
2Q24

Richmond Industrial Market Overview

NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. The unemployment rate ended Q2 2024 at 2.8%, significantly lower than the national average of 4.0%.
- 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. With the industrial market being a primary economic driver in the region, Trade/Transportation/Utilities is the leading industry in the region, encompassing 18% of the regional workforce.
- Trade/transportation/utilities employment has stabilized, surpassing pre-pandemic highs, and continues to grow as evidenced by a 12-month growth rate of 1.0%.

Major Transactions

- The largest sale of the quarter was Scannell Properties’ sale of 10399 Washington Highway to Eaton Vance. The 328,000-square-foot distribution facility sold for \$85.4 million, or \$260.10 PSF. The property, fully occupied by Performance Food Group Company, is a new construction that includes 160,000 SF of freezer/cooler space, as well as a 10,000-square-foot stand-alone vehicle maintenance and fueling facility.
- Three of the four largest leases were new deals, providing optimism for the lease-up of current product in development. US Cabinet Depot, a distributor of kitchen and bath cabinets, signed the largest deal of the quarter, a 194,400-square-foot new lease at 12063 Washington Highway within the I-95 North / Ashland submarket.

Leasing Market Fundamentals

- Despite Richmond experiencing almost 900,000 SF of negative net absorption during Q2 2024, fundamentals remain healthy as evidenced by the tightness of the market. Richmond ended the quarter with a vacancy rate of 4.5%, which is much tighter than the market’s historical average of 5.8%.
- Average asking rents ended Q2 2024 at \$9.26 PSF, an increase of 10.0% year-over-year. Overall, the market has seen an impressive 53.8% increase in rents since the beginning of 2020.
- The market’s development remains strong, experiencing almost 10.0 MSF of deliveries in 2022 and over 5.0 MSF of deliveries in 2023, much higher than the decade’s annual average of 2.7 MSF. Development has slowed in 2024 but continued strong, as user demand is keeping the pipeline steady looking forward into 2025 and 2026.

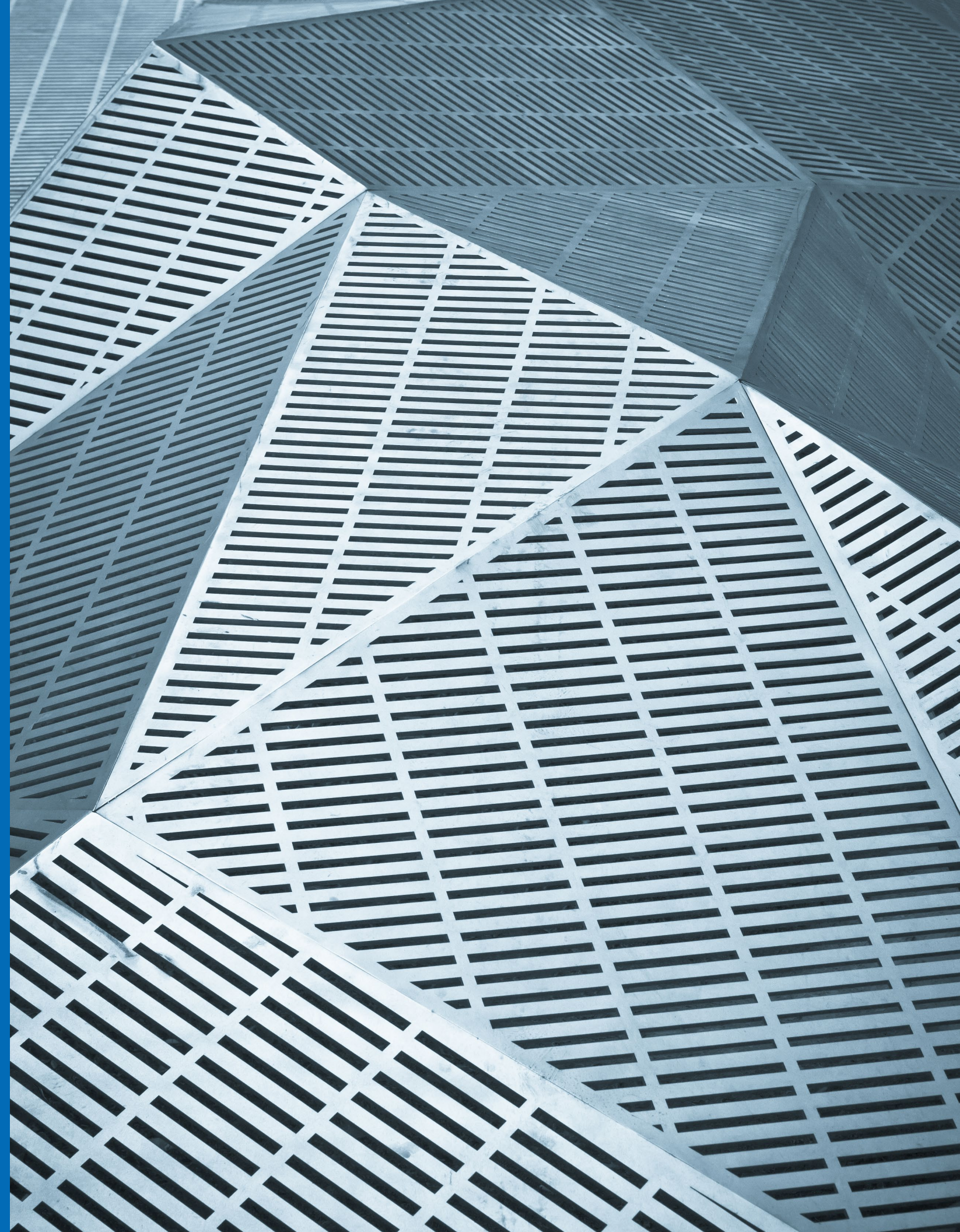
Outlook

- The Richmond Industrial market is expected to continue to perform well with user demand generally in line with new supply. With over 5.4 MSF under construction, including much of the space pre-leased or owner-occupied, the market will see consistent occupied space delivered, helping to maintain a healthy market equilibrium and space availability for continued market growth.
- While supply remains limited, rent growth will continue increasing at elevated levels, although likely at a more modest rate than the last few years. This will vary on a submarket, size range, and asset-type basis.

