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2Q24

# Richmond Office 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 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 18% of the regional workforce. It is followed closely by Business and Professional Services, Government, and Education/Health, containing 17%, 16%, and 15% 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 3.7% and 4.7%, respectively.

## Sales Activity

- Richmond experienced \$108 million worth of sales activity during the first half of 2024. Although this puts the market on pace to surpass 2023 sales volume, it is likely to fall far short of the decade average of \$425 million in annual sales activity.
- The largest transaction of the quarter was the sale of 101 Gateway Centre Parkway, located in the Midlothian Corridor submarket within the Southwest region of Richmond. Patriot Equities L.P. sold the vacant 127,000-square-foot, six-story office building to Marwaha Real Estate for \$5.75 million, or approximately \$46.01 PSF. The building, formerly known as Patriot Tower at Gateway and renamed Marwaha Tower following the sale, was fully vacant at the time of sale, which impacted the sale price. The buyer plans to make improvements and modernizations to the property and lease it as a multi-tenant property.

## Leasing Market Fundamentals

- The Richmond office market experienced 61,000 square feet of negative net absorption during Q2 2024 and ended the quarter at a 15.1% vacancy rate. This negative net absorption was largely due to Northwest Richmond, which experienced 94,000 SF of negative net absorption, highlighted by 19,500 SF of space being vacated at 8006 Discovery Drive within the Forest Office Park. 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 Q2 2024, with the market seeing 0.7 MSF of leasing activity during the quarter, which is higher than the historical second-quarter average of 0.5 MSF.
- New leases drove the leasing market in Q2 2024, evidenced by three of the top five transactions being new leases. The Innsbrook submarket, located in the Northwest region of Richmond, was the most active submarket, containing three of the top five notable lease transactions.

