
1Q24

Richmond Office Market Overview



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Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended Q1 2024 at 2.9%, significantly lower than the national average of 3.8%.
- Richmond maintains a diversified economy, with its top four industries each containing in between 15-18% of all employees leading to an overall total of 66% 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.
- The office-related industries of Government and Education & Health experienced the most growth of all industries during the quarter, growing 4.9% and 4.0%, respectively.

Sales Activity

- Office sales volume rebounded to begin 2024, ending the first quarter with almost \$76 million worth of activity. This puts the market on pace to far surpass 2023 sales activity. Across all commercial property segments, office product comprised 29.9% of total sales volume during Q1 2024, which is higher than the decade average of 22.5%.
- The largest transaction of the quarter was the sale of 9120 Lockwood Boulevard, located in the Mechanicsville submarket within the East region of Richmond. Owen & Minor sold the 160,000-square-foot office building to the Commonwealth of Virginia for \$33.5 million, or approximately \$209.38 PSF. The four-story building will be fully occupied by the Virginia Department of Transportation, with an expected move-in of January 2025.

Leasing Market Fundamentals

- The Richmond office market experienced 94,000 square feet of negative net absorption during Q1 2024 and ended the quarter at a 15.0% vacancy rate. Despite this, the market continues to perform impressively relative to other major office markets.
- The Richmond market has shown resilience during the recent economic downturn, as leasing activity hovered close to historical averages from 2020-2023. This positive activity continued during Q1 2024, with the market seeing 0.4 MSF of leasing activity during the quarter, in line with the market’s first-quarter average of 0.5 MSF.
- New leases drove the leasing market in Q1 2024, evidenced by four of the top five transactions being new leases. Furthermore, four of the top five transactions were located in the Innsbrook submarket, which remains a premier 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 during the recent economic downturn. 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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2. Leasing Market Fundamentals
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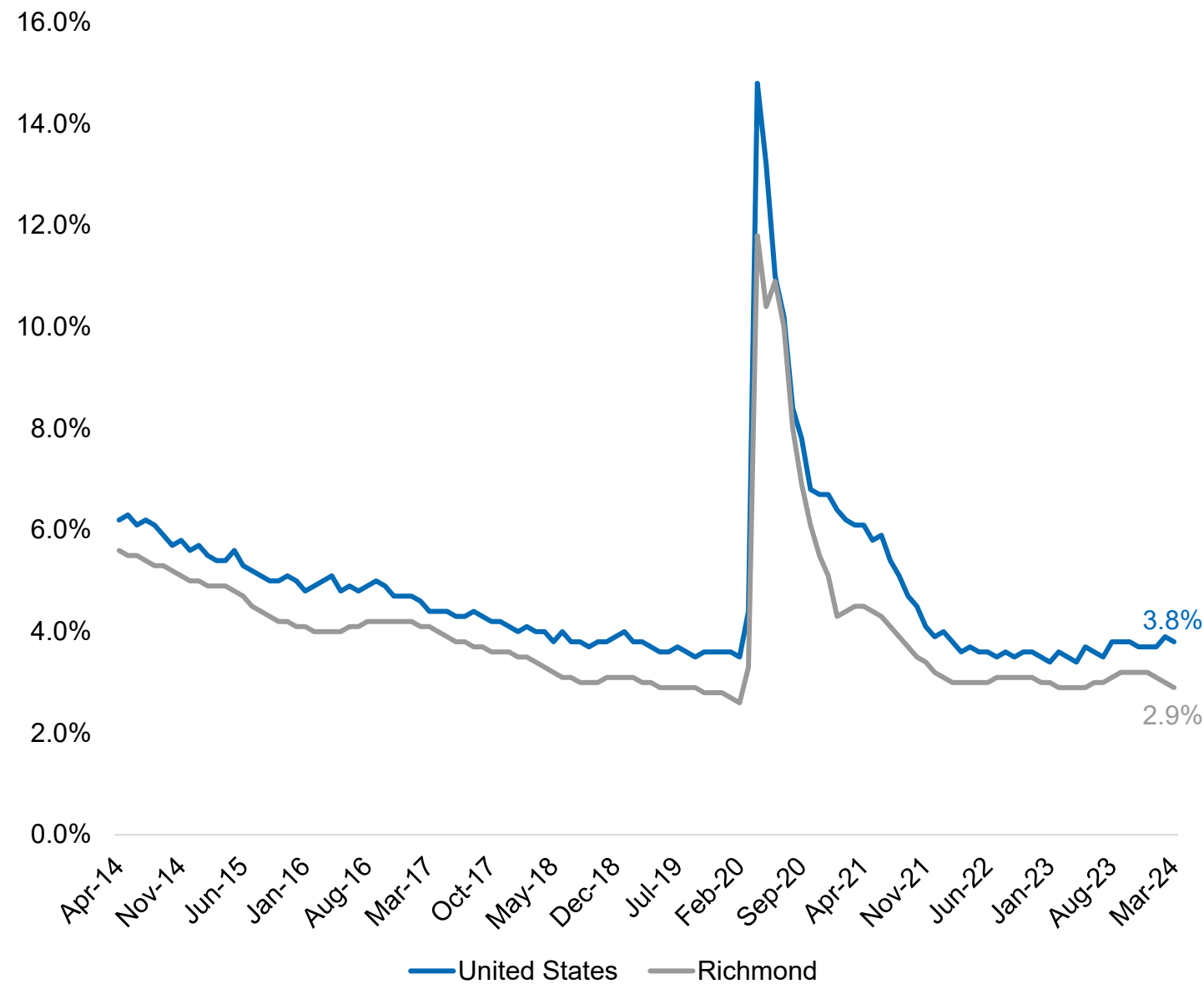
Economy



