class A product than in Class B. The disparity is most dramatic downtown where Class B vacancy is triple that of Class A.

Philip Morris USA, the current number two Richmond area employer announced plans to construct a 475,000-square-foot R&D facility in the downtown Biotech Park, creating 500 jobs and a boost for the downtown submarket.

One of the biggest success stories of recent years is the reinvention of the former Koger Center West Office Park. The suburban park contained over a half million square feet in 19 Class B multi-tenant office buildings with vacancy in the range of 35 percent when it was purchased by Forest Office Park Associates in June, 2003 for about \$50 per square foot. One building has since been demolished to create a development site, and by late this summer, all the remaining buildings will have transferred to new owners, many of them owner-occupants.

There continue to be opportunities for sellers of office buildings to transfer assets at top-of-the-market prices, and for tenants in Class B buildings and below to negotiate favorable new leases or renewals. Conversely, prospective buyers of small office buildings will have difficulty finding suitable product, and owners of Class B buildings will continue to face challenges attracting tenants when there are so many leasing alternatives available.

First quarter transaction activity included a 41,000-square-foot lease to The Timmons Group at the Boulders Office Park and an 84,000-square-foot sublease to Cavalier Telephone at North Run. The next suburban multi-tenant speculative building is set to break ground in the second quarter. The 77,000-square-foot Westerre III will deliver in Q1 2006.

Richmond Office Market Trends

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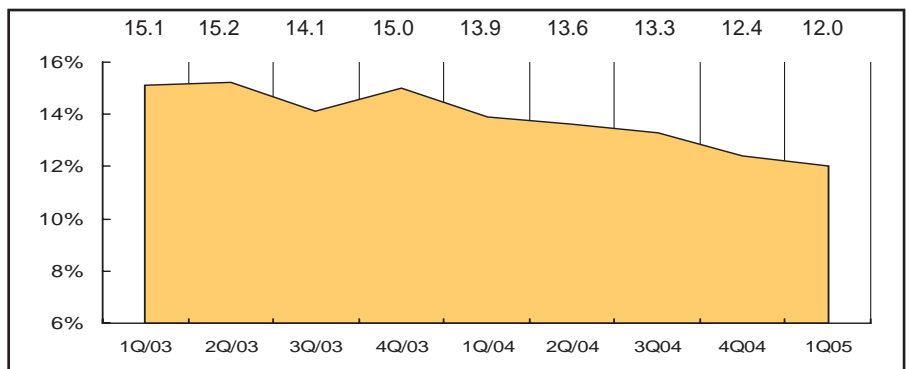
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Office Vacancy Rate*

* All Classes of Space

Office Market Snapshot Richmond First Quarter 2005

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)	7,042,079	1,105,817	15.7%	28,025	28,025	377,928	\$21.49	\$14.88
Northeast	718,606	66,241	9.2%	(9,917)	(9,917)	-	N/A	\$15.88
Northwest	12,781,528	1,384,566	10.8%	60,667	60,667	115,000	\$18.21	\$15.46
Southwest	4,577,636	465,198	10.2%	86,907	86,907	-	\$17.51	\$15.54
CBD	7,042,079	1,105,817	15.7%	28,025	28,025	377,928	\$21.49	\$14.88
Suburban	18,077,770	1,916,005	10.6%	137,657	137,657	115,000	\$17.97	\$15.49
Total	25,119,849	3,021,822	12.0%	165,682	165,682	492,928	\$19.39	\$15.22
By Class (All Submarkets)							<u>Available for Sublease</u>	
							CBD	Suburban
Class A	12,205,059	1,015,067	8.3%	41,440	41,440	492,928	32,564	117,280
Class B	11,286,522	1,811,873	16.1%	79,687	79,687	-	16,701	100,744
Class C	1,628,268	194,882	12.0%	44,555	44,555	-	-	-
Total	25,119,849	3,021,822	12.0%	165,682	165,682	492,928	49,265	218,054

(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 both direct and 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:

Several suburban office buildings were re-classified from A to B at the beginning of 2005 due to age and asking rents that were more comparable to other Class B buildings.

Recent Transactions

Grubb & Ellis|Harrison & Bates is pleased to announce the following office transactions during the first quarter of 2005:

Shoney's of Richmond

3,777 SF Lease
9816 Mayland Drive
Steve Gentil, Garnett Hall,
John Gentry, David Williams

Farmers Insurance Group of Companies

2,331 SF Lease
The Forum Executive Office Center
Chris Wallace, John Gentry

Mercury Insurance

5,761 SF Lease
Moorefield VI
John Gentry, Chris Wallace

Teng & Associates, Inc.

4,441 SF Lease
4050 Innslake Drive
Garnett Hall

Southport Office Condo

1,180 SF Sale
Scott White

1142 W. Grace Street

19,301 SF Sale
Kit Tyler, Chuck Ellsworth

Featured Listings

Partial Listing of Office Properties Currently Available

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

Downtown



NEW
207-211 W. Broad Street
19,883 SF
Sale - \$950,000
4,162 SF Available
Lease - \$7.50 to \$10.50
Kit Tyler, Chuck Ellsworth



Federal Reserve Building
701 E. Byrd Street
Up to 41,000 SF
High Security, Levels B & C
Lease - \$14.50
Kit Tyler



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



Investment Opportunity
10 E. Franklin Street
30,957 SF - 100% Leased
Sale - \$1,950,000
Kit Tyler, Chuck Ellsworth

Suburban



Richmond Plaza
110 S. 7th Street
Suites from 200 to 20,000 SF
Lease - \$14.50 Full Service
Kit Tyler, Chuck Ellsworth



NEW
Medical Society of Virginia
2924 Emerywood Pkwy
3,000 to 18,000 SF
Lease - \$16.75 Full Service
John Gentry, Garnett Hall



Innsbrook
4224 Cox Road
Up to 37,100 SF
Lease - \$17.50 Full Svcs
John Gentry, Chris Wallace



Broad & Parham Area
7800 Carousel Lane
Up to 58,450 SF
Lease - \$15.50 Full Service
John Gentry, Chris Wallace



NEW
Westham Office Building
420 N. Ridge Road
2,838 SF
Lease - \$16.00 Full Service
Garnett Hall, Kit Tyler



Forest Office Park
8000 Franklin Farms Drive
Up to 7,000 SF
Lease - \$15.50
Kit Tyler, Chris Wallace



Investment Opportunity
ITT Educational Services
300 Gateway Centre Pkwy
Leased - Single Tenant
Sale - \$3,200,000
Kit Tyler, Chris Wallace



NEW Investment Sale
4400 Cox Road
43,000 SF
Long Term Leases in Place
John Gentry, Scott Boyers,
Mike Lowry, Lee Hilbert



Hungary Springs Office Park
3001 Hungary Spring Road
Suites from 2,500 - 6,000 SF
Lease - \$13.50 Full Service
John Gentry, Chris Wallace



Boulders - Medical/Office
1000 Boulders Pkwy
18,500 - 37,000 SF
Sale - \$2,960,000
Lease - \$15.50 Full Svcs
Steve Gentil, Chris Wallace



NEW Laburnum Professional Park
4796 Finlay Street
1,700 SF
Lease - \$10.50 to \$11.00
Scott White



NEW Pocoshock Area
7608 Hull Street Road
3,500 SF
Commercial Building
Sale - \$400,000
Ann Malone

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

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