## 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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# Economy

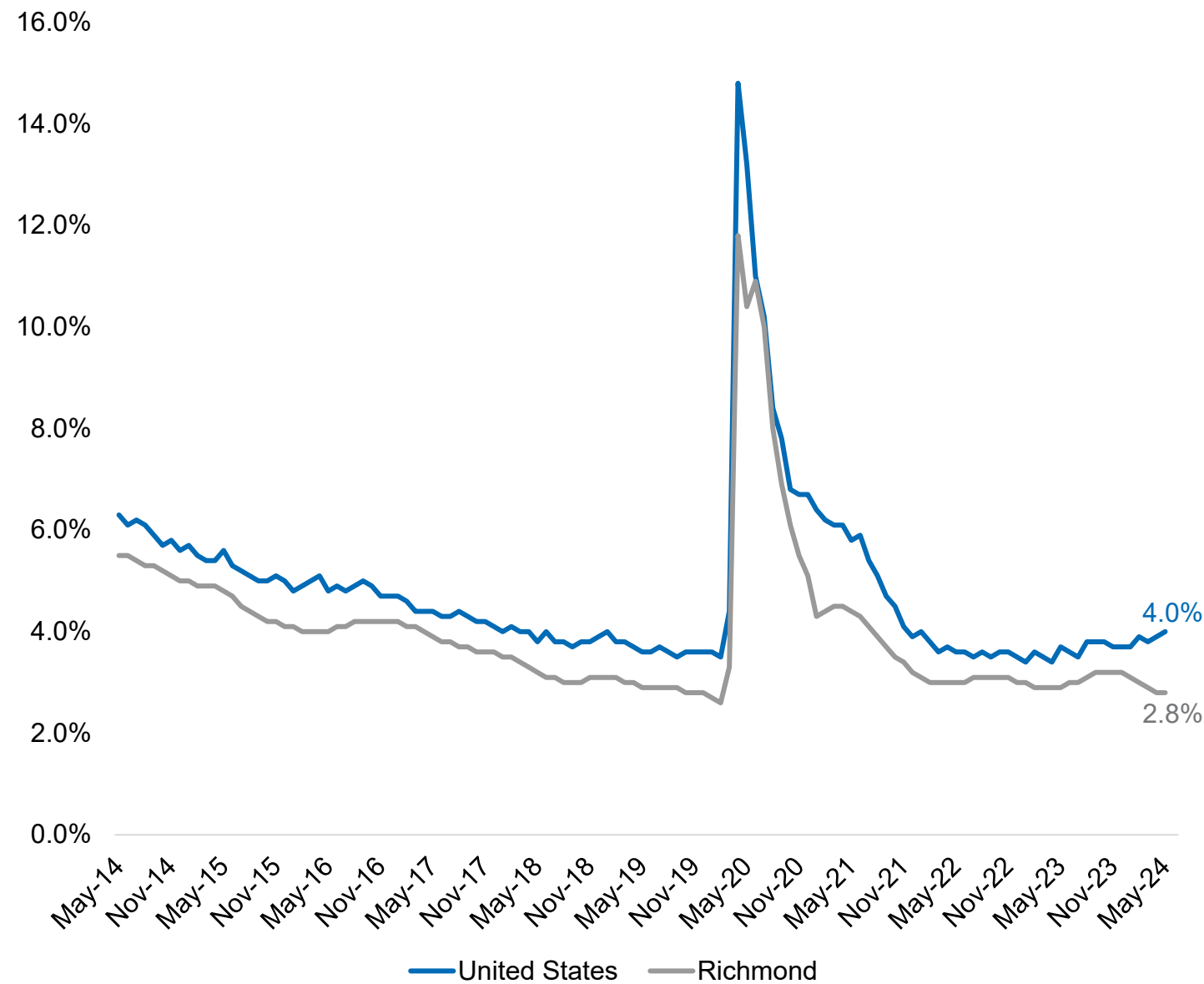




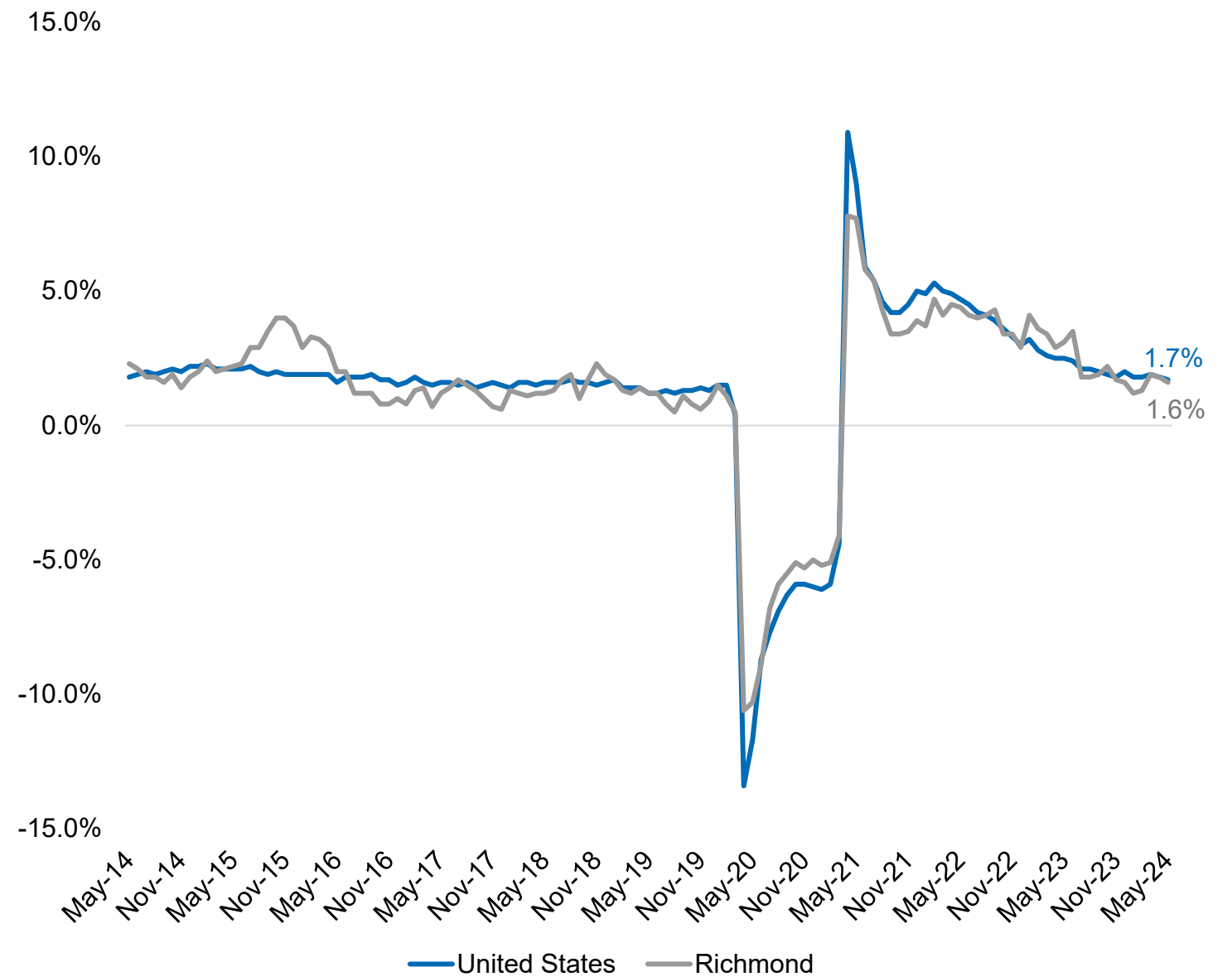
# Richmond's Unemployment Rate Outperforms National Average