1. Economy
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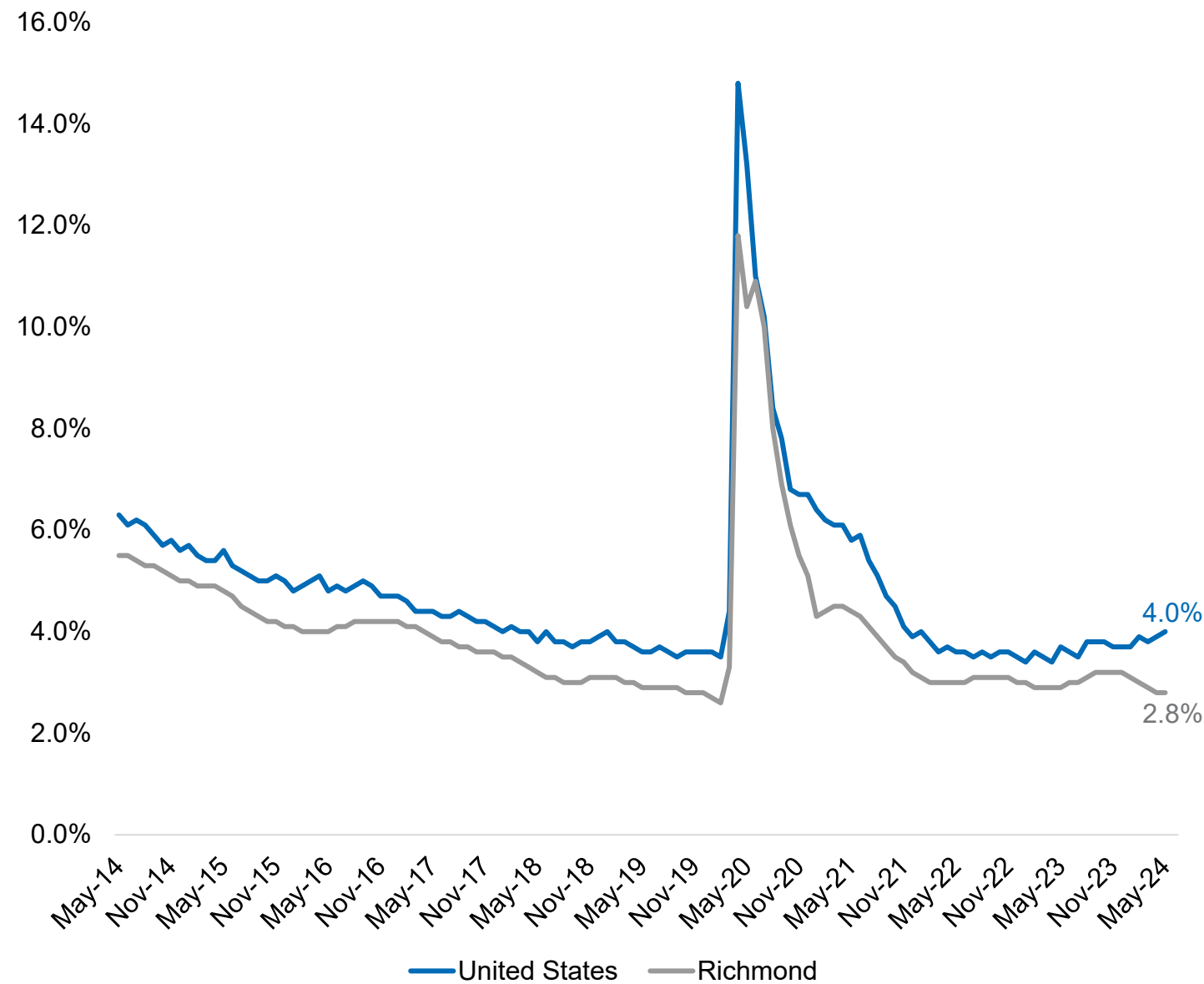
Economy



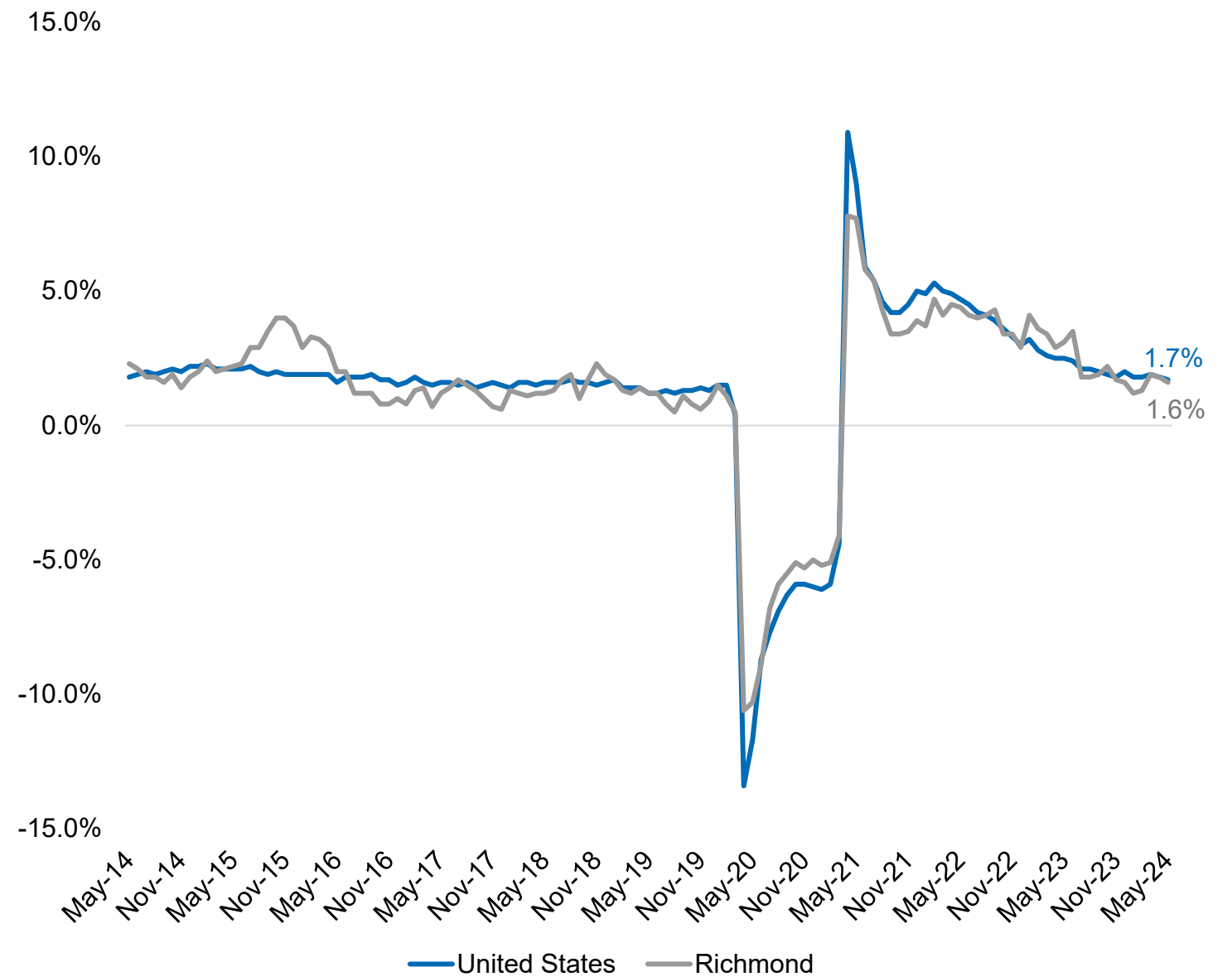
Richmond's Unemployment Rate Outperforms National Average

Richmond's unemployment rate continues to outperform the national average, measuring 2.8% in May 2024. This is 10 bps lower year-over-year and 120 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



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

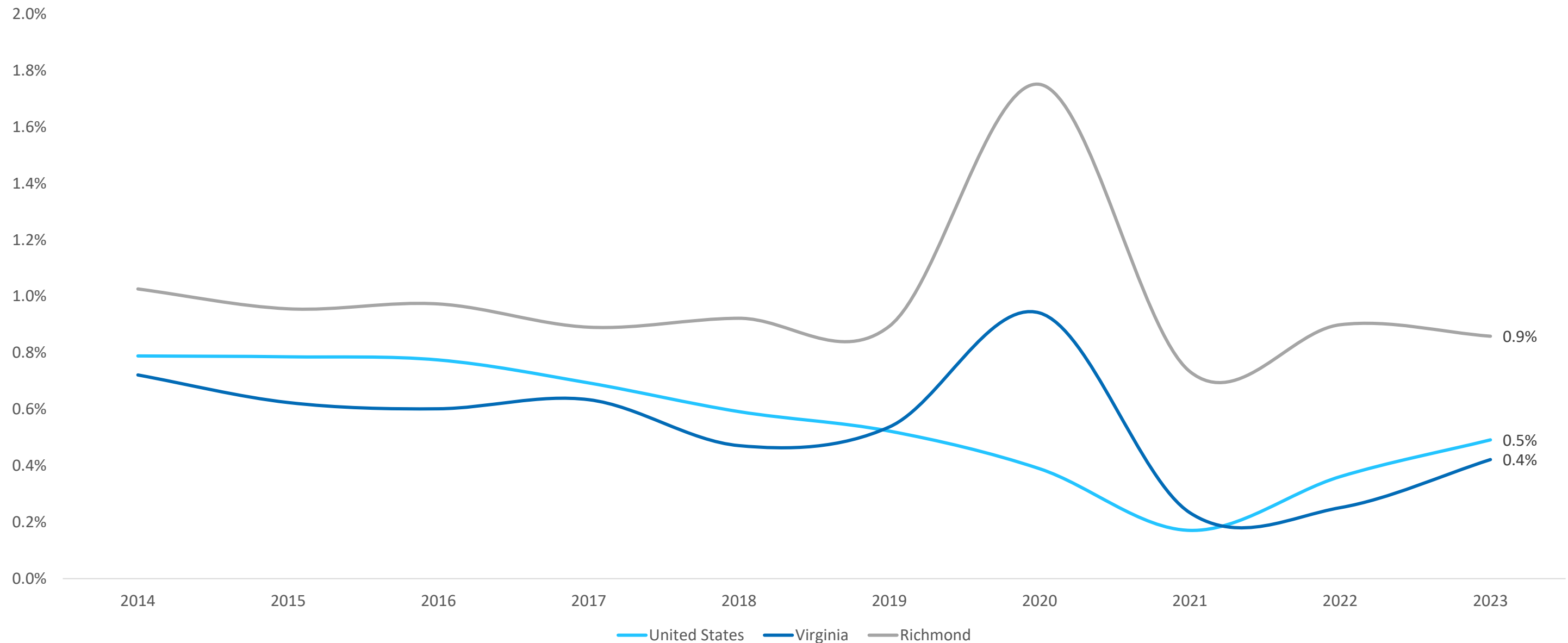


Source: U.S. Bureau of Labor Statistics, Richmond

Richmond Continues Experiencing Elevated Population Growth

The Richmond Metro continues to experience elevated population growth, with the resident population growing 0.9% in 2023. Richmond's population has grown at double the rate of the United States and Virginia, which saw 0.5% and 0.4% of population growth in 2023, respectively. Furthermore, Richmond has been the second fastest-growing Virginia metro, only behind Winchester, since 2020.