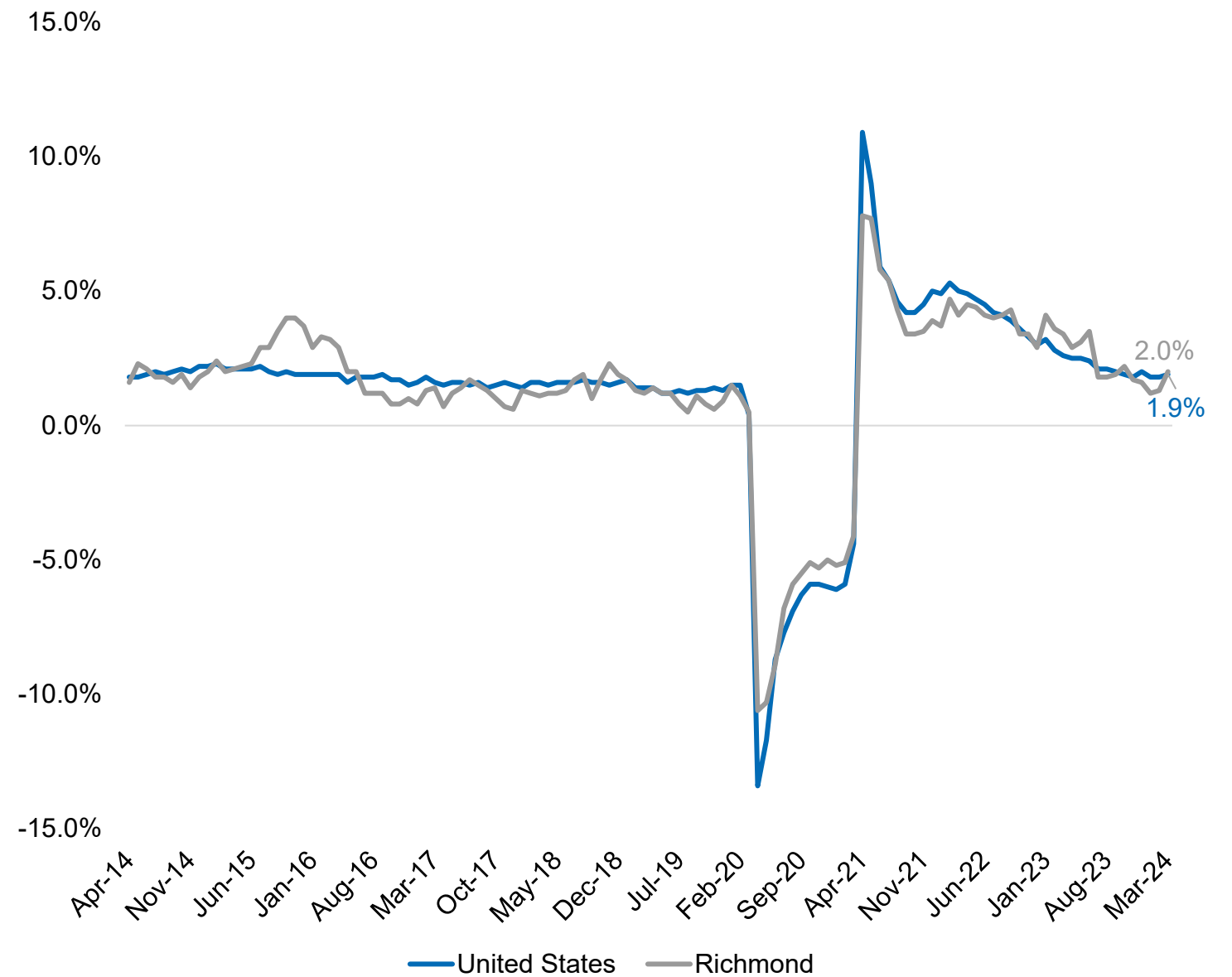
Richmond's Unemployment Rate Outperforms National Average

Richmond's unemployment rate continues to outperform the national average, measuring 2.9% to end Q1 2024. This is flat year-over-year but 90 basis points lower than the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