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

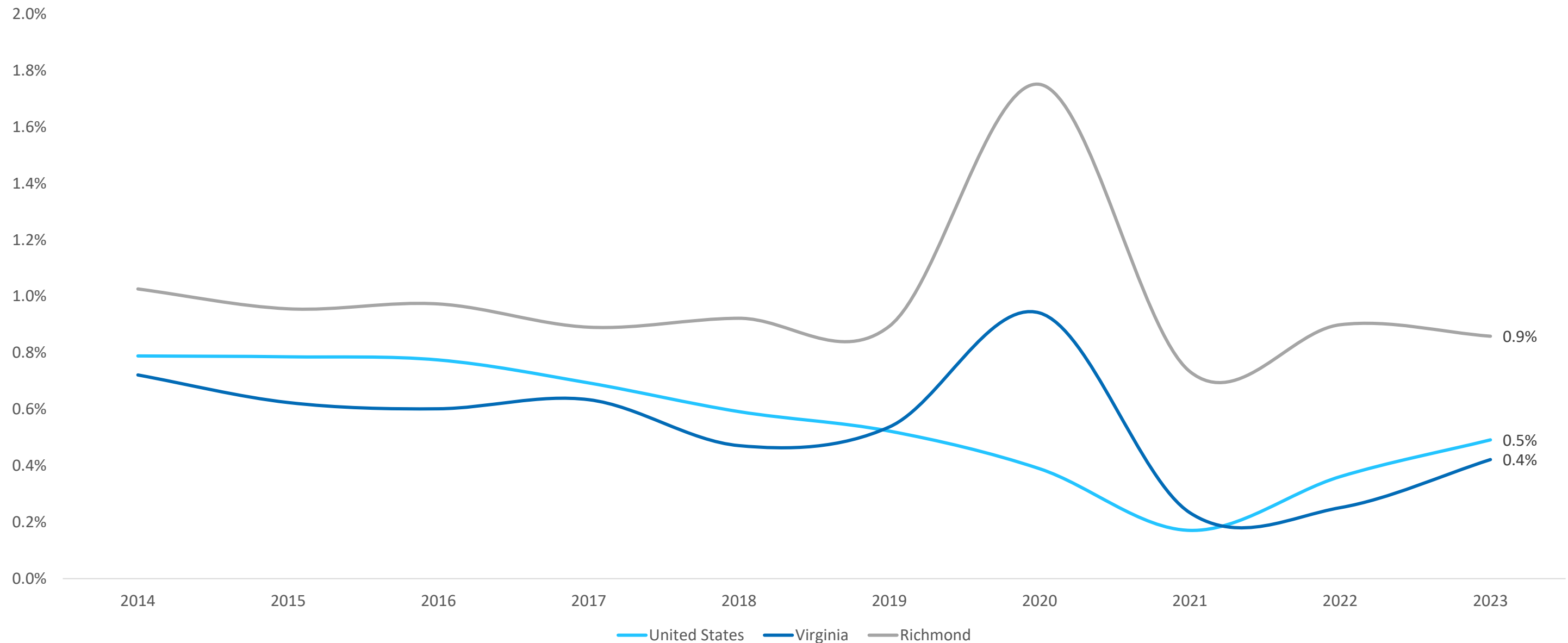


Source: U.S. Bureau of Labor Statistics, Richmond

# 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



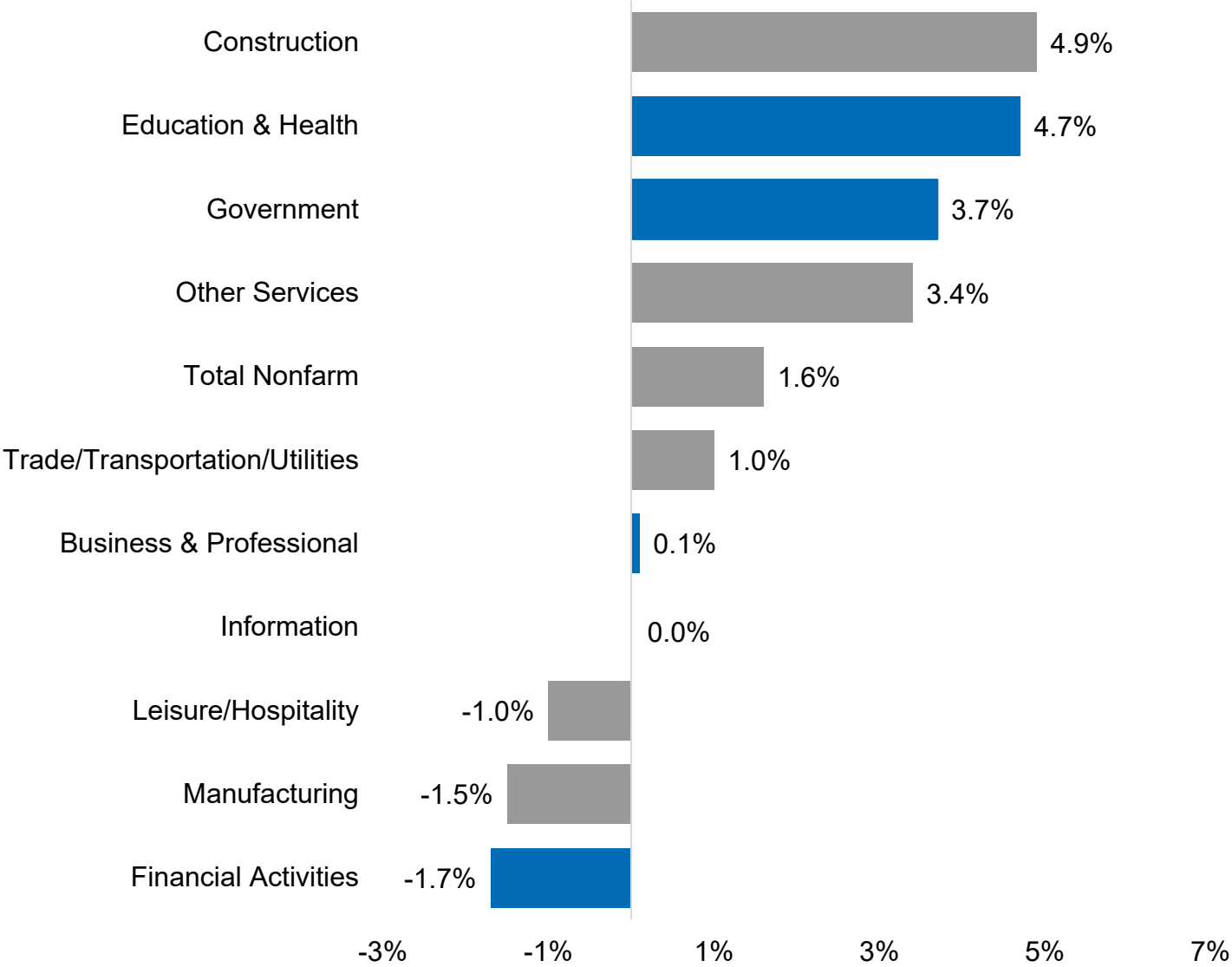