Population Growth (Annual % Change): United States Vs. Virginia Vs. Richmond



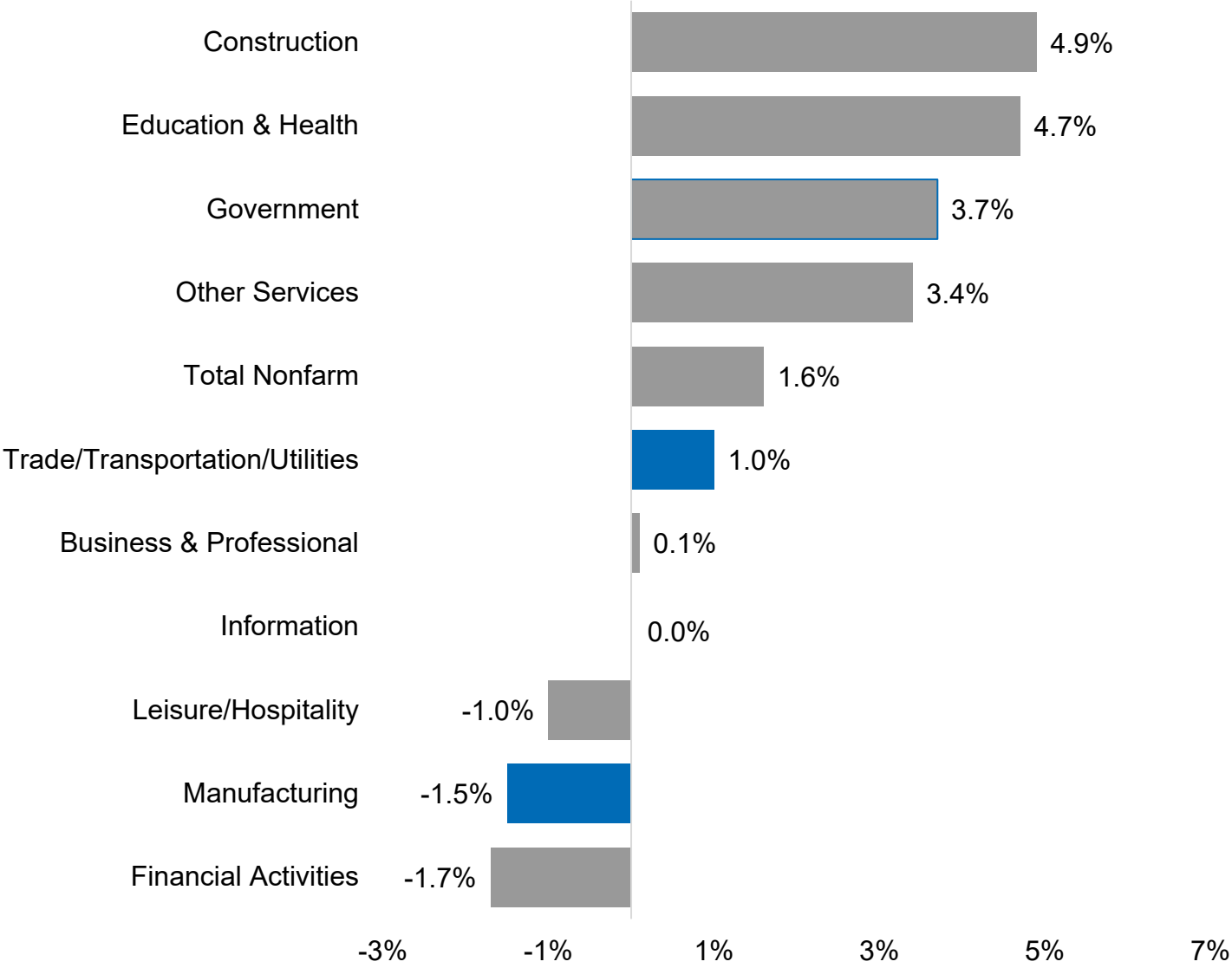
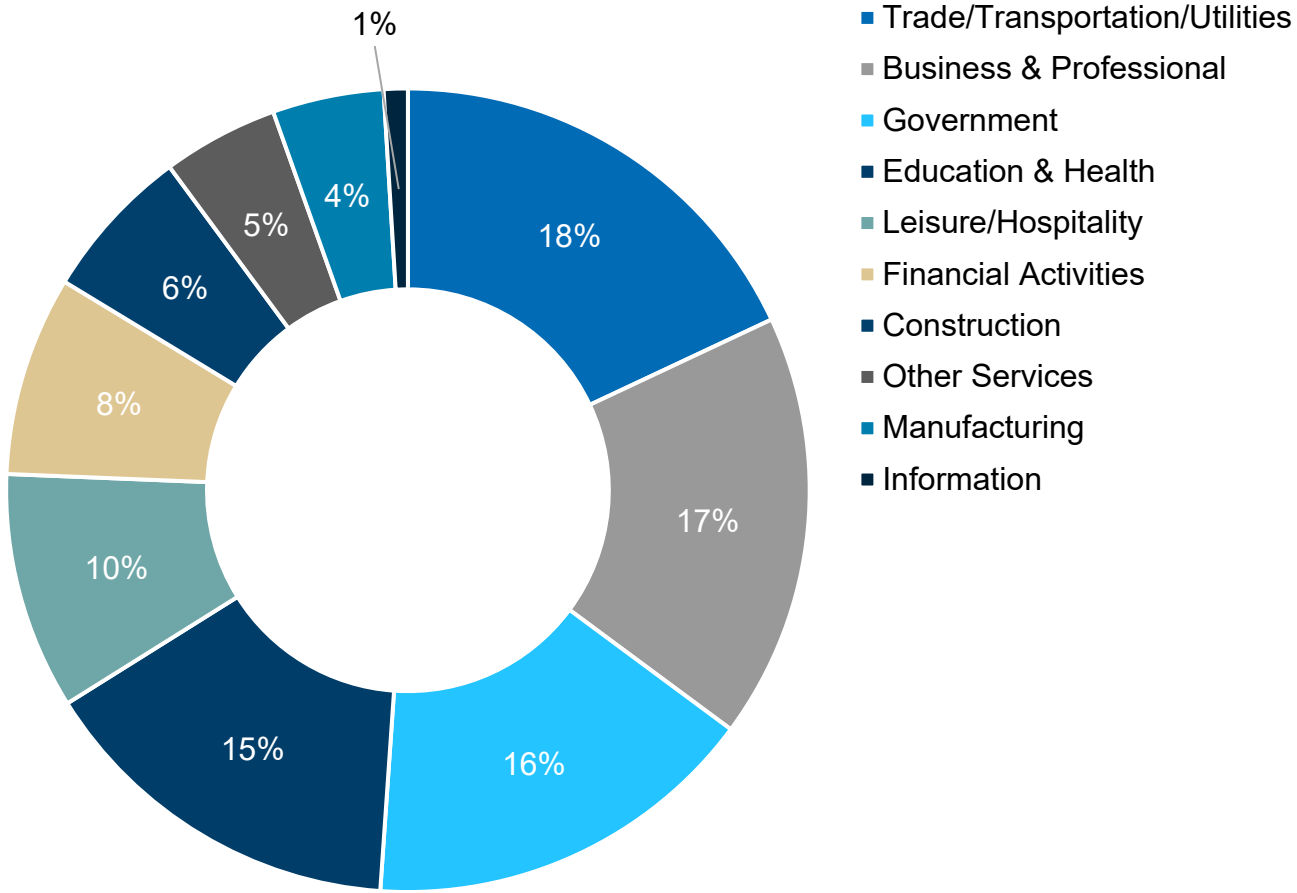
Source: Newmark Research

Trade/Transportation/Utilities Continues Growth as the Leading Regional Industry

Trade/Transportation/Utilities remains the largest industry in the region, constituting 18% of the regional workforce. Furthermore, Trade/Transportation/Utilities continues to see positive growth, seeing 12-month growth of 1.0%.

