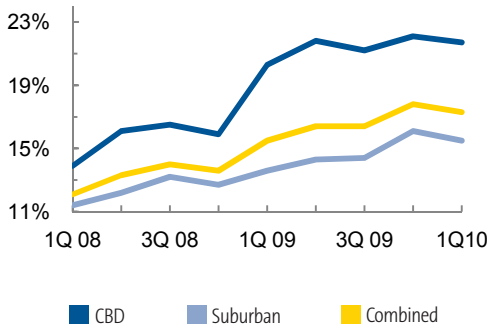
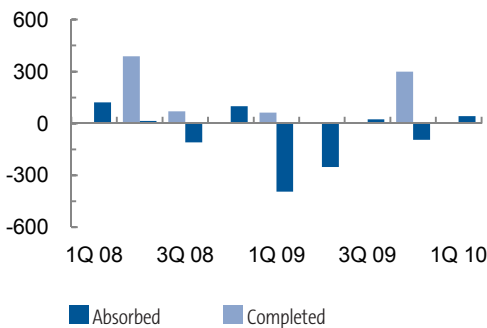


### Vacancy Rate



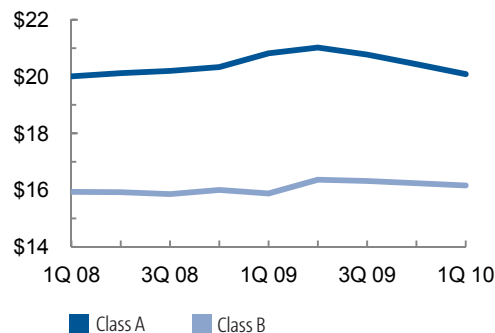
### Completions vs. Absorption

(in Thousands of SF)



### Asking Rental Rates

(\$/SF/Yr. Full Service)



## Flight to Quality Shifting Market

Richmond's inventory of empty commercial buildings is shifting as tenants take advantage of market conditions to upgrade their office space from class B to A, or from class C to B. The good news for some landlords is that the flight to quality trend, coupled with constrained construction activity is setting up for an historic period of declining office inventory, eventually leading to rising rental rates as supplies diminish. The bad news for other landlords is that their functionally obsolete buildings, sometimes called "zombies", have outlived their useful life, are virtually unmarketable and will need to be leased at very deep discounts, retrofitted for a different use or demolished for redevelopment.

On the leasing side, several large transactions were completed as noted below. Ironworks was a relocation and Nationwide Insurance was a consolidation within the market. Stratford University (52,000 square feet) and Virginia College (60,000 square feet) are new to the market and continue the influx of technical schools begun by South University in 2009. In addition, The Martin Agency expanded into sublease space (17,837 square feet) in James Center Three. Tenants have been able to negotiate great lease deals in this market, but there are signs that some landlords have reached a floor and will offer no further reductions. We'll have to see if that "line in sand" will hold or if tenants will be successful in pushing further.

The only notable first quarter sale was the transfer of Westmoreland Place (121,850 square feet) to the Commonwealth of Virginia for \$9.7 million or \$80 per square foot. The building will be occupied by the Department of Taxation. Looking ahead, there are several sizable sales pending which should boost volume and help to solidify current values over the next couple of quarters.

### FORECAST

- Continued downward pressure on rents meeting resistance from some landlords.
- Gradually improving absorption.
- Construction primarily for medical uses.

### KEY TRANSACTIONS

Lessee/Buyer	Lessor/Seller	Property	Size (SF)/Price
Commonwealth of Virginia	Brandywine Realty Trust	1957 Westmoreland St	\$9,700,000
Stratford University	11100 West Broad Street LC	11100 W. Broad Street	52,020
Nationwide Mutual Insurance Co.	Brandywine Realty Trust	7501 Boulders View Drive	47,816
Ironworks	Highwoods Properties	10900 Nuckols Road	34,962

■ Leasing ■ Sales (R) = Renewal (S) = Sublease \*Indicates Transaction Represented by Grubb & Ellis|Harrison & Bates

# Office Trends Report—First Quarter 2010

## Richmond, VA



By Submarket	Total SF	Vacant SF	Vacant %	NET ABSORPTION		Under Construction SF	ASKING RENT	
				Current	Year-To-Date		Class A	Class B
Downtown	7,884,309	1,708,139	21.7%	27,389	27,389	200,000	\$23.00	\$16.07
<b>CBD Total</b>	<b>7,884,309</b>	<b>1,708,139</b>	<b>21.7%</b>	<b>27,389</b>	<b>27,389</b>	<b>200,000</b>	<b>\$23.00</b>	<b>\$16.07</b>
Northeast	736,366	36,825	5.0%	(5,112)	(5,112)	-	\$18.00	\$17.25
Northwest	13,176,294	2,151,626	16.3%	11,128	11,128	-	\$19.49	\$16.23
Southwest	5,088,901	753,923	14.8%	8,827	8,827	-	\$19.30	\$16.16
<b>Suburban Total</b>	<b>19,001,561</b>	<b>2,942,374</b>	<b>15.5%</b>	<b>14,843</b>	<b>14,843</b>	<b>-</b>	<b>\$19.45</b>	<b>\$16.24</b>
<b>Totals</b>	<b>26,885,870</b>	<b>4,650,513</b>	<b>17.3%</b>	<b>42,232</b>	<b>42,232</b>	<b>200,000</b>	<b>\$20.09</b>	<b>\$16.16</b>

By Class	Total SF	Vacant SF	Vacant %	Current	Year-To-Date	Under Construction SF	AVAILABLE FOR SUBLEASE	
							CBD	Suburban
Class A	14,183,893	2,274,364	16.0%	105,959	105,959	200,000	237,203	221,809
Class B	11,184,000	2,156,589	19.3%	(66,519)	(66,519)	-	2,821	30,655
Class C	1,517,977	219,560	14.5%	2,792	2,792	-	-	250
<b>Totals</b>	<b>26,885,870</b>	<b>4,650,513</b>	<b>17.3%</b>	<b>42,232</b>	<b>42,232</b>	<b>200,000</b>	<b>240,024</b>	<b>252,714</b>

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## OFFICE TERMS AND DEFINITIONS

**Total SF:** 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.

**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 and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

**Direct Vacant:** This is the vacancy rate in space offered on the market directly by the landlord in single and multi-tenant buildings. This excludes vacant space offered for sublease and vacant space that is not offered on the market, for whatever reason.

**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 full service where all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

*\*Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*