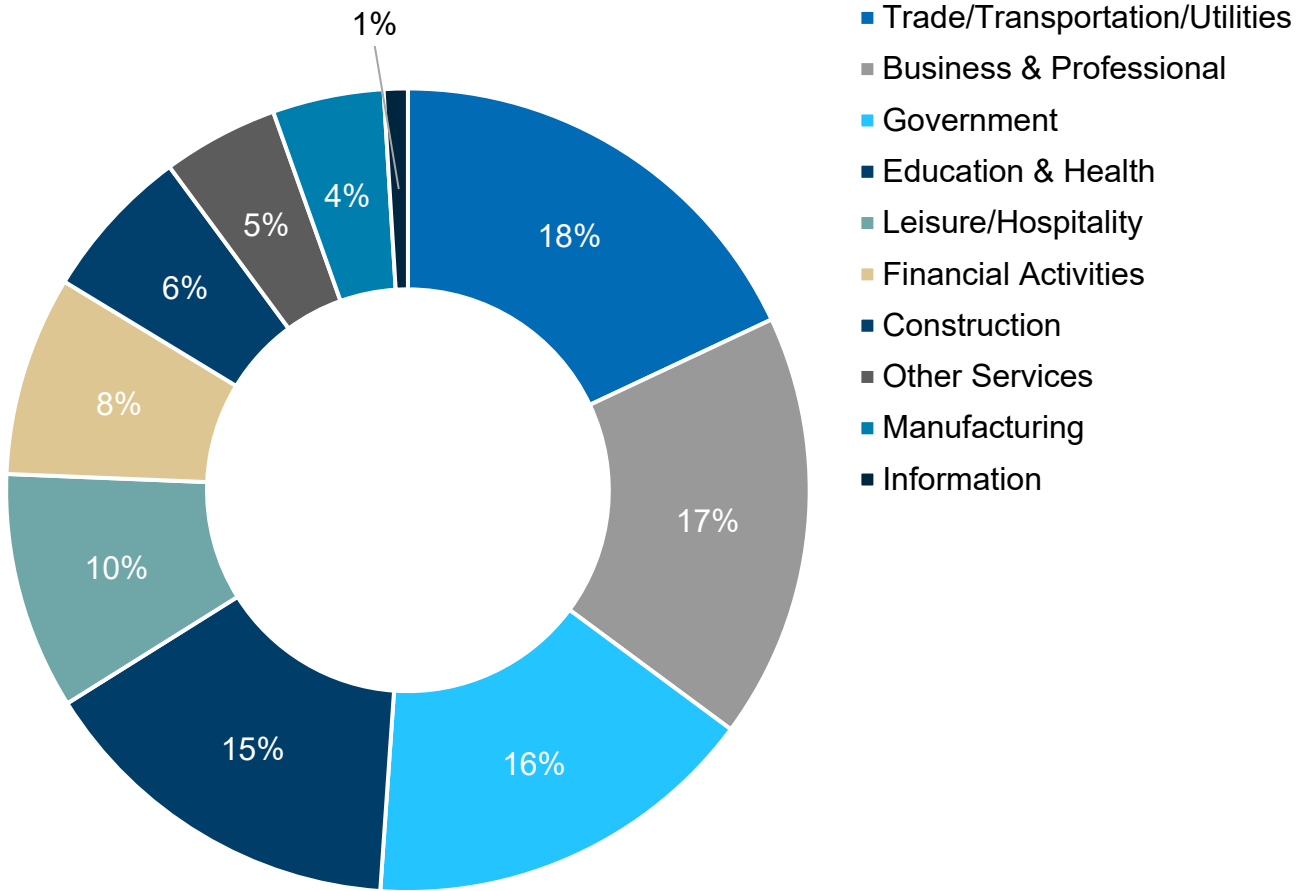
Source: Newmark Research

# 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 some of the highest 12-month growth, seeing 3.7% and 4.7% growth, respectively.