Employment by Industry, May 2024

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

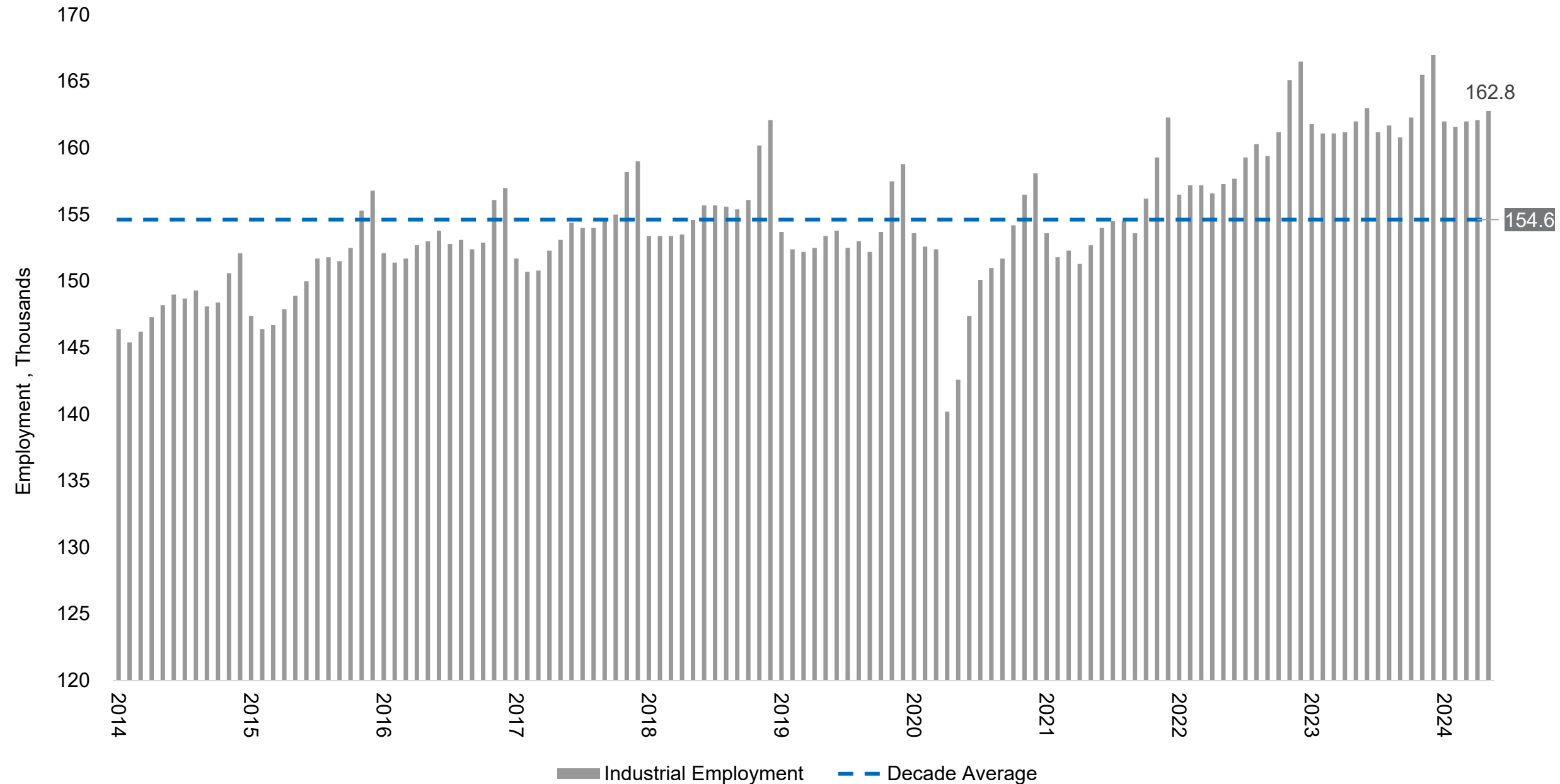


Source: U.S. Bureau of Labor Statistics, Richmond

Industrial Employment Remains at Elevated Levels

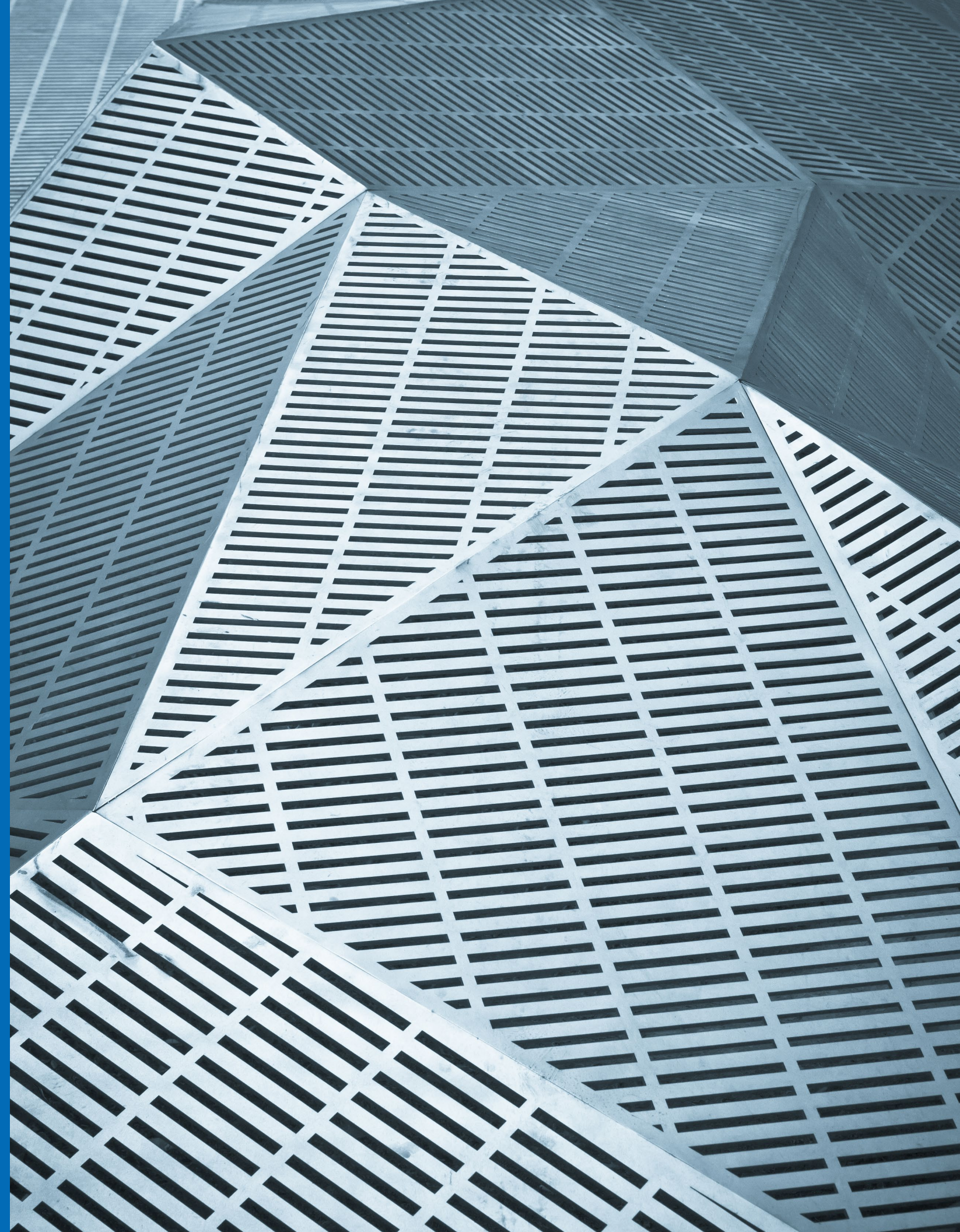
The number of industrial jobs has rebounded and now sits above pre-pandemic levels. Employment ended May 2024 at 162,800 employees, 5.3% higher than the decade average and an increase of 16.1% since the market reached a pandemic-related low in April of 2020.