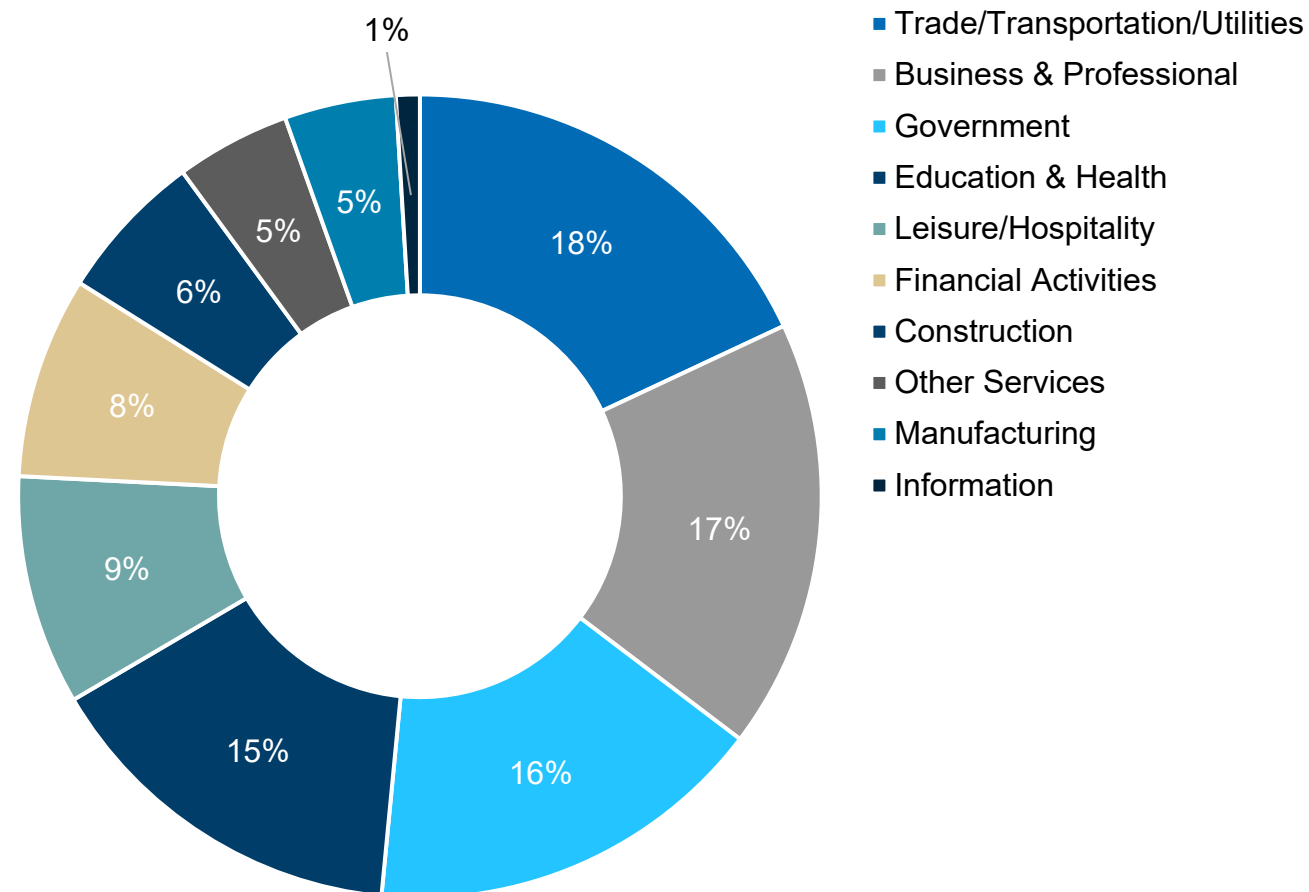


Source: U.S. Bureau of Labor Statistics, Richmond

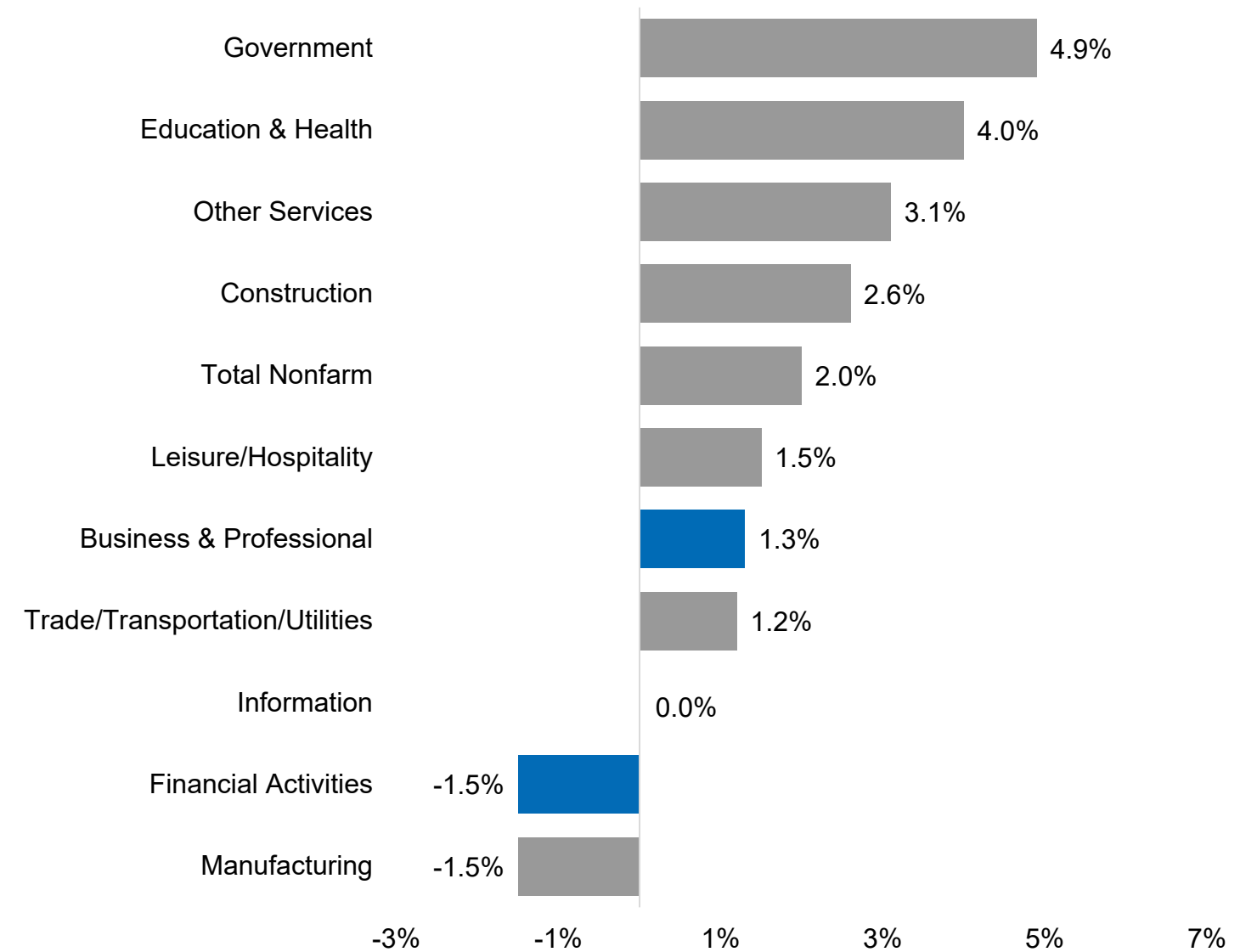
Government and Education & Health Continue Growth as Leading Regional Industries

Government and Education & Health are two of the largest regional industries, combining to make up 31% of the regional workforce. These two industries experienced the most growth during Q1 2024, seeing 4.9% and 4.0% of growth, respectively.