Employment by Industry, May 2024

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

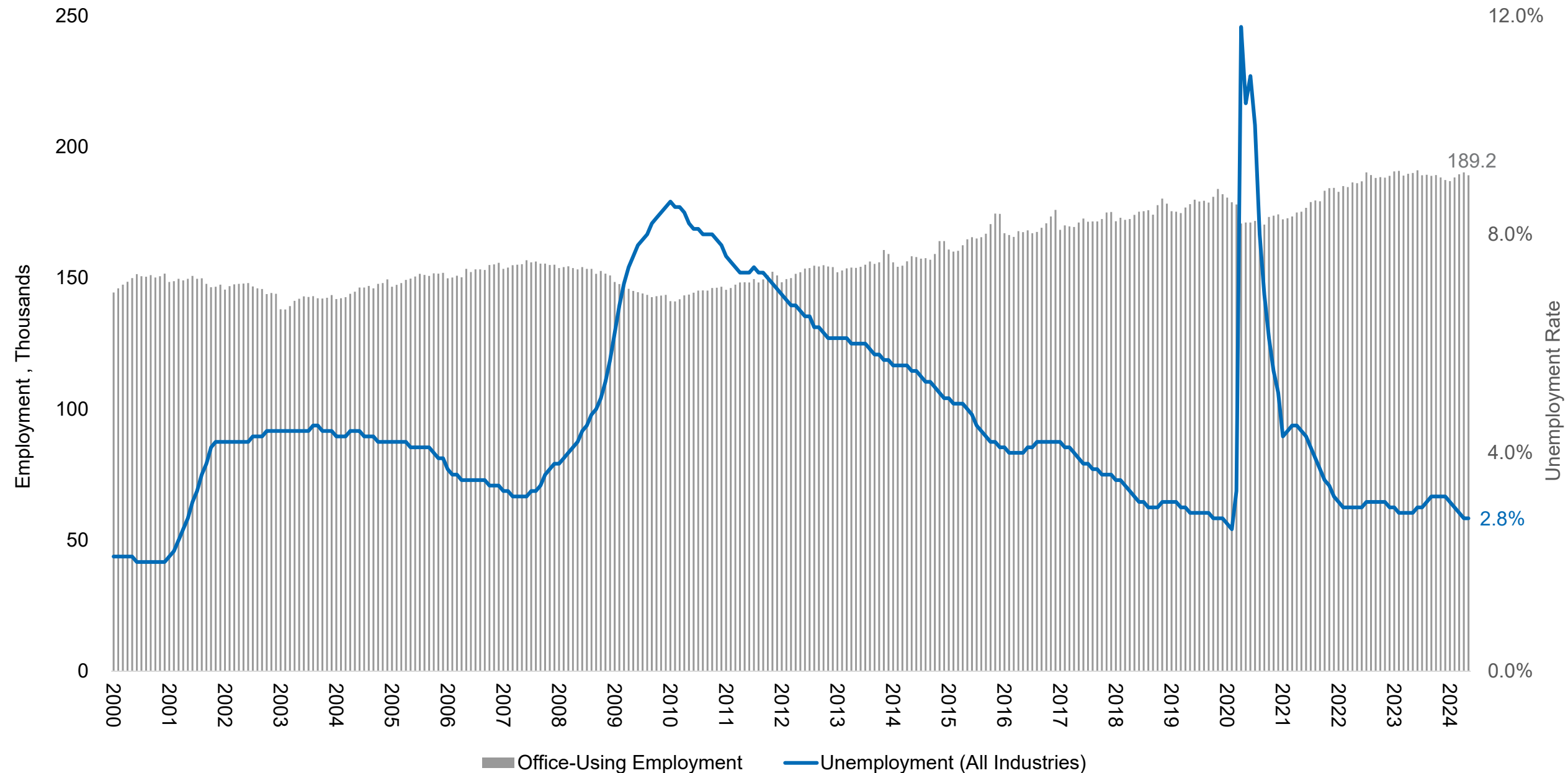


Source: U.S. Bureau of Labor Statistics, Richmond

# Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended Q2 2024 at 189,200 employees, 2.8% higher than the pre-pandemic high in November 2019 and an increase of 11.0% 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