Industrial Employment



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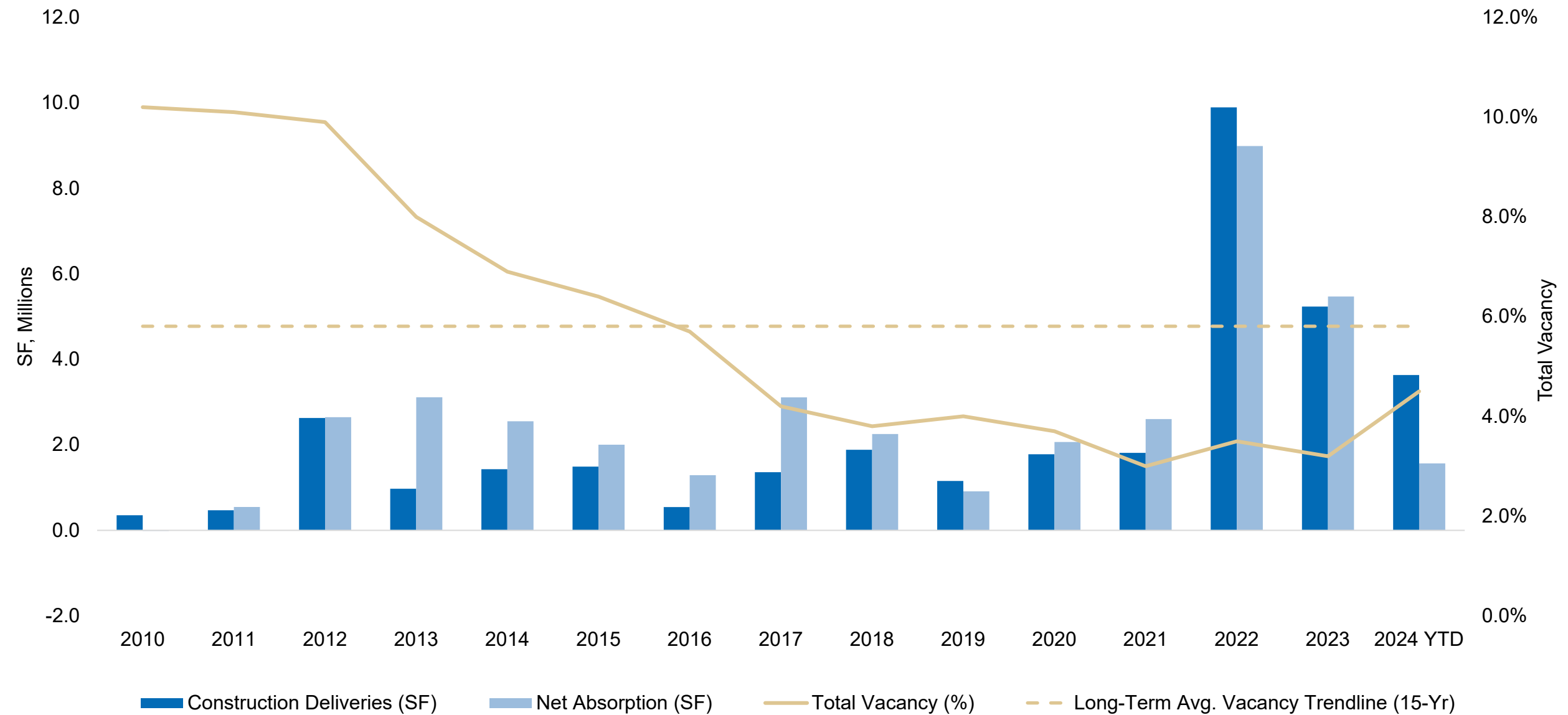
Leasing Market Fundamentals



Fundamentals Remain Healthy During First Half of 2024

The Richmond Industrial market continues to perform exceptionally well, as evidenced by its fundamentals. During Q2 2024, Richmond experienced almost 600,000 SF of deliveries while seeing almost 900,000 SF of negative net absorption. This negative absorption was spread throughout the market, as all four submarket clusters experienced negative net absorption during the quarter. Despite this negative absorption, the market remains historically tight, ending Q2 2024 at a 4.5% vacancy rate, much tighter than the historical average of 5.8%.

Historical Construction Deliveries, Net Absorption, and Vacancy

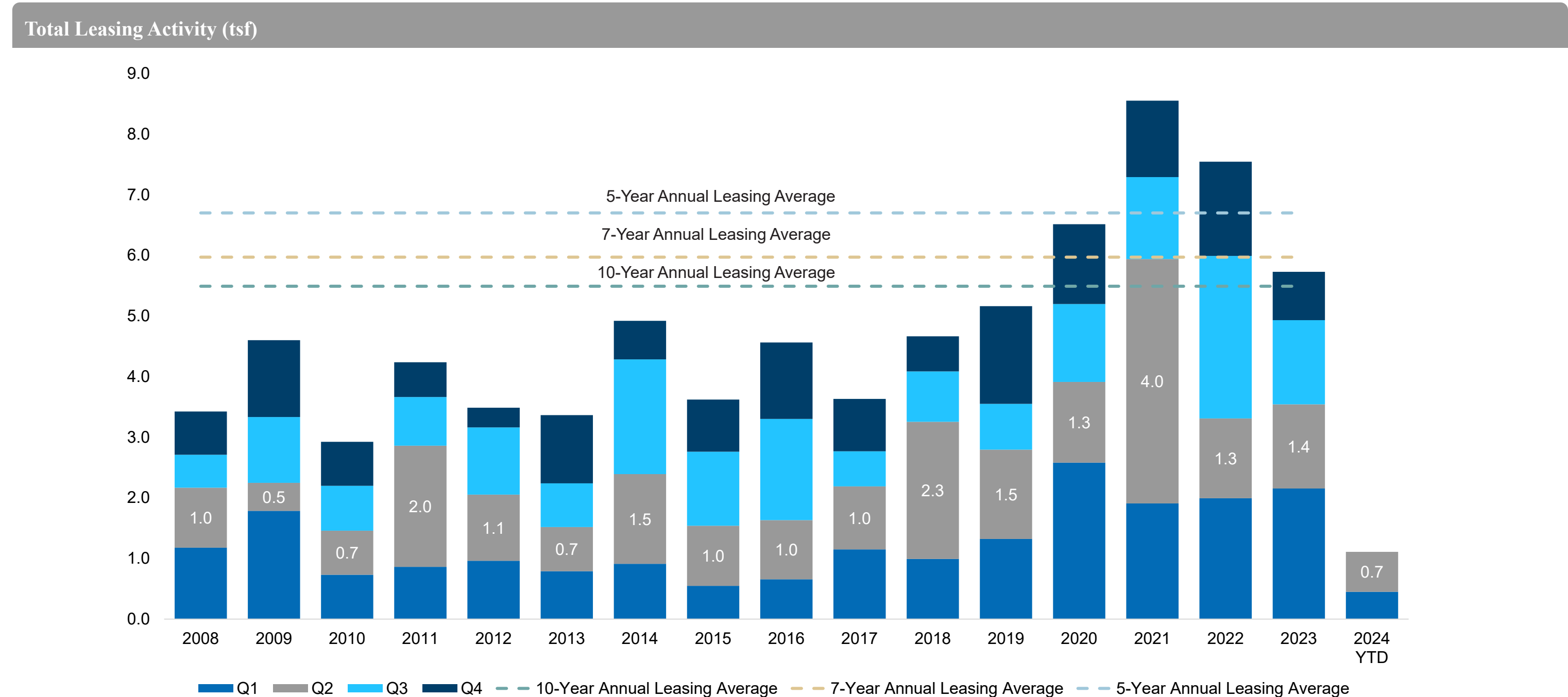


Source: Newmark Research, CoStar



Industrial Leasing Activity is Slow to Begin 2024

Leasing activity slowed during the first half of 2024, ending Q2 2024 with 0.7 MSF of activity. This is much lower than the historical average of 1.3 MSF of second-quarter leasing activity and the lowest level of second-quarter leasing activity the market has seen since 2009. Despite this, current user demand and pending leases are expected to make Q3 2024 figures show improved leasing velocity.