Employment by Industry, March 2024



Employment Growth by Industry, 12-Month % Change, March 2024

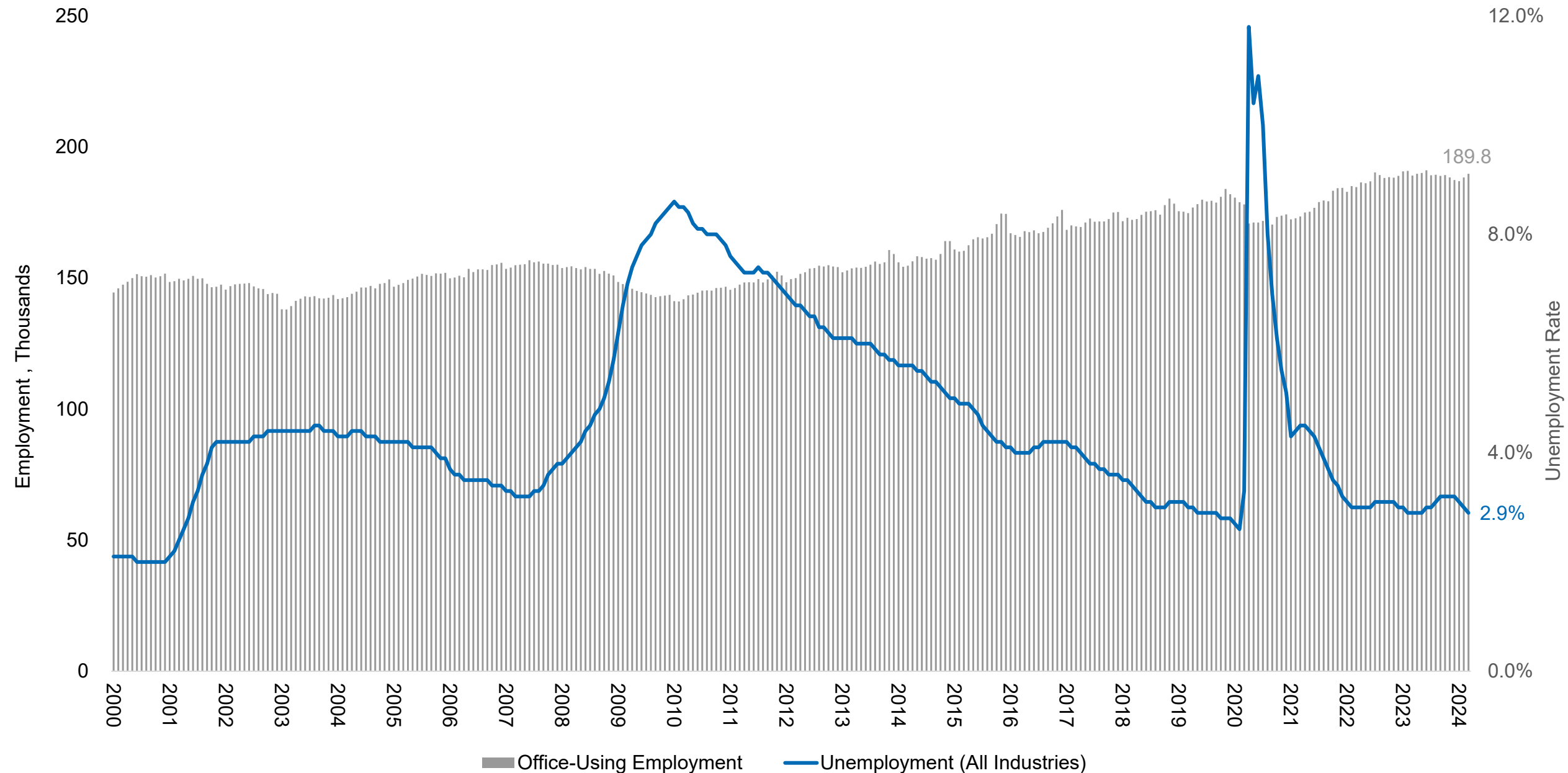


Source: U.S. Bureau of Labor Statistics, Richmond

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended Q1 2024 at 189,800 employees, 3.2% higher than the pre-pandemic high in November 2019 and an increase of 11.4% since the market reached a pandemic-related low in September of 2020.

Office-Using Employment* and Unemployment Across All Industries



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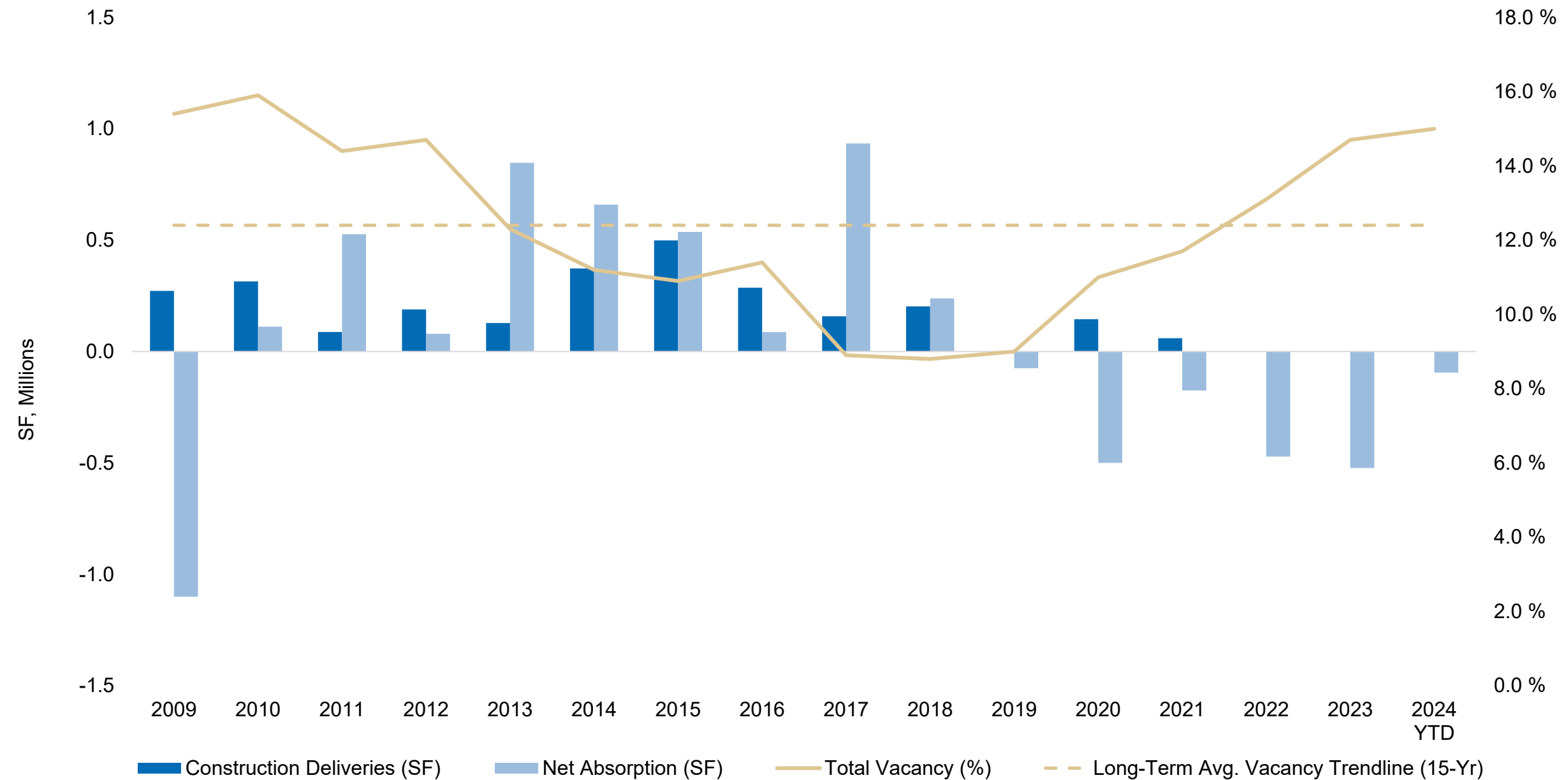
Leasing Market Fundamentals