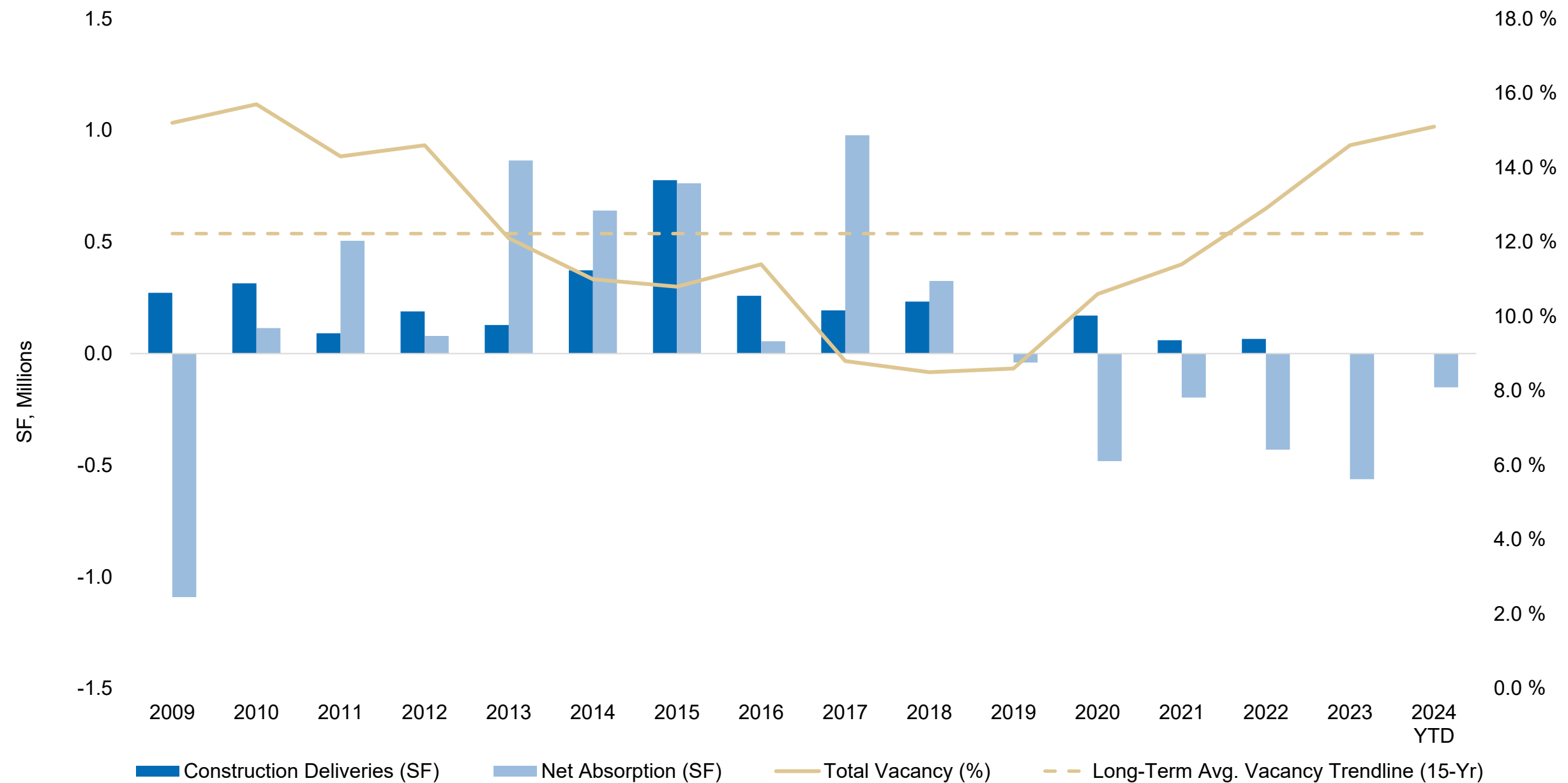




# Despite Softening Fundamentals, Richmond Remains a Relatively Healthy Office Market

The Richmond office market experienced 61,000 SF of negative net absorption during Q2 2024, ending the quarter at a 15.1% vacancy rate, an expansion of 20 bps quarter-over-quarter and 160 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

