

Office Market Trends Richmond

Grubb & Ellis Research
Third Quarter 2005



Although there is very little first generation Class A office space available, there is an abundance of high quality second generation space available.

Phantom Phenomenon

Richmond's office market is starting to feel the full effects of all the available phantom space (leased but vacant or under utilized space) we've known about for the last several quarters as these large blocks begin to show up as true vacancies. The large vacant blocks will continue to accumulate between now and Spring of 2006. The entire Perimeter Center of 177,000 square feet is available along with West Mark II, another entire building of 202,000 square feet. CarMax has vacated 130,000 square feet and SunCom is planning to relocate from 100,000 square feet at Westgate I & II. It is rumored that Capital One is quietly marketing for sublease 210,000 square feet at Highwoods III and/or 215,000 square feet at East Shore I-III. These large blocks of Class A and B suburban space should restrict new construction going into 2006 until some of it is backfilled.

Although sales of office condos continue to be brisk in the better locations, overall development will likely begin to slow as rising interest rates and construction costs make condo ownership less economically attractive. To illustrate, 18 to 24 months ago when interest rates were 5 to 5.5% and condo prices ranged from \$110 to \$120 per square foot, a purchaser could occupy new space at the equivalent of about \$17 per square foot full service. At today's 6.5% rates and average prices of \$130 to \$140 per square foot, the leasing equivalent is more like \$20 per square foot. Economics is not the only reason for purchasing, however, so it may take three to five years to see if condos were the right move for both buyers and developers.

In other sales activity, Q3 saw investment transfers of a couple of fully leased office buildings to private investors, and there were several sales of small office buildings to users in the range of \$90 to \$124 per square foot. To accommodate its expansion plans, VCU is paying up to \$75 per square foot for land east of Belvidere Street.

Richmond Office Market Trends

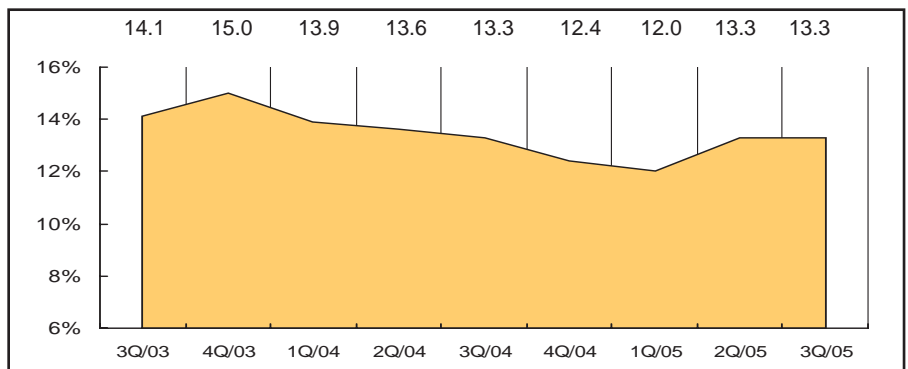
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Office Vacancy Rate*

* All Classes of Space

Office Market Snapshot Richmond Third 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)	7,272,079	1,263,055	17.1%	48,297	100,787	147,928	\$22.97	\$14.92
Northeast	718,606	81,183	11.3%	3,414	(24,859)	-	-	\$16.02
Northwest	12,898,955	1,496,488	11.6%	149,552	151,730	77,708	\$18.46	\$15.61
Southwest	4,577,636	544,592	11.9%	(105,055)	(40,987)	-	\$17.69	\$15.18
CBD	7,272,079	1,216,352	17.1%	48,297	100,787	147,928	\$22.97	\$14.92
Suburban	18,195,197	2,122,263	11.7%	47,911	85,884	77,708	\$18.20	\$15.56
Total	25,467,276	3,385,318	13.3%	96,208	186,671	225,636	\$20.15	\$15.29
By Class (All Submarkets)							Available for Sublease	
							CBD	Suburban
Class A	12,550,059	1,235,974	9.8%	84,194	205,018	225,636	55,177	140,912
Class B	11,288,949	1,948,559	17.3%	(2,022)	(56,999)	-	42,090	33,130
Class C	1,628,268	200,785	12.3%	14,036	38,652	-	-	-
Total	25,467,276	3,385,318	13.3%	96,208	186,671	225,636	97,267	174,042

(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.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the building size.

Recent Transactions

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

<p>ITT Educational Services Bldg 21,000 SF Investment Sale 300 Gateway Center Pkwy Kit Tyler, Chris Wallace</p>	<p>10 E. Franklin Building 30,957 SF Investment Sale 10 E. Franklin Street Kit Tyler, Chuck Ellsworth</p>	<p>7608 Hull Street Road 3,500 SF Sale 7608 Hull Street Road Ann Malone</p>
<p>Wong Center 3,500 SF Sale 200 E. Cary Street Chuck Ellsworth</p>	<p>Federal Deposit Insurance Corp 3,395 SF Lease Hungary Spring Office Park John Gentry, Chris Wallace</p>	<p>VCPI 5,122 SF Lease One Monument Avenue Kit Tyler, Scott Boyers</p>

Featured Listings

Partial Listing of Office Properties Currently Available

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

Downtown



Canal Crossing
101-115 S 15th St
Up to 30,834 SF
Entire 3rd, 4th, 5th Floors
+ Basement Storage
Sublease - \$18.00 Full Svcs
Scott Boyers



Federal Reserve Building
701 E. Byrd Street
Up to 41,000 SF on
High Security, Levels B & C
Entire 18th Floor - 19,355 SF
Kit Tyler, Chuck Ellsworth



NEW **Metro Chamber Building**
201 E. Franklin Street
5,000 to 21,409 SF
Lease - \$15.50 Full Service
Available June, 2006
Kit Tyler, Chuck Ellsworth



NEW **One Capitol Square**
830 E. Main Street
6,752 SF - 23rd Floor
Sublease - \$12.90
Scott Boyers

Suburban



Mechanicsville
8149 Walnut Grove Rd
46,598 SF + 4,560 SF
Basement on 10.54 Acres
Sale - \$3,000,000
Steve Gentil, Garnett Hall



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



Innsbrook
5020 Sadler Place
Up to 29,500 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 **Westgate I & II**
100-200 Westgate Pkwy
Up to 91,752 SF in Bldg I
11,115 SF in Bldg II
Sublease
John Gentry, Garnett Hall



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



NEW **Willow Lawn Area**
5211 W. Broad Street
4,000 to 12,417 SF
Lease - \$13.50
Scott White, Scott Boyers



Under Contract **Willow Lawn Area**
4914 Radford Avenue
22,000 SF Building
Sale - \$1,295,000
Small suites for lease
Scott White, Garnett Hall



NEW **Midlothian & Rt 288 Area**
231-247 Wylderose Court
Two 1,000 SF Units Available
Lease - \$14.00 Net of Elec.
Owner may sell units.
Scott White, Stuart Cary



NEW **James River Commons**
10045 Midlothian Turnpike
6,432 SF
Sale - \$540,000
Ann Malone



2505 Pocoshock Place
Suites from 716 SF
Lease
Chris Wallace, Scott White



1000 Boulders Parkway
37,000 SF
Office/Medical
Sale - \$2,960,000
Lease - \$15.50 Full Service
Steve Gentil, Chris Wallace

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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