Despite Softening Fundamentals, Richmond Remains a Relatively Healthy Office Market

The Richmond office market experienced 94,000 square feet of negative net absorption during Q1 2024, ending the quarter at a 15.0% vacancy rate, an expansion of 30 bps quarter-over-quarter and 130 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 major office markets.

Historical Construction Deliveries, Net Absorption, and Vacancy

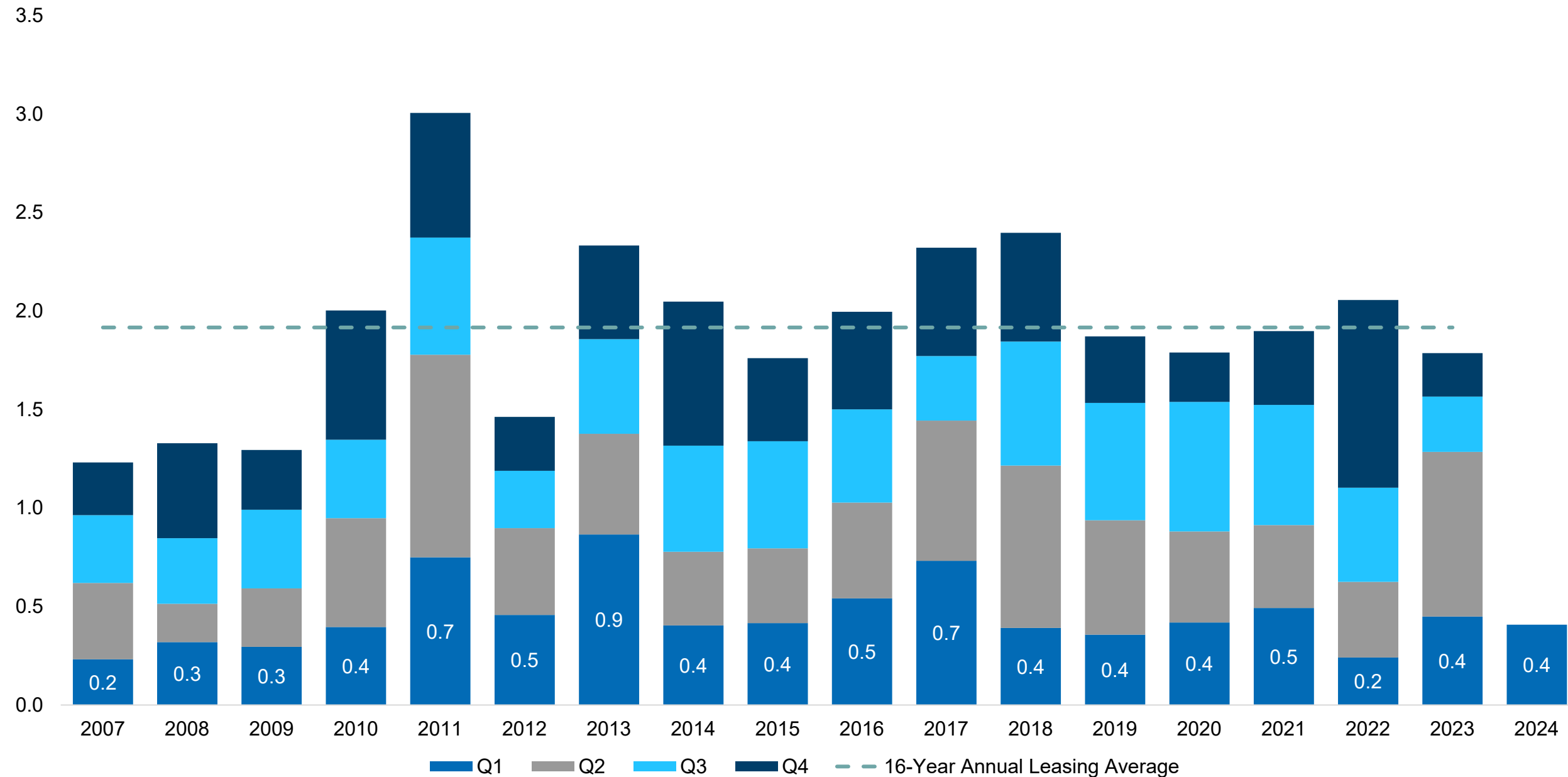


Source: Newmark Research, CoStar

Leasing Activity Remains Near the Historical Average

The Richmond market experienced 0.4 MSF of leasing activity during the year, in line with the market's first-quarter average of 0.5 MSF. 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)