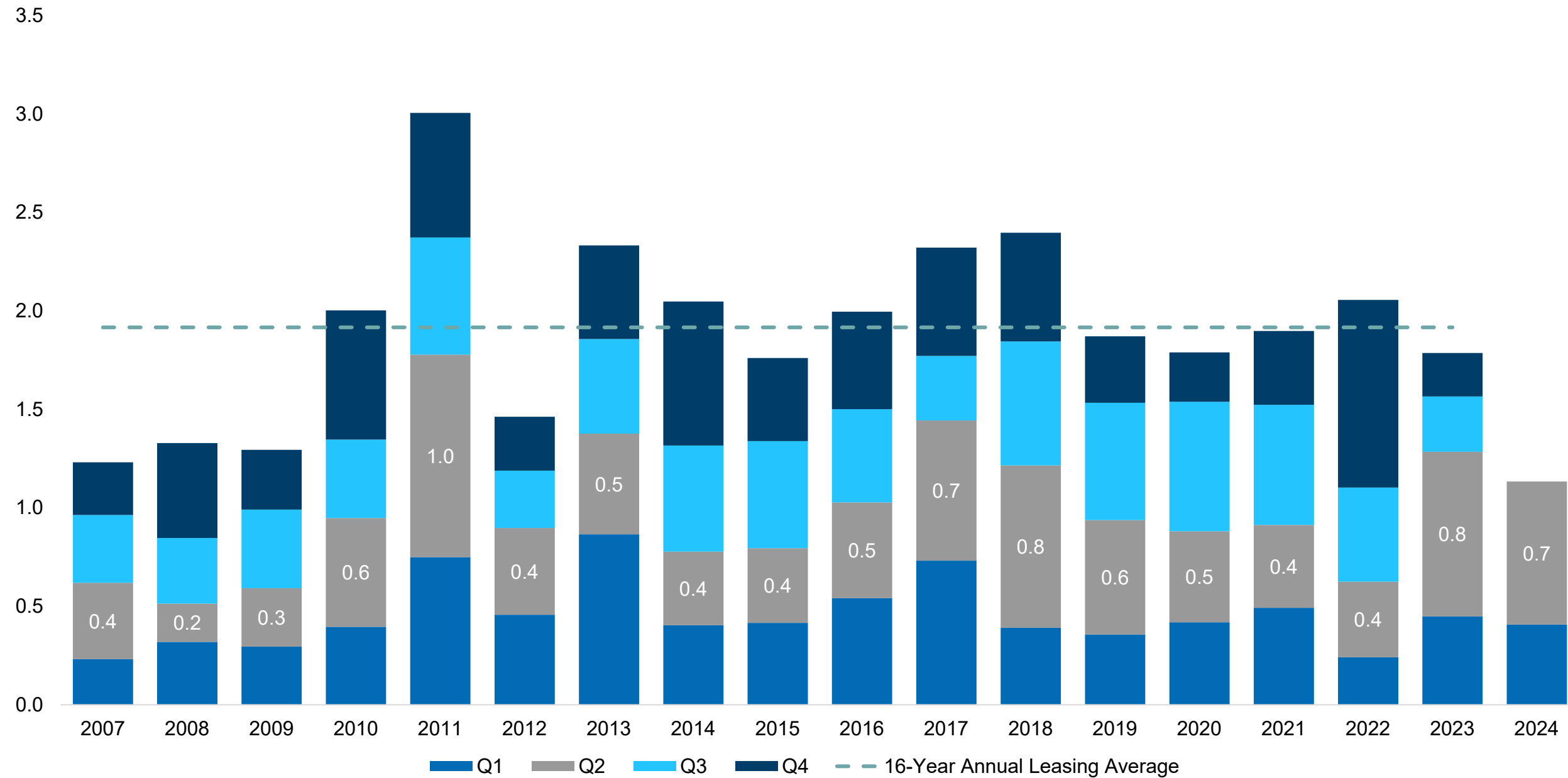


Source: Newmark Research, CoStar

# Leasing Activity Remains Near the Historical Average

The Richmond market experienced 0.7 MSF of leasing activity during the quarter, higher than the market's second-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)



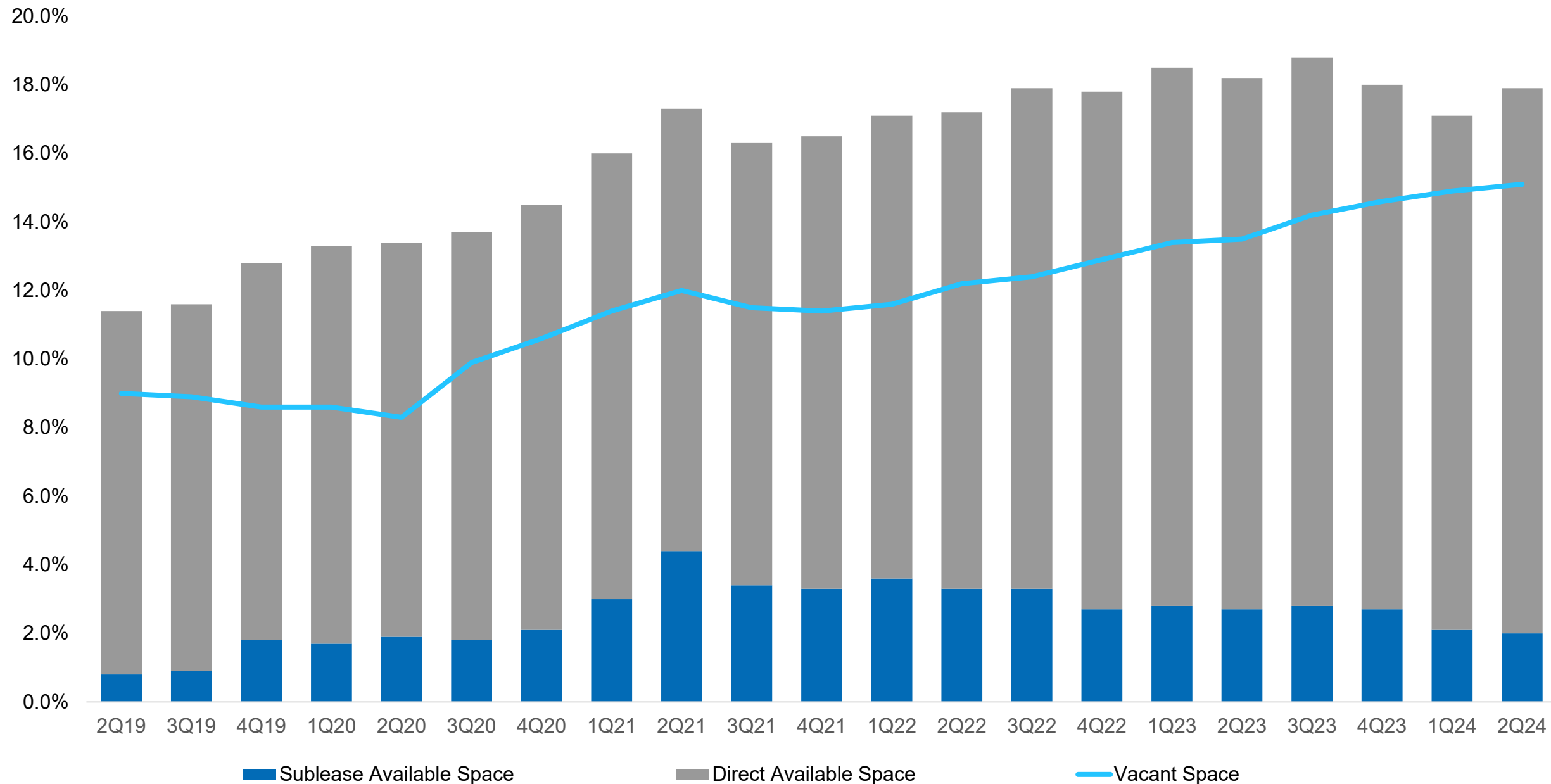
Source: Newmark Research, CoStar



# Availability and Vacancy Expand During the Second Quarter

During Q2 2024, availability expanded 80 bps and ended the quarter at 17.9%. Sublease available space ended the quarter at 2.0%, tightening 10 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

