

Richmond

Near-term fundamentals remain landlord favorable after record levels of net absorption

- Speculative developers begin focusing on multi-tenant, small bay product as seven of the nine planned projects anticipated to break ground in 2023 were under 400,000 s.f.
- Residual spaces remaining in 1st-generation supply after stabilization (>75% preleased) carried significant rent premiums and pushed Class A direct asking rents up 22.6% year-over-year.
- IFIT placed its 405,000-s.f. space on market for sublease, vacating the facility next quarter. This is the first major sublease availability (>100K s.f.) placed on market in over a decade.

Bulk move-ins from Amazon, Mondelez and Lowe's fueled record levels of net absorption this year with near 4.8 million s.f. of occupancy gains. Additionally, Trader Joes contracted to purchase Caroline-95 development in the I-95N/Hanover submarket which will absorb one of two recent bulk developments over 1.2 million s.f. upon completion early 2023. The other in the same submarket, East Coast Commerce Center, delivered this quarter and increased overall vacancy despite record-breaking annual net absorption.

Overall direct asking rents climbed by 19.2% over the trailing 12 months, but more significantly for Class A availabilities under 100,000 s.f. Strike rents in these class and size tranches averaged \$8.33 p.s.f., NNN, in 1st-generation product and \$7.09 p.s.f., NNN in 2nd-generation this year-up 35.2% from 2nd-generation deals signed between 2020 and 2021. Landlords were also aggressively pushing annual rent escalators for all deal sizes which surpassed 4.0% for several leases signed over the past two quarters.

Two speculative developments broke ground in the quarter, each were 200,250 s.f. and increased the total number speculative projects under construction to 13 buildings for a total of 3.4 million s.f. Most of this pipeline (2.1 million s.f.) will deliver next quarter and was collectively 73.8% preleased at the end of Q4. Nine speculative projects are slated to break ground in 2023, down from 11 projects in 2022. This future wave of groundbreakings totals 2.6 million s.f. with the largest building footprint planned for 584,000 s.f.; all of the projects were 100% available at the end of Q4.

Outlook

Ample preleasing of near-term deliveries and a reduction of planned speculative developments may counter any pullback in demand due to economic uncertainty, maintaining landlord-favorable conditions. Sublease vacancy is expected to increase next year with two Class A blocks over 100,000 s.f. to be vacated next quarter. These sublease blocks are not expected to remain on market long due to sublessor lease rates well below current market rents and a 2.3% vacancy rate for Class A buildings under 500,000 s.f.

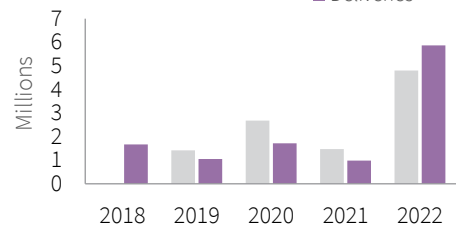
Fundamentals

Forecast

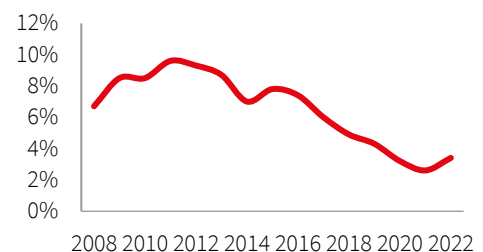
YTD net absorption	4,799,781 s.f.	►
Under construction	5,929,718 s.f.	▲
Total vacancy	3.5%	►
Sublease vacancy	83,530 s.f.	▲
Direct asking rent	\$6.20 p.s.f.	▲
Sublease asking rent	\$5.24 p.s.f.	►
Concessions	Stable	►

Supply and demand (s.f.)

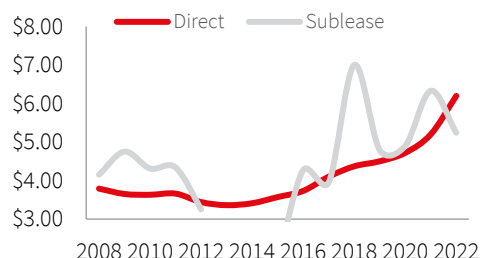
■ Net absorption
■ Deliveries



Total vacancy (%)



Average asking rent (\$ p.s.f.)



Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
Richmond total										
Warehouse & Distribution	64,753,583	795,025	4,326,528	6.7%	4.4%	7.8%	\$6.28	2,211,603	5,242,185	5,654,718
Manufacturing	31,007,342	170,000	402,224	1.3%	1.5%	4.3%	\$5.43	120,000	623,044	275,000
Overall Total	95,831,954	965,025	4,799,781	5.0%	3.5%	6.7%	\$6.11	2,331,603	5,865,229	5,929,718
Airport/East End										
Warehouse & Distribution	11,470,811	108,888	676,485	5.9%	3.2%	4.2%	\$6.23	279,319	855,761	880,000
Manufacturing	5,690,887	0	120,000	2.1%	0.0%	0.0%	\$0.00	0	120,000	0
Overall Total	17,161,698	108,888	796,485	4.6%	2.1%	2.9%	\$6.23	279,319	975,761	880,000
I-95 N/Hanover										
Warehouse & Distribution	9,097,161	126,372	558,549	6.1%	14.1%	16.8%	\$6.54	1,297,472	1,407,472	3,489,970
Manufacturing	3,056,614	0	794	0.0%	1.1%	3.7%	\$6.40	0	0	0
Overall Total	12,153,775	126,372	559,343	4.6%	10.8%	14.3%	\$6.54	1,297,472	1,407,472	3,489,970
I-95 S/I-295 S/Rt 10										
Warehouse & Distribution	9,224,251	0	721,458	7.8%	1.9%	14.1%	\$6.58	0	493,350	953,278
Manufacturing	5,339,340	0	353,044	6.6%	0.0%	8.6%	\$5.17	0	353,044	275,000
Overall Total	14,563,591	0	1,074,502	7.4%	1.2%	12.1%	\$6.23	0	846,394	1,228,278
Jeff Davis Corridor										
Warehouse & Distribution	14,559,891	-2,172	1,119,982	7.7%	2.2%	4.5%	\$6.37	0	1,200,540	331,470
Manufacturing	8,545,817	50,000	-6,225	-0.1%	0.1%	1.2%	\$5.11	0	0	0
Overall Total	23,105,708	47,828	1,113,757	4.8%	1.4%	3.3%	\$6.21	0	1,200,540	331,470
Laburnum/Rte 360										
Warehouse & Distribution	3,532,147	562,812	601,996	17.0%	8.0%	13.8%	\$5.13	634,812	634,812	0
Manufacturing	613,194	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	4,145,341	562,812	601,996	14.5%	6.8%	11.8%	\$5.13	634,812	634,812	0
Scott's Add/West End										
Warehouse & Distribution	4,536,286	0	-12,686	-0.3%	0.7%	2.9%	\$5.16	0	0	0
Manufacturing	820,204	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	5,427,519	0	58,343	1.1%	0.6%	2.5%	\$5.16	0	0	0
Staples Mill/Parham										
Warehouse & Distribution	1,880,378	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Manufacturing	941,002	0	0	0.0%	15.2%	32.7%	\$4.42	0	0	0
Overall Total	2,821,380	0	0	0.0%	5.1%	10.9%	\$4.42	0	0	0
SWQ										
Warehouse & Distribution	1,650,207	-1,375	-26,036	-1.6%	4.0%	0.8%	\$4.61	0	0	0
Manufacturing	1,359,612	0	44,300	3.3%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	3,009,819	-1,375	18,264	0.6%	2.2%	0.5%	\$4.61	0	0	0
TriCities										
Warehouse & Distribution	8,802,451	500	686,780	7.8%	3.5%	1.3%	\$4.07	0	650,250	0
Manufacturing	4,640,672	120,000	-109,689	-2.4%	6.3%	7.6%	\$6.45	120,000	150,000	0
Overall Total	13,443,123	120,500	577,091	4.3%	4.5%	3.5%	\$5.87	120,000	800,250	0