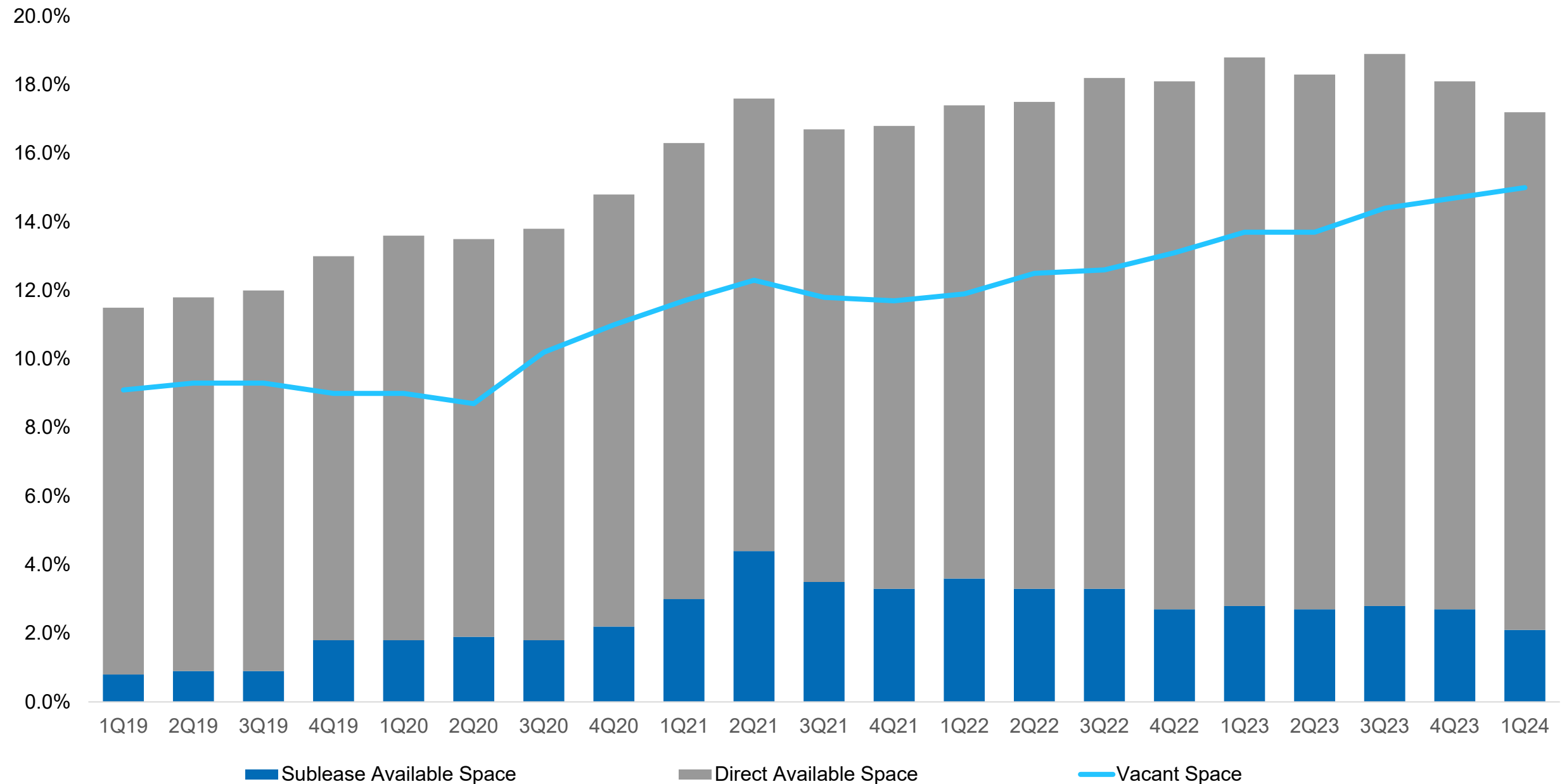


Source: Newmark Research, CoStar

Availability Shows Positive Movement to Begin 2024

During Q1 2024, availability tightened 90 bps and ended the quarter at 17.2%, which is the tightest the market has been in over two years. Sublease available space ended the year at 2.1%, tightening 60 bps quarter-over-quarter and 70 bps year-over-year. After sublease available space saw a peak of 4.4% in Q2 2021, the sublease available market has been consistently tightening. Although vacancy continues to expand slowly in the Richmond market, it remains tighter than other major office markets.