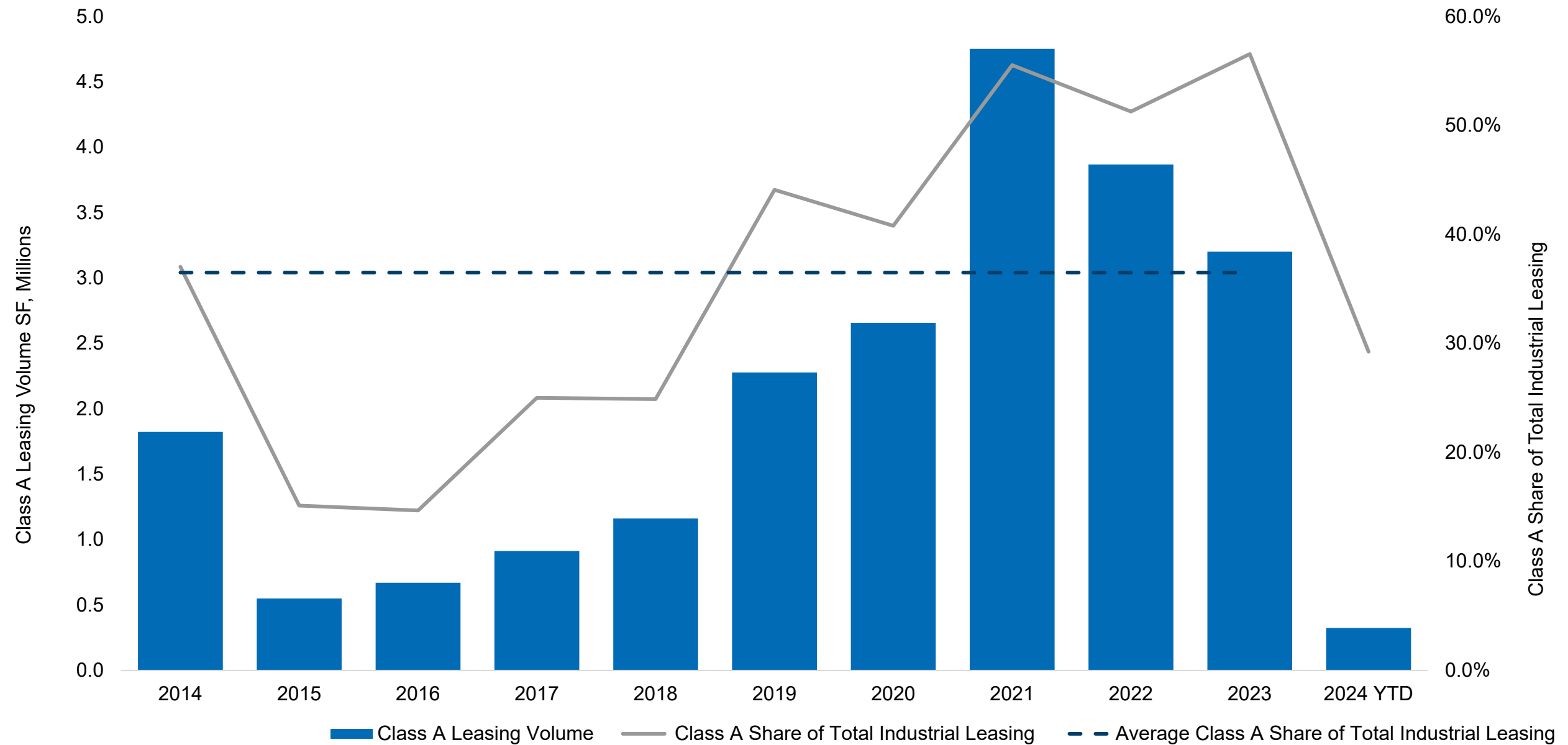


Source: Newmark Research, CoStar

Class A Industrial Leasing Activity Slows to Begin 2024

Class A product has seen historically high levels of leasing activity during the past few years with a peak of leasing volume in 2021. Since 2021 the market has seen elevated levels of Class A leasing activity, albeit at decelerating volumes. Class A industrial leasing activity slowed during the first half of 2024, seeing 325,000 SF of Class A leasing activity. This was 29.2% of overall leasing activity during the period, which was still in line with the decade average of 36.5%, highlighting continued interest in quality Class A space by occupiers.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

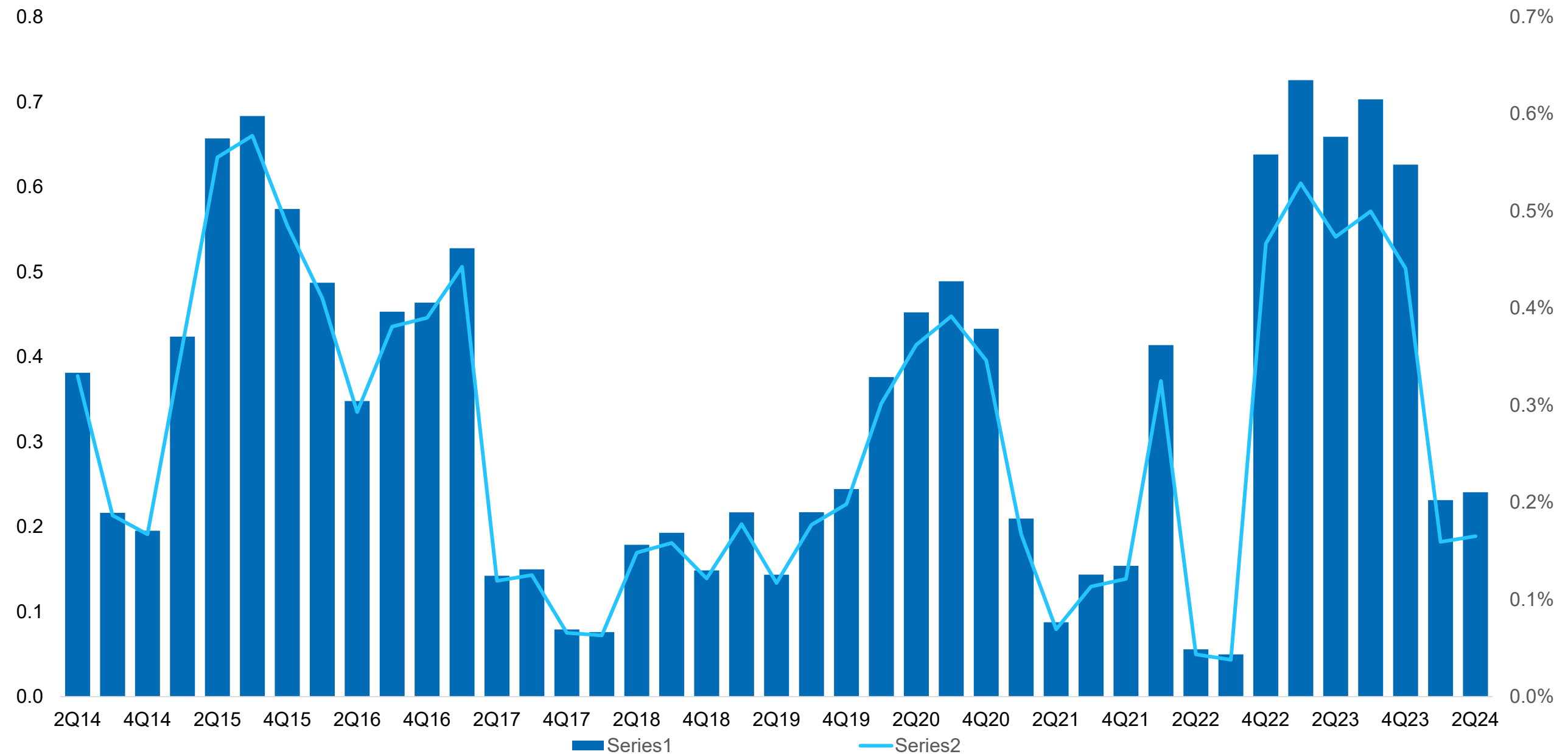


Source: Newmark Research, CoStar

Available Sublease Space Declines to Begin 2024

The market ended Q2 2024 with only 241,000 SF of sublease space available after almost 400,000 SF of available sublease space was withdrawn from the market during the first quarter. This was due to Willis Commerce Center, which totals 405,000 SF, being withdrawn as sublease available space and listed as direct available space. Due to this, only 0.2% of the market's total inventory is currently listed as available sublease space, highlighting the market's current tightness.