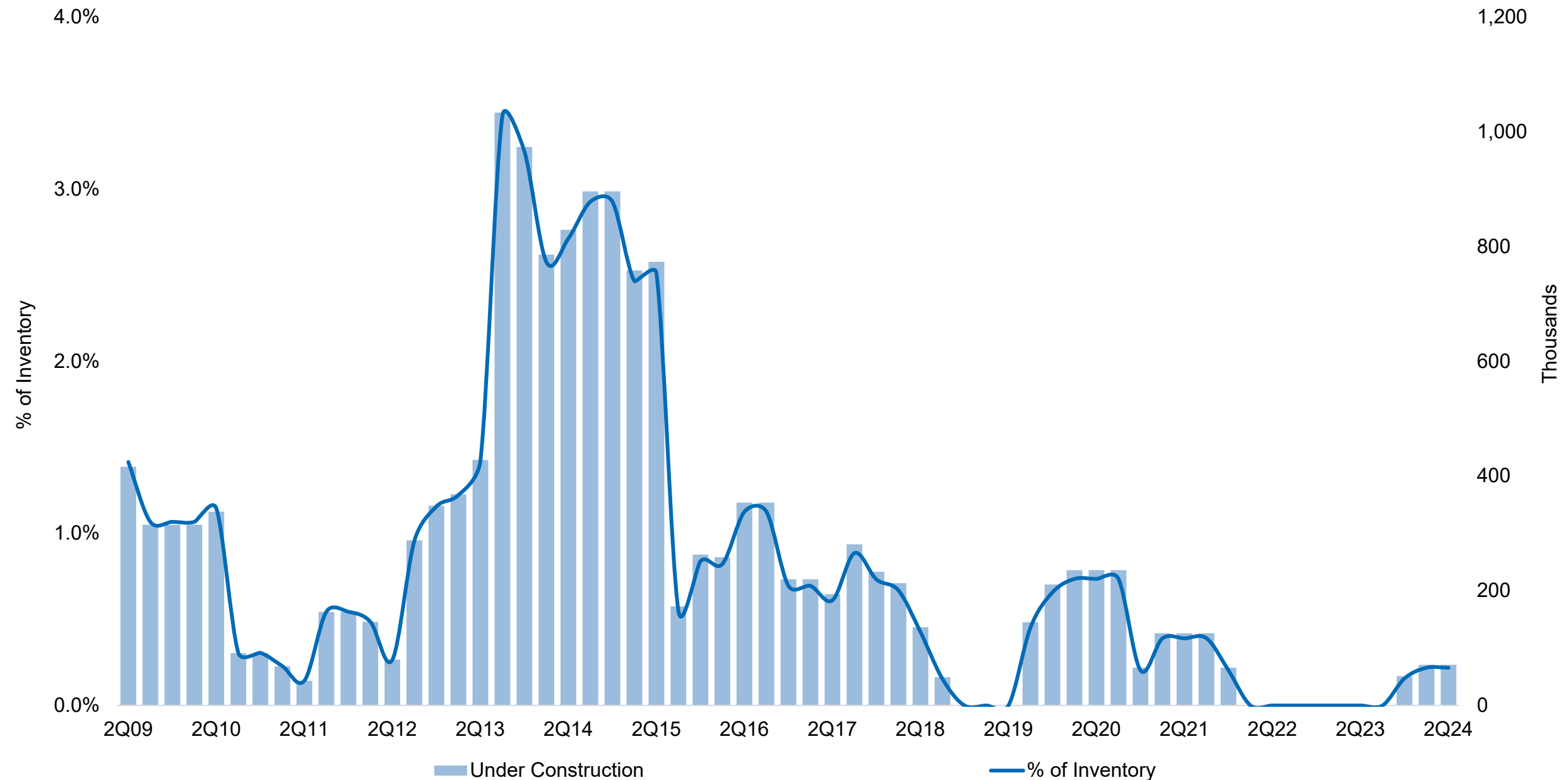


Source: Newmark Research, CoStar

# 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 200,000 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 Innsbrook

New leases drove the leasing market in Q2 2024, evidenced by four of the top five transactions being new leases. Furthermore, the Innsbrook submarket, located in the Northwest region of Richmond, was the most active submarket, containing three of the top five notable lease transactions.

## Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
The Department of Social Services	300 E Franklin Street	Monroe Ward	Direct Lease	113,000
Chesterfield County Public Schools	7120 Midlothian Turnpike	Midlothian Corridor	Direct Lease	63,000
Richmond National Insurance	11013 W Broad Street	Innsbrook	Direct Lease	46,742
Virginia Housing Development Authority	4240 Cox Road	Innsbrook	Lease Renewal	38,676
Owens & Minor, Inc	10900 Nuckols Road	Innsbrook	Direct Lease	34,962

Source: Newmark Research, CoStar



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# Market Statistics







Please reach out to your  
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