Available Space and Vacancy Rate

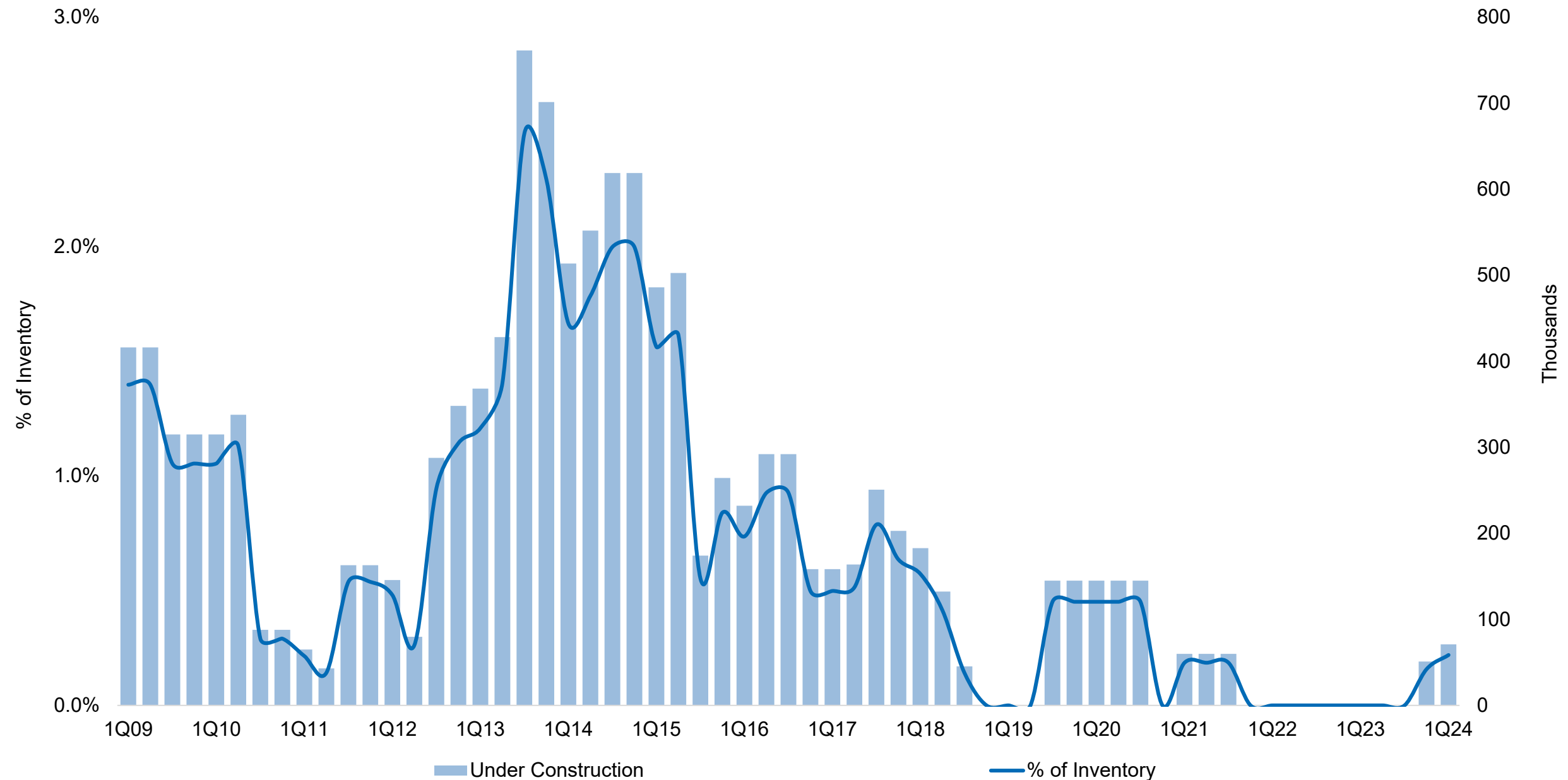


Source: Newmark Research, CoStar

Construction Remains Below Historic Average

There are two properties totaling 71,000 square feet currently under construction, lower than the market's decade average of 168,000 square feet under construction. One 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. The second development will be a 20,000-square-foot medical office building located in the Far West End submarket, with an expected delivery of Q1 2025.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Leasing Activity Driven by New Leases and the Innsbrook Submarket

New leases drove the leasing market in Q1 2024, evidenced by four of the top five transactions being new leases. Furthermore, three of the top five transactions were located in Innsbrook, which remains a premier office submarket in the region. This includes the largest transaction of the quarter, ChemTreat renewing and expanding for a total of almost 95,000 square feet of space at 5640 Cox Road.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ChemTreat	5640 Cox Road	Innsbrook	Renewal / Expansion	94,456
TForce Freight	9954 Mayland Drive	Innsbrook	Direct Lease	46,722
Concordance	2315-2317 Westwood Avenue	West End	Direct Lease	24,400
Richmond International Forest	4951 Lake Brook Drive	Innsbrook	Direct Lease	20,476
Atlantic Union Bankshares	1051 E Cary Street	CBD	Direct Lease	18,586

Source: Newmark Research, CoStar

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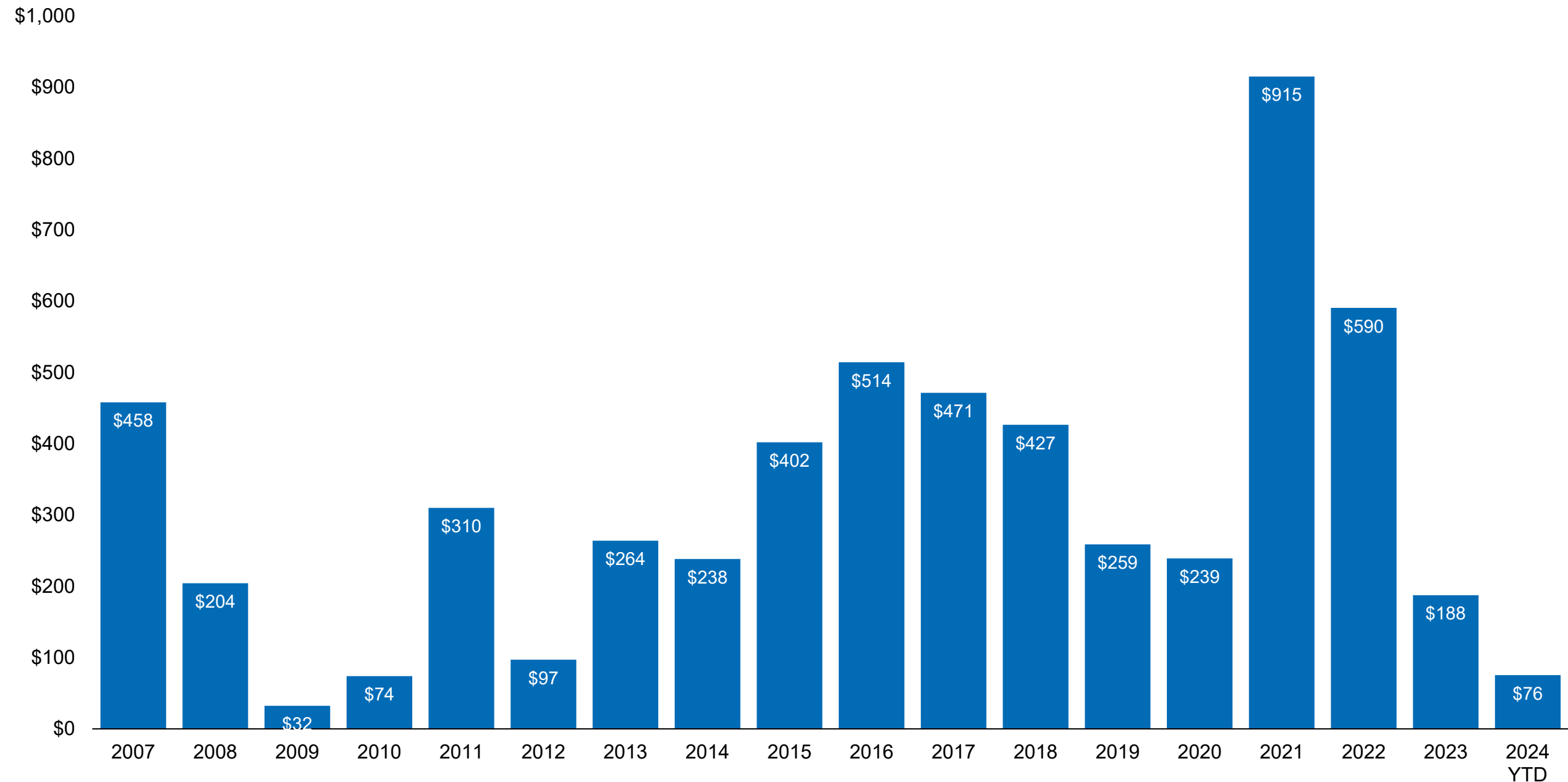
Sales Activity