Available Industrial Sublease Volume (MSF) and % of Total Inventory

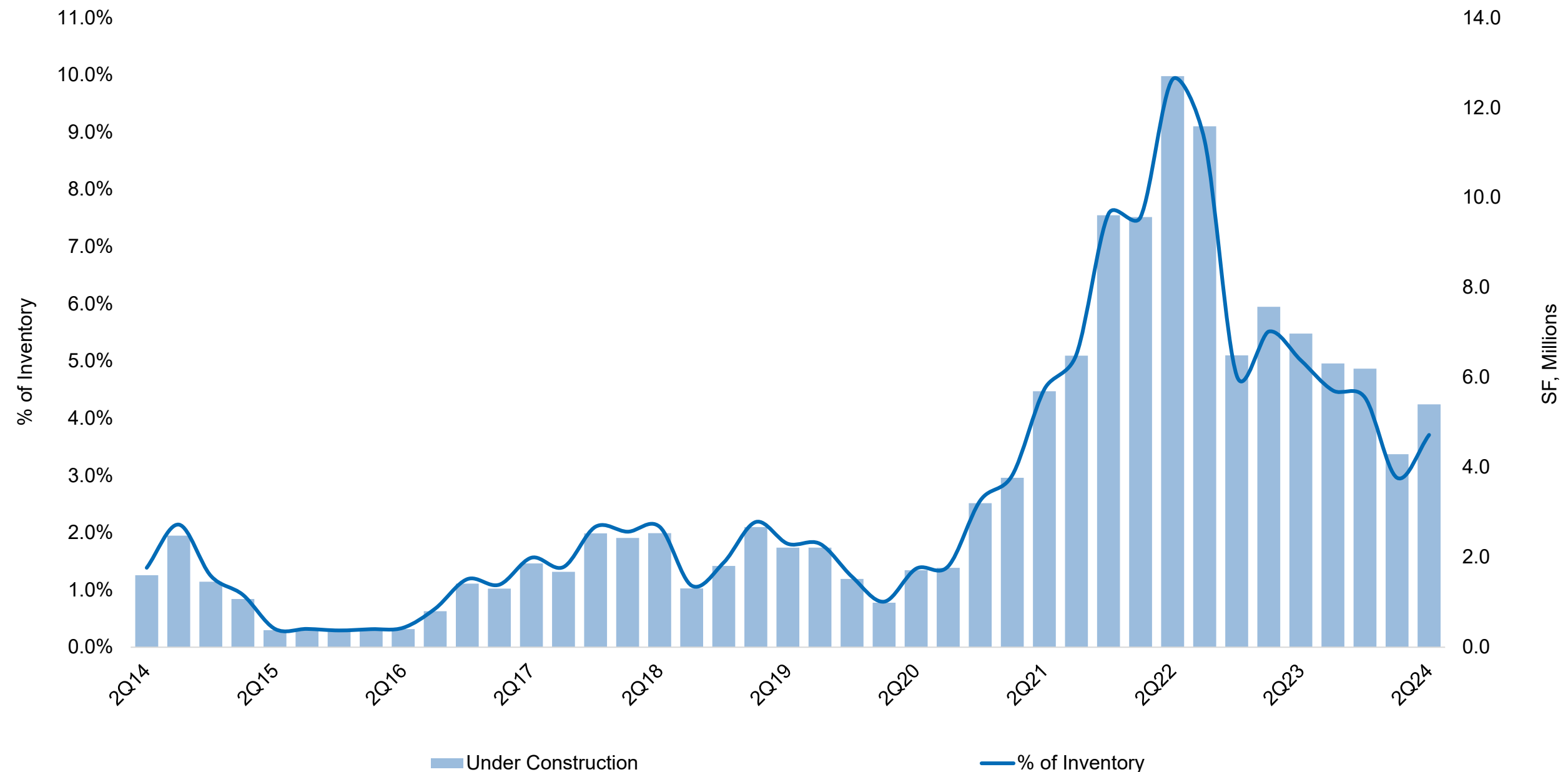


Source: Newmark Research, CoStar

Construction Supply Remains Elevated Despite Decelerating

Industrial development has exploded in the Richmond region during recent years, ending Q2 2024 with 21 properties under construction totaling over 5.4 MSF. After the market averaged 1.5 MSF under construction from 2014 to 2020, development began accelerating in 2021 and reached a peak of 12.7 MSF under construction in Q2 2022. Since then, the market has maintained an elevated level of construction much higher than historical averages despite decelerating over the past year.

Industrial Under Construction and % of Inventory

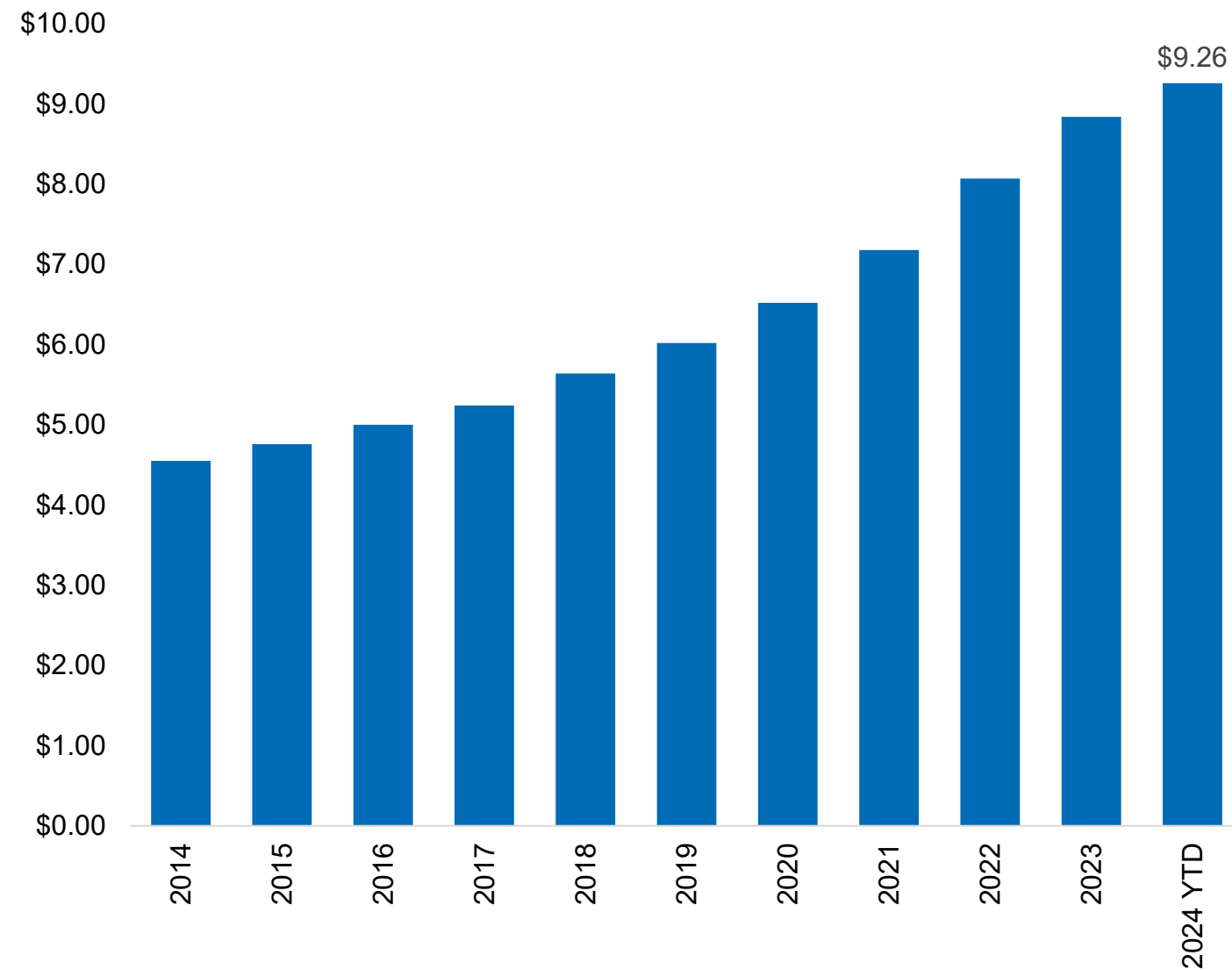


Source: Newmark Research, CoStar

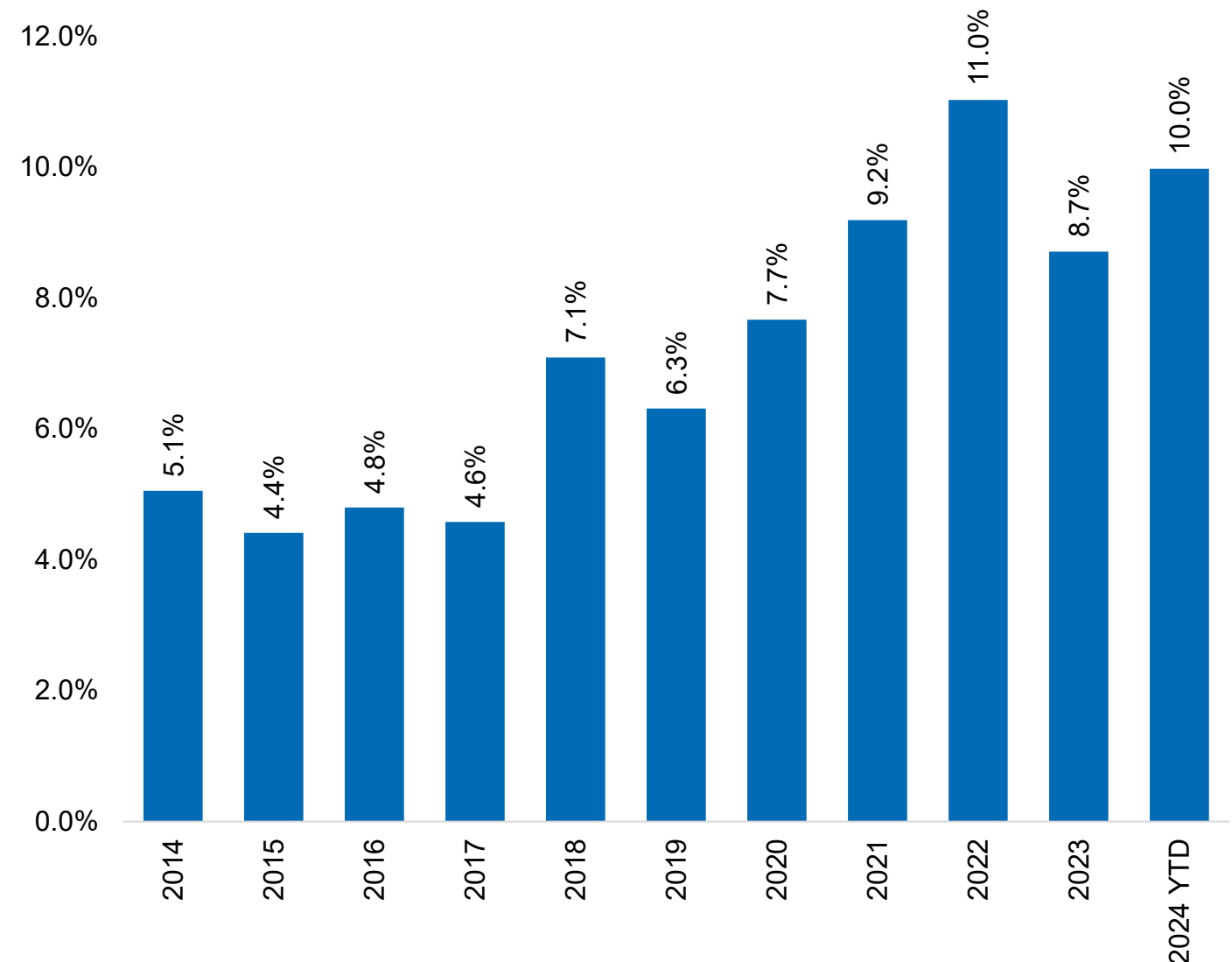
Asking Rents Continue Rapid Growth

Average asking rents ended Q2 2024 at \$9.26 PSF, an increase of 10.0% year-over-year. Although rent growth decelerated slightly in 2023 after the market experienced 11.0% rent growth in 2022, the market is still seeing elevated rent growth. Overall, the market has seen an impressive 53.8% increase in rents from the beginning of 2020 through Q2 2024.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

New leases were the theme of leasing activity during Q2 2024, as three of the four largest leases signed were new deals. US Cabinet Depot, a distributor of kitchen and bath cabinets, signed the largest deal of the quarter, a 194,400-square-foot new lease at the recently delivered Class A warehouse at 12063 Washington Highway within the I-95 North / Ashland submarket. The lease was signed in May with occupancy slated for the beginning of August.

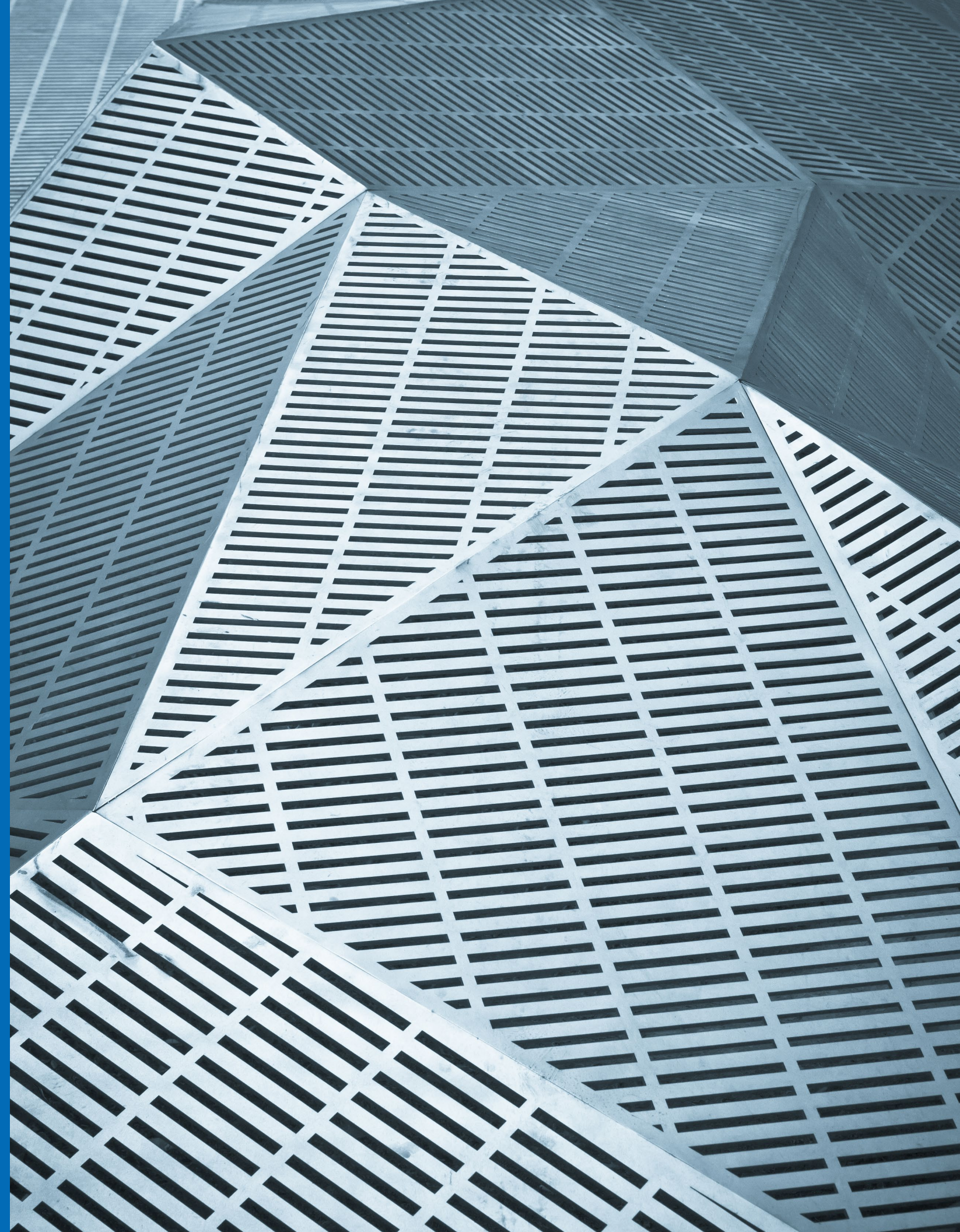
Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
US Cabinet Depot	12063 Washington Hwy	I-95 North / Ashland	Direct Lease	194,400
Viking SupplyNet	4551-4593 Carolina Ave	Laburnum / Rte 360	Lease Renewal	48,300
Packaging Systems & Supplies, Inc.	11700-11760 N Lakeridge Pky	I-95 North / Ashland	Direct Lease	35,252
McKinnon & Harris	1740 Kelly Rd	Scott's Addition / West End	Direct Lease	24,000
Richmond Olympiad	9878-9898 Mayland Dr	Staples Mill / Parham	Lease Renewal	12,765

Source: Newmark Research, CoStar

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Market Statistics





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