Office Sales Volume: Up Close

After the Richmond office market experienced record sales in 2021 and 2022, sales volume totaled just \$188 million during 2023, much lower than the decade average of over \$424 million in annual sales volume. Office sales volume rebounded to begin 2024, ending the first quarter with almost \$76 million worth of activity. This puts the market on pace to far surpass 2023 sales activity.

Richmond: Office Sales Volume (\$ in Millions)

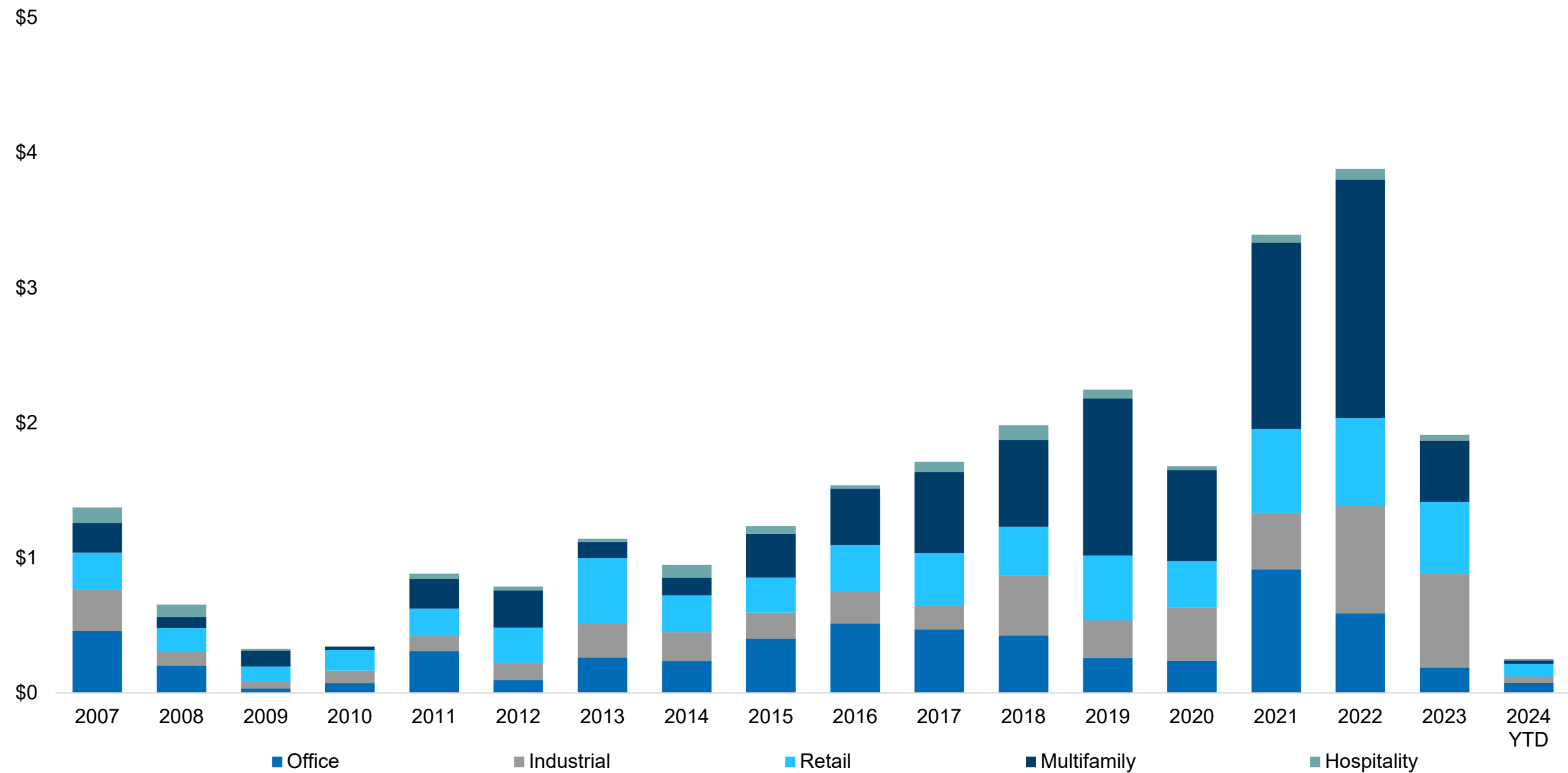


Source: Newmark Research, CoStar

Office Comprised 29.9% of Total Sales Volume during Q1 2024

This is higher than the decade average of 22.5%, highlighting a strong performance to begin 2024. Structural shifts in leasing dynamics remains an ongoing challenge for the property segment. This is in contrast to other asset classes, such as industrial and multifamily, which have experienced heated rent growth amid high demand in recent years.

Richmond: Sales Volume Across Commercial Property Segments (\$ in Billions)



Source: Newmark Research, CoStar

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Market Statistics





Please reach out to your
Newmark business contact for this information

For more information:

Carolyn Bates

Director

Mid-Atlantic Research

carolyn.bates@nmrk.com

Chad Braden

Senior Research Analyst

Mid-Atlantic Research

chad.braden@nmrk.com

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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